

Caledonian Sleeper Rail Franchise

Invitation to Tender

TENDER REFERENCE: TS/RD/SER/2013/02

B/5110994/26

3 September 2013





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Transport Scotland 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 thinks fit.

Atkins Limited, DWF LLP and Ernst & Young LLP are acting for Transport Scotland in relation to the award of the Franchise, and will not regard any other person as their client or be responsible to anyone other than Transport Scotland 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.

Transport Scotland 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 Caledonian Sleeper rail franchise opportunity, the award, or any Bid for the award of the Caledonian Sleeper rail franchise, or negotiation of the Franchise Agreement. Transport Scotland reserves the right not to award the Franchise to any Bidder and/or to cancel or withdraw the procurement.

This Invitation to Tender document should be read in conjunction with the draft Franchise Agreement supplied as Attachment A with this Invitation to Tender.

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

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I. Introduction and Context

Caledonian Sleeper Rail Franchise

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Caledonian Sleeper rail franchise is being let for 15 years.

The franchise may be terminated up to seven reporting periods prior to the franchise expiry date.

I.1. Purpose of this Invitation to Tender

This Invitation to Tender (“ITT”) sets out:-

- the Caledonian Sleeper rail franchise proposition for which Transport Scotland is seeking Bids;
- how the competitive process will work;
- how Bidders should complete their Bids; and
- how the evaluation process will work.

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

Transport Scotland’s aim for the new Caledonian Sleeper rail franchise is to commence operations with effect from 10:00 hours on 1 April 2015.

I.2. Scope of the Caledonian Sleeper Rail Franchise

The Caledonian Sleeper Service (defined as “Franchise Services” in the Franchise Agreement) currently forms part of the existing ScotRail Franchise, which is operated by First ScotRail Limited. From the expiry of the existing ScotRail Franchise, which is anticipated to be at the end of March 2015, the Caledonian Sleeper Service will be delivered under a separate Franchise Agreement. Transport Scotland is running a separate procurement process which commenced in July 2013 for continuing the ScotRail Franchise Services.

The Caledonian Sleeper Service will involve the operation of overnight rail passenger services in both directions between London Euston and each of Edinburgh Waverley, Glasgow Central High Level, Inverness, Aberdeen and Fort William Stations. Services will also be required to call at specific intermediate stations between these terminus points within Scotland.

Details of the Caledonian Sleeper rail franchise, its services and resources can be found in the Transport Scotland Rail Franchise Replacement Data Site (details of which can be found in Section 2.6 (*Data Site*) of this ITT) and in the Service Level Commitment in Schedule 1.1 (*Service Development*) of the Franchise Agreement.

I.3. Transport Scotland’s Objectives for the Caledonian Sleeper Rail Franchise

The Caledonian Sleeper rail franchise is being let for 15 years, with a planned start date of 1 April 2015 and expiry date of 31 March 2030.

The franchise may at Transport Scotland’s sole discretion on giving not less than three months notice, be terminated up to seven Reporting Periods prior to the Initial Expiry Date.

(together the “Franchise Objectives”).

I.4. Closing date for Bids

Bids must be received by Transport Scotland by end December 2013.

The Scottish Ministers have set out the objectives for the Caledonian Sleeper rail franchise as follows:-

- Deliver a compelling product improvement to provide transformed passenger experience.
- Combine step-change quality enhancements with improved marketing and retailing to grow patronage.
- Achieve an internationally renowned service that is emblematic of the best of Scotland, shown by strong brand awareness in Britain and among international visitors.
- Improve station facilities at Key Stations where the Sleeper calls in Scotland.
- Support efficient integrated onward connections by all modes of transport.
- Manage the business and investment to deliver better value for Transport Scotland and/or customers in terms of the benefits achieved through the subsidy.

(together the “Franchise Objectives”).



2. Tendering Procedure: Information and Instructions to Bidders

2.1 Franchising Timetable and Process

An overview of Transport Scotland's management process for the letting of a franchise is documented in the Process Document provided to Bidders with the Pre Qualification Questionnaire ("PQQ"). The remaining stages of the process for appointing the Franchisee, Bid Preparation; Bid Evaluation and Negotiation; and Mobilisation, together with their indicative timings, are set out below.

Table 2-1: Franchising Timetable

Stage	Description	Party Responsible	Planned Date
Data Site Open	Draft ITT available	Transport Scotland	6 August 2013
	Clarification available		
Bid Preparation	Issue of ITT in preparation of Bids	Bidders	20 September 2013 to December 2013
	End of Clarification Period	Bidders	28 November 2013
	Submission of Bids	Bidders	16 December 2013
Bid Evaluation & Negotiation of Bids	Evaluation of Bids, clarification, negotiation and agreement to terms of the Franchise Agreement and related documentation.	Transport Scotland and Bidder(s)	16 December 2013 to Summer 2014
	The Scottish Ministers consent to the Caledonian Sleeper rail franchise award.		Summer 2014
Mobilisation	Prepare for transfer of operations	Franchisee	Summer 2014 to 31 March 2015

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

2.2 Restriction on Communication/Press Releases etc during Franchise Competition

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

Therefore until the award of the Caledonian Sleeper rail franchise, Transport Scotland requires that Bidders confine any communications about the competition to that which is necessary in order to develop their proposals. Save as provided for below, until the award of the Caledonian Sleeper rail franchise, Bidders are required to refrain from commenting on or disclosing the contents of this ITT to national, local and industry media, Passenger Focus, Local Authorities, Strathclyde Partnership for Transport (SPT), South East of Scotland Transport Partnership (SESTrans), South-West of Scotland Transport Partnership (SWESTrans), Highland and Islands Transport Partnership (HITrans), North-East Scotland Transport Partnership (NESTrans), Tayside and Central Scotland Transport Partnership (TACTrans), HS1 Ltd, HS2 Ltd, all Cross-border franchisees, Members of Parliament, Members of the Scottish Parliament, Members of the European Parliament, Visit Scotland, Scottish Trades Union Congress, Scottish Chamber of Commerce, Scottish Council for Development and Industry, Confederation of British Industry (Scotland) and any other stakeholders. The foregoing requirement shall not apply to any communication otherwise as permitted or required in terms of this ITT.

If there are compelling reasons to make a public statement or comment then Transport Scotland requires Bidders in each and every instance to discuss and agree the content of such statements or comments with Transport Scotland in advance.

2.3 Changes in Circumstances

Bidders (including for this purpose each participant in any joint venture or consortium arrangements) shall notify Transport Scotland of the occurrence of any of the events listed below (for the purposes of this Section 2.3, a “**change in circumstances**”) promptly, and in any case no later than 21 days after such change in circumstances occurs. A change in circumstances means the occurrence of any of the following:

- any change to their corporate structure or the structure of the Bid vehicle from that set out in their application to be accredited to receive this ITT. This includes the grant of any options to acquire shares, any agreement relating to the exercise of rights attaching to such shares, and any amendments to a shareholders’ agreement, articles of association or similar constitutional documents;
- any changes to the information provided to Transport Scotland 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 Transport Scotland’s decision on the suitability of the Bid vehicle to be the Franchisee for the Caledonian Sleeper rail franchise.

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

Transport Scotland reserves the right to approve or reject such changes or proposed changes (including any changes to the basis on which the Bidder was accredited to receive this ITT) or to impose such conditions as it considers appropriate in order for the Bidder to continue to participate in the competition. Transport Scotland further reserves the right to exclude a Bidder from further participation in the competition where it rejects any such changes.

2.4 Cost of Bidding and Model Audits

Each Bidder shall be responsible for all costs, expenses and liabilities incurred by it in connection with the Caledonian Sleeper rail franchise letting process, whether or not its Bid and/or associated negotiations are ultimately successful or the process is subsequently varied in any way or terminated. Bidders shall be responsible for all costs associated with the Modelling Best Practice Confirmation and Model Audit (each as defined in Section 5.8 (Model Sign-off – Terms of Reference)).

2.5 Preparation of Bids

Transport Scotland expects to receive Bids that contain few or no qualifications. Bidders should make full use of all the information provided with this ITT, in the data site as defined in Section 2.6 (Data Site) and, thereafter, the query process described in Section 2.7 (Query Process). Any Bids which contain qualifications may be treated as non-compliant (and Bidders are referred to Section 2.12 (Non-Compliant Bids, Statements, Changes in Circumstance and SMRAs) for the possible consequences of a Bid being treated as non-compliant).

2.6 Data Site

Transport Scotland has established virtual data rooms for its rail franchise replacement programme (the “**Data Site**”), containing, in electronic form, documents and information specifically relating to the Caledonian Sleeper rail franchise and the incumbent franchisee, including the Long Form Report. The address for the Data Site is: <https://transportscotland.withbc.com>.

Bidders will be required to comply with the Data Site Rules previously provided to shortlisted Bidders.

2.7 Query Process

All requests for information shall be submitted by Bidders using the Clarification Question Form template within the Data Site which shall be made available to the Bid Coordinator and the Deputy Bid Coordinator:

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

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

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

Clarification requests from Bidders will be responded to expeditiously having regard to the nature, extent and availability of the information requested. Transport Scotland will endeavour to respond to all clarification requests before Bids need to be submitted, but Bidders should note that Transport Scotland cannot guarantee this, especially if clarification requests are received later than fifteen working days before the end of the clarification period identified in Table 2-1, or if it has not been possible to collate the necessary data for a response.

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

Transport Scotland may, at its discretion, hold bi-lateral meetings with Bidders during the Bid preparation phase and the clarification phase. Notes from bi-lateral meetings will not be provided to Bidders as part of the formal clarification process; however where Transport Scotland makes a clarification in relation to non-confidential matters during such bi-lateral meetings, such clarification will be made available to all Bidders through the Tender Bulletins. Bidders shall therefore only rely on the ITT, Tender Bulletins and the formal Query Process.

Where a Bidder believes that there is any inconsistency between any documents or information provided by Transport Scotland to Bidders as part of the Caledonian Sleeper rail franchise letting process, it should seek to clarify the point through the Query Process rather than make an assumption in its Bid in relation to such matter:

Transport Scotland reserves the right to provide Bidders with an updated version of any section(s) of the ITT and/or the Franchise Agreement together with such further guidance as Transport Scotland considers appropriate.

2.8 Structure and Format of Bids

Bidders should note that Transport Scotland will evaluate the compliance of Bids with the structure set out in Table 2-2 (Structure and Format of Bids) and, following any appropriate clarification, may (without limitation) ask for re-submission or disqualify any Bid that does not conform.

Table 2-2 Structure and Format of Bids

Part		Hard Copy	Electronic	Size Limit
1.	Main text			
	Executive Summary Delivery Plans (Section 4)	4 copies	4 copies + 1 unpriced copy	600 pages including annexes/appendices under exception of the detailed technical specification required for Delivery Plan A1
	Delivery Plans for Bidder Incremental Options	4 copies	4 copies + 1 unpriced copy	None
2.	Financial			
	Operational Models and Financial Model (Section 5) including revisions in respect of Bidder Incremental Options PDF of Templates & worksheets of Operational Models that directly interface with Financial Model or other Operational Models Record of Assumptions, Operating Manual, Modelling Best Practice confirmation, Financial Adviser's letter, Confirmation of Bond availability, ROSCO term sheets	None 4 copies	4 copies 4 copies	125MB maximum size per workbook (see Section 5) None
3	Technical Data			
	If revised timetables are proposed the following details should be submitted in support of the Delivery Plans for the Franchise Specification and the Bidder Incremental Options: <ul style="list-style-type: none"> proposed working timetables; rolling stock and crew diagrams; and platform workings; Bidders will need to show how these timetables comply with the Service Level Commitment. The detailed technical specification required pursuant to Delivery Plan A1.	4 copies	4 copies	None.

4.	Legal and compliance			
	<p>“Deltaview”/Comparison or mark-up and clean copy of the Franchise Agreement (including for the avoidance of doubt the Conditions Precedent Agreement, Definitions Agreement and the SQUIRE Service Schedules Agreement, the Inter Company Loan Facility Agreement (or equivalent funding agreement), Power of Attorney and Passengers’ Charter (together the “Franchise Signature Documents”) including completion of those parts marked “Bidders to populate”.</p> <p>Non-compliance statements, changes in circumstances and competition matters, Declaration of Conformity, confirmation that Bid will be held valid for 290 days from Bid return date as specified in Section 2.14 (Validity of Bids)</p>	1 copy	4 copies	None.

The size of the main text of the Bid including the Executive Summary and proposed means of delivery of the Franchise Specification including all annexes/appendices will be limited to [600] pages. Bidder-generated Incremental Options will not be part of this limit. This requirement is summarised in Table 2-2 (*Structure and Format of Bids*).

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

- the contents of the financial part as described in Table 2-2 (*Structure and Format of Bids*);
- the contents of the technical data part as described in Table 2-2 (*Structure and Format of Bids*);
- the contents of the legal and compliance part as described in Table 2-2 (*Structure and Format of Bids*); and
- covers, section dividers and indices.

One page constitutes one printed side of A4 with 2cm clear margins all round. For main text the minimum font size is 11 pt, font type is standard (i.e. not “narrow”) and minimum line spacing is 13 pt. Double sided printing is required where this is practicable. Bidders will be encouraged to use a simple presentation style, avoiding expensive bindings and other high cost elements of production that do not directly add value to the substance of the Bid. Minimum font size for any text in tables should be 10 pt. Minimum font size for any text in charts and diagrams should be 8 pt.

Bidders are encouraged to include pictorial representations in Delivery Plans, particularly Delivery Plans A1 and A2, where they significantly add to and illustrate concepts and configurations.

Transport Scotland reserves the right to advise any Bidder exceeding the page size limits that their Bid is non-compliant and not to evaluate that Bid unless/until the Bidder informs Transport Scotland within a time table stipulated by Transport Scotland, which pages they wish to withdraw in order to become compliant.

2.8.1 Annexes and Appendices

Bidders may include annexes and appendices to their response that should be clearly referenced in the main text. Any annexes or appendices are subject to the size limits described in this Section 2.8 (*Structure and Format of Bids*).

2.8.2 Cross Referencing

Delivery Plans are expected to be developed in an integrated fashion but repetition between the Delivery Plans should be avoided, where possible, by using cross-references

Transport Scotland's evaluators will only follow cross-references to specific identified components of the response in relation to other Delivery Plans. Bidders should not use unspecific general references e.g. "further evidence on this issue is provided in our Station Enhancement Plan".

2.8.3 Format of Bids

Bidders should submit numbered copies of their Bid, in accordance with the requirements listed in Table 2-2 (*Structure and Format of Bids*). Bidders are encouraged to structure Bids in accordance with the format set out in Section 4 (*The Franchise Specification and Delivery Plans*) of this ITT.

2.8.4 Hard Copies

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

2.8.5 Electronic Copies

Electronic copies should be in CD format. Each CD must be labelled clearly with the part, copy number, the Bidder's name and the contents of the CD. Information is required to be stored in Microsoft Word (any version) or PDF format provided they are searchable. Spreadsheets must be in Excel 2007 format. Documents may be submitted in PDF format provided they are searchable. All electronic copies should be packaged separately from the hard copy sets and identified as "Additional CDs".

2.8.6 Index

Transport Scotland requires that an index is provided for the electronic information and that the file structure of the electronic information matches the sequence of the hard copy documentation.

2.8.7 Additional Electronic Copies

One electronic un-priced copy of Part 1 of the Main Text is required in CD format, labelled clearly with the copy number, the Bidder's name and the contents of the CD. Information is required to be stored in Microsoft Word (any version), and for spreadsheets, Excel 2007 format. Transport Scotland will send this copy, together with one of the Part 3 copies referred to in Table 2-2 above to Network Rail. Documents may be submitted in PDF format provided they are searchable.

2.8.8 Submission of Bids

Bids are to be submitted to:

Contracts Branch
Transport Scotland
Buchanan House
58 Port Dundas Street
Glasgow
G4 0HF

by end December 2013.

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

No other documents or information shall be submitted with the Bid. The Bid must be submitted in boxes marked "**CONFIDENTIAL – Caledonian Sleeper Rail Franchise Bid submitted 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 Transport Scotland at the time of the submission of their Bid.

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

All Bids should be in English and amounts denominated in pounds sterling.

Bidders will be required to present up to 1 hour on the key elements of their submissions to Transport Scotland on a working day specified by Transport Scotland within 7 working days following Bid submission. This presentation should include no financial information.

Bidders shall provide the material set out in Table 2-2 (*Structure and Format of Bids*) when submitting their Bids.

2.9 Executive Summary & Delivery Plans

Part I of the Bid should also include an Executive Summary that describes the Bidder's vision for the Caledonian Sleeper rail franchise and how Transport Scotland's Franchise Objectives will be met.

The Bids shall additionally include individual Executive Summaries for each of the Delivery Plans proposed within the relevant Delivery Plan.

The Bidder shall explain in the Delivery Plans how the requirements of the Franchise Specification will be delivered or exceeded. Full details of the requirements are set out in Section 4 (*The Franchise Specification and Delivery Plans*).

2.10 NOT USED

2.11 Bidder Incremental Options

Transport Scotland is aware that Bidders are likely to assess a range of potential initiatives for the Caledonian Sleeper rail franchise whilst preparing their Bids. Bidders may identify initiatives which they consider to be of merit, but which have failed to achieve the Bidder's financial criteria for inclusion in the base case Bid. In these circumstances, Bidders are encouraged to submit the initiatives as Bidder Incremental Options. Transport Scotland may consider purchasing the Bidder Incremental Options offered by the winning Bidder subject to affordability constraints and economic appraisal criteria. Such Incremental Options will be contractualised in Schedule 1.6 (*Committed Obligations*) of the Franchise Agreement.

Bidders are strongly advised to consult confidentially with Transport Scotland about their possible Bidder Incremental Options, so as to avoid the possibility of abortive effort being expended on options that Transport Scotland is unlikely to procure.

Such Bidder Incremental Options must be presented, fully specified and priced incrementally from the Franchise Specification, and should be self-contained, i.e. not be dependent on any other Bidder Incremental Option which may be included in the submission.

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

Bidder Incremental Options form no part of the evaluation of the Bid submission and therefore will not affect the outcome of the competition.

Bidders are required to list all requirements of this ITT with which they are not able to confirm compliance in full.

Full details of the reasons for the non-compliance should be given.

The financial modelling requirements for any submitted Bidder Incremental Options are laid out in Section 5 (*Financial Elements*) of this ITT.

2.12 Non-Compliant Bids, Statements, Changes in Circumstance and SMRAs

2.12.1 Non Compliant Bids and right to remove Bidders from the process

Bids received which are in the opinion of Transport Scotland considered to be non-compliant will be treated in accordance with Section 2.12.3 (Impact of Non-Compliance). A Bid may be considered to be non-compliant if:

- it is submitted late;
- it is incomplete or incorrectly completed; and/or
- it fails to meet Transport Scotland's requirements as specified in Table 2-2 (*Structure and Format of Bids*) of this ITT

In addition, Transport Scotland reserves the right to remove a Bidder from the process where, in the reasonable opinion of Transport Scotland, that Bidder has acted or failed to act in such a way that is consistent with the requirements of the Bidding process and this ITT including but not limited to:

- material or serious misrepresentation by the Bidder in relation to the Bid process or its application;
- contravention by the Bidder of the terms and conditions of this ITT; and/or
- breach of confidentiality or probity.

2.12.2 Non-Compliance Statements

Bidders are required, when submitting their Bids, to list in the format set out in the following table (*Table 2-3: Format of Non-Compliance Statement*), all requirements of this ITT with which they are not able to confirm compliance in full. Full details of the reasons for the non-compliance should be given. Any provision not so listed and detailed will be regarded as having been accepted unconditionally.

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

Table 2-3: Format of Non-Compliance Statement

Document	ITT Sections/Paragraph of the Franchise Agreement which have NOT been complied with	Details
<i>ITT</i>		
<i>Franchise Agreement</i>		
<i>Conditions Precedent Agreement</i>		
<i>Definitions Agreement</i>		
<i>SQUIRE Service Schedules Agreement</i>		
<i>Inter Company Loan Facility Agreement</i>		

2.12.3 Impact of Non-Compliance

Where a Bid is found to be non-compliant as set out in Section 2.12.1 (Non Compliant Bids and right to remove Bidders from the process) (including whether or not such non-compliance is specified in this Section 2.12 (Non-Compliant Bids, Statements, Changes in Circumstances and SMRAs) or any Non-Compliance Statement), or to lack any information required by this ITT to enable evaluation, Transport Scotland may:

- evaluate the Bid;
- seek additional information or clarification from the Bidder; and/or
- reject the Bid.

Where Transport Scotland (whether after seeking additional information or clarification or not) elects to evaluate any such Bid, then Transport Scotland may elect to treat that Bid as compliant and take account of the effect of the non-compliances in all relevant aspects of its evaluation (including, without limitation, the scoring of Delivery Plans and the adjustment of cost and revenue forecasts for the purpose of evaluating the financial robustness of the Bid). Transport Scotland may additionally ask the Bidder to specify the financial (Subsidy/Premium) impact on its Bid of the removal of the non-compliance (confirming that the Bid may be accepted as amended by such removal) and be entitled to take account of that impact in the evaluation. Ultimately Transport Scotland reserves the right to consider the Bid non-compliant.

2.12.4 Changes in Circumstances and Competition Matters

Similarly, Bidders shall include in their Bids in the format set out in the following table (Table 2-4: Format of Statement of Changes in Circumstances and Competition Matters), details of any change in circumstances or competition matters that affect their Bidding position.

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

Change	Reporting Required
Change in Circumstances	Bidders should include details in response to the instructions contained in Section 2.3 (<i>Changes in Circumstances</i>)
Competition Matters	Bidders should include details in response to the instructions contained in Section 2.21 (<i>Competition Matters</i>)

2.12.5 Compliance with Law and Industry Practice

Bidders shall include in their Bids confirmation that they shall comply with all laws and standard rail industry practices. Bidders shall not be required to demonstrate evidence of such compliance unless requested as part of individual Delivery Plans. Where a Bidder is found to be non-compliant with laws and/or standard industry practices, Transport Scotland reserves the right to consider the Bid as non-compliant.

Bidders shall include in their bids confirmation that they shall comply with all laws and standard industry practices.

Bidders shall not be required to demonstrate evidence of such compliance unless requested.

**The Scottish Ministers will
protect the Franchisees
position in the event of a
challenge to ORCATS
allocation.**

2.13 The Scottish Minister's Risk Assumptions (SMRAs)

Bidders are discouraged from proposing their own SMRAs or any other contractual amendments which seek to transfer risk from the Franchisee to the Scottish Ministers and in the reasonable opinion of Transport Scotland have the same, or a substantially similar, effect to a SMRA. Where Bidders do propose their own SMRAs or other relevant contractual amendments, they shall also include in the Bid a statement either:

- specifying the impact on Franchise Payment (if any) if the Scottish Ministers refuse to accept the SMRA or other relevant contractual amendment; or
- stating that if the SMRA or other relevant contractual amendment was not accepted it is noted and agreed that the Scottish Ministers will have the right to reject the Bid as non-compliant.

Where a cost for removing the SMRA or other relevant contractual amendment is specified the Scottish Ministers shall have the right to:

- accept the Bid amended by deleting the relevant SMRA or other relevant contractual amendment; and
- reflect the specified cost for removing the SMRA or other relevant contractual amendment in the adjusted price of the Bidders proposal.

Bidders should note that it is assumed that the current ORCATS allocation is maintained. Bidders will be obliged to use reasonable endeavours to secure commercial agreements with other train operators reflecting and, where practicable, no less advantageous than the existing agreements in respect of ORCATS allocation matters contained in the Data Site. The Scottish Ministers will protect the Franchisee's position in the event of either a successful challenge to the ORCATS allocation or an ORCATS profile change where the Franchisee has robustly defended the challenge in the interests of the Scottish Ministers. The Scottish Ministers' financial protection shall not apply where the Franchisee has failed to use reasonable endeavours to secure commercial agreements of the nature referred to above or, having done so, fails to honour its obligations or enforce the other party's obligations under any such agreement. Please refer to Paragraph 10 of Schedule 9.3 (Runs of the Financial Model) of the Franchise Agreement for further details.

2.14 Validity of Bids

Bidders shall confirm the validity of their Bids including the terms, Bid price, and any subsequent changes agreed for a period of 290 days from the date of Bid submission.

Bidders shall confirm in their Bids for any proposed Bidder Incremental Option (including but not limited to the terms, Bid price, and any subsequent changes agreed) the duration of the period from the date of the franchise award during which such Options may be exercised.

