



Department  
for Transport

# Specification

## **Provision of advice for funding and financing of new airport capacity**

**Contract Reference: PPRO 04/008/096**

Framework Agreement Reference: HMT Corporate Financial Advice Framework (Lot 2)

Date: 2 March 2015

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## 1. Introduction

The Department for Transport (the Department or the DfT) is working jointly with HM Treasury (HMT) to develop advice on possible funding and financing implications of all the options shortlisted by the Airports Commission for new airport capacity. In accordance with the terms and conditions of **HMT Corporate Financial Advice Framework (Lot 2)**, the Department is therefore commissioning advice to support this advice. .

## 2. Background to the Requirement

### *Background to the Airports Commission*

On 7 September 2012 the Secretary of State for Transport announced the creation of an independent Airports Commission (the Commission or AC) chaired by Sir Howard Davies. The Commission was tasked with examining the scale and timing of any requirement for additional capacity to maintain the UK's position as Europe's most important aviation hub. It will identify and evaluate how any need for additional capacity should be met in the short, medium and long term.

In its interim report published in December 2013, the Commission shortlisted three proposals to deliver additional airport capacity in London and the South East (one at Gatwick Airport and two at Heathrow Airport). The Commission will provide its recommendations to the Government in its final report in summer 2015. The final report will assess all of the shortlisted options based on the latest appraisal framework published by the Commission in April 2014. This will include an assessment of cost and commercial viability of each scheme and, in particular, address the need to be assured that proposals are financeable. The Commission has sought its own advice on the financing and funding of all of the shortlisted schemes, which has been specifically designed for the Commission's own purposes.

### *Background to the Department's requirement*

As part of the Department's preparation for receiving the Commission's final report we have identified financing and funding as an area on which ministers may seek early advice if they are to make an informed decision about airport expansion. The Department has therefore decided to procure advice to assist in understanding the possible implications for Government of a decision to invest in new airport capacity in the light of the Commission's recommendations when they report.

As part of our preparation for receiving the Airport Commission's final report, the Department is seeking to identify issues and risks around financial deliverability of the new airport capacity, including any possible requirement for Government support, and to explore the range of plausible financing scenarios which might exist given the characteristics of the schemes shortlisted by the Commission. This work will equip Officials to provide a status report to incoming Ministers immediately after the election and to advise Ministers on the Airport Commission's final recommendations when it reports.

For the avoidance of doubt, this work is not intended to pre-judge what the Commission may recommend, nor is it intended to come to any view on which, if any, of the shortlisted options for airport expansion the Government should support, or by what route in securing powers the

Government may want to support future airport expansion, or in what form may any support from the Government take.

### 3. Procurement Timetable

The timetable for this Procurement is set out below. This timetable may be changed by the DfT at any time. The Potential Provider will be informed, if changes to this timetable are necessary.

Bidders intending to bid for this requirement are requested to submit their tender documents by 11.00hours on Wednesday 11 March 2015.

DATE	ACTIVITY
Monday 2 March 2015	Publication of the ITT
Monday 2 March 2015	Clarification Period Begins
Wednesday 4 March 2015 16:00hrs	Clarification period closes
Friday 6 March 2015 16:00hrs	Deadline for a response by DfT to the clarification questions
Wednesday 11 March 2015 11:00hrs	Deadline for submission of a Tender to the DfT
Thursday 12 March 2015	Evaluation of tenders and consensus meeting to confirm bidders selected for presentation
Friday 13 March 2015 (Afternoon)	Presentations (if required) at DfT, Great Minster House, London SW1P, 4DR
Monday 16 March 2015	Final Consensus meeting
Tuesday 17 March 2015	Contract award date
Wednesday 18 March 2015	Anticipated contract commencement date

### 4. Aims and Objectives

The Department is working jointly with HM Treasury (HMT) to develop advice on possible delivery implications of shortlisted options for new airport capacity. To support this process, the joint team is looking to secure advisory support from an investment bank who can provide specialist market insight and external validation for the core team on appetite of private capital investors and conditions necessary to secure investment on this scale.

