Department for Transport

West Midlands Franchise

Invitation to Tender

August 2016

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ITT ATTACHMENTS

ATTACHMENT A – TSR
ATTACHMENT B – DRAFT FRANCHISE AGREEMENT
ATTACHMENT C – FINANCIAL TEMPLATES
ATTACHMENT D – DRAFT FUNDING DEED
ATTACHMENT E – DRAFT CONDITIONS PRECEDENT AGREEMENT
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Section 1: Introduction

1.1 Introduction

1.1.1 This Invitation to Tender, its appendices, all documents issued with and in connection with it and all clarification questions and responses relevant thereto (together the **"ITT"**) are issued by the Department for Transport (the "Department") pursuant to the functions of the Secretary of State for Transport (the **"Secretary of State"**) under the Railways Act 1993 and the Railways Act 2005, as amended. All references in this document to the Department, Network Rail or the Office of Rail and Road (**"ORR"**) include, where appropriate and unless the context otherwise requires, references to those bodies' predecessors and successors. References in this document to a **"Bidder"** means those entities who pre-qualified to Bid for the West Midlands Franchise following the process set out in the Franchise Expression of Interest and Franchise Process Document published on 15 December 2015 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 West

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Midlands Franchise (**"West Midlands"**,**"WM"** 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 communications from or on behalf of Bidders and their Associated Entities with the Secretary of State and/or the Department in respect of this ITT and the West Midlands Franchise are made through AWARD (as described further in subsection 3.9 (Bidder Clarification Questions)) or by email to westmidlands@dft.gsi.gov.uk. No other methods of communication are permitted unless agreed with the Department in advance. For the purpose of this ITT, "**Associated Entity**" shall have the meaning given in the Franchise Letting Process Agreement (**"FLPA"**) between the Bidder and the Secretary of State in respect of the West Midlands competition.

1.5 Structure of this ITT

1.5.1 This ITT provides:

a) The scope and objectives of the West Midlands Franchise (Section 2: (Scope and Objectives));

b) Information and instructions to Bidders (including instructions on how to access the detailed information available regarding the West Midlands Franchise and the processes for enquiries, communications, amendments and clarifications to the ITT during the Bid period) (Section 3: (Information and Instructions to Bidders));

c) An explanation of the requirements for Bid submission (including the format, content, procedure and timetable for submission of Bids) and of the expected process following Bid submission (Section 4: (Explanation of Requirements for Bid Submission and Overview of Process following Bid submission));

d) Detailed Bid submission requirements – Delivery Plans (Section 5: (Detailed Bid submission requirements – Delivery Plans));

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e) Detailed Bid submission requirements – Financial (Section 6: (Detailed Bid Submission Requirements – Financial));

f) The evaluation criteria and methodology to be applied to the Bids that are received (Section 7: Evaluation Criteria and Methodology); and

g) An explanation of the Department's Risk Adjustment Process (Appendix 3 – Risk Adjustment Process)

1.6 Other Documents

1.6.1 For the purpose of the West Midlands competition, this ITT replaces and supersedes in their entirety both the Rail Group - Passenger Services documents "**Franchise Competition Guide**" published on 4 February 2016 and the West Midlands Prospectus published on 8 December 2015. Accordingly, in the event of any inconsistency between either of those documents and this ITT, the terms of this ITT will prevail.

1.7 Franchise Letting Process Agreement

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

1.8 Commencement of the West Midlands Franchise

1.8.1 The Department's aim is for the new West Midlands Franchise to commence operations with effect from 02.00 hrs on 15 October 2017.

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 of Terms) or as otherwise defined in this ITT, capitalised terms used in this ITT shall have the same meanings

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given to them in the draft Franchise Agreement provided to Bidders as part of the West Midlands competition process.

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Section 2: Scope and Objectives

2.1 Scope of the West Midlands Franchise

2.1.1 The West Midlands Franchise comprises the Franchise Services set out in Schedule 1.1 of the Franchise Agreement.

2.2 Franchise Objectives

2.2.1 Table 2.1 shows the Franchise objectives as described in the West Midlands Prospectus. The Franchise objectives are to:

Table 2.1 Franchise Objectives

- **Support economic growth through a market-focused approach**: West Midlands local services, services to/from London, including branch lines and long-distance regional services.
- **Deliver improvements to the Public Performance Measures** (PPM) so that train services perform to the highest practical reliability and punctuality standards.
- **Deliver significant improvements in passenger satisfaction**.
- **Deliver a franchise which demonstrates a genuine pride in developing staff over the long term**.
- **Increase engagement between the franchise and the communities it serves**.
- **Develop an appropriate plan for the potential devolution of some services to West Midlands Rail**.
- **Support the delivery of HS2** by being a delivery partner though the preparatory works
- **Maximise the benefits from investment in infrastructure**.

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.

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Section 3: Information and Instructions to Bidders

3.1 Applicability of this Document

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

3.2 Accuracy of Information and Liability of the Department and its Representatives

3.2.1 This ITT is not a recommendation by the Department, or any other person, to enter into any agreement or to make any investment decision. In considering any investment in a Franchise, Bidders should make their own independent assessment and seek their own professional financial and legal advice.

3.2.2 Neither this ITT nor AWARD purports to contain all of the information that a prospective Franchisee or shareholder may require. Neither the Department, nor any of its employees, agents or advisers, makes any representation or warranty (express or implied), and no such representatives have any authority to make such representations and warranties, as to the accuracy, reasonableness or completeness of the information contained either in this ITT or on AWARD.

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

3.2.4 TRL-Halcrow, PwC, and Addleshaw Goddard, are acting for the Department in relation to the award of the West Midlands Franchise. The advisors do not and will not regard any other person as their client in relation to the award of the West Midlands 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.

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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 HM Treasury, ORR, Transport for London (**"TfL"**) Transport Focus, London TravelWatch, Rail Safety and Standards Board 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 3.4.1 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

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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 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 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, adjust the value of P 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,

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 3.5.4.

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3.5.5 Where the Department determines that it is not appropriate to reject the Bid, or to evaluate 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.

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 7.6 (Modelling Change tests) or subsection 7.11 (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 7.6 (Modelling Change Tests) or subsection 7.11 (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

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d) Requiring any or all Bidders to adjust or update their Bids so that they are compliant.

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

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

3.6 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.
Subject to subsection 7.7.1.1 and subsection 7.13 (Rebid Process) a Bidder is projected in its Risk Adjusted Financial Model to breach the 1.050:1 Financial Ratios (after taking into account any Materiality Threshold) at any point during the Core Franchise Term – see subsection 7.7 (Evaluation of Financial Robustness).

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 completion of the Franchise Agreement the Bidder is unable to satisfy the requirements for pre-qualification as set out in the West Midlands pre-qualification process

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3.8 Data Site and AWARD

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

3.9 Bidder Clarification Questions

3.9.1 All BCQs and requests for additional information relating to this ITT, the West Midlands 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 the next subsection 3.9.4.

3.9.4 A Bidder may request that the Department treat 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.

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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 other than in the specific circumstances stated above for the West Midlands competition will, in the absence of any extension, be 29 October 2016. 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 and discuss any points of clarification that are appropriate and necessary in order for Bidders to prepare their Bids. 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. 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.

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 refer to section 3.5 of the Franchise Pre-qualification Process Document for information relating to transparency and Freedom

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of Information, and should note that the Department will place a copy of the ITT in the public domain at the same time as it is supplied to Bidders, with redactions where appropriate.

3.10.2 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

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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

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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.

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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,

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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 that this 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 should note that the Department has particular concerns regarding the merger control implications of the same operating group winning both the Franchise and the InterCity West Coast rail operations. The Department considers that the nature of these two rail operations on the West Coast Mainline may increase the risk that intervention by a competition authority could prejudice the timing of this Franchise Letting Process and / or the process for the future InterCity West Coast rail operator and / or the ability of the winning Bidder to operate one or both of these operations.

3.11.15 It should be noted that the InterCity West Coast project team is currently considering all proposition options, including a number of operating models over a variety of lengths from short term through to longer term.

3.11.16 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:

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

a) the Bidder would no longer pre-qualify to be shortlisted to receive this ITT in accordance with the evaluation process set out in section 4 of the Franchise PPD;

b) the Passport requirements are no longer met by the Bidder, meaning that a Passport would not be awarded to it on the basis of the evaluation process outlined in section 4 of the Passport Process Document if a fresh application was made at the relevant time;

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c) where the Bidder's participation in the West Midlands 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 subsection 1 of Schedule 9.3 (Variations to the Franchise Agreement and Incentivising Beneficial Changes) of the Franchise Agreement and the ability of the Secretary of State to amend the contracted Train Service Requirement. The Secretary of State reserves the right to require variations to the Franchise Services and/or the manner in which Franchise Services are required to be delivered, and any consequential changes to the Franchise Agreement, acting in compliance with the Law. The Secretary of State may also require variations to other contracted provisions or outputs, acting in compliance with the Law.

3.14.2 In particular, variations may result from changes to the specification or timing of committed projects affecting the West Midlands Franchise. Variations will not necessarily be restricted to the effects of committed projects. However, any changes required will be such as a reasonably competent and professional operator of the West Midlands Franchise could, in all relevant circumstances, reasonably be expected to be able to deliver and will be generally consistent with the overall scope of the West Midlands Franchise proposition taking into account the need to be able to vary the nature, quantity and manner of delivery of West Midlands services in response to circumstances relating to the development of railway infrastructure and services and other relevant financial, economic and technical developments and the implementation of rail policy.

3.14.3 Given the duration of the West Midlands Franchise, and the strong likelihood of economic, social, budgetary and operational circumstances

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changing over the Franshise 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 West Midlands Rail

3.15.1 In 2014 a consortium of Centro (West Midlands Passenger Transport Executive) and local authorities across the West Midlands, subsequently formed as **"West Midlands Rail"** (**"WMR"**), made a submission to the Secretary of State to devolve rail services in the West Midlands. The Secretary of State has confirmed his support for the journey towards rail devolution in the West Midlands and set out the expectation that WMR will work with the Department in developing the specification for the re-letting of the next franchise. A Collaboration Agreement has been drafted setting out the principles behind the joint working arrangements including WMR's current role as at the date of this ITT in the management of the next Franchise. A copy of the draft Agreement is in the Data Site.

3.16 Pensions

3.16.1 Bidders' 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.

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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 4.1.2 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	29 November 2016 (12.00 noon)
Evaluation of Bids, clarification, drafting of Committed Obligations Secretary of State consent and HMT approval to the West Midlands award	The Department and Bidder(s)	From 30 November 2016
Planned Franchise Award and preparation for commencement of Franchise	The Department and Franchisee	June 2017 to October 2017
Start of Franchise	Franchisee	02.00 on 15 October 2017

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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**		
	Schedule of Documents	One electronic copy submitted through AWARD using the Schedule of Documents Template (Attachment H) One electronic copy submitted in CD or DVD format	N/A
	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 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. The unpriced version will be shared with organisations producing specialist reports. One electronic copy submitted in CD or DVD format One un-priced electronic copy 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	10 pages each

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Part	Areas	Submission Requirements	Size limit
2	**Financial**		
	Operational Models and Financial Model as required by Section 6 (Detailed Bid submission requirements – Financial)	One electronic copy submitted through AWARD One electronic copy submitted in CD or DVD format 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.	75MB maximum size per Microsoft Excel workbook (See Section 6 (Detailed Bid submission requirements – Financial))
	PDFs of the populated financial templates; Record of Assumptions, required by subsection 6.5 (Record of Assumptions); plus supporting .xls sheets where required; Operating Manual, required by subsection 6.6 (Operating Manual); Modelling Best Practice Confirmation, required by subsection 6.8.2 (Modelling Best Practice Confirmation); Financial Structure and Funding Plan, financial adviser's letter, Parent Company Support and Bonding, required by subsection 6.9 (Financial Structure and Funding Plan); Any other term sheets or financing arrangements for projects; Confirmation of Bond availability,	One electronic copy submitted through AWARD One electronic copy submitted in CD or DVD format	None

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Part	Areas	Submission Requirements	Size limit
	required by subsection 6.9.1 (Bid requirements); Update of financial information to update 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 5.6 (Sub-Plan 2.2 Rolling Stock – evidence that Bidders should provide).		
3	**Technical Data**		
	The following details should be submitted in support of the main text of the Bid submission: The Technical Data required in subsection 5.5 DP2.1 in the format described. Versions of MOIRA that have been used to populate the revenue model with the public timetables that have been included in the revenue forecast as required by paragraph 6.3.7.8;	One electronic copy submitted through AWARD One electronic copy submitted in CD or DVD format Electronic copy of MOIRA data to be submitted in DVD format (three copies). Upload to AWARD not required.	None
4	**Legal and compliance**		
	Versions (clean and redline mark up against the version of each agreement provided with this ITT or, if subsequently amended, the latest versions uploaded to AWARD) of each of the Franchise Agreement, the Funding Deed, the Conditions Precedent Agreement, Escrow Agreement and any other agreements to be signed as part	One electronic copy submitted through AWARD One electronic copy submitted in CD or DVD format	None

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Part	Areas	Submission Requirements	Size limit
	of the award of the Franchise (together the "**Franchise Signature Documents**") with those parts marked 'Bidders to populate' completed. Non-compliance statements as required by subsection 3.5 (Non-compliant Bids) Statement of competition matters as required by subsection 3.11 (Competition Matters) FOIA statement if submitted in accordance with subsection 3.10 (Transparency and Freedom of Information) A completed Form of Tender as required by subsection 3.17 (Form of Tender)		
5	Schedule of Initiatives (as required by subsection 4.14.3 (Contractualisation))	One electronic copy submitted through AWARD One electronic copy submitted in CD or DVD format	None

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

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

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

Agreed Documents	ITT Section (where applicable)	Included within page limit?
Draft Community Rail Report	Sub-Plan 1 (Leadership & Management)	No
CSR/Sustainable Development Strategy	Sub-Plan 1 (Leadership & Management)	Yes
Train Services	Sub-Plan 2.1 (Train Services)	No
Passengers Charters	Sub-Plan 4.1 (Customer Experience)	No
Customer and Stakeholder Engagement Strategy	Sub-Plan 4.1 (Customer Experience)	Yes
Station Social and Commercial Development Plan	Sub-Plan 4.2 (Stations)	Yes
Financial Model	Section 6	No
Record of Assumptions	Section 6	No

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4.4 Page Limits, Size of Text, other Formatting

4.4.1 The size of the main text of the Delivery Plans 1-4, including annexes and appendices in accordance with subsection 4.5 (Annexes and Appendices) below, will be limited to 1,000 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 the 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 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 submitted as supporting evidence for a Delivery Plan;

g) The contents of the Schedule of Documents Template as described in Table 4.2 (Structure and Format of Bids); and

h) 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 submit a schedule listing all the documents submitted using the Schedule of Documents Template (Attachment H) as part of the Bid and confirm 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

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the size limits described in subsection 4.3 (Structure and Format of Bids) and subsection 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 the table. 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. Letters of support which do not comply with this requirement 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 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).

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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; and

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/DVD. The un-priced CD/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.

e) Bidders must submit three DVDs each containing:

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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 priced and unpriced copies of the CDs/DVDs to be provided and electronic copies to be submitted through AWARD) must be received by the Department **by 12.00 noon on 29 November 2016**. 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 name format shown in the Schedule of Documents Template (Attachment H) will will follow the example format shown below.

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

4.11.5 CD/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/DVD copies of the Bid must be marked 'CONFIDENTIAL-West Midlands Bid submission in response to ITT August 2016. 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 both the electronic

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copy 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 275 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). The Department will apply established governance and assurance processes.

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.

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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.

4.14.2.4 Notwithstanding subsection 7.13 (Rebid Process) and/or subsection 7.14 (Negotiations), Bidders are strongly encouraged to prepare their Bids on the assumption that they might not be given any opportunity to discuss or revise their respective Bids after submission

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

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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;

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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 Financial Structure and Funding Plan.

4.14.3.9 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 meeting the requirements set out in Table 4.4 (Schedule of Initiatives). Each Initiative should conform to the template layout provided for this purpose, "WM Example Intiative Template", located in folder 02.04 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 as per subsection 4.14.3.7.
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.

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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 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.

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4.15 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.

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Section 5: Detailed Bid Submission Requirements - Delivery Plans

5.1 Introduction

5.1.1 Bidders are required to submit four 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 Sub-Plans. A list of the Delivery Plans and their associated Sub-Plans is set out in Table 5.1 (Delivery Plans and Sub-Plans).

Table 5.1 Delivery Plans and Sub-Plans

(A) Delivery Plan	(B) Sub-Plan	(C) Sub-Plan Weighting
0. Bid Summary	Not applicable	Not scored
1. Leadership and Management	Leadership & Management	10%
2. Train service and Performance	2.1 Train Services & Crowding	18%
	2.2 Rolling Stock	24%
	2.3 Performance	8%
	2.4 Supporting Infrastructure Projects	6%
3. Revenue	3.1 Marketing and Branding	4%
	3.2 Fares, Ticketing and Revenue Protection	8%
4. Customer Experience and Stations	4.1 Customer Experience	14%
	4.2 Stations	8%

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, 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**"):

a) The Initiatives that the Bidder proposes to undertake in order to deliver each of the requirements set out in part (A) under each Sub-Plan. Bidders should note subsection 4.14.3 (Contractualisation);

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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) 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 2017/18 prices in any Franchise 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 below). 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 (West Midlands 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, Section 5: (Detailed

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Bid Submission Requirements - Delivery Plans). 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, Section 5: (Detailed Bid Submission Requirements - Delivery Plans) 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 accordance with subsection 3.5 (Non-compliant Bids). 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 RV Mechanism may be used to promote investment in Sub-Plans 2.2 (Rolling Stock), 3.2 (Fares, Ticketing and Revenue Protection) and 4.2 (Stations). In order for any asset proposed by a Bidder to be covered by the RV Mechanism and designated as a Primary Franchise Asset, the Bidder must conform to all, without exception, of the following requirements:

a) Any asset or collection of related assets (such collection referred to here as a **"Scheme"**) proposed, must contribute towards meeting or exceeding the requirements of the relevant Sub-Plan set out in Part (A) of that Sub-Plan;

b) Any asset or Scheme proposed must not exceed a capital cost of £70 million (2017/18 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;

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d) The Bidder may propose up to seven 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 (2017/18 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 previously 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, with the exception of car park Schemes which will be calculated based over a maximum of 25 years from the point at which the car park Scheme is brought in to use, or such shorter time period equivalent to the useful economic life of the asset. The useful economic life should be determined using FRS 101 or FRS 102 or IFRS accounting assumptions (whichever is applicable to the Bidder) appropriate to the asset should that period be less than 15 years (or 25 years for car park Schemes). 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 25 years for car park Schemes) or such other shorter period as is equivalent to its useful economic life and should not abstract revenues from other Train Operating Companies. 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;

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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;

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 Appendix 1 to Schedule 14.6 (Residual Value Mechanism) 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

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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 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, with the exception of car park Schemes which must be financially positive over a maximum of 25 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 (or 25 years for car park Schemes));

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 (or 25 years for car park Schemes) 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.

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 Delivery Plan 0 - Bid Summary

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

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a) The Bidder's overarching strategy and objectives for the Franchise;

b) The Bidder's view of the Market Segments & Separable Business Units, their opportunities and challenges;

c) A programme summarising key business activities, including a delivery schedule which shows the dates of:

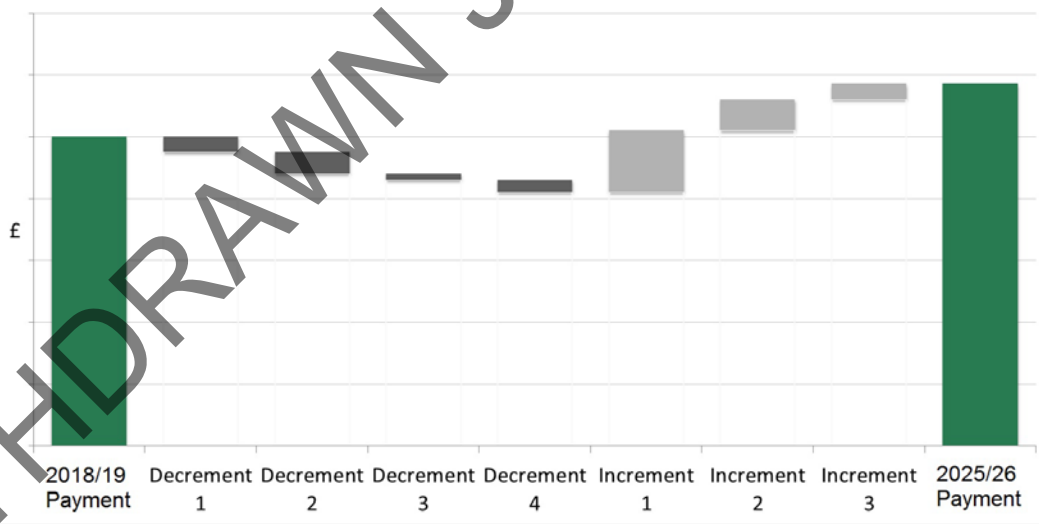
   i) Key actions which the Franchisee needs to take in order to deliver the principal Initiatives included in the Delivery Plans;

   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 payment) between 2017 and 2026 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 2017/18 prices. An example waterfall chart is shown in Figure 5.1 (Example Waterfall Chart).

Figure 5.1. *Example waterfall chart*



5.3.2 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 and generalised statements about long term trends in subsidy or premium etc.

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5.3.3 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.

5.4 Delivery Plan 1 Leadership & Management

For this Sub-Plan, Bidders are to demonstrate where they would differentiate between the two Separable Business Units and where they will propose a common approach for the whole Franchise.

(A) REQUIREMENT

5.4.1 The Department requires a Franchisee who will:

a) Maintain a proactive, constructive and collaborative partnership with the Department and WMR;

b) Embed rail industry sustainable development principles through its leadership, management and investment in the Franchise;

c) Have a clear vision and strategy to increase loyalty and advocacy from its staff, supply chain and customers, acting responsibly and ethically for the good of the industry as a whole;

d) Structure and manage the organisation with effective corporate management systems to continually improve the capability of the Franchisee throughout the Franchise Term;

e) Structure and manage each Separable Business Unit to be responsive to local stakeholder requirements (particularly WMR) whilst ensuring that operational flexibility and efficiency is maintained;

f) Work proactively and collaboratively with all stakeholders and the community to develop and deliver Initiatives that bring the community closer to the railway, improve whole-industry efficiency, and to support wider industry strategies, including better industry level strategic planning with Local Authorities and between passenger and freight operators;

g) Employ people in fulfilling, worthwhile and secure roles, creating and enhancing opportunities for employment and skills development in clear career paths. Develop the competence and capability of the workforce. Mitigate risks that may arise from industrial action to minimise disruption to staff and passengers;

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h) Manage contractors and suppliers proactively and ethically, establish collaborative behaviours, promote innovative thinking and provide leadership to meet passenger needs;

i) Develop and improve its innovation capability, including through leadership, employees, systems, processes and collaboration with other organisations in order to support the delivery of the Rail Technical Strategy; and

j) Safeguard the security of staff and customers across the Franchise and, apply the principles of community safety (set out in Delivering Safer Communities: a guide to effective partnership working), reducing the incidence and fear of crime and anti-social behaviour at stations and on trains.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

a) Details of how their organisational structure will have the capability to deliver the Initiatives put forward in their Bid with the overarching plan of how the management team will deliver the Bid. This should identify the key risks that the franchise management will face, particularly demonstrating appreciation of industrial relations issues with corresponding mitigating actions;

b) A plan for how they will form and run the two Separable Business Units, including how the organisational structure of these units will maintain operational flexibility, add value to the Franchise, meet the requirements of the Franchise Agreement and be managed within the overall business;

c) A plan detailing the full-time equivalent staff numbers with broad grade, role and location by business unit at the Start Date together with an explanation of how the numbers were derived. This should include their approach to managing vacancy gaps including the use of upskilling, recruitment and retention (Note: If the Bidder is suggesting any material change in staff headcount, details of the reasons for that change and the way in which it will be managed should be given, highlighting any impacts on operations and passengers, and the capability and value of the Franchise). As a minimum this plan shall include:

i) A Management Maturity model demonstrating how the leadership and management of the franchise will continually

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improve throughout the Franchise Term, with particular focus on lower grades of management;

ii) How they will identify the skills gaps within the Franchise, including demonstrating how they will deliver the organisational capability required for the Franchise;

iii) How they will promote diversity and equality across the workforce;

iv) How they will attract and recruit people who are new to the industry and those who are representative of the communities they serve, including through the use of apprenticeships, traineeships and graduate schemes; and

v) How they will meet the apprenticeship requirement in the Franchise Agreement and support the delivery of the Government's target of at least 20% of new entrants into engineering and technical apprenticeships being women and a 20% increase in the number of Black and Minority Ethnic (BAME) candidates undertaking apprenticeships by 2020

d) How they will create and implement an overarching, challenging and independently recognised Corporate Social Responsibility (CSR) strategy that follows the RSSB Rail Sustainable Development Principles – Issue 2 dated May 2016, and how they propose to deliver improvements that are benchmarked against rail and wider industry throughout the Franchise; and

e) Details of how the Franchisee will develop and measure the progress of its innovation capability, including how they will partner and collaborate with organisations, inside and outside the rail industry (inclusive of research centres and universities within the Franchise area), and seek third party funding where appropriate to bring new technologies, processes, business models and products to rail.

