Broadband Delivery Framework

Call Off ITT Part 4:

Instructions for Submission of Financial Information

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1 Introduction

1.1 Purpose of this document

1.1.1 This Part 4 of the ITT sets out instructions for Bidders regarding the submission of financial information as part of their Call Off responses.

1.1.2 This document should be read in conjunction with the Call Off Evaluation Strategy in Part 2 Appendix 1 and question A2.4 of the Bidder Response to Call Off in Part 2 Appendix 2.

1.2 Objectives

1.2.1 A Call Off Bid Financial Model and financial information is required for this Call Off procurement process, to achieve the following key objectives:

- To allow for evaluation of the response in accordance with the Call Off Evaluation Strategy
- To capture cost and wholesale price information for this Call Off project, which can be compared to the Reference Financial Model provided at the Framework stage
- To enable an assessment of the risk to the long-term commercial sustainability of the Bidder's proposed solution for the Call Off through sensitivity analysis
- To form the 'Project Model' on award of the Call Off Contract, which will form a contract baseline and enable: (i) monitoring against actual performance; and (ii) assessment when using the Change Control Procedure under the Call Off Contract
- To determine whether excess subsidy has been paid during the contract period (i.e. to assist claw-back procedures - as required to meet State aid guidelines) and to support the application of reinvestment arrangements provided under the Call Off Contract

1.3 Structure of this document

1.3.1 This document is structured as follows:

- Section 1 introduces this document and provides the relevant context for the financial information required
- Section 2 sets out the status and role of the Call Off Bid Financial Model required in the Call Off bid process
- Section 3 describes the Call Off Bid Financial Model requirements for this Call Off

2 Call Off Bid Model Process

2.1 Introduction

2.1.1 This section outlines the processes for submission of financial information to support the Call Off bid.

2.2 Description

2.2.1 Each Bidder MUST provide a Call Off Bid Financial Model and certain supporting information as further described in this Part 4, an overview of which is provided in the table below:

Call Off Financial Submissions	Each Framework Supplier has a Reference Financial Model, which is subject to contract change control under their respective Framework Agreement. Each Framework Supplier's “Reference Cost Book” and “Reference Wholesale Access Price Book” are included within its “Reference Financial Model”. The Bidder will use its own Reference Financial Model to produce a Call Off Bid Financial Model in response to this ITT. Financial Memoranda shall also be provided in respect of that Call Off Bid Financial Model.
	In accordance with Schedule 4 of the Framework Agreement, the Supplier’s Reference Financial Model will have been subjected to an Independent Model Review (IMR). However, if in development of a Bidder’s Call Off Bid Financial Model for this Call Off there are significant structural changes (e.g. new calculation sections, material changes to the calculations of key model outputs), the Local Body may require a further subsequent IMR (on terms substantially similar to those in Schedule 4 of the Framework Agreement) in respect of that bid model, to be completed prior to any signature of the Call Off Contract.
	Should the Bidder be successful in being awarded the tendered Call Off Contract, then the Call Off Bid Financial Model will become the “Project Model” under the Call Off Contract. This Project Model will be subject to contractual change control under the Call Off Contract.

3 Financial Model Requirements

3.1 Introduction

3.1.1 The Bidder MUST submit financial information to support its proposed Call Off solution, as set out in this section.

3.1.2 The Bidder MUST use the structure of its Reference Financial Model to develop a Call Off Bid Financial Model specific to the Call Off requirements. This Call Off Bid Financial Model MUST show the Bidder's proposed costings for the specific Call Off solution proposed, and will be given contractual status for the selected Supplier (the Call Off Bid Financial Model becomes the Project Model at contract signature).

3.1.3 The Call Off Bid Financial Model MUST structurally and substantively reflect the Reference Financial Model, and therefore the insertion/deletion of sections on existing sheets, and/or changes to calculation methodologies MUST be kept to an absolute minimum and clearly documented along with the rationale for the change.

3.2 Required levels of model input detail

3.2.1 The Bidder MUST complete the Call Off Bid Financial Model with sufficient granularity to enable the Local Body to:

- Understand key cost drivers and their cost behaviours
- Validate forecast take-up assumptions against implementation milestones and marketing plans
- Test the sensitivity of the Bidder's commercial proposal (and particularly on return or profitability) to key assumptions in the Call Off Bid Financial Model
- Comply with funding constraints and obligations (e.g. ERDF, DCMS) and other audit and reporting requirements as appropriate

3.3 Requirements for Call Off Bid Financial Models

3.3.1 Bidders are reminded of the following general requirements for their Call Off Bid Financial Model:

- The model MUST show calculations and outputs on either a monthly or quarterly basis
- The model MUST not include any protected or hidden areas
- Bidders' MUST use [Microsoft Excel 2007] or fully compatible versions

3.3.2 Bidders are also reminded of the following requirements which were requested for the Reference Financial Model and must also be included for the Call Off:

3.3.2.1 Cost Book (for each Solution Component):

The Cost Book should be as per the Reference Cost Book provided by the Framework Supplier. The Bidder may however need to make adjustments as follows:

- Costs – will need to reflect the Bidders assumptions for the Call Off, and the cost base may need to be updated (the Reference Cost Book had prices based at [1st April 2012])
- Sub-Components – sub-components MUST be as per the Reference Cost Book, which may have been updated in line with Change Control Procedures set out in the Framework Agreement. By exception, Bidders may be able to include new sub-components into their Call Off Bid Financial

Model, however this MUST be explained in the financial memoranda, and MUST be cross-referenced to the Bidder's Call Off Solution Design

- Eligibility – the Bidder must ensure that the cost book in its Call Off model shows the eligibility for capital expenditure ("Capex") items for this particular Call Off. There may be differences in eligibility from the Reference Cost Book assumptions
- Capital cost inflation assumptions MUST reflect the Bidder's latest assumptions
- Operating cost inflation assumptions MUST reflect the Bidder's latest assumptions

3.3.2.2 Wholesale Access Price Book:

- Wholesale Prices and their associated charges to Retail Service Providers (e.g. installation and decommissioning) broken down by different Solution Components or product types (e.g. for business customers, residential customers, etc)
- A description of each wholesale product
- The inflation type for each wholesale product

3.3.2.3 Take-up:

- Details of the take-up expected against different customer types for this Call Off

3.3.2.4 Solution design:

- The numbers of Solution Components / sub-components required, and when. This MUST be repeated for all phases of the Project.
- The Bidder MUST provide the number of cabinets and handover points for each Solution Component in dedicated cells.

3.3.2.5 Funding:

- The Bidder MUST calculate their own funding requirements for their Solution, in terms of:
  - Public Subsidy (from any of the available sources, and which meets the eligibility criteria)
  - Bidder's own funding (any Equity or Debt funding sourced by the Bidder)
- Public Subsidy will flow through the Local Body, and as such Bidders MUST provide the following in their financial model:
  - Anticipated Milestone payments (in accordance with the Schedule 5.1 of the Call Off Contract)
  - Milestone payments grouped into implementation phases
- The Bidder MUST provide the break-down of funding in deployment and post deployment by each cost category (e.g. % of supplier funding in deployment and post deployment and % of supplier funding as a % of EBITDA).

3.3.2.6 Capex:

- This sheet will show details of the Capex
- Bidders must provide a comparison of the cumulative Capex against the cumulative public subsidy paid against Milestones

3.3.2.7 Cash flow:

- This sheet will illustrate the cash flows for the Local Body's Call Off project

3.3.2.8 Profit & Loss:

- This sheet MUST illustrate the profit and loss (to a minimum of EBITDA level) for the Local Body's Call Off project

- This sheet MUST also show unit margin per end user. This MUST be shown on a period by period basis, and then averaged over the contract life. These outputs are required for part of the clawback mechanism described in Schedule 5.1 of the Call Off Contract

3.3.2.9 Outputs:

- IRR MUST be calculated from the contract start date to the contract end date (i.e. to cover the project until at least 7 years post implementation, in order to align with the open access requirement)
- The IRR of the project MUST be calculated over the number of years the Bidder has assumed in its own investment appraisal (reflecting the Bidder's target rate of return)
- The payback period
- Permitted/Eligible Expenditure, i.e. that which meets the criteria for public subsidy, shown in total for the contract period and post-contract period (where the Bidder's model timeline extends beyond the expected contract end date)
- Leverage calculated in accordance with the Evaluation Strategy
- A summary and breakdown of the capital invested in each Cost Book Component
- A summary of the capital investment split over the access solution types
- A cost per premises connected / total capital input
- The Investment Ratio (calculated in accordance with the Call Off Contract)

3.3.2.10 Sensitivity Analysis:

- Bidders MUST run the sensitivity analysis as requested in section 3.6, and enter the outputs into a table in the financial model

3.3.3 Financial Memoranda: In addition to the completion of the Call Off Bid Financial Model, the Bidder MUST provide Financial Memoranda to support and explain aspects of their proposal. These Financial Memoranda are set out below:

- Sources and uses of financing and funding. Bidders MUST detail their own funding arrangements, providing evidence for any agreements in place
- Results of the sensitivity analysis as detailed in section 3.6, including cost behaviours and outputs from each sensitivity
- Description and justification of differences in the Call Off Bid Financial Model to the RFM – as described in section 3.4 below
- Explanation of regulated inputs where appropriate
- Explanation of customer take-up and churn assumptions specific to this Call Off
- Taxation and capital allowances assumptions
- Approach/policy to depreciation of assets
- VAT assumptions (input and output)
- Any other Bidder assumptions and constraints that affect the Solution (including circumstances where costs are in line with expectations and where they might not be)
- A summary of the Bidder's approach to investment appraisal and investment governance
- A summary of the Bidder's approach to minimising barriers to the use of Small and Medium Enterprises (SMEs) in the Bidder's supply chain

