



Department  
for Transport

## South Western Franchise

### Invitation to Tender

June 2016

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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 Regulation (“**ORR**”) include, where appropriate and unless the context otherwise requires, references to those bodies’ predecessors and successors. References in this document to a “**Bidder**” means those entities who pre-qualified to Bid for the South Western Franchise following the process set out in the Franchise Expression of Interest and the Franchise Pre-qualification Process Document published on 26 November 2015.

### 1.2 Form of Contract

1.2.1 This ITT invites Bids from Bidders in respect of a service concession contract (as that term is defined in the Concession Contracts Regulations 2016). This ITT forms part of a competitive procurement conducted in accordance with relevant legal requirements including Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road and repealing Council Regulations (EEC) Nos 1191/69 and 1107/70 (“**Regulation (EC) 1370/2007**”). This procurement will be conducted in line with the applicable general principles of EU law and the requirements of English law. It will be awarded on the basis of the most economically advantageous tender, determined in accordance with the evaluation criteria and methodology specified in Section 7 (Evaluation Criteria and Methodology).

### 1.3 Exceeding the Department’s requirements

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

- a) By offering Bidders the opportunity to meet (and, where appropriate, exceed) the Department’s minimum requirements for the South Western Franchise (“**South Western**”, “**SW**” 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 South Western Franchise are made through AWARD (as described further in subsection 3.9 - Bidder clarification questions). No other methods of communication are permitted unless agreed with the Department in advance. For the purpose of this ITT, "**Associated Entity**" shall have the meaning given in the Franchise Letting Process Agreement ("**FLPA**") between the Bidder and the Secretary of State in respect of the South Western competition.

## **1.5 Structure of this ITT**

1.5.1 This ITT provides:

- a) The scope and objectives of the South Western Franchise (Section 2 - Scope and objectives);
- b) Information and instructions to Bidders (including instructions on how to access the detailed information available regarding the South Western 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);
- e) Detailed Bid submission requirements – Financial (Section 6 - Detailed Bid submission requirements – Financial); and



- f) The evaluation criteria and methodology to be applied to the Bids that are received (Section 7 – Evaluation criteria and methodology).

## **1.6 Other documents**

- 1.6.1 For the purpose of the South Western competition, this ITT replaces and supersedes in their entirety both the Rail Executive - Passenger Services documents “**Franchise Competition Guide**” published on 4 February 2016 and South Western Franchise Competition Prospectus published on 26 November 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 South Western Franchise**

- 1.8.1 The Department's aim is for the new South Western Franchise to commence operations with effect from 02:00 hrs on 25 June 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 given to them in the draft Franchise Agreement provided with this ITT.

## Section 2: Scope and Objectives

### 2.1 Scope of the South Western Franchise

2.1.1 The South Western Franchise comprises the Franchise Services set out in the Franchise Agreement.

### 2.2 Franchise Objectives

2.2.1 Table 2.1 shows the Franchise objectives as described in the South Western Franchise Competition Prospectus.

**Table 2.1** *Franchise Objectives*

The Franchise objectives are to deliver better services for passengers, and greater benefits for stakeholders, whilst becoming more efficient. In particular, the objectives for the franchise are to:

- **support the economy of the South Western franchise area** by offering high quality rail services to, from and across the franchise with service levels that reflect the specific requirements of the different markets served, including non-London, intra-regional, and London-radial flows, while working within the affordability constraints on public funding;
- **increase capacity to meet current demand and future growth**, supporting the delivery of planned infrastructure works and rolling stock investments, whilst minimising disruption to passengers;
- **deliver an excellent experience for passengers** which leads to significantly improved passenger satisfaction. Particular consideration should be given to innovative solutions to improving the ticket purchasing experience, the expansion of smart ticketing, the quality of the station environment, on-train facilities, the punctuality and reliability of train services and the commitment to improve compensation arrangements;
- **secure whole industry efficiencies and help reduce overall industry costs** by working in partnership across the rail industry;
- **secure short, medium, and long term benefits** from collaborative working practices and partnering with industry stakeholders such as Department for Transport, Network Rail, and Transport for London, including supporting the development of emerging schemes such as Crossrail 2;
- **work with stakeholders to support local communities** to deliver local transport integration, local regeneration and investment in and

around stations through Community Rail Partnerships and other organisations;

- **work with the Isle of Wight Council** to secure a long-term sustainable solution to the future of the Island Line during the course of the next franchise that will enable it to become a more sustainable business; and
- **improve social and environmental sustainability** to reduce carbon emissions, use resources effectively, and build skills and capability within the business and supply chain.

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.

## **Section 3: Information and Instruction to Bidders**

### **3.1 Applicability of this document**

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

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

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

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

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

3.2.4 Steer Davies Gleave, Ernst & Young, and Eversheds are acting for the Department in relation to the award of the South Western Franchise. The advisors do not and will not regard any other person as their client in relation to the award of the South Western Franchise. They are not, and will not be, responsible to anyone other than the Department for providing the protections afforded to their clients or for advising on the contents of this document or any matter referred to in it.

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

3.2.6 Without prejudice to the provisions of the FLPA and the confirmations given in the Form of Tender, the only information provided by the Department which will have any legal effect and/or upon which any person may rely will be such information (if any) as has been specifically and expressly represented and/or warranted in writing to a successful Bidder in the relevant Franchise Agreement or in any other relevant agreement entered into at the same time as the Franchise Agreement is entered into or becomes unconditional. Nothing in this ITT is intended to create a contract between the Secretary of State and any Bidder.

### **3.3 Intellectual property**

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

### **3.4 Industry consultation and disclosure of information in Bids**

3.4.1 Bidders should be aware that, following the submission of Bids, the Department may consult HM Treasury, ORR, Transport for London, Transport Focus, London TravelWatch, Isle of Wight Council, 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 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 paragraph 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) may not be improved as a result of the process set out in this paragraph.

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 paragraph 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 paragraph 3.5.4), the Department will at its sole discretion take any other action it considers necessary and appropriate in the circumstances, including:

- a) Eliminating the Bidder from the competition;
- b) Disregarding the non compliance;
- c) Adjusting the requirements of this ITT, and giving all Bidders the opportunity to adjust or update their Bids to reflect the revised requirements; or

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

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

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

### **3.6 Automatic elimination**

3.6.1 Table 3.2 (Elimination events) lists the events which will trigger the automatic elimination of a Bidder from the Bidding process (and for the avoidance of doubt paragraph 3.5.8 will apply).

**Table 3.2** *Elimination events*

<b>Elimination event</b>
A Bidder uses MOIRA2, its component parts or intermediate outputs for modelling revenue impacts, timetable changes, crowding or any other purpose.
A Bidder is projected in its Risk Adjusted Financial Model to breach the 1.05:1 Financial Ratios (after taking into account any Materiality Threshold) at any point during the Minimum Financial Robustness Period – 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 paragraph 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 South Western pre-qualification process.



### **3.8 Data Site and AWARD**

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

### **3.9 Bidder Clarification Questions**

3.9.1 All BCQs and requests for additional information relating to this ITT, the South Western 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 paragraph 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.

- 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 South Western competition will, in the absence of any extension, be 27 July 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 had and will continue to 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 of

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

- 3.10.2 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 may

involve a second phase investigation) by the CMA or EC in scrutinising the Bids of each Bidder.

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

- a) Whether the award of the Franchise to it would require notification to the EC under EUMR, and, if so:
  - i) Whether the Bidder proposes to request pursuant to Article 4(4) EUMR that the transaction is referred back to the CMA for consideration and how it views the prospects of such a request being accepted; or
  - ii) In the alternative, the likelihood of the CMA requesting referral back of the case to the UK;
- b) The Bidder's reasoned analysis of the likely competition assessment of the transaction, including its assessment of the prospect of clearance in the first phase of any investigation by the CMA and/or the EC (as applicable) together with a description of the analysis undertaken and evidence reviewed by the Bidder in carrying out such assessment;
- c) The strategy which the Bidder will adopt to minimise any delay or substantive issues which will be caused by the need to obtain clearance from the CMA or EC and which may affect the Bidder's ability to operate, or commence the operation of, the Franchise, in accordance with the requirements of the Franchise Agreement and assuming that an award is made to the Bidder. In particular, the Bidder must:
  - i) Explain how it proposes to approach pre-notification discussions with the CMA or, as the case may be, the EC, to ensure the notification is complete and that all necessary supporting evidence is included;
  - ii) Confirm that it will co-operate fully with the EC and/or the CMA during their investigations, in particular by responding promptly to any requests for information;
  - iii) Explain whether or not the award raises any competition concerns including taking into account any existing activities of the Bidder including any tenders;

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

3.11.5 The Department reserves the right to engage with the CMA and it is possible that as part of this ongoing dialogue the Department may wish to disclose to the CMA some of the merger control strategy submitted by the Bidder. In addition, the Department notes that a paper prepared by a Bidder setting out merger analysis and strategy may potentially be disclosable to the CMA as part of the information to be provided by the parties during the CMA's merger review process.

3.11.6 However, the Department acknowledges that early disclosure of certain elements of a Bidder's merger control strategy may be prejudicial to the commercial interests of that Bidder. To deal with this issue, the Department suggests that Bidders consider preparing all or part of their strategy in the form of privileged legal advice. This advice could be provided to the Department on the basis that the Department will treat it as confidential and privileged and will not forward it to a third party without the prior approval of

the Bidder. If the Department wishes to discuss with the CMA an element of a confidential and privileged merger control strategy it will first discuss this with the Bidder, with a view to seeking the Bidder's consent to the disclosure in a form that minimises any potential prejudice to the commercial interests of the Bidder.

- 3.11.7 If a Bidder wishes to follow this approach, the Department requests that the Bidder:
- a) Restricts the information which is included in the confidential and privileged legal advice to that which is most sensitive. Information which is likely to be provided to the competition authorities with the merger notification should not fall into this category;
  - b) Marks the confidential and privileged advice as follows: "Confidential and privileged legal advice - not to be circulated or disclosed"; and
  - c) Submits a shorter standalone high level note marked as "disclosable" which may be disclosed to the CMA. The "disclosable" high level note should set out the Bidder's own assessment of the competition law issues which arise from their proposed operation of the Franchise and how the Bidder intends to resolve these issues.
- 3.11.8 All of a Bidder's competition strategy will be considered by the Department, regardless of whether disclosures are made to the CMA.
- 3.11.9 The Bidder must keep the Department informed of the progress of its notifications to the EC and/or the CMA, including notifying the Department as soon as possible if it becomes aware of the possibility that remedies or a second phase investigation may be required.
- 3.11.10 Bidders must advise the Department as soon as possible if there is any change in the circumstances from the position as outlined in their Bid which may affect the competition clearance process (for example, if the Bidder acquires or divests another transport operation which is relevant to the competition assessment of the Franchise award). If Bidders fail to do so, their Bid will be deemed to be non-compliant.
- 3.11.11 If a Bidder does not provide to the Department sufficient evidence to satisfy the Department that a CMA or EC intervention (including a "phase two" intervention) will not prejudice the ability of:
- a) The Bidder to commence operation of the Franchise on the Department's proposed Start Date;

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

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

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

### **3.12 Regulation (EC) 1370/2007**

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

3.12.2 The Department will review one or more of the leading Bid(s) to ensure that such Bid(s) will not result in overcompensation for the purposes of Regulation (EC) 1370/2007. It is anticipated that this review may include, without limitation the following:

- a) Confirming that the relevant Financial Templates have been populated correctly;
- b) Assessing whether the Bid suggests that the Franchisee will be engaging in commercial arrangements which are inconsistent with normal market practice or market rates (including as a result of trading with Affiliates); and/or
- c) Identifying whether there is any information that is contained within the Bid which indicates either that the operation of the profit share mechanism in the Franchise Agreement will be distorted, or that the Franchisee will be otherwise overcompensated.

3.12.3 As part of the review described in paragraph 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 paragraph 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 paragraphs of the FLPA and the Franchise Pre-qualification Process Document dealing with changes to information and circumstances, including changes in ownership or conflicts of interest, continue to apply.

3.13.2 The Department will carry out the Tests described in subsection 6.10 (Updating of EoI financial and economic standing tests (the "Tests") and submission of updated bond provider letter(s)) on receipt of Bids for all Bidders, and immediately prior to the award of the Franchise for the leading Bidder, on the basis of the most recent financial information.

### **3.14 Variations to the Franchise Agreement**

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

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



infrastructure and services and other relevant financial, economic and technical developments and the implementation of rail policy.

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

### **3.15 Pensions**

- 3.15.1 Bidder's attention is drawn to Schedule 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.

### **3.16 Form of Tender**

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

## Section 4: Explanation of Requirement 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 paragraph shall mean that the Bid is deemed non-compliant, and the provisions of subsection 3.5 (Non-compliant Bids) of this ITT shall apply.

### 4.2 Franchising timetable and process

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

**Table 4.1** *Franchising timetable*

Description	Party Responsible	Planned Date
Submission of Bids	Bidders	By noon on 7 September 2016
Evaluation of Bids, clarification, drafting of Committed Obligations Secretary of State consent and HMT approval to the South Western award	The Department and Bidder(s)	From 7 September 2016
Planned Franchise Award and preparation for commencement of Franchise	The Department and Franchisee	February 2017 – June 2017
Start of Franchise	Franchisee	02:00 hours on 25 June 2017

### 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
<b>1</b>	<b>Main text</b>		
	Schedule of Documents	<p>One electronic copy submitted through AWARD using the Schedule of Documents Template (Attachment H)</p> <p>One electronic copy submitted in CD format</p>	N/A
	Delivery Plan 0 (Bid Summary)	<p>One electronic copy submitted through AWARD</p> <p>One un-priced electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD format</p> <p>One un-priced electronic copy submitted in CD format</p>	20 pages maximum
	Delivery Plans 1-4 as required by Section 5 (Detailed Bid submission requirements – Delivery Plans)	<p>One electronic copy submitted through AWARD</p> <p>One un-priced electronic copy submitted through AWARD.</p> <p>One electronic copy submitted in CD format</p> <p>One un-priced electronic copy submitted in CD format</p>	1000 pages maximum including annexes and appendices
	Letters of Support	<p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD format</p>	10 pages each
<b>2</b>	<b>Financial</b>		
	Operational Models and Financial Model as required by Section 6 (Detailed Bid submission requirements – Financial)	<p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD format</p> <p>PDF of worksheets of Tier 1 Operational Models that directly interface with the Financial</p>	75MB maximum size per Microsoft Excel workbook (See Section 6 (Detailed Bid submission

Part	Areas	Submission Requirements	Size limit
		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 format.	requirements – Financial))
	<p>PDFs of the populated financial templates;</p> <p>Record of Assumptions, required by subsection 6.5 (Record of Assumptions) plus supporting xls sheets where required;</p> <p>Operating Manual, required by subsection 6.6 (Operating Manual);</p> <p>Modelling Best Practice Confirmation, required by subsection 6.8.2 (Modelling Best Practice Confirmation);</p> <p>Financial Structure and Funding Plan, financial adviser’s letter, Parent Company Support and Bonding, required by subsection 6.9 (Financial Structure and Funding Plan);</p> <p>Any other term sheets or financing arrangements for projects;</p> <p>Confirmation of Bond availability, required by subsection 6.9.1 (Bid requirements);</p> <p>Update of financial information to update Financial tests, required by subsection 6.10 (Updating of Eol financial and economic standing tests (the “Tests”) and submission of updated bond provider letter(s)); and</p> <p>ROSCO term sheets required by paragraph 5.9.11(d) (Sub-Plan 2.2 Rolling Stock – evidence Bidders should provide).</p>	<p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD format</p>	None

Part	Areas	Submission Requirements	Size limit
<b>3</b>	<b>Technical Data</b>		
	<p>The following details should be submitted in support of the main text of the Bid submission:</p> <p>The technical data required in Table 5.2 (Operational data required as part of Bids) in the format described in subsection 4.11 (Submission of Bids)</p>	<p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD format</p>	None
<b>4</b>	<b>Legal and compliance</b>		
	<p>Versions (clean and redline mark up against the version of each agreement provided with this ITT or, if subsequently amended, the latest versions uploaded to AWARD) of each of the Franchise Agreement, the Funding Deed, the Conditions Precedent Agreement, Escrow Agreement and any other agreements to be signed as part of the award of the Franchise (together the “<b>Franchise Signature Documents</b>”) with those parts marked ‘Bidders to populate’ completed.</p> <p>Non-compliance statements as required by subsection 3.5 (Non-compliant Bids)</p> <p>Statement of competition matters as required by subsection 3.11 (Competition Matters)</p> <p>FOIA statement if submitted in accordance with subsection 3.10 (Transparency and Freedom of Information)</p> <p>A completed Form of Tender as required by subsection 3.16 (Form of Tender)</p>	<p>One electronic copy submitted through AWARD</p> <p>One electronic copy submitted in CD format</p>	None
<b>5</b>	Schedule of Initiatives (as required by subsection 4.14.3 (Contractualisation))	<p>One electronic copy submitted through the AWARD</p> <p>One electronic copy submitted in CD format</p>	None

- 4.3.2 Table 4.3 lists the Agreed Form Documents required as part of the 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 Form 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 where relevant.

**Table 4.3** *List of Agreed Form Documents*

Agreed Form Documents	ITT Section (where applicable)	Included within page limit?
Initial Sustainable Development Strategy	Sub-Plan 1.1 (Leadership and Sustainability)	Yes
Customer & Stakeholder Engagement Strategy	Sub-Plan 1.2 (Stakeholder Partnering and Devolution) and Sub-Plan 4.1 (Customer Experience and Community Rail)	Yes
Train Services	Sub-Plan 2.1 (Train Services)	No
Draft Community Rail Report	Sub-Plan 4.1 (Customer Experience and Community Rail)	No
Passengers Charter	Sub-Plan 4.1 (Customer Experience and Community Rail)	No
Social and Commercial Development Plan	Sub-Plan 4.2 (Stations)	Yes
Financial Model	Section 6 (Detailed Bid submission requirements - Financial)	No
Record of Assumptions	Section 6 (Detailed Bid submission requirements - Financial)	No

#### **4.4 Page limits, size of text, other formatting**

- 4.4.1 The size of the main text of Delivery Plans 1- 4, including annexes and appendices in accordance with subsection 4.5 (Annexes and Appendices) below, will be limited to 1000 pages.

- 4.4.2 One page constitutes one printed side of A4 with 2cm clear margins all round. For main text the minimum font size to be used will be Arial of a minimum size of 11pt and the font type will be standard (i.e. not 'narrow') with minimum line spacing of 13pt. Bidders are encouraged to use a simple presentation style, avoiding colour photographs and other high cost elements of production as this will not add value to the substance of the Bid. Minimum font size for any text in tables will be Arial and of a minimum size of 11pt (standard, not 'narrow'). There will be no minimum font size set for graphs.
- 4.4.3 Any pages which do not comply with the criteria in paragraph 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 Form Documents that are not included in the page limit where stated in Table 4.3 (List of Agreed Form 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 the size limits described in subsections 4.3 (Structure and format of Bids) and 4.4 (Page limits, size of text, other formatting).

4.5.2 Agreed Form Documents which form appendices to Sub-Plans, as described in Table 4.3 (List of Agreed Form Documents), will be included within the page limit where specified in the table. These Agreed Form 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 Form 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 any requested information which has not been created for the Bid (e.g. company financial reports), but a translation into English must be provided for any requested information submitted in a language other than English and such translation shall not fall within the page limit described in subsection 4.4 (Page limits, size of text, other formatting).

## **4.10 Monetary amounts**

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

## **4.11 Submission of Bids**

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

a) Each CD 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;

- 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 format clearly labelled with the Bidder's name and an index of the contents of each CD. The un-priced CD 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.

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

4.11.3 Bids (both the CD copies to be provided and electronic copies to be submitted through AWARD) must be received by the Department **by 12.00 noon on 7 September 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 file name format shown in the Schedule of Documents Template (Attachment H) which will follow the example format shown below:

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

4.11.5 CD 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 copies of the Bid must be marked 'CONFIDENTIAL - South Western Bid

submission 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 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.

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 The Department reserves the right to negotiate with one or both Bidders and such negotiations may lead to the amendment of previously submitted Bids. The Department additionally reserves the right to request that one or both Bidders amend and re-submit their Bids as appropriate in compliance with new or revised instructions. However, the Department may choose not to exercise this right and therefore 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 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 Period);

- c) Where it contains a commitment to spend a specified amount (an 'expenditure commitment'), clearly set out that amount and what types of expenditure may be counted towards such expenditure commitment (such as capital expenditure, operating expenditure, project management costs etc.), whether the amount is inclusive or exclusive of VAT and the date(s) by which the expenditure will be spent;
- d) Include details of any matters which require that the Initiative is a Contingent Initiative, together with details of the impact of the occurrence of such matters and the identity of any person the Initiative is dependent on;
- e) Cross-refer (where applicable) to the relevant provision of the Franchise Agreement which specifically obliges the Bidder to comply with or perform the relevant Initiative; and
- f) Cross refer to the Record of Assumptions and 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, following the example set out in Table 4.4 (Schedule of Initiatives). 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 including 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 paragraph 4.14.3.6.
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.

#### 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**

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

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

4.14.8 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.

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

announcement is made to the London Stock Exchange, at which the Department will provide feedback on the Bidder's Bid.

**4.15 Voluntary standstill period**

- 4.15.1 The Department intends to run a voluntary standstill period of at least 10 calendar days in respect of this procurement (although it concludes that it is not presently obliged to do so by law) and accordingly the basis of such a standstill process shall be as set out in this ITT or as otherwise advised by the Department to Bidders.



