



# **New Cross Country Franchise**

## **Invitation to Tender**

**31 October 2006**

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## IMPORTANT NOTICE

This document is issued by the Department of Transport (DfT) pursuant to its functions and duties under the Railways Act 1993, the Transport Act 2000 and the Railways Act 2005 (together the 'Railways Legislation'). The powers of the DfT in relation to franchising and the re-letting of Franchises can be found in the Railways Legislation, which can be accessed via [OPSI - Legislation](#).

All references in this document to the DfT include, where appropriate and unless the context otherwise requires, references to the DfT's predecessors and successor(s).

All references in this document to Network Rail include, where appropriate and unless the context otherwise requires, references to Network Rail's successor(s).

This document is not a recommendation by the DfT, or any other person, to enter into or agree to amend a franchise agreement or to acquire shares in the capital of any company which is to operate, or in any parent company of the company which is to operate, passenger rail services or railway assets under the New Cross Country Franchise. In considering any investment in the shares of any company or in bidding for the award of the New Cross Country Franchise, those who have been invited to submit bids (Bidders), potential contractors, funders and investors should make their own independent assessment and seek their own professional financial, taxation and legal advice and conduct their own investigations into the opportunity of being awarded the New Cross Country Franchise and of the legal, financial, taxation and other consequences of entering into the New Cross Country Franchise Agreement (the Franchise Agreement).

The information contained in this document (Disclosed Information) has been prepared to assist interested parties in considering whether or not to make a bid proposal (a bid) in relation to the provision of the passenger rail services and other services comprising the New Cross Country Franchise and, if so, how to make it. It does not purport to be all-inclusive or to contain all of the information that a Bidder may require. Contracts may also change as a result of the process of migrating the two existing Franchises that will create the New Cross Country Franchise. The descriptions of existing and proposed contractual arrangements are of a general nature only. Where the document describes any contractual arrangements, which are not yet in force, those arrangements may change. Any reference to a contract or other document is qualified in full by reference to the entire terms of the contract or document referred to.

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The only information 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 the Bidders 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.

This document and the information contained in it is confidential and is being issued only to persons who have entered into an appropriate Franchise Letting Process Agreement (FLPA). Neither this document, nor any part of it nor any other information supplied in connection with it, may, except with the prior written consent of the DfT, be published, reproduced, copied, distributed or disclosed to any person other than in confidence to the recipient's advisers, nor used for any purpose other than consideration by the recipient of whether or not to make a bid. If the recipient does not continue with its interest in the award of the New Cross Country Franchise, or if the DfT notifies the recipient that the process has ceased, or that the recipient is no longer being considered for the award of the New Cross Country Franchise or otherwise upon request by the DfT, the recipient will promptly return this document and any other information provided in connection with it to the DfT, without retaining any copies or reproductions in any form.

The DfT reserves the right at any time to issue further supplementary instructions and updates and amendments to the instructions and information contained in this document as it shall in its absolute discretion think fit.

Eversheds, Ernst & Young and Booz Allen Hamilton are acting for the DfT, in each case in relation to the award of the New Cross Country Franchise, and will not regard any other person as their client or be responsible to anyone other than the DfT for providing the protections afforded to their clients nor for advising any other person on the contents of this document or any matter referred to in it.

The DfT will not be responsible for the costs or expenses of any Bidder in relation to any matter referred to in this document howsoever incurred, including the evaluation of the New Cross Country Franchise opportunity, the award, or any bid for the award of the New Cross Country Franchise, or negotiation of the Franchise Agreement.

Unless the context otherwise requires, capitalised terms used in this document shall have the same meaning given to them as in the Franchise Agreement.

This ITT document should be read in conjunction with the Franchise Agreement and the National Rail Franchise Terms (NRFT) which will be issued later.

31 October 2006

## **SECTION 1: INTRODUCTION AND CONTEXT**

### **1.1 Purpose of this Invitation to Tender**

This Invitation to Tender (ITT) sets out:

- the New Cross Country Franchise proposition for which the DfT is seeking bids;
- how the competitive process will work;
- how Bidders should complete their bids; and
- how the evaluation process will work.

Appendices and a number of documents are attached which set out the requirements for the completion of bids and additional relevant information.

The DfT's aim is for the New Cross Country Franchisee (the Franchisee) to commence operations with effect from 02.00am on Sunday 11 November 2007.

### **1.2 Scope of the New Cross Country Franchise**

The New Cross Country Franchise will consist of six service groups:

- Plymouth to Edinburgh via Leeds (with some extensions to / from Penzance & Aberdeen) and Glasgow;
- Reading (routed via Solihull) to Newcastle (via Doncaster);
- Bristol to Manchester (via Stoke on Trent);
- Bournemouth to Manchester (via Coventry and Stoke on Trent);
- Cardiff/Birmingham to Nottingham; and
- Stansted and Cambridge to Birmingham (including Leicester to Birmingham local services).

A map of the New Cross Country Franchise area and routes is included as Appendix 1 ( New Cross Country network -SLC2).

### **1.3 The DfT's Objectives for the New Cross Country Franchise**

The DfT's objectives for the New Cross Country Franchise are:

- To achieve sustainable value for money of the new Franchise within the constraints of the overall franchise budget;
- To improve operational performance of New Cross Country trains to contribute towards national performance targets;
- To seek to accommodate current and anticipated future growth in passenger demand;
- To seek to improve alignment with stakeholder aspirations;
- To realise the benefits to the Franchise from the West Coast Route Modernisation programme;
- To facilitate locally sponsored increments and decrements;
- To ensure alignment of the New Cross Country service specification with the specification of other Train Operating Companies (TOCs) across the Network; and
- To seek to improve accessibility for all to New Cross Country services.

## **1.4 Proposals for Enhanced Capacity**

As stated in the Franchise Objectives above, the DfT is seeking to accommodate current and anticipated future growth in passenger demand on the services to be provided by the Franchise. Provision of additional capacity (generally in the form of additional rolling stock) is one route to achieve this, but may be a relatively high cost solution which is neither affordable nor value for money. In order to obtain the view of the market of the relative cost of the DfT's view of desired additional capacity, Bidders will be required to submit two Proposals within their bid as follows:

- **Proposal A** which is the Bidder's best price for achieving the Franchise objectives and providing a level of seating capacity which in its view provides the optimum balance between additional costs and revenues. A minimum level of capacity provision (broadly equating to current levels) is specified in this Proposal, with Bidders free to determine any additional capacity provision that they believe to be 'self financing'. The Franchisee will be obliged to deliver the agreed level of capacity in accordance with the bespoke seat-based regime to be contained in the Franchise Agreement and the general capacity provisions contained in the National Rail Franchise Terms; and
- **Proposal B** which is the same as Proposal A, but with an enhanced bespoke seat-based regime (compared with Proposal A) as specified by the DfT.

Further details on how these Proposals should be presented and how they will be evaluated are provided in this ITT.

Failure to submit two Proposals will be regarded as a non-compliant bid for the Franchise.

## **1.5 Closing date for Bids**

**Bids must be submitted by 12.00 hours GMT on Friday 2 March 2007**

## SECTION 2: INFORMATION AND INSTRUCTIONS TO BIDDERS

### 2.1 Franchising Timetable and Process

An overview of the DfT's management process for the letting of a Franchise is documented in the Franchise Replacement Process Manual (FRPM), a copy of which is on the DfT website [Rail Franchise Replacement Process Manual](#). The remaining stages of the process for appointing the Franchisee – Bid Preparation; Bid Evaluation and Negotiation; and Mobilisation – together with their indicative timings are set out below.

Table 2-1: Franchising timetable

Stage	Description	Party Responsible	Planned Date
<b>Bid Preparation</b>	Preparation of bids	Bidders	31 October 2006 - 2 March 2007
	Submission of bids	Bidders	By 12.00 GMT on 2 March 2007
<b>Bid Evaluation &amp; Negotiation of Bids</b>	Evaluation of bids, clarification, negotiation and agreement to terms of the Franchise Agreement and related documentation. Secretary of State consent to New Cross Country Franchise award	The DfT and Bidder(s)	March 2007 - July 2007
<b>Mobilisation</b>	Prepare for transfer of operations	Franchisee	July 2007 - 11 November 2007

The DfT reserves the right to alter the timetable or the process, or terminate this process at its sole discretion. Bidders will be informed of any such changes.

### 2.2 Restriction on Communications/Press Releases etc during Franchise Competition

The outcome of a rail Franchise competition is of national significance and therefore generates a high level of public interest and media speculation. Bidders should not use media or communication channels in a way which might reflect adversely and unfairly on the industry, its participants or the integrity or outcome of the competition.

Therefore, during the Bid Preparation Phase and until the award of the New Cross Country Franchise, the DfT requests that Bidders confine any communications about the competition to communication that is necessary in order to develop their proposals. Until the award of the New Cross Country Franchise, Bidders are asked to refrain from comment to national, local and industry media, Passenger Focus, Members of Parliament and stakeholders about matters connected with the New Cross Country competition. If there are compelling reasons to make a public statement or comment then, so far as practicable, the DfT expects Bidders to discuss the content of such statements or comments with the DfT in advance.



### **2.3 Changes in Circumstances**

Bidders (including for this purpose each participant in any joint venture or consortium arrangement) are required to notify the DfT of the occurrence of any of the events listed below (for the purposes of this Section 2.3, a ‘Change in Circumstances’) promptly, and in any case no later than 21 days after such Change in Circumstances occurs. A Change in Circumstance means the occurrence of any of the following:

- any change to their corporate structure or the structure of the bid vehicle from that set out in their application to be accredited to receive this ITT. This includes the grant of any options to acquire shares, any agreement relating to the exercise of rights attaching to such shares, and any amendments to a shareholders’ agreement, articles of association or similar constitutional documents;
- any changes to the information provided to the DfT as part of the accreditation process; or
- any other changes to their circumstances, or the basis of their bids, which may be expected to influence the DfT’s decision on the suitability of the bid vehicle to be the Franchisee for the New Cross Country Franchise.

Any such notification shall provide full details of the proposed change, including final form copies of the documentation required to put such change into effect.

The DfT reserves the right to approve or reject such changes (including any changes to the basis on which the Bidder was accredited to receive this ITT), or to impose such conditions as it considers appropriate. The DfT further reserves the right to exclude a Bidder from further participation in the competition where it rejects any such changes.

### **2.4 Cost of Bidding and Model Audits**

Each Bidder will be responsible for all costs, expenses and liabilities incurred by it in connection with the New Cross Country Franchise replacement process, whether or not its bid and/or associated negotiations are ultimately successful or the process is subsequently varied in any way. Bidders will be responsible for all costs associated with the Modelling Best Practice Confirmation and, if required, Model Audit (each as defined in Section 5.9 (Model Sign-off – Terms of Reference)). Bidders shall bear the risk of errors within the Financial Model, the Record of Assumptions and any associated Operational Models and of any adverse impact this may have on the subsidy or premiums payable. Further information on the requirements in relation to the Financial Model is provided in Section 5 (The Bid: Financial and Economic Elements).

### **2.5 Preparation of Bids**

The DfT expects to receive bids that contain minimal qualifications. Bidders should make full use of the information provided with this ITT, in the Data Site as defined in Section 2.6 (Data Site), and thereafter of the query process described in Section 2.7 (Query Process).

### **2.6 Data Site**

The DfT has established a ‘virtual data room’ (the Data Site), operated by Merrill Corporation, containing, in electronic form, documents and information specifically relating to the New Cross Country Franchise, together with a Central site of information relevant to all three concurrent Franchise competitions. These sites will contain data relating to the incumbent operators of the current Cross Country and Central Franchises respectively. They will remain available throughout the Bid Preparation Phase and until the Franchise award.

## 2.7 Query Process

All queries and requests for information must be submitted by Bidders in the Microsoft Excel format prescribed in the 19 September 2006 letter from John Gilbert, Divisional Manager, DfT Rail Contract Procurement to accredited Bidders. Questions and requests for clarification or additional information should be submitted by e-mail to: [newcrosscountry@dft.gsi.gov.uk](mailto:newcrosscountry@dft.gsi.gov.uk) (in respect of New Cross Country specific issues or [central@dft.gsi.gov.uk](mailto:central@dft.gsi.gov.uk) (in respect of Central issues).

## 2.8 Formulation of Queries

Any query or request for clarification or additional information must meet the requirements stated below. Failure to satisfy the DfT of the value of the information sought may result in the request not being accorded priority attention and/or it being viewed as an unreasonable request for information.

A Bidder may request that the DfT treat a query and its response as confidential. Any such requests must be made at the time of submission of the query. The DfT will advise the Bidder if it considers that the query cannot be treated as confidential, at which time the Bidder may either withdraw the query or accept that the response may (at the DfT's discretion) be transmitted to the other Bidders.

Bidders should clarify whether or not the information is available on standard industry systems or would be readily available within a TOC owned by the Bidder. (The latter only applies to current TOCs).

Bidders must ensure clarity as to the expected source, scope and format of the material required (e.g. passenger count details by period, by service group for the last year).

Queries from Bidders will be responded to expeditiously having regard to the nature, extent and availability of the information requested. The DfT will endeavour to respond to all queries before bids need to be submitted, but Bidders should note that the DfT cannot guarantee this, especially if queries are received later than ten working days before the required submission date, or if it has not been possible to collate the necessary data for a response.

The DfT reserves the right to transmit to other Bidders (without reference to the identity of the author of the query) the questions (other than those agreed as confidential) asked by, and the answers provided to, any Bidder. This will be done by means of bulletins published periodically on the Data Sites.

## 2.9 Structure and Format of Bids

Bidders should note that the DfT will evaluate the structural compliance of bids against the structure set out in Table 2-2 (Structure and Format of Bids) following any appropriate clarification, may ask for re-submission or disqualify any bid that does not conform or is deficient in comparison with this structure.

The size of the main text of the bid including the Executive Summary and proposed means of delivery of the Base Service Specification for Proposal A *including all annexes/appendices* will be limited to 2,000 pages; additionally 1000 pages are permitted for Bidders to describe the changes to Proposal A that are needed to deliver Proposal B. The size of the text relating to Priced Options will be subject to a separate overall size limit equivalent to 50 pages multiplied by the number of Priced Options requested by the DfT (including any Options that need to be separately submitted as they are different if Proposal A or Proposal B were adopted). Bidder generated Incremental Options are not subject to a size limit. This requirement is summarised in Table 2-2.

The following elements of the bid will be outside the page limit:

- The contents of the financial part as described in Table 2-2;
- The contents of the technical data part as described in Table 2-2;
- The contents of the legal and compliance part as described in Table 2-2; and
- Covers, section dividers and indices.

One page constitutes one printed side of A4. For main text the minimum font size is 11 pt and minimum line spacing is 13pt. Double sided printing will be permitted. Bidders will be encouraged to use a simple presentation style, avoiding expensive bindings, colour photographs and other high cost elements of production which do not directly add value to the substance of the bid.

The DfT reserves the right to advise any Bidder exceeding the page size limit that their bid is non-compliant and not to evaluate that bid unless/until the Bidder informs the DfT which pages they wish to withdraw in order to become compliant within a timescale stipulated by the DfT.

Table 2-2: Structure and Format of Bids

Bidders are required to provide the following when submitting their bids:

Part		Hard Copy	Electronic	Size limit
<b>1</b>	<b>Main text</b>			
	Executive Summary Delivery Plans for Base Service Specification of Proposal A (Section 4)	5 copies	4 copies +1 unpriced copy +1 HTM copy	2000 pages including annexes/appendices
	Changed Delivery Plans for Proposal B	5 copies	4 copies +1 unpriced copy +1 HTM copy	1000 pages including annexes/appendices
	Delivery Plans for Priced Options (Section 6)	5 copies	4+1+1 copies	50 pages x Options
	Delivery Plans for Bidder Incremental Options	5 copies	4+1+1 copies	none
<b>2</b>	<b>Financial</b>			
	Operational Models and Financial Model (Section 5) including revisions in respect of Priced Options and Incremental Options. Note that separate Models are required for Proposal A and Proposal B.	5 copies of Financial Model Output Templates	3 copies	none
	Record of Assumptions, Operating Manual, Modelling Best Practice confirmation, Financial Adviser's letter, Confirmation of Bond availability, ROSCO term sheets. Note that where these vary between Proposals A & B separate submissions are required.	5 copies	3 copies	none
<b>3</b>	<b>Technical Data</b>			
	Timetable submissions including: working timetables, rolling stock and crew diagrams and (if appropriate) platform workings in support of Delivery Plans for Base Service Specification, Priced Options and Incremental Options. Note that where these vary between Proposals A and Proposals B, separate submissions are required.	3 copies	4 copies	none
<b>4</b>	<b>Legal and compliance</b>			
	'Deltaview' mark-up of the Franchise Agreement,	3 copies	3 copies	none

	including completion of those parts marked 'Bidders to populate' Non-compliance statements Changes in circumstances and competition matters Declaration of Conformity Confirmation that bid will be held valid for 275 days from bid return date as specified in Section 2.16. Note that where these vary between Proposals A and Proposals B, separate submissions are required.			
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Where separate documents are being submitted for Proposal A and Proposal B (e.g. Franchise Agreement), Bidders should indicate where the submission for Proposal B varies from that of Proposal A.

**2.10 Timetable submissions**

Bidders are required to present a submission that clearly shows a complete pathway for every passenger service required by Service Level Commitment 2 (SLC2) and all associated Empty Coaching Stock (ECS) movements required to deliver the passenger train service.

The timetable submissions must be provided in working timetable (WTT) format, using station banks that cover all of the routes contained within the relevant Network Rail Working Timetables, that include all compulsory timing points as listed in the Rules of the Plan (ROTP), and that show linecode and platform allocations at all locations where alternatives exist.

This timetable submission must be supplemented by a supporting commentary, and a complete set of Rolling Stock diagrams that show how Rolling Stock will be deployed to form each of the passenger and ECS trains, and how the Bidder's depot and stabling strategy is designed to operate.

Guidance regarding the requirements of Bidders for Service Level Commitment 1 (SLC1) will be issued in due course.

**2.11 Incremental Options**

The DfT welcomes proposals that enable the delivery of a more efficient service, representing better value for money for passengers and taxpayers (Incremental Options). Such Incremental Options must be presented, fully specified and priced incrementally from the Base Service Specification of Proposal A, and should be self-contained, i.e. not dependent on any other Incremental Option which may be included in the submission. If an Incremental Option would vary if it were incremental from Proposal B, this should be separately submitted, highlighting differences from that based on Proposal A.

