

**Strategic Rail Authority**

**Franchise Replacement Process**

**February 2005**

**This document is subject to change. Where there is a variance between this document and any formal instruction relating to a specific franchise replacement process, the formal instructions take precedence.**

## CONTENTS

	Page
1. Introduction	3
2. Purpose	3
3. Background and issues	3
4. Overview of the franchise replacement process	4
5. Objectives and content of each Work Stream	4
5.1 Work Stream 1 – Initial project	4
5.2 Work Stream 2 – Base case	5
5.3 Work Stream 3 – Define service options	5
5.4 Work Stream 4 – pre-qualification	5
5.5 Work Stream 5 and 6 – Produce detailed specification (Base and Options)	7
5.6 Work Stream 7 – Prepare ITT	7
5.7 Work Stream 8 – Maintain and finalise business case	7
5.8 Work Stream 9 – Procure	7
5.9 Work Stream 10 – Mobilise	11

## APPENDICES

1	Template replacement project plan
2	Compliance testing
3	Review of operational integrity
4	Financial evaluation process
5	Options evaluation
6	Wider considerations in awarding franchise

## 1. Introduction

This document sets out the franchise replacement process to be used by the Strategic Rail Authority ("SRA") in future franchise replacement projects. It will be reviewed periodically and updated in the light of experience.

## 2. Purpose

The purpose of this document is to provide clarity to industry parties involved in franchise replacement on the SRA processes, planned timescales and objectives of each stage of the process.

The franchising of passenger rail services is a core activity for the SRA and it has a statutory duty to obtain best value for money for government, taxpayers and passengers in undertaking this activity.

The SRA believes that best value for money will be obtained through operating an objective, fair and transparent process in a timeframe that is understood by industry parties and which is effectively managed.

The timeframe for the replacement of franchises has to allow sufficient time for proper consultation with industry players and other stakeholders to enable the best value proposition to be developed, tendered and enshrined in a robust and enforceable contract.

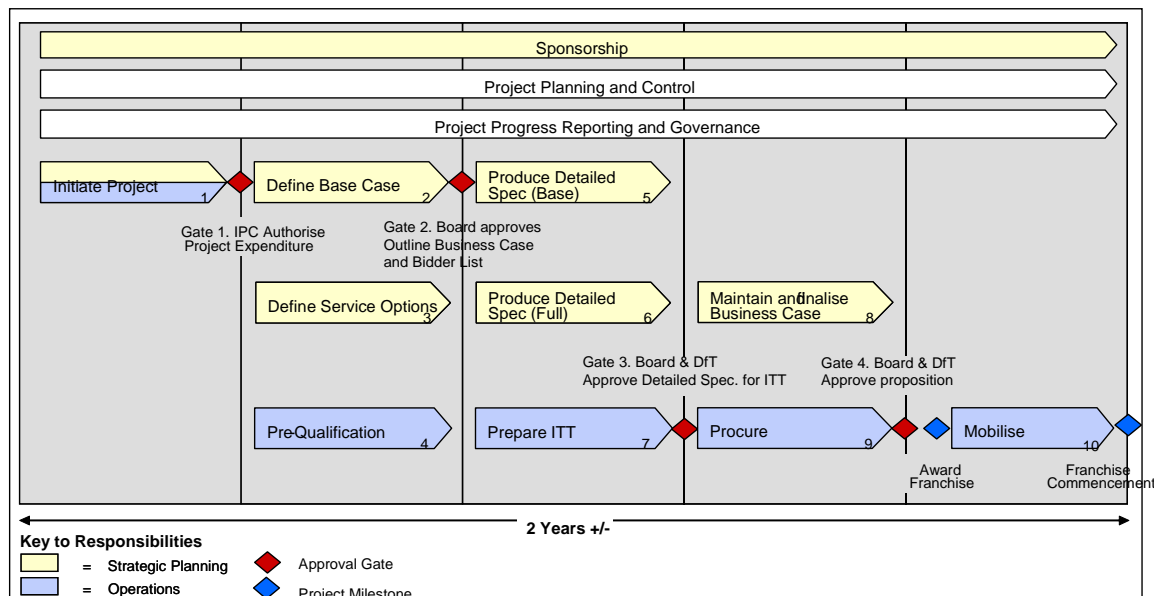
## 3. Background and Issues

The SRA published the Franchising Policy Statement in November 2002 and this has led to the development of a new standard form of Franchise Agreement. Two franchises to date have been let under this new agreement: "ONE" (Greater Anglia) and Northern Rail. The ScotRail franchise was also based on the new agreement but with some changes made at the behest of the Scottish Executive.

The Secretary of State's statement of 19 October 2004 lays out the franchise replacement activity to be carried out in the near future. The SRA is currently working towards aligning its replacement processes with the requirements of the White Paper "The Future of Rail", dated July 2004, and will revise the template franchise agreement accordingly. Changes may be required to this document as a consequence.

#### 4. Overview of the Franchise Replacement Process

Figure 1, below summarises the Work Streams in the franchise replacement process and indicates those responsible within the SRA for delivering each.



The Work Streams shown in yellow (numbered 2, 3, 5, 6 and 8) are the responsibility of Strategic Planning Directorate within the SRA whilst the Work Streams shown in blue (4, 7, 9 and 10) are the responsibility of Operations Directorate of the SRA. Work Stream (Initiate Project) is the joint responsibility of both Directorates. Throughout the process the teams will work closely together and with the Franchise Management team within the Operations Directorate. At key stages in the process OGC (Office of Government Commerce) Gateway™ Reviews will be held. The reviews will demonstrate, amongst other things, readiness for the next stage in the process.

#### 5. Objectives of each Work Stream

The following sections summarise the objectives of the ten Work Streams. Additionally more detail is provided in respect of the rationale and processes for the Work Streams Pre-qualification (Work Stream 4) and Procure (Work Stream 9).