## Section 5: Detailed Bid submission requirements - Delivery Plans

### 5.1 Introduction

5.1.1 Bidders are required to submit five Delivery Plans (the "**Delivery Plans**") as part of their Bids.

5.1.2 Each of the Delivery Plans (other than Delivery Plan 0 Bid Summary) is split into a number of Sub-Plans. A list of the Delivery Plans and their associated Sub-Plans is set out below.

**Table 5.1** *Delivery Plans and Sub-Plans*

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

5.1.3 Details of the Department's requirements for each Sub-Plan are set out in part (A) under each Sub-Plan in this Section 5 (Detailed Bid submission requirements – Delivery Plans).

5.1.4 In order for the Department to assess the extent to which each Bid meets, or, where appropriate, exceeds each of the requirements set out in part (A) under each Sub-Plan, Bidders shall provide relevant and credible evidence that supports their proposals, and the delivery of those proposals, for each Sub-Plan. Such evidence must include, as a minimum (the "**Minimum Evidential Requirements**"):

- 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);

- b) Information which demonstrates the relevance of each Initiative in delivering, or where appropriate, exceeding the requirements set out in part (A) under each Sub-Plan;
- c) A statement of the Net Present Values and annual values of revenues and operating and capital costs associated with each Initiative in respect of which any of these elements exceeds £1,000,000 in 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. A tightly prescribed approach could have the twin effects of inhibiting innovation and conditioning Bidder responses. 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 paragraph 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 (South Western 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).

5.1.8 Bidders must also read the contents of the Franchise Signature Documents provided with this ITT which contain provisions relevant to meeting the requirements specified in this Section 5 (Detailed 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 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 sub-section 3.5. In addition such Initiatives, and any other Initiatives which are contingent on them, will not attract evaluation credit.

5.1.9 Bidders' attention is drawn to subsection 4.7 (Cross referencing) of this ITT.

## **5.2 Residual Value Mechanism**

5.2.1 The Department has developed a residual value mechanism (the "**Residual Value Mechanism**" or "**RV Mechanism**") to promote investment in assets where there is a return over a period greater than the Core Franchise Term. The Residual Value mechanism may be used to promote investment in Sub-Plans 2.2 (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;

- 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 by the end of the fourth Franchisee Year, 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 asset or Scheme is brought into use or such shorter time period equivalent to the useful economic life of the asset (using FRS 101, FRS102 or IFRS accounting assumptions where appropriate to the asset) should that period be less than 15 years (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 Bid;
- i) With the exception of Network Rail Fixture Assets (the requirements for which are described in the Franchise Agreement), the relevant asset or

Scheme (which for this purpose and without limitation includes all related software licences and intellectual property relating thereto) must remain the unencumbered property of the Franchisee throughout the Franchise Term and be capable of unencumbered transfer to the Successor Operator at the end of the Franchise Term (and this principle will apply even where the asset is funded in whole or in part by one or more third parties). This means that, with the exception of Network Rail Fixture Assets, assets which are fixed to property and become the property of the landlord, or any items on rolling stock which become the property of the owner are not capable of inclusion in the RV Mechanism. Bidders may not propose rolling stock under this RV Mechanism;

- j) The relevant asset or Scheme shall be designated as Primary Franchise Asset(s) in accordance with and subject to the Franchise Agreement; and
- k) The Bidder must submit the evidence set out in paragraph 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 sub-section 4.14.3 - Contractualisation); and
- c) May take into account the fact that the RV Mechanism will not apply to the asset or Scheme in all relevant elements of the evaluation (including, without limitation in the allocation of evaluation scores and in the Financial Robustness Test).

5.2.3 Bidders must populate the relevant parts of the Appendix to Schedule 14.6 (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 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.

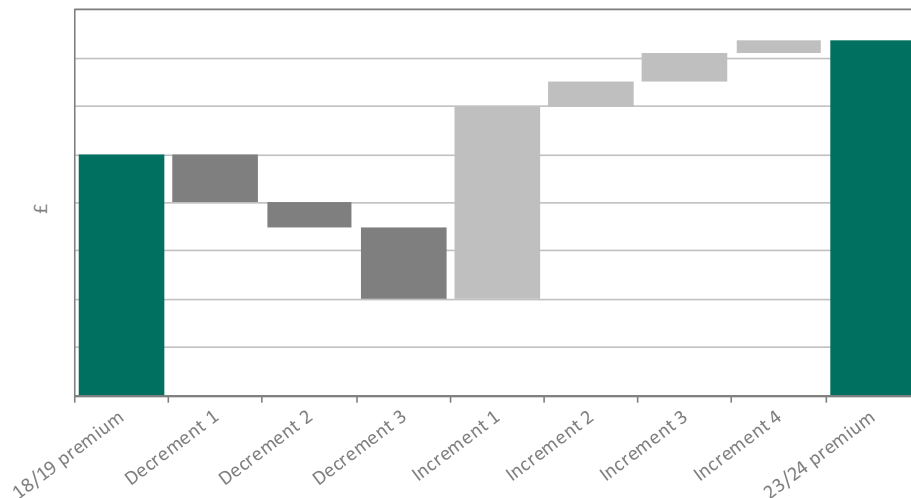
5.2.5 If the Department considers that the evidence supplied by the Bidder is insufficient to justify the inclusion of the asset or Scheme within the RV Mechanism or the transfer value attributed by the Bidder to an asset, the Department may (but it is not obliged to) seek additional information or clarification 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:

- a) The Bidder's overarching strategy and objectives for the Franchise;
- b) The Bidder's view of the market, its opportunities and challenges;
- c) A programme summarising key business activities, including a delivery schedule which shows the dates of:
  - i) Key actions which the Franchisee needs to take in order to deliver the principal Initiatives included in the Delivery Plans;
  - ii) Any significant events that will affect the operations, costs or revenues of the Franchise; and
  - iii) Key risks and how they will be mitigated.
- d) A waterfall chart summarising the changes in revenue and cost (and consequently Franchise premium) between 2018/19 and 2023/24 such that the impact of any significant Initiatives is highlighted. The chart shall only disaggregate factors greater than £15,000,000, and shall be in 2017/18 prices. An example waterfall chart is shown below.

**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, generalised statements about long term trends in subsidy or premium etc.

- 5.3.3 Bidders should be aware that the Bid Summary will not be scored, but, subject to paragraph 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 - Franchise Management**

### **5.5 Sub-Plan 1.1 Leadership and Sustainability**

#### **(A) REQUIREMENT**

- 5.5.1 The Department requires a Franchisee who will embed the Rail Industry Sustainable Development Principles, through its leadership, management and investment in the Franchise, to deliver the obligations and objectives of the business during all stages of the Franchise Term, including by:

- a) Managing the organisation through effective corporate management systems to optimise and improve the cost-efficiency of the business;
- b) Managing staff transfers when making any changes to the business, including complying with its obligations under TUPE and carrying out staff consultation and communication activities, while minimising disruption to staff and services;
- c) Implementing a sustainable procurement strategy that has been independently evaluated by an appropriate third party as being in accordance with BS8903;
- d) Implementing and resourcing a Sustainable Development Strategy in accordance with Schedule 13 of the Franchise Agreement;
- e) Managing the existing pension scheme from the Start Date; and
- f) Supporting the delivery of the Rail Technical Strategy (“**RTS**”), specifically by developing and maintaining a capability to innovate as a Franchisee and promote innovation within their supply chain.

- 5.5.2 The Department requires a Franchisee who has the overall capability to deliver all aspects of the business throughout the Franchise Term, including by:



- a) Employing people in fulfilling, worthwhile and contractually secure roles and creating (where it adds value to the Franchise) new opportunities for employment and careers;
- b) Mapping and developing enhanced management, leadership, succession and skills planning at all levels throughout the organisation;
- c) Increasing the capability of their workforce throughout the franchise term;
- d) Delivering high quality apprenticeships in order to meet the targets specified in the Franchise Agreement;
- e) Supporting the delivery of the Transport Infrastructure Skills Strategy<sup>1</sup>; and
- f) Operating effective systems to identify, monitor, manage and improve occupational health risks, level of staff engagement and morale and support the general wellbeing of the workforce.

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

- a) Implementing systems, including staff training, to control and minimise crime and security incidents;
- b) Assessing and reviewing regularly the security and crime risk to staff across the Franchise; and
- c) Working effectively with British Transport Police (BTP), community groups, local authorities and other agencies.

**B) EVIDENCE BIDDERS SHALL PROVIDE**

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

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<sup>1</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/495900/transport-infrastructure-strategy-building-sustainable-skills.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/495900/transport-infrastructure-strategy-building-sustainable-skills.pdf)

- a) Full-time equivalent staff numbers (split between employees and agency staff) with broad grade, role and location at the Start Date together with an explanation of how the numbers were derived;
- b) Where the Bidder is suggesting any material change in staff headcount during the Franchise Term, the reasons for that change and the way in which it will be managed, highlighting any impacts on operations and customer contact;
- c) Proposed usage of different employment contract types, including explanations for any use of zero hours contracts;
- d) A statement of their assumptions in respect to management of the Franchise pension scheme;
- e) How the operator will develop and improve its innovation capability, including through leadership, employees, systems and processes, and how such progress will be measured;
- f) Separate traction and non-traction energy and carbon trajectories over the course of the Core Franchise Term and any Extension period; and
- g) Plans to ensure appropriate governance, resources and capabilities are in place throughout the life of the franchise to deliver the Sustainable Development Strategy, including senior management incentivisation.

5.5.5 The Department requires a Skills and Leadership Strategy setting out how the Bidder intends to invest in the skills of the workforce throughout the life of the franchise. This should include:

- a) The Bidder's overall strategy for developing a motivated, skilled, diverse and customer-focussed workforce and improving staff morale, health and wellbeing;
- b) The skills gaps the Bidder has identified, providing clear evidence and how they plan to address this skills gap;
- c) The types and levels of apprenticeship the Bidder expects to offer covering new entrants and the upskilling of existing staff;
- d) Any qualifications, training programmes and providers the Bidder intends to use as part of its strategy;
- e) How the Bidder will improve diversity and provide opportunities to people from a diverse range of backgrounds which supports the recommendations of the Transport Infrastructure Skills Strategy;

- f) How the Bidder will collaborate with other industry partners to develop wider industry skills and how the Bidder will promote such activities; and
- g) External funding streams the Bidder has identified to support the activity, including but not limited to the Apprenticeship Levy.

(C) SCORING

5.5.6 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (South Western marking framework and guidance). Without prejudice to the generality of subsection 7.3.5 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

- a) Proposals which will deliver sustainable improvements in the skills and competence of the Franchise workforce;
- b) Proposals which will build skills and competence in the supply chain and/or wider UK rail industry; and
- c) Proposals which deliver (or support third party investment of) significant improvements in environmental impact, including energy efficiency and carbon impacts at route and, where possible, industry level.

**5.6 Sub-Plan 1.2 Stakeholder Partnering and Devolution**

5.6.1 Note: For the purposes of this Sub-Plan ‘stakeholders’ include, without limitation: Network Rail, Office of Rail and Road, Rail Standards and Safety Board, National Skills Academy Rail, other train operators, freight operators, rolling stock leasing companies, Association of Train Operating Companies/Rail Settlement Plan, British Transport Police, Rail Delivery Group, trade unions, National Rail Enquiries, cross-industry bodies, Disability/Accessibility Groups, Community Rail Partnerships, tourism authorities, Local Enterprise Partnerships, Local Authorities, Local Transport Authorities, Transport for London, Passenger Transport Executives, Combined Authorities and the Franchisee’s wider supply chain including Small and Medium Enterprises (SMEs).

(A) REQUIREMENT

5.6.2 The Department requires a Franchisee who will work proactively in partnership with industry stakeholders to develop and deliver initiatives to improve whole-industry cost-efficiency, and to support wider industry

strategies, including improvements to the passenger experience, safety and better strategic planning at industry level and between operators.

5.6.3 The Department requires a Franchisee who will collaborate with Network Rail to improve performance, project delivery and service to passengers.

5.6.4 The Department requires a Franchisee who will work with the Isle of Wight Council and other stakeholders to help develop a sustainable future for the Island Line.

5.6.5 The Department requires a Franchisee who has the capability to manage change within the Franchise in partnership with stakeholders, (including Transport for London) to ensure that any devolution that maybe required is delivered in a way that minimises disruption, maintains passenger experience and ensures a smooth transition.

#### (B) EVIDENCE BIDDERS SHALL PROVIDE

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

- a) The strategy for engagement with stakeholders (making reference where necessary to the Customer and Stakeholder Engagement Strategy) including how the Bidder has understood stakeholder priorities for future improvements in whole industry cost-efficiency, strategic planning, generating additional passenger benefits by addressing the needs, priorities and aspirations of passengers and other stakeholders and how feedback will be acted upon;
- b) The approach to key partnerships and framework alliances with industry stakeholders, and how the Franchisee will maximise effective joint working and provide leadership to ensure that joint programmes and initiatives have positive benefits for customers and the whole industry;
- c) How the Bidder has engaged with Network Rail in the context of this Bid and the development of aligned objectives for the Franchise going forward. This should include proposed areas for joint working and detail the costs and benefits of these proposals. As part of their evidence of this, Bidders shall include a letter from Network Rail setting out their support for relevant elements of the strategy set out in Bids;
- d) The Bidder's approach for the on-going assessment and review of the delivery of collaborative working initiatives throughout the duration of the Franchise;

- e) How the Bidder will partner and collaborate with other organisations, inside and outside the industry, seeking third party funding where appropriate, in order to assist bringing new technologies, processes, business models and products to the rail market, that become viable during the Franchise Term;
- f) How the Bidder will engage with other organisations, inside and outside the industry, to identify and assist in the delivery of infrastructure schemes, seeking third party funding where appropriate; and
- g) How the Franchisee will work with the Isle of Wight Council and other stakeholders to help develop a sustainable future for the Island Line.

(C) SCORING

5.6.7 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (South Western marking framework and guidance). Without prejudice to the generality of subsection 7.3.5 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:

- a) In relation to the requirements described in subsection 5.6.2, a Customer and Stakeholder Engagement Strategy that will deliver significant, wider rail network benefits; and
- b) Proposals for collaborative working including achieving accreditation to BS 11000 'Collaborative Business Relationships' with industry stakeholders.

**5.7 Delivery Plan 2 – Train Services and Performance**

**5.8 Sub-Plan 2.1 Train Services**

(A) REQUIREMENTS

5.8.1 The Department requires a Franchisee who will plan and operate train services which will:

- a) Meet the minimum train service and capacity requirements described in the Train Service Specification (“**TSS**”) contained in Attachment (A) (Train Service Specification) to this ITT<sup>2</sup>. For Bid purposes, Bidders must assume that the timetable they will inherit in June 2017 is the

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<sup>2</sup> If Bidders identify any manifest errors or inconsistencies within the TSS tables, they may raise a BCQ no later than 15 working days after the TSS tables are issued with the ITT. If the Department agrees that an error has been made, it will issue an amended version of the TSS to all Bidders.

same as December 2015. Between December 2017 and December 2018 Bidders must also assume the December 2015 timetable;

- b) Keep engineering, performance and pathing allowances in the timetable to the minimum necessary in order to comply with the Timetable Planning Rules (“**TPRs**”) and meet other relevant requirements of this ITT, thereby maximising opportunities to improve journey times;
- c) Be deliverable within the constraints of the infrastructure (including as regards power supply and level crossing safety risk, and taking account of the infrastructure enhancement schemes described in the Infrastructure and Rolling Stock Information Document (“**IRID**”) plus any further enhancements schemes that the Bidder commits to fund and deliver);
- d) Be timed with sectional running times that are correct for the slowest timed rolling stock deployed on that service; and
- e) Maintain paths for all other passenger and freight operators’ services as they appeared in the December 2015 timetable. Bidders’ timetables may flex these paths to the following extent (but no more):
  - i) Working timetable handover times of the other operator services are unchanged at the boundary of the Wessex route;
  - ii) The flex does not cause a minimum turnaround value of the other operator service to be broken at the Wessex route destination;
  - iii) In the flexed timetable no existing connections are broken at any intermediate station at which the flexed train calls; and/or
  - iv) Public timetable arrival and departure times at any station do not move by more than five minutes, unless by doing so it reduces the amount of pathing time or excess dwell time that exists in the December 2015 path.

5.8.2 The Department requires a Franchisee who will:

- a) Take the lead in identifying and developing proposals to reduce journey times over and above those required by the TSS through timetabling innovations or infrastructure enhancements in addition to those already planned by Network Rail (supported if necessary by deployment of

rolling stock with the technical capability to take advantage of those enhancements); and

- b) Identify ways to overcome the obstacles to successful delivery of worthwhile enhancements, including by working with Network Rail, other passenger and freight operators, and other stakeholders (including potential funders);

- 5.8.3 The Department requires that Bidders provide rolling stock that is able to achieve rapid passenger boarding and alighting at any intermediate station stop between the start and end point of the journey, even with a full passenger load (seated and standing), and with high passenger turnover as experienced at several Main Suburban and Windsor Lines stations. The rolling stock provided must be able to achieve a maximum station dwell time (stop to start) of 45 seconds (or less) at stations where currently the TPR value is 1 minute or more, and 30 seconds at all other stations. This must be achieved no later than December 2020.
- 5.8.4 The minimum seating requirement in any 200m train timetabled to be deployed on either the Main Suburban or Windsor Lines Inner Suburban (via Richmond and Hounslow) services in the peak period is 488.
- 5.8.5 The minimum seating requirement in any 200m train timetabled to be deployed on all other Windsor Line services in the peak period is 540.
- 5.8.6 The Department requires a Franchisee who will identify where there is likely to be demand for services to operate earlier in the morning and/or later in the evening than is permitted by Network Rail's engineering access rules and who will work with Network Rail to find a solution where practicable to meet demand.
- 5.8.7 In addition to the services running to and from London Waterloo, Bidders will be expected to provide short passenger workings over parts of the route where they exist today if otherwise the first departure would be later, or last departure would be earlier, between any two station pairs other than those specified in the TSS.
- 5.8.8 The Department requires a Franchisee who will take a proactive approach to planning for seasonal demand and travel to and from special events and, so far as reasonably practicable, provide the capacity needed to meet that demand.
- 5.8.9 Bidders must not propose First Class provision beyond the routes and services for which this currently exists in the designated peak periods to

and from London Waterloo. Bidders must not provide more First Class seats than:

- a) 690 in the AM Peak Period on the Windsor Lines
- b) 990 in the PM Peak Period on the Windsor Lines
- c) 3880 in the AM Peak Period on the Main Line
- d) 4330 in the PM Peak Period on the Main Line

5.8.10 The Department requires a Franchisee whose timetables and train plans will minimise overcrowding to the greatest extent possible, taking account of the constraints of the infrastructure (and, until December 2020, taking account of the lead times involved in implementing the Bidder's longer term fleet strategy). For clarity, a train is overcrowded if the total load is in excess of the total seated and standing capacity, as listed for existing rolling stock in Table 5.3 (Capacities of Rolling Stock for Bidding Purposes).

(B) EVIDENCE THAT BIDDERS SHOULD PROVIDE

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

- a) An overview of the principal proposed changes to train service patterns and rolling stock at any time during the Franchise Term, compared to the December 2015 timetable, to include:
  - i) A description of proposed changes to train service frequency, train service and station calling patterns;
  - ii) A description of proposed train service frequency enhancements over and above the requirements of the TSS;
  - iii) A description of any flexing of other passenger and freight operators' services that has been assumed necessary to deliver a public timetable that is compliant with the TSS. This will be excluded from the page count;
  - iv) A description of any changes to the rolling stock types that are deployed on each route served by the Franchise;
  - v) 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. This will be excluded from the page count;

- vi) A clear explanation of the Train Fleet that will be available during the Franchise Term, and how this may change throughout the Franchise Term;
- vii) A description of any changes in infrastructure functionality that the Bidder is assuming (over and above those described in the IRID) and any changes necessary to the TPRs that would be proposed or required in association with the delivery of Bidders' timetable;
- viii) 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; and
- ix) 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 reliably. 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.

5.8.12 Bidders are also required to provide the information set out in section 5.8.13 to 5.8.30 within a Technical Annex (which is excluded from the page count).

5.8.13 Bidders must provide details of their proposed Train Plan and rolling stock diagrams for the December 2018, and December 2020 timetables.

5.8.14 Timetables

5.8.15 Bidders must provide details of their proposed December 2018 and December 2020 timetables in accordance with the requirements of the TSS for all services (including pathing allowances for other operators and ancillary movements) for the following:

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

c) Sunday (SuO) timetable.

