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**NORTH EAST SMART TRANSPORT TICKETING INITIATIVE**

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**Responsible Cabinet Member - Councillor David Lyonette, Transport  
Portfolio**

**Responsible Director – Richard Alty, Assistant Chief Executive  
(Regeneration)**

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**SUMMARY REPORT**

**Purpose of the Report**

1. To update Cabinet on work taking place regionally to develop and implement smart public transport ticketing for the North East of England and to seek Cabinet approval for the proposed governance arrangements of the regional smart ticketing programme, including the release of £441,406 in Regional Funding Allocation (RFA) to contribute to financing the project.

**Summary**

2. At the Cabinet meeting held on 3<sup>rd</sup> November 2010 Cabinet approved the conditional release of £441,406 in RFA grant as Darlington's contribution to the North East Smart Ticketing Initiative (NESTI). At the same meeting Cabinet agreed that a subsequent report would be required detailing the proposed governance arrangements for the NESTI project, the potential revenue costs and efficiency savings of participating in the project.
3. The NESTI project is being funded through £10M of capital funding from the RFA, with Darlington's contribution entirely funded through the RFA allocation for NESTI transferred to the Council in the autumn of 2009.
4. So as to help speed up decision making and help facilitate the project management of the NESTI project it has been proposed that each North East Local Authority transfer its RFA allocation for NESTI to the Tyne and Wear Integrated Transport Authority, which will act as the accountable organisation responsible for overseeing the implementation of the Smart Ticketing project

and reporting to a 'Board' made up from representatives of the Local Authority partners.

5. In addition to the RFA funding for Smart Ticketing, the Council has the potential to draw upon up to €270,000 in European funding available through the 'BAPTS' (Boosting Advanced Public Transport Systems) project. To do so the Council will need to use an element of the RFA capital funding as part of the required match funding for the European grant.
6. With input from local authority transport officers and legal teams the Tyne and Wear Integrated Transport Authority has drafted a formal 'Collaboration Agreement' for consideration and subject to agreement, approval by each of the participating local authorities. The agreement is summarised in more detail within the main body of this report and attached in full as annex 1. Key points include:
  - (a) The agreement sets out how the NESTI programme will be managed through a partnership board which through the Tyne and Wear Integrated Transport Authority will report to the Association of North East Councils' Leaders Board.
  - (b) Each party signed up to the Collaboration Agreement will make capital contributions to the NESTI project in the amounts set out in schedule 3 of the agreement (£441,406 for Darlington) but shall not be obliged to make any further or other commitment of cash or resources to the NESTI Project save as set out in the agreement, for example expenses or costs incurred in connection with preparation and implementation of the Collaboration Agreement.
7. The Integrated Transport Authority has also drafted a 'Bus Operator Agreement', detailing the terms of a one off grant payment to bus operators, partly funding, and helping to facilitate the rapid introduction of smart ticketing on buses operating in the North East. This is a contractual arrangement between the local authorities and bus operators, setting out the conditions of the grant. For example with respect to:
  - (a) The specification of the smart readers installed by the operators, including compliance with the national ITS0 standard.
  - (b) The transfer of data from the smart readers to the regional Back Office system
  - (c) Compliance with data protection legislation
  - (d) Phasing of the grant payment, so that payment is made in arrears and in two stages.

The 'Bus Operator Agreement' is attached as annex 2.

8. As Darlington requires part of the £441,406 RFA grant as match funding enabling the Council to draw upon European Funding, officers are working with the Tyne and Wear Integrated Transport Authority to ensure that the Council is able to comply with eligible funding requirements of the European grant, for example to make sure the Council can clearly evidence expenditure on the elements of the NESTI Project relating to Darlington.

## **Recommendations**

9. It is recommended that:

- (a) Members approve Darlington Borough Council signing up to the North East Smart Ticketing Initiative (NESTI) Collaboration Agreement and the transfer of £441, 406 of RFA capital grant for the smart ticketing to the Tyne and Wear Integrated Transport Authority.
- (b) That Darlington Borough Council approves the terms of the bus operators agreement.
- (c) That the Leader, or in his absence his nominated representative, in his capacity as this Council's representative on the Leaders' Board (or any future successor body), be granted all necessary executive powers and functions, on behalf of the Council, relating to the North East Smart Ticketing Initiative (NESTI).

