

Commercial Review of ITSO Ltd
Post Implementation Report

Department for
Transport



October 2009

1. EXECUTIVE SUMMARY	3
2. INTRODUCTION	4
3. BACKGROUND TO THE COMMERCIAL REVIEW.....	5
4. OVERALL PROJECT PROCESS	7
5. EVIDENCE COLLATION.....	8
6. RECOMMENDATIONS	10
7. IMPLEMENTATION	11
8. NEXT STEPS	13
A. INTERNAL STEERING GROUP TERMS OF REFERENCE	14
B. EXPLANATORY MEMORANDUM TO MEMBERS	15
C. NEW ITSO LTD BOARD STRUCTURE	18

1. EXECUTIVE SUMMARY

- 1.1 Between April 2008 and June 2009 the Department for Transport (DfT) carried out a Commercial Review of ITSO Ltd, the member owned and operated organisation responsible for the provision of an open technical specification for smart ticketing.
- 1.2 The review found that ITSO was progressing in the right direction with regards to developing a mature specification. However, increasing pressures were being placed on the organisation owing to the growth in smart ticketing arising from the English National Concessionary Travel Scheme, the drive for ITSO-Oyster compatibility, and the ticketing requirements on new rail franchises.
- 1.3 In order to protect the growth of schemes and to safeguard the significant financial investments in them, the review team recommended increased Departmental involvement and resourcing of ITSO Ltd, initially to be achieved through a greater Departmental commitment to the ITSO Board.
- 1.4 The ITSO Ltd Board supported this recommendation, and a joint proposal to amend the ITSO Ltd Articles of Association to provide for the changes was created and approved by DfT Ministers. On 2 June 2009, the membership of ITSO Ltd voted at an Extraordinary General Meeting to agree to and implement these proposals.
- 1.5 The aim of this report is to document the process of the Review: rationale, aims and objectives, method, findings, evaluation and next steps. This report has been published jointly by the Department and by ITSO Ltd.
- 1.6 The Department intends to set out its long term strategy for smart and integrated ticketing later in the year. A full consultation, to which all stakeholders are invited to contribute, has been published and can be found on the Department's website at <http://www.dft.gov.uk/consultations/open/smartticketing/> until 28 October 2009.

2. INTRODUCTION

- 2.1 Since the mid-1990s interested stakeholders from the supplier, industry, operator and public sector have been working to lay the foundations of a technical specification which enables multi-modal interoperability of smartcards. This specification is called ITSO.
- 2.2 The ITSO Specification sets out the technical means by which interoperability of contactless smartcards can be facilitated. It covers all components - card, point of service and back office systems.
- 2.3 To facilitate the development of ITSO, the Department has sponsored since its establishment in 1998 ITSO Ltd, the member owned and operated company that provides the specification. The Department owns the Crown Copyright to the ITSO specification, and licences it to ITSO Ltd.
- 2.4 ITSO Ltd was formed to build and maintain ITSO for secure 'end to end' interoperable ticketing transactions, utilising relevant international standards. ITSO Ltd provides registration and component testing services to ensure interoperability of smartcards between its members, as well as a security management service. Members agree to abide by a set of regulations which ensure that all parties behave fairly and consistently, both in interactions with each other and with users of ITSO smartcards.
- 2.5 To date, ITSO Ltd has enabled the production of over 10 million smart cards in the UK and the ITSO specification has been widely accepted as the *de facto* standard for smart ticketing in England, Scotland and Wales.
- 2.6 The Department has consistently supported ITSO and the use of the ITSO specification as the basis for interoperable smart ticketing in England.

3. BACKGROUND TO THE COMMERCIAL REVIEW

3.1 By early 2008, the Department had taken a series of strategic decisions aimed at encouraging the spread of ITSO smart ticketing. These included:

- The inclusion of ITSO smart ticketing requirements in all new rail franchises
- The requirement for all concessionary travel passes in England to be ITSO smartcards
- Negotiations with TfL for a programme of work to allow ITSO and Oyster interoperability

3.2 The net effect of these policies, coupled with those of the Devolved Administrations, is that a step change in the coverage of ITSO smart ticketing in England in the near future was considered likely and the Department began two concurrent but separate work streams:

- i) the Commercial Review of ITSO Ltd, designed to examine and if necessary improve ITSO Ltd's capacity to deliver an interoperable specification
- ii) to the development of a dedicated integrated and ticketing strategy for England to build upon the existing policy decisions and deliver widespread interoperable smart ticketing

3.3 The aim of the Commercial Review of ITSO was to ensure that the ITSO organisation was best placed to meet the demands of the anticipated rapid growth of ITSO smart ticketing in England and to identify the ways that the Department can assist ITSO in delivering relevant aspects of the integrated and smart ticketing strategy.

