

Date: 17 July 2014

**Item 12: Revenue Collection System and Associated Services
Procurement**

This paper will be considered in public

1 Summary

- 1.1 This paper is to inform the Committee of the outcome of the procurement for revenue collection and associated services to replace those currently provided under the Future Ticketing Agreement (FTA) contract until August 2015.
- 1.2 The current contract provides the rail and bus front office devices (gatelines, validators, ticket vending equipment and their control systems), back office, and other services to support Oyster, contactless, ITSO and magnetic ticket retailing and acceptance across our services. Some services, such as communications networks and card procurement have been separated from the FTA contract and are now provided directly under separate contracts.
- 1.3 Under Standing Orders, the authority sought in this paper is reserved to the Board. On 26 March 2014 the Board delegated to the Finance and Policy Committee authority to approve any matter reserved to the Board from 4 July to 23 September 2014. Authority is requested ahead of the meeting of the Board on 24 September 2014 to align with the amended procurement process timetable. This amended timetable will allow entry into the new contract as soon as possible to enable planning of future activities.
- 1.4 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. Any discussion of that information must take place after the press and public have been excluded from this meeting.

2 Recommendations

- 2.1 **In accordance with authority delegated from the Board, the Committee is asked to note the paper and the supplementary information on Part 2 of the agenda and to:**
 - (a) **approve entering into the Revenue Collection and Associated Services Contract and ancillary documentation (“the Contract”) bidder A, and for the sum set out in the paper included on Part 2 of the agenda;**
 - (b) **delegate to the TfL Officers and the Subsidiaries (as described in paragraph 2.2 below) the authority to agree and finalise the terms of the Contract;**

- (c) authorise the agreement and execution (whether by deed or otherwise on behalf of TfL or any subsidiary (as appropriate)) of any documentation to be entered into in connection with the completion and implementation of the Contract and any of the matters referred to therein (including, without limitation, all agreements, deeds, guarantees, indemnities, property or other licences, announcements, notices, contracts, certificates, letters or other documents); and**
- (d) authorise TfL Officers and Subsidiaries to do all such other things as they consider necessary or desirable to facilitate the execution and implementation of the Contract and the matters referred to therein.**

2.2 The following Officers and Subsidiaries shall have delegated authority:

- (a) TfL Officers: the Commissioner, Managing Director Finance, Managing Director Customer Experience, Marketing and Communications, General Counsel and the Director of Customer Experience; and**
- (b) Subsidiaries: Subsidiaries of TfL including Transport Trading Limited and any other subsidiary (whether existing presently or to be formed) of Transport Trading Limited and any of the directors of the relevant company shall be authorised to act for and on behalf of that company.**

3 Background and Current Status

- 3.1 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 Transportation Systems Limited (Cubic), EDS International, Fujitsu and WS Atkins). The contract length was 17 years, finishing in August 2015. LRT's interest in the Prestige Contract was subsequently transferred to Transport Trading Limited (TTL) under a statutory transfer scheme.
- 3.2 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.
- 3.3 An option existed within the Prestige Contract to terminate the agreement in August 2010. From 2007 a review was undertaken into the Prestige Contract and how this would support a long term strategy for fare collection. That long term strategy was the Future Ticketing Project (FTP) which set out to reduce the cost of providing revenue collection services as quickly and as deeply as possible without affecting the level of service.
- 3.4 The first step was to exercise the termination option and put in place a new agreement that would address, among other things, the following issues:
 - (a) giving TfL full access to all intellectual property rights needed to operate the system and to run a competitive procurement;
 - (b) allowing TfL to use third parties or in house teams to provide services where this provided value for money;