2.15 Industry Consultation and Disclosure of Information in Bids

Bidders should be aware that, following the submission of Bids, Transport Scotland will need to consult the Office of Rail Regulation ("**ORR**"), and Network Rail and their respective advisers. Transport Scotland may also consult such other persons as it considers necessary or appropriate including, but not limited to, its advisers, SPT, SEStans, SWEstTran, HITrans, NESrans, TACTran, HSI Ltd, HS2 Ltd, all Cross-border franchisees, the Department for Transport, bodies representing passenger interests (such as Passenger Focus or London Travelwatch), TfL (including Crossrail Ltd), the Disabled Persons Transport Advisory Committee or successor body, Local Authorities, Members of Parliament, Members of the Scottish Parliament, Members of the European Parliament, Visit Scotland, Scottish Trades Union Congress, Scottish Council for Development and Industry, Confederation of British Industry (Scotland), Scottish Chambers of Commerce (collectively referred to as "**Consultees**" and each separately referred to as a "**Consultee**").

Endorsement should be sought from Network Rail of the deliverability of Bidders' station proposals pursuant to Delivery Plan A2 (Stations Enhancement) and in respect of bidders' proposals.

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

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

In developing their Bids, Bidders can expect to be contacted by, and are encouraged to consult with stakeholders relevant to the Caledonian Sleeper rail franchise following the start of the Bid Preparation phase. It is each Bidder's responsibility to decide on the scope and extent of stakeholder consultation but they should note that Transport Scotland may seek views from stakeholders on the state of progress of consultation. Bidders should note that Network Rail will formally advise Transport Scotland of the level of contact and engagement that it has had with each Bidder.

2.16 Co-operation with Network Rail

Bidders will be required to consider in their Bids how they will interface with Network Rail in delivering the Caledonian Sleeper rail franchise.

In particular, endorsement should be sought from Network Rail of the deliverability of Bidders' station proposals pursuant to Delivery Plan A2 (Stations Enhancement) and in respect of Bidders' proposals for new timetables and service planning pursuant to Delivery Plan B2 (Mobilisation, Management and Operations).

In the event that Network Rail endorsement is not achieved but Bidders have a rationale as to how a particular proposal may be made to work then this should be made clear in Bidders' Delivery Plan responses.

2.17 Evaluation of Bids

Bids must be complete and submitted in accordance with the instructions to Bidders set out in this document. Bids must be compliant with the requirements of the ITT. The evaluation of Bids shall be conducted in accordance with this ITT, the Process Document and the Franchise Evaluation Process Chart for the Caledonian Sleeper rail franchise at Appendix 1 (*Evaluation Process Chart*) this ITT.

This process includes a consideration of the affordability of the franchise proposition before award, together with assessment of the quality/deliverability of Bidders' proposals. In such circumstances, Transport Scotland reserves the right to: (1) request Bidders to re-submit their Bids in accordance with Section 2.18 of the ITT and Section 5.3 of the Process Document; and/or (2) cancel or withdraw the competition in accordance with the Important Notice of the ITT and Section 5.4 of the Process Document.

Transport Scotland will evaluate Bids and rank them for the purposes of selecting the Franchisee on the basis of the assessment of each Bidder's Financial Model and Delivery Plan responses.

Further details of the evaluation process are set out in Section 3.3 (*Evaluation Process*).

2.18 Negotiation and Award

Following Bid evaluation and clarification, Transport Scotland reserves the right to negotiate with one, some, or all Bidders and subject to such negotiations, Transport Scotland additionally reserves the right to request one, some or all Bidders to re-submit their Bids.

Even where Transport Scotland has decided after its evaluation and clarification process that one or two Bidders are in a leading position, no indication of this will be provided to Bidders, nor any public announcement made until actual contract award and signature.

Transport Scotland intends to run a voluntary standstill period of 10 calendar days. Prior to the date of commencement of the voluntary standstill period the preferred Bidder would be required to procure valid execution of the Franchise Agreement, Inter Company Loan Facility Agreement (or equivalent funding agreement) and other relevant agreements by the intended Franchisee and/or Parent as applicable after the London Stock Exchange closes and the Scottish Ministers have been informed of the identity of the preferred Bidder. An announcement will be made to the London Stock Exchange at 07.00 hours the following morning setting out Transport Scotland's intention to award the franchise following a voluntary 10 day standstill period. The documents signed by the preferred Bidder would be held safely by Transport Scotland until the preferred Bidder is either notified:

- of the successful conclusion of the standstill period. Following such notification, the Franchise Agreement would be executed by the Scottish Ministers and on that date the completion of the Franchise Agreement and other relevant documents shall occur and become legally binding on the parties from that date; or
- that Transport Scotland has received a legal challenge to the process during the standstill period and Transport Scotland would as soon as reasonably practicable after the date of such notification return all the documents as signed by the intended Franchisee and/or Parent as applicable to the preferred Bidder.

2.19 Down-selection of Bidders

On the day of announcing the intention to award the Caledonian Sleeper rail franchise (i.e. at the commencement of the voluntary standstill period) Transport Scotland will e-mail to unsuccessful Bidders a letter setting out a summary of the characteristics and relative strengths of the winning Bid and the relative strengths and weaknesses of the unsuccessful Bidder's proposal.

2.20 Operator Company

It is anticipated that the winning Bidder will incorporate a special purpose vehicle for the purpose of delivering the Caledonian Sleeper rail franchise. Such company should be incorporated and have its registered office within Scotland.

2.21 Competition Matters

Depending on the identity of the Bidder, the award of the franchise may constitute a relevant merger under the Enterprise Act 2002 ("**EA02**") (i.e. one over which the Office of Fair Trading ("**OFT**") or any successor organisation such as the Competition and Markets Authority would have jurisdiction), or a concentration with a Community dimension under Council Regulation (**EC**) No.139/2004 ("**EUMR**"), which would be required to be notified to the European Commission ("**EC**").

If the award of the franchise to a particular Bidder would give rise to a realistic prospect of a substantial lessening of competition (under EA02), or of a significant impediment to effective competition (under EUMR), such as would give the OFT (or EC, as appropriate) cause to subject the award of the franchise to a substantive (second phase) investigation, this might prejudice the timing of the franchise process and /or the ability of the Bidder to operate the Caledonian Sleeper rail franchise as Bid. Generally, a competition with a Community dimension may not be completed until clearance has been obtained under EUMR. In the context of a relevant merger under EA02 that has been completed, the OFT may require "hold separate" undertakings to be given pending conclusion of any investigation. It is therefore important for Transport Scotland to be able to assess the impact of any potential intervention by the OFT or EC in scrutinising the Bids of each Bidder under merger control rules.

If, in the view of Transport Scotland, the impact of any such intervention or potential intervention would prejudice the timing of the franchise process or the ability of the Bidder to operate the Caledonian Sleeper rail franchise as Bid, or would otherwise prejudice the franchise or any other Caledonian Sleeper rail franchise, Transport Scotland reserves the right to disqualify the Bidder from the Caledonian Sleeper rail franchise re-letting process.

Each Bidder is therefore required to confirm:

- 1) Whether award of the franchise to it would require notification to the EC under EUMR;
- 2) What strategy it will adopt to minimise the delay in being able to operate the Caledonian Sleeper rail franchise if an award is made to it. In particular:
 - if the award to it of the Caledonian Sleeper rail franchise would require notification under EUMR, whether the Bidder would propose to request pursuant to Article 4(5) EUMR that the transaction is referred back to the OFT for consideration, and how it views the prospects of such a request being accepted;
 - how the Bidder proposes to approach pre-notification discussions with the OFT or, as the case may be, the EC to ensure that the notification is complete and that all necessary supporting evidence is included; and
 - the Bidder's willingness to offer undertakings or commitments to the OFT or the EC in order to avoid a second phase investigation;
- 3) The form of any derogations the Bidder would seek to the OFT's standard form hold separate undertakings in the event that these are required in the context of a completed merger;
- 4) That it will commit to offer such undertakings or commitments as may be required by the OFT or the EC to enable it to operate the Caledonian Sleeper rail franchise as Bid, and that any such undertakings or commitments given would not impact on its ability to operate any other franchise.

2.22 Financial Transparency

The Franchisee must ensure that there is no cross-subsidisation between the Caledonian Sleeper Services and any other service run by or activities of the Franchisee or between the Franchisee and any other associated company and that all transactions with any associated company are conducted on an arm's length basis and are so identified in all records and books of accounts.

The Franchisee must have clear, separate and transparent accounting systems for the financing and operating of the Caledonian Sleeper Services (in accordance with Regulation (EC) 1370/2007) to ensure that the subsidy is only used for the Caledonian Sleeper Services and not for any other activity of the Franchisee and shall deal with the Scottish Ministers on an open book basis. Bidders are referred to Schedule 12 (*Financial Obligations and Undertakings*) and the information provisions of Schedule 13 (*Franchise Management and Information Obligations*) of the Franchise Agreement that provide more detail on this.

2.23 Transparency and the Freedom of Information (Scotland) Act 2002

The Freedom of Information (Scotland) Act 2002 (the "**FOISA**") provides a general right of access to all information held by public authorities. Transport Scotland is a public authority. The general right of access to information is limited by a number of exemptions. When someone requests information under FOISA, Transport Scotland must normally release that information unless one of the exemptions in the FOISA applies. This is also the case if the data are environmental information covered by the Environmental Information (Scotland) Regulations 2004 ("**EISR**").

**Transport Scotland
is committed to
transparency in
the procurement
of its contracts. By
responding to this ITT
Bidders are agreeing
to abide by these
commitments.**

In submitting their Bids in response to this ITT, Bidders are invited to identify which parts, if any, of their Bid are provided to Transport Scotland in confidence or are commercially sensitive, such that they may be exempt from disclosure under FOISA and/or EISR. Bidders should provide reasons why such information should not be disclosed in response to any request and an estimate of the period of time during which the Bidders believe that such information will remain exempt from disclosure.

Bidders should note that, even where information is identified as commercially sensitive or confidential, Transport Scotland may be required to disclose such information in accordance with the FOISA and/or EISR. Transport Scotland is required to form an independent judgement concerning whether the information is exempt from disclosure under the FOISA and/or EISR at the time of request. In particular Bidders should be aware of the Scottish Ministers' Code of Practice on the Discharge of Functions issued under section 60 of the FOISA which limits the circumstances under which a public authority should agree to hold information in confidence. It could be the case, therefore, notwithstanding notification by Bidders that parts of a Bid have been provided in confidence or are commercially sensitive, that Transport Scotland will be obliged to disclose those parts.

Bidders should note that Transport Scotland will place a copy of the ITT in the public domain at the same time as it is supplied to Bidders.

Bidders' attention is drawn to the relevant provisions of the Franchise Letting Process Agreement, which permits in certain circumstances disclosure of information by Transport Scotland, as well as the provisions of section 145(2) of the Railways Act 1993.

Bidders' attention is also drawn to the provisions of Schedule 17 (*Confidentiality, FOISA and Data Protection*) of the Franchise Agreement that state that Transport Scotland may make certain information available to ORR, and may publish it.

2.24 Redactions from the Franchise Signature Documents

Transport Scotland is committed to transparency in the procurement of its contracts. By responding to this ITT Bidders are agreeing to abide by these commitments.

Additionally, in accordance with Section 73 of the Railways Act 1993 (as amended), the Scottish Ministers are required to keep a register of franchise documents for the reference of the ORR and the Scottish Ministers (the "**Section 73 Register**").

Bidders shall acknowledge that, except for any information which is exempt from disclosure in accordance with the provisions of the FOISA and/or the EISR, the content of the Franchise Signature Documents is not Confidential Information. Transport Scotland shall be responsible for determining in its absolute discretion whether any of the content of the Franchise Signature Documents is exempt from disclosure in accordance with the provisions of the FOISA and/or the EISR. Notwithstanding any term of the Franchise Signature Documents, the Bidder hereby gives its consent and as agent for the intended Franchisee and Parent gives their consent for Transport Scotland to publish the Franchise Signature Documents in their entirety (but with any information which is exempt from disclosure in accordance with the provisions of the FOISA and/or the EISR redacted) including from time to time agreed changes to the Franchise Signature Documents, to the general public.

Transport Scotland may consult with the Bidder to inform its decision regarding any redactions but Transport Scotland shall have the final decision in its absolute discretion. The Franchisee shall assist and cooperate with Transport Scotland to enable Transport Scotland to publish the Franchise Agreement.

Within four weeks of signature of the Franchise Signature Documents, the Franchisee will be required to submit to Transport Scotland a list of proposed redactions from the Franchise Signature Documents.

**The Scottish
Ministers reserve
the right to require
variations to the
Sleeper Services and/
or the manner in
which Sleeper Services
are required to
be delivered.**

The Franchisee may request that any such redaction is made in respect of publication on Transport Scotland's website, the Section 73 Register, or both. For each redaction, the Franchisee should specify the exact text it proposes should be redacted, and justify the redaction with reference to the criteria in Section 73(3) of the Railways Act 1993 (as amended) and/or the exemptions in Part II of FOISA and/or the exemptions in the EISR, as appropriate. Transport Scotland will then consult with the Franchisee to endeavour to agree a list of proposed redactions in advance of the Scottish Ministers publishing the Franchise Signature Documents on Transport Scotland's website and the Section 73 Register.

Prior to the commencement of the Caledonian Sleeper rail franchise, the Franchisee is required to satisfy the conditions as set out in the Conditions Precedent Agreement. Satisfaction of those conditions may involve the entry into, or provision to Transport Scotland, of a number of other Agreed Form Documents and other documents. Within thirty calendar days of the date on which the Certificate of Commencement is issued, the Franchisee will again be required to submit to Transport Scotland a list of proposed redactions from these further documents in the manner described above. Transport Scotland will again consult with the Franchisee to endeavour to agree a list of proposed redactions in advance of the Scottish Ministers publishing these further documents on the public section of Transport Scotland's website and the Section 73 Register.

Should agreement on a redacted version of any document not be reached, the Scottish Ministers may, at their sole discretion, nevertheless place that document on Transport Scotland's website and on the Section 73 Register subject to such redactions (if any), as they consider appropriate.

2.25 Variations to the Franchise Agreement

Bidders' attention is drawn to the variation provisions in paragraph 1 of Schedule 9 (*Changes*) of the Franchise Agreement and the ability of the Scottish Ministers to amend the contracted Service Level Commitment. The Scottish Ministers reserve the right to require variations to the Caledonian Sleeper Services and/or the manner in which the Caledonian Sleeper Services are required to be delivered, and any consequential changes to the Franchise Agreement.

The Scottish Ministers may also require variations to other contracted provisions or outputs. In particular, variations may result from changes to the specification or timing of committed projects affecting the Caledonian Sleeper rail franchise.

Variations will not necessarily be restricted to the effects of committed projects. However, any changes required will be such as a reasonably competent and professional operator of the Caledonian Sleeper rail franchise could, in all relevant circumstances, reasonably be expected to be able to deliver and will be generally consistent with the overall scope of the franchise proposition taking into account the need to be able to vary the nature, quantity and manner of delivery of the Caledonian Sleeper Services in response to circumstances relating to the development of railway infrastructure and services and other relevant financial, economic and technical developments and the implementation of developing rail policy.

Given the length of the Caledonian Sleeper rail franchise, and the strong likelihood of economic, social, budgetary and operational circumstances changing over a period of up to 15 years, the Scottish Ministers believes it is likely to make variations to the contract during the Franchise Period. In order to provide an incentive for the Franchisee to develop and implement such changes, it may be appropriate for the Franchisee to receive a reasonable level of financial benefit, if any financial benefit arises from such changes to the contract. It may also be appropriate for Transport Scotland, or other parties such as Network Rail, to share such benefits with the Franchisee.



3. The Bid Submission: Requirements for Delivery Plan

3.1 Introduction

In order to achieve the Franchise Objectives, Transport Scotland has developed a specification as set out in the Franchise Agreement and summarised in this Section 3 of the ITT (the “**Franchise Specification**”). Bidders need to demonstrate how they will meet, and where applicable, exceed that Franchise Specification, show how they will deliver the Franchisee’s obligations contained in the Franchise Agreement and how this will meet the Franchise Objectives. Transport Scotland therefore requires Bidders to produce a set of Delivery Plans (set out below in Table 3-1 (*Delivery Plans for the Caledonian Sleeper Rail Franchise*)).

In this Section 3 Transport Scotland sets out what its overall requirements are in respect of the Delivery Plans that Bidders are required to submit and how they will be evaluated.

The Franchise Specification is set out in the Franchise Agreement and summarised in this Section of the ITT.

Delivery Plans have been assigned their own individual Quality weighting.

The Delivery Plans (and supporting technical documents) serve a number of purposes. They:

- provide evidence that the Bidder understands and will meet the Franchise Objectives and will deliver the Franchisee’s obligations contained in the Franchise Agreement and other relevant agreements. Bidders should refer to the Franchise Agreement (Attachment A) and the Conditions Precedent Agreement (Attachment B), the Definitions Agreement (Attachment C), the SQUIRE Service Schedules Agreement (Attachment D) and the Inter Company Loan Facility Agreement (Attachment E);
- provide evidence that the Bidder’s submission is capable of delivering the Franchise Specification and therefore could form the basis of a future Franchise Agreement should the Bidder be successful (i.e. it is not ‘undeliverable’);
- provide evidence to support the financial aspects of the proposal in particular with respect to the projected costs and revenues;
- provide a statement of the Bidder’s proposed commitments to deliver or exceed the Franchise Specification, which may then form the basis of Committed Obligations to be included within Schedule 1.6 (*Committed Obligations*) of the Franchise Agreement;
- provide details of funding proposals for all investment, including the proposed use of capital contributions made available by Transport Scotland, and financial undertakings and guarantees associated with this investment.

3.2 The Delivery Plan Structure

The following Table 3-1 (*Delivery Plans for the Caledonian Sleeper Rail Franchise*) sets out the Delivery Plans that are required to be submitted, together with their relative weighting. It should be noted that Transport Scotland will expect Bidders to, as a minimum, prepare responses to all the requirements set out in the Franchise Specification when developing their proposals.

3.2.1 Delivery Plans

The Delivery Plans should be submitted in the sequence shown in the table below. Plans have been assigned their own individual weighting for evaluation as shown in the table.

Table 3-1: Delivery Plans for the Caledonian Sleeper Rail Franchise

Part	Delivery Plan	Weighting %
A1	ROLLING STOCK ENHANCEMENT	35
A2	STATION ENHANCEMENT	5
B1	PASSENGER EXPERIENCE	20
B2	MOBILISATION, MANAGEMENT AND OPERATIONS	15
B3	RETAIL, MARKETING AND BRANDING	20
B4	ASSESSMENT AND REFINEMENT	5
Total		100

**Transport Scotland
will wish to
contractualise
improvements and
investments that
have been taken into
account in scoring
Delivery Plans.**

**Bidders will be
required to set out
the Committed
Obligations it intends
to offer.**

Transport Scotland is not looking for detailed explanation in areas where:

- it is part of the general competency as a transport operator that have already been submitted and assessed as part of the EFQM evaluation undertaken at the pre-qualification stage;
- there is a well established standard rail industry practice and/or technology;
- there is a requirement for general compliance with laws; or
- the Bidder does not believe it will contribute to the achievement of the Franchise Objectives, fulfilment of Franchise obligations or achievement of the subsidy/premium line.

3.2.2 Committed Obligations

Transport Scotland will wish to contractualise improvements and investments that have been taken into account in scoring Delivery Plans, in order to ensure that they are delivered.

Bidders will be required to set out the Committed Obligations it intends to offer in support of critical aspects of their proposals in Schedule 1.6 (*Committed Obligations*) of the Franchise Agreement, along with mechanisms for incentivising delivery.

These Committed Obligations should be summarised at the end of each main Delivery Plan in Section 4. Transport Scotland encourages Bidders to link commitments to specific and measurable output targets where appropriate. Credit will not be given for critical aspects that are not backed with Committed Obligations.

Transport Scotland wishes to encourage focused obligations in support of key features of Delivery Plans but is not seeking large numbers of de-minimus commitments. Transport Scotland is aware that not all aspects of Delivery Plans lend themselves to Committed Obligations except where these otherwise contribute towards Transport Scotland's objectives. Some plans are closely linked to the delivery of the Service Level Commitment, financial, service quality and performance commitments already included in the Franchise Agreement and it is not intended to duplicate those obligations; however Bidders are invited to reflect any amendments it considers necessary in the Part 4 "Legal and Compliance" response to be submitted pursuant to Section 2.8 (Structure and Format of Bids) of this ITT. Transport Scotland does not usually expect to contract initiatives that are part of the Franchisee's normal commercial business and which the Bidder expects to be profitable.

In choosing which initiatives to offer as Committed Obligations, Bidders should consider the following principles:

- Committed Obligations linked to delivery of outputs that would be recognised by customers are generally more appropriate than those linked to the internal process of delivery (e.g. business IT systems);
- suitable Committed Obligations will generally have a significant cost and add passenger benefit, economic benefits that accrue to wider society, or network level benefits;
- less significant investments, services or initiatives may also be appropriate if they come at net cost, or are projected to have small or relatively uncertain revenue benefit – this could include some types of passenger facilities at smaller stations; and
- there may also be a case for offering a Committed Obligation in order to provide additional confidence to Transport Scotland that revenue, cost or operational commitments can be delivered.

The final page of each Delivery Plan should clearly tabulate all Committed Obligations contained within that Delivery Plan, including a clearly defined measurable target, an appropriate time limit for delivery and a proportionate payment adjustment if delivery is delayed.

All Committed Obligations must also be robustly and clearly defined in the Part 4 “Legal and Compliance” response to be submitted pursuant to Section 2.8 (*Structure and Format of Bids*) of this ITT and Schedule 1.6 (*Committed Obligations*) of the Franchise Agreement and where applicable any obligations should therefore be based on well-understood, easily tested data – ideally independent data such as the National Passenger Survey. Transport Scotland reserves the right not to accept or give credit for commitments offered by Bidders if, in Transport Scotland’s view, they are framed in a way that may be hard to verify, would increase the need for contract management, or may lead to legal dispute.

3.2.3 Support for Financial Sections of the Bid Submission

Where a specific initiative or commitment is described in the Delivery Plans and it has a financial impact on the Bid subsidy or premium, this should be stated in the Delivery Plan and cross-referred to the Financial Model (“**FM**”) or Record of Assumptions (“**RoA**”) accordingly. To enable evaluators to easily cross-check it is essential that such £ values are expressed consistently between the FM / RoA and the Delivery Plan or that an explanation is provided as to how differently expressed numbers can be reconciled. Transport Scotland considers that the NPV of the investment and the annual cashflows expressed in nominal terms should be provided as a minimum.

If required, further guidance can be sought from Transport Scotland through the Query Process.

3.2.4 Funding requirements

3.2.4.1 Performance Bond

The Bidder shall provide a Performance Bond of £4 million (in 2014/15 prices) from the date of contract signature, indexed at each anniversary of the Franchise Commencement Date. This should be provided in accordance with Schedule 12 (Financial Obligations and Undertakings) of the Franchise Agreement.

3.2.4.2 Inter Company Loan Facility

The Bidder shall provide an inter company loan facility (or equivalent form of liquidity) of up to a maximum of £4 million indexed from the start of the Caledonian Sleeper rail franchise. This will be provided in accordance with Schedule 12 (Financial Obligations and Undertakings) of the Franchise Agreement. Where the Bidder proposes to provide an inter company loan facility, this will be provided in the form set out in Attachment E of this ITT. The Inter Company Loan Facility Agreement will remain available for the entire contract period. Where the Bidder proposes to provide an equivalent form of liquidity, the Bidder should provide as part of their Submission the terms and conditions for the proposed facility arrangements for approval by Transport Scotland.

3.3 Evaluation Process

3.3.1 General

Bids will be assessed on the basis of Price and overall Quality / Deliverability.

The Quality / Deliverability assessment will be linked to the Franchise Objectives including improved passenger experience, investments in stations and rolling stock and improved retailing, marketing and branding. To score well on Quality / Deliverability, Bidders’ must evidence within their responses to the Delivery Plans the suitability of their proposals in addressing issues in the context of the Franchise Objectives. Transport Scotland will assess each response according to the European Foundation for Quality Management (“**EFQM**”) guidelines.

The Caledonian Sleeper rail franchise will be awarded to the Bidder who offers Transport Scotland the most economically advantageous tender in terms of quality/deliverability and price for delivering the Franchise Specification and Franchise Objectives, selected in accordance with the Franchise Evaluation Process Chart.

