



Crown  
Commercial  
Service

## **Letter of Appointment**

Contract Reference: Provision of Specialist Aviation  
and Economical Technical Advice  
CCZZ20A63

Department for Transport  
 Great Minister House  
 33 Horseferry Road  
 London  
 SW1P 4DR

Dear Sirs

**Letter of Appointment**

This letter of Appointment dated 4<sup>th</sup> September 2020 is issued in accordance with the provisions of the DPS Agreement (RM6018) between CCS and the Supplier.

Capitalised terms and expressions used in this letter have the same meanings as in the Contract Terms unless the context otherwise requires.

Order Number:	[TBC]
From:	Department for Transport ("Customer")
To:	Oxera Consulting LLP ("Supplier")

Effective Date:	16 <sup>th</sup> September 2020
Expiry Date:	End date of Initial Period 22nd October 2020 End date of Maximum Extension Period 2 weeks after the initial period expires. Minimum written notice to Supplier in respect of extension: 7 days

Services required:	Set out in Section 2, Part B (Specification) of the DPS Agreement and refined by: · the Customer's Project Specification attached at Annex A and the Supplier's Proposal attached at Annex B; and
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Key Individuals:	<b>Customer:</b> REDACTED <b>Supplier:</b> REDACTED
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[Guarantor(s)]	Not Applicable
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Contract Charges (including any applicable discount(s), but excluding VAT):	<p>As per Schedule 6 of the Terms and Conditions and Annex D</p> <p>Roles and Rates remain firm for the duration of the Contract and any extension. Rates are based upon an eight-hour day and are inclusive of expenses and exclusive of VAT. Payment can only be paid following satisfactory delivery of pre agreed deliverables.</p> <p>Each invoice must contain a detailed elemental breakdown of work completed and the associated costs.</p> <p>All invoices MUST contain a valid purchase order number</p> <p>Note: The Supplier shall conduct this assignment on a fixed fee basis for delivery of the outputs described in Annex A Customer Project Specification during the initial five-week period. This would provide certainty to the Customer on the cost of the project - reducing the risk and increasing the Value for Money of the Supplier's offer.</p> <p>The Supplier shall conduct additional work (either out of scope, or out of this timeframe) on a time and materials basis at the rates specified in the Rate Card, although would also be happy to discuss further fixed fee work packages as the scope becomes clearer for any further support needed by the Customer.</p> <p>Note: The Supplier anticipate that additional costs of procuring any data required would be approximately £3,000</p>
Insurance Requirements	Sufficient Public liability insurance, employers' liability insurance, professional indemnity insurance and product liability insurance sufficient to cover all risks in the performance of the Contract.
Liability Requirements	<p><b>Suppliers limitation of Liability (Clause Error! Reference source not found. of the Contract Terms);</b></p> <p>Limit of liability of £200,000</p>
Customer billing address for invoicing:	REDACTED

GDPR	Not Applicable
Alternative and/or additional provisions (including Schedule 8(Additional clauses)):	Not required

**FORMATION OF CONTRACT**

**BY SIGNING AND RETURNING THIS LETTER OF APPOINTMENT (which may be done by electronic means) the Supplier agrees to enter a Contract with the Customer to provide the Services in accordance with the terms of this letter and the Contract Terms.**

**The Parties hereby acknowledge and agree that they have read this letter and the Contract Terms.**

**The Parties hereby acknowledge and agree that this Contract shall be formed when the Customer acknowledges (which may be done by electronic means) the receipt of the signed copy of this letter from the Supplier within two (2) Working Days from such receipt**

**For and on behalf of the Supplier:**

**For and on behalf of the Customer:**

Name and Title:

Name and Title:

Signature:

Signature:

Date:

Date:

## ANNEX A

### Customer Project Specification

#### 1. BACKGROUND TO REQUIREMENT

- 1.1 C-19 has had a significant impact on the UK and other countries' aviation sectors, with the substantial drop-off in demand hitting airline's balance sheets and reducing the size of their networks. In response HMG have enacted various forms of x-sector support, including the job retention scheme and mechanisms for direct financial support for affected companies.
- 1.2 The Customer has completed work around demand side of the aviation sector during the C-19 phase and beyond, working with industry to develop reasonable worst-case and more optimistic scenarios.
- 1.3 On the supply side, particularly in relation to airlines, in a normal operating environment the Customer have assumed that supply will match the demand. Airport capacity is one area where interventions have been made but largely, we have left the market to deliver (with minor exceptions such as public service obligations on lifeline routes).
- 1.4 The COVID situation has drawn into question both the huge demand side pressures the industry faces but also that previous wisdom that supply meets demand, particularly in the short to medium term. The Customer are also aware that there are competition issues which could impact the consumer in this context, e.g. via fares or connectivity. The very nature of competition and its impact on consumer outcomes may change in a post-COVID world.
- 1.5 The overarching question is: do we expect airlines to perfectly pick up their services alongside the demand as it returns, and if not, what is likely to prevent this happening (e.g. financing, slots, fleet, etc.)?
- 1.6 The Customer aviation modelling team has some capability in this space as it stands through an imperfect competition model (ICAM). Further work is needed to complement this through a more detailed assessment of the supply-side at a network level. The aim is to inform any potential interventions, both commercial in terms of financial support provided but also the longer-term restart and recovery work where the future of the sector will be mapped out.

#### 2. BACKGROUND TO THE AUTHORITY

- 2.1 The Customer's Airports Infrastructure and Commercial Directorate has responsibility for the key airports in the UK. Within the directorate, the Aviation Commercial Interventions Division is responsible for considering the type and level of intervention the UK government is considering for the aviation sector as part of the COVID-19 response.
- 2.2 The Airports Infrastructure and Commercial Directorate is supported by a team of economists, statisticians and transport modellers in the Aviation and Maritime Analysis Division. This Division is leading this project on behalf of the Customer (hereafter referred to as the 'Project Team').

### 3. OBJECTIVES

- 3.1 Improve HMG understanding of likely path of supply-side response to airline actions at a route and network level, such as airlines dropping out of routes, voluntarily or via insolvency.
- 3.2 This is particularly relevant for the C-19 restart and recovery period, though should also cover changes in “business-as-usual” times and longer-term policy goals (e.g. capacity of industry to deliver carbon reduction).
- 3.3 Assessments of supply-side responses during the C-19 period should consider how the crisis has affected BAU assumptions on supply-side responses, for example, changes to business confidence, business models, levels of competition, higher uncertainty around demand and the liquidity of financial markets.
- 3.4 This work shall also consider how different paths for the UK during and post exit from the EU Transition Period will affect the airlines supply side responses.
- 3.5 This will all better inform cases for HMG intervention (regulatory, financial or otherwise) in the aviation sector, through understanding supply-side responses across a range of different scenarios.
- 3.6 The work shall consider the impacts on the supply-side of the market that have occurred already due to HMG and other government intervention, including how differing intervention between states may change BAU outcomes through the creation of a non-level playing field between airlines.
- 3.7 Over different time horizons, the Customer are particularly interested in how the type of carrier operating the route or network, and the nature of their operations, are likely to influence:
  - 3.7.1 The viability of individual routes
  - 3.7.2 The way it would wish to ramp-up frequencies / run larger fleet in response to increased demand
  - 3.7.3 How changes to competition in the market might impact decisions and ultimately consumer outcomes
  - 3.7.4 The speed at which the airline could operate additional services, once it had decided to do so.
- 3.8 Understand the capacity of the sector to deliver wider government policy goals, both with and without intervention, for example:
  - 3.8.1 Levelling-up the whole UK (including regional employment)
  - 3.8.2 Global connectivity
  - 3.8.3 Domestic and lifeline connectivity
  - 3.8.4 Maintaining a competitive UK aviation sector
  - 3.8.5 Tackling climate change / green recovery
  - 3.8.6 Maintenance of supply routes for vital goods such as medical supplies
- 3.9 The Customer are also interested in the exploration of how airport and supply-chain related factors feed into route viability and the speed at which an airline could operate a service once it is deemed commercially viable. This would include a consideration of appropriate infrastructure and airport capacity necessary to make routes work, the

scheme of charges at regulated and non-regulated airports, and other considerations such as slot availability and ASA rights (among others).