3.4 The remit of the review was to evaluate and set in motion any organisational changes necessary to achieve this aim.

3.5 The initial priorities of the review were to:

- i) identify the commercial strengths and weaknesses of ITSO Ltd
- ii) identify areas where additional expertise may be required in the organisation
- iii) identify areas where ITSO Ltd might need support from the Department to improve
- iv) engage with a selection of internal and external stakeholders to ensure that their requirements were considered
- v) ensure that Departmental support provided to ITSO Ltd represents the most efficient and cost effective mechanism for delivery strategic objectives for smart ticketing
- vi) work with ITSO Ltd to agree how to take forward any recommendations identified by the Review

- 3.6 The scope of the review initially included an examination of ITSO-Oyster compatibility. This objective was not ultimately pursued as the remit of the review was on ITSO Ltd's commercial processes, and the issue of work on ITSO-Oyster convergence (known as 'ITSO on Prestige, or IOP) required significant technical input. The ITSO on Prestige project has been taken forward elsewhere within the Department. The review team did note that the Board of ITSO Ltd were keen to engage more closely with Transport for London, and had previously attempted to do so through the development of the ITSO-Oyster roadmap for interoperability.
- 3.7 The Department recognised that the future ITSO organisation would require clarity about its role within the Department's wider objectives for ticketing. The Regional and Local Transport Policy Directorate (RLTP) has published a public consultation on ticketing, which sets out, and seeks views on, a future vision for ticketing. This consultation is available until October 2009 at <http://www.dft.gov.uk/consultations/open/smartticketing/>
- 3.8 Therefore the Commercial Review of ITSO Ltd, and the implementation of any recommendations, was to be achieved in the shortest practicable time frame, in order to prepare ITSO Ltd for any potential outcomes arising from the ticketing strategy. The objective was to implement the review's recommendations by the end of 2008. (This date was missed as more stakeholders offered their views as part of the Chair's 'open door' policy).

4. OVERALL PROJECT PROCESS

- 4.1 The review was split into two stages: firstly, accumulating evidence and reaching provisional conclusions; and secondly, implementing the resulting recommendations.
- 4.2 The first phase of the review lasted seven months, commencing in April 2008. It was conducted by a team based in Transport Technology and Standards Division. This team was guided and scrutinised by an Internal Review Steering Group at the Department, chaired by the Director of Procurement and containing representatives from all involved policy areas, as well as Legal and Financial specialists. The Steering Group Terms of Reference are attached at Annex A.
- 4.3 During this phase, the review team met regularly with the ITSO Ltd Board. The Board was invited to provide formal input both collectively and as individual members. The review team formally presented to the Board at Board meetings in May, June and September 2008, to apprise them of progress and to seek their input, which was given willingly.
- 4.4 The review team invited the Board to inform the membership of ITSO Ltd of the Review, and to invite participation from the membership. Additionally, written invitations for evidence were sent to local authorities, operators and other key stakeholders. The review team made it clear that they had an 'open door' policy with regard to input. Qualitative input was received from more than fifteen groups of stakeholders (see section 5).
- 4.5 The review team then presented the conclusions and recommendations to Ministers and to the ITSO Ltd Board. Ministers authorised the Review team to liaise with ITSO Ltd in order to enact the recommended changes. Between October 2008 and April 2009, the review team met with the ITSO Ltd Board on three occasions and with representatives from the Board on further occasions, to ensure that the proposals accurately reflected the needs of ITSO, its members and smartcard schemes, as well as the requirements of the Department.
- 4.6 On 1 May 2009, the membership of ITSO Ltd was informed of the proposals to reform ITSO Ltd through changes to the Articles of Association. These included altering the structure of the ITSO Board, and approving the recruitment of a Chief Executive for ITSO Ltd.
- 4.7 On 2 June 2009, at an Extraordinary General Meeting of ITSO Ltd, these proposals were accepted by a vote of the membership.

5. EVIDENCE COLLATION

5.1 Between April and October 2008 the review team met with the ITSO Board and stakeholders, received written contributions, and discussed internally the appropriate future arrangements for ITSO Ltd. Comments about ITSO Ltd in this chapter reflect stakeholder contributions to the review.