- (c) providing for flexible hand back arrangements to allow for another party to take over the services; and
 - (d) providing for TTL ownership of the system assets and control of the money spent on refreshing these assets.
- 3.5 TTL entered into this new agreement 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 (but with handback provisions enabling TTL to require Cubic to continue to provide some or all of the services beyond that date).
- 3.6 The FTA enabled the delivery of operating savings through targeted investment in the automation of the monitoring and maintenance of the revenue collection system. This led to a reduction of the core operating cost of the contract by nearly 30 per cent in 2014/15 compared to the cost of the Prestige Contract.
- 3.7 At the same time, system performance was improved such that smartcard reader availability is currently at over 99.96 per cent and overall system-wide device availability at over 99 per cent on both rail and bus.
- 3.8 The flexible hand back provisions and the restructure, disclosure and deposit of all the intellectual property pertaining to the system provided the basis for the current procurement exercise, Electra.
- 3.9 Since 2009, successive deposits of intellectual property have been made and independently verified. The intellectual property has been organised and structured according to TfL’s specification and formed the core of the 50,000 documents made available in data rooms to bidders for the Electra procurement.
- 3.10 Intellectual property created since 2008, whether by TfL directly or by Cubic, is TfL’s property although Cubic has a right to a licence that they can use for sales elsewhere if royalties are paid to TfL. TfL has received £3m in royalties through this route to date.
- 3.11 In April 2011, TTL and Cubic agreed that, under the FTA hand back provisions, the supply of smartcards and fixed WAN services would be handed back to TTL in August 2013. All other ticketing services would be handed back in August 2015 with the ability to extend selected services beyond this date to assist in any transition to a new supplier.

4 Future Provision of the FTA Services, Project Electra

- 4.1 The Electra project 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.
- 4.2 The operating businesses were engaged to define the services required to meet these business requirements. The FTA and the services provided were 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.

- 4.3 This exercise led to seven main services being identified – front office services (customer facing), back office services, systems integration, WAN (Wide Area Network), data centre hosting, smartcard supply and retail network management.
- 4.4 Two of these, WAN and smartcard supply, are commodity services and were handed back under the terms of the FTA in August 2013. Separate procurement workstreams were undertaken in respect of these two service areas; a service contract was signed with Level 3 (WAN) and framework contracts were signed with ASK, Austria Cards, Gemalto and Exceet (smartcard supply) in 2013.
- 4.5 Forecast savings for the WAN contract, compared to provision under the FTA, are £383,000 per year (2014/15 prices). Work is underway to investigate the possibility of consolidating this network with other TfL networks after August 2016 as part of the future IM network strategy.
- 4.6 The Card Supply Framework has resulted in savings over the FTA costs. Based on future projections for smartcards, forecast cost savings are £2.96m per year (2014/15 prices).
- 4.7 Given the strategic procurement already undertaken by IM to create the TfL data centres, FTP back office equipment will be hosted within these.
- 4.8 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 the remaining services 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.
- 4.9 In-sourcing of the various packages was 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 TfL and the availability of these skills in the market, assembling and providing these skills in-house is a substantial task. It was also considered that this would only lead to an increase in cost. Consequently, this approach was not proposed for the Revenue Collection and Associated Services. However, those areas where TfL has specific skills are already being delivered in the development of the back office systems for the FTP.
- 4.10 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 approach on Fit for the Future following consultation with the trades unions. These services are within the scope of the Revenue Collection and Associated Services Contract but can be removed by exercise of a pre-agreed contract option without exposure to the normal termination overhead and lost profit costs.
- 4.11 Similarly an option exists in the contract to terminate bus Electronic Ticketing Machine services. This gives TfL flexibility in its future approach to the provision of bus services.

5 Procurement Process for Revenue Collection

- 5.1 The Revenue Collection and Associated Services Contract is a strategic contract. There are very 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 lost revenue indemnity, may work against consortia, particularly if they have no track record.
- 5.2 Furthermore the particular circumstances of the current supplier increased the challenge of creating genuine competition. Cubic has worked with TfL and its predecessor organisations for 30 years and therefore was seen by the market to be well embedded. The last time there was a competition for providing revenue collection services, the Prestige Contract, only one bidder submitted a final bid. Added to this, the current level of asset performance is in excess of comparative ticketing systems. For many traditional AFC suppliers there would have been a perception of significant risk in delivering the level of service which has been further enhanced under the Revenue Collection and Associated Services Contract.
- 5.3 The risk, therefore, was that we would receive only one bid for the Revenue Collection and Associated Services Contract. The procurement strategy was constructed to deal with two key points. First to maximise TfL's chances of getting at least one other bidder to bid for the contract; and second, if this was not successful, to minimise the opportunity for a single bidder to strengthen their position by being able to complete contract close quickly.
- 5.4 The high level solution was to spend time and resources helping new bidders understand our system and defining TfL's full contract requirements upfront to ensure that once bids were received the contract could be closed quickly.
- 5.5 During 2012 and the beginning of 2013, TfL engaged with all the possible players in the marketplace through a Prior Information Notice and face to face meetings in order to fully explain our approach to Revenue Collection and Additional Services as well as to seek the market's views. Potential bidders were informed of the actions previously taken by TfL to secure ownership of the intellectual property that underpins the system and the testing and restructuring of this intellectual property to aid future procurements.
- 5.6 An OJEU notice and pre-qualification questionnaire were published on 28 March 2013. The OJEU notice allowed 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 pre-qualified and were invited to take part in the next stage – "Phase 1" – by the issuing of an Invitation to Engage (ITE).
- 5.7 In parallel to this activity a full contract was developed. The intention being to have bidders bid on a contract that was capable of being entered into should they be successful. This would reduce the risk of a single bidder strengthening its position prior to contract close.
- 5.8 TfL leveraged its experience of managing fare collection contracts for the last 16 years, particularly the negotiation of the FTA contract and future plans for more integrated services, and created a complete new contract from the bottom up.