##### 5.1 Work Stream 1 – Initiate Project

- To define the resources, detailed milestones and budget for the replacement activity (the Project Plan)
- To produce a high level business specification for the franchise
- To establish affordability constraints
- To seek approval for the replacement project, budget and timescales and associated procurement strategy
- To mobilise the project team

## 5.2 Work Stream 2 - Base Case

- To produce a base business case, including development of more detail of the service specification
- To develop a franchise cost comparator model
- To undertake preliminary consultation with Network Rail to consider deliverability of the base proposition
- To re-affirm the affordability of business case specification.

## 5.3 Work Stream 3 – Define Service Options

- To produce a list of options that might be priced by the bidders that:
  - improves value for money
  - reduces costs/subsidy need or enhances revenues
  - improves performance of service delivery

During Work Streams 2 and 3 external consultation may be undertaken with Network Rail, The Office of Rail Regulation Transport for London, Passenger Transport Executives, Rail Passenger Committees, local authorities, as appropriate. Department for Transport (“DfT” consultation is required for Board approval to proceed with Work Streams 5 and 6. Some Work Streams can be run in parallel, if necessary.

## 5.4 Work Stream 4 – Pre-Qualification

### Background

In the past this has been an activity undertaken immediately prior to issue of an Invitation to Tender (“ITT”). The Authority has decided that in future that this activity should immediately follow Work Stream 1. This will have a number of advantages as earlier pre-qualification will allow:

- Formal consultation with OFT in relation to competition between transport modes, (if OFT determine that there is a dominant position developing with one or more of the pre-qualified respondents there should be sufficient time within OFT processes for this to be resolved without increasing bidder or SRA risk of the franchise competition being frustrated)
- More time for pre-qualified bidders to develop rolling stock options and negotiate rolling stock leases
- Consultation between the SRA and pre-qualified parties during development of the specifications. Whilst it is recognised that most bidders will wish to ‘keep their powder dry’ until the ITTs arrive, the SRA would welcome the input of bidders at this stage to improve clarity and remove ambiguities from the specifications.
- Better and more complete consultation between bidders and other stakeholders prior to bid submission.
- More time for pre-qualified bidders to establish teams.
- More time for the collection of information for data rooms.

NB. The SRA does not wish to increase bidder’s costs by effectively extending the duration and, therefore, the cost of the resources allocated to bidding. Rather the SRA would expect a less intense resource utilisation by bidders and more considered response

given the longer timeframe now envisaged and the reduction in risk associated with this process.

### The Pre-Qualification Process

The process comprises the following steps:

- Publication of an OJEU notice (Official Journal of the European Union). This may (but not in all cases) be accompanied by (and simultaneous with) an advertisement in the trade press requesting Expressions of Interest.
- Issue of pre-qualification documentation by the SRA. This comprises: Prequalification Process Document, Accreditation Questionnaire, Business Excellence (EFQM<sup>®</sup>) Questionnaire, and Franchise Letting Process Agreement. These documents are made available on the SRA website after the publication of the OJEU notice.
- Response by the SRA to clarification questions from interested parties.
- Response by potential bidders to the OJEU notice by means of an Expression of Interest. This will be in the form of a completed Accreditation Questionnaire, a completed EFQM Questionnaire, and a completed Franchise Letting Process Agreement.
- Compilation by the SRA of model answers to the Accreditation Questionnaire.
- Evaluation by the SRA of the Expressions of Interest by potential bidders and comparative scoring of those responses.
- Formal consultation between the SRA and the Office of Rail Regulation (required by section 26 (2) of the Railways Act 1993,
- Selection by the franchise replacement team of the preferred list and a recommendation to the SRA Board as to pre-qualified bidders.

### Pre-qualification rationale

Potential bidders must not see the pre-qualification process as additional and unnecessary bureaucracy. It has a finite objective; to select between a minimum of 3 bidders and a maximum of 5 potential bidders. This accords with government guidelines on procurement, where 3 is regarded as the minimum number of bidders that allows for an effective comparison with the pre-determined cost comparator and still provides sufficient surety in the event of a bidder falling by the wayside and 5 bidders, as the maximum, which seeks to ensure that all bidders have a reasonable (>20%) chance of success and, therefore, of recovering the not inconsiderable costs of bidding.

Public law and European procurement rules require that the bidder selection process is both objective and non-discriminatory.

### Pre-qualification methodology

The basis for selection involves judging the quality of the responses submitted against each parameter set out in the Accreditation Questionnaire (e.g. performance management approach and skills, quality management, people management, similar relevant experience etc.) Each of these factors is assigned a pre-determined weighting and the responses are scored against the pre-defined model answer. The model answer provides a scale for scoring such that the person marking has an objective test that distinguishes

clearly between answers. Financial Strength and Business Excellence are evaluated in accordance with OGC (Office of Government Commerce) guidelines.

Following the independent scoring a meeting is held and any differing scores are discussed and a consensus of the team is arrived at for each parameter. The weightings are then applied and a final score calculated for each potential bidder. An analysis of scoring of each parameter is also undertaken to ensure that the weighted scoring system has no hidden fundamental shortcomings or failures to comply.

The evaluation team then forwards a recommendation to the SRA Board on the number of bidders to be included on the list and the names and rank order of the preferred tenderers.

### **5.5 Works stream 5 and 6 – Produce Detailed Specification (Base and Options)**

The objective of these Work Streams is to finalise the specification for attachment to the ITT. This will involve extensive consultation with NR and other stakeholders. Outputs from these Work Streams are:-

- fully developed comparator model
- determined business case for the base case and the options to be priced by bidders
- finalised specifications suitable for use in the ITT

### **5.6 Work Stream 7 – Prepare invitation to tender (ITT)**

This Work Stream runs in parallel to Work Streams 5 and 6. Its objective is to develop the draft ITT (incorporating the Detailed Specification, Base and Options) that will be issued in Work Stream 9. Outputs from this Work Stream include:

- a financial model template (in Excel format) for later completion by bidders;
- a contract (Franchise Agreement) template clearly defining non-negotiable and negotiable matters.

