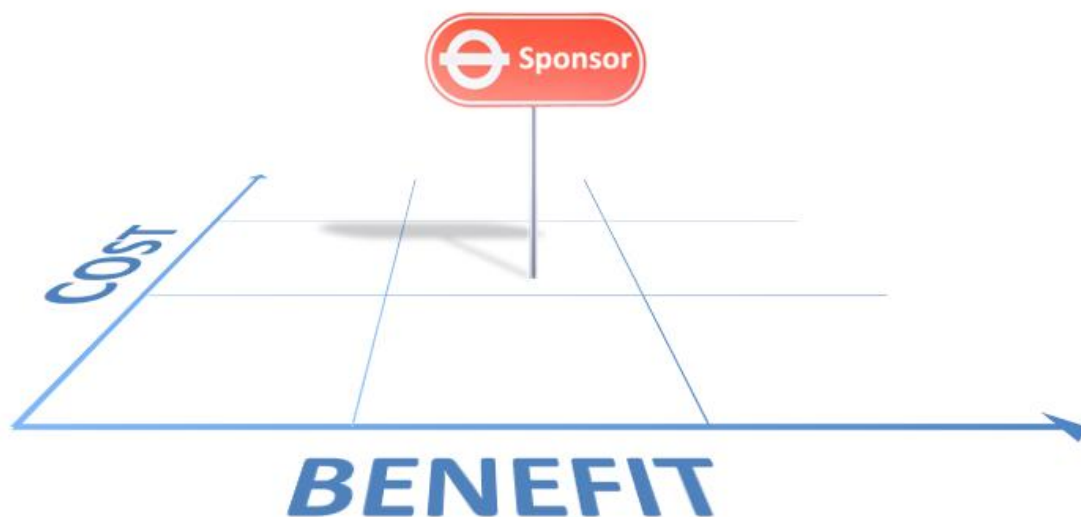


The viability of sponsored transport schemes

November 2014



Budget and Performance Committee Members

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The Budget and Performance Committee scrutinises the Mayor's annual budget proposals and holds the Mayor and his staff to account for financial decisions and performance at the GLA. The Committee takes into account in its investigations the cross cutting themes of: the health of persons in Greater London; the achievement of sustainable development in the United Kingdom; and the promotion of opportunity.

Contact:

William Roberts, Budget and Performance Advisor
email: william.roberts@london.gov.uk
Tel: 020 7983 4958

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Chairman's foreword



In the public mind, the idea of sponsorship of a good cause is firmly established – generous, altruistic, and with perhaps the desire that some of the goodwill rubs off on a supportive sponsor. However, outside of the area of Corporate Social Responsibility, sponsorship in the commercial sector is a far more hard-nosed matter. This is our second report into TfL's, and the Mayor's, pursuit of commercial sponsorship of parts of London's transport services, seeking to better understand, and to help TfL to develop, thinking in this area.

In the case of the sponsorship of one private body by another – a motor racing team, or a football club for example – the principles of mutual self-interest are clearly understood. This is less clear in the public sector. What public benefit is secured? Is it purely financial or is it meant to have 'added value'? Are the underlying public objectives, and priorities, of a public project retained in a sponsored scheme? And what is the role of an Executive Mayor, a politician who almost certainly has their own policy positions and priorities, in making these decisions?

The GLA's record to date involves two projects, the Cycle Hire Scheme (CHS) and the Thames Cable Car (TCC), with a third, the Garden Bridge, in development. All are, or will be, delivered through TfL. Sponsorship brings in relatively small sums of money when set against TfL's huge budget. But it is, by its nature, highly visible. It is important that TfL takes care in selecting the right sponsorship partners that help develop transport schemes and attract more users.

Each year, Barclays provides £5 million for the CHS, and Emirates provides £3.6 million for the TCC. This support helps reduce TfL's funding for the schemes, and therefore reduces the burden on tax and fare payers. But sponsorship is now about much more than just money. Emirates is a committed sponsor, and is providing more than just financial support. Barclays, the first sponsorship deal from which everyone has learned, has always been a less active sponsor. Both have exposed their brand, in a high profile way, to a public service. How has this all worked?

When the deal with Barclays runs out in 2015, our evidence, and this is supported by both the Mayor's Office and TfL, is that TfL must select a sponsor that will really throw its weight behind the CHS. It is important that the next sponsor helps increase ridership and make it the success that we all want it to be. While the 'bottom line' is important, the 'added value' is vital too. Indeed, a more active sponsorship agreement may be

more financially beneficial – in principle a lesser sum but a more active partnership might lead to a more viable scheme. Understanding and negotiating this balance is a skill which TfL is learning and getting a grip on.

The CHS and the TCC have both cost considerably more than forecast, in capital costs, than when the Mayor first announced them. Their revenue performance has however diverged.

The CHS will make a loss for the foreseeable future because far fewer people are using it than expected, and it requires heavy subsidy from TfL. This is currently £1.39 each time a bike is hired and, while relatively small compared to TfL's other operations, the CHS is by a long way the most heavily subsidised form of public transport in London on a per trip basis.

On the other hand, it is expected the TCC will break even in 2020/21, and will have paid back its construction costs. However, it is currently a tourist attraction more than an integrated part of the transport network and has, through premium, non-integrated, fares, only achieved its financial security to date by occupying this niche role.

It is not totally clear how projects are selected for sponsorship. Each project to date has been a new piece of infrastructure, in a 'non-core' mass transport area. Each has been championed strongly by the Mayor. Each has required access to TfL's capital resources, and has required an implicit TfL financial guarantee. Risk, both on delivery and operating costs, has therefore been retained by TfL, in spite of initial claims that the project would be essentially self-funding and would cover its costs. The process of prioritisation has also been less clear-cut than for other schemes, with the 'gift' of sponsorship support, together with the priority given by the Mayor's Office, allowing it to 'leapfrog' other schemes with an arguably better core transport purpose or Benefit-Cost ratio. There is no evidence that TfL has considered the opportunity cost issues around taking the risk and bearing some of the costs of these non-core schemes.

TfL also needs to improve the quality of its forecasting for future schemes. These forecasts underpin the business cases which determine whether schemes are approved for investment. We recommend that the Independent Investment Programme Advisory Group should examine TfL's forecasting and project appraisal process, and review scheme proposals that could be described as novel or contentious.

And the Mayor's Office and TfL need to be clear where the decisions lie when they are prioritising schemes that sit outside of the transport strategy and TfL's agreed programmes. An Executive Mayoralty was created to, among other things, promote such schemes, but good governance requires that the decision lines and prioritisation should be clear when this happens.

Our investigation also looked into TfL's support for the Garden Bridge proposal as another example of public-private funding for a non-essential transport scheme. We recognise that there is an arguable transport case for TfL's funding for the bridge. And that the business case, based on a package of public funding 'leveraging' private contributions, indicates that it will provide a good return on investment. However, we have concerns regarding further requests for funding, a lack of transparency, the fact that public access has not been guaranteed and, for some of us, that it is not really a transport project but rather a project that will benefit from access to TfL's sizeable capital resources.

It is clear, on the limited experience to date and the evidence we have received, that sponsorship can play an important role in transport schemes, both in terms of financial support and helping to promote and grow projects. It is also apparent that the right sponsor is important and TfL's choice of the next sponsor for the cycle hire scheme will be a crucial factor in the success of the scheme over the coming years. TfL has clearly learned from its previous experience, and we are pleased that we have helped to bring attention to this issue. We hope that TfL takes on board the findings and recommendations from our investigation.

Executive summary

Introduction

Londoners are rightly proud of their public assets and need to be assured of the value and necessity of Transport for London (TfL) selling their branding rights. The Mayor put commercial sponsorship at the heart of his case for investment in two of his flagship transport schemes - the Cycle Hire Scheme (CHS) and the Thames Cable Car (TCC). Tax and Fare payers need to be sure that the arguments for sponsorship add up and that TfL is up to the job of securing them a fair deal from the private sector.

Now that the CHS and TCC are established parts of London's transport system, there is an opportunity to test this. In carrying out this investigation, we hope to influence thinking about how TfL can maximise the value of these schemes, make the most of future sponsorship opportunities and better demonstrate that the priority and value of its chosen investments are fully justified.

The cycle hire scheme (CHS)

Performance

The CHS has attracted fewer users and is more expensive than TfL originally expected. Despite two expansions and the number of bikes more than doubling, the scheme has attracted 70 per cent of the users expected by TfL. The inability to attract enough riders has led to low rental income and TfL's plan for the scheme to break even operationally within three years has proven to be unrealistic. The key to making the scheme more cost-effective is to increase ridership.

Sponsorship of the CHS

The CHS's sole sponsor, Barclays, has proven to be a somewhat disappointing sponsorship partner for TfL and has not done enough to promote and develop the scheme. The decision by Barclays to end its sponsorship arrangements in 2015 provides a real opportunity for TfL to find a more committed and supportive sponsorship partner. TfL is now in a strong position to attract an influential and enthusiastic new sponsor that can both provide valuable sponsorship income and is prepared to take a proactive role in marketing and growing the scheme. In considering its next sponsor, TfL should prioritise the sponsor's ability to capture the public's interest and work with TfL to increase ridership. While there are benefits in TfL seeking a long-term sponsorship contract, a lot can change over that period. TfL needs to ensure that the new contract provides

sufficient flexibility to adapt as the needs of the scheme and the expectations of TfL and its new sponsor change.

Other ways of increasing ridership

TfL must also take advantage of the various other opportunities that exist over the next few years to increase ridership. Finding a committed sponsor is key, but other opportunities include: increasing the concentration of docking points; ensuring that the £913 million, ten-year cycling budget is used effectively; and using the end of the current operator contract with Serco in 2017 as an opportunity to improve docking stations and ticketing systems so that they are more user-friendly.