- 5.8.16 Bidders should provide the same timetable information as required under paragraph 5.8.15 for any other year in which a major change is proposed but only in respect of any route(s) on which the major change is proposed.
- 5.8.17 Bidders must provide SX timetables in both working timetable and public book format. Bidders must also provide SO and SuO timetables in public book format. It is not necessary for Bidders to submit full working timetables for SO and/or SuO provided that these timetables are the same as the SX off-peak timetable. For this purpose, SO or SuO timetables containing minor timing variants of less than five minutes would be deemed as the same.
- 5.8.18 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 2020 which are not reflected in the timetables provided. Bidders are not required to provide full timetables or rolling stock diagrams to reflect incremental changes, but must describe their proposals and their anticipated impacts in sufficient detail and with sufficient evidence to assure the Department that they are deliverable and can be resourced.
- 5.8.19 The Department requires the Bidders to demonstrate that their proposed timetables and associated rolling stock diagrams comply with the TPRs and can be accommodated at turnaround stations. In particular, the Department requires the Bidders to provide station SX platform working arrangements at the following locations:
- a) London Waterloo;
  - b) Guildford;
  - c) Basingstoke;
  - d) Southampton Central; and
  - e) Portsmouth Harbour.
- 5.8.20 *Schedule of Train Service Formations and Passenger Loading Forecasts*
- 5.8.21 Bidders must supply the proposed schedule of train service formations (Train Plan) for the December 2018 and December 2020 timetables identifying the type and train length of all services that are scheduled to operate consistent with the required time periods and timetables (SX, SO,

SuO). Bidders must use the standard template provided for this purpose in the Data Site.

- 5.8.22 Bidders are required to provide loading data for each leg of the journey for any train arriving at London Waterloo between 07:00 and 10:59, and for any train departing from London Waterloo between 15:00 and 20:59. This is required for a Typical Autumn Weekday, based on:
- a) Their December 2018 Timetable and Train Plan (assuming Autumn 2019 levels of demand); and
  - b) Their December 2022 Timetable and Train Plan, which may be identical to their December 2020 Timetable and Train Plan (assuming Autumn 2023 levels of demand).
- 5.8.23 These loading forecasts shall be derived from the Bidder's crowding model in accordance with Section 6 (Detailed Bid submission requirements – Financial) of this ITT.
- 5.8.24 Rolling Stock
- 5.8.25 Bidders must provide their proposed rolling stock diagrams for all train services to be operated on a Typical Autumn Weekday, and a table showing the percentage fleet availability assumed for each rolling stock type (using the standard template provided on the Data Site).
- 5.8.26 Additional Data Requirements
- 5.8.27 Any changes to the Engineering Access Statement and signal box opening hours that have been assumed (with supporting evidence, including the views of Network Rail).
- 5.8.28 A list of any additions to the geographic scope of the Franchise (as stated in Schedule 1.6 of the Franchise Agreement) that would be needed to operate the Bidder's proposed train service. Such additions are permissible only if they have been approved by the Department in response to a confidential BCQ raised by the Bidder during the Bid phase<sup>3</sup>. A Bid that includes additions to the geographic scope that have not been so approved will be treated as non-compliant.

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<sup>3</sup> In considering such BCQs, the Department will consider the extent to which the proposal addresses a clear priority for passengers and/or other stakeholders; the likelihood of generating additional passenger demand (as opposed to transferring demand and revenue from one operator's service to another's); the extent to which the SW franchisee would be better placed than other franchisees to satisfy that demand; and the likely impact of the proposed services on other operators' services (for example in relation to train service performance). The Department will only agree to changes in geographical scope where those changes do not put the Department in breach of any laws.

5.8.29 Further Instructions

5.8.30 Further information about the format of these evidential requirements is set out in Table 5.2 (Operational data required as part of Bids).

**Table 5.2: Operational data required as part of Bids**

ITEM	TIME PERIOD(S)	NOTES	FORMATS
Overview of train service proposals	-	As described in paragraph 5.8.11 above, the overview itself is to be included within the Delivery Plan.	
Technical Annex		The Technical Annex is to be contained in a separate document and does not count towards the page count.	Technical Annex: Word and PDF
Timetables	Dec 18 and Dec 20 and any other significant changes	<p>All services (SX, SO, SuO). To include paths allowed for other operators' services, as a minimum during the period SX 07:00-19:59 (and SO in any instance where the Bidder proposes a higher service frequency than SX).</p> <p>It is not necessary for Bidders to submit full Working timetables for SO and/or SuO if the timetable is the same as the SX off-peak. Minor timing variants of less than five minutes would be deemed as the same.</p>	PDF (Public and Working timetables) plus PIF and SPG technical interface files
Platform working arrangements	Dec 18 and Dec 20 and any other significant changes	SX only	Excel

Train Plan and loading forecasts	Dec 18 and Dec 22	Each leg of any SX services arriving into London Waterloo between 07:00 and 10:59  Each leg of any SX services departing from London Waterloo between 15:00 and 20:59  First Class provision must be clearly shown. First Class and Standard Class demand to be shown as total demand.	Excel (template on Data Site)
Rolling stock diagrams	Dec 18 and Dec 20	For a Typical Autumn Weekday.	PDF + Excel or machine readable Word
Fleet availability table	Dec 18 and Dec 20	Table to cover SX, SO, SuO	Excel (template on Data Site)
Train Fleet table	Throughout Franchise Term	-	Excel (template on Data Site)

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

- a) The extent to which the Bidder's proposed timetables comply with Version 4.3 of the 2016 TPRs (including sectional running times), taking into account the changes to those rules identified in Network Rail's Timetable Principles Document;
- b) The credibility of evidence provided by the Bidder (including any evidence of Network Rail's views) that supports the sectional running times used in the preparation of their timetables, where these are different from those published by Network Rail in B Plan; and
- c) The credibility of evidence provided by the Bidder (including any evidence of Network Rail's views) to justify any departures from the TPRs.

(C) SCORING

- 5.8.32 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (South Western marking framework and guidance). A Bidder that scores below 4 in this Sub-Plan will result in the Bid being treated as non-compliant.
- 5.8.33 Without prejudice to the generality of subsection 7.3.5 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below:
- a) Bids that, taking the train service proposition in the round, generate additional passenger benefits by addressing the needs, priorities and aspirations of passengers and other stakeholders that the Bidder has identified in any of the following areas:
    - i) Providing additional train services on routes where, and at times when, there is likely to be significant passenger demand for such enhancements which could include earlier first trains or later last trains than required by the TSS, as well as enhanced frequencies or journey time improvements, during the week, on Saturdays, and particularly strong proposals for enhanced Sunday services. Commitments to operate additional services may be made on a time-limited or experimental basis if supported by a commitment to review and report to the Secretary of State on passenger loadings and associated costs and revenues, though time-limited commitments will receive less weight in the evaluation of this Sub-Plan than equivalent commitments that apply throughout the Franchise Term;
    - ii) Delivering specified train service enhancements or capacity increases earlier in the Franchise Term than required by the TSS;
    - iii) Delivering capacity over and above the requirements of the TSS; and
    - iv) Providing new direct services between origins and destinations (over and above those specified in the TSS) for which the Bidder demonstrates that there is likely to be significant passenger demand.

- b) Bids that include commitments to funding for line speed improvements, platform extensions or other infrastructure works that will deliver passenger benefits and/or increase franchise value beyond the franchise term (over and above those included in the IRID or Network Rail's latest Enhancements Delivery Plan);
- c) Bids that include particularly strong commitments to embed, within the Franchisee's timetable development processes, cooperation and joint planning with other operators to ensure connecting services are well timed (and adjusted where necessary to reflect changes in other operators' timetables);
- d) Bids that reduce environmental impact and impose less wear and tear on the fleet and infrastructure through ensuring services are operated at train lengths commensurate with passenger demand outside peak specified minimum capacity periods; and
- e) 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 could include the implementation of Driver Controlled Operation (DCO). 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 of the professional skills of on-train staff, in particular in relation to the on-board customer service passengers attach most value to.

5.8.34 For the avoidance of doubt, any proposals for new or enhanced services, increased capacity or enhanced journey times may be considered to exceed the above requirements only if, in the Department's reasonable opinion, the Bidder has demonstrated that:

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

5.8.35 Offering additional services that do not meet the criteria in paragraph 5.8.34 can be expected to result in a lower Final Score, as they will have no

positive impact on the quality score (Q) but the costs of operating those services will have an adverse impact on their Bid price (P). Appendix 3 (Risk Adjustment Process) may also be applicable in this context.

#### (D) CONTRACTUALISATION OF TRAIN SERVICE PROPOSALS

- 5.8.36 The Department will prepare amended versions of the TSS to reflect the positive features of one or more train service proposals from the Bidder that the Department wishes to contract.
- 5.8.37 The Department may also include peak capacity metrics that are expressed in seats and/or total capacity, rather than train metres, which the Department would base on the Bidder's train plan.
- 5.8.38 In association with its Technical Advisors (as appropriate), the Department may consult or otherwise involve the Bidder(s) in this process.
- 5.8.39 The Department will issue the amended TSS 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 mark-up. If the Bidder is not prepared to do so, subsection 7.7 (Evaluation of Financial Robustness) shall apply.

#### **5.9 Sub-Plan 2.2 Rolling Stock**

- 5.9.1 Bidders may propose assets to be funded by the Residual Value Mechanism under this Sub-Plan. Bidders may not propose rolling stock under this RV Mechanism.

##### (A) REQUIREMENTS

- 5.9.2 The Department requires a Franchisee who will implement a rolling stock fleet solution, supported by depot, maintenance, stabling and train presentation strategies, that together:
  - a) Deliver the train service proposals set out in Sub-Plan 2.1 (Train Services);
  - b) Meet the operational performance benchmarks in Schedule 7.1 and Customer Service and Train NRPS benchmarks relating to trains as set out in Schedule 7.2 in the Franchise Agreement;
  - c) Apply continuous monitoring, assessment and improvement processes to drive efficiency and effectiveness; and



- d) Comply with the additional requirements set out in section (E) (Further instruction as to Rolling Stock).

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

- a) Is compatible with the technical and operational constraints of the infrastructure throughout the Core Franchise Term and any Extension Period, as provided by the IRID and any further infrastructure enhancement schemes that the Bidder commits to fund and deliver;
- b) Provides interior layouts and seating configurations best suited to the routes and markets served, striking an appropriate balance between providing sufficient seats for longer-distance passengers and enabling shorter-distance peak passengers who cannot obtain a seat to stand in reasonable comfort;
- c) Meets the Minimum Wi-Fi requirements set out in Schedule 13.1 (Rail Industry Initiatives) of the Franchise Agreement from 31 December 2018 (with the exception of the Island Line);
- d) All toilets provided on the Franchisee's trains must be fitted with Controlled Emission Toilets (CET) that do not discharge effluent or grey water onto the tracks and have sufficient tank capacity for the Passenger Services to which the rolling stock is to be deployed (taking account of the intervals between CET emptying); and
- e) Any new rolling stock is fitted by no later than 31 December 2020, with enhanced passenger information systems in each carriage that include (in addition to relevant regulatory requirements) the capability to:
  - i) Acquire and display (in a user-friendly format) real-time travel and delay information, including estimated arrival times at calling points, information on connecting rail and bus services where relevant, and summaries of departures from major stations, e.g. Waterloo;
  - ii) Interface and integrate with other remote information systems (including systems providing real-time information about onward connections by rail and other modes, and where applicable on-train passenger loading measurement and SDO systems); and

- iii) Display information from those systems that is relevant to passengers' journeys.

5.9.4 The Department requires a Franchisee that, as soon as reasonably practicable, is able to measure and monitor fuel use to enable improvements in fuel usage, through on train fitment or an alternative process. In the case of electric traction, the Franchisee should become a Metered Train Operator as set out in Schedule 1.6 (The Composition of the Train Fleet) of the Franchise Agreement. The Franchisee must implement such systems and processes as are necessary to enable diesel fuel consumption to be measured and monitored on a journey-by-journey basis.

5.9.5 The Department requires a Franchisee who will lease the vehicles within the current franchisee's Train Fleet that are covered by section 54 agreements, at least until the date on which those agreements expire. The relevant fleets and expiry dates are identified in Schedule 1.6 of the draft Franchise Agreement.

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

- a) Metering and management of energy consumption, including plans for the measurement and verification of any efficiency measures adopted;
- b) Improving energy efficiency (e.g. retrofitting new efficiency technology, supporting reduction of ECS movements);
- c) Providing a traction energy and carbon trajectory over the course of the Core Franchise Term and any Extension Period; and
- d) Measuring and improving the environmental performance of rolling stock, depots and stabling locations. Plans should include the approach to improving energy efficiency, renewable energy generation, water and waste management over the course of the Core Franchise Term and any Extension Period.

5.9.7 The Department requires a Franchisee who will support the development of European Train Control Systems ("**ETCS**") and who will, in addition, ensure that passive provision for the future installation of on-train ETCS equipment is included within the design of any brand-new trains to be introduced into the Franchise and, where applicable, within any plans to refurbish other trains comprised within the Train Fleet.

- 5.9.8 The Department requires a Franchisee who will develop a quantified strategy for improving the energy efficiency arising from rolling stock operations and maintenance and meet the targets and reporting requirements specified in Schedule 11.2 of the Franchise Agreement.
- 5.9.9 The Department requires a franchisee who, when 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.
- 5.9.10 Any new-build rolling stock must be fitted with the equipment necessary to enable the trains to be operated in Driver Only Operation (DOO) in Passenger mode.

(B) EVIDENCE BIDDERS SHOULD PROVIDE

- 5.9.11 In addition to the Minimum Evidential Requirements, Bidders' responses shall cover as a minimum:
- a) Their proposed fleet strategy, to include:
    - i) An explanation of how the composition of the Train Fleet is proposed to change over the course of the Franchise Term;
    - ii) How the introduction of 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;
    - iii) Evidence that their proposed fleets will be compatible with the technical and operational capabilities of the infrastructure; and
    - iv) A summary fleet plan using the Excel templates provided to Bidders in the Data Site.
  - b) Their proposed depot, maintenance, stabling, and train presentation strategies (including plans for financing and delivering any significant investment in upgrading depot and stabling facilities in order to support those strategies);
  - c) A clear plan as to how the Franchisee will continue the introduction of the Class 707 fleet and any new or cascaded rolling stock into passenger service;

- d) Bidders must provide Term Sheets for any rolling stock forming part of the Bidder's Train Fleet within the Franchise and evidence to support proposals for new build rolling stock (including any offer letters from manufacturers including new build project plans, maintainers including the detail 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). For clarity the maintenance reserves apply to new build rolling stock and existing fleets. These will be excluded from the page count;
- e) Demonstration of deliverability of fleet programmes, including (if proposed) refurbishment, and the impact on fleet availability during their implementation;
- f) Details of potential key suppliers on whom the Franchisee will depend to maintain, clean and (if proposed) refurbish the Train Fleet;
- g) Plans for how and when modifications will be delivered (any consequent impacts on passenger services should be detailed in Sub-Plan 2.1 (Train Services) and cross referenced here);
- h) 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 Core Franchise Term and any Extension Period, including plans for hardware replacement where required due to failure or obsolescence;
- i) Details of how the Franchisee will work with relevant fleet owners to minimise operational disruption from, and ensure timely completion of, any necessary rolling stock enhancement works required (e.g. compliance with accessibility requirements in the Railways Interoperability Regulations 2011);
- j) Where fleet cascades are part of the rolling stock fleet solution, whether external or internal, Bidders shall set out how the cascades will be managed and what mitigation they would use should the incoming cascaded stock be delivered later than has been assumed; and
- k) If the Bidder's proposed Train Fleet includes vehicles that at the time of issuing this ITT are in operation, or are planned to be brought into operation, on another franchise (and also see Section (E) below):

- i) An explanation of their reasons for being confident that the current or successor operator of the 'donor' franchise will be able to secure sufficient suitable alternative rolling stock to continue to operate their train services to current standards and not worsen the quality of the passenger facing facilities;
- ii) Details of how any cascades into the Franchise will be managed; and
- iii) An explanation of what mitigation the Bidder would use should the incoming cascaded stock be delivered later than assumed in the Bid (bearing in mind the provisions relating to Cascaded Rolling Stock in Schedule 2.2 of the Franchise Agreement) or in an unsatisfactory condition. This must include identification of the alternative rolling stock that the Bidder would lease in the event of the Secretary of State requiring the rolling stock to be leased back to the donor franchise under Schedule 2.2.

(C) SCORING

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

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

- a) Initiatives to enhance the 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) of the Franchise Agreement are likely to be significantly exceeded;
- b) Initiatives to enhance the quality of the Train Fleet substantially beyond the requirements set out in section (A) above;
- c) Initiatives to develop, test or implement new and emerging technologies within the Train Fleet, where such technologies have clear potential to benefit the Franchise and its passengers and could be transferable to the wider rail market (e.g. modern information management systems such as remote condition monitoring, automatic vehicle inspection and condition based maintenance);

- d) Initiatives to fit air conditioning or air cooling to those vehicles that are not already fitted (where technically feasible and where power limitations permit) that are designed to operate effectively and reliably within the range of ambient temperatures normally experienced across the Routes;
- e) Initiatives to give passengers the ability to charge their mobile devices e.g. fitment of power sockets and/or USB ports for new fleets to be procured, or as soon as reasonably practicable for rolling stock that undergoes a refurbishment, subject to the installation being technically feasible, power limitations permitting and not disproportionately expensive;
- f) Proposals to reduce cost by developing innovative rolling stock financing mechanisms that deliver a better solution for passengers (but recognising that Bidders must not assume the provision of any new guarantees under Section 54 of the Railways Act 1993);
- g) Initiatives to improve whole industry cost efficiency such as working with Network Rail to reduce the impact of rolling stock on infrastructure, enable efficient and safe monitoring of infrastructure or provide additional data (e.g. GPS data) that is of practical benefit to Network Rail;
- h) Initiatives to deliver state of the art customer and operator facilities, services and benefits, through integration of on board and trackside people / process / and technology solutions, with such equipment and systems being capable of cost efficient upgrade, such as:
  - i) Integrated train to shore passenger / customer information systems;
  - ii) Vehicle loading and passenger boarding / alighting information over and above the requirements in Schedule 1.5 (Information about Passengers) of the Franchise Agreement; and
  - iii) Voice communication provision on train crew smart phones / tablets;
- i) Initiatives to reduce, in conjunction with the Sub-Plan 2.1 (Train Services), the service impact of fleet performance incidents, network disruption and other operational challenges.

(D) FURTHER INFORMATION

5.9.14 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).

5.9.15 *New-build Rolling Stock*

5.9.16 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).

5.9.17 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):
  - 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) 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 Secretary of State) the net financial effect of the delay to the Franchisee will be assessed. If the net financial effect of the delay is a saving to the Franchisee, then the Franchise Payments will be adjusted in the Secretary of State's favour by the amount of the saving. If the net financial effect of the delay is an increase in the cost to the Franchisee, then the Franchisee will bear the cost; and
  - iii) The assessment of the net financial effect will take account of:

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

5.9.18 Rolling stock capacities – existing fleets and layouts

5.9.19 Table 5.3 (Capacities of Rolling Stock for Bidding Purposes) sets out the standard class capacities of the unit types in the Train Fleet as inherited from the Start Date, and of the Class 707 fleet. Bidders shall assume these capacities for the purposes of their Bids (except insofar as proposals to modify rolling stock interiors will affect capacity).

5.9.20 In some cases the capacities stated below differ from those assumed in the current franchise agreement. They reflect the Department's latest previously assumed, and in particular its assessment of the suitability of certain stock types for the 'metro-style' allowance of 0.25m<sup>2</sup> per standing passenger.



5.9.21 More details of the basis for the capacities of current fleets shown in Table 5.3 are provided below the table.

**Table 5.3: Capacities of Rolling Stock for Bidding Purposes**

<b>Class</b>	<b>Units</b>	<b>Vehicles</b>	<b>Seats (STD)</b>	<b>Standing (STD)</b>	<b>Standing space assessed at (0.xxm<sup>2</sup>)</b>	<b>Total (STD)</b>	<b>First Class Seats</b>
158	11 <sup>4</sup>	22	112	55	0.45m <sup>2</sup>	167	13
159	30	90	174	84	0.45m <sup>2</sup>	258	23
444	45	225	299	152	0.45m <sup>2</sup>	451	35
450	99	396	240	109	0.45m <sup>2</sup>	349	24
450/5	28	112	221	125	0.45m <sup>2</sup>	342	24
455	91	364	238	229	0.35m <sup>2</sup>	467	0
456	24	48	115	111	0.35m <sup>2</sup>	226	0
458/5	36	180	270	279	0.35m <sup>2</sup>	549	0
483	5	10	84	n/a	0.45m <sup>2</sup>	84	0
707	30	150	271	320	0.35m <sup>2</sup>	591	0

5.9.22 Rolling stock capacities – new or reconfigured rolling stock

5.9.23 Where a Bidder is proposing to reconfigure the interior layout of any existing rolling stock covered by the Table above, or to cascade in rolling stock or to procure newly-built rolling stock (other than the Class 707s which are covered in the table above), an assessment will need to be made of the passenger-carrying capacity of that reconfigured, cascaded or newly-built stock.

5.9.24 For the purposes of this franchise competition, the Department is taking a slightly different approach to assessing passenger-carrying capacities. This reflects the experience of how actual peak loadings on existing SW rolling stock compare with the theoretical capacities assumed in the current franchise agreement. This experience indicates that high-density standing (0.25m<sup>2</sup> per passenger) is systematically not achieved on current SW services, and this appears to be a result of a combination of factors

<sup>4</sup> This includes two sub-leased units which will not be available from the Start Date. See paragraph 5.9.37 below.

including very high rates of churn at Clapham Junction, the physical characteristics of the trains, and their internal layouts.

