

Integrated Kent Franchise

Invitation to Tender

January 2005

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Important Notice

This document is issued by the Strategic Rail Authority (the Authority) pursuant to its functions and duties under the Railways Act 1993 (the Railways Act), the Transport Act 2000 (the Transport Act) and the Directions and Guidance (D&G) issued to the Authority under the Transport Act. The powers of the Authority in relation to franchising and the re-letting of franchises can be found in the Railways Act and the Transport Act, which can be accessed via <http://www.hmso.gov.uk/legis.htm>.

All references in this document to the Authority include, where appropriate and unless the context otherwise requires, references to the Authority'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 Authority, 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 in the Integrated Kent Franchise (IKF). In considering any investment in the shares of any company or in bidding for the award of the IKF, 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 IKF and of the legal, financial, taxation and other consequences of entering into the IKF 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 IKF 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 migration process that will be required in order to create the IKF. 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 full contract or document referred to.

Neither the Authority nor any of its directors, employees, agents or advisers makes any representation or warranty (express or implied) as to the accuracy, reasonableness or completeness of the Disclosed Information. All such persons or entities expressly disclaim any and all liability (other than in respect of fraudulent misrepresentation) based on or relating to any such information or representations or warranties (express or implied) contained in, or errors or omissions from, this document or based on or relating to the recipient's use, or the use by any of its subsidiaries or the respective representatives of any of them in the course of its or their evaluation of the IKF opportunity or any shares in the capital of any franchisee or any other decision. In the absence of express written warranties or representations as referred to below, the Disclosed Information shall not form the basis of the Franchise Agreement or any other agreement entered into in connection with the award of the IKF or the acquisition of shares in any company or the operation of any railway service (as defined in the Railways Act) or in connection with the replacement or acquisition of a passenger rail franchise.

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 Authority, 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 IKF, or if the Authority notifies the recipient that the process has ceased, or that the recipient is no longer being considered for the award of the IKF or otherwise upon request by the Authority, the recipient will promptly return this document and any other information provided in connection with it to the Authority, without retaining any copies or reproductions in any form.

The Authority 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.

Clifford Chance LLP, KPMG Corporate Finance, Mott MacDonald and LEK Consulting are acting for the Authority, in each case in relation to the award of the IKF, and will not regard any other person as their client or be responsible to anyone other than the Authority 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 Authority 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 IKF opportunity, the award, or any bid for the award of the IKF, 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 IKF Definitions Agreement.

This ITT document should be read in conjunction with the Franchise Agreement.

January 2005

1 Introduction and Context

1.1 Status of Final ITT

This Invitation to Tender (ITT) supersedes the Draft ITT published by the Authority in connection with the IKF competition in January 2004, and the eight Clarification Papers published in the same connection between January and March 2004. The information in each of these previous documents should be deemed null and void for the purposes of bidding, and Bidders are instructed to base their bids solely on the instructions contained in this ITT.

1.2 Purpose of this Invitation to Tender

This ITT sets out:

- the IKF proposition for which the Authority is seeking bids;
- how Bidders should complete their bid;
- how the competitive process will work; and
- how the Authority will reach a decision.

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

The Authority's aim is for the new IKF franchisee to start operating services and stations on the south-eastern network transferred to it from South Eastern Trains (SET) with effect from Sunday 11 December 2005. During the franchise term, new rolling stock required for the operation of CTRL Domestic Services (CTRL DS) will be introduced and the full IKF service specification shall be operated.

1.3 Industry Review and the White Paper

On 15 July 2004 the Secretary of State for Transport, Alistair Darling, published a White Paper on The Future of Rail. The White Paper sets out a revised structure for the rail industry. In relation to passenger rail franchises the White Paper sets out the following proposals:

- Franchised train companies will remain responsible for providing passenger services. Train companies will continue to sell tickets and retain fares revenue, so they will still be incentivised to increase passenger numbers on the services they run while keeping their costs down, prevent fare evasion and improve customer service. But there will be fewer passenger franchises, more closely aligned with Network Rail's (NR) regional structure to make joint working easier;
- The train companies will work with NR to provide a commercial input into timetable setting. However, once the timetable has been defined, they will not be able to add to congestion on the network and drive up NR's costs by running additional services – which can sometimes take revenue from other operators without serving passengers' needs. Extra services will only be allowed where the benefits are not outweighed by the effect they would have on costs or performance, and will be subject to the agreement of the ORR. The ORR or other body may have a mutually binding arbiter role where franchise contracts need to be changed because of

alterations to the Government's specification of the outputs that NR is to deliver;

- The penalty regime between the train companies and NR, which has not delivered improved performance, will be simplified to reduce bureaucracy whilst still ensuring train companies are compensated in the event of underperformance from NR. Train companies need protection against serious or sustained poor performance by NR. However, the current system under which NR and the train companies compensate each other for every minute of delay will be reformed;
- The contracts will include provisions on train and crew availability, which are by far the largest factors in delays attributed to train companies, and are clearly within their control. If companies fail to deliver in these areas, the contracts will specify clearly the actions that can be taken. Greater simplicity in the penalty regime will mean that there is less room for argument over failure;
- The Franchise Agreement will therefore change, as will the bidding process. Train companies will bid to operate a defined timetable, and their bids will be judged not only on price, but also on performance, commitments to improve train and crew reliability and operational viability.
- At a local level, the train companies and NR will have clear and reciprocal obligations to one another. These may be set out in local agreements, which are aligned with the parties' arrangements with Government and backed up by the Network Code. These agreements would include specific remedial actions for each party should they fail to meet their responsibilities; and
- Train company contracts will also ensure that the balance of risks between the train companies and Government is sensible. Train companies will continue to take revenue risk, but there will be arrangements to share this with Government. This will help to make franchises more stable. Where an operator does start to fail financially, they should expect to have to surrender that franchise, rather than receive any additional Government support.

At the date of issue of this ITT, the Government has introduced a Railways Bill to implement the proposals set out in the White Paper that require primary legislation. The Railways Bill had its second reading on 6 December 2004.

A number of the above issues will require consultation with Industry parties and changes to industry structures and responsibilities of the various organisations involved. The full scope of these changes cannot be pre-judged at this time. However, in the interests of proceeding with the competition and avoiding abortive costs both for pre-qualified Bidders and the Authority, the Authority is issuing this ITT now and in the bid submissions the Authority requires Bidders to confirm the following:

- that they will cooperate fully and work in partnership with the Authority (or successor organisation) in implementing the changes arising from the Rail Industry Review identified both before and after the award of any Franchise Agreement. Such cooperation shall include full disclosure of Bid assumptions (including any information relating to costs) affected by any such changes such that the changes can be implemented in an efficient, harmonious and cost effective manner; and
- that the delivery of a value for money and affordable, efficient railway that delivers punctual services to passengers of a consistent quality may require further changes post the award of the Franchise Agreement and Bidders will cooperate fully and work in partnership with the Authority (or successor organisation) in implementing the changes identified. Such cooperation again to include full disclosure of Bid assumptions (including any information relating to costs)

affected by any such changes such that the changes can be implemented in an efficient, harmonious and cost effective manner.

This ITT aligns the IKF competition with the objectives set out above to the greatest extent possible by:

- providing Bidders with a clear specification against which to develop their proposals. Evaluation of Bidders' proposals will also take into account Bidders' commitments to train and crew reliability and other improvements. Overall operational viability will form a critical part of final tender evaluation;
- providing for a franchise term of eight years if the franchisee's performance is consistent with contractual commitments. The Franchise Agreement provides a stepped remedy mechanism whereby a remedial plan is required to be provided and implemented by the successful franchisee if performance is below target performance by a prescribed margin. If performance is worse than the remedial plan level by a defined margin, the successful franchisee may be subject to an enforcement notice and a fine may be imposed. Similarly, if performance is worse than the level at which a fine may be imposed by a defined margin an Event of Default will be deemed to have occurred which may lead to termination of the Franchise Agreement;
- including a contractual commitment to provide and implement performance improvement plans over and above the contractual commitment to reduce aggregate delay minutes and cancellations and to identify specifically within those performance improvement plans the actions to be taken by the successful franchisee to improve rolling stock reliability and reduce delays caused by train crew;
- including Key Performance Indicators (KPI) which incentivise the successful franchisee to deliver consistent service quality standards throughout the term of the Franchise Agreement. The KPI have been simplified from earlier versions of the Template Franchise Agreement. Bidders may wish to propose for consideration an alternative to the regime proposed which in their view achieves the same objectives; and
- placing a requirement on the successful franchisee to co-operate with the Authority and Department for Transport (DfT) in the implementation of a new industry performance regime.

1.4 The Authority's Overall Strategic Objectives

The Government has made it clear that total industry costs must reduce, and this must be reflected in the Authority's franchise re-letting programme. In addition, the Authority wishes to inject new impetus into industry performance and operator efficiency (see the Authority's published Franchising Policy Statement, dated November 2002). The Authority's objectives in the re-letting of franchises, as set out in the Franchising Policy Statement, are to:

- deliver a safe, more reliable service of consistently high quality for rail passengers;
- provide clarity of service specification so that industry partners can work together for passengers;
- deliver a value for money service for passengers and taxpayers; and
- secure accountable, viable operators who are committed to delivering for their customers.

The Authority's Franchising Policy Statement document and the Strategic Plan can be found on its website: www.sra.gov.uk.

1.5 Scope of the IKF

The IKF will consist of:

- from the franchise commencement date until the introduction of CTRL DS, resources and rights to enable the IKF franchisee to operate services and stations transferred to it from SET on the south-eastern network. These services are described in Service Level Commitment 1 (SLC1); and
- from the introduction of CTRL DS, resources and rights to enable the IKF franchisee to operate services and stations on the south-eastern network, together with domestic services on the new CTRL. The CTRL DS will operate between London St Pancras and Stratford International, Ebbsfleet and Ashford International (Ashford), as well as serving other destinations on the south-eastern network via CTRL connections at Ebbsfleet and Ashford. These services are described in Service Level Commitment 2 (SLC2).

A map of the IKF area and routes is included as Appendix 10.

1.6 The Authority's Objectives for the IKF

The Authority requires the IKF franchisee to:

- develop and deliver a financially and operationally robust strategy;
- deliver a safe, reliable service of consistently high quality for rail passengers;
- meet all the requirements of the Franchise Agreement including SLC1 and SLC2;
- deliver value for money services;
- support the development of the Government's Communities Plan in the south east to meet the transport needs in the areas defined in the Plan;
- work with the Authority, DfT and other stakeholders to develop the franchise throughout its term; and
- deliver complete and accurate information on the services, and demand for services, to enable development of the franchise during its term and for the next re-franchising of the IKF.

Bidders are required to confirm that they will co-operate with key stakeholders over the life of the franchise to facilitate implementation of major projects likely to impact on or affect the IKF area (including Crossrail, East London Metro and Thameslink 2000 (TL2K) through operational support and support during transition/disruption activities. Bidders are required to separately identify any costs which they attribute to such co-operative activities.

1.7 The South Eastern Franchise

The South Eastern franchise is predominantly a London commuter operation. The majority of journeys made on existing services are to/from London. Demand is heavily peaked and is expected to remain so, with substantial rolling stock and staffing resources devoted to limited periods of the

morning and evening. Notwithstanding this, the franchise has a significant number of off-peak passenger journeys.

The pattern of services provided for the commuter market in the south-east has been largely unchanged since the 1950s. The current service plan, based upon peak operation, does not match passenger demand. Whilst the IKF franchisee will be required to continue delivering this service, as described in SLC1, at the outset, the Authority has developed SLC2 to achieve a better balance between levels and patterns of demand and the supply of services. This is to be implemented when the CTRL DS are introduced. The Authority has placed in the Data Room a Feasibility TimeTable (FTT) which it compiled in concert with NR, and discussed with SET and others. Bidders may use this in determining how they might plan to deliver SLC2.

The Authority plans to transfer to another operator all services operated currently by SET west of Tonbridge via Redhill. It seeks to undertake this by December 2005 and expects the IKF franchisee to fully co-operate in the transfer to the extent it is involved. The possibility of retaining these services is treated as a Priced Option (see Appendix 7).

1.8 The CTRL and Domestic Services

The CTRL is the first major new railway line to be built in the UK in over a century. The line will provide a 109 km (68 mile) high-speed link between St Pancras station in London and the Channel Tunnel at Cheriton in Kent.

Completion of Section 2 of the CTRL will allow the potential for the number of Eurostar services using the National Rail Network (NRN) west of Fawkham Junction to be reduced. In addition, Eurostar has recently announced its intention to withdraw all services into Waterloo which, as and when implemented, would free up further capacity as well as reduce pressure on the network and, as a result, help to improve performance for the remaining services. The new stations at Ebbsfleet and Stratford will assist regeneration of the Thames Gateway and provide improved access to the rail network.

1.9 Stakeholder Consultations

Consultation on the proposed IKF train service specification, incorporating existing services on the south-eastern network and the CTRL DS, has taken place over a period of more than 18 months. The initial consultation exercise, focusing on the CTRL DS options, was conducted in early 2003 and the third, and final, exercise concluded in summer 2004. The initial stages of the process involved high-level consultation with stakeholders. The final phase focused on the detailed service specification for the IKF – stopping patterns and the frequency of services following the introduction of CTRL DS.

The findings of the third consultation exercise are summarised in the Stakeholder Briefing Document, to be issued to key stakeholders shortly after the issue of this ITT to Bidders, along with a description of the Base Case and Priced Options that the Authority seeks Bidders to bid against in the ITT. A copy of the Stakeholder Briefing Document will be placed in the Data Room when issued to stakeholders.

2 Instructions to Bidders

2.1 Franchising Timetable and Process

The remaining stages of the process for appointing the IKF franchisee – Bid Preparation; Bid Evaluation and Negotiation; Approvals and Contract Award, and Mobilisation – together with their indicative timings are summarised in the table below.

The Authority seeks the mobilisation of the new IKF immediately following the finalisation of the Franchise Agreement, with the successful IKF franchisee assuming responsibility for the operation of existing SET services with effect from Sunday 11 December 2005. Accordingly, Bidders need to consider (and where appropriate) undertake any preparatory work that should be carried out in advance of the execution of the Franchise Agreement to facilitate the commencement of services on the required date.

The Authority has yet to finalise the CTRL DS Rolling Stock and depot contracts. It expects they will be signed in early 2005. When finalised, Bidders will be advised and the contracts will be placed in the Data Room together with any other outstanding information. Bidders will then have 60 days in which to complete and return their bids to the Authority.

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

Stage	Description	Party Responsible	Indicative Date ¹
Bid Preparation	Issue ITT, SLC1, SLC2, Franchise Agreement and other documents required for bidding purposes	Authority	January 05
	Preparation of bids	Bidders	January - April 05
	Submission of bids	Bidders	April 05
Bid Evaluation & Negotiation of Bids	Evaluation of bids	Authority	April - June 05
	Negotiation and agreement to principal terms & conditions precedent	Authority and Bidder(s)	July - August 05
Approvals & Contract Award	Document finalisation; SRA Board and Secretary of State approval; and Franchise Agreement signature	Authority and Preferred Bidder	August - Oct 05
Mobilisation	Prepare for transfer of operations	Successful Bidder	Nov - Dec 05

1: Assumes finalisation of CTRL DS rolling stock contracts by 28 February 2005

2.2 Changes in circumstances

Bidders (including for this purpose each participant in any joint venture or consortium arrangement) are required to inform the Authority promptly, and in any case no later than 21 days, after the occurrence of:

- any change to their corporate structure from that set out in their application to qualify to receive an ITT (save in relation to changes to their bid vehicle which are dealt with below). 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 Authority as part of the pre-qualification process; or
- any other changes to their circumstances, or the basis of their bids, which may be expected to influence the Authority's decision on their suitability to be the successful franchisee for the IKF.

Where a Bidder proposes any change in the shareholding or composition of its bid vehicle, including without limitation:

- a change in the shareholding of a standalone company;
- the addition or withdrawal of a consortium or joint venture member;
- the entry into any agreement which grants options or other similar rights in relation to its shareholding or composition;
- the creation of a joint venture or consortium which does not reflect heads of terms or draft constitutional documentation submitted to the Authority at the pre-qualification stage;
- any changes to the information provided to the Authority as part of the pre-qualification process; or
- any other changes to their circumstances, or the basis of their bids, which may be expected to influence the Authority's decision on their suitability to be the successful franchisee for the IKF

it must submit full details of the proposed change, including final form copies of the documentation required to put such change into effect, to the Authority no later than 21 days after the date on which the Authority issued this ITT.

The Authority reserves the right to approve or reject such changes (including any changes to the basis on which the Bidder pre-qualified to receive an ITT), or to impose such conditions as it considers appropriate. A rejection of the changes may result in the Bidder being excluded from further participation in the competition.

Bidders are required to complete the certificate provided in Appendix 3.2 as appropriate.

2.3 Competition Matters

The award of a rail franchise could create a merger that may be considered by the Office of Fair Trading (OFT), and possibly referred to the Competition Commission for further investigation. An investigation may result in the prohibition of the acquisition of the franchise, or divestment strategies or undertakings being required to remedy any competition detriment identified. Alternatively, depending on the turnover of the Bidder, a notification to the European Commission of a qualifying merger may be necessary.

Consequently, the Authority expects the Bidder to take specialist competition advice and consider whether the award of the Franchise, taken together with any other business controlled by the Bidder, could result in such a referral to the Competition Commission, or notification to the European Commission.

The Bidder's next steps are determined by whether the proposed merger will be considered by either the OFT and/or the Competition Commission, or by the European Commission.