The DfT requires the Incremental Option to be expressed as a clearly defined commitment, with clear timed plans for implementation that describe the circumstances and conditions under which the Incremental Option can be delivered, the benefits which will be achieved, and (if appropriate) how Bidders will engage with stakeholders in implementing proposals. Bidders will be expected to identify clearly the risks, constraints or other factors which may affect deliverability of any Incremental Option and any ways in which these might be mitigated or overcome.

## 2.12 Synergies Between Bids

Bidders for different Franchises, being competed concurrently, who share the same parent organisation may be in a position to offer operational and cost synergies were they to be successful in more than one Franchise. As such synergies would be conditional upon something over which the Bidder has no control, these cannot form part of the Base Service Specification. Bidders are free to propose such synergies as a Bidder Incremental Option should they wish.

## 2.13 Non-Compliance Statements

### Franchise Agreement Non-Compliances

Bidders are required, when submitting their bids, to list in the format set out in the following table, all requirements of this ITT with which they are not able to confirm compliance in full. Full details of the reasons for the non-compliance should be given. Any provision not so listed and detailed will be regarded as having been accepted unconditionally.

Bidders are also required when submitting their bids to list in the format set out in the following table, all clauses, sections and schedules of the Franchise Agreement and associated contractual documents with which they are not able to confirm compliance in full. Full details of the reasons for non-compliance should be given. Any provision not so listed and detailed will be regarded as having been accepted unconditionally.

Table 2-3: Format of Non-Compliance Statement

Document	ITT Sections/Terms and Conditions which have NOT been complied with	Details
<i>ITT</i>		
<i>Franchise Agreement</i>		

### Changes in Circumstances and Competition Matters

Similarly, Bidders are required to include in their bids in the format set out in the following table, details of any change in circumstances or competition matters that affect their bidding position.

Table 2-4: Format of Statement of Changes in Circumstances and Competition Matters

Change	Reporting Required
Change in Circumstances	Bidders should include details in response to the instructions contained in Section 2.3 (Changes in Circumstances)
Competition Matters	Bidders should include full details of any matter under consideration, or which may reasonably be expected to be the subject of consideration, by OFT and/or the Competition Commission or the European Commission as referenced in Section 2.21 (Competition Matters)

## Secretary of State's Risk Assumptions - Early Discussion

At least one month before submission of the bid, Bidders will be invited to meet the DfT to discuss the Secretary of State Risk Assumptions (SSRAs) that they are likely to include in their submission. Where themes are emerging, this may enable the DfT to prepare a common approach to the proposed SSRAs, which could then be shared with the Bidders across the 3 Franchises currently being competed. Bidders may then have an opportunity to reflect the DfT's comments in their final submissions.

### **2.14 Non-Compliance**

If any bid is found not to comply with the DfT's requirements (including whether or not such non-compliance is specified in any Non-Compliance Statement), and lacks, in the opinion of the DfT, any information necessary to enable evaluation, or is found to contain inconsistent information, the DfT may:

- evaluate the bid as submitted;
- seek additional information or clarification from the Bidder; or
- reject the bid.

### **2.15 Presentation and Submission of Bids**

Bidders are required to submit numbered copies of their bid, in accordance with the requirements listed in Table 2-2 (Structure and Format of Bids) and in the following formats:

#### Hard Copies

Hard copies should be contained in ring binders suitably segregated into the number of sets required. Bidders should clearly identify the part and set number (e.g. Part 1 Set 1, Set 2, Set 3, Set 4 and Set 5) and each ring binder must be labelled clearly with the volume name, copy number, the Bidder's name and an index of the contents of the binder.

Five hard copies are required of Part 1, the main text, and Part 2, financial. Three hard copies are required of Part 3, technical data, and Part 4, legal and compliance.

#### Electronic Copies

Electronic copies should be in CD format. Each CD must be labelled clearly with the part, copy number, the Bidder's name and the contents of the CD. Information is required to be stored in Microsoft Word/Excel 97 (or later) format. Documents should not be submitted in Acrobat, except where unavoidable. All electronic copies should be packaged separately from the hard copy sets and identified as "Additional CDs".

Four electronic copies are required of Part 1, the main text, and Part 3, technical data. Three electronic copies are required of Part 2, financial, and Part 4, legal and compliance.

#### Additional Electronic Copies

- one electronic unpriced copy of Part 1, the main text, in CD format be labelled clearly with the copy number, the Bidder's name and the contents of the CD. Information is required to be stored in Microsoft Word/Excel 97 (or later) format. This copy, together with one of the Part 3

copies specified above, will be sent by the DfT to Network Rail. Documents should not be submitted in Acrobat, except where unavoidable; and

- one copy of Part 1, the main text, in HTM format to provide full electronic search functionality without changes to data or formatting. **Please note that elaborate navigation is not required.** Bidders may create an HTM version from MS Word by using "File, Save As", then Save as type Web Page, Filtered, (\*.htm,\*html)". Further details of the HTM requirement may be obtained from Dale Ward (dale.ward@dft.gsi.gov.uk, tel 020 7944 3693).

Bids are to be submitted to:

Nick Seaward  
Divisional Manager  
Rail Procurement Strategy  
Department for Transport Rail Group  
3/27 Great Minster House  
76 Marsham Street  
London SW1P 4DR

**by 12.00 hours GMT on Friday 2 March 2007.**

**Bidders should ensure that they complete and include the Declaration of Conformity Statement at Attachment I, in their Part 4 Legal and Compliance submission.**

No other documents or information shall be submitted with the bid. The bid must be submitted in boxes marked '**CONFIDENTIAL - New Cross Country Franchise bid submission in response to ITT**'. The boxes should not be marked in any way that would indicate the identity of the Bidder. Bidders should obtain a formal receipt from the DfT at the time of the submission of their bid.

The DfT requires that Bidders supply each complete set of documentation in a separate box and ensure that an index is provided for the electronic information. The DfT also requires that, for electronic information, the file structure matches the sequence of the hard copy documentation.

Bids received after the DfT's stated date for submissions or which are not duly completed and signed may be disregarded by the DfT. Nevertheless, the DfT expressly reserves the right, in its absolute discretion, to treat any bid as valid and to proceed with the inclusion of any bid notwithstanding any procedural defect in relation to the submission of the bid.

All bids are required to be in English and amounts denominated in pounds sterling.

Bidders will be required to present key elements of their submissions to the DfT on the working day following bid submission.

## **2.16 Validity of Bids**

Bidders shall confirm the validity of their bids including the terms, bid price, and any subsequent changes agreed for a period of 275 days from the date of bid submission.

## **2.17 Industry Consultation and Disclosure of Information in Bids**

Bidders should be aware that, following the submission of bids, the DfT will need to consult HM Treasury, the Office of Rail Regulation (ORR) and Network Rail. The DfT will also consult such

other persons as it considers necessary or appropriate including, but not limited to, its advisers, bodies representing passenger interests (such as Passenger Focus), the Disabled Persons Transport Advisory Committee, affected Local Authorities, PTE's, and Regional Development Agencies or Regional Planning Bodies (collectively referred to as Consultees and each separately referred to as a Consultee).

Accordingly, the submission of bids will constitute permission by the Bidders for the DfT to disclose to any Consultee all or any of the information contained in, or supplied in connection with, such bids, excluding any commercially sensitive material as appropriate and which is clearly marked by Bidders as such.

In addition, Bidders are reminded that in order to develop and agree Track Access Agreements and Station Access Agreements, Network Rail will need to consult, amongst others, passenger and freight train operating companies and that this process may involve discussion of relevant aspects of the bids. Bidders are required to cooperate with these consultations. The DfT may ask Network Rail to comment on such elements of the bids and to address their comments to both the relevant Bidder and the DfT.

In developing their bids, Bidders can expect to be contacted by, and are encouraged to consult with stakeholders relevant to the New Cross Country Franchise following the start of the Bid Preparation Phase. It is each Bidder's responsibility to decide on the scope and extent of Stakeholder Consultation but they should note that the DfT may seek views from stakeholders on the state of progress of consultation. Bidders should note that Network Rail will formally advise the DfT of the level of contact and engagement that it has had with each Bidder.

## **2.18 Evaluation of Bids**

Bids must be completed and submitted in accordance with the instructions to Bidders set out in this document. Bids must be compliant with the requirements of the Franchise Agreement. The evaluation of bids shall be conducted in accordance with "[A Guide to the Railway Franchise Procurement Process](#)" which is available on the DfT website.

For the New Cross Country Franchise, the DfT will conduct completely separate, parallel and full evaluations of Proposals A and Proposals B in accordance with its standard evaluation process set out above subject to the possible requirements of the process described in Section 2.19 below. For each Proposal, bids will be ranked and a decision taken as to which Bidder has submitted the optimum Proposal in each case. The detail of this stage of the evaluation process applicable to the New Cross Country Franchise will be made available later.

The Secretary of State will be presented with the costs (i.e. subsidy required) of each optimum Proposal together with the outputs that will be delivered by each of them. The Secretary of State will decide which Proposal he wishes to proceed with which in his view best fulfils the DfT and wider Government objectives, and the DfT will proceed to contract with the Bidder that submitted this Proposal.

The above process applies to Bidders' responses to the Base Service Specification. Bidders' Priced Options and Incremental Options will be also evaluated. The results of the evaluation of these proposals will serve to inform the DfT on which of these Priced Options or Incremental Options will be taken forward and contractualised with the Bidder of the optimum Proposal chosen by the Secretary of State, after this decision has been made.



## 2.19 Management of Rolling Stock Demands Across Midlands Franchises.

In previous Franchise procurements the policy on Rolling Stock has generally been that the Bidders will decide the volume and type of Rolling Stock required to fulfill their obligations under the Service Level Commitment(s) and to meet its other commitments in the Franchise Agreement. This has enabled Bidders to be innovative in the type of Rolling Stock they use.

In the Midlands Franchise procurements, following this approach is complicated (a) by re-mapping of the four Franchises into three and the need to provide continuity and certainty of service from Day 1, and (b) by the fact that three competitions are running simultaneously which are in some cases able to use the same Rolling Stock. A Rolling Stock Leasing Company (ROSCo) may refuse to offer a binding commitment to a bidder that rolling stock will be made available to it if it wins the franchise competition because it has offered the same rolling stock to a bidder in a competition for a different franchise. The DfT may face the possibility of having to evaluate bids which are not deliverable unless the conflicts between them can be resolved.

The DfT is keen to allow Bidders maximum flexibility to develop their own innovative Rolling Stock requirements and solutions within these constraints. Following consultation with the industry, the following approach has been adopted.

### Resolving Multiple Claims on the same Rolling Stock

Bidders should develop their Rolling Stock strategies as they see best meets the needs of that particular Franchise. The DfT will therefore only seek to resolve multiple claims on the same Rolling Stock after bid submission. To do so, the following approach will be adopted:

- It is intended that prior to bid submission ROSCOs will indicate to Bidders the instances where there is no certainty that Rolling Stock will be available for a particular franchise;
- As part of bid submission, where their preferred choice of Rolling Stock may not be available, Bidders should indicate their 'contingency plan' at a high level. This should form part of the response to the Rolling Stock Approach criterion described in Section 4 (The Bid: Delivery Plans). Binding pricing is not expected in relation to contingency plans but the bid should indicate the likely cost and revenue impacts of such changes together with any other significant changes to the proposal;
- During the bid evaluation, the DfT will cross-check if there are competing demands on rolling stock amongst the leading Bidders in each competition (i.e. this could be more than one Bidder in each competition). For the New Cross Country Franchise this will apply to both Proposals;
- The DfT will consider taking advice from Network Rail, whether there is a clear case to allocate particular Rolling Stock to a route in order to minimise operational performance risk to the network. If a clear case exists this will determine the DfT's Rolling Stock allocation decision;
- The DfT will then ask the Bidders concerned to develop more fully their contingency plan(s) as necessary, producing a revised subsidy/premium line on which they would be prepared to contract. Bidders will have an opportunity to undertake such re-working and will be provided with an indicative timetable showing when this additional response is likely to be required;
- Where allocation decisions have not been determined on the basis of operational performance risk, the DfT will determine the Rolling Stock allocation between the leading Bidders on the basis of the deliverable permutation offering the best combined subsidy/premium NPV; and
- After this process has been completed, a final ranking within each Franchise competition (and in New Cross Country Franchise, within each Proposal) will be made.

Note that Bidders for different Franchises who share the same parent organisation need not necessarily deliver bids that are consistent between them.

## 2.20 Negotiation and Award

Following bid evaluation and clarification, the DfT reserves the right to negotiate with one, some, or all Bidders. There will be no public announcement of a preferred Bidder until after the Franchise Agreement has been signed. Franchise Agreement signature will occur after the London Stock Exchange closes and the Secretary of State has been informed of the identity of the winning Bidder. An announcement will be made to the London Stock Exchange at 7.00 am the following morning.

## 2.21 Competition Matters

Bidders were previously advised that, while they are free to submit a 'Notification' to the Office of Fair Trading (OFT) at any stage after qualifying to receive the ITT, they may wish to delay doing so until receipt of further advice from the DfT. The DfT has now taken guidance from the OFT and the Competition Commission following a review of the procedures used during the inquiry into the acquisition by First Group plc of the Greater Western passenger rail Franchise, see: [Final Report Great Western Passenger Rail Franchise](#).

The OFT expects that notification to the OFT will be made following the announcement by the DfT of the identity of the New Cross Country Franchisee. The OFT expects the parameters of the Franchise to be reasonably clearly established in order to undertake competitive analysis, which is only the case after this date. This should also save substantial public and private costs. Notwithstanding this, the OFT strongly encourages any Bidder who believes that a successful bid would give rise to a substantial number of overlaps with its other transport interests to contact the OFT as soon as possible, on an informal basis, to discuss the OFT's requirements in the event of a successful bid.

Following signature of the Franchise Agreement, the Franchisee will meet with the OFT to discuss the information the OFT requires in relation to a Notification. The OFT will only commence its inquiry into the award of the New Cross Country Franchise following the receipt of a satisfactory submission from the Franchisee. If there are significant overlaps, the OFT will want survey evidence to consider the substitutability of alternative modes of transport in the Franchise area. If necessary the OFT will be happy to discuss further how any such survey should be carried out and how evidence should be supplied.

Following submission of the Notification, the OFT, or after any reference, the Competition Commission, may require undertakings from the Franchisee (and/or any companies within the Franchisee's group) to prevent pre-emptive action which might prejudice any reference or impede any possible future remedies. Such undertakings would be likely to be in relation to the on-going behaviour of the Franchisee (and/or any companies within the Franchisee's group) such as prices and service levels on overlapping modes of transport within the physical area of the New Cross Country Franchise. The undertakings may be required until such time as any merger inquiry is concluded.

Where the turnover of parties to a merger exceeds certain turnover thresholds, the merger must be notified to the European Commission under the European Community Merger Regulation ("ECMR") for scrutiny. The European Commission however has previously indicated that it will not consider the merger until such time as the Bidder has been awarded the Franchise. Bidders must inform the DfT promptly if notification to the European Commission may be required. The

OFT might seek, under Article 9 of the ECMR, to have the merger referred to the UK competition authorities if it seems likely that the merger might threaten to impede effective competition or if it affects a market within the UK which does not constitute a significant part of the common market. Alternatively, under Article 4(5) of the ECMR, the parties to a merger can ask the European Commission, prior to notification, to have the merger referred to the UK competition authorities for consideration, provided certain criteria are fulfilled. The European Union process may have an impact on the timetable in which the merger can be completed since completion of the deal is prohibited while the merger is subject to European Union scrutiny. The Bidder will co-operate with any inquiry and provide assistance to the European Commission in deciding whether to clear the concentration, or to initiate proceedings and undertake an in-depth investigation. Because completion of the deal is prohibited while the merger is subject to EU scrutiny the potential applicability of the EU regime is relevant to the deliverability of bids. Accordingly in addition to notifying the DfT of its assessment of the risks of the EU regime applying in its bid Bidders must also indicate how it is proposed that the risks will be mitigated and its view of the likely effectiveness of such risk mitigation. The DfT will take this into account in evaluation.

The DfT does not expect to delay entry by the Bidder into the Franchise Agreement if inquiries by the OFT and the Competition Commission are not complete. The Franchisee will be required to sign the Franchise Agreement and (subject to the special circumstances of the EU regime applying discussed above) commence the operation of the Franchise notwithstanding any ongoing competition law processes, investigations or negotiations. Bidders will be at full risk for implementing any requirements mandated by the OFT, the Competition Commission or the European Commission.

If any Bidder is advised by the OFT, the Competition Commission or the European Commission that the award of the Franchise would be subject to any prohibitions, divestments of interests or undertakings the Bidder will inform the DfT as soon as possible and if such requirements would, in the view of the DfT prejudice the Franchise, or any other franchise, the DfT reserves the right to disqualify the Bidder from the New CrossCountry reletting process.

## **2.22 Redactions from the Franchise Agreement**

Within four weeks of signature of the Franchise Agreement, the Franchisee will be required to submit to the DfT a list of proposed redactions from the Franchise Agreement, the National Rail Franchise Terms, the Conditions Precedent Agreement and any agreed Side Letters (together the “Franchise Signature Documents”). With reference to Section 73(3) of the Railways Act 1993 (as amended), the Franchisee will include a justification for each proposed Franchisee redaction. The DfT will then consult with the Franchisee to endeavour to agree a list of proposed redactions in advance of the Secretary of State publishing the Franchise Signature Documents on the Secretary of State’s Public Register.

Prior to the commencement of the Franchise, the Franchisee is required to satisfy the conditions as set out in the Conditions Precedent Agreement. Satisfaction of those conditions may involve the entry into, or provision to the DfT, of a number of other Agreed Form Documents and other documents. Following the issuing of the Certificate of Commencement, the Franchisee will again be required to submit to the DfT a list of proposed redactions from these further documents. The DfT will again consult with the Franchisee to endeavour to agree a list of proposed redactions in advance of the Secretary of State publishing these further documents on his Public Register.

Should agreement on a redacted version of the Franchise Signature Documents not be reached by the Franchise Commencement Date, the Secretary or State may, at his sole discretion, publish all or

any part of the Franchise Signature Documents, redacted by agreement or otherwise. Similarly, the Franchisee's consent is not required before the Secretary of State publishes the Agreed Form Documents and any other documents which constitute a 'Franchise Agreement' for the purposes of the Railways Act 1993.