Advisers will be expected to provide specialist market insight into likely structuring and market issues associated with financing all shortlisted options for delivering new airport capacity based on their direct transaction experience, including engagement with credit rating agencies on financing structures for complex infrastructure projects, buy/sell side mandates for large airport transactions and/or debt raising for UK regulated utilities.

This work will take the form of a discrete mandate to provide advice on the financial deliverability and viability of all shortlisted options in advance of/ alongside the Airport

Commission's final report, up to the point at which the Secretary of State responds to the Airport Commission's recommendations. The response from the Secretary of State is expected to be shortly after the publication of the Airport Commission's final report in Summer 2015.

Advisers will be free to work with a scheme promoter on any subsequent assignment to take forward a recommended scheme only when the Government has committed to a clear decision by either seeking powers to deliver additional airport capacity or otherwise. However the successful Bidder will be prohibited from providing advice to any shortlisted scheme promoters or participating in any preliminary engagement or marketing with those scheme promoters until such commitment by the Government has been made.

It is likely there will be a requirement for further multi-disciplinary advisory support following any statement of intent made by the Secretary of State to provide more detailed modelling, testing and analysis of specific proposals to support a proposed option. This will be separately procured in the coming months.

## **5. Scope**

Bidders for this advisory mandate (the Bidders) are expected to provide written materials which respond to the scope of work set out below. There will be an opportunity to discuss and agree the exact requirements of each work package with the DfT/ HMT team prior to the commencement of services. Advisers will be expected to work collaboratively with the joint DfT/ HMT team to supplement the skills and market knowledge available within Government.

To provide confidence about the financial deliverability of all the shortlisted schemes, advisers are required to undertake the following tasks:

1. Review and assess the Airports Commission's materials and provide a view on the financial deliverability of each shortlisted scheme using private capital, including the strengths and challenges of the proposals. Points to consider should include, but not be limited to, market capacity given the likely quantum and profile of capital cost of the schemes; impact of the risk profile of the scheme on the financing proposal and pricing; and commercial viability, e.g. how investors and rating agencies are likely to view the level of landing charges implied by each scheme. Advisers should also consider not only whether the schemes are initially financeable but the risks of financial failure during or post construction and what impact any such failure may have for any future Government support.
2. To the extent that, in the advisers view, financial deliverability of one or more of the shortlisted schemes is unclear, advisers are asked to consider what modifications or additions may be required to make each scheme bankable (all other things being equal).

The advisers is expected to work with a starting assumption that the capital cost of any new runway capacity will be private sector financed by the relevant airport owner without government support. The advisers should, nevertheless, consider what government support and/or regulatory changes the scheme promoters have indicated they may require; and set out, in the advisers' view, what further support, if any, may be required by a scheme promoter post announcement to make their schemes financeable. The adviser is also required to recommend a strategy to minimise the

likelihood and the quantum of support being required, as well as the likelihood of the support being called upon.

3. Advisers are required to provide a view on whether their assessment on the financial deliverability of each shortlisted scheme would change if different underlying assumptions were used about the capital costs of each scheme, e.g. along a spectrum from scheme promoters own proposals to the AC's estimate of capital costs including optimism bias and Government's view of the full cost of surface access.

To the extent that it is appropriate, advisers should consider lessons learned from the financing of recent and ongoing large UK infrastructure projects, relevant international experience and case studies of financing similar major projects. Advisers should also be mindful of the similarities and differences between financing options for those projects and the requirements of all the shortlisted schemes.

In addition, in recognition that financing decisions are unlikely to take place in the short term, advisers will be required to identify, where relevant, those assumptions that underpin financial deliverability.