2.3.1 Consideration by OFT and/or Referral to the Competition Commission

In order to complete the assessment of the merger in time, Bidders must identify if the franchise overlaps with any rail, bus, coach, metro or light railway services that the Bidder controls and must submit a complete notification (Notification) to the OFT within three weeks of receipt of this ITT. Bidders must comply with the OFT's statutory or administrative timetables such that full information is provided to the OFT on a timely basis so that a decision can be reached by the OFT within eight weeks of receipt of the Notification on whether or not to make a reference to the Competition Commission. The OFT offers assistance in drawing up the Notification through its pre-notification process (see 3.19 of Mergers: Procedural Guidance, which can be found at www.oft.gov.uk).

If a reference to the Competition Commission is made, the applicant Bidder will co-operate with any inquiry and provide assistance in order to expedite the Competition Commission's preparation of a report and appropriate determination of remedies.

Prior to bid submission, Bidders must detail and be able to demonstrate to the Authority that they have complied with the OFT's notification process described above by providing a copy of their Notification to the Authority.

2.3.2 Notification to the European Commission

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 will not, however, consider the merger until such time as a preferred Bidder has been selected. Bidders must inform the Authority promptly if a notification to the European Commission may be required. The OFT might seek under Article 9 ECMR to have the merger referred to the UK competition authorities if it seems likely that the merger might threaten to significantly 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) ECMR, the parties to the 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 EU process will have an impact on the timetable in which the merger can be completed in particular since completion of the deal is prohibited while the merger is subject to EU scrutiny.

If a notification to the European Commission is required, the Bidder will complete all appropriate documentation and submit this to the European Commission within three weeks of selection as the preferred Bidder. The Bidder will co-operate with any inquiry and provide assistance to the

European Commission in deciding whether to clear the merger, or to initiate proceedings and undertake an in-depth investigation.

2.3.3 Impact on the IKF Franchise Procurement Process

The Authority does not expect to delay selection of a preferred Bidder if inquiries by the OFT and/or the Competition Commission or the European Commission are not complete. 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 which, in the view of the Authority, would prejudice the Franchise, or any other franchise, the Authority reserves the right to disqualify the Bidder from the Franchise re-letting process.

Bidders are required to complete the certificate, as indicated in Appendix 3, as appropriate.

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 IKF Franchise letting process, whether or not the bids and/or associated negotiations are ultimately successful or the franchising process is subsequently varied in any way. This includes the costs associated with the conduct of independent audits of financial models.

Bidders must provide an independent modelling best practice confirmation (Modelling Best Practice Confirmation) on all sections of their financial model(s), co-addressed to the Authority and the Bidder, as part of their bid submission. This should be submitted as part of the submission referred to in Appendix 5. The minimum terms of reference that the Authority will accept for this confirmation are described in Appendix 5.

Following the selection of the preferred Bidder, before any final contract award, an independent audit (Model Audit) will be undertaken by the preferred Bidder on its final financial model, co-addressed to the Authority and the preferred Bidder. The minimum terms of reference that the Authority will accept for this audit are described in Appendix 5. The scope of the independent audit and the process for resolving audit points will be advised to the preferred Bidder. Bidders must obtain the Authority's acceptance (not to be unreasonably withheld) of their choice of independent model auditor and its agreement to the definition of financial model for determining the scope of the audit.

Bidders will be responsible for all costs associated with the Modelling Best Practice Confirmation and the Model Audit. Bidders shall bear the risk of errors within the model and of any adverse impact that these may have on the IKF premia payable or subsidy payments. Any benefit that occurs, as a result of errors within the model, will pass through to the Authority.

2.5 Preparation of Bids

The Authority expects to receive bids that incorporate the minimum level of qualifications to facilitate timely bid evaluation. Bidders should make full use of the query process and all the information provided.

Guidance in relation to self-certification of bid-compliance is given in Appendix 3. Further, guidance in relation to the presentation, construction and submission of financial models is given in Appendix 5.

2.6 Alternative Tender

Further opportunities to improve value to the Authority and/or stakeholders may be available. The Authority requires at least one proposal that minimises the cost of operation to Government and maximises value to the taxpayer. Bidders are required to return an Alternative Tender on the basis set out in Appendix 8.

There is no limit to the number of proposals that may be submitted, but each proposal is required to include sufficient financial and operational detail to demonstrate clearly the impact the initiative would have on the Base Case.

Bidders will be expected to identify clearly the factors or constraints that might affect deliverability of any proposals and any ways in which these might be overcome.

The Authority requires clear plans that describe the circumstances and conditions under which their proposals can be delivered, how Bidders will engage stakeholders in developing proposals and how changes can be managed. Bidders should note that while the Authority will fully evaluate Alternative Tender proposals, the results of this evaluation will not form any part of the determination of ranking of bids.

Alternative Tenders must demonstrate how the IKF objectives are met, but need not necessarily rely upon the specification set out in the Base Case of this ITT. The Authority would welcome proposals that address aspects of the IKF that the Authority may not have considered as part of the Base Case specification or the Variants.

In cognisance of the limited ability of NR to resource multiple development processes, Bidders are required to consult the Authority before seeking to develop any proposed infrastructure or major timetabling schemes. The Authority recognises that Bidders may not be able to offer fixed prices for all such infrastructure or major timetable schemes without an excessive provision for risk. In this event, Bidders should clearly set out how and by when they will be able to fix prices to contract for such infrastructure or major timetabling schemes.

2.7 Data Room

The Authority has established a Data Room at the offices of Clifford Chance LLP containing documents and information relating to the IKF. It will remain open throughout the Bid Preparation stage.

Bidders will be provided with regular updates of the index to the documents and information available in the Data Room.

2.8 Clarification

If any bid is found not to comply with the Authority's requirements as set out in Appendix 3, and lacks any information necessary to enable evaluation, or to contain inconsistent information, the Authority may:

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

2.9 Query Process

All queries relating to this ITT must be submitted in the form set out at Appendix 11.

Queries should be submitted electronically by e-mail to:

Mike Parker
IKF Team
Strategic Rail Authority
55 Victoria Street
London SW1H 0EU
Tel: 020 7654 6002
Fax: 020 7654 6010
E-mail: ikf.ittresponses@sra.gov.uk

The Authority reserves the right to transmit to other Bidders (without reference to the identity of the author of the query) the question and the answer provided. Queries from Bidders will be responded to expeditiously having regard to the nature, extent and availability of the information requested. The Authority will endeavour to respond to all queries before bids need to be submitted, but Bidders should note that the Authority cannot guarantee this, especially if queries are received later than 10 days before the required submission date, or if it has not been possible to collate the necessary data for a response.

A Bidder may request that the Authority treat a query and its response as confidential. Any such requests must be made at the time of submission of the query form. The Authority 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 be transmitted to the other Bidders (at the Authority's discretion).

2.10 Industry Consultation and Disclosure of Information in Bids

Bidders should be aware that, following the submission of bids, the Authority will need to consult the DfT, HM Treasury, the Health and Safety Executive, the Office of Rail Regulation (ORR), NR, London and Continental Railways Limited (LCR) and Transport for London (TfL). The Authority 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 Rail Passenger Council (RPC) and Committees, the Disabled Persons Transport Advisory Committee, affected Local Authorities and Regional Development Agencies or Regional Planning Bodies (all together referred to as consultees).

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

In addition, Bidders are reminded that in order to develop and agree Track Access Agreements (TAA) and Station Access Agreements (SAA), NR and LCR 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 co-operate with these consultations. The Authority may ask NR and LCR to comment on such elements of the bids and to address their comments to both the relevant Bidder and the Authority.

In developing their bids, Bidders can expect to be contacted by, and are encouraged to consult with stakeholders relevant to the IKF following the start of the bidding stage. A list of the Authority's relevant statutory consultees is available in the Data Room. It is the Bidders' responsibility to decide on the scope and extent of stakeholder consultation but should note that the Authority may seek views from stakeholders on the state of progress of their consultation with Bidders.

2.11 Freedom of Information Act 2000

The Freedom of Information Act 2000 (FOIA) provides a general right of access to all information held by public authorities. The SRA 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 Authority must release that information unless one of the exemptions applies. The FOIA comes into force on 1 January 2005.

In submitting their bids in response to this ITT, Bidders are invited to identify which, if any, parts of their completed bid are provided to the Authority in confidence and to provide reasons why such information should be held in confidence. 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.

Bidders' attention is also drawn to the provisions of the FLPA, which permits in certain circumstances disclosure of information by the Authority and the provisions of section 145(2) of the Railways Act.

2.12 Restriction on Communications/Press Releases etc during Franchise Competition

It is well understood that the outcome of a franchise competition is of national significance and therefore generates a healthy level of public interest and media speculation. However, the Authority expects all Bidders not to use legitimate processes of communication in a way which might reflect adversely and unfairly on the industry and its participants.

Therefore, during the remainder of the bid period from receipt of this ITT, the Authority requests that Bidders confine communications to those required in order to develop proposals for the purposes of their bid. Until franchise award is announced, Bidders are asked to refrain from comment to national, local and industry media, RPCs, Members of Parliament and stakeholders about matters connected with this franchise competition. If there are compelling reasons to make a public statement or comment then, so far as practicable, the Authority expects Bidders to discuss the content of such statements or comments with the Authority in advance.

2.13 Presentation and Submission of Bids

Bidders are required to submit 12 numbered copies of their bid in the following format:

- 6 hard copies, contained in ring binders with the documents detailed in Section A3.1 of this ITT suitably segregated. Each ring binder should be labelled clearly with the copy number, the Bidder's name and an index of the contents of the binder; and
- 6 electronic copies, in CD format. Each CD shall be labelled clearly with the copy number, the Bidder's name and the contents of the CD. Information is required to be stored in either Acrobat (PDF) or Word/Excel 97 (or later) format.

In addition, hard copies should be provided of the main financial model outputs schedules and record of assumptions (6 numbered copies). Electronic copies of the required financial and operational models, the record of assumptions, and the completed financial templates are required to be provided in CD format (6 numbered copies - **additional to the CD mentioned in the second bullet point above**) stored in Excel 97 (or later) format.

Bids are to be submitted to:

Jack Paine
Head of Procurement
Strategic Rail Authority
55 Victoria Street
London SW1H 0EU

on or before 1700 hours BST 60 days after the date the Authority advises Bidders all remaining key contracts have been lodged in the Data Room.

No other documents or information shall be submitted with the bid. The bid shall be submitted in boxes marked '**CONFIDENTIAL - IKF 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 Authority for their submission.

The Authority requires that Bidders supply one box per complete set of documentation and ensure that an index is provided for the electronic information. The Authority also requires that, for electronic information, the file structure resembles the sequence of the hard copy documentation.

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

2.14 Validity of Bid Terms

Bidders will be required to hold open the terms and price they bid, and any subsequent changes agreed, for a period of 300 days from the date of bid submission and this is to be confirmed in writing as part of the bid submission. Agreement to this requirement should be in accordance with the reference in Appendix 3.

2.15 Evaluation of Bids

2.15.1 General

The Authority's Franchise Replacement Process (FRP) guidelines dated May 2004 are available for reference on its website [www.sra.gov.uk] and detail the generic methodology for the evaluation of bids. Bidders should ensure that details of their bids are submitted in accordance with the instructions outlined in Appendices 2, 3, 4 and 5 of this ITT.

The evaluation will be undertaken with due regard to the Authority's Directions and Guidance issued to the Authority by the Secretary of State which can be found in the Data Room.

2.15.2 Assessing Bids

Bidders' attention is drawn to the example of the 2 x 2 results matrix on page 10 of the FRP guidelines. The Authority will apply a similar matrix approach to assess deliverability and affordability.

2.15.2.1 Operational integrity/deliverability

Bids will be evaluated for the suitability, feasibility, and the robustness of the plans and commitments to deliver the specified service and other requirements of the Franchise Agreement, and the plans and commitments the Bidder has to improve the efficiency of delivery of the franchise services.

In addition, the Bidder shall demonstrate that:

- regulatory and statutory compliance have been taken into account in the bid; and
- the necessary approvals which will enable delivery of the bid have or will be obtained.

2.15.2.2 Business Excellence

The Authority is committed to delivering business excellence within the UK rail industry and will expect the Bidders to demonstrate similar commitment.

Bidders are required to complete and submit with their bid the self-assessment questionnaire against the Business Excellence Model, also known as the EFQM Model, included in Appendix 4.

Bidders' attention is also drawn to paragraph 2 of Schedule 13.1 in the Franchise Agreement in this context.

The business excellence score will be included in the evaluation of bids.

2.15.2.3 Value for money and affordability

To enable the quantitative comparison of bids, the Authority has specified a Base Case. Bids will be compared with each other and with the Authority's own Comparator Model. The Base Case may not be the sole basis on which evaluation will be based, and the Authority reserves the right to contract on the Base Case or any variant bid submitted, subject to satisfying itself that this represents the most economically advantageous bid.

The Authority uses its appraisal criteria to consider the social and economic benefits delivered by schemes and alternative options. It makes use of, amongst other sources, information published in DfT and other departmental notes and guidelines, such as Highways Economic Note 1 (HEN1) and Transport Economics Note (TEN). It also refers to other industry forecasting frameworks, for example, the Passenger Demand Forecasting Handbook (PDFH) and HM Treasury information including the Green Book (January 2003). The Authority may also use regional economic forecasts. The Authority's Appraisal Criteria (2003) is available on its website.

Appendices

Appendix 1 : The Base Case Specification

Summary of the Base Case

The Base Case is represented by the Franchise Agreement, the Service Level Commitments and other documents referenced in this ITT. It incorporates the following:

Pre CTRL DS: SLC1 specifies the level of service the Authority requires to be operated initially on the south-eastern network. The Authority is seeking to transfer the services that operate west of Tonbridge via Redhill to a Brighton Mainline TOC in December 2005. Bidders should note that Option 4 deals with the possibility of this change not occurring.

Post CTRL DS: Upon the opening of Section 2 of the CTRL, and the full delivery of the new CTRL DS rolling stock, service patterns across the IKF area will change to reflect the availability of this new infrastructure and equipment. The train services anticipated to operate from this time are described in SLC2.

For the duration of SLC2, CTRL DS operating on the CTRL will do so under a no-penalty performance regime. The arrangements envisaged by the Authority in this context are reflected in Heads of Terms relating to the CTRL Track Access Agreement, a copy of which is available in the Data Room. The IKF franchisee shall enter into a full Track Access Agreement with LCR in accordance with these Heads of Terms.

Franchise Duration: Bidders should note that Schedule 8 of the Franchise Agreement requires them to price for franchise terms of 8, 9 and 10 full years respectively.

Appendix 2 : Bid Inputs

This section sets out the assumptions which Bidders should use when formulating their proposals.

A2.1 Migration

A2.1.1 Transfer of essential property, rights and liabilities to the successful IKF franchisee

It is proposed to transfer all essential property, rights and liabilities to the successful IKF franchisee via a statutory transfer scheme. It is open to Bidders to also propose alternative means of transfer in their bid, setting out the advantages and disadvantages of the proposed alternative as compared to a transfer scheme.

A2.1.1.1 Rolling Stock – BRIAN FREEMANTLE

The successful franchisee will need to agree with the Authority, ROSCOs and vehicle maintainers as appropriate, on the transfer of rolling stock leases and associated contracts for the rolling stock that will enable it to deliver its obligations under the Franchise Agreement. This is a Condition Precedent.

The Long Form Report details the rolling stock leases that relate to the SET franchise presently, and the terms of the leases. The stock will be leased either through the Master Operating Lease Agreement (MOLA) or through bespoke leases in relation to Class 375, Class 376 trains and CTRL DS rolling stock. The MOLA leases will be novated to the IKF franchisee under a MOLA supplement and the bespoke leases will be new leases for the purposes of hand-over from the SRA to the new IKF franchisee.

Bidders should be aware that re-delivery condition on all stock will not be activated at the point of commencement and that the incoming IKF franchisee will receive all stock on the basis of 'as is, where is'. Re-delivery condition requirements will be activated at lease termination, which is identified as 2011 for all but any remaining Mark 1 stock, and the CTRL DS fleet.

A2.1.1.2 Other Transfers

A2.1.2 Employees

A2.1.2.1 Transfer of Undertakings (Protection of Employment) – JOHN GILBERT

Bidders should assume that the transfer of SET's business and the grant of the IKF Franchise Agreement will constitute the transfer of an undertaking for the purposes of the Transfer of Undertakings (Protection of Employment) Regulations 1981 as amended (TUPE).

A2.1.2.2 Pay and Pensions – SUE WARING

Bidders are required to confirm acceptance of the terms and conditions relating to pensions contained in Schedule 16 of the Franchise Agreement. This should be included in responses to Appendix 4.

Bidders should not assume that the Authority 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.

At the end of the franchise term, the IKF 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.

Bidders are required to evaluate the implications on staff costs of annual pay increases and new pay and conditions and pension contributions rates. Bidders are required to price these factors, which should be shown separately in their bids, and indicate clearly the assumptions that have been made, as required in Appendix 5.

Additionally, Bidders are required to show separately the costs involved and assumptions made in relation to pension contribution rates, both employer and employee, as required in Appendix 5.

A2.1.2.3 Station Staffing – ROGER JONES

Bidders should consider changes to ticket retailing policies and procedures as part of their submissions paying particular attention to the Authority's recent clarification letter dated 24 September 2004 sent to ATOC, RPC and each TOC. Bidders should be aware that SET is already developing a business case in readiness for the introduction of a more efficient ticket retailing strategy.