The Thames cable car (TCC)

Performance

Although the TCC cost more to build than when originally announced, TfL is confident that it will meet its financial target to break even within ten years. But it will only achieve this by operating as a tourist attraction with higher fares than as a transport link for regular users.

Sponsorship

The TCC sponsorship deal with Emirates looks to be providing good value. TfL appears to have learnt from its experience with the CHS and found a sponsor that is prepared to provide more than just sponsorship income. Emirates has taken an active role in promoting the scheme and by setting up the Emirates Aviation Experience at the base of the TCC, demonstrated a long-term commitment to the regeneration of the area.

Maximising the TCC's potential

However, we do have concerns that TfL's plans to increase ridership and fares income over the next ten years are overly optimistic. We understand that TfL has a difficult task of trying to balance affordability for regular users with the broader aim of providing value for money. But we believe that TfL may be missing an opportunity by focusing on the tourist market. We hope that, over the longer term, the TCC will prove to be a well-used and highly-valued transport link for regular users. We ask TfL to assess on an annual basis how bringing TCC fares in line with the rest of the transport network would affect fares income and to weigh this loss against the benefits for the local area of the TCC becoming an affordable transport link for regular users.

We support the Mayor in building infrastructure to help future development and recognise that the benefits of such schemes may take several years to emerge. However, if this is the approach being taken, it

should have been made clear from the outset and supported with high-quality forecasting and a sound business case.

TfL's investment decision-making process

Project appraisal

The business cases used to justify the CHS and TCC were based on ridership estimates which have since been proven to have been unrealistic. The over-optimistic nature of these estimates may have influenced the decisions to proceed. Further work should be carried out to determine whether the inaccuracy of estimates was specific to these business cases or whether it is indicative of a broader problem relating to the quality of business cases that TfL uses to justify its investment decisions. TfL's project appraisal and business case development process would benefit from being updated to capture a broader set of benefits, and with additional consideration given to how sponsorship is treated. The Independent Investment Programme Advisory Group (IIPAG) has a valuable role to play in vetting TfL's appraisal process.

TfL is increasingly justifying its investment decisions on the basis of the economic benefits they will bring, rather than purely the transport improvement sought. We welcome this, but unfortunately, TfL's appraisal process does not seem to have kept pace with the growing expectations for its investments. TfL is only now beginning to quantify the economic impact of some of its schemes - as demonstrated in the business case for the Garden Bridge. We urge TfL to revise its business case methodology and ensure that the economic benefits of potential schemes are quantified and factored into all project appraisals from April 2015. We also recommend that for all business cases involving sponsorship, that TfL captures and quantifies the costs and benefits of having a sponsor beyond those of additional income.

Investment decision-making

In making the case for the CHS and the TCC, the Mayor overstated the role that sponsorship would play in making them financially viable, and understated the cost of the schemes to the taxpayer. TfL should have been more transparent about how the costs and the value of the sponsor's contribution changed between when the schemes were first proposed by the Mayor and when the TfL Board approved the schemes for investment. Since then and following the Assembly's report last year, TfL's decision-making has become more transparent and we would expect TfL to disclose this level of information as a matter of course now.

From the information available to the public, there is no way of knowing the extent to which the Mayor influenced TfL's decision to invest in the

CHS and TCC. We ask TfL and its Board to explain how the current arrangements allow the public to fully understand the TfL Board's investment decisions, particularly where there are differences between objective assessments and mayoral priorities.

The broader sponsorship and commercial opportunities

Capitalising on commercial opportunities

Sponsorship only represents about three per cent of TfL's non-fares revenue, but it does act as an indicator of TfL's ability to manage its other commercial activities. TfL plans to increase its non-fares revenue by 40 per cent and raise an extra £1 billion of income over the next 10 years. Given the scale of the task and opportunity, we would like some reassurance that TfL has sufficient resources to achieve its target and to know whether, with greater resources, even more could be achieved.

The Garden Bridge

The Garden Bridge could bring significant economic benefit to the surrounding area and looks likely to represent good value for TfL's £30 million investment. As first investor, however, TfL will lose its investment to date if the Garden Bridge Trust fails to raise sufficient private sector funding to complete the project. In return for TfL's contribution and the risk it is therefore taking, TfL and the Mayor should have obtained an assurance from the Garden Bridge Trust that long-term, free public access to the bridge is guaranteed. Equally, given that the Mayor has committed public sector funding to the project, we ask him to state if, and under what conditions, he would be prepared to increase TfL's contribution, should the project require additional funding.

The involvement of the private sector in sponsorship and other commercial activities should not reduce transparency. We welcome the increased transparency being shown by TfL through the CHS sponsorship retender process, and expect TfL to take the same approach to transparency with all its commercial projects in the future. Equally, where TfL makes financial contributions to third-party organisations, such as the Garden Bridge Trust, we would expect TfL to require similar levels of transparency to be shown by these organisations as part of the conditions of receiving TfL funding.

1. Introduction

- 1.1. Sponsorship makes up less than five per cent of TfL's non-fares income, but it is hugely important in terms of the public's interest and perception of TfL. Londoners want to know that TfL is getting a fair deal from the private sector, and not selling its sponsorship rights too cheaply.
- 1.2. TfL currently has two sponsored transport schemes - the cycle hire scheme (CHS) and the Thames cable car (TCC), sponsored by Barclays and Emirates respectively. The Mayor made the case for investment in both these schemes on the basis that sponsorship would make them financially viable. Now that these schemes are established parts of London's transport system, there is an opportunity to test this.
- 1.3. The purpose of attracting sponsorship for transport schemes is no longer only to generate income. A good sponsor can help TfL to establish and grow a scheme, using its marketing reach and skills to connect with a customer base that TfL cannot do by itself. These elements should become increasingly important for TfL's future sponsorship deals.
- 1.4. This report builds on our previous work, including the February 2012 report, *Whose brand is it anyway?*, which looked at how TfL should manage the risks and opportunities associated with sponsorship. The Mayor endorsed the report's recommendations and it helped shape TfL's sponsorship policy. Since 2012, we have continued to take an interest in TfL's sponsorship activities as well as TfL's broader commercial development plans and ambitions to increase its non-fares revenue. We hope that our work will help TfL to maximise the value of these schemes, make the most of future sponsorship opportunities and better demonstrate that the priority and value of its chosen investments are fully justified.
- 1.5. Our findings and recommendations are set out in four parts. The first two chapters look at the CHS and TCC, examining their performance, the value of sponsorship agreements, and how TfL plans to develop these schemes over the coming years. Chapter 4 looks specifically at TfL's investment decision-making process, how it was applied to these two schemes and whether the process could be made more transparent. Finally, in chapter 5, we explore how sponsorship fits with TfL's broader commercial revenue raising plans with specific reference to the Garden Bridge.

2. The cycle hire scheme

Key findings

- The Cycle Hire Scheme is not being used as much as TfL expected and this is making it expensive to operate. TfL subsidises the scheme to the tune of £12 million a year, equal to £1.39 per trip.
 - The sponsorship contract with Barclays no longer fulfils TfL's needs, and Barclays' decision to end its sponsorship presents TfL with a great opportunity. TfL is in a strong position to attract a new partner that – as well as providing valuable sponsorship income – is prepared to take a proactive role in marketing and growing the scheme.
 - The key to making the scheme more cost-effective is to increase ridership. First and foremost, TfL needs to consider increasing the concentration of docking points. Second, TfL must ensure that the £913 million set aside by the Mayor to spend on cycling between 2012 and 2022 is used effectively. And finally, TfL needs to integrate the scheme's fares and payment system with the rest of the network, and make the rental process more user-friendly.
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Background

- 2.1. When TfL launched the first phase of the scheme in July 2010, it was supposed to herald a “new dawn in London's bid to become the greatest big cycling city in the world”. At the time, the Mayor claimed that it would help him reach his target of increasing cycling by 400 per cent so that it represents five per cent of modal share by 2025.¹
- 2.2. The scheme has been expanded twice since its initial launch in 2010. Phase 1 of the scheme introduced 5,000 bikes and 315 docking stations to central London. In 2012, TfL expanded the scheme into east London, and Phase 3 of the scheme was rolled out in 2014, increasing availability in central London and expanding the scheme to southwest London for the first time. The CHS currently has around 11,500 bikes and 730 docking stations.

Performance

- 2.3. The CHS has attracted fewer users and is more expensive than TfL originally projected. TfL expected Phase 1 of the scheme to attract 40,000 riders per day and generate enough sponsorship and fares income to break even operationally within three years. The reality has been

somewhat different. Four years after the scheme's launch, and despite two expansions, average daily ridership in 2013/14 was 23,000, and fares income has been much less than planned.² Between July 2010 and March 2014, the scheme raised just £25 million of fares revenue compared to £70 million that TfL had budgeted.³

- 2.4. TfL subsidised the scheme to the tune of over £12 million in 2013/14.⁴ This works out at £1.39 for each cycle hire.⁵ To put that in context, TfL pays approximately £0.21 towards the cost of every bus journey and less than £0.01 towards the cost of every tube trip.⁶ If TfL subsidised every journey on the tube and buses by £1.39, it would cost TfL more than £5 billion a year.⁷
- 2.5. Increasing ridership will reduce subsidy requirements, but initial plans for a subsidy-free scheme now seem unrealistic. TfL is forecasting that it will increase ridership and double its fares income between 2013/14 and 2022/23.⁸ If achieved this should reduce the scheme's annual operational subsidy to less than £4 million. Nevertheless, even with these ambitious forecasts for ridership growth, the scheme looks likely to require TfL subsidy for the foreseeable future.
- 2.6. As well as generating less income for TfL, the low ridership levels also means that the scheme has not generated the other anticipated benefits: journey time savings, modal transfer, and health and environmental benefits. Between its launch and April 2014, and despite its expansion, the scheme had attracted just 70 per cent of the users expected for phase 1.⁹ As the wider benefits are a direct product of the number of people using the scheme, it is reasonable to say that 70 per cent of the benefits expected of phase 1 are likely to have been achieved.