It is essential that such £ values are expressed consistently between the FM/ RoA and the Delivery Plan.

Performance Bond of £4m (in 2014/15 prices).

An inter company loan facility of a minimum of £4m.

Quality/Deliverability assessment will be linked to the Franchise Objectives.

To score well bidders must evidence suitability of proposals in context of Franchise objectives.

**The more ambitious
the improvements
offered, the greater
the need for evidence
to support the bid.**

**The weightings of
Plans A1 & A2 are
biased to Approach
to focus on the
initiatives proposed.**

3.3.2 Evidence

Transport Scotland requires evidence (for the purpose of Section 3.3.3 (*Application of RADAR® to Delivery Plans A and B*) below) that the Delivery Plans are robust and achievable. Bidders are not expected to repeat evidence of their general competency as a transport operator that will already have been submitted and assessed as part of the EFQM evaluation undertaken at the pre-qualification stage. However, evidence is required of deliverability of the specific Delivery Plans presented for the Caledonian Sleeper rail franchise, which may be in the form of relevant examples from other operations (whether in the transport or other industries). The more ambitious the improvement offered by the Bidder or the more innovative its approach, the greater the need for evidence to support the Bid to obtain a higher quality / deliverability score. It should additionally be noted by Bidders that Transport Scotland may seek to clarify with Bidders any element of their evidence provided in support of their Bid.

3.3.3 Application of RADAR® (“RADAR”) to Delivery Plans A and B

The Delivery Plans will be evaluated using the RADAR process. Bidders are encouraged to identify the RADAR components of their response in respect of each plan, which will be applied as shown in Table 3-2 (*Weighting of RADAR Component for Delivery Plans A and B*).

The RADAR process will assess Delivery Plans on the basis of:

- **Results** (specified by Transport Scotland);
- **Approach** (Bidders describe an understanding of the current situation and explain what initiatives are proposed and why, being assessed for a Sound and Integrated approach);
- **Deployment** (Bidders describe how the initiatives will be implemented, being assessed for Implementable and Systematic deployment plans); and
- **Assessment and Refinement** (Bidders describe their method for continuous improvement throughout the Caledonian Sleeper rail franchise, being assessed against Measurement, Learning and Improvement).

Table 3-2 Weighting of RADAR Component for Delivery Plans A and B

Delivery Plan	Basis of Assessment (RADAR)	Contribution
Part A		
A1: Rolling Stock Enhancements	Approach (65%) Deployment (35%)	35%
A2: Station Enhancements	Approach (65%) Deployment (35%)	5%
Part B		
B1: Passenger Experience	Approach (50%) Deployment (50%)	20%
B2: Mobilisation, Management and Operations	Approach (50%) Deployment (50%)	15%
B3: Retail, Marketing and Branding	Approach (50%) Deployment (50%)	20%
B4: Assessment and Refinement Plan	Assessment and Refinement (100%)	5%

Bidders will be required to submit a common 'Assessment and Refinement Plan'.

Bidders are encouraged to offer a premium standard of accommodation and/or service.

The weightings adopted for each RADAR component reflect the application of this system to Delivery Plans for a new business. RADAR scoring is the evaluation method used to score for the European Quality Award. Because of the particular requirements of the Caledonian Sleeper rail franchise and the way Delivery Plans A and B are structured, Transport Scotland is adopting a higher weighting for 'Approach' in Delivery Plans A1 and A2 to reflect the high importance given to how Bidders choose to invest the capital offered by Transport Scotland and, for stations, through Network Rail.

The weightings within each Delivery Plan for both Approach and Deployment are set out in within the second column in Table 3-2 (*Weighting of RADAR Component for Delivery Plans A and B*). Each Delivery Plan will be allocated an overall weighting, as set out in the third column in Table 3-2. The weightings reflect the relative importance of each Delivery Plan and the individual elements within them. Delivery Plan B4, the common "Assessment and Refinement" plan, will account for 5% of the overall weighting.

The scoring matrix for each of the Delivery Plans A and B in Table 3-2 (*Weighting of RADAR Component for Delivery Plans Parts A and B*) and Delivery Plans for Bidder Incremental Options is set out in Part I of Attachment H to this ITT.

3.3.4 Quality / Deliverability Assessment

Delivery Plans A1-A2 and B1-B3 will be assessed individually on the basis of (i) Approach which will determine whether the proposals are Sound and Integrated and (ii) Deployment which will determine the proposals are Implementable and Systematic. Bidders will also be required to submit a common "Assessment and Refinement" plan B4 which should be integrated with the other Delivery Plans. Each RADAR component within each Delivery Plan will be scored out of 100.

Each Bidder's scores will be assessed on a pass/fail basis prior to the application of weightings and the combined financial assessment. A score of less than 40 out of 100 for any RADAR component within any Delivery Plan will be considered to fall below the Quality / Deliverability standard required for the Caledonian Sleeper rail franchise and will lead to the Bid being disqualified.

For all Bids that score 40 or more for each RADAR component on each Delivery Plan, the score for each RADAR component will be weighted and aggregated to give a combined weighted score out of 100.

Bidders should note that higher Quality / Deliverability scores are not simply higher cost proposals but rather have a sound, integrated approach with systematic and implementable plans for deployment. Approaches that deliver more and additional positive outcomes in the light of the Franchise Objectives will also result in an improved Quality / Deliverability score.

As part of their Bids, Bidders are encouraged to offer a premium standard of accommodation and/or premium level of customer service with higher quality standards than the business level of accommodation (whether such business level of accommodation is per the minimum requirements specified below or an enhanced specification as bid) as part of their Bids. References to "premium" are to that which is distinguished from first or business class by a noticeably higher level of quality in many facets of the experience which is capable of being considered by some as an attraction in its own right.

- In scoring the "Approach" component of any premium standard of accommodation and/or premium level of customer service under the RADAR framework, such proposals will not, in themselves, be treated as providing "valuable additional outcomes" or be taken as contributing to "credibly exceeding the ITT requirements", since a premium standard of accommodation or premium level of customer service is not of itself a direct Franchise Objective. Any explicitly identified and evidenced secondary effects of the inclusion of premium standard accommodation and/or premium level of customer service may be given proportionate credit if it is shown to contribute to Franchise Objectives.

Caledonian Sleeper Rail Franchise

Invitation to Tender

TENDER REFERENCE:
TS/RD/SER/2013/02

B/5110994/26

The Price will be determined as NPV of subsidy over 15 years.

Quality/Deliverability Assessment combined with Financial Assessment will form basis of ranking and identifying the winning bid.

This will use £1M NPV per point adjustment.

- For the scoring of the “Deployment” component, Bidders are required to ensure that their plans for Deployment of any premium standard of accommodation and/or premium level of customer service have no “omissions in the demonstration of ability to implement outcomes, or in the description of resources and delivery timescales” and ensure that “certainty in the achievement of Transport Scotland’s objectives for the franchise is [not] materially compromised”. The financial contribution of any proposals will be treated as a positive “outcome” for Transport Scotland. The prospect of a withdrawal of any premium standard of accommodation and/or premium level of customer service would be considered to materially undermine Transport Scotland’s objectives for the franchise. Inclusion of a premium standard of accommodation and/or premium level of customer service will also extend the scope of achieving “Consistently thorough provision of evidence of ability to implement approach, and systematic approach to doing so, across the plan”, which is the criterion for a Very Good deployment score.

3.3.5 Financial Assessment

The Price of each Bid will be determined as the NPV of subsidy of each tender submission over 15 years. The subsidy line for years 8 to 15 will be discounted so that long run forecasts receive less weighting. This will be achieved by:

- i) doubling the discount rate for these years in order to reflect the uncertainty of revenues at this point; and
- ii) applying a weighting factor of 33% applied to the subsidy for years 8 to 15.

The £50 million capital contribution to be applied to rolling stock and the £6 million contribution for station upgrades within the HLOS/SoFA with Network Rail (see Section 4.1.1.1 (*Delivery Plan objectives*)) will be excluded from this financial analysis. Robust and deliverable proposals for a premium standard of accommodation and/or premium level of customer service can boost a Bidder’s financial score.

Bidders’ revenue forecasts will not be normalised to a set of consistent assumptions but equalisation adjustments may be made in order to take into account any additional material related costs, liabilities and revenues to be borne by Transport Scotland as a result of the Bidder’s Submission if the Bidder was to be selected as the winner. The Financial Assessment will include any adjustments required to reflect any SMRAs, amendments to the Franchise Signature Documents or other impacts of non-compliance, as opposed to a risk adjustment of the Bidder’s financial offer. The impact of such costs / liabilities / revenue adjustments will be estimated by Transport Scotland and its advisors and expressed as an NPV of the adjustments made, discounted at the appropriate rate. The result will be added to the NPV of the Financial Submission. Where an equalisation adjustment is made, the nature of and rationale for the adjustment will be disclosed to the Bidder. In the event a Bidder with such an adjustment is the successful Bidder, the contract will be awarded on the basis of the removal of the non-compliance.

The Financial Assessment will also include an assessment of the forecast demand and capacity provided to ensure that these are reasonable, details of which are in Section 5.5 (*Modelling Change, Record of Assumptions and Forecasting Robustness, and Financial Robustness*).

The total equalised NPV of each Bid will then be combined with the results of the Quality / Deliverability evaluation as detailed below in Section 3.4 (*Selection of winning Bid*).

3.4 Selection of winning Bid

The Quality / Deliverability Assessment combined with the Financial Assessment will form the basis of ranking the Bidders and identifying the winning Bid. The process for identifying the winning Bidder is set out in Appendix 1 (*Evaluation Process Chart*). In the light of the Franchise Objectives the ranking of Bidders will be carried out using a mechanism calibrated to give broadly equal weighting to Price and Quality / Deliverability. Any premiums offered rather than a subsidy will be treated as negative subsidies in the process of adjusting Price according to the Quality/ Deliverability score.

The ranking of Bidders will be carried out as follows:

- A Quality score of 70/100 will be set as the target quality level.
- For every Quality point that a Bid submission scores above 70 an amount of £1 million will be deducted from the Price of the Bid in NPV terms.
- Conversely, for every Quality point that a Bid submission scores below 70 an amount of £1 million will be added to the Price of the Bid in NPV terms.
- The Final Tender with the lowest combined NPV will be deemed by Transport Scotland to be the most economically advantageous tender.



4. The Franchise Specification and Delivery Plans

In this Section 4, Transport Scotland sets out the submission requirements for the delivery of the Franchise Specification for the Caledonian Sleeper rail franchise. It provides background information about each Delivery Plan including some of the obligations that will fall upon the Franchisee. It also sets out what key elements either must or should be included in each Delivery Plan in each Bidder's submission.

Bidders should set out their Delivery Plans in the form of a series of initiatives. Where possible, within Plans A1, A2, B1, B2 and B3, the Approaches for each initiative should be set out discretely first, followed by the Deployment. The initiatives should be presented in the same sequence to facilitate scoring. The same sequence of initiatives should be used if the Approach and Deployment are grouped in this way. Bidders should note that this format of presenting Bids is not mandatory and Bidders may, if they see substantial benefit, present their initiatives sequentially with a discrete treatment of both Approach and Deployment within the section for each initiative. In other words, the sequence a-a-a, d-d-d is preferred to a,d-a,d-a,d but not mandatory.

Bidders are free to structure their response to Plan B4 as they see fit, but it should be integrated with the other plans as requested in Section 4.6 (*Delivery Plan B4: Assessment and Refinement*) of this ITT, referencing the other plans and initiatives in a consistent presentational sequence where relevant.

Bidders are reminded that Executive Summaries for each Delivery Plan should be included within each Delivery Plan.

**A substantial
improvement in
quality of passenger
accommodation is
central to success.**

**Investment will help
to deliver Franchise
Objective 1: to “deliver
compelling product
improvement to
provide transformed
passenger experience”.**

4.1 Delivery Plan A1: Rolling Stock Enhancement

4.1.1 Introduction

4.1.1.1 Delivery Plan objectives

A substantial improvement in the quality of passenger accommodation provided on the Caledonian Sleeper trains is central to the success of the Caledonian Sleeper rail franchise. The Scottish Ministers have announced that they will invest up to £50 million in rolling stock to ensure that the Caledonian Sleeper Services are enhanced to offer better facilities and a more responsive service to passenger needs. Up to a further £10 million may be made available for rolling stock upgrades where this can be clearly shown to offer incremental value for money in its own right by improving the NPV. Bidders should note that these figures are nominal and the capital contribution will not be subject to indexation.

This investment will help deliver Franchise Objective 1: to “deliver compelling product improvement to provide transformed passenger experience”. By delivering value for money for Transport Scotland’s investment, it should also support Franchise Objective 6, to “manage the business and investment to deliver better value for Transport Scotland and/or customers in terms of the benefits achieved through the subsidy”.

Transport Scotland wishes to contractualise improvements and investments demonstrated in this Delivery Plan A1. Bidders will be required to confirm in their Bids that if they are selected as the winning Bidder, this would be on the basis that the Franchise Agreement contractualises in Schedule 6.1 (*Rolling Stock*) the proposals provided by the Bidder in the Delivery Plan, together with any additional outputs and price provided by the Bidder in the Query Process. Bidders will be expected to take full pricing and delivery risk in relation to their proposals set out in this Delivery Plan A1.

4.1.1.2 Background

The Caledonian Sleeper Services currently utilise loco-hauled stock, employing Class 67 (diesel) and Class 90 (electric) locomotives leased from DB Schenker Rail UK Limited. For sleeping accommodation, Porterbrook Leasing Company Limited supplies 53 Mk3 Sleeper coaches, which are approximately 30 years old. Three types of vehicle make up this fleet, with all types used for first or standard accommodation:

- SLE – 13 cabins with two retention toilets;
- SLEP – 12 cabins with two retention toilets and a pantry;
- SLED – 12 cabins, one of which is equipped for disabled customers, and a retention toilet.

For seated and bar accommodation, Eversholt Rail (UK) Limited supplies a fleet of 22 Mk2 coaches, of which 11 are lounge / brake carriages and 11 are seated carriages, with seated carriages having a capacity of 31 passengers. These vehicles are almost 40 years old.

These carriages are organised into 10 sets (9 x 8 carriage sets and 1 x 2 carriage set) of rolling stock, with two sets serving each of the five Scottish destinations. For the Lowlander service, a Glasgow set is joined to an Edinburgh set, making a total length of 16 carriages. The Highlander service is made up of the Inverness and Aberdeen sets, coupled to two Mk3 coaches bound for Fort William. Two Mk2 coaches are joined to the Fort William portion in Edinburgh with passengers often having to change carriage. This ensures that the formation does not exceed 16 coaches at Euston station.

On each train, accessible berths are available, with one dedicated cabin in a first-class carriage within each section of the train. Standard class cabins and first class cabins have exactly the same specification in terms of their interior; the only difference being that in first class, the second bed is folded away to provide a private room. In standard accommodation passengers are either kept with members of their group, or share with a same-sex passenger.

Whilst the current rolling stock is approaching the end of its expected service life, refurbishment may be a viable option to extend the service life and upgrade the passenger accommodation.

Bidders will be required to demonstrate how they plan to spend up to £50 million capital contribution for investment in rolling stock enhancements in accordance with the rules set out in Appendix 2 (*Rules for Spending of £50m Capital Contribution*) of this ITT.

The improvement
to passenger
accommodation should
support the product
enhancement in B1 and
service changes in B2.

Up to a further £10million may be made available to Bidders for rolling stock investment if Bidders can demonstrate that this incremental funding will improve the NPV of the Caledonian Sleeper rail franchise.

If Bidders propose that it is not necessary to spend the full £50 million capital contribution on refurbishment of the carriages to achieve the appropriate improvement in product quality, the balance may be invested in rolling stock ownership, including traction. Bidders will be expected to demonstrate that such alternative investment will have the effect of reducing the Caledonian Sleeper rail franchise's ongoing lease costs which will be reflected in the Bidder's NPV calculation.

4.1.1.3 Delivery plan scope

This Delivery Plan should detail the approach and rationale that Bidders propose to support achievement of the Franchise Objectives through capital investment in the Caledonian Sleeper rolling stock. The Delivery Plan is expected to be developed in an integrated fashion with the Part B Delivery Plans but repetition between the Delivery Plans should be avoided where possible, by using cross-references.

Delivery Plan A1 should provide the overall rolling stock enhancement plan and set out what it will deliver, together with a clear justification for the investment. The improvements to passenger accommodation set out in this Plan should support the product enhancement proposals set out in Delivery Plan B1 (*Passenger Experience*), and the rolling stock enhancements should support any improvements in performance or changes to service patterns set out in Delivery Plan B2 (*Mobilisation, Management and Operations*).

4.1.2 Franchise requirements

This Section describes Transport Scotland's requirements for the Caledonian Sleeper rail franchise as set out in the Franchise Agreement. It also identifies some areas that Bidders might consider in their initiatives but which are not mandated.

4.1.2.1 Rolling stock strategy

The Caledonian Sleeper rail franchise is expected to deliver significant improvements to the standard of rolling stock provided for the Caledonian Sleeper Services. As a minimum, the requirements for passenger accommodation and facilities detailed below should be met, but where Bidders provide robust justification, further enhancements can be proposed.

Bidders should note that capital investment of up to £50 million is available for rolling stock enhancements and, subject to value for money, could be invested in a combination of, for example, interior refurbishment of existing rolling stock or alternative rolling stock, commissioning new trains or outright purchase of rolling stock or traction in order to reduce leasing costs. Up to a further £10 million may be made available for rolling stock investment to the Franchisee if Bidders can demonstrate that this incremental funding will improve the financial NPV of the Caledonian Sleeper rail franchise. Transport Scotland would welcome innovative ideas in these areas. Capital investment will not be provided to fund rolling stock or locomotive leasing costs.

Bidders are required to set out their overall rolling stock strategy for procuring, leasing or refurbishing rolling stock to provide the overall capacity, facilities and standards to meet the Franchise Objectives ("**Rolling Stock Strategy**"). This should cover the provision of traction power (locomotives) and should set out the Bidder's proposals for how the project will be managed from initial procurement to delivery of the improved rolling stock, with management structure and project controls outlined. It should also cover the future ownership of rolling stock, locomotives, maintenance facilities and servicing locations.

A rolling stock deployment plan will be required to be maintained to include information on how the rolling stock is to be allocated by fleet, by depot allocation, by route and by service group (based on the following year's timetable), and how this relates to the timetable for the following year. The deployment plan should also show availability of units in service, spare and maintenance commitment rolling stock. The deployment plan will also have to look beyond the Franchise Period.

**Bidders to determine
the allocation of
space to categories
of accommodation but
observe the minimums.**

As part of the Rolling Stock Strategy, Bidders will be expected to confirm that they will procure in favour of Transport Scotland:

1. On early termination of the Caledonian Sleeper rail franchise (i) a right for Transport Scotland to acquire title to the rolling stock at no additional cost to Transport Scotland; or (ii) a right for Transport Scotland to step-in to the rolling stock leases; and
2. On expiry of the Caledonian Sleeper rail franchise (i) a right for Transport Scotland to acquire title to the rolling stock; or (ii) an option for Transport Scotland or the successor franchisee to lease the rolling stock in accordance with the requirements set out below.

The treatment of the residual value of the rolling stock will be based on 30 years life of the rolling stock from the manufacturing date and will be dependent on whether the capital investment has been used to purchase new rolling stock or refurbish the existing rolling stock:

1. In respect of refurbished rolling stock with a manufacturing date occurring more than 15 years prior to the Franchise Commencement Date, these will be treated as Primary Franchise Assets. Where such rolling stock has been:
 - a. leased, the Franchisee will be required to provide an option to the successor franchisee to lease the rolling stock at a peppercorn rate. Such option shall be explicitly provided for in the Direct Agreement between the ROSCO and the Scottish Ministers for the Caledonian Sleeper rail franchise.
 - b. purchased, the Franchisee will be required to provide Transport Scotland with a right to acquire title to the rolling stock at nil value.
2. In respect of new rolling stock or refurbished rolling stock with a manufacturing date occurring less than 15 years prior to the Franchise Commencement Date, such rolling stock shall be depreciated over 30 years from the manufacturing date. Where such rolling stock has been:
 - a. leased, the rolling stock will be depreciated through the lease with the ROSCO. Bidders should note that the Direct Agreement between the ROSCO and the Scottish Ministers shall explicitly state that the £50 million capital contribution does not form part of the lease charge and shall be excluded from the rolling stock lease and any subsequent leases for such rolling stock.
 - b. purchased, the Franchisee will be required to provide Transport Scotland with a right to acquire title to the rolling stock for consideration. Such consideration shall be based on the book value of the rolling stock as the date of expiry of the Caledonian Sleeper rail franchise less the £50 million capital contribution made by Transport Scotland.

Bidders should note that Transport Scotland should have oversight rights, including a right to require regular updates and attend meetings. Any material changes to the Rolling Stock Strategy, deployment plan or associated contracts will require Transport Scotland approval.

References to rolling stock shall include references to railway passenger vehicles, locomotives and other forms of traction.

4.1.2.2 Passenger accommodation and facilities

The investment in the Caledonian Sleeper rolling stock, whether achieved by refurbishment or acquiring new rolling stock must meet a set of requirements for passenger accommodation and facilities, as set out in Schedule 6.1, Appendix I (Rolling Stock Specification) of the Franchise Agreement and summarised below.

Passengers should be offered at least three levels of accommodation:

- Berth (aimed at the business market)
- Berth (aimed at the leisure market and families)
- Couchette or seat (aimed at the economy market).

A berth is defined as a bed suitable for one person, in a cabin. Business class berths should be available for single occupancy when requested, but this does not preclude proposals for double or connecting berths. As a minimum, business class berths should be equipped with an en suite lavatory. It is recognised that leisure travellers travel singly, in pairs and in groups or families and Bidders are encouraged to make proposals for configuration of cabins which reflect this. Accommodation in each level of service provision should be accessible to Disabled Persons in accordance with the Technical Specification for Interoperability for Persons with Reduced Mobility (PRMTSI). This should include the transportation of assistance dogs for the visually impaired, hard of hearing, etc., within the passenger accommodation.

It is important for reasons of social equity that there is a reasonable level of access to the different levels of accommodation. Based on the current balance of berths to seats, the minimum proportion of berths and seats per service should be:

- A minimum of 15% of passenger spaces shall be business cabins;
- A minimum of 20% of passenger spaces shall be leisure cabins;
- A minimum of 20% of passenger spaces shall be seats and/or couchettes.

The spaces shall be counted by cabin rather than by berth, except for seated spaces. As long as these minimum requirements are met, bidders are free to determine how they address the balance, how flexibility can be provided to respond to changing market conditions and how the balance might be adjusted to meet the demands of seasonality or specific events.

While Bidders are encouraged to offer a premium standard of accommodation and/or premium level of customer service as part of their Bids, this will not be supported financially by Transport Scotland through compensation paid under the Franchise Agreement. Any such provision would therefore be at the Franchisee's risk. Transport Scotland is open to Bidders coming forward with costed proposals, supported by patronage data and expected revenue, which support the provision of a premium standard of accommodation and/or premium level of customer service.

Where a Bidder wishes to offer a premium standard of accommodation and/or premium level of customer service that will utilise more than 15% of the train by total passenger capacity, the consent of Transport Scotland should be obtained before developing a Bid on this basis.

It is recognised that the inclusion of a premium standard of accommodation and/or premium level of customer service may entail use of a portion of the same rolling stock used to provide the overall Caledonian Sleeper Services. Where this is the case and an element of the capital costs are attributable to a premium standard of accommodation and/or premium level of customer service this will be treated as a loan to the Franchisee, rather than a contribution. As such, forecast revenue for a premium product must be sufficient to repay the loan in respect of any incremental element of the capital used for the passenger rolling stock upgrade within 7 years of the commencement of the Caledonian Sleeper rail franchise. The Scottish Ministers shall make this funding available in accordance with Market Equivalent Investor Principle commercial terms, details of which are available on the Data Site. Alternatively Bidders may seek or fund the creation of a premium standard of accommodation and/or premium level of customer service from other sources of funding available to them commercially. All discreet and incremental costs required for the provision of a premium standard of accommodation and/or premium level of customer service must be identified and reported separately.

