

**Date Issued: 22 February 2022**

**Item: Expanding Pay As You Go on Rail in the South East**

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**This paper will be published with the next agenda**

## **1 Summary**

- 1.1 This paper sets out the request for Financial Authority and Programme and Project Authority required to expand Pay As You Go (PAYG) on Rail in the South East. All content reflects the latest known information at this stage of the project. Additional Programme and Project Authority will be sought for the latter years in subsequent submissions to the Committee.
- 1.2 This project is an initiative of the Department for Transport (DfT) to expand the acceptance of contactless PAYG to suburban rail services across South East England.
- 1.3 The DfT has selected Transport for London (TfL) as its preferred partner to implement the project. TfL will deliver the required PAYG solution, subcontracting the provision of on-station validation equipment to Cubic Transportation Systems Limited (Cubic), a provider of PAYG services to TfL under the existing Revenue Collection Contract (RCC).
- 1.4 The use of Chair's Action is considered appropriate due to the urgency of the programme to meet the Government's timetable for implementation by May 2024. To meet this challenging deadline, TfL needs to commence delivery as soon as possible in this financial year. This paper is being submitted outside of the planned meeting cycle for these reasons. The DfT is providing funding in line with these timescales.
- 1.5 Exempt supplementary information is included as an appendix to this paper.
- 1.6 The members of the Committee are asked to consider the proposal and provide Ben Story, as Chair, with their views on or before 12 noon on Thursday 24 February 2022. The contents of this paper and the exercise of Chair's Action will be reported to the next meeting of the Committee.

## **2 Recommendations**

- 2.1 **The Chair of the Committee, in consultation with Members, is asked to note the paper and the exempt supplementary appendix and:**
  - (a) **approve unbudgeted Financial Authority for the receipt and expenditure of grant funding from the Department for Transport**

**(DfT) of up to £61.77m for the remainder of financial year 2021/22 and financial years 2022/23 to 2026/27;**

- (b) approve Programme and Project Authority of £43.61m for remainder of financial year 2021/22 and financial years 2022/23 and 2023/24;**
- (c) note that Procurement Authority will be sought at officer level in accordance with Standing Orders; and**
- (d) note that Authority granted by the Committee which relate to both the current funding period to 2022/23 and commitments outside of this period, may need to be revised as part of future budgets to be considered by the Board. Provision will also need to be made in future Budgets and Business Plans in respect to commitments made. If additional funding is not available, a prioritisation of the TfL Investment Programme will be required and some programmes and projects will not be taken forward and revised authority will be sought as appropriate.**

### **3 Background**

- 3.1 In February 2019, the DfT undertook a public consultation on expanding PAYG on rail outside London. Upon request from the DfT, TfL submitted Rough Order of Magnitude (ROM) costs and an outline customer proposition for the project, covering the acceptance of PAYG using contactless payment cards as well as enabling concessions and discounts to be supported. These deliverables were submitted to DfT in August 2019.
- 3.2 Following publication of the Williams-Shapps Plan for Rail in May 2021, the DfT settled on an expanded geography that will see around 233 stations upgraded to accept contactless payments. The contactless payment system will need to seamlessly integrate with the existing TfL/Train Operating Companies' (TOCs) Contactless area to allow customers to travel to/from London using a single tap in/tap out with their bank card. The project requires a technical solution that can be deployed and integrated successfully within the existing operating environment to achieve the DfT's required objectives.
- 3.3 Funding for the project was granted by HM Treasury as part of the Comprehensive Spending Review (CSR) in October 2021. DfT subsequently published a Voluntary Transparency Notice (VTN) informing the market of its intention to grant funding to TfL for the delivery of the project. The VTN was published on 10 December 2021 and expired at midnight on 10 January 2022, without comment or challenge.
- 3.4 Following the allocation of funding in the CSR and the completion of the VTN process, DfT has requested that TfL commence the project. The Government's timetable for implementation requires the majority of the extension stations to be delivered by May 2024, with extension of PAYG to all stations to be complete by the end of 2024.