Sponsorship

- 2.7. The CHS sponsorship contract no longer fulfils the needs of TfL or Barclays. When TfL entered into the contract in 2010, its core objective was to maximise sponsorship income. This objective was achieved: Barclays provides £5 million each year in sponsorship – five times the sum originally budgeted for in the original CHS business case. But, as sponsorship agencies told us, sponsorship has become less about money and more about the sponsor's ability to add value.¹⁰ Sponsors are now expected to take a far more active role than previously, to engage with customers through two-way communication, and to encourage them to develop an emotional tie with the brand. The Deputy Mayor for Transport told us that the next sponsor will have to offer more than Barclays had in recent years:

We want a sponsor who is as enthusiastic about the scheme as we are and who believes in this as a growing scheme that can still deliver very, very significant trip growth. We want a sponsor who is really passionate and enthusiastic about this scheme. Barclays did not feel to me like that sponsor anymore. Maybe they were at the outset.¹¹

It is important that TfL learns from its experience with Barclays in securing a new sponsorship agreement.

- 2.8. Barclays' decision to not continue its sponsorship of the scheme beyond 2015 presents TfL with a great opportunity.¹² TfL should be able to find a new partner who is fully committed to developing the scheme, and willing to use its marketing resources to increase ridership. TfL's negotiating position is bolstered by the fact that the CHS now has a proven track record and has become an iconic part of London's streets. And, as we discuss in Chapter 5, TfL has much greater commercial skills and resources than when it negotiated its original deal with Barclays.
- 2.9. The evidence suggests that TfL recognises the opportunity it now has. In stark contrast to the original tender process, TfL has clearly set out its objectives and made clear that it is looking for a partner who shares TfL's vision and is prepared to commit more to the scheme than just a financial investment. Given the importance of increasing ridership to make the scheme more cost-effective (as detailed below), we would expect TfL to place significant weighting on a potential sponsor's ability to increase ridership.
- 2.10. TfL is looking to agree a seven-year minimum contract period with the scheme's next sponsor. There are benefits from such a long contract period including greater financial certainty and the ability to develop and work together on a long-term strategy for the scheme. However, a long contract also brings risks. As Jackie Fast, Managing Director of Slingshot Sponsorship, explained to us:

Seven years is a very, very long time. When you start talking to brands about marketing, most people do not have a marketing strategy that lasts that long. Making sure that that brand is invested with the direction that TfL wants to go is key. It is crucial.¹³

- 2.11. As the Barclays contract has demonstrated, the demands of the scheme and the role the sponsor is expected to play can change. TfL needs to build sufficient flexibility into the contract to ensure that the seven-year term does not constrain the scheme's development, but indeed helps

secure its long-term success. We look forward to seeing evidence of this when the sponsorship contract is published.

Other ways to increase ridership

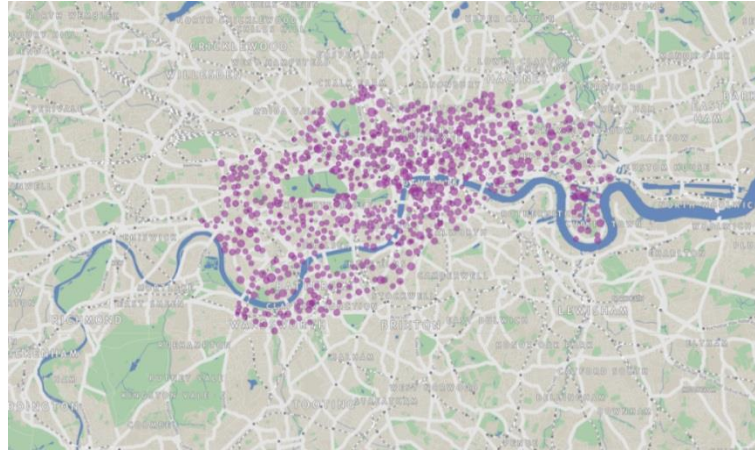
- 2.12. Increasing ridership will improve the scheme's cost-effectiveness and reduce the burden on the taxpayer by bringing down the required level of subsidy. This is because, while ridership levels are closely linked to fares revenue, they have a minimal effect on operational costs, unless the scheme is operating close to full capacity. In addition to finding a new sponsor to help market and invigorate the scheme, TfL must also take advantage of the other opportunities that exist over the next few years to increase ridership. Namely, increasing the density of bike provision, investing in cycling infrastructure and making the actual act of hiring a bike much easier.

Density of bike provisions

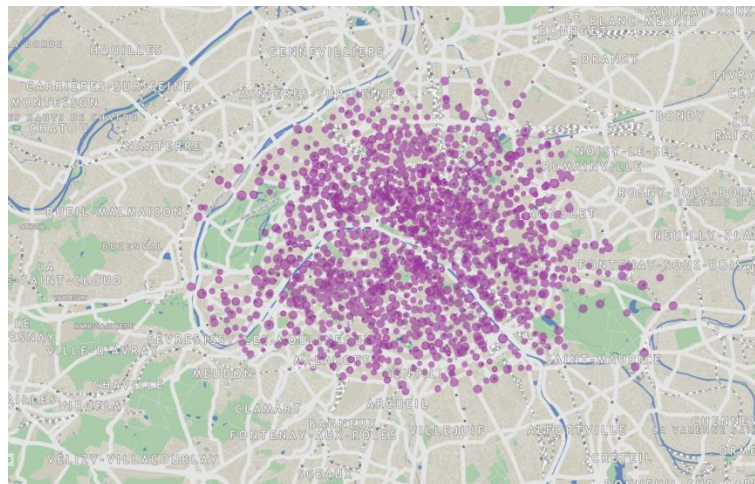
- 2.13. First and foremost, TfL needs to consider increasing the concentration of docking points. Having docking points closer together makes it easier to find and return a bike in the areas of highest demand and raises the profile of the scheme. TfL suggests that the biggest reason why ridership is so much lower in London compared with New York and Paris is because docking points are spaced further apart from each other. For comparison, across the whole current CHS scheme, London has an average of 195 docking points per km² compared to 255 per km² in Paris and 341 per km² in New York.¹⁴ Cycle hire bikes in London are being used just 3.1 times a day on average compared with 6.7 times a day in Paris and 8.3 times a day in New York.¹⁵

Cycle hire schemes in Paris and New York have more docking points per square kilometre than London's CHS

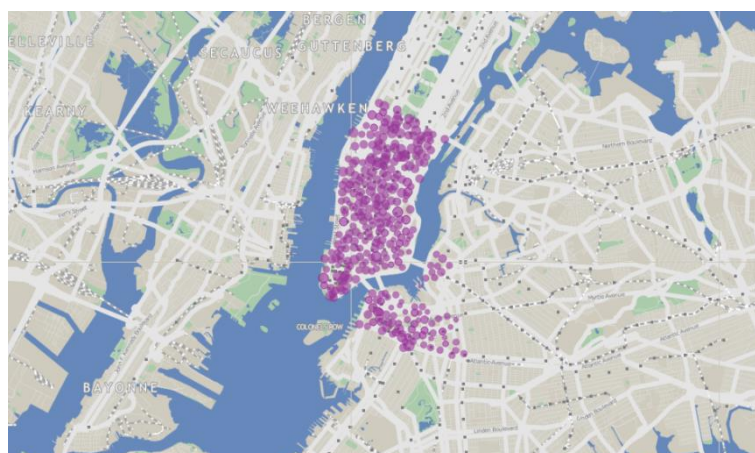
London



Paris



New York



Each dot represents a single docking station. The size of the dot represents the number of docking points at that station.

Images courtesy of Oliver O' Brien at the University College London, Department of Geography, <http://bikes.oobrien.com/>

- 2.14. TfL's primary focus must be on making the scheme more cost effective. Evidence suggests that the best way to do this would be to intensify bike provision in areas already covered by the scheme before looking to expand it into new areas.

Quality of cycling infrastructure

- 2.15. Second, TfL must ensure that the £913 million set aside by the Mayor to spend on cycling between 2012 and 2022 is used effectively. Until recently, road designers have not given much thought to the needs of cyclists and many people feel vulnerable cycling in London.¹⁶ The introduction of designated cycle lanes on some routes and the redesign of some traffic junctions are improving things, but London still has a long way to go to become a truly cycle-friendly city. A budget of £913 million is not enough to transform the city's roads, but the redesign of some major road junctions and cycle super highways is a good start. The investment also sends a clear message that the Mayor is serious about increasing cycling in London.
- 2.16. We are concerned that TfL's investment plans for cycling have slipped. TfL has not been able to fulfil its investment plans for the first two and half years of the £913 million programme and many projects have slipped into future years. While ring-fencing of the budget provides some assurance, the scale of underspending to date and the inability of the current Mayor to safeguard budgets beyond 2016 has led some to express concerns that the planned investment may not take place.