For the avoidance of doubt, this work is not intended to pre-judge what the Commission may recommend, nor is it intended to come to any view on which, if any, of the shortlisted options for airport expansion the Government should support, or by what route in securing powers the Government may want to support future airport expansion, or in what form may any support from the Government take.

## **6. Requirement and Deliverables**

The joint DfT/ HMT team will take the lead in scoping out the required work plan and managing the output of external advisers through regular team meetings to agree priorities for the Core Team and advisers, allocate responsibility for delivery and review outputs. The advisers are expected to maintain regular contact with the Core Team throughout the assignment.

Apart from the information available in the public domain, we expect advisers will have access to any additional information that the scheme promoters have shared with the AC and are willing to share with the Department as part of this mandate, as well as any further presentations that the Department may arrange with all the shortlisted scheme promoters. We do not expect the winning Bidder to interact with scheme promoters or their advisers outside of these presentations without the Department's expressed permissions, and we do not expect the winning Bidder to carry out any negotiations with scheme promoters or their advisers during this mandate.

We expect that the advice will be provided in a range of formats including written reports, contributions to DfT papers and discussions with senior DfT stakeholders and Ministers. We may also ask advisers to provide follow-up presentations to outline and explain their conclusions to ensure transfer of skills and knowledge to the Department as appropriate.

An indicative project timetable is shown overleaf.

<b>Milestone</b>	<b>Phase / Time frame</b>	<b>Deliverable</b>
1	w/c 13 April 2015	Presentation of initial views from advisers based on the Airports Commission's published work to date
2	w/c 4 May 2015	Draft final report to provide a status report for incoming Ministers – comprising an assessment of the financial deliverability of each shortlisted scheme using private capital; consideration of any modifications or additions required to make the schemes bankable; and, the impact on financial deliverability of using different assumptions of underlying capital costs
3	w/c 25 May 2015	Final report (the "Final Report") prior to the Airport Commission's final recommendation
4	Summer 2015	Updated Final Report to reflect any changes required after the Airport Commission makes its final recommendation  Presentation and support in meetings with Ministers in preparation for response to the Airport Commission's final recommendations.

## **7. Quality Assurance Requirements**

We would expect this work to have appropriate quality assurance, including clear evidencing of sources.

## **8. Evaluation Process**

The evaluation criteria are set out in section 14.

## **9. Presentations**

If required, the DfT may wish to invite the highest scoring bidders to make a presentation in the afternoon on Friday 13 March 2015. The sole purpose of this would be to seek clarifications on specific issues that relate to the suppliers solution and the criteria for evaluation, and adjustments will be made, as appropriate, to the final evaluation scores based on these clarifications. The DfT will notify bidders of any requirement to attend and provide a presentation.

Bidders invited to present would be expected to attend with their delivery team. The DfT reserves the right to limit the number of Bidders invited to present to those Bidders who have achieved the highest scores based on their written proposals. Based on its assessment of the written proposals and proposed fee structures, the DfT may ask at least three of the highest scoring Bidders provided there are sufficient tenders.

It is anticipated that presentations would take place at Great Minster House, 33 Horseferry Road London SW1P 4DR. If Bidders are invited to present, they will be notified of the time and any requirements for the meeting at the same time.

## 10. Service Conditions

It is expected that the successful Bidder will work mainly at their own office, but attendance at meetings in London will be required.

The Services will be supplied in accordance with the DfT standard conditions of contract applicable to services.

## 11. Management and Contract Administration

DfT (██████████, Aviation Directorate) will be managing the contract. Following a kick-off meeting, we would expect to have weekly update meetings or calls.

Payments to the winning bidder will be linked to delivery against the deliverables set out above. All invoices must be submitted to the DfT Shared Services Centre. Invoices must include the Purchase Order number provided by the DfT at contract start. Invoices should be submitted to:

Shared Service Arvato  
5 Sandringham Park  
Swansea Vale  
Swansea SA7 0EA

## 12. Confidentiality and Security

The successful Bidder will be expected to take all appropriate measures to ensure that confidential or sensitive material is only disclosed in accordance with the terms of the engagement.

