



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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**Department for Transport**

# Investigation into the South East Flexible Ticketing Programme



# What this investigation is about

**1** This report is the result of an investigation into the Department for Transport's (the Department's) progress in implementing the South East Flexible Ticketing Programme (the Programme).

**2** In January 2012, the Department set up the Programme to improve coordination, speed up delivery and increase take-up of smart ticketing. The Department was the sponsor and funder of the Programme; the Rail Delivery Group, which represents and coordinates the interests of passenger and freight operators, was the primary delivery agent working with train operating companies to develop and roll out the necessary infrastructure. The original ambition of the Programme was to spend £45 million to allow 11 train operating companies with routes into London to offer season tickets on smartcards by early 2014 and other tickets, including flexible season tickets for part-time workers, to be available by the end of 2014.

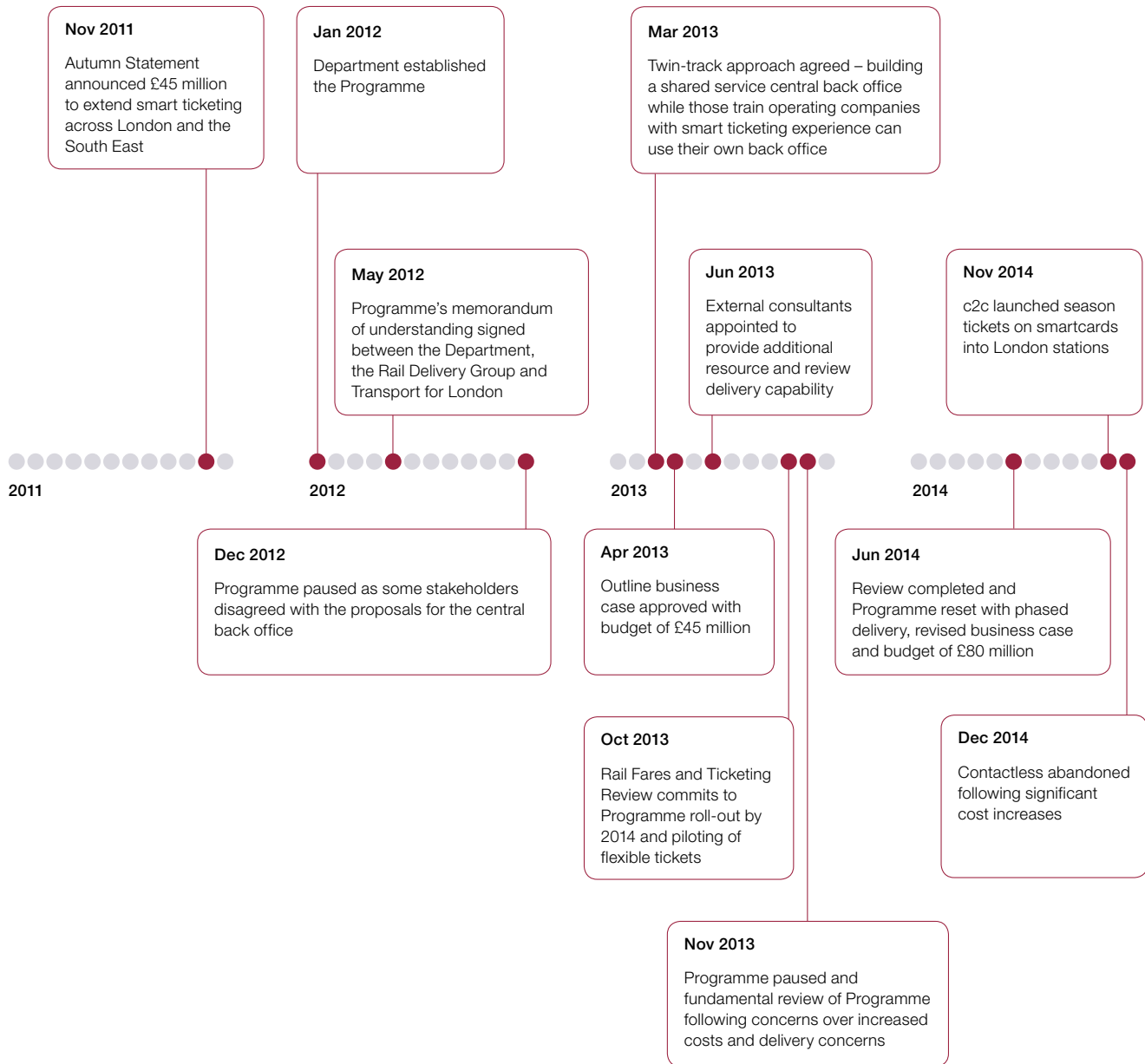
**3** The Department has paused and reconsidered its approach to the Programme and changed its scope and objectives on a number of occasions. In June 2014, the Department reset the Programme; and, in April 2016, the Department reduced the scope of the Programme so that it only planned to enable season tickets on smartcards on five train operating companies. In April 2017, it transferred day-to-day management of the Programme's technology and assets to the Rail Delivery Group. This investigation examines the Programme from its inception to its handover. The report sets out:

- the progress of the Programme; and
- the Department's oversight and management of the Programme.

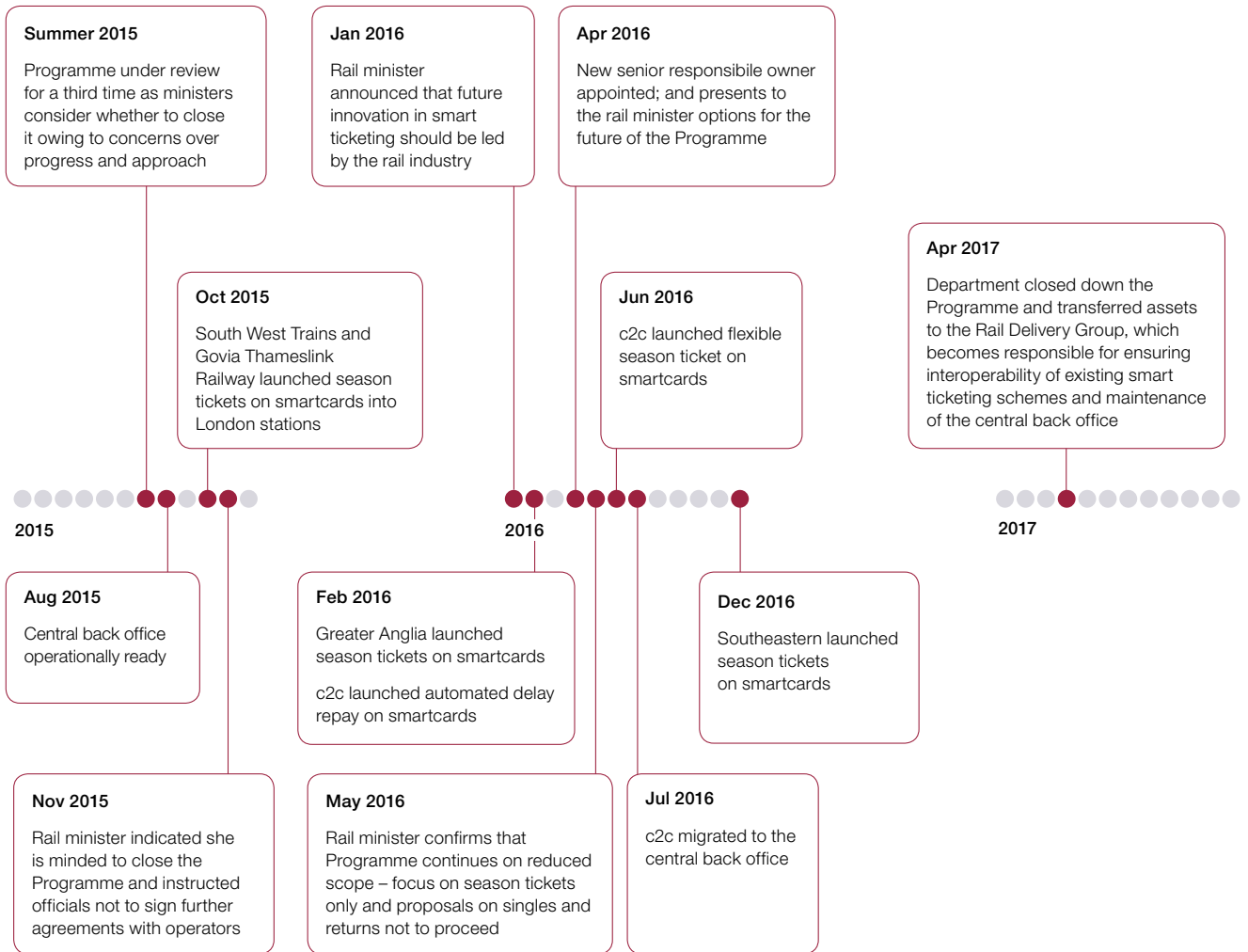
**4** The investigation does not assess the value for money of the Programme.

