

Transport for London



Your Ref: 403

Transport for London
Commercial Development

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Dear John

Thank you for your letter of 17 December 2014 and for your constructive report into sponsored transport schemes.

As you know, every penny we generate is reinvested to improve London's transport given very rapid population growth, which is running at one full Tube train of people arriving every three days. We have a huge commercial programme to ensure our assets are generating revenues to their greatest potential. This activity is accelerating and we are arranging a briefing for Assembly Members on our detailed plans, including sponsorship, our new approach to property development and our improvements to retail.

We have set out a GLA-wide sponsorship policy and will continue to make sure that all of our commercial sponsorships, which have already raised tens of millions of pounds for investment in the transport system, deliver value for money for fare and tax payers.

Where appropriate, we make use of third party contributions for a range of projects and continue to build on our experience of establishing and operating Barclays Cycle Hire and the Emirates Air Line.

I attach responses to the report's recommendations. I note that you have written to the Independent Investment Programme Advisory Group for a response to Recommendation 5.

Should you have any questions, please do not hesitate to get in touch.

Yours sincerely,

Graeme Craig
Director of Commercial Development

TfL responses to 'The viability of sponsored transport schemes' report

1. Next Cycle Hire Scheme sponsorship

For the next sponsorship deal on the Cycle Hire Scheme (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.

Our criteria for the selection of a sponsor for the CHS includes a component entitled 'Quality' which covers promotion of the London CHS, increasing ridership, increasing trial and casual usage, enhancing the customer experience and other benefits for users. The Quality component comprised 15 per cent of the overall scoring, with the Financial submission comprising 80 per cent and the Legal submission comprising 5 per cent.

The outcome of the evaluation and the basis for the decision will, of course, be published in line with our previous commitments.

2. The future of cycle hire

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.

Intensification of cycle hire provision within the existing scheme is a key part of our strategy. Adding docking points to existing stations increases the number of customers who can access the CHS, and means we have to make fewer visits to add or remove bikes from those stations, reducing costs. We are undertaking a significant intensification of the CHS which is expected to lead to 900 new docking points in central London by spring 2016, pending planning approval being granted by the boroughs. After this major push, we will continue to work with the boroughs and identify other suitable sites where there is demand and space is available.

We agree that we should always assess the value of any extension against a number of criteria including increases in ridership as well as encouraging the growth of cycling and providing affordable public transport in an area when considering geographic expansion.

Currently, the only geographical expansion planned is to the Queen Elizabeth Olympic Park (QEOP). The QEOP expansion will extend the scheme's footprint into Newham. We will construct 11 additional stations in and around the park,

creating a good network for visitors, residents and employees. Of these stations, two are fully funded by developers through S106 commitments. As QEOP continues to change and develop, we will continue to seek such funding if further stations within QEOP are required.

3. Cycle Hire Scheme ticketing

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.

We are assessing implementation options for the CHS when arrangements with the current supplier end. We are investigating the possibility of bringing the CHS into our wider ticketing system as part of that work. We have started looking at several options and we will need to appraise the technical and financial viability of these proposals as they develop. A preferred option is scheduled to be brought to our Board during 2015.

4. Emirates Air Line Ticketing

As part of its annual fares review, TfL should carry out analysis to determine how regular user demand would be affected by bringing the Thames cable car 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.

Since its opening, Emirates Air Line (EAL) fares income has covered its operating costs and it is forecast to pay back the initial investment (less sponsorship and European Regional Development funding) within its first ten years of operation.

The local area is benefitting from large scale planned housing and business developments and EAL is playing a key role attracting new visitor footfall and local investment. We will continue to review the fares strategy to support regeneration and economic benefits in the local area, as well as ensuring that the scheme covers its operating costs and avoids the need for continuing subsidy. This includes providing incentives to locals and staff from local businesses as demand increases.

In addition, the fares strategy has always included (and promoted) discounted fares to encourage regular use.

Oyster and Travelcard holders (90 per cent of all passengers) receive around 25 per cent off cash fares, while regular user fares allow passengers to travel for £1.70 per journey, matching the equivalent Oyster PAYG journey fare by Tube and DLR in commuter periods.

Based on Customer Satisfaction Surveys (CSS) we estimate that around 45,000 journeys were taken on EAL last year (2013/14) by passengers travelling to or from work. Londoners continue to make up around half of all users. The EAL has also received consistently high CSS scores for value for money since opening.

6. IIPAG and Business Cases

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.

There is already a mechanism in place through the established IIPAG review process for consideration of the appraisal process used to assess the business cases for projects. This includes scrutiny of demand forecasting. Further involvement from IIPAG would be welcome.

We already do a great deal to ensure that adequate demand forecasting techniques are used. These techniques are reviewed internally and often also discussed with the Department for Transport (DfT) and other industry experts to ensure they are fit for purpose.

Our forecasting tools follow the best practice and often introduce innovations that lead best practice. Indeed, some of our current project portfolio raises analytical challenges that are not fully addressed by national guidance. We exchange information with DfT and HM Treasury regarding the most appropriate techniques to be used.

Overall, we are well respected and accepted as an industry expert in our approach to traffic modelling and demand forecasting and are happy that IIPAG continue to review the adequacy of our approach.

7. Demonstrating Investment Decisions to the Public

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.

We publish a detailed Business Plan which sets out our investment programme and spending priorities. We also publish a regular Investment and Performance Report which explains our performance against budgets and project milestones.

