

Annual General Meeting of Rail North Ltd

Meeting date: 08/02/2018

Item: 10

Subject: Smart Ticketing

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1. Purpose of report

- 1.1. To seek approval for Rail North Ltd to enter into contractual arrangements in relation to TfN's Smart and Integrated Travel project on rail services throughout the North.
 - This will enable Rail North Ltd to act as funding agent for TfN to Northern and TransPennine Express (TPE) until the Statutory Transport Body (STB) is established as an entity in April 2018.
- 1.2. TfN submitted a Full Business Case (FBC) to DfT for approval to deliver the ITSO on Rail (IoR) Scheme (Tranche 1). This activity looks to facilitate certain rail smart ticketing initiatives aligned to the objectives of the DfT, as part of its long-term vision for multi-modal smart ticketing in the North.
- 1.3. This business case was approved by the Secretary of State on the 16th October 2017, with £18.46m funding (inclusive of contingency) being made available to the project under a multi-year funding letter from DfT. This funding is provided via the GMCA (who provide banking functions on behalf of TfN) to Rail North Ltd to cover the financial commitments to be entered into by Rail North Ltd on behalf of TfN.
- 1.4. The IoR project looks to facilitate the means of providing Seasons, Flexi Seasons and Single and Return retail products on ITSO based smart media for the Northern, TPE and Merseyrail train operator companies (TOCs). The scheme involves equipment upgrades and the installation of additional station equipment assets, all of which are a precursor to TfN's ambition to deliver a regional Back Office Account Based ticketing system on all public transport modes throughout the North.
- 1.5. TfN has worked collaboratively with Northern and TransPennine Express TOCs to establish a form of agreement via a Franchise Side Agreement (FSA) and has progressed this process in partnership with the DfT, and Rail North Partnership.
- 1.6. As a shadow statutory body, TfN requires the assistance of Rail North Ltd to enter into the FSAs on its behalf until such time as it is appropriate for the agreements to be transferred across to TfN once it has been established in April.
- 1.7. The Business Case approach for IST was endorsed by the TfN Partnership at its meeting in Hull on the 14th September 2017, following which the Secretary of State provided approval to proceed with the implementation of the 'ITSO on Rail' Project. The TfN Commissioning Board gave approval in October 2017 to proceed with executing the FSAs.

2. Recommendations

This paper requests that Rail North Ltd approve the:

- 2.1. Signing of the Northern Franchise Side Agreement;
- 2.2. Signing of the TPE Franchise Side Agreement; and,
- 2.3. Enter into a funding agreement with Greater Manchester Combined Authority, to allow that body to reimburse Rail North Ltd for all costs incurred on behalf of TfN under the Franchise Side Agreements from the funding agreement they have on TfN's behalf with DfT.

Rail North Ltd are asked to note that:

- 2.4. a funding agreement exists between GMCA on behalf of TfN from DfT to allow for the transfer of resource from government to TfN's accountable body, GMCA.
- 2.5. it is recommended that any approval to sign the FSAs are contingent on Rail North Ltd receiving the signed funding agreement from GMCA.

3. Information

Background

- 3.1. Transport for the North (TfN) has been working on the delivery of three workstreams within the Integrated and Smart Travel (IST) programme, these include:
Tranche 1 – ITSO on Rail
Tranche 2 – Customer Information and Innovations
Tranche 3 – Account Based Back Office Travel (ABBOT)
- 3.2. To facilitate the delivery of these schemes TfN developed business cases submitted to the DfT requesting approval to release funding to support the delivery of the schemes.
- 3.3. The TOC FSAs append to Schedule 5.9 paragraph 1.4 of the Franchise Agreements.
- 3.4. DfT through the Rail Investment Board have approved the funding of the ITSO on Rail project. The value of the two TOC agreements is £14.2m (including contingency), consisting predominantly of capital expenditure, but including some revenue expenditure for support to operators. This approval covers the following:
 - Ensuring all ticket vending machines at Stations can retail Smartcard Season Tickets.
 - Ensuring all ticket offices at Stations can retail and issue Smartcard Tickets.
 - Ensuring that the Franchisee's website can retail Smartcard Season Tickets.
 - Promote the use of Smartcard Season Tickets to customers.
 - Provide staff with hand-held ticket inspection and validation capabilities.
 - Ensuring automatic ticket gates at stations can accept Smartcard tickets.
 - Provide Project management to conduct the activities of the programme.
 - Install Platform Validators at primary stations.