## **Reasons**

10. The recommendation is supported as:

- (a) Plans for Smart Ticketing in the North East are very much in line with government objectives for the development of smart and integrated ticketing – as outlined in the consultation paper, 'Developing a strategy for smart and integrated ticketing'.

'Our vision for public transport in England is of universal coverage of smart ticketing infrastructure, supported by integrated and innovative ticket products which can be purchased easily and quickly, leading to a significantly improved travelling experience for the passenger'.

- (b) Innovative use of smart ticketing has the potential to support the economic competitiveness of the north east, reduce carbon emissions and promote

greater equality of opportunity for all citizens.

- (c) There are substantial efficiency and cost saving benefits to be made in implementing a regional smart ticketing initiative in comparison to a local or sub-regional scheme. It has been estimated that the capital savings of investment in one regional back office Host Operating System (HOPS) as opposed to 4 regional HOPS is £2.7 Million.
- (d) With respect to Darlington the bus operators agreement is a formal contract between the Tyne and Wear Integrated Transport Authority, Tyne and Wear Passenger Transport Executive Darlington Borough Council and Arriva North East; setting out clear terms and conditions for grant funding of the smart card readers on Arriva North East buses operating in Darlington.
- (e) The North East Smart Ticketing Initiative (NESTI) Collaboration Agreement does not require any further funding commitment. See point 6 (b).
- (f) The North East Smart Ticketing Initiative is a regional project requiring input from a political representative from each participating local authority.

**Richard Alty**  
**Assistant Chief Executive (Regeneration)**

### **Background Papers**

- (i) Developing a strategy for smart and integrated ticketing ( August 2009, DfT)
- (ii) North East Smart Ticketing Initiative (NESTI) Collaboration Agreement  
Draft 12.05.10
- (iii) North East Smart Ticketing Initiative (NESTI) Bus Operator Agreement  
Draft 10.05.10

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S17 Crime and Disorder	It is considered that through a reduction in cash handling smart ticketing could contribute to the reduction of crime and disorder.
Health and Well Being	Innovative use of smart media has the potential to encourage citizens to adopt a healthier lifestyle.
Sustainability	Smart ticketing has the potential to improve the

	range and types of public transport ticket available, encouraging greater use of public transport thereby helping to reduce transport related carbon emissions from private motorised transport.
Diversity	Smart ticketing products can help to promote greater equality for all citizens.
Wards Affected	Smart ticketing products will be available to residents of all wards.
Groups Affected	All public transport users will have access to smart ticketing products.
Budget and Policy Framework	This report does not recommend a change to the Council budget or policy framework.
Key Decision	This is a key decision and has been included in the Forward Plan.
Urgent Decision	This report does not require an urgent decision.
One Darlington: Perfectly Placed	<p>The implementation of Smart ticketing will contribute to:</p> <p>Prosperous Darlington, through improving access to Darlington.</p> <p>Greener Darlington by encouraging travel by public transport.</p> <p>Safer Darlington by reducing the need for public transport users and operators to handle cash.</p>
Efficiency	<p>Development and implementation of smart ticketing as a regional initiative has substantial efficiency and cost saving benefits in comparison to a local or sub-regional scheme.</p> <p>It is proposed that revenue costs of operating the regional scheme are shared across the north east with the potential for local authorities to make a number of efficiency savings against other areas of work dependent upon gathering public transport information, most notably the operation of concessionary fares schemes.</p>

## **MAIN REPORT**

### **Introduction**

11. Smart Ticketing is a long-standing goal of North East Local Authorities, both to make public transport easier to use, and to link up transport and wider public services making them more accessible to customers.