Ease of hiring bikes

- 2.17. Third, TfL needs to integrate the CHS payment system with the rest of the network and make the rental process more user-friendly. The CHS is not integrated with the Oyster ticketing system and the steps involved to hire a bike take too long. TfL's contract with Serco to manage and operate the scheme ends in 2017. If TfL wants to modernise how docking stations and ticketing systems work, then this would be the time to do it as the scheme's mechanisms are so closely tied to the requirements of its operator.
- 2.18. The introduction of the Oyster card and contactless payment on the rest of the network has been hugely successful. As well as speeding up the ticketing process, it has encouraged passengers to use multiple modes to complete their journeys and, thereby, spread demand more evenly across the network. The Deputy Mayor for Transport told us that having the Oyster or similar network-wide ticketing system working on the CHS was the "utopia we need to be moving towards".¹⁷

- 2.19. TfL will have to update its technology before Oyster or contactless card payments can be used on the CHS. For each hire, TfL has to take credit card details from the customer to cover unforeseen costs such as late returns and non-returns; TfL does not have to deal with this issue on any other part of its network, and is not currently able to do this using Oyster payment technologies. However, contactless card technology is advancing and there may be ways of adapting it for use on the CHS. TfL's development of the Transit Transaction Model may pave the way for a contactless card system that allows TfL to bill users at the end of the day, depending on their overall use of the TfL network. This would transform ticketing for customers, and allow the CHS to be brought fully into the TfL network.
- 2.20. A new contactless ticketing system could have commercial value and generate income for TfL. TfL already licences the intellectual property it owns around smartcard readers and looks likely to generate a commercial return from its Transit Transaction Model for contactless cards.¹⁸ And, with cycle hire schemes already operating in over 500 cities around the world, there may be opportunities for TfL to sell its technology on.¹⁹
- 2.21. We acknowledge that developing a new ticketing scheme and upgrading docking stations will be expensive. But we encourage TfL to be ambitious and not to underestimate the impact that hugely simplifying the hire process may have on ridership levels, scheme benefits and demands on TfL's budget. With the CHS operator contract with Serco due to end in 2017, TfL will need to act quickly to ensure that such fundamental changes to the CHS are factored into the next operator contract. We agree with the Deputy Mayor for Transport's view that these improvements could be "the single biggest driver of trip growth" for the CHS, and we urge TfL to act now so that the scheme can be transformed over the next few years.²⁰

Recommendation 1

For the next sponsorship deal on the CHS, TfL's selection process should include an evaluation of the potential sponsors' plans and ability to promote the scheme and grow its ridership. When it publicly announces its next sponsorship agreement, TfL should publish its evaluation of the sponsorship proposals and set out the basis for deciding its chosen sponsor.

Recommendation 2

Further investment in the CHS should focus on increasing ridership in the most cost-effective way. From January 2015, any business case presented to the TfL Board to geographically expand the CHS should demonstrate that it would lead to a bigger increase in ridership than spending the same amount intensifying bike provisions. If it does not do this, the business case should clearly justify why geographical expansion is more important than increasing ridership.

Recommendation 3

TfL should bring the CHS fully into its regular ticketing and payment systems when the next operator contract starts in 2017 (or before if technically and financially feasible). In response to this report, we ask TfL to comment on this proposal and provide us with a timeline of when decisions would have to be made on CHS infrastructure improvements to take advantage of the opportunity offered by the new operator contract starting in 2017.

3. The Thames cable car

Key findings

- The Thames cable car sponsorship deal with Emirates looks to be providing good value for TfL.
 - TfL is confident that the Thames cable car will break even within ten years, but it will only do this by continuing to market and price it more as a tourist attraction than as a transport link for regular users.
 - We are concerned that TfL's forecasts for passenger numbers and fares income are unrealistically optimistic. TfL projects that passenger numbers will almost double to 2.8 million by 2019/20 and average fare revenue per passenger will increase by almost 50 per cent to £5 over the same period.
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Background

- 3.1. The TCC crosses the Thames between North Greenwich and the Royal Docks. It was opened in June 2012 and played an important role in transporting people between two major sporting venues (ExCeL and the O2 arena) during the Olympic and Paralympic Games. It cost £63 million to build and approximately £6 million a year to operate. Emirates is the TCC's sole sponsor and will pay £36 million over a ten-year period ending in 2022/23. It currently attracts around 1.5 million passengers a year.

Performance

- 3.2. Although the TCC cost much more to build than when originally announced by TfL, it is still expected to break even within ten years. TfL first estimated that the TCC would cost in the region of £25 million to build, and the Mayor stated that private sector funding would cover all of its construction costs. In the event, the construction was more complicated than TfL initially anticipated, and costs finally totalled £63 million. In 2011, TfL secured a sponsorship deal with Emirates worth £36 million over ten years, and received £8 million from the European Regional Development Fund in 2012. In cash terms, this left TfL with a shortfall of approximately £20 million on the capital costs of the TCC. TfL expects to fill this gap from fares income, which more than covers the cost of operating the cable car, so that the TCC breaks even by 2022/23.

Emirates as a sponsorship partner

- 3.3. At £36 million for a ten-year deal, TfL managed to secure significantly more sponsorship income for the scheme than the £2.5 million a year it originally estimated. Emirates now has extra branding rights on all Tube maps which may have led to the additional income being agreed, but both parties seem content with the deal. In structuring the contract, TfL learned from its experience with the sponsorship of the CHS and did not include any rights within the contract for Emirates to reduce its payments if forecast ridership levels or other performance indicators beyond TfL's direct control were not achieved. Because of this, TfL can be confident that it will receive the full £3.6 million each year.
- 3.4. Emirates has provided more than just sponsorship income. In contrast to Barclays, TfL describes Emirates as a 'passionate ambassador' and is quick to acknowledge the role it has played in helping promote the TCC.²¹ This includes working with local schools and rebranding some of its products so that they focus more on the scheme and less on the Emirates corporate brand. Emirates has also shown a long-term commitment to the area by spending over £4 million on its Emirates Aviation Experience, which is located at the Greenwich Peninsula TCC station. While being a showcase for Emirates products, it attracts tourists, provides an educational resource and demonstrates Emirates' desire to be involved in the regeneration of the local area.

A tourist attraction, not a transport link

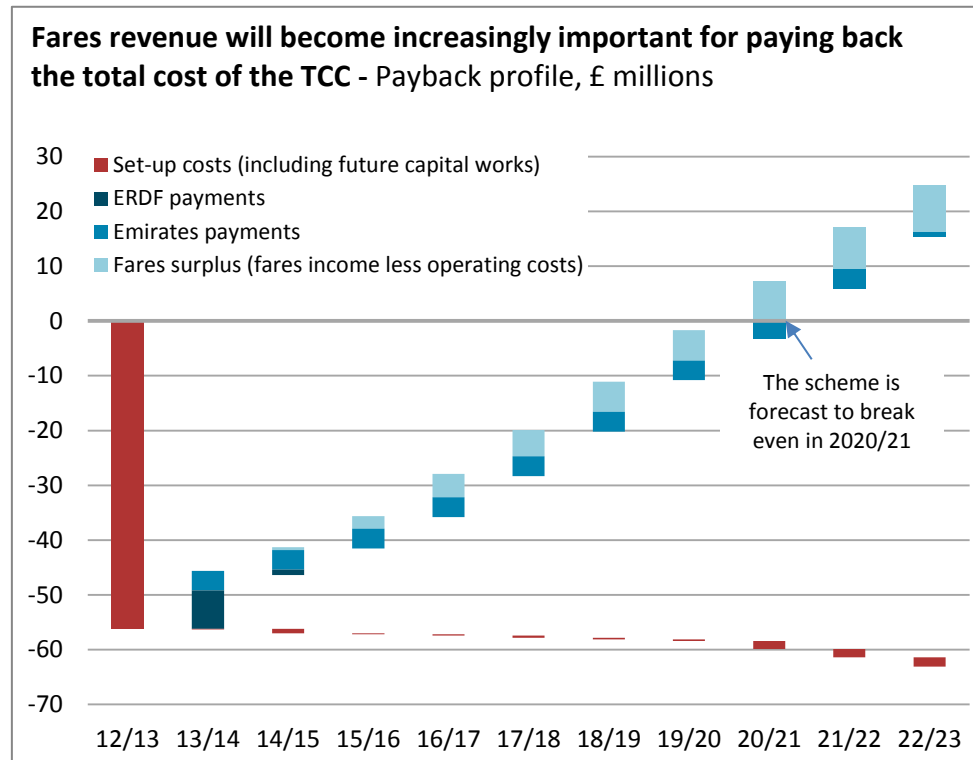
- 3.5. TfL has chosen a marketing strategy more focussed on attracting tourists than regular users. The TfL website describes it as an "experience" instead of a transport link and focuses on the great views it offers. In stark contrast to all other forms of transport, where TfL's focus is on convenience, speed and reliability, TfL slows down the cable car outside peak travel times to prolong the journey for passengers. This emphasis is at odds with its original purpose which, according to the business plan, was "to improve river crossings for transport users".
- 3.6. The TCC's pricing policy reinforces TfL's focus on attracting tourists. TfL's fares strategy is expensive for all but the most regular users. A single journey on the TCC currently costs £3.30 compared with £1.60 for a peak-time single Zone 3 pay as you go Oyster ticket, which would allow users to travel on the Tube and then DLR from Greenwich North to Royal Victoria or vice versa. There is an option to buy a 'multi-journey discount' fare which allows you to make ten journeys for £16. However, for less frequent, but nevertheless regular travels, this is an expensive option. Furthermore, for those whose journeys do not start at North Greenwich

or the Royal Docks, the TCC is an expensive transport link because Travelcards are not accepted, and daily capping of Oyster cards does not apply.