A2.1.3 Operational and regulatory requirements

A2.1.3.1 Railway Safety Case – DALE WARD / PAUL KNIGHT

Existing rail safety regulations are expected to change in October 2005 as a result of the European Railway Safety Directive and following the introduction of the Railways & Other Guided Transport Systems (Safety) Regulations (provisional name). Whilst HMRI is still consulting on the proposed legislation and hence it remains subject to change, it is expected that it will lead to, inter alia, the replacement of Safety Cases with Safety Certificates. Furthermore, it is proposed as part of the transition arrangements that valid Safety Cases held as at October 2005 will be deemed to be Certificates under the Regulations. It follows that the Safety Case presently held by SET will become a deemed Safety Certificate under the proposed regulations.

The successful Bidder will be required to obtain and maintain a comprehensive Safety Certificate for the IKF as a Condition Precedent to the commencement of the IKF. HMRI has advised that, subject to any change resulting from current consultations on the proposals, provided the successful Bidder maintains the same operational structure, safety management arrangements and services on day one of the new IKF franchise, it will be able to 'adopt' the deemed Safety Certificate/authorisation which was in place for SET prior to the transfer, subject to approval from HSE of any 'unavoidable' minor changes to reflect the change of ownership.

On the basis that the IKF franchise commences after the new safety regulations come into force (October 2005), but before October 2007, the successful Bidder would, under current proposals, be

required to obtain a 'proper' Safety Certificate/authorisation within six months of the transfer to it of the deemed Safety Certificate from SET. As HMRI recommends allowing a minimum of 115 working days for the approval of a new Safety Certificate, this implies that the successful Bidder would need to submit its application to HMRI at the time it takes over operations from SET.

In addition, operation of the new CTRL DS will require substantial changes to the Safety Certificate to permit operation of the new rolling stock on the CTRL. This will also require the full 115 working days approval period in addition to the time required to develop the Safety Certificate. In order to facilitate early operation of test trains on the CTRL, the IKF franchisee will be required to commence work on the amended Safety Certificate immediately upon the award of the franchise. Furthermore, the IKF franchisee may be required to obtain a separate Safety Certificate from LCR in relation to its operation of domestic services on the CTRL. Again, the IKF franchisee will be required to commence this work immediately upon franchise award.

Further information on the content and administration of Railway Safety Cases can be found at the following website: <http://www.hse.gov.uk/railways/safetycases.htm>

A2.1.3.2 Licensing – **N/A (UNLESS YOU THINK SO)**

SET, as a wholly owned subsidiary of the Authority, is exempt from holding a Railways Act licence. SET does have to comply with requirements, similar to those in a licence, contained in Directions and Guidance from the Secretary of State dated 26 February 2001 relating to the provision by the Authority of railway passenger services under section 30 of the Railways Act 1993. The successful Bidder will be obliged to apply for, and secure, a licence or licences to permit it to operate railway assets (including railway services) within the United Kingdom. This process can take a minimum of 16 weeks typically, allowing for consultation and due process.

As a Condition Precedent, the ORR requires a railway Safety Case, or a Safety Certificate under the new regulations, to be in place prior to the final issue of such a licence. To a certain extent, the licensing process, and the safety process described in section A2.1.3.1 of this ITT, can be progressed in parallel.

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

A2.1.3.3 Railway Safety Group - **N/A (UNLESS YOU THINK SO)**

The IKF franchisee will be required to become a member of the Railway Safety Group and, as such, the Authority will expect the franchisee to engage proactively as a member of that Group. In particular, this requires that the franchisee engages 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 RGSP. Operators are required to produce an Annual Safety Plan that should be available on request to the Authority and the HSE.

The IKF franchisee will also be expected to participate in industry groups and committees addressing the domestic, European and research safety agenda of the Railway Group. The Authority has an expectation of full engagement in safety at both Company and Group level. Bidders should detail their past experience of such programmes and how they have engaged in these as part of their response to the EFQM questionnaire as detailed in section A4.7 of Appendix 4.

A2.2 Demand Management and Overcrowding – ROGER JONES & JIM RICHARDS

A2.2.1 Demand

Bidders are required to form their own view about demand and, where this leads to overcrowding, put proposals to the Authority which are designed to remedy this.

Bidders are required to detail the impact of growth projections on the financial model, being explicit about the financial and economic crowding impacts and/or unsatisfied demand. Bidders should not assume that financial resources will be available to support any Bidders' proposed capital investments.

A2.2.2 Overcrowding

Schedule 1.2 of the Franchise Agreement includes a 20-minute standing guideline as the basis on which the IKF franchisee will be required to formulate its Train Plan in respect of Peak services, as part of its response as identified in Appendix 4.

Bidders should assume the following total passenger carrying capacity for each unit type:

	Seats		Standing
	Standard	First	
375/6-8 (4-car)	212	24	147
375/9 (4-car)	249	24	112
375/3 (3-car)	164	12	115
376 (5-car)	192 + 116*	-	416
465 (4-car)	348	-	116
466 (2-car)	168	-	57
465 Weald (4-car)	302+	24	104+
508	219	-	81

* Class 376 includes 116 perch seats

+ Capacities of 'Refreshed' Class 465s provisional and subject to confirmation

Details of the passenger carrying capacity of the CTRL DS fleet will be contained in the rolling stock contracts to be deposited in the Data Room in early 2005. Pending confirmation, however, Bidders should meanwhile assume an indicative capacity of 350 seats per 6-car set (all Standard, no First Class). Although the Authority's enquiries through HMRI indicate there would be no objection on safety grounds to the carriage of standing passengers, it will be the Bidders' responsibility to confirm

this with the appropriate authorities prior to the submission of bids. For preliminary capacity planning purposes, and in advance of finalising design details, the Authority would anticipate standing capacity being in the order of 200-220 passengers per 6-car set. This assumption should not be interpreted as indicating that standing passengers will be permitted on CTRL DS, where HMRI will have the definitive view.

The definitions of each peak period are contained in the Franchise Agreement.

A2.3 Fares – **MARK SMITH**

The Base Case for fare setting assumes that all regulated fares will be capped at RPI+3% for 5 years from January 2006 to January 2010 inclusive, and thereafter at RPI+1% for the remainder of the franchise term. Fares for CTRL DS will be dealt with in the manner described in schedule 5.9 of the Franchise Agreement. For the avoidance of doubt, the CTRL will be included in the Routeing Guide in relation to Domestic Services, and fares set by both the IKF franchisee and other fare-setters will be bound by the Ticketing & Settlement Agreement.

Bidders should also assume that it will be necessary to charge premium fares for the new high-speed services. For passengers travelling to London via the CTRL, the Authority requires Bidders to assume premia, capped as follows:

- Ebbsfleet/St Pancras: Fares will be based on the Gravesend/London fare, subject to a maximum premium of 35%;
- Birchington-on-Sea & stations to the west/St Pancras via the North Kent route: Fares will be based on the standard fare between the station concerned and London, plus a maximum of 30% of the Gravesend/London fare; and
- All stations/St Pancras via Ashford: Fares will be based on the standard fare between the station concerned and London, plus a maximum of 20% of the Ashford/London fare.

Stratford is deemed 'London' for the purpose of fares calculation.

The Base Case requires Bidders to prepare proposals which anticipate a fares regime that allows tickets to be priced at RPI+3% for the first five years of the franchise before falling back to RPI+1%, to reflect the £600 million rolling stock and infrastructure investment in the area in recent years. Bidders are also asked to provide a mandatory variant based on a continuation of the present fare structure with annual increases of RPI+1% (see Appendix 6). Government will decide which to proceed with once bids have been returned and a measure of the cost and affordability of each proposition is known.

A2.4 Travelcard – **JIM RICHARDS**

Bidders should assume that Travelcards will not be accepted for travel on CTRL DS trains. If this assumption changes, a Change under Schedule 9 of the Franchise Agreement will apply to allow the Authority to implement this scheme. All Railcards (e.g. senior citizen) will be accepted at the appropriate level of discount.

A2.5 Rolling stock – BRIAN FREEMANTLE

A2.5.1 Existing Fleet

The Class 375, Class 376, Class 465, Class 466 and Class 508 fleets all have leases to October 2011. It is expected that approximately 100 of these vehicles will be surrendered when SLC2 is introduced. These vehicles are protected by Section 54 undertakings made by the Authority and Bidders should assume their cost will continue within the franchise accounts unless the Authority arranges a cascade of the vehicles to another operator. All costs pertaining to these surplus vehicles should be clearly identified separately in the bid (including standing maintenance, stabling, return condition provisions etc).

The Authority would welcome proposals that allow for the surrender of a different number of vehicles if this can be shown to be advantageous. Bidders should clearly identify which stock it would expect to make surplus and the cost shown as a separate line of entry in the financial bid made in response to this ITT. Bidders will need to extend the leases of those vehicles that are not surplus, so that the leases are co-terminus with the Franchise Agreement term. The implications should be set out in responses to Appendices 3, 4 and 5 of this document as appropriate.

Certain obligations are placed on the lessee for some of the stock that will be transferred under these arrangements. In particular, the obligations relating to the Networker trains owned by Angel will fall in their entirety to the successful Bidder to complete.

A2.5.2 CTRL DS Fleet – BRIAN FREEMANTLE

The Authority initiated the procurement process for the CTRL DS rolling stock and this has resulted in the appointment of HSBC Rail UK Ltd as the preferred fleet lessor (ROSCO), and Hitachi as the preferred manufacturer of the rolling stock.

A fleet of 28 units of 6-car formation is being procured. An initial quantity of 4 units is likely to be available for testing approximately 28 months following contract close.

HSBC Rail UK Ltd as lessor will have prime responsibility for project managing the vehicle manufacturer and may elect, for example, to have staff resident at the manufacturer's works. The IKF franchisee will be required to perform all those roles required of an operator to achieve the introduction of CTRL DS rolling stock into passenger service. In particular, the IKF franchisee will be required to provide drivers and book test paths on the existing rail network and the CTRL. Full co-operation and liaison with bodies such as NR, Union Railways, HMRI, RPC and other stakeholder groups will also be needed.

The rolling stock manufacturer will be responsible for maintenance throughout the IKF term. The IKF franchisee, who will hold the lease for the depot (see section A2.6 below), will be required to enter a sub-lease or license, at a peppercorn rate, with the manufacturer to enable the latter to carry out this responsibility.

As part of Bidders' response to Appendix 4, their bids should outline both their experience in achieving timely introduction of new rolling stock and the specific arrangements they will employ to implement successfully the testing and introduction of these vehicles.

A2.5.3 Networkers Improvement Programme – **BRIAN FREEMANTLE**

Delivery of 36 new 5-car Class 376 Metro units commenced in 2004, replacing Networkers on some inner suburban services. Displaced Networkers are being made available for cascading to other middle-distance routes in Kent.

Class 465 (4-car) and 466 (2-car) Networkers are not universally cleared for operation across the whole of the south-eastern network, being limited by such issues as electromagnetic currents interfering with signalling systems and gauge constraints.

It is understood from NR/SET that Class 465/466 Networkers are already cleared to operate over the following sections of route:

- London termini - Gillingham via Swanley/Sole Street or all lines via Dartford (Greenwich, Bexleyheath or Sidcup), and also to Hayes (all 10-car except for passenger service trains on routes into or out of Victoria or Blackfrairs, over which the maximum operating length permitted is 8-cars);
- Swanley - Maidstone East - Ashford (4-car trains in passenger service, 8-car empty coaching stock (ECS) and trains on diversion);
- Otford - Sevenoaks (10-car passenger trains, ECS and trains on diversion);
- London termini - Tunbridge Wells via Hither Green, Bickley Junction and Orpington (10-car);
- Tonbridge - Ashford (8-car); and
- Medway Valley route between Strood and Paddock Wood (2-car trains in passenger service, 8-car ECS and routes for trains on diversion).

SET has advised that NR has recently granted clearance for the following, with route acceptance certificates expected to be received shortly:

- Gillingham - Dover via Faversham (8-car);
- Swanley - Ashford via Maidstone East (increased length from 4-car to 10-car passenger trains, trains on diversion and ECS services. Passenger service patterns will then be constrained by platform lengths);
- Ashford - Canterbury West (8-car subject to completion of minor gauging works);
- Faversham - Ramsgate - Dover (8-car trains on diversion subject to completion of minor gauging works); and
- Canterbury West - Ramsgate (8-car trains on diversion subject to completion of minor gauging works).

SET also advise that it is progressing an application for clearance of Ashford - Folkestone East (10-car passenger service) with a route acceptance certificate expected to be issued in February 2005. It would expect to utilise these capabilities from March 2005.

SET is undertaking a programme of “refreshment” of 34 x 4-car Networker sets for operation on the Weald services. The work is due to be completed by the end of July 2005. This ‘refreshment’ includes, inter alia, changes to the seating configuration, re-upholstering of seats, renewal of windows and other passenger facilities where appropriate to facilitate such a transfer.

The Networker fleet is presently designed solely with standard class accommodation. First class is not sold as an option on inner suburban services since policing is extremely difficult. The Networker units cascaded to mid Kent as a consequence of the introduction of Class 376 trains will be modified to include 24 seats in First class accommodation per 4-car unit, so that this facility can continue to be provided on Weald services.

The combined effect of these changes will be to reduce the overall seating capacity of those Class 465 units cascaded to the Weald service group from 348 to 326 (including 24 in First class).

At the time of the termination of the Connex franchise, SET assumed various obligations to Angel Train Leasing and HSBC in relation to the condition of the Networker fleets. These obligations are contained in the existing (amended) leases and, to the extent they remain outstanding at the Franchise Commencement Date, will transfer to the IKF franchisee along with the leases that contain them.

A2.6 Depots – JIM RICHARDS

Existing depot leases and current access agreements for the use of depots where SET is not the Facility Owner will be transferred whole as part of the statutory transfer scheme. No historic dilapidations liability will be transferred, with the IKF franchisee expected to accept the rights associated with the transfer on an ‘as is’ basis. Bidders should assume that SET will have re-negotiated the South Eastern Trains Maintenance Limited agreement with Bombardier Transport UK, and the successor agreement will be transferred to the IKF franchisee when the statutory transfer is completed. The terms of this new agreement will be lodged in the Data Room 60 days before bids are due to be returned. In the event the new agreement is not ready by then, Bidders will be provided with an assumption on which to base their bid.

The depot at Ramsgate is currently operated by SET under lease from NR. The IKF franchisee will have the lease transferred to it under the statutory transfer scheme. The Authority expects this depot to be refurbished. A new depot is to be constructed on a site adjacent to Ashford Down Yard Carriage Sidings to cater for the new CTRL DS fleet. The procurement of the refurbishment of Ramsgate and the new depot at Ashford Down Yard Carriage Sidings will not be the responsibility of the IKF franchisee. However, the franchisee will be expected to co-operate fully in the timely completion of the construction and commissioning; and in the case of the new depot at Ashford Down Yard Carriage Sidings, when commissioned, facilitate the operation of this depot in conjunction with Hitachi to enable all maintenance on the site to be carried out promptly and correctly. The terms of lease relating to the refurbishment of Ramsgate and the new depot at

Ashford Down Yard Carriage Sidings will be lodged in the Data Room at least 60 days prior to the date when bids should be returned. In the event this is not possible, Bidders will be provided with appropriate assumptions on which to base their bid at that time.

A2.7 Track Access Agreements – **JIM RICHARDS**

A2.7.1 Track Access Agreement for the NRN

The Authority is working with NR and the ORR to ensure that SET's TAA is suitable for the continued operation of existing SET services until their transfer to the IKF. Bidders should assume that the TAA will be current at the point of commencement of the IKF but that it will need to be transferred to the incoming IKF franchisee.

It may be possible for SET to renegotiate the existing TAA so that it conforms to the ORR's model clause template, but if this is not completed before the Franchise Commencement Date, then the IKF franchisee will be expected to negotiate with NR a replacement TAA in model clause format after the Franchise Commencement Date.

The role of the IKF franchisee with regards to the TAA on the NRN will be:

- to accept the terms of SET's NR TAA for the purpose of:
 - the transfer of the NR TAA to the new IKF franchisee; and
 - attending the Timetable Conference and bidding on the basis of the NR TAA for the track access rights required for the December 2006 timetable change;
- to negotiate with NR a replacement TAA in model clause format if this has not been completed by the Franchise Commencement Date;
- to negotiate with NR the supplemental agreements for the purposes of each stage of the remodelling of existing SET services;
- to negotiate with NR the supplemental agreements to secure track access for the CTRL DS rolling stock on the NRN for each stage of the testing and commissioning of the rolling stock, any transition services (including track access to Ashford station), and SLC2 CTRL DS services including, but not limited to, the CTRL DS rolling stock maintenance depot, cleaning and light maintenance facilities, berthing sidings etc; and
- to discharge the obligations in the TAA and manage the TAA for the benefit of the franchise.

A2.7.2 Track Access Agreements for CTRL DS

Separate TAAs will be required for domestic services operating on Section 1 of the CTRL (CTRL TAA 1) and Section 2 of the CTRL (CTRL TAA 2) respectively.

LCR is responsible for the construction, operation and financing of the CTRL under the Development Agreement dated 28 February 1996 (as amended) between the Secretary of State for Transport (previously the Environment, Transport and the Regions) and LCR. On behalf of LCR, the responsibility for the overall provision of the CTRL lies with its two subsidiaries, Union Railways (South) Limited in respect of Section 1, and Union Railways (North) Limited in respect of Section 2.