(C) SCORING

5.4.3 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (West Midlands Marking Framework and Guidance). A Bidder that scores below 4 will result in the Bid being treated as non-compliant.

5.4.4 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:

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a) Proposals which will deliver demonstrable improvements in railway skills and competence of the Franchise workforce to support the sustainability of the railway industry. This could include how Bidders would ensure resilience of services across the Franchise, particularly during times of planned and unplanned disruption, and demonstrate robust planning in the recruitment, training, retention and succession planning of key staffing areas such as but not restricted to: drivers, driver managers, train service planners and operational grades;

b) How the Franchisee will ensure that their apprenticeship plan will deliver a graduation rate of over 90% of those starting in each Franchise Year and how their transition into meaningful and sustainable rail industry jobs will be supported;

c) Innovative environmental and sustainable proposals that exceed the targets set out in the Franchise Agreement;

d) How the Franchisee would improve their benchmarked CSR/Sustainable Development targets in subsection 5.4.2 (For example, though not in particular, utilising the Business In The Community Responsibility Index, London benchmarking group) to be best in class across the transport industry and other sectors within 2 years and sustain that position through to the end of the Franchise Term; and

e) Detailed plans for additional investment in community rail Initiatives, inclusive of station adoption.

5.5 Delivery Plan 2 Train Services and Performance: 2.1 Train Services

(A) REQUIREMENTS

5.5.1 The Department requires a Franchisee who will plan and operate train services that meet the needs of passengers in each Market Segment and, in particular:

a) Meet the minimum requirements about frequency, capacity and first and last train times as set out in the Train Service Requirement that accompanies this ITT ("the TSR")[1]

[1] Solely for the purposes of assessing compliance with the TSR in the bid evaluation process, the Department will disregard any non-compliances that would be resolved if the timing of a particular train service in the bid timetable were to be adjusted by no more than five minutes. For example, a service that is scheduled to arrive at a particular station at 0955 may be counted towards meeting the specified requirement for the 1000-1559 interval, provided that the service is not also counted

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b) Operate at broadly regular intervals, except where variations in frequency are needed in order to match the profile of demand across the day (e.g. peak additional services; ramping up and down of the service frequency at the beginning and end of the operating day);

c) Minimise journey times as far as practicable, including by keeping allowances in the timetable to the minimum necessary in order to comply with the Timetable Planning Rules (see Section D below) and to meet other relevant requirements of this ITT;

d) Allow paths for InterCity West Coast (ICWC) and other passenger and freight operator's train services in accordance with the instructions set out in Section D, subsections 5.5.13, 5.5.14 and Table 5.4 (Requirements in respect of InterCity West Coast (ICWC) Services);

e) Work collaboratively with Network Rail to develop and implement a robust strategy for complying with the TSR to the greatest extent practicable during autumn leaf-fall season while also maintaining acceptable performance, capacity and customer satisfaction; and

f) Put in place resourcing plans and operational strategies that would be sufficiently robust to allow them to implement the likely range of possible outcomes of that collaborative work. In particular, this must include planning to have sufficient rolling stock and train crews to enable them to meet the TSR in full during leaf-fall season, recognising the increased resourcing requirements that would result from extended journey times during that season.

5.5.2 The Department requires a Franchisee who, in addition to meeting the minimum capacity requirements set out in the TSR, will provide Sufficient Capacity on Relevant Services, so far as practicable within the constraints of this ITT and of the railway infrastructure (taking account of the enhancement schemes detailed in the Infrastructure Assumptions Document, and where necessary and practicable making use of Automatic Selective Door Opening to enable longer trains to call at under-length platforms). This requirement applies from the December 2022 timetable change date until the end of the Core Franchise Term. For the purposes of this requirement:

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towards meeting the specified requirement for the 0600-0959 interval. Bidders must identify any instances where they are reliant on this flexibility to demonstrate compliance with the TSR. This flexibility does not apply in respect of the capacity requirements or the requirements about first and last train times. If Bidders identify any manifest errors or inconsistencies within the TSR tables, they may raise a BCQ no later than 5:00pm on the 10th full working day after ITT issue. If the Department agrees that an error has been made, it will issue an amended version of the TSR to all Bidders.

a) “Relevant Services” means all Passenger Services that neither arrive at London Euston during the Morning Peak nor depart from London Euston during the Evening Peak;

b) “Sufficient Capacity” means that:

i) the rolling stock allocated to each service provides standard-class capacity measured in accordance with Section (D) below (which may include standing capacity only on Peak Passenger Services) that equals or exceeds the forecast standard class passenger loading at the critical load point; and

ii) where standing is forecast on Peak Passenger Services, passengers should not be required to stand for more than 20 minutes, but forecast loadings on a particular service may exceed these requirements by up to a maximum of 10 passengers per carriage if lengthening the service would require the Bidder to increase the overall size of its Train Fleet, so long as the Bidder can show that the excess can be accommodated on neighbouring services.

5.5.3 The Department requires a Franchisee who will take a proactive approach to planning to meet demand for seasonal travel and travel to and from special events at venues including, but not limited to:

a) Birmingham National Exhibition Centre

b) Coventry Arena

c) Birmingham City Centre during major events

d) Wembley Stadium;

and who, in particular, will:

e) Make maximum use of the available Train Fleet to provide longer and additional services to meet demand associated with such events; and

f) Work with organisers of major events to examine the business case for hiring in additional rolling stock to meet such needs and, where a commercial case can be established or where the organisers are prepared to underwrite the Franchisee’s reasonable costs, use all reasonable endeavours to secure the hiring in of such rolling stock.

5.5.4 The Department requires a Franchisee who will implement such Initiatives as are practicable to embed, within their timetable development process, arrangements for regular collaboration with other Train Operating

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Companies, with a view to addressing the matters referred to in paragraph 11 of Schedule 1.1 of the Franchise Agreement, in particular providing opportunities for passengers to make convenient connections between their respective services, and between the Franchisee's own services, as a minimum at the following locations:

a) Milton Keynes Central;

b) Worcester Shrub Hill and/or Worcester Foregate Street;

c) Nuneaton; and

d) Tamworth.

5.5.5 The Department requires a Franchisee who will, if the relevant Priced Option is called, provide regular train services at Barlaston or Wedgwood stations (including reinstatement of the relevant platforms) as specified in the relevant Priced Option set out Schedule 3 of the Franchise Agreement.

(B) EVIDENCE THAT BIDDERS SHALL PROVIDE

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

a) A description of the principal proposed changes to train service patterns and rolling stock at any time during the Franchise Term, compared to the May 2016 timetable;

b) A narrative explanation to demonstrate that their plans can reasonably be expected to provide Sufficient Capacity from December 2022 to the end of the Core Franchise Term, recognising that:

i) In respect of services for which Table 5.2 (Minimum requirements in respect of loading forecasts) does not require forecasts of critical loads to be provided, the critical load may be higher than the forecast loading at London Euston or the relevant Birmingham Station;

ii) The evidential requirements set out in in Table 5.2 (Minimum requirements in respect of loading forecasts) do not, of themselves, demonstrate that peak standing will be confined to 20 minutes duration; and

iii) Further growth will need to be accommodated after autumn 2023.

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c) A description of how the Bidder's timetables and operational plans (including its approach to management, diagramming and deployment of rolling stock and train crew) will support delivery of its proposed train service and better train service performance;

d) An explanation of how the planned train crew establishment varies over the Franchise Term, including evidence to demonstrate that the proposed resourcing levels will be sufficient to operate the proposed timetables while also consistently meeting the performance benchmarks set out in Schedule 7.1 of the Franchise Agreement. This should take account of training needs and should include an explanation of the proposed levels of overtime and rest-day working assumed in the Bid with an explanation of the deliverability of those levels. This must also include an explanation of how the Bidder will robustly resource the substantial Sunday service enhancements required by the TSR; and

e) An explanation of the Bidder's plans for collaborating with Network Rail to minimise any adverse impact on passengers during autumn leaf-fall season, and of how the Bidder's operational strategy and resourcing plans incorporate sufficient resilience to allow them to implement the range of likely possible outcomes of that collaboration..

Technical Annex

5.5.7 Bidders are also required to provide the following information within a Technical Annex (in Word and PDF format) which is excluded from the Page Count:

a) A brief summary of proposed changes to train service frequency, train service, and station calling patterns that are explained more fully in sub-plan 2.1 itself;

b) A brief summary of any changes to the rolling stock types that are deployed on each route of the franchise;

c) A description of any changes in infrastructure functionality that the Bidder is assuming (over and above those described in the Infrastructure Assumptions Document), their proposals for funding and delivering them, and evidence of Network Rail support (and for the avoidance of doubt this evidential requirement would also apply to any plans that rely on ETCS and/or traffic management deployment at any time during the Franchise Term);

d) Any changes to the Engineering Access Statement (Section 4), signal box opening hours and Timetable Planning Rules that have been

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assumed (with supporting evidence, including the views of Network Rail);

e) A description of where revised sectional running times have been applied for any rolling stock deployed that is not currently published in Network Rail's B Plan (with supporting evidence, including the views of Network Rail);

f) A description of any flexing of other passenger and freight operators' services that has been assumed necessary to deliver a public timetable that is compliant with the TSR;

g) Any instances in which compliance with the TSR is dependent on the 'five minute flex' described in footnote 1 to subsection 5.5.1 a);

h) A brief summary of the approach to crowding modelling, and the principal strengths and weaknesses of this approach; and

i) A list of any additions to the geographic scope of the Franchise (as stated in Schedule 1.1 of the Franchise Agreement) that would be needed to operate the Bidder's proposed train service. Please see subsection D below for further information about proposed extensions to geographic scope.

Operational data required as part of Bids

5.5.8 Bidders must provide details of their proposed timetables, Train Plans and rolling stock diagrams to support their train service proposals as set out below:

a) <u>Timetables</u>

i) Bidders must provide their proposed SX, SO, and SuO timetables for December 2018 and December 2022 and any other dates on which the Bidder proposes substantial timetable alterations. Bidders timetables must comply with the technical requirements set out in "Technical Guidance for Timetable Submissions" document in folder 02.04 in the Data Site.

ii) Bidders must provide a description of any train service changes proposed to take effect at any time other than the timetable changes in December 2018 and December 2022 that are not reflected in the timetables provided.

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b) Rolling Stock

i) The Bidder's rolling stock diagrams for their proposed December 2018 and December 2022 Weekday timetables, which must be provided in PDF and machine readable Excel or Word formats;

ii) A table showing the percentage fleet availability assumed for each rolling stock type in December 2018 and December 2022. Bidders must use the standard template provided for this purpose in folder 02.04 in the Data Site.

c) Train Plans and Passenger Loading Forecasts

i) Bidders must provide their proposed Train Plans for their December 2018, and December 2022 timetables for all services that are scheduled to operate SX, SO, and SuO. Bidders must use the standard template provided for this purpose in folder 02.04 in the Data Site. These plans must include loading forecasts in accordance with the minimum requirements in Table 5.2 Minimum requirements in respect of loading forecasts;

ii) Bidders must also provide further Train Plans showing Morning Peak services arriving at, and Evening Peak services departing from, London Euston and Birmingham Stations in December 2019 and December 2021. This is to demonstrate compliance with the capacity requirements which are specified in the TSR from those dates, so loading forecasts are not required in either the December 2019 or December 2021 Train Plans; and

iii) In relation to any Relevant Services where Sufficient Capacity is not expected to be provided at any point after December 2022, an explanation of why it would not be possible to provide additional capacity on those services within the constraints of the railway infrastructure (taking account of the Infrastructure Assumptions Document) and the other requirements of this ITT.

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Table 5.2: Minimum requirements in respect of loading forecasts

Timetable	Services	Minimum requirements about loading forecasts[2] to be included within Train Plan
Weekdays	Services arriving at London Euston between 0700 and 1059 Services departing from London Euston between 1530 and 1929 Services arriving at Birmingham Stations between 0700 and 0959 Services departing from Birmingham Stations between 1600 and 1859	Loading forecasts to be provided on arrival at and departure from London Euston or the relevant Birmingham Station: Dec 18: Calibrated loadings from the Bidder's crowding model, based on Autumn 2019 levels of demand Dec 22: Calibrated loadings from the Bidder's crowding model, based on Autumn 2023 levels of demand
	All other services	Loading forecasts to be provided on departure from the critical load point: Dec 18: MOIRA1 outputs (uplifted to Autumn 2019 levels of demand) or calibrated loadings from the Bidder's crowding model Dec 22: MOIRA1 outputs (uplifted to Autumn 2023 levels of demand) or calibrated loadings from the Bidder's crowding model
Weekends	All services	Loading forecasts to be provided for the critical load point: Dec 18: MOIRA1[3] outputs (uplifted to Autumn 2019 levels of demand) or calibrated loadings from the Bidder's crowding model. Dec 22: MOIRA1 outputs (uplifted to Autumn 2023 levels of demand) or calibrated loadings from the Bidder's crowding model

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[2] All references to "loading forecasts" in this table are to Standard Class loading forecasts. Bidders may, but are not required to, provide First Class loading forecasts

[3] If MOIRA1 outputs are used, those on arrival and departure from London Euston and Central Birmingham must be calibrated to total daily demand levels using available count data

(C) SCORING

5.5.9 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3. A bid that scores below 4 on this sub-plan will be treated as non-compliant.

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

a) Bids that, in the round, generate additional passenger benefits by addressing the needs, priorities and aspirations of passengers and other stakeholders, such as those highlighted in responses to the public consultation in folder 01.04 Stakeholder Consultation in the Data Site;

b) Providing additional train services for which there is likely to be significant passenger demand and whose primary impact is likely to be to increase rail passenger volumes rather than to abstract demand and revenue away from other operators. Without limiting the above, the Department is particularly interested to see credible commitments to:

i) Extend the length of the operating day at times that are most important to passengers,

i) Enhance frequencies between Birmingham and Worcester;

ii) Enhance frequencies between Worcester and Gloucester; and

iii) Operate services on Boxing Day;

c) Achieving material reductions in journey times compared to the current (May 2016) timetable (excluding any journey time reductions that are a consequence of infrastructure enhancement schemes mentioned in the Infrastructure Assumptions Document or train service enhancements required by the TSR). This could include journey time reductions achieved through timetable or rolling stock innovation, or through commitments to fund infrastructure enhancements;

d) Preserving, providing new or enhancing direct journey opportunities that are important to passengers but are not specified in the TSR;

e) Initiatives to increase rail modal share for surface access to and from Birmingham International Airport, in particular the operation of earlier and later services to and from Birmingham International; and the linking of services currently operating via Birmingham New Street to and from

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the existing service between Birmingham New Street and Birmingham International;

f) Initiatives to improve train service operations in ways that will generate long-term passenger benefits or operational improvements that will continue to accrue after the end of the Franchise Term. This can include the implementation of Driver Controlled Operation. Where DCO is proposed, the Department would require the Franchisee to undertake appropriate consultation (with passengers and the workforce) including about supporting the continual development and expansion of the professional skills of on-train staff, in particular in relation to on-board customer service to which passengers attach most value; and

g) Proposals for occasional use on the national network of heritage traction and rolling stock, for example to augment capacity to serve special events, to provide a special standard of customer experience, or to commemorate significant events;

5.5.11 Bidders' proposals to exceed the minimum capacity requirements in the TSR or introduce the specified capacity earlier than required by the TSR will not be treated as exceeding requirements for the purposes of scoring this Sub-Plan.

5.5.12 The proposals relating to the Priced Options will not be scored as part of the evaluation of Delivery Sub-Plan 2.1 or otherwise as detailed in subsection 7.3.1.4.

(D) FURTHER INSTRUCTIONS TO BIDDERS

5.5.13 This section contains further instructions to Bidders which, so far as possible, are aimed at ensuring that Bidders' train service proposals are compatible with the reasonably foreseeable future needs of other operators. Bidders must demonstrate that their train service proposals are compatible with these instructions, including by showing other operators' paths in their Bid Timetables. These requirements will apply from December 2018 onwards, except where stated to the contrary.

5.5.14 The requirements are:

a) In respect of InterCity West Coast services, to comply with the requirements set out in Table 5.4 (Requirements in respect of InterCity West Coast (ICWC) services);

b) In respect of other passenger operators and freight operators, to provide paths to enable them to operate the same level of service as in

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their May 2016 timetables plus any additional services that, at the time of issuing this ITT, any such operator has firm track access rights to operate; and

c) Where the requirements refer to maintaining the current "level of service", this does not necessarily require Bidders to preserve other operators' services in precisely today's paths. But if proposing to re-time another operator's services, they must provide sufficient evidence to demonstrate that the other operator's services will still be deliverable without affecting the calling patterns of those services, and without material adverse impacts on service intervals, journey times or turnaround times for those services. (In the case of freight paths, Bidders must demonstrate that the paths remain achievable without material adverse impacts on journey times or material changes to the times of day at which they operate.) It is not possible to define what constitutes a "material" adverse impact, as this will depend upon the nature of the service in question. But Bidders should be aware that the scoring of their train service proposals will take account of the extent to which their proposals can be expected to affect (for better or for worse) the quality of the paths available for other operators.

5.5.15 Bidders' attention is also drawn to paragraph 19 of Schedule 6.1 of the Franchise Agreement, which specifies further limits on the number of services the Franchisee may operate into and out of London Euston during the period of major works at that station.

Table 5.4: Requirements in respect of InterCity West Coast (ICWC) Services

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

London Euston to Milton Keynes Central (Fast Lines)

On the Fast Lines between London Euston and Milton Keynes Central, Bidders must not plan to operate more than:

- 13 trains arriving at London Euston between 0700 and 0959, with no more than 5 trains in a single hour;
- 11 trains departing from London Euston between 1600 and 1859 with no more than 4 trains in a single hour; and
- 3 trains per hour in each direction at all other times.

Bidders must not plan for services to/from London Euston to make any further calls on the Fast lines above those provided in the May 2016 timetable.

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London Euston to Milton Keynes Central (All Lines)

Between 20 00 SO and 11 59 SuO, and between 21 00 SuO until 23 59 SuO, Bidders must not plan to exceed the number of arrivals and departures at London Euston in the May 2016 timetable in any given hour.

At all other times, bidders must maintain capacity for at least the current level of InterCity West Coast service to operate

Hanslope Junction to Hillmorton Junction (via the Main Line, not via Northampton)

Bidders must not plan to operate more than 1 train per hour in each direction on the Main Line.

Rugby to Birmingham New Street

Bidders' timetables must provide paths for the future ICWC operator to operate the current service levels to / from London Euston, with paths timed for Class 390s, including the extension of one train per hour beyond Birmingham New Street to / from Weaver Junction, calling at Sandwell & Dudley, Wolverhampton, Stafford and Crewe which must have a dwell of no more than 10 minutes at Birmingham New Street.

Birmingham New Street to Wolverhampton via Sandwell and Dudley

Bidders must not plan to operate more than 6 trains per hour in each direction in each direction between Birmingham New Street and Wolverhampton, except for arrivals at Birmingham New Street between 08 00 and 08 59 on Mondays - Fridays, when bidders must not plan to operate more than 7 trains in this hour.

Birmingham New Street– Bushbury Junction

Bidders' timetables must provide paths for a future operator to operate an additional 1 train per hour between Birmingham New Street and Bushbury Junction, timed for Class 390 non-stop service. This service need not call at Wolverhampton.

Wolverhampton to Shrewsbury

Bidders must not plan to operate more than 2 trains per hour in each direction between Wolverhampton and Shrewsbury.

Rugby to Crewe (via Tamworth and Stafford)

Bidders must not plan to operate more than:

- 1 train per hour in each direction on the WCML between Rugby and

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Crewe;

- a further 1 train per hour in each direction on the WCML between Rugby and Crewe via Stoke-on-Trent or the main line (which may be a service to/from the Northampton loop);

- a further 1 train per hour in each direction between Stafford (Trent Valley Junction) and Crewe via Stoke-on-Trent; and

- a further 2 trains per hour between Stafford (Trent Valley Junction) and Crewe via the WCML.

Rugeley / Stafford to Kidsgrove

Bidders' timetables must provide paths for the future ICWC operator to operate the current service pattern to / from London Euston, with paths timed for Class 390.

Crewe to Weaver Junction

Bidders must not plan to operate more than 2 trains per hour in each direction between Crewe and Weaver Junction.

Timetable Planning Rules – Instructions to bidders

5.5.16 In preparing their Bids, Bidders must use version 4 of the Timetable Planning Rules published by Network Rail on 15 July 2016, except as set out below:

a) For services between Birmingham New Street and Redditch/Bromsgrove, Bidders must use the values contained in the document '16-06-28 TRIP LNW proposals' for Route MD305: Birmingham New Street to Blackwell, and those for Class 323s contained in the document 'WM TRIP SRT recommendation' for route WM6 Birmingham New Street – Worcester/Redditch and Worcester/Redditch – Birmingham New Street;

b) For services at London Euston, Bidders must use the values contained in the document 'LNW Rules- 2019 Euston to Camden Jn rules proposals v0.2';

Timetable Planning Rules – Further Background Information

5.5.17 The following paragraphs contain further information that may assist Bidders in preparing their Bids, including Network Rail's intentions for

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engagement with Bidders about the emerging findings of the Timetable Rules Improvement Programme. For the avoidance of doubt, subsection 5.5.17 to 5.5.21 do not constitute "Requirements" for the purposes of this ITT.

5.5.18 Network Rail will be consulting on amendments to the timetable planning rules in line with the recommendations drawn up from the West Midlands Timetable Rules Improvement Programme (TRIP) reports.

5.5.19 As outlined in the "WM Bid Timetable Guidance" Document in folder 11.01 in the Data Site, Network Rail expects the Franchisee to help develop timetables through collaborative and open review of industry-wide implications, demand, and opportunities.

5.5.20 It is therefore expected that, during the Bid preparation phase, the Bidders will consider the Timetable Planning Rules proposals and will discuss with Network Rail the potential impact of those changes on the Bidders' proposed timetables and resourcing plans. These values will also be consulted on, in line with the timescales outlined in Network Code for formal industry consultation.

5.5.21 Following release of this ITT to bidders, Network Rail are available for bilateral collaboration meetings with Bidders which will serve as the forum for:

a) Sharing the outcomes of the planned impact assessments of the values;

b) discussing progress on development of bid timetables; and

c) Highlighting opportunities for optimising the timetable.