DfT consultation is required on the outputs of Work Streams 5, 6 and 7 before they are submitted to the Board for approval prior to issue to pre-qualified bidders.

### **5.7 Work Stream 8 – Maintain and Finalise Business Case**

This Work Stream runs in parallel to Work Stream 9. Its objective is to manage any changes to the Specification, Comparator Model and Business Case to reflect and inform the negotiations. The Work Stream's ultimate output is the finalised Specification, Comparator and Business Case, for approval.

### **5.8 Work Stream 9 - Procure**

#### **The ITT and the evaluation process.**

The objectives of this Work Stream are to:

- issue the ITT;
- respond to the questions raised by bidders prior to submission of bids;
- fairly evaluate the bids received;

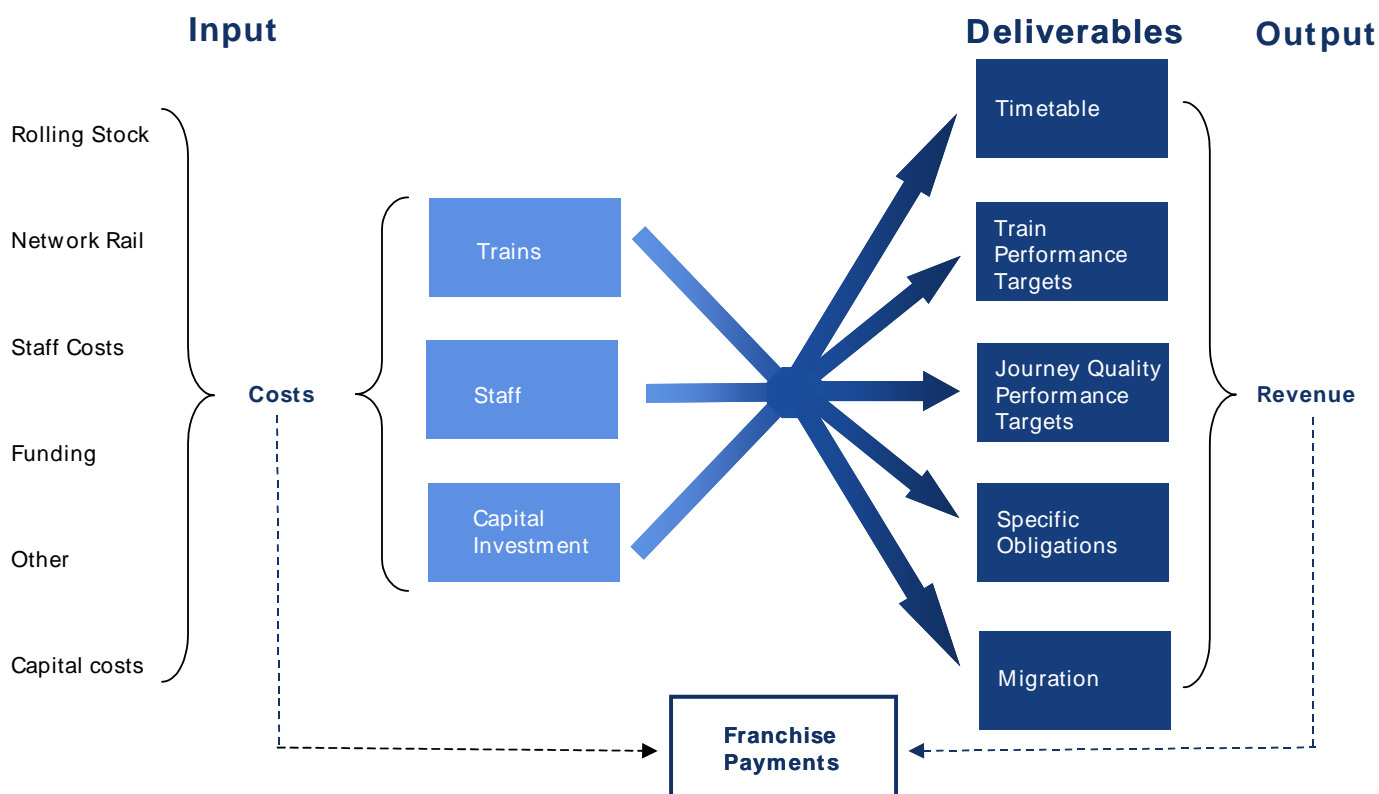
- seek clarification of bidders responses where necessary;
- select the most economically advantageous bidder;
- satisfactorily contractualise the commitments; and
- award the contract.

The objectives of the evaluation process are to:

- identify the areas within each bid that require clarification and negotiation;
- provide an objective means of ranking bidders;
- enable the timely selection of the most economically advantageous bidder;
- decide on the options that are to be included in the franchise agreement;

### Evaluation Philosophy

Figure 2 below shows the relationship between inputs, deliverables and outputs.



The SRA defines the deliverables through the franchise specification and the ITT documentation.

The bidder determines in its bid the inputs (resources) needed to deliver the deliverables and the cost of the supply of those inputs. The bidder also estimates the revenue output and the resultant franchise payments whether they are premiums paid to the SRA or subsidy paid by the SRA.

The SRA's primary objectives in the re-letting of franchises are set out in the Government's White Paper entitled "The Future of Rail" dated July 2004 and the SRA's Franchising Policy Statement of November 2002. They include:

- Maintaining high standards of service;
- Improving operational performance and sustaining a level of service quality consistent with meeting customer needs;
- Delivering an efficient service within public expenditure constraints that represents value for money for passengers and taxpayers; and
- Securing accountable, viable operators who are able to demonstrate a culture of excellence and continuous improvement.