Bidders should provide detailed descriptions of the proposed types of accommodation. As a minimum, the following facilities are required:

- A bed and/or couchette/seat, as appropriate, per passenger;
- 240V power sockets (provided at minimum of per berth, per couchette/seat, and with a reasonable number in the social/catered area).
- Passenger controlled secure door locks to cabins, so as to improve passenger safety and privacy.
- Windows in all berths/cabins and in the carriage conveying seats/couchettes. Sealed windows are preferred, subject to an appropriate level of ventilation being provided. Windows in berths shall be no smaller than at present.
- Hot and cold running water in all cabins for washing facilities.

**Bidders to consider
measures beyond
the minimum
enhancements.**

- Heating and ventilation controlled by the cabin occupier;
- Seating and table arrangements in each cabin.
- Storage space in cabins for luggage.
- Clothing hangers/hooks in cabins.
- Personal secure storage space in shared accommodation areas (i.e. an individual means of safely securing per couchette/seat sufficient in size to fit a briefcase, laptop, handbag, valuable items etc.) in addition to space for but not necessarily for securing larger items of luggage..
- On-train Wi-fi/mobile connectivity.
- A minimum of two toilets per vehicle, accessible to all able-bodied passengers. All toilet effluent must be collected in Toilet Retention Tanks. Toilet provision for Disabled Persons shall be in accordance with the PRMTSI.
- Onboard CCTV in passenger areas (except berths and toilets) together with onboard recording, at a minimum of 2 fps normal and 25 fps for 2 minutes before and 5 minutes after a trigger event.

Although not mandatory, Bidders are encouraged to consider provision of enhanced plumbing facilities within carriages, for example provision of showers, in excess of the minimum outlined above. Where this is proposed, there should be a clear justification and rationale explaining the commercial case for providing this whether in respect of all or some of the levels of accommodation.

Sufficient space should also be provided for the demands of the tourist market, with adequate space for tourists' luggage and any likely equipment, including sporting equipment such as skis at no additional cost to passengers. Capacity for carriage of cycles sufficient for all passengers who wish to travel with a cycle should also be provided in order to ensure transport integration and to promote active travel choices. Luggage and cycles should be able to be transmitted to the passenger's destination station without further action by the passenger after initial storage.

Adequate staff accommodation and facilities must be made available to enable the catering and customer services described in Delivery Plan B1 (Passenger Experience) to be provided.

Bidders are encouraged to consider measures beyond the minimum enhancements described above and should set out their own proposals for meeting passengers' needs. However, a clear rationale must be set out as to the need for the scope and specification of passenger facilities to be provided, in order to address the Franchise Objectives effectively. These should be cross-referenced to Delivery Plan B1 (Passenger Experience) where appropriate.

Provision should be made to accommodate the current level of freight carriage. The Franchisee may make additional provision for the carriage of freight, particularly where this could provide opportunities for goods from remote producers to access markets however, the carriage of freight must not disrupt passenger operations or detract from the quality of the passenger service.

4.1.3 Bid requirements

Bidders' efforts in preparing this Delivery Plan are expected to be focused on:

- **Rolling stock investment strategy** – setting out investment proposals for new or refurbished rolling stock;
- **Passenger facilities** – how the required on-train facilities are to be provided, in order to deliver an enhanced product for passengers.

The rolling stock investment strategy should address:

- Whether existing rolling stock is to be refurbished, 'cascaded' rolling stock is to be leased or purchased, or new rolling stock acquired;
- The scope, specification and expected cost of the rolling stock enhancements/acquisitions;
- How the rolling stock enhancements will be procured and delivered/acquired including a detailed management plan for the procurement from concept through to service delivery and details of how the Bidder will engage with Transport Scotland throughout the delivery;
- How rolling stock will be cascaded between routes (where appropriate);
- How the rolling stock and enhancements are to be financed, whether this be through a rolling stock leasing company, by outright purchase or by other means.

Delivery Plan must include a clear set of scope of works, specification, milestones and HoT's for extraction to Schedule 6.1 of the Franchise Agreement.

A clear rationale for the Rolling Stock Strategy must be set out. Explanation must be provided on how the necessary passenger capacity is provided in different levels and types of accommodation consistent with the passenger demand forecasts. A justification for how the enhancements will meet passenger needs for modern high quality accommodation should be provided, including but not limited to the passenger accommodation and facilities requirements set out above. This justification should clearly demonstrate that the standards of accommodation and facilities to be put in place are appropriate to meet passenger expectations during the Franchise Term. In scoring the Delivery Plan, this will be taken as contributory evidence that the approach is sound.

Where the approach to investment in rolling stock results in a reduction in ongoing costs (such as rolling stock lease costs) these benefits should also be set out by reference to, and description of the financial submission. The appropriateness of the balance between improving standards in passenger accommodation/facilities and reducing ongoing costs as a result of the overall plan for investment should be clearly rationalised. In scoring the Delivery Plan, the explanation and rationale for this balance will be taken as contributory evidence that the approach is sound.

Bidders should also explain how the Rolling Stock Strategy will enable the service patterns and performance targets to be met. Underpinning these is expected to be an analysis of how value for money for Transport Scotland's capital investment is secured over the Franchise Term and beyond.

Bidders' proposals are also expected to show how compliance with the rail vehicle accessibility standards in the PRMTSI will be achieved before the legislative 'end date' of 31 December 2019. Bidders' proposals should demonstrate how they propose to approach achieving compliance through consultation with the Department for Transport. Bidders are encouraged to submit proposals for achieving compliance at the earliest practicable opportunity.

Bidders should review the incident data provided in the Data Site and undertake a hazard analysis to inform their proposal of safety enhancements to the proposed rolling stock. This should include, for example, the doors.

This Delivery Plan must include a clear set of capital investment plans, clearly identified for extraction into Schedule 6.1 (*Rolling Stock*) of the Franchise Agreement. These should include:

- A detailed scope of works;
- A detailed specification;
- A milestone delivery & payment schedule; and
- Heads of Terms / Term Sheets as required at Section 4.1.4.1 below.

Alongside these, but not for extraction to the Franchise Agreement, Bidders are required to include benchmarking or other clear evidence that the costs of proposed works/materials/products are consistent with typical market prices. In scoring the Delivery Plan, this will be taken as contributory evidence that the approach is sound. In support of this, Bidders should also set out any processes used and/or proposed to be used to ensure such works/materials/products are being procured at competitive market value. In scoring the Delivery Plan, this will be used as evidence that a Bidder's approach is implementable.

Bidders' method of deployment should include an approach to developing the product by engagement with stakeholders, including consultation with users and/or potential users, as well as proofs of concept, testing at various stages of development and commissioning.

4.1.4 Required supporting information

This Section describes the information that is important for Bidders to provide in order to assess the overall Deliverability of their proposals. This information should be provided in the Delivery Plan.

4.1.4.1 Heads of Terms/Term Sheets

Copies of the Heads of Terms/Term Sheets should be provided for rolling stock that is subject to enhancements and leasing agreements. Bidders will be required to provide a proposed contractual structure for rolling stock and demonstrate how Transport Scotland will retain a residual interest and benefit in the rolling stock as outlined in Section 4.1.2.1 (*Rolling Stock Strategy*) above. This is likely to require Bidders to facilitate Transport Scotland entering into a direct agreement with the owners of the vehicles.

**Right to acquire title
or an option to lease
assets beyond
franchise term.**

4.1.4.2 Vehicle ownership details

Details should be provided of all new or 'cascaded' rolling stock and locomotives and other rail assets that are planned to be acquired by the Franchisee for the Franchise Term, clearly demonstrating how this will support delivery of the Franchise Objectives.

For the new or 'cascaded' rolling stock and locomotives, clear arrangements should be put forward, as outlined above in Section 4.1.2.1 (*Rolling Stock Strategy*) to provide Transport Scotland with the right to acquire title to or an option to lease these assets beyond the Franchise Period that is proportionate to its investment. Failure to provide such arrangements will be considered as a significant omission.

In respect of other rail assets that Bidders propose to acquire, Bidders should provide details of whether such assets will be Franchise Assets and how ownership of such assets will be dealt with beyond the Franchise Period.

4.1.4.3 Fleet and maintenance plans

An itemisation of the rolling stock available by time period should be provided, setting out which rolling stock will be available from the Franchise Commencement Date. This should identify how delivery profiles for any new rolling stock, cascades where appropriate, or how refurbishment cycles are to be managed.

Bidders should provide an explanation of their proposed approach to monitoring fleet performance, particularly in respect of traction reliability, ranging from daily availability to period performance in accordance with the ATOC National Fleet Reliability Improvement Programme requirements. The Franchisee will be required to demonstrate their quality of maintenance and repair by demonstrating their audit plan and in the provision of product audit reports as and when required.

Bidders are expected to provide a maintenance plan covering the train maintenance and cleaning strategy for the Caledonian Sleeper rail franchise including setting out how they will procure maintenance and engineering services, ongoing costs and any necessary heavy maintenance / overhaul work to rolling stock and traction in order to reflect a whole life approach to maintaining, refreshing and updating the service and facilities. Bidders should be explicit about their plans for the future use and development of any existing or proposed maintenance facilities (including any plans to increase, reduce or cease use of any site) and the periodicity of their planned refresh/updates of service and facilities with the rationale behind this. The maintenance strategy should also set out Bidders' proposed arrangements for cleaning carriages and replenishment of rolling stock at Key Stations.

Under the existing ScotRail franchise, stabling, servicing and light and heavy maintenance for both diesel multiple units and the Caledonian Sleeper rolling stock are carried out at the Inverness Light Maintenance Depot.

Light maintenance and cleaning services for the Caledonian Sleeper rolling stock is also carried out at Polmadie Depot and Wembley Depot. Servicing is also carried out at Fort William and Aberdeen under the existing ScotRail Franchise (although only emergency repairs are carried out at these locations).

Transport Scotland intends that the Inverness Light Maintenance Depot will be allocated to the ScotRail franchisee who will lease it from Network Rail. It is intended that the ScotRail franchisee will be required to enter into a Depot Access Agreement with the Caledonian Sleeper Franchisee allowing access to and use of the Depot, if this is requested by the Caledonian Sleeper Franchisee. The ScotRail franchisee would be required to ensure that the current level of usage of the Depot by the Caledonian Sleeper Services could continue under the Caledonian Sleeper rail franchise, unless the Caledonian Sleeper Franchisee confirms during the mobilisation period that this is not required. Bidders should assume this position for the purpose of Bids.

The Caledonian Sleeper Franchisee will be free to contract with the ScotRail franchisee for the provision of specified depot services at Inverness, for example stabling, interior and external cleaning, fuelling and engineering works. Bidders should note that the terms of any Depot Access Agreement are to be negotiated with the ScotRail franchisee and ORR regulate terms or prices for depot access and services. Bidders who intend to enter such arrangements should set out what contingency arrangements they would put in place in the event that agreement cannot be reached with the ScotRail franchisee.

Investment will help deliver Franchise Objectives 4 and 5: to improve station facilities and support effective integrated onward connections.

The ScotRail franchisee agreement will, should the Caledonian Sleeper Franchisee's bid proceed on the basis of use of Inverness Light Maintenance Depot, contain obligations in Schedule 2.6 such that the ScotRail franchisee shall (without prejudice to the duties or powers of ORR) be obliged by the Scottish Ministers to offer depot access and a range of depot services (including in respect of specification and quality of the latter) to the Caledonian Sleeper Franchisee which are no less in any such aspect than the light maintenance services provided by the current ScotRail franchisee to rolling stock including traction it uses to provide Anglo-Scottish sleeper services under the current ScotRail franchise. Schedule 2.6 of the ScotRail franchise agreement shall separately oblige the ScotRail franchisee (again without prejudice to the duties or powers of ORR) when required by the Scottish Ministers to demonstrate that charges sought from and / or charged to other train operators for depot access and / or depot services are reasonable.

The ScotRail franchisee will also be required to offer the Caledonian Sleeper Franchisee a sub-lease, on reasonable commercial terms, of such parts of the Inverness Light Maintenance Depot as the Caledonian Sleeper Franchisee may request exclusive use, provided these areas are not required for the maintenance of rolling stock used by the ScotRail franchisee or any other party with whom the ScotRail franchisee has a Depot Access Agreement.

Where Bidders confirm they intend to use Inverness Light Maintenance Depot this will not become a Committed Obligation in the Franchise Agreement. Alternative solutions may be proposed for the delivery of maintenance and other services.

4.1.5 Information not required

There are certain areas of franchise operation that fall into the rolling stock area but that are not required to be described in Bidders' Delivery Plans. These largely apply to compliance with statutory and regulatory requirements.

4.1.5.1 Compliance with statutory, technical and environmental requirements

Bidders' rolling stock plans must comply with applicable mandatory standards and legislation and with existing industry standards and guidance. Although Bidders are not required to demonstrate such compliance as part of the Delivery Plans there will be an obligation set out in the Franchise Agreement requiring compliance with all industry specific and general laws.

4.2 Delivery Plan A2: Stations Enhancement

4.2.1 Introduction

4.2.1.1 Delivery Plan objectives

Accompanying the improvement in the Caledonian Sleeper rolling stock is expected to be a commensurate enhancement in Station facilities. Investments are expected to be delivered in partnership with Network Rail, Station Facility Owners and other station users, but the Franchisee should ensure that this is done in a way that meets the needs of Caledonian Sleeper customers. A £6 million fund is available for Network Rail investment in Caledonian Sleeper Service facilities at Stations in Scotland.

This investment will help deliver Franchise Objectives 4 and 5: to "improve station facilities at Key Stations where the Sleeper calls in Scotland" and "support efficient integrated onward connections by all modes of transport".

Transport Scotland wishes to contractualise improvements proposed in this Delivery Plan A2. Bidders will be required to confirm that if they are selected as the winning Bidder, this would be on the basis that its response to this Delivery Plan will form the basis for contractualising these proposals in Schedule 6.2 (*Station Enhancements*) of the Franchise Agreement.

4.2.1.2 Background

The stations served by the Caledonian Sleeper Services are listed in Table 4-1 below.

Caledonian Sleeper Rail Franchise

Invitation to Tender

TENDER REFERENCE:
TS/RD/SER/2013/02

B/5110994/26

Table 4-1: Stations currently served by the Caledonian Sleeper Services

Stations currently served by Lowland trains	Stations currently served by Highland trains
<p>Edinburgh Waverley Glasgow Central High Level Motherwell Carstairs Carlisle Watford Junction London Euston</p>	<p>Aberdeen Stonehaven Montrose Arbroath Carnoustie Dundee Leuchars (for St Andrews) Kirkcaldy Inverkeithing Inverness Aviemore Kingussie Newtonmore Dalwhinnie Blair Atholl Pitlochry Dunkeld & Birnam Perth Gleneagles Dunblane Stirling Falkirk Grahamston Fort William Spean Bridge Roy Bridge Tulloch Corrour Rannoch Bridge of Orchy Upper Tyndrum Criailarich Ardlui Arrochar & Tarbet Garelochhead Helensburgh Upper Dumbarton Central Dalmuir Westerton Preston Crewe Watford Junction London Euston</p>

The highlighted stations, namely Fort William, Inverness, Aberdeen, Glasgow Central High Level, Edinburgh Waverley and London Euston, are designated as 'Key Stations' for the purposes of this ITT.

Subject to the final form of the initial Service Level Commitment, the current call at Westerton station will be replaced by either a call at Glasgow Central low level station or Glasgow Queen Street low level station.

At Carlisle, Preston and Crewe stations, the Intercity West Coast franchisee is the Station Facility Owner (SFO) and at Watford Junction, the London Midland franchisee is the SFO. Network Rail manages London Euston station, Edinburgh Waverley station and Glasgow Central High Level station and the ScotRail franchisee is SFO at the remaining Stations.

The availability of customer lounge facilities at each of the Key Stations varies, as set out in Table 4-2 (Availability of current customer lounge facilities).

Table 4-2: Availability of current customer lounge facilities

Station	First Class	Standard Class
Aberdeen	Access to First Class lounge with complimentary light snacks, refreshments and Wi-Fi access, for First Class passengers and loyalty club members.	None
Edinburgh Waverley	Access to First Class lounge with complimentary light snacks, refreshments and access to phone and fax.	Access to First Class lounge with complimentary light snacks, refreshments and access to phone and fax.
Fort William	None	None
Glasgow Central High Level	Use of the on-train Lounge Car; which is available for early boarding from 10pm.	Use of the on-train Lounge Car; which is available for early boarding from 10pm.
Inverness	Access to the customer lounge.	Access to the customer lounge.
London Euston	Access to First Class lounge with complimentary light snacks and refreshments, for First Class passengers, loyalty club members and Standard Single ticket holders.	Access to passenger lounge on main concourse.

In addition, at Carlisle, Caledonian Sleeper customers are offered complimentary tea, coffee or mineral water in the Hallmark Hotel, outside the Station.

Shower facilities are available at each of the six Key Stations, as set out in Table 4-3 (Availability of current shower facilities).

Table 4-3: Availability of current shower facilities

Station	First Class	Standard Class
Aberdeen	Free	Not available
Edinburgh Waverley	Chargeable	Chargeable
Fort William	Free	Chargeable
Glasgow Central High Level	Chargeable	Chargeable
Inverness	Chargeable	Chargeable
London Euston	Free	Not available

4.2.1.3 Delivery plan scope

This Delivery Plan should detail the approach and rationale that Bidders propose to support achievement of the Franchise Objectives through enhancements to station facilities and improving access to stations. The Delivery Plan is expected to be developed in an integrated fashion with the Part B Delivery Plans but repetition between the Delivery Plans should be avoided where possible, by using cross-references.

This Delivery Plan A2 should provide the overall plan for enhancing station facilities and access and set out what it will deliver; together with a clear justification for the investment proposed. The improvements to station facilities set out in this Delivery Plan should support the product enhancement proposals and passenger satisfaction targets set out in Delivery Plan B1 (*Passenger Experience*).

**Bidders to set out
where and on
what facilities NR
improvements are to
be focused.**

4.2.2 Franchise requirements

This Section describes Transport Scotland's requirements for the Caledonian Sleeper rail franchise as set out in the Franchise Agreement. It also identifies some areas that Bidders might consider in their initiatives but which are not mandated.

4.2.2.1 Station facilities

At the Key Stations (Fort William, Inverness, Aberdeen, Glasgow Central High Level, Edinburgh Waverley and London Euston) all Caledonian Sleeper passengers should be provided with access to a waiting room, shower facilities and digital connectivity. There may be differentiation by ticket type on charges or the standard of facilities.

At the stations serving Scotland's other cities (Stirling, Perth, Dundee) a waiting room, shower facilities and digital connectivity shall be provided. At Crianlarich (which provides onward connections to Oban) and at Aviemore (which like Fort William is a major tourist destination) waiting rooms, showers and digital connectivity shall also be provided, though at Crianlarich the shower facility may be secured through a facility immediately adjacent to the station available for other users as well.

Bidders are not limited to the minimum enhancements described above, but should set out their own proposals for meeting passengers needs. It may be considered appropriate, for example, to make additional provision for business class passengers or other passengers purchasing a berth in order to meet the necessary passenger experience expectations set out under Delivery Plan B1. However, a clear rationale must be set out as to the need for the scope and specification of passenger facilities to be provided, in order to address the franchise objectives effectively. These should be cross-referenced to Delivery Plan B1 where appropriate.

4.2.2.2 Access to Stations

As the Caledonian Sleeper Franchisee will not be the SFO at any of the Stations, it is not expected that station travel plans will be developed by the Franchisee or that other substantial investments will be made in improving sustainable access to the Stations. However, Transport Scotland expects to see how the Franchisee will work with third parties to ensure that Caledonian Sleeper Service customers are able to access the train services easily and are able to do so using sustainable low-impact modes of transport where possible. This is likely to involve the provision of appropriate information to Caledonian Sleeper Service customers, wider transport integration and engagement with local stakeholders, which in future may include Community Rail Partnerships. Further initiatives would be welcomed if they are anticipated to contribute to increases in Caledonian Sleeper patronage or improving environmental sustainability.

4.2.3 Bid requirements

Bidders' efforts in preparing this Delivery Plan are expected to be focused on:

- **Customer facilities at Stations** – how improved station facilities are to be provided in order to meet the Franchise requirements and deliver an enhanced product for customers.
- **Access/egress to/from Stations** – how efficient and sustainable access to stations will be facilitated for Caledonian Sleeper customers.

The strategy for enhancing passenger facilities at stations should take account of the need to work with Network Rail, other operators, the local Regional Transport Partnerships, local Community Rail Partnerships and Station users to deliver the improvements and maintain high quality standards through the whole franchise period. This should be integrated with the Delivery Plan B4 for Assessment and Refinement.

Network Rail has a £6 million fund available for Control Period 5, for investment in Caledonian Sleeper facilities at Stations and Bidders should set out how, where and on what facilities they propose this be allocated. Detailed and costed plans should be worked up for submission, and these should be discussed with Network Rail during the Bid preparation period to ensure the plans are realistic.

Bidders are free to put forward plans for Station enhancements that might be delivered by the Franchisee or by other Station users, but these will need to be commercially viable (including the ongoing subsidy) during the Franchise Term or must make use of other funding sources. No further capital funding will be available from Transport Scotland, although proposals for improvements beyond those to be delivered by Network Rail would be welcomed.

Together, these plans must show how the minimum requirements described above are to be met, and if appropriate exceeded.

A clear rationale for the Station facilities plan must be set out. The Station facilities should be consistent with the standard of services provided and delivered on-train. The Station facilities plan should reflect anticipated levels of patronage by Caledonian Sleeper passengers of the relevant stations. The rationale should clearly demonstrate that the standards of Caledonian Sleeper rail facilities to be put in place are not in excess of that necessary to meet passenger expectations during the Franchise Term. In scoring the Delivery Plan, this will be taken as contributory evidence that the approach is sound.

Bidders should demonstrate how the Station investments will allow the passenger satisfaction targets proposed in Delivery Plan B1 to be achieved. Facilities that are shared with the main ScotRail Franchisee will be subject to the SQUIRE regime. Bidders should note that the SQUIRE regime does not apply at Stations in England and so other means of monitoring Station quality and ensuring delivery of standards should be put forward. These should be integrated with Delivery Plan B4 for Assessment and Refinement.

In setting out proposals for facilitating sustainable access to Stations, Bidders should consider:

- The role of providing clear and comprehensive passenger information;
- Any investment that may be available from local authorities, transport operators or other stakeholders;
- Commercially viable schemes that may have a case for delivery by the franchisee;
- The need to enhance facilities to support the ongoing provision of a secure and safe environment for passengers.

This Delivery Plan must include a clear set of capital investment plans for all Station enhancement and Station access/egress proposals put forward, however they are to be funded. These should include:

- A detailed scope of works;
- A detailed specification;
- A delivery programme and cost estimate endorsed by Network Rail and the relevant SFO as far as practicable.

4.2.4 Required supporting information

This Section describes the information that is important for Bidders to provide in order to assess the overall Deliverability of their proposals. This information should be provided in the Delivery Plan.

4.2.4.1 Network Rail

Endorsement should be sought from Network Rail of the deliverability of the Station enhancement proposals within the £6 million funding available.

4.2.4.2 Franchise Facilities

Bidders' attention is drawn to Schedule 4.1 (Franchise Facilities) of the Franchise Agreement which sets out a mechanism for survey of facilities used and made available by the Franchisee including rolling stock, Station Areas and Depot Areas. Provision is made for the Franchisee to devise and implement a programme of maintenance for depot areas and maintenance and refurbishment of Station Areas. Bidders may make proposals for alternative mechanisms and procedures which could be put in place to deal with these matters.

4.2.5 Information not required

There are certain areas of franchise operation that fall into the category of Stations but that are not required to be described in Bidders' Delivery Plans. These largely apply to compliance with statutory and regulatory requirements.

**A quality product
representing the best
of Scotland.**

**Consistently high
standards to achieve
high levels of
passenger satisfaction.**

4.2.5.1 Station accessibility compliance

Bidders' proposals are expected to take into account the guidance presented in 'Accessible Train Station Design for Disabled People: A Code of Practice' published in November 2011 and the standards in the PRMTSI. Specific proposals in this area are not required unless this is considered to add value to the Bidder's proposition.

4.3 Delivery Plan B1: Passenger Experience

4.3.1 Introduction

The perception of the Caledonian Sleeper rail franchise as offering a quality product representing the best of Scotland is central to the Scottish Ministers' vision for the Caledonian Sleeper rail franchise. Given the significant capital investment planned for the Caledonian Sleeper Services. The Scottish Ministers wish to see an appropriate change in the quality of operations putting passengers' interests at the heart of the service delivery by meeting the expectations of modern passengers, building on and complementing the transformation of the passenger accommodation described in Delivery Plans A1 and A2. Accordingly, Bidders will be required to provide evidence that they will adopt an ethos of excellence and quality in operation and service to meet the Scottish Ministers' expectations.