Geographic scope

5.5.22 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;

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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 for other operators to offer a more attractive service to their passengers.

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

a) The additional route(s) that they would propose to add to the geographic scope of the Franchise;

b) The nature of the train service they propose to operate on the additional route(s), e.g. in terms of frequency and calling patterns; and

c) The rationale for proposing to do so, including any evidence they consider relevant to the four criteria identified above.

5.5.24 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);

b) Or 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).

Contractualisation of Bidders' train service proposals

5.5.25 Consistent with subsection 4.14.3 of this ITT (Contractualisation), the Department will wish to contractualise additional train services and/or capacity proposed by the winning Bidder. The Department will therefore prepare amended versions of the TSR for the leading Bidder(s), reflecting the positive features of their train service proposals that the Department wishes to contract. In the amended TSR, the Department may include journey time requirements and/or peak capacity metrics that are expressed in terms of seats and/or total passenger carrying capacity, in each case based on the Bidder's proposed timetables and Train Plans.

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

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5.5.27 The Department will then issue the amended TSR(s) to the Bidder(s), asking them to confirm that they would be prepared to enter into the Franchise Agreement on the basis of that amended TSR. If a Bidder is not prepared to do so, subsection 7.8 of this ITT shall apply.

5.6 Delivery Plan 2 Train Services and Performance: 2.2 Rolling Stock

Bidders may propose assets other than Rolling Stock to be funded by the Residual Value Mechanism (See subsection 5.2 Residual Value Mechanism) under this Sub-Plan).

(A) REQUIREMENT

5.6.1 The Department requires a Franchisee who will implement fleet, depot, maintenance, stabling and train presentation strategies that will:

a) Enable them to deliver their train service proposals as set out in Sub-Plan 2.1;

b) Support the delivery of their proposals to improve train service performance as set out in Sub-Plan 2.3;

c) Enable them to meet the Market Segment based NRPS benchmarks for passenger satisfaction with the Franchisee's trains, as set out in Schedule 7.2 of the Franchise Agreement and the Service Quality Regime as set out in Schedule 7.3 of the Franchise Agreement;

5.6.2 The Department requires a Franchisee who will provide rolling stock that is modern, comfortable and meets the needs of passengers and the brand within the Market Segments that the Franchise will serve, and that:

a) Provides interior layouts and seating configurations best suited to the routes and Markets Segments served, striking an appropriate balance between providing sufficient seats for longer-distance passengers and enabling shorter-distance peak passengers who cannot obtain a seat to stand in reasonable comfort. Further requirements about the measurement of rolling stock capacities, including the circumstances in which standing densities will be assessed at less than 0.45m^2 per passenger, is provided in (E) FURTHER INFORMATION to Section 5.6 Delivery Plan 2 Train Services and Performance: 2.2 Rolling Stock ; and

b) Is fitted with bogies (with the exception of rolling stock that is used exclusively on the Stourbridge Town branch).

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5.6.3 The Department requires a Franchisee who will, by the end of 2021, refurbish all pre-1995 rolling stock that will form part of the Train Fleet after the end of 2022, in accordance with at least the minimum specification set out in paragraph 11 of Schedule 6.1 of the Franchise Agreement (unless refurbishment that complies with that minimum specification has been undertaken since 1 January 2013).

5.6.4 The Department requires a Franchisee who will, when new rolling stock is procured or existing fleets are subject to C6 overhaul or similar refurbishment, ensure that the relevant specification takes account of the relevant "Rolling Stock Aspirations by Service Group" set out in the Department's "Rolling Stock Perspective – Second Edition", and meets those aspirations so far as reasonably practicable.

5.6.5 The Department requires a Franchisee who, if proposing to procure new trains as part of their fleet strategy, will:

a) Ensure that those trains are designed in such a way as to minimise the future costs of fitting ETCS equipment. At the very minimum, space must be reserved in the cab and on the train, and the necessary cables and power supply capability provided for the installation of ETCS when required (i.e. whilst the ETCS Driver Machine Interface is not required in the procurement of new trains, it must be capable of being integrating seamlessly within the train when required);

b) Secure prices from the supplier of those trains for the fitment of on-board ETCS equipment (ETCS Level 2, baseline 3, in accordance with the requirements specified in "ETCS On-board System – Baseline 3 – National On-board Subsystem Requirements Specification", document reference NEPT/ERTMS/REQ/007, issue 2.0, dated 19/05/2014, available in folder 11.10 Digital Railway in the Data Site as part of the production process; and

c) Inform the Secretary of State of those prices, and the date by which the option to include such equipment in the specification would lapse.

5.6.6 The Department requires a Franchisee who, when procuring, installing or upgrading on-train CCTV systems will reflect the principles outlined in ATOC's "National Rail & Underground Closed Circuit Television (CCTV)" and BTP's "Output requirements from CCTV Systems" guidance documents in the Data Site in folder 02.04.

5.6.7 The Department requires a Franchisee whose fleet strategy will:

a) Include a commitment to lease those trains within the current operator's train fleet that are covered by Section 54 agreements, at least until the

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expiry dates of those agreements. (The relevant trains and expiry dates are identified in Schedule 1.6 of the Franchise Agreement);

b) Not release rolling stock from the Train Fleet until replacement rolling stock with an equivalent or greater capacity has been introduced into service to replace it; and

c) Comply with the additional requirements set out in (E) FURTHER INFORMATION to Section 5.6 Delivery Plan 2 Train Services and Performance: 2.2 Rolling Stock.

5.6.8 The Department requires a Franchisee whose fleet strategy will provide sufficient suitable rolling stock to enable it to deploy electric rolling stock to operate:

a) A minimum of 95% of passenger services each week that operate wholly on electrified routes (throughout the franchise term);

b) A minimum of 95% of passenger services each week between Birmingham New Street and Bromsgrove, excluding services that continue on non-electrified routes beyond Bromsgrove (from December 2017 to the end of the franchise term);

c) To maximise the number of services from the available fleet, as many services as practicable between Birmingham New Street and Rugeley Trent Valley given the available rolling stock until December 2018; and

d) A minimum of 95% of passenger services each week between Birmingham New Street and Rugeley Trent Valley (from December 2018 to the end of the Franchise Term).

5.6.9 The Department requires a Franchisee who will ensure that for any new-build rolling stock:

a) The fleet is fitted with the equipment necessary to enable the trains to be operated under Driver Controlled Operation (DCO) in passenger service without any additional station facilities other than lighting being required; and

b) 10% of each new fleet type is to be fitted with track geometry measurement systems that can provide the appropriate data in a format that Network Rail will be able to interpret.

5.6.10 The Department requires a Franchisee who will:

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a) develop and deliver a quantified strategy for improving the energy efficiency arising from rolling stock operations (including depots, maintenance and stabling); and

b) implement such systems and processes as are necessary to enable diesel fuel consumption to be measured and monitored on a journey-by-journey basis as soon as reasonably practicable, and in any case by no later than 31 December 2022.

(B) EVIDENCE THAT BIDDERS SHALL PROVIDE

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

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) An explanation of how the rolling stock will serve the needs of each Separable Business Unit;

iii) How the introduction of new-build or cascaded fleets into the Franchise will be managed so as to avoid disrupting services for passengers and maintain standards of punctuality and reliability performance;

iv) Evidence that their proposed fleets will be compatible with the technical and operational capabilities of the infrastructure;

v) A summary fleet plan using the Excel template provided to Bidders in folder 02.04 in the Data Site, showing the composition of the fleet on a period-by-period (or month-by-month) basis throughout the Franchise Term;

vi) Their proposed depot, maintenance, stabling, and train presentation strategies, including any depot and stabling enhancements proposed and details of how these will be delivered and funded, how any resulting disruption will be minimimised, and contingency plans in the event that the anticipated maintenance or stabling capacity cannot be secured at the Bidder's preferred sites;

vii) Term sheets (i.e. offer letters) for any non-new-build rolling stock forming part of the Bidder's Train Fleet, and evidence to support proposals for new-build rolling stock (e.g. offer letters from

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manufacturers including new build project plans, maintainers including details of the offer, and financiers which includes assumptions around maintenance reserves. If maintenance reserves are not applied there should be a demonstration 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);

viii) Details of the key technical and passenger-facing characteristics of any new trains that they propose to introduce into the Franchise, and of any proposed fleet refurbishments. This shall include 3D graphics showing the intended designs of new or substantially refurbished interiors;

ix) Details of any proposed changes to the interior layouts of existing fleets, and interior layout drawings for any new-build vehicles (in each case with sufficient detail to justify the rolling stock capacities claimed in the Bidder's train plan and mark-up of Schedule 1.6 of the Franchise Agreement);

x) In relation to Wi-Fi, Bidders must provide an outline plan for fitment of the necessary on-train equipment and systems, and must explain how the Wi-Fi equipment will be maintained and operated throughout the Franchise Term, including plans for hardware replacement where required due to failure or obsolescence

xi) Clear identification of any proposals for depot and stabling enhancements in respect of which bidder intends to draw down by 31 Mar 2019 some or all of the £5m allocation from the Depot, Stabling and Ancillary Works Fund identified in paragraph 21 of schedule 6.1 of the Franchise Agreement.

xii) 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:

A) An explanation of their reasons for being confident that the current or successor operator of the 'donor' franchise will be able to secure sufficient alternative rolling stock to continue to operate their train services to current standards as described in (E) FURTHER INFORMATION to Section 5.6 Delivery Plan 2 Train Services and Performance: 2.2 Rolling Stock;

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B) An explanation of the consequences for the Franchisee's train service proposals if incoming cascaded stock were to 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. In particular Bidders must identify any alternative rolling stock that they would lease in such circumstances and any of the Bidder's train service proposals or other Initiatives they would be unable to deliver (or would have to deliver later than planned) in such circumstances.

(C) SCORING

5.6.12 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3. A bid that scores below 4 on this sub-plan will be treated as non-compliant.

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

a) Initiatives to enhance the quality and reliability of the Train Fleet substantially beyond the requirements set out in section (A) above such that, in the Department's reasonable opinion, the requirements of Schedule 7.1 (Performance Benchmarks) and/or Schedule 7.2 (Passenger Satisfaction) and/or Schedule 7.3 (Service Quality Regime) of the Franchise Agreement are likely to be significantly exceeded;

b) Initiatives to develop, test or implement genuinely innovative technologies within the Train Fleet, including Initiatives to support Network Rail requirements for data, where such technologies have clear potential to benefit the Franchise and its passengers and could also be transferable to the wider rail market;

c) Initiatives to improve whole industry cost efficiency such as working with Network Rail to reduce the impact of rolling stock on permanent way, and enable efficient and safe monitoring of infrastructure over and above the requirements set out in (A) Requirements to Section 5.6 Delivery Plan 2 Train Services and Performance: 2.2 Rolling Stock;

d) Initiatives to fit enhanced passenger information systems that include (in addition to relevant regulatory requirements) the capability to:

i) Acquire and display (in a meaningful, user-friendly format) real-time travel and delay information, including, for example,

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estimated arrival times at calling points, including information on rail service connections where relevant, and summaries of departures from major stations, e.g. Birmingham New Street;

ii) Interface and integrate with other remote information systems (including systems providing real-time information about onward connections by rail, bus and other modes, and where applicable on-train passenger loading measurement and Selective Door Opening (SDO) systems); and

iii) Initiatives that will generate value beyond the Franchise Term, for example by investing in improvements in depot and stabling facilities.

(D) FURTHER INSTRUCTIONS AS TO ROLLING STOCK REQUIREMENTS

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

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

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

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

a) the rolling stock that is comprised within the West Midlands franchise Train Fleet at the date of issuing this ITT, except for the Class 150 units that are due to be cascaded to the Northern franchise before the start date;

b) the six Class 153 units that are due to be cascaded from the Great Western franchise to the West Midlands franchise at about the same time as the Class 150 units referred to in (a) above are cascaded out to Northern;

c) AC or dual voltage electric multiple units, any locomotives, driving van trailers and coaching stock of any class that are leased by a Relevant Operator other than the current West Midlands and InterCity West Coast franchisees at the date of issuing this ITT and that either:

i) They are demonstrably surplus to the requirements of that Relevant Operator:

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A) because new rolling stock is being procured to replace them and the introduction of that rolling stock and hence the transfer is not dependent on the completion of any electrification scheme; or

B) because other rolling stock is due to be cascaded in to the donor franchise to replace it and the transfer of that cascaded rolling stock is not dependent on the completion of any electrification scheme; or

C) because the Bidder proposes to release suitable alternative replacement stock from the West Midlands franchise that could be used by the donor franchise; or

ii) They will not be demonstrably surplus to the requirements of that donor franchise, but the Bidder can demonstrate that it will be feasible for that franchise 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.

iii) Alternative rolling stock under subsection 5.6.15(c)(i) or 5.6.15(c)(ii) above must be capable of delivering comparable or better operational performance characteristics, and of achieving comparable or better levels of passenger satisfaction with the quality of rolling stock, than the stock it would replace within the donor franchise. 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 by the donor franchisee, and a reasonable contingency margin;

d) Any rolling stock that is not leased or operated at the date of issuing this ITT by any Relevant Operator;

e) Any other existing rolling stock that the Department may advise confidentially to Bidders; and

f) Any new build rolling stock that the Bidder commits to procure.

5.6.16 For the purposes of this Section (D), a 'Relevant Operator' is any person who operates rail passenger services within England, Scotland or Wales under contract to a public authority (or any successor operator to such a person).

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5.6.17 For the avoidance of doubt, the Department's intention in the above instructions is that Bidders may not propose any inward cascade of rolling stock either from the InterCity West Coast franchise (in order to give bidders for that franchise certainty as to the availability of the existing West Coast fleet) or from the Great Western franchise (where future rolling stock requirements in light of changes to the planned completion dates for electrification are currently being assessed), with the exception of the six Class 153 vehicles mentioned in subsection 5.6.15 (b) above.

(E) FURTHER INFORMATION

5.6.18 The provisions of this subsection apply in addition to the provisions of subsection 4.14.3 (Contractualisation) and subsection 7.8 (Evaluation Impact of Contractual Treatment of Bidders' Initiatives).

New-build Rolling Stock

5.6.19 For any new-build 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).

5.6.20 When contractualising any proposal for new-build rolling stock, the Department will incorporate into the Franchise Agreement:

a) An obligation on the Franchisee to use all reasonable endeavours to bring the new 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 twelve months after the Target Date(s); and

c) Provisions to address the financial consequences of the new rolling stock entering into service sooner than, or later than, the Target Date(s), including in particular:

i) That there will be no adjustment to the Franchise Payments in consequence of the new rolling stock entering into passenger service earlier than the Target Date(s);

ii) That in the event that the new 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

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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) That this 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;

B) 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 new rolling stock);

C) 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 (The Composition of the Train Fleet) of the Franchise Agreement, or leasing other rolling stock to substitute for the delayed new vehicles (the Franchisee having used all reasonable endeavours to minimise such costs);

D) 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

E) Any other cost savings achieved by the Franchisee as a consequence of the delay. The benchmarks in Schedule 7 (Performance Benchmarks) of the Franchise Agreement will not be amended in consequence of any delay and the assessment of the net financial effect of the delay will take no account of any changes to the payments arising under Schedule 7 (Performance Benchmarks) of the Franchise Agreement that are a consequence of the delay.

Inward cascades

5.6.21 Where Bidders are contemplating inward cascades of fleets from other franchises, they are invited (but for the avoidance of doubt are not

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required) to set out their proposals to the Department, via a BCQ, as early as possible in the bidding process. The Department will consider the potential impact of such proposals 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.

Rolling stock capacities

5.6.22 Table 5.5 (Capacities of Rolling Stock for Bidding Purposes) sets out the accepted standard class capacities of the unit types in the Train Fleet as operated by the incumbent operator immediately prior to the Start Date. Bidders shall assume these capacities for the purposes of their Bids (except insofar as any proposals to modify rolling stock interiors will affect capacity).

Table 5.5: Capacities of Rolling Stock for Bidding Purposes

Class	Seated capacity (including spaces for wheelchair users)	Standing capacity	Total Standard Class capacity
Class 150	147	50	197
Class 153	73	25	98
Class 170 (2 car)	122	88	210
Class 170 (3 car)	196	129	325
Class 323	289	67	356
350 Desiro/1	206 (Standard Class) 24 (First Class)	154	360
Class 350 Desiro/2	246 (Standard Class) 24 (First Class)	117	363
Parry People Mover	25	35	60
Class 172	139	84	223

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Class 172	219	132	351
Class 350/3	214 (Standard Class) 24 (First Class)	149	363
Class 319/0	303	106	409
Class 319/2	241 (Standard Class) 12 (First Class)	84	325
Class 319/4	12 x 4-car: 258 (Standard Class reducing to 254 post PRM) 12 (First Class) 8x 4-car: 254 (Standard Class) 12 (First Class)	12 x 4-car: 90 (reducing to 89 post PRM) 8 x 4-car: 89	12 x 4-car: 348 (reducing to 343 post PRM) 8x 4-car: 343

5.6.23 Where a Bidder is proposing to reconfigure the interior layout of any existing rolling stock covered by Table 5.5 (Capacities of Rolling Stock for Bidding Purposes), 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.

5.6.24 With the exception of rolling stock that is to be deployed on the Cross City line (i.e. electric services between Bromsgrove/Redditch, Birmingham New Street and Lichfield Trent Valley), all rolling stock will be assessed at a standing density of 0.45m^2 per standing passenger.

5.6.25 Rolling stock for use on the Cross City Line will be assessed as being suitable for standing densities of either 0.45m^2, 0.35m^2 or 0.25m^2 per standing passenger depending on its physical characteristics and interior layout. For the Cross City Line:

a) The 0.25m^2 allowance will be permissible only for rolling stock whose physical characteristics (e.g. door dimensions) and interior layouts are such that they can realistically accommodate the higher standing density even at high-churn locations, while also providing a good level of passenger comfort and safety;

b) The 0.35m^2 allowance will be permissible for rolling stock that offers materially improved conditions for higher-density standing compared to

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‘conventional’ 2+2 layouts, but that does not fully meet the conditions required for standing densities of 0.25m^2 per standing passenger; and

c) The 0.45m^2 allowance will be applied for all other rolling stock. All rolling stock operated by the current operator has been assessed at 0.45m^2 per standing passenger, and will continue to be so assessed unless material changes to interior layouts are proposed.

5.6.26 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 0.25m^2 or 0.35m^2 per standing passenger will be permissible for the Cross City line rolling stock, but the following indicative guidance may assist Bidders:

a) To be eligible for 0.35m^2, the Department would normally expect to see a layout designed for higher-density standing, including:

i) A minimum unobstructed aisle width of 700mm throughout the carriage;

ii) each vestibule area consisting of an open space between draught screens, seats, luggage stacks or other obstructions, measuring no less than 3000mm for a two-door per side vehicle or no less than 2000mm for a three-door per side vehicle (measured along the length of the vehicle);

iii) Exterior doors spread along the length of the vehicle, not at the vehicle ends; and

iv) Sufficient grab-poles, seat-back grab-handles (designed to be held comfortably for prolonged periods) and other hand-holds to allow passengers to stand in reasonable comfort.

b) 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.

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

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

a) Fixed seats;

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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.

5.6.29 The standing capacity of any carriage will be assessed by measuring the total area of the carriage 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 fixed and tip-up seats that were counted towards total seating capacity are occupied by seated passengers. Inaccessible areas such as toilets, staff areas, litter bins, equipment cupboards, draught screens, inter-vehicle gangways and spaces between seats are excluded from the available standing area. Standing space within first-class accommodation must also be excluded

5.6.30 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 0.25m^2 or 0.35m^2 (because other features of the proposal may render it unsuitable). Similarly, it does not follow that a proposed layout failing 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).

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

a) Key dimensions (including internal and external vehicle length and width, aisle widths, dimensions of vestibule areas and the width of door apertures when open);

b) Its interior layout (including fixed and tip-up seats; grab-poles, hand-holds etc.); and

c) The areas designated for use by wheelchair users (with a clear indication, where applicable, of which tip-up seats are still available for use when the wheelchair spaces are occupied).

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

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5.6.33 A bidder may propose to deploy rolling stock meeting the criteria for either $0.25m^2$ or $0.35m^2$ on a mix of Cross City and other services. In that case, the capacity of that stock will need to be assessed on the basis of $0.45m^2$ per standing passenger for the purposes of the non-Cross City line services, and $0.25m^2$ or $0.35m^2$ as appropriate for the Cross City line.

Depot, Stabling and Ancillary Works Fund

5.6.34 An allocation of £5 million has been set aside from within Network Rail's Depot, Stabling and Ancillary Works Fund ("the DSAW Fund") as a contribution towards the costs of implementing depot, stabling and related infrastructure enhancements to support the increase in passenger-carrying capacity that will be required during the Franchise Term. The Franchise Agreement contains relevant provisions in paragraph 21 of Schedule 6.1

5.6.35 Schemes to be funded by this £5 million allocation from the DSAW Fund must be procured by the Franchisee (who will accordingly bear financial risk associated with any cost overrun), rather than being designed and delivered by Network Rail. For eligible schemes, the Franchisee would be entitled to draw down funds from Network Rail by 31 March 2019.

5.6.36 The full conditions for eligibility to draw down funds from the DSAW Fund are set out in the Franchise Agreement, but a key requirement is that funds may be drawn down only to defray the Franchisee's costs in procuring new or enhanced depot and/or stabling facilities at which Network Rail is (or will be) the Facility Owner or landlord.

5.6.37 If a Bidder wishes the Department to consider proposals for the use of the DSAW Fund to support depot or stabling enhancements in circumstances where Network Rail would not be the Facility Owner or landlord, the Bidder should set out the circumstances in a BCQ. The Department will consider such proposals and may provide an indication of the conditions under which the proposed approach may be acceptable to the Department. As a minimum, the Department would require a binding commitment from the relevant parties (enforceable by the Secretary of State) that the site will be made available for future operators of the West Midlands franchise (or operators of such other franchises as the Secretary of State may designate) for a minimum of 30 years from the last date of drawdown from the DSAW Fund on substantially the same terms as the proposed contractual arrangements with the Franchisee, but without imposing any obligation on either the Secretary of State or any future train operator in respect of any period beyond the Franchise Term.

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5.7 Delivery Plan 2 Train Services and Performance: 2.3 Performance

For this Sub-Plan, Bidders are to demonstrate where they would differentiate between the two Separable Business Units and where they propose a common approach for the whole Franchise.

(A) REQUIREMENT

5.7.1 The Department requires a Franchisee who will continually improve the performance of the Franchise and, in particular, who will:

a) Deliver the performance benchmarks specified in Schedule 7.1 of the Franchise Agreement;

b) Work in partnership with Network Rail and other TOCs to ensure that action is taken to identify delays and their causes. Work to foster and maintain a Right Time Railway culture and reduce delays through collaboration in operations and asset management, including the co-location of some resources in the ROC in Rugby;

c) Analyse performance failures to root-cause as part of its core approach and use a structured approach to prioritising Franchisee led initiatives that improve performance, particularly focusing on sub-threshold delay, poor performing routes, high delay impact locations and areas of passenger interchange; and

d) Design and implement business continuity processes for the operational aspects of the business, setting out how they will engage with industry partners (including Network Rail, ROSCOs and train maintainers) to minimise delay and disruption for passengers.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

a) Their overall strategy for operational planning and management, covering issues such as:

i) How they will manage and organise their operational control functions, performance management, engineering and service recovery arrangements including the co-location of resources with Network Rail and other industry partners where this delivers demonstrable industry performance benefits; and

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ii) How they will improve the Birmingham New Street and London Euston right time start performance, particularly during peak times.

b) For each performance Initiative proposed, how the Initiative will contribute to the Franchisee delivering the performance benchmarks in Schedule 7.1 of the Franchise Agreement, including:

i) Problem identification;

ii) The approach and resource commitments for the proposed solution; and

iii) Measureable evidence of the impact on performance;

c) How the Franchisee will work with Network Rail and other operators to develop Initiatives to ensure that a Right Time Railway culture is embedded in the business with associated benefits shown;

d) How sub-threshold delay will be identified, analysed and reduced;

e) How their train plan, rolling stock utilisation and workforce strategy support 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 for trains to continue running while engineering work is taking place, and/or by using suitable diversionary routes where available); and

ii) Developing and implementing appropriate arrangements to ensure the continued safety and welfare of passengers in completing their journey.