Clearly the process for the evaluation of the bids for franchises must ensure that these overarching objectives are not prejudiced. The evaluation process to be used by the SRA will therefore not simply look at the outputs (the franchise premium/subsidy expected from a particular bidder) rather, it will be a "bottom up" approach to evaluation which will consider in detail whether the:

- bidder's proposed operational plans (resources) are capable of delivering the specified deliverables;
  - projected input costs are consistent with the operational plans and are credible
  - forecast outputs (revenues) are realistic and appropriate with regard to the input and the required deliverables.

### Franchise evaluation process

**Following the issue of the ITT and, in any event, before the opening of the returned tenders the franchise replacement team will:**

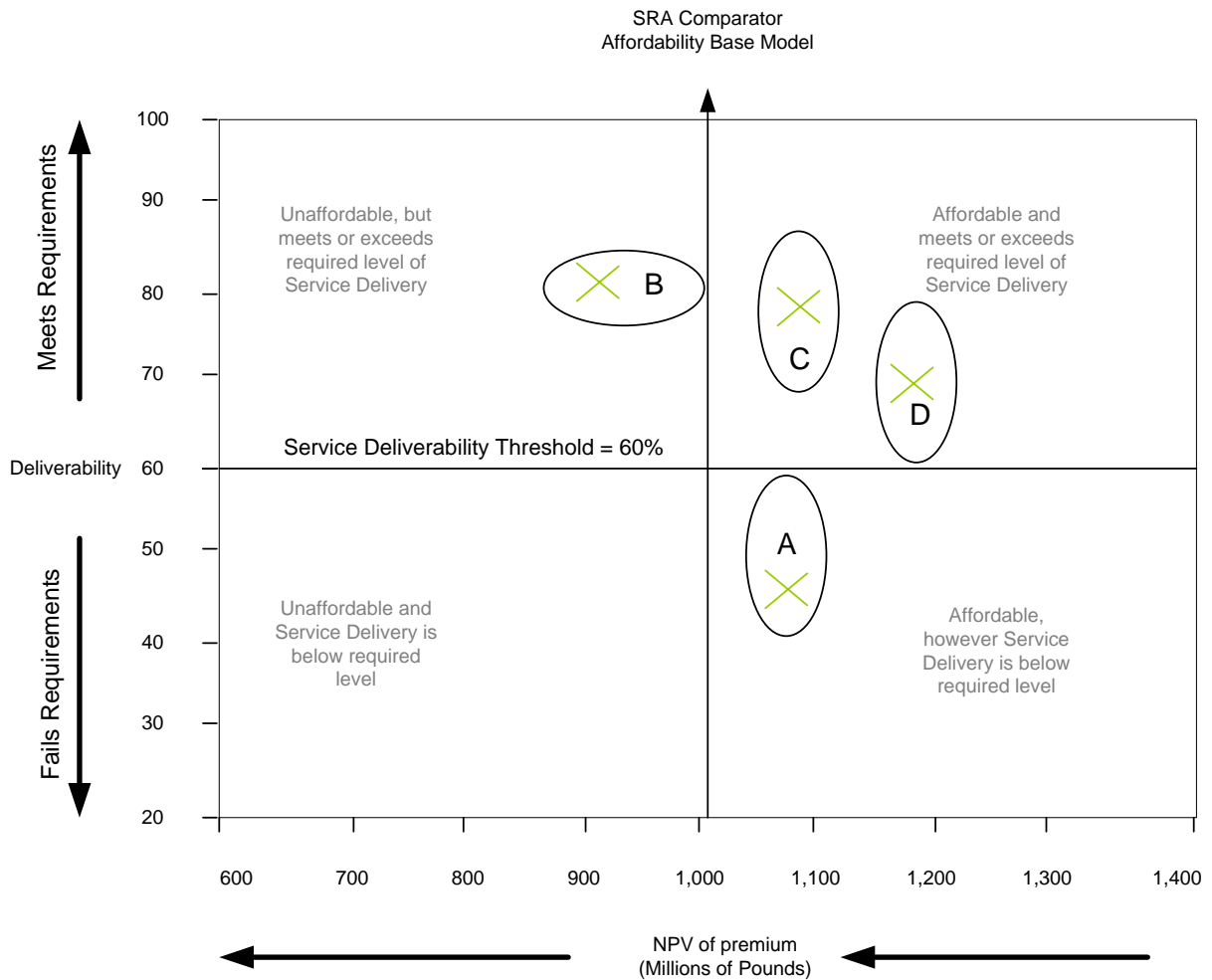
- customise the template franchise evaluation process to reflect the specific franchise and the specifications issued;
- develop a day-by-day programme for the evaluation process allowing sufficient time for internal and DfT authority processes;
- ensure that internal and external consultation is undertaken and relevant comments/views are duly considered; and
- allocate skilled resource to conduct the evaluation and review the bids received.

**The template evaluation process comprises five key elements as set out below:**

- Compliance – see Appendix 2
- Operational integrity/deliverability – see Appendix 3
- Financial and economic – see Appendix 4
- Option evaluation – see Appendix 5
- Wider impacts of franchise award – see Appendix 6

**Results mapping**

The results of operational integrity and the financial evaluation are plotted on a 2 x 2 results matrix – an example is shown below in Figure 3.



**Figure 3 - Example: Results matrix**

In the example above four bids have been plotted onto the 2x2 matrix. The shape of the ellipses indicate how a bid may have the potential to be negotiated to an acceptable position – horizontal where there may be negotiation on affordability, and vertical where there may be negotiation on deliverability. Showing the results in the various quadrants indicates:

- Bids that fall into the **bottom left** quadrant are likely to be rejected as they fail to meet both the affordability/comparator threshold (i.e. the present value of the franchise payments) and the required level of operational integrity.
- The **top left** quadrant is not affordable. If the evaluation team's view is that the deficient components of the bid B have potential to be negotiated to an acceptable position then any negotiation should focus on this.
- The **bottom right** quadrant fails to meet the minimum operational integrity threshold so in this example, bid A is affordable but not acceptable in respect of operational integrity.
- Bids that fall into the **top right** quadrant meet both affordability and operational integrity thresholds. In this example, Bids C and D both 'pass' the evaluation requirement. Bid C delivers more than required at an acceptable price. Bid D is the lowest cost and delivers what is required.
- The positioning of the bids on the results matrix will inform the outcome and/or the next stages of the evaluation/negotiation process. It may in this example be desirable to undertake further analysis as to the financial and economic value of the aspects of service delivery offered by Bid C exceeding the required level and to seek to reduce the price/improve the premium. In the case of bid D it may be appropriate to negotiate those areas of the bid where only a marginal pass has been obtained on operational integrity.
- The completion of the results matrix will be an iterative process as the negotiation proceeds and the positioning of the bids (or indeed alternative bids) changes.