LCR is required to ensure that Union Railways (North) Limited and Union Railways (South) Limited or their agent(s) enter into a TAA with the operator of CTRL DS in accordance with Schedule 19 of the Development Agreement, and the CTRL Track Access Conditions attached as an Appendix to Schedule 19. In preparation for this, the Authority has agreed with LCR Heads of Terms that shall form the basis of the TAA between LCR and the successful IKF franchisee and these are available in the Data Room.

The role of the incoming IKF franchisee with regards to the TAA on the CTRL will be:

- to negotiate the new TAA with LCR or its agents in accordance with the Heads of Terms;
- to negotiate with LCR or its agents the supplemental agreements for the purpose of each stage of the development of CTRL DS;
- to negotiate with LCR or its agents the supplemental agreements to secure track access for the CTRL DS rolling stock on the CTRL for each stage of the testing and commissioning of the rolling stock; and
- to discharge the obligations in the TAA for the benefit of the franchisee.

The cost of track access for CTRL DS whilst operating on the CTRL should be taken as follows:

- Fixed Track Access Charges will be paid direct to LCR by Government. The franchisee may be required to pay these on behalf of Government. If this proves to be the case, the Authority will agree with the franchisee via the Change mechanism (Schedule 9) how to handle this.
- Variable Track Access Charges are expected to equate to 38% of the total cost of the variable cost of operation as calculated by LCR. This ratio is based on the expected number of CTRL DS trains operating compared to the number of Eurostar services using the CTRL. The total cost of operation per annum to the IKF franchisee is expected to be £74.4 million. Bidders should assume annual increases in line with RPI. Should the total cost of operation per annum, or the proportion allocated to the IKF, vary, then the impact of this variation will be handled via an adjustment (Schedule 8.1 of the Franchise Agreement), save to the extent that such changes arise as a direct result of the IKF franchisee operating a different number of services to those specified in SLC2.

The Environment Agency approved on 16 June 2003 certain specified works to be undertaken at Church Path Pit as detailed in the drawings and documents that accompanied the application made by Rail Link Engineering in accordance with paragraph 2 of Part III of Schedule 15 of the Channel Tunnel Rail Link Act 1996. In doing so, the Agency confirmed that it had no objections to the proposed omission of trackbed sealing in Church Path Pit, beneath the berthing and/or turnback sidings, providing no liquid or solid substances are stored in this area which could potentially contaminate the ground and/or groundwater. Bidders should note that this condition, amongst others, will be included in the TAA between LCR or its agent and the IKF franchisee.

A2.8 Stations – **JIM RICHARDS**

Existing station leases and current access agreements for the use of stations where SET is not the Station Facility Owner will be transferred whole as part of the statutory transfer scheme. No historic dilapidations liability will be transferred, with the IKF franchisee expected to accept the rights associated with the transfer on an 'as is' basis.

The IKF franchisee will not be the SFO at St Pancras and Bidders should assume that they are not expected to undertake station facility owner status for Stratford International and Ebbsfleet. The IKF franchisee will need to enter into an access agreement with whoever government nominates as the SFO for these stations. Bidders should assume that the IKF franchisee will, however, be the SFO at Ashford, where SET is currently the SFO. It is intended that car parking charges at Ebbsfleet will be controlled. Advice will follow on SFO status at Stratford and Ebbsfleet, and the regulation mechanism to be adopted for car-parking charges at Ebbsfleet. A final assumption in this respect will be placed in the Data Room by the end of February 2005.

Fixed station access charges on CTRL will be paid direct to LCR by Government. Bidders should assume variable access charges, including rates and utilities, will amount to £3.6 million per annum once the three CTRL stations are used by CTRL DS trains. Bidders should assume annual increases in line with RPI. Should this cost vary in practice, the impact will be handled via an adjustment (Schedule 8.1 of the Franchise Agreement).

As part of the Base Case, Bidders should assume the fit-out of the domestic areas of St Pancras, Stratford International and Ebbsfleet stations is a free good and will be undertaken by the Authority in due course. The successful Bidder will, however, be expected to cooperate with the designer of facilities, review any procurement specification(s), assist in the acceptance and snagging of delivered outputs, and cooperate with the project manager in the settling of any claims and final accounts. The fit-out of the domestic parts of the CTRL stations is alternatively dealt with as a Priced Option (see Appendix A7.4).

A2.9 Transfer of Services operating West of Tonbridge via Redhill – **JIM RICHARDS**

The Franchisee should expect to apply TUPE if the service group containing the services operating west of Tonbridge via Redhill are transferred to a Brighton Main Line TOC (see Appendix A7.3).

A2.10 Eurostar Services on Classic Network – **JIM RICHARDS**

Notwithstanding Eurostar's recent announcement to withdraw services from Waterloo, and to focus all services on St Pancras when section 2 of the CTRL opens, Bidders should not assume that Eurostar will relinquish its track access rights on the classic network. There is also uncertainty whether Eurostar will operate all the services on CTRL for which it has rights. Bidders should assume for the purposes of preparing their bids that Eurostar will not release any of its rights on either the NRN or CTRL and plan accordingly.

A2.11 Driver Only Operation – **JOHN GILBERT**

The Networkers were constructed for Driver Only Operation (DOO). The area of DOO is currently bounded by Strood, Swanley (on the Chatham route) and Sevenoaks (both via Orpington and Bat and Ball), with most Class 465/466 Networker and Class 376 services north and west of

these locations being driver only operated. South and east of these locations, including Strood - Gillingham, Swanley - Rochester and Grove Park – Bromley North, conductor guards are also required.

Bidders should assume that all services operating as DOO at present will continue to operate in this way. Bidders should not assume any limit on the extension of DOO, save for the operation of trains on the CTRL west of Ebbsfleet, where an additional person per unit (excluding the driver) will be required for emergency evacuation in the event of an incident in the long tunnels on this section of the route.

Should Bidders propose to extend DOO, then their bid must clearly show the cost of any infrastructure or rolling stock enhancement and their industrial relations handling plan. These aspects should be clearly recorded in Appendices 5 & 4 respectively.

A2.12 Projects currently committed – GRAHAM DALTON

Bidders are required to include in detail the effects of the following projects that either will be in progress at the commencement of, or committed to take place during, the proposed IKF term. Bidders must identify all of the costs (i.e. not just the capital costs) and benefits associated with these projects and identify any impacts on rolling stock, operational or other infrastructure-related costs as part of their response to the instructions in Appendix 5. Further details of these projects are provided in the Data Room. However, Bidders should note that this list is not exhaustive and are expected to keep up-to-date with other committed projects as details are deposited in the Data Room. The IKF franchisee will be expected to co-operate on each of these projects to the extent it is involved.

A2.12.1 Tunbridge Wells Turnback – GRAHAM DALTON

It is intended to provide turnback sidings at Tunbridge Wells and negotiations in this respect are ongoing between NR and the Authority.

A2.12.2 Railhead Conditioning – GRAHAM DALTON

SET previously contracted with NR to provide assistance in relation to Sandite and de-icing operations in the south east. Bidders should note that although NR has now contracted with another party in relation to this activity, it may wish to enter into a similar arrangement with the IKF franchisee in the future.

A2.12.3 South Eastern Power Supply Upgrade – GRAHAM DALTON

NR is presently upgrading power supplies within the Southern Region. This work already allows full deployment of Class 375/376 trains at a power setting compatible with existing timetable sectional running times, and Class 465/466 rolling stock on routes proposed in the current timetable. The upgrades cover both DC traction supplies and the HVAC Grid. Work to improve the resilience of the power supply system is ongoing and is planned to be substantially completed in May 2005.

Testing and monitoring of the power supply system in the 12-month trial running period after all the new trains have been introduced may allow the trains to draw more current and thus operate on

shorter point-to-point timings. The current model used by NR assumes deployment of new rolling stock is a direct substitution for existing service provision.

Bidders are advised that any assumptions they make in this respect should be based on information provided to them by NR.

A2.12.4 East Kent Resignalling – **GRAHAM DALTON**

The East Kent resignalling (EKR) project encompasses the areas controlled by Rochester, Gillingham, Rainham, Sittingbourne, Faversham, Margate, Ramsgate, Minster, Canterbury East, Shepherdswell, Sandwich, and Deal signal boxes.

The existing signalling equipment dates from the Kent Coast Electrification scheme of the 1950s. The deteriorating condition of the mechanical interlocking across the project area, and concerns over the non-availability of the sufficiently large blockades necessary to carry out refurbishment, has steered the project towards an interlocking replacement strategy.

The condition of the signalling infrastructure is such that its renewal in the Margate, Ramsgate and Minster areas has been prioritised for completion by the end of 2008, with all remaining signalling work completed by 2011.

Project implementation will be phased over several years, with priorities being driven by condition of the existing equipment.

A2.12.5 Other SET Projects in Progress or Committed – **GRAHAM DALTON**

The following SET projects are either in progress or committed. Details may be found in the Data Room.

- Networker - performance improvements
- Networker - reinstatement
- Mark 1 replacement (Class 375/6 acceptance and Class 400 series withdrawal)
- TVM (Quickfare replacement)
- TIS (Aptis/Sportis replacement)
- Depot security
- WAN/LAN roll-out
- Portsmouth Penalty Fares Office – IT software replacement
- CAPEX refinancing (Details to be available in the Data Room at a later date)
- Metro station toilets
- CIS

A2.12.6 Other Projects affecting IKF – **GRAHAM DALTON**

All other projects that may arise during the franchise term will be treated within the context of normal industry mechanisms and do not need to be priced or considered within Base Case

submissions. Appendix 9 references the more obvious projects that may impact on the IKF in this regard, and their inclusion is intended to assist Bidders in gaining as complete a picture as possible of the environment within which the franchise will operate.

A2.13 Community Rail Strategy **N/A (UNLESS YOU THINK SO)**

The Secretary of State for Transport launched the Community Rail Strategy in November 2004. This sets out ways to increase revenue, reduce costs and increase community involvement in local rail services. Bidders for the IKF franchise are expected to participate in the implementation of this Strategy as appropriate.

Bidders are asked to note that it is proposed to designate both the Sittingbourne to Sheerness and the Paddock Wood to Strood lines as Community Rail routes which would have implications in terms of the degree of flexibility available to the operator in running the line and the way that the infrastructure is managed. A local consultation would take place prior to designation. Elements of the Strategy may be applicable to other parts of the network (e.g. community involvement and collaboration with local authorities in station development etc.) even though they are not designated as Community Rail Lines.

Bidders are also asked to note that there is an active Community Rail Partnership in Kent. Bidders should set out how they would propose to work with this partnership and any others which may be established in the area.

A.2.14 General Financial Assumptions **N/A (UNLESS YOU THINK SO)**

All assumptions and bid input requirements of a financial nature are contained in Appendix 5.

Appendix 3 : Compliance

A3.1 Structure and Format of Bids

Bidders should note that the Authority will test the compliance of bids against the structure identified below and, following any appropriate clarification, may disqualify any bid that does not conform or is deficient in comparison with this structure.

Bidders are required to provide the following:

- An Executive Summary;
- A proposal that delivers the Base Case comprising:
 - the proposed means of delivery in the same format as described in Appendix 4; and
 - the proposed financial and economic effect in the format described in Appendix 5;
- A proposal that delivers the Mandatory Variants described in Appendix 6;
- A proposal for each of the Priced Options described in Appendix 7 comprising:
 - the means of delivery, if this requires adjustment to the delivery proposal supporting the Base Case. This should, to the extent it is relevant, be presented in the same format as described in Appendix 4; and
 - the proposed financial and economic effect in the format described in Appendix 5;
- A mark-up of the Franchise Agreement including completion of those parts of the Franchise Agreement marked 'Bidders to Populate';
- Completion of Certificates of Non-Compliance in respect of:
 - Franchise Agreement Non-Compliances; and
 - Changes in Circumstances and Competition Matters;
- Confirmation that their bid will be held valid for 300 days from the bid return date.

Bidders will be deemed to have accepted all the requirements as set out in this ITT (including those referred to in both the Appendices and Attachments to this ITT) unless stated otherwise.

A3.2 Certificates of Non-Compliance

A3.2.1 Franchise Agreement Non-Compliances

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

Document	Terms and Conditions which have NOT been complied with	Details

For this purpose, 'associated contractual documents' includes the Definitions Agreement, the Service Quality Standards, the KPI Audit Score Cards and the Conditions Precedent Agreement supplied to Bidders with the IKF Franchise Agreement.

A3.2.2 Changes in Circumstances and Competition Matters

Similarly, Bidders are required to include in their bids details of any change in circumstances or competition matters that affects their bidding position as identified in the following table.

Change	Reporting Required
Change in Circumstances	Bidders should include details in response to the instructions contained in section 2.2 of this ITT
Competition Matters	Bidders should include full details of any matter under consideration by OFT and/or the Competition Commission or the European Commission as referenced in section 2.3 of this ITT

Appendix 4 : Operational Integrity / Deliverability

A4.1 Introduction

The Authority requires Bidders to show how they will deliver the obligations contained in the Franchise Agreement. To this end Bidders should support their proposals with an operational plan which gives detail on how delivery will be achieved. The attached diagrams (A4.D1 to A4.D5 inclusive) identify the minimum elements that such an operational plan should contain and Bidders should submit their plan using this structure. The Authority expects that Bidders will underpin their plans with all relevant detail. Bidders should not interpret the diagrams as exhaustive; but they should understand that the Authority will form its view on submitted plans using this structure.

Sections A4.2 to A4.6 provide further guidance and information on specific elements of the operational integrity / deliverability diagrams (A4.D1 to A4.D5). These sections only cover those elements which the Authority considers may require more detailed explanation and hence do not cover each element of the diagrams. The level of detail provided is dependent on the particular element in question.

It should be noted that where the Authority requires information to be provided in a specific format, this is also detailed in sections A4.2 to A4.6.

A4.2 Service Performance (Diagram A4.D1)

Bidders are asked to demonstrate in detail how they will fulfil the outputs to which they are committing themselves in the Franchise Agreement with regard to the performance of service over the franchise period. Responses must address the factors relating to the delivery of both SLC 1 and SLC 2 and address the key areas listed below and in the attached diagrams.

A4.2.1 Service Delivery

Bidders are required to demonstrate their ability to fulfil their commitments in relation to the provision of train services in line with the requirements of SLC1 and SLC2. To this end, they are required to set out a Train Plan and accompanying strategies that achieve this. The accompanying strategies are intended to demonstrate how Bidders will deliver the plan in the core areas of Fleet, Traincrew (both drivers and on-train staff), and their strategy for the management of the train plan at stations.

Bidders are required to submit indicative timetables for each Service Group as defined in both SLC1 and SLC2. The timetables should clearly indicate first and last train times, service intervals throughout the day and calling patterns for each Service Group. Bidders are also required to define how they intend to manage the timetable development process, which should include co-ordination arrangements with third parties and how they intend to implement timetable change.

A4.2.1.1 Fleet Strategy

Bidders are required to demonstrate in their Fleet Strategy how their rolling stock, maintenance and depot proposals will meet their demand forecasts and the variations in demand required within the Base Case. If infrastructure, rather than possession of rolling stock, becomes the constraint on meeting forecast demand on any particular route, this should be highlighted.

A4.2.1.1.1 Rolling Stock Plan

In addition to the areas outlined in the diagrams, in the event that Bidders are proposing to refurbish, replace or acquire additional rolling stock, Bidders should provide details of such proposals taking account of:

- The potential availability of such rolling stock;
- The aims and objectives and projected impacts of the refurbishment, replacement or acquisition in the context of generating improved performance, reliability, availability, customer environment, demand and revenue.

Should a Bidder wish to propose after the expiry of the existing leases rolling stock different from that in use on SET routes today, the Authority will need to be assured that it meets the appropriate service criteria.

A4.2.1.1.2 Depot & Maintenance Plan

The Depot & Maintenance Plan is required to take into account existing contractual commitments in relation to Ramsgate, Slade Green and Chart Leacon (Ashford), as well as the new depot planned at Ashford Down Yard Carriage Sidings. The Plan should include details on the impact of change, if any, to the current approach to maintenance.

Fleet availability targets should be provided on a daily, monthly and yearly basis by fleet type (including any hot standbys and the location of these) and details provided of fleet utilisation i.e. monthly or yearly vehicle miles.

Reliability targets (presented as mean distance between failures which cause delays of 5 minutes or more) should be provided on a yearly basis by fleet type yearly over the franchise period (this analysis should include the relationship between miles per casualty by class of vehicle and the impact the figures have on the Performance Regime).

Bidders should identify the linkage between the Depot and Maintenance Plan and delivery of fleet availability and reliability requirements and any changes required to the existing activities/regimes to meet the proposed targets.

A4.2.1.2 Traincrew Strategy

Bidders are required to submit a traincrew strategy that outlines their process and procedures for the management of traincrew, which includes both drivers and on-train staff. The strategy must be subdivided into details regarding the provision and resources at traincrew depots, how Bidders intend to carry out route learning and training of staff, to ensure delivery of the Service Level Commitments, and how Bidders view the scope for making efficiency and productivity gains throughout the duration of the Franchise.

A4.2.1.3 Station Management Strategy

Bidders are required to submit a strategy that outlines their approach to the management of all the stations within the Franchise. The strategy should comprise:

- **A Station Staffing Plan:** Bidders are required to outline how they intend to comply with their obligations under both the Franchise Agreement and the Service Level Commitments to provide staff at stations which meet both the operational and retail requirements of the franchise.
- **Local Management Arrangements:** Details must be submitted to demonstrate how Bidders intend to organise the management and supervision of stations within the franchise area to ensure that standards and commitments are maintained to a consistent level throughout. Bidders must demonstrate how through the management of the stations that continuous improvement in the level of service can be achieved.
- **Efficiency Gains:** Bidders are required to submit proposals for improving efficiency and productivity with regard to station management. Bidders must demonstrate that any efficiency proposed does not have a detrimental effect to the delivery of the Service Level Commitments or reduce the quality of the service offered at stations.