## 13. Clarification and Further Information

Requests for further information and Clarification Questions must be submitted to the Department using the following process:

- Any Clarification Questions and requests for further information must be submitted by applicants to ██████████@dft.gsi.gov.uk, cc to ██████████@dft.gsi.gov.uk, using the Clarification Question Template that has been provided. The Department cannot guarantee responses via any other format. The accompanying email subject line should start with URGENT – AIRPORT CAPACITY FUNDING AND FINANCING SPECIFICATION CLARIFICATION.
- Failure to satisfy the Department of the value of the information sought may result in the request not being afforded priority attention and / or being viewed as unreasonable. The Department reserves the right not to answer questions it views as unreasonable. Potential applicants will be informed if this is the case.
- Bidders may request that the Department treat a Clarification Question and its response as “commercially sensitive”. Any such requests must be made clear at the time of

submission of the Clarification Question. If the Department considers, in its discretion, that it is able to answer the Clarification Question on a confidential basis, it will do so. If the Department considers, in its discretion, that it is unable to answer the Clarification Question on a confidential basis, it will notify the applicant of its decision and that applicant will have the opportunity to either withdraw the Clarification Question or accept that the Clarification Question and the response will be circulated to all potential applicants who have expressed an interest in the competition.

- The Department aims to respond to Clarification Questions as soon as possible. The last date for submission of Clarification Questions is 16:00 on Wednesday 4 March 2015; responses will be provided by 16:00 on Friday 6 March 2015. The Department does not guarantee to answer any further questions received after the deadline.
- Whilst the Department understands that this may not always be possible, potential applicants should make every effort to submit Clarification Questions which seek significant levels of detail, well before the Wednesday 4 March deadline.

Subject to the preceding paragraphs relating to commercially sensitive information, the Department will transmit to all potential applicants the questions asked by, and the answers provided to, any potential applicant. This will be done by means of response sheets sent out by email. Depending on the number of questions tabled, it is possible that more than one answer sheet will be published on any given day. Each Bidder is responsible for regularly checking their email account for response sheets.

## **14. Evaluation Criteria**

The evaluation is divided into the following key stages:

- Stage 1 Conflict of interest Evaluation
- Stage 2 Quality and Price Evaluation

Tenders that do not meet the pass/fail selection criteria at Stage 1 will be disqualified from further consideration in this Procurement.

### Stage 1 – Conflicts of Interest – Pass/Fail

In their written proposals, Bidders must disclose any potential conflicts of interest and must state other mandates where the bidder is currently advising any of the shortlisted scheme promoters or advising the Airports Commission. The disclosure should include a clear statement which:

- Explicitly sets out any conflicts of interest, either potential, actual or perceived, for their firm in relation to this proposed mandate;
- Provides full details of the proposed risk management arrangements (e.g. segregation of staff and security of information); and
- Provides a clear description of how any subsequently arising conflicts of interest would be managed.

It is critical that Bidders' must be transparent at the point of contract with any potential conflicts of interest. Bidders may be ruled out of the competition if, in the judgement of the DfT, a conflict of interest would compromise the delivery and integrity of the contract.

### Stage 2 – Quality and Price evaluation

The DfT is seeking to appoint a financial adviser who is able to demonstrate the relevant capabilities and expertise in the areas set out below. In order to satisfy these criteria, Bidders will need to demonstrate in detail their capability and experience in providing specialist market insight into risk appetite and market issues associated with financing infrastructure projects on this scale, type and complexity.

Evaluators will assess responses at this stage in meeting the capabilities and expertise criteria below and responses will be awarded a mark in accordance with the marking scheme set out below:

Evaluation Criteria	Percentage Weightings
A. The Service Provider’s capacity and resource availability in relation to delivering the services in accordance with the required quality and time period, as outlined in the specification.	30%
B. The Service Provider’s methodology for delivering the services outlined in the specification.	30%
C. Whole life cost (Fees)	40%

This tender will be evaluated using the weightings set out above to obtain the optimal balance of quality and cost.