Bidders should note that the DfT will also place a redacted copy of the ITT in the public domain following publication of the Franchise Signature Documents.

### **2.23 Freedom of Information Act 2000**

The Freedom of Information Act 2000 (FOIA) came into force on 1 January 2005 and provides a general right of access to all information held by public authorities. The DfT is a public authority. The general right of access to information is then limited by a number of exemptions. On a request for information, the DfT must release that information unless one of the exemptions applies.

With the introduction of the FOIA the DfT has taken the opportunity to review its policies in terms of disclosure of information. As before, Bidders will be offered a de-briefing on their submission. This will now include the Bidder's results for Section 4 (The Bid: Delivery Plans) and their overall result and ranking vis-à-vis other Bidders. The DfT will not disclose the breakdown of scores, or the scores or rankings of other Bidders.

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 DfT in confidence or which they believe are commercially sensitive. Bidders should provide reasons why such information should not be disclosed following a request for information under the FOIA. Bidders should be aware of the Lord Chancellor's Code of Practice issued under section 45 of the FOIA (which can be accessed at <http://www.dca.gov.uk/foi/codesprac.htm>). This limits the circumstances under which a public authority should agree to hold information in confidence. It could be the case therefore, notwithstanding confirmation that parts of a bid have been provided in confidence or are commercially sensitive, that the DfT will be obliged to disclose those parts.

Bidders' attention is drawn to the provisions of the Franchise Letting Process Agreement (FLPA).

### **2.24 Debrief for Bidders**

Debriefing of Bidders for a Franchise is an important element in an open and transparent Franchise procurement process. This assists the DfT in the lessons learned process, and provides input that may help shape the development of future Franchise procurements. Each Bidder will be invited to a separate debrief session. This session is to help them understand how their bid performed and how future bids could be improved. Following the debrief session Bidders will be advised that they may submit a list of questions to which the DfT will provide a written answer. After that point, a letter of closure will be sent to the unsuccessful Bidder to close the process.

## **SECTION 3: THE BASE SERVICE SPECIFICATION, INPUTS AND ASSUMPTIONS**

This Section sets out the Base Service Specification. Submissions from Bidders should include commitments to meeting this Base Service Specification and explain how they will meet the DfT's objectives and specific requirements as set out in Section 1.3 (The DfT's Objectives for the New Cross Country Franchise).

Bidders should explain how they will deliver this commitment to meeting the specification and achieving the objectives in the structure. The process for doing this is set out in Section 4 (The Bid: Delivery Plans).

### **3.1 Franchise Duration**

The Franchise will run to 31 March 2016, the last 2 years and 4 months and 20 days of which will be conditional upon achieving pre-set performance targets. Bidders should note that Appendix 8 of the Franchise Agreement (Figures for Calculation of Annual Franchise Payments) requires them to price for a Franchise Term of 8 years, 4 months and 20 days, as well as the possible seven Reporting Period extension that the DfT may unilaterally require.

### **3.2 Base Service Specification**

The Base Service Specification comprises the delivery of passenger services in accordance with the Franchise Agreement including the Condition Precedent Agreement, the Service Level Commitments (SLC1 and SLC2) and the associated contract documents. The Service Level Commitments are the same for Proposal A and Proposal B. The Base Service Specification incorporates the following:

#### **3.2.1 Service Level Commitment 1 (SLC1)**

From the start of the New Cross Country Franchise the level of service the DfT requires to be operated on the New Cross Country Franchise is specified in SLC1. SLC 1 commences on 11<sup>th</sup> November 2007 and ends on 7<sup>th</sup> December 2008)

The SLC1 timetable largely reflects the existing CrossCountry Trains Ltd services combined with the Central Trains Ltd services between Cardiff Central and Nottingham, including the semi fast services between Birmingham New Street and Nottingham and also the Central Trains Ltd services between Birmingham New Street and Stansted Airport including the local services between Birmingham New Street and Leicester. However, it excludes the services between Manchester and Scotland which transfer to West Coast Trains Ltd on the 11<sup>th</sup> November 2007.

Services between Scotland and Birmingham via the West Coast Mainline will continue to operate as part of longer journeys inherited as part the CrossCountry Trains Ltd timetable. For one railway industry period until 9<sup>th</sup> December 2007, these will operate as 'joint' trains with West Coast Trains Ltd, with ownership and staffing of the trains changing at Birmingham New Street. It is intended that West Coast Trains Ltd and the New Cross Country Franchisee will be obliged within their respective Franchise Agreements to mutually agree the contractual, staffing, ticketing and other arrangements to achieve this joint operation for one rail industry period in the time between the award of the New Cross Country Franchise and the 11<sup>th</sup> November 2007. The intention is that, as far as possible, the agreed obligations of the parties for services operating in one direction would be a 'mirror image' of those obligations for services operating in the other direction.

From the commencement of the December 2007 timetable change until the commencement of the December 2008 timetable when SLC2 will be introduced, there will be a change to the timetable and structure of services. The services between Birmingham - Scotland will become a self-contained service group as part of the Franchise operated by West Coast Trains Ltd. The New Cross Country Franchise services that until that time have operated through to the West Coast Mainline will be altered to have different origin and destinations. However there is no change to SLC1 as a result of this as the SLC is structured as a set of commitments to operate services on routes radiating from Birmingham New Street and these are unchanged. An indicative timetable for this timetable year (equivalent to National Rail Timetable table no. 51) will be supplied to the Data Site in due course.

The attention of Bidders is drawn to the Priced Option relating to this service group in Section 6.1.2 (Birmingham - Scotland - Long Term Retention).

### 3.2.2 Service Level Commitment 2 (SLC2)

SLC2 will commence with the implementation of the December 2008 timetable change. There will be a number of changes between the New Cross Country Franchise SLC1 and SLC2 timetables including the clear definition of six self contained routes, and the cessation of certain services. The SLC2 timetable is specifically designed to be operationally robust, by removing conflicting moves at Birmingham New Street from the train plan and introducing greater regularity to key New Cross Country Franchise passenger flows.

The requirement to operate on the following routes will cease in the New Cross Country Franchise at the commencement of SLC2:

- Reading – Gatwick Airport/Brighton

The six self-contained routes within the New Cross Country Franchise are defined as follows:

- Route 1: Plymouth – Bristol – Birmingham – Leeds – Newcastle – Edinburgh (certain services will be extended to Penzance, Dundee and Aberdeen and Glasgow);
- Route 2: Reading – Birmingham (routed via Solihull) – Doncaster – Newcastle (A minimum of one service in each direction each day will be extended to Guildford which may be part of Route 4);
- Route 3: Bristol – Birmingham – Stoke on Trent – Manchester (certain services will be extended to Cardiff and Taunton);
- Route 4: Bournemouth – Reading – Coventry – Birmingham – Stoke on Trent – Manchester;
- Route 5: Cardiff – Birmingham – Nottingham (including Birmingham - Nottingham semi-fast services); and
- Route 6: Birmingham – Leicester – Peterborough – Stansted Airport (including Birmingham - Leicester local services).

### 3.2.3 Compliance with Network Rail timetable in 2008

Because almost all the routes within the New Cross Country Franchise are shared with other TOCs, Bidders are instructed to reproduce the Network Rail December 2008 timetable plan (the Identified NR 2008 Paths) (supplied in the Data Site) as the weekday and Saturday SLC2 timetables. There are a few exceptions to this instruction, shown in the bullet-point list below.

Bidders should aim to deliver Sunday SLC2 requirements. It is recognised that on Sunday mornings in particular, Network Rail's need for engineering access will mean that reduced frequencies and diversions will be necessary. The industry aim is that the timetable should be in pattern, from approximately 1400.

Compliant base case timetable guidance is offered as follows and applies every day:

- Plymouth - Edinburgh. Bidders are expected to adhere to the Identified NR 2008 Paths between Bristol Temple Meads and Sheffield, and to develop their own timetable proposals compliant with the SLC2 for the routes west of Bristol and north of Sheffield, including extensions to/from Penzance, Newquay (summer weekends only), Glasgow, Dundee and Aberdeen. In all cases the existing slots for other TOCs should be assumed to be unaltered, and based on the December 2006 timetable;
- Bristol Temple Meads - Manchester Piccadilly. Bidders are expected to adhere to the Identified NR 2008 Paths;
- Bournemouth - Manchester Piccadilly. Bidders are expected to adhere to the Identified NR 2008 Paths;
- Reading - Newcastle. Bidders are expected to adhere to the Identified NR 2008 Paths between Reading and Sheffield, and to develop their own timetable proposals for the route north of Sheffield, and south-east of Reading if relevant;
- Cardiff - Nottingham. Bidders are expected to adhere to the Identified NR 2008 Paths;
- Birmingham - Nottingham. Bidders are expected to adhere to the Identified NR 2008 Paths;
- Birmingham - Stansted Airport, including Birmingham - Leicester local services. Bidders are expected to adhere to the Identified NR 2008 Paths.

In addition to the NR2008 West Coast timetable, the Identified NR2008 Paths for the New Cross Country Franchise service provision for SLC2 will be provided in the Data Site. Bidders may (but are not obliged to) use this as the basis of their proposal outside the area defined above (i.e. Sheffield/ Manchester/ Bristol Temple Meads/ Bournemouth). Bidders are reminded of the need to consult and seek agreement of Network Rail in the development of any proposals that do not use the Identified NR2008 paths.

Expected platforming arrangements at Birmingham New Street, as developed by Network Rail, will be supplied to the Data Site.

#### 3.2.4 Leeds - Nottingham Service

It is expected that in December 2008, a new regular hourly service will be introduced between Leeds and Nottingham running via Wakefield Kirkgate, Barnsley, Sheffield and Alfreton, operated either by Northern Rail or by the future East Midlands franchisee. Details of the planned times for these trains will be provided in the Data Site.

#### 3.2.5 Service Extensions and Variations

##### 3.2.5.1 Paignton

Within the Base Service Specification for SLC2, at least three departures from and three arrivals to Paignton are required in the Monday to Saturday timetable. On summer Sundays, two arrivals and departures are required, on winter Sundays, one arrival and departure is required. There is no

requirement for services to Paignton to be designated within any of the specific aforementioned routes and therefore Bidders are required to identify their preference of serving the location. A plan to serve Paignton that involved splitting and joining trains and providing an accelerated journey time between Bristol and Plymouth and would be acceptable if Network Rail agree.

#### 3.2.5.2 Guildford, Gatwick Airport and Brighton

Within the Base Service Specification for SLC2, at least one train per day is required to serve Guildford providing a direct journey opportunity to and from Birmingham which may, if necessary, operate in marginal time.

Within the Base Service Specification, the DfT recognises that Bidders may continue to use Three Bridges maintenance depot as part of the train plan for SLC2 and may therefore wish to continue to run some services from Reading into East Sussex. Continuation of such services may also avoid the need for closure proceedings in west London as a consequence of cessation of train services between East Croydon and Reading. Subject to Network Rail agreement, provision of a level of service equivalent to today's quantum would be acceptable to the DfT as part of the Base Service Specification. In the event such services are included as part of the successful bid an appropriate amendment will be made to SLC2.

If a Bidder wishes to propose a level of services to Guildford, Gatwick Airport and Brighton that **exceeds** the current level of services (subject to Network Rail agreement), this would need to be included as a Bidder Incremental Option. In the event such services are included as part of the successful bid an appropriate amendment will be made to SLC2.

#### 3.2.5.3 Dunbar

Bidders should be aware that Transport Scotland has entered into an agreement with CrossCountry Trains Ltd to increase the level of services at Dunbar on trial basis. Details will be provided in the Data Site. Such services are not required in the New Cross Country Franchise Base Service Specification.

#### 3.2.6 Other Variations and Extensions

The evaluation of the Base Service Specification will focus on the efficiency and robustness of Bidders' plans to deliver the SLC whilst complying with the Network Rail 2008 timetable plan as detailed above. If a Bidder has a strong justification for a proposal that seeks to vary the NR 2008 timetable as detailed above (for example for diversionary route learning purposes or efficient cyclic diagramming), it is recommended that this should be presented to the DfT at an early stage in the bidding process. A view can then be taken of whether or not the variation qualifies as 'compliant' for the purpose of Base Service Specification, or whether it would have to be submitted as a Bidder Incremental Option. It would be necessary, too, at this early stage, to obtain Network Rail's view of the deliverability of the variation, especially in respect of any impact it might have on the timetables of other TOCs, Franchises currently in competition or Freight Operating Companies.

Outside the area of the Network Rail 2008 timetable plan where compliance is required, the DfT recognises that there may be scope for Bidders to offer service variations and extensions beyond those specified in the SLC particularly in marginal times of day/week. In general terms, if the possible service extension/ variation is additional to the SLC2 specification, but no more than the quantum of such services offered in SLC1, then it may be offered as part of the Base Case. An example of this would be operation of up to 2 services a day to/from Brighton as discussed above.



If the possible service extension/ variation is additional to the SLC2 specification and is in excess of the quantum of such services in SLC1, then it should be offered as an Bidder Incremental Option. If the DfT decides that it wishes to take up such a Bidder Incremental Option(s) then such services will be contractualised as part of an amended SLC2. Examples of such variations would be the operation of more than 2 services a day to/from Brighton, operation of more than 2 services a day to/from Glasgow, operation of more than 1 service a day to/from Aberdeen, or starting/terminating a Cardiff service at Swansea.

In all cases, Bidders should obtain Network Rail's view of the deliverability of the possible proposed variation and discuss it with the DfT on a confidential basis early in the bidding process.

### 3.2.7 Sunday Services

Subject to planned engineering arrangements Sunday services will be expected to fall into the defined Monday to Saturday service groups and operating frequencies by 1400 hrs. Where engineering arrangements permit each station in the core of the New Cross Country network should be receiving an hourly service by 1000 hrs.

### 3.2.8 Summer Services

Over the 12 weekends each from July to early September across each summer and for two weekends around the late Spring Bank Holiday, at least two additional services are to be provided to Newquay each Saturday. One service will operate from Newcastle; another from Manchester. One service will operate from Newquay on Sundays, the destination of this service must be north of Birmingham. It is recognised that there may be a need to procure additional resources for these services as they carry large numbers of both customers and bulky luggage. With this in mind there is no requirement for these trains to meet any specific criteria with regard to speed or acceleration. The Bidder will be responsible for procuring suitable paths relevant to the employed Rolling Stock directly from Network Rail including those for Summer 2008.

### 3.2.9 Special Events

It is recognised that a number of special events such as sporting fixtures and music festivals take place on the New Cross Country Franchise network in addition to the football fixture list. Bidders must demonstrate how they intend to manage special events.

## **3.3 Management of Services Which Will Cease / Transfer at the Commencement of revised timetables**

Bidders should present a clear plan demonstrating that they have identified and will manage issues which arise as a consequence of changes occurring at the commencement of the revised timetables in both December 2007 and December 2008.

## **3.4 SLC2 Public Consultation**

DfT has completed consultation on the structure of the new Franchise and the high level of the SLC2 service proposition; covering quantum, frequency and standard stopping pattern. The published consultation documents contained a commitment that the future Franchisee will be required to consult on the detail of their SLC2 timetable. This will take place at an appropriate time during development of the timetable as agreed between the Franchisee and the DfT. Bidders will be

required to set out a communication and consultation strategy in their bid submissions. This will cover timing, how they propose to communicate the timetable changes, who they will communicate with and how they will take on board the feedback received during consultation. Bidders will be required to pro-actively promote the benefits of the changes.

The DfT will work collaboratively with the Franchisee during this consultation to mitigate and resolve issues arising.

### **3.5 Track Access Agreements**

The CrossCountry Trains Ltd and Central Trains Ltd Track Access Agreements are not due to expire until March 2012 and December 2008 respectively. However, work has commenced on the creation of the New Cross Country Franchise Track Access Agreement, designed to take effect at the commencement of the new Franchise on Sunday 11 November 2007. This TAA will consist of all relevant provisions from the existing CrossCountry Trains Ltd and Central Trains Ltd TAAs, which will, therefore, be terminated on 10 November 2007. It should be noted that the existing CrossCountry Trains Ltd TAA is subject to a Network Code Part J notice, issued by Network Rail, designed to remove unused rights from the present CrossCountry Trains Ltd TAA.

This will not remove any rights that the incoming Franchisee will need to operate SLC1. The incumbent TOCs will be required to bid, on the Priority Bidding Date in 2007, for an extension of the December 2006 timetable to continue to operate throughout the timetable year from December 2007 until December 2008.

The DfT is working with Network Rail to ensure that a draft Supplemental Agreement, to grant the rights necessary for the December 2008 timetable change, will be ready for submission to ORR for approval in summer 2007.

In order to gain a full picture of the requirements for access rights in the December 2008 timetable, the Office of Rail Regulation (ORR) is conducting a capacity review of the area and routes to be served by the Central England franchises. The progress of that review is reported on the ORR website at <http://www.rail-reg.gov.uk/server/show/nav.205>.

ORR intends that the initial results of this review should be available to bidders in good time for them to be able to take account of those results before submission of bids. It is anticipated that access rights for services required by the DfT to be operated in fulfilment of SLC2 are likely to be granted, but rights sought for additional services contained in Priced or Incremental Options could be affected by applications from passenger or freight OAOs.

An assumption will be provided to Bidders in the Data Site regarding the allocation of the Fixed Access Charge from Central Trains to the three new Franchises.

### **3.6 Demand Management and Crowding**

A key objective of the New Cross Country Franchise is to address current crowding and allow for future growth. As explained in Section 1.4 (Proposals for Enhanced Capacity), Bidders are required to submit two Proposals which have different minimum requirements for capacity provision. These are detailed below. In all other respects the DfT requirements are unchanged..

### 3.6.1 Proposal A

For Proposal A, the DfT will specify a minimum level of capacity provision that must be provided on key routes from the commencement of SLC2 in December 2008. This broadly equates to the level of strengthening provided currently. The Franchisee will be required to comply with the capacity related provisions of the NRFT and a seat based capacity regime which will be incorporated in the customised Franchise Agreement. Bidders are free to provide an enhanced level of capacity over and above that in the customised Franchise Agreement and the NRFT where they believe that this improves the value for money and financial position of the Franchise.

The seat based capacity regime will apply to trains running within the following service groups:

- Edinburgh – Plymouth;
- Reading – Newcastle;
- Manchester – Bournemouth; and
- Manchester – Bristol.