5.9.25 Rolling stock will therefore be assessed by the Department, for the purposes of this franchise competition, as being suitable for standing densities of either 0.45m<sup>2</sup>, 0.35m<sup>2</sup> or 0.25m<sup>2</sup> per standing passenger. The intention is that:

- a) The 0.25m<sup>2</sup> allowance will be admissible 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<sup>2</sup> allowance will be admissible for rolling stock that offers materially improved conditions for higher-density standing compared to 'conventional' 2+2 or 2+3 layouts, but that does not fully meet the conditions required for standing densities of 0.25m<sup>2</sup> per standing passenger. Table 5.3 (Capacities of Rolling Stock for Bidding Purposes) above has assumed 0.35m<sup>2</sup> per standing passenger in respect of the new Class 707 fleet, as well as the Class 455, Class 456 and Class 458/5 fleets; and
- c) The 0.45m<sup>2</sup> allowance will be applied for all other rolling stock.

5.9.26 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<sup>2</sup> or 0.35m<sup>2</sup> per standing passenger will be admissible, but the following indicative guidance may assist Bidders:

- a) To be eligible for 0.35m<sup>2</sup>, 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<sup>2</sup>, the Department would expect to see the above conditions met plus:
      - i) Substantially greater aisle width and/or substantially larger vestibule areas than indicated for 0.35m<sup>2</sup>.
- 5.9.27 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.
- 5.9.28 The seated capacity of any carriage will be assessed by counting the following:
- a) Fixed seats;
  - 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.
- 5.9.29 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 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 (unless first class is to be declassified).
- 5.9.30 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<sup>2</sup> or 0.35m<sup>2</sup>

(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).

5.9.31 In any event, the higher-density (0.25m<sup>2</sup> or 0.35m<sup>2</sup>) allowances will be admissible only where the rolling stock is to be deployed on services for which such layouts are suitable, in particular shorter-distance commuting.

5.9.32 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).

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

#### (E) FURTHER INSTRUCTION AS TO ROLLING STOCK REQUIREMENTS

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

- a) Bidders for future franchise competitions can have reasonable certainty about the diesel rolling stock that will be available to them; and
- b) Any plans for inward cascades into the Franchise do not leave the donor TOC without realistic options to maintain their existing service offer for their passengers.

5.9.35 Where Bidders are contemplating inward cascades of fleets from other Franchises, they are invited to set out their proposals to the Department, via a BCQ, as early as possible in the Bidding process. The Department will consider any such proposals against the impact on the donor franchise, and

may provide a view as to whether the Department is likely to have concerns if the Bidder includes this rolling stock in their proposed Train Fleet. Any such view would be provisional and without prejudice to the Department's evaluation of the Bid once submitted. Such a view would not be communicated to other Bidders, as this may reveal one Bidder's rolling stock strategy to the other Bidders, but it is open to any Bidder to approach the Department on this issue.

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

- a) The rolling stock that is comprised within the South Western Train Fleet at the date of issuing this ITT, other than the two DMUs that are currently sub-leased to East Midlands Trains and Great Western Railway;
- b) Bidders must ensure that the DMU currently sub-leased to Great Western Railway is made available to the current Great Western operator and any subsequent operator of the Great Western franchise through to March 2020. This means that Bidder must:
  - i) EITHER continue to sub-lease one Class 158 unit to the Great Western operator (and any successor) until March 2020. Such a sub-lease must be 'at cost', i.e. with no margin on cost over and above the head lease;
  - ii) OR on the Start Date, release back to the ROSCO the Class 158 unit that is currently leased from South Western to Great Western, so that the Great Western franchisee may lease it directly from the ROSCO.
- c) Electric multiple units, locomotives, driving van trailers and coaching stock of any class that are leased by a Relevant Operator other than the current South Western Franchisee at the date of issuing this ITT and that either:
  - i) Will be demonstrably surplus to the requirements of that Relevant Operator because:
    - A) new rolling stock is being procured to replace it; or
    - B) other rolling stock is due to be cascaded in to the donor franchise to replace it; or

- C) the Bidder proposes to release suitable alternative replacement stock from the South Western Franchise that could be used by the donor franchisee.
- ii) Will not be demonstrably surplus to the requirements of that operator, but the Bidder can demonstrate that it will be feasible for that operator to secure alternative rolling stock in sufficient time to enable that operator to maintain the operation of its train services to at least current standards.
- iii) Alternative rolling stock must be capable of delivering comparable or better operational performance characteristics, and of achieving comparable or better levels of passenger satisfaction. For these purposes the Bidder must demonstrate that it has allowed an appropriate lead time for any modifications that may be needed to the alternative rolling stock to enable it to meet the stated operational and quality requirements, for the training of drivers, and a reasonable contingency margin.
- d) The Class 185 units that are due to be released from the TransPennine Express franchise during late 2019 and early 2020, and any other diesel multiple units that the Department may notify to Bidders via the Bidder Clarification Question process.
- e) Electric multiple units, locomotives, driving van trailers and coaching stock of any class that are not leased at the date of issuing this ITT by any Relevant Operator; and
- f) Any new build rolling stock that the Bidder commits to procure.

5.9.37 Where a Bidder proposes rolling stock falling within paragraph 5.9.3.6(c), their Bid must:

- a) Demonstrate that the conditions in paragraph 5.9.3.6(c) are met; and
- b) Explain how the Bidder would handle a delay to the proposed inward cascade. Such explanation must set out:

- i) How they would continue to meet the TSS in spite of such a delay; and
- ii) If applicable, which of their proposed service enhancements over and above the TSS would have to be deferred or cancelled in the event of such a delay.

## **5.10 Sub-Plan 2.3 Performance**

### **(A) REQUIREMENTS**

5.10.1 The Department requires a Franchisee who will:

- a) Deliver the performance benchmarks specified in Schedule 7.1 of the Franchise Agreement;
- b) 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;
- c) Work with Network Rail and other operators to foster and maintain a right time railway culture within the business and implement and maintain appropriate general competency arrangements for control staff and provide specific training and appropriate competency arrangements for those with a key role in managing disruption, including on call staff;
- d) Work in partnership with Network Rail and other operators to ensure that action is taken to identify unexplained delays and to reduce them;
- e) Work in partnership with Network Rail and other operators to identify sub-threshold delay and to reduce them; and
- f) Analyse performance failures to root cause level as part of its core approach and use a structured approach to prioritising initiatives that improve performance, particularly focusing on poorest performing routes;

### **(B) EVIDENCE BIDDERS SHALL PROVIDE**

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

- a) Their overall strategy for operational planning and management, covering issues such as: how they will manage and organise their

operational control functions, performance management and business continuity arrangements, and how performance against the benchmarks will be maintained while major changes such as the Waterloo platform 1-4 extensions, are being implemented;

- 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 proposed solution; and
  - iii) Evidence of the scale of the impact on performance.
- c) How the Bidder 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 rolling stock, train crew strategy and train plan supports the delivery of the requirements of part (A);
- f) How the Bidder will minimise the impact of routine and ad hoc engineering work and challenging circumstances on the provision of services, including by:
  - i) Maintaining the provision of passenger rail services (for example by working with Network Rail and other operators to maximise the scope for trains to continue running while engineering work is taking place, and/or by using suitable diversionary routes where available); and
  - ii) Developing and implementing appropriate arrangements to ensure the continued safety and welfare of passengers;
- g) How any proposed changes to the major timetable change dates will not adversely affect performance.

### (C) SCORING

- 5.10.3 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (South Western marking framework and guidance). A Bidder that scores below 4 in this Sub-Plan



will result in the Bid being treated as non-compliant. 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).

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

## **5.11 Delivery Plan 3 – Revenue**

### **5.12 Sub-Plan 3.1 Marketing and Branding**

#### **(A) REQUIREMENTS**

5.12.1 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 to promote Passenger Services and generate growth in revenue (farebox and non-farebox) and passenger journeys;
- b) Actively market and promote the improvements in train service patterns, rolling stock quality and customer service as they take place through the course of the Franchise Term to maximise the patronage and revenue arising from the improvements, and to improve public perception and the reputation of the Franchise;
- c) Use branding to maximise the value of the Franchise whilst having regard to the overall costs and benefits of branding including, where practicable, enhancing the Franchise brand so that it could be used by the Successor Operator and its successors, as well as limiting the costs of de-branding at the expiry of the Franchise;
- d) Develop and grow new markets;
- e) Promote and utilise the local transport authorities and local ticketing scheme brands (smart and paper);

- f) Exercise good customer relationship management, particularly aimed at raising the satisfaction of season ticket holders; and
- g) Use marketing initiatives in conjunction with stakeholders to grow the level of journeys undertaken by tourists and leisure users.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- a) Their approach to developing new markets and growing existing market segments of the Franchise, showing returns on investment in marketing activities, including evidence of plans to maximise the benefits of investments and other improvements in the Franchise; and
- b) The Department will be looking for evidence to support the projected return on investment from Bidder's marketing schemes at a sufficient level of detail to inform the Department's risk adjustment process (see Appendix 3 - Risk Adjustment Process).

(C) SCORING

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

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

- a) Particularly strong proposals for innovative marketing schemes whilst robustly demonstrating how each initiative delivers additional revenue;
- b) Marketing Initiatives that stimulate mode shift and travel by rail generally, including through collaboration with stakeholders and other train, light rail, tram and bus operators; and
- c) Particularly well-tailored local marketing and branding developed in conjunction with local stakeholders that helps to promote rail as an integral part of public transport provision; and
- d) Proposals which deliver better use of any surplus capacity during the off-peak.

### **5.13 Sub-Plan 3.2 Fares, Ticketing and Revenue Protection**

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

#### **(A) REQUIREMENTS**

5.13.2 The Department requires a franchisee who will offer customers rail fares that are easy to understand 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 both the ticket retail process and on the ticket (or ticket fulfilment media).

5.13.3 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.

5.13.4 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;
- c) Delivering an efficient and high standard of ticket retailing service, allowing customers to access tickets easily and securely;
- d) Delivering a smart ticketing solution that by the end of 2018 supports National Rail fare products for customers travelling into and around London from stations with significant flows into London which are close to the London zonal boundary, for example Epsom station;
- e) Continuing to retail and accept for travel, and increasing the uptake of, annual season tickets using ITSO-based Smartmedia; and
- f) Using the Rail Settlement Plan owned product set, for any products offered on ITSO-based Smartmedia. If the Bidder proposes to

introduce new products in addition, it should explain how these will be developed and introduced.

5.13.5 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 customer's smart ticket to provide customer support before, during and after the journey.

5.13.6 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.

(B) EVIDENCE BIDDERS SHALL PROVIDE

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

- 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 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, 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 Bidder will develop smart ticketing to offer system compatibility and acceptance across the national rail network;
  - iii) Targets for the take-up and usage of smart ticketing;
  - iv) Stretching, realisable targets to measurably reduce the use of magnetic stripe ticketing for journeys which are wholly within the South Western rail network;
  - v) A description of how the Bidder will utilise smart ticketing technologies to provide customers with a flexible and convenient solution by the end of 2018 when travelling into and around London from stations with significant flows into London which are close to the zonal boundary, for example Epsom station. Bidders may consider, for example, TfL ticketing technologies (e.g. Oyster/Contactless) or a franchisee ticketing technology that integrates with the TfL ticketing area;
  - vi) A description of how the Bidder will utilise the ITSO-based Smartmedia technology already available. If the Bidder does not intend to use 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; and
  - vii) A description of an improved and modern ticket retailing experience that reduces the long-term costs of ticket retailing.
- c) A strategy to manage ticketless travel and travel with incorrect tickets, whilst ensuring such initiatives are applied sensitively.

#### (C) SCORING

5.13.8 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (South Western marking framework and guidance). Without prejudice to the generality of subsection

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

- a) Particularly strong proposals to drive increased usage of smart ticketing through passenger incentives;
- b) Proposals for customer-focused fares structures to tackle the perceived unfairness and disparity in pricing;
- c) Proposals to offer customers incentives to travel on less busy trains in order to manage demand on the busiest services;
- d) Proposals that deliver long term cost savings;
- e) Proposals to enable annual season ticket holders to spread the cost of their ticket throughout the year. This could include initiatives such as Direct Debit payments; and
- 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.

#### **5.14 Delivery Plan 4 – Customer Experience, Community Rail and Stations**

#### **5.15 Sub-Plan 4.1 Customer Experience and Community Rail**

5.15.1 **Note:** Bidders’ proposals in relation to ticket retail should be set out in Sub-Plan 3.2 (Fares, Ticketing and Revenue Protection). Bidders’ proposals in relation to station improvements should be set out in Sub-Plan 4.2 (Stations).

5.15.2 For the purposes of this Sub-Plan “stakeholders” include without limitation: customers, passengers, Transport Focus, local authorities, community groups, rail user groups and similar organisations.

#### **(A) REQUIREMENTS**

5.15.3 The Department requires a Franchisee that will deliver a high standard of customer services, including by:

- a) Having a customer-driven culture where dialogue with customers and communities drives decisions and operational activity;
- b) Meeting the customer service and train NRPS benchmarks set out in the Franchise Agreement;

- c) Improving the relationship with stakeholders, understanding their requirements and expectations, and delivering an excellent standard of customer service which it measures and tests against those requirements and expectations;
- d) Developing, training, supporting and empowering frontline staff to:
  - i) Provide a visible, helpful and pro-active customer facing presence at stations and, where present, on-board trains;
  - ii) Provide assistance and information to customers during special events, disruption, cancellations and short formations; and
  - iii) Promote security.
- e) Working with BTP and other stakeholders to deliver a safe and secure environment for passengers on board trains, including by reducing anti-social behaviour;
- f) Having a customer service strategy and accompanying staffing plan which places a high value on personal face-to-face contact with passengers;
- g) Providing appropriate and timely information to all customers before, during and after their journeys; this must include working with local transport authorities and other operators to provide up to date and comprehensive journey information (e.g. maps, timetables and customer information systems) that include the routes and services of other operators and other public transport modes so as to provide a simple, easy to use journey experience for customers;
- h) Introducing highly visible and accessible means for passengers and the local community to report specific quality issues (e.g. broken seats, inaudible public announcement, poor customer service) and to get direct feedback on the action taken to resolve the problem; and
- i) Subject to the availability of train-to-internet coverage, providing on-train mobile communications via Wi-Fi free of charge to passengers on board trains throughout their journey on all routes operated by the Franchisee, with the exception of the Island Line.

5.15.4 The Department requires a Franchisee that will promote awareness of passengers' rights to claim compensation and who will make the claims process swift and simple, and who will implement a Passenger's Charter

that will include “**DelayRepay**” compensation arrangements in line with the Passenger’s Charter Guidelines for all services from the start of the Franchise.

- 5.15.4.1 The Department requires a Franchisee that will work with Transport for London and other Local Transport Authorities, public transport operators and other relevant stakeholders to significantly enhance connectivity with other modes of transport, encourage cycling and walking to and from the station, and improve the door-to-door journey experience for its customers, in line with the Department’s door-to-door strategy<sup>5</sup>.
- 5.15.4.2 The Department requires a Franchisee that will deal with complaints in a way that satisfies passengers.
- 5.15.4.3 The Department requires a Franchisee that will adopt a joint approach with and support Community Rail Partnerships or organisations looking to form Community Rail Partnerships along Routes operated by the Franchisee by:
  - a) Maintaining regular dialogue and co-operation between the Franchisee and each Community Rail Partnership;
  - b) Marketing, including the development of a distinct marketing plan and generating additional travel on relevant services including, where relevant, exploiting tourist potential;
  - c) Securing, supporting and managing station adopters through a station adoption scheme;
  - d) Encouraging innovative local third party funding approaches to develop community rail schemes; and
  - e) Working with Network Rail on community rail initiatives.

(B) EVIDENCE BIDDERS SHALL PROVIDE

- 5.15.5 In addition to the Minimum Evidential Requirements, Bidders’ responses shall cover as a minimum:
  - a) How the Initiatives and actions will deliver and monitor a high standard of customer service in all areas of the business, and how these will contribute towards achieving the NRPS Customer Service and Trains benchmarks defined in the Franchise Agreement;

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<sup>5</sup> Investment in station facilities, including physical alterations to stations, should be covered in Sub-Plan 4.2 (Stations)



- b) How information and resources will be managed and deployed during special events, severe weather and planned and unplanned disruption. This should include how the Franchisee will engage with and inform customers, communities and stakeholders prior to planned engineering works;
- c) Their Customer and Stakeholder Engagement Strategy<sup>6</sup>, including:
  - i) How, and using what resources, the Franchisee will engage with customers, potential customers and other stakeholders (including persons with reduced mobility and persons with other protected characteristics under the Equality Act 2010), including on an ongoing basis, to understand their experiences and perceptions of the Franchise, and their priorities for future improvement;
  - ii) How the Franchisee will use the results of customer and stakeholder engagement to inform business decisions and to improve customer services, and how customers and stakeholders will be informed of the progress made;
  - iii) How the Franchisee will develop CCIF (Customer and Communities Improvement Fund) Schemes in view of stakeholder aspirations;
  - iv) The initial draft Customer Report setting out the key commitments the Franchisee will make to its customers, including commitments that relate to day-to-day services, how it will act to address problems and how it intends to improve services and/or facilities. It should comply with the requirements set out in the Franchise Agreement to provide sufficient information to allow customers to assess and understand all aspects of the performance of the Franchise; and
  - v) How the Franchisee will update, communicate and publish future Customer Reports to the requirements set out in the Franchise Agreement, and improve the transparency of performance and customer satisfaction and complaints handling information;

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<sup>6</sup> The Customer and Stakeholder Engagement Strategy, to include the initial draft Customer Report, must be supplied as an Agreed Form Document

- d) Details of any proposed improvements to the Passenger's Charter<sup>7</sup> and how these will be implemented;
- e) Details of any proposed accreditations in customer service and /or service quality;
- f) Evidence that NRPS data will be used routinely and effectively to:
  - i) Increase the quality of service and the satisfaction of customers; and
  - ii) Enable prompt remedial action to be taken where performance is at risk of falling below any NRPS benchmark;
- g) How the Minimum Wi-Fi Service requirements will be delivered, including:
  - i) A project implementation plan;
  - ii) Details of any limitations or restrictions to the proposed service (e.g. usage caps, blocking adult-only content);
  - iii) An indication of the customer experience to be provided; and
  - iv) An explanation of how the Wi-Fi service will be communicated and marketed to passengers; and
- h) Their strategy for engaging with and supporting Community Rail Partnerships or organisations looking to form Community Rail Partnerships along Routes operated by the Franchisee as described in Section A. This should include how their understanding of the routes' potential, and the priorities for each, will be reflected during the Franchise Term. They should supply a draft version of the first year's Community Rail Report<sup>8</sup>.

### (C) SCORING

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<sup>7</sup> The Passenger Charter must be supplied as an Agreed Form Document

<sup>8</sup> Proposals to support local community-based businesses should be included in Bidders' responses to Sub-Plan 4.2 (Stations).

- 5.15.6 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (South Western marking framework and guidance).
- 5.15.7 A Bidder that scores below 4 will result in the Bid being treated as non-compliant.
- 5.15.8 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;
  - b) In addition to the requirements of the Franchise Agreement, provision of information that is tailored to passengers journeys e.g. punctuality at intermediate stations, journey/station specific data;
  - c) Initiatives that significantly improve customer service and engagement for persons with reduced mobility and other persons protected under the Equality Act 2010;
  - d) Initiatives that would significantly enhance the degree to which passengers and potential passengers understand the network of travel opportunities offered by the franchisee and other train and public transport operators, across the South of England and on a more localised basis;
  - e) A commitment to reinvest any saving in the overall cost of claims for DelayRepay, when compared with the amount forecast in a given year, into initiatives that improve customer service for passengers;
  - f) Initiatives that go beyond delivery of the Minimum Wi-Fi Service requirements, including:
    - i) Improving the train-to-internet connection and providing continuity of coverage along a route or all routes, for example through the provision of alternate connection means in areas of poor coverage or at certain locations such as stations;
    - ii) Enabling Wi-Fi and internet connectivity to be used by on-train operational and retail services, to enable customer and performance benefits for example remote closed-circuit television, on-train monitoring recorder, payments processing;

- iii) Working with partners and stakeholders to secure additional revenue and investment, making clear if any risk or obligations will remain after the end of the Franchise funding;
- iv) In addition to the Minimum Wi-Fi Service requirements, any plans to offer higher bandwidth (for instance during peak loading periods) or other services, including evidence that these plans will not negatively impact on the delivery of the Minimum Wi-Fi Service requirements;
- v) Irrespective of their choice of mobile service provider, ensuring passengers on trains can conduct satisfactory voice calls and access data on their mobile devices whilst stationary in urban areas, providing an experience similar to that found in areas of good coverage whilst stationary in urban areas, through improving the train-to-internet connection and providing continuity of coverage along a route or all routes, (for example through the provision of alternate connection means in areas of poor coverage or at certain locations such as stations); and
- vi) Delivering the Minimum Wi-Fi Service Requirements on the Island Line;
- g) Proposals that demonstrate a commitment to review and update the approach to maximise the value of Community Rail Partnerships during the Franchise Term;
- h) Focussed proposals to increase ridership from non-users of the Railway, including initiatives from Community Rail Partnerships;
- i) Proposals which demonstrate particularly strong commitment to the Secretary of State's Community Rail objectives, for example the provision of additional funding; and
- j) Proposals that demonstrate that the commitment to community engagement is fully embedded within the organisation, and therefore will not depend on the individuals involved nor decay in the course of the Franchise Term.

## **5.16 Sub-Plan 4.2 Stations**

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

### **(A) REQUIREMENTS**

5.16.2 The Department requires a Franchisee who will enhance the Station environment and deliver high quality outcomes for passengers by:

- a) Meeting the NRPS stations targets set out in Schedule 7.2 of the Franchise Agreement;
- b) Targeting the provision of services at Stations according to the volume and characteristics of passengers at the relevant Station including, where relevant, reflecting the principles outlined in ATOC and RSSB document "Guidance on the implementation of Station Travel Plans". Bidders should set out how forecast increases in the volume of passengers will be accommodated at any relevant Station;
- c) Maintaining and updating station travel plans existing at the date of this ITT.