Financial Implications

3.5. The Financial implications are set out below:

- In signing the FSAs, Rail North Ltd would be committing itself to paying for the costs of the aforementioned activity up to a value of £14.2m (Revenue and Capital expenditure, and includes contingency), however these agreements will be transferred across to TfN upon it being established as an STB.
- Rail North Ltd would facilitate the funding commitments for 2017/18 of a value of £3.33m (Capital Expenditure).
- Costs would be paid by Rail North Ltd to recipients based upon a milestone output system (the payment mechanism process). This process would be managed by project managers from within TfN, directly collaborating with Rail North Ltd officers.
- Current cost profiles show that expenditure will be incurred over financial years 2017/18, 2018/19, 2019/20, 2020/21 and be split between revenue and capital expenditure. Although Rail North Ltd would be involved in the initial agreements for all activity, it would only be obligated to the expenditure incurred before the responsibilities are transferred to TfN:

Partner	2017/18	2018/19	2019/20	2020/21	Total
	£m	£m	£m	£m	£m
Capital Expenditure					
Northern	£2.26m	£4.56m	£0m	£0m	£6.82m
TPE	£1.07m	£2.03m	£0m	£0m	£3.10m
Revenue Expenditure					
Support to TOCs	£0m	£1.64m	£2.13m	£0.49m	£4.26m

All figures quoted above are gross (excluding VAT), inclusive of contingency (contingency includes both 'allocated' as per the FSA and 'unallocated' contingency. The contingency will only be released in line with the provisions of the FSAs.

- This paper proposes that Rail North Ltd enter into a funding agreement with GMCA for the reimbursement of costs. It is proposed that this funding agreement takes the substantive form and legal character of the agreements currently in place between WYCA and GMCA for associated TfN activity, subject to revisions to reflect the need for Rail North Ltd to be placed in funds prior to releasing payment to the TOCs.
- Finally, it is proposed that Rail North Ltd would as part of the business transfer agreement into TfN transfer the FSAs along with its other commitments to TfN following that body becoming an STB. Legislation has been passed to enable TfN to assume Statutory Body status on the 1st April 2018, meaning Rail North Ltd would be asked to commit to the contracts as a minimum for the final months of this financial year, critical to allow progress to be made with delivery. On transfer of the agreements, Rail North Ltd will be released from all ongoing obligations.

Legal and Compliance Implications

3.6. The Legal and Compliance implications are set out below:

- TfN Partnership Board endorsed the IST Business Case in September.
- TfN full business case for tranche 1 was approved by SoS.
- TfN Commissioning Board gave approval in October 2017 to execute the FSA's.
- Greater Manchester Combined Authority are the accountable body for TfN resource. It is proposed the standard funding agreement template between GMCA and WYCA is used, as the basis to allow for TfN resource to be transferred to Rail North Ltd for reimbursement of costs incurred on its behalf.
- TfN have also worked with DfT Legal and Rail North Partnership to review the provisions of the scheme and the legal construction of the agreements to ensure that these are aligned to the provisions of governance for administration.
- TfN can confirm they have the necessary and appropriate resources in place to undertake the activities placed upon TfN as stated within the Northern and TPE Side Agreement. There are no obligations on Rail North Ltd to provide resources to fulfil obligations placed upon TfN within the Side Agreement.
- This paper is being submitted following SoS approving Tranche 1 FBC (received Oct '17, and finalisation of the FSA (with Northern and TPE) (completed Jan '18). Timescales for delivering this project are challenging, the SoS requires the Rail Industry to offer an alternate to mag stripe ticketing by December '18. However, a delay in receiving SoS approval (anticipated receipt Summer '17) has shortened this delivery period, creating an even greater challenge.

Staffing implications

3.7. The specific requirements as a result of this report are that there are no direct employment issues to consider, employment of resources are based on a consultancy and secondment basis and therefore there is no additional head count considerations.