

## What does the Welsh Government have in store for Welsh rail services?

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14/07/17



On Tuesday 18 July the Cabinet Secretary for Economy and Infrastructure, Ken Skates, will make a statement on Rail Services and Metro. Although the detail of the statement is unknown, [the Welsh Government has indicated](#) that the final tender process for procurement of the next rail franchise and Metro operator will begin in July 2017, with the contract expected to be awarded in January 2018. The successful bidder would then begin to operate services in October 2018.

### What's happened so far?

While rail franchise procurement is not currently devolved, the Welsh and UK Governments reached agreement on the devolution of executive powers to procure the next Welsh franchise in November 2014.



Subsequently, in 2015, the Welsh Government established [Transport for Wales](#) (TfW) as a not-for-profit company wholly owned by the Welsh Government. TfW is currently undertaking the procurement process for the next franchise and Metro on the Welsh Government's behalf.

The company is working to procure what is being described as an Operator and Development Partner (or "ODP"). The ODP is expected to operate rail services across Wales, and also to develop plans for, and subsequently implement and operate, Metro services on what are now being called the [Core Valleys Lines](#).

The Welsh Government held a public consultation, [Setting the Direction for Wales and the Borders Rail](#), between January and March 2016. Following this, the procurement was announced in the Official Journal of the European Union on 19 July 2016. Four "pre-qualified bidders" were [announced](#) in October 2016:

- Abellio Rail Cymru;
- Arriva Rail Wales/Rheilffyrdd Arriva Cymru Limited;
- KeolisAmey; and
- MTR Corporation (Cymru) Ltd.

The bidders were provided with the [Welsh Government's priorities for the franchise \(PDF 190KB\)](#) at the start of the process, which then moved to a "competitive dialogue" phase, now presumably nearing completion, to develop the final tender specification.

[A further consultation](#), this time led by TfW, was opened in February 2017 to inform development of the tender specification. This was part of a wider range of engagement work which included [input from Transport Focus](#), the independent transport user watchdog.

When the specification is developed, the tender process will begin and the four pre-qualified bidders will be invited to submit bids.



## What is competitive dialogue?

While rail franchises in England and Wales are normally procured using a franchise specification document pre-prepared by the UK Department for Transport (DfT), the approach taken by the Welsh Government and TfW is very different.

The “competitive dialogue procedure” is one of the contract award procedures permitted under EU law. Potential bidders are selected from an initial advertisement. The contracting authority then enters into dialogue with those potential bidders to develop a contract specification which meets its requirements. Chosen bidders are then invited to tender.

In this procurement exercise, TfW has been discussing individual aspects of the specification with each bidder since January 2017 in a series of weekly meetings. When the final specification is published, therefore, it will have been prepared with input from all four bidders and TfW.

## So is anything different about this procurement?

Very much so! Not only is this the first franchise procured by the Welsh Government, the approach taken is innovative.

In particular, competitive dialogue has never been used to procure a rail franchise in the UK. Also, it is intended that Metro services on the Core Valleys Lines will operate on what is known as a “vertically integrated” contract. This means that ownership of the lines will transfer from Network Rail to the Welsh Government, and the successful bidder will both operate services and manage the tracks and other infrastructure. This is another first for a private sector British rail operator and the proposal raises complex issues for both the Welsh Government and Network Rail, not least around financial liabilities and liability for hidden defects.

Finally, [the Cabinet Secretary has said](#) he wants TfW to directly manage as many aspects of rail services as possible on a not-for-profit basis. This might include, for example, TfW managing stations where normally these are leased to rail operators themselves by Network Rail.

Added to this the Cabinet Secretary [told the Assembly’s Economy Infrastructure and Skills Committee in his evidence paper \(PDF 819 KB\)](#) for scrutiny on 13



July 2017 that a number of key areas remain to be agreed with the UK Government and Network Rail:

- The transfer of powers to procure the franchise (despite the 2014 agreement, the Welsh Government is currently working on an agency agreement with the DfT);
- Approval of plans for transfer of ownership and integration of the Core Valleys Lines; and
- Agreement on “suitable financial arrangements” for the Core Valleys Lines infrastructure.

In oral evidence to the Committee, he and his officials said they are “making good progress” but that “there is still work to do” on these issues.

Has anyone commented on the process and priorities for the franchise?

Going back to the Fourth Assembly, the Enterprise and Business Committee held an inquiry into [the future of the Wales and Borders Rail Franchise](#) which reported in December 2013. This set out priorities for the new franchise, and made recommendations about the procurement process – emphasising the need for significant public consultation and engagement.

In the last year or so there have been a few relevant reports. In September 2016 the Auditor General for Wales published a report on [Welsh Government investment in rail services and infrastructure](#), which also took a look at the procurement process. At that time the Auditor General identified a number of risks, challenges and opportunities for the Welsh Government, and highlighted some key decisions he felt still had to be made.

In January 2017 the House of Commons Welsh Affairs Select Committee [report on the Wales and Borders rail franchise](#) highlighted a need for the Welsh and UK Governments to develop the Welsh rail network and services, particularly identifying a need to secure modern rolling stock replacing what it found to be some of the oldest in the UK.

Most recently, the Assembly’s Economy Infrastructure and Skills Committee published [On the right track? The Rail Franchise and South Wales Metro](#) in June 2017. This inquiry report set out the Committee’s top ten priorities for the franchise, while



also highlighting the complexity of the procurement process and the significant challenges involved.

How far the priorities identified in these reports, and by the travelling public itself, are addressed in the specification will undoubtedly be a matter of keen interest.

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Image from the Welsh Government Metro Brochure

