

Date: 27 September 2017

Item: Revenue Collection Contract Extension

This summary 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, and has an initial term of seven years commencing in August 2015 and expiring in August 2022. TfL can, at its sole discretion, exercise an option to extend the RCC for a period of up to three years until August 2025. It is proposed that this option is exercised and that the RCC is extended by three years (the Extension) in return for discounts and rebates to be provided from October 2017 to August 2025 inclusive.
- 1.2 There are also a number of business developments and routine works, which will result in adjustments to the revenue collection services during the initial term and Extension period. These programmes are likely to include projects such as those described in paragraph 3.5 of this paper. 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. Financial and Procurement Authority is being sought now for these initiatives, but it is proposed that implementation of each one is subject to approval from the Commissioner or the Chief Finance Officer, and any expenditure will be drawn down in line with TfL's financial controls.
- 1.3 Under Standing Orders, the authority sought in this paper is reserved to the Board. On 19 September 2017 the Board delegated to the Finance Committee authority to approve those matters reserved to the Board in relation to any extension of the RCC.
- 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 Recommendation

- 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 the extension of the Revenue Collection Contract (RCC) for a further three years;**
 - (b) **grant additional Financial Authority as set out in the paper included on Part 2 of the agenda;**

(c) grant additional Procurement Authority as set out in the paper included on Part 2 of the agenda:

(i) to enter into a variation to the RCC to effect the extension; and

(ii) to cover any additional business initiatives as generally referred to in the paper, noting that the release of such authority will be subject to the approval of the Commissioner or the Chief Finance Officer; and

(d) in respect of the operating cost of the RCC, note that:

(i) there is sufficient Financial Authority in the current TfL Business Plan up to March 2023; and

(ii) as the term of the RCC (as extended) will have a duration beyond the end of the current Business Plan, future Business Plans 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, the national "ITSO" smartcard scheme, magnetic tickets and Cycle Hire rentals.

3.2 The RCC was let following a complex sequence of events between 2007 and 2014 including a Private Finance Initiative (PFI) termination, acquiring the rights to all of the key intellectual property in the service software and hardware, and introducing increased flexibility for TfL to use in house teams or third parties to provide services where this delivered better value for money. The combined effect of this strategy and the competitive tender process conducted in 2012 to 2014 was to reduce annual service costs by around 50 per cent. This saving was achieved against a background of rising passenger numbers, and also while significant increases in service quality were delivered. For example, the average availability of London Underground (LU) station assets increased from around 97.5 per cent in 2007 to 99 per cent in 2017.

3.3 Through the RCC, Cubic has also supported TfL's strategy for reducing the overall cost of revenue collection. Starting from a base of nearly 15 per cent of revenue being spent on collecting it in 2005 and 2006, this proportion has now reduced to approximately 9 per cent. Further reductions are due based on current changes, such as the Oyster app and extending weekly capping on Oyster.

3.4 Overall service performance is good, although it should be noted that Cubic has had to implement a remedial plan in relation to bus reader reliability in early 2017.

3.5 In addition to the annual service costs, a large amount of project work, to support various TfL developments, is also instructed under the RCC. Examples of this type of expenditure include:

(a) equipment installation and moves, eg for Elizabeth line;

- (b) support for operational strategies, eg cycle hire integration and the “Fit for the Future – Stations” initiative;
 - (c) development of various systems to support new developments, e.g. contactless payment;
 - (d) delivery of Mayoral commitments, most recently “Bus Hopper”; and
 - (e) initiatives to maintain the long term stability of TfL’s revenue collection systems such as the new Oyster and contactless card reader.
- 3.6 Although the RCC delivered significant savings, TfL challenged Cubic in mid 2016 to explore whether any way could be found to reduce costs further. This led to the proposal for TfL to exercise the Extension in return for a reduction in charges and a new volume related discount for project work that would apply on an escalating scale in years where spend on such projects was large.

4 Financial Implications

- 4.1 The terms of the proposed Extension are contingent on agreement being reached before 30 September 2017.
- 4.2 The proposals produce a guaranteed cost reduction (throughout the remaining life of the RCC) which is equivalent to a saving of 7.5 per cent of predicted service costs during the Extension. Further cost reductions may be achieved through the volume related discount mechanism for project work.
- 4.3 The alternative is for TfL to retender the RCC and award a new contract in 2022. Based on the last procurement exercise, the new tender would have to be launched in 2019.
- 4.4 The tendering process for the RCC highlighted that TfL had a particularly demanding set of requirements associated with revenue collection that combine to limit the number of organisations able to demonstrate the required technical capability. It is likely that developments in fare collection will lead to a more mature market, but this is expected to take more time. The Extension would also postpone the significant cost of running a competitive tender process.

List of appendices to this report:

Supplementary exempt information is attached to Part 2 of the agenda.

List of Background Papers:

None

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