### 5.9 Work Stream 10 – Mobilise

The objective of this Work Stream is to implement the new service and this will commence following selection of the preferred bidder.

Activities undertaken in this Work Stream will include

- the delivery of all conditions precedent prior to the franchise agreement;
- authorisation to commence the franchise; and
- progressing of all the activities in the mobilisation plan included in the franchise agreement.

## **The Franchise Replacement Process**

### **Appendix 1: Template replacement project**

The template replacement project plan is currently being revised (February 2005) and will appear shortly

## The Franchise Replacement Process

### APPENDIX 2

#### Compliance testing

Before the return of bids the evaluation team compiles a checklist of all the requirements set out in the ITT and/or the franchise agreement. Each bid is then subjected to a check of the content of the bids for completeness. In the first instance the normal SRA response to any non-compliance will be to ask a formal question to clarify the position on any issue and to ensure that there has been no misunderstanding.

The extent of compliance is then graded:

- Terminal - where the SRA may, but is not obliged to, exclude the bidder because a fundamental requirement of the ITT has not been met.
- Negotiation – where the bidder’s position is stated as mainly compliant but differing from the SRA’s and there is judged to be room for negotiation of the issue.
- Clarification – where information is missing or ambiguously presented. This may lead to negotiation.

A summary for each bidder is prepared and an inter-bidder summary is prepared to identify common issues for resolution.

# The Franchise Replacement Process

## APPENDIX 3

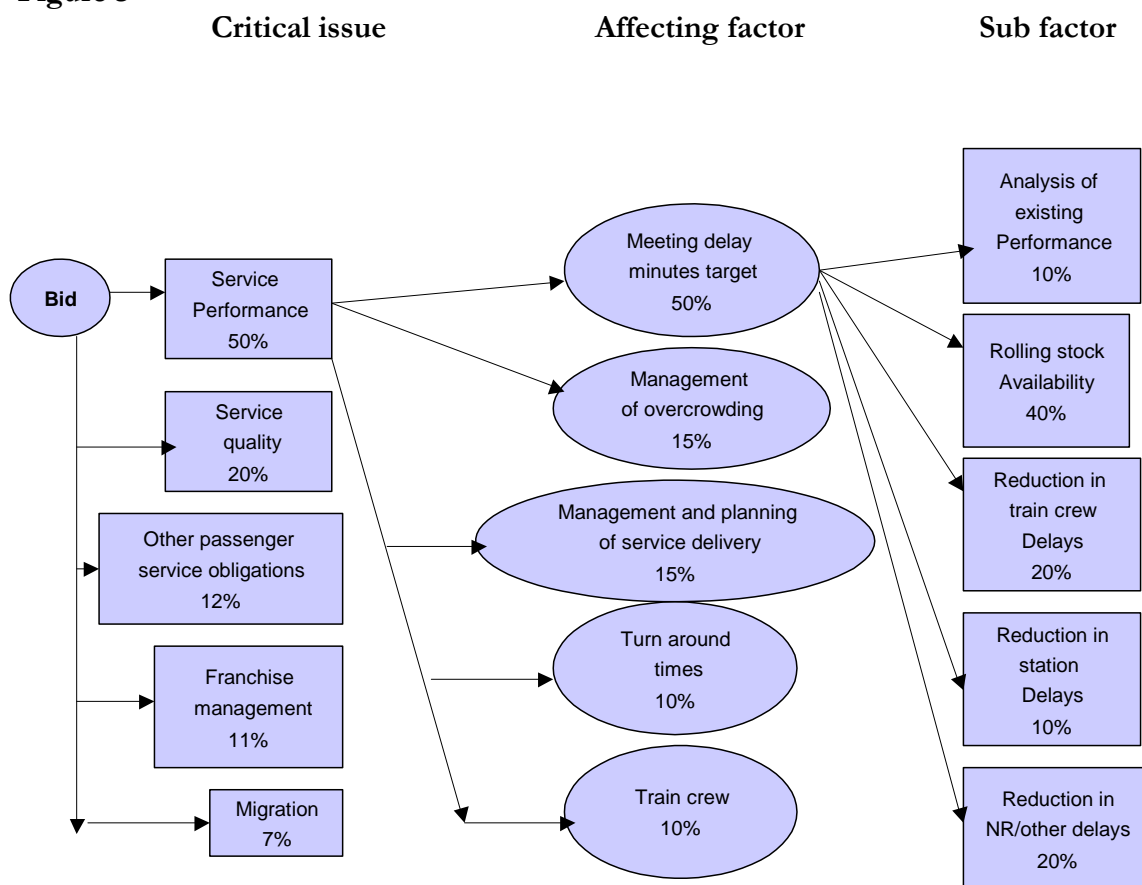
### Operational Integrity/Deliverability

#### Overview

Operational integrity is evaluated using a weighted scoring system. The weighted scoring system is multi-layered and focuses on critical issues important to the delivery of a successful franchise. The critical issues are then considered further and further weighting is ascribed to the factors that influence them. The critical issues and the affecting factors will be different between types of franchise and therefore all information in this appendix (and the weightings ascribed to any of them) must be regarded as illustrative.

