



## WMCA Board Meeting

<b>Date</b>	8 September 2017
<b>Report title</b>	Contactless Payment & Best Value Ticket Machines
<b>Portfolio Lead</b>	Councillor Roger Lawrence - Transport
<b>Accountable Chief Executive</b>	Keith Ireland, Managing Director, City of Wolverhampton Council & Monitoring Officer for West Midlands Combined Authority
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<b>Report to be/has been considered by</b>	Strategic Transport Operators Group - 14 August 2017 WMCA Management Board - 17 August 2017 WMCA Programme Board - 25 August 2017

### Recommendation(s) for action or decision:

#### The WMCA Board is recommended to:

- (1) Agree to borrow £1.7m to purchase ticket machines to lease to bus operators at cost, to ensure that contactless payment and best value capping is available for all customers and therefore across all bus operators.
- (2) Agree that TfWM amends its tendered bus service contracts to mandate the requirement that all future services providers must have contactless payment and best value capping enabled ticket machines.

## **1.0 Purpose**

- 1.1 The purpose of this report is to highlight the issue that without intervention and support, not all bus operators will acquire the required ticket machines to enable a complete and integrated solution for contactless payment and best value capping.
- 1.2 The further purpose of this report is to gain agreement to borrow the required £1.7m to purchase these ticket machines to lease to operators and to incentivise their take up through an amendment to the TfWM tendered bus service contracts.

## **2.0 Background**

- 2.1 In order to deliver contactless payment and best value capping for all customers, it is paramount that all bus operators have the appropriate ticket machines enabled to accept both Swift and contactless bank cards.
- 2.2 National Express and Diamond Bus, the two largest bus operators in the West Midlands have both purchased appropriately enabled ticket machines – this represents c.88% of all bus services. However, there are a further 24 operators running services that make up the remaining 12% and very few of these operators are planning to purchase new ticket machines.
- 2.3 TfWM held a bus operator seminar earlier in the year, in an attempt to understand why bus operators were reluctant. The majority of these operators were concerned that they would not be able to achieve a return on their investment and in particular, those operators who rely on winning TfWM tendered bus service contracts, stated that the majority of their passengers were those using a free concessionary pass and as such they did not see the need for a change.
- 2.4 Therefore, in order to ensure 100% coverage of contactless payment and best value capping across all bus operators TfWM will need to intervene.

## **3.0 Proposed Approach**

- 3.1 As part of their work to develop a roadmap for contactless payment and best value capping, PA Consulting produced cost analysis that conservatively indicates it would cost £1.7m to provide ticket machines to the remaining 12% of bus operators.
- 3.2 Therefore, it is proposed that TfWM borrows £1.7m to purchase these ticket machines that will then be offered to bus operators through a leasing arrangement where the cost of the lease would pay back the £1.7m loan over the lifetime of the ticket machine. Prior to committing to purchasing new ticket machines, TfWM would gain formal agreement with operators to enter into a leasing arrangement and as such will ensure it has not purchased ticket machines for which it does not receive lease income.
- 3.3 Through purchasing ticket machines in bulk, TfWM will achieve a price that will be better than that which could be achieved by each of these operators procuring the machines alone; and removing the requirement on the operator to outlay a large capital investment through the lease arrangement will remove a further barrier. This should encourage a significant number of the 24 remaining operators to take up the offer.

3.4 However, there is likely to be a number of operators, particularly those that solely operate tendered bus service contracts, that would require further encouragement and as such, to support this leasing arrangement, TfWM will amend its tendered bus service contracts to mandate that all operators bidding for new contracts will have to have the appropriate ticket machines to allow contactless payment and best value capping.

#### **4.0 Benefits**

4.1 The medium term object to deliver best value capping requires the delivery of an intelligent back office that can work out the appropriate and best value fare for customers at the end of the day. As previously agreed by the WMCA Board, TfWM is working with National Express to maximise the benefit of their investment in an INIT<sup>1</sup> back office so that all bus operators can use it to offer best value capping. The roadmap developed by PA Consulting states that this medium term objective could be delivered in 2019.

4.2 However, through the rollout of new ticket machines, TfWM will be able to achieve significant early benefits for customers. For example, the new ticket machines will accept payment from contactless bank cards from launch date. At this stage, customers would not be able to achieve best value capping but they would be able to use their bank card to pay for their fares – this is exceptionally popular on the tram for example.

4.3 Also, as standard, the new ticket machines will come with Automatic Vehicle Location (AVL) equipment which will allow the bus operators to better manage operational performance and improve reliability. We know that National Express achieved more than a 10% increase in service reliability when it introduced AVL and as such it would be great for customers if other operators could achieve the same result. AVL also provides data that can feed into TfWM's real time information network and as such, the actual time that all buses are due to arrive at stops will be presented to customers meaning they can make more informed travel decisions. Currently only National Express provide real time information with Diamond data coming shortly.

#### **5.0 Financial implications**

5.1 Based on current interest rate assumptions, it would cost TfWM £1.76m to repay the proposed loan. In addition, TfWM would incur equipment maintenance costs from Year 2 as well as insurance costs. All of these costs will be included within the ticket machine leasing charge ensuring that there is nil cost to TfWM albeit that cash flow will be impacted over the period of the lease. A 5 year leasing period is currently proposed to reflect the minimum life expectancy of the machines.

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<sup>1</sup> INIT are a German ticket machine and back office supply that National Express have appointed to provide new ticket machines and contactless payment capping.

5.2 Whilst the machines will remain the property of TfWM and can, therefore, be recovered in the event of an operator ceasing to trade, it would be prudent to include an uplift in the leasing costs to cover the possibility of defaults. This would also protect TfWM in the event that the number of operators' services reduce and operators wish to change the leasing arrangements accordingly. For full cost recovery, TfWM may also wish to reflect the small staff cost associated with setting up and administering the contract with both the supplier and the operators.

5.3 WMCA will need to ensure that the necessary legal agreements are in place with operators prior to the purchase of equipment to ensure that WMCA does not incur expenditure which cannot then be recharged to operators. In addition, whilst the maintenance and support costs will form part of the agreement, WMCA will need to ensure that the equipment is appropriately managed to avoid unnecessary repair and insurance costs.

## **6.0 Legal implications**

6.1 The WMCA has powers which it inherited and acquired as consequence of the West Midlands Combined Authority Order 2016. This includes the power to borrow under section 1 of the Local Government Act 2003, for any purpose relevant to its functions under any enactment ('Section 1'). The WMCA is deemed a local authority under Section 1 for the purposes of its transport functions. Additionally, the WMCA has power to do anything it considers appropriate for the purposes of carrying out its functions or anything incidental (directly or indirectly) or connected with those functions.

As a body with transport functions, the acquisition of ticket machines as set out in this report would fall under this power.

Whilst the provisions of ticket machines could call into question a potential state aid issue, the proposed purpose and requirements of the report imply that this is unlikely that competition is going to be distorted. Notwithstanding this, legal will work with the client team to ensure that such matters are covered off, and that the position of the WMCA is not compromised on this point.

Legal support will be required to incorporate relevant terms into all bus service tendered service contracts, as well as any ancillary commercial agreements with the remaining bus service operators who do not currently have the appropriately enabled ticket machines.

## **7.0 Equalities implications**

7.1 There are no equalities implications associated with this report.

## **8.0 Other implications**

8.1 There are no other implications associated with this report

## **9.0 Schedule of background papers**

9.1 Contactless Payment and Fare Capping WMCA Report 21 April 2017

## **10.0 Appendices**

13.1 None.