(C) SCORING

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

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5.7.4 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) 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

b) Plans that demonstrate investment in significant journey time/cancellation risk reduction across the Franchise, inclusive of, but not restricted to the continuous improvement of right time performance across the Franchise area.

5.7.5 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.

5.8 Delivery Plan 2 Train Services and Performance: 2.4 Supporting infrastructure projects

5.8.1 This Sub-Plan is designed to test Bidders' ability and approach to managing the impacts of infrastructure projects, including the HS2 on-network works, on the operation of the Franchise.

5.8.2 Bidders' attention is also drawn to the provisions relating to HS2 and the Enabling Fund in Schedule 6.1 of the Franchise Agreement.

5.8.3 Bidders should note that the Department reserves the right to adopt, or to require the winning Bidder to adopt, during the Franchise Term any proposals and ideas submitted by any Bidder which demonstrate their approach to the use of the Enabling Fund as required by this Sub-Plan. By submitting their Bids Bidders are consenting to this arrangement and agree to waive the confidentiality of any proposals and ideas included in their Bids concerning their approach to the use of the Enabling Fund. The Department may also require the winning Bidder to implement the Department's own proposals and ideas concerning the use of the Enabling Fund. Bidders should also note that as they are not being evaluated on actual proposals and ideas for the use of the Enabling Fund (but rather on their approach as to how they would make use of the Enabling Fund) they may not include in their Financial Model suite any costs and/or revenue attributed to, or derived from such proposals and ideas.

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(A) REQUIREMENT

5.8.4 The Department requires a Franchisee who will support the implementation of infrastructure projects which affect the Franchise while efficiently managing the impacts of those projects on the Franchise and minimising the resulting effects to passengers, including:

a) Communicating effectively with passengers to minimise as far as possible the effects of any disruption to them, including provision of real time information on incidents and alternative travel options and working with industry partners to ensure such messaging is clear and consistent;

b) Working with Network Rail and other TOCs to ensure that interim service patters agreed for possessions and recovery arrangements following service disruption are developed to deliver the optimum outcome for passengers; and

c) Working with the Department, Network Rail and other TOCs to identify and if required, to deliver any unanticipated changes (including at short notice) changes to service patterns deemed necessary during major infrastructure works in a way that delivers the least detriment to passenger services.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.8.5 In addition to the Minimum Evidential Requirements, Bidder's responses shall include how the Bidder would:

a) Seek to ensure that passengers complete their journeys as far as possible by rail, minimising the use of bus replacement services as much as practical when access to any part of the network is reduced;

b) Deliver industry wide benefits through collaborative working practices with Network Rail, other train and freight operators and industry partners that does not favour or solely benefit the Franchisee;

c) Plan and implement the removal of the following services for two railway periods if it was required to support improved resilience to the timetable explaining how their approach minimises the impacts on crowding, journey times and TOC revenue:

i) Watford Junction – London Euston (0755 WFJ-EUS 0820);

ii) Watford Junction – London Euston (0815 WFJ-EUS 0840); and

iii) London Euston – Watford Junction (1734 EUS-WFJ 1758);

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d) Make use of the Enabling Fund to recover passenger experience and satisfaction during times of unanticipated disruption, including during the period of any service removal; and

e) A description of how the franchisee would work with Network Rail and other operators to plan engineering possessions, and provide interim services which to the greatest reasonable extent minimise disruption to passengers.

(C) SCORING

5.8.6 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (marking framework and guidance). In determining whether to allocate an evaluation score higher than 6 in accordance with subsection 7.3.5 (Scoring Methodology), the evaluators will assess only the extent to which the Sub-Plan is supported by particularly robust evidence that is in line with the evidential requirements in part (B) and that provides excellent confidence that the requirements of the specification will be met.

5.8.7 No additional credit will be given for Initiatives that will generate improved outcomes so that the requirements of the specification will be exceeded. Bidders may therefore score an evaluation score of up to 8 for this Sub-Plan.

5.9 Delivery Plan 3 Revenue: 3.1 Marketing & Branding

For the avoidance of doubt, marketing is to be focused on the three Market Segments in the Franchise and branding is to be focused on a per Business Unit basis.

(A) REQUIREMENT

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

a) Develop and implement effective marketing strategies and plans by the three Market Segments in the Franchise to promote and generate profitable growth through fare box and non-fare products and facilities;

b) Work in collaboration with WMR within the West Midlands Local and Regional Market Segment with the aim of forging partnerships with businesses and tourist attractions, promoting travel to West Midlands regional destinations;

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c) Work with the Community Rail Partnerships to improve the patronage on services on the Branch Lines;

d) Actively market and promote the improvements in train services to be introduced in the Franchise through their bid, including additional later evening and Sunday services, improvements in rolling stock and in customer service;

e) Raise the profile of the Franchise to maximise loyalty and advocacy, (particularly with season ticket holders and commuters) and modal share from less environmentally friendly forms of transport;

f) Produce a plan for the development of the culture and values of the Franchise that unifies the business but reflects and supports the individual Separable Business Unit brands; and

g) Follow the approach for the WMR brand for the West Midlands Separable Business Unit as set out in the documents located in folder 02.06 WMSBU Branding in the Data Site and introduce a distinctly separate non-corporate brand for the West Coast Separable Business Unit that retains its value to the Franchise beyond the franchise term.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

a) Their marketing approach (by Market Segment) for developing new, and growing existing areas of the Franchise including plans that maximise the benefits of investments and improvements;

b) 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; and

c) How Bidders will implement each brand, demonstrating how they will work with WMR in the West Midlands Separable Business Unit area, and how their West Coast Separable Business Unit brand will be distinct and support the Market Segments it serves. The plan should demonstrate how the workforce will personify the values of the brand.

(C) SCORING

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

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5.9.4 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) Innovative Marketing Initiatives that stimulate mode shift from private car to rail, including through collaboration with stakeholders, tram, bus and other train operators; and

b) Proposals which deliver better use of any surplus capacity during the off-peak.

5.10 Delivery Plan 3.2 Fares, Ticketing and Revenue Protection

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

(A) REQUIREMENT

5.10.1 The Department requires a Franchisee who will offer customers rail fares that are easy to understand, meet the needs of the different Market Segments served by the Franchise and which comply with fares regulation. They must ensure that information about fares and tickets is communicated clearly and transparently to customers. Customers must be able to easily access the information they need in order to choose the most appropriate fare for their journey, and any restrictions on the ticket purchased must be clearly communicated, both during the ticket retail process and after purchase either on the ticket or ticket fulfilment media where this is feasible, or through other communications channels where this is not feasible.

5.10.2 The Department requires a Franchisee who will offer product(s) that give customers who travel less than 5 days a week a better value for money option than buying multiple return journeys. This could include the use of multi-buy discount tickets.

5.10.3 The Department requires a franchisee who will improve the ticketing experience for its customers, including by:

a) Developing and deploying smart ticketing technology to provide an alternative to magnetic stripe tickets;

b) Ensuring ticketing is accessible to different customers, providing them with widespread and easy access to the full range of tickets, and a range of ticket retail opportunities that meets their needs, including providing for those without access to technology;

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c) Delivering an efficient and high standard of ticket retailing service, allowing customers to access tickets easily and securely, and also prior to travel wherever possible;

d) Using the Rail Settlement Plan owned product set, for any products offered on ITSO-based smartmedia;

e) Delivering a smart ticketing solution that supports National Rail Fare products for customers travelling into and around London from any station on the following routes, and customers making other intermediate journeys to and from any station of the following routes:

i) London Euston and Northampton; and

ii) Watford Junction and St Albans Abbey

f) Working with The West Midlands Combined Authority (WMCA) to continue to retail and accept nTrain and nNetwork season tickets using Swift; and

g) Delivering a consistent set of season ticket fares available on smart tickets within the West Midlands areas (based on nTrain where available) and increasing the uptake of season tickets using smart tickets while migrating customers currently using non-standard products on The Key onto standard products.

5.10.4 The Department requires a Franchisee who will support cross-industry Initiatives to improve the ticketing experience for all rail customers, including customers whose journeys involve other operators, by working constructively with industry partners, including by:

a) Developing and introducing forms of smart ticketing and making these available for an increasing proportion of journeys on the national rail network; and

b) Developing systems that are able to communicate with each other through the sharing of electronic data about fare products loaded onto a customer's smart ticket to provide customer support before, during and after the journey.

5.10.5 The Department requires a Franchisee who will protect revenue, manage the level of ticketless travel and take steps to ensure that the correct revenue is collected for each passenger journey, whilst ensuring that revenue protection activities are not detrimental to the customer experience.

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(B) EVIDENCE BIDDERS SHALL PROVIDE

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

a) A clear, quantified description of the planned fares structure, including a description of how the Franchisee will deliver their fares structure, details of any changes planned to the availability of specific fares, and the approach to determining the level of fares (in line with fares regulation);

b) A description of how the Franchisee will develop and deliver product(s) that give customers who travel less than 5 days a week a better value for money option than buying multiple return journeys, for example through the use of multi-buy discount tickets;

c) A ticketing strategy that demonstrates how the Franchisee will transform the experience for passengers throughout the Franchise term and beyond. This should include:

i) A description of how the Bidder will deploy smart ticketing and ensure that this provides an attractive customer proposition, including through initiatives that harness advances in technology and utilise wider industry ticketing schemes. This should include a plan for how the franchisee will engage with the wider industry, sub-national transport bodies, Midlands Connect,Transport for the North and other stakeholders, and also how it will engage with its customers, and how customer needs will be taken into account, in managing the transition to new forms of smart ticketing.

ii) A description of how the Franchisee will develop smart ticketing to offer system compatibility and acceptance across the national rail network. If the Bidder proposes to introduce new products in addition to the Rail Settlement Plan owned product set, the Bidder should explain how these will be developed and introduced;

iii) A description of how the Bidder's proposals for smart ticketing are consistent with the requirement to create Separable Business Units;

iv) Targets for the take-up and usage of smart ticketing;

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v) Stretching, realisable targets to measurably reduce the use of magnetic stripe ticketing for journeys which are wholly within the West Midlands Franchise area.

vi) A description of how the Franchisee will utilise the ITSO-based smart-media technology already available. If the bidder does not intend to use the RSP managed Central Back Office it should include a description of how it will manage any back office solution to ensure that this provides a customer experience at least as good as that which could be obtained from use of the RSP managed Central Back Office whilst minimising whole-industry costs and costs beyond the Franchise Term.

vii) A description of how and under what timescales the Franchisee will provide a consistent season ticket offer on smart tickets including how they will migrate customers away from using non-standard products on The Key (Bidders should note that there is no-ongoing requirement to maintain The Key); and

viii) A description of how the Franchisee will utilise smart ticketing technologies to provide customers with a flexible and convenient solution when travelling into and around London from stations between London Euston and Northampton and Watford Junction and St Albans Abbey, and also for customers making intermediate journeys on these routes. Bidders may consider, for example, TfL ticketing technologies (e.g. Oyster/Contactless) or a Franchisee ticketing technology that integrates with the TfL ticketing area.

d) A description of an improved and modern ticket retailing experience that takes account of the different markets and variations in passenger needs, usage and requirements that exist across the West Midlands Franchise whilst improving the efficiency of ticket retailing methods;

e) A strategy that demonstrates how the Franchisee will manage ticketless travel and travel with incorrect tickets throughout the Franchise Term, whilst ensuring such initiatives are applied sensitively. This should demonstrate how Penalty Fares, ticket gates (including at stations operated by other Operators) and other measures will be used to support the strategy.

(C) SCORING

5.10.7 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3. Without prejudice to the

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generality of subsection 7.3.5 (Scoring Methodology), specific examples of how the above requirements may be exceeded are set out below:

a) Particularly strong proposals for passenger incentive schemes to drive increased usage of smart ticketing in order to meet the targets set in accordance with sections 5.10.6(c)(iv) and 5.10.6(c)(v);

b) Proposals to expand the availability of Swift (or other appropriate smart ticketing solution) to the whole of the nTrain ticketing area (WMR area), including expanding the range of tickets available on Swift and increasing the options for purchasing a Swift card and its associated tickets;

c) Proposals for customer-focused fares structures to tackle the perceived unfairness and disparity in pricing;

d) Proposals to offer customers incentives to travel on less busy trains in order to manage demand on the busiest services;

e) Proposals to enable annual season ticket holders across the franchise to spread the cost of their ticket throughout the year. This could include initiatives such as Direct Debit payments like the existing direct debit scheme operated by WMCA within the West Midlands area;

f) 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; and

g) Proposals to provide improved information or a simplified ticketing offer on flows where there are multiple ticket options available for passengers, such as between Milton Keynes and London or Stafford and Birmingham in order to make it easier for passengers to choose the most appropriate ticket for their journey.

5.11 Delivery Plan 4 Customer Experience & Stations: 4.1 Customer Experience

For this Sub-Plan, Bidders are to demonstrate how they will meet the different needs of the three Market Segments.

(A) REQUIREMENT

5.11.1 The Department requires a Franchisee who will provide a high quality customer experience, meeting the priorities of passengers and stakeholders including the Department and WMR through:

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a) Delivering the NRPS benchmarks specified in Schedule 7.2 and the Service Quality benchmarks specified in Schedule 7.3 of the Franchise Agreement;

b) Proactive engagement with customers, staff and stakeholders to understand and where agreed meet their requirements and expectations;

c) Providing available trained and knowledgeable members of customer-facing staff who are visible, helpful and proactive at stations and on board trains;

d) Ensuring that at every station, passengers are able to speak to a well-informed and suitably empowered person representing the Franchisee during the hours of train service and station operation, including via help point, social media or personal mobile device;

e) Working with the Department, WMR, other franchisees and the Passenger Council (Transport Focus) to continually measure and improve issues affecting customer satisfaction in the West Midlands Franchise, sharing data for the benefit of the Franchise and the wider rail industry;

f) Address customer experience issues in a timely manner by introducing a visible and accessible way for staff, passengers and communities to report issues (e.g. broken seats, inaudible PA, poor customer service) and get direct feedback on the action taken to resolve the problem;

g) Utilising current and evolving technology to improve the provision of information (including that available to customer facing staff in order to aid passengers) at all stages of the passenger journey, particularly for but not limited to: times of disruption; those attending special or major events; and regular travellers who may be affected by a special or major event. This shall include real time service information on the Abbey Line;

h) Providing up to date and comprehensive integrated journey information (e.g. maps, timetables and CIS) that include the routes and services of other operators and other public transport modes. This is to include live streams where feasible;

i) Collaboratively managing both planned and un-planned disruption in an effective manner to minimise inconvenience to the customer journey; and

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j) Implementing from the start of the Franchise, a Passenger's Charter, branded by Separable Business Unit, that includes Delay/Repay compensation arrangements as defined in the document "Guidance on Passenger's Charter Compensation", and actively promotes awareness of the passengers' rights to claim compensation.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.11.2 In addition to the minimum evidential requirements, Bidders responses shall include:

a) How initiatives and actions will deliver the NRPS and SQR benchmarks set out in Schedules 7.2 and 7.3 (Performance Benchmarks) of the Franchise Agreement including the arrangements, resources and processes that will be put in place to deliver the targets, how results will be measured and reported (inclusive of the use of the two existing Community Rail Partnerships), and how improvement and/or mitigation plans will be implemented.;

b) In addition to the targets set in Appendix 1 to Schedule 7.3 of the Franchise Agreement, the periodic targets they will commit to achieve prior to the commencement of the annual SQR targets coming into force for the 2nd and 3rd franchise years (Apr 2018 to Mar 2019 and Apr 2019 to Mar 2020) except for Train Ambience which shall be for the 2nd to 5th Franchise Years (Apr 2018 to Mar 2019, Apr 2019 to Mar 2020, Apr 2020 to Mar 2021 and Apr 2021 to Mar 2022);

c) how the Franchisee will engage with customers, stakeholders and potential customers (including persons with reduced mobility and persons with other protected characteristics under the Equality Act 2010) to drive continuous improvements in customer experience;

d) With reference to NRPS scores and the Public Consultation for the Franchise, their approach to customer service. This shall be inclusive of staff availability and visibility, and training in providing helpful and proactive assistance at all points of interaction throughout the hours of station and train operation;

e) How the Franchisee will work with the Department, WMR, the Passenger Council (Transport Focus) and CRPs to continually measure and improve customer satisfaction, and how customer information and feedback will be obtained to understand, in detail, issues that reduce satisfaction and increase dissatisfaction;

f) How they will improve customer satisfaction in the provision of timely and accurate information at all times;

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g) Details of initiatives to continually improve the management of planned and un-planned disruption which focus on individual customer need and experience in completing their journey;

h) Their Customer and Stakeholder Engagement Strategy, including:

i) How the Franchisee will work with customers, communities and stakeholders to develop CCIF (Customer and Communities Improvement Fund) Schemes;

ii) A draft Customer Report setting out the key commitments the Franchisee will make to its customers, including but not restricted to how it will act to address problems and how it intends to improve services and/or facilities; and

iii) How the Franchisee proposes to update, communicate and publish future Customer Reports, and improve the transparency of performance and customer satisfaction information;

i) Details of the Passenger's Charter documents for each Business Unit and how these will be implemented, including details of how customer contact arrangements are managed; and

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

(C) SCORING

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

5.11.4 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) Innovative Initiatives that will deliver an exceptional customer service experience for passengers across the Franchise such as interactive journey boards at stations over and above those to reach the targets set out in Schedule 7.2 of the Franchise Agreement;

b) Expansion of the availability of pre-journey and at-station information on the number of carriages, seat availability and busy trains/carriages, provided on a real-time basis to passengers;

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c) Innovative and comprehensive proposals for the provision of personalised information that is tailored to passengers' individual needs and journeys over and above what is already widely available; and

d) Proposals that identify the retention and improvement and expansion of skills and utilisation of operational staff where such proposals enhance the customer experience.

5.12 Delivery Plan 4 Customer Experience & Stations: 4.2 Stations

For this Sub-Plan, Bidders are to demonstrate where they would differentiate between the two Separable Business Units and where they will propose a common approach for the whole Franchise.

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

(A) REQUIREMENT

5.12.1 The Department requires a Franchisee who will enhance the station environment to deliver high quality services to passengers by:

a) Meeting the NRPS Stations targets set out in Schedule 7.2 of the Franchise Agreement;

b) Targeting the provision of services and facilities at stations according to the volume and characteristics of passengers with regard to the Market Segment they are in and the potential growth in passenger usage at the station including improving the quantity and quality of car parking provision, cycle storage and public transport access;

c) Improving the quality of services provided to passengers at stations by investing as a minimum, the £5 million Station Improvement Fund where there is a value for money, yet non-commercial return on investment. Bidders should look to embed the principles of inclusive design and demonstrate consideration to the community and environment in decisions about the renewal and development of stations, taking into account:

i) Customer perceptions of safety & security;

ii) Real time rail and public transport information at stations, with enhanced information during periods of disruption;

iii) The ability for customers to purchase tickets and other retail goods;

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iv) The provisions made for customers' physical comfort and protection from the elements; and

v) Accessibility.

d) Maintaining and updating Station Travel Plans existing at the date of this ITT and the introduction of plans at stations that serve major events where they do not currently exist; and

e) Provide the bus/rail interchange facilities at the specified pilot stations set out in Schedule 6.1 of the Franchise Agreement;

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

a) The Station Social and Commercial Development Plan, including how they will identify potentially suitable sites at stations (for example, redundant buildings and facilities) for both commercial development where commercially viable and for use by the community, for example, though not limited to, social enterprise or volunteer schemes where not;

b) Details of how they will target and manage the delivery of investment at stations (including through the Station Improvement Fund) through deploying appropriate project management capabilities and resources to deliver facilities improvements, inclusive of those identified in the public consultation. Plans shall demonstrate innovative and environmentally sustainable solutions where appropriate and shall explain for where and how they will improve the quantity and quality of as a minimum:

i) Accessibility and security within the Stations' lease demise, noting that when procuring, installing or upgrading station CCTV systems they shall reflect the principles outlined in ATOC's "National Rail & Underground Closed Circuit Television (CCTV)" and BTP's "Output requirements from CCTV Systems" guidance documents and give regard to the utilisation of Local Authority control centres where appropriate;

ii) Car parking provision to satisfy demand for Railway users across the day;

iii) The provision of proportionate shelter from the elements;

iv) Live passenger information;

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v) Secure cycle storage; and

vi) Public transport access;

c) With reference to 5.15.2 (b), and Appendix 2 to Schedule 1.7 (Stations) and Schedules 7.2 and 7.3 (Performance Benchmarks) of the Franchise Agreement; the station dashboard metrics to evidence delivery of improvements to stations or groups of station inclusive of adherence to Rectification Benchmarks;

d) Details of how they propose to achieve certification of 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; and

e) Their strategy of how they will work with local stakeholders, other public transport operators and where appropriate WMR to increase revenues through improved facilities at rail/rail and bus/rail interchange stations to at least the minimum standard, and how they will deliver the bus/rail interchange pilot stations 'best in class' requirements detailed in Schedule 6.1 to the Franchise Agreement.

(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 (West Midlands marking framework and guidance).

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) Innovative proposals and/or a commitment to spend more than the amount of the Station Improvement Fund on station improvements for non-commercial return during the Franchise, in particular with regard to accessibility improvements;

b) A plan and commitment to improve Stations which bidders identify as having poor bus/rail interchange over and above those identified in the pilot scheme;

c) Proposals and solutions to improve journey to and from stations, in particular using sustainable modes (public transport, walking and cycling), including support from Local Authorities, other agencies and community groups; and

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d) Proposals for securing additional funding for conservation of historic buildings and structures.

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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), 6.3.9 (Financial Templates) and 6.3.10 (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), 6.3.7 (Operational Models) and 6.3.10 (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 6.3.8 (Supplementary Material); Financial Templates populated in accordance with the requirements described in subsection 6.3.9 (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

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described in subsection 6.10 (Updating of EoI financial and economic standing tests (the **"Tests"**) and submission of 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 into Escrow if the Bidder is successful pursuant to Schedule 9.2 (Identity of the Financial Model) of the Franchise Agreement;

6.1.3 Bidders are to use the general modelling assumptions as set out in subsection 6.4.1 (General assumptions to be made);

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:

(i) not to adjust or require or allow the Bidder to adjust the Bid Franchise Payments and the P score and, where applicable, the variable element of PCS or

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(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 make an adjustment to the P score and, where applicable, the variable element of PCS; 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 6.3.8 (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 below.

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).