Transport Scotland wishes to ensure that consistently high standards are present across all areas of the operation, with a view to achieving high levels of passenger satisfaction. This is to help deliver Franchise Objective 1, to "deliver a compelling product improvement to provide transformed passenger experience". Caledonian Sleeper Services compete with other rail, air and hotel services and need to meet passengers' ever-increasing expectations of service quality if they are to be successful, particularly in attracting new custom, including from overseas customers. They also complement day-time rail services, and service and quality standards therefore also need to address the needs of these users. The Delivery Plan should therefore also help deliver Franchise Objective 3, to "to achieve an internationally renowned service that is emblematic of the best of Scotland, shown by strong brand awareness in Britain and among international visitors".

A passenger survey carried out by Transport Scotland in 2012 showed some satisfaction with the Caledonian Sleeper Services but a significant number of areas that would benefit from improvement. The areas that people would change about the current service include the levels of noise and comfort, facilities (such as power sockets and internet), and the provision of en suite facilities. Service features that people are currently less satisfied with include the quality of facilities at Stations and on-board, comfort and noise levels and breakfast. The results of the Passenger Survey are in the Data Site. The Rail 2014 consultation also highlighted as desirable features the buffet/restaurant, wi-fi facilities and mobile phone coverage, plus the availability of clean and accessible toilets.

This Delivery Plan should describe the Bidder's proposed customer service strategy which should include a clear unambiguous commitment to how the customer service and facilities will be offered to Caledonian Sleeper Service passengers, including how the enhancements to on-board accommodation and station facilities are offered, and the service levels that will be provided by staff. These are likely to be linked to Delivery Plans A1 and A2, but repetition should be avoided where possible, by using cross-references. It is expected that this customer service strategy will be developed and finalised at contract award and the Franchisee will be expected to comply with it in all respects in the delivery of the Caledonian Sleeper rail franchise.

Delivery Plan B1 should provide the rationale for the provision of the proposed Caledonian Sleeper Services product(s), should describe the enhanced service provision from the passenger's point of view, and should set out the outcomes for passengers in terms of improved satisfaction.

Delivery Plan A1 should describe how the on-board facilities are to be provided through a Rolling Stock Strategy, whether that be through the refurbishment of existing rolling stock or the acquisition of new trains, for example.

Delivery Plan A2 should describe how the enhancements to Station facilities are to be delivered. The results of Delivery Plan B1 in terms of improved patronage will feed through to the demand and revenue forecasts in Delivery Plan B3 (*Retail, Marketing and Branding*).

4.3.2 Franchise Requirements

This Section describes Transport Scotland's requirements for the Caledonian Sleeper rail franchise as set out in the Franchise Agreement. It also identifies some areas that Bidders might consider in their initiatives but which are not mandated.

4.3.2.1 Product improvement

Bidders should describe the Caledonian Sleeper products that will be offered to passengers, taking into account the three levels of accommodation that are required to be provided (as set out under Delivery Plan A1): business berths, leisure berths and couchettes or seats. This should explain:

- The key features of the customer offer and how it is tailored for different levels of accommodation for travel;
- How these build on the rolling stock accommodation enhancements set out in Delivery Plan A1;
- How these build on the Station facility enhancements set out in Delivery Plan A2;
- How these build on any service pattern changes presented in Delivery Plan B2;
- The rationale for the Bidder's proposals, including how these features will meet customer needs.

Bidders should note that they are encouraged to offer a premium standard of accommodation and/or premium level of customer service in addition to the three levels of accommodation specified, but this will not be supported financially by Transport Scotland. Bidders should refer to Section 4.1.2.2 (Passenger accommodation and facilities) above for further details. Bidders will not be permitted to utilise the station investment fund of £6 million referred to in Delivery Plan A2 to fund any such premium standard of accommodation and/or premium level of customer service. Any such provision would be through the Franchisee's own funding and at the Franchisee's risk. Transport Scotland is open to Bidders coming forward with costed proposals, supported by justified patronage forecasts, which support the provision of a premium standard of accommodation and/or premium level of customer service and expected revenue. All discreet and incremental costs required for and received from the provision of a premium standard of accommodation and/or premium level of customer service must be identified and reported separately.

4.3.2.2 Customer service

Passenger safety and service are the key considerations in considering staffing on trains. As a minimum, Bidders should offer staffing levels sufficient to ensure passenger safety and the provision of timely information and assistance to passengers – both on-train and at Stations. Further decisions on staffing levels, such as to reflect enhanced levels of customer service for business berth passengers, will be determined by the Franchisee. The level and quality of staffing throughout should be appropriate for the level of provision offered and advertised by the Franchisee, and will be such as to not negatively affect perceptions of service quality.

The focus on the delivery of an improved level of service should be included across all standards of accommodation provided for Caledonian Sleeper passengers; there should be no skew towards either end of the spectrum. For reasons of social equity, the service must cater for all types of travellers.

At Key Stations, there should be a visible staff presence to assist passengers to and from the Caledonian Sleeper Services. These may be the Caledonian Sleeper franchise's own staff or sub-contracted from other providers, but they must be clearly identifiable to passengers.

At terminal stations the Franchise Agreement will require the train to be available for boarding at least 30 minutes before departure. However Bidders should consider whether this could be increased and communicated to allow flexibility for passengers and to give them the opportunity to utilise the catering services.

4.3.2.3 Catering

The on train catering service should provide a quality experience, which showcases Scottish cuisine. Bidders are encouraged to use locally sourced produce where possible. Where this is not possible, Bidders are encouraged to use fair trade products.

**SQUIRE, mystery
shopper and passenger
surveys to measure
passenger experience.**

**SQUIRE only has
consequences if
standards slip.**

Passengers who have purchased a berth must have access to meals, snacks, breakfast, hot and cold drinks and (subject to applicable law) alcohol. Catering must be provided on all services between Key Stations. It is expected that an area on the train will be provided where passengers with berths may consume food and drink. A restaurant car is not specified, but innovative propositions that will enable passengers with berths to meet socially, relax and consume catered food are welcomed. All passengers in berths should have the opportunity to have breakfast on the train should they so wish. Bidders are free to propose how this is to be delivered, although passengers are not expected to have to consume non-breakfast catered items in their cabins.

Passengers in seated accommodation are expected to have access to catered items either at their couchette/seat or at a conveniently located facility. Such catering services must be available at all times and not dependent on vending machines.

Although not mandatory, Bidders may put forward proposals for the provision of off-train catering.

4.3.2.4 Monitoring passenger satisfaction

Ultimately, the success of initiatives developed in this Delivery Plan will be reflected in passenger numbers and passenger revenues (which form part of the financial evaluation), together with passenger satisfaction metrics. Bidders should explain how passenger satisfaction will be improved over the Franchise Period, taking into account the customer service and product improvements described in this Delivery Plan as well as the proposals contained in other Delivery Plans.

Data from assessments from SQUIRE, mystery shopper surveys and annual passenger surveys should be used to measure passenger experience. The Franchisee shall contract for independent audits using mystery shopper and passenger surveys to assess the quality of the whole passenger experience including journey booking through to onward connections, taking into account the specific attributes of the Caledonian Sleeper Services. See Schedule 7 (Enforcement Benchmarks / KPIs / SQUIRE) of the Franchise Agreement for further details. Bidders' proposals should include minimum targets for Passenger Satisfaction (being an overall satisfaction statistic comparable with the approach used by Passenger Focus), which targets will be contracted in the Franchise Agreement and measured in the Annual Passenger Survey, and for the mystery shopper regime. Survey methodologies should be proposed including for the Annual Passenger Survey. The payment mechanisms in the SQUIRE regime will be implemented by Transport Scotland for the remainder of the Franchise Period if one of the following happens:-

- the mystery shopper survey target is not met;
- the annual passenger survey results in a satisfaction plan, referred to below, being required;
- the Franchisee becomes entitled to profit support;
- the Franchisee triggers the rebasing option;
- the calculation of Service Quality Payments would result in the Franchisee being required to make payment to Transport Scotland under the SQUIRE regime.

Transport Scotland expects to see that passenger satisfaction levels, as measured by annual passenger surveys improve over the life of the Caledonian Sleeper rail franchise in addition to a substantial improvement in the first three years reflecting the planned investments.

Transport Scotland shall be entitled to publish or share the passenger satisfaction scores and associated targets.

Where passenger satisfaction falls below bid level in one year the Franchisee will be required to prepare and implement an Improvement Plan to address the causes of decline in passenger satisfaction. If passenger satisfaction falls below bid level in two consecutive years the Franchisee will be required to prepare and implement a Remedial Plan. Should passenger satisfaction fall below bid level in three consecutive years then this would be an Event of Default. Transport Scotland would have the right to terminate the Franchise Agreement should they choose to do so.

Bidders should note that Transport Scotland may from time to time carry out additional passenger surveys and/or audits and may also use National Passenger Surveys to measure the level of passenger satisfaction with the Caledonian Sleeper Services.

Transport Scotland is also of the view that there is merit in the application of public-facing quality accreditation such as that employed in the quality management of tourist attractions and accommodation. This would allow an easily understood measure for business and leisure passengers, in terms of the quality expectation. Bidders' initiatives in this area would be welcomed but are not mandated.

4.3.2.5 Security

The Franchisee will be responsible for security on board its trains for both passengers and staff. Bidders should consider the findings in Passenger Focus's report "Passenger perceptions of personal security on the railways" and how these might apply to passengers on the Caledonian Sleeper Services.

Caledonian Sleeper Services passengers can have related concerns over personal privacy, particularly given that current services have shared cabins (in Standard Class), doors that cannot be locked/unlocked by the passenger themselves and no provision for securing luggage in seated cars. In addition to the provision of passenger operated door locks for berths and passenger lockers in seated accommodation, recordable CCTV should be provided in carriages, though, for reasons of privacy, not in toilets or in individual cabins.

4.3.3 Bidder Initiatives

The areas that are considered likely to contribute most to achieving the Franchise Objectives are:

- **Transforming the Sleeper product** – developing an appropriate passenger offer for different levels of travel that meets passenger expectations;
- **Catering provision** – the provision of high quality meals, snacks and drinks to passengers in all levels of accommodation, enhancing the overall customer experience;
- **Customer service on trains and in Stations** – high levels of customer service provided by staff at all stages of the journey;
- **Passenger security** – to ensure that passengers are safe and secure and have the necessary levels of privacy when using the Caledonian Sleeper Services.

Bidders' efforts in preparing this Delivery Plan are expected to be focused on these areas. The Delivery Plan should provide most detail on the development of new initiatives rather than on existing processes that Bidders plan to continue.

Initiatives in other areas not described above can be put forward if these are considered to add significant value to the Bid in terms of meeting the Franchise Objectives.

4.3.4 Required Supporting Information

This Section describes the information that is important for Bidders to provide in order to assess the overall Deliverability of their proposals. This information largely falls under the Deployment criterion within the RADAR assessment. This information should be provided in the Delivery Plan but need not be accompanied by extensive commentary.

4.3.4.1 Passengers' Charter

As part of the licence conditions set by the ORR, the Franchisee will be required to produce and adhere to a Passengers' Charter. This should be based on the template Passengers' Charter in Attachment I. Any changes to a published Passengers' Charter must be approved by Passenger Focus and Transport Scotland.

Bidders should set out a summary of their proposed Passengers' Charter and should demonstrate what steps they will take to ensure that passenger facing documentation is fit for purpose. Bidders are required to demonstrate what steps it will take to obtain "Crystal Mark" accreditation (or equivalent) for its passenger facing documents. In doing so, Bidders are expected to provide a Passenger Charter that is written in plain English and which clearly and succinctly conveys its purpose and legal standing, and ensures that readers are able to discern to which services it refers. Bidders should set out the date from which the Passenger Charter is valid and provide details of where the Passenger Charter can be obtained or accessed, in what formats and languages and how passengers and readers can contact the operator for more information. The Passenger Charter should also clearly provide an explanation of what a passenger can expect under the terms of the Passenger Charter. Bidders may also choose to provide a summary of key information in an easy to use, more portable format.

As a minimum, the Passengers' Charter should contain:

- An introduction and an explanation of the purpose of the Passengers' Charter including details of legal obligations and where customers can obtain copies of it;
- A statement of the Franchisee's commitment to passengers in respect of performance (PPM/ Right Time/publication) and expectations (facilities on train/cleanliness/information);
- Information about planning a rail journey and keeping customers informed – where to find information about train services (including detailing websites, traveline and nationalrail), buying tickets; reservations/seating and timetables; details of engineering works and delays and notices of alternative arrangements; details of catering entitlements for customer classes; and what other information is available at stations (including where to obtain information about onward travel and integration with other modes);
- Information about stations including staffing, facilities, interchanges, smoking and alcohol, ticket buying facilities, reservations/seating, booking assistance and specifically the arrangements for transportation of passengers with disabilities, assistance dogs and the carrying of wheelchairs/ pushchairs;
- Information about the carriage of cycles, sporting equipment (e.g. skis), luggage;
- Information concerning lost property and safety;
- Contact details of relevant organisations and partners e.g. National Rail Enquiries, BTP, Passenger Focus, Traveline Scotland;
- Performance and Quality standards (stations and trains);
- Passenger rights – including the Franchisee's commitment to passengers when things go wrong, compensation details and method of refund;
- Information on providing assistance for disabled passengers including on train and off train facilities;
- The role of staff including functions relating to customer care, on train and station expectations, identification and reporting complaints/personal injury or damage to effects;
- How to obtain assurance on satisfaction.

The Passengers' Charter for the Caledonian Sleeper rail franchise should include a Delay Repay compensation scheme based on delays to journeys. The value of compensation shall be:

- an entitlement to claim compensation of 50% of the fare for the affected journey for passengers delayed by between 30 and 59 minutes;
- 100% of the fare for the affected journey for delays of 60 - 119 minutes;
- 100% of the return fare for delays of 120 minutes or more.; and
- For season tickets, compensation would be calculated using the proportional daily cost of the ticket.

To reflect the emphasis on quality for the Caledonian Sleeper rail franchise, the Passengers' Charter should also include a "Non-availability of Facilities Repay" scheme based on qualitative factors. This should include (but not necessarily be limited to): non-availability of booked accommodation; reservation failures; failure to supply advertised catering facilities; lack of available facilities at Key Stations; and non-availability of WiFi for on-board passengers. Bidders should set out their proposed levels of compensation for the Non-availability of Facilities Repay Scheme within their proposals.

The repayment compensation schemes should apply to all ticket types from single tickets through to annual season ticket holders irrespective of what caused the delay or non-availability of facilities. Compensation will be provided in National Rail Travel Vouchers or a cash/credit refund as appropriate to the needs of the passenger. Claims would be "postage-paid". The compensation scheme should be straightforward and simple for affected customers to navigate.

Selected material from the Passengers' Charter, to include details on the compensation scheme mentioned above and any others, should be made available in other major foreign languages, such as languages to be decided by the Franchisee, to aid foreign travellers.

4.3.4.2 Customer relations

The Franchisee will be required to have complaints handling and resolution procedures in place, to deal with Passengers' Charter claims and other complaints in accordance with the ORR licence conditions. These procedures should be outlined.

4.3.4.3 Passenger information

Bidders should describe how they will use channels of communication to provide accurate and up to date information to passengers during planned and unplanned disruption to the network. Bidders shall confirm that they will operate in line with the principles of the ATOC Approved Code of Practice – Passenger Information During Disruption (“**PIDD**”).

4.3.4.4 Monitoring Passenger Satisfaction

Bidders' proposals should include minimum targets for Passenger Satisfaction (being an overall satisfaction statistic comparable with the approach used by Passenger Focus), which targets will be contracted in the Franchise Agreement and measured in the Annual Passenger Survey, and for the mystery shopper regime. Survey methodologies should be proposed including for the Annual Passenger Survey.

Bidders should also provide details of any public-facing quality accreditations that the Franchisee would intend to pursue.

4.3.5 Information not required

There are certain areas of franchise operation that fall into the customer service area but that are not required to be described in Bidders' Delivery Plans. These largely apply to compliance with statutory and regulatory requirements.

Compliance with the Equality Act 2010 is assumed, as is compliance with the licence condition requirement to have a Disabled People's Protection Policy (DPPP) in place and to follow the Code of Practice. Bidders are not expected to demonstrate specifically how they are to comply with these duties unless this is considered to add value to the Bid.

Franchisees have legal requirements to protect railway assets, staff and customers from acts of terrorism as set out in the National Railways Security Programme (NRSP), which incorporates the requirements of Instructions served on station and train operators under section 119 of the Railways Act 1993. Specific proposals are not required in this area except where this adds value to the customer service proposition.

Franchisees are expected to work in partnership with the British Transport Police (“BTP”) on specific areas of concern over the safety and security of passengers and staff, reduction in delay and crimes against property. Bidders are not required to set out specific proposals in this area. However, Bidders should be aware that as at 1 April 2013 a new Police Service Agreement (PSA) with the British Transport Police Authority (“BTPA”) came into being. The PSA for the current ScotRail rail franchise will not be continued for the Caledonian Sleeper rail franchise. Bidders should therefore include the cost implications of entering into a new PSA within their Bids. The form of the new PSA is available on the Data Site. Bidders should in the first instance contact Liz Pike at BTPA (liz.pike@btp.pnn.police.uk) in relation to PSA matters and Julian Dixon at BTP (Julian.Dixon@btp.pnn.police.uk) in relation to operational policing matters in connection with their Bids.

4.4 Delivery Plan B2: Mobilisation, Management and Operations

4.4.1 Introduction

The Caledonian Sleeper Services are currently operated within the overall existing ScotRail franchise, distinguished only by its branding, but it is to be separated out as a stand-alone franchise from April 2015. This Delivery Plan addresses the migration to a separate franchise and its future operation and management. It is therefore primarily related to the delivery of Franchise Objective 6: to “manage the business and investment to deliver better value for Transport Scotland and/or customers in terms of the benefits achieved through the subsidy”.

Caledonian Sleeper Rail Franchise

Invitation to Tender

TENDER REFERENCE:
TS/RD/SER/2013/02

B/5110994/26

Relevant staff will transfer at the end of the existing ScotRail franchise to the new franchisee.

No intention to change the basic premise of Railway Pension Scheme.

Within this Plan, a wide-ranging set of issues related to ongoing management of the business, employee relations and operation of train services are covered. This will provide Bidders with an opportunity to present how they will develop a well-managed business, with motivated and engaged staff, and with safe and reliable passenger-focused train services. While Delivery Plans A1 and A2 are focused on capital investment in rolling stock and stations, this Plan covers ongoing operation and management of the rolling stock and stations. Customer service and marketing issues are covered separately in Delivery Plans B1 and B3 respectively.

4.4.2 Franchise requirements

This section describes Transport Scotland's requirements for the Caledonian Sleeper rail franchise as set out in the Franchise Agreement. It also identifies some areas that Bidders might consider in their initiatives but which are not mandated.

4.4.2.1 Migration and mobilisation

In order to achieve a seamless start to the Caledonian Sleeper rail franchise, a set of migration and mobilisation activities must be carried out, to lead up to the commencement of operations and to transfer and integrate existing operations, assets, systems and commercial arrangements. These activities are to include but should not be limited to:

- The transfer of staff under Transfer of Undertakings (Protection of Employment) Regulations 2006 ("**TUPE**");
- Establishing the appropriate pension arrangements for staff including continued membership of Railways Pension Scheme for affected staff;
- The transfer of supporting assets – property, rights and liabilities;
- The acquisition of railway operating licences;
- The acquisition of railway safety certification;
- Entry into station, depot and track access contracts;
- Securing the provision of rolling stock; and
- Ensuring, where required in respect of Key Contracts, that Direct Agreements have been entered into.

Transport Scotland expects a working group to be established, including the Franchisee (who will chair the group), the existing ScotRail franchisee and Transport Scotland representatives to oversee and monitor progress during the period between selection of the Franchisee and the Franchise Commencement Date. The main purpose of this group will be to ensure a fair, reasonable and timely migration with the full and active participation of all parties.

4.4.2.2 Organisation and management

At present, fewer than 100 staff are dedicated to the operation of the Caledonian Sleeper Services. Some of the staff resources are shared with other parts of ScotRail, such as at stations, maintenance facilities or in administrative roles. In addition, drivers are provided by the locomotive provider.

Relevant staff will transfer at the end of the existing ScotRail franchise to the new Franchisee, following the TUPE Regulations. Some staff will have operated on both day and night services and the Franchisee is required to work with the existing ScotRail franchisee to arrange new terms for these staff, with appropriate review of conditions and compensation where appropriate. Staff who are employed wholly or mainly on night service duties will transfer to the Caledonian Sleeper rail franchise with associated protection of salaries, conditions and entitlements.

Bidders should set out their assumptions and plans for staffing levels over the Franchise Term. This should be consistent with the proposals for customer service in Delivery Plan B1. The arrangements for the provision of drivers, cleaners and maintenance staff, whether these continue to be sub-contracted or are directly employed, should be made clear.

The Railways Pension Scheme (“**RPS**”) is a shared cost scheme available to all rail industry employers and employees. There is no intention to change the basic premise of the RPS in Scotland for the future and Transport Scotland has assured the pension trustees that for the ScotRail section of the RPS, Transport Scotland will ensure that there will always be a designated sponsoring employer; that the sponsoring employer will be required to meet its obligations under the RPS for so long as it remains the Franchisee enforced by the Franchise Agreement between the Scottish Ministers and the Franchisee; and that the Scottish Ministers will ensure that any outstanding obligations under the RPS at the end of the Franchise Period are taken over by a new franchisee. [Accordingly, a separate Section of the RPS will be established to cover the Caledonian Sleeper rail franchise and the Franchisee will become the Designated Employer for the Caledonian Sleeper Section. The Franchisee will be required to:

- consult on variations to contributions, investments and the structure of the scheme;
- discharge all Designated Employer obligations in the scheme and certify and provide information;
- subject to any requirements of the Inland Revenue, take steps to allow Closed Scheme Employees to continue membership of the Closed Schemes.]

Bidders' Delivery Plans should include a reward and engagement strategy. This should include details of the proposed reward and engagement policies for staff. It should also include what mechanisms and processes will be put in place to motivate staff, in addition to pay, in order to ensure that the Caledonian Sleeper brand is protected and promoted, to assist with staff retention and to mitigate against the risk of industrial action. It should also include details of employee share schemes and/or profit-share mechanisms.

Investment in the work force is a priority for the Scottish Ministers and Bidders should set out their approaches regarding training and staff development including the number of trainees and apprentices Bidders will commit to employing during the Franchise Term. The minimum requirements for a training and staff development strategy are:

- Achieving Investors In People accreditation and working towards the highest level of Investors in People;
- An induction programme for all staff;
- A rolling refresher programme of training in dealing with all customers / passengers for all customer-facing Franchisee staff (cross-reference can be provided to Delivery Plan B1 if appropriate);
- A commitment to employ an appropriate number of trainees and apprentices during the Franchise Term;
- Ensuring that staff can obtain nationally accredited qualifications.

An annual report on training and development of staff employed by the Caledonian Sleeper Franchisee, together with any apprenticeships and staff qualifications, is required to be produced.

In addition to fulfilling statutory requirements, Transport Scotland wishes the Franchisee to show sensitivity about the impact of its operations on the environment, whether this be through the operation of services, maintenance of rolling stock, use of stations or overall management of the business. Bidders should demonstrate their policy for monitoring and publishing the overall environmental performance of the Caledonian Sleeper rail franchise as an annual progress statement. Bidders' Delivery Plans should set out:

- their approach to measuring, reporting and targeting reductions in energy consumption and CO₂ from traction and non-traction activities; and
- additional targets to improve their environmental performance. In setting these targets, Bidders should as a minimum include reduction in total waste to landfill but should also consider other areas such as noise, air quality, bio-diversity, water and any other environmental impacts.

Bidders should note that the Franchisee will be required to provide as a minimum a three monthly report compatible with the Transport Scotland Carbon Management System, which is available on the Data Site.

Caledonian Sleeper Rail Franchise

Invitation to Tender

TENDER REFERENCE:
TS/RD/SER/2013/02

B/5110994/26

A minimum of two cross border sleeper services each way on six days per week.

Bidders are free to alter patterns of rolling stock combinations, or the timing or location of joining or splitting of the Caledonian Sleeper Services services.