With regard to the remaining service groups (Stansted Airport – Birmingham & Nottingham – Cardiff) Bidders should plan to optimise the provision of capacity to meet demand in compliance with the provisions of the NRFT.

Evening peak specifications apply on Monday to Friday. Bidders are reminded of the requirement in the NRFT that use of rolling stock is maximised in the morning and evening peak periods.

If a Bidder submits any plan to meet this specification which involves the splitting and joining of trains whilst in service a full performance risk assessment must be submitted and the plan must be supplemented by Network Rail sign-off.

The specification is described as the delivery of seat quantities between key locations at certain times as shown in Section 3.6.2 (Proposal A - Seat Specification). The Train Plan must plan to deliver this seat level. Compliance with the plan will be monitored and enforced through provisions in the customised Franchise Agreement. Bidders should identify their approach to the carriage of luggage in the context of this seating specification.

If a Bidder believes that the value for money status of their bid could be improved by providing the same aggregate level of enhanced capacity, but in a different configuration (e.g. on different routes on different days of the week or times of year) they should discuss such plans early with the DfT to ensure it would be compliant with a Base Case submission. If not, Bidders may suggest alternatives as a Bidder Incremental Option.

### 3.6.2 Proposal A - Seat Specification

Bidders must provide a train plan which will provide from December 2008, as an absolute minimum, the quantity of seats described in the following table. The seat quantities set out are broadly equivalent to those offered in the June 2006 timetable.

PM Peak			
Departure Location	Departure Timeband	Measured Journey	Dec 2008 Seat Provision
Birmingham New Street	15.30 – 18.45	Birmingham New Street – Stoke on Trent	1110
Birmingham New Street	15.00 – 19.15	Birmingham New Street - Oxford	1860
Birmingham New Street	15.15 – 19.15	Birmingham New Street – Sheffield*	1790
Birmingham New Street	16.00 – 19.30	Birmingham New Street – Bristol Temple Meads	1670
Bristol Temple Meads	16.10 - 1810	Bristol Temple Meads - Birmingham New Street	860
Bristol Temple Meads	16.30 – 19.00	Bristol Temple Meads – Taunton	740
Manchester Piccadilly	16.45 – 18.45	Manchester Piccadilly – Stoke on Trent	740
Leeds	15.45 – 18.30	Leeds – Darlington	740
Leeds	14.45 – 19.30	Leeds – Derby	1300
Reading	16.00 – 18.30	Reading - Leamington Spa	1110
Reading	16.30 – 18.00	Reading – Southampton	490

\*It is accepted that any additional capacity on the last train in this flight may only need to be provided as far as Derby.

Above and beyond the provision of this quantity of seating Bidders must demonstrate in the bid what measures they intend to take to alleviate crowding on New Cross Country Franchise services.

### 3.6.3 Proposal B

For Proposal B, the DfT will specify a minimum level of capacity provision that must be provided on key routes. The Franchisee will be required to comply with the capacity related provisions of the NRFT and deliver the enhanced seat based capacity regime set out below. The Bidder may provide the increase in capacity in steps, with the full requirement to be provided by June 2010 at the latest. An interim minimum increase in capacity must be provided from December 2008.

The crowding specification will apply to trains running with in the following service groups:

- Edinburgh – Plymouth;
- Reading – Newcastle;
- Manchester – Bournemouth; and
- Manchester – Bristol.

With regard to the remaining service groups (Stansted Airport – Birmingham & Nottingham – Cardiff) Bidders should plan to optimise the provision of capacity to meet demand in accordance with the provisions of the NRFT.

Evening peak specifications apply Monday to Friday and on Saturdays and Sundays. Bidders are reminded of the requirement in the NRFT that use of rolling stock is maximised in the morning and evening peak periods on Mondays - Fridays. On Saturdays and Sundays, the DfT would expect proposals to deploy rolling stock to meet demand outside the times specified above as appropriate. In the event of planned engineering work preventing compliance with the weekend capacity provision set out in the Train Plan, the Bidder should seek to mitigate the shortfall.

If a Bidder submits any plan to meet this specification which involves the splitting and joining of trains whilst in service a full performance risk assessment must be submitted and the plan must be supplemented by Network Rail sign off.

The specification is described as the delivery of seat quantities between key locations at certain times as shown in Section 3.6.4 (Proposal B - Seat Specification). Compliance with the plan will be monitored and enforced through provisions in the customised Franchise Agreement. Bidders should identify their approach to the carriage of luggage in the context of this seating specification

If a Bidder believes that the value for money status of their bid could be improved by providing the same aggregate level of enhanced capacity, but in a different configuration (e.g. on different routes on different days of the week or times of year) they should discuss such plans early with the DfT to ensure it would be compliant with a Base Case submission. If not, Bidders may suggest alternatives as a Bidder Incremental Option.

### 3.6.4 Proposal B - Seat Specification

Bidders must provide a train plan which will provide, as an absolute minimum, the quantity of seats described in the following table.

<b>PM Peak Seat Quantum Requirements</b>			
<b>Measured Journey</b>	<b>Departure Timeband</b>	<b>Specified Seats December 2008</b>	<b>Specified Seats June 2010</b>
Birmingham New Street – Stoke on Trent	15.30 – 18.45	<b>1330</b>	<b>1450</b>
Birmingham New Street - Oxford	15.00 – 19.15	<b>2230</b>	<b>2230</b>
Birmingham New Street – Sheffield*	15.15 – 19.15	<b>2150</b>	<b>2330</b>
Birmingham New Street – Bristol Temple Meads	16.00 – 19.30	<b>2000</b>	<b>2170</b>
Bristol Temple Meads - Birmingham New Street	16.10 - 1810	<b>1040</b>	<b>1120</b>
Bristol Temple Meads – Taunton	16.30 – 19.00	<b>890</b>	<b>960</b>
Manchester Piccadilly – Stoke on Trent	16.45 – 18.45	<b>890</b>	<b>960</b>
Leeds – Darlington	15.45 – 18.30	<b>890</b>	<b>960</b>
Leeds – Derby	14.45 – 19.30	<b>1550</b>	<b>1690</b>
Reading - Leamington Spa	16.00 – 18.30	<b>1110</b>	<b>1110</b>
Reading – Southampton	16.30 – 18.00	<b>490</b>	<b>490</b>

\*It is accepted that any additional capacity on the last train in this flight may only need to be provided as far as Derby.

### **3.7 Load Management Data**

The DfT requires monitoring of train loadings across all days of the week and times of the day. Bidders are required to fit automatic load monitoring equipment to vehicles in the rolling stock fleet used in the franchise such that a statistically significant sample of data for all services can be obtained and supplied to DfT in an efficient manner. The DfT expects that not less than 10% of the vehicles in a fleet would require to be fitted. Annual passenger counts ("Green Book" counts) are also required to be provided in the autumn of each year on Birmingham commuter routes.

### **3.8 Marketing and Fares**

#### **3.8.1 Marketing and Retail**

The Bidder will be required to demonstrate how they intend to increase New Cross Country Franchise patronage through its marketing strategy. The DfT believes that the 'Cross Country' name is important to customers and this should be retained within the franchise going forward.

The full range of ticket retailing services will be offered to customers and Bidders are expected to demonstrate how they intend to develop the use of new technologies including mobile phone technologies in this area. Ticket retailing should be available via the telephone and internet sales as well as at stations managed by other TOCs at which New Cross Country Franchise services call.. Bidders will be expected to monitor the transactions from all of these outlets as part of their Service Quality Management System (SQMS).

#### **3.8.2 Fares**

Protected Fares will be regulated in a single Protected Fares Basket which Bidders should assume will be capped at annual increases of RPI+1 per cent throughout the Franchise Term, consistent with the Government's current fares policy.

The fares documents, setting out the full list of Fares that relate to the New Cross Country Franchise will be placed in the Data Site.

Because of re-mapping of the franchises, the Lead Operator on certain routes will change. The DfT will provide details of these planned changes in the Data Site in due course.

#### **3.8.3 Restrictions on participation in PTE Schemes**

The following Passenger Transport Executives currently offer fares which are available for travel on New Cross Country Routes:

Centro (West Midlands Passenger Transport Executive)  
GMPTE (Greater Manchester Passenger Transport Executive)  
WYPTE (West Yorkshire Passenger Transport Executive)  
SYPTE (South Yorkshire Passenger Transport Executive)

Bidders are free to consider the extent to which they may wish to restrict or reduce participation in fares schemes operated by any PTE if this is in order to reduce overcrowding. This may either be

from the start of or during the franchise term. The Bidder will be responsible for managing such a change in its level of participation, including negotiations with any PTEs.

#### **3.8.4 Ticketing Technology**

Bidders must include a change in ticketing technology for the New Cross Country Franchise. This supports the decision to develop and introduce smart ticketing for all surface transport modes, including other TOCs with passenger flows parallel to New Cross Country Franchise services.

Bidders are required to include the acceptance of Integrated Transport Smartcard Organisation (ITSO) compliant ticketing in the Franchise area on all ticket types by the following deadlines:

January 2009

On routes parallel to South West Trains Franchise systems must be in place to accept (ITSO) compliant ticketing between the following locations:

- Basingstoke – Winchester – Southampton Airport Parkway – Southampton – Brockenhurst – Bournemouth (including Guildford if appropriate).

January 2010

On routes parallel to East Midlands and West Midlands Franchises systems must be in place to accept (ITSO) compliant ticketing between the following locations:

- Leamington Spa – Coventry – Birmingham International – Birmingham New Street – Coventry – Stafford – Stoke on Trent – Crewe;
- Worcester Shrub Hill – Droitwich Spa – Bromsgrove – University – Birmingham New Street;
- Derby – Spondon – Long Eaton – Attenboro – Beeston – Nottingham; and
- Derby – Chesterfield – Sheffield.

Introduction of ITSO compliant ticketing is considered fundamental to the ability of the industry to address demand management issues and encourage passengers to move to the shoulders of the peak period or travel only 3-4 days per week.

The Franchisee will provide an ITSO-compliant ticketing acceptance system comprising ticketing readers/validators and any ITSO back-office functionality. This will also require negotiations with other train operators through the Association of Train Operating Companies (ATOC) and the Rail Settlement Plan. The Franchisee shall work to agree and then join ATOC approved smartcard related ticketing schemes, for ITSO.

Bidders should outline what plans they would have for routes over which they are the principle or sole operator.

### **3.9 Rolling Stock**

#### **3.9.1 Rolling Stock to December 2008**

From Franchise commencement on 11<sup>th</sup> November 2007 to the introduction of the new timetable in December 2008, it is planned that there will be trading between the New Cross Country, West

Midlands and East Midlands Franchises for traincrew and Rolling Stock maintenance. This is particularly the case for services currently operated by Central Trains Ltd using Class 15x trains and Class 170 trains which will be split between the three new Franchises. One of the issues involved in planning this is traction knowledge and depot location. In order to give certainty to the Bidders and the industry more widely, the proposed allocation of existing 15x and 170 planned to be in place to deliver the operational service from 11 November 2007 will be placed in the Data Site shortly and will form the basis of common bidding assumptions for all three Franchises.

Bidders have the flexibility to propose alternative Rolling Stock for this period (such as bringing in vehicles that may be off-lease), but will have to provide a full explanation of what this may mean if other Franchises are affected and how they would manage any risks to delivery of Day 1 operations given the complexities around traincrew provision, trading and route knowledge. All such proposals should be discussed with the DfT in confidence during the bid preparation phase.

### 3.9.2 Rolling Stock throughout the Franchise Term

For the period of the whole Franchise term, the DfT will only specify use of particular Rolling Stock where it is absolutely necessary to do so. This has been necessary in the case of the Class 220/221 Voyager DEMU train fleet, the arrangements for which are further described below in Section 3.9.4 (Voyager Diesel Electric Multiple Units Leasing and Maintenance).

### 3.9.3 Changes to Fleet

The DfT is prepared to consider the use of alternative classes of vehicles for the New Cross Country Franchise (subject to Sections 3.9.4 (Voyager Diesel Electric Multiple Units Leasing and Maintenance) below and 2.19 (Management of Rolling Stock Demands across the Midlands Franchises) above) and Bidders must develop their own fleet strategies in relation to total fleet size, disposition, allocation to routes, availability of spares and other considerations.

### 3.9.4 Voyager Diesel Electric Multiple Units Leasing and Maintenance

The CrossCountry Trains Ltd Franchise currently operates a fleet of 78 Voyager units. There are subclasses of these trains as follows

Class	Traction	Vehicles per Unit	No. of Units	First/Std Capacity
220	Voyagers	4	34	26/160 Seats
221	Super Voyagers (tilt)	5	40	26/220 Seats
221	Super Voyagers (tilt)	4	4	26/160 Seats

The trains are leased by Voyager Leasing Limited and the trains are maintained under a Train Service Agreement by Bombardier Transportation.

#### 3.9.4.1 Interface with West Coast Trains Ltd.

At present two Class 221 units a day are sub-leased from CrossCountry Trains Ltd to West Coast Trains Ltd to operate services between London Euston and North Wales. In order to operate an increased level of service between North Wales, Chester and London as well as the Birmingham - Scotland service, it is intended that West Coast Trains Ltd operate an increased fleet of Voyager Units. The requirements are as follows:



Class	Traction	Vehicles per Unit	No. of Units	First/Std Capacity
221	Super Voyagers (tilt)	5	18	26/220 Seats
221	Super Voyagers (tilt)	4	3	26/160 Seats

### 3.9.4.2 Bidding Assumptions

For the Base Case, Bidders are to assume that 34 x Class 220 units, 22 x Class 221 (five car) units and 1 x Class 221 (four car) unit:

- continue to be leased on the terms of the existing Operating Lease dated 9<sup>th</sup> December 1998 made between Voyager Leasing Limited and Cross Country Trains Limited until the expiry of the Operating Lease on 31<sup>st</sup> March 2012; and
- continue to be maintained on the terms of the existing Train Service Agreement dated 9th December 1998 and made between Cross Country Trains Limited and Crossfleet Limited, until the expiry of the Train Service Agreement on 31<sup>st</sup> March 2012,

the bidding assumption being that these agreements will be transferred to the New Cross Country Franchisee by the Start Date Transfer Scheme, varied to reflect the reduced fleet size.

Bidders must also assume that the units required by West Coast Trains Ltd will continue to be maintained on the terms equivalent to the existing Train Service Agreement dated 9th December 1998 and made between Cross Country Trains Limited and Crossfleet Limited, until the expiry of the Train Service Agreement on 31st March 2012.

Bidders are also asked to identify the effect on their Base Case proposals if the Operating Lease was extended until 31st March 2016 (with a no cost break clause if performance targets are not met and the Franchise terminates on 9th November 2013).

In either of these circumstances (Operating Lease ending in 2012 or 2016), Bidders are also asked to identify their maintenance proposals for the relevant rolling stock from 1st April 2012 until the end of the Franchise. Such maintenance proposals must be capable of being contractually committed to at Franchise commencement and have the consent of Voyager Leasing Ltd.

During the period prior to Bid submission the DfT may instruct Bidders to proceed solely on the basis of one of these assumptions as it relates to the period beyond 1st April 2012.

The attention of Bidders is drawn to the Priced Option in Section 6.1.3 (Provision of Voyagers to West Coast Trains Ltd) relating to an alternative approach to the provision of the Voyager units to West Coast Trains Ltd.

### 3.9.5 Changes to Rolling Stock Leasing Arrangements

Following the White Paper published last year, the DfT has reviewed the structure of the Rolling Stock leasing industry and has considered whether and how overall industry costs may be reduced and better value for money obtained.

At the date of issue of this ITT the DfT has made a reference to the ORR under the Enterprise Act (the “**Referral**”). The ORR is not due to report back until the autumn and at this stage the Referral may yet give rise to a number of possible outcomes.

Bidders should note the above and, in preparation of their Franchise bid submission, tender and negotiate for their Rolling Stock requirements in the normal way.

Bidders, however, should also confirm that they will cooperate with the DfT in ensuring that:

- any benefits regarding Rolling Stock leasing terms which may arise as a result of the Referral or any associated work by the ORR and/or the Competition Commission are passed through the Franchise Agreement and fully reflected in the subsidy receivable or premium payable to the DfT;
- if the Referral and any associated work by the ORR and/or the Competition Commission reaches a conclusion prior to the selection of the Franchisee, the Bidders will facilitate any changes to their Franchise bid submission arising from or necessitated by the outcome of the Referral;
- if the Referral and any associated work by the ORR and/or the Competition Commission reaches a conclusion after signature of the Franchise Agreement, the incoming Franchisee will enact any changes to the Franchise Agreement in accordance with its terms; and,
- the Bidders agree that they will provide transparency of all Rolling Stock leasing costs affected by the Referral or any associated work by the ORR and/or the Competition Commission, in order to enable its true value to be established by the DfT.

### 3.10 Depots and Train Maintenance

The Voyager fleet is currently maintained under a Train Service Agreement with Bombardier Transportation. The principle maintenance facility is Central Rivers Depot at Burton upon Trent. Overnight stabling and cleaning (and in a few cases minor exam work) takes place at the following locations:

<b>Location</b>	<b>Operator</b>
Central Rivers, Burton upon Trent	Bombardier
Barton Hill WRD, Bristol	EWS
Craigentiny T. R.S.M.D, Edinburgh	GNER
Crofton Depot, Leeds	Bombardier
Eastleigh T.R.S.M.D, Hampshire	EWS
Laira T. R.S.M.D, Plymouth	First Great Western
Longsight Carr M.D, Manchester	Alstom
Long Rock, Penzance	First Great Western
Polmadie, Glasgow	Alstom
Three Bridges, Sussex	EWS
Tyne Yard S.S, Newcastle	EWS
Allerton, Liverpool*	EWS
Crewe	L&NWR

\* use of this facility by New Cross Country is expected to cease with the transfer of Birmingham - Scotland services to West Coast Trains Ltd

The bidding assumptions with regard to the maintenance of this fleet are set out above in Section 3.9.4.2 (Bidding Assumptions).

Details will be provided shortly of the locations at which maintenance and stabling of Rolling Stock to deliver the SLC1 service for the ex-Central Trains services. The principle maintenance is

expected to take place at Tyseley with other activity or stabling needed at Cambridge, Nottingham and Worcester.

