

Date: 6 October 2022

Item: **Connect Contract Extension**

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## **This paper will be considered in public**

### **1 Summary**

- 1.1 The purpose of this paper is to seek the Committee's approval of authorities to extend the Connect Contract delivering London Underground's digital radio and transmission system for a further three years (to 21 November 2026).
- 1.2 A paper is included on Part 2 of the agenda which contains exempt supplementary 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 financial or business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from the meeting.

### **2 Recommendation**

- 2.1 **The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda and:**
- (a) **grant additional Procurement Authority of £115.7m (giving a total Procurement Authority of £392.6m) to extend the Connect Contract for three years, to provide operational and maintenance support and project delivery services;**
  - (b) **grant additional Programme and Project Authority of £115.7m (giving a total Programme and Project Authority of £354.1m) to extend the Connect Contract for three years; and**
  - (c) **note that, as extended, the Connect 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**

#### **The Connect Contract**

- 3.1 London Underground (LU) and Citylink Telecommunications Limited entered into a 20-year Private Finance Initiative (PFI) contract in November 1999 for a TETRA-based digital radio and transmission system (the Connect System). The PFI expired on 21 November 2019.

- 3.2 In September 2018, LU entered a new contract with Thales Ground Transportation Services Limited (Thales) to provide operational, maintenance and project delivery services for the Connect System (the Connect Contract).
- 3.3 The Connect Contract provides for an initial four-year term to 21 November 2023 (the Initial Term) with the option for LU to extend for a further three years to 21 November 2026 (the Extended Term). Notice to exercise this option must be issued by LU by no later than 21 November 2022.
- 3.4 The Connect Contract delivers three key types of service to LU:
- (a) day-to-day operational support and maintenance of the Connect System (including Airwave);
  - (b) delivery of project works, which primarily comprise changes required to the Connect System to reflect changes within the Underground estate e.g. station modifications and line extensions; and
  - (c) a series of upgrade projects which will collectively keep the TETRA radio element of the Connect System at supportable levels of hardware and software, thereby ensuring the ongoing operational stability and security of this critical service.
- 3.5 Approval to enter into the Connect Contract was granted by the Committee in July 2018. Specifically, this approval was in relation to the initial term only. While an extended term was anticipated, as set out in the paper to the July 2018 meeting of the Committee), the intention was for LU to seek approval for that extension once further work had been carried out on our TETRA radio roadmap and strategy.

### **TETRA Radio Roadmap and Strategy**

- 3.6 The main considerations when deciding whether or not we should continue to invest in the Connect System are:
- (a) the likely longevity of TETRA radio and the TETRA technology roadmap; and
  - (b) wider industry trends and the likely timescales for alternatives to TETRA radio (such as Long Term Evolution cellular, and Future Railway Mobile Communication System) to become cost-effective, viable alternatives.
- 3.7 Our own analysis, supported by an external assessment by PA Consulting, concluded that we should retain the TETRA radio system and supporting infrastructure for up to 15 years (to around 2035).
- 3.8 The key reasons supporting this conclusion were that industrialised alternatives to TETRA radio will not be available until the late 2020s, after which it will take at least a further five years to migrate all LU services. Sweating these assets until 2035 also maximises the significant investments (more than £1bn) that we have made in the Connect System over the past 22 years.

## **4 Future Investments**

- 4.1 To prepare the Connect System for up to 15 years of further operation, investment is required to deliver a Connect System that complies with Motorola's TETRA radio architecture and which can accordingly be upgraded (both hardware and software) by Motorola as part of our service agreement.
- 4.2 An approved and funded programme of capital works is already in-flight to upgrade various elements of the TETRA radio system to extend its useful life to the mid-2030s. This programme of works is due to complete in June 2023.
- 4.3 In addition to the various required TETRA radio upgrade projects already in-flight, additional (currently unapproved) capital investment will be required in the period up to 2026 to similarly protect (through a technology refresh) the ongoing availability of the below-ground data network services that underpin (and are a key dependency for) the TETRA radio system. Approval for any such further capital investment will be sought separately.

## **5 Procurement Approach**

- 5.1 As set out earlier in this paper, in relation to the Connect System there is a need to deliver three key services to LU; ongoing day-to-day support and maintenance, ongoing delivery of business as usual (BAU) capital project works and delivery of a series of Connect System upgrade projects.
- 5.2 The Connect Contract provides an option for LU to extend the initial term for a further three years to 21 November 2026. This approach is compliant with the Utilities Contracts Regulations 2016 as it was an anticipated need that was included in the Connect Contract and the Voluntary Ex Ante Notice published in the Official Journal of the European Union on awarding the Connect Contract to Thales.
- 5.3 Delivery of BAU capital project work needs to be closely aligned with day-to-day support and maintenance services, as projects are typically implemented on live, operational services (and can accordingly impact Connect service levels if implemented poorly). This makes it extremely likely that these two ongoing service requirements will continue to be satisfied by a common insourced or outsourced entity on expiry of the Connect Contract.
- 5.4 The current planning assumption is that we will continue to outsource BAU capital project delivery and day-to-day support and maintenance on expiry of the Connect Contract. Given the size and complexity of the Connect System, a full re-tender of these services will take 2.5 years to prepare and complete. Allowing for 12 months of transition to a potential new supplier (which needs to complete before the end of the extended term i.e. November 2026), we need to begin the procurement process no later than April 2023. This means that the full three years of the extended term of the Connect Contract will be required.
- 5.5 The assumption that the ongoing outsourcing of these services will continue to deliver best value to LUL will be validated through a piece of strategy work that will be completed in parallel with the early stages of the re-tendering process, and complete by November 2023. In the event that this strategy work concludes that insourcing is the most beneficial option, the full three years of the extended term

will still be required in order to establish the required capability (staffing, tooling etc) within TfL prior to commencement of the 12-month transition programme.

**List of appendices to this report:**

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

**List of Background Papers:**

Finance Committee paper, Connect PFI Transition, 4 July 2018

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