5.16.3 The Department requires a Franchisee who will enhance the Station environment by demonstrating a sustainable and efficient approach to asset management by:

- a) Meeting the obligations of Schedule 1.7 (Stations) of the Franchise Agreement in relation to Station Asset Management Plan, including certification by a UKAS-accredited assessor as being consistent with the ISO55001:2014 (asset management);
- b) From the Start Date, implementing and resourcing a Social and Commercial Development Plan. It must be for a period of 10 years, reviewed on a rolling annual basis and set out how the Franchisee will:

- i) Identify schemes to develop currently redundant or under-utilised station buildings and facilities for use by the community and for commercial development including schemes which sustain and enhance the viability of ticket office retailing;
  - ii) Consult with customers and the community on the concerns, issues, opportunities and risks relating to the Stations and the priorities for investment;
  - iii) Effectively evaluate, prioritise and develop such schemes taking account of customer and community views; and
  - iv) Implement the schemes in accordance with their allocated priority;
- c) Developing a dashboard of metrics for Stations or groups of Stations that is relevant to a range of stakeholders, and which evidence improvements to managing the cost base for Stations, to the station environment, to the customer experience (in addition to NRPS surveys) by measuring and reporting quarterly/annually on, for example (but not limited to): cost for the provision of services at Stations; levels of passenger satisfaction at Stations; levels of inclusivity and accessibility; investment at stations; meeting the community's needs; and retail activity.

5.16.4 The Department requires a Franchisee who will enhance the Station environment by working with partners to improve station facilities and their environs by:

- a) Making investments that improve the Station environment and facilities for passengers, including those with reduced mobility and other protected characteristics as defined in the Equality Act 2010. This should include making adequate provision for car parking and access, improving facilities for interchange with other modes of travel, providing information to passengers to assist such interchanges and working with Network Rail to install a lift on each platform at Pokesdown Station;
- b) Working to facilitate plans for Network Rail and any other body who wishes to fund schemes at the Station that enhance the Station and deliver benefits for passengers, ensuring that any station enhancement works undertaken by Network Rail are capitalised on to improve station facilities;

- c) Pro-actively working with industry and local stakeholders to, where appropriate, improve the quality of car parking provision at stations, the quantity of car parking spaces, and changing charging mechanisms; and
- d) Embedding the principles of inclusive design in decisions about the renewal and development of Stations, in line with Design Council CABI guidance (2006).

5.16.5 The Department requires a Franchisee who will enhance the Station environment by understanding the role of Stations within in communities and the potential to support wider government and economic objectives by:

- a) Demonstrating how Stations will be managed within the franchise, setting out governance and management structures that include recording and reporting detailed cost and income information such that the successful franchisee will be able to support the potential transfer of Stations identified in the Franchise Agreement to support any programme of future Franchise remapping at no net cost; and
- b) Working with Government and its agencies, local bodies and other parties to:
  - i) Support wider strategic objectives that may include the transfer of Stations in support of devolution; and
  - ii) Support the delivery of regeneration and development schemes based around stations, including the potential transfer of stations where this is necessary.

5.16.6 The Department requires a Franchisee who will enhance the Station environment by requiring stations to be safely and efficiently operated by:

- a) Making the delivery of services at Stations resilient during periods of severe weather and periods of sustained disruption, and minimising the impact on passengers;
- b) Regularly reviewing and addressing the security, incidents of antisocial behaviour and crime risk at Stations by applying the principles of community safety in partnership with BTP and other stakeholders; and
- c) When installing or upgrading CCTV at Stations, reflecting the principles outlined in ATOC's "National Rail & Underground Closed Circuit Television (CCTV) " and BTP's "Output requirements from CCTV Systems" guidance documents.

(B) EVIDENCE BIDDERS SHALL PROVIDE

5.16.7 In addition to the Minimum Evidential Requirements Bidders' responses must cover as a minimum:

- a) Their Social and Commercial Development Plan, including how they will identify potentially suitable sites at Stations for commercial development and use by the community, and the how they will realise the potential of these sites to add commercial value to the Franchise or benefit the local community;
- b) Details of how they will understand the under and over provision of assets at each Station, given current and projected future customer volumes and reasonable customer demands, and align proposed changes to accommodate changing customer volumes and reasonable demands;
- c) Details of how they will work to improve the environmental performance of Stations through a significant reduction in energy consumption, including where appropriate, for example, but not limited to: (a) energy metering and data management, including measurement and verification plans for measures adopted (b) lighting and lighting controls, including the introduction of LED lighting at all Stations by 30 June 2019 (c) heating and heating controls (d) other energy efficiency measures (e) renewable energy generation (f) water efficiency measures;
- 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 ISO55001:2014 (asset management) in accordance with the requirements of the Franchise Agreement;
- e) Details of their plans for the handover of the Station Asset Management Plan, Station Social and Commercial Development Plan, and accounting information including how it will work with the Department for Transport, Network Rail and any Successor Operator to ensure continuity of the above plans and reporting schedules;
- f) Details of how they will work with Network Rail to ensure the condition and capability of Station Assets are maintained to an appropriate condition; and



- g) Details of how they will manage the delivery of investment at Stations including through deploying appropriate project management capabilities and resources, and working to facilitate the development plans of other parties.

(C) SCORING

5.16.8 For meeting, overall, the above requirements to an acceptable standard, Bidders will score 6 in line with Table 7.3 (South Western marking framework and guidance). Without prejudice to the generality of subsection 7.3.5 (Scoring methodology), specific examples of how the above requirements may be exceeded are set out below.

- a) Proposals that identify, and commit to, specific targets for Stations or a group of Stations which evidence improvements to the services provided at those Stations, including in relation to specific targets made in respect of its proposals under the dashboard of metrics;
- b) Commitments to more stretching environmental targets related to Stations than those in the Franchise Agreement;
- c) Trials of new technology and innovations to improve performance, customer satisfaction and efficiency, which include commitments both to roll these out across the Franchise (if these meet defined performance criteria as agreed with the Department) and to report to the Department on the success or otherwise of any such technology or innovation using a system of key performance indicators;
- d) Work with Network Rail to expand the provision of seating at Waterloo station;
- e) Delivery of the Minimum Wi-Fi Requirements as set out in Schedule 13.1 of the Franchise Agreement at Stations as well as on trains; and
- f) Initiatives that significantly improve accessibility for persons with reduced mobility and other protected characteristics as defined in the Equality Act 2010.

## 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 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 to (a) 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 (b) 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**

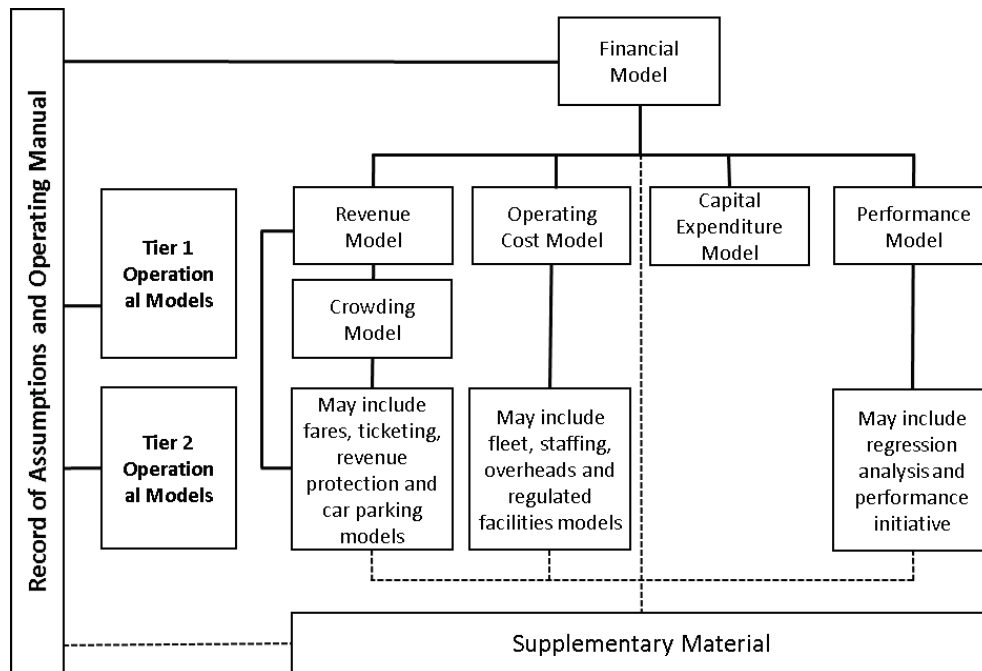
6.3.1.1 Each Bidder is required to submit and include as part of their Bid a Financial Model, which is supported by Operational Models and Required Supplementary Material as set out in paragraph 6.3.8.1. All Models must meet the requirements described in Section 4 (Explanation of requirements for Bid 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 below.

Figure 6.1 Anticipated Modelling Suite Structure



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

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

6.3.3 **The Financial Model**

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 paragraph 6.3.9.4 and for use in accordance with Section 7 (Evaluation Criteria and Methodology). Outputs from the Financial Templates will be used:

- i) To populate the Franchise Payments in 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 or 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 an 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 and part 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 provide a letter from their financial advisers, as set out in paragraph 6.9.1.1, confirming that such relief will be supported by the Bidder's owning group. Capital and revenue expenditure and the deductibility of these costs must be clearly identified along with the rate of allowances applying to each item or pool of capital expenditure. The Bidder must provide a letter from their financial advisers as set out in paragraph 6.9.1.1, 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 7 September 2016 under which the Franchisee will report its financial information. Bidders are to adopt either FRS 101, FRS 102, or full 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 and Schedule 8.5 (GDP & CLE Adjustment Payments) of the Franchise Agreement; and
- i) Provides output schedules in the format of the Financial Templates.

### 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 and the Extension Period 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 paragraph 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:



- 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.

#### 6.3.7.3 *Change*

#### 6.3.7.4 Each Operational Model must:

- a) Include functionality to allow the Department to undertake the Department's Financial Robustness Test as set out in sub-section 7.7.1 (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.

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

- a) Revenue model;
- b) Crowding model;
- c) Operating cost model (which may be included in the Financial Model);
- d) Performance model; and
- e) Capital expenditure model (which may be included in the Financial Model);

As described in paragraphs 6.3.7.6 to 6.3.7.38, 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.

#### 6.3.7.6 *Revenue model*

- 6.3.7.7 This demand and passenger revenue forecasting model must at least disaggregate demand and revenue into the ticket types and Service Groups contained in the Financial Templates.
- 6.3.7.8 Any further disaggregation of demand and revenue into more detailed flows or segments is at the discretion of the Bidder. The revenue model and Supplementary Material and its associated sub models in Tier 2 must also show clearly and apply all demand forecasting input assumptions and parameters and their impact on demand and revenue. This will include, but not be limited to, such factors as:
- a) Macro-economic factors (disaggregated into individual factors where appropriate and consistent with PDFH to the extent required by paragraph 6.3.7.11);
  - b) Competition factors, including competition with bus and coach services and car (disaggregated into individual factors where appropriate and consistent with PDFH to the extent required by paragraph 6.3.7.11);
  - 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).
- 6.3.7.9 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 paragraph 6.3.7.12 below.
- 6.3.7.10 Bidders must submit:

- a) The .spg files containing the assumed Franchise Services, as required by the relevant bullet in paragraph 4.11.1;
- b) The .spg files for timetable changes to other operators' services assumed by the Bidder, if any;
- c) The MOIRA1 output files (and any intermediate files which process these output files) which input changes in demand to the revenue model; and
- d) The version(s) of MOIRA1 that have been used to populate the revenue model, if they do not use the version of MOIRA1 supplied on the datasite.

6.3.7.11 Bidders must use techniques or models used as standard in the rail industry 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 have not been followed Bidders must provide evidence to justify the use of alternative assumptions and approaches in accordance with paragraph 6.3.7.12. 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.

6.3.7.12 Bidders should Bid their own views of exogenous forecasts and other relevant exogenous revenue factors. As at the date of issuance of this ITT, the Department's central view of exogenous forecasts of demand drivers is provided on the Data Site under the folder reference 04.16 EDGE. 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 paragraph 6.3.8.1. Any analysis justifying the use of alternative assumptions and approaches must be provided in the form of supporting spreadsheets. Bidders must also provide a copy of supporting research material e.g. research or analysis papers by the Bidder or a third party, journal articles from a relevant publication or analytical reports, and indicate the reliability of this source, for example by providing information such as the source, date, author, any peer review taken place, any assessment of the confidence in the data, techniques and evidence used. The Record of Assumptions must summarise the

assumptions and approaches, making reference to supporting spreadsheets, research material and any other evidence used where applicable.

- 6.3.7.13 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.
- 6.3.7.14 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).
- 6.3.7.15 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.
- 6.3.7.16 *Fares model*
- 6.3.7.17 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 2 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 Value) of the Franchise Agreement passes clearly to a change in the fares increase;

- b) They assess and demonstrate compliance with the Regulation of Fares Basket Values in Schedule 5.4 (Regulation of Fares Basket Value) of the Franchise Agreement;
- c) They can model a total (cumulative) change in regulated fares levels over the Franchise Term of up to 10 percentage points above or below the base assumption as described in paragraph 6.4.1.1; 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 paragraph 6.3.4.17 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%.

6.3.7.18 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.

6.3.7.19 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 singles by a greater percentage than they increase the price of returns, the price of singles must not exceed the price of returns;
  - ii) If Bidders propose to decrease the price of anytime tickets but not of Off Peak tickets, the price of Off Peak tickets must not exceed the price of anytime tickets; or

6.3.7.20 Bidders are not required to model the value of every fare that they will set. However, if a Bidder's fares strategy breaches the requirements of 6.3.4.17 (d) above, it will be deemed undeliverable, and will be subject to the risk adjustment process described in Appendix 3 (Risk Adjustment Process).

6.3.7.21 *Crowding model*

- 6.3.7.22 Bidders must submit a crowding model which is clearly linked to the Revenue Model, clearly documented in the Record of Assumptions and consistent with the technical data submitted for Sub-Plan 2.1. The crowding model shall include a schedule of services and stops, expected rolling stock formation and seated and standing capacity for trains as set out in paragraph 6.3.4.22. The crowding model must be used to calculate a suppression factor for each year of the Core Franchise Term and the Extension Period, which is input into the Revenue Model.
- 6.3.7.23 The crowding model must show average daily loadings for each stop along the line of route for every service on which crowding may have a material impact, as a minimum for a Typical Autumn Weekday, based on the timetables in their Bid, see Table 5.2 (Operational data required as part of Bids).
- 6.3.7.24 For those trains not included in the crowding model, Bidders should demonstrate that crowding will not have a material impact. That is, the maximum load on each service should not exceed 70% of the seating capacity, at any stage, during the Core Franchise Term and the Extension Period.
- 6.3.7.25 Bidders must use the survey data supplied on the Data Site (04 - 'Data and Marketing Information') in constructing their respective crowding models. Bidders are free to supplement this with additional train loading and station census data, and must provide evidence of the source and derivation of supplementary loadings data.
- 6.3.7.26 Bidders must provide evidence of the source of data and assumptions used within the crowding model.
- 6.3.7.27 For locations and/or times not covered by supplied survey data, Bidders may use MOIRA1 estimates of train-by-train loadings as inputs to the crowding model.
- 6.3.7.28 Bidders are not instructed to submit models that model the reassignment of passengers due to crowding, but will be free to do so. Bidders must bear the following in mind in the development of their crowding models:
- a) The techniques used should be consistent with the approaches adopted by the PDFH;



- b) Bidders must provide robust evidence to justify the use of alternative assumptions and approaches; and
  - c) The Models should be developed such that they are, transparent, understandable, and can be run within a reasonable timescale.
- 6.3.7.29 Crowding modelling approaches must demonstrate consistency with WebTAG guidance, detail the calibration and validation process, and allow full traceability of model inputs through to model outputs. The use of CMS Passengers will be allowable under the following conditions:
- a) The calibration and validation process is fully documented;
  - b) As CMS Passengers processes crowding impacts through a series of unauditable calculations, full traceability of model inputs through to model outputs must be possible by the Department (through documented explanation and example calculations); and
  - c) Bidders must discuss the potential application of CMS Passengers with the Department.
- 6.3.7.30 *Operating cost model(s)*
- 6.3.7.31 Information on operating costs may be provided in a standalone model or incorporated in the Financial Model. The operating cost model(s) must produce input to the Financial Model to the level of disaggregation required by the Financial Templates and to the level of granularity required by paragraph 6.3.7.4 b).
- 6.3.7.32 *Performance model*
- 6.3.7.33 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 as set out in Schedule 7.1 (Performance Benchmarks) of the Franchise Agreement.
- 6.3.7.34 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
- 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.

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

6.3.7.36 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 Model 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.

6.3.7.37 *Capital expenditure model*

6.3.7.38 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 in accordance with the relevant FRS or IFRS accounting standard) 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.

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 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 paragraphs 6.3.7.11 and 6.3.7.21 to 6.3.7.29 (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 paragraph 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.

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 subsection 6.8 (Reviews and audit of Models). Bidders should note that the Department reserves the right to include some or all of the Supplementary Material as part of the Modelling Suite placed in Escrow, either incorporated into Record of Assumptions or as additional Tier 2 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 351-364 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 paragraph 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. 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
<b>Template Inputs</b>		
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

Sheet	Content	Status
Line Items	Master definition of line items	Bidder may populate spare line items denoted by square brackets in the blue highlighted cells
<b>Template Outputs</b>		
Pax Revenue	Template for forecasts of selected metric and revenues	Populate but do not alter structure
Other Revenue	Template for forecasts of selected revenues	Populate but do not alter structure
Staff	Template for forecasts of selected metrics and costs	Populate but do not alter structure
Other Opex	Template for forecasts of selected costs	Populate but do not alter structure
RS Charges	Template for forecasts of selected metrics and costs	Populate but do not alter structure
Infrastructure	Template for forecasts of selected metrics and costs	Populate but do not alter structure
Performance	Template for forecasts of selected metrics and costs/revenues	Populate but do not alter structure
TOC Capex	Template for forecasts of selected costs	Populate but do not alter structure
<b>Financial Statements</b>		
P&L1	Template for forecasts for profit and loss account at specified level of aggregation	Populate highlighted cells but do not alter structure
P&L2	Template for forecasts for profit and loss account at specified level of aggregation	Contains formulae, do not alter
P&L3	Template for forecasts for profit and loss account at specified level of aggregation	Contains formulae, do not alter
CF	Template for forecasts of cashflow statements	Populate blue cells but do not alter structure
BS	Template for forecasts of balance sheet	Populate including Opening Balance in column AJ, but do not alter structure
<b>Output Calculations</b>		
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	Populate (blue cells only) but do not alter structure

Sheet	Content	Status
	Financial Statements and Bidder model)	
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  $PRRPI_{GDP}$  and  $PRRPI_{CLE}$  components of franchise payments to be populated in rows 23 and 24 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 two 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 not included in  $PRRPI_{CLE}$ .
- b)  $PRRPI_{CLE}$  is formed as a subset of passenger fares revenue comprising all passenger farebox revenue from journeys made for the purpose of commuting to or from a place of work or study.
- c) 'Other fares revenue', as included in the 'Pax Revenue' worksheet in the Financial Templates, is allocated pro-rata to  $PRRPI_{GDP}$  and  $PRRPI_{CLE}$ .

6.3.9.6 The mapping from passenger revenue as forecast in the Revenue Model to these categories must be explicitly included in the Models. The Department's view is that this mapping should be based on PDFH v5.0. If PDFH v5.0 is not used, the requirements of paragraph 6.3.7.12 shall apply, i.e. the Bidder must provide evidence to justify the use of alternative parameters.

6.3.9.7 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  $DfT_{GDP}$  and  $DfT_{CLE}$  elements of the

calculation GDP and CLE Adjustment Payment in the event of a franchise Change.

- 6.3.9.8 The Financial Templates shall be populated in full (which includes columns K, L, M and N in the Financial Templates labelled 'Actual' and 'Forecast' for the years 2014/15 to 2017/18), with outputs from the Models specified in Franchisee years ending 31 March of each year.
- 6.3.9.9 The first Franchise year of the South Western Franchise is expected to run for a part year from 25 June 2017 to 31 March 2018. The first full Franchise year is expected to run from 1 April 2018.
- 6.3.9.10 Bidders are required to provide their Franchise Payments for the Extension Period. The Franchise Payments for the Extension Period will reflect the prices and assumptions from the last complete financial year of the Core Franchise Term rolled forward and adjusted in accordance with and to the extent provided by the Franchise Agreement with respect to indexation (the "Year 7 Assumptions").
- 6.3.9.11 Where a Bidder does not agree with the Year 7 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 7 Assumptions and explain any differences from the Year 7 Assumptions in the Record of Assumptions.
- 6.3.9.12 If in the Department's reasonable view the Bidder in question has demonstrated successfully that the Bidder's Alternative Assumptions are more credible than the Year 7 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 7 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 7 Assumptions and the Bid as submitted will remain extant.
- 6.3.9.13 If the Department considers that it requires clarifications before it can reach a reasonable view as to whether the Bidder in question has demonstrated successfully, or has failed to demonstrate, that the Bidder's Alternative Assumptions are more credible than the Year 7 Assumptions, it will ask the Bidder in question to provide such clarifications before taking action in line with subsection 6.3.6.9.