The leases for the depots supporting Central Trains expire at the beginning of December 2006. The DfT's understanding is that Network Rail is not prepared to extend these leases beyond the end of the current Central Trains Franchise. Bidders should assume that Tyseley depot will transfer to West Midlands franchisee and that there will be a trading arrangement in place to support the initial New Cross Country fleet up to December 2008 which will not be able to be varied or terminated before then except by mutual consent of the 'buying' and 'selling' parties. Trading arrangements are also likely to be required at other locations.

The DfT expects more information to be made available during the bid preparation phase.

### 3.11 Timetable Plan and Resources

The train crewing arrangements and train crew depots or 'booking on point' locations to be assumed to be required at the commencement of the Franchise are shown below. These are for guidance and can be varied in Bidders' proposals where improved efficiency and increased value for money can be achieved. It is planned that trading for the traincrew up to the commencement of SLC2 in December 2008 will be put in place in advance and that the arrangements will not be able to be varied or terminated before then except by mutual consent of the 'buying' and 'selling' parties.

#### Traincrew Locations

<b>Location (Class 220/221 Operations)</b>
Birmingham New Street (TMs and Retail Staff only)
Bournemouth
Brighton
Bristol
Derby
Edinburgh
Leeds
Longsight (Drivers only)
Manchester Piccadilly (TMs and Retail Staff only)
Newcastle
Plymouth
Reading (TMs and Retail Staff)
Saltley (Drivers only)

Note that the current traincrew location at Preston is expected to transfer in its entirety to West Coast Trains Ltd at the commencement of the New Cross Country Franchise.

<b>Location (ex-Central Trains Ltd Operations)</b>
Birmingham New Street
Cambridge
Leicester
Nottingham
Worcester

Note that it is expected that Cambridge traincrew facilities will transfer to the New Cross Country franchise. There are also expected to be dedicated New Cross Country traincrew based at Birmingham New Street (drawn from the ex-Central Trains Ltd traincrew). Arrangements for Leicester traincrew are to be clarified. At all locations, it is expected that there will be trading of traincrew until at least December 2008. Further details of this will be provided shortly, and draft contracts will also subsequently be provided.

### **3.12 Performance Improvements**

#### **3.12.1 Network Rail**

Bidders are referred to the DfT's projections for Delay Minutes attributable to Network Rail in their calculations for payments under Schedule 8 of the Track Access Agreement and in forecasts of any associated revenue effect. These figures will be placed in the Data Site and are derived from Network Rail's National Business Plan.

In their calculations for payments under Schedule 8 of the Track Access Agreement and in forecasts of any associated revenue effect, Bidders should develop and justify their projections for Delay Minutes attributable to Network Rail and also include an explanation for the differences when these depart from the DfT projections. Bidders should use their own methodology for the calculation of Performance Minutes (Average Minutes Lateness (AML) and Deemed Lateness (DML)). The Franchisee will be responsible for the cost and revenue implications of any mismatch between their Network Rail performance projections and actual Network Rail performance.

#### **3.12.2 TOC-on-Self**

Bidders should provide their submissions based on the delivery of the Delay Minute targets appended to the Franchise Agreement and placed in the Data Site. Bidders are expected to provide evidence as to how these targets will be delivered in their Performance Plan.

In developing the target, the following methodology has been applied. Service Delivery data is based on remapped historical data developed by the DfT and Technical Advisors. Using Network Rail's IPPR and PEARS data of the existing TOCs, a series of complex remapping procedures was used to define TOC on Self, TOC on TOC and Network Rail delay. Two years of remapped data has been developed to reflect the new Franchise set-up.

The starting target is an MAA of the remapped TOC on Self delay by the end of 2005/6 with a 10% improvement in TOC on Self delay by the start of the franchise, based on recent performance improvements. The benchmark tables are set to give a 3% linear improvement for the first 5 years of the franchise, then no improvement. The Improvement Plan, Breach and Default levels have been set to be 7.5%, 15%, and 20% less challenging respectively than the Target figure after 5 years and this absolute difference applied throughout the 5 years. All benchmarks have been rounded to the nearest 250 delay minutes.

#### **3.12.3 Cancellations**

Bidders should provide their submissions based on the delivery of the Cancellations targets appended to the Franchise Agreement sent out with this ITT. Bidders are expected to provide evidence as to how these targets will be delivered in their Performance Plan.

The Cancellations data has been calculated as per the definition in the Franchise Agreement with 1 total cancellation counting as 1 Cancellation and 1 part Cancellation counting as 0.5 of a Cancellation. All Service Recovery and Force Majeure Cancellations have been taken out of the calculation of the benchmarks. The source of the Cancellations data is based on the remapped data supplied by the DfT. These include all Cancellations; therefore the remapped PEARS deemed minutes has been used to identify the split in Cancellations between the TOC and other parties (Network Rail and TOC on TOC). The starting target is an MAA of the remapped data by the end of 2005/6 and with no improvement by the start of the franchise. The benchmarks are set to give a 3% linear improvement over the first 5 years of the Franchise. The Improvement Plan, Breach and Default levels have been set to be 7.5%, 15% and 20% less challenging respectively than the Target figure after 5 years, and this absolute difference applied throughout the 5 years. All the benchmarks have been rounded to 2 decimal places.

#### 3.12.4 Sunday Cancellations

\* Where text has been omitted from this document, this is because DfT Rail Procurement has concluded that an exemption from the obligation to disclose information under the Freedom of Information Act 2000 applies (and, where applicable, the public interest would not be served by disclosing the information).

#### 3.12.5 Capacity

The requirement for capacity recording in the new franchise is different from that which currently takes place in the DfT's short formation regime. Current short formation "seats to plan" data is not suitable to set a benchmark target. Therefore a standard base target is provided in the benchmark table. The Bidder is expected to demonstrate how this can be improved using their projected train plan and ensuring that sufficient stock is available to run peak and other key services. Monitoring of capacity provision will be based on the availability of vehicles instead of seating availability.

From period 06 of this performance year, the existing TOCs will provide periodically a report on all short formations by vehicle on a periodic basis. This will be placed in the Data Site to assist Bidders with their projections. Capacity tables will be revised to mirror the Train Plan delivered by the successful Bidder.

#### 3.12.6 Target setting

The targets in the Franchise Agreement and placed in the Data Site represent the minimum the DfT is willing to contract. Bidders are invited to propose a target that is more challenging than those provided. Should Bidders choose to offer a more challenging target they are expected to provide evidence as to how these more challenging targets will be delivered in their Performance Plan. These more challenging targets will then form the basis of the Franchise Agreement. These targets should be used in the calculation of the payments under Schedule 8 of the Track Access Agreement and in forecasts of any associated revenue effect. Offering to contract the more challenging target will receive credit during the bid evaluation.

To allow for any changes in performance between ITT issue and Franchise commencement, targets will be recalibrated for the actual performance achieved up to 11th November 2007.

#### 3.12.7 Remapped performance data

Recalibrated historic and forecast data for delay minutes, AML's DML's Schedule 8 payments and PPM will be placed in the Data Site to assist the bidder in putting together their proposals.

### 3.12.8 Control Room Set Up

The Franchisee will need to establish and operate a control room to oversee the safe and reliable operation of the New Cross Country Franchise. After the Franchise has been awarded the successful Bidder will be required to enter into discussions regarding the potential benefits and dis-benefits of co-location or integration with Network Rail Control. The Bidder will be expected to take a final decision on the control room set up following these discussions.

## 3.13 Stations and Access

There will be no requirement in the New Cross Country Franchise for the Franchisee to act as a Stations Facilities Operator (SFO).

### 3.13.1 Station Facilities and Services for New Cross Country Franchise Passengers

The Franchisee will be expected to work with SFOs at locations which New Cross Country Franchise trains will call at in order to optimise the level of service which New Cross Country Franchise customers will receive.

The Franchisee will be required to set up a means of assessing and monitoring the level of service delivery as part of their Service Quality Management System (SQMS).

### 3.13.2 Stations at Which Only New Cross Country Services Will Call

At certain locations the New Cross Country Franchise will be the only TOC to call at the station which will be managed by another TOC acting as SFO. The Bidder is required to demonstrate how specific attention will be shown to these locations and how the Bidder intends to ensure that an appropriate standard of services and environment will be provided to New Cross Country Franchise customers.

### 3.13.3 Key Interchange Locations

The reorganisation of the New Cross Country timetable commencing with the introduction of the December 2008 timetable will create the need for some passengers to interchange between services when this has not previously been necessary. Furthermore, interchange at some locations will be necessary between TOCs when previously the journey would have been contained wholly within the New Cross Country Franchise. As part of a highly visible project to assist passengers changing trains Bidders are asked to consider how they would manage this including, but not limited to, the following aspects:

- Promotion of interchange at Stations other than Birmingham New Street where applicable. This will include but will not be limited to multi-media information campaigns, staff awareness and cooperation from organisations such as National Rail Enquiries;
- Work with SFOs to develop station signage and customer information systems at those Stations identified as key interchanges;
- Provision and development of the station customer services team based at Birmingham New Street to offer assistance to passengers with no option other than to change at that Station;

- Empower staff to proactively give high quality connection information at Stations such as Birmingham New Street;
- Management of relationships with SFOs at Stations where New Cross Country staff will not be present to ensure assistance facilities are available;
- Continuation and promotion of the dedicated telephone service to book assistance for anyone who may require it; and
- Consideration of how mobile telephone and wireless internet technology may be exploited to assist passengers who may welcome interchange in real time information whilst travelling.

#### 3.13.4 Railways for All

The Railways for All Strategy was launched in March 2006. This can be downloaded from [www.dft.gov.uk/access](http://www.dft.gov.uk/access).

This Strategy describes what the rail industry will be doing to improve disabled access. A key part of this is the £370m Access for All funding to deliver access improvements over the next 10 years. This is split into two parts:

- Around £35m per year is targeted at achieving an unobstructed and obstacle free ‘accessible route’ within Network Rail controlled infrastructure, from at least one station entrance (usually the main one) and all drop-off points associated with that entrance, to each platform and between platforms served by passenger trains. The decision on which stations are addressed is based on footfall, 2001 census and geographic spread. These works are to be developed and delivered by Network Rail.
- Up to £7m per year is available across England, Scotland and Wales as Small Schemes funding to be spent on specific projects developed and delivered by a range of bodies including TOCs, local authorities and other parties.

The Stations included in the Strategy over the next 3 years by Network Rail can be downloaded from [www.dft.gov.uk/access](http://www.dft.gov.uk/access). This list may be extended in the future.

The New Cross Country Franchisee will not be a recipient of such funding but will be expected to co-operate where necessary with Network Rail and SFO plans to deliver improvements in this area.

#### 3.13.5 Disability Discrimination Act

Bidders’ attention is drawn to the current requirements in Part 3 and Part 5 of the Disability Discrimination Act 1995 (as amended). Attention is drawn to the Disability (Transport Vehicles) Regulations 2005 which come into effect on 4 December 2006. Those regulations will lift the exemption in Part 3 of the Disability Discrimination Act 1995 for transport vehicles.

Attention is also drawn to the proposed changes to the Rail Vehicle Accessibility Regulations 1998 flowing from the Disability Discrimination Act 2005 which it is proposed to introduce from December 2006. Notably these would set an end date no later than 1 January 2020 for vehicles to comply with the Rail Vehicle Accessibility Regulations 1998 and enable the regulations to be applied to existing Rolling Stock at refurbishment.

The DDA places a duty on service providers to facilitate reasonable access to their services.

Bidders are requested to explain how, in providing their service, they will meet the requirements of the Disability Discrimination Acts and whether the service provided will exceed that currently available. Where that is the case, Bidders are expected to identify and price this separately. Examples could include, provision of additional platform staff, improvements in processes or procedures or the provision of additional station works.

### **3.14 Customer Services**

#### **3.14.1 Customer Services Provision**

The Bidders will be expected to show how they will manage customer services provision in the franchise going forward.

#### **3.14.2 National Passenger Survey**

Bidders should note that it is the DfT's intention that a National Passenger Survey of the New Cross Country Franchise will be conducted by Passenger Focus.

#### **Passengers' Charter**

The DfT is reviewing its policy in this area, and further guidance will be provided during the bid preparation phase. Bidders are advised that it is likely that the Franchisee will be required to base its compensation regime on a 'Delay, Repay' model, with ticket refunds of 50% for passengers on trains affected by delays of between 30 and 59 minutes and of 100% for delays of 60 minutes or more.

### **3.15 Security**

The DfT is looking to ensure that the rail network provides a safe and secure environment for passengers and staff.

#### **3.15.1 On-Train Security**

The New Cross Country Franchisee will be responsible for security on board its trains. Bidders will need to include a brief assessment of current security arrangements at all levels from theft and assault to terrorist threat and they should demonstrate what measures the Bidder will take to make improvements. Investment in technological security solutions would be welcome. If financially positive to do so, this could be provided as part of the Base Case; if not it may be offered as an Bidder Incremental Option.

#### **3.15.2 Staff Security**

Bidders will be required to outline how what policies they intend to implement to protect staff security with the aspiration of driving down the number of verbal and physical assaults against staff. The Bidder must also demonstrate what support will be offered to staff who are victims of assault.

### **3.16 Environment**

Although rail is a relatively clean and efficient means of transporting people and freight, as with all modes it must play its part in reducing its environmental impacts and contributing to Government's broader sustainable development objectives (The Government's sustainable development strategy



which is entitled “Securing the Future” can be found at: <http://www.sustainable-development.gov.uk/publications/uk-strategy/index.htm>). In addition, with over 5 million people living near the railway, TOCs have an important role to play in managing their activities to reduce noise and disturbance to line-side neighbours.

Bidders should set out their approach to the environment including how they would plan to measure and reduce the environmental impact of the rail activities of this Franchise including carbon emissions, air quality and noise, but also taking account of the need to conserve resources and to reduce waste and water/land contamination. The DfT would expect to contractualise initiatives that have a positive environmental impact as Committed Obligations.

### **3.17 Franchise Management**

#### **3.17.1 Franchise Management Structure and Approach**

Bidders should set out their approach to management of the Franchise, considering in particular the operational, staff and stakeholder management issues arising from the Franchise having a national geographic reach. Bidders will also be expected to show how due management attention will be given to the ex-Central Trains Ltd services transferring into the Franchise.

#### **3.17.2 Approach to Quality**

The Franchisee will be expected to implement a quality plan which sets out the company’s approach to measuring and improving service quality. This will incorporate a Service Quality Management System (SQMS). The Franchisee will also be expected to comply with an enhancement to the existing annual Business Plan obligation to incorporate outputs from an annual assessment under the British Quality Foundation standard (or equivalent).

#### **3.17.3 Committed Projects**

The Base Service Specification that underpins SLC2 assumes that no enhancement projects are implemented during the Franchise Term. During the course of the Franchise, the Franchisee must cooperate and work with industry parties and others in the development and potential implementation of schemes and Bidders should describe how they will manage the interface with such schemes. Details of the schemes that will or may affect the Franchise are shown in Section 7 (Further Information)

#### **3.17.4 Community Rail Strategy**

The Government is committed to the implementation of the Community Rail Development Strategy aimed at improving the long term viability of local and rural railways - a copy of the Strategy can be found on the DfT web site.

The three aims of the Strategy are to increase revenue, reduce costs and increase community involvement in local and rural rail.

At the heart of the Strategy are Community Rail Partnerships (CRPs) who bring together the industry and local stakeholders to promote and develop their railways. The Franchisee will be expected to work with and provide support to relevant partnerships.

### 3.17.5 London 2012 Olympic and Paralympic Games

Bidders should note that the Franchise Agreement requires the Franchisee to co-operate and consult as reasonably required with the London 2012 Olympic Bid Team, the Secretary of State, Transport for London, Network Rail, the British Transport Police and any other relevant party in connection with any arrangements directly or indirectly connected with the Games. The Franchise Agreement will include undertakings in relation to advertising.

### 3.17.6 Co-operation with key stakeholders

Bidders are required to confirm that they will cooperate with key stakeholders over the life of the New Cross Country Franchise to facilitate efficient development and implementation of Major Projects and any other industry change likely to impact on or affect the New Cross Country Franchise.

### 3.17.7 Electronic Advertising Media

Bidders wishing to propose the use of electronic advertising media on trains, for example video or audio broadcast systems, should make their intentions clear. The impact on the passenger environment of any proposed use of electronic advertising media and the net financial benefit should be separately identified within the Financial Model.

Implementation of any electronic advertising media proposals must be supported by passenger surveys and objective evidence that passengers are receptive to the installation of such systems and the content of the transmitted messages. Consent by the DfT will be granted only if suitable proposals are made regarding the passenger environment

## 3.18 Mobilisation and Migration

### 3.18.1 Mobilisation

Bidders must demonstrate their capability, in the event they were to be selected as Franchisee, to carry out an effective mobilisation within the necessary timescales and proceed to commencement of operations on 11 November 2007.

The Franchisee must mobilise with the intention of fulfilling the following aims:

- to ensure the integrity and continuity of existing services;
- to work with other TOCs, Network Rail, ORR and other stakeholders to ensure a successful handover from the incumbent TOCs by the agreed transfer date. This will include, amongst other things:
  - staff transfers; and
  - transfer of supporting assets and finalisation of commercial arrangements.

For clarity, *mobilisation* activities are interpreted in this document as being those leading up to the commencement of operations. *Migration* activities are those relating to the transfer and integration of the existing operations, supporting assets, systems and commercial arrangements to create the New Cross Country Franchise.

The DfT expects a working group to be established including, the Franchisee, the incumbent TOCs and the DfT representatives to oversee and monitor progress during the period between selection of the Franchisee and commencement of operations. The main purpose of this group will be to ensure the full and active participation of all parties in a fair, reasonable and timely manner.

### 3.18.2 Transfer of essential property, rights and liabilities to the Franchisee

It is proposed to transfer property, rights and liabilities that are likely to be required to operate the New Cross Country Franchise to the Franchisee via the Start Date Transfer Scheme. Bidders attention is drawn to the fact that there are some contracts that are joint contracts between CrossCountry Trains Ltd and West Coast Trains Ltd.

### 3.18.3 Rolling Stock

The Franchisee will need to agree with the DfT, ROSCOs and vehicle maintainers as appropriate, the transfer of existing (or commencement of new) leases and associated contracts for the Rolling Stock that will enable it to deliver its obligations under the Franchise Agreement. This requirement will be a condition precedent to the start of the New Cross Country Franchise.