- 3.7. Given TfL's focus on the tourist market, it is not surprising that the TCC has not attracted as many regular users and cyclists as TfL had originally expected. The original business case assumed that – out of an average daily ridership of 5,500 – there would be 930 pedestrian commuters (17 per cent) and 670 cyclists (12 per cent). TfL has been unable to provide us with figures for the number of passengers who are regular users, but ridership figures for a week in October 2013 (released under Freedom of Information legislation) show that very few commuters were using the TCC. On average, the TCC was used by fewer than forty people each day between the hours of 7am and 9am, and only four Oyster card holders travelled more than five times.²² TfL has been unable to provide us with recent figures for cyclists using the TCC, but data from the first three months of the TCC's operation show that as few as 1 in 400 passengers (0.25 per cent) were cyclists.²³ This is surprising given the importance the business case placed on the TCC's ability, unlike the Underground, to take cyclists across the river. Indeed, TfL's proposal for the Silvertown Tunnel suggests that as the TCC provides a mainstream transport route for cyclists and pedestrians, the tunnel will not need to accommodate either.²⁴

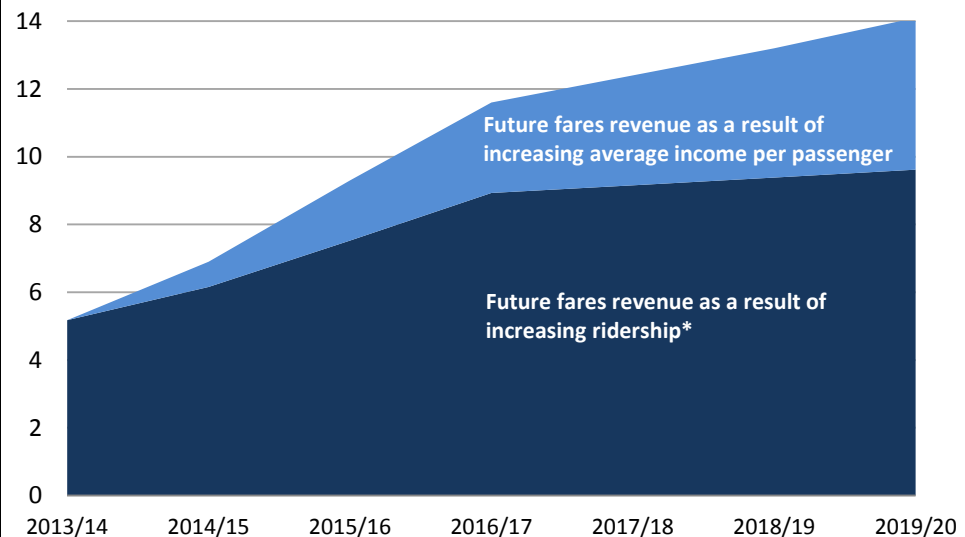
Maximising the TCC's potential

- 3.8. TfL's plan for the scheme to break even within ten years depends on increasing its fares revenue. As is always the case, TfL has the difficult task of trying to balance affordability for regular users with the broader aim of providing value for money. The ten-year breakeven target, and the higher than expected construction costs have, however, put added pressure on TfL to maximise TCC fares income.



- 3.9. We are concerned that TfL’s projections for passenger growth are too ambitious. Annual ridership is forecast to grow from 1.5 million in 2013/14 to 2.8 million by 2019/20. TfL confirmed that it was confident that it would achieve this level of passenger growth, mainly by attracting more tourists, but given that this represents almost a doubling in ridership we have concerns that this is overly optimistic – particularly in view of its inaccurate forecasts for the TCC and CHS in recent years.²⁵
- 3.10. TfL also has ambitious plans to get more income from each passenger. Over the same six year period, the average fare will increase from £3.42 to £4.99, through a combination of fare increases and a higher proportion of passengers paying for more expensive options, such as the round trip, ‘full experience’ or event-related tickets.²⁶ With no plans to bring fares for the regular user in line with other transport users, TfL’s plans for the next six years are focussed on maximising tourist revenue and not on attracting more regular users.

TfL intends to raise revenue from the Thames cable car by increasing both the number of passengers and the average income per passenger - income profile, £ millions



* This would be the increase in revenue if ridership increased in line with TfL's forecast, but the average income per passenger remained at 2012/13 levels

The 2013/14 figure is actual outturn and future years are based on TfL forecasts

- 3.11. The TCC suffers from the 'chicken or the egg' dilemma, and TfL has a difficult decision to make on when to integrate the scheme with the rest of the transport network. To some extent, the lack of demand from regular users justifies TfL's focus on the tourist market, and may ensure the scheme breaks even within ten years. On the other hand, if the TCC is to play a leading role in the area's regeneration, then TfL may have to change its strategy and use the TCC to attract people other than tourists to the area. Until the TCC is an affordable and fully integrated part of the TfL network, its ability to attract people and businesses to the area is limited. Unfortunately, as regular user demand was overstated and construction costs underestimated, it is currently hard for TfL to justify lowering ticket prices to attract local users. In deciding future fare policies for the TCC, we urge TfL to balance its financial commitment (breaking even within ten years) with its broader commitment to use the scheme to help drive the area's regeneration.
- 3.12. In many ways, it is too early to judge the success of the TCC. We fully support the Mayor's approach of building transport infrastructure to drive economic growth and the regeneration of underutilised areas of London. We recognise that, to do this, transport and other vital pieces of

infrastructure may have to be built before the demand is really there. Some commentators have argued that the TCC has been built in the wrong place, and it will never be used by large numbers of regular passengers. Even if this is correct, the TCC can still play a role in regenerating that part of London by encouraging tourists to visit, and a degree of patience is needed.

Recommendation 4

As part of its annual fares review, TfL should carry out analysis to determine how regular user demand would be affected by bringing TCC fares in line with the rest of the transport network and integrating it into the wider fares structure. As well as estimating the initial reduction in fares income, TfL should assess the potential longer-term economic benefits that such a move could generate. We ask TfL to comment on this proposal in response to this report.

4. TfL's investment decision-making processes

Key findings

- The business cases used to justify the CHS and TCC were based on ridership estimates which have since been proven to have been unrealistic. The over-optimistic nature of these estimates may have influenced the decisions to proceed.
 - The potential for a scheme to attract sponsorship must not automatically push it to the top of the priority list of investments. The reasons for investment must be clearly set out and with sufficient detail to compare the cost-effectiveness of competing sponsored and unsponsored investment proposals.
 - There needs to be a greater transparency around decision-making at TfL so that the Mayor's influence is clearer for all to see.
 - In making the case for the CHS and the TCC, the Mayor incorrectly estimated the role that sponsorship would play in making them financially viable and the cost of the schemes to the taxpayer. Furthermore, TfL should have been more transparent about how the costs of the scheme and the value of sponsorship changed between when the schemes were first proposed by the Mayor and when the TfL Board took the final decision to proceed.
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Project appraisal

The quality of forecasting

- 4.1. TfL's ridership forecasts for phase 1 of the CHS were inaccurate. The business case for Phase 1 of the CHS forecast average daily ridership levels of over 30,000 in 2011/12, rising to more than 40,000 by 2015/16.²⁷ As it turned out, Phase 1 attracted an average daily ridership of 21,000 (67 per cent of forecast ridership) in 2011/12, and, despite two further phases of expansion and intensification to the scheme, average daily ridership across the whole CHS rose to 23,000 in 2013/14.²⁸
- 4.2. Ridership estimates played a key part in the justification for TfL's investment in the CHS. The business case for the CHS justified expenditure on the basis that the value of monetised benefits (journey time savings, infrastructure and health benefits) was greater than the cost of the scheme. The business case for phase 1, prepared in 2009, forecast a benefit:cost ratio of 2.14:1. By December 2011 (18 months after the scheme launch), TfL had reduced its estimate for the

benefit:cost ratio to 0.7:1 due to low ridership.²⁹ The scheme does have wider economic benefits (discussed later in this chapter), but TfL did not monetise them and include them in its benefit:cost ratio analysis. If these had been included, the scheme would have generated a higher benefit:cost ratio. Nevertheless, if we assume that TfL was to use the same methodology it used previously, but with more accurate estimates for ridership, then the TfL Board may not have agreed to invest in the CHS as it generally looks for a benefit:cost ratio of at least 2:1 to justify investment.³⁰

- 4.3. TfL's forecasts for the ridership of the TCC were equally inaccurate. The TCC business case forecasted a benefit:cost ratio of 2.7:1, but this was dependent on the scheme attracting large numbers of regular users and cyclists. It estimated that 17 per cent of ridership would come from regular users and 12 per cent would be cyclists.³¹ In reality, less than three per cent of passengers are regular users and less than 0.25 per cent (1 in 400) are cyclists.³² The scheme's benefit:cost ratio is therefore likely to be significantly lower than forecast, and the TfL Board may not have approved the scheme if it had been provided with more accurate forecasts.
- 4.4. It is difficult to establish why TfL's forecasts have proved to be so inaccurate. We recognise that these were new types of transport for London and this would have made accurate forecasting more difficult. However, the CHS was not the first scheme of its kind in the world and the overestimation of ridership was significant. Similarly, estimating user demand (pedestrian and cyclist) on the TCC should not be dissimilar to estimating demand for any new transport link between two points, be it by bus, tube or train. Forecasting is such a key part of TfL's role – it underpins its whole eight-year business plan. In this context, these errors are rather worrying.
- 4.5. One explanation for the poor estimates is that the political will to introduce these schemes could have encouraged appraisal optimism to creep into TfL's thinking. Professor Metz explained that:

*There is a generic problem of appraisal optimism, whereby protagonists of schemes want to see them go ahead and therefore, where there is uncertainty, they take an optimistic view about keeping the costs down and an optimistic view about demand. [...] The problem arises when there is a political commitment to do something before the analysis is done.*³³

- 4.6. The CHS was in the Mayor's 2008 election manifesto and the Mayor had publicly expressed a strong desire to build the TCC before TfL had constructed a business case for the scheme. As the political decision to go ahead with these projects had therefore effectively been made before any detailed analysis had been carried out, TfL may have taken an optimistic view about demand to support the Mayor's case. We agree with Professor Metz's view that "one of the virtues of London is that you have very strong political leadership for transport improvement, much more than you have nationally and much more than in any other city in the country."³⁴ Yet, while this model undoubtedly brings certain benefits, it can also make it more difficult to generate robust and impartial evidence, free from political and executive influence.
- 4.7. There is a valuable role for the Independent Investment Programme Advisory Group (IIPAG) to play in vetting the appraisal process. IIPAG was only formed in May 2010 and, therefore, was not around when the TfL Board first approved the CHS. However, as part of TfL's assurance processes, IIPAG is now expected to review all capital programmes over £50 million and produce an independent report for TfL's Finance and Policy Committee. This captures all large investment programmes, but there may also be a case for IIPAG to review smaller investment proposals where they are objectively deemed to be 'novel or contentious'. A similar set up is in place at the GLA with thresholds for general delegation not applying where decisions are judged to be "novel, contentious or repercussive".³⁵ This would provide an additional layer of scrutiny to schemes that fall below the £50 million threshold, but due to their nature deserve further examination.
- 4.8. IIPAG has also recently begun a detailed review of TfL's "early stage project development" to ascertain the extent to which outcomes are delivered in a thorough and appropriate manner.³⁶ This work follows comments made in IIPAG's latest annual report that TfL needs to do more to demonstrate that its investment decisions are fully justified:

The new dynamics of funding, budgets and spend, combined with increasing demand and the corresponding growth in the range of potential schemes means that TfL has to demonstrate that the priority and value of investments are fully justified. TfL has recognised this and is working hard to rationalise the business cases for its investments. IIPAG commends this work but agrees with TfL that further development is possible, to achieve better understanding and more rigorous controls particularly through the formative and justification stages of new proposals.³⁷

Business case methodology

- 4.9. Investment by TfL is increasingly being justified on the basis of the economic benefits it will bring, rather than purely the transport improvement sought. With the abolition of the London Development Agency (LDA) and reductions in direct government funding for economic development, the Mayor has increasingly looked to TfL to fund economic development projects. Five years ago, one might have expected the LDA to lead on construction of the TCC given its regenerative intent. Without the LDA, TfL was the only option for the Mayor. Similarly, the justification for TfL's £30 million investment in the Garden Bridge (discussed in Chapter 5) is being made far more on the basis of the economic benefits it is expected to bring than on the direct transport benefits of having a footbridge in that part of London.
- 4.10. Unfortunately, TfL's appraisal process does not seem to have kept pace with the growing expectations for TfL's investments. The benefit:cost ratio analysis used in the CHS and TCC business cases did not quantify any of the wider economic benefits that the schemes were expected to generate; their focus was on the transport benefits in terms of the journey time savings. While the business cases did recognise that these schemes would bring broader economic benefits, there was no attempt to quantify them. They were therefore not fully recognised as the driving motives for investment or presented in a way where they could be balanced against the scheme's costs.
- 4.11. TfL is only now beginning to quantify the economic impact of some of its schemes. For transport schemes that have been part-funded by the European Regional Development Fund, TfL has to collect data and monitor their economic performance. For the first time, in the business case for the Garden Bridge, TfL quantified the expected economic benefits for local businesses, property value increases for local residents, tourism gains and even the value of showcasing Britain's design and engineering excellence.³⁸ This was a new approach and demonstrated recognition by TfL that investment can be justified on the basis of the economic benefits it will bring.
- 4.12. TfL also needs to improve the way that potential sponsorship income is factored into its business cases. As Professor Metz explained, the potential for a scheme to attract sponsorship must not automatically push it to the top of the priority list of investments.³⁹ TfL should compare the costs, benefits and economic merits of potential schemes before considering whether sponsorship income can be raised. Business cases for the CHS and TCC did not allow for this type of comparison to take place as

expected levels of sponsorship income were offset against costs in the business case analysis. In future business cases, TfL should set out the benefit:cost ratio analysis of schemes with sponsorship income both included and excluded from the calculations. This would allow people to compare the merits of sponsored and non-sponsored schemes and help ensure that schemes were not being prioritised purely on the basis of their ability to attract sponsorship income. By showing the transport, health and economic benefits of schemes individually and collectively, the TfL Board and the public would be able to understand the reasons for investment, and compare the cost-effectiveness of potential schemes competing for investment and looking to generate similar benefits.

- 4.13. Finally, TfL's business cases should capture the full costs and benefits of sponsorship and not focus purely on the levels of sponsorship income that the scheme should generate. The business cases for the CHS and TCC provided no analysis of either the additional costs or benefits that having a sponsor would provide beyond those of income. As we concluded in Chapter 2 regarding the CHS, the overall value of having a sponsorship partner should be far greater than the sponsorship income on offer. These additional benefits (and any costs of having a sponsor) should be factored into the business cases for all schemes where sponsorship is being considered.

Investment decision-making

Transparency

- 4.14. In his 2008 election manifesto, the Mayor promised to establish a central London cycle hire scheme at no cost to the taxpayer. He suggested that it would be possible to introduce a scheme that would be funded in its entirety through sponsorship and private sector investment.

I will introduce a central London cycle hire scheme, so that Londoners will be able to hire a bike at convenient locations across central London. [...]We will broker a deal with a private company to bring thousands of bikes to the capital at no cost to the taxpayer.⁴⁰

- 4.15. By early 2009, it was clear that the CHS would require public sector funding, but this information was not put in the public domain. By the time TfL had put together a business case for phase 1 of the CHS, it was forecasting capital costs of £54 million, annual operating costs of £12 million and only £1 million of annual sponsorship income. The TfL Board approved a £172 million budget to implement and operate the scheme for seven years in February 2009, but did not publish any information relating to this decision or provide any information explaining how the scheme would be funded.

- 4.16. Likewise, when TfL first set out its plans for the TCC in July 2010, it was on the basis that TfL would not have to pay to build it.⁴¹ At this stage, detailed engineering studies had not been carried out, but TfL expected it to cost approximately £25 million to build. The Mayor expected that TfL could raise enough private sector funding to cover all of the scheme's construction costs. By the time the TfL Board approved its investment in the TCC in March 2011, it was clear that sponsorship (£2.5 million a year) would not cover the construction costs (£63 million). As with the CHS, however, this information was not put in the public domain.
- 4.17. Following the Assembly's investigation into transparency last year, TfL's decision-making has become more transparent and we would now expect more information to be published.⁴² In light of the Mayor's welcome commitments on transparency, we expect TfL to publish the business cases and supporting documents used to inform all of its investment decisions over £50 million with only commercially sensitive information redacted.

TfL Board decisions

- 4.18. From the information available to the public, there is no way of knowing on what basis TfL decided to invest in the CHS and TCC. While both schemes align with the Mayor's Transport Strategy, they were not the only way – nor necessarily the most effective way – of delivering it. Given the relatively modest benefit:cost ratio forecast for these two schemes, TfL Board Members should have at least questioned whether these schemes represented the best use of TfL resources. Potentially, the Board could have even argued that there were better ways to invest TfL's limited resources, and rejected the proposals. Unfortunately, the only information available to the public is that the Board agreed to invest in them. We will therefore never know what debate took place between Board Members prior to it taking the decision to invest in these schemes.
- 4.19. Decision-making at TfL is more transparent now, but there is still only limited information available to the public about how the TfL Board has reached its investment decisions. Balancing the need for openness with a requirement to protect commercial confidentiality is a tension which the TfL Board manages by dividing the consideration of its more sensitive investment proposals into two parts. Part 1 papers are discussed in public and Part 2, which contain commercially confidential information, in a private session. Following the Assembly's report into transparency last year (*Transparency of the GLA Group*), TfL now includes more information in Part 1 papers. Nevertheless, the core of the discussion about whether to invest or not mostly continues to take place in the private session of Board meetings. To some extent this is to be expected: Board Members

must be free to draw on all the available information, confidential or not, in coming to a decision. Unfortunately, for the public, this means that they are often no clearer as to how the Board has come to its decisions.

- 4.20. We recognise the progress TfL has made in recent years in making its decision-making processes more transparent and ask TfL to consider how it could further improve on this. The TfL Board and its Committees should carry out as much of their investment proposal discussions in public as possible and only go into a private session if there are specific confidential matters on Part 2 papers that Members want to discuss. In addition, following meetings, TfL should produce and publish a summary of the Board's private session with all confidential information redacted.

Recommendation 5

In addition to reviewing all capital programmes over £50 million, IIPAG should review all TfL investments that are objectively deemed to be novel or contentious.

Recommendation 6

TfL should ask IIPAG, as part of its work on 'early stage project development', to examine and report back on the adequacies of TfL's project appraisal process. More specifically, IIPAG should assess the quality of forecasting used in business cases, particularly around demand given its key role in generating quantifiable benefits.

Recommendation 7

In response to this report, TfL should explain, and its Board should comment on, how the current arrangements allow the public to fully understand TfL's investment decisions, particularly where there are differences between objective assessments and mayoral priorities. We also ask TfL and its Board to suggest how they could publish a summary of the discussions that take place in the private sessions of Board meetings.