- 6.3.9.14 The Financial Ratio calculations are incorporated in the Financial Templates and are based on outputs contained in the Financial Formats. For Modified Revenue and Actual Operating Costs Bidders must be consistent with the drafting of Schedule 12 (Financial Covenants and Bonds) of the Franchise Agreement in completing the Financial Templates.
- 6.3.9.15 Bidders are permitted to expand the level of detail provided within the Models beyond the minimum requirements of the Financial Templates. In populating the Financial Templates, Bidders:
- a) Must ensure that the addition of any further information is done in such a way as to remain consistent with the format of the Financial Templates and that the level of detail provided is sufficient to give full transparency of all components of costs and revenues;
  - b) Should note that the spare rows provided in the Financial Templates can be used to accommodate additional detail but deleting or inserting rows or columns to the Financial Templates is not permitted and, for the avoidance of doubt, may result in the Bid being eliminated, in accordance with paragraph 6.3.9.2;
  - c) May use the three 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.
- 6.3.9.16 Bidders may either add worksheets to the Financial Templates or copy the Financial Templates into their own Models. In either case, Bidders are required to ensure that:
- a) The named ranges defined in the Financial Templates are preserved;
  - b) The new worksheets are inserted in tabs to the left of the Financial Templates 'Templated Outputs' tab;
  - c) The format of the profit and loss account, cash flow statement and balance sheet are set out in the manner stipulated by the Financial Templates;



- d) Units of measure as set out in the Financial Templates provided are used; and
- e) Any types of revenues or costs that they wish to include under a catch all heading of 'Other' do not exceed £250,000 (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:

- 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 use of braces around the formula, i.e. “{...}”. Bidders must not use such formulae over ranges greater than 20 x 20, except where a derogation has been granted in accordance with the process described in subsection 6.8.3 (Derogations) below;
- i) The Models submitted by Bidders must be in line with best practice in accordance with the requirements set out in subsection 6.8 (Reviews and audit of Models) and employ the accepted principles of “separation”, “consistency”, “integrity” and “linearity” (as described in paragraph 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:
  - i) To allow a different approach to the treatment of historic information or forecasts before the Franchise commences;
  - ii) To allow units, indices, totals, NPVs and other useful modelling ‘flags’ to be included in the columns to the left of the first modelled year; and
  - iii) On sheets that do not contain a timeline, where consistency down rows may be applied instead of across columns. On sheets

that contain a timeline and where vertical presentation is also desired, this should be transparent and clearly identifiable;

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

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 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 25 June 2017;
- b) The Franchisee year commences on 1 April of each year. For the avoidance of doubt the Franchisee will be required to prepare audited accounts for the Franchisee year ending 31 March for the duration of the Franchise;
- c) Annual RPI and AWE indices assumptions will be made available to Bidders in the Data Site and shall apply from the year commencing 1 April 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 start of the Franchise (25 June 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 maximum annual Regulated Fares increases of RPI+0% from January 2017 until January 2020 and then RPI+1% from January 2021 to the end of the Extension Period for each Fares Basket for the life of the Franchise, with individual Fares within the Fares Basket not being increased by more than: RPI+k (the maximum permitted Regulated Fare increase per Schedule 5.4 (Regulation of Fares Basket Values) of the Franchise Agreement – 0% from January 2017 until January 2020 and then 1% from January 2021) +0% (flex);
- i) With respect to any non-capital costs (and all operating (including maintenance) and project implementation costs are to be treated as non-capital costs for this purpose) arising from any asset or Scheme utilising the Residual Value Mechanism, costs arising from such asset or Scheme shall be expensed in the year in which they arise; and
- j) Bidders should expense pension cash contributions but should not model actuarial gains or losses on pension assets or liabilities.

6.4.1.2 For the avoidance of doubt Bidders should make their own assumptions in respect of payments under any Route Efficiency Benefit Share Mechanism.

## **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 major timetable change, as required in subsection 5.7 (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;
  - ii) Pensions – defined benefit scheme service costs or defined contribution scheme cash contributions and balance sheet treatment;
  - iii) Bad debts – if provisions are made, are they specific or general;
  - iv) ROSCO leases – how each lease has been accounted for and the rationale for the treatment adopted;
  - v) Rolling stock maintenance reserve – how each reserve has been accounted for; and
  - vi) Treatment of any derivatives, 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 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, WWDC rules, and other transfer pricing and anti-avoidance provisions;
  - v) Transfer pricing - details of the assumptions made regarding transfer pricing; and
- 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;
  - 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; and
  - m) 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, or any other Industry Partners. Bidders must not include any financial benefits from any deep alliance i.e. an alliance requiring a change to the industry regulatory framework and hence third party approval that may generate savings from possessions (Schedule 4 Track Access Agreement) or performance (Schedule 8 Track Access Agreement) amounts, within their Bid. The consequences of any proposals for alliancing with Network Rail or any other Industry Partners may be subject to risk adjustment in accordance with the principles of Section 7 (Evaluation Criteria and Methodology) and Appendix 3 (Risk Adjustment Process);
- d) Include separately the costs involved and assumptions made in relation to pension contribution rates, both employer and employee;
- e) If the Bidder proposes investment with a useful economic life or period of financial return that exceeds the Core Franchise Term and Extension Period, any costs and revenues that accrue in relation to that investment must be explicitly set out in the Record of Assumptions setting out:
  - i) The period from investment until the end of the Extension Period;
  - ii) The period from end of the Extension Period until end of asset life, including the basis for determining that asset's life;
  - iii) The initial cost of the investment;

- 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; and
- v) Show the non-depreciated value (i.e. residual value) at the end of the Core Franchise Term and Extension Period of:
  - A) Assets to which the provisions of paragraphs 5.2.1 to 5.2.5 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 paragraphs 5.2.1 to 5.2.5 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; and
- g) Where changes in the Financial Model are attributable to Initiatives, set out the reasons for such in the Record of Assumptions for each affected input to the Financial Model. An example of how such movements could be presented is shown in respect of headcount in Table 6.2 (Example of presentation of movements in Record of Assumptions) below. Bidders should note that words and values contained within Table 6.2 (Example of presentation of movements on Record of Assumptions) are indicative only.

**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)							



Franchise year	1	2	3	4	5	6	7	8
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						
<b>Total FTE at year end</b>	<b>392.5</b>	<b>371.5</b>	<b>369.5</b>	<b>384.5</b>	<b>414.5</b>	<b>419.5</b>	<b>416.5</b>	<b>416.5</b>

\* 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 paragraph 6.3.7.11) and any other revenue or timetable development software) to calculate the likely passenger revenues that will be earned from the timetable submitted with its Bid and that have been utilised in the population of the Bidder's revenue model. This information must be provided electronically in raw format as an Appendix to the Bidder's Record of Assumptions.

6.5.5 The Department reserves the right to require the leading Bidder to include additional detail (for the purpose of clarifying and confirming information already provided in other sections of the Bid) in the Record of Assumptions before contractualisation takes place and the Record of Assumptions is placed in escrow.

## **6.6 Operating Manual**

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

- a) Is in Microsoft Word 'docx' format in accordance with subsection 4.11 (Submission of Bids);
- b) Is an accurate and plain English document that facilitates a reasonable level of understanding of the functionality of the Bidder's "Models", including how each interfaces and interacts with other Models;
- c) Includes an explanation of the flow of data through the Financial Model and the interfaces with the Operational Models submitted. This may be presented diagrammatically with supporting narrative as appropriate. This must also describe how any interface spreadsheets are used in the flow of data between models, if applicable;
- d) Includes a description of each Model, its structure and capability;
- e) Includes a description of the purpose and operational characteristics of each worksheet and how it interacts with the Models;
- f) Includes instructions on how to input data, select scenarios/options and calculate the financial outputs;
- g) Clearly explains the method by which the Bidder's Models are able to carry out the tests described in paragraph 6.3.7.4; and
- h) Where macros (or other visual basic functions) have been used, includes a description of the macros used in the operation of the Models, the reason for their use and how they are used to generate model outputs.

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

6.6.3 The Department reserves the right to require the leading Bidder to include additional detail (for the purpose of clarifying and confirming information already provided in other sections of the Bidder's Bid) in the Operating

Manual before contractualisation takes place and the Operating Manual is placed in escrow.

## 6.7 Change

### 6.7.1 *Matters to be addressed in the Operating Manual*

6.7.2 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) - the maximum regulated Fares Basket increase for 2021 reduces from RPI+1% to RPI+0%, for the industry as a whole. All other policies remain the same including caps on individual prices within Fares Baskets and Fare rises for other years (Bidders should include the impact of the price change - on fares that are constrained by regulated fares, on levels of demand and crowding as well as on revenue and any affected costs);
- b) Worked Example (B) - The introduction of Class 707’s into passenger service is delayed by one year;
- 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 24623104 on weekdays is halved;
  - ii) The Variable Usage Charge as set by Network Rail for Vehicle Type 450/T on the Network Rail price list is 18.3p per vehicle mile in 2019/20 prices;
  - iii) The Network Rail Schedule 8 payment rate for service group HY01 in the peak is trebled and the benchmark changed to 0.900 minutes for all years of CP6;
  - iv) The Long Term Charge for Epsom on the Network Rail price list is £250,000 in 2019/20 prices;
  - v) All other regulated charges remain at CP5 rates as instructed in paragraph 6.4.1.1.

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:
  - 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 Change	Each Bidder will include within the Operating Manual submitted with its Bid, the Worked Examples and details of its approach to Change prepared in accordance with the requirements described in subsection 6.7 (Change) of this ITT.
2.	Record of Assumptions and Operating Manual	Each Bidder will include within its Bid, a Record of Assumptions prepared in accordance with the requirements described in subsection 6.5 (Record of Assumptions) of this ITT and an Operating Manual prepared in accordance with the requirements described in subsection 6.6 (Operating Manual) of this ITT.
3.	Suitability of Financial Model for implementing Changes	Each Bidder will include within its Bid, a Financial Model prepared in accordance with the requirements described in subsections 6.3 (Financial and Operational Model requirements) and 6.4 (Assumptions) of this ITT.
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 more Bidders, prior to signing of the Franchise Agreement, to improve the transparency, granularity and usability of the Modelling Suite in areas which it believes would be beneficial to the management of the Franchise as outlined above. This will not impact on the ranking of the Bids.

## **6.8 Reviews and audit of Models**

### **6.8.1 Introduction**

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

**Table 6.4. Model review and audit requirements**

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

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

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

6.8.1.3 Bidders are required to satisfy themselves as to the technical accuracy of all Models prior to submission, noting the allocation of risk with respect to errors within the Models described in subsection 6.2 (Errors in Models and/or Record of Assumptions).

**6.8.2 Modelling Best Practice Confirmation**

6.8.2.1 Each Bidder must provide with its Bid an independent Modelling Best Practice Confirmation report on all sections of the Models. The report and any engagement letter between the Bidder and the report writer, must:

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

6.8.2.2 The report must take account of any derogations obtained in accordance with the process described in subsection 6.8.3 (Derogations) below. The Modelling Best Practice Confirmation is not considered to be an audit of the Models.

6.8.2.3 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. The Models should have time periods across the columns and calculations down the rows. This should be consistent in all worksheets. There are two areas where consistency is most important:
  - i) Columns: the same column should be used for the same period in each worksheet (although it should be noted that the time periods across columns in the Bidder's Model may be different from the columns in the Financial Templates); and
  - ii) Rows: a row will contain only one formula, copied across all columns.
- c) **Integrity** of financial statements (e.g. that there are no balancing figures). The Modelling Best Practice Confirmation must provide an assessment of the extent and effectiveness of internal and/or error checks contained within the Models and detail any internal control checks that indicate errors;
- d) **Linearity** of calculation flow (e.g. that there are no circular references);
- e) **Macros**, where required, their function should be clearly explained; and
- f) **No hard coded values in formulae, other than the following, if required:** 1,-1, 0, TRUE, FALSE.

6.8.2.5 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 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 20 x 20 and that the INDIRECT and OFFSET functions are not used except where derogations have been obtained in accordance with the process described in subsection 6.8.3 (Derogations).

### 6.8.3 Derogations

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



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

6.8.3.2 Applications must be made in writing to the Department within 40 working days of publication of the ITT. Applications must be made via the AWARD website as outlined in sub-section 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.

6.8.3.3 *Model size*

6.8.3.4 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.

6.8.3.5 *Use of prohibited functions*

6.8.3.6 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.

6.8.3.7 *Modelling Best Practice Confirmation*

6.8.3.8 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.

6.8.3.9 *Array Formulae*

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

#### 6.8.4 **Model Audit**

6.8.4.1 Following Bid submission and prior to contract award the Department will request one or more Bidders obtain an independent audit of all sections of the Financial Model (the “**Model Audit**”). The Model Audit shall be prepared for the benefit of the Department and the Bidder; shall be co-addressed to them, and the level of liability must be agreed by the Department, and will be a minimum of £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 FRS101, FRS102 or full IFRS accounting policies and rules applicable as at 7 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 FRS101, FRS102, or full 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 paragraph 6.3.4.1 and is consistent with the definition of Modified Revenue and Actual Operating Costs in accordance with 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 paragraph 6.3.4.1, sub-section 7.6 (Modelling Change tests) and to ensure compliance with the Funding Deed. The Department will define with the model auditor the inputs and parameters, as appropriate, to meet this requirement in the Model Audit.

6.8.4.3 For the Model Audit, the Department may provide one or more Bidders with no more than five tests for the purposes of understanding robustness of the Financial Model. The Model Audit will test the logical integrity of the arithmetical operations in the Financial Model formulae and calculations under the assumptions and input data for the specified test(s). A robustness test is defined as a change in one or more input variables through the models with the Bid Franchise Payments and Agreed Funding Commitment held constant i.e. “frozen”.

6.8.4.4 The Department recognises that the finance, accounting and taxation elements of the Model Audit are not relevant to the Tier 1 and 2 Operational Models, and therefore requires a review of the calculations only, to be conducted by the same party that undertakes the Model Audit, in

accordance with the process described in subsection 6.8.5 (Calculation Review).

## **6.8.5 Calculation Review**

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

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

## **6.9 Financial Structure and Funding Plan**

### **6.9.1 Bid requirements**

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

- a) Details the total investment plan for all funding of infrastructure, other works and schemes that support its proposals, including explaining its linkage with the Financial Model. The capital expenditure covered by this plan must be clearly reconciled to amounts contained in the Capital Expenditure Model or sheet(s) contained in the Financial Model or cost model and any capital expenditure or investment amounts presented in Delivery Plan 0;
- b) Shows that the PCS has been calculated and provided in accordance with the requirements set out in paragraphs 6.9.2.5 to 6.9.2.11;

- 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 48 – 51 in the Financial Templates, which details, for each element of AFC funding, amounts of equity, debt or other funding provided and repayment profiles where relevant. This schedule should be supported by sufficient narrative for the Department to understand the Bidders’ plans and rationale;
- e) Provides details of the providers of the Performance Bond, Season Ticket Bond, Bonded PCS or other security including term sheets from the bond provider(s) in order to demonstrate that the requirements of the Franchise Agreement and Funding Deed have been or will be met;
- 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;

- l) If relevant, includes an explanation of the basis under which the Bidder proposes to procure additional and/or replacement rolling stock from the ROSCOs or extend existing leases;
- m) Sets out the detailed basis of the accounting treatment of leasing and associated charges for all rolling stock (explaining in particular whether charges for the use of rolling stock are treated as operating, finance leases or otherwise and why) and the detailed tax treatment of these charges (explaining in particular the application if relevant of the long funding lease rules contained in Chapters 6 and 6A of Part 2 of the Capital Allowances Act 2001);
- n) Provides details and assumptions for interest earned on cash deposits;
- o) Includes a statement of funding available to the Franchisee from the Start Date including any assumptions around cash held previously by the incumbent operator relating to season ticket or advance ticket purchases at the Start Date; and
- p) Includes a letter from its financial adviser(s) (as an Annex if appropriate):
  - i) Confirming that the funding plans for all aspects of the Bid have been developed to a stage that will allow funding to be made available to the Franchisee on execution of the Franchise Agreement;
  - ii) Confirming that financial adviser support of the funding proposition has been provided in the knowledge of the terms and conditions set out in the term sheets of the finance providers;
  - iii) Confirming that the funding plans, including term sheets and financing assumptions, are accurately reflected in the Financial Model;

- iv) Confirming that the Financial Model has been prepared following FRS101, FRS102 or IFRS accounting standards;
- v) Confirming that risks to the Bidder's ability to meet its funding commitments are identified and mitigated in the Financial Structure and Funding Plan;
- vi) Confirming that relief for, or transfer of losses is clearly stated within the Financial Model and confirming that such relief will be supported by the Bidder's owning group, as per paragraph 6.3.4.1;
- 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 paragraph 6.3.4.1e;
- viii) Setting out the calculated ratios in respect of the Guarantor(s) as set out in subsection 6.10 (Updating of EoI financial and economic standing tests 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 Agree Funding Commitment must be incorporated in the Bidder's Financial Model to enable the Bidder to demonstrate that its Bid complies with the Financial Ratio (1.070:1) tests in paragraph 6.3.4.1. The amount and timing of any Agreed Funding Commitment made available to the Franchisee must not lead to the Financial Ratio of 1.070:1 being exceeded. It is permissible for the Financial Ratio of 1.070:1 to be exceeded where this is a result of the cash generated by the Franchisee not being distributed due to the Franchisee not having sufficient distributable reserves.

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

6.9.2.5 *Parent Company Support*

6.9.2.6 Bids for the South Western Franchise must be supported by a level of Parent Company Support ("**PCS**"). Such support must come from the Guarantor (as defined in the South Western Franchise Pre-Qualification Process 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 paragraph 6.9.2.9. The Actual 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:



$$\text{Required PCS} = \text{£}45\text{m} + 6\% \times \sum_{y=1}^8 (BFP_y - FP_y)$$

Where:

$BFP_y$  equals the Department's Baseline Franchise Payments provided to the Bidders, stated in the Financial Templates sheet 'Funding' row 22 for each Franchisee Year "y" of the Core Franchise Term.

$FP_y$  equals the Franchise Payments as calculated by the Bidder's Financial Model and output in the Financial Templates sheet 'Funding' row 23 for each Franchisee Year "y" of the Core Franchise Term, and which are expressed in nominal terms. For the avoidance of doubt, these Franchise Payments are without any regard for payments by way of profit share payments due to the Department pursuant to paragraph 3 of Schedule 8.1 (Franchise Payments) of the Franchise Agreement.

Where  $(BFP_y - FP_y)$  for any given Franchisee Year "y" is negative,  $(BFP_y - FP_y)$  shall be deemed to be equal to zero for that given Franchisee Year "y". For the avoidance of doubt, the fixed element of the Required PCS amount is £45,000,000.

Franchise Payments can be expressed as positive or negative. Negative Franchise Payments are payments from the Franchisee to the Department. Positive Franchise Payments are payments from the Department to the Franchisee.

#### *Additional Parent Company Support*

- 6.9.2.10 Bidders may propose a 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. The amount of Additional PCS must not exceed £20m. The Additional PCS must be advanced by the Guarantor(s) in accordance with the terms of the Funding Deed i.e. it must be provided under terms identical to the Required PCS, including meeting the Bonding Requirements.

### *Bonding of Parent Company Support*

6.9.2.11 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 Actual PCS ("**Bonded PCS**"). For the purpose of this paragraph, "**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.

6.10.2 As set out in the passage of Section 4.3 Part C of the PPD entitled "Re-calculation upon receipt of Bids", the Department will re-calculate the results of the Tests once the Bid has been submitted, both in light of the Actual PCS(as determined by the requirements set out in subsection 6.9.2 (Funding)), and to take account of any audited annual accounts or credit rating updates issued during the letting process, or any material event disclosed or which ought to have been disclosed under Section C1.3 of the EoI.

6.10.3 As explained above, the Bidder should note that the Bonded PCS will need to reflect the Actual PCS. The PPD sets out the Department's requirements in relation to Bonded PCS in excess of £22.5 million (referred to in the PPD as the "Additional Bonding Requirement"). Bidders must return with their Bid an updated letter from their bond provider(s), which reflects both the requirements of the EoI and PPD and the level of Bonded PCS.

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

## Section 7: Section 7: Evaluation Criteria and Methodology

### 7.1 Introduction

7.1.1 Subject to the terms of the ITT including without limitation:

- a) The Department's rights set out in subsections 3.5 (Non-compliant Bids) to 3.7 (Right to disqualify Bidders);
- b) The Department's rights to terminate or amend the terms of the procurement as set out at subsection 1.9 (Liability for costs, updates and termination); and
- c) Regulation (EC) 1370/2007,

The South Western 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 12 points. In such a case, the principles set out in subsection 7.2.2 (Supplementary rules) will apply for the purposes of determining the most economically advantageous tender.

7.2.1.3 The Final Score for each Bid shall be calculated as follows:

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

Where

P is a score equivalent to the Bidder's Risk Adjusted NPV calculated in accordance with subsection 7.7 (Evaluation of Financial Robustness), adjusted, if applicable, in accordance with paragraph 0. 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 130.