**Figure 1** on pages 6 and 7 summarises the timeline of main events during the Programme. Our investigative methods are set out in Appendix One.

**Figure 1**  
Timeline of key events of the Programme



Source: National Audit Office analysis of Department for Transport information



# Summary

## Key findings

### Progress of the Programme

**1 In 2011, the Department for Transport (the Department) concluded it needed to intervene to accelerate the implementation of smart ticketing schemes.** Since 2006 the Department's approach had been to require train operating companies to implement smart ticketing schemes as part of new franchise agreements. However, progress was slow and take-up was low. This was largely because train operating companies had little incentive to implement, coordinate and promote schemes. The upfront capital investment required, linked to uncertainty about whether there would be a return on that investment over the duration of the franchise, meant that some operators did not consider that they would benefit greatly from the scheme. The Department therefore decided to initiate the South East Flexible Ticketing Programme (the Programme) to provide a more coordinated delivery approach and provide funding for the infrastructure and the development of a central back office to process rail journeys on smartcards (paragraphs 1.4 and 1.6).

**2 The Department has not delivered the original ambition of the Programme as set out in 2012.** The Department expected the Programme to result in a range of benefits, including an improved experience for passengers and reduced costs to train operating companies of selling tickets. An original aim when the Department established the Programme in 2012 was to have flexible ticketing in place on 11 franchises running services into London by 2014. By April 2017, the Programme has enabled five of the 11 train operating companies running services into London to offer season tickets on smartcards. Only one of the five train operating companies currently offers flexible season tickets (paragraphs 2.1 to 2.4).

**3 The Department has now completed the Programme based on the reduced scope agreed in 2016.** It has handed over responsibility for managing the central back office, which processes rail journeys by passengers using smartcards to the Rail Delivery Group. The central back office can now be used by other train operating companies, to operate their own smart ticketing schemes, and to process a wider range of ticket and fare types. The Rail Delivery Group has estimated that the central back office is currently using around 5% of its capacity and can handle more smart ticketing schemes. The Rail Delivery Group is promoting the capability of the central back office system to train operating companies across the country. By March 2017, two operators outside the south-east of England were using the central back office (paragraphs 2.3 and 3.16).

**4 The Department had assumed high levels of take-up of smart ticketing.**

Achieving the economic benefits of smart ticketing stated in the 2014 business case depended on eventually achieving 95% of take-up of smart season tickets. The Department's latest data show that 8% of all season ticket sales in the 12 months up to March 2017 on participating train operating companies were on smartcards. The Department attributes low levels of take-up to early problems with passenger experience and lack of promotional and marketing activity (paragraphs 2.6 to 2.8).

