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## Wales and Borders Rail Service and South Wales Metro

Invitation to Submit Final Tender

Volume 12: Finance

Issue Date 30 November 2017

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## **1. Introduction**

- 1.1 This section describes the detailed financial information that you must include in your Final Tender.
- 1.2 All financial information supplied as part of the Final Tender must be clearly denominated in Pounds Sterling. This requirement does not apply to any requested information which has not been created for the Bid (e.g. company financial reports), which should use the original currency. Where financial information is supplied as part of the Bid in a currency other than Pounds Sterling, and the Authority wishes to convert the relevant information into Pounds Sterling, it will use the closing mid exchange rate published in the Financial Times on the day this ITSFT is published.
- 1.3 The detailed requirements for each section are covered in the Appendices.
- 1.4 The Authority reserves the right to engage with one or more Bidders, prior to contract award and/or signing of the ODP Grant Agreement, to improve the transparency, granularity and usability of the Modelling Suite (as defined below in paragraph 2.1) in areas which it believes would be beneficial to the management of the ODP Grant Agreement. This will not affect the evaluation or ranking of Final Tenders.

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## **2. The Modelling Suite**

- 2.1 You are required to submit and include as part of your Final Tender submission a fully populated Modelling Suite of documents as follows:
  - a) Rail Services Financial Model Suite, consisting of:
    - i) A Financial Model, and supporting Operational Models (as a minimum Revenue, Performance, Operating Cost and Capital Expenditure models);
    - ii) A breakdown of the financial impact of each proposed Initiative (Schedule of Initiatives) in line with the requirements of paragraphs 2.5 to 2.9;
    - iii) The Rail Services Record of Assumptions; and
    - iv) An Operating Manual;
  - b) A CVL Concept Design Costing Template with supporting information; and
  - c) An Infrastructure Manager Model Template with Record of Assumptions and any other relevant supporting information;  
  
(collectively referred to as the “Modelling Suite”).

- 2.2 The Financial Model, Operational Models, CVL Concept Design Costing Template and Infrastructure Manager Model Template are collectively termed the "Models".
- 2.3 The Modelling Suite must meet the requirements and assumptions described in Appendices A and B of this Volume 12. The Modelling Suite must demonstrate the financial consequences of the Bidder's business and operational plans over the ODP Grant Agreement Term in order that the Authority may evaluate them to the extent provided and in accordance with the evaluation criteria described in Volume 2.

### Errors in the Models

- 2.4 Bidders are required to satisfy themselves as to the technical accuracy of their Modelling Suite prior to submission. Where any element of the Modelling Suite is found to contain an error or errors during the course of evaluation (or as a result of the Model Audit) the Authority reserves the right at its sole discretion to:
- a) Evaluate the relevant element of the Modelling Suite as received, in which case the Bidder shall bear the risk of the error(s) within that element of the Modelling Suite and of any impact that this may have on the evaluation carried out in accordance with Volume 2; or
  - b) Correct the error(s) itself following clarification with the Bidder in accordance with the clarification process or require the error(s) to be corrected, and then evaluate that element of the Modelling Suite in accordance with Volume 2; or
  - c) Treat the Bid as being non-compliant.

### Models

**R12.1** Bidders are required to provide the following:

- a) A fully populated Rail Services Financial Model Suite, with the Rail Services Financial Model Templates linked to the Financial Model, as per the requirements in Appendix 12A to this Volume 12, together with Operational Models, Operating Manuals and Rail Services Record of Assumptions;
- b) Completed Infrastructure Manager Model Templates in accordance with the requirements in Appendix 12B to this Volume 12 and Volume 9 together with an associated Record of Assumptions and any supporting information; and
- c) Completed CVL Concept Design Costing Templates with a full set of 20 products in accordance with the document entitled "CVL Concept Design", v5.0 dated 25<sup>th</sup> September 2017.

## Schedule of Rail Services Initiatives

- 2.5 Consistent with the requirements of Appendix 12A, paragraph 12.15 and Appendix 12A, paragraph 12.33 of this Volume 12, a Schedule of Rail Services Initiatives is required to record the obligations, including timing and, where appropriate, spend you have committed and will be used to inform the drafting of Committed Obligations and the Service Improvement Plan.
- 2.6 Each Rail Services Initiative should conform (as much as is practical) to the P&L3 template included within the Rail Services Financial Model Templates. Note, that you are free to remove any line items that are not populated. The Schedule of Rail Services Initiatives must not contain any figures or line items which are not consistent with your Financial Model Suite. For the avoidance of doubt the Schedule of Rail Services Initiatives shall fall outside the page limit.
- 2.7 In addition to, or as part of the P&L3 summary, you are required to provide a Schedule of Rail Services Initiatives and to set out for each Rail Services Initiative:
- a) Name;
  - b) Section of Bid where detailed;
  - c) Record of Assumptions reference;
  - d) Components of the Initiative, including a description of the quality, nature or standard achieved by the Initiative;
  - e) Cost of each component of the Initiative both capital and operating costs, in totality and by year;
  - f) Revenue and benefits of the Initiative in totality and by year;
  - g) Start date and/or completion date for each component of the Initiative;
  - h) The Milestone in which the Rail Service Initiative is a Milestone Deliverable or component thereof;
  - i) The date after which the Authority can no longer decide that an Initiative should no longer be delivered without incurred cost which would be included in any Rail Services payment adjustment;
  - j) Any other Rail Services Initiatives upon which the delivery of the Rail Services Initiative depends, if any, and
  - k) Whether the RV Mechanism is applied and the value of the relevant asset at the end of the Rail Services Core Term.
- 2.8 Under Schedule 6 to the ODP Grant Agreement, the Authority will have the right to adjust Committed Obligations either by removal or change at any time prior to their delivery subject to the following:
- l) Such adjustment not being after the date identified in the Response to Question R12.2; and

- m) Such adjustment not being made to a Committed Obligation which other Committed Obligations that are not adjusted are dependent upon.
- 2.9 Where the Authority requires such adjustment of Committed Obligations the Rail Services Payments shall be varied by the amount of the Rail Service Payment associated with such Committed Obligation within the relevant Record of Assumptions and the obligation to deliver such Committed Obligation shall be removed from the ODP. Such adjustment shall be progressed as a Change within Schedule 9 to the ODP Grant Agreement.
- R12.2** Submit a Schedule of Rail Services Initiatives within the relevant Record of Assumptions that includes all of the information required under paragraph 2.7 above. As part of this you should provide:
- a) A financial summary in 2017/18 prices of the annual Rail Services Payments requirement for each Rail Services Initiative so that the Authority can track the build-up of the overall Rail Services Payments. Note, the Authority envisages a single line item for each Initiative which shows the subsidy or premium requirement of each initiative, which when totalled equals the net subsidy requirement for Rail Services included within the overall submission; and
  - b) For each Rail Services Initiative include a P&L 3 summary in 2017/18 prices and backing information as per the requirements above.

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### 3. Priced Options

- 3.1 You should provide separate Priced Options as per the requirements in this Section 3 and the Modelling Requirements in Appendix 12A of this Volume 12 for the following:
- a) The CVL Rolling Stock Capital Purchase option described below; and
  - b) The four Extendibility examples described in Section 9 of Volume 8.
- 3.2 You must provide details of the assumptions and evidence supporting the modelling of the cost and revenue forecasts for Priced Options within the relevant Record of Assumptions and any supporting information, and as part of the Responses to Question R12.3 and R12.4.

#### CVL Rolling Stock Capital Purchase

- 3.3 For this Priced Option, the Authority will provide a Capital Grant to the ODP to cover the costs of procuring the CVL Rolling Stock instead of the ODP leasing the CVL Rolling Stock through a ROSCO (as included in the baseline bid).
- 3.4 Bidders are required to assume the following:
- a) The ODP will procure the CVL Rolling Stock, own it during the ODP Grant Agreement Term, and at the end of the ODP Grant Agreement, transfer it at zero value to the subsequent ODP;

- b) The ODP must structure the procurement so that the CVL Rolling Stock remains off the WG balance sheet, so far as possible;
  - c) The Authority will require the ODP to manage and maintain the CVL Rolling Stock in a manner so as to protect the value of the asset over its working life. To ensure ODP compliance with this requirement the Authority anticipates it will perform an asset stewardship role (with associated controls) akin to that role carried out by a ROSCO as rolling stock owner under a standard rolling stock lease arrangement;
  - d) The ODP will enter into any necessary contract agreements with the manufacturer and manage the manufacturer's performance including delivery into service;
  - e) The ODP will remain responsible for the CVL Rolling Stock's availability, maintenance and hand back condition;
  - f) The ODP would remain exposed to any delay in introduction of the new CVL Rolling Stock through the ODP Grant Agreement and related revenue loss, other than where any delay in introduction results from Welsh Government failing properly to perform its role as funder or steward of the asset;
  - g) The ODP will be responsible for paying the manufacturer milestone payments and the Authority will reimburse the ODP these payments as and when they are due; and
  - h) The Authority will contractualise the above obligations with the ODP through the ODP Grant Agreement or a separate agreement.
- 3.5 The Financial Model and Operational Models must adopt a structure that allows the identification and disaggregation of costs, revenues and capital expenditure associated with this Priced Option, which must not form part of the main Bid. The Financial Model and Operational Models must have the functionality to toggle switch this Priced Option on or off.

**R12.3** Based on the above requirements, provide:

- a) A P&L3 summary in 2017/18 prices of the base bid without this Option selected and a full P&L3 summary in 2017/18 prices with this Option selected.
- b) Details of the capital costs, milestone payments, maintenance costs, cost of risk included and any additional costs associated with procuring and owning the vehicles. Provide details of procurement, project management and delivery arrangements to ensure value for money ("VFM") and mitigate risk. Provide details on the accounting and tax treatment, the rationale and identify any risks and how they will be mitigated.
- c) A description of any changes to the assumptions if the CVL Vehicles were to be owned by the Welsh Government, instead of the ODP, and provided to the ODP at a peppercorn rent. Highlight the changes to the costs and any associated risks.

- 3.6 To note, sub sections b and c above are for information only and will not be scored as part of the evaluation in Volume 2.

### **Extendibility**

- 3.7 The full details and requirements of these Priced Options are included in Volume 8, Section 9. A costed option should be provided for option a), Cardiff Central or Cardiff Queen Street to the Flourish, and outline costs provided for all other options. This option is not to be included in the Models.

- R12.4** For each of the extensions outlined in Volume 8, paragraph 9.8, provide an assessment of the impact on revenues and costs for the CVL Concept Design, Rail Services and CVL Infrastructure Management, costed to the level of detail described in Volume 8, paragraph 9.9, and described in Appendix 12F of this Volume 12 and in the Extendibility Option Pricing Response Templates.

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## **4. Populated charges in ODP Grant Agreement**

- 4.1 The Rail Services, CVL Concept Design and Infrastructure Manager Model Templates contain tables of figures that will need to be populated within the ODP Grant Agreement.
- R12.5** For each of Rail Services, CVL Concept Design and Infrastructure Manager Services, populate the ODP Grant Agreement tables as laid out in Volume 13, Response Templates.

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## **5. Rail Services Revenue and Payments and Infrastructure Manager Services Payments**

- 5.1 The details of how the Authority will evaluate Final Tenders is laid out in Volume 2.
- 5.2 The Authority intends to assess the net present value for the CVL of the following elements of Infrastructure Manager Services Payments over the Rail Services Core Term:
- a) 100% of Fixed Charges;
  - b) 50% of Firm Charges;
  - c) 100% of Overhead and Profit;
  - d) 100% of Renewals design and management fees; and
  - e) Less 100% of Income.
- 5.3 This NPV will then be divided by the score for deliverability of these charges as set out in Volume 2 to give a deliverability adjusted total score.
- R12.6 Scoring of Passenger Revenue:** Populate the revenue table in the Response Template and confirm your Response is consistent with the Financial Model, 'Price Evaluation' sheet.

**R12.7 Scoring of Rail Services Payments Variation:** Provide your NPV variance against the Authority's Budget from the Rail Services Financial Model Template outputs and confirm your Response is consistent with the Rail Services Financial Model, 'Price Evaluation' sheet.

**R12.8** Submit proposals for specimen schemes that could be funded from the difference between the Bid and the Authority Budget for Rail Services Payments. Any such proposals should set out:

- a) The nature of the scheme and its benefits;
- b) An indicative P&L3 breakdown in 2017/18 prices of the financial forecast of the scheme;
- c) The risks, issues and challenges of delivering the scheme as set out;
- d) How the scheme will be funded and the level of funding certainty;
- e) What commitments the Bidder is willing to make at Final Tender; and
- f) What additional work is required in order to be able to commit to the scheme.

5.4 It should be noted that these specimen schemes will not be committed but the Authority is seeking to award credit to submissions where Bidders have identified schemes that cannot be fully developed or committed ahead of submission of Final Tender but that they feel may be desirable during the Rail Services Term.