A4.2.2 Operational Performance

The attached diagram highlights the key areas the Authority wishes to see addressed in Bidders responses. It should be noted that the lists are not exhaustive and Bidders are able to include other elements in their response should they wish.

A4.2.2.1 Data Collection & Analysis Strategy

Bidders are required to detail how they would address the performance of Service Level Commitments (both SLC1 and SLC2) and are required to outline their proposals for collecting and analysing performance information relating to each Service Group. They are also required to outline the benchmarks they would expect to achieve, in line with the commitments made in the Franchise Agreement, throughout the life of the franchise.

A4.2.2.2 Performance Improvement Strategy

Bidders are also requested to state how they intend to undertake performance improvement from the current levels achieved by SET and outline the timescale by which they will achieve these improvements.

A4.2.2.3 Control Strategy

Bidders are required to outline their strategy for the real time management of the services as part of a control strategy and to say how their systems will interface with other key providers such as NR and rolling stock maintenance providers to ensure smooth operation and execution of the train plan.

A4.2.2.4 Service Recovery & Contingency Strategy

Bidders are required to outline in detail their service recovery and contingency plans to cover severe weather conditions, address the critical issue of train performance during leaf fall and describe their intended procedures should access be restricted on both the NR infrastructure and the Channel Tunnel Rail Link. Responses should highlight resources to be deployed and identify the key risk areas that affect the delivery of the daily timetable.

A4.2.2.5 Interface Arrangements

Bidders are also required to detail their interface arrangements with both NR and Union Railways (for SLC 2). They are expected to provide details of liaison and control arrangements as well as comment on the formulation of regulation policies to ensure prioritisation of services during time of disruption.

A4.2.3 Demand Management

Bidders are required to ensure their response to the ITT caters for all appropriate known variations in passenger demand, based on their own forecasts. The Franchise Agreement contains an obligation to manage the available resources so as to minimise overcrowding, particularly on peak services. There is also a requirement to carry out passenger counts on a regular basis for use in the management of resources and the planning of train formations to meet forecast changes in patterns of demand and promote efficiency.

A4.2.4 Transition to SLC 2

The changes to the operations of the franchise upon completion of Phase Two of the Channel Tunnel Rail Link and the introduction of domestic services pose a unique series of challenges to Bidders in the management of this franchise. Bidders will be expected to manage the introduction of new rolling stock and services in a timely and efficient manner whilst maintain the operational performance and integrity of the existing services. Bidders are required to submit detailed plans of how they propose to undertake the range of activities required to complete the transition and to demonstrate they have the understanding of the processes for approvals, training and recasting the franchise Service Level Commitments.

A4.3 Service Quality (Diagram A4.D2)

The Authority expects the successful IKF franchisee to deliver a level of service quality commensurate with its desire to create a high quality service in the south-east. Bidders are required to provide detailed plans that clearly demonstrate their commitment to achieving this goal. The accompanying diagrams highlight the key areas the Authority expects to see addressed as part of the overall service quality offering. Bidders should feel unconstrained to add additional items as they see applicable to achieving the overall service quality aims.

A4.3.1 Station Environment

The Authority is seeking Bidders to demonstrate their approach to the management of stations, which should offer an accessible, welcoming and comfortable environment with fully functional systems and amenities. Bidders should consider the cleaning and maintenance regimes to ensure that high standards of presentation are maintained, and that the stations provide a safe and secure environment for customers whilst either using the amenities or waiting for train services.

A4.3.2 Train Environment

Bidders are expected to provide details regarding their strategy to ensure that the station experience is matched with the on-train experience; customers should be offered a clean, secure, welcoming environment in which to undertake their journey, with information applicable to that journey and its progress provided both visually and orally. In addition, Bidders are required to outline their plans to maintain the external appearance of the rolling stock.

A4.3.3 Information Provision

The Authority requires Bidders to provide details on how they will deliver timely, accurate and comprehensive information throughout the franchise area, on stations, trains and external areas such as car parks. The plans should detail the arrangements to cover timetabled services, planned and unplanned disruptions, to ensure that customers are kept fully informed of the operations of services during their journey.

A4.3.4 Security

Bidders are required to outline their plans for ensuring that the security of premises, customers and their staff are maintained at all times. They are required to describe how they intend to maintain the current systems and procedures whilst detailing their proposals to identify new risks, upgrade existing systems and install new measures to reduce the level of risk and loss to the franchise.

Bidders are required to outline their plans for liaison with law enforcement agencies throughout the franchise area and detail any plans they might have regarding the use of third party security personnel. The security strategy must cover on-train activities, stations, depots and sidings, to ensure that the risks to delivery of the train services is minimised by the impact of trespass and vandalism.

A4.3.5 Ticket Sales

Bidders are required to provide detailed plans on how they propose to ensure easy access to ticket retailing facilities at all stations (including modern and reliable passenger operated ticket vending machines capable of dealing with Oystercards and other smart card technology) throughout the day. Ticket offices should be opened and staffed in accordance with the proposed Service Quality Standards. They should be capable of selling both tickets and distributing pre-booked tickets, in addition to providing detailed information regarding train services within the Franchise and for other train operators both within the area and in the rest of the United Kingdom. In addition, Bidders are requested to provide details on how they propose to use simple, effective alternative means of purchasing tickets, though for example, a well-publicised easy to use and accessible Internet site or an easy to use telephone booking service.

A4.3.6 Car Parking

The Authority expects Bidders to provide details of their plans to provide adequate car parking at stations throughout the franchise, and to show how they intend monitoring and measuring the likely demand for car parking and matching that demand with a suitable number of parking places. In addition, Bidders are required to provide details of their plans to ensure safety and security of vehicles parked in IKF car parks, and how maintenance and up-keep of the car parks will be undertaken.

A4.4 Other Passenger Service Obligations (Diagram A4.D3)

Bidders should describe their commitments to cover the range of items described in the accompanying diagrams and provide a detailed commentary on their strategies and plans to ensure delivery. Bidders should feel unconstrained to add additional items as they see applicable to achieving the overall aims of 'Other Passenger Service Obligations'.

A4.4.1 Fares

Bidders should outline their strategy for the management of fares throughout the franchise; they should outline their policy regarding a range of ticket types, including the marketing, sales and revenue implications of these fares. In addition, Bidders should provide evidence of how they plan to manage the basket of fares and state what liaison arrangements they intend to implement to ensure communication with stakeholders and customers.

Bidders should detail their proposals for giving fare information to customers through a variety of media and provide evidence of how they intend to train and inform ticket sales staff of the range of fares that are available from IKF outlets.

A4.4.2 Transport Integration

The Authority expects Bidders to outline their plans for multi-modal integration of transport throughout the franchise area. Bidders are expected to outline their proposals to ensure existing arrangements with organisations such as TfL are strengthened, and that proposals are made for integration of the urban and rural areas of the franchise.

As part of the transport integration strategy, Bidders are expected to consider items such as the connection plan and the potential for increasing 'through' ticketing, as well as considering the information of other transport connections at stations.

Bidders are expected to outline their policy regarding bicycles both on-train and with regard to access and storage at stations.

A4.4.3 Disability Discrimination Act

The Authority expects Bidders to detail their proposal to ensure compliance with the Disability Discrimination Act (DDA). Bidders are requested to describe in detail their compliance strategy for both stations and trains. They are required to submit their consultation strategy with disabled groups to ensure that the needs and requirements are met, both with existing facilities and via enhancements. Bidders must outline their plans for staff training and detail their procedure for the sale of tickets to disabled travellers.

A4.4.4 On-Train Catering

Bidders are required to supply details of how they intend to manage the on train catering at least to the existing levels of service. Should Bidders wish to extend the scope and coverage of catering on IKF services the Authority expects Bidders to detail how they intend to undertake such an expansion and ensure the quality of the offering is consistent across the whole franchise.

A4.5 Franchise Management (Diagram A4.D4)

Bidders are required to outline their plans and strategies for the overall management of the franchise throughout its term. Bidders should feel unconstrained to add additional items as they see applicable to achieving the overall aims of franchise management.

A4.5.1 Leadership & Organisation

Bidders should explain their overall approach to the leadership and management of the franchise and how this will result in the overall achievement of the commitments and targets to which it will be committing itself in the Franchise Agreement, thereby fulfilling the expectations of passengers, the Authority and other stakeholders.

A4.5.1.1 Vision & Objectives

Bidders should set out their overall vision and objectives for the franchise, highlighting their corporate goals and how they see the IKF product developing.

This section should include the detail of how the franchise organisation will be structured. Bidders should submit sufficient organisation charts to depict the staffing structure proposed for the franchise, including numbers of staff positions and roles proposed at each level of the organisation including senior management, non-operational management and administration, operational management and supervision and 'front line' operational staff. In addition, Bidders should submit detailed job descriptions for the senior management positions and outline job descriptions for the other management positions identified on the organisation charts.

A4.5.1.2 Human Resources Strategy

Bidders are required to submit a Human Resources Strategy (HR Strategy) that supports the robust delivery of the Service Level Commitments and explains the overall direction of employee development and other employee policies for the IKF, including through the transition period. The attached charts outline the key areas the Authority wishes the Bidders to respond to. The Strategy should address the approach to investment in the workforce and the outcomes the Bidders expect to achieve through this approach.

A4.5.1.3 Internal Communications Strategy

Bidders are required to outline their proposals for communications to all members of staff throughout the period of the franchise. They should layout their plans in terms of coverage and frequency and the type of issues the Bidders see as critical to the success of the business.

A4.5.1.4 Franchise Agreement Compliance Strategy

Bidders are requested to include details on how they propose to manage the Franchise Agreement and liaise with the Authority on Franchise Agreement compliance issues. They should outline the resources they expect to deploy and details of their roles and responsibilities and propose a formal meeting structure to ensure that regular discussions are held.

A4.5.2 Commercial & Retail

Bidders should submit their plans on how they intend to manage the commercial and retail activities of the franchise. The diagrams form the basic level of information required. Bidders are encouraged to add additional information should they feel it is pertinent to this activity.

A4.5.2.1 Marketing Strategy

Bidders must outline the assumptions they make in relation to the IKF market, and detail how they propose to develop the IKF brand. They must include an assessment of the risk to the business and

where potential areas of growth can be achieved. The Brand Plan should address how the corporate image of the franchise is to be developed and managed in keeping with the Authority's goal of developing high quality passenger services throughout the franchise area.

A4.5.2.2 Customer Services Strategy

Bidders are required to submit their plans to manage the customer services aspects of the business. They are required to submit their proposals on how they intend to deploy and develop their personnel and resources.

A4.5.2.3 Passenger Charter

Bidders must outline their proposals for their Passenger Charter; they must state how they plan to provide Charter information to customers.

Bidders are required to outline their approach to compensation and refund for customers where the level of service fall below what is outlined in their Charter

A4.5.2.4 Retailing Strategy

Bidders are required to submit a detailed strategy by setting out how they intend to manage retailing across the franchise.

The Authority expects to see robust plans for improving retailing efficiency at stations and for the achievement of revenue through promotion and advertising. The Authority expects to see strong direction with local accountability in Bidders' management structures and arrangements. Stations must be seen to reflect the needs of local stakeholders and the local environment.

A list of stations, of which it is intended the IKF franchisee will be SFO as at the franchise commencement date, is set out in the Conditions Precedent Agreement included as Attachment F.

Bidders should assume that only the future property, rights and liabilities would be transferred to the IKF. The Authority does not intend that Bidders will inherit any outstanding dilapidation at the transferring stations.

A4.5.5 Revenue Protection Strategy

Bidders should submit a costed strategy for reducing the extent of ticket-less travel and fare evasion associated with the franchise. The strategy should demonstrate the net financial contribution to the business plan detailing the cost and revenue impacts.

The plan should also include details of actions proposed to reduce ticket-less travel by route.

A4.5.6 Asset & Environmental

Bidders should provide an asset management plan for all assets that will be employed for the purpose of delivering the Franchise Obligations. This is deemed to include, but not necessarily be limited to, stations, car parks, depots and stabling facilities, offices, train crew facilities (in addition to those at stations and depots if any), IT systems and road vehicle fleets.

Bidders are also required to produce an annual environmental plan setting out their approach to managing their business in accordance with current and anticipated legislation. The plan should demonstrate a strong commitment to working with the infrastructure controller and other operators to deliver a co-ordinated programme of improvements and common positions.

A4.5.7 Finance & Investment

Bidders are required to submit a strategy for its financial and investment arrangements. Bidders should also refer to Appendix 5. The strategy will comprise at least the following:

A4.5.7.1 Financial Management and Reporting Plan

Bidders are required to submit a detailed financial management and reporting plan, which sets out how Bidders will:

- monitor and control expenditure, revenue and yield;
- manage cash-flow;
- maintain the minimum financial ratios required by the Authority (see Schedule 12 of the Franchise Agreement);
- plan, budget and forecast including meeting the requirement to submit Business Plans to the Authority;
- report results, internally, to the Authority and externally; and
- interface with the Authority, including meeting the requirements of Schedule 13.2 of the Franchise Agreement.

The financial management and reporting plan should include:

- An organisation chart of the people involved in financial management;
- An outline description of the financial reporting systems to be used;
- A description of the reports to be produced; and
- An indicative financial reporting timetable, showing when period, quarterly and annual reports will be produced, approved and provided to the Authority.

A4.5.7.2 Investment Strategy

Bidders are referred to the Franchise Agreement, Schedule 9.3, 'Incentivising Long-Term Investment'. To the extent that long-term investment is affordable, Bidders are expected to submit a strategy outlining how they would manage such opportunities.

A4.6 Mobilisation (Diagram A4.D5)

The Authority is looking for a smooth and seamless changeover from SET to the new IKF franchisee. To this end, Bidders should explain how they will project manage the mobilisation, including risk management and contingency plans. The Authority will expect to see not only the content of the mobilisation plan, but also the means by which it will be delivered.

A4.7 EFQM questionnaire

A4.7.1 Company Information (provide one copy of the document)

Bidders submitted details under the EFQM process at the PQQ stage. However, given the passage of time since this took place, the Authority requires Bidders to resubmit their details and approach. It will be this latter version that the Authority will consider as part of the evaluation process. Bidders should use the form below and respond appropriately to the requirements of sections A4.7.2 and A4.7.3 respectively. The whole response to the EFQM should form a discrete element of the bid document, notwithstanding that some aspects may already be covered in response to other sections of Appendix 4.

Company Name		
Company Headquarters Address		
Registered Office (if different from above)		
Is your company a subsidiary of any other company? If so provide name and registered address of ultimate parent company.		
Key Personnel Contacts (include Directors, Partners etc)	Name	Title
Contact Name for SRA Queries		
Contact Telephone Number		
Contact E-mail Address		
Contact Facsimile		
Company web-site		
Is your Company i. Limited Liability Company ii. Partnership iii. Sole Trader		
Company Registration Number		
Company Registration Date		
Is your company associated or affiliated with another company capable of tendering?		
Employee Numbers	Total Employees	Employees involved in Provision of this Service

Provide details of your Company's insurance relevant to the supply of the services	Policy Type		
	Insurer		
	Value		£
Company Report and Accounts (The company's/firm's last Annual Report and Accounts for the last three years should be provided – provide one copy of the document)	Year	Turnover	Profit
	2003		
	2002		
	2001		

A4.7.2 Evidence of Skills

Bidders are required to demonstrate their skill-base relevant to this contract, and include evidence of work carried out on projects of a similar, or directly related, nature and scope. Bidders should confine this part of their response to no more than 20 pages of A4 with a minimum font size of 11pt. The response should set out the service(s) the Bidder is able to provide, their approach, details of knowledge and experience, description of the management team and the value they offer. In particular, detail areas of innovation and added value the Bidder can offer.

A4.7.3 Company Profile (provide one copy of the document)

The Authority has a strategic procurement objective based on the efficient and effective development of a business partnership with suppliers. In order to assess how/if a supplier would align with the Authority's structure and procedures the following questions should be addressed and supporting evidence supplied.

The Authority uses the EFQM Business Excellence Model assessment process to benchmark and assess suppliers' responses. For further information on the model see http://www.efqm.org/model_awards/model/excellence_model.htm.

In answering the questions below, Bidders should provide recent examples of implemented outputs and their impact on their continuous improvement objectives. Wherever possible, Bidders should state the timescales involved in achieving improvements and remedies. Bidders should explain how the results are being continuously improved, giving examples of current initiatives and plans.

A4.7.3.1 Leadership

Excellent leaders develop and facilitate the achievement of the mission and vision. They develop organisational values and systems required for sustainable success and implement these via their actions and behaviours. During periods of change they retain a constancy of purpose. Where required, such leaders are able to change the direction of the organisation and inspire others to follow.

Bidders should explain how:

- their leaders develop the mission, vision, values and ethics and how they are role models for a culture of excellence.

- the leadership of the group is involved in the review, development, implementation and continuous improvement of the organisation's management system.
- the senior management team is involved with customers, partners and other representatives of society.
- senior management uses a culture of excellence to motivate, support and recognise the organisations people.
- their leaders identify, implement, manage and assess change.