#### **4. SCOPE**

4.1 Airlines that currently operate passenger services in the UK aviation sector (domestic and foreign carriers). Airline operations over the short-medium term (next 6 months up to 10 years)

4.2 The work shall:

1. Define scenarios around market developments and explore nature of the market response. Including:
  - Scenarios looking at how the supply-side would respond to the insolvency of different types of airline, and how in each case the supply response might be expected to differ across different types of routes, taking in to account airport-specific factors, level of competition etc.
  - This shall assess how the supply-side might adjust to changes in demand, and how this would affect different routes and the operators serving those routes.
  - Include provision in those scenarios for a range of commercial responses, including where operators with strong financial provisions/cash reserves are incentivised to maintain or enhancing market position, or where it would be reasonable to accept short term losses for longer term gain. Include consideration of where consolidation and mergers might be preferable to continued independent operations.
2. Where conclusions are drawn this work shall set out a comprehensive set of underlying assumptions, and how the conclusions would change under a different set of assumptions (“sensitivity testing”). This will aid the Customer in developing its own assumptions on market evolution through the restart and recovery period.
3. The Customer anticipate this work can be delivered through a mixture of quantitative and qualitative analysis. The quantitative side shall be informed by economic and/or financial modelling that would provide the ability to test the various scenarios being explored from an operator perspective (e.g. revenues, yields, fixed/variable fixed costs considerations).
4. Any model/tool developed shall be one of the deliverables and provide flexibility for the Customer to change inputs/assumptions beyond the end of the Contract.

#### **5. DATA**

5.1 Due to the quantitative aspects this work would be well-suited to a supplier with experience in the collation, analysis and explanation of complex aviation datasets.

5.2 Data will be made available for the Supplier where it is available, though the Supplier is encouraged to draw on datasets held internally or more widely available to aid in their assessment.

## **6. SERVICE LEVELS AND PERFORMANCE**

6.1 Following award of Contract, an inception meeting shall be held with the Supplier's advisory team to agree the project milestones for the initial scope of work.

6.2 The Supplier shall be required to:

- 6.2.1 Provide at all times the appropriate level of skill, resource and advice throughout the life of the Contract, bringing well-reasoned commercial sense and expertise.
- 6.2.2 Work flexibly with the Project Team and the key Stakeholders ensuring they can adopt a partnership approach;
- 6.2.3 Advise on the preparation of reports, governance, or other internal approval documents;
- 6.2.4 Present their professional advice and assessment when required to Project Team staff;
- 6.2.5 Attend regular project meetings, or other meetings as determined by the Project Team ;
- 6.2.6 Provide quality assured reports relating to the requirements outlined in this document, present their findings and attend meetings as necessary; and
- 6.2.7 Raise and escalate significant, or unresolved risks and issues to the appropriate level of authority up to and including Partners or Directors, and raise such risks and issues directly with the Customer's Project Manager.

## **7. REPORTING**

7.1 The advisors are expected to engage with the Project Team on a regular basis to: a) Report progress on key activities and deliverables; and b) Share findings and discuss with the team the issues identified and the information needed from the Customer. The structure of updates will need to be flexible but for the purposes of bidding, should assume at least a twice weekly update with the Project Team.