**Figures 3 and 4 below show a purely illustrative picture of the hierarchy of issues and factors. Different hierarchies, including issues and weightings, are developed for each franchise competition reflecting the issues and objectives of the SRA in relation to that franchise.**

Figure 3



Each affecting factor will have a list of sub factors that influence the successful delivery of the factor and ultimately the critical issue and each sub factor is reviewed and weighted accordingly.

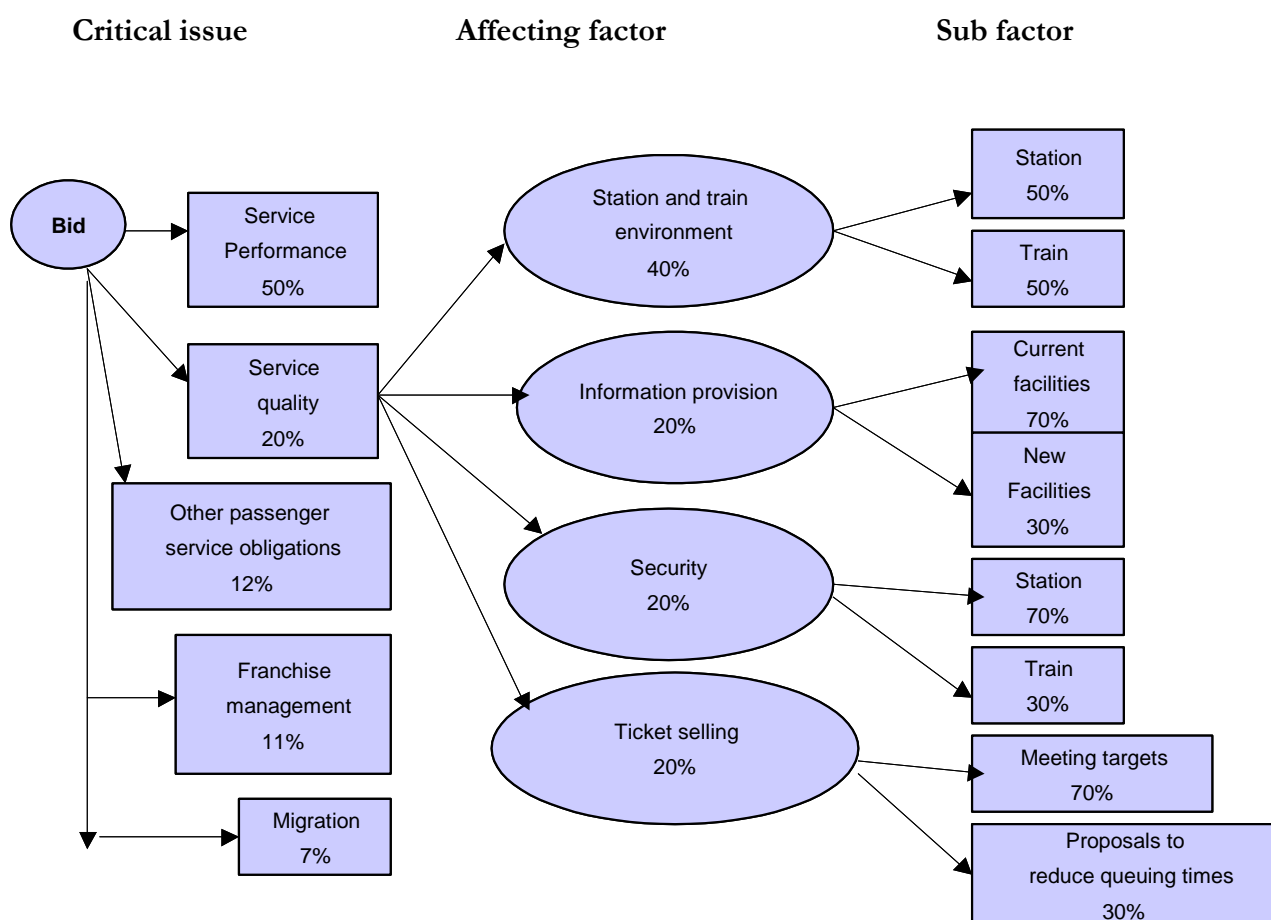
In respect of meeting the delay minutes targets in Schedule 7.1 the sub factors which are likely to affect performance will be assessed in terms of their expected impact. In each case, the train plan, the rolling stock plan, the depot plan and the performance improvement plans will be judged to determine whether a performance change can be

## The Franchise Replacement Process

secured on the basis of the input being promised, and also whether the action plan is deliverable in its own right, given the resources identified and costed. They will be used to 'sense check' the scores in the above table.

The SRA expects a clear flow through between the performance model to all other operational models and the financial model and vice versa where applicable. For example, if there is any performance improvement scheme which might cost money we would expect there to be corresponding cost and benefits reflected in the financial model. If bidders are forecasting performance to radically improve we would expect there to be an appropriate adjustment to passenger charter payments and financial benefits also accruing. If this is not the case the evaluator will highlight and record this for clarification/negotiation with the bidder.

**Figure 4**



The objective of the weighted scoring system is to ensure that:

- inconsistent scoring can be readily highlighted and the reasons for such scoring can be understood when the evaluation team reviews scores ascribed by individuals;
- there is consistency of scoring between the various individuals conducting the evaluation;

## The Franchise Replacement Process

- those elements of the bid that are judged most important are judged consistently between bidders; and
- that bids can be ranked using an aggregate percentage score.