**R12.9 CVL Infrastructure Manager Payments:** The Authority will calculate the NPV of the weighted bid Infrastructure Manager Services Payments from the information submitted by the Bidder in the Infrastructure Manager Model Template in line with the approach described in paragraph 5.2 above and detailed in Volume 2.

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## 6. Affordability

6.1 The Budget Envelope requirements for Rail Services, CVL Capital Budget, CVL Design and Discovery Phase and Infrastructure Manager Services are reflected in Volume 1. As described in Volume 1 and requirements in Appendices 12A and 12B of this Volume 12, you are required to populate your relevant Bid Grant Payments and CVL Outline Target Cost in the Model Templates.

**R12.10** Confirm that you are within the Budget Envelope for:

- a) Bid Rail Services Payments;
- b) Bid CVL Capital Budget;
- c) Bid CVL Preliminary Design and Discovery and Preparatory Works; and
- d) Bid CVL Annual Asset Operations and Maintenance and Renewals.

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## 7. Financial Structure and Funding Plan

- 7.1 Bids will need to be supported by the following sources of funding, parent company guarantees and bonding:
- a) CVL Transformation Bond of [redacted] (for the duration of CVL Transformation phase only);
  - b) CVL Asset Management Bond of [redacted] (to commence once CVL Transformation phase is completed until the end of the ODP Grant Agreement Term);
  - c) Season Ticket Bond calculable as per the ODP Grant Agreement;
  - d) Performance Bond of [redacted];
  - e) Parent Company Support (“PCS”) minimum of [redacted], 50% bonded (100% bonded if 2 or more financial standing tests are failed); and
  - f) Agreed Funding Commitment (“AFC”).
- 7.2 The funding and bonding requirements are set out in the ODP Grant Agreement and Funding Deed. The PCS and AFC requirements are contained in Appendix 12D of this Volume 12. Appendix 12D also contains the requirements for the Financial Structure and Funding Plan to be submitted with your bid.
- 7.3 The Guarantor(s) of the successful Bidder as provider(s) of the PCS will be required to enter into the Funding Deed with the Authority. The Funding Deed will set out the Guarantor’s/Guarantors’ obligation to make the guarantees available.
- 7.4 Bidders should be aware that the Funding Deed, along with the bond for CVL Transformation, Bonded PCS and Performance Bond will be executed on the same date as the ODP Grant Agreement.
- R12.11** Submit a Financial Structure and Funding Plan (including a letter from your financial adviser(s), a statement from the relevant bond providers and a statement from the Guarantor(s)) which meets the requirements set out in Appendix 12D of this Volume 12.
- R12.12** Confirm the amount of Rail Services Parent Company Support and level of Bonding that will be provided by the Guarantor(s), based on the calculations described in Appendix 12D of this Volume 12 and Rail Services Financial Model Templates.
- R12.13** Confirm that the Guarantor(s) will enter into the Funding Deed with the Authority.

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## 8. [redacted]

- 8.1 [redacted].
- 8.2 [redacted].

8.3 [redacted].

8.4 [redacted].

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## 9. PQQ economic and financial standing retest

9.1 The Authority will re-calculate the PQQ economic and financial standing tests once your Bid has been submitted, both in light of the Required PCS (as determined by the requirements set out in Appendix 12D of this Volume 12), and to take account of any audited annual accounts or credit rating updates issued during the letting process, or any material event disclosed or which ought to have been disclosed during the procurement process.

9.2 You should refer to paragraphs 7.57-7.61 of the Pre-Qualification Process Document (“PQD”) for information relating to how the tests will be updated.

**R12.14** In the template attached to the Volume 13 Response Template for Volume 12, submit your updated Response to Part E (Economic and Financial Standing) of the PQQ, updated as described above and in line with the process set out in paragraphs 7.57-7.61 of the PQD.

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## 10. Reviews and Audit of Models

10.1 You must submit a self-certified Modelling Best Practice Confirmation, and all Models submitted will undergo an internal review by the Authority. The Models of one or more Bidders will be subject to a Model Audit prior to contract signature. The full requirements for the Modelling Best Practice Confirmation and Model Audit are detailed in Appendix 12C of this Volume 12.

10.2 You are required to satisfy yourselves 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, Errors in Models of this Volume 12.

**R12.15** Submit a self-certified Modelling Best Practice Confirmation report on all sections of the Models as per the requirements in Appendix 12C of this Volume 12. For the avoidance of doubt, the Authority does not require this Confirmation to be provided by an independent financial adviser.

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## 11. Residual Value Mechanism

11.1 The Residual Value Mechanism (“RVM”) assets must be pre-agreed by the Authority prior to submission of your Final Tender. The RVM requirements are set out in Appendix 12E of this Volume 12.

11.2 You should submit schemes for review by the Authority no later than 1700 on Wednesday 22 November and will receive confirmation or otherwise within 2 weeks from receipt of the request to have RVM schemes approved. If schemes

are submitted after this date then the Authority reserves the right not to provide a response.

- 11.3 If you make material changes to the RVM scheme or assumptions in your Final Tender, particularly where the changes reduce the benefit the scheme is expected to deliver or worsen the financial forecasts, then the Authority reserves the right to reverse its decision regarding the scheme, i.e. the Authority may reject the scheme after receipt of the Final Tender despite previously approving it.
- 11.4 Welsh Government has access to capital funding via its Financial Transaction Reserve (“FTR”) account. This facility could be made available, in the form of a repayable loan, to the successful Bidder in lieu of other capital at a competitive rate of interest. Rather than seeking approval for funding from the FTR ahead of bid submission, WG will agree separately with the preferred Bidder whether any of its schemes proposed via the RVM or other investment mechanism could be funded via this facility. You should therefore assume, for the purpose of your bid, that the FTR facility is not available and WG will consider these schemes separately post award.

**R12.16** Provide: [redacted]

**R12.17** Confirm that there are no changes to the RV Assets from those previously approved by the Authority. In the event that there are changes to the RV Assets figures from those previously approved by the Authority then please provide a new ‘ITSFT Volume 12 Residual Value Mechanism Template’, supporting documentation, and full details and reasons for the change.

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## 12. Appendix 12A - Requirements for the Rail Services Modelling Suite

### Financial Model

12.1 Bidders are to submit a Rail Services Financial Model which:

1. Includes the calculations that are required to produce outputs for inclusion in the ODP Grant Agreement and Funding Deed (as set out in the Rail Services Financial Model Templates provided to Bidders and for use in accordance with Volume 2 (Evaluation Model)). Outputs from the Rail Services Financial Model Templates will be used:
  - a. To populate the tables set out in Schedule 8 to the ODP Grant Agreement. Figures must be completed in 2017/2018 prices;
  - b. To populate the Season Ticket Bond value;
  - c. To identify and track funding made available to the ODP as Agreed Funding Commitment (“AFC”) or Parent Company Support (“PCS”) and populate the Funding Deed; and
  - d. To populate the Required PCS value and the Bonded PCS value in the Funding Deed;
2. Applies consistently on an annual basis, in accordance with the ODP Grant Agreement, the methodology required for calculating Rail Services Payments;
3. Includes the calculations required to determine the Financial Ratio at the end of each ODP Year (including part years) during the Rail Services Term. Bidders are to note that this is to be calculated in the Financial Model, for full years and part years, as an annualised backwards view (in-year) of compliance with the Financial Ratio described in paragraph 2.1(a) of Schedule 12 (Financial Covenants and Bonds) to the ODP Grant Agreement. For the avoidance of doubt, a Financial Ratio of 1.070 must be met in the base case Bid without drawing any PCS. In all cases, Bidders must ensure that Modified Revenue and Actual Operating Costs are calculated consistently with the definitions outlined in the ODP Grant Agreement;
4. Shows how the ODP Grant Agreement will be funded over the Rail Services Term;
5. Includes all tax computations. Financial forecasts are to include calculations of the tax liabilities of the ODP relating to Rail Services in accordance with any applicable tax law. Complete integrated tax computations must be included in the Financial Model. To the extent that any group, consortium or other form of relief or sale of losses is anticipated this must be clearly stated within the Financial Model and Bidders must provide a letter from its financial advisers, as set out in Appendix 12D of this Volume 12, confirming that such relief will be supported by the Bidder’s owning group. Capital and revenue expenditure and the deductibility of these costs must be clearly identified along with the rate of allowances applying to each item or pool of capital expenditure. The Bidder must provide a letter from its financial advisers as set out in Appendix 12D of this Volume 12, confirming that they have given consideration to the deductibility of any interest expense taking into consideration current rules concerning the tax-deductibility of interest and announcements relating to proposed changes to those rules. This should include the thin capitalisation rules, the UK response to the OECD Base Erosion and Profit Shifting (“BEPS”) Action 4, World Wide Debt Cap (“WWDC”), and other transfer pricing and anti-avoidance provisions particularly where there is significant Agreed Funding Commitment;

6. Properly reflects the accounting rules applicable as at 1st September 2017 under which the ODP will report its financial information. Bidders are to adopt either FRS 101, FRS 102 or IFRS, but the accounting basis chosen must be disclosed, consistent and once selected cannot be changed in any version of the Financial Model submitted during the Bidding process. For the avoidance of doubt Bidders are not to use the impending IFRS16 standard;
7. States default prices in nominal terms and when viewed in real terms, outputs must be deflated to 2017/18 prices and outputs prior to this period must be inflated to 2017/18 prices (except for when being compared to 2016/17 real price affordability limits);
8. Provides output schedules in the format of the Rail Services Financial Model Templates; and
9. Adopts a structure that allows the identification and disaggregation of costs and revenues associated with each Initiative and the CVL Rolling Stock Capital Purchase Priced Option. The Rail Services Financial Model must have the functionality to toggle switch each Initiative and the CVL Rolling Stock Capital Purchase Priced Option on or off.

## Operational Models

- 12.2 The Operational Models are all those models that contain calculations generating inputs to the Rail Services Financial Model either directly or indirectly. Each Operational Model should be coherent, in that the different Models, including the Rail Services Financial Model, interface and work together effectively. Any interface spreadsheet required for transferring Operational Model outputs into the Rail Services Financial Model or from one Operational Model to another must be provided as part of the Modelling Suite and its use fully explained in the Operating Manual.
- 12.3 Collectively, the Modelling Suite and Record of Assumptions should allow the user to track inputs pre-processed externally to the model back to the original input values (i.e. the derivation of any pre-processed model inputs needs to be explained in the Record of Assumptions), noting that in some cases third party software may produce "hard-coded" output files (e.g. software such as VoyagerPlan and MOIRA). In such cases any relevant input and output files should be submitted.
- 12.4 Each Rail Services Operational Model must:
  1. Provide an appropriate level of granularity for generating Rail Services Financial Model inputs, and be sufficiently transparent to model changes to inputs clearly. This includes, but is not limited to, disaggregation of Network Rail-related costs to a level of granularity of the Network Rail price lists; and
  2. Accurately execute the calculations as designed, and provide confidence in their robustness.
- 12.5 Each Bidder is required to submit as a minimum:
  1. Revenue Model;
  2. Operating Cost Model (which may be included in the Financial Model);
  3. Performance Model; and
  4. Capital Expenditure Model (which may be included in the Financial Model).
- 12.6 Where a Bidder uses further sub-models to generate inputs into the above Operational Models or Financial Model these must also be submitted.

## Revenue Model

- 12.7 This demand and passenger revenue forecasting model must at least disaggregate demand and revenue into the ticket types and Service Groups contained in the Rail Services Financial Model Templates.
- 12.8 Any further disaggregation of demand and revenue into more detailed flows or segments is at the discretion of the Bidder. The Revenue Model and its associated sub-models must also show clearly and apply all demand forecasting input assumptions and parameters and their impact on demand and revenue.
- 12.9 The Revenue Model must have the capability to forecast peak and off-peak journeys split by Service Code for all ODP Services operated by the ODP for each year of the Rail Services Term.
- 12.10 The Models must have the capability to forecast the Other Revenue section of the Rail Services Financial Model to the level of disaggregation required by the Rail Services Financial Model 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 Rail Services Financial Model, employ an additional Operational Model, or develop an alternative methodology. Bidders are required to detail the approach adopted in their Operating Manual and/or Record of Assumptions.
- 12.11 Bidders must assume that for Schedule 5.4 and Schedule 5.5 to the ODP Grant Agreement, (i) “k” = 0 for the Fare Years beginning January 2018, January 2019 and January 2020 and that for all subsequent Fare Years “k” = 1; and (ii) “f” = 0 for the Rail Services Term (unless different values of “f” have been agreed with the Authority prior to bid submission in accordance with Volume 1, section 9).

## Operating Cost Model(s)

- 12.12 Information on operating costs may be provided in a standalone model or incorporated in the Rail Services Financial Model. The Operating Cost Model(s) must produce inputs to the Rail Services Financial Model to the level of disaggregation required by the Financial Templates.