4.4.2.3 Service planning

The minimum levels of train service to be provided by the Franchisee at the Franchise Commencement Date is set out in the Service Level Commitment in Schedule 1.1 (Service Development) of the Franchise Agreement. The Service Level Commitment establishes that there will continue to be a minimum of two cross border sleeper services each way on six days per week, providing services between each of the Scottish Key Stations (Fort William, Inverness, Aberdeen, Edinburgh Waverley, Glasgow Central High Level) and London Euston. The Franchisee will not be required to provide services to any stations in England except London Euston. The Caledonian Sleeper Services currently provides service access for passengers from South West Scotland and this should be retained. Accordingly Bidders may wish to consider whether conditions exist for enhancing such journey opportunities.

The Franchisee will initially be expected to operate the timetable specified in the existing ScotRail franchise Service Level Commitment, given that industry service planning processes require a year to eighteen months to develop and implement a new timetable. Subject to compliance with the Service Level Commitment, Bidders are invited to propose new timetables which may improve the overall efficiency of rolling stock and locomotive movements, guarantee service resilience and improve performance. Changes to service patterns may also be proposed if benefits to passengers can be secured.

Timetabling plans should make clear how the variation in passenger demand across and within the Highland and Lowland services, seasonally and between weekdays and Sundays will be accommodated.

Bidders may put forward proposals to run additional services between any of the Key Stations and London Euston although this is subject to the provision that the costs of such additional services are not passed to the Scottish Ministers, cross subsidised by another franchisee supported by the Scottish Ministers, or competitive with or detrimental to income streams from other Scottish Minister -supported services. Such additional services may be proposed on a seasonal basis and allow longer journey times to take account of diversionary routes.

Proposals may be put forward for the further provision of services to/from any of the Scottish Key Stations on Saturdays. However, given that key routes are frequently closed overnight on Saturdays to allow for engineering works, the scope for Saturday night services may be limited, except for on a seasonal basis.

Changes to services in urban areas may be proposed where alternative access to services is available, and where omission or replacement of current stops may have operational or timetable benefits. It is however important that a balance of regional connectivity is maintained and that the Franchisee works with the ScotRail franchisee and other relevant operators to ensure local rail service integration to and from the Caledonian Sleeper Services. As such service pattern changes should not result in the removal of access to the Caledonian Sleeper Services where there is no reasonable alternative access to the Caledonian Sleeper Services (e.g. at Highland rural locations), or where services provide specific connections (e.g. a commuter service between Dalwhinnie and Inverness; services between Oban and Crianlarich, and Mallaig and Fort William; and the first/last services of the day between Glasgow and Fort William). The Caledonian Sleeper Services will be required to connect at Crianlarich with an early morning ScotRail service arriving at Oban before 08:30. The interchange time at Crianlarich will be between 15 and 40 minutes. The Fort William service will be required to call at either Glasgow Central or Glasgow Queen Street (low level stations) in order to provide a direct connection for Glasgow. The existing service requires a connecting train at Westerton.

If Bidders are proposing couchettes for budget passengers in response to Section 4.1.2.1 (Rolling stock strategy) of the ITT, then they should not expect passengers to have to change location during their journey. Recognising that the Fort William service also provides the first and last service, we would wish budget passengers not to have to change location either. However if for operational reasons a change of location is required then Bidders should set out their reasoning in their Delivery Plan.

Bidders are free to alter patterns of rolling stock combinations, or the timing or location of joining or splitting of the Caledonian Sleeper Services within Scotland.

Where Bidders propose new timetables, these are expected to have been reviewed and endorsed by Network Rail as being deliverable in principle.

Bidders should outline how their timetabling and operational proposals will support the delivery of planned rail infrastructure projects during construction and the delivery of the train services planned under these projects, as specified in the Scottish Government Infrastructure Investment Plan 2011 and the Scottish Ministers' High Level Output Specification 2012. Due to the cross-border nature of the service the Franchisee will also need to be mindful of the Secretary of State's High Level Output Specification 2012.

Bidders should note that Network Rail are due to provide capacity enhancements to the Highland Main Line in the course of railway regulatory Control Period 5.

Bidders will be expected to cooperate with and be flexible to accommodate emerging or new policy aspirations or project proposals leading to changes in rail services developing or implemented before March 2014, in addition to those named above, and during the Franchise Term. The Caledonian Sleeper rail franchise will contain fair contractual variation mechanisms to ensure and enforce this co-operation throughout the Sleeper Franchise Term.

The Department for Transport ("DfT") may undertake infrastructure works and extensive remodelling of supporting infrastructure to accommodate future high speed rail services. Details of HS2 works at London Euston are provided in the Data Site but Bidders should note that Network Rail have highlighted that they are undertaking enabling works at London Euston for the HS2 project which will result in a 13 platform, 4 approach track station from completion of the Network Rail enabling works in December 2016 until the completion of all HS2 works in 2026. It is assumed that the enabling works will commence in December 2015 and last a year. The 13 platform station is expected to have 2 platforms available at all times for the 400m Caledonian Sleeper Services. Bidders are expected to set out how they will manage the delivery of the Caledonian Sleeper Services around these constraints, ensuring the maximum continuity of service for Caledonian Sleeper passengers and the provision of timely and accurate information on any timetable change or service disruption.

4.4.2.4 Public Transport Integration

Bidders shall provide proposals to demonstrate their approach to supporting public transport integration.

The Franchisee will be expected to cooperate with the relevant SFO to ensure that information on potential journey opportunities for passengers is publicly available at Stations, for example bus timetables for services connecting to the Station which would assist passengers in using the Caledonian Sleeper Services. Cooperation with SFO's will also be expected in relation to provision of information on Caledonian Sleeper Services and suitable rail connecting services at Oban (and at stations between Oban and Crianlarich), Mallaig (and at stations between Mallaig and Fort William), Leuchars (for St Andrews) and any other stations at locations which are regarded as key population and tourist centres where opportunities exist for greater integration with other rail services and other modes of transport for example where there are connections to ferry ports.

The Franchisee will be expected to cooperate with operators of other modes of transport to ensure appropriate journey connections. The Franchisee will be permitted to facilitate journey opportunities by providing, either by itself or by sub-contracting or making other suitable arrangements, bus or taxi connections to stations served by the Caledonian Sleeper Services. The Franchisee will not be permitted to use the capital contribution to fund any such services.

4.4.2.5 Performance

The performance regime to be applied to the Caledonian Sleeper rail franchise is set out in the Franchise Agreement and Bidders are expected to reflect these in their Delivery Plan.

Punctuality and reliability of train services will be a Key Performance Indicator. "Right Time" performance is based on arrival within 59 seconds of the specified arrival time. Please see Schedule 7.1 (Enforcement Benchmarks) of the Franchise Agreement for details of the "Right Time Benchmarks" and the calculation of performance against the Benchmarks.

**Franchisee to make
their subcontracts
accessible to smaller
companies.**

Transport Scotland expect the Franchisee to report on the progress being made with other operators and Network Rail to ensure the delivery of improved punctuality and reliability. Information on right time performance shall be published on the Franchisee's website and also at a minimum on Key Stations as well as on Stations at Aviemore, Crianlarich, Perth, Stirling and Dundee.

It is recognised that as a small operator; the Franchisee will not have an opportunity to enter into a deep alliance with Network Rail neither within Scotland nor on the West Coast route. However, Bidders are expected to bring forward proposals for an effective operating relationship with Network Rail which will improve value for money and performance.

4.4.2.6 Increased Opportunities for Small and Medium Enterprises

Transport Scotland is committed to removing barriers to Small and Medium Enterprises ("SMEs") participation in its contracts, and encourages the Franchisee to make their subcontracts accessible to smaller companies and implement policies which embed SMEs in their supply-chains. Bidders shall demonstrate their policy in this regard.

4.4.3 Bidder initiatives

The areas that are considered likely to contribute most towards achieving the Franchise Objectives are:

- **Migration and mobilisation** – migration from the combined franchise to a new Caledonian Sleeper rail franchise, including transfer of assets and agreements, provision of rolling stock and working group arrangements with Transport Scotland;
- **Organisation and management** – identification of the senior management team, a reward and engagement strategy for staff, including mechanisms and processes to motivate staff in addition to pay, plus approach to training and staff development;
- **Operational performance improvement** – initiatives for improving performance over the Franchise Term, with committed targets, including working with Network Rail and managing the impacts of planned infrastructure projects;
- **Service enhancements** – to improve the efficiency of rolling stock and locomotive movements, improve performance or provide extra passenger benefits or capacity.

Bidders' efforts in preparing this Delivery Plan are expected to be focused in these areas. The Delivery Plan should provide most detail on the development of new initiatives rather than on existing standard industry processes.

In the case of migration and mobilisation, many of the activities will be standard ones that apply to any franchise. Bidders need not set these out in detail but should instead focus on how the processes will be managed and monitored, and in particular how working relationships with Transport Scotland, the existing ScotRail franchisee and Network Rail will be handled.

Other management and operations initiatives can be put forward if these are considered to add significant value to the Bid in terms of meeting the Franchise Objectives.

4.4.4 Required supporting information

This Section describes the information that is important for Bidders to provide in order to assess the overall Deliverability of their proposals. This information should be provided in the Delivery Plan.

- A staffing matrix, setting out the numbers and grades of staff in each area, consistent with the cost projections in the financial model;
- Details of the minimum and average earnings of all staff within the Bidder's organisation;
- Confirmation that the necessary safety certification and monitoring procedures will be adopted;
- Pensions – confirmation of Bidders' approach to staff pensions;
- A statement from Network Rail on the deliverability of any proposed changes to timetables.

4.4.5 Information not required

There are certain areas of franchise operation that fall into the areas covered by this topic but that are not required to be described in Bidders' Delivery Plans.

- Corporate structure – this will be covered in the Pre-Qualification process and need not be repeated in the Delivery Plan;

- Working timetables and diagrams for future proposed new timetables – unless Network Rail has been unable to confirm deliverability of a Bidder's proposals.

4.5 Delivery Plan B3: Retail, Marketing and Branding

4.5.1 Introduction

The investment now being made available for the Caledonian Sleeper Services provides an opportunity to deliver a step-change in the perceptions of and demand for those services. This Delivery Plan addresses how the investment plans will be complemented by the development of appropriate branding and marketing strategies to promote the advantages and the quality of the Caledonian Sleeper Services. It is primarily related to the delivery of Franchise Objectives 2 and 3: to “combine step-change quality enhancements with improved marketing and retailing to grow patronage” and “achieve an internationally renowned service that is emblematic of the best of Scotland, shown by strong brand awareness in Britain and among international visitors”. Overall, aspects of this Delivery Plan may also contribute to the objective of the Caledonian Sleeper rail franchise to manage the business and investment to deliver better value for Transport Scotland and/or customers in terms of the benefits achieved through the subsidy.

This Delivery Plan should address how the Caledonian Sleeper product will be marketed and sold, in terms of branding the product, marketing strategy, fares structures and methods of ticket retailing. Demand and revenue forecasts should be set out, taking into account the impact of marketing as well as product improvements and initiatives in other Delivery Plans.

4.5.2 Franchise requirements

This Section describes Transport Scotland's requirements for the Caledonian Sleeper rail franchise as set out in the Franchise Agreement. It also identifies some areas that Bidders might consider in their initiatives but which are not mandated.

4.5.2.1 Fares policy

There are several types of ticket currently available for use on the Caledonian Sleeper Services, including standard single fares (ranging between £26 and £158, depending on service and accommodation type) and bargain berth fares (as low as £19 per single journey). In addition, an ordinary open rail ticket can be used on the Caledonian Sleeper Services subject to availability and the payment of a supplement.

Most fares on the Caledonian Sleeper Services are currently unregulated. The exceptions are standard class seated ticket seats for intra-Scotland journeys which will be regulated, with pricing set by the lead operator, the ScotRail franchisee.

Bidders should set out a plan presenting a simple and understandable affordable fares structure, reflecting the differentiation of the various service products (business berth, leisure berth and couchette/seat, plus any premium standard of accommodation or premium level of customer service), and which will provide passengers with the reassurance that they are being offered the best possible fare for their journey regardless of the means of purchase. Bidders may choose to reward passengers by offering appropriate discounts if passengers purchase tickets by lower cost distribution channels, but must ensure for inclusion that there is at least one non-digital means of passengers obtaining the lowest level of fares offered.

Fares regulation, as set out in paragraphs 3 to 7 of Schedule 5.1 (Fares on Franchise Services) of the Franchise Agreement, will be retained on seating accommodation for journeys within Scotland. This will ensure that the regulated fares offered, for example, for morning commuter journeys between Aviemore and Inverness, aligns with those operated by the ScotRail franchisee. Annual fare increases will be capped at RPI for peak tickets and RPI-1% for off-peak. Advance, super off-peak return, flexipasses and first class fares will be unregulated.

Other fares will be unregulated and may be priced or varied at the commercial discretion of the Franchisee, subject to the normal constraints of the Ticketing & Settlement Agreement and other industry arrangements.

**A simple and
understandable
affordable fares
structure.**

**Fares regulation, as
set out in Schedule
5.1 of the Franchise
Agreement, retained
on seating
accommodation.**

**Other fares will be
unregulated and may
be priced or varied
at the commercial
discretion of the
franchisee.**

The marketing strategy developed by bidders should draw on the product enhancements being delivered during the franchise.

Bidders shall continue to participate in the Ticketing & Settlement Agreement, including all associated obligations, and shall maintain the opportunity for interoperable tickets to be used so that passengers can, subject to availability, pay a supplement on their existing ticket to obtain a berth. The proposal for achieving such interoperability and transfer of tickets from other operators over shared routes should set out clearly the Bidder's approach and rationale for this, detailing the nature of these arrangements and the mechanisms for transfer of ticket revenues with other operators. It should continue to be possible to secure Caledonian Sleeper tickets through stations and ticket outlets participating in the Ticketing & Settlement Agreement.

4.5.2.2 Retail and ticketing

Bidders are expected to set out their proposals for ticket retail and delivery/collection, fulfilment and use. This may build on current practice used for the Caledonian Sleeper Services of a combination of internet, telesales and sales at station ticket offices. Innovative methods, including the internet, mobile telephone with barcode and/or Near Field Communication (NFC), contactless bank cards and home printing, may be proposed. The current complexity of the ticketing and booking arrangements was seen by respondents to the Rail 2014 consultation as a negative aspect of the service and one which must be addressed in the Caledonian Sleeper rail franchise. Bidders should ensure that their retail and ticketing proposals make suitable provision for passengers without access to electronic media for booking and collection of tickets.

Bidders proposals should also outline their proposed arrangements for:

- discounted season and flexi tickets;
- discounts for pre-arranged group or corporate travel;
- child fares; and
- joint ticketing with other transport or accommodation providers.

Bidders should note that all berths and couchettes/seats on the Caledonian Sleeper Services should be made available at a discount to railway staff but free travel will generally not be available for staff in seated or berth accommodation as detailed in Schedule 13.4 (Staff Obligations) of the Franchise Agreement except in respect of staff with protected legacy rights.

Child fares should be priced at no more than 50% of the price of a full adult standard fare for children aged 5 to 15 years. Children under 5 should be able to travel for free but without being allocated a berth.

If smart card technology is proposed to be used, this shall be ITSO compliant and such a scheme should as a minimum be able to retail, issue, accept and validate all valid ticketing products on any valid ITSO customer media, in accordance with the ITSO Operating Licence. Bidders should note that the ScotRail franchisee will be required to introduce ITSO-compliant smartcard ticketing across the ScotRail franchise, which may therefore be used by passengers travelling within seated accommodation in the Caledonian Sleeper trains. The Caledonian Sleeper Franchisee will therefore be required to accept smartcard tickets for such passengers.

4.5.2.3 Marketing strategy

It is expected that a marketing strategy will be developed by Bidders for the Caledonian Sleeper Services, drawing on an understanding of the key markets currently served and of potential markets that might be addressed. This strategy should draw on the product enhancements being delivered during the Franchise Term.

The marketing strategy is expected to include detailed plans of how Bidders will use marketing techniques to increase passenger usage and revenue. These plans should clearly state initiatives targeting existing passengers and initiatives designed to attract new users, and retain them as repeat customers. The way in which these schemes target the various markets served by the Caledonian Sleeper Services should be described. Specific strategies to target international markets are expected to be set out, and the way in which links will be developed with the promotion of leisure activities in Scotland.

It is expected that Bidders will draw upon the expertise available from Visit Scotland in preparing their marketing strategy.

**The upgraded
service will be
differentiated from
that currently offered
by an active market
re-launch.**

Where these initiatives feed into increased demand forecasts, these should be consistent and cross-referenced. Where the initiatives are forecast to deliver an increase in usage and revenue, credible evidence to support the rates of return should be provided, including by reference to evidence from previous relevant examples.

The marketing strategy should also support the re-launch of the upgraded service and its brand in order to capture the benefits of the substantial investment, and deliver the potential for patronage and revenue growth. The marketing strategy should support the branding by raising the profile and awareness of the Caledonian Sleeper Services and generating excitement in its re-launch. Transport Scotland would welcome details of any product or event sponsorship the Franchisee is considering as part of promoting brand awareness.

The carriage of freight on the Caledonian Sleeper Services may be marketed in order to drive increased revenues, but must not undermine the positive brand perceptions of the Caledonian Sleeper passenger service.

4.5.2.4 Re-launch and branding

It is expected that the upgraded service will be differentiated from that currently offered by an active market re-launch. This should draw on good practice in product re-launch across industries, supported by branding, marketing and public relations. It should be timed to optimise passenger perception of the upgraded service and maximise the long-term benefits, including uplift to patronage and revenue.

The Caledonian Sleeper Services are currently branded as the 'Caledonian Sleeper'. Transport Scotland has no presumption that this will necessarily continue but wishes to establish a strong distinctive brand for the service that is emblematic of the best of Scotland. Bidders should set out proposals for development of the existing or new branding for the service. The Caledonian Sleeper brand should reflect 'service' and 'quality' and should reflect the Scottish origins of the service.

Bidders should note that the Franchisee will be provided with a non-exclusive royalty free licence from Transport Scotland to use the IPR in the current "Caledonian Sleeper" brand for the purpose of delivering the Caledonian Sleeper rail franchise where the Franchisee proposes to develop the existing branding. If the Franchisee develops a new brand for the Caledonian Sleeper Services which is approved by Transport Scotland, the Franchisee will be required to transfer ownership of the IPR in the new brand to Transport Scotland as a condition of the Franchise Agreement. Transport Scotland will thereafter provide the Franchisee with a licence to use the IPR in the new brand for the purpose of delivering the Caledonian Sleeper rail franchise.

It is expected that consistent branding will be applied to rolling stock, staff uniforms, marketing material and (as appropriate) to Caledonian Sleeper facilities at Stations. The application of the branding to other areas of activity (for example, holidays offered as train and accommodation packages) will not be restricted where this is not detrimental to the perception of brand value. Ancillary products may be branded, and third party sponsorship is also welcomed to offset the costs of the Caledonian Sleeper operation. The Scottish Ministers retain the right to require withdrawal of any branded product if in their opinion it is not consistent with the Franchise Objectives.

The Franchisee's own customer-facing staff are required to have uniforms which allow them to be immediately identifiable to passengers and which reflect the quality branding of the Caledonian Sleeper Services. Transport Scotland will retain approval rights to the design of these uniforms and ownership of designs will transfer to the Scottish Ministers at the end of the Franchise Period.

4.5.2.5 Demand and revenue forecasts

Transport Scotland wishes to see patronage growth across all services, particularly to Fort William, Inverness and Aberdeen, which have lower levels of patronage than the Lowland services. Similarly, growth is desired across all sectors, though subject to the minimum capacity allocated to each travel level of accommodation on each journey leg as outlined above in Section 4.1.2.2 (Passenger accommodation and facilities), there is scope to adjust the focus of marketing effort to reflect best opportunities and market developments.

Patronage growth and occupancy levels will be Key Performance Indicators.

Bidders should provide justification of their forecasts in order that Transport Scotland can be certain that they are realistic. Detailed assumptions should be provided in a separate Revenue Model Record of Assumptions details of which can be found at Section 5.5 (Modelling Change, Record of Assumptions and Forecasting Robustness) of this ITT. It is acknowledged that standard rail industry demand forecasting methodology (such as set out in the Passenger Demand Forecasting Handbook) may not be fully applicable to the Caledonian Sleeper Services, so the basis for any different forecasting approach should be set out and evidenced as strongly as possible. The forecasts should be consistent with and cross-referenced to initiatives in this Delivery Plan, such as marketing, or in other Delivery Plans, such as the impact of new rolling stock, product improvements or timetable changes. Improved occupancy levels are a key aspiration and patronage growth will therefore be a Key Performance Indicator. Bidders' proposals should include minimum patronage growth targets. See Schedule 7.2 (KPIs) of the Franchise Agreement for further detail.

4.5.3 Bidder initiatives

The areas that are considered likely to contribute most towards achieving the franchise objectives are:

- **Fares policy** – a clear policy on the range and level of fares to be offered on the Caledonian Sleeper Services, taking into account the constraints of fare regulation and market conditions and the desire for the levels of patronage to reflect the investment of Transport Scotland;
- **Retail and ticketing** – which sales channels and ticketing media will be used to sell tickets effectively in a way that meets customer needs and expectations, and the necessary supporting systems;
- **Marketing strategy and initiatives** – an overall strategy for marketing the Caledonian Sleeper Services, drawing on an understanding of the different (current or potential) markets served by the Caledonian Sleeper Services, plus specific initiatives to drive revenues and patronage and promote brand awareness;
- **Market re-launch** – A positive approach to introducing the upgraded service back to its existing and potential new customers, to maximise the benefits of investment.
- **Branding** – development of a distinctive, high-quality and consistent Scottish brand for the Caledonian Sleeper Services;
- **Demand and revenue forecasts** – an assessment of the forecast demand for the Caledonian Sleeper Services, consistent with the marketing strategy, the proposed product improvements (as put forward in the Delivery Plan B1 (*Passenger Experience*)) and any operational changes (as set out in the Delivery Plan B2 (*Mobilisation, Management and Operations*)).

Bidders' efforts in preparing this Delivery Plan are expected to be focused in these areas. The Delivery Plan should provide most detail on the development of new initiatives rather than on existing standard industry processes or the continuation of existing practice.

Other retail, marketing and branding initiatives can be put forward if these are considered to add significant value to the Bid in terms of meeting Franchise Objectives.

4.5.4 Required supporting information

Bidders should provide confirmation that ATOC membership, rail staff pensions and protected facilities for rail staff will be maintained.

There are no other specific requirements for particular supporting information relating to normal operations. Bidders should focus on developing sound, integrated, implementable and systematic initiatives for change.

4.6 Delivery Plan B4: Assessment and Refinement

As indicated in Table 3-2, the Assessment & Refinement elements of each Bid are to be set out in a separate Delivery Plan, rather than included within Delivery Plans A1-A2 and B1-B3. This is in order to minimise any repetition of standard business processes across the other Delivery Plans.

However, the Assessment and Refinement processes described in this Plan B4 should be integrated with, and enabled by the Approach and Deployment set out in Plans A1-A2 and B1-B3. Where aspects of Assessment & Refinement are fundamental to the Approach and Deployment these aspects should be introduced as part of the Approach and Deployment of those plans but explained more fully in the context of wider Assessment and Refinement under this Plan B4. (An example of this may be the use of mock-ups to test customer and stakeholder response to rolling stock enhancement proposals in Plan A1.)

This Delivery Plan B4 should set out each Bidder's approach to assessing and refining the Approach and Deployment plans. The scoring matrix set out in Attachment H indicates that this is expected to cover:

- Regular measurement of the effectiveness of the approach and deployment;
- How learning is used to identify best practice and improvement opportunities;
- How output from measurement and learning is analysed and used to identify, prioritise, plan and implement improvements.

Bidders should set out how these elements will be managed across the Caledonian Sleeper rail franchise as a whole, in terms of business processes, resources and responsibilities. Bidders should clearly address their arrangements to both the Parts A and B Delivery Plans distinctly (with Part A relating to capital spend and enhancement projects).

These processes are expected to include arrangements for working in partnership with Transport Scotland over the Franchise Term to deliver the Franchise Objectives, as well as to manage the financial performance of the Caledonian Sleeper rail franchise. This is important in the light of the contractual potential for Transport Scotland to share an interest in the financial performance of the Caledonian Sleeper rail franchise, especially in its later years. Credit will be given for active involvement of Transport Scotland in assessment and refinement processes.