- 5.9 During the ITE stage, bidders were presented with this contract and attended six half day sessions where they were able to engage with relevant subject matter experts on all elements of TfL's requirements. They were also given extensive access to the data rooms containing over 50,000 documents relating to our system.
- 5.10 Bidders were invited to submit their comments on the draft contract. This feedback led to some amendments being made.
- 5.11 An Invitation to Tender (ITT) was issued to the three selected bidders on 3 February 2014. This initiated "Phase 2" of the procurement process. This included the full contract as amended.
- 5.12 The overall weighting was 70 per cent technical and 30 per cent financial, recognising the importance of service delivery for collecting more than £4bn worth of revenue a year. This was strengthened by the requirement that bids should meet a minimum threshold of confidence in the bidders' delivery plans in the following four areas: Transition, Service Operations, Service Process Management and Development. The bidders approach to Innovation was also assessed.
- 5.13 Once a bid had passed the minimum threshold, the score achieved for their technical submission would be reduced based on the level of mark up that appeared on the contract. No mark up of the contract would see no reduction in the score, minor changes would see a 10 per cent reduction and major changes 25 per cent reduction. This was intended to guide bidders to minimise changes to the contract reflecting our view that no mark up was necessary, following the opportunity afforded to bidders to comment on the draft contract in Phase 1. By reducing the need for bidders to provide significant mark ups, time and resource spent on contractual negotiations would be greatly reduced.
- 5.14 During the ITT period, Scheidt & Bachmann withdrew from the process. Bids were submitted from the remaining two bidders on 22 April 2014. For the purpose of maintaining confidentiality at this stage in the procurement process, the two remaining bidders will be referred to as "A" and "B".
- 5.15 A review of the submitted bids was carried out by subject matter experts who concluded that bidder A's submission represents the most economically advantageous tender in line with the evaluation criteria. Full details can be found in Part 2 of this paper.
- 5.16 Bidder A's Financial Model was fully evaluated and is compliant with TfL's requirements. All the technical elements of their bid have been evaluated and all meet TfL's minimum requirements. Accordingly, following a short period of discussion with bidder A to explore further areas of savings and contract improvement, it is proposed to award the Revenue Collection and Associated Services Contract to bidder A.
- 5.17 Following approval to award the Contract to bidder A, a contract award letter will be issued and – following the expiry of the standstill period – the Contract will be signed shortly thereafter. The transition activity from the FTA to the Revenue Collection and Associated Services Contract will take place from this date and will complete by August 2015 when the full terms of the Contract will come into effect and service delivery will commence.

- 5.18 In line with seeking best value and improved control, certain additional responsibilities will reside with TTL under the new Contract. These include acting as technical authority, enhancing reporting in line with the service strategy and setting the operational roadmap.

6 Organisational Changes

- 6.1 Taking the FTA as a starting point, certain services and risks are now being managed by TfL. This has been driven by value for money decisions and reflects the growing role that TfL is taking in setting the direction of development of the fare collection system.
- 6.2 The key areas affected are, technology development, technology assurance, contractual interface management, service monitoring and reporting, and analytics.

List of appendices to this report:

Exempt supplemental information is included in a paper on Part 2 of the agenda.

List of Background Papers:

Projects and Planning Panel – November 2012

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