## Performance Model

- 12.13 The Performance Model must produce the following inputs to the Financial Model:
1. Annual payments to and from Network Rail in relation to Schedule 8 of the Track Access Agreement; and
  2. Annual payments in relation to Passenger Time Lost and Short Formation performance, for both WCB and CVL, relative to the operational performance benchmarks defined in Schedule 7.1 (Performance Benchmarks) to the ODP Grant Agreement.
- 12.14 The Performance Model must be capable of calculating the following on a periodic and annual basis, for both WCB Services and CVL Rail Services:
1. Passenger Time Lost;
  2. The Short Formation Metric;
  3. Right Time Performance at destination;
  4. PPM;
  5. The aggregated result of T-3 and T-15 at every reported station;

6. Cancellations (broken down by TOC-on-self, TOC-on-TOC and Network Rail in the case of WCB Services);
  7. Delay Minutes per thousand train km (broken down by TOC-on-self, TOC-on-TOC and Network Rail in the case of WCB Services); and
  8. The basis upon which any performance receipts and payments are calculated. Performance receipts and payments between the ODP and Network Rail should be shown separately.
- 12.15 Bidders must show all Initiatives which contribute to performance improvements within the Performance Model and provide references between such Initiatives and associated calculations.
- 12.16 Bidders are required to forecast expenditure associated with Delay Repay, either in the Performance Model or another model within the Modelling Suite. In line with the Rail Services Financial Model Templates, Bidders should include amounts of passenger compensation (in respect of the provision of the Delay Repay scheme) within the cost base as a negative revenue.

### Capital Expenditure Model

- 12.17 Information on planned capital expenditure may be provided in a standalone model or incorporated in another model, e.g. the Operating Cost Model or Rail Services Financial Model. However presented, the relevant model or part of a model must list each item of capital expenditure including those covered by the RV Mechanism (i.e. expenditure on assets with a life which is in excess of one year as determined in accordance with FRS101, FRS102 or IFRS accounting standards, whichever is applicable to the Bidder), with the facility to sort and group the items by:
1. Specific Initiative as identified within the Bid;
  2. Asset category such as Rolling Stock, Stations, IT systems, ticketing, depots, other infrastructure;
  3. Source of funding including self-funded, ROSCO funded and third party funded. The Authority reserves the right to offer an alternate funding source in-life and at its sole discretion; and
  4. Treatment for tax purposes i.e. whether expended in a year or attracting capital allowances at the applicable capital allowance rate, in which case how such allowances are calculated for the relevant item including in respect of treatment of the asset at the end of the Rail Services Core Term and at the end of the Rail Services Extension Term.
- 12.18 The list must set out all items with a value in excess of [redacted] (2017/18 prices) in any forecast year or [redacted] in total (2017/18 prices) for a project which continues across more than one year. The information provided should be clearly linked to the funding provisions (timings, sources, uses, repayments), be fully documented in the Financial Structure and Funding Plan and Record of Assumptions.

### Rail Services Financial Model Templates

- 12.19 The Authority requires that the output from the Rail Services Financial Model follows the Rail Services Financial Model Templates and Bidders must incorporate these Rail Services Financial Model Templates into the Rail Services Financial Model and ensure they are fully populated. The Rail Services Financial Model Templates have been developed to be consistent, where possible, with the information detailed in the ATW Long Form Report. This is to assist Bidders in using that information and to ensure consistency of Responses.

- 12.20 The Bidders must therefore use the relevant revenue and cost captions within the Rail Services Financial Model Templates. Where cost and revenue line items are already defined in the Rail Services Financial Model Templates, Bidders must populate their Rail Services Financial Model Templates in their Rail Services Financial Model using these lines rather than allocating to alternative categories. If Bidders require additional revenue and/or cost captions they must use the spare rows provided within each of the templates, clearly label the costs and revenues and provide adequate descriptions of these items in the Record of Assumptions.
- 12.21 Bids incorporating Rail Services Financial Model Templates which do not conform to the structure as set out in the latest iteration of the Rail Services Financial Model Templates provided or specified by the Authority will be determined to be non-compliant. The Authority also reserves the right to adjust the Bid or require Bidders to resubmit their Bid in a compliant format within a specified timescale in accordance with subsection Errors in Models.
- 12.22 The Rail Services Financial Model Templates shall be populated in full (which includes columns J, K and L in the Rail Services Financial Model Templates labelled 'Actual' and 'Forecast' for the years 2016/17 to 2018/19), with outputs from the Models specified in ODP Years ending 31 March of each year. Columns J, K and L do not need to be populated in the 'BS' and 'CF' sheets or below Operating Profit / (Loss) After Exceptionals & Contingencies in the 'P&L' sheets.
- 12.23 Bidders are required to provide their Rail Services Payments for the Rail Services Term. The Rail Services Payments for the Rail Services Extension Term are expected to reflect the prices and assumptions from the last year of the Rail Services Core Term rolled forward and adjusted in accordance with and to the extent provided by the ODP Grant Agreement with respect to indexation as follows: the period from 16 October 2033 to 31 March 2033 will be equal to the equivalent period in Year 15; Year 17 and full Year 18 will be equal to full Year 16, adjusted with respect to indexation; and the period from 1 April 2035 to 13 October 2035 will be equal to the equivalent period in Year 16, adjusted with respect to indexation (the "Extension Period Assumptions").
- 12.24 If a Bidder chooses not to use the Extension Period Assumptions, it must provide evidence so as to demonstrate to the Authority why the assumptions which they propose for the Rail Services Extension Term (the Bidder's 'Alternative Assumptions') are more credible than the Extension Period Assumptions, submit their populated Rail Services Financial Model Suite with Bidders Alternative Assumptions and explain any differences from the Extension Period Assumptions in the Record of Assumptions.
- 12.25 If in the Authority's reasonable view the Bidder in question has demonstrated successfully that the Bidder's Alternative Assumptions are more credible than the Extension Period Assumptions it will accept them. However, if in the Authority's reasonable view the Bidder in question has failed to demonstrate that the Bidder's Alternative Assumptions are more credible than the Extension Period Assumptions, it will:
- a) Inform the Bidder about the reasons why it considers that the Bidder's Alternative Assumptions are not in its view more credible than rolling forward the Extension Period Assumptions; and
  - b) Require the Bidder to update its Rail Services Financial Model Suite as follows:
    - i) The Authority shall identify the prices and assumptions it considers more credible for the Rail Services Extension Term in relation to that Bid, which may be different to the Extension Period Assumptions (the "Proposed Extension Period Assumptions"). Unless the Proposed Extension Period Assumptions are the Extension Period Assumptions, the Authority shall

inform the Bidder of the Proposed Extension Period Assumptions and its rationale for the Proposed Extension Period Assumptions;

- ii) The Bidder will have 5 working days (or such longer period as the Authority may specify) to comment on the Authority's rationale behind the Proposed Extension Period Assumptions. After considering any comments provided by the Bidder, the Authority shall specify the prices and assumptions (the "Final Extension Period Assumptions") which the Bidder shall use to update its Rail Services Financial Model Suite so that it is consistent with the Final Extension Period Assumptions. For the avoidance of any doubt, the Final Extension Period Assumptions may be the same as the Proposed Extension Period Assumptions or may be such other prices and assumptions which, having considered the Bidder's comments on the Proposed Extension Period Assumptions, the Authority has concluded are more credible. The revised Rail Services Financial Model Suite will be used for the purposes of Rail Services Payments and other relevant financial amounts in the ODP Grant Agreement; and
- iii) If the Authority considers that it requires clarifications before it can reach a reasonable view as to whether the Bidder in question has demonstrated successfully, or has failed to demonstrate, that the Bidder's Alternative Assumptions are more credible than the Extension Period Assumptions, it will ask the Bidder in question to provide such clarifications before taking action in line with clarification process.

- 12.26 If the Bidder does not resubmit their bid or incorporate the Final Extension Period Assumptions the Authority will deem the bid to be non-compliant, in which case the provisions of Volume 2, section 1.10 shall apply.
- 12.27 The Financial Ratio calculations are incorporated in the Rail Services Financial Model Templates. For Modified Revenue and Actual Operating Costs Bidders must be consistent with the drafting of Schedule 12 (Financial Covenants and Bonds) to the ODP Grant Agreement in completing the Rail Services Financial Templates.
- 12.28 Bidders are permitted to expand the level of detail provided within the Models beyond the minimum requirements of the Financial Templates. In populating the Rail Services Financial Model Templates, Bidders:
- 1. Must ensure that the addition of any further information is done in such a way as to remain consistent with the format of the Rail Services Financial Model Templates and that the level of detail provided is sufficient to give full transparency of all components of costs and revenues;
  - 2. Should note that the spare rows provided in the Rail Services Financial Model Templates can be used to accommodate additional detail but deleting or inserting rows or columns to the Rail Services Financial Model Templates is not permitted and, for the avoidance of doubt, may result in the Bid being non-compliant;
    - a. 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 historical data to the Rail Services Financial Model; and
    - b. Must ensure that the outputs in the Rail Services Financial Model Templates are linked to the input / calculation cells within the Rail Services Financial Model where appropriate and in such a manner as to facilitate both the understanding of the Rail Services Financial Model and tracing of core assumptions used in the Rail Services Financial Model.

- 12.29 Bidders may either add worksheets to the Rail Services Financial Model Templates or copy the Rail Services Financial Model Templates into their own Models. In either case, Bidders are required to ensure that:
1. The named ranges defined in the Rail Services Financial Model Templates are preserved;
  2. The new worksheets are inserted in tabs to the left of the Financial Templates 'Templated Outputs' tab;
  3. The format of the profit and loss account, cash flow statement and balance sheet are set out in the manner stipulated by the Financial Templates;
  4. Units of measure as set out in the Rail Services Financial Model Templates provided are used; and
  5. Any revenues or costs that they wish to include under a catch all heading of 'Other' do not exceed [redacted] (2017/18 prices) in any given year. Where a Bidder anticipates that such revenues or costs will exceed this amount, they must each be separately identified in a separate spare row and not listed under the heading "Other".
- 12.30 When populating the 'Pax Revenue' sheet, Bidders should assume the following service code to service group mapping for service groups "HL05 - Cardiff Valleys – CVL" and "HL05 - Cardiff Valleys – WCB":

MOIRA Service Code2	MOIRA desc	Description	WCB or CVL
W4300	CDQ-CDB	Cardiff Queen Street to Cardiff Bay	CVL
AW4410	CDF-ABA	Cardiff to Aberdare	CVL
AW4450	CDF-COY	Cardiff to Coryton	CVL
AW4460	CDF-MER	Cardiff to Merthyr Tydfil	CVL
AW4470	CDF-TRB	Cardiff to Treherbert	CVL
AW4480	CDF-RHY	Cardiff to Rhmney	CVL
AW4390	CDF-RIA-BGN	Cardiff - Rhoose - Bridgend	WCB
AW4400	CDF-RDR	Cardif to Radyr	WCB
AW4420	BYI-CDF	Barry Island to Cardiff	WCB
AW4430	PEN-CDF	Penarth to Cardiff	WCB

## Record of Assumptions

- 12.31 Each Bidder is required to submit with its Bid a Record of Assumptions for its Rail Services Financial Model which:
1. Is written in Microsoft Word \*.docx format;
  2. Clearly sets out the rationale underlying the assumptions and the methodologies adopted, for example, where "bottom up" costing has been used state the basis of the assumptions or alternatively detail any quotes received where costs are related to subcontracts;

3. Provides additional detail to enable the Authority to understand how the Bidder's assumptions have been calculated and how sources of assumptions have been used;
4. Provides detail and transparency on the costs, revenues and assumptions associated with each timetable change, as required in Volume 3;
5. Provides detail and transparency of all indexation assumptions used;
6. Provides detail and transparency about the calculation of phased or proportioned annual costs and revenues for example, delivery of rolling stock phased in during the year, and assumed cost/revenue proportions in part ODP Years at the start and end of the Rail Services Term;
7. Provides details of payments to and from Affiliates, and an explanation of the bid levels of "AFA" and "IAFA" as defined in Schedule 8.2 to the ODP Grant Agreement;
8. Includes the Schedule of Rail Services Initiatives required under Question R12.2;
9. Includes a description of the accounting principles adopted and the specific accounting policies applied, especially in relation to:
  - a. The purchase of assets with a useful life in excess of one year;
  - b. Pensions – service costs or cash contributions and balance sheet treatment;
  - c. Bad debts – if provisions are made, are they specific or general;
  - d. ROSCO leases – how each lease has been accounted for and the rationale for the treatment adopted (noting that Bids are required to reflect the accounting rules applicable as at 1 August 2017 and therefore should not reflect IFRS 16);
  - e. Rolling stock maintenance reserve – how each reserve has been accounted for; and
  - f. Treatment of any derivatives, e.g. interest rate swaps or RPI swaps;
10. Includes a description of the tax treatment adopted, especially in relation to:
  - a. Categorisation of operating and capital expenditure, including the capital allowance treatment of each capital asset;
  - b. Pensions;
  - c. ROSCO leases – the tax treatment adopted and the rationale for the treatment (noting that Bids are required to reflect the accounting rules applicable as at 1 August 2017 and therefore should not reflect IFRS 16);
  - d. Interest costs (including capitalised interest), with specific consideration given to the current rules concerning the tax-deductibility of interest and announcements relating to proposed changes to those rules. This should include the thin capitalisation rules, the UK response to the OECD Base Erosion and Profit Shifting ("BEPS") Action 4, WWDC rules, and other transfer pricing and anti-avoidance provisions; and
  - e. Transfer pricing - details of the assumptions made regarding transfer pricing;
11. Contains a level of detail and a granularity of data such that each input assumption and changes to it over time, as reflected in the Models, are properly explained;

12. Provides a level of usability such that linkages to the Models are clear and the narrative provides the user with sufficient information to assess the financial impact of price or volume changes within a reasonable timeframe;
13. Uses tables to enhance the narrative, such tables being directly traceable to the Models;
14. Arrives at an estimate of the financial impact of a change in prices or volumes which is aided by the quality of the narrative; and
15. Includes a section that should reconcile how any ODP Grant Agreement required outputs have been arrived at (including but not limited to "AFA", "DFR", "Inter ODP Affiliate Payments" and "Minimum Marketing Spend").