In addition, Bidders are expected to set out specific assessment and refinement processes for each of the other Delivery Plans (in both Parts A and B), with identification of relevant Key Performance Indicators, risks, contingency plans and mitigation processes. These processes are expected to be integrated with the Approach and Deployment elements of those Delivery Plans as well as with any standard franchise-wide assessment and refinement processes. Where appropriate, the assessment and refinement processes and KPIs should be supportive of, and aligned with performance under the SQUIRE, Passenger Survey and mystery shopper regimes. Bidders are expected to identify what information will be shared with Transport Scotland and credit will be given for committed openness.

Transport Scotland is required to demonstrate in a transparent manner that it is not providing State aid through the Part A investments and Part B subsidy payments. Through their assessment and refinement Delivery Plan, Bidders are asked to set out how they will support this with openness and transparency of the financial arrangements over the course of the Franchise Term.



5. The Bid: Financial Elements

5.1 Introduction

This Section describes the requirement for Bidders to submit a Financial Model and Operational Models (together “**the Models**”). The Models must be supported by a comprehensive Record of Assumptions and an Operating Manual. The requirement to provide other financial information is also described.

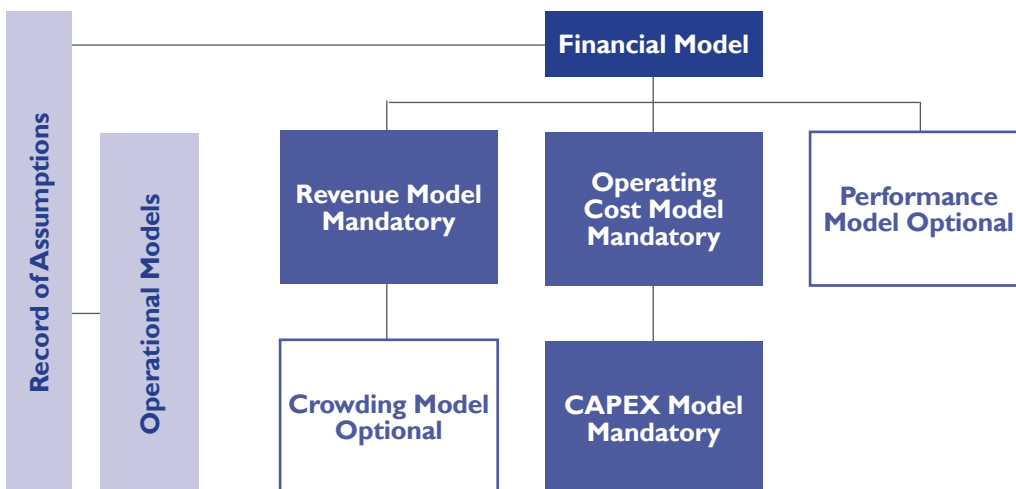
The Models will be used during Bid evaluation to compare overall pricing, review detailed projections of revenues and costs and to test the financial resilience of Bidder solutions. The successful Bidder’s Models will be subject to an independent Model Audit and retained on behalf of Transport Scotland as Reference Documents after contract signature. It is expected that subsequent Changes will be priced by processing revised assumptions through the Models and in accordance with the Franchise Agreement. The evaluation of Bid deliverability will include an assessment of the fitness for purpose of the Models, Record of Assumptions and Operating Manual to price Changes.

The output schedules of the Financial Model should be in the format of the Templates provided in Attachment F (the Templates). Bidders are required to follow modelling best practice requirements and other constraints have been made clear in this Section 5 of the ITT, for example, in relation to model size. Transport Scotland recognises that some flexibility in modelling requirements may produce the most effective overall solution; as a consequence the scope of the model audit has been restricted and the ability for Bidders to apply, prior to Bid submission, for derogations from specific elements of the instructions has been included.

5.2 Model Requirements and Constraints

5.2.1 General

Each Bidder is required to submit and include as part of their Bid a Financial Model and all Operational Models that support that Financial Model. These must demonstrate the financial consequences of the Bidder’s business and operational plans over the Franchise Term. All Models will be Placed in Deposit as provided for in Schedule 9.2 (Revised Inputs: Identity of the Financial Model, etc) of the Franchise Agreement. Transport Scotland anticipates that Models will be structured as illustrated below:



Note: where sub-models are shown as “Optional”, this is to indicate that a separate spreadsheet workbook or workbook or other discrete component is not necessarily required if the modelling requirements can otherwise be met by incorporating these functions into the layer above. See Section 5.2.3 (Operational Models) for more information.

The minimum review standards that apply to each group of models are described in Section 5.8 (*Model sign-off – Terms of Reference*) of this ITT.

The Models should be presented in Microsoft Excel format, with workings and formulae intact (i.e. non input cells should not be 'hard-coded' with values), and be capable of running on Microsoft Office 2007 version software.

No rows, columns, cells or worksheets of the Models should be hidden or password protected. Protecting worksheets without passwords to avoid accidental changes to inputs or calculations is allowed, provided it does not reduce the transparency or usability of the Models. Grouping rows or columns is permissible, but hiding rows, columns or worksheets is not permissible.

Transport Scotland wishes to receive models that are efficient in their operation and use of memory. A maximum file size of 125MB is permitted, and smaller Excel workbooks are encouraged. Any workbook taking up more than 125MB of disk space will be deemed to be non-compliant unless derogation has been granted.

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

In order to aid transparency, use of the INDIRECT and OFFSET functions is prohibited, except where derogation has been granted.

The Financial Model Templates and worksheets of Operational Models that directly interface with Financial Model or other Operational Models should also be submitted in PDF format. This should include the Financial Statements for all Bidder Incremental Options (if submitted). No hard copies of Models are required.

The Models submitted by Bidders must be in line with best practice in accordance with the requirements set out in Section 5.8.1 (*Modelling Best Practice Confirmation*) of this ITT and employ the accepted principles of Separation, Consistency, Integrity and Linearity, unless a derogation has been granted.

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

- to allow a different approach to the treatment of forecasts before the Caledonian Sleeper rail franchise commences (i.e. 1st April 2015), part years and any extensions as laid out in the Financial Templates; and
- to allow units, indices and other useful modelling 'flags' to be included in the columns to the left of the first modelled year.

Bidders do not need to seek derogation from Transport Scotland should the Models deviate from Best Practice in either of the two cases described above.

Cross-links between the Models should not be formed using direct references. Rather, outputs from one Model should be copied to a dedicated paste area in the other, with the origins and destinations of transferred data clearly identified within the Models. All Operational Models that support the inputs to and calculations within the Financial Model are required to be submitted, and it is anticipated that the full suite of Models will be maintained and updated together, and submitted simultaneously as required to support any Change (as set out in Schedule 9.1 (*Variations and Financial Consequences of Change*) of the Franchise Agreement) arising during the Franchise Term.

5.2.2 Financial Model

The calculations required to produce other outputs for inclusion in the Franchise Agreement are included in the Templates provided to Bidders. These outputs are calculated on the basis of the Financial Statements populated by Bidders:

- Franchise Payments (Schedule 8 (*Payments*) of the Franchise Agreement); and
- Modified Revenue and Actual Operating Costs (Schedule 12 (*Financial Obligations and Undertakings*) of the Franchise Agreement).

These outputs should change automatically following the running of any sensitivity or Revised Inputs. However, the Financial Model should have the functionality to freeze any Profit Share/Support Thresholds (where appropriate) and the Annual Franchise Payments so as to allow simulation of profit sharing/support by revenue and cost or other sensitivities.

The financial model should incorporate the profit share/support mechanism as set out in the Franchise Agreement and in Section 5.8.4 (*Profit Sharing/Rebasing*) of this ITT. Any additional surplus from any premium standard of accommodation and/or premium level of customer service should be included in the computation of the Franchise Payment.

Transport Scotland will specify and conduct sensitivity tests on the Financial Model (as detailed in Section 5.5. below) as part of its evaluation process, and does not require Bidders to submit a set of standard sensitivity tests or provide this functionality. Bidders are not, however, required to remove this functionality from the Models where such functionality exists for Bidders' own use.

Bidders should adopt an absolute sign convention in constructing their Financial Model, such that all revenues and assets are positive and all costs and liabilities are negative.

The Financial Model must have an index switch to allow the user to apply or remove the effect of RPI so as to view the financial templates in both nominal and real terms.

The Financial Model should be self-contained within a single Excel Workbook, and should have the functionality to run Bidder Incremental Options (if submitted) by use of a switch applied to the Franchise Specification and without recourse to the Operational Models. The Operating Manual and Record of Assumptions should clearly explain the method by which the switch selects the case of the different scenarios. The Financial Model should be presented in annual terms, with year-ends coinciding with Transport Scotland's 31 March accounting year-end (as demonstrated on the Templates), except in the case of the part-year periods identified in Section 5.3 (*Financial Model Templates*).

Any changes to the Financial Model after Bid submission will need to be clearly logged and traceable, including an audit trail in the Financial Model itself, using the templated Version Control sheet. Although it is not a templated output, Bidders are required to incorporate a map illustrating the content and structure of the Financial Model.

5.2.3 Operational Models

The Operational Models are all models that contain calculations generating inputs either directly or indirectly to the Financial Model. These models will be structured as illustrated above, and will incorporate the following Operational Models:

- A Revenue Model. This demand / passenger revenue forecasting model must at least disaggregate demand and revenue into the ticket types and Service Groups contained in the Templates. Any further disaggregation of demand and revenue into more detailed flows or segments is at the discretion of the Bidder. The Revenue Model and its associated optional sub-models also need to show clearly and apply all demand forecasting input assumptions and parameters and their impact on demand and revenue. This will include, but not be limited to, such factors as:
 - macro-economic factors, including competition with air services and car (disaggregated into individual factors where appropriate);
 - timetable changes;
 - fare proposals and policy;
 - operating performance;
 - service quality;
 - marketing;
 - revenue / yield management initiatives; and
 - other investments or initiatives (such as station or rolling stock improvements).
- The Revenue Model should explicitly disaggregate the revenue effects associated with the relevant Delivery Plans listed in Table 3-1 in Section 3.2 (*The Delivery Plan Structure*);
- A separate Crowding Model is not mandatory but may be provided. Where a separate Crowding Model is not provided the Revenue Model should be responsive to fares and yield management and take account of any crowding and capacity constraints;
- An Operating Cost Model that should produce inputs to the Financial Model to the level of disaggregation required by the Templates. Any further disaggregation is at the discretion of the Bidder;
- A separate Performance Model is not mandatory but may be provided. Where a separate Performance Model is not provided the Revenue Model should be capable of showing forecast average minutes lateness, attribution of average minutes lateness between the Franchisee and Network Rail, the impact on the Right Time Benchmark and the basis upon which any performance receipts and payments are calculated. Performance receipts and payments between the Franchisee and Network Rail should be shown separately. All assumptions relating to the performance model and any performance improvement schemes and associated calculations should be clearly explained; and
- A capital expenditure/capital funding model (mandatory), showing the detailed investment plan for each material incidence of funding of infrastructure, other works and schemes that support the Bidder's proposals and that reflects the precise details of their own funding arrangements. This should include details of the investments to be funded by the capital contribution from Transport Scotland.

The Models should have the capability to forecast the Other Revenue section of the Financial Model, to the level of disaggregation required by the Templates. Given that many of the items in this Section are secondary to forecasts generated by the Revenue and Operating Cost Models, Bidders may choose to provide this capability within the Financial Model, employ an additional Operational Model, or develop an alternative methodology. Bidders are requested to detail the approach adopted in their Operating Manual and/or Record of Assumptions.

5.3 Financial Model Templates

Transport Scotland requires that the output from the Models follow the Templates that will be made available in the Data Site. Transport Scotland realises that Bidders may wish to expand the level of detail provided within the Models beyond these minimum requirements and requires that this is done in such a way as to remain consistent with the format of the Templates. The level of detail provided should be sufficient to give full transparency of all components of costs and revenues but the spare rows provided can be used to accommodate additional detail. Deleting or inserting rows or columns to the Templates is not permitted and will be deemed to be non compliant.

The outputs in the Templates should be linked to the input / calculation cells where appropriate and in such a manner as to facilitate both the understanding of the Financial Model and tracing of core assumptions used in the Financial Model. Bidders can either add worksheets to the Templates or copy the Templates into their own models. Bidders are required to ensure that the named ranges defined in the Templates are preserved.

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

Bidders should note that any types of revenues or costs that it wishes to include under a catch all heading of 'Other' should not exceed £50,000 (in real terms) in any year. Where a Bidder anticipates that such revenues or costs will exceed this amount, they should each be separately identified in a separate spare row and not listed under the heading 'Other'.

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

Bidders may use the two blank columns inserted between the flag / labelling columns and the first modelled year as they see fit. The intention is that these columns will assist in the transfer of historic data to the Financial Model.

The lockup ratios set out in Schedule 12 (*Financial Obligations and Undertakings*) to the Terms is incorporated in the Templates and is based on the outputs contained in the templated financial statements. Bidders should take note of the drafting of Schedule 12 (*Financial Obligations and Undertakings*) of the Franchise Agreement.

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

Sheet	Content	Status
Template Cover	Properties, legend	Bidder free to use/update
Template Control	Contains real/nominal switch for templated calculations, option flag, print and group/ungroup macros	Bidder to link cells G21 and G30 to model control sheet. Use functionality but do not alter structure.
Version Control	Version control record	Populate but do not alter structure
Templated Inputs		
Timeline	Define franchise timeline and part year adjustments	Populate blank column headers but do not alter structure
Indices & Rates	Repository of indices and rates	Populate but do not alter structure

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TENDER REFERENCE:
TS/RD/SER/2013/02

B/5110994/26

Line Items	Master definition of line items	Bidder may populate spare line items denoted by square brackets
Templated Outputs		
LENNON Revenue	Template for forecasts of selected option	Populate but do not alter structure
Revenue Drivers	Template for showing contribution of individual exogenous and endogenous revenue drivers to overall forecasts.	Populate but to not alter structure.
Other Revenue	Template for forecasts of selected option	Populate but do not alter structure
Staff	Template for forecasts of selected option	Populate but do not alter structure
Other Opex	Template for forecasts of selected option	Populate but do not alter structure
RS Charges	Template for forecasts of selected option	Populate but do not alter structure
Infrastructure	Template for forecasts of selected option	Populate but do not alter structure
Performance	Template for forecasts of selected option	Populate but do not alter structure
TOC Capex	Template for forecasts of selected option	Populate but do not alter structure
Financial Statements		
P&L1	Template for forecasts of selected option	Populate (row 304 and below) but do not alter structure
P&L2	Template for forecasts of selected option	Contains formulae, do not alter
P&L3	Template for forecasts of selected option	Contains formulae, do not alter
CF	Template for forecasts of selected option	Populate but do not alter structure
BS	Template for forecasts of selected option	Populate but do not alter structure
Output Calculations		
NPV	NPV of Franchise Payments calculation (feed from Financial Statements)	Contains formulae, do not alter
FAA	Production of tables for Schedule 8 of the Franchise Agreement (feed from Financial Statements and Bidder model)	Populate (highlighted rows only) but do not alter structure
FO&C	Schedule 12 Financial Ratio calculations (feed from Financial Statements)	Populate (highlighted rows only) but do not alter structure

5.4 Generic Bidding Assumptions

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

- The Caledonian Sleeper rail franchise will commence on 1 April 2015;
- The Caledonian Sleeper rail franchise financial year commences on 1 April of each year;
- Financial forecasts are to include calculations of the tax liabilities of the subject company in accordance with any applicable tax law. Complete integrated tax computations should be included in the Financial Model to the extent that any group, consortium or other form of relief or sale of losses is clearly stated within such model;
- Bidders are free to adopt either UK GAAP or IFRS but the accounting basis chosen must be disclosed and once selected cannot be changed;
- The definition of those amounts to be excluded from profit relating to (1) non-cash pension adjustments in the statutory accounts and (2) amounts disallowed relating to intra-group trading are to be applied regardless of the accounting procedures followed
- The units to be used in each Bid submission are clearly set out in the Templates provided;
- The default prices stated in the Financial Model should be nominal but when viewed in real terms, outputs should be deflated to 2015/16 prices;
 - The tables listed below should be completed in 2015/16 prices: Franchise Payment table set out in Schedule 8.2, Appendix 2 (*Figures for Calculation of Franchise Payments*) of the Franchise Agreement.
- Annual Retail Prices Index and Average Weekly Earnings indices assumptions will be made available to Bidders in the Data Site and shall apply from 1 April 2016 and annually thereafter;
- The standard UK Treasury real discount rate of 3.5% per annum will be used for years 1 to 7. This will be doubled to 7.0% for years 8 to 15. Additionally, a weighting factor of 33% will be applied to the subsidy for years 8 to 15. Both are to be applied as is set out in the template Indices & Rates sheet;
- Net present values of the revenues, costs and Franchise Payments will be discounted back to the start of the Caledonian Sleeper rail franchise (1 April 2015);
- For the purposes of calculating net present values, the templated calculation assumes mid-year cashflows (September) for full Franchisee financial years.
- Profit Share levels and thresholds are as per Schedule 8.1 (*Franchise Payments*) of the Franchise Agreement;
- There will be no changes to the Track Access Agreement and charging methodologies as a result of any reviews conducted by ORR during the Franchise Term (Bidders should use CP5 rates until the end of CP5 and assume that they are held constant in real terms thereafter: Preliminary values are available in the Data Site); and
- For calculating Franchise Payments the methodology should be applied consistently on an annual basis, in accordance with the Franchise Agreement.
- As highlighted in Section 4.1.2.2 (Passenger accommodation and facilities), whilst Bidders are encouraged to offer a premium standard of accommodation and/or premium level of customer service as part of their Bids, this will not be supported financially by Transport Scotland through compensation paid under the Franchise Agreement. Any such provision would therefore be at the Franchisee's risk. Transport Scotland is open to Bidders coming forward with costed proposals, supported by patronage data and expected revenue, which support the provision of a premium standard of accommodation and/or premium level of customer service. However all discreet and incremental costs required for the provision of a premium accommodation and/or service must be identified and reported separately within the Financial Templates.

5.5 Modelling Change, Record of Assumptions and Forecasting Robustness, and Assessment of Financial Robustness

5.5.1 Modelling Change, Record of Assumptions and Forecasting Robustness

The Record of Assumptions and Operating Manual are required to accompany the Models and should be submitted as Microsoft Word documents.

The Record of Assumptions should contain all financial and operational assumptions used and shall explain and discuss the inputs of each Model, including the base unit cost for each input. Where contracted variable unit costs have the potential to change as a result of Change (e.g. maintenance contract charges which vary between mileage bands), Bidders are required to include the full range of potential unit costs of their anticipated contracted agreements within the Record of Assumptions.

The Record of Assumptions should include assumptions used in the pricing of any Incremental Options if submitted. A description of accounting policies, especially in relation to capital investment, as well as taxation assumptions should also be included. The Record of Assumptions should also make clear and explicit any costs and revenues associated with proposals for an additional level of service above the business level.

Transport Scotland requires that Bidders submit a copy of their modelled timetable and source codes (which have been developed within MOIRA or any other revenue or timetable development software) to calculate the likely passenger revenues that will be earned from the timetable submitted with their Bid and that have been utilised in the population of Bidders' Revenue Models. Transport Scotland will accept this information electronically in raw format as an appendix to a Bidders' Record of Assumptions.

The Operating Manual should provide detailed instructions for operating the Models and include the following:

- A description of each Model, its structure and capability;
- An explanation of the flow of data through the Financial Model and the interfaces with the Operational Models submitted. This may be presented diagrammatically with supporting narrative as appropriate;
- A description of the purpose and operational characteristics of each worksheet and how it interacts with the Models;
- Instructions on how to input data, select assumptions and calculate the financial outputs;
- A table setting out the percentage of total other revenues, other operating costs and rolling stock costs (totals in real terms over the Franchise Term) that are earned from or paid to HQ, group or other affiliates; and
- Where macros (or other visual basic functions) have had to be used, a description of any macros used in the operation of the Models, the reason for their use and how they impact on the results.

The Operating Manual should include two worked examples of Change. The Financial Model is **not** required to include a switch to allow these examples to be selected. The Operating Manual should contain a detailed description of the required changes to the inputs to the Models and the rationale for such changes alongside a clear description of how the Models have been used to produce the worked examples. The examples should show the changes in key numbers leading to change in the franchise payment.

The two worked examples to be included in this section of the Manual are:

1. Requirement to operate both London-Glasgow and London-Edinburgh services two carriages shorter than planned due to non-availability of longer platform from start of year 1 to end of year 3 of franchise.
2. The provision of a Saturday evening service to/from London to Glasgow.

Modelling Change, Record of Assumptions and Forecasting Robustness will be assessed on a pass/fail basis in accordance with the scoring matrix set out in Part 2 of Attachment H.

5.5.2 Assessment of Financial Robustness

Transport Scotland will carry out an assessment of Bidders' solvency based on the following scenarios:

- The Bidder's Bid revenue is 1% lower in each year of the Franchise Term. This scenario will be used to assess how a Bidder might mitigate an ongoing shortfall of revenue against that forecast.
- The Bidder's Bid revenue in year 3 and 4 is 5% lower in each year than forecast. This scenario will be used to assess how a Bidder might mitigate in the event of a revenue shock, for example the impact of a recession.

For each scenario the Bidder should set out the impact of the scenario on the financial statements (profit and loss, cashflow and balance sheet) and financial ratio in each year of the Franchise Term. Bidders should clearly set out what mitigation measures they would propose to manage the impact of the scenario. It is for the Bidder to determine these, which may include:

- Reduction of costs (Bidders should clearly define which costs might be reduced)
- Additional loan facility offered

The two scenarios above will allow Transport Scotland to assess the financial robustness of the Bid. Depending on the nature of the Bid, Transport Scotland may ask each Bidder to explain the mitigation measures they would implement for additional scenarios, to be determined by Transport Scotland once the Bids have been received.

If the mitigation measures for some or all scenarios are not deemed sufficient Transport Scotland may require clarification and/or Transport Scotland may ask a Bidder to increase the maximum level of the Inter Company Loan Facility (or equivalent form of liquidity). In the event that Transport Scotland requires an Inter Company Loan Facility (or equivalent form of liquidity) in excess of the maximum £4m stated, clarification will be sought from the Bidder to confirm the Bidder's ultimate parent (backed by a suitable bank, if necessary) is prepared to guarantee the additional funds (on demand) on the terms of the Inter Company Loan Facility Agreement (or equivalent funding agreement proposed) to minimise the risk of franchise default. Where this is not confirmed, the Bid may be deemed to have an unacceptable financial risk to Transport Scotland and may be rejected.

5.6 Incremental Options and 'Blank Option'

Transport Scotland is not specifying any Priced Options for the Caledonian Sleeper rail franchise. Transport Scotland requires a consistent level of detail / information for each Bidder Incremental Option, if submitted, to enable it to make an informed decision. Therefore financial outputs for each Incremental Option should be produced automatically by use of a switch that will update the financial outputs automatically. Models should be capable of running multiple Incremental Options individually and also in combination, except where Options are mutually exclusive.

The Models are expected to form a robust platform for the pricing of Change during the Franchise Term. To this end, Bidders are required to provide a 'Blank Option' within their Financial Model, this capability allowing pricing, and price comparison with the base case Franchise Specification in respect of at least one Change at some point during the Franchise Term.

Bidder Incremental Options, if submitted, should be indexed in accordance with the mechanism set out in Schedule 8.2 (*Annual Franchise Payments*) of the Franchise Agreement.

5.7 Derogations

Transport Scotland may grant derogations from the modelling requirements in the following three areas:

- Model size;
- Use of OFFSET and INDIRECT functions; and
- Modelling Best Practice.

Applications must be made electronically as a confidential clarification request through the Data Site by 31 October 2013. It is not expected that derogations will be necessary for Financial Models.

5.7.1 Model size

Transport Scotland will consider applications to exceed the [125MB] workbook size limit where it is demonstrated that adherence to this limit generates significant inefficiencies, or materially reduces the level of confidence in the resulting forecasts.

5.7.2 Use of prohibited functions

Transport Scotland will consider applications for use of the OFFSET and INDIRECT functions where the following are demonstrated:

- That the use of these functions generates significant savings in model run times and use of disk space or otherwise significantly assists the efficient pricing of Change; and
- That the use of these functions is clearly explained and documented in the Operating Manual and Record of Assumptions.