Recommendation 8

By April 2015, TfL should revise its business case methodology so that:

- a) the economic benefits of potential schemes are quantified and factored into its benefit:cost ratio analysis. Transport, health and economic benefits should be separated so that they can be assessed both in isolation and collectively. TfL should build on the work it has already done in this area (notably in the business case for the Garden Bridge).**
- b) all TfL business cases where sponsorship income is expected should show benefit:cost ratios both including and excluding sponsorship income. These business cases should also look to include an assessment of the potential costs and benefits of having a sponsor beyond those of the additional income sponsorship is expected to generate. For example, where the sponsor is expected to use its resources and expertise to market a scheme and drive up demand, this should be recognised in the business case.**

5. The broader sponsorship and commercial opportunities

Key findings

- Sponsorship is just one of a whole host of commercial opportunities for TfL to not only increase non-fares income, but also to improve passenger experience at little or no cost to TfL.
 - The Garden Bridge is primarily a tourist attraction and not a transport scheme. In terms of economic benefit, it could represent good value for TfL's £30 million investment. However, there are risks for TfL as first investor and it must ensure that in return for the risk it is taking, public benefits, such as free access, are guaranteed.
 - It is not clear whether TfL's contribution is capped at £30 million and the public would benefit from knowing if, and under what conditions, the Mayor would be prepared to increase TfL's contribution.
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Capitalising on commercial opportunities

- 5.1. Sponsorship only represents about three per cent of TfL's non-fares revenue, but it does act as an indicator for TfL's ability to manage its other commercial activities. TfL plans to increase its non-fares revenue by 40 per cent and raise an extra £1 billion of income in various ways over the next ten years. Detailed plans have not emerged yet as to where this income will come from, but the majority of it is expected to come from property development programmes, similar to the joint venture development of Earls Court with Capco.
- 5.2. Beyond the CHS and TCC, TfL does not have any immediate plans to use sponsorship, but has shown that it is open to attracting alternative sources of funding for transport projects. In recent years, TfL has introduced Wi-Fi at Tube and Overground stations, supported and branded by Virgin Media and The Cloud respectively.⁴³ These schemes have not generated new income streams for TfL but, by allowing these services to be clearly branded by their suppliers, the public gets them at no cost to TfL.
- 5.3. Maximising the commercial potential of TfL's asset base is a complicated task. Looking at the Tube network alone, with more than 270 stations, the scale of the task for TfL becomes clear. While TfL will never be able to generate the commercial revenue of a transport body like the MTR in

Hong Kong, the current lack of effective commercial activity at large numbers of Tube stations indicates that TfL may only be scratching the surface of its commercial potential.⁴⁴ And, as the early issues with the CHS sponsorship deal indicated, TfL has not always been able to combine a commercial mind-set with the core values and expectations of a public sector body. We welcome the progress that TfL has made on sponsorship in the last two or three years and see the setting up of a specialist commercial development directorate as a very positive step. Given the scale of the task and opportunity, we would like some reassurance from TfL that the Commercial Development Directorate has sufficient resources to achieve its targets and to know whether with greater resources, even more could be achieved.

The Garden Bridge

Cost and benefits

- 5.4. If built, the Garden Bridge will provide a pedestrian crossing over the Thames between the South Bank and Temple. A charity (the Garden Bridge Trust) has been established to promote and seek funding to build and maintain the new bridge, which is expected to cost between £150 million and £175 million. The Mayor has pledged to provide £30 million from TfL, the Government has pledged £30 million, and the Trust is looking to raise the remaining £90-115 million from private sector sources, largely philanthropic donations.
- 5.5. Despite the unique financial setup for the Garden Bridge, there are similarities between it, the CHS and the TCC. Like these schemes, the Garden Bridge is a piece of non-essential transport infrastructure for public use that will be part funded by TfL and part funded by the private sector. And, like the CHS and the TCC, TfL would not be investing in the scheme if it were not for the financial contribution of the private sector.
- 5.6. As with the CHS and TCC, the overall cost and TfL's contribution towards the cost of the Garden Bridge have risen. When the scheme was first announced in June 2013, the media reported that the bridge was expected to cost £60 million.⁴⁵ This figure became £60-100 million the following month and has now risen to over £159 million. In addition, operating and maintenance of the bridge is expected to cost £2.5 million a year. In July 2013, TfL agreed to contribute a maximum of £4 million for feasibility and planning on the basis that the cost of building and operating the bridge would be covered by third parties.⁴⁶ This position changed in December 2013 when the Mayor pledged to match the Government's contribution with £30 million of TfL funding.

- 5.7. The Garden Bridge is not a traditional TfL investment and its planned contribution has already risen considerably, but it would appear to still represent good value for TfL. With its £30 million investment, TfL should leverage at least £130 million of other investment and generate a benefit:cost ratio of 7:1.⁴⁷ Like the TCC, this is not primarily a transport scheme; it is a tourist attraction. It will improve pedestrian connections and should help reduce congestion in the area, but its biggest benefits are its ability to attract tourism, boost growth and create jobs in the area. This is made clear in the business case which only expects walking time savings of £0.2 million a year, yet forecasts business impacts of £13.5 million a year and one-off residential property value increase of £84 million.⁴⁸ Unlike the TCC, however, the business case captures and quantifies these benefits. We welcome this approach because, now that TfL is one of the Mayor's key tools for driving economic growth in London, investment decisions must factor in the wider benefits that such projects can bring. Making investment decisions purely on transport grounds is no longer appropriate.

Safeguarding public benefits

- 5.8. TfL is taking the upfront financial risk of the project and should be able to safeguard the public's interests in return for this. We expect the Garden Bridge to become a permanent feature of the river, and it is important that guarantees are put in place that ensure public benefits, such as free and 24-hour public access, regardless of any changes in the bridge's ownership and management in the future. It should not be possible, for example, for the Garden Bridge to be closed for private events without TfL's approval and being subject to strict conditions (if at all). It has recently emerged that no such guarantees have yet been secured from the Garden Bridge Trust.⁴⁹ TfL has already spent £4.5 million on the project and is expecting to spend a further £6.5 million in 2014/15. TfL will lose all of this if the project does not go ahead. In recognition of the crucial role TfL's funding is playing in the project, we would therefore expect a legally binding agreement to be put in place safeguarding public benefits, such as free public access, in perpetuity.

Preventing further calls on the public purse

- 5.9. It is not clear whether TfL's contribution could eventually exceed £30 million. The Mayor has committed TfL to provide funding of up to £30 million, but should the funding requirements for the project change, the Mayor could require TfL to provide additional support. In terms of its benefit:cost ratio, the scheme looks likely to provide sufficiently good value to justify a bigger investment if required. Nevertheless, and as we argued in chapter 4, it is important that TfL and the Mayor should be transparent when forecasts change. The forecast cost for the Garden

Bridge has already risen considerably and, as we saw with the TCC, the final cost of infrastructure projects is often higher than initially planned. Given that TfL would lose its investment to date if the project was abandoned, a situation may arise where the Mayor decides that increasing TfL's investment further makes more sense than losing its investment to date. There are also risks that in the future, when the bridge is less novel and new, it will be harder to find private sector contributions for ongoing operation and maintenance costs and the public sector may become the funder of last resort. With this being the case, the Mayor should make it clear on what conditions he would be prepared to increase TfL's commitment to the Garden Bridge project.

Access to information

- 5.10. Over the course of our investigation we had difficulty getting information on the Garden Bridge proposal. TfL has been involved in the scheme since July 2013 and financially committed since December 2013. However, until the Mayoral Decision and supporting documentation was published at the end of June 2014, there was very little information about the scheme in the public domain. We recognise that this is not a TfL project and therefore there are limits to TfL's control over how much information the Garden Bridge Trust makes publicly available. The project has, however, been given £30 million of TfL funding and, as a condition of receiving this funding, TfL could have placed specific requirements relating to transparency on the Garden Bridge Trust. Where public sector funding is involved there is rightly an expectation that the same level of information will be made available to the public as it is to other investors in the scheme.

Recommendation 9

In response to this report, TfL should comment on whether its Commercial Development Directorate has sufficient skills and resources to achieve its current targets for commercial income, and the extent to which giving it more resources would allow its commercial development plans to be brought forward and expanded.

Recommendation 10

TfL's formal funding agreement with the Garden Bridge Trust should ensure that, in return for its £30 million investment, free public access and other public benefits from the bridge are guaranteed in perpetuity.

Recommendation 11

In response to this report, the Mayor should confirm if, and under what conditions, he would be prepared to commit TfL to invest more than the £30 million already committed to the Garden Bridge.

Recommendation 12

In response to this report, TfL should set out its policy in terms of the requirements it places on external organisations receiving investment funding from TfL to act in a transparent manner and disclose information to the public.

Appendix 1 Recommendations

Recommendation 1

For the next sponsorship deal on the CHS, TfL's selection process should include an evaluation of the potential sponsors' plans and ability to promote the scheme and grow its ridership. When it publicly announces its next sponsorship agreement, TfL should publish its evaluation of the sponsorship proposals and set out the basis for deciding its chosen sponsor.

Recommendation 2

Further investment in the CHS should focus on increasing ridership in the most cost-effective way. From January 2015, any business case presented to the TfL Board to geographically expand the CHS should demonstrate that it would lead to a bigger increase in ridership than spending the same amount intensifying bike provisions. If it does not do this, the business case should clearly justify why geographical expansion is more important than increasing ridership.

Recommendation 3

TfL should bring the CHS fully into its regular ticketing and payment systems when the next operator contract starts in 2017 (or before if technically and financially feasible). In response to this report, we ask TfL to comment on this proposal and provide us with a timeline of when decisions would have to be made on CHS infrastructure improvements to take advantage of the opportunity offered by the new operator contract starting in 2017.

Recommendation 4

As part of its annual fares review, TfL should carry out analysis to determine how regular user demand would be affected by bringing TCC fares in line with the rest of the transport network and integrating it into the wider fares structure. As well as estimating the initial reduction in fares income, TfL should assess the potential longer-term economic benefits that such a move could generate. We ask TfL to comment on this proposal in response to this report.

Recommendation 5

In addition to reviewing all capital programmes over £50 million, IIPAG should review all TfL investments that are objectively deemed to be novel or contentious.

Recommendation 6

TfL should ask IIPAG, as part of its work on ‘early stage project development’, to examine and report back on the adequacies of TfL’s project appraisal process. More specifically, IIPAG should assess the quality of forecasting used in business cases, particularly around demand given its key role in generating quantifiable benefits.

Recommendation 7

In response to this report, TfL should explain, and its Board should comment on, how the current arrangements allow the public to fully understand TfL’s investment decisions, particularly where there are differences between objective assessments and mayoral priorities. We also ask TfL and its Board to suggest how they could publish a summary of the discussions that take place in the private sessions of Board meetings.