12.32 The Record of Assumptions must:

1. Contain all financial, mobilisation and operational assumptions used in the Models and explain and discuss the inputs of each Model, including the base unit cost for each input and the cause and impact of each change over time. Where contracted variable unit costs have the potential to change as a result of Change (e.g. maintenance contract charges which vary between mileage bands), Bidders are required to include the full range of potential unit costs of their anticipated contracted agreements within the Rail Services Record of Assumptions;
2. Include a table setting out the percentage of total other revenues, other operating costs and rolling stock costs (totals in real terms over the Rail Services Term) that are earned from or paid to HQ, group or other Affiliates including details of:
  - a. The ODP Services to which such revenues or costs relate; and
  - b. The basis for determining the charges.
3. Include a table setting out in each ODP Year the percentage of each cost and revenue line item in the Rail Services Financial Model Templates that has been allocated from each company within the Bidder's proposed ODP legal structure;
4. Include a table setting out in each ODP Year the payments/charges that would be made between companies within the Bidder's proposed ODP legal structure related to these costs and revenues;
5. Set out the proposed approach to allocating any performance deductions or penalties that will be applied to the ODP under the terms of the ODP Grant Agreement between the Rail Services and CVL Asset Management Profit centres. This is to include the rationale for the split and how this will be maintained, monitored and assessed in life;
6. Set out the assumptions made with regards to Infrastructure Charges relating to the CVL Assets post transfer from NR;;
7. Provide details of any financial benefits (which includes changes to both revenues and costs) included within the Bid arising from any alliance with Network Rail. Bidders must not include any financial benefits from any deep alliance i.e. an alliance requiring a change to the industry regulatory framework and hence third party approval that may generate savings from possessions (Schedule 4 Track Access Agreement) or performance (Schedule 8 Track Access Agreement) amounts within their Bid;
8. Include separately the costs involved and assumptions made in relation to pension contribution rates, both employer and employee;

9. If the Bidder proposes investment with a useful economic life or period of financial return that exceeds the Rail Services Core Term and Rail Services Extension Term, any costs and revenues that accrue in relation to that investment must be explicitly set out in the Record of Assumptions setting out:
- a. The period from investment until the end of the Extension Period;
  - b. The period from end of the Extension Period until end of asset life, including the basis for determining that asset's life;
  - c. The initial cost of the investment;
  - d. The amount of cost recovered / paid off during the ODP Grant Agreement Term together with the trajectory of that recovery / payment off during the Rail Services Core Term and Rail Services Extension Term Period;
  - e. Show the non-depreciated value (i.e. residual value) at the end of the Rail Services Core Term and the Rail Services Extension Term:
    - i. Assets to which the provisions of the Residual Value Mechanism do not apply. With regard to such assets, the ODP is on risk as to whether they are designated as Primary Franchise Assets or if a Successor Operator purchases such assets. If they are designated the standard valuation provisions of the Supplemental Agreement apply; and
    - ii. Assets which the Bid proposes are acquired by a Successor Operator in accordance with the provisions contained in Residual Value Mechanism, along with the other information required by those subsections.
10. Where changes in the Rail Services Financial Model are attributable to Initiatives, set out the reasons for such in the Record of Assumptions for each affected input to the Rail Services Financial Model.

12.33 Bidders are required to fully evidence the details behind their Initiatives in their Response. Using a table, Bidders shall, in their Record of Assumptions, provide details of the impact that Initiatives have on each cost, revenue or other input to the submitted Rail Services Financial and Operational Models. A brief narrative explaining why the cost or revenue is so impacted by the relevant Initiatives must accompany each table. The wording of the narrative or cross-references used and the values shown must make it reasonably determinable that the Initiative is the same as its correspondingly numbered Initiative in the Bidder's Response.

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

## **Operating Manuals**

- 12.35 Each Bidder is required to submit with its Bid an Operating Manual for the Rail Services Models which:
1. Is in Microsoft Word \*.docx format in accordance with the ITSFT where these sorts of requirements are listed;
  2. Is an accurate and plain English document that facilitates a reasonable level of understanding of the functionality of the Bidder's Rail Services Models, including how each interfaces and interacts with other Rail Services Models;

3. Includes an explanation of the flow of data through the Rail Services Financial Model and the interfaces with the Operational Models submitted. This may be presented diagrammatically with supporting narrative as appropriate. This must also describe how any interface spreadsheets are used in the flow of data between models, if applicable;
4. Includes a description of each Model, its structure and capability;
5. Includes a description of the purpose and operational characteristics of each worksheet and how it interacts with the Models;
6. Includes instructions on how to input data, select scenarios/options and calculate the financial outputs;
7. Where macros (or other visual basic functions) have been used, includes a description of the macros used in the operation of the Models, the reason for their use and how they are used to generate model outputs; and
8. The use of screen shots and narratives is encouraged to provide the user with sufficient information to assess the content, purpose and functionality of the Models.

## Model Requirements

12.36 Bidders must ensure that their Models comply with the following principles:

1. The Models must be presented in Microsoft Excel 2010 or later (but fully compatible with Microsoft Excel 2010) and \*.xlsx, \*.xlsb or \*.xlsm format, with workings and formulae intact (i.e. non input cells must not be 'hard-coded' with values);
2. The Models must conform with the terms of the ODP Grant Agreement and Funding Deed unless otherwise instructed in this ITSFT or through Clarification responses;
3. No rows, columns, cells or worksheets of the Models may be hidden or password protected. Protecting worksheets without passwords to avoid accidental changes to inputs or calculations is allowed, provided it does not reduce the transparency or usability of the Models. Grouping rows or columns is permissible, but hiding rows, columns or worksheets is not permissible;
4. The Authority wishes to receive models that are efficient in their operation and use of memory. A maximum file size of 75MB for each model is permitted, and smaller Microsoft Excel workbooks are encouraged. For the avoidance of doubt, any workbook taking up more than 75MB of disk space will result in the Bid being treated as non-compliant unless a derogation is granted in accordance with the process set out in Appendix 12C (Derogations) of this Volume 12;
5. The Models should be developed such that they are usable, transparent, understandable and can be run within a reasonable timescale;
6. In order to aid model transparency Bidders should avoid the use of macros. Any use of macros must be limited to areas where their use adds to the user friendliness of the Models (e.g. print macro) or aids the achievement of other requirements of the Models (e.g. to avoid circularity or to transfer data between Models). Calculations must not be performed by a macro. Where macros are used, they must be listed and their function clearly explained within the Operating Manual;

- a. In order to aid transparency, use of the INDIRECT and OFFSET functions is prohibited, except where derogation has been granted in accordance with the process described in Appendix 12C (Derogations) of this Volume 12;
- b. In order to aid traceability of inputs and assumptions through the Models, Bidders must avoid using MS Excel “array” formulae over excessively large ranges of cells. Array formulae are identified by the use of braces around the formula, i.e. “{...}”. Bidders must not use such formulae over ranges greater than 20x20, except where a derogation has been granted in accordance with the process described in Appendix 12C (Derogations) of this Volume 12;
- c. The Models submitted by Bidders must be in line with best practice in accordance with the requirements set out in Appendix 12C (Reviews and Audit of Models) of this Volume 12 and employ the accepted principles of “separation”, “consistency”, “integrity” and “linearity”, except where a derogation has been granted in accordance with the process described in subsection Appendix 12C (Derogations) of this Volume 12:
  - i. Although best practice would dictate that a consistent formula is used across columns in each row, there are a number of circumstances where a model can be made more transparent by changing the formulae across a row. Provided it is made clear (even when printed out and the formulae cannot be seen) that the calculation method is different, Bidders may use different formulae in respect of the following three cases (and Bidders do not need to seek derogation from the Authority should the Models deviate from best practice in these three cases):
  - ii. To allow a different approach to the treatment of historical information or forecasts before the date of execution of the ODP Grant Agreement;
  - iii. To allow units, indices, totals, NPVs and other useful modelling ‘flags’ to be included in the columns to the left of the first modelled year;
  - iv. On sheets that do not contain a timeline, where consistency down rows may be applied instead of across columns. On sheets that contain a timeline and where vertical presentation is also desired, this should be transparent and clearly identifiable; and
  - v. Cross-links between the Models must not be formed using direct references. Rather, outputs from one Model should be copied to a dedicated paste area in the other, with the origins and destinations of transferred data clearly identified within the Models and described in the Operating Manual. All Operational Models that support the inputs to and calculations within the Financial Model are required to be submitted, and it is anticipated that the full Modelling Suite will be maintained and supplemented together, and submitted simultaneously as required to support any Change arising during the Rail Services Term.

## Key Assumptions

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

- I. The term for bid submission is to be as follows:
  - a. ‘Rail Services Core Term’ is for the period 14 October 2018 to 15 October 2033;
  - b. ‘Rail Services Extension Term’ is for the period 16 October 2033 to 13 October 2035
  - c. ‘Rail Services Term’ is for the period 14 October 2018 to 13 October 2035; and

- d. "ODP Grant Agreement Term" shall have the meaning provided in the ODP Grant Agreement however for the purposes of this Volume, Bidders shall assume that the ODP Grant Agreement Term covers the period from the date of execution of the ODP Grant Agreement to the last possible date of expiry, being 13 October 2035.
2. For the avoidance of doubt the ODP will be required to prepare audited accounts for the ODP Year ending 31 March for the duration of the ODP Grant Agreement Term;
  3. 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;
  4. Provide a switch in their Financial Model to allow the Rail Services Financial Model Templates to be presented in real or nominal terms (where real terms means nominal values are deflated (or inflated in the case of pre 2017/18 values) by RPI to 2017/18 prices);
  5. Ensure that the Bidder's Financial Model is self-contained within a single Microsoft Excel workbook. The Financial Model must be presented in annual terms, with year-ends coinciding with the ODP Year end on 31 March (as demonstrated within the Financial Templates);
  6. The real discount rate to be applied in Net Present Value calculations is 3.5 per cent per annum;
  7. Where Net Present Values of Bid revenues, costs and Grant Payments are calculated in the evaluation of Bids, values will be discounted to the Rail Services Start Date (14 October 2018);
  8. For the purposes of calculating Net Present Values, the template calculation assumes mid-year cashflows for full ODP Years from 1 April to 31 March inclusive (30 September). For the first ODP Year, mid year cash flows will be assumed to occur on 6 January 2019. For the final ODP Year, mid-year cash flows will be assumed to occur on 8th July 2033;
  9. Bidders should expense pension cash contributions but should not model actuarial gains or losses on pension assets or liabilities;
  10. Bidders should apply accounting standard IAS 17 for leases and, for the avoidance of doubt, should not apply accounting standard IFRS 16;
  11. The assumptions for Pontypridd Headquarters to be applied are set out in Volume I, section 17.
  12. Annual RPI and AWE indices assumptions are contained in the Rail Services Financial Model Templates and shall apply from the year commencing 1 April 2018 and annually thereafter. Bidders should adopt their own RPI and AWE assumptions up to and including the year commencing 1 April 2017, and such assumptions should be clearly stated.
  13. Volume I, Section 13 sets out the principles that should be applied in relation to infrastructure access charges. Your Schedule 8 (of the Track Access Agreement) forecast for HL05 should be split into two Service Groups HL05w off-peak; HL05w peak; where HL05w refers to HL05 WCB Services. Prior to the CVL Asset Transfer Date, you should assume HL05w off-peak and HL05w peak contain all WCB and CVL Services and you should assume 2018/19 benchmarks and payment rates apply in 2018/19 and that 2016/17 benchmarks and payment rates apply from 1 April 2019 until the CVL Asset Transfer Date, as contained in Appendix I to Schedule 8 to the Track Access Agreement (and inflated to 2017/18 prices as required). From the CVL Asset Transfer Date onward, you should assume that the HL05w off-peak and HL05w peak Service Groups contain the relevant WCB Services only and determine the benchmarks and payment rates for each of the HL05w Service Groups by multiplying the values in the table below to the equivalent parameters provided in 'Appendix I to Schedule 8' (of the Track Access Agreement) for HL05 off-peak and