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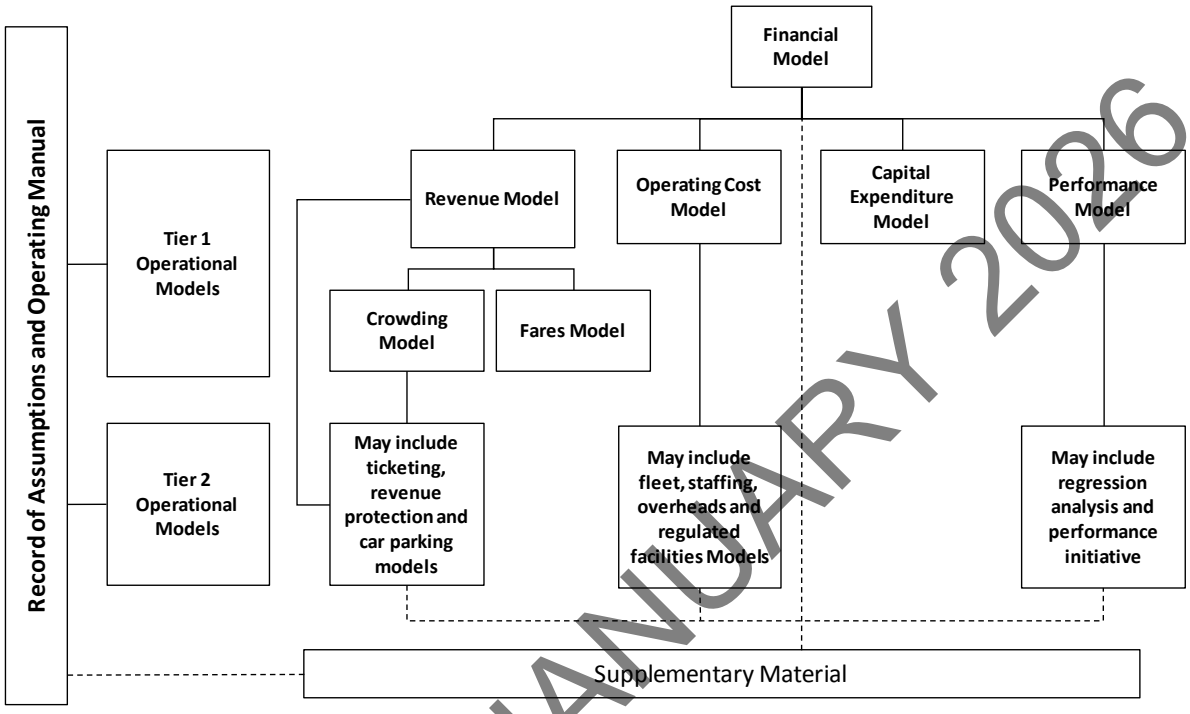
Figure 6.1 Anticipated Modelling Suite Structure



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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**

6.3.4 General

6.3.4.1 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 at subsection 6.3.9 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 (Annual Franchise Payments) to Schedule 8.1 (Franchise Payments) of the Franchise Agreement. The Franchise Payment table set out in Appendix 2 (Figures for Calculation of Franchise Payments)

to Schedule 8.1 (Franchise Payments) of the Franchise Agreement must be completed in 2017/2018 prices;

ii) To populate the Season Ticket Bond value;

iii) To populate the profit share thresholds in Appendix 1 (Profit Share Thresholds) to Schedule 8.2 (Profit Share Mechanism) of the Franchise Agreement;

iv) To populate the AFA and DFR in Appendix 2 (Components of AFA and DFR) to Schedule 8.2 (Profit Share Mechanism) of the Franchise Agreement;

v) To identify and track funding made available to the Franchisee as Agreed Funding Commitment (AFC) or PCS and populate the Funding Deed; and

vi) To populate the Required PCS value, the Additional PCS value and the Bonded PCS value in the Funding Deed;

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 (Financial Covenants and Bonds) of the Franchise Agreement. For the avoidance of doubt, a Financial Ratio of 1.070 must be met in the base case 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. For the first part year of the Franchise the calculation should be calculated on a forward looking basis for 13 periods;

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. 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

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provide a letter from their financial advisers, as set out in subsection 6.9.1, 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. The Bidder must provide a letter from their financial advisers as set out in subsection 6.9.1, confirming that they have given consideration to the deductibility of any interest expense taking into consideration 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 UK response to the OECD Base Erosion & Profit Shifting (BEPS) Action 4, World Wide Debt Cap (WWDC), 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;

f) Properly reflects the accounting rules applicable as at 1st September 2016 under which the Franchisee will report its financial information. Bidders are to adopt either FRS 101, FRS 102 or IFRS but 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) States default prices in nominal terms and when viewed in real terms, outputs must be deflated to 2017/18 prices and outputs prior to this period must be inflated to 2017/18 prices;

h) Calculates the GDP and CLE adjustment payments in accordance with Schedule 8.4 (GDP Adjustment Payments) and Schedule 8.5 (CLE Adjustment Payments) of the Franchise Agreement;

i) Provides output schedules in the format of the Financial Templates; and

j) As per subsection 5.5.5 of Delivery Plan 2.1 we require bidders to submit a Priced Option for each of:

   (i) The reinstatement of services at Barlaston station;

   (ii) The reinstatement of services at Wedgwood station.

6.3.4.2 The Financial Model must adopt a structure that allows the identification and disaggregation of costs and revenue associated with each of these Priced Options which must not form part of the main Bid. The Financial Model must have the functionality to toggle switch each Priced Option on or off.

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6.3.4.3 The Bidder must provide details of the assumptions and evidence supporting its modelling of the cost and revenue forecasts for Priced Options within the Record of Assumptions.

6.3.5 **Financial Robustness**

6.3.5.1 Each Bidder is required to submit with its Bid a Financial Model which includes functionality which allows the Department to undertake the Department's Financial Robustness Test as described in Section 7 (Evaluation Criteria and Methodology). Specifically, the Financial Model must:

a) Include a switch or switches, which do the following:

i) Freeze Annual Franchise Payments such that these do not change when undertaking the Financial Robustness Test;

ii) Freeze the base case AFC drawdown and repayment profile per the commitment set out in the Bidders Financial Structure & Funding Plan (Note: AFC should only be available in the Financial Model in accordance with the timing and amount of the commitment set out in the Financial Structure and Funding Plan); and

iii) Simulate the pay out of all distributable profits, in each year of the Core Franchise Term subject to the Financial Ratio in that year not falling below 1.070:1.

b) Include the PCS, which should automatically be drawn down and/or repaid in order to meet a Financial Ratio of 1.070:1, up to the value of the total PCS committed in the Bid and Funding Deed but should not be drawn in the Bid; and

c) Include a separate input that allows Notional PCS, over and above the total PCS committed in the Bid, (with no third party bonding or interest costs) to be drawn up to the Materiality Threshold (see subsection 7.7.1.6). For the avoidance of doubt, to the extent that the Financial Ratio is no longer below 1.070:1 the repayment of the Notional PCS must take place prior to any PCS being repaid.

6.3.6 **Addressing Franchise Change**

6.3.6.1 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:

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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 2017-18 values) by RPI to 2017/18 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).

6.3.7 **Operational Models**

6.3.7.1 The Operational Models are all those models that contain calculations generating inputs to the Financial Model either directly or indirectly. 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.

6.3.7.2 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.

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6.3.7.3 Each Operational Model must:

a) Include functionality to allow the Department to undertake the Department's Financial Robustness Test as set out in subsection 7.7.1.1 (Financial Robustness Test);

b) 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;

c) Be sufficiently flexible to allow the pricing of Change;

d) Accurately execute the calculations as designed, and provide confidence in their robustness and ability to price Change; and

e) Provide a sufficient level of usability to allow Change scenarios to be run in a reasonable timescale.

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

a) Revenue model;

b) Fares 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);

As described in subsections 6.3.7.5 to 6.3.7.30 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 (Identity of the Financial Model) of the Franchise Agreement.

Revenue model

6.3.7.5 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.

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6.3.7.6 Any further disaggregation of demand and revenue into more detailed flows or segments is at the discretion of the Bidder. The revenue model, its Supplementary Material and its associated sub-models in Tier 2 must also show clearly and apply all demand forecasting input assumptions and parameters and their impact on demand and revenue. This will include, but not be limited to, such factors as:

a) Macro-economic factors (disaggregated into individual factors where appropriate and consistent with PDFH to the extent required by subsection 6.3.7.9);

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 subsection 6.3.7.9);

c) Timetable changes;

d) Fare proposals and policy that demonstrates compliance with Schedule 5 (Fares) 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).

6.3.7.7 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 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 6.3.7.10 below.

6.3.7.8 Bidders must submit the following as required in subsection 4.3.1 and subsection 4.11.1 and subsection 5.5.8:

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

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b) The .spg files containing other operators' services where changes to other operators' services have been 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.

6.3.7.9 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 must be consistent with the approaches adopted by the PDFH. For clarity, Bidders are not required to use PDFH recommended demand elasticities, but where PDFH has not been followed Bidders must provide evidence to justify the use of alternative assumptions and approaches in accordance with subsection 6.3.7.10. If PDFH is used, PDFHv5.1 must be used, 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.

6.3.7.10 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 in the Data Site in the document folder 04.14 Demand Driver Generators 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 document Note on Exogenous Assumptions also available in the Data Site in document folder 04.14 Demand Driver Generators. If either the PDFH parameters or 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 6.3.8. 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,

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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.

6.3.7.11 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.

6.3.7.12 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).

6.3.7.13 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

6.3.7.14 The Models must be able to calculate the impact of changes to fares, including regulated fares. Bidders may choose to provide this capability within the revenue model or within a Tier 1 fares model. The Department will deem the Models 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 (Regulation of Fares Basket Values) of the Franchise Agreement links clearly to a change in the fares increase;

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b) They assess and demonstrate compliance with the Regulation of Fares Basket Values in Schedule 5.4 (Regulation of Fares Basket Values) of the Franchise Agreement;

c) They can model a total (cumulative) change in regulated fares levels over the Core Franchise Term and the Extension Period 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 6.3.7.14 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%.

6.3.7.15 Changes to fares regulation pursuant to paragraph 5 of Schedule 5.7 (Changes to Fares and Fares Regulation) of the Franchise Agreement are a Change under the Franchise Agreement to which the procedure in Schedule 9.3 (Variations to the Franchise Agreement and Incentivising Beneficial Changes) of the Franchise Agreement applies.

6.3.7.16 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 (Regulation of Individual Fares) 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 single fares by a greater percentage than they increase the price of return fares, the price of single fares must not exceed the price of return fares; 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;

6.3.7.17 Bidders are not required to model the value of every fare that they will set. However, if a Bidder's fares strategy breaches the requirements of 6.3.7.16 above, it will be deemed undeliverable, and will be subject to the

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risk adjustment process described in Appendix A.3 (Risk Adjustment Process).

Crowding model

6.3.7.18 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. The crowding model must be used to calculate a suppression factor for each year of the Core Franchise Term and Extension Period, which is input into the revenue model.

6.3.7.19 The crowding model must be used to calculate loadings on:

a) Services arriving at London Euston between 0700 and 1059;

b) Services departing from London Euston between 1530 and 1929;

c) Services arriving at Birmingham Stations between 0700 and 0959;

d) Services departing from Birmingham Stations between 1600 and 1859;

6.3.7.20 For services and links that are not required within the crowding model, Bidders should estimate the additional suppression expected from other parts of the network and on other days.

6.3.7.21 For those services listed in subsection 6.3.7.19 Bidders must use the survey data supplied in the Data Site in folder 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.

6.3.7.22 Bidders must provide evidence of the source of all data and assumptions used within the crowding model.

6.3.7.23 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

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c) The Models should be developed such that they are, transparent, understandable, and can be run within a reasonable timescale.

6.3.7.24 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.

6.3.7.25 The crowding model calibration process must be fully documented.

Operating cost model(s)

6.3.7.26 Information on operating costs may be provided in a standalone model or incorporated in the Financial Model. The operating cost model(s) 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 6.3.7.3 b).

Performance model

6.3.7.27 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; and

b) Annual payments in relation to TOC-on-self performance relative to the operational performance benchmarks defined in Schedule 7.1 (Performance Benchmarks) of the Franchise Agreement.

6.3.7.28 The Performance Model must be capable of calculating the following on a periodic and annual basis:

a) Forecast average minutes lateness by Service Group;

b) Attribution of average rail minutes lateness between the Franchisee and Network Rail;

c) Forecast TOC-on-self delays;

d) Forecast TOC-on-self cancellations;

e) Forecast CaSL;

f) Forecast short formations;

g) The impact on the Public Performance Measure moving annual average; and

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h) The basis upon which any performance receipts and payments are calculated. Performance receipts and payments between the Franchisee and Network Rail should be shown separately.

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

6.3.7.30 Bidders are required to forecast expenditure associated with Delay Repay, either in the performance model or another model within the Modelling Suite. In line with the Financial Templates, Bidders should include amounts of passenger compensation (in respect of the provision of the Delay Repay scheme) within the cost base as a negative revenue.

Capital expenditure model

6.3.7.31 Information on planned capital expenditure may be provided in a standalone model or incorporated in another model e.g. the operating cost model or Financial Model. However presented, the relevant model or part of a model must list each item of capital expenditure including those covered by the RV Mechanism (i.e. expenditure on assets with a life which is in excess of one year as determined in accordance with FRS101, FRS102 or IFRS accounting standards, whichever is applicable to the Bidder), 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 with a value in excess of £250,000 (2017/18 prices) in any forecast year or £500,000 in total (2017/18 prices) for a project which continues across more than one year. The information provided should be clearly linked to the funding provisions (timings, sources, uses, repayments), be fully documented in the Financial

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Structure and Funding Plan and Record of Assumptions and be reconciled to any totals reported in Delivery Plan 0.

6.3.8 **Supplementary Material**

6.3.8.1 In situations where this ITT requires the Bidder to provide additional evidence or other material (including subsections 6.3.7.9, and to 6.3.7.25 (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).

6.3.8.2 Separately and in addition to the requirements of subsection 6.3.8.1, 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 tool ("**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.

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6.3.8.3 Supplementary Material is not required to be included as part of the Modelling Best Practice Confirmation and final Model Audit as per section 6.8 (Review 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 models, and if so the relevant items (or such of them as the Department requires) will be subject to the Model Audit calculation review.

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

6.3.9 **Financial Templates**

6.3.9.1 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 financial cost line items on the P&L1 sheet, rows 495-507 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.

6.3.9.2 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.

6.3.9.3 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.

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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.

6.3.9.4 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	Populate but do not alter

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Sheet	Content	Status
	metrics and costs/revenues	structure
TOC Capex	Template for forecasts of selected costs	Populate but do not alter structure
Financial Statements		
P&L1	Template for forecasts for profit and loss account at specified level of aggregation.	Populate blue 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 cash flow statements	Populate blue cells but do not alter structure
BS	Template for forecasts of balance sheet	Populate including Opening Balance in column AK, but do not alter structure
Output Calculations		
FAA	Production of tables and values to populate the Franchise Agreement including Appendix 1 (Profit Share Thresholds) to Schedule 8.2 (Profit Share Mechanism) (feed from Financial Statements and Bidder model)	Populate (blue cells only) but do not alter structure
NPV	NPV of Franchise Payments calculation (feed from Financial Statements)	Contains formulae, do not alter
FO&C	Schedule 12 (Financial Covenants and Bonds) 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

6.3.9.5 The Financial Templates shall be populated in full (which includes columns I, J, K and L in the Financial Templates labelled 'Actual' and

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'Forecast' for the years 2014/15 to 2017/18), with outputs from the Models specified in Franchisee Years ending 31 March of each year.

6.3.9.6 The $PRRPI_{GDP}$, $PRRPI_{CLE}$ and $PRRPI_{REM}$ components of franchise payments to be populated in rows 24-26 of sheet 'FAA' shall sum to the Bidder's passenger revenue forecast for each franchise year, in 2017/18 prices. The division of passenger revenue between these three components is to be made with strict regard to the following principles:

a) $PRRPI_{GDP}$ is formed as a subset of passenger fares revenue comprising of all passenger farebox revenue from;

   i) journeys made on service groups EJ02 and EJ04 not included in the $PRRPI_{CLE}$; and

   ii) journeys made on service group EJ03 to or from London for purposes other than business or commuting to or from a place of work or study; and

   iii) journeys made on service group EJ05 for purposes other than business or commuting to or from a place of work or study.

b) $PRRPI_{CLE}$ is formed as a subset of passenger fares revenue comprising all passenger farebox revenue from (i) journeys made on any service group to or from London made for the purposes of commuting to or from a place of work or study; and (ii) journeys made on any service group to or from London for the purpose of business.

c) $PRRPI_{REM}$ is formed as a subset of passenger fares revenue comprising of all passenger farebox revenue not included in either $PRRPI_{GDP}$ or $PRRPI_{CLE}$.

6.3.9.7 The mapping from passenger revenue, as forecast in the revenue model, to these categories, identifying the journeys to or from London and the different journey purposes, must be explicitly included in the Models. The Department's view is that the journey purposes mapping should be based on PDFH v5.0. If PDFH v5.0 is not used, the requirements of paragraph 6.3.7.10 shall apply, i.e. the Bidder must provide evidence to justify the use of alternative parameters.

6.3.9.8 The $PRRPI_{GDP}$ and $PRRPI_{CLE}$ figures are used, as set out in paragraph 9.4 of Schedule 9.1 (Financial and Other Consequences of Change) of the Franchise Agreement, to adjust the $DfT_{GDP}R$ and $DfT_{CLE}R$ elements of the calculation GDP and CLE Adjustment Payment in the event of a Change as defined in the Franchise Agreement.

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6.3.9.9 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 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 9 Assumptions"**).

6.3.9.10 Where a Bidder does not agree with the Year 9 Assumptions, it may propose alternative assumptions (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 9 Assumptions and explain any differences from the Year 9 Assumptions in the Record of Assumptions.

6.3.9.11 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 9 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 9 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 9 Assumptions and the Bid as submitted will remain extant.

6.3.9.12 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 9 Assumptions, it will ask the Bidder in question to provide such clarifications before taking action in line with subsection 6.3.9.11.

6.3.9.13 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 (Financial Covenants and Bonds) of the Franchise Agreement in completing the Financial Templates.

6.3.9.14 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

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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 6.3.9.2;

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.

6.3.9.15 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 revenues or costs that they wish to include under a catch all heading of 'Other' do not exceed £250,000 (2017/18 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'.

6.3.10 **Generic Model requirements**

6.3.10.1 Bidders must ensure that their Models comply with the following principles:

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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 CQ 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

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use of braces around the formula, i.e. "{…}". Bidders must not use such formulae over ranges greater than 20x20, 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 6.8.2.4), 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:

   iv) To allow a different approach to the treatment of historical information or forecasts before the Franchise commences;

   v) To allow units, indices, totals, NPVs and other useful modelling 'flags' to be included in the columns to the left of the first modelled year; and

   vi) 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.

k) Bidders do not need to seek derogation from the Department should the Models deviate from best practice in the three cases described in subsection 6.3.10.1j).

6.3.10.2 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

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support any Change arising during the Core Franchise Term and Extension Period.

6.4 Assumptions

6.4.1 General assumptions to be made

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

a) The Franchise will commence on 15 October 2017;

b) 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 2018 and annually thereafter. Bidders should adopt their own RPI and AWE assumptions up to and including the year commencing 1 April 2017, and such assumptions should be clearly stated;

d) The real discount rate to be applied in Net Present Value calculations is 3.5 per cent per annum;

e) The Net Present Value of Bid revenues, costs and Franchise Payments will be discounted to the Franchise Start Date (15 October 2017);

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) 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 for Schedule 5.4 and Schedule 5.5 of the Franchise Agreement, (i) “k” = 0 for the Fare Years beginning January 2017, January 2018 and January 2019 and January 2020 and that for all subsequent Fare Years “k” = 1; and (ii) “f” = 0 for the Franchise Term;

i) With respect to any non-capital costs (and all operating (including maintenance) and project implementation costs are to be treated as non-capital costs for this purpose) arising from any asset or Scheme

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

j) Bidders should expense pension cash contributions but should not model actuarial gains or losses on pension assets or liabilities.

6.4.2 Bidders should make their own assumptions in respect of payments under any Route Efficiency Benefit Share Mechanism.

6.4.3 Bidders are to make their own assumptions about the Variable Track Access Charge (VTAC) and electricity consumption rates of any new rolling stock proposed for introduction into the franchise.

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 detail and transparency on the costs, revenues and assumptions associated with each timetable change, as required in subsection 5.8 (Delivery Plan 2 – Train Service and Performance);

e) Provides detail and transparency of all indexation assumptions used;

f) 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 start and end of franchise;

g) 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;

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ii) Pensions – service costs or 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, eg interest rate swaps or RPI swaps.

h) 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 concering the tax-deductibility of interest and announcements relating to proposed changes to those rules. This should include the thin capitalisation rules, the UK response to the OECD Base Erosion & Profit Shifting (BEPS) Action 4, WWDC rules, and other transfer pricing and anti-avoidance provisions; and

v) Transfer pricing - details of the assumptions made regarding transfer pricing.

i) 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;

j) 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;

k) Uses tables to enhance the narrative, such tables being directly traceable to the Models;

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l) Arrives at an estimate of the financial impact of a change in prices or volumes which is aided by the quality of the narrative;

m) Meets the requirements of Appendix 3 to this ITT; and

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").

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. Bidders must not include any financial benefits from any deep alliance i.e. an alliance requiring a change to the industry regulatory framework and hence third party approval that may generate savings from possessions (Schedule 4 Track Access Agreement) or performance (Schedule 8 Track Access Agreement) amounts within their Bid;

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

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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;

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;

v) Show the non-depreciated value (i.e. residual value) at the end of the Core Franchise Term and the Extension Period:

A) Assets to which the provisions of subsection 5.2 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 subsection 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 are indicative only.

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Table 6.2. *Example of presentation of movements in Record of Assumptions **

Franchise 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.*

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 instruction set out in subsection 6.3.7.7) 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

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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 subsection 6.3.7.3; 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.

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6.7 Change

6.7.1 Matters to be addressed in the Operating Manual

6.7.2 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) – "k" as per Schedule 5.4 and 5.5 of the Franchise Agreement reduces from 1 to 0 in 2021 only, for the industry as a whole. All other policies remain the same including caps on individual prices within 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) – Electrification of Walsall to Rugeley line is delayed from December 2017 to May 2019 and the implementation of a fully electric service is delayed until the next timetable change;

c) Worked Example (C) – after a Charging Review, the following changes are made to regulated charges from April 2019:

i) The capacity charge for Service Code 22259000 on weekdays is doubled;

ii) The Variable Usage Charge as set by Network Rail for Vehicle Type 172/M is halved;

iii) The Network Rail Schedule 8 payment rate for service group EJ05 in the peak is trebled and the benchmark changed to 1,700 minutes for all years of CP6;

iv) The Long Term Charge for Stratford-upon-Avon on the Network Rail price list is £80,000 in 2019/20 prices; and

v) All other regulated charges remain at CP5 rates as instructed in subsection 6.4.1.

6.7.3 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:

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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;

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, 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.

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

6.7.5 **Modelling Change**

6.7.5.1 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 7.6 (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	Each Bidder will include within the Operating Manual submitted with its Bid, the Worked Examples and details of its approach to Change prepared in

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No.	Item	Requirements
	Change	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 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 6.3 (Financial and Operational Model requirements) and 6.4 (Assumptions) 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 subsections 6.3 (Financial and Operational Model requirements) and 6.4 (Assumptions) of this ITT.

6.7.5.2 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.

6.7.5.3 The Department reserves the right to engage with one or both 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:

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Table 6.4. *Model review and Audit requirements*

	Independent Modelling Best Practice Confirmation	Model Audit	Calculation Review	Review by DfT'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 both 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:

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

6.8.2.4 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. There is an exception to this is for any Models produced that do not contain time periods e.g. crowding model, fares model. The Models should have time periods across the columns and calculations

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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.

6.8.2.5 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 as detailed as a Model Audit, each individual formula is not checked).

6.8.2.6 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 20x20 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;

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c) Modelling Best Practice Confirmation; and

d) Array formulae across ranges of cells greater than 20x20.

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

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 20x20 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 both Bidders to obtain an independent audit of all sections

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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 £1m (2017/18 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 fifteen 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) To confirm 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 FRS 101, FRS 102 or IFRS accounting policies and rules applicable as at 1 September 2016 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 FRS 101, FRS 102 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 6.3.4.1 and is consistent with the definition of Modified Revenue and Actual Operating Costs in accordance with

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Schedule 12 (Financial Covenants and Bonds) 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 6.3.4.1, section 7.7 (Evaluation of Financial Robustness) and to ensure compliance with the Funding Deed**.** The Department will define with the model auditor the inputs and parameters, as appropriate, to meet this requirement in the Model Audit.