A4.7.3.2 Policy and Strategy

Excellent organisations implement their mission and vision by developing a stakeholder focused strategy that takes account of the market and sector in which it operates. Policies, plans, objectives, and processes are developed and deployed to deliver the strategy.

Bidders should:

- demonstrate how their policies and strategy meet the present and future needs and expectations of their stakeholders.
- describe how they review and implement information from performance measurement, research, learning and creativity related activities.
- describe how they develop, review and update policy and strategy.
- describe how they deploy policy and strategy decisions, e.g. through what processes.

A4.7.3.3 People

Excellent organisations manage, develop and release the full potential of their people at an individual, team based and organisational level. They promote fairness and equality and involve and empower their people. They care for, communicate, reward, and recognise, in a way that motivates staff and builds commitment to using their skills and knowledge for the benefit of the organisation.

Bidders should describe how:

- their people resources are planned, managed and improved.
- they ensure that people's knowledge and competencies are identified, developed and sustained.
- they involve and empower their people.
- they ensure their organisation and its people have a dialogue.
- their people are rewarded, recognised and cared for.

A4.7.3.4 Partnerships and Resources

Excellent organisations plan and manage external partnerships, suppliers and internal resources in order to support policy and strategy and the effective operation of processes. During planning and whilst managing partnerships and resources they balance the current and future needs of the organisation, the community and the environment.

Bidders should describe how:

- external relationships are managed.
- their finances are managed.
- their facilities are managed.
- they take account of innovation and technological change.
- they manage knowledge and information?

A4.7.3.5 Processes

Excellent organisations design, manage and improve processes in order to fully satisfy, and generate increasing value for, customers and other stakeholders.

Bidders should:

- describe how their processes are systematically designed and managed.
- describe how their processes are reviewed and improved on a continuous basis.
- describe how their customers needs and expectations impact on their processes.
- demonstrate how their processes ensure delivery of outputs.
- describe how their processes manage and enhance customer relationships.

A4.7.3.6 Customer Results

Excellent organisations comprehensively measure and achieve outstanding results with respect to their customers.

Bidders should demonstrate:

- how they measure their customers' perceptions of their organisation.
- what measures they have to monitor, understand, predict and improve the team performance based on their customers' perception/performance indicators.

A4.7.3.7 People Results

Excellent organisations comprehensively measure and achieve outstanding results with respect to their people.

Bidders should explain how:

- they measure peoples' perceptions of their organisation.
- they use feedback to improve their people's performance, especially for customers.

A4.7.3.8 Society Results

Excellent organisations comprehensively measure and achieve outstanding results with respect to society.

Bidders should explain:

- whether they have a policy for measuring society's perceptions of their organisation.
- whether they have an environmental policy and how they measure its effectiveness.

A4.7.3.9 Key Performance Results

Excellent organisations comprehensively measure and achieve outstanding results with respect to the key elements of their policy and strategy.

Bidders should:

- demonstrate how they measure, assess, remedy and improve the key outcomes; how these are defined by the organisation and agreed in policy and strategy documents.
- Describe what key performance indicators they use to measure, assess and improve delivery of their business plan.

Appendix 5 : Financial and Economic

A5.1 Introduction

The Authority requires Bidders to provide information that will enable it to evaluate bids from a financial and economic perspective. This Appendix details how Bidders should achieve this and how the information should be presented for comparison purposes with the Comparator Model.

A5.2 Financial and Operational Models

Bidders are required to submit and include in their Initial Business Plan financial and operational models and financial information, in the template provided, demonstrating the financial consequences of the Bidders' business and operational plans over the Franchise Term (including the continuation period contemplated in Schedule 18 of the Franchise Agreement).

The output schedules of Bidders' financial models should be in the format of the template provided in this Appendix. The models should be presented in Microsoft Excel format, with model workings and formula intact (i.e. non input cells should not be 'hard-coded' with values), and capable of running on a post 1997 Microsoft Windows operating system. Two copies of the model output should be submitted in hard copy with the inputs and the financial statements and other outputs formatted as per the instructions in sections A5.6 and A5.7 below.

A5.2.1 Model Principles

- *Separation* - the model will have three distinct elements:
 - Inputs: which should include data and assumptions but no calculations;
 - Calculations: which 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;
 - Outputs: which 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.
- *Consistency* - the model should have time periods across the columns and calculations down the rows. This should be consistent in all sheets. There are two areas where consistency is most important:
 - Columns: the same column should be used for the same period in each worksheet;
 - Rows: a row will contain only one formula, copied across all columns.
- *Integrity* - all calculations should be coded to represent exactly what they purport to represent (i.e. no balancing figures should be included).
- *Linearity* - the model should not contain circular references.

No rows, columns, cells or worksheets of the financial and operational models should be hidden or password protected. 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 model (e.g. print macro) or aid the achievement of other model requirements (e.g. avoid circularity).

A5.2.2 Models to be Submitted

Financial and operating models should preferably be self-contained within their own respective spreadsheet. Where there are cross-links among 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 models are required to be submitted. This will include but not be limited to:

- workings and calculations linking the financial model inputs and outputs;
- The demand / passenger revenue forecasting model must disaggregate demand and revenue into the ticket types and service groups contained in the financial templates. Any further disaggregate of demand and revenue into more detailed flows or segments is at the discretion of the bidder. The 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:
 - Macro-economic factors, including competition with cars (disaggregated into individual factors where appropriate);
 - Timetable changes;
 - Real fare increases;
 - Performance improvements;
 - Marketing;
 - Revenue protection initiatives;
 - Station retailing initiatives;
 - Crowding;
 - Other investments; and
 - Other initiatives.
- the 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 costs in the financial model;
- the 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;
- the regulated facilities model showing the split between NR charges for Classic services, LCR and NR CTRL charges, and themselves split between fixed access charges and variable access charges, track related, station and depot related, access and leases charges; and
- the performance model, showing forecast average delay minutes, attribution of average delay minutes between the Franchisee and NR, LCR and NR CTRL (individually), the impact on Public Performance Measure and the basis upon which any performance receipts and payments are calculated. Performance receipts and payments between the IKF franchisee and NR, LCR and NR CTRL should be shown separately. All assumptions relating to the performance model

and any performance improvement schemes and associated calculations should be clearly explained.

- the 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 reflects the precise details of their own funding arrangements.

Clear instructions on how to operate the respective models, including any model assumptions should also be provided, in the form of a model databook (see section A5.7 of this ITT).

A5.2.3 Sensitivities

In determining the most appropriate structure for the models, Bidders should consider the requirement for models to be flexible and capable of supporting sensitivity analysis and option switching.

The financial model should, as a minimum, be capable of supporting the following sensitivity analysis both in percentage terms, on a compounding basis, and absolute terms:

- demand;
- revenue;
- operating costs, rolling stock charges and infrastructure charges;
- taxation rates;
- interest rates; and
- RPI and AEI.

In order to facilitate the above, the financial models are required to include separate and clearly defined input cells, for each year of franchise operation, which enable the flexing of the following factors by a variable percentage input:

- passenger revenue;
- other revenue;
- staff costs;
- other operating costs; and
- profit margin

The model should dynamically incorporate the Revenue Share/Payment Mechanism (Franchise Agreement Schedule 8.1) and the dividend lock up mechanism (Franchise Agreement, Schedule 12). Where applicable, these mechanisms should be automatically activated when running the above sensitivities to the financial model and reflected in the financial statements.

A5.3 Generic Bidding Assumptions

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

- 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 financial model;
- the units to be used in bid submission are clearly set out in the financial templates provided;
- the base date for the purpose of indexation of RPI and AEI is 1 April 2005 (i.e. financial year 2005/06). Indexation will be applied from 1 April 2006.
- Bidders should make their own assumptions on indexation. The assumption made and used in the model should be clearly shown in the model (as separate input cells) and the Assumptions book;
- the real discount rate to be applied is 3.5%;
- NPV of the revenues, costs and franchise subsidy should be calculated at 2005 prices;
- Bidders should assume the franchise will commence on 11 December 2005
- the franchise financial year commences on the 1 April of each year;
- there will be no changes to the track access arrangements and charging methodologies as a result of any reviews conducted by the ORR during the period of the franchise;
- the methodology for calculating the franchise subsidies/premia should be applied consistently on an annual basis.
- there is no compensation payable to the IKF franchisee by LCR if the CTRL is not opened as expected.

For the purposes of the evaluation, RPI will be assumed to be 2.5% per annum and AEI will be assumed to be 4.2% per annum.

A5.4 Financial Model Structure

The model should be structured to allow the user to choose one of four base case scenarios:

- Classic services only (with no consideration of the CTRL DS);
- Classic services with the full CTRL DS service being introduced in December 2009
- Classic services with the full CTRL DS being introduced in December 2010
- Classic services with the full CTRL DS being introduced in December 2011

This structure allows consideration of the three expected scenarios (with CTRL DS introduction) and consideration of the effect of the CTRL DS introduction on the whole franchise (by comparing each of the three against the 'Classic services only case'). The 'Classic services only' case is requested to aid transparency of the make-up of the franchise between the Classic and CTRL DS. For the avoidance of doubt, this case will not be contracted – it is requested solely to facilitate the evaluation.

The input breakdown for each of the above four scenarios should be the same, as per the template inputs, regardless of whether any items are relevant to the applicable element of each case.

The model should be built with a switch which is able to select the required case without the need for additional modelling or spreadsheet adjustments. This switch will be the tool to dynamically select the inputs of the required case and ‘run’ them through the calculations and subsequently present the results in the IKF franchise financial outputs. The model databook should clearly explain the method by which the switch selects the case of the different timings of the CTRL DS introduction.

For avoidance of doubt, each of the cases with CTRL DS should include any assumptions relating to the effects on revenues and costs on all aspects of the IKF franchise resulting from the introduction of CTRL DS, with the correct timings reflected. If any additional adjustments to the operational items are included (e.g. revenues and costs) then these must be automatically reflected in the calculation and output sheets and clearly noted in the databook and record of assumptions.

Where relevant, the Authority has anticipated that certain rows in the model are necessary for Bidders to provide their own cost or revenue title (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 (e.g. deleting or inserting rows or columns is not permitted).

In relation to the model periodicity, annual periods should be used (Authority financial year ending 31 March) with the following exceptions:

- the first year will be modelled in two parts, from 1 April 2005 to 10 December 2005 (column N of the template) and from 11 December 2005 to 31 March (column O of the template), when the service will be operated by the new franchisee. The sum of the figures in columns N and O will be equal to the figure in column P, which is the whole year from 1 April 2005 to 31 March 2005;
- the final year will also be a partial year, reflecting the fact that the franchise will end on the last day in the Reporting Period in which the relevant anniversary of the Franchise Commencement Date occurs; and
- in the Franchise Agreement Sheet only, columns AC to AG are included to represent the 7 Reporting Periods Continuation as described in clause 1.8 in Schedule 18 and shown in the Appendices to Schedule 8.2 (and 8.3). There are five timing related scenarios where this may occur – after 6 years, 7 years, 8 years, 9 years or 10 years from Franchise Commencement Date. It is intended that the results in these columns will be dynamic and linked to other calculations elsewhere in the model

A5.5 Priced Options

The Authority requires a consistent level of detail/information for each Priced Option to enable it to make an informed decision. Therefore financial models for Priced Options should be automatically produced by use of a ‘switch’ which will update the output financial templates attached automatically incorporating the additional requirements and implications of each Priced Option. Separate stand alone models are not expected.

Each Priced Option is to be capable of being exercised individually and independently of the other Priced Options and the information provided should reflect such a situation. However, the Bidder

may propose and reflect additional cost savings or revenue generation that may result if any combination of Priced Options is jointly authorised/selected. Such inter-option correlations and relationships shall be clearly shown in the model and explained and detailed in the assumption and data book accompanying the model.

Where appropriate, Priced Options should be incorporated into the financial model as additional lines highlighted in the financial templates.

Priced Options should be indexed in accordance with the mechanism set out in Schedule 8.2 of the Franchise Agreement.

A5.6 Mandatory Variants, Mandatory High Return Alternative Tender and Alternative Tenders

Any variants or alternative tenders shall be provided as 'switches' applied to the Base Case model or as separate models (see section A5.10.1). Unless otherwise stated in Appendices 6 or 8, any variants or alternative tenders should reflect the model requirements as set out in this Appendix 5.

A5.7 Financial Templates

The format of the financial and operational outputs which are to be included in the financial model submitted with the tender is set out in the attached pages of this Appendix. The outputs in these financial templates should be linked to the calculation cells/input cells, where appropriate in such a manner as to facilitate both the understanding of the model and tracing of core assumptions used in the model.

The format of the IKF franchisee's profit and loss account, cash flow statement and balance sheet are required to be set out in the manner stipulated by the financial information templates and reflecting the relevant provisions of the Franchise Agreement (*Profit margin*).

Bidders should note that any revenues or costs included under a caption titled 'Other' should not exceed £500,000 in any year. As a result, if such a situation is expected to arise the items should not be categorised under the 'Other' caption but instead separately specified accordingly.

A5.8 Model Databook and Record of Assumptions

A model databook (user guide) and record of assumptions are required to accompany the financial and operational models. The databook should contain instructions for use of the model including, but not limited to:

- description of the model, its structure and capability;
- description of the purpose and operational characteristics of each sheet and how it interacts with the model;
- instructions on how to input data, select assumptions and calculate the financial outputs;
- instructions on how to run sensitivities;
- instructions on how to optimise and produce financial outputs, in the required format;

- an explanation setting out the basis upon which the franchise subsidies/premia have been calculated; and
- a description of any macros used in the operation of the model, the reason for using them and how they impact on the results.

The record of assumptions is required to contain all financial and operational assumptions used in the pricing of the bid and should be at a similar level of detail to that provided in the financial and operational models. It is required to be submitted in Microsoft Word format and is to be contained within one electronic file.

The record of assumptions should confirm and explain all of the linkages between the operational and financial models and should also set out clearly the basis on which the franchise payment has been calculated.

Bidders are to note that the financial model and the associated record of assumptions will be appended to the Franchise Agreement and the Authority will require the financial model to be independently audited prior to the signing of the Franchise Agreement.

A5.9 Financial Structure and Funding

Bidders are required to:

- detail the total investment plan for all funding of infrastructure, other works and schemes that support their proposals;
- submit precise details of their 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 and season ticket bonds, including term sheets from the bond provider(s) in order to demonstrate that the characteristics of the bond provider have been met;
- submit a statement from the performance bond provider accepting the form of the Performance Bond as set out in the Franchise Agreement;
- submit a statement from the Season Ticket Bond provider accepting the form of the Season Ticket Bond as set out in the Franchise Agreement;
- demonstrate how the initial performance bond and season ticket bond values, included in the tender, have been calculated;
- demonstrate how ongoing working capital requirements, as forecast in the financial model, will be funded;
- for each franchise commitment set out in the preceding schedules (or groups of commitments if appropriate), submit a funding plan with full details of 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;

- for the avoidance of doubt, Bidders' funding plans should incorporate an investment profile as detailed in the templates provided for each proposal category (base case, priced options and mandatory variants) and by investment category; and
- submit a letter from their financial adviser(s) confirming that:
 - the funding plan for all aspects of the tender has been developed to a stage that will allow funding to be made available on execution of the Franchise Agreement;
 - its/their support of the proposition is provided in the knowledge of the terms and conditions set out in the term sheets of the finance providers; and
 - the funding plan is accurately reflected in the financial model.

A5.10 Model sign-off - Terms of Reference

A5.10.1 Modelling Best Practice Confirmation

The modelling best practice confirmation provides a confirmation that the Bidder has used modelling best practice in the financial model(s) (Financial Model) developed in connection with the franchise competition for IKF.

The confirmation report should be co-addressed to the Authority and the Bidder. All invoices should be marked for the Bidder's account only.

Bidders are required to submit a Financial Model which is capable of being updated for the Priced Options and mandatory variants by use of a 'switch' applied to the Base Case. Separate stand-alone models are not expected.

To the extent Bidders are providing stand-alone models for the Priced Options and mandatory variants, Bidders should advise the Authority prior to the submission of the same.

For the avoidance of doubt, any Priced Options, variants or alternative tenders provided as separate models need to have a confirmation report provided as set out above.

The objective of the Financial Model is to generate projected profit and loss accounts, balance sheets and cash flow statements for the period until the expiry of the franchise on the basis of key assumptions and input data set out in a Record of Assumptions. A Record of Assumptions should be provided for the Base Case and for each Priced Option and Mandatory Variant (highlighting the differences to the Base Case), whether they are contained within the Financial Model or form separate stand-alone models as outlined above.

The Authority and the Bidder require a modelling best practice confirmation to cover:

- **Separation** of inputs, calculations and outputs
Document the high level patterns of data flow within the Model and produce a flow chart of the main data flows between sheets and workbooks;
- **Consistency** of formulas across rows and of columns across sheets

Review the Model's structure by means of spreadsheet maps, which give a visual representation of the spreadsheet structure and layout and highlight elements of the spreadsheet layout requiring further investigation;

- **Integrity** of financial statements (no balancing figures)
Assess the extent and effectiveness of internal control and/or error checks contained within the Models and notify of any internal control checks indicating errors; and
- **Linearity** of calculation flow (no circular references)
Document the high-level data flows of the high value cash flow items. This is expected to include the following:
 - Staff costs
 - Fuel and power
 - Track access charges
 - Rolling stock costs
 - Revenue.

A5.10.2 Model Audit

The Model Audit is a review of the Financial Model developed by the Bidder in connection with the franchise competition for IKF. The review report should be co-addressed to the Authority and the Bidder. All invoices should be marked for the Bidder's account only.

