



## **Key issues for successful tendering of Public Service Contracts in regional rail transport**

Workshop on the implementation of the 4<sup>th</sup> Railway Package  
Brussels, 30 May 2018

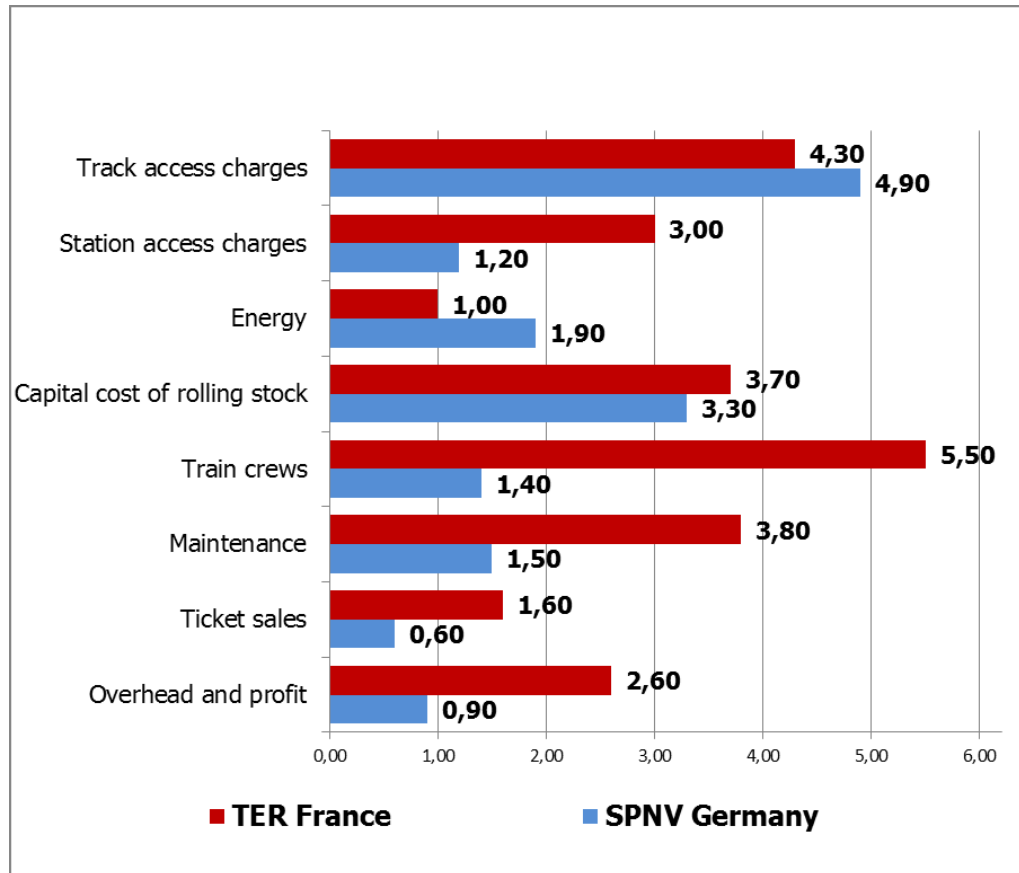
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# December 2023: what will change for PTAs?

## International experiences – main effects observed in countries where regional rail services are already procured by tendering:

1. Strengthening of the position of the Public Transport Authority
2. More responsibility for the Public Transport Authority
3. Lower level of subsidy
4. Better quality of service
5. Most PTAs don't return economies to the general budget but use the gains to improve services

# Cost structures of regional rail: Examples of France and Germany



## France

- total cost 25.50 €/train-km
- fare revenue 5.90 €/train-km
- subsidy 19.60 €/train-km
- no competition

## Germany

- total cost 15.70 €/train-km
- fare revenue 6.10 €/train-km
- subsidy 9.60 €/train-km
- 70% tendered (until 2015)

# December 2023: challenges for the member states

## Assignments of the national legislators – setting up the legal framework for successful tendering:

- Ensure access to the rail network and essential facilities (implementation of EU regulations)
- Specify the conditions of market opening (free recruitment or transfer of staff, transfer of rolling stock, rail police, ...)
- Set up a regulatory body with sufficient powers
- Reform the incumbent

# Specificities of Regional Rail services procured on the market

## Economically,

- Results of tendering will depend not only on the cost of the services demanded, but also on the (perceived) level of competition
- Specifications for the tender will directly influence the result – price, quality and participation of operators
- Taking into account the needs of operators is essential – bidding teams are a scarce resource
  - Capital to be employed
  - Allocation of risks (linked to the level of benefit)
  - Size of concessions/lots
  - Scope/range of services included
  - Transparency of the procedure