### 3.18.4 Trading Agreements with East and West Midlands Franchises to December 2008

From the start of the Franchise Term until the implementation of SLC2 in December 2008 it is planned that there will be a requirement for trading of train crew, train maintenance and other resources between the East Midlands, West Midlands and New Cross Country Franchises.

It is planned that the main elements of the intended trading will be put in place and made available to Bidders during the bid preparation phase. The future Franchisees will be committed to participate in the trading arrangements on the terms that will be set out until at least the December 2008 timetable change, unless varied or terminated early by mutual consent of both the 'buying' and 'selling' party.

Immediately after the successful Bidders are announced, the three Franchisees, present incumbent management, Network Rail and the DfT will meet to resolve the detailed arrangements that will arise through the trading period. This will include working through the following issues:

- Rostering Arrangements during periods of heavy sickness or annual leave peaks;
- Ad hoc train crew/Rolling Stock hire agreements;
- Use of spare/stand by train crew;
- Control behaviours during service recovery;
- Short notice train crew sickness;
- Traction / Route Retention;
- Messing Facilities; and
- Operations On call arrangements.

### 3.18.5 Employees

#### 3.18.5.1 Transfer of Undertakings (Protection of Employment)

Bidders should assume that the transfer of the CrossCountry Trains Ltd business and the entry into the Franchise Agreement will constitute the transfer of an undertaking for the purposes of the

Transfer of Undertakings (Protection of Employment) Regulations 1981 as amended 2006 (TUPE). Details will be provided of employees of CrossCountry Trains Ltd, who will transfer to West Coast Trains Ltd, rather than the New Cross Country Franchise. In addition, a limited number of employees of Central Trains Ltd will be expected to transfer on TUPE terms to the New Cross Country Franchise and details of these will be provided.

### 3.18.5.2 Pay and Pensions

Bidders are required to confirm acceptance of the terms and conditions relating to pensions contained in Schedule 16 (Pensions) of the Franchise Agreement. This confirmation should be included in responses to Section 4 (Operational Integrity/Deliverability).

Bidders should not assume that the DfT will provide any indemnity regarding any payments that may be required under the Railways Pensions (Protection and Designation of Schemes) Order 1994 (SI 1433) or otherwise.

The Franchisee will become the Designated Employer for:

- the active, retired and deferred members of the current Cross Country Trains Section of the Railways Pension Scheme (RPS); and
- the Cross Country (ex-Central Trains) Section of the RPS, which will consist of only active members who were formerly members of the Central Trains Section who will have transferred across to the New Cross Country Franchise. Exact numbers are not known at present, but Bidders should assume that the number of active members will be determined during the bidding process.

Bidders are required to set out their approach to managing the existing pension schemes within the context of there being no need for merger of sections at day one. Instead the existing sections will continue, with the current schedule of contributions remaining in place until the results of the December 2007 valuation are known.

All assumptions should be clearly stated.

Subject to meeting their obligations under the Railway Pension Scheme, at the end of the Franchise Term the Franchisee shall have no responsibility for any deficit in the scheme (other than contributions due and payable before the end of the Franchise Term by the Franchisee) and have no right to benefit from any surplus which may exist in the relevant section.

### 3.18.6 Operational and regulatory requirements

#### 3.18.6.1 Railway Safety Case

Existing rail safety regulations changed in April 2006 as a result of the European Railway Safety Directive (2004/49/EC) and following the introduction of the Railways and Other Guided Transport Systems (Safety) Regulations 2006 (provisional name) (the Regulations). These will replace the existing safety cases with safety certificates for rail undertakings (i.e. TOCs).

The Franchisee will be required to obtain a comprehensive Safety Certificate for the New Cross Country Franchise as a condition precedent to the commencement of the New Cross Country Franchise. The Franchisee shall be responsible for maintaining the Safety Certificate for the term of the New Cross Country Franchise.

Bidders are expected to engage with the HMRI during the Bid Preparation Phase. Further information on the content and administration of railway Safety Cases can be found at the following website: [http: Regulation & certification - : Office of Rail Regulation](http://www.rail-reg.gov.uk/)

### 3.18.6.2 Licensing

As a condition precedent for the start of the New Cross Country Franchise, the Franchisee will be obliged to apply for, and secure, licences and a related Statement of National Regulatory Provisions to operate railway assets within Great Britain. Typically, this process can take up to 16 weeks to complete, allowing for consultation and due process. ORR normally requires appropriate safety authorisations to be in place prior to the final issue of these licences.

Further information on the issue and administration of licences can be found at the following website: <http://www.rail-reg.gov.uk/>

### 3.18.6.3 Railway Safety Group

The Franchisee will be expected to become a member of the 'Railway Safety Group' and, as such, The DfT will expect it to engage proactively as a member of that Group. In particular, this requires the Franchisee to engage in:

- the consultation process for new standards (both railway group standards and any ATOC 'Codes of Practice');
- the process of generating the 'Railway Safety Group Safety Plan' (RSGSP); and
- the delivery of an appropriate contribution to that RSGSP. TOCs are required to produce an Annual Safety Plan that should be available on request to the DfT and ORR.

The Franchisee will also be expected to participate in industry groups and committees addressing the domestic, European and research safety agenda of the Railway Safety Group. The DfT has an expectation of full engagement in safety at both Franchisee and parent company level.

### 3.18.7 Access

#### 3.18.7.1 Station and Depot Access Agreements

Existing access rights will be transferred under the Start Date Transfer Scheme. Arrangements for gaining access to Stations and depots operated by other TOCs are covered by access contracts between the Facility Owner and any beneficiaries wishing to use the facility. Access contracts are regulated under the Act and are subject to approval or direction by ORR, which has produced a number of template access contracts for use by TOCs.

Bidders should be aware that ORR is implementing the station access regime from July 2006. Whilst the basic principles of the Stations access regime will remain the same, the detailed arrangements between Network Rail, Facility Owners and other users (beneficiaries) of Stations will alter. This will vary the types of lease that are available, and the responsibilities within those leases. Bidders will be expected to consider these arrangements, and ways in which these can be exploited to develop opportunities. Bidders should contact ORR for further information.

#### 3.18.7.2 Track Access Agreements

The current Track Access Agreements held by the incumbent TOCs, and the arrangements to put in place a new TAA for the New Cross Country Franchise, are detailed in Section 3.5 (Track Access Agreements). Details of the existing Track Access Agreements can be found on the ORR website.



## **SECTION 4: THE BID: DELIVERY PLANS**

### **4.1 Introduction**

The DfT requires Bidders to show how they will deliver the Franchisee's obligations contained in the Franchise Agreement and how this will meet the objectives of the New Cross Country Franchise. In line with paragraph 20 of the DfT document [“A Guide to the Rail Franchise Procurement Process”](#), the DfT requires Bidders to produce three principal delivery plans, setting out how they intend to improve the reliability, reduce the cost and increase the revenue of the service.

### **4.2 Required Response**

#### 4.2.1 Plans and Criteria

Bidders are required to provide the three principal delivery plans by submitting responses to eleven operating criteria. Table 4-1 shows the eleven operating criteria and suggested component items. It should be noted that the list of component items is not intended to be exhaustive but the DfT will expect Bidders to at least consider these elements when developing their proposals. Bidders may wish to introduce further components. For the avoidance of doubt, this section of the ITT requires a specific response to each of the eleven operating criteria, and only these will be assessed.

Bidders are required to provide a separate response in respect of each operating criterion covering the contribution made by that criterion to the overall Performance, Cost and where relevant, Revenue Plans. The DfT evaluators will read across the Performance, Cost and Revenue elements in respect of each operating criterion so there is no need to repeat information within the response for the same criterion.

Bidders are not required to provide a response in relation to all three principal delivery plans in respect of every operating criterion. Table 4-2 shows the minimum acceptable coverage which is required by the DfT. Bidders may submit plan responses in relation to operating criteria not considered essential by the DfT if they consider this helpful to the understanding of their solution.

#### 4.2.2 Executive Summary

Part 1 of the bid should also include an Executive Summary which describes the Bidder's vision for the New Cross Country Franchise and how the DfT objectives for the Franchise will be met. The Executive Summary should outline the proposed approach and indicate the relative importance placed by the Bidder of each of the eleven operating criteria.

#### 4.2.3 Performance Plan

The Performance Plan should address the business performance of the proposed Franchisee. Whilst the ability to deliver improved operational performance in terms of punctuality and reliability forms an important component of business performance, the Performance Plan also needs to address how the DfT specification and objectives will be delivered.

#### 4.2.4 Annexes and Appendices



Bidders may include annexes and appendices to their response which should be clearly referenced in the main text. Bidders are reminded that any annexes or appendices are subject to the size limits described in Section 2.9 (Structure and Format of Bids).

#### 4.2.5 Cross Referencing

The DfT evaluators will follow cross references to specific identified components of the response in relation to other operating criteria e.g. the response in relation to Security & Environmental might cover the contribution made to security by station gating but cite specific paragraphs of the Ticket Sales & Revenue Protection response in order to describe the solution proposed and provide evidence of its deliverability. No credit will be given for unspecific general references e.g. "further evidence on this issue is provided in our Ticket Sales & Revenue Protection response".

### 4.3 Evaluation Process

#### 4.3.1 General

The DfT will assess each response according to the Office of Government Commerce (OGC) and European Foundation for Quality Management (EFQM) guidelines. The Franchise will be awarded to the Bidder who offers the DfT the best, robust proposition, in terms of price and reliability, for operating the Base Service Specification.

The DfT has not attributed any level of relative importance to the eleven operating criteria and they will be weighted equally. The DfT will assess the overall risk to delivery of the Performance, Revenue and Cost principal delivery plans. Evidence from the revenue and cost plans will also be used to inform the DfT's risk adjusted view of the premium or subsidy offered by the Bidder and the assessment of the financial risk of the bid.

Bidders' attention is drawn to the guidance on risk assessment which is set out in paragraphs 21 and 22 of "A Guide to the Rail Franchise Procurement Process".

#### 4.3.2 Evidence

The DfT requires evidence that the Delivery Plans are sound and achievable. Bidders are not expected to repeat evidence of their general competency as a transport operator which will have already been submitted and assessed as part of the EFQM evaluation undertaken at the Accreditation stage. However, evidence is required of deliverability of the specific plans presented for the new Franchise, which may be in the form of relevant examples from other operations. The more ambitious the improvement offered by the Bidder, or the more innovative its approach, the greater the need for evidence to support the bid.

#### 4.3.3 Application of RADAR

The Delivery Plans will be evaluated using the RADAR® process. Bidders are encouraged to identify the RADAR components of their response in respect to each operating criterion, which will be applied as follows:

RADAR component	Contents	Weighting
Results	A short statement of the desired outcome - this should be	0%

	derived from the DfT specification and objectives.	
Approach	The Bidder's description of the outcomes which will be achieved and why. This component should include analysis of the existing position supporting the approach proposed and the expected future results.	25%
Deployment	How the outcomes proposed by the Bidder will be delivered. In addition to describing what resources are required and how they will be deployed, this component should include evidence that promised improvements can be secured.	40%
Assessment	What KPIs the Bidder will measure in order to ensure the delivery of outcomes.	10%
Review	How the business is structured and what processes are in place to react if the desired results are not achieved. This component should consider the risks to delivery and how the Bidder would manage and mitigate them.	25%

The weightings adopted for each RADAR component reflect the application of this system to Delivery Plans for a new business. RADAR® scoring is the evaluation method used to score for the European Quality Award.

Table 4-1: Operating Criteria for New Cross Country Franchise

**The Operating Criteria should be submitted in the sequence shown but the DfT has not attributed any weighting or relative importance to these criteria. Components are not an exhaustive list.**

Title	Components
Franchise Management, Human Resources & Staffing	Corporate structure Business planning Approach to Quality management inc SQMS Interface with major projects Stakeholder Management Community Rail Olympics 2012 Total Establishment, Headcount Organisation charts (Summary) Job descriptions (where change is proposed) Management accountability & Delegated authorities Safety responsibility statements Internal communication Performance management & Review process Recruitment & Selection Career planning & Succession Training, development Relations with trade unions Reward policy and expected salary and wage inflation Pensions
Market Position, Fares & Other Revenue	Market position and offer Market analysis and exogenous growth Marketing Plans Fares structure Premium & Standard fares Off peak fares Concessionary fares Multi Modal Schemes and fares Fares basket management Customer fares information On train catering Other on board services Premium product services Commercial advertising Inter-TOC trading
Ticket Sales & Revenue Protection	Ticket vending machines Ticket office systems ITSO On train sales On line sales Other sales outlets Monitoring and assessment of service levels Improvement plans New sales channels Collaboration with other parties Availability of fares information

	<p>Revenue protection Revenue Protection resources and training</p>
<p><b>Demand Management &amp; Crowding</b></p>	<p>Data capture Data analysis Peak Hours - On Train Peak Hours - On Station Seasonality Provision of seating capacity Luggage space provision Seat Reservations Fares - based solutions Train Planning/ Rolling Stock Initiatives Management of crowding Timetable development Other Initiatives and Mitigations</p>
<p><b>Rolling Stock Approach</b></p>	<p>Rolling stock approach &amp; policy overview Fleet composition for Franchise term Fleet deployment (with respect to service groups &amp; demand forecasts) Fleet utilisation Fleet improvement programmes Cost assumptions including fuel costs Management and quality principles Environmental issues Rolling Stock fall back plans</p>
<p><b>Depots &amp; Train Maintenance</b></p>	<p>Depot &amp; Maintenance approach &amp; policy overview Depot arrangements Facilities at stabling locations Outsource service and maintenance arrangements (if applicable) Fleet preventative maintenance arrangements Maintenance of air-conditioning systems Maintenance of toilet systems Maintenance of on board information systems Reactive maintenance (depot and line of route) Quality systems Supply chain and spares management Staff utilisation Train cleaning procedures Train Presentation Standards Timescales for repairs Checking and monitoring Environmental issues</p>
<p><b>Timetable Plan &amp; Resources</b></p>	<p>Compliance with Network Rail timetable 2008 Variations beyond the area where timetable compliance is required Timetable Planning process Timetables Train plans Unit diagrams including stabling Rostering approach &amp; systems Indicative staff diagrams Spare cover / Utilisation levels Locations Driving standards management</p>

	<p>Compliance with NR standards</p> <p>Route and traction learning</p>
<p>Performance Improvement</p>	<p>Data collection &amp; analysis</p> <p>Use of benchmarks</p> <p>(All) Performance Initiatives</p> <p>JPIP development process</p> <p>Network Rail interface</p> <p>Information sharing</p> <p>Day to day control arrangements</p> <p>Train Reporting</p> <p>Control centre arrangements</p> <p>Contingency planning</p> <p>Severe weather &amp; leaf fall</p> <p>Engineering Access &amp; Network restrictions</p> <p>Other service and station disruption risks</p> <p>Rescue capability</p>
<p>Stations &amp; Customer Access, Interchange and Information</p>	<p>Management and co-operation with SFOs</p> <p>Management and co-operation with Network Rail</p> <p>Management of stations at which only New Cross Country calls</p> <p>Station &amp; Customer Assistance staff - locations, duties &amp; responsibilities</p> <p>Station information</p> <p>Dealing with emergencies &amp; contingencies</p> <p>Monitoring of service levels of SFOs and Network Rail</p> <p>Assistance for customers interchanging and making other connections</p> <p>Promotion of Station and Car Park enhancement and investment</p> <p>Transport Integration Initiatives including cycles</p> <p>DDA related initiatives</p> <p>On-train information</p> <p>Real time information initiatives</p> <p>Printed Literature</p> <p>Process of reviewing and revising customer targets</p> <p>Communicating targets to customers</p> <p>Other information sources</p> <p>Maintenance of current information systems</p> <p>Proposals for future improvements</p> <p>Signage and advertising</p> <p>Data integrity and accuracy</p> <p>Disruption information</p> <p>Information for customers with disabilities</p> <p>Customer Services Organisation structure</p> <p>Complaints handling policy and process</p> <p>Passenger Charter</p> <p>Compensation &amp; Refunds policy and process</p>
<p>Security &amp; Environmental</p>	<p>Station security</p> <p>On-train security</p> <p>Depots &amp; sidings security</p> <p>Car park security</p> <p>Security of staff</p> <p>Security of customers</p> <p>Trespass and vandalism</p>

	<p>Terrorism                  Assessment of potential new risks and mitigation                  Improvement commitment                  Liaison with law enforcement agencies                  Co-ordination with Network Rail                  Use of private security contractors                  Staff training                  Security Accreditation                  Overall environmental approach and policy                  Energy efficiency including driver education                  Noise and light pollution                  Air quality                  Managing waste and recycling                  Water/land contamination and biodiversity                  Interface with Network Rail</p>
<p><b>Mobilisation &amp; Migration</b></p>	<p>Management arrangements                  Mobilisation programme to Nov 07                  Skills and resources                  Liaison with industry stakeholders                  Safety Certificate for Nov 07                  Licences                  Industry IT systems                  Track access                  Station Access                  Trading of Train Crew and Rolling Stock maintenance                  Maintenance Depots                  Rolling Stock                  TUPE &amp; Pensions                  Switch from trading to in-house                  Joint Operation with West Coast Trains Ltd to Dec 07                  Dec 07 Implementation - ops issues                  Dec 07 Implementation - staff issues                  Dec 07 Implementation - customer issues                  Dec 08 Implementation - ops issues                  Dec 08 Implementation - staff issues                  Dec 08 Implementation - customer issues                  Dec 08 Implementation - consultation on new timetable</p>

Table 4-2: Minimum acceptable coverage of Operating Criteria to achievement of the Principal Delivery Plans

Operating Criteria	Principal delivery plans			Proposal B
	Performance	Revenue	Cost	Expected Plans
Franchise Management, Human Resources & Staffing*	■		■	■
Marketing, Fares & Other Revenue*	■	■	■	■
Ticket Sales & Revenue Protection	■	■	■	
Demand Management & Crowding	■	■	■	■
Rolling Stock Approach	■		■	■
Depots & Train Maintenance	■		■	■
Timetable Plan and Resources	■		■	■
Performance Improvement*	■	■	■	■
Stations & Customer Access, Interchange and Information	■		■	
Security & Environmental	■		■	
Mobilisation & Migration	■		■	

\* Changes to these criteria for Proposal B are expected to be limited (e.g. in Franchise Management, Human Resources and Staffing, the approach is likely to be unchanged, but the summary of staff numbers may be different).