### **Background**

12. At the Cabinet meeting held on 3<sup>rd</sup> November 2010 Cabinet approved the conditional release of £441,406 in Regional Funding Allocation grant as Darlington's contribution to the North East Smart Ticketing Initiative (NESTI). At the same meeting Cabinet agreed that a subsequent report would be required detailing the proposed governance arrangements for the NESTI project, the potential revenue costs and efficiency savings of participating in the project. Cabinet resolved:
  - (a) That £441,406 of additional Regional Funding Allocation capital grant, be released, to support the development and implementation of the regional smart ticketing project.
  - (b) That, subject to the finalisation of governance arrangements, as described in the submitted report, this funding be held at a regional level by a single accountable organisation such as the Tyne and Wear Integrated Transport Authority.
  - (c) That officers work with local authority partners and public transport operators to develop a governance structure for the regional smart ticketing project.
  - (d) That a further report be submitted to a future meeting of Cabinet on the detailed business case for Darlington and whether smart ticketing could be extended to include additional transactions such as leisure and recreation.
13. The NESTI project is being funded through £10M of capital funding from the RFA, with Darlington's contribution entirely funded through the RFA allocation for NESTI transferred to the Council in the autumn of 2009. The core objective of the north east smart card initiative (NESTI) is to design and build a fully accessible standard multi-modal Smart Ticketing scheme that provides significant benefits for public transport customers in the North East, maximising usage of existing resource and achieving the best possible value for money.

14. The principal output of the programme is a Smart Ticketing infrastructure that will enable transport operators to launch Smart Ticketing products or integrate their own schemes with other operators ticketing schemes available in the region. This infrastructure is made up of devices (e.g. ticket machines on buses), access to a common 'HOPS' (Host operating system) and legal and commercial agreements that will allow regional smart products to be sold and used.
15. The first phase of the programme will be delivered over the period 2010 – 2012 and will include:
  - (a) Installation of smart electronic ticket machines by the major bus operators operating in the North East region, installation to start in the autumn of 2010.
  - (b) The Tyne and Wear Passenger Transport Executive (Nexus) will implement a Host Operating System which any North East Local Authority, that is also a travel concession authority, could use to help administer its concessionary travel scheme, should it wish to, without charge for 5 years from the commencement of the Collaboration Agreement.
  - (c) Nexus will develop a smart retailing website that allows customers to obtain a 'NESTI' smart card by post. The smart cards will be branded with a common symbol, to be displayed on all smart ticket infrastructure in the region, but if required will also be able to be printed with distinctive local branding and /or branding aimed at specific target groups, for example students and young people.
  - (d) A region wide marketing campaign will explain the benefits and encourage the use of smart ticketing.
16. It is proposed that a second delivery phase ( 2011-2013) will include:-
  - (a) Development of a retail network of ticket machines, at which customers can put products on their smart card. For example weekly or monthly tickets.
  - (b) Development of an 'e' - purse allowing customers to pay as they travel using a smart card.
17. Both phase one and two of the programme will be delivered within the £10 Million regional funding allocation.

### **Governance of the NESTI programme**

18. So as to speed up decision making and help facilitate the project management of the NESTI project it has been proposed that each North East Local Authority transfer its RFA allocation for NESTI to the Tyne and Wear

Integrated Transport Authority, which will act as the accountable organisation responsible for overseeing the implementation of the Smart Ticketing project and reporting to a 'Board' made up from representatives of the Local Authority partners.

19. With input from local authority transport officers and legal teams the Tyne and Wear Integrated Transport Authority has drafted a formal 'Collaboration Agreement' for consideration and subject to agreement, approval by each of the participating local authorities ('the Parties'). The agreement is attached in full as annex 1
20. Section 3.1 of the Collaboration Agreement states that 'In order to ensure that the NESTI Project is implemented and managed in an efficient manner the Parties agree to establish the Board', and that the Board shall be constituted and governed by the provisions of Schedule 2.
21. Schedule 2 of the Collaboration Agreement details the structure, administration and responsibilities of the 'Board' including a statement that:
  - (a) Each Party agrees that the Board shall consist of 1 (one) senior officer Representative from each of the Parties; save that:
    - (i) any two or more of the Tees Valley Authorities may (if they each agree) be represented by a single nominee; and
    - (ii) any two or more of the Tyne and Wear Authorities may (if they each agree) be represented by a single nominee.
22. The Collaboration Agreement identifies the Tyne and Wear Integrated Transport Authority (ITA) as the lead authority for the NESTI project; and that it will:
  - (a) be accountable to the ANEC Leaders' Board and via the Board to the Parties for the implementation of the Outline Business Plan as supplemented and informed by the advice and recommendations of the Board and for the management of the Capital Contributions made by the Parties in accordance with the terms of this Agreement and any conditions applicable to such funds.
  - (b) take the fullest account of any decisions by the Board as to the preferred or recommended method of implementation of the Outline Business Plan
  - (c) so far as it is legally able to do so engage Nexus to manage the NESTI Project.
23. As the lead authority section 3.5 of the Agreement states that:



- (a) The ITA is authorised to undertake any action as set out in the Outline Business Plan or which comprises a variation to the Outline Business Plan provided such variation (i) meets the objectives of the NESTI Project or Outline Business Plan and (ii) is first approved by the ANEC Leaders' Board (acting by a majority in accordance with its constitution) where such variation either (a) results in a change in the purpose of any expenditure amounting in aggregate to £250,000 (two hundred and fifty thousand pounds) or more or 20% or more of any category of expenditure ("the Approval Amount") or (b) is otherwise regarded by the Board and the ITA as significant enough to justify its prior consideration and approval by the ANEC leaders' Board.
- (b) The ITA shall as soon as practicable and in any event within three calendar months of the Commencement Date submit to the ANEC Leaders' Board for its approval detailed cost estimates and project plans for the NESTI Project which shall, in such form as may be approved by that Board, then become part of the Outline Business Plan.

## **Finance**

24. Section 4 of the Collaboration Agreement includes clauses stating that:

- (a) Each Party will make the Capital Contributions to the NESTI Project in the amounts set out opposite their names in Schedule 3 (refer to page 17 of the agreement) but shall not be obliged to make any further or other commitment of cash or resources to the NESTI Project save as set out in this Agreement.
- (b) Each Party will ensure that its Capital Contribution is paid into the NESTI Project Bank Account and irrevocably committed to the NESTI Project on or before the Commencement Date.
- (c) It shall be a condition of any grant funding to transport operators as part of the NESTI Project that equipment procured by them as part of the NESTI Project shall be compliant with ITSO and the aims set out in the Outline Business Plan.
- (d) The NESTI Project may be terminated prior to the expiry of the Term only on the recommendation of the ANEC Leaders Board and with the written agreement of a majority of the Parties and in that event any unused Capital Contributions shall be returned to the Parties in proportion to the Capital Contributions made by them subject to deduction of any sums liable to be payable under any outstanding contractual or other obligation which has arisen under the Project.

25. For Darlington this means that the RFA allocation of £441,406 would be fully committed to the NESTI Project, with no additional capital or revenue commitment for 5 years after commencement of the agreement. With the exception that should the Council wish to utilise the regional HOPS to obtain concessionary fares data, there is a legal requirement to register with ITSO, at a cost of £535 and an annual operators' licence of £1000.
26. Current arrangements for calculating the concessionary fares payments, (£3.004 M in 2009/10) to bus operators in Darlington Borough are based on data provided to the Council by each of the operators (at the current time Arriva and Scarlet Band). Use of the HOPS system would provide an independent source of data on concessionary travel.
27. Section 5 of the Outline Business case proposes that no later than six months before the end of the five year period, Nexus and the ITA will make a proposal to the local authorities for the future operation of the smart back office. This may take the form of a proposal for a directly managed service, joint procurement of a management contract from an external supplier, discontinuing the use of the facility, or other options to be identified. Although this may involve commitment to future costs, no authority will be obliged to accept any ongoing financial commitment without its express agreement.
28. It is estimated that the revenue cost attributable to the local authorities operating the regional smart ticketing system is in the region of £436,000. Based on a pro rata allocation of this cost across the region, the cost attributable to transactions in Darlington from 2015 onwards, should the Council at that stage agree to continue with this, would be in the region of £20,000 per annum at 2010 prices, or around 0.002 pence per fare transaction.