**5 The Department has spent £54 million on the Programme, compared with the original budget of £45 million.** This was spent on developing a central back office to facilitate smart ticketing systems, installing or upgrading infrastructure such as ticket validators, ticket barriers and ticket vending machines, with £26 million (48%) spent on the Department and Rail Delivery Group's system design, system integration and delivery of the Programme (paragraph 3.19 and Figure 7).

**6 In total, the Department has spent at least £120 million to achieve the current level of smart and flexible ticketing on the national rail network in the south-east of England.** The £54 million spent on the Programme builds on previous departmental expenditure. Before the Programme was initiated, the Department agreed to provide £60 million to Transport for London to upgrade its ticket gates and back-office systems to read train operating companies' smartcards, so that passengers could use smartcards provided by these operators at stations operated by Transport for London. This upgrade cost £66 million on completion in 2014 following changes to the scope of the work (paragraphs 1.5 and 3.19).

**7 In April 2016, the Department estimated that it would cost a total of £96 million to deliver the full scope of the Programme as set out in the 2014 business case.** To deliver its original objectives for smart ticketing in the south-east of England, such as providing part-time season tickets, the Department would need to either pay for the additional ticket barriers and validators needed to support smart tickets for more flexible fares itself, or require train operating companies to do so through franchise agreements (paragraphs 2.4, 3.17 and Figure 6).

**8 Implementation of further technological developments will require additional funding.** The Programme has helped to introduce smartcards to the national rail network. To enable alternatives to smartcards in the future, such as the ability to read barcodes on e-tickets or to use automated payment methods such as contactless bank cards and payments using smart phones, the Rail Delivery Group or the Department will need to carry out upgrades to the central back office, and to existing validators and ticket barriers, which will require additional funding (paragraphs 1.3 and 2.5).

## **The Department's oversight and management of the Programme**

### **9 The Department secured funding for the Programme without an agreed scope or agreement with industry bodies on how the Programme would be implemented.**

The Chancellor of the Exchequer awarded £45 million of funding based on a proposal the Department developed at short notice and without consulting the principal delivery agents. Shortly after the Programme was initiated in 2012, the Department experienced difficulties in getting Transport for London, train operating companies and the Rail Delivery Group to agree how the Programme should be implemented. For example, there were disagreements between train operating companies and the Department about the extent to which the Department should lead the Programme and if all operators should be required to use the single back office (paragraphs 3.1, 3.2 and 3.5).

### **10 Early in the Programme the Department identified concerns about the feasibility of the timetable and the Programme team's capacity to deliver the Programme.**

In 2013, the Department commissioned consultants to carry out a review of the Programme. The review found that the Rail Delivery Group had too few people managing the programme, and that the amount of work required to deliver the Programme meant that timetables would have to be extended (paragraphs 3.7 and 3.8).

### **11 The Programme was paused three times and reset twice, and each time the scope was reduced and the budget revised.**

The Programme was first paused in December 2012, when train operating companies disagreed with proposals for the central back office. Following concerns raised by the consultants' 2013 review of the Programme about delivery, cost and timetable, the Department reset the Programme and increased its budget to £80 million, largely to cover the cost of increased programme management capability. In April 2016, the Department reset the Programme again, with £61 million to deliver a substantially reduced scope, following a ministerial decision that the rail industry should take the lead in innovating smart ticketing solutions (paragraphs 3.5, 3.10, 3.16 and Figure 7).

### **12 The Department's internal audit identified, in 2013 and 2016, weaknesses in the Programme's governance.**

In its 2016 audit, which was undertaken between 14 March and 4 April, it found that the Programme's governance and commercial arrangements had been ineffective in holding to account Transport for London, the Rail Delivery Group and the train operating companies for the delivery of the Programme. For example, the Department negotiated funding agreements with train operating companies to implement smart ticketing outside of the Programme's governance, which resulted in a lack of consistency in requirements, such as take-up of smart ticketing (paragraphs 3.14 and 3.21).