

**Date Issued:** 1 March 2023

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

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

### **1 Summary**

- 1.1 This paper sets out the request for unbudgeted 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. Funding is currently agreed for the current scope but as the project evolves there may be a requirement to seek approval for currently unfunded scope changes.
- 1.2 The project was previously presented to the Committee by Chair's Action in February 2022.
- 1.3 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,
- 1.4 A paper is included on Part 2 of the agenda which contains exempt supplementary information. The information is exempt by paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL and contractors. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

### **2 Recommendations**

- 2.1 **The Committee is asked to note the paper and exempt supplementary information on Part 2 of the agenda and:**
  - (a) **approve unbudgeted Financial Authority for the receipt and expenditure of grant funding from the Department for Transport of up to £68.67m for the remainder of financial year 2022/2023 and financial years 2023/24 to 2024/25;**
  - (b) **approve Programme and Project Authority of £68.67m for remainder of financial year 2022/23 and financial years 2023/24 and 2024/25; and**
  - (c) **note that Procurement Authority will be sought at officer level in accordance with Standing Orders.**

### **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, Transport for London (TfL) submitted Rough Order of Magnitude 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 and from London using a single tap in and tap out with their payment 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 The DfT has selected 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. TfL has named this project, Project Oval.
- 3.4 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.
- 3.5 Following the allocation of funding in the CSR and the completion of the VTN process, DfT has requested that TfL commence the project. The initial 52 stations are to be completed by December 2023 and a date is still to be agreed for the remaining 181 stations.
- 3.6 As the project is externally funded, it sits outside the Technology and Data budget. It was excluded from the 2022 Business Plan and therefore was excluded from the Budget approved by the Board in December 2022 due to ongoing uncertainty about the DfT's commitment to proceeding. This has now been resolved.
- 3.7 Approval was granted 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 Phase 1 of Deliverable 1.

- 4.2 Deliverable 1 (D1) is 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) is further development of the D1 functionality to provide discounted PAYG travel for National Rail concessionary customers.
- 4.4 As a result of the Chancellor’s Autumn Statement, the DfT is currently reviewing the funding commitments for Phase 2 of Deliverable 1 and Deliverable 2. Both of these are expected to proceed and the DfT will aim to provide clarification of funding over the coming months.
- 4.5 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 The key risks for the project, which will be closely managed and mitigated, are set out in the related paper on Part 2 of the agenda.

## **6 TfL and DfT Agreements**

- 6.1 Expansion of PAYG across the South East will be entirely funded by DfT.
- 6.2 A Memorandum of Understanding (MOU) and two Initial Grant Funding Agreements (GFA) were put in place to cover the initial £12m provided to TfL to mobilise on the project.
- 6.3 A Main Works Agreement (MWA) is currently being finalised between TfL and the DfT. The MWA sets out the funding model, milestones, and key principles of delivery for the remainder of the project.
- 6.4 Further GFA(s) will be agreed to cover the remainder of the project. This is expected to be finalised in the first quarter of 2023. 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 latest forecast.
- 6.5 Further agreements with DfT and relevant train operators, similar to the PAYG and Contactless Pay As You Go agreement arrangements, will also need to be put in place prior to the go live planned for the end of 2023. DfT has instructed the TOCs via the Rail Delivery Group to lead on this.

## **7 Delivery Programme**

- 7.1 The current programme splits delivery of the 233 stations into two phases:
- (a) initial phase – 52 stations; and
  - (b) main phase – 181 stations.
- 7.2 Following the Chancellor's Autumn Statement, both DfT and TfL are aiming to complete all of the initial 52 stations by December 2023.
- 7.3 The 52 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.
- 7.4 A delivery date for the main phase stations will be agreed with DfT once funding is confirmed. Prior to confirmation of full funding by the DfT, any preparatory work for this phase will only proceed if agreed with and underwritten by the DfT.
- 7.5 The rollout schedule for the stations included in the main phase of the project will be discussed and agreed between the DfT, TfL, Cubic and the TOCs as the project progresses.
- 7.6 TfL's Pathway methodology is being followed for the project.
- 7.7 It is anticipated TfL will sign the MWA which sets out the grant funding for the remainder of the project by April 2023.
- 7.8 Under the terms of the MWA, the DfT will make several grant payments to TfL. The grant payments will be made to TfL in advance of spend so that, at no time throughout the remainder of the project, will TfL be required to utilise any of its own funds for the project.
- 7.9 TfL will be cost neutral in the delivery of Project Oval. This applies to both capital expenditure and operating costs. All operating costs will be recovered through service charges paid to the TOCs. The DfT has agreed to this key principle, which is clearly stated in the MWA.

## **8 Assurance**

- 8.1 Project Assurance conducted an interim Project Assurance Review in November and December 2022.
- 8.2 Through the Project Assurance Review, and IIPAG's report, seven issues and recommendations were made.
- 8.3 We responded to these on 22 December 2022, and we have started

working on the actions outlined in our Management Response.

**List of appendices to this report:**

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

**List of Background Papers**

Chair's Action paper, issued 28 February 2022, Expanding Pay As You Go on Rail in the South East

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