### Overview of weighted scoring system

All scoring of operational integrity at all levels of the evaluation will be based on the following table:

**Table 1 – Scoring methodology**

Level	Description
100%	Substantially exceeds the requirement
80%	Exceeds the requirement. Clear difference from next level down (universally exceeded)
60%	Meets the requirement. Acceptable (target) level
40%	Fails to meet requirement (concerns that contract placement on this basis would carry risk/cost/performance dis-benefits)
20%	Fails to meet requirement with some attempt to address issue (major concern that contract placement on this basis would carry major risk/cost/performance dis-benefits)
0%	No mention in bid, total failure to meet requirement or substantially deficient

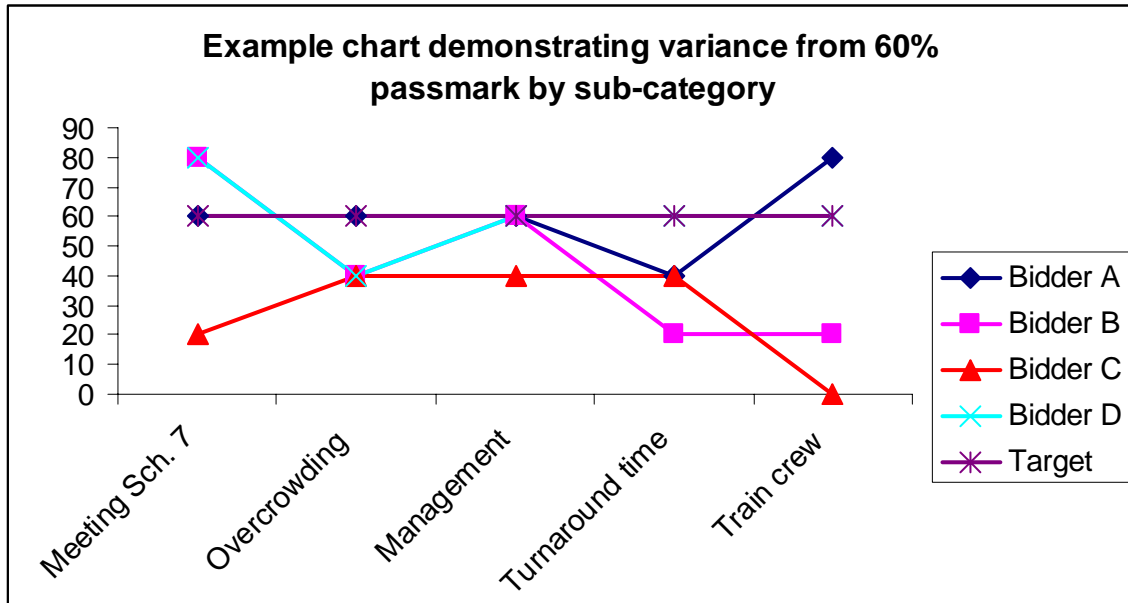
Individual evaluators, in the first instance, will score only on the above basis. The evaluation team may, during the course of the joint reviews, and with consensus, subsequently choose to graduate scores with greater granularity. (For example: two bids both of which appear to more than meet the requirement and should therefore score more than 60% but neither warrants an 80% score but one is significantly better than the other may result in the evaluation team allocating scores of 65% and 75%).

Key outputs from Operational Integrity evaluation:

- Narrative summary of the key features of the bidders' proposals
- Five decision tables showing:
  - Total weighted average score for all bidders
  - Scores segmented by critical issue (weighted average)
  - Scores segmented by factors (weighted average)
- Table providing details of each criteria and marking point with score achieved, reasons for the score, the proposed action to be taken (question to be asked, negotiation, improvement in performance, reduction in cost)
- Table summarising key criteria and marking points where the bidder has score lower than 60%
- Charts showing levels obtained
- Weighted average score by critical issue

## The Franchise Replacement Process

- Further segmented by factor (weighted average)



## The Franchise Replacement Process

### APPENDIX 4

#### Financial evaluation process

The financial evaluation criteria can be summarised as follows:

- Affordability and value for money
- Financial robustness
- Funding proposals

There will not be any scoring associated with the financial evaluation. Bidders will be ranked based on the net present value and profile of the subsidy/premium.

In assessing affordability it is vital that it is clear from the outset which scenario/variant is being evaluated. The Base Case incorporating bidder demand forecast is reviewed as this is the basis upon which bidders will take the risk of their proposed subsidy/premium within the franchise agreement.

The first step in the evaluation is to review and analyse the subsidy/premium profile including:

- Calculation of the present value (PV) of the proposed subsidy/premium over the franchise period
- Comparison of the annual bid subsidy/premium profile against the SRA affordability model over the franchise period. This will identify any initial affordability constraints that may be addressed through negotiation.

The second stage of the evaluation review will adopt a risk-adjusted methodology, whereby the subsidy/premium (both PV and annual) from the bidder's Base Case submission is 'normalised' taking account:

- of the SRA view of expected revenue is overlaid onto the bidder's projections
- the net effect of Revenue Share/Support flows
- bidders operating costs are adjusted to reflect the clarifications from the bidder. Should such clarification not be forthcoming an estimate of the incremental cost or reduction will be overlaid to both the cost and subsidy/premium profile. However, due consideration will be given to the appropriate point from which any adjustment should be made having regard to the likely impact on operations.

The result of the above is effectively a risk adjusted subsidy/premium profile reflecting a normalised view of revenue and costs that may then be evaluated by way of:

- comparison of the annual risk adjusted subsidy/premium profile against the SRA affordability model
- calculation of the PV of the above risk-adjusted profile at the Treasury dictated discount rate of 3.5% (real).

## **The Franchise Replacement Process**

The affordability and value for money of bidders base case proposals will then be ranked on the basis of the best PV of both the proposed and risk adjusted subsidy/premium.

In addition to, and to supplement the above, a standard high and low range of revenue projections prepared in advance by the SRA will be overlaid onto bidders' projections. The revised potential subsidy/premium profile can then be calculated based on the core subsidy/premium bid and the expected corresponding revenue share/support adjustments to provide an informed range of potential revenue and subsidy/premium.

### **Financial stability/robustness**

Each bid will be subjected to a line-by-line review of revenue and costs in the financial model to highlight key differences from the comparator model.

