

Transport for London

Projects and Planning Panel

Subject: Procurement of the Revenue Collection System and Services

Date: 26 February 2014

1 Purpose

- 1.1 This paper is to inform the Panel of the progress of the procurement for revenue collection and associated services to replace those currently provided under a contract with Cubic until August 2015. The Panel has previously been informed of the overall approach to this procurement.
- 1.2 The Cubic contract currently provides the front office (gatelines, validators, ticket vending equipment and their control systems), back office, and other services to support Oyster and magnetic ticket retailing and acceptance across our services. Some services, such as communications networks and card procurement have been separated from the Cubic contract and are now provided directly under separate contracts.
- 1.3 For clarity, this paper does not address overall ticketing strategy, on which significant changes are being delivered through initiatives such as the Future Ticketing Project (FTP) and the proposed Fit for the Future – Stations. If implemented as currently proposed, these changes will continue to take place during the life of the proposed contract. The proposed procurement will provide a flexible contract capable of supporting changes, much as the current contract with Cubic does.
- 1.4 The panel is asked to note the paper.

2 Background and Current Status

- 2.1 The ticketing and fare collection system was originally procured under the Ticketing Services Contract (also known as the Prestige Contract). This was a PFI contract and was signed in August 1998 between London Regional Transport (LRT) and TranSys (a consortium of Cubic UK, EDS International, International Computers and WS Atkins). The contract length was 17 years (to 2015). LRT's interest in the Prestige Contract was subsequently transferred to Transport Trading Limited (TTL) under a statutory transfer scheme.
- 2.2 The current fare collection system was principally designed, implemented and maintained by Cubic under the Prestige Contract and provides services across TfL and to the Train Operating Companies in London.
- 2.3 TfL chose to exercise an early termination option under the Prestige Contract and it came to an end in August 2010. Ownership of the system assets transferred to TTL at this time.

- 2.4 TTL entered into a new contract with Cubic – the Future Ticketing Agreement (FTA) – to provide the fare collection services after August 2010. The FTA was signed in November 2008 and provided for a transition phase until August 2010, followed by full service delivery until August 2013. The FTA contains provision for a phased hand back of services beyond that date.
- 2.5 In April 2011, TTL and Cubic agreed that, under the FTA hand back provisions, the supply of smartcards and fixed wide area network (WAN) services would be handed back to TTL in August 2013. These services were duly handed back on time and specialist suppliers are now providing these services directly through separate contracts. All other ticketing services will be handed back in August 2015.
- 2.6 The FTA provides for the restructuring, disclosure and deposit of all the intellectual property pertaining to the system. Since 2009, successive deposits of intellectual property have been made and carefully verified. The intellectual property has been categorised and forms the core of the 50,000 documents in the data room provided to bidders for the new procurement. Intellectual property created since 2008, whether by us directly or by Cubic, is our property although Cubic have a right to a licence that they can use for sales elsewhere if royalties are paid to us. We have already received £3m in royalties through this route.
- 2.7 Once all the savings from the early termination of the Prestige Contract and subsequent restructuring of the FTA take effect, the core operating cost of the contract will reduce by nearly 30 percent in 2014/15 compared to the cost of the Prestige contract. The FTA costs have been used as the basis for the current Business Plan provision.
- 2.8 The system is currently operating effectively and reliably with smartcard reader availability of over 99.96 per cent and overall system-wide device availability of over 99 per cent on both rail and bus. The 20,000 plus smartcard readers deployed at stations and on buses are currently being upgraded through the ITSO on Prestige project (IoP; a Department for Transport funded project to enable our readers to accept their ITSO smartcard standard). The FTP is delivering a new method of paying for transport using contactless bankcards. Consequently the system will not require substantial capital renewal at commencement of the new contract for revenue collection and associated services.
- 2.9 During the course of the Prestige Contract and the FTA, numerous changes have been made to our ticketing systems and significant changes are still being made. Based on experience, it is expected that changes will continue to be made during the term of the new contract and the procurement will support flexibility for such changes in the future.
- 2.10 Since 2008, significant investment has also been made in automation of the monitoring and maintenance of the revenue collection system. The benefits from this capital investment have been reaped in the reduction in costs as outlined in paragraph 2.7. Since the last restructuring of the current contract in 2011 further investment has been made that should result in a lower operating cost with a new contract.

3 Future Provision of the FTA Services

- 3.1 A team was set up to review the options for the future provision of the FTA services, with the objective of ensuring a fit for purpose solution based on the following:

delivering service continuity, revenue security, value for money and flexibility.

