

Date: 22 June 2022

Item: Revenue Collection Contract Extension

This paper will be considered in public

1 Summary

- 1.1 The Revenue Collection Contract (RCC) was let to Cubic Transportation Systems Limited (Cubic) in August 2014, with an initial term of seven years commencing in August 2015 and expiring in August 2022. In September 2017, TfL exercised its option to extend the RCC for a period of three years until August 2025. In order to plan and deliver the replacement of the RCC (under a project referred to as Proteus) in an orderly and prudent manner, in particular to manage the various contingent factors that will affect market engagement and potentially bidder solutions, it is now proposed that the RCC is extended by a further year to August 2026. The Committee's approval is sought for that extension.
- 1.2 A paper is included on Part 2 of the agenda, which contains exempt supplementary information. The information is exempt from publication by virtue of paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL and information which is legally privileged. Any discussion of that information must take place after the press and public have been excluded from this meeting.

2 Recommendations

- 2.1 **The Chair, in consultation with the Committee, is asked to note the paper and the supplementary information in Part 2 of the agenda and:**
- (a) approve additional Procurement Authority at the amounts set out in the supplementary paper on Part 2 of the agenda for the extension of the revenue collection contract, as described in this paper; and**
 - (b) note that, as extended, the revenue collection contract will have a duration beyond the end of the current TfL Budget, future Business Plans and Budgets will need to provide for the remaining years of operation.**

3 Background

- 3.1 The RCC provides the front office devices (gates, validators, vending equipment, docking stations and their associated control systems), back office and other services to support Oyster, contactless payment, the national "ITSO" smartcard scheme, magnetic tickets and Cycle Hire rentals. Service performance overall has been good throughout the contract.

- 3.2 Today, 75 per cent of TfL's public transport revenue is collected from customers using pay as you go on either contactless or Oyster, and this figure is growing over time. This means that the card reader used by customers to record their journeys is a critical element of the systems maintained by the RCC. This is especially the case on buses where, if the reader is unavailable, there is a direct impact on TfL revenue.
- 3.3 The current readers were installed around 2010 and are now reaching the end of their design life. A project to replace the reader is currently progressing through TfL governance steps, with the business case based on modelling that shows a significant risk of revenue loss on the bus network if action were not taken within the life of the RCC.
- 3.4 One of the salient contingent factors that we are seeking to manage with this extension is the ongoing programme for replacing the card readers. Recent developments mean that the absence of an extension to the RCC would likely jeopardise the competitiveness of the Proteus tender to replace the RCC.
- 3.5 Potential bidders for the RCC successor contract have been asked to assume that they will inherit a new, stable reader on buses, with there being various options for the installation of the less time-critical rail element of the project. This position was based on an early programme for the reader replacement project showing completion of a roll out on buses by July 2025.
- 3.6 Over recent months, due to various factors (including the component supply difficulties arising from the war in Ukraine) it has become apparent that the July 2025 date is not achievable. Taking into account the new information regarding component lead times, TfL is now working with a revised programme targeting completion of the replacement of the bus readers by June 2026.
- 3.7 The contract being proposed under project Proteus to replace the current RCC requires bidders to take responsibility for the operation of our revenue collection systems, including contactless and Oyster. The Oyster system is proprietary to Cubic, although we have full rights to use and modify the system. Through early market engagement, we understand that while there is appetite from potential bidders to operate the revenue collection system, one of the key elements of the future contract is a migration away from the bespoke technology currently used for Oyster, which is approaching 20 years old. Feedback through the early market engagement for Proteus indicates that potential bidders would like to do this as quickly as possible to de-risk the delivery of the services for them.
- 3.8 It is important to the Proteus competition to ensure that we have a demonstrably working reader that the successful bidder can inherit and operate. Any alternative approach would require the Proteus bidders to fully familiarise themselves with the extensive Oyster software before being able to deliver an alternative reader. As well as increasing risk for the bidders, this would likely dampen competition and/or make it more difficult to provide a level playing field for all bidders in the Proteus procurement.
- 3.9 Therefore, the consequences of attempting to transition to a new supplier without a new, stable reader on buses would likely be damaging to the market's appetite for the RCC replacement tender, as non-incumbent bidders would likely struggle

to assess the revenue risk we will be allocating to them (75 per cent of revenue comes through the reader directly due to the demand for pay as you go travel). Furthermore, TfL would face a significant additional risk of revenue loss through an extended programme.

- 3.10 The additional time would also increase competitiveness by allowing Proteus bidders more time and greater interaction with TfL in relation to the current RCC systems (and Cubic's underlying technology), affording TfL more flexibility when shaping key stages of the Proteus procurement programme and de-risking the transition of the services from RCC to Proteus.
- 3.11 It is proposed that TfL enters into a one-year extension to the RCC and the terms proposed are considered reasonable and value for money in the circumstances. In order to maintain the RCC position in relation to RCC asset management and associated risk allocations between TfL and Cubic, this one-year extension requires that TfL funds a number of additional asset health projects for assets that would otherwise reach the end of their useful life between August 2027 and August 2028. This expenditure would be required with a replacement supplier if the one-year extension was not agreed, as asset health would still need to be addressed.
- 3.12 For the purpose of calculating the required level of Procurement Authority, there are a number of business developments and routine works, which will result in adjustments to the revenue collection services during the current term and will extend into the extension period. These initiatives do not currently have detailed requirements, plans or forecast charges and so have not been presented with specific costs, however, the total estimated expenditure is set out in the paper on Part 2 of this agenda. Procurement Authority is being sought now for these initiatives, but any expenditure will be drawn down in line with TfL's financial controls.

4 Financial Implications

- 4.1 Details of the financial implications of the proposal are provided in the paper on Part 2 of this agenda.

List of appendices to this report:

A paper containing exempt supplementary information is included on Part 2 of the agenda.

List of Background Papers:

None

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