The Authority and the Bidder require a review of the Financial Model to cover:

- 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 Case 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 Financial Model, on the basis of the assumptions made in the Record of Assumptions appear materially consistent with current understanding of existing UK tax legislation;
- Whether the key accounting assumptions in the Financial Model as set out in the Record of Assumptions appear materially consistent with current understanding of UK accounting and financial reporting standards;
- Whether the calculation of the annual franchise payments for Schedule 8.2 of the Franchise Agreement is in accordance with the terms of the Franchise Agreement;
- Whether the calculation of the financial ratios is in accordance with Schedule 12 of the Franchise Agreement;
- Whether the Financial Model has been developed in a well structured manner to acceptable standards and should therefore be capable of reflecting Franchise Agreement variations;
- Whether assumptions and input data in the Record of Assumptions have in all material respects been consistently reflected in the Financial Model;
- priced options and mandatory variants: The Authority may require an audit to be performed on any or all of these sections of the Financial Model; and
- Sensitivity testing. The Authority may provide the preferred Bidder with no more than five tests

for sensitivity. 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 sensitivities. A sensitivity is defined as a change in one or more variables.

Further guidance will be provided to the preferred Bidder.

A5.11 Other Information Required

Bidders should show separately the costs involved and assumptions made in relation to pension contribution rates, both employer and employee as referred to in section A.2.1.2.

Bidders should clearly show, on a separate line in the model, the impact on costs of the surplus vehicles that arise as a consequence to the introduction of the CTRL DS rolling stock fleet. The entry should delineate between lease costs paid on behalf of the Authority in relation to its Section 54 commitments, and the cost of storage of the vehicles.

Trading with affiliated companies should be detailed where greater than £100,000 per annum.

Bidders are expected to reference the Franchise Agreement attached to this Invitation to Tender at Attachment C. Bidders attention is drawn in particular to the Appendix to Schedule 9.3 of the Franchise Agreement for guidance on the Authorities approach to incentivising long term investment.

Bidders' notice is drawn to the affordability constraints that apply to the rail industry generally and IKF specifically. Regardless of the value for money aspect of any given investment proposal, the Authority will only consider such schemes if its budget allows. Bidders should temper their proposals on the basis that available support for such schemes is likely to be extremely limited.

Appendix 6 : Mandatory Variant

A6.1 Mandatory Variant 1 – Fares Variant

Bidders are required, as part of their bid submission, to provide a mandatory variant based on overall regulated fares increases of $RPI + 1\%$ throughout the franchise term (replacing the assumption of $RPI + 3\%$ for the first 5 years in the Base Case).

Bidders are required to provide a financial model reflecting the above assumption², any relevant revenue or operational models, any changes to the pricing of the priced options and any other differences in assumptions as compared to the Base Case.

Where no changes to assumptions or pricing are highlighted the Authority will, for the purpose of the evaluation, assume that the Bidder's Base Case assumptions apply also to the mandatory variant and that Bidders are committed to such assumptions for the purpose of the pricing of the mandatory variant.

A6.2 Mandatory Variant 2 – KPI Variant

Bidders are required to prepare a variant bid based on the Franchise Agreement accompanying this ITT, but with the removal of Schedule 7.2, paragraphs 1.1 and 1.3 of Schedule 1.3, and the references to SSQ and TSQ in Schedule 8. The KPI scorecard and SQS documents would not be relevant in this case either. The Variant is intended to determine the cost of complying with those KPIs identified in Schedule 7.2, and the management and delivery of them.

Bidders are required to provide a financial model reflecting this variation, any relevant revenue or operational models, any changes to the pricing of Priced Options and any other differences in assumptions as compared to the Base Case.

Where no changes to assumptions or pricing are highlighted, the Authority will, for the purpose of the evaluation, assume that the Bidder's Base Case assumptions apply also to this Mandatory Variant and that Bidders are committed to such assumptions for the pricing of the Mandatory Variant.

For the avoidance of doubt, the IKF franchisee will be required to meet all obligations in relation to the Passenger Charter as identified in the Franchise Agreement, Schedule 1.4 at paragraph 4.

² Bidders may do so through a switch in the Base Case Model or in a separate model.

Appendix 7 : Priced Options

A7.1 Introduction

Bidders are required to submit bids for the following Priced Options, in addition to the Base Case. These Priced Options may be included in Schedule 3 of the IKF Franchise Agreement. They will be assessed for both deliverability and financial and economic impact in line with the requirements laid out in Appendices 4 and 5. Bidders should ensure their bids in respect of the Priced Options identified below allow the Authority to make appropriate evaluations. For example, a Priced Option that requires a different approach to the plan to deliver the Base Case, as set out in its response to the requirements of Appendix 4, should provide details and show how the Priced Option will be delivered, using the same structure as appropriate. Bidders should mark-up the Franchise Agreement as appropriate in relation to each Priced Option.

A7.2 Option 1 : CTRL DS to Dover Priory

The Base Case service proposition provides for CTRL DS to run on the classic network from Ashford to Folkestone Central. It is, however, a key stakeholder objective for CTRL DS to run through to Dover Priory. This aspiration has not been confirmed because of safety considerations associated with the restricted bore of Shakespeare Tunnels (between Folkestone and Dover Priory) and, in particular, the ability to evacuate passengers from a train without end-door connections in the event of a fire on board the train whilst in the tunnel. Preliminary analysis by NR suggests the risks are extremely small and manageable. They are presently undertaking a Quantitative Risk Assessment with a view to presenting a proposal to HMRI for the safe operation of CTRL DS to Dover Priory via Folkestone, with identified mitigation actions. In the event that any changes to the infrastructure are necessary, the Authority expects NR to initiate and project manage these, although NR will seek to recover any costs involved.

Bidders should propose a Priced Option which would enable the Authority to include Dover within the CTRL DS service group. The proposal should indicate whether it is necessary to increase the CTRL DS fleet. For the purpose of pricing this Option, Bidders should assume that each additional unit will cost £1 million per annum (at 2005 prices) to reflect rentals and maintenance costs. Proposals should indicate any implications for the classic network as appropriate.

A7.3 Option 2 : Transfer of Services Operating West of Tonbridge to a Brighton Main Line operator

It is planned to transfer the service group operating between Tonbridge and London via Redhill to a Brighton Main Line (BML) train operator in December 2005. The Authority may wish to choose a different date on which to transfer these services should competitive circumstances arise which it considers are less than optimal for the transfer. Consequently, this Priced Option contemplates a delay or a reversal of the requirement to transfer the service group, whereby it is retained within the IKF.

The services to be transferred comprise:

- Tonbridge or Tunbridge Wells to Gatwick Airport via Redhill (Mondays-Saturdays) with daytime extensions to Horsham;

- Tonbridge or Tunbridge Wells to London Bridge (Low Level) via Redhill and East Croydon (Mondays-Saturdays); and
- Any element of services west of Tonbridge currently running to or from Tonbridge or points east thereof, i.e. those which originate or terminate at Gillingham/Strood, Maidstone West, Paddock Wood or Tonbridge and run to or from Redhill or beyond.

In summary, the Authority envisages the service being split at Tonbridge, with all operations (train services and stations) east of Tonbridge passing to the IKF franchisee, and all operations (train services and stations) west of Tonbridge passing to the operator of the BML. For the purposes of bidding, Bidders should assume a reduction of 20 vehicles (type(s) unspecified) in the size of the fleet available for ongoing IKF operations. In this regard, Bidders should anticipate:

- managing the Strood/Tunbridge Wells – Tonbridge – Redhill (and beyond) service group such that the services can be transferred cost effectively and seamlessly to the BML TOC at the appropriate time i.e. from December 2005. Any additional costs to the IKF franchise as a result of this action should be separately identifiable in their bids;
- the Option requires a year-on-year price for the retention of the service group within the IKF;
- should the Option be called, it will be for a full year at a time, meaning that the service group would be required to be operated from December 2005 to December 2006, or until a future December date when the transfer would be implemented. The Option shall be triggered for each year concerned save that, if the transfer is to occur at December 2005, then notice will be effective on the Franchise Commencement Date. Thereafter, it will be initiated eight months in advance of the December timetable change for the year concerned;
- rolling stock transferred out of the IKF franchise as outlined above will be delayed and the IKF franchisee will retain access to the leases whilst it is required to continue providing the service; and
- the Costed Option should remain valid until 20 months before the termination of the Franchise Agreement.

A7.4 Option 3 : Fit-Out of CTRL Stations

The Authority requires Bidders to submit a Priced Option which:

- provides for the competitive procurement of all or part of the fit out of the domestic operational areas of St Pancras, Stratford International and Ebbsfleet stations in the event that all or part of the fit out is not provided as a free good undertaken by the Authority; or
- provides for the project management of all or part of the procurement of the fit out of St Pancras, Stratford International and Ebbsfleet stations in the event that the Authority procures all or part of the facilities, but wishes the IKF franchisee to project manage such procurement.

In the event that (a) above applies, the Authority will require clear and transparent delineation of the capital costs of the equipment and/or facilities being provided, and the project management costs of delivering the equipment and/or facilities. In the case of the latter costs, Bidders should represent this as a project management fee, expressed as a percentage of the capital costs

In the event that (b) above applies, the Authority will require Bidders to provide project management fee proposals for managing the fit-out on the following basis:

Task	Basis
Design of facilities	√
Procurement of facilities/sub-contractors	√
Financing of cost of facilities	√
Project management of works/sub-contractors	√
Acceptance and snagging of delivered outputs	√
Settlement of claims and final accounts	√

Project management fee proposals for this approach to procurement should represent a fixed percentage fee of the actual final capital cost as evidenced to the Authority on the following sliding scale:

Project Capital Cost	Basis
<£5 million	%
£5 - £10 million	%
£10 - £15 million	%
£15 - £20 million	%
£20 - £25 million	%
> £25 million	%

The Authority expects to be able to provide Bidders with an indication of the cost of all or part of the works, or further assumptions in relation to this option 60 days in advance of the date when bids are due to be returned.

Bidders are required, in relation to either (a) or (b) above, to provide relevant information on their capability and experience in undertaking such a project.

A7.5.1 The Fit-Out Requirement

The facilities referred to as the fit-out requirement are listed in the following table.

Group 1 Facilities	<ul style="list-style-type: none"> • Finishes (e.g. floor, wall, partition, ceiling); • Building services (e.g. HVAC, piped systems, lighting, small power, communications); • Security Systems (e.g. access control, fire detection and alarm systems); • Fixtures and equipment (e.g. fire extinguishers, mess room and toilet fixtures); and • Fittings (e.g., shelving, cabinets). • Customer Information Systems (CIS): (including monitors, signage, indicator
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	<p>boards, public address systems, and service advertising space) used exclusively for CTRL Domestic Services, up to the point of connection to the main station systems provided by LCR. This will include the detailed specification for these systems, procurement, installation, maintenance, repair and renewal of these systems; and</p> <ul style="list-style-type: none"> • CCTV systems in areas used exclusively for CTRL Domestic Services, up to the point of connection to the main station systems provided by LCR. This will include the detailed specification for these systems, procurement, installation, maintenance, repair and renewal of these systems.
Group 2 Facilities	<ul style="list-style-type: none"> • ticketing and gateline equipment; • furnishing (e.g. loose furniture and fittings); • specialist TOC equipment and other discretionary TOC items; and • ticket office and other revised layout options for Ebbsfleet NKLC platforms.

Detail on the Group 1 Facilities is defined in Mott MacDonald's Technical Note TN37a (Statement of Requirements - CTRL Stations Fit-out), which is available in the Data Room. The facilities and areas relating to the Group 1 Facilities apply to the platforms and other areas for use by CTRL DS, with the proviso that the fittings and decorative finishes are **included** on the CTRL DS platforms at Stratford International and Ebbsfleet Stations, but **excluded** on the CTRL DS platforms at St Pancras. Also excluded from the scope are the facilities relating to the revised ticket office layout for the NKLC (High Level) Platforms at Ebbsfleet, in TN37a, and the changes to the layouts featured on the remaining layout plans in TN37a.

Group 2 Facilities have yet to be defined. In the event that assumptions in relation to Group 2 Facilities are not defined 60 days prior to the date on which bids are to be returned, Bidders are expected to determine and outline the facilities they envisage in relation to such facilities, and price this Priced Option accordingly.

A7.5.2 Transfer of Assets

For assets priced under section A.7.5.1 above which have an asset life beyond the term of the franchise, Bidders should assume, to the extent this is applicable and for the purposes of pricing this option, that appropriate comfort will be given by the Authority that such assets will be transferred to a successor operator in the event that the franchise term is less than the asset life. The Authority would reserve the right to approve details such as acquisition value, asset life and depreciation profile over the asset life. In the case of leased assets, Bidders should assume for the purposes of pricing this option that similar comfort would be given in relation to any unexpired term of the lease, subject to approval by the Authority of the terms of the lease.

A7.5.3 Readiness for Operation

Bidders are expected to prepare this option on the basis that fit-out will have been completed by the time the first CTRL DS trains operate in passenger service. Bidders should provide dates by which Priced Option 3 must be exercised in order to deliver the introduction date of SLC2.

Appendix 8: Mandatory High Return Alternative Tender

The Authority requires Bidders to propose a lowest cost/high return Base Case alternative tender (HRAT). In producing the HRAT, Bidders are required to comply with the franchise objectives set out in Section 1.6 of this ITT. However, Bidders should develop a proposal that is focussed upon achieving the lowest possible cost and maximising the return to Government.

The HRAT should consider how the IKF could require an overall reduction in Government subsidy and increased non-financial benefits.

Bidders should present the HRAT as a switch to their Base Case model(s) or in a separate model, in sufficient detail to meet the requirements of this ITT. Bidders should be aware that if the Authority chooses to procure the HRAT proposal, Bidders must expect to be contracted directly against the HRAT offer precisely as bid.

A8.1 Objectives of the HRAT

Overall, Bidders must demonstrate that:

- their HRAT offers better overall value for money than the Base Case proposal taking into account the economic and social benefits, costs and the wider Government subsidy bill;
- the PV of IKF subsidy and wider government subsidy bill for their HRAT is better than their Base Case proposal; and
- the profile of annual IKF subsidy and wider government subsidy bill for their HRAT is better than their Base Case proposal.

In this context IKF payments include all payments to be made by or to the Authority (including incentive payments under Schedule 7 of the Franchise Agreement).

Bidders should provide justification for each proposed change or improvement, incorporating a cost/benefit case and an explanation of how the changes or improvements are to be achieved.

A8.2 Approaches to Delivering the HRAT

In appraising how they might deliver enhanced value, Bidders should be prepared to consider approaches which may be outside the current contractual matrix, including, but not limited to:

- Changes to the Base Case train service specification; and
- Changes to the unregulated fares regime and other contractual obligations.

A8.2.1 Changes to Base Case train service specification

Bidders may wish to consider changes to the Base Case train service specification, including, but not limited to:

- Changes to frequency and stopping patterns to improve value for money and achieve satisfactory train performance;
- Changes to rolling stock fleet size in line with changes in service frequency; and

- Proposals to modify existing capacity obligations where operating improvements or the elimination of inconsistencies can be demonstrated.

The following operating constraints must be observed:

- Proposals should not be constrained by the maximum journey times specified in the current SLC. However, Bidders should indicate if increases in journey times are proposed and what increases in journey times these represent in absolute and percentage terms;
- Intermediate calling patterns are to be proposed by the Bidders, but any lost journey opportunities should be identified and how any passenger disbenefit would be mitigated;
- Proposals should also demonstrate the impacts on connecting services and modal interchanges; and
- Bidders must detail areas of anticipated overcrowding in their proposals including the effect that their own forecasts of growth will have on overcrowding. Bidders must set out how they will plan services and resources to minimize overcrowding on platforms and trains and what the effect of such proposals will be.

Proposals should not involve a major recast of the operational timetable.

A8.2.2 Changes to fares regime and other contractual obligations

In their HRAT proposals, Bidders may additionally wish to consider changes to the contractual matrix, including, but not limited to:

- The provision of franchise bus services (to be developed in consultation with the Local Authorities and bus operators);
- Rationalisation of facilities which might create development opportunities;
- Proposals for changes to the way licence obligations are delivered (e.g. by altering ticket office opening hours, or complaints handling procedures). These will be considered as long as they are consistent with relevant licences and the overall benefit to passengers is positive. Any such changes must be consulted with the relevant Rail Passengers Committee; and
- Proposals for changes to the existing fares regime, which will be considered in circumstances where a Bidder can demonstrate that this represents value for money and an overall improvement in the service offered. Bidders should show the effects of any fares proposals on, and actions that would be required by, other TOCs who set fares on the route.

A8.2.3 HRAT Bid Deliverables

The Authority requires clear plans that describe the circumstances and conditions under which their proposals can be delivered, how Bidders will engage stakeholders in developing proposals, and how changes can be managed. Bidders should indicate in their HRAT bids:

- Commentary describing and demonstrating why proposals are financially robust and have a high degree of resilience i.e. able to withstand normal industry variability;
- The impact of their proposals on passenger miles and how capacity requirements will be met;
- Operating performance stating the performance levels (as measured by PPM) to which they are prepared to commit in each year;

- Customer satisfaction, stating the customer satisfaction levels (as measured by the National Passenger Survey) to which they are prepared to commit in each year;
- The extent to which any third party funding is guaranteed from such sources as Local or Regional Authorities and Assemblies;
- Details of the unit resources necessary to operate the HRAT proposals robustly;
- Any significant changes to the overall pattern of timetabled services;
- The draft SLCs that Bidders would be prepared to operate, identifying which services should be underwritten by the SLC and which services would be additional to the SLC. Bidders should note that changes to SLCs will be subject to stakeholder consultation;
- Bidder's SLC drafts should be supported by a detailed commentary, which identifies the advantages and disadvantages in the proposed timetable; and
- Bidders should demonstrate that they have consulted Network Rail fully in developing their bid.