5.2 Stakeholders were invited to provide a contribution including, but not limited to, the following framework:

- What does ITSO do for its members?
- How well does it achieve this?
- If it needs to, how could it improve its service?
- Are there any barriers preventing it from delivering?
- What do you see as the future challenges for ITSO?

It was made clear that the review focussed on the commercial, rather than the technical, aspects of the organisation.

5.3 Contributors included: the Scottish Government (Transport Scotland), the Welsh Assembly Government, Cheshire County Council, Nottingham City Council, Nottinghamshire County Council, Nowcard, Yorcard, Transport for London, The Trainline, and Iosis Associates. Anite ran two workshops on behalf of Transport Scotland's delivery partners which the review team attended, in addition to Transport Scotland, Wayfarer/Parkeon, Almex/Hoft & Wesel, ERG, ESP, Logica and MVA were represented. The ITSO Ltd Board represented each sector of the ITSO membership, including stakeholders from: Stagecoach Bus, Stagecoach South West Trains, Merseytravel, Metro, National Express, Go Ahead, ATOC, Almex. The review team also met with the ITSO Ltd staff, in Birmingham.

5.4 Individual stakeholders were ensured that their contributions would remain confidential in order to ensure open and honest answers and to prevent any potential damage to commercial relations.

5.5 Stakeholders were universally keen to point out the achievement of ITSO Ltd in creating and building the ITSO specification from scratch in less than ten years. However, there were a number of areas of ITSO Ltd's extant practices where members felt there was scope for improvement.

5.6 *The Role of the Board.* Stakeholders asserted that the Board of ITSO Ltd could have a more strategic focus, and considered that the Board's output could be reshaped and improved. The introduction of a Chief Executive Officer would enable the Board to focus on strategic issues.

- 5.7 *Customer Service.* Stakeholders felt that membership fees were relatively low, but reported that the costs of equipment testing and compliance were uncertain and potentially prohibitively expensive. Moreover, whilst acknowledging that dialogue had taken place, some felt that changes to the specification had in the past been implemented without full consideration of the impact on system operators. Some stakeholders also expressed concerns about the pace with which equipment could be procured and certified to achieve interoperability, but this may reflect a lack of clarity about ITSO's responsibilities.
- 5.8 *Financial Planning.* Given the uncertainties over future funding streams and demands on the business, ITSO Ltd has struggled to develop a long term financial plan.
- 5.9 *Communications and Marketing.* ITSO Ltd ran five conferences on "The Art of Smart" (a guide for scheme implementers), which were welcomed by stakeholders. Stakeholders were keen to see more information from a non-technical perspective which would support them in implementing their schemes.
- 5.10 *The Role of the Department.* The Department has supported ITSO since its inception, including through significant financial support and observer status on the ITSO board, but several stakeholders suggested that for ITSO to work as a national specification, a greater commitment is required. This would require a clearer and more transparent definition of the Department's role in relation to ITSO Ltd.
- 5.11 Stakeholders felt it was important that the organisation should:
1. have the necessary in-house expertise to continue to develop and maintain the ITSO specification to take account of current and future ticketing applications, including facilitating concessionary fares and multi modal ticketing
 2. have the necessary commercial licences in place with suppliers to support the number and scale of new schemes that will require support during their implementation
 3. promote the ITSO specification and increasing awareness of ITSO
 4. represent the entire transport community and ensure that transport providers have access to a standard and the facilities to test their application to ensure interoperability
 5. work with the operators of Oyster to enable Oyster readers to be ITSO compliant.