3.4 Differences from the Reference Financial Model

3.4.1 The Bidder MUST describe and explain all material differences between the Call Off Bid Financial Model and the Reference Financial Model. For example[1]:

- Where data in the Reference Financial Model which related exclusively to the specific scenario considerations of the 'Notional Call Off' is removed or replaced – the Bidder MUST identify this but need not provide a line by line description
- Changes to the costs and prices in the Cost Book and Wholesale Access Price Book used in the Call Off Bid Financial Model – the Bidder MUST show the variance amount, and provide a justification for any differences to the Reference Financial Model
- Other input assumptions – e.g. where churn assumptions, the Bidder's investment timeline or required IRR have changed, such changes MUST be explained
- Assumptions implicit in the model's calculations – where the calculations have changed, which changes implicit assumptions (e.g. if customer churn calculations are amended to apply churn on an annual rather than monthly basis), this MUST be described and justified

3.5 Assumptions

3.5.1 Framework Suppliers MUST make the following assumptions in respect of certain key project parameters. Bidders should note that these assumptions will be discussed and agreed during the procurement Call Off project.

Assumption	Call Off Project Assumptions
Contract Start date	[TBD – LOCAL BODY]
Contract End Date	[7 YEARS – TBD BY LOCAL BODY] from the end of network implementation (i.e. the last Milestone type 2 payment).
Framework Supplier investment appraisal End Date	Bidder MUST state and illustrate in the Call Off Bid Financial Model the period over which it will determine the viability of its commercial proposal – this could be longer or shorter than the state-aid requirement.
Cost Base Date (the date from which any inflation assumptions apply)	[TBD – LOCAL BODY]
VAT	All milestone payments MUST be stated exclusive of VAT. Bidders to state assumptions on input and output VAT.
Cost inflation	Bidders MUST state assumption but where referencing to economy wide inflation, assume for bid purposes the Government's inflation target of 2% per annum.
Foreign Exchange (FX) Rates	Bidder MUST state an assumption, but where referencing to market FX rates, assume for bid purposes the FX rates quoted in the Financial Times newspaper on [INSERT DATE].
Interest Rates	Bidder MUST state assumption (but where referencing to LIBOR, assume for bid purposes the LIBOR rate quoted in the Financial Times newspaper on [INSERT DATE].

3.6 Sensitivity Analysis

3.6.1 In order for the Local Body to test the sustainability of the Bidder's commercial proposal, the Bidder MUST run a series of sensitivity scenarios using their Call Off Bid Financial Model. The outputs of these scenarios MUST be detailed in the Financial Memoranda as set out in section 3.3.3. The

Bidder MUST also provide in their Call Off Bid Financial Model and/or describe in the Financial Memoranda, any other sensitivity analysis it applies for investment appraisal. It is expected that the Call Off Bid Financial Model will have functionality to run these scenarios successfully. The following scenarios as a minimum MUST be run:

Category	Low Case
Take-Up	Take up is 10% (i.e. ten percentage points) lower than base-case take up. Profile of take-up remains the same.
Cost Overrun	10% increase in all Capex costs and 10% increase in all Opex costs
Delay to Implementation	All implementation milestones are achieved 6 months later than planned, and take-up is also delayed 6 months, however costs (except those directly attached to take-up) remain as originally forecast
Changes in Regulated Input Prices	Regulated price changes as described by the Local Body
Elimination of secondary revenue	The Bidder receives no additional revenue from non-broadband products provided on State-subsided infrastructure, including bundled and stand-alone voice products, mobile mast backhaul, and leased lines to business customers; revenues from sale of broadband products to residential and business customers remain untouched
Other	Other key sensitivities as defined by the Bidder

3.7 Public Subsidy Funding Categorisation

3.7.1 As noted above, Bidders MUST indicate in their Call Off Bid Financial Model which categories of costs qualify for which element of public subsidy.

3.7.2 Public subsidy may derive from the sources including the following:

- DCMS/BDUK
- Local authorities
- ERDF and other EU structural funds
- Additional community broadband funding.

Further detail of available public subsidy is provided in Part 2 of this ITT.

3.7.3 For DCMS, BDUK and Local Body sources of public subsidy, this funding will predominantly be available for capital expenditure on broadband infrastructure. For audit and reporting purposes therefore, Bidder qualifying expenditure from this source of public subsidy should be capital in nature and of a type that directly contributes to the creation and extension of physical broadband infrastructure assets to deliver the services. As a guide, this expenditure would normally be capable of being capitalized by the Bidder under generally accepted accounting practice.

3.7.4 For ERDF and other EU structural funding as sources of public subsidy, Bidders should refer to Department for Communities and Local Government guidance and the ERDF User Manual at:

http://www.communities.gov.uk/regeneration/regenerationfunding/europeanregionaldevelopment/nationalguidance/usermanual/