- 3.2 The operating businesses have been engaged to define the services required to meet these business requirements. The existing contract and services have been reviewed to identify strengths and areas for improvement and the market has been tested to understand its capability. Synergies have been identified with other projects and procurement activities and these have been pursued where beneficial.
- 3.3 A key consideration has been ensuring the way in which the services are delivered in the future to enable the implementation of changes TfL wishes to make to its ticketing strategy.
- 3.4 The team considered the packaging, contracting and sourcing strategies and the approach to ensure a level playing field procurement to deliver these services. Analysis of the capabilities required led to seven main services being identified – front office (customer facing) services, back office (data centre based) services, systems integration, WAN (Wide Area Network), data centre hosting, smartcard supply and retail network management.
- 3.5 Two of these, WAN and smartcard supply, are commodity services and were handed back in August 2013. Separate procurement workstreams were created to deliver these services and a service contract was signed with Level 3 (WAN) and a framework contract was signed with ASK, Austria Cards, Gemalto and Exceet (Card Supply).
- 3.6 Forecast savings for the WAN contract, compared to provision under the FTA, are £915k up to 2015/16. Work is underway to investigate the possibility of network consolidation after August 2016 with our future IM network strategy.
- 3.7 The Card Supply Framework has resulted in savings over the FTA costs. Based on future projections for cards, forecast cost savings up to 2021/22 are £26.6m.
- 3.8 Given the strategic procurement already undertaken to create a TfL data centre, all back office equipment will be hosted within these data centres which are operated by IM. New equipment for FTP has already been sited in the TfL data centre.
- 3.9 The need for effective risk transfer and revenue security due to the complex interfaces and interdependencies between the front office, back office and systems integration services has led to these being grouped together. Given the potential for integration of the fare collection and other revenue collection systems, this package has been titled Revenue Collection and Associated Services (Revenue Collection).
- 3.10 In-sourcing of the various packages has been considered; however, while TfL has some skills and capability, it does not have these in sufficient scale nor the day-to-day operational experience of providing revenue collection services to provide the service as a whole. In the absence of the right skills within the organisation and the availability of these skills in the market, assembling and providing these skills in-house is a substantial task. It is also considered that this will only lead to an increase in cost. Consequently, this approach is not being proposed for the Revenue Collection services. However, those areas where TfL has specific skills are already being delivered in the development of the back office systems for the FTP.
- 3.11 Crossrail has a requirement for a number of front office devices (for example readers, gatelines and ticket vending machines) to support its programme. It has been agreed that these devices are procured as part of the Revenue Collection workstream to provide competition while mitigating adoption risks as these devices

will need to be interoperable with the existing fare collection system. Indeed, the aim is that all future procurement of revenue collection systems be delivered through the contracts put in place by the current proposed procurement process.

- 3.12 The requirements for the management of the Oyster Ticket Stop agent network are being developed in conjunction with the proposed Rail and Underground Fit for the Future – Stations Programme and the FTP. A decision on this and other requirements will be made in line with the programme and project requirements.

4 Procurement Process for Revenue Collection

- 4.1 The Revenue Collection Services contract is a strategic contract. There are few suppliers who have the capability or expertise to provide all required services. While there are more suppliers who can provide elements of the service, the requirement for end to end systems integration, and providing the associated levels of indemnity, may work against consortia, particularly if they have no track record.
- 4.2 The route to market has, therefore, been carefully designed to generate maximum competition and to demonstrate to potential bidders that, despite the incumbents 30 years of experience with TfL and its predecessors, there is a level playing field for them to compete in.
- 4.3 During 2012 and the beginning of 2013, Customer Experience engaged with all the possible players in the marketplace through a Prior Information Notice in order to fully explain our approach to Revenue Collection as well as to seek the market's views. Potential bidders were informed of the actions previously taken by us to secure ownership of the intellectual property (IP) that underpins the system and our testing and restructuring of this IP to aid future procurements.
- 4.4 An OJEU notice and pre-qualification questionnaire were published on 28 March 2013. The OJEU notice allows for revenue collection and associated services to be provided for a term of up to 10 years. Six responses were received from the market. Following assessment of these responses Cubic, LG CNS and Scheidt & Bachmann were invited to take part in the next stage, an invitation to engage (ITE).
- 4.5 During the ITE stage, bidders were presented with a complete contract and attended six half day sessions where they were able to engage with relevant subject matter experts on all elements of our requirement. They were also given access to a very extensive data room that contains over 50,000 documents relating to our system. During this stage bidders submitted their comments on the draft contract to enable TfL to amend where necessary to improve it and to allow the non incumbent bidders to feel comfortable about bidding.
- 4.6 An Invitation to Tender (ITT) was issued to the three selected bidders on 3 February 2014. This includes the evaluation strategy that ensures TfL will choose a supplier which has sufficiently demonstrated it is capable of running the fare collection system in London before any consideration of cost. Bids are due to be submitted on 14 April 2014.

- 4.7 Evaluation of the bids, which will be weighted 70 per cent on technical and 30 per cent financial, will take place up to mid June 2014. In addition to the weighted scores there are a number of qualifying criteria for the bids on technical, service and transition competence, all of which are necessary for a credible bid. The detailed review of the contract and the opportunity given to the bidders to comment on the contract during the ITE phase has resulted in a document which can be regarded as stable.
- 4.8 Contract signature is programmed to take place by October 2014 but could take place earlier. The transition activity from the FTA to the Electra contract will take place from this date and will be dependent on the winning bidder and their transition plan. A moratorium on major changes to the system has been planned from June 2014 until after the new contract comes into force in August 2015 to allow an incoming contractor to mobilise and take over a stable system.

5 Financial Implications

- 5.1 The capital cost of running the procurement process and any transition costs have been included within the existing Business Plan utilising the current FTA operating costs as a benchmark. One of the objectives of the project is to ensure the operating costs of the future services do not exceed those currently forecast within the Business Plan. It is currently expected that the new contract will produce savings on operating expenditure.
- 5.2 The capital cost of the associated procurement of the new equipment to support Crossrail is part of the Crossrail project budget.

6 Governance

- 6.1 For contract award a paper will be submitted through the appropriate governance channels up to the Board to gain the necessary approvals.

7 Recommendation

- 7.1 The Panel is asked to NOTE the paper.

8 Contact

- 8.1 Contact: Shashi Verma, Director of Customer Experience
Number: 020 3054 0709
Email: ShashiVerma@tfl.gov.uk