**Quality Factors Scoring Methodology**

Assessment	Score	Interpretation
<b>Excellent</b>	<b>81-100</b>	<b>Exceeds the requirement.</b> Exceptional demonstration by the Tenderer of the relevant ability, understanding, experience, skills, and resource & quality measures required to provide the services. Response identifies factors that will offer potential added value or innovation, with evidence to support the response.
<b>Good</b>	<b>61-80</b>	<b>Satisfies the requirement with minor additional benefits.</b> Above average demonstration by the Tenderer of the relevant ability, understanding, experience, skills, resource & quality measures required to provide the services. Response identifies factors that will offer potential added value or innovation, with evidence to support the response.

<b>Acceptable</b>	<b>41-60</b>	<b>Satisfies the requirement.</b> Demonstration by the Tenderer of the relevant ability, understanding, experience, skills, resource & quality measures required to provide the services, with evidence to support the response.
<b>Minor Reservations</b>	<b>21-40</b>	<b>Satisfies the requirement with minor reservations.</b> Some minor reservations of the Tenderer's relevant ability, understanding, experience, skills, and resource & quality measures required to provide the services, with little or no evidence to support the response.
<b>Serious Reservations</b>	<b>1-20</b>	<b>Satisfies the requirement with major reservations.</b> Considerable reservations of the Tenderer's relevant ability, understanding, experience, skills, resource & quality measures required to provide the services, with little or no evidence to support the response.
<b>Unacceptable</b>	<b>0</b>	<b>Does not meet the requirement.</b> Does not comply and/or insufficient information provided to demonstrate that the Tenderer has the ability, understanding, experience, skills, resource & quality measures required to provide the services, with little or no evidence to support the response.

#### Stage 2a – Evaluation of written tender submissions

##### **Minimum Quality Scores**

Bidders are required to score at least 36% out a total 60% [equivalent to at least 61-80 in the Quality Factor Scoring table above] for quality to progress to the price evaluation.

##### **Whole Life Cost (Fees) – Price Evaluation (40% Weighting)**

The DfT is looking to secure excellent value for money on the proposal put forward.

Fee proposals will form 40% of the score evaluation, and will only be applied to those Bidders that meet the minimum score for the quality criteria.

The proposal with the lowest total fee proposed will be given the full score (40%) and all the other higher priced proposals will be base-lined against this. Other scores will be calculated as the lowest total fee proposed divided by the higher priced Bidder's total fee proposed, multiplied by 40%.

#### Stage 2b – Final evaluation following Presentation

##### **Final Score**

A final score will be determined taking into account the Quality and Price scores, as well as any adjustments necessary following clarifications. The Bidder who offers the most economically advantageous tender will be awarded the Contract.

## 15. Tender Response

To participate in this competitive tendering exercise, Bidders are required to submit a fully compliant Tender. Tender Submissions must follow the format described herein. Failure to comply with the specified format may result in your Tender being rejected. Tenderers must provide the following information as part of their Tender Response:

**Front of Document:** Ensure that the name of the Tenderer is displayed on the front of the document,

**Introduction (a maximum one side of A4):** This must include:

- a short Executive Summary;
- Legal Name and Address of Organisation, Company Registration Number, date and place of Registration
- VAT Registration Number;
- Trading Name;
- Type of Organisation, Organisation Size & Organisation History; and if appropriate; Parent Company and Parent Company Registration Number;
- a nominated point of contact with telephone, e-mail and postal address details for any post-Tender clarification questions

**Main Tender Submission:** Having regard to the evaluation criteria, provide detailed information on how the Scope of Service requirements at Section 5 will be delivered. We would expect this to include, as a minimum, clear statements on:

- The expertise you would bring;
- The resources you would deploy;
- Proposed team structure;
- Methodology for delivering the work to the timetable.