7.2.1.4 The Risk Adjusted NPV will be for the Core Franchise Term and will not include the Extension Period.

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

- a) Any payments to the Department that may be made under the profit share/cap arrangements in the Franchise Agreement;
- b) Any payments to/from the Department that may be made under the GDP and CLE Adjustment Payment arrangements in the Franchise Agreement; or
- c) To the extent included by Bidders in their calculations of Annual Franchise Payments, any payments to/from the Department that may be made under any of the performance or incentive regimes in the Franchise Agreement.

7.2.1.6 The maximum Quality Score is 13 (and therefore the maximum value of  $(n*Q)$  is 1690. This is the maximum score that a Bid can obtain in relation to quality, whatever the Risk Adjusted NPV of that Bid or the winning Bid. Since the size of P is not known until Bids are received, it is not possible to specify in the ITT a fixed weighting in percentage terms between price and quality.

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

n = 130 for this example.

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

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

The Final Score for each Bidder will be:

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

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

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

7.2.1.7 If:

- a) A Bid is found to be non-compliant in accordance with subsection 3.5 (Non-compliant Bids);
- b) The Department decides not to exercise its right to reject the Bid and disqualify the Bidder who has submitted that Bid from the competition; and
- c) The effects of the non-compliance include a likely financial impact on the Department (in the Department's reasonable view),

The Department may 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 12 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 12 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  $n \times Q$ ) and the quality component of the Final Score of the other Bid:

- i) Is at least 5 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 5 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**

Delivery Plan	Sub-Plan	Sub-Plan weighting
Delivery Plan 0 Bid Summary		N/A
Delivery Plan 1 Franchise Management	Sub-Plan 1.1 Leadership and Sustainability	5%
	Sub-Plan 1.2 Stakeholder Partnering and Devolution	2.5%
Delivery Plan 2 Train Service and Performance	Sub-Plan 2.1 Train Services	25%
	Sub-Plan 2.2 Rolling Stock	22%
	Sub-Plan 2.3 Performance	8%
	Sub-Plan 3.1 Marketing and Branding	2.5%

Delivery Plan	Sub-Plan	Sub-Plan weighting
Delivery Plan 3 Revenue	Sub-Plan 3.2 Fares, Ticketing and Revenue Protection	15%
Delivery Plan 4 Customer Experience, Community Rail and Stations	Sub-Plan 4.1 Customer Experience and Community Rail	12.5%
	Sub-Plan 4.2 Stations	7.5%

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

### 7.3.2 Specialist reports

7.3.2.1 The Department may commission specialist reports from within the Department and, if appropriate, from its technical, legal and financial advisers. In addition it may commission external specialist reports from Consultees on Sub-Plans or other aspects of Bidder submissions.

7.3.2.2 In each case, the relevant organisation will be asked to look at the appropriate Sub-Plan, supporting technical data and/or Modelling Suite where appropriate and comment on their strengths and weaknesses in the context of the requirements of the ITT. These reports will be shared with evaluators before they have completed their evaluation of the relevant Sub-Plan. If any one or more of the specialist reports are not ready in time for the evaluation, the Department reserves the right to proceed with the evaluation without taking them into account.

7.3.2.3 Where Sub-Plans are being supplied to the providers of specialist reports, they will be circulated as the entire Sub-Plan. However, where Bidders' responses to the Department's requirements are included in other Sub-Plans, through the use of cross-referencing (as described in subsection 4.7 (Cross Referencing)), these relevant Sub-Plans may also be provided to the relevant organisation to enable their report to be completed.

### 7.3.3 External evaluator organisations

7.3.3.1 The Department reserves the right to select Sub-Plan evaluators from within the Department and externally. External evaluators may include, without limitation, the Department's technical, financial and legal advisors.

#### 7.3.4 **Evidence**

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

7.3.4.2 The Department's evaluation will take into account the credibility of the Initiatives in the Sub-Plans as a whole. This may include, without limitation:

- a) The quality of research and analysis supporting the Initiatives;
- b) The commitment (and, if relevant, any qualifications on that commitment), views or comments of any third party that the Bidder is relying on in delivering the Initiatives;
- c) Evidence and relevant examples of Initiatives within the Sub-Plans being successfully introduced elsewhere;
- d) Any cross references to other Sub-Plans made in accordance with subsection 4.7 (Cross Referencing);
- e) The robustness and resilience of its plans for delivery, including an assessment of the risk to its ability to deliver in Challenging Circumstances;
- f) The quality or appropriateness of any Initiative or the proposed outcomes;
- g) The description of the resources to be employed and delivery timescales;
- h) The extent of the availability of funding or financing assessed in accordance with subsection 7.10 (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);
- j) The extent and nature of any relevant Franchise Agreement obligation; and
- k) The timing of Initiatives and the period over which the benefits they generate are realised.



### 7.3.5 Scoring methodology

7.3.5.1 Delivery Plans will be assessed at a Sub-Plan level in accordance with subsection 7.3.4 (Evidence), and awarded an evaluation score by taking into account:

- a) The extent to which the Initiatives are relevant, appropriate and sufficient means of meeting, or where appropriate exceeding, the requirements defined in part (A) of the relevant Sub-Plan; and
- b) The credibility of the plan to deliver the Initiatives, including the appropriateness of the resources to be employed and the delivery timescales.

Where the RV Mechanism has been used in line with the provisions of subsection 5.2 (Residual Value Mechanism), evaluation scores will take into account the Initiatives which the assets or Schemes support and not the value of the asset or Scheme to a Successor Operator.

7.3.5.2 For the avoidance of any doubt, the Department's assessment of the Initiatives and the credibility of the plans for their delivery may be affected by the extent to which Bidders support their responses with relevant and credible evidence as required by part (B) of the relevant Sub-Plan.

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

**Table 7.3.** *South Western marking framework and guidance*

Score	Evaluation
0	No response or fundamentally unacceptable response.
2	Unacceptable response with material concerns overall about whether the requirements of the specification will be met.
4	Mostly acceptable response with minor concerns overall about whether the requirements of the specification will be met.
6	Acceptable response that provides good confidence overall that the requirements of the specification will be met.

Score	Evaluation
8	Particularly robust response that provides excellent confidence overall that the requirements of the specification will be met, or good confidence overall that the requirements of the specification will be exceeded.
10	Outstanding response that provides excellent confidence overall that the requirements of the specification will be met, and good confidence overall that the requirements of the specification will be greatly exceeded.

7.3.5.4 An evaluation score of 8 will be awarded where the criteria for the award of an evaluation score of 6 are met, and, in addition:

- a) The Sub-Plan is supported by particularly robust evidence which is in line with the evidential requirements in part (B) of the relevant Sub-Plan and which provides excellent confidence overall that the requirements of the specification will be met; or
- b) The Sub-Plan proposes additional Initiatives (aligned with the relevant requirements for the Sub-Plan) which are supported by implementation plans, where both the Initiatives and the supporting implementation plans provide good confidence overall that the Initiatives will generate improved outcomes (which could without limitation include additional benefits for passengers, reduction in whole-industry costs, or an increase in the long-term value of the Franchise to the Department) so that the requirements of the specification will be exceeded.

7.3.5.5 An evaluation score of 10 will be awarded where:

- a) The Sub-Plan is supported by particularly robust evidence which is in line with the evidential requirements in part (B) of the relevant Sub-Plan and which provides excellent confidence overall that the requirements of the specification will be met; and
- b) The Sub-Plan proposes additional Initiatives (aligned with the relevant requirements for the Sub-Plan) which are supported by implementation plans, where both the Initiatives and the supporting implementation plans provide good confidence overall that the Initiatives will generate greatly improved outcomes (which could without limitation include significant additional benefits to passengers, reductions in whole-industry costs or greatly increase the long-term value of the

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

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 (South Western 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 (South Western 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

- 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 (South Western marking framework and guidance) and in accordance with the subsection 7.3.5 (Scoring Methodology), an intermediate score of 1, 3, 5, 7 or 9 (the “**full intermediate scores**”) may be awarded where the Sub-Plan exceeds the guidance for the award of a particular score set out in Table 7.3 (South Western marking framework and guidance) but at the same time fails to meet fully the guidelines for the award of the next higher score set out in Table 7.3 (South Western marking framework and guidance). For example, where the Sub-Plan exceeds the guidance for a score of 6 but falls short of meeting fully the guidance for a score of 8, a score of 7 might be awarded.

7.3.5.14 In addition to the possibility of awarding one of the scores set out in Table 7.3 (South Western marking framework and guidance) or one of the full intermediate scores, the evaluators may also award half scores (e.g. 6.5, 7.5 etc. but not any other intermediate scores such as 6.4 or 7.6) where they consider this necessary and appropriate in order to reflect the extent to which the Sub-Plan exceeds or falls short of a particular score. For example, where the Sub-Plan exceeds substantially the guidance for the score of 6 but still falls short of meeting fully the guidance for a score of 8, a score of 7.5 would be awarded. Equally, where the Sub-Plan exceeds only to a limited extent guidance for a score of 6, a score of 6.5 would be awarded.

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

7.3.6.1 The Department will carry out a process for the purposes of moderating and reaching consensus on evaluation scores.

7.3.6.2 Each evaluator will undertake an evaluation of the relevant Sub-Plans, and allocate evaluation scores by reference to the scoring methodology described in subsection 7.3.5 (Scoring methodology). These individual scores and a narrative explaining each one of these scores will be entered into AWARD.

7.3.6.3 These evaluators will then agree a consensus evaluation score for each of the Sub-Plans they have scored which will then be moderated.

- 7.3.6.4 Where consensus is not possible, the evaluation score to be awarded to a Sub-Plan will be the score which in the reasonable view of the South Western project director, or their nominee, is appropriate by reference to the scoring methodology described in subsection 7.3.5 (Scoring methodology).
- 7.3.6.5 The South Western project director will appoint a facilitator and a record keeper to manage this process.
- 7.3.6.6 The outcomes of this process, and the rationale for the evaluation scores, will be recorded and uploaded onto AWARD.

#### **7.4 Evaluation impact of Inconsistent Initiatives**

- 7.4.1 Where the Department considers that a Bidder proposes in the same Sub-Plan or in different Sub-Plans Initiatives which may be inconsistent with each other in that the proposed delivery of one Initiative may conflict with the proposed delivery of another Initiative so that if the inconsistency were confirmed it would not be possible for the Bidder to deliver both of the Initiatives which conflict (together the “Inconsistent Initiatives” and each an “Inconsistent Initiative”) during the life of the Franchise in the manner set out in the Inconsistent Initiatives the Department may (but is not obliged to) seek additional information or clarification from the relevant Bidder in accordance with subsection 4.14.2 (Engagement with Bidders and evaluation clarification process).
- 7.4.2 Where the inconsistency of two Initiatives each of which is set out in a different Sub-Plan is confirmed the Department will:
- a) Treat the Inconsistent Initiative which is set out in the Sub-Plan with the highest weighting in accordance with Table 7.2 (Sub-Plan weightings) as having been submitted;
  - b) Treat the Inconsistent Initiative which is set out in the Sub-Plan with the lowest weighting in accordance with Table 7.2 (Sub-Plan weightings) as not having been submitted; and
  - c) Decide which Inconsistent Initiative it will treat as having been submitted and which inconsistent Initiative it will treat as not having been submitted where both inconsistent Initiatives are set out in Sub-Plans which carry the same weighting by reference to which Inconsistent Initiative in the Department’s reasonable view will be more beneficial to the delivery of efficient Franchise Services.

- 7.4.3 Where the inconsistency of two Initiatives both of which are set out in the same Sub-Plan is confirmed the Department will decide which Inconsistent Initiative it will treat as having been submitted and which inconsistent Initiative it will treat as not having been submitted by reference to which Inconsistent Initiative in the Department's reasonable view will be more beneficial to the delivery of efficient Franchise Services.
- 7.4.4 Where the Department treats an Inconsistent Initiative as not having been submitted it will revise any previous evaluation so as to:
- a) Take into account the effect of the non-submission of that Initiative in all relevant elements of the evaluation (including, without limitation, in the allocation of evaluation scores and in the Financial Robustness Test); and
  - b) Where appropriate, 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 paragraph.
- 7.4.5 Where the Department treats an Inconsistent Initiative as not having been submitted in line with paragraphs 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 paragraph 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 paragraph 7.4.4.
- 7.4.7 If the Bidder refuses to submit a revised Initiative or if it submits a revised Initiative which is inconsistent with another Initiative in the same or any other Sub-Plan the Department will treat the Bid as non-compliant in line with subsection 3.5 (Non-compliant Bids) and the Department will at its own discretion take any action it considers necessary and appropriate in the circumstances, including eliminating the Bidder from the Bidding process.

## **7.5 Impact of Financial Robustness Test on Sub-Plan evaluation scores**

In accordance with subsection 7.7 (Evaluation of Financial Robustness), a Financial Robustness Test will be carried out on some or all of a Bidder's Models as part of the evaluation process. Where, in accordance with subsection 7.7.1 (Financial Robustness Test), a Bidder's Risk Adjusted Financial Model projects that the Financial Ratios will breach the 1.050:1 requirement (having taken into account the Materiality Threshold in paragraph 7.7.1.6) at any point during the Core Franchise Term (Consequences of high financial risk), the evaluation score for any Sub-Plans which include a Relevant Initiative will, subject to the principles set out in paragraph 7.3.5.2, be reviewed and may be revised so that the evaluation score takes no account of the impact of such Relevant Initiative, provided that no revision will be made to any such evaluation score pursuant to this subsection 7.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores) where such revision would result in an increase in such evaluation score.

- 7.5.1 For the avoidance of doubt revision to the evaluation score for any Sub-Plan pursuant to this subsection 7.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores) shall not cause any Sub-Plan to be deemed non-compliant.
- 7.5.2 Where an Initiative includes multiple specified milestones for committed deliverables, and some of these milestones would occur after the year of Breach, the evaluation score for any Sub-Plans which include such a Relevant Initiative will be reviewed and may be revised so that the evaluation score takes no account of the impact of those deliverables relating to milestones which fall after the projected year of breach, provided that no revision will be made to any such evaluation score pursuant to this subsection 7.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores) where such revision would result in an increase in such evaluation score.
- 7.5.3 For the avoidance of doubt revision to the evaluation score for any Sub-Plan pursuant to this subsection 7.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores) shall not cause any Sub-Plan to be deemed non-compliant.
- 7.5.4 The following principles shall apply for the purpose of this subsection 7.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores):

- a) No further adjustment will be made to the Bidder’s Risk Adjusted NPV pursuant to this subsection 7.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores); and
- b) In accordance with this Section 7 (Evaluation Criteria and Methodology), and notwithstanding the adjustments described here, Bidders will be expected to contract the Initiatives proposed in their Bids.

7.5.5 For the purpose of this subsection 7.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores):

- a) A “**Relevant Initiative**” means an Initiative for which the Completion Date falls at any time after the year of Breach (as defined in subsection 7.7 (Evaluation of Financial Robustness)); and
- b) “**Completion Date**” means the earlier of (i) the date specified for the Relevant Initiative in the relevant Sub-Plan; and (ii) any date specified for the Relevant Initiative in the Franchise Agreement, in each case the date by which the Relevant Initiative will be completed.

7.5.6 Bidders should note, therefore, that the outcome of the process described in this subsection 7.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores) may result in adjustment to a Bid’s evaluation score on the application of the scoring methodology in subsection 7.3.5 (Scoring methodology) and the evaluation of financial robustness in accordance with subsection 7.7 (Evaluation of Financial Robustness) and may therefore affect the ranking of Bids and ultimately the selection of the winning Bid.

## 7.6 Modelling Change tests

7.6.1 As described in subsection 6.7.5 (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 7.7.1 (Financial Robustness Test) on each Bidder’s Models, except as described in paragraph 7.7.1.8. Following, and as a result of the completion of this test, the Department will calculate the “**Risk Adjusted NPV**”, which is component “P” in the formula at subsection 7.2 (Definition of MEAT for the Competition).

7.7.1.2 Further to the 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 a Bid and will deem the Bid to have low financial risk 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 so that there is not a material risk of a materially different financial outcome.

7.7.1.3 If, at any point during the Core Franchise Term, the Financial Ratio in the Risk Adjusted Financial Model is projected to breach 1.050, the Bid will be deemed to have high financial risk and subsection 7.7.2 (Consequences of high financial risk) will apply, except as described in paragraph 7.7.1.6. If a Bid is projected in its Risk Adjusted Financial Model not to breach the Financial Ratio of 1.050 it will be deemed to have low financial risk.

7.7.1.4 For the purpose of making this assessment, the Department will:

- a) In accordance with the functionality described in subsection 6.3.3 (The Financial Model), assume that the Bidder will pay out all available funds as dividends in each Franchisee Year, provided that such amounts are restricted to distributable profits and do not cause the Financial Ratios to be reduced below 1.070:1 in the relevant Franchisee Year; and

- b) Take into account the Actual PCS committed in the Bid which the Bidder would be able to draw on in order to avoid breaching the Financial Ratios (1.050:1).

7.7.1.5 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 low financial risk if the total amount of additional PCS, over and above the Required PCS and Additional PCS committed in the Bid, that the Department determines would be required during the Core Franchise Term in order to avoid breaching the Financial Ratios (1.050:1) is (the "**Notional PCS**") less than the "**Materiality Threshold**". The Materiality Threshold will be £15 million (nominal).

7.7.1.7 If a Bid is deemed to have low financial risk, the Risk Adjusted Financial Model will be the Financial Model as Bid, and the Risk Adjusted NPV will be the As Bid NPV, as calculated in sheet NPV cell F51 of the Financial Templates.

7.7.1.8 The Department reserves the right to undertake aspects of the Financial Robustness Test only on one or more leading Bid(s), as described in Appendix 3 (Risk Adjustment Process), if it determines that undertaking those aspects of the Financial Robustness Test on one or both Bids will have no impact on the selection of the winning Bid.

## 7.7.2 **Consequences of high financial risk**

7.7.2.1 If a Bidder is projected in the Risk Adjusted Financial Model to breach the Financial Ratios at any point during the Minimum Financial Robustness Period, the Bidder will be eliminated from the competition. The Minimum Financial Robustness Period will be the period from the Start Date to 31 March 2020 (inclusive).

7.7.2.2 If a Bidder is projected not to breach the Financial Ratios during the Minimum Financial Robustness Period, but is projected to breach the Financial Ratios (1.050:1) at any other point during the Core Franchise Term, the Bidder's Risk Adjusted NPV will be equal to the sum of the following:

- a) The NPV of the As Bid Franchise Payments, calculated in Sheet NPV row 43 of the Financial Templates, in respect of each Franchisee year from the Start Date to the end of the Franchisee Year immediately prior

to the first Franchisee year in which the Bidder is projected to breach the Financial Ratios (1.050:1) (the Franchisee Year of projected breach being the “**Year of Breach**”); plus

- b) In every year of the Core Franchise Term, X% of the NPV of the As Bid Franchise Payments in respect of the year of Breach where X is the proportion of the year of Breach before the Financial Ratios (1.050:1) are projected to be breached; plus
- c) (100-X)% of whichever is the lower (in terms of premium received by the Department) of:
  - i) The NPV of the As Bid Franchise Payments in respect of the year of Breach; and
  - ii) The Department’s Base Line Premium (see Table 7.4) in respect of the year of Breach ; plus
- d) The aggregate of the relevant amounts in respect of any Franchisee year from and including the Franchisee year immediately following the year of Breach until the end of the Core Franchise Term. For the purpose of this paragraph only, the “relevant amount” in respect of any Franchisee Year shall be the lower (in terms of premium received by the Department) of:
  - i) The NPV of the As Bid Franchise Payments in respect of that Franchisee year; and
  - ii) The Department’s Base Line Premium (see Table 7.4) in respect of that Franchisee year.
- e) If a Bidder is projected to breach the Financial Ratios at any point during the Core Franchise Term and the projected PCS requirement exceeds the Bidder’s PCS facility by more than the Materiality Threshold, the point of breach for the purposes of calculating the Bidders Risk Adjusted NPV will be determined without taking into account the Materiality Threshold.

**Table 7.4. Department’s Base Line Premium**

Franchisee year	Department’s Base Line Premium (expressed as unweighted real NPV £’000s)
Franchisee year to 31 March 2021	(361,993)

Franchisee year	Department's Base Line Premium (expressed as unweighted real NPV £'000s)
Franchisee year to 31 March 2022	(385,173)
Franchisee year to 31 March 2023	(406,082)
Franchisee year to 31 March 2024	(420,464)
Franchisee period to 22 June 2024	(93,493)

### 7.7.2.3 For the avoidance of doubt:

- a) Franchise Payments and other relevant financial amounts shown in the Franchise Agreement will be based upon the winning Bidder's Modelling Suite;
- b) The Risk Adjusted Financial Model and Risk Adjusted NPV will only be used for the purpose of the Financial Robustness Test and accordingly calculating the Final Score as defined in subsection 7.2 (Definition of MEAT for the Competition);
- c) The evaluation scores may be adjusted as described in subsection 7.5 (Impact of Financial Robustness Test on Sub-Plan evaluation scores); and
- d) The provisions of this subsection 7.7.2 (Consequences of high financial risk) will not apply where a Bidder is projected in its Risk Adjusted Financial Model to breach the Financial Ratios but the amount of Notional Guarantee required to avoid the breach is less than the Materiality Threshold described in paragraph 7.7.1.6.

## 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
- ii) Any other element of the evaluation (including without limitation the Financial Robustness Test),

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

- A) To any evaluation score, where such revision would result in an increase in such evaluation score; and
- B) To the Financial Robustness Test, where such revision would result in the Bid 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:

- 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) 2.1 Train Services;
- b) 2.2 Rolling Stock;
- c) 2.3 Performance; and/or
- d) 4.1 Customer Experience and Community Rail.