HL05 peak. For example, the NR payment rate for HL05 off-peak is £1,964.10, the equivalent value for HL05w off-peak = £491.03 (£1,96.10 \* 0.25);

14. Table: Multiplier to apply to Schedule 8 (of the Track Access Agreement) parameters for HL05

Parameter	Multipliers	
	HL05w off-peak	HL05w peak
<b>NR Payment Rate</b>	0.25	0.25
<b>TOC Payment Rate</b>	0.50	0.50
<b>NR Performance Point</b>	1.27	1.24
<b>TOC Performance Point</b>	1.27	1.24
<b>Cancellation Minutes</b>	1.00	1.00
<b>Cap</b>	1.00	1.00

15. Bidders should assume that the Authority will provide an undertaking for a rolling stock commitment for usage (similar to section 54 of the Railways Act 1993) in respect of the CVL Rolling Stock for the Core Valley Lines. Bidders should adopt the following assumptions:
- Bidders should assume that the commitment for usage agreement will last for the duration of the useful economic life of the CVL Rolling Stock, assumed to be 25 years;
  - The start date for the 25 year economic life will be the earliest of the last relevant Rolling Stock Unit accepted into service or 31/12/2023;
  - Bidders should seek fixed Capital Lease costs for the duration of the usage commitment;
  - As with all Rolling Stock Capital leases in their submission Bidders should apply accounting standard IAS 17 for leases and, for the avoidance of doubt, should not apply accounting standard IFRS 16; and
  - For the avoidance of doubt the commitment for usage agreement will commit to the usage of the asset not the lease payment itself, such payments will remain the responsibility of the ODP;
16. With respect to any non-capital costs (and all operating (including maintenance) and project implementation costs are to be treated as non-capital costs for this purpose) arising from any asset or Scheme utilising the Residual Value Mechanism, costs arising from such asset or Scheme shall be expended in the year in which they arise; and
17. Bidders should factor their blockades and possession strategy for the CVL Infrastructure Works into their revenue and cost forecasts, as described in the Track Access Charges requirements in Volume 1, Section 13.

## 13. Appendix 12B – Infrastructure Manager Model Requirements

### General

- 13.1 The Infrastructure Manager Model Template provides a series of tables and schedules ("Cost Templates") that will enable a consistent approach to pricing across all Bidders.
- 13.2 The Cost Templates comprise the following worksheets (or sets of worksheets):
1. 'Cover';
  2. 'Schedule of Rates';
  3. 'IM Summary (with OB)';
  4. 'IM Summary (without OB)';
  5. 'Renewals Summary (with OB)';
  6. 'Profit';
  7. 'Overheads';
  8. 'A - Ops Summary';
  9. Asset Operations worksheets (Elements A1 - A4);
  10. 'B - AM Summary';
  11. Asset Maintenance worksheets (Elements B1 - B13);
  12. 'C - A&S Summary';
  13. Amenities and Services worksheets (Elements C1 - C6);
  14. 'D - Renewals Summary';
  15. Renewals worksheets (Elements D1 - D2);
  16. 'E - Income Summary'; and
  17. Income worksheets (Elements E1 - E11).
- 13.3 Bidders are to use the following assumptions in preparing their Bids:
1. Bidders must assume that IM Year 1 begins on 1 April 2019 for the purpose of populating this template. For the avoidance of doubt, Bidders should assume that Asset Operations and Asset Maintenance costs begin to be incurred from 1 April 2019. Bidders should note that ODP Grant Agreement tables produced by this template will be amended prior to the date of execution of the ODP Grant Agreement Term based on the winning Bidder's Bid assumptions, and may be changed in life in accordance with Schedule 9 to the ODP Grant Agreement if further changes to IM Year dates occur;
  2. Bidders must assume that the ODP pays the Authority (or the Authority's subsidiary) [redacted] per annum (2017/18 prices) to lease the CVL Asset, to be included in the Infrastructure Manager Model Template;

3. Bidders must assume that the ODP incurs costs of [redacted] per annum (2017/18 prices) for the Independent Reporter;
  4. Bidders must assume that the current requirements for Stamp Duty Land Tax (SDLT) will apply to any Property Lease (including the CVL Asset Lease) and should therefore include within its bid any costs arising from SDLT associated with the CVL Asset Lease using UK tax legislation applicable on 1 September 2017; and
  5. Bidders must include the costs for the relevant insurance requirements as described in Volume I, Section 25.
- 13.4 The Cost Templates are to be read in conjunction with the Network Rail Long Form Report (Version 1.0, July 2017).
- 13.5 Costs are to be entered in 2017/18 prices. The cost templates apply annual indexation within each of the 'Summary' worksheets.
- 13.6 On each worksheet, Bidders must only populate the cells highlighted in 'light orange'.
- 13.7 The structure of any worksheet must not be changed by the insertion/deletion of any rows or columns. Should the Bidder wish to provide additional pricing information, supporting detail may be provided by inserting additional worksheets. Bidders must cross reference the activities in the cost templates to the additional worksheets.
- 13.8 The rates to be entered in the Schedule of Rates and other sheets other than the Profit and Overheads sheets shall be net of any profits and general overheads.
- 13.9 The resource allocated to the cost templates shall accurately reflect the Bidder's proposals as set out in the Asset Management Plan.
- 13.10 Bidders' forecasts for IM Years 1 to 5 shall reflect the Bidder's Solution for CVL Transformation and shall reflect the annual changes in Asset Operations and Day to Day Asset Management during CVL Transformation .
- 13.11 IM Year 6 shall reflect the Asset Operation of the Transformed System.
- 13.12 There is no Annual Price Build Up for years 7 to 15 - Annual Prices shall be calculated using the Bidder's efficiency factor which is applied to the Annual Price in the preceding year.

## Guidelines for Completion

### Cover

- 13.13 Bidders are required to fully enter details in the Workbook Properties; Owner [Bidder Name], Version and Date.

### Schedule of Rates

- 13.14 These guidelines should be read in conjunction with Schedule of Rates - Authority clarification dated 30<sup>th</sup> November 2017.
- 13.15 The Schedule of Rates will be used in life to assess change as a consequence of discovery, and the Authority will use this sheet to populate relevant parts of the ODP Grant Agreement. Bidders are required to fully complete the Schedule of Rates for all roles set out by the Authority in the schedule.

- 13.16 Where proposed by Bidders, additional roles can be added under each section in rows designated 'Other [please sepecify]'.
- 13.17 Rates have been separated into three categories of resource; cost-plus resource, day-rate resource from an affiliate of the ODP and day-rate resource from an unconnected sub-contractor.
- 13.18 Bidders are to select from the dropdown menu (column E) the applicable resource type. Based on the selection in the dropdown, 'Not Applicable' will appear in the columns that do not require Bidder input.
- 13.19 When completing the cost-plus calculation table under the heading 'Utilised Days per Annum' (column J) Bidders shall enter the anticipated working days per year, applicable to the specified role.
- 13.20 Bidders are to include under each works section for all roles reasonably anticipated to be required throughout the duration of the operations and maintenance agreement.

#### **Infrastructure Management Summary (with OB)**

- 13.21 This worksheet performs calculations used in Volume 2 of the ITSFT. No Bidder actions are required to populate this worksheet.

#### **Infrastructure Management Summary (without OB)**

- 13.22 This worksheet produces tables to be used in Schedule 8.5 to the ODP Grant Agreement. No Bidder actions are required to populate this worksheet.

#### **Renewals Summary (with OB)**

- 13.23 Optimism Bias has been set by the Authority at 25%, however Bidders may propose a higher percentage value to be input in Cell E40.
- 13.24 The Authority has populated the annual inflation percentage values based on the RPI forecasts published in the DfT WebTAG databook July 2017 - Table A5.3.1.
- 13.25 Bidders may choose to enter adjustments to the annual inflation percentages in the designated row.

#### **Profit**

- 13.26 Bidders may include a sum for Profit by year (Cells F16:AA16).
- 13.27 The Authority has populated the annual inflation percentage values based on the RPI forecasts published in the DfT WebTAG databook July 2017 - Table A5.3.1.
- 13.28 Bidders may choose to enter adjustments to the annual inflation percentages in the designated row.
- 13.29 Optimism Bias has been set by the Authority at 0%.
- 13.30 Bidders should note that the stated cost for profit should be inclusive of any risk pricing.

#### **Overheads**

- 13.31 Bidders may include a sum for Overheads by year (Cells F16:AA16).
- 13.32 The Authority has populated the annual inflation percentage values based on the RPI forecasts published in the DfT WebTAG databook July 2017 - Table A5.3.1.

- 13.33 Bidders may choose to enter adjustments to the annual inflation percentages in the designated row.
- 13.34 Optimism Bias has been set by the Authority at 25%, however Bidders may propose a higher percentage value in Cell E37.

### **A - Ops Summary**

- 13.35 The Asset Operational Management Summary automatically calculates ODP Years 1-7 (cells F18:L21 inclusive) based on data included in tabs A1 - A4. 'ODP Years 8' through to 'ODP Year 18 Extension' (cells M18:AA21 inclusive) are calculated based on the efficiency percentage entered by Bidders (cells M25:AA25) multiplied by the cost entered in ODP Year 6 as required under R9.42 of Volume 9.
- 13.36 The Authority has populated the annual inflation percentage values based on the RPI forecasts published in the DfT WebTAG databook July 2017 - Table A5.3.1.
- 13.37 Bidders may choose to enter adjustments to the annual inflation percentages in the designated row.
- 13.38 Optimism Bias has been set by the Authority at 25%, however Bidders may propose a higher percentage value in Cell E58.
- 13.39 Rows 22 and 23 relate to 'CVL Asset Lease' and 'Reporter Costs', respectively, and should be populated as per paragraph 13.3 above. 'CVL Asset Lease' and 'Reporter Costs' attract inflation based on the RPI forecasts published in the DfT WebTAG databook July 2017 - Table A5.3.1, but will not be subject to any inflation adjustment by Bidders. It should be noted that Optimism Bias is not applied to 'CVL Asset Lease' and 'Reporter Costs'.

### **Asset Operational Management (Elements A1 - A4)**

- 13.40 Worksheets A1-A4 have been subdivided into six sections: People Costs; Production and Maintenance Costs; Vehicle Costs; Plant Costs; Materials Costs and Insurances.
- 13.41 The rates for People costs will automatically carry forward from the Schedule of Rates. Bidders are required to enter the proposed headcount for each role for each financial year, together with the proposed utilisation (days per year). For example, for a role that assumes one person for two days per week, the 'Headcount' would be entered as '1' and the total 'Utilisation' would equal approximately 104 days (52 weeks x 2 days). The overall cost for People is calculated by multiplying the rates, headcount and utilisation.
- 13.42 Production and maintenance costs shall include all necessary costs associated with carrying out the delivery of works and services as required. This includes for costs in connection with (but not limited to) mobile phones, PPE, travel, hotels, IT Software, Equipment.
- 13.43 For production and maintenance costs, Bidders are required to enter the following information:
1. Rates - Bidders are to state the unit of measure (e.g. Day, Week, Month, Year, Sum) and the associated rate per item;
  2. Number – Bidders are to enter the number of units (e.g. 5nr mobile phones) proposed for each financial year;
  3. Quantity - Bidders are to enter the proposed quantity for each item, with reference to the unit stated in the 'Rates' section. For example; if mobile phones were entered as 'x' cost per month (unit), and mobile phones were required for 12 months of the financial year, then a quantity of '12' should be entered; and

4. The 'Total' is automatically calculated by multiplying the rates, number and quantity together.
- 13.44 Vehicle costs do not include company cars for individuals. These costs will be covered within the 'Schedule of Rates' worksheet. Vehicle costs shall be included where the delivery of works or services requires transportation of people, plant, materials and equipment.
1. For Vehicle costs, Bidders are required to enter the following information:
    - a. Rates – Bidders are to state the unit of measure (e.g. Day, Week, Month, Year, Sum) and the associated rate per item;
    - b. Number – Bidders are to enter the number of units (e.g. 5nr vehicles) proposed for each financial year; and
    - c. Quantity – Bidders are to enter the proposed quantity for each item, with reference to the unit stated in the 'Rates' section;
  2. The 'Total' is automatically calculated by multiplying the rates, number and quantity together.
- 13.45 Plant costs shall be included where required in the delivery of works or services. Plant items associated with each worksheet (A1-A4) shall be listed by the Bidder in respect of the specific asset or operations type.
- 13.46 For Plant costs, Bidders are required to enter the following information:
1. Rates - Bidders are to state the unit of measure (e.g. Day, Week, Month, Year, Sum) and the associated rate per item;
  2. Number – Bidders are to enter the number of units (e.g. 5nr) proposed for each financial year;
  3. Quantity - Bidders are to enter the proposed quantity for each item, with reference to the unit stated in the 'Rates' section; and
  4. The 'Total' is automatically calculated by multiplying the rates, number and quantity together.
- 13.47 Bidders are not required to include within the cost template for the cost of materials. This has been pre-populated by the Authority based on historic cost data.
- 13.48 During the ODP Grant Agreement Term, materials will be paid at cost. The Infrastructure Manager will be required to demonstrate best value through the supply chain.
- 13.49 Bidders are required to submit costs associated with Insurance.