**The size of the Main Tender Submission will be limited to a maximum of 10 sides of A4 only.**

**Bidders should provide the following elements as Annexes to the Main Tender Submission, and these will be limited to a maximum of 10 sides of A4 only.**

**Annex A:** Pricing Schedule

**Annex B:** Bidders to provide CVs of the staff they intend to deploy on this requirement. These (2 pages maximum for each CV) must detail the skills, experience and qualifications of each person.

**Annex C:** Signed Form of Tender document.

**Therefore the overall tender submission will be limited to a maximum of 20 sides of A4 only.**

**Page Set-up and Format**

- One page constitutes one printed side of A4. For main text the minimum is Microsoft Word font Arial font size 11 pt and minimum line spacing is single line. Double sided printing will be permitted. Bidders are encouraged to use a simple presentation style, avoiding expensive bindings, colour photographs and other high cost elements of production which do not directly add value to the substance of the Tender Response.
- The DfT reserves the right to advise any Bidder exceeding the page size limit that their Tender is non-compliant and not to evaluate that Tender unless/until the Tenderer informs the DfT which pages they wish to withdraw in order to become compliant within a timescale stipulated by the DfT.

**16. Fee Proposal**

In response to this Invitation to Tender (ITT) Bidders are required to provide **a fixed fee proposal** at Annex A of the Bidder's tender, including all associated costs in Pounds Sterling (£), and must be shown exclusive of VAT.

The fee schedule should comprise the following:

- A fixed price proposal. Bidders should confirm that meetings in London and any other non-staff costs will be included in the fixed price offered
- Any variations to the scope of the assignment which impacts on fees must be approved in writing by a designated contractual authority of the DfT.

Costs will be paid upon satisfactory delivery of the milestones set out in section 6 as determined by the Core Team.

An explanation of the calculation of the price score is set out in Section 14.

**17. Submission of Tender**

One electronic copy of your proposal on CD Rom (with a version of documents in MS Word 97 or higher and a version in Adobe Acrobat PDF) for this requirement should be submitted **by 11:00 hours on Wednesday 11 March 2015** to:

[Redacted contact information]



The DfT will not accept late responses received after the deadline, or responses submitted by e-mail.

### 18. Proposal Validity

The DfT requires Proposals to have a validity period of at least 90 days from the Tender Deadline or for such other period as may be specified by the DfT.

### 19. Bidding Costs

The Bidder will bear their own costs arising out of or in connection with this procurement. The DfT reserves its position as to whether or not it will enter any contractual arrangements as a result of this procurement. The DfT shall bear no liability whatsoever for the outcome of the procurement, including but not limited to any loss of profit or economic loss incurred by Bidders or any other person arising out of or in connection with the procedure.

### 20. Selection

In accordance with the requirements set out in this Invitation to Tender, the DfT will select the Bidder on the basis of the most economically advantageous proposal.

### 21. Debrief for Bidders

Debriefing of each Bidder is an important element to an open and transparent competition. This assists the DfT in learning lessons from the bid process and provides input that may help shape the development of future competitions.

### 22. Points of Contact

<b>Procurement Contact</b>	Name	[Redacted]
	Tel	[Redacted]
	e-mail	[Redacted] <a href="mailto:[Redacted]@dft.gsi.gov.uk">@dft.gsi.gov.uk</a>
	Address	[Redacted] [Redacted] [Redacted] [Redacted] [Redacted]

<b>DfT Corporate Finance Directorate</b>	Name	<p>██████████</p> <p>Department for Transport</p> <p>██████████ Great Minster House</p> <p>33 Horseferry Road</p> <p>London SW1P 4DR</p>
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<b>DfT Aviation Directorate</b>	Name	<p>██████████</p> <p>Department for Transport</p> <p>██████████ Great Minster House</p> <p>33 Horseferry Road</p> <p>London SW1P 4DR</p>
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