## **Bus Operators**

29. All three major bus companies operating in the North East have confirmed their intention to participate in the NESTI project subject to grant funding for electronic smart ticket machines being made available.
30. A 'Bus Operator Agreement' has been prepared (attached as annex 2) detailing the terms of a one off grant payment to bus operators. With respect to Darlington this is a contractual arrangement between the Tyne and Wear Integrated Transport Authority, Tyne and Wear Passenger Transport Executive, Darlington Borough Council and Arriva North East setting out the conditions of the grant. For example with respect to:
  - (a) The specification of the smart readers installed by the operators, including compliance with the national ITSO standard.

- (b) The transfer of data from the smart readers to the regional Back Office system
  - (c) Compliance with data protection legislation
  - (d) Phasing of the grant payment, so that payment is made in arrears and in two stages.
31. The ITA has included additional wording within the 'Bus Operator Agreement' enabling, if desired, Darlington Borough Council to make a payment (using part of the £441,406 RFA grant), direct to the bus operator rather than an indirectly through the ITA. This is so the Council can provide direct evidence of the payment as part of the match funding for the 'BAPTS' programme, and in doing so obtain additional funding through the European Regional Development fund.
32. Although the smart cards will operate on all buses and the Tyne and Wear Metro the introduction of new integrated ticket types will be dependent upon agreement with the commercial public transport operators.

## **Risks**

33. Risks in taking part in the regional smart ticketing scheme include:
- (a) Slow uptake of the tickets by the public. There are already 350,000 smart cards in circulation throughout the North East (the concessionary bus passes). The rate of uptake of the smart ticketing by non-concessionary card holders will to some extent depend upon the range and the type of ticket products available. In London 10 Million Oyster smart cards were issued in the first 4 years of operation.
  - (b) Public transport operators don't participate. This cannot be ruled out, however all of the large bus operating companies in the North East are involved in smart ticketing programmes elsewhere in the UK and have confirmed their intention to participate in the NESTI project.
  - (c) Technological failures. Much of the challenge associated with the introduction of smart ticketing lies not so much in the technology itself as in the business processes and with the agreements necessary to allocate costs, payments and liabilities. Minimum operational standards will be specified in the contractual arrangements with the smart ticketing suppliers.
  - (d) Capital cost increases. The capital budget for the NESTI project includes a contingency of £1.44M, around 14% of the cost estimate. The Collaboration Agreement clearly states that the financial commitment of

each party to the agreement is limited to the initial capital contribution.

- (e) Revenue costs not matched by savings. The NESTI project aims to avoid any additional net revenue costs to the Council, through efficiency savings and if necessary a small fee for each transaction made using the smart ticketing system. Revenue costs for the first 5 years of operation are included within the outline business case, and are fully funded through the RFA capital allocation from each participating local authority.

34. The RFA funding is not ring fenced and could be used for other purposes. However, there are risks in not taking part in the regional smart ticketing scheme and these include:

- (a) Since Cabinet agreed in November to release the funding the bus companies have begun the purchase of the equipment and Nexus has begun procurement of the ICT system.
- (b) Future requirement to fund smart ticketing technology outside of the regional programme. If at later date Darlington decided to adopt smart ticketing, costs in procuring a system and the associated infrastructure just for Darlington or for sub –regional partners are likely to be much higher.
- (c) Reputation amongst other North East Local Authorities. This may impact on future partnership projects.
- (d) Poor reputation with public transport users unable to use smart ticket products in Darlington.
- (e) Loss of European ‘BAPTS’ (Boosting Advanced Public Transport Systems) funding.

### **Outcome of Consultation**

- 35. Consultation with public transport operators is taking place on an ongoing basis at a regional level facilitated through the NESTI working group.
- 36. Local consultation led by Darlington Borough Council Officers, where appropriate with input from other NESTI partners, with transport operators, passengers and the general public will take place as an integral part of the development of the scheme.
- 37. The Town Centre Board was consulted on the project and board members have expressed an interest in the opportunities it might provide for promoting town centre businesses.