Recommendation 8

By April 2015, TfL should revise its business case methodology so that:

- a) the economic benefits of potential schemes are quantified and factored into its benefit:cost ratio analysis. Transport, health and economic benefits should be separated so that they can be assessed both in isolation and collectively. TfL should build on the work it has already done in this area (notably in the business case for the Garden Bridge).**
- b) all TfL business cases where sponsorship income is expected should show benefit:cost ratios both including and excluding sponsorship income. These business cases should also look to include an assessment of the potential costs and benefits of having a sponsor beyond those of the additional income sponsorship is expected to generate. For example, where the sponsor is expected to use its resources and expertise to market a scheme and drive up demand, this should be recognised in the business case.**

Recommendation 9

In response to this report, TfL should comment on whether its Commercial Development Directorate has sufficient skills and resources to achieve its current targets for commercial income, and the extent to which giving it more resources would allow its commercial development plans to be brought forward and expanded.

Recommendation 10

TfL’s formal funding agreement with the Garden Bridge Trust should ensure that, in return for its £30 million investment, free public access and other public benefits from the bridge are guaranteed in perpetuity.

Recommendation 11

In response to this report, the Mayor should confirm if, and under what conditions, he would be prepared to commit TfL to invest more than the £30 million already committed to the Garden Bridge.

Recommendation 12

In response to this report, TfL should set out its policy in terms of the requirements it places on external organisations receiving investment funding from TfL to act in a transparent manner and disclose information to the public.

Appendix 2 End notes

¹ *Mayor's flagship cycling scheme - Barclays Cycle Hire - opens for business*, TfL press release, 30 July 2010

² Total operating costs have risen from £21 million in 2011/12 to £25 million in 2013/14 as the scheme has grown. See evidence - 1.10 Appendix I - Q3 BCH Financial Lifecycle Summary 2013

³ Actual fares income compared to originally budgeted fares income:

£m	2010/11	2011/12	2012/13	2013/14	Total
Approved budget	9.4	19.7	19.9	20.6	69.6
Actual	2.4	6.5	7.5	8.5	25.0

Sources: Approved budget – See evidence 1.4 Appendix C - Business Case ST – PJ302C *Barclays Cycle Hire Phase 1 December 2011*

Actual – See evidence 1.10 Appendix I - Q3 BCH Financial Lifecycle Summary 2013

⁴ The average daily ridership between 1 July 2013 and 30 June 2014 was 24,001 (<http://data.london.gov.uk/datastore/package/number-bicycle-hires>). Net operating costs in 2013/14 were £12.5 million (See evidence - 1.10 Appendix I - Q3 BCH Financial Lifecycle Summary 2013)

⁵ The net operating cost per trip to TfL in 2013/14 was £1.39, See evidence 1.10 Appendix I - Q3 BCH Financial Lifecycle Summary 2013

⁶ The net cost per passenger km for the tube was £0.00 and for the bus £0.06. See *Travel in London Report 6*, page 119. In 2012/13 approximately 2.4 billion journeys were made and 8.3 billion passenger kilometres suggesting an average bus journey length of 3.4 kilometres. The passenger journeys figure has been taken from TfL's *Annual Report and Statement of Accounts 2012/13*, page 12. The passenger kilometres figure has been taken from the *Travel in London Report 6*, page 119

⁷ In 2013/14 there were 2.4 billion bus journeys and 1.3 billion London Underground journeys. Combined this is 3.7 billion journey and at £1.39 of subsidy per journey, this over £5 billion per year. For comparison, TfL paid approximately £500 million in subsidy for the bus and Underground in 2013/14. Figures taken from TfL's *Annual Report and Statement of Accounts 2013/14*, page 12

⁸ See evidence 1.10 Appendix I - Q3 BCH Financial Lifecycle Summary 2013

⁹ Forecast vs Actual daily ridership levels:

Average daily ridership levels	2010/11	2011/12	2012/13	2013/14	Total
Business case forecast (phase 1 only)	16,653	30,939	34,779	36,945	119,316
Actual (all phases)	14,443	20,708	25,512	22,557	83,219
Percentage of target	87%	67%	73%	61%	70%

Sources: Business case forecast – See evidence 1.1 - TfL response to initial request for information note averages are based on 245 days in 2010/11, 366 days in 2011/12 and 365 in 2012/13 and 2013/14.

Actual figures: <http://data.london.gov.uk/datastore/package/number-bicycle-hires>

¹⁰ Speaking at the Budget and Performance Committee meeting, 3 July 2014

¹¹ Isabel Dedring, Deputy Mayor for Transport, speaking at the Budget and Performance Committee meeting, 25 June 2014.

¹² Barclays current sponsorship contract ends in July 2015. It had the option to extend its sponsorship for a further three years, but following an internal review of its sponsorship strategy, decided not to extend its current contract.

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- ¹³ Jackie Fast (Managing Director, Slingshot Sponsorship) speaking at the Budget and Performance Committee meeting, 3 July 2014
- ¹⁴ See evidence - 2.4 Appendix - CHS density - 8.3 intensification slide
- ¹⁵ Phase 1 assumed 40,000 trips a day and 6,000 bikes. Data shows that in 2012/13 there were 8,933 bikes and 22,557 trips per day on average. Figures for bike usage in New York and Paris have been taken from *The Bike Share – Planning guide*, Institution for Transportation & Development Policy, 2013
- ¹⁶ In a survey conducted for the Assembly's Transport Committee, 80 per cent of respondents said they were concerned about cycling in London. *Cycling in London an update*, February 2014
- ¹⁷ Deputy Mayor for Transport, speaking at the Budget and Performance Committee meeting, 25 June 2014
- ¹⁸ As TfL Project and Planning panel note, "*The intellectual property in the smartcard readers has been licensed to Sydney and Vancouver, yielding approximately £3m in royalties. There is significant interest from around the world in adopting the account based systems we are building through the Future Ticketing Programme, which we are also looking to exploit commercially.*" *The future of London's Ticketing Technology*, TfL Project and Planning Panel meeting, agenda item 4
- ¹⁹ *Bike-Sharing Programs Hit the Streets in Over 500 Cities Worldwide*, Earth Policy Institute, April 2013
- ²⁰ Deputy Mayor for Transport, speaking at the Budget and Performance Committee meeting, 25 June 2014
- ²¹ Head of Emirates Air Line, TfL, speaking at the Budget and Performance Committee meeting, 25 July 2014
- ²² *TfL response to Emirates Air Line FOI request by Darryl Chamberlain*, 18 November 2013
- ²³ Information provided by TfL by email in response to request from officers, 12 June 2014
- ²⁴ TfL consultation on the proposal for a new tunnel under the Thames at Silvertown, 15 October – 19 December 2014
- ²⁵ Director of London Rail, TfL, speaking at the Budget and Performance Committee meeting, 25 July 2014
- ²⁶ See evidence – 2.0 TfL second letter and response
- ²⁷ The original business case forecast annual ridership of 11.1 million rising to 15 million in 2016/17. See 1.4 Appendix C - Business Case ST – PJ302C Barclays Cycle Hire Phase 1 December 2011
- ²⁸ Number of bicycle hires, London Datastore, <http://data.london.gov.uk/datastore/package/number-bicycle-hires>
- ²⁹ See evidence 1.4 Appendix C - Business Case ST – PJ302C Barclays Cycle Hire Phase 1 December 2011 (page 24)
- ³⁰ Deputy Mayor for Transport, speaking at the Budget and Performance Committee meeting, 25 June 2014
- ³¹ The business case assumed that out of an average daily ridership of 5,500, there would be 930 pedestrian commuters (17 per cent) and 670 cyclists (12 per cent). See evidence - 5.0 - Cable car need and business case
- ³² Information provided by TfL by email in response to request from officers, 12 June 2014
- ³³ Professor David Metz speaking at the Budget and Performance Committee meeting, 25 July 2014
- ³⁴ Professor David Metz speaking at the Budget and Performance Committee meeting, 25 July 2014
- ³⁵ *Greater London Authority, Mayoral Scheme of Delegation*, 1 April 2013
- ³⁶ *Independent Investment Programme Advisory Group – Annual Report 2013/14*, 17 July 2014

³⁷ *Independent Investment Programme Advisory Group – Annual Report 2013/14*, 17 July 2014

³⁸ *The Garden Bridge, Summary of the Strategic Outline Business Case*, TfL, May 2014

³⁹ Professor Metz speaking at the Budget and Performance Committee meeting, 25 July 2014 - *“Ideally one would assess the economic merits of schemes regardless of sponsorship money and rank them and then if you get sponsorship money, that is icing on the cake, it helps the financing, enables you to do more. In practice, however, sponsors will want to feel they are making a difference, that without their contribution, the scheme would not go ahead. What you then do is to incorporate their contribution to offset the costs and that makes the scheme more attractive, it goes up in the ranking order. [...] By pushing the project up the ranking order, it is pre-empting some resource which otherwise would have done something towards the bottom.”*

⁴⁰ *Getting London Moving*, Boris Johnson 2008 election manifesto, <http://image.guardian.co.uk/sys-files/Guardian/documents/2009/04/27/Transportmanifesto.pdf>

⁴¹ Plans unveiled for a new Thames crossing with London’s first cable car system, TfL press release, 4 July 2010

⁴² *Transparency of the GLA Group*, London Assembly Oversight Committee, 26 June 2013

⁴³ *TfL response to B&P Committee request for information*, 28 May 2014

⁴⁴ The MTR in Hong Kong earns considerably more non-fares income, although the exclusive property development rights that the MTR has above and nearby stations play a big part in this and TfL cannot be expected to compete given the restrictions on its property development.

⁴⁵ For example, *A garden across the Thames? New green bridge from Olympic Cauldron designer Thomas Heatherwick*, London Evening Standard, 13 June 2013

⁴⁶ *Garden Bridge*, TfL Finance and Policy Committee paper, 18 July 2013

⁴⁷ The business case assumes a benefit:cost ratio of 3.5:1 on the £60 million public sector contribution.

⁴⁸ *The Garden Bridge, Summary of Strategic Outline Business Case*, TfL, May 2014

⁴⁹ See Mayoral Question 2014/3157, 5 November 2014.

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City Hall
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More London
London SE1 2AA

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