6.8.4.3 For the Model Audit, the Department may provide one or both 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 and/or Supplementary Material in the Calculation Review and reference below to Tier 1 Operational Models shall be interpreted accordingly. The

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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 DP0;

b) Shows that the PCS has been calculated and provided in accordance with the requirements set out in subsection 6.9.2;

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 to 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

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by sufficient narrative for the Department to understand the Bidder's 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;

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 section 6.10 (Updating of EoI Financial and Economic Standing 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;

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l) If relevant, includes an explanation of the basis under which the Bidder proposes to procure 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);

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 FRS 101, FRS 102 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 6.3.4.1;

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vii) Confirming that they have given consideration to the deductibility of any interest expense in light of thin capitalisation rules, tax rules on interest deductibility etc., as per subsection 6.3.4.1;

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 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.

6.9.2.2 **Agreed Funding Commitment**

6.9.2.3 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, and each of the Priced Options if triggered, complies with the Financial Ratio (1.070:1) tests in subsection 6.3.3. 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.

6.9.2.4 Bidders should note that the Funding Deed requires that the Guarantor will procure the provision of any third party funding included within the AFC Plan as defined in the Funding Deed. For the avoidance of doubt if

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the third party funding is not committed at Bid submission, this will be taken into account by the Department as described in subsection 7.10.2.

6.9.2.5 **Parent Company Support**

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

6.9.2.7 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 6.9.2.9. The amount of PCS is defined in the Funding Deed as 'the PCS Facility'.

6.9.2.8 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 and submission of updated bond provider letter(s)).

Required Parent Company Support

6.9.2.9 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:

$$\text{Required PCS} = £30{,}000{,}000 + 12\% \times \sum_{y=1}^{9} \left(BFP_y - FP_y \right)$$

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 year "y" of the Core Franchise Term.

FP_y equals the Franchise Payments of the Bid, excluding Priced Options, as calculated by the Bidder's Financial Model and output in the Financial Templates sheet 'Funding' row 21 for each 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

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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 year "y" is negative, (BFP_y – FP_y) shall be deemed to be equal to zero for that given year "y". For the avoidance of doubt, the minimum Required Parent Company Support amount is £30,000,000.

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

6.9.2.10 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 of the Bid. The amount of Additional PCS must not exceed £20,000,000. The Additional PCS must be advanced by the Guarantor(s) in accordance with the terms of the Funding Deed i.e. it must be provided under terms identical to the Required Parent Company Support, including meeting the Bonding Requirements.

Bonding of Parent Company Support

6.9.2.11 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 aggregate of the Actual PCS **("Bonded PCS"**). For the purpose of this subsection 6.9.2.11, **"relevant credit rating"** means either a credit rating of:

a) A (or better) by Standard and Poor's Corporation or Fitch Ratings Limited in respect of long term senior debt; or

b) A3 (or better) by Moody's Investors Service Inc. in respect of long term senior debt.

6.10 Updating of EoI Financial and Economic Standing Tests (the "Tests") and Submission of updated Bond Provider Letter(s)

6.10.1 Bidders should refer to the EoI and PPD for information relating to how the Tests will be updated.

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6.10.2 As set out in the passage of Section 4.3 of the PPD entitled "Re-calculation upon receipt of tenders", 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, Bidders should note that the amount of Bonded PCS needs to reflect the Actual PCS. To reflect the fact that the Fixed Guarantee (as previously defined in the Franchise EoI) has been increased from £20,000,000 (at Franchise EoI stage) to £30,000,000, the amount to which the Initial Bonding Requirement (as previously defined in the Franchise EoI) is also increased to £30,000,000. This means that, in respect of the Guarantor(s) for the £30,000,000 Fixed Guarantee, where there is one Guarantor, a Bidder may only use one bond provider. Where there is more than one Guarantor, a Bidder may use one bond provider per Guarantor (in respect of each Guarantor's portion of the Guarantee).

6.10.4 In this ITT, the Additional Bonding Requirement means the amount (if any) required to be bonded under the Funding Deed as a result of Actual PCS being in excess of £30,000,000. Bidders may use more than one bond provider to provide this Additional Bonding Requirement.

6.10.5 Bidders must return with their Bid a letter(s) from their bond provider(s), which reflects the requirements of the EoI and PPD (subject to the updated Initial Bonding Requirement and Additional Bonding Requirement above) and the level of Bonded PCS.

6.10.6 Bidders should be aware that the Funding Deed, along with the bond for Bonded PCS and Performance Bond will be signed when the Franchise is awarded and on the same date as the Franchise Agreement.

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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) Regulation (EC) 1370/2007,

the West Midlands 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 this 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 20 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:

Final Score = P + (n x Q)

Where

P is a score equivalent to the Bidder's Net Present Value ("NPV") of the Franchise Payments for the Core Franchise Term as calculated in sheet NPV cell F49 of the Bidder's Financial Model ("As Bid NPV") adjusted if applicable in accordance with

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subsection 6.2.1 and with this Section 7 (Evaluation Criteria and Methodology). 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 premium and a negative number in the event of an overall subsidy;

Q equals the Quality Score described in subsection 7.12 (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 50.

7.2.1.4 The As Bid NPV will be for the Core Franchise Term and will not include the Extension Period or the Franchise Payment associated with each of the Priced Options.

7.2.1.5 For the avoidance of doubt, no adjustment will be made to the As Bid NPV used in the determination of P to reflect:

a) Any payments to the Department that may be shown in the Models under the profit share/cap arrangements in the Franchise Agreement;

b) Any payments to/from the Department that may be shown in the Models under the GDP and CLE Adjustment Payment arrangements in the Franchise Agreement;

c) To the extent included by Bidders in their calculation of Annual Franchise Payments, any payments to/from the Department that may be shown in the Models under any of the performance or incentive regimes in the Franchise Agreement; or

d) The impact of risks to the Bidder's financial robustness. Financial robustness will be addressed through the approach described in subsection 7.7 (Evaluation of Financial Robustness).

7.2.1.6 The maximum Quality Score is 12.76 and therefore the maximum value of (n*Q) is 638. This is the maximum score that a Bid can obtain in relation to quality, whatever the As Bid 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.

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Table 7.1. *Illustrative example of calculating the Final Score using the General Rules*

n = 50 for this example. Bidder 1: P = subsidy of 600; Q = 10 Bidder 2: P = subsidy of 450; Q = 5 The Final Score for each Bidder will be: Bidder 1: -600 + (50 x 10) = -100 Bidder 2: -450 + (50 x 5) = -200 The winning Bidder would be Bidder 1 as there are no positive Final Scores and Bidder 1 has the negative Final Score closest to zero.

7.2.1.7 If:

a) A Bid is found to be non-compliant in accordance with subsection 3.5 (Non-compliant Bids); and

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 reduce the value of P used in the calculation of the Final Score for that Bid to take into account its reasonable view of the most likely financial impact of the non-compliance on the Department.

7.2.2 **Supplementary Rules**

7.2.2.1 Any Bid with a Final Score that is 20 points or more away from the leading Final Score will be excluded from this part of the process.

7.2.2.2 In the event that the difference between the highest Final Score and the total Final Score of the other Bid is less than 20 points, the following rules shall apply for the purposes of identifying the winning Bid:

a) **Stage 1**: 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:

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i) Is at least 8 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 8 points, the remaining Bids will be deemed **"Stage 2 Bids"**.

b) **Stage 2:** 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 7.12 (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 sub-section 7.11 (Delivery Sub-Plan Non-Compliance).

Table 7.2. *Sub-Plan weightings*

(A)Delivery Plan	(B) Sub-Plan	(C) Sub-Plan Weighting
0. Bid Summary	Not applicable	Not scored
1. Leadership and Management	Not applicable	10%
2. Train service and Performance	2.1 Train Services & Crowding	18%
	2.2 Rolling Stock	24%
	2.3 Performance	8%
	2.4 Supporting Infrastructure Projects	6%
3. Revenue	3.1 Marketing and Branding	4%
	3.2 Fares, Ticketing and Revenue Protection	8%
4. Customer Experience and Stations	4.1 Customer Experience	14%
	4.2 Stations	8%

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7.3.1.3 For the avoidance of doubt, Delivery Plan 0 (Bid Summary) will not be scored.

7.3.1.4 The proposals relating to the Priced Options will not be scored as part of the evaluation of Delivery Sub-Plan 2.1 or otherwise. The Department will assess those proposals only in order to confirm that:

a) the proposals will ensure adherence to the appropriate standards for stations on the West Coast Mainline; and

b) the proposals, including in respect of pricing and the modelling of the cost and revenue forecasts, are supported by credible assumptions and evidence,

and where this is not confirmed, the Department will treat the Bid as non-compliant in line with subsection 3.5 (Non-compliant Bids).

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. These 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.

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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 7.10 (Impact of Review of Financing and Funding Proposals);

i) The extent to which the Bidder is willing to enter into an absolute obligation to deliver the Initiatives in accordance with subsection 4.14.3 (Contractualisation);

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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 Delvery 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 subsections 5.2.1 to 5.2.5, 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 (West Midlands marking framework and guidance) below and should be read in conjunction with the explanatory text which follows.

Table 7.3. *West Midlands 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.

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Score	Evaluation
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 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

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Franchise to the Department), so that the requirements of the specification will be greatly exceeded.

7.3.5.6 Scoring in the round

7.3.5.7 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.

7.3.5.8 Table 7.3 (West Midlands 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.

7.3.5.9 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 (West Midlands marking framework and guidance) above, 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.

7.3.5.10 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.

7.3.5.11 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

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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.

7.3.5.12 Intermediate scores

7.3.5.13 In addition to the scores set out in Table 7.3 (West Midlands 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 (West Midlands 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 (West Midlands marking framework and guidance). For example, where the Sub-Plan exceeds the guidance for a score of 6 but falls shorts of meeting fully the guidance for a score of 8, a score of 7 might be awarded.

7.3.5.14 In addition to the possibility of awarding one of the scores set out in Table 7.3 (West Midlands 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.

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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 West Midlands 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 West Midlands 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

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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, adjust the value of P used in the calculation of the Final Score in accordance with subsection 7.2 (Definition of MEAT for the Competition) as necessary to take into account its reasonable view of the most likely financial impact of the non-submission of that Initiative on the Department;

except that the scoring of the Bid (including both P and Q as defined in subsection 7.2 may not be improved as a result of the process set out in this subsection 7.4.4.

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.

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7.5 NOT USED

7.6 Modelling Change Tests

7.6.1 As described in subsection 7.6.2 (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.

7.6.2 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.

7.7 Evaluation of Financial Robustness

7.7.1 Financial Robustness Test

7.7.1.1 The Department will undertake a financial robustness test ("Financial Robustness Test") in accordance with this subsection 7.7 (Evaluation of Financial Robustness) on each Bidder's Models, except as defined in subsection 7.7.1.7. and 7.7.1.8. The purpose of this process is to enable the Department to assess whether the Bid has acceptable financial risk and it will have no other impact on the award decision. A Bid that the Department deems, following and as a result of the completion of the test, to have unacceptable financial risk will be deemed to be non-compliant and automatically eliminated pursuant to subsection 3.6 unless both Bidders fail the Financial Robustness Test in which case the provisions of subsection 7.12 shall apply.

7.7.1.2 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

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of the impact of these adjustments is described in Appendix 3 (Risk Adjustment Process).

7.7.1.3 The Department requires that Bids remain financially robust after any risk adjustments. Further to evaluation of the Bids and the development of risk adjustments, the Department will produce a **"Risk Adjusted Financial Model"** in respect of Bidders whose Bids have been risk adjusted, based on its reasonable view of the most credible financial outcome. The Department will not risk adjust Bids if, by taking into account all of the information available to it, it concludes that the evidence that is presented in the Bid is sufficiently credible that there is not a material risk of a materially different financial outcome.

7.7.1.4 If a Bidder is projected in its 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 below.

7.7.1.5 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).

There will be no opportunity for the Bidder to amend its Bid, including by making available additional finance.

7.7.1.6 A Bid will nonetheless be deemed to have acceptable financial risk if the total amount of additional PCS, over and above the Actual PCS committed in the Bid, that the Department estimates 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 million (nominal).

7.7.1.7 The Department reserves the right to undertake aspects of the Financial Robustness Test only on one Bid, as described in Appendix 3 (Risk Adjustment Process). This is because the undertaking of those aspects of the Financial Robustness Test will have no impact on the ranking of Bids.

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7.7.1.8 The Financial Robustness Test will be undertaken on the Bidder's Models excluding Priced Options.

7.8 Evaluation Impact of Contractual Treatment of Bidders' Initiatives

7.8.1 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 five working days (or such longer period as the Department may specify) to respond. Bidders' comments must be restricted to confirming that the drafting reflects the Initiatives within their Bid, or indicating where the drafting does not reflect the Initiatives contained within their Bid, giving the reasons why. Bidders must not submit alternative drafting of Committed Obligations, unless requested to do so by the Department. If, by a date specified by the Department, the Bidder is not prepared to enter into the contractual terms prepared by the Department (if appropriate, as clarified with the Bidder), in its sole discretion the Department may revise:

i) The evaluation score attributed to the relevant Sub-Plan; and

i) Any other element of the evaluation (including without limitation the Financial Robustness Test),

such that such evaluation score or element does not take the relevant Initiative into account, provided that no revision will be made pursuant to this subsection 7.8 (Evaluation Impact of Contractural Treatment of Bidders' Initiatives):

A) To any evaluation score, where such revision would result in an increase in such evaluation score; and

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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 low financial risk.

7.8.2 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.

7.9 Interaction Between Evaluation Scores and the Financial Robustness Tests

7.9.1 The assessment of financial robustness described in subsection 7.7 (Evaluation of Financial Robustness) will be informed by the review of Bidders' Sub-Plans, and any other information available to the Department, in accordance with the guidance provided in Appendix 3 (Risk Adjustment Process).

7.9.2 There is no automatic link between the scoring of Sub-Plans and the financial risk adjustments. 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 both:

a) Take into account any risk to the delivery of the Bidder's Initiatives in the scoring of the Sub-Plans as described in subsection 7.3 (Quality and Deliverability Evaluation); and

b) Make a financial risk adjustment as described in subsection 7.7 (Evaluation of Financial Robustness) to reflect any risk to the achievement of the Bidder's financial projections.

7.10 Impact of Review of Financing and Funding Proposals

7.10.1 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.

7.10.2 Where the available evidence fails to provide the Department with adequate confidence that the funding or financing will be available:

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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 Criteria and Process)) to reflect any resulting risk to the financial robustness of the Bid.

7.11 Delivery Sub-Plan Non-compliance

7.11.1 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) 1.0 Leadership and Management

b) 2.1 Train services and crowding;

c) 2.2 Rolling Stock;

d) 2.3 Performance; or

e) 4.1 Customer Experience,

together the "**Key Sub-Plans**".

7.11.2 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), being the multiple of column (A) and column (C). 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

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the purpose described in this subsection 7.11, and it will not be used in the calculation of the overall Quality Score, which will be determined in accordance with subsection 7.12 (Conversion of Evaluation Scores into Quality Scores).

7.12 Conversion of Evaluation Scores into Quality Scores

7.12.1 The Department will convert Sub-Plan evaluation scores into Sub-Plan Quality Scores on the basis of Table 7.4 (Conversion of evaluation scores into Quality Scores).

Table 7.4. *Conversion of evaluation scores into Quality Scores*

Evaluation Score	Quality Score
0 – 3.5	0
4	1
4.5	2
5	3
5.5	4
6	5
6.5	6
7	7
7.5	8
8	9
8.5	10
9	11
9.5	12
10	13

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7.12.2 The allocation of a Quality Score of 0 to a Sub-Plan will not prejudice any right that the Department has under subsection 7.11 (Delivery Sub-Plan Non-compliance) to deem the Bid non-compliant.

7.12.3 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).

7.13 Rebid Process

7.13.1 The Department reserves the right at any time prior to notification of the preferred bidder, to require both Bidders to submit revised Bids in the following circumstances:

(i) where both Bidders have failed the Financial Robustness Test as referred to in subsection 7.7.1.1; or

(ii) 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 revised Bids may include for example, but without limitation, changes to macro economic forecasting data, developments concerning HS2 which impact the Franchise, changes to the financial budget that is available to the Department in respect of the Franchise or updates in policy (either for the Franchise or for rail franchising generally). .

7.13.2 In the event that the Department does decide to require the submission of revised Bids it shall afford both Bidders the opportunity to do so in accordance with paragraph 7.13.3.

7.13.3 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;

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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.

7.14 Negotiations

In addition to the Department's rights under subsection 7.13 (Rebid process), the Department reserves the right at its sole discretion to negotiate with one or both 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.

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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
Act	means the Railways Act 1993 (as modified, amended or replaced by the Transport Act 2000,the Railways Act 2005 and the Deregulation Act 2015) and any regulations or orders made thereunder;
Actual Operating Costs	means: (a) the Franchisee's total operating expenses for the period being reviewed as stated in its profit and loss account, including any of the following operating expenses that are payable during that period: (i) amounts payable to the Secretary of State and Network Rail; (ii) taxation; (iii) shareholder distributions including dividends; (iv) interest; (v) capital expenditure (net of grants received); (vi) cash lease payments in relation to on-balance sheet leased assets; and (vii) NOT USED, but excluding any of the following expenses that are payable in that period: (A) finance/ interest costs solely relating to on balance sheet leased assets; (B) depreciation (including in relation to on-balance sheet leased assets); (C) amortisation; (D) bad debt provisions; and (E) NOT USED; and (b) either: (i) plus any reduction in the total amount owing by the Franchisee to creditors over that period; or (ii) less any increase in the total amount owing by the Franchisee to creditors over that period, where creditors: (A) include any persons owed amounts by the Franchisee in respect of loans or funding agreements, operating expenses, including the types of expenses set out inparagraphs (a)(i) to

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Term	Meaning
	(a)(v) above inclusive, provisions and deferred income balances; but (B) exclude persons owed amounts by the Franchisee in respect of season ticket liabilities, lease liabilities in relation to on balance sheet leased assets and liabilities in relation to grants received for the purchase of fixed assets; (C) exclude any creditors or other liabilities relating to on-balance sheet leases;
Additional PCS	has the meaning given to it in subsection 6.9.2;
Additional Rolling Stock	means Specified Additional Rolling Stock and Unspecified Additional Rolling Stock;
AFC Plan	has the meaning given to it in the Funding Deed;
Affiliate	means, in respect of any person, any person by which that person is Controlled or which is Controlled by that person, or any person which is Controlled by any other Affiliate of that person and for the purpose of this definition Network Rail or NR shall not be construed as being an affiliate of the Secretary of State;
Agreed Documents	means those documents listed in Table 4.3;
Agreed Funding Commitment or AFC	has the meaning given to it in the Funding Deed;
Annual Franchise Payment Components	means the values of FXD, VCRPI, VCAWE, PRPI, ORRPI, $PRRPI_{GDP}$, $PRRPI_{CLE}$ and $PRRPI_{REM}$ specified for each Franchisee Year in the table set out in Appendix 2 (Figures for Calculation of Annual Franchise Payments) to Schedule 8.1 (Franchise Payments);
Annual Season Ticket	means a Season Ticket Fare which is valid in Standard Class Accommodation from (and including) the day on which it first comes into effect until (but excluding) the day which falls twelve (12) months after such day;
Apprenticeship	means (as the context requires) an individual apprenticeship pursuant to: (a) an apprenticeship programme operated by the Franchisee: (i) in connection with an apprenticeships framework listed on the Federation for Industry Sector Skills & Standards' "Frameworks Library" (as located at the date of this Agreement at: http://www.afo.sscalliance.org/frameworkslibrary/); and (ii) in compliance with the "Specification of Apprenticeship Standards for England" pursuant to the Apprenticeships, Skills, Children and Learning Act 2009; and/or (b) an apprenticeship programme operated by the Franchisee pursuant to (and in accordance with applicable requirements of) such statutory apprenticeships system as may be introduced in replacement of, or in variation or

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	addition to, the apprenticeships frameworks system described in paragraphs (a)(i) and (ii) above, and references to "Apprenticeships" shall be construed accordingly;
Apprenticeships Requirement	has the meaning given to it in paragraph 9.3 of Schedule 13.1 (Rail Industry Initiatives);
As Bid NPV	has the meaning given to it in subsection 7.2.1.3
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 (Data Site and AWARD);
AWE	is the quotient of the Average Weekly Earnings for January which immediately precedes the commencement of the relevant Franchisee Year divided by the Average Weekly Earnings for January 2017 provided that, for the first Franchisee Year, AWE shall be one
BCQ	has the meaning given to it in subsection 3.9 (Bidder clarification questions);
Benchmark	has the meaning given to it in paragraph 1.1 of Schedule 7.1 (Operational Performance);
Bid	a tender submitted by a Bidder in response to this ITT;
Bidder	has the meaning given to it in subsection 1.1.1 (Introduction);
Bidder's Alternative Assumptions	has the meaning given to it in subsection 6.3.9.10
Birmingham Stations	has the meaning Birmingham New Street, Birmingham Snow Hill and Birmingham Moor Street
Bonded PCS	has the meaning given to it in subsection 6.9.2.11;
Bond Provider	means any person or persons who may provide or be an obligor under a Performance Bond or Season Ticket Bond from time to time and who shall, unless the Secretary of State otherwise agrees, be: (a) a Bank; or (b) an insurance company, in each case with the Relevant Credit Rating;
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 PQQ financial and economic standing 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 PQQ

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	financial and economic standing tests and submission of updated bond provider letter(s)), this is 100% of the relevant Guarantee amount;
Branch Lines	means the branch lines between Bedford and Bletchley and between St Albans Abbey and Watford Junction;
BTP	means the British Transport Police Authority and the British Transport Police Force created pursuant to Section 18 and Section 20 of the Railways and Transport Safety Act 2003 (or any successor or successors to its statutory policing functions);
Calculation Review	the review conducted in accordance with subsection 6.8.5 (Calculation Review);
Cancellation	means a Passenger Service: (a) which is included in the Enforcement Plan of the Day and which is cancelled for reasons attributed to the Franchisee pursuant to its Track Access Agreement; or (b) which is included in the Enforcement Plan of the Day and which operates less than fifty per cent (50%) of its scheduled mileage (as prescribed in the Enforcement Plan of the Day) for reasons attributed to the Franchisee pursuant to its Track Access Agreement;
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	means rolling stock proposed to be used by the Franchisee in the provision of the Passenger Services the availability of which is, in the opinion of the Secretary of State, directly or indirectly dependent upon the successful introduction into service of any Relevant Rolling Stock by any other Train Operator
CCIF Scheme	has the meaning given in paragraph 11.1 of Schedule 7.2 (National Rail Passenger Surveys, Customer Report and CCIF Scheme);
Challenging Circumstances	circumstances such as extreme weather, industrial action or line closures;
Change	means if and whenever any of the following occurs: (a) an event set out in any Secretary of State Risk Assumptions specified in Schedule 9.4 (Secretary of State Risk Assumptions); (b) a Charge Variation; (c) a Change of Law (excluding any Change of Law to the extent that it results in an adjustment to the Franchise Payments pursuant to Schedule 8.3 (Track Access Adjustments and Station Charge Adjustments)); (d) a change to the Train Service Requirement previously in force pursuant to the issue of an amended or new Train