### **B - AM Summary**

- 13.50 The Asset Management Summary automatically calculates ODP Years 1-7 (cells F18:L30 inclusive) based on data included in tabs B1 - B13. ODP Years 8 through to ODP Year 18 extension (cells M18:AA30 inclusive) are calculated based on the efficiency percentage entered by Bidders (cells M32:AA32), as required under R9.42 of Volume 9.
- 13.51 The Authority has populated the annual inflation percentage values based on the RPI forecasts published in the DfT WebTAG databook July 2017 - Table A5.3.1.
- 13.52 Bidders may choose to enter adjustments to the annual inflation percentages in the designated row.

13.53 Optimism Bias has been set by the Authority at 25%, however Bidders may propose a higher percentage value in Cell E78.

### **Asset Management (Elements B1 - B13)**

13.54 Worksheets B1-B13 have been subdivided into six sections: People Costs; Production and Maintenance Costs; Vehicle Costs; Plant Costs; Materials Costs and Insurances.

13.55 The rates for People costs will automatically carry forward from the Schedule of Rates. Bidders are required to enter the proposed headcount for each role for each financial year, together with the proposed utilisation (days per year). For example, for a role that assumes one person for two days per week, the 'Headcount' would be entered as '1' and the total 'Utilisation' would equal 104 days (52 weeks x 2 days). The overall cost for People is calculated by multiplying the rates, headcount and utilisation. The overall cost for People is calculated by multiplying the rates, headcount and utilisation.

13.56 Production and maintenance costs shall include all necessary costs associated with carrying out the delivery of works and services as required. This includes for costs in connection with (but not limited to) mobile phones, PPE, travel, hotels and the like.

13.57 For production and maintenance costs, Bidders are required to enter the following information:

1. Rates - Bidders are to state the unit of measure (e.g. Day, Week, Month, Year, Sum) and the associated rate per item;
2. Number – Bidders are to enter the number of units (e.g. 5nr mobile phones) proposed for each financial year;
3. Quantity - Bidders are to enter the proposed quantity for each item, with reference to the unit stated in the 'Rates' section. For example; if mobile phones were entered as 'x' cost per month (unit), and mobile phones were required for 12 months of the financial year, then a quantity of '12' should be entered; and
4. The 'Total' is automatically calculated by multiplying the rates, number and quantity together.

13.58 Vehicle costs do not include company cars for individuals. These costs will be covered within the Schedule of Rates worksheet. Vehicle costs shall be included where the delivery of works or services requires transportation of people, plant, materials and equipment.

13.59 For Vehicle costs, Bidders are required to enter the following information:

1. Rates - Bidders are to state the unit of measure (e.g. Day, Week, Month, Year, Sum) and the associated rate per item;
2. Number – Bidders are to enter the number of units (e.g. 5nr vehicles) proposed for each financial year;
3. Quantity - Bidders are to enter the proposed quantity for each item, with reference to the unit stated in the 'Rates' section; and
4. The 'Total' is automatically calculated by multiplying the rates, number and quantity together.

13.60 Plant costs shall be included where required in the delivery of works or services. Plant items associated with each worksheet (B1-B13) shall be listed by the Bidder in respect of the specific asset or operations type.

- 13.61 For Plant costs, Bidders are required to enter the following information:
1. Rates - Bidders are to state the unit of measure (e.g. Day, Week, Month, Year, Sum) and the associated rate per item;
  2. Number – Bidders are to enter the number of units (e.g. 5nr) proposed for each financial year;
  3. Quantity - Bidders are to enter the proposed quantity for each item, with reference to the unit stated in the 'Rates' section; and
  4. The 'Total' is automatically calculated by multiplying the rates, number and quantity together.
- 13.62 Bidders are not required to include within the cost template for the cost of materials, this has been pre-populated by the Authority based on historic cost data.
- 13.63 During the ODP Grant Agreement Term, materials will be paid at cost. The Infrastructure Manager will be required to demonstrate best value through the supply chain.
- 13.64 Bidders are required to submit costs associated with Insurance.

### **C - A&S Summary**

- 13.65 The Amenities & Services Summary automatically calculates based on data included in worksheets CI - C6.
- 13.66 The Authority has populated the annual inflation percentage values based on the RPI forecasts published in the DfT WebTAG databook July 2017 - Table A5.3.1.
- 13.67 Bidders may choose to enter adjustments to the annual inflation percentages in the designated row.
- 13.68 Optimism Bias has been set by the Authority at 25%, however Bidders may propose a higher percentage value in Cell E54.

### **Amenities and Services (Elements CI - C6)**

- 13.69 Worksheets CI to C6 shall include for all costs associated with Offices, Depots and Rates & Industry Costs.
- 13.70 Tabs CI-C3 relate to costs that are associated with the delivery of Asset Operations and Maintenance, whereas tabs C4-C6 relate to costs associated with the delivery of Asset Renewals.
- 13.71 Offices shall be priced per individual unit using rates from the Schedule of Rates (within the worksheet) and a quantity calculation.
- 13.72 Depots shall be priced per individual unit using rates from the Schedule of Rates (within the worksheet) and a quantity calculation.

### **D - Renewals Summary**

- 13.73 This sheet automatically calculates based on data included in worksheets DI & D2, therefore no Bidder actions are required to populate this worksheet.

### **Renewals (Elements D1 & D2)**

- 13.74 Tab D1 requires that Bidders provide a cost for the Planning, Design and Development of the eight Asset Renewals, indicated in Volume 9 Appendix 9.H through to stage C of the Transport for Wales Plan of Works. Tab D2 requires a cost for Implementation Management for each of the same eight Asset Renewals.
- 13.75 Bidders should enter roles and the associated daily rates (rows 14 & 15, respectively).
- 13.76 Against each asset type Bidders should enter the proposed number of man-days, with respect to the role and Plan of Work stage. The total cost will automatically populate.

### **E - Income Summary**

- 13.77 The Income Summary automatically calculates based on data included in worksheets E1 - E11.
- 13.78 The Authority has populated the annual inflation percentage values based on the RPI forecasts published in the DfT WebTAG databook July 2017 - Table A5.3.1.
- 13.79 Bidders may choose to enter adjustments to the annual inflation percentages in the designated row.

### **Income (Elements E1 - E11)**

- 13.80 Worksheets E1 to E11 shall include all CVL asset related income. Worksheets are calculated using rates (within each worksheet) and quantities as specified by the Bidder.
- 13.81 For each worksheet Bidders will be required to provide the following:
1. Rates - Bidders are to state the unit of measure (e.g. Day, Week, Month, Year, Sum) and the associated rate per item;
  2. Quantity - Bidders are to enter the proposed quantity for each item, with reference to the unit stated in the 'Rates' section; and
  3. The 'Total' is automatically calculated by multiplying the rates, and quantity together.

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## 14. Appendix 12C - Review and Audit of the Models

### Modelling Best Practice Confirmation

- 14.1 Each Bidder must submit with its Bid a self-certified Modelling Best Practice Confirmation report on all of the following Models:
1. The Financial Model;
  2. The Revenue Model;
  3. The Performance Model;
  4. The Operating Cost Model (where this is separate to the Financial Model); and
  5. The Capital Expenditure Model (where this is separate to the Financial Model).
- 14.2 For the avoidance of doubt, the Authority does not require this Confirmation to be provided by an independent financial adviser.
- 14.3 The report must take account of any derogations obtained in accordance with the process described in subsection Derogations below.
- 14.4 The Modelling Best Practice Confirmation must provide confirmation that the above Models have or provide for:
1. **Separation** of inputs, calculations and outputs:
    - a. Inputs: should include data and assumptions but no calculations;
    - b. 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;
    - c. Outputs: should not include any hard-coded input cells or calculations except for sums and check totals; and
    - d. 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.
  2. **Consistency of formulae** across rows and down columns and across worksheets. There is an exception to this is for any Models produced that do not contain time periods e.g. crowding model, fares model, if provided. 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:
    - a. Columns: the same column should be used for the same period in each worksheet (although it should be noted that the time periods across columns in the Bidder's Model may be different from the columns in the Financial Templates); and
    - b. Rows: a row will contain only one formula, copied across all columns;

3. 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;
  4. Linearity of calculation flow (e.g. that there are no circular references);
  5. Macros, where required, their function should be clearly explained; and
  6. No hard coded values in formulae other than the following, if required: 1,-1, 0, TRUE, FALSE.
- 14.5 The Modelling Best Practice Confirmation must provide a review of the above 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.
- 14.6 The Modelling Best Practice Confirmation must also provide confirmation that the 75MB size limit has been adhered to, that array formulae have not been used across ranges of cells greater than 20x20 and that the INDIRECT and OFFSET functions are not used except where derogations have been obtained in accordance with the process described below.

### **Derogations**

- 14.7 The Authority may grant derogations from the modelling requirements including in the following areas:
1. Model size;
  2. Use of OFFSET and INDIRECT functions; and
  3. Array formulae across ranges of cells greater than 20x20.
- 14.8 Applications must be made in writing to the Authority within 40 working days of publication of the ITSFT. Applications must be made via the AWARD website as a clarification question. Responses will be provided via AWARD. Applications should set out clearly why the derogation is required and the benefit to the Authority and the evaluation process of granting such a derogation. It is not expected that derogations will be necessary.

### **Model size**

- 14.9 The Authority will consider applications to exceed the 75MB workbook size limit where it is demonstrated that adherence to this limit generates significant inefficiencies, or materially reduces the level of confidence in the resulting forecasts.

### **Use of prohibited functions**

- 14.10 The Authority will consider applications for use of the OFFSET and INDIRECT functions where Bidders can demonstrate:
1. The use of these functions generates significant savings in model run times and use of disk space; and
  2. The use of these functions is clearly explained and documented in the Operating Manual and Record of Assumptions.

### Modelling Best Practice

- 14.11 The Authority will consider applications to relax the requirements of the Modelling Best Practice Confirmation on an individual model basis, and considers that derogations may be more appropriate for elements of Operational Models, at the underlying input/assumption interface.

### Array Formulae

- 14.12 The Authority will consider applications for the use of array formulae greater than 20x20 for labelling or checking purposes only, i.e. where they do not form part of the main model calculations.

### Model Audit

- 14.13 Following Bid submission and prior to contract award the Authority will request one or more Bidders to obtain an independent audit of all sections of the Models (the "Model Audit"). The Model Audit shall be prepared for the benefit of the Authority and the Bidder; shall be co-addressed to them, and the level of liability must be agreed by the Authority, and will be a minimum of [redacted] (2017/18 Prices). All costs associated with the preparation of the Model Audit are for the Bidders' account only. Bidders must obtain the Authority's acceptance (not to be unreasonably withheld) of their choice of independent model auditor, the scope of the Model Audit and the Authority's agreement to what constitutes the Financial Model for determining the scope of the audit. The Authority will expect to receive the audit report within fifteen working days of it being requested of the Bidder.
- 14.14 The Authority requires the Model Audit to confirm:
1. Whether the Models has been constructed appropriately so as to materially achieve the objective that it was designed to meet, insofar as its logical integrity under the Bid assumptions and input data is concerned, including the conversion of nominal values to real values;
  2. Whether the tax charge, liabilities and payments calculated by the Models, on the basis of the assumptions made in the Operating Manual and Record of Assumptions appear materially consistent with current understanding of existing UK tax legislation and of proposed changes to the rules on interest deductibility, identifying any risks associated with the underlying tax assumptions;
  3. To confirm that the proposed tax treatment in the Models is appropriate, and is consistent with the accounting treatment adopted in the Models, and that the accounting treatment is valid for tax purposes;
  4. Whether the Bidder has applied FRS 101, FRS 102 or IFRS accounting policies and rules applicable as at 1 August 2017 and whether the key accounting assumptions in the Models and the Operating Manual and Record of Assumptions appear materially consistent with current understanding of FRS 101, FRS 102 or IFRS (whichever is relevant);
  5. Whether the calculation of the Annual Grant Payments is in accordance with the terms of the ODP Grant Agreement;
  6. Whether the calculation of the Financial Ratio complies with the requirements and is consistent with the definition of Modified Revenue and Actual Operating Costs in accordance with Schedule 12 (Financial Covenants and Bonds) to the ODP Grant Agreement;
  7. Whether the Models have been developed in a well-structured manner to best practice standards;

8. Whether assumptions and input data in the Operating Manual and Record of Assumptions have in all material respects been consistently reflected in the Models;
  9. Whether any issues identified through the Model Audit process remain outstanding and the process undertaken to address and correct issues identified during the Model Audit process; and
  10. Whether the Models accurately perform the calculations as required for the Evaluation and to ensure compliance with the Funding Deed. The Authority will define with the model auditor the inputs and parameters, as appropriate, to meet this requirement in the Model Audit.
- 14.15 For the Model Audit, the Authority may provide one or more Bidders with no more than five tests for the purposes of understanding robustness of the Models. The Model Audit will test the logical integrity of the arithmetical operations in the Models' formulae and calculations under the assumptions and input data for the specified test(s).
- 14.16 The Authority recognises that the finance, accounting and taxation 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 that undertakes the Model Audit, in accordance with the process described below.