## **SECTION 5 : THE BID: FINANCIAL AND ECONOMIC ELEMENTS**

### **5.1 Introduction**

The DfT requires Bidders to provide information that will enable it to evaluate bids from a financial and economic perspective. This Section details how Bidders should achieve this and how the information should be presented for evaluation.

### **5.2 Financial Model and Operational Models**

Each Bidder is required to submit and include as part of their bid, a Financial Model and all Operational Models that support that Financial Model (together, the Models), along with all relevant financial information for each required Proposal – Proposal A (current capacity provision) and Proposal B (enhanced capacity provision). These must demonstrate the financial consequences of its business and operational plans over the Franchise Term from 11 November 2007 (start of rail period 9 of rail year 2007/08) to 31 March 2016, including an optional 7 period extension at the end of the franchise period.

The objective of the Financial Model is to calculate the financial outputs specified in Appendix 8 (Figures for Calculation of Annual Franchise Payments) to the Franchise Agreement. The Financial Model must be capable of repeating this calculation, using whatever Revised Inputs are agreed or determined to be relevant, if and whenever a Change occurs during the Franchise Term. It is essential that the Financial Model, and in turn the Operational Models that inform the Financial Model, have this functionality.

More specifically, the Financial Model should be capable of calculating each of the following specific outputs in the circumstances described above:

- Target Revenue (as set out in Appendix 2 (Target Revenue expressed in real 2007-8 terms) to the Franchise Agreement); and
- Franchise Payments (comprising the fixed and variable cost and revenue elements and the profit margin set out in Appendix 8 to the Franchise Agreement, expressed in 2007-8 terms).

These outputs should change automatically following the running of any sensitivity or variation. However, the Financial Model should have a functionality to freeze the Target Revenue as set out in Appendix 2 to the Franchise Agreement so as to allow simulation of Revenue Share / Revenue Support Adjustments triggered by revenue sensitivities.

The output schedules of the Models should be in the format of the Templates provided in Attachment F (the Templates). The Models should be presented in Microsoft Excel format, with workings and formulae intact (i.e. non input cells should not be 'hard-coded' with values), and be capable of running on a post - 1997 Microsoft Windows operating system. Five copies of the Models should be submitted in hard copy with the inputs and the financial statements and other outputs formatted as per the instructions in Sections 5.6 and 5.7 below. These printouts should also include the Financial Statements for all Priced Options (and Incremental Options if submitted).

#### **5.2.1 Financial Model and Operational Model Principles**

The Models submitted by the Bidders must be in line with best practice in accordance with the principles of Separation, Consistency, Integrity and Linearity described in section 5.9.



No rows, columns, cells or worksheets of the Models should be hidden or password protected. Protecting worksheets without passwords to avoid accidental changes to inputs or calculations is permissible, 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.

Where possible, Bidders are requested to avoid the use of macros in order to aid model transparency. The use of macros should be limited to areas where they add to the user friendliness of the Models (e.g. print macro) or aid the achievement of other requirements of the Models (e.g. avoid circularity or to transfer data between Models). Where macros are required, their function should be clearly explained.

Although best practice would dictate that a consistent formula is used in each column, there are a number of circumstances where a model can be made more transparent by changing the formulae across an array. Provided it is made clear (even when printed out and the formulae cannot be seen) that the calculation method is different, two cases have been identified when the formulae can differ:

- to allow a different approach to the treatment of forecasts before the New Cross Country Franchise commences (i.e. 2005/6 to 11 November 2007), for the first part-year of the Franchise up to 31 March 2008 compared to the full Franchisee years in the Franchise Term; and
- to allow units, indices and other useful modelling 'flags' to be included in the columns before the first forecast year .

It is not acceptable to break the best practice conventions to allow for other factors, such as, but not limited to, part years (e.g. due to the New Cross Country Franchise not commencing on the first day of the RSP year or a change to the Timetable), or demand build-up.

#### 5.2.2 Models to be Submitted

The Models should preferably be self-contained within their own respective spreadsheets. Where there are cross-links between the Models these should be stored together electronically with a clear explanation of the links. All appropriate Operational Models that support the calculations within the Financial Model are required to be submitted. This will include but not be limited to workings and calculations linking the Financial Model inputs and outputs.

The Operational Models should include but not be limited to:

- a demand/revenue model. The demand/passenger revenue forecasting model must at least disaggregate demand and revenue into the ticket types and Service Groups contained in the Templates. Any further disaggregation of demand and revenue into more detailed flows or segments is at the discretion of the Bidder. The demand/revenue model also needs to clearly show the demand forecasting input assumptions, demand forecasting elasticities and impact on demand and revenue from each of the following items. This should include, but not be limited to, such factors as:
  - macro-economic factors, including competition with cars and coach (disaggregated into individual factors where appropriate);
  - timetable changes, showing the different share of demand which is obtained from abstracted and generated effects;

- real fare increases;
  - performance improvements;
  - on-board product changes;
  - marketing;
  - revenue protection initiatives;
  - changes in rolling stock quality (if applicable);
  - station retailing initiatives;
  - crowding constraint, for the base, and priced option; and
  - other investments or initiatives.
- a crowding model to enable the determination of crowding benefits of Proposal A and Proposal B. Bidders are required to provide the following information in electronic format for both Proposal A and Proposal B.
    - Proposed timetables in MOIRA compatible format; and
    - A list of daily services and stops, with the relevant head-code, diagram and seat capacity for each service and each leg as defined in the Crowding Model Table which will be placed in the Data Site. This table should be provided in Microsoft Excel format and the columns should be presented as defined in the Data Site. The data shown within that table is for explanatory purposes only.
  - an ‘other-revenue’ model detailing forecast revenues in addition to those revenues identified above – this list is not exhaustive, and should be considered as guidance only but could include catering costs, service contract revenue and passenger charter payments.
  - a cost model that includes the following as part of one Operational Model. The following is not exhaustive and should be considered as guidance only:
    - a staff forecasting model showing the split by staff categories (e.g. drivers, station maintenance crew) and how these form the basis of the forecast of wage, pension and other staff remuneration and redundancy costs in the Financial Model;
    - a sales/distribution model showing the split by sales channel (for both journeys and revenue) for passenger revenue;
    - an other operating cost model, covering the other operating costs which would be generated. The sources of assumptions on key drivers such as changes in fuel unit costs over the franchise, increases in wage rates and other exogenous factors should be clearly identified.
    - a rolling stock model showing the split by rolling stock classes and showing separately fixed, mileage or reliability performance based components of the lease charges. The split of capital and non-capital rentals should also be shown; and
    - a regulated facilities model showing the split between fixed track access charges and variable track access charges, capacity related charges, station and depot related, access and leases charges;
  - a performance model, showing forecast Delay Minutes, Average Minutes Lateness and Deemed Minutes Lateness, attribution of Delay Minutes, Average Minutes Lateness and Deemed Minutes Lateness between the Franchisee (in the form of both TOC-on-Self and TOC-on-TOC) and Network Rail, the impact on the Public Performance Measure and the basis upon which any

performance receipts and payments are calculated. Periodic performance receipts and payments between the Franchisee and Network Rail should be shown separately. All assumptions relating to the performance model including rates and benchmarks and any performance improvement schemes and associated calculations should be clearly explained; and

- where required, a capital funding model, showing the detailed total investment plan for all funding of infrastructure, other works and schemes that support the Bidder's proposals and that reflects the precise details of their own funding arrangements.

Clear instructions on how to operate the Models, including any model assumptions should also be provided, in the form of an Operating Manual and Record of Assumptions (see Section 5.8).

### 5.2.3 Sensitivities

The Models must be flexible and capable of supporting sensitivity analyses, a Priced Option switch, (and, if submitted, an Incremental Option switch). Bidders must take this into account in determining the most appropriate structure for the Models.

The Models should, as a minimum, be capable of supporting a sensitivity analysis ('stress tests') on the following basis:

<b>Parameter</b>	<b>Sensitivity Functionality</b>
Total revenue	Percentage, absolute and compounding basis over franchise term
Total operating costs	Percentage, absolute and compounding basis over franchise term
Taxation rates	Percentage change in rate in any year
Interest rates	Percentage change in rate in any year
RPI	Percentage change in index in any year
AEI	Percentage change in index in any year

For a percentage sensitivity, the percentage should be specific to a year. For example, a percentage sensitivity of -2% of total revenue in Year 2 would reduce total revenue in that year by 2%. An absolute sensitivity would change total operating costs or total revenues by an absolute monetary amount, for example £500,000, in any specified year. Finally, a percentage change on a compounding basis would aggregate the percentage sensitivity year on year. For example a compound sensitivity of -2% in total revenues from year 1, would relate to a 2% decrease in total revenues in year 1, followed by 4.04% decrease in year 2, 6.12% decrease in year 3 and so on over the Franchise Term.

To illustrate the robustness of the Models, the Operating Manual and Record of Assumptions must include a table demonstrating the sensitivity of the Models to the changes to total operating costs and total revenues. The table shall show the year in which the first lock-up and first breach is triggered for (i) a 1% compounding increase in total operating costs and (ii) a 1% compounding decrease in total revenues. In addition, the table shall state the (iii) values of the absolute decrease in total revenues to trigger a lock up in Year 3 and a breach in Year 3, and (iv) the values of the absolute increase in total operating costs to trigger a lock-up in Year 3 and breach in Year 3.

The functionality to reproduce these results should be contained within the Models with appropriate documentation to facilitate verification by the DfT.

The Models should incorporate the Revenue Share/Revenue Support mechanism set out in Schedule 8.1 (Franchise Payments) to the Franchise Agreement and the dividend lock up mechanism set out in Schedule 12 (Financial Obligations and Covenants) to the Franchise Agreement. Where applicable, these mechanisms should be automatically activated when running the above sensitivities to the Financial Model and reflected in the financial statements. To this end the Financial Model should have a functionality to freeze the Target Revenue as set out in Appendix 2 to the Franchise Agreement so as to allow simulation of Revenue Share / Revenue Support Adjustments triggered by sensitivities. Bidders should note that revenue share and revenue support calculations should be separately disclosed in the Financial Model calculations.

The DfT requires that the Models form a robust basis for pricing Changes which may occur during the Franchise Term. The capability of the Models to price Changes will be considered as part of the evaluation, as a minimum, the following will be examined:

- Changes to Regulated Fares policy RPI+X (including any impact on crowding or unregulated fares).

### **5.3 Generic Bidding Assumptions**

Bidders are to use the following assumptions in preparing their bids:

- financial forecasts are to include calculations of the tax liabilities of the subject company in accordance with UK GAAP and any applicable tax law. Complete integrated tax computations should be included in the Financial Model to the extent that any group, consortium or other form of relief or sale of losses is clearly stated within such model;
- the units to be used in bid submission are clearly set out in the Templates provided;
- the default prices stated in the Models should be nominal but when real prices are required these should be deflated to 2007/8 prices;
- the tables listed below should be completed in 2007/8 prices:
  - Target Revenue table set out in Appendix 2 (Target Revenue (expressed in real terms)) to the Franchise Agreement; and
  - Franchise Payment table set out in Appendix 8 (Figures for Calculation of Franchise Payments) to the Franchise Agreement.
- Bidders should assume a Retail Prices Index of 2.7 per cent per annum and an Average Earnings Index of 4.4 per cent per annum shall apply from 01 April 2008 and annually thereafter. (Bidders should adopt their own inflation and AEI assumptions prior to that date and such assumptions should be clearly identified);
- the real discount rate to be applied is 3.5 per cent;
- net present values of the revenues, costs and Franchise Payments will be discounted back to the start of the franchise (11 November 2007);
- Bidders should assume that the Franchise will commence on 11 November 2007;
- for the purposes of calculating net present values, Bidders should assume the following timings for cashflows:
  - 20 January 2008 for the part-year 11 November 2007 to 31 March 2008, and

- mid-year cashflows (30 September) for full Franchisee years (1 April – 31 March).
- the New Cross Country Franchise financial year commences on 1 April of each year;
- Revenue Support levels and thresholds are as per the Franchise Agreement (Bidders are free to propose their own levels and thresholds for Revenue Share);
- there will be no changes to the Track Access Agreement and charging methodologies as a result of any reviews conducted by ORR during the Franchise Term (Bidders should use CP3 rates as specified by ORR until the end of CP3 and assume that they are held constant in real terms thereafter);
- bidders should note that the New Cross Country Franchisee is not an SFO, and therefore there is no requirement for the establishment of a Minor Works Fund; and
- the methodology for calculating Franchise Payments should be applied consistently on an annual basis, in accordance with the Franchise Agreement.

#### **5.4 Financial Model and Operational Models Structure**

The Models should be structured to allow the user to choose a scenario from the base Proposal (A or B), Priced Options (and Incremental Options if submitted) by use of a ‘switch’ applied to the base Proposal model. Separate stand-alone models will not be accepted.

The switch should enable the user to select the required scenario without the need for additional modelling or worksheet adjustments. This switch will be the tool to select the inputs of the required case and ‘run’ them through the calculations and subsequently present the results in the financial outputs of the Financial Model. The Operating Manual and Record of Assumptions should clearly explain the method by which the switch selects the case of the different scenarios.

The Financial Model must also have a further “index switch” that allows the user to apply/remove the effect of RPI so as to view the financial outputs in both nominal and real terms.

Where relevant, the DfT has anticipated that certain rows in the Financial Model are necessary for Bidders to provide their own cost or revenue titles (these are generally labelled as ‘Spare’), but for evaluation and logistical reasons, it is also critical to minimise any significant deviation from the Template structure. Deleting or inserting rows or columns to the Templates is not permitted and will be deemed to be non compliant.

The model should be presented in annual terms, with year-ends coinciding with the DfT’s 31 March accounting year-end (as demonstrated on the templates). Part-year periods will be disclosed at the start of the franchise (from 11 Nov 2007 to 31 March 2008), and for the optional 7-period extension at the end of the Franchise term.

Any changes to the Financial Model after bid submission will need to be clearly logged and traceable, including an audit trail in the Financial Model itself.

#### **5.5 Priced Options and Incremental Options**

The DfT requires a consistent level of detail/information for each proposed Priced Option and for each Incremental Option to both Proposal A and Proposal B, if submitted, to enable it to make an informed decision. Therefore financial outputs for each option should be automatically produced by use of a ‘switch’ which will update the financial outputs automatically incorporating the additional

requirements and implications of each Priced Option. Separate stand alone models will not be accepted.

Priced Options and Incremental Options should be indexed in accordance with the mechanism set out in Schedule 8.2 (Annual Franchise Payments) of the Franchise Agreement.

## **5.6 Financial Templates**

The DfT requires that the output from the Models follows the Templates in Attachment G. The DfT realises that Bidders may wish to expand the level of detail provided within the Models beyond these minimum requirements and expects that this is done in such a way as to remain consistent with the format of the Templates. The level of detail provided should be sufficient to give full transparency of all components of cost and revenues.

The outputs in the Templates should be linked to the calculation cells/input cells 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. Bidders can either add worksheets to the Templates or copy the Templates into their own models. It is imperative that Bidders ensure the ranges defined are also transferred.

The format of the profit and loss account, cash flow statement and balance sheet are required to be set out in the manner stipulated by the Templates.

The DfT reserves the right during the evaluation process to clarify and request further levels of detail from Bidders where it feels it is necessary for the completion of that process. Any derogation from the requirements of the Templates as set out in this ITT must be agreed with the DfT in advance of the return of any bid. Please note derogation is not the norm.

Bidders should note that any types of revenues or costs that it wishes to include under a catch all heading of 'Other' should not exceed £500,000 (nominal prices) in any year. Where a Bidder anticipates that such revenues or costs will exceed this amount, they should each be separately identified in a separate spare row and not listed under the heading 'Other'.

The Templates shall be populated in full, with outputs from the Models specified in years that are consistent with the rail financial year. To this end relevant worksheets in the Templates are structured with columns that are headed with periods that represent the rail industry year to 31 March of each year.

The New Cross Country Franchise runs part year from 11 November 2007 to 31 March 2008. In order to accommodate the difference between the rail year and the part year identified above, the relevant worksheets in the Templates provide extra columns where Bidders should derive the part year elements from the full year columns. In addition, extra columns will be provided in the Templates for the part-year related to the first Franchise break-point, the optional 7-period extension following this, and the optional 7-period extension following the expiry of the full Franchise term.

The following table sets out the worksheets contained in the 'Template' and a brief summary of each worksheet's content and status.

Table 5-1: Worksheets contained in Template

Sheet	Content	Status
Front	Contents, legend	Bidder free to use/update/delete
Vb	Used for Comparator Model	Bidder must not alter
Map	Aid navigation	Bidder free to use/update/delete
Version	Aid version control	Bidder free to use/update/delete
Control	Suggested scenario control sheet	Bidder free to use/update/delete
Inputs>>		
Financing Inputs	Template for forecasts of selected option(s)	Bidder free to use/update/delete
Calc Sheets>>		
Financing Calcs	Blank sheet for financial calcs	Bidder free to use/update/delete
Templates>>		
Ass 1off	Template for forecasts of selected option(s)	Bidder must not alter (with exception of cell G21)
Ass Yr-Yr	Template for forecasts of selected option(s)	Populate but do not alter structure
CAPRI Pax Revenue	Template for forecasts of selected option	Populate but do not alter structure
Other Revenue	Template for forecasts of selected option	Populate but do not alter structure
Staff Costs	Template for forecasts of selected option	Populate but do not alter structure
Other Operating Costs	Template for forecasts of selected option	Populate but do not alter structure
Rolling Stock Company (ROSCO) Costs	Template for forecasts of selected option	Populate but do not alter structure
NR Costs	Template for forecasts of selected option	Populate but do not alter structure
Performance Regimes	Template for forecasts of selected option	Populate but do not alter structure
TOC Capex	Template for forecasts of selected option	Populate but do not alter structure
Outputs>>		
Detailed P&L	Template for forecasts of selected option	Populate but do not alter structure
P&L	Template for forecasts of selected option	Populate but do not alter structure
CF	Template for forecasts of selected option	Populate but do not alter structure
BS	Template for forecasts of selected option	Populate but do not alter structure
Eff	Calculates the total impact of all selected options	Contain formulae, do not alter structure
Franchise Agreement Numbers	Templates tables for insertion in the Franchise agreement	Populate but do not alter structure

The Templates do not make any provisions for NPV analysis. Bidders should set up their own calculation sheets for NPV calculations in their Financial Model.