# Preparing the conditions for the market opening

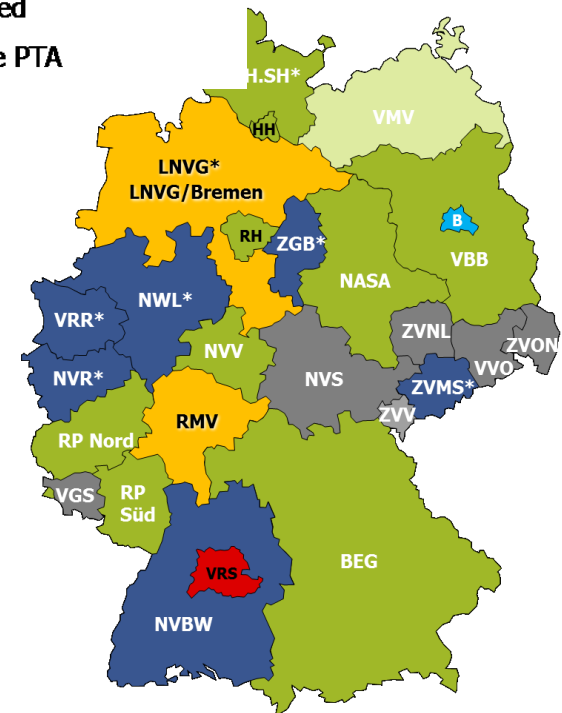
## Politically,

- A first tender needs to be a success!
- Market opening needs a stable relationship between politics and administration
- Stable and reliable communication to the public as well as the market is essential

## Technically,

- Set an adequate timeline for the tendering procedure
- Consider the (special) relationship with the incumbent
- Provide the essential information (revenue, patronage)
- Secure access to the means of production
  - Rail network
  - Rolling stock – transfer or request for new material?
  - Maintenance workshops – transfer or new facilities?
  - Staff – transfer or not?
- Start with less complex concessions/lots – learning is on both sides

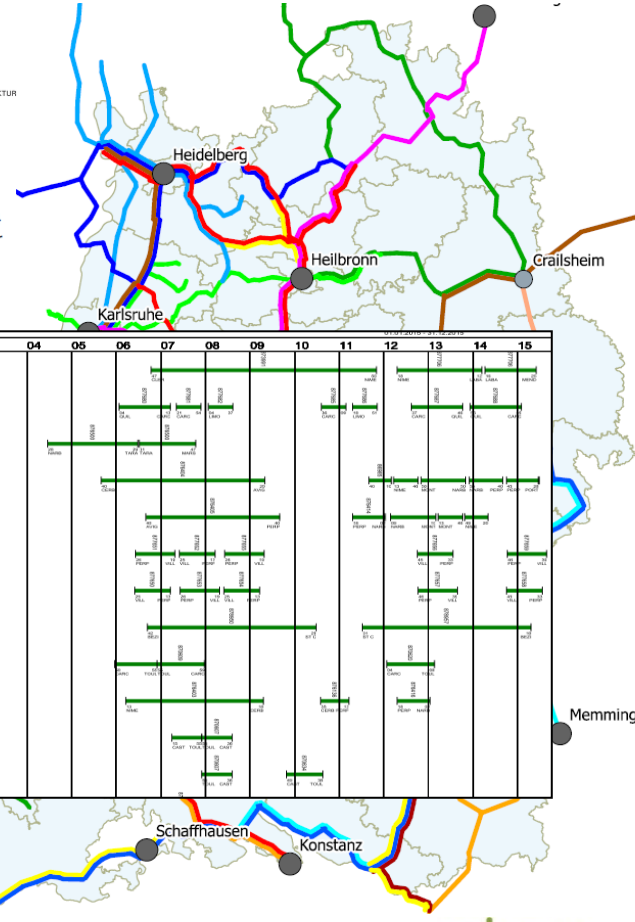
- Rolling stock owned by the PTA
- Financial guarantees by the PTA
- Vehicle pool and guarantees
- Transfer of existing vehicles ensured
- Purchase of vehicles ensured
- Measures examined
- No support by the PTA



# Preparing the first tenders

## Technically and economically,

- Set the size of concessions/lots to be tendered – relevant criteria:
  - Size appropriate for the market
  - Possibility for efficient production of services
  - Location of maintenance workshop
  - Stability of the infrastructure
- Set an appropriate contract duration
- Set the scope/range of services included
- Consider risk allocation – net or gross cost contracts
- Clarify the future ownership of rolling stock, maintenance workshops
- Calculate the estimated cost and revenue – adjust budget and ambition



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# Main issues to be addressed in the tendering documents

## Typical table of content:

- I. Responsibilities of the parties
- II. Specification of the required transport services
- III. Modification of the order during the contract
- IV. Quality management and cooperation
- V. Fares
- VI. Ticket sales, customer relations
- VII. Compensation of the operator, financial terms
- VIII. Reporting and controlling
- IX. Transfer to the following operator
- X. Duration and termination of the contract



# Example of a timeline for a rail PSC tendering procedure

Stage	Time required
<b>Preparatory studies</b> (definition of concession/lot networks/routes, cost modelling, market/revenue potential, estimation of political risk, ...)	6-15 months
<b>Political decision on the procedure</b>	1 month
<b>Tendering procedure</b>	16-25 months
<b>Decision on the preferred bidder</b>	1 month
<b>Time buffer for possible scrutiny of award under civil law</b>	???
<b>Signature of the contract</b>	
<b>Preparation of operation</b> (minimum, without procurement of rolling stock or workshops)	12 months
<b>Start of operation</b>	
	<b>In total: 3 - 4,5 years</b>

# Lessons learned from countries having opened the market



**The transition to a market-based procurement of services is a unique opportunity to change the system**



**If you open the market, don't do it half-heartedly**



**A strong regulatory authority is essential for success**

## Further questions?

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