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Term	Meaning
	Service Requirement in accordance with paragraphs 16.5 and 16.6 of Schedule 1.1 (Franchise Services and Service Development); (e) the Franchisee is required to take any action pursuant to paragraphs 19.1(a) and/or paragraph 19.1(b) of Schedule 1.1 (Franchise Services and Service Development); (f) the Secretary of State effects an amendment to a Discount Fare Scheme, introduces a new Discount Fare Scheme or ceases to approve a Discount Fare Scheme for the purposes of Section 28 of the Act; (g) the Secretary of State approves an amendment or proposed amendment to an Inter-Operator Scheme, as referred to in paragraph 4.5 of Schedule 2.5 (Transport, Travel and Other Schemes) to the extent and only to the extent that the Franchisee makes a saving as a consequence of such amendment or proposed amendment; (h) the imposition, subject to the provisions of paragraph 2.6 of Schedule 4 (Accessibility and Inclusivity), of any increased access charges in respect of EA Requirements at Franchisee Access Stations; (i) the Secretary of State exercises his power pursuant to paragraph 5 of Schedule 5.7 (Changes to Fares and Fares Regulation) to alter the obligations of and restrictions on the Franchisee under Schedule 5 (Fares and Smart Ticketing); (j) the Franchisee is obliged to charge Value Added Tax on a Fare or there is an increase or decrease in the rate of Value Added Tax which it must charge on such Fare, in either case due to a change in the Value Added Tax treatment of the provision of Passenger Services; (k) the exercise by the Secretary of State of his rights pursuant to paragraph 1.12 of Schedule 7.1 (Operational Performance); (l) the exercise by the Secretary of State of his rights pursuant to paragraph 15.1(c) of Schedule 11.2 (Management Information); (m) NOT USED; (n) NOT USED; (o) a Variation to the terms of the Franchise Agreement pursuant to paragraph 1.1 of Schedule 9.3 (Variations to the Franchise Agreement and Incentivising Beneficial Changes); (p) the Start Date is a date that is later than 02:00 on 15 October 2017 for reasons solely attributable to any act or omission by the Secretary of State including the exercise of his right to amend the Start Date pursuant to clause 5.3 except where: (i) the Secretary of State exercises his rights pursuant

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	to Clause 4.2 or 4.3 of the Conditions Precedent Agreement to alter such Start Date; or (ii) the relevant acts or omissions of the Secretary of State arise as a result of or in connection with any failure by the Franchisee to satisfy any of the conditions precedent set out in the Conditions Precedent Agreement; (q) the Expiry Date is a date that is later than 01:59 on 1 April 2026 in consequence of the Secretary of State exercising his right to amend the Start Date pursuant to clause 5.3; (r) the circumstances set out in paragraph 3.2 of Schedule 2.2 (Security of Access Agreements, Rolling Stock Leases, Station and Depot Leases) occur; (s) NOT USED; (t) NOT USED; (u) NOT USED; (v) any two or more of the foregoing that the Secretary of State groups together in accordance with any procedures issued by him pursuant to paragraph 1.4 of Schedule 9.3 (Variations to the Franchise Agreement and Incentivising Beneficial Changes) occur; (w) the Secretary of State exercises his right to vary the provisions of Schedule 7.3 (West Midlands Franchise Service Quality Regime) pursuant to paragraph 10.2 of Schedule 7.3 (West Midlands Franchise Service Quality Regime); (x) the Secretary of State issues a TSR (TDR) Amendment pursuant to paragraph 12.7 of Schedule 1.1 (Service Development) but only to the extent that: (i) the Franchisee makes a saving as a consequence of the issue of such TSR (TDR) Amendment; or (ii) the circumstances contemplated in paragraph 12.7(b) of Schedule 1.1 (Service Development) occur, except that a Change shall not occur where a TSR (TDR) Amendment has been issued by the Secretary of State in consequence of Network Rail exercising the rights referred to in any of paragraphs 13.3(a) or 13.3(b) of Schedule 1.1, or where a Change relates to paragraph 2 of Schedule 9.4;
CMA	means the Competition and Markets Authority;
CMS Passengers	the forecasting software known as 'CMS Passengers' used to forecast redistribution of passengers amongst individual services on particular routes;
Collaboration Agreement	means the agreement to be entered into between the Secretary of State and West Midlands Rail, a draft of which is available in the Data Site;
Committed	means any of the Franchisee's obligations listed in Part 1

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Obligations or Cos	(Committed Obligations) of Schedule 6.2 (Committed Obligations);
Community Rail Partnership	means any not for profit organisation of the same name that has an interest in the development of responsive and good quality railway passenger services;
Community Rail Report	means any not for profit organisation of the same name that has an interest in the development of responsive and good quality railway passenger services;
Conditions Precedent Agreement	means the version of the West Midlands Condition Precedent Agreement which the Department supplies to Bidders as the "Final Bid version" for the purposes of this ITT
Consultee	has the meaning given to it in subsection 3.4 (Industry consultation and disclosure of information in Bids);
Control	means, in respect of a person, that another person (whether alone or with others and whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise): (a) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that person or of any other person which Controls that person; (b) controls or has the power to control the affairs and policies of that person or of any other person which Controls that person; (c) is the parent undertaking of that person or of any other person which Controls that person; or (d) possesses or is, or will be at a future date, entitled to acquire: (i) thirty per cent (30%) or more of the share capital or issued share capital of, or of the voting power in, that person or any other person which Controls that person; (ii) such part of the issued share capital of that person or any other person which controls that person as would, if the whole of the income of such person were distributed, entitle him to receive thirty per cent (30%) or more of the amount so distributed; or (iii) such rights as would, in the event of the winding up of that person or any other person which controls that person or in any other circumstances, entitle him to receive thirty per cent (30%) or more of the assets of such person which would then be available for distribution, and "Controlled" shall be construed accordingly;
Contingent Initiative	has the meaning given to it in subsection 4.14.3 (Contractualisation);
Core Franchise Term	the core term of the Franchise Agreement (excluding any extension that may be called under clause 5.2);

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Term	Meaning
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;
Customer Report	means a report in the format and providing the information specified in the Customer and Stakeholder Engagement Strategy published in accordance with paragraph 10.1 of Schedule 7.2 (National Rail Passenger Surveys, Customer Report and CCIF Scheme) of the Franchise Agreement;
Customer and Stakeholder Engagaement Strategy or CSES	means the Customer and Stakeholder Engagement Strategy in the agreed terms marked **CSES** and any replacement Customer and Stakeholder Engagement Strategy revised in accordance with paragraph 9.2 of Schedule 7.2 (National Rail Passenger Surveys, Customer Report and CCIF Scheme);
Customer Report	means a report in the format and providing the information specified in the Customer and Stakeholder Engagement Strategy published in accordance with paragraph 10.1 of Schedule 7.2 (National Rail Passenger Surveys, Customer Report and CCIF Scheme);
Data Site	has the meaning given to it in subsection 3.8 (Data Site and AWARD);
Delivery Plan	means a Delivery Plan described in Section 5: (Detailed Bid requirements – Delivery Plans), being: Delivery Plan 0 – Bid Summary; Delivery Plan 1 – Leadership and Management; Delivery Plan 2 – Train Service and Performance; Delivery Plan 3 – Revenue; Delivery Plan 4 – Customer Experience and Stations; and **'Delivery Plans'** shall mean more than one of them;
Department	has the meaning given to it in subsection 1.1 (Introduction);
Depot	means a depot in respect of which the Franchisee has entered into a Depot Lease;
EA	means the Equality Act 2010;
EA02	Enterprise Act 2002;
EC	European Commission;
Enabling Fund Scheme Revenue	means in respect of any Enabling Fund Scheme, the revenue earned by the Franchisee from that Enabling Fund Scheme;
EIR	Environmental Information Regulations;
Environmental Information Regulations	means the Environmental Information Regulations 2004 together with any guidance and/or codes of practice issued by the Information Commissioner or any relevant Central Government Body in relation to such Regulations;

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Escrow Agreement	means the version of the West Midlands Escrow Agreement which the Department supplies to Bidders as the "Final Bid Version" for the purposes of this ITT;
EU	European Union;
EUMR	Council Regulation (EC) No. 139/2004;
Evening Peak	means, in relation to any Passenger Service, the period between 1600 and 1859 (inclusive) during a Weekday or such other continuous three hour period between 1200 and 2359 (inclusive) as the Secretary of State may specify from time to time;
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 "April 2015 DD EDGE inputs (v1.5.1.0) PDFH5.1_2";
Expiry date	means the later of: (a) 01:59 on 1 April 2026; or (b) any such later date that is specified by the Secretary of State pursuant to clause 5.3 (Duration of the Franchise Agreement); or (c) any such later date to which the Franchise Agreement is continued in accordance with clause 5.2 (Duration of the Franchise Agreement);
Extension Period	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);
Facility Owner	has the meaning given to the term facility owner in Section 17(6) of the Act;
Fare	means: (a) the right, exercisable against one or more Train Operators, subject to any applicable rights or restrictions and the payment of the relevant price, to make one or more journeys on the network or to carry on such a journey an item of luggage or an animal (where this right does not arise under the relevant conditions of carriage except on the payment of a fee) and, where applicable, to obtain goods or services from a person; and (b) for the purposes only of Schedule 5.3 (Allocation of Fares to Fares Baskets) to Schedule 5.8 (Fares Regulation Information and Monitoring) (inclusive) and the definitions of Commuter Fare, Protected Fare, Return Fare, Single Fare, Protected Weekly Season Ticket, Protected Return Fare and paragraph (b) of the definition of Season Ticket Fare, a Fare as defined under paragraph (a) that is:

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Term	Meaning
	(i) valid for a journey or journeys on the Passenger Services included in the Timetable or other railway passenger services which are required to be included in another relevant Train Operator's passenger timetable by the Secretary of State; (ii) sold under the Travelcard Agreement; or (iii) a Cross London Ticket (as defined in the Through Ticketing (Non Travelcard) Agreement); (iv) sold under the Pay As You Go Agreement utilising TTL smart media as defined in such agreement;
Fares Basket	means any of the London Commuter Fares Basket, the West Midlands Commuter Fares Basket or the Protected Fares Basket;
Fares Setting Round	has the meaning given to it in the Ticketing and Settlement Agreement;
Financial Formats or FF	means the Franchisee's financial formats in the agreed terms marked **FF**;
Final Risk Adjustments	has the meaning given to it in subsection A3.2 (Overview of Process) of Appendix 3 (Risk Adjustment Process);
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 and Operational Model requirements);
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 7.7 (Evaluation of Financial Robustness);
Financial Structure and Funding Plan	has the meaning given to it in subsection 6.9 (Financial Structure and Funding Plan);
Financial Templates	has the meaning given to it in subsection 6.3.9 (Financial Templates);
FLPA	has the meaning given to it in subsection **1.4.1**;
Flow	has the meaning given to it in the Ticketing and Settlement Agreement;
FOIA	Freedom of Information Act 2000;

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Forecast Passenger Demand	means the forecast prepared by the Franchisee pursuant to paragraph 12.2 of Part 2 (Service Development) of Schedule 1.1 (Franchise Services and Service Development) in respect of: (a) the number of passengers travelling in each class of accommodation: (i) on each Passenger Service; (ii) on each Route; and/or (iii) at any station or between any stations; and (b) the times of day, week or year at which passengers travel, for the period in respect of which the next Timetable is to apply;
Form of Tender	means the version of the [Competition Name] Form of Tender which the Department supplies to Bidders as the "Final Bid Version" for the purposes of this ITT;
Franchise	means the rights tendered by the Secretary of State on 30 August 2016 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);
Franchise Agreement	means the version of the West Midlands Franchise Agreement which the Department supplies to Bidders as the "Final Bid Version" for the purposes of this ITT;
Franchise Assets	means the property, rights and liabilities designated as such pursuant to paragraph 1 of Schedule 14.4 (Designation of Franchise Assets) but excluding such property, rights or liabilities as shall, in accordance with the terms of the Franchise Agreement, cease to be so designated;
Franchise Payment	means, in relation to any Reporting Period, the amount determined in accordance with paragraph 1.1 of Schedule 8.1 (Franchise Payments);
Franchise Services	means such of the Passenger Services, the Light Maintenance Services, the Station Services and the Ancillary Services as the Franchisee may provide or operate from time to time, including any of such services as the Franchisee may delegate or subcontract or otherwise secure through any other person from time to time in accordance with the Franchise Agreement;
Franchise Signature Documents	has the meaning given to it in Table 4.2 (Structure and Format of Bids);
Franchise Term	means the period commencing on the Start Date and expiring on the Expiry Date;
Franchise Year	means any period of twelve (12) months during the Franchise Period, beginning on 1 April and ending on 31 March, except that the first and last Franchisee Years may be for a period of less than twelve (12) months and the first Franchisee Year shall begin on the Start Date and the last Franchisee Year shall end on the last day of the Franchise Period;

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Freedom of information Act	means the Freedom of Information Act 2000 together with any guidance and/or codes of practice issued by the Information Commissioner or any relevant Central Government Body in relation to the Freedom of Information Act 2000;
Funding Deed	means the version of the West Midlands Funding Deed which the Department supplies to Bidders as the "Final Bid Version" for the purposes of this ITT;
GAAP	means generally accepted accounting principles in the United Kingdom, as derived from and including the accounting requirements of the Companies Act 2006, 'Financial Reporting Standards 100, 101 and 102', abstracts issued by the Urgent Issues Task Force of the Accounting Standards Board and, where appropriate, International Financial Reporting Standards and the listing rules of the Financial Conduct Authority, in each case, as amended from time to time;
General Ledger to DfT Financial Template Mapping	Mapping of unique General Ledger codes to DfT Financial Template cost lines, allowing the Department to track data flows from General Ledger / Long Form Report to Bidders' Modelling Suites (Data site section 03.01.01);
Guarantor	has the meaning given to such term under the Funding Deed;
HMT	Her Majesty's Treasury;
IFRS	International Financial Reporting Standards;
Industrial Action	means any concerted action taken in connection with the employment of any employees of the Franchisee or of any of the employees of persons listed in paragraphs 1(f)(i) to 1(f)(iii) of Schedule 10.3 (Force Majeure and Business Continuity) (whether or not that action involves any breach of such employees' conditions of employment, and including any action taken in furtherance of a dispute, or with a view to improving the terms of employment of the relevant employees or by way of support for any other person) subject always, in the case of any unofficial industrial action, to the Franchisee being able to demonstrate the occurrence of such unofficial industrial action to the reasonable satisfaction of the Secretary of State;
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;
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 30 August 2016 as part of the procurement process pursuant to

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	which the Franchise Agreement was entered into;
ITSO	means (as the context may require) both: (a) the non profit distributing organisation run by its members for the benefit of members and users of smartcards, supported by the Department for Transport ("DfT"); and (b) the common specification such non profit distributing organisation has created to enable the use of interoperable smartcards in transport and other areas;
ITSO Certified Smartmedia	means the contactless smartcards, devices or other media designed to hold fare and travel information with the monetary or other value encoded which have been fully certified by ITSO;
Key Sub-Plans	has the meaning given to it in subsection 7.11.1;
Law	includes any enactment, subordinate legislation, rule, regulation, order, directive or other provision, including those of the European Community, and any judicial or administrative interpretation or application thereof, which has, in each case, the force of law in the United Kingdom or any part of it (including the Act, the Transport Act, the Transport Safety Act 2003 and the Railways Act 2005);
Legislation	means any enactment or subordinate legislation, rule, regulation, order, directive or other provision including those of the European Community, which has, in each case, the force of Law in the United Kingdom or any part of it, but excluding any order under Section 1 of the Transport and Works Act 1992;
Local Authority	means: (a) in England, a county council, a district council, a unitary authority, a passenger transport executive, a London borough council, the common council of the City of London, or a council which is established under the Local Government Act 1992 and which is either an authority responsible for expenditure on public passenger transport services within the meaning of Section 88 of the Transport Act 1985 or a local authority for the purposes of Section 93 of the Transport Act 1985; (b) in Wales, a county council, a district council or a council which is established under the Local Government Act 1972 or the Local Government (Wales) Act 1994; (c) in Scotland, the Strathclyde Passenger Transport Executive, or a district council or a unitary authority which is established under the Local Government (Scotland) Act 1973 or the Local Government, etc. (Scotland) Act 1994; (d) in London, the Mayor of London and Transport for London established under the Greater London Authority Act 1999; (e) a combined authority created pursuant to the Local

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	Democracy, Economic Development and Construction Act 2009; (f) any local enterprise partnership; (g) any other body or council replacing any of the above from time to time; and (h) any other body or instrument of local or regional government specified by the Secretary of State from time to time;
London Commuter Fare	means any: (a) Weekly Season Ticket, Monthly Season Ticket, Quarterly Season Ticket and Annual Season Ticket (and their equivalent ITSO products) between each London Station and any other such station or other Suburban Station; and (b) unrestricted Single Fare and unrestricted Return Fare (and their equivalent ITSO products) between each London Station; and (c) unrestricted Single Fare and unrestricted Return Fare (and their equivalent ITSO products) from each Suburban Station to each London Station (but not in the other direction); and (d) PAYG Peak Fare or PAYG Off Peak Fare (and their equivalent ITSO products) between each London Station and any other such station (and the CPAY equivalent fares), for which the Franchisee is entitled to be allocated all or part of the revenue therefrom pursuant to the Ticketing and Settlement Agreement;
London Commuter Market	means those services and Stations between Rugby and London Euston and on the Branch lines
London Commuter Fares Basket	means the grouping of London Commuter Fares: (a) determined by the Secretary of State pursuant to Schedule 5.3 (Allocation of Fares to Fares Baskets); (b) for the purposes of regulating their aggregate Prices, in accordance with Schedule 5.4 (Regulation of Fares Basket Values); (c) amended by the Secretary of State from time to time in accordance with Schedule 5.7 (Changes to Fares and Fares Regulations); and (d) set out in the London Commuter Fares Document;
London Commuter Fares Document or LCDF	means the document in the agreed terms marked LCFD, as the same may be amended from time to time in accordance with

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Term	Meaning
	Schedule 5.7 (Changes to Fares and Fares Regulations);
London Station	means any station served by the Railway Passenger Services in the Zones and any Zone to or from which a passenger may travel from or to such station;
Long Form Report	the historical summary of the financial and operational performance of each element of the Greater Anglia Franchise, together with explanations of any movements in such financial and operational performance;
MAA	moving annual average;
Maintenance Contract	means any contract or arrangement to which the Franchisee is a party, which includes the carrying out for the Franchisee of any maintenance work (including light maintenance services) or service provision in respect of rolling stock vehicles used by the Franchisee in the provision of the Passenger Services or for the enforcement of warranties or other rights against a manufacturer in respect of any such rolling stock vehicles;
Management Accounts	means, in relation to any Reporting Period, the Franchisee's management accounts which: (a) comply with paragraph 9.5(a) of Schedule 11.2 (Management Information); and (b) are required to be delivered to the Secretary of State by the Franchisee in accordance with paragraphs 9.2(a) and 9.2(b) of Schedule 11.2 (Management Information);
Market Segment	The passenger services can generally be broken down into three market segments: • West Coast Main Line (WCML) London medium- and long-distance commuting services (between London Euston and Northampton) and the Branch Lines; • West Midland local services; • WCML long distance services (including London to Birmingham, London to Crewe, and Birmingham to Liverpool).
Materiality Threshold	has the meaning given to it in subsection 7.7.1.6;
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 (Model Audit);
Modelling Best Practice Confirmation	the confirmation that the Models have been prepared in accordance with best practice as required by subsection 6.8.2 (Modelling Best Practice Confirmation), subject to any derogations granted pursuant to subsection 6.8.3 (Derogations);
Model Changes	has the meaning given in paragraph 4.3 of Schedule 9.1 (Financial and Other Consequences of Change);
Modelling Suite	has the meaning given to it in subsection 6.1.2;

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Term	Meaning
Models	has the meaning given to it in subsection 6.1.1;
Modified Revenue	means: (a) the sum of: (i) the Franchisee's total revenue for the period being reviewed as stated in its profit and loss account: (A) including any amounts receivable from the Secretary of State, Network Rail and any interest; but (B) excluding the proportion of income recognised in the profit and loss account in relation to grants received in respect of capital expenditure; and (ii) the opening cash balance for the period being reviewed excluding: (A) any cash held for the exclusive purpose of the provision of the Performance Bond; and (B) the amount equivalent to: (1) any cash that is held pursuant to any restrictive terms under any agreement and that, consequently, cannot be used for general operating purposes; (2) any cash capable of being drawn down but not actually received, including, in both cases, under any loan or funding agreement or arrangements (including the Funding Deed) entered into with an Affiliate of the Franchisee; and (C) the amount of the opening season ticket liabilities which relate to Passenger Services yet to be delivered; and (b) either: (i) plus any reduction in total debtors over that period; or (ii) less any increase in total debtors over that period,
MOIRA or MOIRA1	the timetabling software known as 'MOIRA' used to forecast the impact of timetables on passenger demand and revenue but not MOIRA2;
MOIRA2	a model which comprises the timetable/revenue tool used to provide inputs into the revenue model;
Morning Peak	means, in relation to any Passenger Service, the period between 0700 and 0959 (inclusive) during a Weekday or such other continuous three hour period between 0600 and 1159 as the Secretary of State may specify from time to time;
National Rail Passenger Survey	means a passenger satisfaction survey in respect of the Franchise Services to be carried out by the Passengers' Council as described in paragraph 2 of Schedule 7.2 (National Rail

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	Passenger Surveys, Customer Report and CCIF Scheme) and shall include any Alternative NRPS as referred to in paragraph 2.6 of Schedule 7.2 (National Rail Passenger Surveys, Customer Report and CCIF Scheme);
Network Code	means the document known as the Network Code and formerly known as the Railtrack Track Access Conditions 1995 (as subsequently replaced or amended from time to time) or any equivalent code or agreement applying to Network Rail or NR;
Network Rail	means in respect of: (a) the network or any relevant facility: (i) Network Rail Infrastructure Limited, a company registered in England with registered number 02904587 whose registered office is 1 Eversholt Street, London NW1 2DN; and (ii) any successor in title to the network or any relevant railway facility; or (b) any new or other sections of network or any relevant new or other railway facilities, the owner (if different);
Network Rail Fixture Asset	means a tangible asset annotated as such in Column 4 of the table in Appendix 1 (List of the RV Assets) to Schedule 14.6 (Residual Value Mechanism) which is: (a) funded by the Franchisee and affixed to a Station or Depot (as the case may be) such that it is regarded as a fixture to and part of such Station or Depot (as the case may be); and (b) designated as a Primary Franchise Assets in accordance with paragraph 2.1 of Schedule 14.4 (Designation of Franchise Assets) such that it can be transferred as the unencumbered property of the Franchisee to a Successor Operator at the applicable value specified in Column 2 of the table in Appendix 1 (List of the RV Assets) to Schedule 14.6 (Residual Value Mechanism) (as such value may be amended during the Franchise Term in accordance with the provisions of paragraphs 1.4 or 1.6 of Schedule 14.6 (Residual Value Mechanism);
Network Rail West Midlands Franchise CP5 Infrastructure Assumptions	The Network Rail document uploaded in the Data Site for the West Midlands franchise competition with the same title;
Notional PCS	has the meaning given to it in subsection 7.7.1.6;
NPV or Net Present Value	net present value, calculated as the aggregation of the present value of relevant future cash flows;
NRPS Benchmark	means, in respect of a relevant Franchisee Year, the benchmark for each NRPS Measure and for each NRPS Service Group as set out in the NRPS Benchmark Table;
Off-Peak	means, in relation to any Passenger Service, the period of time