#### **Calculation Review**

- 14.17 As part of the Model Audit the independent party conducting the Model Audit must also conduct a review of the calculations employed in the Operational Models, CVL Concept Design Costing Model and Infrastructure Manager Model (a "Calculation Review"). The Authority reserves the right to include some or all of these models in the Calculation Review and references below shall be interpreted accordingly.
- 14.18 The Calculation Review will be conducted to the same standard as the Model Audit, but will exclude the technical elements of this process relating to taxation and accounting practices. The Authority requires the review to confirm:
1. Whether the Operational Models have been constructed appropriately so as to materially achieve the objectives that each of them were designed to meet, insofar as its logical integrity under the Bid assumptions and input data is concerned;
  2. Whether the Operational Models have been developed in a well- structured manner to best practice standards; and
  3. 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.

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## 15. Appendix 12D - Financial Structure and Funding Plan

### AFC and PCS Requirements

- 15.1 The Agreed Funding Commitment and the Parent Company Support will be contractualised in the Funding Deed and the requirements are as follows:

#### Agreed Funding Commitment

- 15.2 This is the amount and timing of funding incorporated in the Rail Services Financial Model to support the working capital and investment requirements of the ODP. It includes funding provided by group companies and third parties. Such Agreed Funding Commitment must be incorporated in the Bidder's Financial Model to enable the Bidder to demonstrate that its Bid, and the Priced Option if triggered, complies with the Schedule 12 Financial Ratio (1.070:1) tests, as defined in Schedule 12 to the ODP Grant Agreement. The amount and timing of any Agreed Funding Commitment made available to the ODP must not lead to the Financial Ratio of 1.070:1 being exceeded. It is permissible for the Financial Ratio of 1.070:1 to be exceeded where this is a result of the cash generated by the ODP not being distributed due to the ODP not having sufficient distributable reserves.
- 15.3 Bidders should note that the Funding Deed requires that the Guarantor will procure the provision of any third party funding included within the AFC Plan as defined in the Funding Deed. For the avoidance of doubt, if the third party funding is not committed at Bid submission this will be taken into account as follows.
- 15.4 Third party funding proposals will be reviewed in order to assess their robustness, deliverability and credibility; and where the available evidence fails to provide the Authority with adequate confidence that the funding or financing will be available:
1. In sufficient quantum (for example, letters of support and term sheets from third party financiers do not provide reasonable confidence that the funding will be made available to the ODP to the extent reasonably required to substantially deliver an Initiative and/or are inconsistent with the values contained in the Bidder's Modelling Suite or other Bid documentation); or
  2. At the right time (for example, letters of support and term sheets from third party financiers do not provide reasonable confidence that the funding will be made available to the ODP at the time proposed by the Bidder in its Modelling Suite or other Bid documentation to enable the Initiative to be delivered on or by a certain date and in the manner described),

the Authority may take this into account in determining the evaluation score for any Response which includes any such Initiative, to reflect the risk to delivery of that Initiative.

#### Parent Company Support

- 15.5 Bids must be supported by a level of Parent Company Support ("PCS"). Such support must come from the Guarantor (as defined in the Pre-Qualification Process Document).
- 15.6 The PCS consists of the Required PCS and is calculated in accordance with the formula in paragraph 15.8 under the heading "Required Parent Company Support", below. The amount of PCS is defined in the Funding Deed as 'the PCS Facility'.
- 15.7 The Guarantor(s) of the successful Bidder as provider(s) of the PCS will be required to enter into the Funding Deed with the Authority. The Funding Deed will set out the Guarantor'(s)' obligation to make the

PCS available. The Guarantor(s) entering into the Funding Deed with the Authority will be subject to the updated tests of financial and economic standing described in subsection below.

### Required Parent Company Support

- 15.8 The amount of the PCS that the Authority requires Bidders to provide under the Funding Deed will be calculable by Bidders by reference to their Rail Services Financial Model (“**Required PCS**”). The method of calculation is set out in the Financial Templates and is as follows:

$$Required\ PCS = \max \left\{ \begin{array}{l} \text{£30,000,000,} \\ 20\% \times \sum_{y=1}^{16} (PR_y - BPR_y) \end{array} \right\}$$

Where:

**PR<sub>y</sub>** = the Passenger Revenue Forecast of the Bid, as calculated by the Bidder’s Financial Model and output in the Financial Templates sheet ‘Funding’ row 26 for each year “y” of the Rail Services Core Term and which are expressed in nominal terms. For the avoidance of doubt, these Franchise Payments are without any regard for payments by way of profit share payments due to the Authority pursuant to Schedule 8.2 to the ODP Grant Agreement; and

**BPR<sub>y</sub>** = the Authority’s Baseline Passenger Revenue Forecast provided to the Bidders, stated in the Financial Templates sheet ‘Funding’ row 20 for each year “y” of the Rail Services Core Term.

Where (PR<sub>y</sub> – BPR<sub>y</sub>) for any given year “y” is negative, (PR<sub>y</sub> – BPR<sub>y</sub>) shall be deemed to be equal to zero for that given year “y”. For the avoidance of doubt, the minimum Required Parent Company Support amount is £30,000,000.

### Bonding of Parent Company Support

- 15.9 Bidders will be required to procure, in accordance with the Funding Deed, a bond(s) from third party financial institution(s) with a relevant credit rating in an amount equal to the Bonding Requirement which, for the avoidance of doubt, must be at least 50% of the aggregate of the Required PCS (“**Bonded PCS**”). If the Bidder fails the update of the PQQ financial and economic tests as set out in paragraphs 7.57-7.61 of the Pre-Qualification Process Document (PQD), then the Bonding Requirement will be 100% of the Required PCS.

### Financial Structure and Funding Plan – Bid Requirements

- 15.10 Each Bidder is required to submit with its Bid a Financial Structure and Funding Plan which:
1. Details the total investment plan for all funding of Rail Services, infrastructure management, infrastructure, other works and schemes that support its proposals, including explaining its linkage with the Models. The capital expenditure and RV Assets covered by this plan must be clearly reconciled to amounts contained in the Rail Services Capital Expenditure Model or sheet(s) contained in the Rail Services Financial Model or cost model and any capital expenditure;
  2. Shows that the PCS has been calculated and provided in accordance with the requirements set out in subsection above, AFC and PCS Requirements;

3. Provides precise details of its funding arrangements, the exact nature of relationships with any funding partner(s) or underlying financial securities provided by third parties, including the extent of dialogue and nature of any commitment, risks to its ability to meet its funding commitments and how risks will be mitigated;
4. Provides a schedule, reconciled to the worksheet "Funding" rows 49 to 52 in the Rail Services Financial Templates, which details, for each element of AFC funding, amounts of equity, debt or other funding provided and repayment profiles where relevant. This schedule should be supported by sufficient narrative for the Authority to understand the Bidder's plans and rationale;
5. Provides details of the providers of the CVL Transformation Bond (to be replaced with CVL Asset Management Bond), Performance Bond, Season Ticket Bond, Bonded PCS or other security including term sheets from the bond provider(s) in order to demonstrate that the requirements of the ODP Grant Agreement and Funding Deed have been or will be met;
6. Demonstrates how on-going working capital and cash flow requirements for Rail Services, CVL capital programme and Infrastructure Manager, will be funded. This could be presented in a table with accompanying detailed explanation. Where relevant, this should be consistent with the Models;
7. Includes for each Initiative which has a funding source outside of working capital (or multiple sources of funding if appropriate), a funding plan with full details of its linkage with the Rail Services Financial Model, details of each source of funding (each source of third party funding must be separately identified), including rights and obligations of each type of funding and details of agreements with the organisation(s) (including any Affiliate(s)) providing funding. For each source, a letter of support and term sheet must be provided from the relevant financial institution, Affiliate and/or organisation setting out the terms and conditions (including all condition precedents, fees, repayment profile, basis of interest rate calculation) of the finance;
8. Sets out the detailed basis of the accounting treatment of leasing and associated charges for all rolling stock (explaining in particular whether charges for the use of rolling stock are treated as operating, finance leases or otherwise and why) and the detailed tax treatment of these charges (explaining in particular the application if relevant of the long funding lease rules contained in Chapters 6 and 6A of Part 2 of the Capital Allowances Act 2001). To note that Bidders are to bid on the current IAS17 legislation and not the impending IFRS16 standards;
9. Provides details and assumptions for interest earned on cash deposits; and
10. Includes a statement of funding available to the ODP from the Start Date including any assumptions around cash held previously by the incumbent operator relating to season ticket or advance ticket purchases at the Start Date.

#### **Statement from the Bond Providers**

- 15.11 Includes statement(s) from the relevant bond provider(s) confirming the amount of the bond(s) and accepting the form of the CVL Capital Works Bond and Performance Bond as set out in the ODP Grant Agreement (as an Annex if appropriate);
- 15.12 Includes a statement from the relevant bond provider confirming the amount of this bond and accepting the form of the Season Ticket Bond as set out in the ODP Grant Agreement (as an Annex if appropriate); and

- 15.13 Includes a statement from the relevant bond provider(s), confirming the amount of the bond being provided under the Funding Deed, accepting the form of the Bonded PCS as set out in the Funding Deed (as an Annex if appropriate) and addressing all other matters associated with the Authority updating its tests of financial and economic standing.

**Statement from the Guarantor(s)**

- 15.14 Includes a statement from the Guarantor(s) confirming the amount, timing and profile of AFC and amount of PCS it is guaranteeing and accepting the form of the Funding Deed and its terms, and that they will be prepared to enter into the Funding Deed in that form on the date of execution of the ODP Grant Agreement.

**Letter from Financial Adviser(s)**

- 15.15 Includes a letter from its financial adviser(s) (as an Annex if appropriate):
1. 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 ODP on execution of the ODP Grant Agreement;
  2. Confirming that financial adviser support of the funding proposition has been provided in the knowledge of the terms and conditions set out in the term sheets of the finance providers (if relevant);
  3. Confirming that the funding plans, including term sheets and financing assumptions, are accurately reflected in the Financial Model and captured in the Record of Assumptions;
  4. Confirming that the Financial Model has been prepared following FRS 101, FRS 102 or IFRS accounting standards;
  5. Confirming that risks to the Bidder's ability to meet its funding commitments are identified and mitigated in the Financial Structure and Funding Plan;
  6. Confirming that relief for, or transfer of, losses is clearly stated within the Models and confirming that such relief will be supported by the Bidder's owning group(s);
  7. Confirming that they have given consideration to the deductibility of any interest expense in light of thin capitalisation rules, tax rules on interest deductibility etc ;
  8. Setting out the calculated ratios in respect of the Guarantor(s) as set out above (Updating of PQQ Financial and Economic Standing Tests and Submission of updated Bond Provider Letter(s)), together with details of the data used and its source, and details of the calculations undertaken and confirming, to the best of its knowledge, that the ratios have been calculated in accordance with the parameters defined in the PQD documents; and
  9. Confirming the interest rates and contractual terms of any inter-company (including any subsidiary companies within ODP) or third party debt funding, subordinated loans or other funding arrangements between, or to be between, the ODP and any Affiliate (as defined in the ODP Grant Agreement) or third party.