5.7.3 Modelling Best Practice

Transport Scotland will consider applications to relax the principles of Modelling Best Practice on an individual basis, and considers that derogations may be more appropriate at the underlying input/assumption interface.

5.8 Model Sign-Off - Terms of Reference

The minimum level of model audit or review required by Transport Scotland for each of the Models is summarised below:

	Independent Modelling Best Practice Confirmation	Model Audit	Calculation Review	Technical Review
Financial Model	x	x		
Operational Models	x		x	x
Timescales and Requirements	Confirmation provided at Bid Submission	Model Audit Report following Transport Scotland instruction	Completed in parallel with Financial Model Model Audit following Transport Scotland instruction	Completed by Transport Scotland as part of its evaluation process

The Financial Model will be subject to a full Model Audit as described in Section 5.8.2 (Model Audit) of this ITT. Transport Scotland recognises that the accounting elements of the Model Audit are not relevant to the Operational Models, and therefore requires a review of the calculations only, to be conducted by the same party as the Model Audit, as set out in Section 5.8.3 (Calculation Review) of this ITT. Transport Scotland will conduct a technical review of the Operational Models as part of its evaluation process. It is at Transport Scotland's discretion as to whether any aspect of the technical review is shared with the relevant Bidders.

Bidders are required to satisfy themselves as to the technical accuracy of all Models prior to submission, noting the allocation of risk with respect to errors within the Models described in Section 2.4 (Cost of Bidding and Model Audits) of this ITT.

Bidders shall bear the risk of errors within the Financial Model, the Record of Assumptions and any associated Operational Models and of any adverse impact that this may have on the premiums payable. Further information on the requirements in relation to the Financial Model is provided in this Section 5 (*Financial Elements*) of this ITT.

5.8.1 Modelling Best Practice Confirmation

Each Bidder must provide an independent Modelling Best Practice Confirmation report on all sections of the Models, co-addressed to Transport Scotland and that Bidder, as part of its Bid submission, taking account of any derogations obtained (described in Section 5.7 (*Derogations*) of this ITT). The Best Practice Confirmation is not considered to be an audit of the Models.

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

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

- **Separation** of inputs, calculations and outputs;
 - Inputs: should include data and assumptions but no calculations;
 - Calculations: should include individual calculations that support each line of all outputs and reports. There should be no duplication of calculations nor should input cells be hard-coded in the calculation sheets; and
 - Outputs: should not include any hard-coded input cells or calculations except for sums and check totals.
- Data inputs, calculations and output areas should be completely separate and clearly labelled. The Modelling Best Practice Confirmation must document the high level patterns of data flow within the Models and include a flow chart of the main data flows between worksheets and workbooks;
- **Consistency** of formulae across rows and down columns and across worksheets. The Models should have time periods across the columns and calculations down the rows. This should be consistent in all worksheets. There are two areas where consistency is most important:
 - Columns: the same column should be used for the same period in each worksheet; and
 - Rows: a row will contain only one formula, copied across all columns.
- The Modelling Best Practice Confirmation must provide a review of the Models' structures by means of spreadsheet maps, which give a visual representation of the worksheet structure and layout, highlighting elements of the worksheet layout that warrant further investigation (however, as this is not as detailed as a Model Audit, each individual formula is not checked);
- **Integrity** of financial statements (e.g. that there are no balancing figures). The Modelling Best Practice Confirmation must provide an assessment of the extent and effectiveness of internal and/or error checks contained within the Models and detail any internal control checks that indicate errors; and
- **Linearity** of calculation flow (e.g. that there are no circular references);
- **Macros**, where required, their function should be clearly explained.

**Following bid
submission and prior
to contract award
Transport Scotland
will request one or
more Bidders to
obtain an independent
audit of Financial
Model.**

The Modelling Best Practice Confirmation must also provide confirmation that the [125MB] size limit has been adhered to, and that the INDIRECT and OFFSET functions are not used except where derogations (described in Section 5.7 (*Derogations*)) are granted.

5.8.2 Model Audit

Following Bid submission and prior to contract award Transport Scotland will request one or more Bidders to obtain an independent audit of Financial Model (the "**Model Audit**") on all sections of the Financial Model. The Model Audit shall be prepared for the benefit of Transport Scotland and the Bidder and shall be co-addressed to them. All costs associated with the preparation of the Model Audit are for the Bidder's account only. Bidders must obtain Transport Scotland's acceptance (not to be unreasonably withheld) of their choice of independent model auditor and its agreement to the definition of the Financial Model for determining the scope of the audit. Transport Scotland will expect to receive the audit report within ten working days of it being requested of the Bidder.

Transport Scotland requires the Model Audit to confirm:

- Whether the Financial Model has been constructed appropriately so as to materially achieve the objective that it was designed to meet, insofar as its logical integrity under the base 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 Operating Manual and Record of Assumptions appear materially consistent with current understanding of existing UK tax legislation;
- Whether the key accounting assumptions in the Financial Model and the Operating Manual and Record of Assumptions appear materially consistent with current understanding of UK GAAP/IFRS;
- Whether the calculation of the Annual Franchise Payments is in accordance with Schedule 8.2 (*Annual Franchise Payments*) of the Franchise Agreement;
- Whether the calculation of the financial ratios is in accordance with Schedule 12 (*Financial Obligations and Undertakings*) of the Franchise Agreement;
- Whether the Financial Model has been developed in a well structured manner to acceptable standards;
- Whether assumptions and input data in the Operating Manual and Record of Assumptions have in all material respects been consistently reflected in the Financial Model;
- Incremental Options, if submitted: Transport Scotland will require an audit to be performed on all of the Options which have been, or may yet be, contracted. Any redundant Options should be removed from the Models at this point; [and
- For robustness purposes Transport Scotland may provide the preferred Bidder with no more than five tests for the purposes of understanding robustness of the stress test. The Model Audit will test the logical integrity of the arithmetical operations in the Financial Model formulae and calculations under the assumptions and input data for the specified test. A robustness test is defined as a change in one or more variables.

Bidders should note the allocation of risk with respect to errors within the Models described in this Section 5.8 (*Model sign-off – Terms of Reference*).

5.8.3 Calculation Review

The independent party conducting the Model Audit will also conduct a review of the calculations employed in the Operational Models. The Calculation Review will be conducted to the same standard as the Model Audit, but will exclude the technical elements of this process relating to taxation and accounting practices. Transport Scotland requires the review to confirm:

- Whether the Operational Models have 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;
- Whether the Operational Models have been developed in a well structured manner to acceptable standards;
- Whether assumptions and input data in the Operating Manual and Record of Assumptions have in all material respects been consistently reflected in the Operational Models; and

- Bidder Incremental Options, if submitted: Transport Scotland will require a review of all of the Options that have been, or may yet be, contracted. Any redundant Options should be removed from the Models at this point.

5.8.4 Profit Sharing / Rebasing

Schedule 8.1 (*Franchise Payments*) of the Franchise Agreement provides Bidders with information about the Profit Sharing and Rebasing mechanism that are a feature of this competition. The main elements of the mechanism are:

- Transport Scotland will share in the Franchisee's profits above a minimum prescribed level in each year of the Caledonian Sleeper rail franchise (including part years);
- Profits above 7% and below a cap of 15% (pre-shared profit before tax, as set out in the Franchisee's audited accounts) of revenue will be shared 50:50 between Transport Scotland and the Franchisee;
- Profits in excess of the cap will be placed in an investment fund for reinvestment in the Caledonian Sleeper rail franchise. Decisions in relation to investment will be at Transport Scotland's discretion;
- Any increase in surplus from any premium standard of accommodation and/or premium level of customer service will be included in the computation of profit levels for the purpose of the profit-sharing mechanism;
- Each Bidder is required to disclose within their Bid the level of Related Party Contracts for each year of the Franchise Term. Each annual amount will form the capped level of Related Party Contracts for the respective year. Related Party Contracts cannot exceed the capped level in the Bid without express permission in advance from Transport Scotland. For the avoidance of doubt the capped levels apply on an annual basis; any underspends cannot be carried forward into subsequent years (see also Schedule 13.7 (*Related Parties and Open Book Accounting*) of the Franchise Agreement);
- A profit support mechanism will be in place from year 5 of the Caledonian Sleeper rail franchise. Losses incurred from year 5 will be shared 50:50 between the Franchisee and Transport Scotland;
- After year 7 an option will be available to rebase the Franchise Payment based on actual revenues and costs during the previous years. In the event that the option is exercised by the Franchisee, the profit of the Franchisee will be revised to 2.5% of revenue;
- If the option is exercised profits in excess of 2.5% and below a cap of 15% of revenue will be shared 50:50;
- If the option is exercised by the Franchisee, Transport Scotland will have the right to terminate the Caledonian Sleeper rail franchise on a "No Fault" termination basis;
- Profit and the thresholds and levels of sharing are set out in Schedule 8 (*Payments*) of the Franchise Agreement.

The Franchisee will be required to maintain financial transparency at all times including in the following ways:-

- The Franchisee should follow the principle of open book accounting.
- The Franchisee must ensure that there is no cross-subsidisation between the Caledonian Sleeper Services and any other service run by or activities of the Franchisee or between the Franchisee and any other Affiliate.
- The Franchisee must ensure that if any of its staff is engaged in providing services to or in connection with any other service run by any Affiliate that there is no cost to the Franchisee in connection with this.
- The Franchisee must have clear, separate and transparent accounting systems for the financing and operating of the Caledonian Sleeper Services (in accordance with Regulation (EC) 1370/2007) to ensure that the Franchise Payment is only used for the Caledonian Sleeper Services and not for any other activity of the Franchisee.
- Where the Franchisee wishes to enter into a contract with any Affiliate confirmation from Transport Scotland will be required to the effect that Transport Scotland is satisfied the transaction or contract is on arm's length terms.

**Profits above 7%
and below a cap of
15% shared 50:50.**

**Losses incurred
from year 5 will
shared 50:50.**

**An option will be
available to rebase the
Franchise Payment.**

**Exercised profits in
excess of 2.5% and
below a cap of 15%
of revenue will be
share 50:50.**

**Transport Scotland
will have the right
to terminate the
Franchise on a
"No Fault"
termination basis.**

- The Franchisee should maintain a detailed ledger of Related Party Contracts, including the amount of the payment and the reason for the service. This should also confirm that the service is priced at arm's length (i.e. on a normal commercial basis) or if not, explain why the service is not priced as such.
- The Franchisee should prior to the Franchisee Commencement Date prepare a schedule of services and transactions expected to be undertaken with Affiliates for Transport Scotland's approval. This listing should be maintained throughout the Franchise Term.
- Transport Scotland may request that the auditors of the Franchisee review the Related Party Contracts list and confirm that the transactions are at arm's length. If any such contracts are entered into without Transport Scotland's consent which are not on an arm's length basis, Transport Scotland shall be permitted, for the purposes of profit share and profit support calculations, to disregard any expenditure that is considered to be in excess of that that would be incurred if the transaction was arm's length.
- Where the Franchisee wishes to offer a premium standard of accommodation and/or premium level of service, all discrete and incremental costs required for the provision of such premium accommodation and/or service must be identified and reported separately.

Bidders should cross-refer to Delivery Plan B4 (*Assessment and Refinement*).

5.9 Financial Structure and Funding

Each Bidder is required to:

- Detail the total investment plan for all funding of infrastructure, other works and schemes that support its proposals, including explaining its linkage with the Financial Model;
- Submit precise details of its own funding arrangements and detail the exact nature of relationships with any funding partner or underlying financial securities provided by third parties;
- Provide details of the providers of the Performance Bond including term sheets from the Bond Provider(s) in order to demonstrate that the requirements set out in Schedule 12 (*Financial Obligations and Undertakings*) of the Franchise Agreement have been met;
- Submit a statement from the relevant Bond Provider accepting the form of the Performance Bond as set out in Schedule 12, Appendix 1 (*Form of Performance Bond*) of the Franchise Agreement;
- Provide details of how the Bidder intends to provide security to Transport Scotland in respect of the capital contribution, together with letter(s) of support from relevant parties. As a minimum Transport Scotland expects to see evidence for how the capital contributions will be used, support to ensure that the outputs for which the capital contributions are provided will be provided in full (at no additional cost to Transport Scotland) and support to ensure that the outputs will be available to Transport Scotland for the entire length of the contract, regardless of any termination events. Transport Scotland expects that the Inter Company Loan Facility Agreement attached in Attachment E (or equivalent funding agreement) will be in place in regard of the capital contribution;
- Provide details of how the Bidders intend to support their proposed Inter Company Loan Facility (or equivalent form of liquidity) with suitably accredited third parties or banks including term sheet(s) and letter(s) of support; Demonstrate how ongoing working capital requirements, as forecast in the Financial Model, will be funded;
- For each franchise commitment made in the Bid (or groups of commitments if appropriate), submit a funding plan with full details of its linkage with the Financial Model, each source of funding, including rights and obligations of each type of funding and details of agreements with the organisations providing funding. For each source, a letter of support and term sheet must be provided from the underwriting financial institution setting out the terms and conditions (including all condition precedents, fees, repayment profile, basis of interest rate calculation) of the finance;
- Incorporate in its funding plans, an investment profile as detailed in the Templates providing for each proposal category (base case Franchise Specification (and Incremental Options if submitted)) and by investment category;

- Submit a letter from its financial adviser(s) confirming that:
 - the funding plans for all aspects of the Bid have been developed to a stage that will allow funding to be made available to the Franchisee on execution of the Franchise Agreement;
 - financial adviser support of the funding proposition has been provided in the knowledge of the terms and conditions set out in the term sheets of the finance providers;
 - the funding plans are accurately reflected in the Financial Model;
- For any investment that Bidders anticipate will retain a realisable residual value payment from a successor TOC at franchise end (under the terms of the Franchise Agreement provisions), this value should be clear in its amount and derivation. The criteria that this valuation will be based on will be issued to Bidders alongside the draft Franchise Agreement at Attachment A.
- Confirm the interest rates and contractual terms of any inter-company debt funding, subordinated loans or other funding arrangements between or to be between the Franchisee and any affiliate or third party; and
- Provide details and assumptions for interest earned on cash deposits.

5.10 Other Information Required

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

5.11 Inter Company Loan Facility (or equivalent form of liquidity)

Bidders will make proposals to fund the Franchisee through the acquisition of shares in the Franchisee by its parent company and that the Franchisee is funded by a loan facility from its parent company. The Scottish Ministers require such funding proposals to be robust. Accordingly if the Scottish Ministers determine during the Franchise Term that the parent company's financial status has deteriorated below the required standard, the Scottish Ministers reserve the right to require that the loan facility is backed by suitable third party bonds or guarantees from credit providers of no less than "A-" long term Standard and Poor's rating. Where an Inter Company Loan Facility is proposed by the Bidder; the Bidder shall be expected to enter into the template "Inter Company Loan Facility Agreement re: Share Capital and loan facility" provided at Attachment E, confirming in their Bids that they accept its terms and will be prepared to contractualise their funding proposals accordingly from completion of the Franchise Agreement. Where an equivalent form of liquidity is proposed by the Bidder; Transport Scotland reserves the right to approve the terms and conditions of the facility arrangements to be contractualised from completion of the Franchise Agreement.



6. Further Information

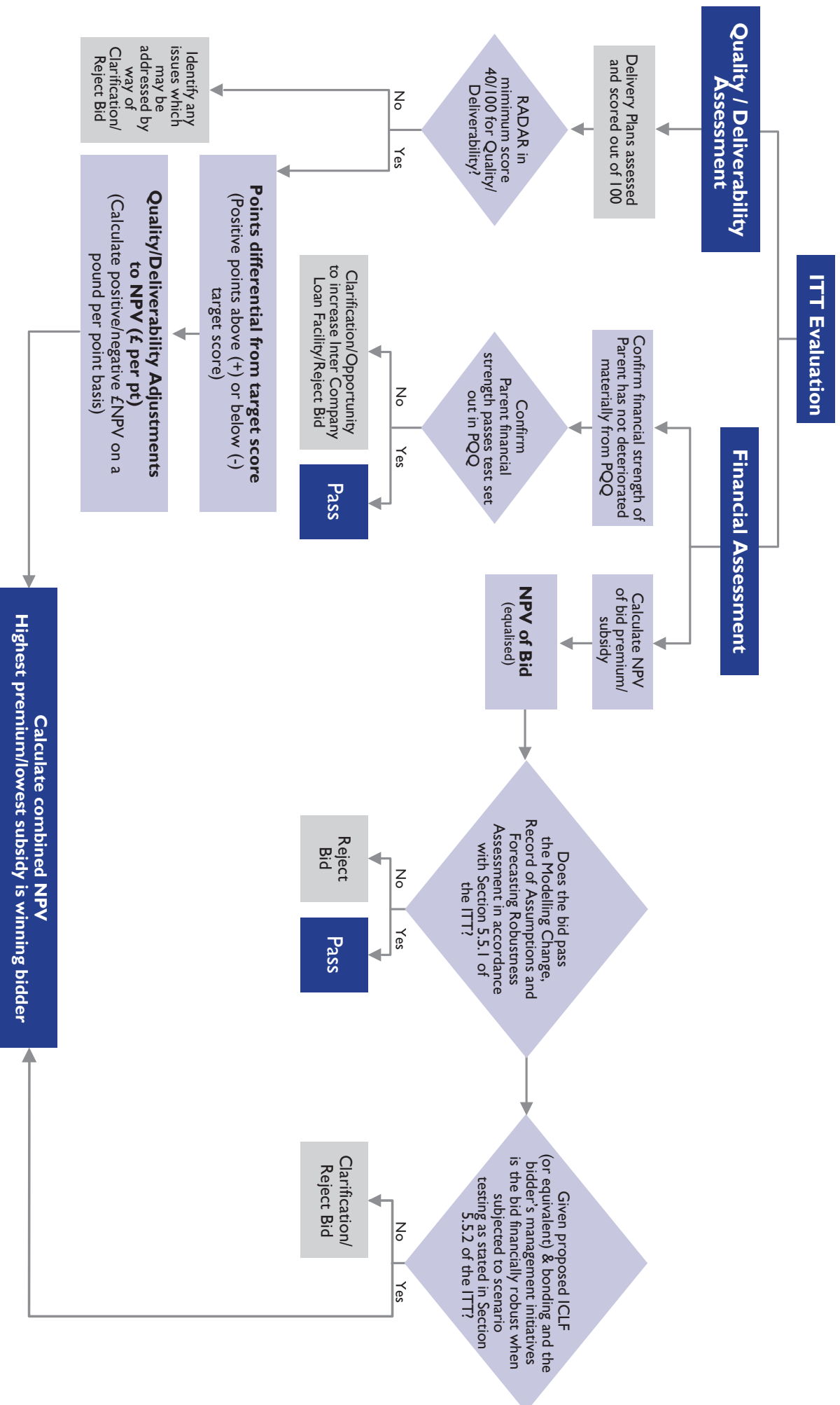
Further information relating to the Caledonian Sleeper rail franchise, for example on issues such as working with stakeholders and accessing the network, can be found in the Data Site.



Appendix I:

Evaluation Process Chart







CALEDONIAN
SLEEPER

Appendix 2:

Rules for spending of £50 million
Capital Contribution

Invitation to Tender

**TENDER REFERENCE:
TS/RD/SER/2013/02**

B/5110994/26

In order to improve the performance and patronage of the Caledonian Sleeper Services and make it more financially sustainable in the long term, Transport Scotland will make available to the Franchisee a capital contribution of up to £50 million for improvements to rolling stock related to the Caledonian Sleeper Services together with the potential for an additional £10 million as detailed at paragraph 10 below (the “**Contribution**”). Bidders should note that these figures are nominal and will not be subject to indexation.

A number of conditions will be imposed on the Franchisee in relation to the deployment of the Contribution. Transport Scotland’s requirements in respect of the deployment of the Contribution are as follows:

1. The Franchisee may only spend the Contribution on improvements to rolling stock to meet the Franchise Objectives or alternatively investment in the ownership of rolling stock, including all costs capitalised for tangible fixed assets where those costs are directly attributable to bringing the rolling stock into working condition in order to deliver the Caledonian Sleeper Services. “Directly attributable” costs shall include any labour costs of the Franchisee’s employees arising from the construction, acquisition or refurbishment of the rolling stock and capitalised interest associated with the financing of such construction, acquisition or refurbishment incurred during the construction phase. For the avoidance of doubt, the Contribution may not be used to fund leasing costs, Bids costs (or part thereof) or any administrative costs or overheads not directly attributable to the acquisition, construction or refurbishment of the rolling stock.
2. Any element of the Contribution which is utilised in respect of a premium standard of accommodation and/ or a premium level of customer service (as described in Section 4.1.2.2 (Passenger accommodation and facilities) of the ITT) will be treated as a loan from Transport Scotland to the Franchisee. Such loan will be on “normal commercial terms” and will require to be repaid within 7 years of the Franchise Commencement Date. Details of commercial funding terms are available on the Data Site.
3. The Franchisee will be required to spend the Contribution within the first three years of the franchise from the Franchise Commencement Date.

4. The Bidder’s investment proposals provided in response to Delivery Plan A1 will be contractualised in the Franchise Agreement and should include details of how the Contribution will be utilised by the Franchisee, including:
 - (i) a detailed scope of works;
 - (ii) a detailed specification; and
 - (iii) a milestone delivery and payment schedule.

5. The Franchisee will be required to deliver in full the proposals provided in response to Delivery Plan A1 at no additional cost to Transport Scotland.

6. The Contribution will be made available to the Franchisee in accordance with an agreed milestone delivery payment schedule that is spread over the relevant financial years. The following profile of expenditure is what Transport Scotland anticipates but this is not fixed and Bidders are free to submit their own proposals as required to facilitate implementation of the Rolling Stock Strategy so long as these are in line with the rules of this Appendix 2 (Rules for Spending of £50m Capital Contribution).

2014/15	£10 million
2015/16	£10 million
2016/17	£20 million
2017/18	£10 million

Any milestone delivery payment schedule proposed by Bidders should seek to minimise Transport Scotland’s exposure to financial risk.

7. The Franchisee will make available to Transport Scotland the improved/enhanced rolling stock once available in accordance with the Franchisee’s Rolling Stock Strategy and then throughout the Franchise Term, notwithstanding an early termination of the Franchise Agreement pursuant to Clause 2.2(b)(ii) and Clause 2.2(c)(ii) of the Conditions Precedent Agreement or pursuant to Schedule 10 (Remedies, Termination and Expiry).
8. To the extent the Franchisee’s proposed payment profile requires any advance payment then such advance payment should be secured by way of an Advance Payment Bond.

9. The Franchisee will require to demonstrate at the Franchise Commencement Date that it shall make available to Transport Scotland (or a successor entity):
 - (i) on early termination of the Franchise Agreement, (1) a right to acquire title to the rolling stock at no cost to Transport Scotland or (2) a right to step-in to the rolling stock leases; or
 - (ii) at the expiry date, (1) a right for Transport Scotland to acquire title to the rolling stock at no additional cost to Transport Scotland; or (2) an option for Transport Scotland or the successor franchisee to lease the rolling stock at a peppercorn rent.
10. The Franchisee will be required to include rights of step-in in favour of Transport Scotland on termination of the Franchise Agreement to all contractual arrangements associated with the deployment of the Contribution.
11. The additional £10 million of the Contribution may be made available to the Franchisee where the Franchisee can demonstrate that such additional funding will:
 - (i) provide an economic benefit by improving the financial NPV of the Caledonian Sleeper rail franchise; and
 - (ii) represent value for money.
12. The Franchisee will take full pricing and delivery risk in respect of the improvements/enhancements to the rolling stock. Transport Scotland will have no obligation to increase the Contribution in the event of any increases in actual capital expenditure arising for whatever reason.
13. The Franchisee will be required to pay liquidated damages in the event of late delivery of the improved/enhanced rolling stock against the delivery milestones. Any payment for liquidated damages will be treated as a Committed Obligation Payment Adjustment in accordance with Schedule 1.6 (Committed Obligations) of the Franchise Agreement.
14. Transport Scotland will be entitled to claw back any overpayments on or at any time after the occurrence of an Event of Default or a Termination Event.

Where the Franchisee's proposed investment exceeds the maximum Contribution thereby requiring additional investment by the Franchisee, the Contribution will be made available by Transport Scotland to the Franchisee on a proportional basis with such additional investment.

The NPV of any additional investment in respect of the additional £10 million Contribution over 15 years will be calculated using the same discount rate as applied to the price of each Bid (see Section 3.3.5 (Financial Assessment) of the ITT).



For more information:

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