## 5.7 Operating Manual and Record of Assumptions

A separate Operating Manual and Record of Assumptions is required to accompany the Models relating to Proposal A and Proposal B, and shall contain all financial and operational assumptions used. The Operating Manual and Record of Assumptions shall explain and discuss the inputs of the Model, including the base unit cost for each input, and provide detailed instructions for operating the Models and also include the following:

- description of each Model, its structure and capability;
- 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;
- description of the purpose and operational characteristics of each worksheet and how it interacts with the Models;
- instructions on how to input data, select assumptions and calculate the financial outputs;
- instructions on how to run sensitivities;
- a table setting out the changes required in the variables in Section 5.2.3 (Generic Bidding Assumptions) to trigger a breach of the financial ratios and to trigger a lockup as per Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement;
- a table setting out the percentage of total Franchise other revenues, other operating costs and ROSCO costs (PVs over the Franchise Term) that are earned from or paid to HQ, group or other affiliates;
- instructions on how to optimise and produce financial outputs, in the required format;
- an explanation setting out the basis upon which the Franchise Payments have been calculated; and
- where macros (or other visual basic functions) have had to be used, a description of any macros used in the operation of the Models, the reason for their use and how they impact on the results.

The Operating Manual and Record of Assumptions is required to contain all financial and operational assumptions used in the pricing of the bid including those assumptions used in the pricing of any Priced Options (and Incremental Options if submitted) related to Proposal A and Proposal B, and should be at a similar level of detail to that provided in the Models. It is required to be submitted in Microsoft Word format and is to be contained within one electronic file. Bidders can store their assumptions in Microsoft Excel files, but these should be transferred to a Microsoft Word file prior to submission.

The Operating Manual and Record of Assumptions should confirm and explain all of the linkages between the Models and should also set out clearly the basis on which the Franchise Payments have been calculated.

Bidders are to note that the Models and the Operating Manual and Record of Assumptions will become agreed form documents under the Franchise Agreement and will be Placed in Escrow pending their release to be used by parties should a Change occur during the Franchise Term.



## 5.8 Financial Structure and Funding

For each Proposal A and Proposal B, the Bidder is required to:

- detail 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;
- submit precise details of its own funding arrangements and detail the exact nature of relationships with any funding partner or underlying financial securities provided by third parties;
- provide details of the providers of the Performance Bond, including term sheets from the Bond Provider in order to demonstrate that the requirements of the Franchise Agreement have been met. (Bidders should note that there is no requirement for a Season Ticket Bond on the New Cross Country franchise);
- submit a statement from the relevant Bond Provider accepting the form of the Performance Bond as set out in the Franchise Agreement;
- demonstrate how the initial Performance Bond values, included in the bid, have been calculated;
- demonstrate how ongoing working capital requirements, as forecast in the Financial Model, will be funded;
- for each Franchise commitment made in the bid (or groups of commitments if appropriate), submit a funding plan with full details of its linkage with the Financial Model, each source of funding, including rights and obligations of each type of funding and details of agreements with the organisations providing funding. For each source, a letter of support and term sheet must be provided from the underwriting financial institution setting out the terms and conditions (including all condition precedents, fees, repayment profile, basis of interest rate calculation) of the finance;
- incorporate in its funding plans, an investment profile as detailed in the Templates providing for each proposal category (base Proposal and Priced Options (and Incremental Options if submitted)) and by investment category;
- submit a letter from its financial adviser(s) 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;
  - 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;
  - the funding plans are accurately reflected in the Financial Model;
- confirm the interest rates and contractual terms of any inter-company debt funding, subordinated loans or other funding arrangements between or to be between the Franchisee and any affiliate or third party; and
- provide details and assumptions for interest earned on cash deposits.

## 5.9 Model sign-off - Terms of Reference

### 5.9.1 Modelling Best Practice Confirmation

Each Bidder must provide an independent Modelling Best Practice Confirmation report on all sections of the Models, co-addressed to the DfT and that Bidder, as part of its bid submission for both Proposal A and Proposal B. The Best Practice Confirmation is not considered to be an audit of the Models.

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

The Modelling Best Practice Confirmation must provide confirmation in adequate detail that the Models have or provide for:

- **Separation** of inputs, calculations and outputs;
  - Inputs: should include data and assumptions but no calculations;
  - 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; and
  - Outputs: should not include any hard-coded input cells or calculations except for sums and check totals.

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;

- **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:
  - Columns: the same column should be used for the same period in each worksheet; and
  - Rows: a row will contain only one formula, copied across all columns.

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

- **Integrity** of financial statements (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; and
- **Linearity** of calculation flow (that there are no circular references);
- **Macros**, where required, their function should be clearly explained.

## 5.9.2 Model Audit

Following bid submission and prior to contract award the DfT will request one or more Bidders to obtain an independent audit of the Models (the Model Audit) on all sections of all of the the Models. The Model Audit shall be prepared for the benefit of the DfT and the Bidder and shall be co-addressed to them. All costs associated with the preparation of the Model Audit are for the

Bidder's account only. Bidders must obtain the DfT's acceptance (not to be unreasonably withheld) of their choice of independent model auditor and its agreement to the definition of the Financial Model for determining the scope of the audit. The DfT will expect to receive the audit report within ten working days of it being requested of the Bidder.

The DfT requires the Model Audit to confirm:

- 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 base Proposal's assumptions and input data is concerned, including the conversion of real values to nominal values;
- whether the tax charge, liabilities and payments calculated by the Models, 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;
- whether the key accounting assumptions in the Models and the Operating Manual and Record of Assumptions appear materially consistent with current understanding of UK GAAP and financial reporting standards;
- whether the calculation of the Annual Franchise Payments is in accordance with the terms of the Franchise Agreement;
- whether the calculation of the financial ratios is in accordance with Schedule 12 (Financial Obligations and Covenants) of the Franchise Agreement;
- whether the Models have been developed in a well structured manner to acceptable standards;
- whether assumptions and input data in the Operating Manual and Record of Assumptions have in all material respects been consistently reflected in the Models;
- Priced Options (and Incremental Options if submitted): The DfT will require an audit to be performed on any or all of these sections of the Financial Model; and
- robustness testing: the DfT may provide the preferred Bidder with no more than five tests for the purposes of understanding robustness of the stress test. 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. A robustness test is defined as a change in one or more variables.

### **5.10 Other Information Required**

Bidders should show separately the costs involved and assumptions made in relation to pension contribution rates, both employer and employee.

Trading with affiliated companies should be detailed where greater than £100,000 (nominal prices) per annum in the relevant plan(s) and Operating Manual and Record of Assumptions.

Bidders are expected to refer to the Franchise Agreement which will be provided later. Bidders attention is drawn in particular to the Appendix (Incentivising Long Term Investment) to Schedule 9.3 (Runs of the Financial Model) of the Franchise Agreement for guidance on the DfT's approach to incentivising long-term investment.

Bidders' notice is drawn to the affordability constraints that apply to the rail industry. Regardless of the value for money aspect of any given investment proposal, The DfT will only consider such proposals if its budget allows. Bidders should bear in mind that financial support for such proposals from the DfT is likely to be extremely limited.



## **SECTION 6: PRICED OPTIONS**

### **6.1 Requirement to submit Priced Options**

Bidders are required to submit bids for the Priced Options which are set out below, in addition to the Base Service Specification. These Priced Options may be included in Appendix 4 of the Franchise Agreement. They will be assessed for both deliverability and financial and economic impact in line with the requirements laid out in Sections 4 (The Bid: Delivery Plans) and 5 (The Bid: Financial and Economic Elements). Bidders should ensure their bids in respect of the Priced Options identified in this Section 6 allow the DfT to make appropriate evaluations. For example, a Priced Option that requires a different approach to the plan to deliver the Base Service Specification, as set out in its response to the requirements of Section 4, should provide details and show how the Priced Option will be delivered, using the same structure as appropriate. Bidders are reminded of the page size limit relating to Priced Options which are described in Section 2.9 (Structure and Format and Bids). Bidders should mark-up the Franchise Agreement as appropriate in relation to each Priced Option .

#### **6.1.1 Introduction of the Global System for Mobile Communications - Railways (GSM-R)**

Network Rail has initiated a Network Change to renew all of the United Kingdom's (UK) radio systems with GSM-R. This is to reflect the fact that the frequencies at which the current radio systems operate will no longer be available from 2012.

A pilot study is scheduled to take place in Strathclyde later in 2006, and a wider national roll-out is expected to commence in 2007 subject to the successful completion of the trial.

The exact details of infrastructure availability and hence the roll out of GSM-R in the Franchise area is still to be finalised detailed plans should be available by April 2007. It is anticipated that all of the infrastructure will become available mid 2009 to mid 2010 and hence the changeover to GSM-R can commence.

Bidders must include a price for the supply and installation of GSM-R to the New Cross Country Rolling Stock fleet, and details of the notice period required to implement the Option. As part of the fitment costs those associated with the training of staff to the use and maintenance of the GSM-R equipment, costs associated with any ROSCo approvals and the removal/making good of the legacy radio systems should be included. Bidders will be required to work cooperatively with Network Rail in order to ensure an efficient changeover to the GSM-R system. First of class designs are currently being developed by Network Rail.

Bidders should note that if this Option is contracted it effectively removes the vehicles from the G1 Network Change process and no compensation would be available for this project.

The detailed documentation on GSM-R can be located in the Central Data Site, this includes copy of the current Network Change Notice and the Heads of Agreement for the Supply of GSM-R mobiles by Siemens. Bidders should discuss precise timings of the roll-out with Network Rail as this will be developed during the bid period.

### **6.1.2 Birmingham to Scotland - Long Term Retention**

Bidders are required to develop and submit an Option for the retention of the Birmingham - Scotland services within the New Cross Country Franchise throughout its term. Under this scenario, the following changes to the Base Service Specification should be assumed:

- The services will operate as inherited at the start of the franchise until December 2007;
- Therefore there will be no joint operation of trains with West Coast Trains Ltd for the first rail period of the franchise;
- The sub-hire arrangement of Voyagers should be assumed to continue in place, but the requirement will be to sub-hire 11 number of Class 221 tilting 5 car units on the same terms, by painted number from December 2008;
- The change to a self-contained Birmingham - Scotland service group (and consequential change to the other New Cross Country Franchise services should be assumed to occur in December 2007 as in the Base Service Specification;
- The Birmingham - Scotland services should be operated by a dedicated fleet of Class 221 tilting Voyagers; and
- New Cross Country Franchise will operate the Manchester - Scotland services until December 2007 at which point they will cease.

If negotiations with West Coast Trains Ltd about a long term Franchise Agreement are successful and incorporate the Birmingham - Scotland services as anticipated in the Base Service Specification, then this Priced Option will not be progressed. Bidders will be advised immediately if this is the case. This guidance should be available by the end December 2006 at the latest.

### **6.1.3 Provision of Voyagers to West Coast Trains Ltd**

Bidders are required to produce a Priced Option under which all 34 x Class 220 and 44 x Class 221 units:

- continue to be leased on the terms of the existing Operating Lease dated 9<sup>th</sup> December 1998 made between Voyager Leasing Limited and Cross Country Trains Limited until the expiry of the Operating Lease on 31<sup>st</sup> March 2012; and
- continue to be maintained on the terms of the existing Train Service Agreement dated 9<sup>th</sup> December 1998 and made between Cross Country Trains Limited and Crossfleet Limited, until the expiry of the Train Service Agreement on 31<sup>st</sup> March 2012,

the bidding assumption being that these agreements will be transferred to the New Cross Country Franchisee by the Start Date Transfer Scheme.

From this fleet 18 x Class 221 (five car) units and 3 x Class 221 (four car) unit: are to be sub hired to West Coast Trains Limited on the terms of a pro-forma non negotiable Hire Agreement to be placed on the Data Site.

Under the scenario identified in 3.9.4.2 (Bidding Assumptions), (that the Operating Lease terminates on 31<sup>st</sup> March 2012), Bidders should assume that the Hire Agreement ends on termination of the West Coast Franchise on the same date.

Under the scenario identified in 3.9.4.2 (Bidding Assumptions), (that the Operating Lease terminates on 31<sup>st</sup> March 2016), Bidders should assume that the Hire Agreement is coterminous

with the New Cross Country franchise and transfer schemed to the successor West Coast franchisee in 2012.

During the period prior to Bid submission the DfT may instruct Bidders to proceed solely on the basis of one of these assumptions as they relate to the period from 1<sup>st</sup> April 2012.

## **SECTION 7: FURTHER INFORMATION**

### **7.1 Introduction**

This Section references the more obvious projects that may impact on the New Cross Country Franchise during the Franchise Term and is included to assist Bidders in gaining as complete a picture as possible of the environment within which the New Cross Country Franchise will operate. They will be treated within the context of normal industry mechanisms and do not need to be priced or considered within Base Service submissions. The DfT will not treat any of the information contained in this Section and used by Bidders in the construction of their bids as grounds to invoke the Change mechanism in Schedule 9 (Changes) of the National Rail Franchise Terms if any such information proves in time to be incorrect.

### **7.2 Intercity Express Programme**

Intercity Express Programme (ICEP) is the programme for replacement of the existing High Speed Train Fleet with a new train that can deliver the flexibility, performance and carrying capacity the railway will need to 2040 and beyond. ICEP is being led by the DfT.

There will be a requirement for the East Midlands franchisee to fully cooperate with the ICEP which, it is anticipated, will reach an advanced stage of development during the currency of the Franchise.

### **7.3 Other Projects**

The following is a summary of some of the main projects that may affect the New Cross Country Franchise. Further details are available from Network Rail.

#### **7.3.1 Station Projects**

- Bristol Parkway additional platform

Network Rail is in the process of progressing a project to add an additional platform in the Up direction. Further details are on the Network Rail website.

- Gloucestershire Parkway Station

Gloucestershire County Council have an objective to deliver a park and ride new station near Gloucester and are currently undertaking detailed timetabling and feasibility work. Earlier studies indicated a potentially viable business case. Should funding be secured Gloucestershire County Council anticipate completion of the station by 2011 with an integrated bus, park and ride and railway station.

- Birmingham New St. station 'gateway' project

Birmingham City Council and Network Rail, with partners Advantage West Midlands and Centro, are developing proposals for a major above-platform redevelopment of Birmingham New St station, including refurbishment work at platform level to all platforms which will reduce platform capacity during the period of the work. If funding is obtained, the construction works at the station could cover the period 2008-2013.

- Reading Station Re development



Reading is a bottleneck as well as a key interchange on the route and the local authority, the rail industry and regional partners have funded feasibility studies of possible interventions to improve train capacity and flow to and through the station. This has been identified as a regional priority. Network Rail is due to replace the signalling at Reading during the Franchise term and any works would best be carried out at the same time as resignalling. Third party funding may also be available to develop the concourse and wider station environment

- Worcester Parkway

Worcestershire County Council has undertaken studies in 2002 and 2004 to assess the feasibility of a new park and ride station in Worcester to provide access to national long-distance rail services. Further business case development work is required.

- Worle Strategic Interchange

North Somerset Council, together with a consortium of partners, has an aspiration to improve Worle station to facilitate calls by inter-city services, provide improved park and ride facilities and allow for better interchange with the M5. Further feasibility and business case development work is required.

- Kenilworth Station

Outline business case development and feasibility has been undertaken by Warwickshire County Council for a new station at Kenilworth to be served by the New Cross Country Franchise. The DfT is currently evaluating the work recently undertaken.

### 7.3.2 Re-signalling Projects

- Network Rail signalling renewals in the West Midlands area
- Details of replacement and renewal schemes identified in Network Rail's Route Plans are available at [www.networkrail.co.uk](http://www.networkrail.co.uk).
- Re-signalling of the Coventry area

In 2007 this re-signalling scheme will take place in parallel with other schemes to deliver the remaining speed improvements on the Rugby – Birmingham line.

- Birmingham New Street Re-signalling (complete 2012/13)
- West Midlands Signalling Centre (complete 2016/17)
- Newport Re-signalling Phases 1 (complete 2010) and 2 (complete 2013)
- Cardiff Re-signalling (complete 2012)
- Oxford Re-signalling (complete 2014)
- Basingstoke Re-signalling (complete 2008)
- Reading Re-signalling

### 7.3.3 Other Projects

- East - West rail

A consortium of Local Authorities led by Buckinghamshire County Council is developing proposals for the re-instatement of a direct East-West rail link between Oxford and Cambridge via Milton Keynes and Bedford. Effort is currently focussed on the Bedford-Aylesbury/Oxford part of the route and proposals are being developed for a regular service between Bedford/Milton Keynes and Aylesbury/Oxford. A study is about to commence to take the development of the project up to Networks Rail's GRIP Stage 2 level of feasibility.

## 7.4 European Rail Traffic Management System

Network Rail is leading the cross-industry programme addressing the scale and pace of the introduction of the European Rail Traffic Management System (ERTMS) within the UK. The migration from existing conventional signalling to ERTMS is designed to optimize the benefits and to avoid undue disruption to the performance of the railway.

The Cambrian Line will be the first UK project and should be operational in 2008. It will provide essential experience of delivering and operating a cab signalling system compliant with European standards and is intended to validate operating rules and migration aspects of the European Train control System (ETCS) subsystem.

Precise dates for the implementation of ETCS on the routes covered by this Franchise are not yet known and will depend upon the emerging national implementation programmes and the outcome of projects and activities in the UK and abroad. Co-ordination may be required between the Franchisee, ATOC, Network Rail and the ROSCos to manage the successful transition within the context of the national rollout strategies. Bidders should understand that a decision to implement this cab signalling system would lead to additional training for drivers and potentially other staff and that co-operation may be required from the Franchisee during the feasibility and planning stages before formal issue of a Network Change Notice.

APPENDIX 1:

**New Cross Country Network – SLC2**



**ATTACHMENTS**

- A New Cross Country Franchise Service Level Commitment 1**
- B New Cross Country Franchise Service Level Commitment 2**
- C New Cross Country Franchise Agreement \***
- D National Rail Franchise Terms \***
- E Conditions Precedent Agreement\***
- F Service Quality Standards**
- G New Cross Country Financial Templates**
- H New Cross Country Stakeholder Briefing Document**
- I Declaration of Conformity Statement**

*\* Bidders to note that the New Cross Country Franchise Agreement, National Rail Franchise Terms and Conditions Precedent Agreement are to be supplied by the end of November 2006.*