- 3.5 Maintaining the DfT's ambitious schedule is of paramount importance and, as such, TfL's project team are working to ensure all required internal governance requirements are met, expediting the process(es) wherever possible. This paper is being submitted to the Committee separately from the annual Technology and Data Programme annual approvals submissions for this reason.
- 3.6 Approval was granted (subject to Mayoral approval) to recruit the additional roles required to deliver the project in January 2022.

## **4 Scope**

- 4.1 TfL's delivery of the project is split into two distinct deliverables. The funding granted in the CSR in October 2021 covers both deliverables.
- 4.2 Deliverable 1 (D1): the geographical expansion of full-fare, Adult PAYG travel using "open loop" (issued by financial institutions) contactless payment cards and mobile devices across the South East, fully integrated with TfL's existing scheme.
- 4.3 Deliverable 2 (D2): further development of the D1 functionality to provide discounted PAYG travel for National Rail concessionary customers.
- 4.4 Any expansion or development of TfL's existing Oyster system is out of scope, however, acceptance of ITSO smartcards that are otherwise mandated by the DfT is required at those stations with the expanded PAYG area.

## **5 Risks**

- 5.1 There are also some key risks which will be closely managed and mitigated during the project, as set out in the exempt appendix.

## **6 TfL and DfT Agreements**

- 6.1 Expansion of PAYG across the South East will be entirely funded by DfT. A Memorandum of Understanding (MOU) and an Initial Grant Funding Agreement (GFA) will be put in place.
- 6.2 TfL is currently in negotiations with the DfT to finalise the specific terms of the IGFA and MOU but the delivery of the project should be at zero cost and financial risk to TfL; this includes all internal and external costs.
- 6.3 The DfT's Outline Business Case and request for the initial grant funding was approved at its Rail Investment Board on 25 January 2022. Following Ministerial approval, the grant will be made directly to TfL in accordance with the Railways Act 2005.
- 6.4 Further GFA(s) will be agreed to cover the remainder of the project. This is expected to be finalised in Summer 2022. Further additional funding will then be paid to TfL at agreed intervals in advance of spend throughout the remainder of the project. The sums to be paid will be in-line with TfL's latest,

evolving project forecast. TfL will not be required to provide a Firm Fixed Price (FFP) to the DfT for the full delivery of the project. Further agreements with DfT/relevant train operators akin to the PAYG/CPAY arrangements will also be needed in due course.

## **7 Delivery Programme**

- 7.1 The Government's timetable for implementation requires the majority of the extension stations to be delivered by May 2024, with extension of PAYG to all stations to be complete by the end of 2024.
- 7.2 The current programme splits delivery of the 233 stations into two phases:
  - (a) initial phase – 53 stations; and
  - (b) main phase – 180 stations.
- 7.3 Both DfT and TfL are aiming to complete a significant number of the initial 53 stations in calendar year 2022 (with any remaining initial stations completed by the end of financial year 2022/23).
- 7.4 These stations have been selected as an early deliverable due to validation equipment already being installed at the stations and the existing fares structure. While both will require some enhancement for PAYG services to commence, the work required to expand contactless acceptance is similar in scope and complexity to a number of previous PAYG extensions that TfL has successfully completed at locations including Epsom, Luton Airport Parkway, and as part of the Elizabeth line readiness, at Reading.
- 7.5 The rollout schedule for the stations included in the main phase of the project will be discussed and agreed between DfT, TfL, Cubic and the TOCs as the project progresses.
- 7.6 The project team has commenced initial engagement with TfL's Project Assurance team. No formal assurance activities have been undertaken at this early stage due to the speed of recent developments and the current lack of maturity in project documentation.
- 7.7 TfL's Pathway methodology will be followed for the project, with standard assurance activities planned to commence in summer 2022. The early project mobilisation activities planned ahead of formal assurance commencing – including stations surveys, procurement of some long-lead time validation equipment and recruitment – are well understood, low-risk activities that have been undertaken on previous projects.
- 7.8 If the Committee approves the authorities requested in this paper and, subject to internal governance reviews, it is anticipated TfL will sign the MOU and initial GFA to formally commence the project by late February 2022.

**List of appendices to this report:**

Appendix 1: Proposed station list (Exempt until future press release(s))

Appendix 2: Proposed expanded PAYG area map (Exempt until future press release(s))

Appendix 3: Exempt supplementary information

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