6. RECOMMENDATIONS

- 6.1 The key finding of the review team was that the facilitation of smart ticketing schemes could be improved and the significant investment in smart ticketing better protected with the greater involvement of the Department on the Board of ITSO Ltd, supported by a Chief Executive at ITSO Ltd. This would better align the Department and ITSO Ltd for the delivery of smart ticketing.
- 6.2 Several alternative options were discussed, including a "do nothing" approach which would allow ITSO Ltd to continue to operate without change, and a piecemeal approach which would attempt to resolve specific issues with input from the Department and other stakeholders. Within the Department, it was concluded that greater Departmental engagement with ITSO Ltd for an interim period would prove the most effective way of supporting and working with ITSO during this important period of growth.
- 6.3 Subsequent discussions with the ITSO Ltd Board produced a vision for a new ITSO Board and a joint proposal to be put to the membership (included at Annex B). The following recommendations were made:
- i) The Board would retain the existing representation of the membership by sector but would provide for Departmental majority control through allocating the Department 51% of the voting rights.
 - ii) The Devolved Administrations should both be allocated full seats on the Board, in contrast to their previous Observer Status, in order to reflect the investment they have made in smart ticketing (Transport Scotland having implemented the largest ITSO scheme to date), and the vision of ITSO as a national specification.
 - iii) The Department should commit to engaging more closely with Transport for London, including persuading TfL to take up a seat on the Board, bringing extensive experience of smartcard scheme implementation. This would occur in conjunction with the establishment of the ITSO on Prestige agreement, designed to bring about ITSO-Oyster interoperability.
 - iv) Sector representation should continue on the Board, with the number of representatives from each of the Bus and Light Rail, Heavy Rail, Public and Supplier sectors being reduced from three to two per sector, in order to maintain a comparably sized Board (organisational chart at Annex C).
 - v) The revised Board agreement should expire in December 2012. Moreover, the membership of ITSO should still retain decision making rights through General Meetings.
- 6.4 These recommendations preserve the membership safeguards of ongoing participation in decision making, allow continuity of service delivery and the delivery of current work programme, facilitate a clear ITSO-Oyster strategy and will drive ongoing improvement to the

credibility of the ITSO brand. These recommendations also maintain the successful partnership approach of ITSO Ltd and the Department,

7. IMPLEMENTATION

- 7.1 The Department worked with the Board of ITSO Ltd to consider how the proposals might best be implemented. The ITSO Company Secretary advised that a membership vote was the only mechanism for altering the Board composition of ITSO Ltd.
- 7.2 The proposal and plan for implementation via a membership vote was then approved by Ministers in April 2009.
- 7.3 In preparation for three Directors to be appointed from the Department, a health-check was conducted as part of due diligence on ITSO Ltd's current finances, contracts and legal liabilities. Individual directors nominated to the Board by the Department will be indemnified with the standard indemnity provided in respect of civil liability to third parties.
- 7.4 The Department and ITSO Ltd produced a joint explanatory memorandum for the membership to accompany notice of a General Meeting. This document is attached at Annex B.
- 7.5 A vote was held at an Extraordinary General Meeting, held at the Department's offices in Great Minster House on 2 June 2009. By a show of hands, in accordance with the ITSO Ltd Articles of Association, the proposal was passed.
- 7.6 Existing Board members stood down where appropriate; sector members will continue to be elected according to their sectors' existing practices.
- 7.7 The Department's Director of Procurement, Director of Regional and Local Transport Policy, and Chief Scientific Advisor joined the Board. At the first meeting of the new Board, on 24 June, a new Chair was elected.
- 7.8 The Department also used the Extraordinary General Meeting, and a subsequent supplier sector meeting, as an opportunity to identify lessons learned within the Department during the review, especially those which might inform work on the ticketing strategy, or on other smart ticketing work streams. In particular, it was noted that:
- One of ITSO's key strengths is its membership. Much of the feedback to the review came from organisations currently operating ITSO schemes and there was some concern that a range of views from other sectors was not fully taken into account. The Department will, through the ticketing strategy consultation, give further consideration to stakeholder representation from all sectors;
 - The internal deadline set for the review was missed, largely due to ongoing dialogue with ITSO and its stakeholders, who took advantage

of the Department's 'open door' policy. From this the Department notes that projects should balance the importance of immediate results with the need to take on the views of a variety of stakeholders, and the need to develop solutions in partnership with stakeholders.

8. NEXT STEPS

- 8.1 The priority for the new ITSO Board will be to prepare a two year business plan for ITSO, to be executed by a Chief Executive (an ITSO employee to be appointed by the new Board).
- 8.2 The business plan will include, and will be based, on an examination of the commercial setting for smartcard ticketing in the UK, including the lessons learned from the experiences of previous scheme roll outs.
- 8.3 The Board's objectives are to:
 - Agree a new long term strategy for ITSO Ltd, based on a goal of widespread take up of interoperable smart ticketing using the ITSO specification
 - Agree a new business plan for ITSO Ltd, based on the principles of business excellence.
 - Agree key targets and objectives for ITSO Ltd
 - Agree levels of service agreements to ensure value for money for members.
- 8.4 The Board will be supported by the existing ITSO staff in Birmingham, and by a project team within the Department.
- 8.5 The Department remains committed to ITSO as the technical specification for interoperable smart ticketing in the UK and to the success of ITSO Ltd as an independent, member controlled organisation responsible for maintaining that specification.
- 8.6 There is every opportunity for a step change in coverage in the near future. To realise the full benefits requires a co-ordinated approach from suppliers, operators and local authorities built on a mature, stable and interoperable technical specification. This is the goal of the new Board.