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## 16. Appendix 12E – Residual Value Mechanism Requirements and Approvals

### Residual Value Mechanism Requirements

- 16.1 The Residual Value Mechanism (RVM) will have the following characteristics:
1. The capital cost of the schemes when depreciated must fit within the affordability envelope, in accordance with Volume 1, section 11;
  2. There will be a cap at the end of the Rail Services Core Term of [redacted] (nominal) on the transfer value (Net Book Value) of a new depot and a cap of [redacted] (nominal) on the total combined transfer value (Net Book Value) of all other assets included in the RVM;
  3. Assets may be grouped into a single RVM Asset where the assets are of the same type (e.g. several car parks) or are at the same physical location (e.g. at the same station);
  4. If an asset is included in the RV Asset then all parts of the asset must be included (e.g. it is not permissible for fixtures and fittings for an RV Asset to be taken outside the RVM);
  5. The financial return must be negative over the Rail Services Core Term but positive over the asset life;
  6. For marginal schemes, other economic benefits may be included to justify the investment, and the Authority will assess whether these schemes will be accepted;
  7. Schemes must deliver improvements in line with the Authority's overall objectives as outlined in the ITSFT documents;
  8. There will be no limit on the number of schemes that can be proposed;
  9. The RVM can be used at any point in the contract, as long as schemes are completed and operational before the end of the Rail Services Core Term. However, there will be a provision to agree in life that an investment should no longer be delivered;
  10. The asset will be depreciated on a straight line basis over a period of the lesser of the asset life or 25 years. Where assets are grouped into a single RVM scheme, assets can be assigned different asset lives;
  11. The asset must remain the property of the ODP (not Parent), or Network Rail as appropriate, no other third party ownership is permitted;
  12. There will be a contractual commitment to deliver the scheme;
  13. The Bidder may propose the use of third party funding to purchase such RV Assets, but such funding may not bind a Successor ODP. This means that the Successor ODP will not be required to assume any liabilities associated with any third-party funding and such funding arrangements will not transfer to the Successor ODP or have a value attributed to them for the purposes of the ODP Grant Agreement. Furthermore, third-party funding must not be secured against any RV Asset; and
  14. The Authority reserves the right to buy out any RV Asset within the Rail Services Term at the Net Book Value in that respective year.

## RVM Approvals

- 16.2 Bidders are required to submit their proposals for use of the RVM in advance of submitting Final Tenders. Final submissions of RVM proposals must be received by the Authority no later than 1700 on Wednesday 22 November 2017.
- 16.3 The submission process will be as follows:
1. Bidders must email the Procurement mailbox, [procurement@transportfor.wales](mailto:procurement@transportfor.wales), and state that they wish to send in RVM proposals. The Authority will then raise an Authority Query (AQ) for them to submit their Response;
  2. Bidders will receive an AQ from AWARD requesting their initial proposal Response;
  3. The Response must be uploaded in AWARD into folder, '03 - RV Mechanism Bidders Proposals'; a link will be provided in the AQ;
  4. The Authority's decision or further clarification will be communicated through the AQ process;
  5. For any further proposals to be submitted, Bidders must email the Procurement mailbox, [procurement@transportfor.wales](mailto:procurement@transportfor.wales), and state that they wish to send in further RVM proposals. The Authority will then raise another AQ for Bidders to submit their Response; and
  6. The Authority's decision or further clarification will be communicated through the AQ process.
- 16.4 The submission must include the templates referred to in Question R12.17 above.
- 16.5 The Authority will review submissions against the criteria set out above. As well as the pass/fail criteria, the Authority and its advisers will pay attention to:
1. The evidence underpinning the financial forecasts, particularly for the period after the end of the Rail Services Core Term;
  2. Where a scheme does not meet the financial criteria, the evidence of economic benefits used to justify the scheme's inclusion; and
  3. The extent to which the scheme is expected to deliver the Authority's objectives for the franchise.
- 16.6 The Authority reserves the right to reject a scheme, even where it meets the pass/fail criteria.
- 16.7 The Authority will inform Bidders of its decision regarding a RVM scheme no later than two weeks after submission to the Authority.
- 16.8 Providing there is no change to the RVM scheme and assumptions at Final Tender, the Authority's approval of a scheme before Final Tender will not be reversed.
- 16.9 If a Bidder makes material changes to the RVM scheme or assumptions in its Final Tender, particularly where the changes reduce the benefit the scheme is expected to deliver or worsen the financial forecasts, then the Authority reserves the right to reverse its decision regarding the scheme, i.e. the Authority may reject the scheme at Final Tender despite approving it prior to Final Tender.

## 17. Appendix 12F - Extendibility Options Price Templates

### General

- 17.1 As set out in the ITSFT, Volume 8, Section 9, the CVL Concept Design shall enable the expansion of future phases of South Wales Metro. Options to extend the network include sections of on street running, re-integration of existing track lengths and newly constructed ballasted track extensions.
- 17.2 Bidders are required to consider the following four specific sample extensions:
1. The Flourish - Cardiff Central or Cardiff Queen Street to the Flourish via on-street running from Cardiff Bay station;
  2. Greyfriars Road - Link south from Cathays station operating on-street along Park Place to terminate south of A4161 in the vicinity of Park Place/Greyfriars Road with an intermediate station at the National Museum;
  3. Hirwaun - Aberdare to Hirwaun, including any proposed new stations, through conversion of the freight line branch which once served Tower Colliery; and
  4. Longwood Drive - Extension of the Coryton Line from Coryton Station to Longwood Drive close to Junction 32 of the M4 Motorway using the former railway corridor and via the proposed Velindre Hospital with two new stations at Velindre Hospital and Longwood Drive.
- 17.3 The Flourish Costed Option is to be designed and priced to the same level as the CVL Concept Design. The cost template comprises an abridged form of the Railway Group Elements used in the CVL and Non-CVL Capital Works Costing Templates.
- 17.4 Extendibility Options for Greyfriars Road, Hirwaun and Longwood Drive are not expected to be as developed as The Flourish but Bidders are required to submit indicative prices. The level of cost information in the templates reflects the anticipated maturity of the design.

### Guidelines for Completion

#### Extendibility Options Price Templates

- 17.5 Templates for the Capital Works costs associated with the Costed Options were previously included in the CVL Concept Design Costing Templates.
- 17.6 In order to enable Bidders to consider the wider cost implications of the Extendibility Priced Options, the Costed Options worksheets have been removed from the CVL Concept Design Costing Templates, and new templates have been developed for each of the four Extendibility Costed Options.
- 17.7 The Extendibility Option Price Templates contain worksheets for Bidders to submit costs (and income) relating to the Capital Works, Rail Services and Infrastructure Manager Services to enable a consistent approach to pricing across all Bidders.
- 17.8 The templates comprise the following worksheets:
1. Cover;
  2. Summary;
  3. 01 Rail Services;

4. 02 Capex Profile;
5. 03 Capital Works;
6. 04 IM; and
7. 05 Revenue.

### **General Guidelines**

- 17.9 On each worksheet, Bidders are only required to enter text or values in the cells highlighted in light orange, and must not alter any other cells.
- 17.10 The structure of any worksheet must not be changed by the insertion/deletion of any rows or columns. Should the Bidder wish to provide additional pricing information, supporting detail may be provided by inserting additional worksheets. Bidders must cross reference the activities in the cost templates to the additional worksheets.
- 17.11 Bidders should populate the template with values that represent the impact of each option incremental on the base Bid excluding the Priced Options.
- 17.12 Financial values should be entered in nominal prices.

### **Cover Guidelines**

- 17.13 Bidders are required to enter the following details in the Workbook Properties:
1. Owner: [Bidder Name]
  2. Version:
  3. Date:

### **Summary**

- 17.14 No Bidders actions are required to populate this worksheet.

### **Rail Services Guidelines**

- 17.15 The Rail Services worksheet summarises the revenues and costs associated with operating Rail Services on the proposed extensions.
- 17.16 Rail Services sheet follows the format of the 'P&L3' sheet in the Rail Services Financial Model Templates.

### **Capex Profile Guidelines**

- 17.17 The Capex Profile worksheet summarises the pricing of the Capital Works. The Capital Works are further categorised according to whether they are to be self-delivered by the ODP or undertaken by the IDPs. The totals for each Railway Group Element and other cost sections (column F) will automatically carry forward from the associated section on the Capital Works worksheet.
- 17.18 Bidders are required to allocate the costs for each railway element to the expenditure timeline, starting from Year 0 (ending 31 March 2018).
- 17.19 The Authority has populated the annual inflation percentage values based on the RPI forecasts published in DfT WebTAG databook July 2017 - Table A5.3.1.

- 17.20 Bidders may choose to enter adjustments to the annual inflation percentages in the designated row.
- 17.21 For all Costed Options, Optimism Bias for the capital works has been set at 66%, however Bidders may propose a higher percentage value in cells E40 and E69.

### **Capital Works Guidelines**

- 17.22 In the development of the templates the Authority has taken into consideration the current level of design maturity for each of the options. This is reflected in the elemental structure of the Capital Works worksheets.
- 17.23 Bidders are required to provide a brief overview outlining their proposed solution (to be populated in cell E11).
- 17.24 The Bidders are to input quantities and rates in columns G / H and K / L respectively, according to whether the works are to be self-delivered by the ODP or undertaken by the IDPs. The totals in columns I and M will automatically compute.
- 17.25 Bidders are required to populate the templates in as much detail as is possible. The Authority acknowledges the maturity of the design process and the limitations on the pricing. With this in mind, it is accepted that full granularity of pricing may not be possible for all activities, and some activities may need to be grouped together for pricing purposes.
- 17.26 The Authority reserves the right to request additional information in support of the quantities and rates proposed by Bidders in the cost templates.
- 17.27 All totals will automatically calculate.
- 17.28 Bidders are required to identify allowances for preliminaries and other project costs including land, utility costs and Network Rail charges. Where Bidders propose sections of on-street running, the cost of relocating existing utilities will be met by the Authority.
- 17.29 Bidders are requested to provide as much detail as is possible. Bidders may choose to amend the unit from 'Sum' to '%' to facilitate pricing.
- 17.30 Bidders are required to enter the percentage values for the Fee (Overheads & Profit) to be applied to the net costs. Bidders may choose to enter different percentage values to be applied to ODP and IDP works.
- 17.31 Within the Stations/ Buildings & Property section, in addition to the quantities and rates, Bidders are required to enter the station name.
- 17.32 Within the Structures section Bidders are required to enter the structure reference (column D) together with a brief description of the proposed works (column E) for each structure affected by the works. (Note: excludes The Flourish).
- 17.33 For The Flourish Extendibility Cost Option, within the Stabling section, in addition to the quantities and rates, Bidders are required to enter the location reference. The Stabling section contains all Railway Group Elements associated with depot and stabling provision.

### **Infrastructure Management Guidelines**

- 17.34 It is the Authority's intention that ownership of the CVL assets will transfer from Network Rail to Welsh Government and that the role of Infrastructure Manager will be undertaken by the ODP. Bidders are

required to submit costs relating to the Infrastructure Management functions for the whole of the CVL network in the separate Infrastructure Manager Model Template

- 17.35 In order to facilitate an efficient and proportionate approach to pricing the Infrastructure Manager Services for each of the Extendibility Options, the Authority has developed a pricing mechanism based on a percentage adjustment to the CVL Infrastructure Management costs.
- 17.36 The IM worksheet requires the Bidders to submit a percentage adjustment that is representative of the additional IM requirement as a consequence of the implemented Extendibility Option. This will generate a maximum capped allowance. Following further development of the extendibility solution, the Authority and the ODP will jointly agree detailed IM costs which shall not exceed the tendered amount.
- 17.37 The values entered in the Infrastructure Management Cost Templates will be the base costs to which the Extendibility Option IM percentage adjustment will be applied. Bidders are required to transfer the values from the Infrastructure Manager Pricing Templates into the corresponding ODP Years in the IM worksheet of the Extendibility Option Pricing Templates. Bidders should transfer the values between the workbooks according to the cell references provided below:

IM Pricing Templates worksheet	Cell reference	Extendibility Cost Template worksheet	Cell reference
A – Ops Summary	F27:AA27	04 IM	K17:AH17
B – AM Summary	F33:AA33	04 IM	K24:AH24
C – A&S Summary	F23:AA23 – F19:AA21	04 IM	K31:AH31

- 17.38 In the IM worksheet of the Extendibility Option Cost Template, Bidders shall enter in the rows titled 'Maximum Percentage Adjustment (capped)', the percentage adjustment for each ODP Year. The totals for each section will automatically calculate.
- 17.39 The Authority has populated the annual inflation percentage values based on the RPI forecasts published in DfT WebTAG databook July 2017 - Table A5.3.1.
- 17.40 Bidders may choose to enter adjustments to the annual inflation percentages in the designated row consistent with the adjustments in the relevant sheet in the Infrastructure Management Cost Templates.
- 17.41 For all of the Extendibility Priced Options, Optimism Bias on the Infrastructure Manager costs has been set at 25%, however Bidders may propose a higher percentage value in Cell E58.

### Revenue

- 17.42 Bidders are to provide a forecast of Infrastructure Manager revenue associated with the Extendibility Priced Options. To align with the Infrastructure Manager Model Template, revenue has been separated into appropriate sections and Bidders may specify 'other' revenue streams or inclusion.
- 17.43 The Authority has populated the annual inflation percentage values based on the RPI forecasts published in DfT WebTAG databook July 2017 - Table A5.3.1.
- 17.44 Bidders may choose to enter adjustments to the annual inflation percentages in the designated row consistent with the adjustments in the relevant sheet in the Infrastructure Management Cost Templates.