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Term	Meaning
	outside of the Peak;
Operating Manual	a manual prepared in accordance with subsection 6.6 (Operating Manual);
Operational Model(s)	means the following models in the agreed terms: (a) revenue model; (b) the performance model; (c) all cost models; and (d) any other relevant models that have generated input to the Financial Model;
ORR	means the Office of Rail and Road established by Section 15 of the Railways and Transport Safety Act 2003 and having duties and obligations as set out in the Act;
Other Revenue	as set out in the Financial Templates;
Other Supplementary Material	has the meaning given to it in subsection 6.3.8 (Supplementary Material);
Parent	Means the ultimate Parent Company
Parent Company Support	has the meaning given to it in subsections 6.9.2.5 to 6.9.2.11;
Passenger Carrying Capacity	means, in relation to a Passenger Service, the capacity of the vehicles (as stated in Schedule 1.6 (The Rolling Stock) or determined by the Secretary of State in accordance with paragraph 3.4 of Schedule 1.6 (The Rolling Stock)) from which the Passenger Service is formed;
Passenger Services	means the Franchisee's railway passenger services as specified in any Timetable and/or Plan of the Day including those railway passenger services which the Franchisee may delegate or subcontract or otherwise secure through any other person from time to time in accordance with the Franchise Agreement;
Passenger's Charters or PCs	means the Franchisee's service commitments to its passengers for each of the West Midlands Separable Business Unit and the West Coast Separable Business Unit in the agreed terms marked PCs, as amended or replaced from time to time with the prior written consent of the Secretary of State in accordance with paragraph 4 of Schedule 1.4 (Passenger Facing Obligations);
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);
PDFH	Passenger Demand Forecasting Handbook;
Peaks	means the Morning Peak and the Evening Peak;
Peak Passenger Service	means any Passenger Service falling into one or more of the following categories: (a) any Passenger Service operating on the branch line

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Term	Meaning
	between Stourbridge Junction and Stourbridge Town at any time; (b) any Passenger Service which is scheduled to arrive at London Euston between 0700 and 0959 on a Weekday; (c) any Passenger Service which is scheduled to depart from London Euston between 1600 and 1859 on a Weekday; (d) any Passenger Service which is scheduled to arrive at Birmingham New Street between 0700 and 0959, or scheduld to depart from Birmingham New Street between 1600 and 1859, on a Weekday; (e) any Passenger Service which is scheduled to arrive at either Birmingham Snow Hill or Birmingham Moor Street (or both), whose first scheduled arrival at either of these stations is between 0700 and 0959 on a Weekday; or (f) any Passenger Service which is scheduled to depart from either Birmingham Snow Hill or Birmingham Moor Street (or both), whose last scheduled departure at either of these stations is between 1600 and 1859 on a Weekday;
Performance Bond	means the Initial Performance Bond and any Replacement Performance Bond, which in each case, shall comply with the requirements of paragraph 4.2 of Schedule 12 (Financial Covenants and Bonds);
Placed in Escrow	means: (a) in respect of the Financial Model, delivery of the Financial Model: (i) dated the date of the Franchise Agreement; and (ii) adjusted to the extent necessary to reflect any time elapsed between the actual Start Date and the date assumed to be the Start Date in the Initial Business Plan; and (iii) where Schedule 9.1 (Financial and Other Consequences of Change) and Schedule 9.2 (Identity of the Financial Model) apply, the inputs to the Financial Model derived therefrom following an audit of a Run of the Financial Model; and; (b) in respect of the Operational Model, delivery of: (i) the Operational Model dated the date of the Franchise Agreement; (ii) the Operational Model adjusted to the extent necessary to reflect any time elapsed between the actual Start Date and the date assumed to be the Start Date in the Initial Business Plan; and (iii) where Schedule 9.1 (Financial and Other Consequences of Change) and Schedule 9.2 (Identity of the Financial Model) apply, audited following a Run of the Financial Model and updated with any Revised Inputs; and

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Term	Meaning
	(c) NOT USED; (d) in respect of the Record of Assumptions, delivery thereof, each in accordance with Schedule 9.2 (Identity of the Financial Model);
PQQ	pre-qualification questionnaire for the West Midlands Franchise published on 15 December 2015;
PPD	the pre-qualification process document that accompanied the PQQ;
PPM or Public Performance Measure	means the public performance measure as produced and/or published by Network Rail;
PPM Figures	means the moving annual average percentage published by Network Rail in respect of PPM, rounded to one (1) decimal place;
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;
Priced Options	means the Priced Options as described and required by subsection 5.5.5 of Delivery Sub-Plan 2.1 and Schedule 3 of the Franchise Agreement
Primary Franchise Assets	means: (a) the property, rights and liabilities of the Franchisee listed in Appendix 1 (List of Primary Franchise Assets) to Schedule 14.4 (Designation of Franchise Assets); and (b) any other property, rights and liabilities of the Franchisee which is or are designated as such pursuant to Schedule 14.4 (Designation of Franchise Assets), but excluding such property, rights or liabilities as may, in accordance with the terms of the Franchise Agreement, cease to be so designated;
Principles of Inclusive Design	means planning, designing, building and managing places, while having due regard and a proportionate response to stakeholder views obtained through consultation or otherwise, so that they work better for everybody and reflect the diversity of the people who use them as embodied in the document published by the Commission for Architecture and the Built Environment in 2006 with the title "The Principles of Inclusive Design" (as revised from time to time");
Projected Revenue	means the revenue in any Fare Year which is projected to be attributable to any Fare, determined in accordance with paragraph 3 of Schedule 5.4 (Regulation of Fares Basket Values);
Proposed Risk Adjustments	has the meaning given to it in subsection A3.2 (Overview of process) of Appendix 3 (Risk Adjustment Process);
Quality Score	the score awarded to a Bidder in accordance with subsection 7.12

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Term	Meaning
	(Conversion of evaluation scores into quality scores);
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 Industry Sustainable Development Principles	means the principles which were published by the Rail Safety and Standards Board in February 2009 as amended from time to time;
Rail Safety and Standards Board or RSSB	means Rail Safety and Standards Board Limited, a company registered in England with registered number 04655675 whose registered office is at The Helicon, 4th Floor, One South Place, London, EC2M 2RB;
RTS	Rail Technical Strategy as published on 13 December 2012 by the Technical Strategy Leadership Group of RSSB;
Record of Assumptions or **RoA**	means a record of assumptions prepared in accordance with subsection 6.5 (Record of Assumptions);
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
Regulations	means the Travel Concession Schemes Regulations 1986 (SI 1986/77)
Regulation (EC) 1370/2007	has the meaning given to it in subsection 3.12;
Relevant Agreement	means any Property Lease or Access Agreement in relation to any stations or network which may be used from time to time by the Franchisee in connection with the Franchise Services, as replaced or amended from time to time. If and to the extent that: (a) following the effective date of any Charge Variation, the Franchisee enters into any Replacement Agreement; (b) the effect of that Charge Variation is reflected in the terms of the Replacement Agreement; and (c) the Secretary of State has consented to such Replacement Agreement being entered into and constituting a Replacement Agreement for the purposes of this definition, then the Replacement Agreement shall be deemed to be a Relevant Agreement;
Relevant Credit Rating	means a credit rating of: (a) A (or better) by Standard and Poor's Corporation or Fitch Ratings Limited in respect of long term senior debt; or (b) A3 (or better) by Moody's Investors Service Inc. in respect of long term senior debt; or (c) if any credit rating specified in paragraph (a) or (b) ceases

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Term	Meaning
	to be published or made available or there is a material change in the basis of any such credit rating, such other rating or standard as the Secretary of State may, after consultation with the Franchisee, determine to be appropriate in the circumstances;
Relevant Initiative	has the meaning given to it in subsection **Error! Reference source not found.**;
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 Improvement	means an improvement in the level of customer satisfaction for the relevant NRPS Measure as measured by a National Rail Passenger Survey so that such level is equal to or higher than the related NRPS Benchmark;
Required Supplementary Material	has the meaning given to it in subsection 6.3.8.1;
Residual Value Mechanism or **RV Mechanism**	has the meaning given to it in subsection 5.2;
Risk Adjusted Financial Model	has the meaning given to it in subsection 7.7.1.3;
Risk Adjusted NPV	has the meaning given to it in subsection 7.7.1 (Financial Robustness);
Rolling Stock Lease	means any agreement for the leasing of rolling stock vehicles to which the Franchisee is a party as at the Start Date and any agreement of a similar or equivalent nature (including, any agreement or arrangement for the subleasing, hiring, licensing or other use of rolling stock vehicles) to which the Franchisee is a party from time to time during the Franchise Term whether in addition to, or replacement or substitution for, in whole or in part, any such agreement;
ROSCO	means any company leasing rolling stock vehicles to the Franchisee under a Rolling Stock Lease;
Route	means any route specified in the Timetable over which the Franchisee has permission to operate the Passenger Services pursuant to any Track Access Agreement;
Route Efficiency Benefit Share (REBS) Mechanism or REBS Mechanism	means the route level efficiency benefit sharing mechanism introduced by the ORR in its determination for the control period commencing on 1 April 2014 or any similar arrangement under which the benefits of any outperformance (or downsides of failure to achieve efficiency targets) are to be shared between Network Rail and Train Operators at route level;
RPI	means the quotient of the Retail Prices Index for January which immediately precedes the commencement of the relevant Franchisee Year divided by the Retail Prices Index for January

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Term	Meaning
	2017 provided that, for the first Franchisee Year, RPI shall be one;
RSP	means Rail Settlement Plan Limited;
Scheme	has the meaning given to it in subsection 5.2.1;
Season Ticket Bond	means the season ticket bond to be provided to the Secretary of State in respect of the Franchisee's liabilities under certain Fares and Season Ticket Fares in the form set out in Appendix 2 (Form of Season Ticket Bond) to Schedule 12 (Financial Covenants and Bonds) and such other bond as may replace it from time to time under Schedule 12 (Financial Covenants and Bonds);
Season Ticket Fare	means: (a) for the purposes of Schedule 12 (Financial Covenants and Bonds) and the definition of Season Ticket Bond only, a Fare which entitles the purchaser to make an unlimited number of journeys in any direction during the period for which, and between the stations and/or the zones for which, such Fare is valid; and (b) for all other purposes, a Fare which entitles the purchaser to make, without further restriction except as to class of accommodation, an unlimited number of journeys in any direction during the period for which, and between the stations and/or the zones for which, such Fare is valid;
Secretary of State	has the meaning given to it in subsection 1.1 (Introduction);
Secretary of State Risk Assumptions or SoSRAs	the assumptions specified in Schedule 9.4 (Secretary of State Risk Assumptions) of the Franchise Agreement;
Seperable Business Unit or SBU	means WMSBU or WCSBU;
Service Group	has the meaning given to it in the Track Access Agreement or as specified by the Secretary of State from time to time;
Service Recovery Plan	means, in the event of a prevention or restriction of access to the track or a section of the track (howsoever caused) which results in any Cancellation, Partial Cancellation, and/or any Passenger Service being operated with less Passenger Carrying Capacity than the Passenger Carrying Capacity specified for such Passenger Service in the Train Plan, a plan implemented by the Franchisee: (a) to minimise the disruption arising from such prevention or restriction of access by operating, during such period of disruption, the best possible level of service given such disruption, including by: (i) keeping service intervals to reasonable durations; (ii) keeping extended journey times to reasonable durations; and (iii) managing any resulting overcrowding; (b) to:

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Term	Meaning
	(i) return the level of service to that level specified in the Timetable as soon as reasonably practicable; and (ii) prior to the attainment of the level of service specified in paragraph (b)(i) operate any reduced level of service agreed with Network Rail for the purpose of minimising such disruption pursuant to paragraph (a); (c) in accordance with the principles of service recovery set out in the ATOC **"Approved Code of Practice: Contingency Planning for Train Service Recovery Service Recovery 2013"** or any document of a similar or equivalent nature; and (d) where the particulars of such plan in relation to the requirements of paragraphs (a) and (b) have been: (i) agreed at an initial and, where required, subsequent telephone conference between the Franchisee, Network Rail and any other affected Train Operator; and (ii) on each occasion, recorded in an official control log by the relevant Region Control Manager of Network Rail, and prevention or restriction of access to the track or a section of the track shall have the meaning given to that term in paragraph 1(a)(i) of Schedule 10.3 (Force Majeure and Business Continuity);
Small and Medium-sized Enterprises or SMEs	means any individual micro, small or medium sized enterprise meeting the requirements set out in EU Recommendation 2003/36 and broadly falling into one of three categories, based on a combination of: (a) the number of employees; and (b) either its turnover or its balance sheet total; The three categories are: **Company category** / **Employees** / **Turnover or** / **Balance sheet total** Medium / <250 / ≤ €50m / ≤ €43m Small / <50 / ≤ €10m / ≤ €10m Micro / <10 / ≤ €2m / ≤ €2m
Specification	the requirements of the Delivery Plans and Sub-Plans as set out in Section 5 (Detailed Bid submission requirements - Delivery Plans) (as applicable), or the relevant parts thereof (as the context may require);

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Term	Meaning
Specimen Scheme	means the Committed Obligations set out in Part 1 (Committed Obligations) of Schedule 6.2 (Committed Obligations);
SQS Benchmark	means any of a SQS Station Benchmark or SQS Train Benchmark (as the context may require);
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;
Start Date	means the time and date stated in the Certificate of Commencement as being the time at and date on which the Franchisee is to commence operating the Franchise Services, which shall either be: (a) 02:00 on 15 October 2017; or (b) such later time and date as may be notified to the Franchisee by the Secretary of State pursuant to: (i) Clause 4.2 of the Conditions Precedent Agreement; or (ii) Clause 4.3 of the Conditions Precedent Agreement;
Station	means: (a) any station in respect of which the Franchisee has entered into a Station Lease; or (b) any New Station at which the Franchisee becomes the Facility Owner;
Station Access Conditions	has the meaning given to it in the relevant Access Agreement to which it relates;
Station Social and Commercial Development Plan or SCDP	means the Franchisee's station social and commercial development plan in the agreed terms marked SCDP, as such plan may be updated in accordance with the provisions of paragraph 7 of Schedule 1.7 (Stations) of the Franchise Agreement;
Stage 2 Bids	has the meaning given to it in subsection 7.2.2.2;
Sub-Plan	those plans as set out in the column headed 'Sub-Plan' in Table 5.1 (Delivery Plans and Sub-Plans);
Successor Operator	means a Train Operator succeeding or intended by the Secretary of State to succeed (and whose identity is notified to the Franchisee by the Secretary of State) the Franchisee in the provision or operation of all or any of the Franchise Services including, where the context so admits, the Franchisee where it is to continue to provide or operate the Franchise Services following termination of the Franchise Agreement;
Supplemental Agreement	means a supplemental agreement between the Franchisee and a Successor Operator to be entered into pursuant to a Transfer

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Term	Meaning
	Scheme, being substantially in the form of Appendix 2 (Form of Supplemental Agreement) to Schedule 15.4 (Provisions Applying on and after Termination), but subject to such amendments as the Secretary of State may reasonably make thereto as a result of any change of circumstances (including any Change of Law) affecting such supplemental agreement between the date of the Franchise Agreement and the date on which the relevant Transfer Scheme is made and subject further to paragraph 3.2 of Schedule 15.4 (Provisions Applying on and after Termination);
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 6.3.8.1and 6.3.8.2, respectively;
Sustainable Development Strategy or **SDS**	means the Franchisee's strategy for sustainable development for the Franchise as agreed or determined pursuant to paragraph 10.1(b) of Schedule 13.1 (Rail Industry Initiatives) including as a minimum: the matters listed in paragraph 10.1(a) of Schedule 13.1 (Rail Industry Initiatives), key aims, resources, risks and details of how sustainable development will be embedded in the governance of the Franchise and investment decisions (as revised from time to time);
Target Date(s)	has the meaning given to it in subsection 5.6.19);
Taxation	means any kind of tax, duty, levy or other charge whether or not similar to any in force at the date of the Franchise Agreement and whether imposed by a local, governmental or other competent authority in the United Kingdom or elsewhere;
Tests	has the meaning given to it in subsection 6.10 (Updating of PQQ financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s));
Ticketing and Settlement Agreement	means the Ticketing and Settlement Agreement dated 23 July 1995 between RSP, the Franchisee and the other Train Operators named therein, as amended from time to time with the approval of the Secretary of State;
Timetable	means the timetable which reflects the working timetable issued by Network Rail at the conclusion of its timetable development process, containing the departure and arrival times of: (a) all Passenger Services which call at Stations and/or Franchisee Access Stations; and (b) principal Connections at those stations and other stations;
Timetable Planning Rules	has the meaning given to it in the Network Code;
Total Capacity	The number of seats plus the number of passengers standing;
Track Access Agreement	means each Access Agreement between Network Rail and the Franchisee which permits the Franchisee to provide the Passenger Services on track operated by Network Rail;
Train Fleet	means:

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Term	Meaning
	(a) the rolling stock vehicles described in or required by Schedule 1.6 (The Rolling Stock); and (b) any other rolling stock vehicles the Secretary of State consents to in accordance with paragraph 3 of Schedule 1.6 (The Rolling Stock);
Train Operator	means a franchisee or franchise operator, either of which operate railway passenger services pursuant to a franchise agreement or a Public Sector Operator;
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 Period in accordance with the Franchise Agreement
Train Service Requirements or TSR	means the train service requirement more particularly described in paragraph 9 of Part 2 (Service Development) of Schedule 1.1 (Franchise Services and Service Development) as such train service requirement may subsequently be amended or replaced in accordance with Schedule 1.1 (Franchise Services and Service Development);
Train-to-Internet Connection	means the IP data connection between the train installed equipment and the internet, typically provided through aggregating commercially operated mobile network operators' data services, and potentially supplemented by alternate private network solutions such as Wi-Fi or unlicensed wireless networks at key locations;
Transfer Scheme	means a transfer scheme made by the Secretary of State under Section 12 and Schedule 2 of the Railways Act 2005 (or equivalent statutory provision) pursuant to paragraph 3.1 of Schedule 15.4 (Provisions Applying on and after Termination), being substantially in the form of Appendix 1 (Form of Transfer Scheme) to Schedule 15.4 (Provisions Applying on and after Termination), but subject to such amendments as the Secretary of State may make thereto as a result of any change of Law affecting such transfer scheme or other change of circumstances between the date of the Franchise Agreement and the date on which such scheme is made;
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;
Transport for London or TfL	means Transport for London as established under the Greater London Authority Act 1999;
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;
User	shall have the meaning given to it in the Station Access

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Term	Meaning
	Conditions;
Value	means at any time the aggregate of the Projected Revenue of each Fare in a Fares Basket at that time;
Value Added Tax or VAT	means value added tax as provided for in the Value Added Tax Act 1994;
Weekday	means any day other than a Saturday, a Sunday or a Bank Holiday;
West Midlands Rail	means West Midlands Rail Limited (No. 08991160) whose registered office is at 16 Summer Lane, Birmingham B19 3SD;
WMR	means West Midlands Rail, a partnership of local transport authorities that plans to gain greater influence and control over local rail services from 2017, leading to the creation of a fully devolved West Midlands Rail Contract;
Worked Examples	has the meaning given to it in subsection 6.7.2;
Year 9 Assumptions	has the meaning given to it in subsection 6.3.9.9

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A2. Appendix 2: Not used

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A3. Appendix 3: Risk Adjustment Process

A3.1 **Introduction**

A3.1.1 This Appendix 3 summarises the approach that the Department will adopt in Bid risk adjustment.

A3.1.2 All Department 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 data 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.

A3.1.3 The Department will not risk adjust a Bid if, by taking into account all relevant information available to it, it concludes that the evidence that is presented in the Bid is sufficiently credible to convince it that there is not a material risk of a materially different financial outcome.

A3.1.4 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 so 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**

A3.2.1 Subject to subsections A3.1.2-A3.1.4, 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

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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 4.13.2 (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.

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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 if, after taking into account the Parent Company Support and the Materiality Threshold in accordance with subsection 7.6.1 (Financial Robustness Test), the Proposed Risk Adjustments would not result in the Bidder being projected in its Risk Adjusted Financial Model to breach the Financial Ratios 1.050:1 at any point during the Core Franchise Term. In such circumstances, the risk adjustment process will have no impact on the outcome of the evaluation of the relevant Bidder's Bid.

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 Risk Adjusted Financial Model.

A3.2.2 The Department reserves the right only 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.

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A3.3 **Approach to determining adjustments**

A3.3.1 Subject to subsections A3.1.2 to A3.1.4, this subsection describes the approach to determining risk adjustments to factors such as:

i. Revenue forecasts from Initiatives;

ii. Exogenous revenue forecasts; and

iii. Operating, financing and capital cost forecasts.

A3.3.2 Where the Department identifies in its reasonable view a material risk of a materially different financial outcome from that projected in the Bidder's Modelling Suite, whether with respect to cost or revenue, it may either risk adjust 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 £1,000,000 (2017/18 prices) in any given Franchisee Year or no more than £5,000,000 (2017/18 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.

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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 Risk adjustments may be made in respect of any of a Bidder's exogenous revenue 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 The Department will risk adjust exogenous factors to its reasonable view of the most credible outcome, considering one or a range of sources of forecasts, and it may also include new forecast data released after the issue of the ITT. The Department's 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 v5.1 (except for fares, for which PDFH v4 will be used and for car costs and journey purpose/ticket type mapping, where PDFH v5.0 will be used);

ii. Rail demand forecasting guidance recommended by WebTAG;

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.

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A 3.4.4 The Exogenous Forecasts include: 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. Exogenous revenue factors comprise those drivers of passenger demand that are not within the control of the Department or the Franchisee, such as factors relating to the economy, population, employment, land use and competition from other operators or other modes of transport, including the Exogenous Forecasts.

A3.4.6 The Department requires Bidders to provide a credible forecast for total opening revenue with their tender return. This total opening revenue forecast should be for the full year 2017/18 with a detailed explanation of how the values for the first stub year of the franchise have been forecast. The forecast revenue for the full year 2017/18 should also be reconciled to the actual revenues reported in London Midland's period [6] management accounts which will be made available in the Data Site during the bidding period. These reconciliations should be provided in the Record of Assumptions. The Department will consider both the credibility of the forecast provided by the Bidder (taking into account the latest management accounts data available and the reconciliations 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.

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A3.5.2 Subject to subsection A3.1.4, in determining any risk adjustment, the factors that the Department will take into account may include, but shall not necessarily be limited to:

i. The demand forecasting guidance in PDFH v5.1 (except for fares, for which PDFH v4.0 will be used and for car costs and airport GJTs for which PDFH v5.0 will be used, and for journey purpose/ticket type mapping PDFH v5.0 will be used);

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 A3.1.4, 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

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provided by the Bidder or another Bidder), in which case it will revise its assumptions accordingly; and

ii. Where costs depend on Bidder Initiatives or management action, the Department will make an assessment in accordance with subsection A3.6.3.

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; and

iii. Any analysis provided by another Bidder with its Bid, to the extent that it is relevant and credible.

A3.7 **Examples of risk adjustments**

A3.7.1 This subsection A3.7 (Examples of risk adjustment) provides examples of risk adjustments. Both the nature of the Initiatives described, and the types of adjustments set out, should be considered as illustrative only. The Department will undertake risk adjustments in accordance with the principles described in this Appendix 3 (Risk Adjustment Process) and these examples should not be taken to limit how the Department will undertake this.

A3.7.2 A revenue protection Initiative is proposed in order to increase passenger revenue. This Initiative includes purchase of new equipment which, together with additional revenue protection staff and improved processes such as revised deployment of revenue protection officers, is projected to achieve a reduction in ticketless travel and therefore an on-going increase in revenue with no change to the quantum of passengers actually travelling. Risk adjustment could be appropriate, for example:

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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;

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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

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historic returns from marketing and references evidence, for example, from the PDFH/Passenger Marketing Handbook. The Bidder also details the historic 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 historic levels of wage growth for similar Train Operating Companies including the incumbent operator. The Bidder does not provide evidence that its

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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 oncosts. 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 A Bidder proposes replacing a portion of the existing rolling stock fleet with new trains. The new trains will have higher quality interior standards, enjoy new facilities such as real time customer information and improved security, have enhanced ride quality and contain features such as air conditioning and Wi-Fi. Risk adjustment could be appropriate if, for example:

i. The costs assumed to bring the new trains into passenger service, including transition costs could be considered unrealistically low, and risk adjustment(s) could be applied to increase the costs assumed accordingly; or

ii. The timing of implementation could be considered to be unrealistically ambitious, for example there may be insuffient time allowed to build, test and accept the trains and risk adjustment(s)

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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.

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