ANNEXES

A. INTERNAL STEERING GROUP TERMS OF REFERENCE

Aim

Oversee the ITSO review process to ensure that it includes all relevant aspects of the Department's work and delivers an outcome that identifies clear actions to ensure that ITSO [is] a fit for purpose organisation that can meet the requirements of the DfT.

1. Define and agree a clear specification for the review which uses the **R**esponsibility, **A**ccountability, **C**onsultation, **I**nform (RACI) approach
2. Ensure that the relevant parts of the Department are represented and informed
3. Steer the project team to ensure that the outcomes meet the aims of the review
4. Agree the criteria for any review work to be undertaken by consultants
5. Provide input and direction to the ongoing review
6. Ensure that the review process is open and transparent to all stakeholders
7. Evaluate the finding of the review and make recommendations to the DfT Board from Phase 1 in readiness for Phase 2 of the review, by August 2008
8. Be prepared to make recommendation on the future funding of ITSO by December 2008

B. EXPLANATORY MEMORANDUM TO MEMBERS

Issued at the ITSO Emergency General Meeting, 02/06/09

Proposals to amend the governance of ITSO Ltd for an interim period

Introduction

This document has been jointly prepared by the Department for Transport and the ITSO Board.

It sets out proposals to amend the governance of ITSO for a specified period, and the reasons for these recommendations. The proposals have the support of the ITSO Board and of the Department for Transport.

In order to give effect to these governance changes it will be necessary to revise the Company's Articles of Association, and the proposals in the accompanying resolution deliver the changes described below.

The ITSO Board believes that the proposals are in the best interests of the Company and therefore recommends that Members vote in favour of the accompanying resolution at the General Meeting of the Company which is to take place at x hrs on At.....

Members should note that for the motion to be carried, 75% of the votes cast will need to be in favour.

Overview

1. The commercial review of ITSO Ltd conducted by the Department for Transport concluded that, while ITSO has made significant steps to develop and implement the ITSO specification, the Company is now at the point where it needs considerably more commitment and support from the Department to realise its full potential in the short term. This is a particular challenge now as major commercial and public sector schemes are in the process of going live.
2. The ITSO Board and Department for Transport have discussed the best way forward. The Board has agreed to recommend that DfT should take control of the Board until December 2012 during which time DfT will provide resources and support for ITSO to meet the challenges ahead in delivering a shared vision of the future.

The Proposals

3. The Board has sought to retain the current ethos of ITSO as a Membership organisation and proposes to make no changes to voting rights or procedures in General Meeting, save for any required by the Companies Act 2006.

4. The institutional changes proposed are at Board level only, with the exception of the proposed Chief Executive who will be responsible for the execution of the Business Plan.
5. It is proposed to restructure the Board so that the Department for Transport will appoint three directors to the ITSO Board, with weighted voting rights so that they can command a majority. These DfT directorships and the accompanying voting rights will expire on 31st December 2012. Thereafter, the DfT will have the right to appoint one director to the Board.
6. Provided each is a Member of ITSO, each of Transport Scotland, the Welsh Assembly Government and Transport for London will have the right to appoint one director to the Board.
7. Each of the supplier, rail, bus (and light rail) and public sector groups will have the right to nominate two directors. Those organisations identified in 5) and 6) will take no part in the selection of sector nominees.
8. The Chair will continue to be elected by the Board, with one of the DfT directors to be the first Chairman of the Board following the introduction of these changes.