Bidders will be expected to identify clearly the factors or constraints that might affect deliverability of their HRAT proposal and how these might be overcome.

Appendix 9 : Background Information

A9.1 Introduction

This Appendix references the more obvious projects that may impact on the IKF during the franchise term and are included to assist Bidders in gaining as complete a picture as possible of the environment within which the 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 Case submissions. The Authority will not treat any of the information contained in this Appendix and used by Bidders in the construction of their bids as grounds to invoke the Change Mechanism in Schedule 9 of the Franchise Agreement if this information proves in time to be incorrect.

A9.2 Website Information

The Authority has no control over, and accepts no responsibility for, the content or availability of non-SRA Internet websites or links thereto.

A9.3 Transport for London and the Greater London Metro Plans

A significant proportion of the IKF falls within the boundary of the Greater London Area. In relation to those services, the Authority is subject to Directions and Guidance (D&G) from the Mayor of London. The Authority need not implement these D&G if to do so would have an adverse impact on services outside London, or increase the amount payable by the Authority to TOCs. Recognising these issues, Transport for London and the Authority agreed in December 2002 a protocol (the London Rail Partnership Agreement) setting out how the parties would work together to implement the Mayor's D&G.

The Mayor has also published his Draft London Plan setting out the overall planning framework for London which envisages growth of some 700,000 in its population and 640,000 jobs by 2016 - with major growth occurring in the Thames Gateway area. This anticipates implementation of the major capacity enhancement projects set out in the Authority's Strategic Plan including Crossrail, TL2K and the East London Metro. The Plan has been subject to an Examination in Public (EIP) and the Mayor is now preparing his final Plan in response to the EIP Inspector's recommendations in the light of the fact that all of these transport schemes are as yet uncommitted.

In addition, in relation to suburban services, the Mayor's Transport Strategy - which underpins the draft London Plan - sets out an aspiration for a metro-style service within the Greater London Area. Broadly speaking, the Mayor's D&G defines this as at least 4 trains per hour, with 6 trains an hour on trunk routes where individual routes merge. The Mayor does recognise 'the need to take account of relative demand between individual routes and competing requirements for capacity on trunk sections where they merge'. However it is clear that comprehensive achievement of this level of provision would require significant infrastructure spend, e.g. for junction improvements and/or involve a significant impact on freight and longer distance services. The IKF service proposition as it currently stands does, however, include a number of initiatives which meet the Mayor's objectives in several areas, e.g. services to Orpington via Grove Park.

Given these factors, the Authority continues an active dialogue with TfL to identify and develop ways of improving metro services within the limits of the resources available to the two

organisations and the overall balance of services serving the capital. Further information is available at the following website: <http://www.tfl.gov.uk/tfl/>

The Mayor has also indicated an aspiration to introduce zonal fares across London, and this may in due course impact on the IKF operation. For the purposes of bidding, Bidders are required to ignore the impact of such a scheme, as it is the Authority's intention to manage this via the Change Mechanism process (Schedule 9) as and when details become known.

A9.4 Crossrail

The development of Crossrail in the South East may see these services operating south via Abbey Wood through Dartford and on to Ebbsfleet. Although the project remains in its development and consultation stage, the service aspirations are recognised. There are implications for the IKF, since track capacity between Abbey Wood and Ebbsfleet is constrained, and demand would not require both Crossrail and the current level of south-eastern services to co-exist. However, this is dependent upon which Crossrail option is eventually chosen, should the scheme secure the necessary funding.

Further information is available at the following website: <http://www.crossrail.co.uk>

A9.5 Thameslink 2000

The Thameslink 2000 (T2K) project envisages the upgrading of the present Thameslink system which crosses London from north to south. If T2K is built, the number of trains which can cross London will increase. A new viaduct at Borough Market will allow many of these to be routed through London Bridge, whilst still permitting a sufficient volume of Kent services to access Charing Cross and Cannon Street stations.

The project would include the extension of platforms at Blackfriars and Farringdon and a new station at King's Cross/St Pancras with 12-car platforms allowing longer trains to be operated. This will provide substantial additional capacity between London Bridge and King's Cross/St Pancras in each peak period to help alleviate present overcrowding on both the National Rail Network and the Underground. Current plans are for T2K services to extend to Dartford (4tph), Ashford via Sevenoaks (2tph) and Sevenoaks via the Catford Loop (2tph). Some of the Dartford trains will be substitutions of existing services. In addition, 12tph will operate through London Bridge to destinations in Sussex and Surrey via Croydon. It is not expected at this stage that these trains would be operated by the IKF franchisee.

Revised planning applications to remedy deficiencies found by the Inspector during the Transport and Works Act public inquiry are being prepared. The applications, together with an updated and revised Environmental Impact Assessment, were submitted on 30 June 2004. A limited re-opening of the Inquiry to review the applications will follow in 2005.

If the project is approved, it will have a major effect on London Bridge. The station will be modified significantly and may be re-built completely, with train handling capacity in the low-level station reduced to allow greater capacity in the high-level station. During the modification/construction stage, Bidders could expect major disruption to train services at weekends. Whilst there will be some

alterations to weekday services, it is hoped that a consistent, albeit slightly reduced service, will be offered throughout the works.

A new dive-under at Bermondsey will take the existing up and down fast lines between New Cross and London Bridge under the T2K lines from New Cross Gate to London Bridge. Some service disruption can be expected whilst the dive-under is constructed.

Work at Borough Market, as part of the T2K scheme, will also have a major effect on current services, particularly at weekends. A new railway viaduct will be built across the market, thus allowing similar numbers of trains from Kent to continue to access Waterloo East and Charing Cross at the same time as the increase in flow of Thameslink trains. The existing viaduct would be used mainly by Thameslink trains. The scheme also envisages the severing of the Metropolitan spur, thus preventing existing empty coaching stock moves out of Cannon Street to Blackfriars.

T2K also proposes the closure of the Farringdon to Moorgate branch, currently part of the Thameslink franchise. Closure of the branch is necessary to accommodate 12-car platforms at Farringdon. Extension of the current 8-car platforms will cut across the branch line connection. The closure is planned to take effect approximately half-way through the construction programme.

The Thameslink services (predominantly peak hours) currently serving Moorgate will be extended south to Blackfriars and beyond. The current assumption is that the Moorgate services will combine with the Blackfriars to Sevenoaks services. It will be necessary for agreement to be reached between the Authority, the IKF franchisee and Thameslink Rail as to how the current services are operated when the Moorgate branch closes.

Furthermore, the track layout at Blackfriars will be re-modelled. The existing three bay platforms will be removed and replaced by two new bay platforms to the west of the through platforms. Whilst this phase of work is undertaken, a revised IKF service will be required, predominantly making full use of the turnback sidings at City Thameslink (Smithfield sidings), although some services in the peak hours may need to be diverted or withdrawn. Work at Blackfriars is currently planned to take place in the first two and a half years of the construction programme. Once the work at Blackfriars commences, and following its completion, the route currently used by SET for ECS movement away from Cannon St via Blackfriars will no longer be available.

Should the outcome of the re-opened public inquiry be favourable, powers could be granted in the first half of 2006. Construction work could start in early 2007 and be completed by 2012. Bidders should refer to the Thameslink 2000 Inquiry plans for full details. Further information is available at the following website: <http://www.networkrail.co.uk/engineeringprojects/tl2k/tl2k.htm>

A9.6 East London Metro

The East London Metro (formerly known as the East London Line Extension) will extend and upgrade the existing East London line (London Underground), converting it into a new metro-style train service operating on the National Rail Network. This will provide services that will initially extend north to Highbury and Islington and south to West Croydon/Crystal Palace. Subject to an

acceptable business case and funding, it may subsequently be extended west to Clapham Junction and, in the future, could potentially facilitate orbital journeys around London.

Initially developed as a joint project between the Authority and TfL in collaboration with London Underground Limited and Network Rail, responsibility for the project recently transferred to TfL. It is expected to be delivered before the end of the decade.

Extension of services to Clapham Junction would require a short section of track to be reinstated linking the existing East London line from south of Surrey Quays to the South London Line at Old Kent Road Junction north of Queens Road Peckham. A new station would be built at Surrey Canal Road from where trains would continue to Clapham Junction calling at all stations. This will necessarily involve running parallel with SET's services between Peckham Rye and the vicinity of Stewarts Lane Junction. In this context, it should be recognised that this section of route is also used extensively by inter-regional freight services running between Kent/South East London and other parts of the NRN via the West London Line.

The project will also extend services southwards from the existing station at New Cross Gate via a grade-separated junction onto the National Rail Network, providing an all station service to Crystal Palace and West Croydon. Construction is ongoing with completion forecast in 2009. There will be no direct interface with SET services other than an interchange at New Cross station.

The existing branch to New Cross will remain; no physical connection will be made with the National Rail Network.

Further information is available at the following website: <http://www.ellp.co.uk/>

A9.7 DLR Extensions

Several DLR extension projects are underway or proposed. Included in these are:

- London City Airport Extension. Construction is ongoing and is scheduled for completion by late 2005. This will extend services to King George V station;
- Woolwich extension. This will provide a new cross-river link from King George V station, and will terminate at Woolwich Arsenal with an interchange to South Eastern Train services. The necessary construction powers have recently been granted with completion planned for 2008;
- Stratford Extension. DLR Ltd remains in discussion with Network Rail and others on the potential conversion of the North London line to DLR operation. Should this be agreed in principle, DLR Ltd will develop an outline design for the scheme. This would be followed by an application under the Transport and Works Act 1992 (TWA) for powers to implement the scheme. The earliest it could be open for passenger operation is 2008; and
- Barking Reach. The earliest date that an extension to Dagenham Dock could be opened to service would be 2009. It is more likely that a scheme would be constructed in tandem with development in Barking Reach, leading to a likely opening in 2012. Further information is available at the following website: <http://www.tfl.gov.uk/dlr/development/index.htm>

A9.8 Victoria Station

Few changes that may be planned would affect the IKF directly at Victoria. TfL and London Underground are seeking to improve the access into the underground system at Victoria, whilst London Buses are developing plans to improve the access to buses and taxis at the terminal, reducing pedestrian/traffic interfaces in front of the station. Westminster Council is considering a light road-tram system which could include Victoria as a potential stop. Bidders are required to make their own inquiries in this regard.

There are no other major railway scheme developments at Victoria likely to impact on IKF operations. In September 2004, the SRA published its draft Route Utilisation Strategy (RUS) for the Brighton Main Line, which involves some reorganisation of Gatwick Express and Southern services to the Sussex coast. If implemented, this would lead to platforms 13 and 14 no longer being dedicated to a specific service. Consequently, these platforms would be available (alongside platforms 15-19) for use by Southern outer suburban services, with platforms 9-12 continuing to be used by inner suburban trains. Bidders should assume that any existing access rights enjoyed by Gatwick Express and Southern to use platforms on the Eastern side of the station will be preserved.

A9.9 London 2012 Olympic Games

London has been proposed as a potential venue for the 2012 Olympic Games (Games). It is proposed that most of the Olympic Village be built on the east side of London with provision for transporting competitors and spectators/administrators by rail, amongst other means of transport. The final decision of the International Olympic Committee (IOC) is scheduled to be announced in July 2005. If the London bid is successful, it is likely to have an impact on both the IKF and other local rail services in the area.

London 2012 is responsible for the organisation and submission of London's bid. It is required by the IOC to secure binding option rights in relation to media space at locations and on public transport within London and other cities hosting events for the period immediately prior to and during the Games.

The successful IKF Bidder will be required to offer secure binding option rights to London 2012 over advertising, promotional and other media space (i) inside and on the outside of trains serving the locations listed below and including for the avoidance of doubt the Olympic Javelin Service or any other dedicated service which commences, terminates or passes through the Olympic Park (Locations), and (ii) in or around train stations in the Locations (Contracted Space).

As a Condition Precedent to the entry into the IKF Franchise Agreement the preferred Bidder must grant to London 2012 an option by entering into an agreement on substantially the same terms as the Option Agreement for Advertising deposited in the Data Room.

In the event that the successful IKF Bidder enters into a contract with an advertising sales agency (Contractor), such that the Contractor is entitled to grant rights to others to use any of the Contracted Space for the display of advertisement, promotional or other media copy, then the Bidder will procure that the Contractor grants to London 2012 an option by entering in an agreement on substantially the same terms as the Option Agreement deposited in the Data Room

(only to the extent the Contractor has not already entered into an agreement with London 2012 on the same or similar terms).

Other obligations of the IKF franchisee in relation to the Games are set out in Schedule 1.3 of the Franchise Agreement.

For the purposes of this section (A9.9), the 'Locations' means the 32 London boroughs and the Corporation of London.

A9.10 Renewal of the Existing Radio Systems with GSM-R

Network Rail has initiated a Network Change to renew all of the UK's radio systems with GSM-R. National rollout is not planned to start until 2006 and due to finish around 2012.

Rolling stock used by the IKF franchisee for classic services may require a programme of GSM-R cab radio fitment at some time between 2006 and 2010. Precise dates are not yet known and will depend upon the emerging national implementation programme and the risks of CSR interference (if any) from mainland Europe. Network Rail are currently evaluating whether the release of the CSR spectrum in mainland Europe to new users poses a risk in the UK. If this were the case, GSM-R may be implemented towards the front of the programme.

Co-ordination will be required between the IKF franchisee, ATOC, Network Rail and the ROSCO(s) to manage the successful transition to GSM-R operation within the context of Network Rail's national rollout strategy. It is currently assumed that a programme of Cab Mobile installation will be required and that dual-fitting of GSM-R and CSR equipment will be necessary during the transition period. It is not yet clear as to which organisation will lead on developing the cab installation designs.

Currently, Network Rail is planning a pilot for GSM-R in the Strathclyde area during 2005. It is envisaged that this will validate operating and migration aspects of GSM-R. Therefore, the IKF franchisee should understand that additional training will be required for drivers and potentially other staff.

The new CTRL DS rolling stock specification and procurement will include passive provision for a GSM-R radio, but will be delivered fitted with only a CSR radio. This rolling stock is likely to form part of the national fitment programme, although alternative arrangements may be possible depending on the GSM-R programme and rolling stock delivery dates.

A9.11 Network Rail's Engineering Access Strategy

Bidders should note that SET and Network Rail are currently reviewing the Rules of the Route (ROTR) for December 2005, which govern the south-east network. ROTR determine Network Rail's rights of access to perform maintenance possessions. The aim of this review is to increase the efficiency of Network Rail's maintenance programmes, driving synergies from the alignment of maintenance and renewals works and facilitating improvement in asset reliability. In some instances this will lead to longer possessions being taken on weekends and Monday, Tuesday and Wednesday nights than is allowed for in the current ROTR. Bidders are required to comply with the December

2005 ROTR when formulating their timetable and diagrams of train movements. Full details of the engineering access strategy and December 2005 ROTR will be placed in the Data Room when the work is completed.

Appendix 10 : Map of the IKF Franchise Area and Routes

Map follows

To: IKF Team - Strategic Rail Authority.

Bidder:	Query number: (to be allocated by the Authority)
Reference: Schedule number: Clause/Para:	
Query:	
Signed: Title:	Date: Contact Details:
Response:	
Signed: Title:	Date:

Appendix 12 : Stations

The Authority and other stakeholders are anxious to improve the passenger journey experience particularly in relation to the station environment. The template Franchise Agreement puts emphasis on maintaining an acceptable standard for passengers over the franchise term however it does not require any substantial form of investment in improving the facilities or in raising standards generally.

In the current affordability climate neither NR nor the Authority has sufficient funding to undertake investment necessary to improve the station environment and in any event the business case for such investment is extremely hard to justify based solely on railway usage particularly when viewed in relation to the smaller stations.

If station environments are to be improved it is therefore necessary to ensure that external funding is leveraged in. It is probable that this can only be achieved by enabling the station environment to be seen in a wider context than just the railway through the creation of an incentive based long-term interest in the development of stations and their environs. Clearly the basis of any such arrangements would need to satisfy value for money criteria and must encourage improvement in the level and quality of service provided to passengers and must not prejudice other wider network development opportunities.

Some preliminary exploration of the commercial opportunity has been undertaken by the Authority. However, due to the exploratory nature of the discussions, this has not yet been discussed in detail with other interested parties (ORR, NR or DfT). It must be emphasised that there are no firm plans in existence at this time. It can however be confirmed that there appears to be an appetite in the financing market for an innovative approach to station investment, development and management.

The Authority is anxious to ensure that Bidders are aware that the Authority may wish to pursue this opportunity further and to seek confirmation from Bidders that if they were to be successful they would cooperate fully with the Authority and other stakeholders in developing the opportunity. Bidders in submitting their bids and their financial models should provide complete transparency in relation to all station related costs such that all the costs and benefits may be properly addressed when evaluating the opportunity further.

Attachments

- A IKF Service Level Commitment 1
- B IKF Service Level Commitment 2
- C IKF Franchise Agreement
- D Service Quality Standards applicable to the IKF
- E KPI Audit Score Cards applicable to the IKF
- F Conditions Precedent Agreement
- G Definitions Agreement
- H Financial Templates
- I CD-Rom containing electronic versions of ITT and Supporting Documentation