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). A Bid will be treated as non-compliant if it receives an overall Evaluation Score of less than 4. For the avoidance of doubt, the overall Evaluation Score will be used only for the purpose described in this subsection 7.11, 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 7.5 (Conversion of evaluation scores into Quality Scores).

**Table 7.5. Conversion of evaluation scores into Quality Scores**

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

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 Bid Optimisation

7.13.1 The Department reserves the right after final evaluation scores have been determined, but prior to contract award, to make proposals to enhance passenger and/or taxpayer benefits in the franchise, which are within the



scope of the Department's requirements as set out in the OJEU contract notice and other tender documentation, including but not limited to, the South Western Franchise Competition Prospectus and the South Western Franchise EoI (both dated 26 November 2015) and this ITT, and which are consistent with the requirements of applicable procurement law.

## A1. Appendix 1: Glossary of Terms

Term	Meaning
<b>Actual Parent Company Support or Actual PCS</b>	has the meaning given to it in paragraph 6.9.2.11
<b>Additional Bonding Requirement</b>	has the meaning given to it in 6.10.3
<b>Additional Parent Company Support or Additional PCS</b>	has the meaning given to it in 6.9.2.10
<b>Agreed Funding Commitment or AFC</b>	has the meaning given to it in the Funding Deed
<b>Associated Entity</b>	has the meaning given to it in subsection 1.4 (Communications)
<b>As Bid Franchise Payments</b>	in respect of any Franchisee year the value of Franchise Payments (excluding any amounts excluded in accordance with paragraph 7.2.1.5) for that Franchisee year as shown in the Bidder's Financial Model
<b>As Bid NPV</b>	the NPV of the Bid as submitted and adjusted accordingly for Errors as per section 6.2.1
<b>ATOC</b>	Association of Train Operating Companies
<b>AWARD</b>	has the meaning given to it in subsection 3.8 (Data Site and AWARD)
<b>BCQ</b>	has the meaning given to it in subsection 3.9 (Bidder clarification questions)
<b>Base Line Premium</b>	As defined in Table 7.4
<b>Bid</b>	a tender submitted by a Bidder in response to this ITT
<b>Bidder</b>	has the meaning given to it in subsection 1.1.4 (Introduction)
<b>Bonded PCS</b>	has the meaning given to it in paragraph 6.9.2.11
<b>Bonding Requirements</b>	where the Guarantor(s) of an amount of PCS pass the economic and financial standing tests referred to in subsection 6.10 (Updating of EoI financial and economic standing tests and submission of updated bond provider letter(s)), this is at least 50% of the relevant PCS amount. Where the Guarantor(s) of an amount of PCS do not pass the economic and financial standing tests referred to in subsection 6.10 (Updating of EoI financial and economic

<b>Term</b>	<b>Meaning</b>
	standing tests and submission of updated bond provider letter(s)), this is 100% of the relevant Guarantee amount
<b>Calculation Review</b>	the review conducted in accordance with subsection 6.8.5 (Calculation Review)
<b>CAPEX</b>	capital expenditure
<b>Challenging Circumstances</b>	circumstances such as extreme weather, industrial action or line closures
<b>CMA</b>	means the Competition and Markets Authority
<b>CMS Passengers</b>	the forecasting software known as 'CMS Passengers' used to forecast redistribution of passengers amongst individual services on particular routes
<b>Completion Date</b>	has the meaning given to it in paragraph 7.5.5
<b>Consultee</b>	has the meaning given to it in subsection 3.4 (Industry consultation and disclosure of information in Bids)
<b>Contingent Initiative</b>	has the meaning given to it in subsection 4.14.3 (Contractualisation)
<b>Core Franchise Term</b>	the core term of the Franchise Agreement (excluding any extension that may be called under clause 5.2 of the Franchise Agreement)
<b>Critical Load</b>	a train's passenger load at the Critical Load Point
<b>Critical Load Point</b>	the geographic location at which a train's passenger load is at its greatest
<b>Data Site</b>	has the meaning given to it in subsection 3.8 (Data Site and AWARD)
<b>Delivery Plan</b>	means a Delivery Plan described in Section 5 (Detailed Bid requirements – Delivery Plans), being: Delivery Plan 0 – Bid Summary Delivery Plan 1 – Franchise Management Delivery Plan 2 – Train Services and Performance Delivery Plan 3 – Revenue Delivery Plan 4 – Customer Experience and Stations and 'Delivery Plans' shall mean more than one of them
<b>Department</b>	has the meaning given to it in subsection 1.1 (Introduction)
<b>Driver Controlled Operation (DCO)</b>	means operation of a train by a driver alone without the need for a conductor (or any other Franchise Employee)
<b>EA02</b>	Enterprise Act 2002
<b>EC</b>	European Commission
<b>EIR</b>	Environmental Information Regulations 2004;
<b>EoI</b>	Expression of Interest for the South Western Franchise issued 26 November 2015

<b>Term</b>	<b>Meaning</b>
<b>Escrow Agreement</b>	means the version of the South Western Escrow Agreement which the Department supplies to Bidders as the "Final Bid Version" for the purposes of this ITT
<b>EU</b>	European Union
<b>EUMR</b>	Council Regulation (EC) No. 139/2004
<b>Exogenous Forecasts</b>	means the Department's central view of exogenous forecasts of demand drivers at the time of publication of this ITT, provided on the Data Site in the document "April 2015 DD EDGE inputs (v1.5.1.0) PDFH5.1_2"
<b>Extension Period</b>	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) of the Franchise Agreement
<b>Final Risk Adjustments</b>	has the meaning given to it in subsection A3.2 (Overview of Process) of Appendix 3 (Risk Adjustment Process)
<b>Final Score</b>	has the meaning given to it in paragraph 7.2.1.2
<b>Financial Model</b>	a financial model prepared in accordance with subsection 6.3 (Financial and Operational Model requirements)
<b>Financial Ratio(s)</b>	means the ratio of Modified Revenue to Actual Operating Costs for the Franchisee year in accordance with row 279 of worksheet "FO&C" of the Financial Templates
<b>Financial Robustness Test</b>	has the meaning given to it in subsection 7.7 (Evaluation of Financial Robustness)
<b>Financial Structure and Funding Plan</b>	has the meaning given to it in subsection 6.9 (Financial Structure and Funding Plan)
<b>Financial Templates</b>	has the meaning given to it in subsection 6.3.9 (Financial Templates)
<b>FOIA</b>	Freedom of Information Act 2000
<b>Form of Tender</b>	means the version of the South Western Form of Tender which the Department supplies to Bidders as the "Final Bid Version" for the purposes of this ITT
<b>Franchise Letting Process Agreement or FLPA</b>	has the meaning given to it in subsection 1.7
<b>Franchise Signature Documents</b>	has the meaning given to it in Table 4.2 (Structure and Format of Bids)
<b>FRS</b>	Financial Reporting Standards
<b>Funding Plan</b>	has the meaning given to it in the Funding Deed

<b>Term</b>	<b>Meaning</b>
<b>HMT</b>	HM Treasury
<b>IFRS</b>	International Financial Reporting Standards
<b>Industry Partners</b>	include without limitation: Network Rail, ORR, Transport for London, other train operators, freight operators, ROSCOs and the wider supply chain including SMEs
<b>Initiatives</b>	proposals and commitments included in a Bidder's Sub-Plans
<b>ITT</b>	has the meaning given to it in subsection 1.1 (Introduction)
<b>Key Sub-Plans</b>	has the meaning given to it in paragraph 7.11.1
<b>Long Form Report</b>	the historical summary of the financial and operational performance of each element of the South Western Franchise, together with explanations of any movements in such financial and operational performance
<b>Materiality Threshold</b>	has the meaning given to it in paragraph 7.7.1.6
<b>MEAT</b>	most economically advantageous tender
<b>Minimum Evidential Requirements</b>	evidential requirements for Sub-Plans specified in paragraph 5.1.4
<b>Minimum Financial Robustness Period</b>	has the meaning given to it in paragraph 7.7.2.1
<b>Model Audit</b>	has the meaning given to it in subsection 6.8.4 (Model Audit)
<b>Modelling Best Practice Confirmation</b>	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)
<b>Modelling Suite</b>	has the meaning given to it in paragraph 6.1.2
<b>Models</b>	has the meaning given to it in paragraph 6.1.1
<b>MOIRA or MOIRA1</b>	the timetabling software known as 'MOIRA' used to forecast the impact of timetables on passenger demand and revenue but not MOIRA2
<b>MOIRA2</b>	the second generation of the MOIRA timetabling software used to forecast the impact of timetables on passenger demand and revenue
<b>Notional PCS</b>	has the meaning given to it in subsection 7.7.1.6
<b>NPV or Net Present Value</b>	net present value, calculated as the aggregation of the present value of relevant future cash flows

<b>Term</b>	<b>Meaning</b>
<b>Operating Manual</b>	a manual prepared in accordance with subsection 6.6 (Operating Manual)
<b>Operational Model(s)</b>	models prepared in accordance with subsection 6.3.7 (Operational Models)
<b>Other Revenue</b>	as set out in the Financial Templates
<b>Other Supplementary Material</b>	has the meaning given to it in subsection 6.3.8 (Supplementary Material)
<b>Parent Company Support or PCS</b>	has the meaning given to it in paragraphs 6.9.2.5 to 6.9.2.11
<b>PDFH</b>	Passenger Demand Forecasting Handbook
<b>Peaks</b>	means the Morning Peak and the Evening Peak
<b>PPD</b>	the pre-qualification process document that accompanied the EoI
<b>Proposed Risk Adjustments</b>	has the meaning given to it in subsection A3.2 (Overview of process) of Appendix 3 (Risk Adjustment Process)
<b>Quality Score</b>	the score awarded to a Bidder in accordance with subsection 7.11 (Conversion of evaluation scores into quality scores)
<b>Rail Technical Strategy or RTS</b>	Rail Technical Strategy as published on 13 December 2012 by the Technical Strategy Leadership Group of RSSB
<b>Regulation (EC) 1370/2007</b>	has the meaning given to it in paragraph subsection 3.12
<b>Relevant Initiative</b>	has the meaning given to it in paragraph 7.5.6
<b>Relevant Operator</b>	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)
<b>Required Parent Company Support or Required PCS</b>	has the meaning given to it in paragraph 6.9.2.9
<b>Required Supplementary Material</b>	has the meaning given to it in paragraph 6.3.8.1
<b>Residual Value Mechanism or RV Mechanism</b>	has the meaning given to it in subsection 5.2
<b>Risk Adjusted Financial Model</b>	has the meaning given to it in paragraph 7.7.1.2
<b>Risk Adjusted NPV</b>	has the meaning given to it in subsection 7.7.1 (Financial Robustness)
<b>ROSCO</b>	Rolling Stock Company

<b>Term</b>	<b>Meaning</b>
<b>Scheme</b>	has the meaning given to it in paragraph 5.2.1
<b>Schedule of Initiatives</b>	has the meaning given to in paragraph 4.14.4.9
<b>Secretary of State</b>	has the meaning given to it in subsection 1.1 (Introduction)
<b>Secretary of State Risk Assumptions</b>	the assumptions specified in Schedule 9.4 (Secretary of State Risk Assumptions) of the Franchise Agreement
<b>SMEs</b>	small and medium-sized enterprises
<b>Specification</b>	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)
<b>Stakeholders</b>	include without limitation:  Network Rail, Office of Rail and Road, Rail Standards and Safety Board, National Skills Academy Rail, other train operators, freight operators, rolling stock leasing companies, Association of Train Operating Companies/Rail Settlement Plan, British Transport Police, Rail Delivery Group, trade unions, National Rail Enquiries, cross-industry bodies, Disability/Accessibility Groups, Community Rail Partnerships, tourism authorities, Local Enterprise Partnerships, Local Authorities, Local Transport Authorities, Transport for London, Passenger Transport Executives, Combined Authorities and the Franchisee's wider supply chain including Small and Medium Enterprises (SMEs)
<b>Stage 2 Bids</b>	has the meaning given to it in paragraph 7.2.2.1
<b>Sub-Plan</b>	those plans as set out in the column headed 'Sub-Plan' in Table 5.1 (Delivery Plans and Sub-Plans)
<b>Supplementary Material</b>	means any and all items of Required Supplementary Material or Other Supplementary Material provided with the Bid as those expressions are defined in paragraphs 6.3.8.1 and 6.3.8.2, respectively
<b>Target Date(s)</b>	has the meaning given to it in paragraph 5.9.16
<b>Tests</b>	has the meaning given to it in subsection 6.10 (Updating of EoI financial and economic standing tests (the "Tests") and submission of updated bond provider letter(s))
<b>Train Service Specification or TSS</b>	An indicative specification, for Bidding purposes only, of services to be provided on the South Western Franchise as set out in Attachment A
<b>Typical Autumn Weekday</b>	A Wednesday in Autumn (excluding half term week) with no disruption to services, no special events generating abnormal demand and no Challenging Circumstances

Term	Meaning
<b>Worked Examples</b>	has the meaning given to it in paragraph 6.7.2
<b>Year of Breach</b>	has the meaning given to it in paragraph 7.7.2.2a



## **A2. Appendix 2: Note used**

## **A3. Appendix 3: Risk Adjustment Process**

### **A3.1 Introduction**

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

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 existing industry/Department guidance and research, new research, new data released after issue of the ITT 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 paragraphs 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 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 and Modelling Suite to assess the overall deliverability and quality of the Bid, the Department will identify whether it has concerns that any of the plans generate a material risk of a materially different financial outcome. Circumstances where these could arise include, without limitation, where:
- i. There are concerns about the operational, commercial or management arrangements set out, and therefore concerns as to whether the Franchise will require additional costs in order to deliver the Initiative, or whether it will generate the revenue that has been forecast;
  - ii. There are concerns about the implementation strategy for a particular Initiative, and therefore there is a risk that higher costs or lower revenue will arise than forecast; or
  - iii. There are concerns about whether the revenue or cost attributed to an Initiative is achievable, even if the Initiative is implemented successfully, because of concerns about the methodology or assumptions used in the modelling of the impact of the Initiative.
- A3.2.1.3 If necessary and appropriate the Department may seek clarification under the clarification process described in subsection 4.14.2 (Engagement with Bidders and evaluation clarification process).
- A3.2.1.4 Further to the reviews described above, the Department will determine the values for exogenous revenue factors that it will use in the risk-adjusted forecasts for all Bidders, in accordance with subsection A3.4 (Revenue – exogenous). It will also identify any evidence or analysis provided by a Bidder with its Bid which may be relevant to the risk adjustment of another Bid, in accordance with subsections A3.5 (Revenue - excluding exogenous) and A3.6 (Cost).
- A3.2.1.5 The Department will then identify the risk adjustment(s) it intends to make to each Bidder's Models ("**Proposed Risk Adjustments**"). The Department will apply any exogenous risk adjustments prior to any endogenous risk adjustments. The basis for such risk adjustments is described below.
- A3.2.1.6 The Department will review the consistency of the Proposed Risk Adjustments individually and in aggregate and if necessary it will revise the Proposed Risk Adjustments.

A3.2.1.7 Before finally determining any risk adjustment(s), the Department shall inform the Bidder of the Proposed Risk Adjustments, and its rationale for the Proposed Risk Adjustments, provided that the Department reserves the right not to follow the process referred to in this paragraph and paragraph A3.2.1.8 in respect of that Bidder if, after taking into account the Guarantee and the Materiality Threshold in accordance with subsection 7.7.1 (Financial Robustness Test):

- i. 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 (on the basis that, in such circumstances, the risk adjustment process will have no impact on the outcome of the evaluation of the relevant Bidder's Bid); or
- ii. 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 Minimum Financial Robustness Period, but would result in it being projected to breach the Financial Ratios 1.050:1 at any subsequent point during the Core Franchise Term, and that further to the process described in subsection 7.7.1 (Financial Robustness Test) and subsection 7.3.5 (Scoring Methodology), the Department determines that this will not result in any change to the ranking of Bidders.

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.

A3.2.2 The Department reserves the right only to undertake none, some or all of the stages referred to in paragraphs A3.2.1.5 to A3.2.1.8 with respect to one or more leading Bidder(s), if it determines that undertaking those other stages of the process as described above will have no impact on the selection of the winning Bid.

A3.2.3 The Department reserves the right to develop its own models in order to assist with the calculation or aggregation of risk adjustments.

### A3.3 **Approach to determining adjustments**

A3.3.1 Subject to paragraphs 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.

Where the Department's reasonable view of the most credible financial outcome is that the Bidder's Initiatives will not be sufficient to meet the CE Performance Category Targets, the Department will not determine any applicable risk adjustments by reference to any potential Customer Experience Reimbursement Amounts that may become payable. The Department will instead risk adjust the cost the Department, in its reasonable view, considers the Bidder will need to incur to meet the CE Performance Category Targets.

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 Except with respect to Contingent Initiatives, 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.

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.

A3.4.2 For exogenous revenue factors, equivalent values will be used in the risk-adjusted forecasts for all Bidders. For GDP and CLE the Department will risk adjust these factors to the sources of the forecasts included in the Franchise Agreement and it may also include new forecast data released from these sources after the issue of the ITT. For other exogenous revenue factors, common values will be based on the Department's comparator model assumptions, unless the Department determines that there is credible evidence that it should revise these assumptions.

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 v4.0 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.

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. In determining any risk adjustment to assumptions for local, regional or national GDP growth included in Bidders' Models, the Department will ensure consistency with the national GDP forecast included in the Franchise Agreement. In determining any risk adjustment to assumptions for CLE growth included in Bidders' Models, the Department will ensure consistency with the source of the CLE forecast included in the Franchise Agreement.

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.

**A3.5 Revenue – excluding exogenous**

A3.5.1 Risk adjustments may be made in respect of any of a Bidder's endogenous revenue projections (i.e. the resultant predicted outcome of the methodology, assumptions and values used by the Bidder). For these purposes, endogenous revenue includes revenue from Initiatives, non-farebox revenue, and any other element of its revenue projections other than exogenous.

A3.5.2 Subject to paragraph 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, where the Department's mapping provided on the Data Site 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 paragraph 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 will be based on the Department's comparator model assumptions, unless the Department determines that there is more



credible alternative evidence available, 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 paragraph 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, under an incentive regime. Bidders should provide credible evidence to support their assumptions about incentive payments 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 incentive regime payments.

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:

- 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 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
- iii. One-off transition costs may have been overlooked, for example staff recruitment and training costs, and therefore risk adjustment(s) may be applied to add in cost provision for these one-off items.

A3.7.3 A station enhancement investment programme Initiative is proposed, to improve passenger satisfaction at a portfolio of stations, and therefore increase passenger revenue. The scope of the programme includes augmenting ticket offices, mobility impaired access, enhanced security, car parking, shelters, waiting rooms and toilet facilities at these stations. Risk adjustment could be appropriate if, for example:

- i. The timing of implementation could be considered to be unrealistically ambitious, for example if there is not adequate time to achieve any planning/highway consents, and risk adjustment could be applied to delay the realisation of benefits and costs;
- ii. The capital investment assumed for the station works could be considered unrealistically low and therefore risk adjustment could be applied to increase the capital investment required to deliver the works;
- iii. The scale, timing, build-up and/or trend in any passenger revenue benefits could be considered over-ambitious, or inconsistent with PDFH and/or WebTAG guidance, and risk adjustment(s) could be applied to scale back or increase the revenue benefits claimed;
- iv. One-off transition costs may have been overlooked, for example costs of provision of temporary facilities during the period when the works are being carried out (such as temporary ticket office and access arrangements), and therefore risk adjustment(s) could be applied to add in cost for provision of these one-off items; or

- v. Any additional annual operating and maintenance costs relating to these additional station facilities may have been excluded from the forecast, and risk adjustment(s) could be applied to add in some cost provision for this.

A3.7.4 A Bidder proposes enhancements to the customer proposition, in order to generate additional revenue. Examples could include revised branding, refreshment of rolling stock, or provision of enhanced passenger information systems. Risk adjustment could be appropriate if, for example:

- i. The timing of implementation could be considered to be unrealistically ambitious, for example there could be inadequate time to implement the enhancement, and therefore risk adjustment(s) could be applied to delay the timing of revenue and costs associated with the Initiative;
- ii. The costs assumed to implement the enhancements could be considered unrealistically low, and risk adjustment(s) could be applied to increase the costs assumed accordingly;
- iii. The scale, timing, build-up or trend of passenger revenue resulting from the enhancements could be considered over-ambitious, for example if the assumptions used are not consistent with PDFHv5.0 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 from the previous levels on this Franchise, but the claimed marketing return on investment is abnormally high and not supported with sufficient evidence from appropriate case studies and campaigns. Risk adjustment(s) may be applied to scale back the passenger revenue benefits claimed.

A3.7.6 A Bidder proposes ticket office closures, to be enabled by new ticketing technology and equipment, but the rate of deployment is considered to be too ambitious. Risk adjustment(s) may be applied to delay the envisaged level of staff reductions and timing of reductions and add back staff costs

accordingly. Any revenue benefits associated with the new ticketing technology would also be scaled back.

- A3.7.7 A Bidder assumes low rates of wage increases and does not provide evidence that this is consistent with market rates and therefore that it will be able 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 and associated costs. If appropriate, the revenue forecast could also be subject to risk adjustment to reflect the impact of reductions in staffing levels on passenger revenue.
- 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 to reflect more credible alternative forecasts of the trend in energy costs.
- 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.