The rationale for all decisions taken by our Board or the Finance and Policy Committee are fully set out in papers on the open agenda for those meetings. The papers and the meetings at which they are considered are accessible to the public.

We only consider material which is commercially confidential in the closed sessions of those meetings. The open minutes always contain a full explanation of the reasons for a decision including any discussion in a closed session.

Our Board reviews the effectiveness of its governance arrangements annually and the outcome of that review is published.

8. Business Case Methodology

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.**

The role of quantified benefits in our appraisal follows the latest thinking in this field and the best available practice. While it is desirable to quantify and monetise benefits where possible, it is not always realistic to do so.

While HM Treasury and the DfT make it clear that a high benefit to cost ratio (BCR) is desirable, it is not the key summary measure of the appraisal. Some leading thinkers on appraisal methodologies question how much reliance can reasonably be placed on forecasting to inform scheme appraisal.

Supplementary types of analysis – such as risk-based scenario assessment – may be needed, particularly for larger schemes which are aimed at transforming the economy of a region.

We appreciate those schemes with private sponsorship need careful adjustment of the costs to reflect the actual case for spending public money and to ensure that the comparison to other investment options remains robust. Some lessons

have been learnt from the recent work on the Garden Bridge which will be applied in future business cases.

In future appraisals, it is also expected that the “method statement” approach, described earlier, will allow any discussion about the evaluation approach to be undertaken much earlier in the appraisal process.

9. Commercial Team

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.

Progress on increasing commercial income

We have plans in place to deliver £3.4 billion in net commercial revenues over the next ten years. This figure is a 40 per cent increase since the formation of the commercial development team three years ago. The £3.4 billion is comprised of £1.2 billion from advertising, £1.1 billion from property development, £0.8 billion from property rental (including retail) and £0.4 billion from other sources (including sponsorship and car parking).

Work is accelerating to ensure our assets are generating revenues to their greatest potential over the Business Plan. We are doing this through a number of measures that maximise our unique commercial position:

- The roll out of ‘Click and Collect’ services in and around stations has proven extremely popular with commuters as well as those living near our stations. Within a year of its introduction, Click and Collect is available at 43 stations, with a range of partners including Waitrose, Sainsbury’s, Tesco, Asda, Amazon and Argos. We are working with retailers to expand this further.
- The retail estate is also being revolutionised across our stations. Schemes like the one at Old Street station, where we have retained the best of the existing retail outlets alongside new ‘pop up’ businesses and start-ups, ensure that we generate all available income from our estate, helping to drive further investment while bearing down on fares. We have recently seen, for example, French Connection, Moleskine and Jamie Oliver trialling new formats at Old Street, which would have been unthinkable only 12 months ago.
- We have one of the largest property portfolios in London and are developing it to ensure it delivers value for money. In January, we announced that we are seeking a small number of partners with whom we will work to take forward development at 50 sites over the next ten years. Our aim is to generate long-term revenue by investing in our assets to deliver a mix of

schemes covering residential, office and retail use. This month, we will launch a procurement process to look for commercial partners to take forward a number of schemes, including at stations like South Kensington and Bermondsey.

We continue to work with retailers, telecommunications companies and others to develop proposals and implement these at locations including major Tube stations such as King's Cross and Canary Wharf, through to local Tube, bus and coach stations, and London River Service piers.

Commercial Development resources

We are making a significant investment in support of commercial development activity. Additional resourcing was agreed alongside the new income targets in the Business Plan. Alongside that, we have put in place specialist support functions such as dedicated finance and procurement teams for commercial development activity.

We are also introducing new governance arrangements, including a new Group of Non-Executive Directors with significant senior level experience in property, retail and advertising. The Non-Executive team will be able to provide support and/or challenge as necessary to my team. We expect it to be in place by the end of March. Francis Salway, the former Chief Executive of Land Securities, has joined us as Chair of our new property advisory group. His experience will be invaluable in allowing us to unlock the value from our extensive estate.

10. Public Access to the Garden Bridge

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.

The planning consent for the Garden Bridge requires access to the bridge to be free of charge. This commitment will also be included in the funding agreement between us and the Garden Bridge Trust.

11. Additional Garden Bridge funding

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.

The Mayor, through us, has made a contribution of £30 million toward the cost of constructing the Garden Bridge based on the benefits it will generate. This has been matched by a £30 million contribution from Government. We continue to provide support to the Garden Bridge Trust, but do not expect to make any further financial contributions towards the cost of construction as the Garden Bridge Trust is responsible for raising the funds to build and operate the bridge.

12. Transparency

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.

We are committed to improving transparency for our customers and stakeholders and we are making more information available than ever before.

Our approach to contracts is an area where we are publishing substantially more. In July 2012 we began publishing contracts over the value of £10 million. Since then the monetary threshold has been lowered and we publish all contracts announced in a press release or with a value above the appropriate OJEU threshold, entered into as a result of an Invitation to Tender and issued after 1 September 2013.

A specific example of our approach to transparency in relation to investment projects is the joint venture we established with Capital & Counties Properties PLC, Earls Court Partnership Limited, to progress the Earls Court Village Development. Transaction documents for this joint venture are available on our website, as well as a feasibility report.

A similar approach will be taken in relation to our agreement with the Garden Bridge Trust for the Garden Bridge project. This agreement, which is still under development, will set out the project's scope and reporting requirements once agreed.

We are consulting on our approach to transparency and welcome suggestions from the Assembly about what more we should publish and where we can improve upon what we do already. The consultation is open until 8 March 2015.