7.2 The Supplier shall provide the Customer's Contract Manager with technical notes at the conclusion of each phase of the Contract. In addition to the technical notes, the Supplier shall provide the Customer's contract manager with financial/budget management updates weekly to include:

- 7.2.1 A breakdown of spend against commissioned work;
- 7.2.2 A comparison between forecast spend and any agreed budget where applicable.
- 7.2.3 Any proposed changes in scope to agreed service activities will need to be approved by the Customer's Contract Manager, and work stream lead before the work is commenced. Proposals should be submitted in the form of a Change Request Form (Annex C)

## 8. QUALITY ASSURANCE

8.1 Effective and high standard quality assurance is a fundamental requirement for all work carried out by the Supplier. With reference to the deliverables the Supplier must include examples of any specific documents formats that they propose to use during the programme. The work should draw on robust evidence from established literature and any desk analysis should be subject to an appropriate Quality Assurance process;

8.2 The study team should recognise and reflect the Department's Analytical Assurance framework 'Strength in Numbers' (available at: <https://www.gov.uk/government/publications/dft-analytical-assurance-framework-strength-in-numbers>) in their approach to quality assurance.

8.3 The project will have a small steering group comprising Customer officials; they shall be responsible for:

8.3.1 Ensuring the project follows the themes outlined above, and

8.3.2 Provide feedback and comments on the draft and final reports at each Review Point.

8.4 In addition, upon commencement of the work the Supplier shall compile a risk register and review this with the Customers Contract Manager at agreed intervals.

## 9. FINANCIAL PAYMENT

9.1 The Customer requires there to be a clear line of sight from progress reporting through to timesheet reporting. Timesheets, broken down to weekly bookings against work products per individual, must be issued to the project team for approval. Once timesheets have been signed off, invoices will be paid one month in arrears.

## 10. PROJECT TIMETABLE

10.1 The Supplier shall note the following project milestones that the Customer will measure delivery against:

Milestone	Description	Timeframe
1	Project Initiation meeting	Shortly after contract award
2	Review Point 1: Initial analytical outputs for Customer review	Within two weeks of the Project Initiation meeting.
3	Review Point 2: Draft final analytical outputs for Customer review	Within four weeks of the Project Initiation meeting.
4	Review Point 3: Project sign-off	Within five weeks of the Project Initiation meeting.

10.2 If the quality of the research is not sufficient within each milestone, and requires the advisor to redraft sections, this is done at the Supplier's own time and expense.

## 11. SECURITY REQUIREMENTS

11.1 In line with para 12.7 of the Framework Agreement all staff the Supplier supplies or intend to supply who have regular access to or will be based at the Customer's premises have complied with the Customer's baseline personnel Security Standard (BPSS) <https://www.gov.uk/government/publications/security-policy-framework>.

**ANNEX B**

**Supplier Proposal dated 10<sup>th</sup> August 2020**

REDACTED

## ANNEX C; CHANGE REQUEST FORM

### CRF01; Change Request Form

#### Change in Requirements for Advisor Services

<b>Change Title:</b>
<b>Change Requested:</b>
<i>Please detail changes to the scope of the services required – e.g. remodelling based on changes in policy, new reports required, etc.</i>
<b>Timescale Implications of Change in Requirements:</b>
<i>Will this extend the period of time for which the services of the Suppliers will be required? What will these new timescales be?</i>
<b>Cost Implications of Change in Requirements:</b>
<i>Please state original cost of work, and provide a breakdown estimating additional costs which would be incurred from the change in scope.</i>
<b>Other Implications of Change in Requirements:</b>
<i>Please detail any effect this would have on the project, or knock-on effect on other projects and any specific dependencies arising as a result of this change control,</i>
<b>Implications of Not Changing Requirements on Project</b>
<i>Please detail the effect on the Project if the scope is not changed.</i>
<b>Authorisation:</b>
<i>Please list names of those who have requested the change in scope. This could include Project Director, Lead Negotiator, Project Manager, etc.</i>
Name:
Role:
Date:
Name:
Role:
Date:
Form completed by [name]
Decision: Accept/Reject

**ANNEX D COSTS REDACTED**

**RATE CARD - REDACTED**

Roles and rates will remain firm for the duration of the Contract and any extension. Rates are based upon an eight hour day and are inclusive of expenses and exclusive of VAT.