Further Background

9. The requirements on ITSO are undergoing a period of considerable growth, particularly following the establishment of the English National Concessionary Travel Scheme (and concurrent schemes in Scotland and Wales). Additionally, rail franchises are implementing ITSO compliant schemes, and TfL - ITSO convergence is underway.
10. The increasing financial commitment to ITSO on the part of scheme operators and local authorities, and the need to protect the investment of all stakeholders, has prompted a re-evaluation of ITSO's current commercial procedures, to build on the successes achieved in the past ten years.
11. ITSO members and stakeholders have asked that the Department take a more central role in the development, roll-out, promotion and regulation of the ITSO specification and the Department accepts that it will do so. The Board has also given consideration to its executive structure, in order to ensure that ITSO is best placed to deliver on its Business Plan. It is of the view that the short to medium term workload justifies the appointment of a Chief Executive to both support the Board and ITSO's employees.
12. The Department and the Board are agreed that ITSO needs to evolve and develop in order to keep pace with commercial demands

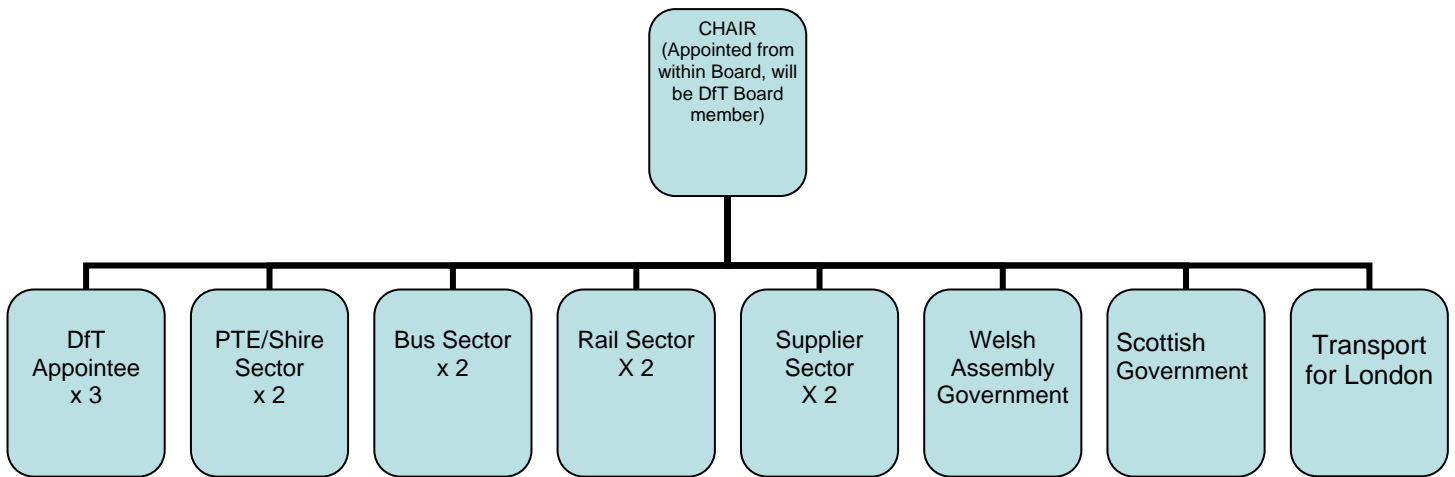
and support a wide range of smart ticketed products (in all their forms). These proposals are designed to underpin ITSO for the next stage of the commercial roll out of smart ticketing, ensuring interoperability of multimodal schemes.

13. The Board will continue to place particular emphasis on ensuring value for money for ITSO Members, be they government, local authorities, operators or suppliers.
14. The considerable investment and experience of existing smartcard scheme operators will be reflected in the composition of the new Board. The Scottish Executive (represented by Transport Scotland), the Welsh Assembly Government and Transport for London have been invited to join the Board as full, voting Directors.
15. The representation of members by sector will be retained (albeit reduced in number, in order to maintain a manageable number of Board members). Members will continue to elect sector nominated Directors. Nominated Directors may not in future be vetoed by the Board, as they can be presently.
16. Once the proposals are agreed, the Board will seek to formalise the arrangements whereby special interest groups, (e.g. those representing suppliers and licensed operators) can contribute their expertise to ITSO going forwards.
17. The Department for Transport will nominate three members of the Senior Civil Service to sit on the Board, with the expertise to ensure that the effectiveness of the Department's contribution to ITSO is maximised.

Enclosed is the Resolution which Members are being invited to approve. This identifies each of the changes to the Articles of Association necessary to give effect to the above.

For completeness, the revised Articles of Association incorporating these proposed changes are also enclosed for information.

C. NEW ITSO LTD BOARD STRUCTURE



Total: 14 Board members

Sector representatives elected by members from that sector

Weighted voting such that each DfT appointee has 3 votes, to 1 vote each per other Board members

Elected Chair has casting vote