The key tool is assessing the financial stability/robustness of bidders' proposals results from running a number of pre-defined sensitivities. Sensitivities checks to be run on all bids against pre-defined scenarios include:

- Specific sensitivities (those related to cost movements e.g. staff costs)
- Revenues under the high and low scenarios

In undertaking the above, the key outputs to note are:

- degree of sensitivity (volatility of the bid to changed environment/circumstances)
- point of breach and default of the financial covenants in the franchise agreement and other funding agreements, if applicable.

### **Funding proposals**

Consideration will be given to the level of thought and development evidenced in funding plans with respect to the:

- provision of detailed funding plans;
- proposed form and sources of funding proposed; and
- the level of support provided in respect of the above, having regard to market conditions, and the impact on their likely deliverability.

The deliverability of proposed financing will be assessed with regard to the following:

- adequacy of funding proposed for stated purposes
- level of commitment received by the bidder from proposed providers of finance
- level of parent company support via guarantees and explicit knowledge/input to proposals
- extent to which the above is evidenced
- terms attached to proposed funding sources and current market conditions
- outstanding issues (e.g. credit approvals outstanding, conditions precedent)

## The Franchise Replacement Process

Specific areas to be considered include:

- proposals for financing both working capital and capital expenditure
- performance bond
- season ticket bond
- proposed commercial and financial structure having regard to:
  - proposals for initial and ongoing investment from shareholders in the bidding vehicle
  - allocation and identification of responsibilities for financial management

### Key outputs from financial evaluation

- Table summarising and ranking bidders' subsidy/premium proposals based on the net present value of:
  - unadjusted bid
  - risk adjusted for the SRA view of bidders' proposals (with the risk adjustments separately identified)
- A table summarising the expected (i) revenue share ii) revenue support payments and resultant PV arising from:
  - bidder proposal vs. SRA expected view of revenue
  - bidder proposal vs. SRA high revenue scenario
  - bidder proposal vs. SRA low revenue scenario
- A summary of the results of the affordability and value for money analysis
- An explanation of key variances between the SRA comparator model and respective bidder projections, together with detailed explanations of the rationale for adjustments to bidder proposals.
- A commentary on the funding plans and financial standing/robustness of bidder proposals, including a summary of the sensitivities performed on the bidders; base case bid
- Narrative summary of the key features of the bidders' proposals and commentary on the reasonableness of the bidders' assumptions

### Economic benefits

The evaluation team carries out a comparative quantification of the incremental economic benefits using standard SRA appraisal methodology for each bid.

A high level qualitative assessment will also be carried out by scoring each bidder against the items contained in the ITT appraisal summary table set out within the financial model. The marking levels will be:

- A Increase in economic benefits relative to SRA baseline
- B No material impact on economic benefits relative to SRA baseline
- C Reduction in economic benefits relative to SRA baseline

## The Franchise Replacement Process

### Key outputs from economic evaluation

- Table summarising score for each bidder against each component of economic benefits.
- Table providing full audit trail of the scoring of individual components of economic benefit against the scoring guide.
- Table summarising the PV of benefits/disbenefits claimed by each bidder for each line item in the economic benefits template.
- If a full quantitative appraisal is carried out by the SRA then a table summarising the SRA's view of the PV of benefits/disbenefits for each line item in the economic benefits templates, together with the NPV/k.

## The Franchise Replacement Process

### APPENDIX 5

#### Options evaluation

In assessing options specified by the SRA and variants proposed by the bidder, the SRA will determine at an early stage in the evaluation which options or variants it wishes to consider further having regard to:

- SRA policy
- Wider network implications
- Affordability constraints

#### Key outputs from initial evaluation

- Narrative comparison of key features of each bidder's proposal for the same option.
- Risk register summarising key risks for each bidder for each option and for each variant proposed.
- Key features of the proposal which are non-compliant with current policy, regulation or contracts (if not covered elsewhere).
- Risks associated with obtained approval/agreement from third parties (other than for areas of current non-compliance) (e.g. need to obtain timetable slots which are currently used by other Train Operating Companies or Freight Operating Companies).
- Any key implementation risks which are not covered by the above bullets (e.g. technology risks).
- Recommendation as to which options or variants should be taken forward either for inclusion in the franchise agreement with implementation of the option from commencement of the agreement or included on the basis that the SRA has a right to exercise the option post-franchise commencement.

#### Financial evaluation of options that are to be taken forward

Evaluation of options recommended for being taken forward will be conducted using the same criteria and methodology outlined in 'operational integrity and financial evaluation', adopting the relevant risk adjustment, where appropriate. Additional areas of review will be undertaken with regard to value for money analysis whereby options, variants and investment will be assessed having regard to:

- increase to base case benefits – most benefit for the least increase in subsidy;
- decrease to base case benefits – least fall in benefit for the greatest decrease in subsidy; and
- bidder proposals, risk adjusted as necessary, will be ranked based on the highest ratio of NPV of benefits to the NPV of incremental subsidy (the SRA's 'NPV/k' measure). The NPV/k appraisal of the incremental schemes will use the SRA 'expected' view of revenues and costs. The incremental subsidy will be taken as the increment against the SRA base case comparator model in accordance with the SRA policy rather than the increment against the bidder's base case. Economic benefits included in this appraisal will be as identified by bidders but valued by

## **The Franchise Replacement Process**

SRA. The resultant NPV must be positive to be considered to offer value for money.

## **The Franchise Replacement Process**

### **APPENDIX 6**

#### **Wider considerations in awarding franchise**

This section will not be scored or ranked in any way. Rather, these issues will need to be taken into account by the Board to the extent they apply when consideration is being given to each individual bid.

Factors that might be included in the list might include:

- Estimated time to conclude negotiation of the franchise agreement
- Suitability of financial and operational models provided by the bidder for use in variation mechanism
- Due consideration being given by the bidder to the SRA's Directions and Guidance
- Extent to which co-operation with third parties has been evidenced
- Section 54s/contingent liabilities