

# viability of sponsored transport schemes

Budget and Performance Committee – project scoping paper

## Introduction

When the Mayor and Transport for London (TfL) launched the Emirates Air Line (EAL) and the Barclays Cycle Hire Scheme (BCH), it was on the basis that sponsorship and ridership income would cover the costs of running them and that these schemes would break-even within a few years of their launch. The EAL is on target to break even within ten years, but the BCH is now not forecast to break even operationally over the next ten years, despite sponsorship income being greater than anticipated in the business plan.

Now that these schemes are established parts of London's transport system, the Committee will assess their performance, determine the value of their sponsorship agreements, and identify how much these schemes are costing TfL compared with original expectations.

We hope that the investigation will influence thinking on proposed new transport infrastructure, for which private sector investment is expected. A topical example is the Garden Bridge proposal between the South Bank and Temple; the cost is estimated at £150 million, including £30 million contribution from TfL, £30 million from the Government, and £90 million from private sources including sponsorship. In the coming years, other schemes may be proposed that depend on private funding to make them financially viable.

This investigation will build on the Committee's previous work, including the February 2012 report, *Whose brand is it anyway?*, which led to TfL establishing a policy on sponsorship.

## Terms of reference

- To examine how much the Emirates Air Line and Barclays Cycle Hire Scheme have cost TfL and how this compares with original expectations;
- To examine the role that sponsorship has played in making these schemes financially viable and how TfL can go about maximising sponsorship from similar schemes in the future;
- To examine TfL's current plans for the Emirates Air Line and Cycle Hire Scheme and how these are expected to affect usage, income and profitability.

This paper provides further information about the background to this investigation, how it will be conducted and the key questions it will address.

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### Background

#### *Barclays Cycle Hire Scheme*

##### Concept and launch

The previous Mayor, Ken Livingstone, unveiled plans for a cycle scheme in February 2008.<sup>1</sup> Initial plans were for a scheme with 6,000 bikes and a ten-year budget of £75 million. It was envisaged that some of the costs would be met from sponsorship and fares but that the scheme would require funding by TfL.

Boris Johnson's 2008 election manifesto included a commitment to introduce a central London cycle hire scheme at no cost to the tax payer.<sup>2</sup>

The Cycle Hire Scheme was launched in July 2010. Phase 1 of the scheme had 5,000 bikes at 315 docking stations and covered central London. In January 2009, TfL's business case forecast capital costs of £54 million and annual operating costs of £12 million.<sup>3</sup> By the time the contract was awarded in August 2009, the capital budget had risen to £82 million and annual operating costs were forecast to be £17.3 million.<sup>4</sup> These costs were expected to be offset by sponsorship income, membership fees and hire charges, and reach the break-even point within three years.<sup>5</sup>

In 2012, phase 2 of the scheme began with bikes becoming available in east London. TfL increased bike numbers to 8,000 and docking stations to over 570.

Phase 3 of the scheme's expansion began this year. The scheme is being expanded to southwest London, with the addition of a further 2,400 bikes and 200 docking stations.

##### Performance

TfL originally forecasted 30,000 journeys per day in year one and then 40,000 journeys per day for future years. However, in the first year there were just 14,000 journeys per day and, despite the scheme's significant expansion, the 40,000 target has still not been reached. In 2012/13 there were 26,000 journeys per day and in 2013/14 this had fallen to an average of 22,000 journeys per day.<sup>6</sup>

##### Sponsorship and funding

Barclays is the sole sponsor of the scheme. It originally agreed to pay up to £25 million between 2010 and 2015 for exclusive sponsorship rights for the Cycle Hire Scheme and other cycling initiatives including Cycle Superhighways. In 2011, it was announced that Barclays had agreed to extend its sponsorship of the scheme to 2018 for a further £25 million.<sup>7</sup> However, in December 2013, Barclays announced that it had re-examined its

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sponsorship strategy and would not be extending its sponsorship of the Cycle Hire Scheme beyond 2015.<sup>8</sup>

Due to some contract conditions not being met (most notably, levels of use) there have been some deductions to sponsorship income. Between July 2010 and January 2014, TfL has received £17.68 million from Barclays, out of a possible maximum sponsorship income of £19.75 million during that period. However, Barclays has agreed to pay the full £25 million over the contracted period to July 2015.<sup>9</sup> On the cost side, TfL has paid Serco, the scheme's operator, less than planned due to some performance targets not having been met.

TfL is currently forecasting that the total build cost to TfL for all three phases of the scheme will be £129 million, with annual operating costs of around £25 million.<sup>10</sup> Approximately half of operating costs are recouped through sponsorship and fares, leaving TfL with approximately £12 million of operating costs to fund each year.

### *Emirates Air Line*

#### Concept and launch

TfL first unveiled a plan for a cable car between Greenwich and the Royal Docks in July 2010.<sup>11</sup> It was proposed as a relatively quick and cost effective way of improving connections across the river for pedestrians

and cyclists. The original proposal, prior to detailed engineering studies being carried out, was that the cable car's construction would cost in the region of £25 million and would be funded entirely by the private sector.

Further work on the concept by TfL showed that the cable car would cost more than initially anticipated but that it would still provide good value. The business case for the cable car included capital costs of £63 million (including a £7 million contingency), and anticipated annual sponsorship income of £2 million.<sup>12</sup> Based on passenger numbers rising from 2.1 million in 2012/13 to 2.6 million in 2020/21, TfL calculated that the project had a benefit to cost ratio of 2.7:1.

The business case also showed that TfL had considered other routes for the cable car, including to the Isle of Dogs and East India Dock, but these proposed routes were in conflict with property developments making construction difficult, if not impossible. An additional advantage to linking North Greenwich with the Royal Docks was that passengers would be within a five minute walk of Crossrail when the Customs House station opens in 2018.

Demand forecasts in the scheme's business case estimated that between 30 and 40 per cent of passengers would be regular public transport users, 50

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to 60 per cent would be ‘linked visitors’ (people coming to visit one of the attractions in the area), and approximately five per cent would be tourists specifically coming to use the cable car.<sup>13</sup>

The cable car opened to the public on 28 June 2012.

### Performance

In its first year, the cable car attracted 2.4 million passengers but a lot of this traffic was generated by the Olympic Games, and ridership levels fell significantly in 2013. In the 12 months to April 2014 fewer than 1.5 million journeys were made. And, contrary to the original business plan expectation, the vast majority of users have been tourists, with only a handful of people using it as part of a regular commute.<sup>14</sup>

### Sponsorship and funding

In October 2011, it was announced that Emirates Air Lines would sponsor the cable car.<sup>15</sup> Emirates agreed to pay £36 million over a ten-year period as part of a sponsorship deal that included branding the cable car with the airline’s name.

In addition, £8 million of European funding was secured for the scheme, together with £0.8 million from the London Development Agency.

TfL is forecasting that the scheme will have paid for itself within its current ten-year sponsorship period. Fares revenue already covers all operating costs and, together with sponsorship income, the scheme is forecast to break even by 2021/22.<sup>16</sup>

### *Garden Bridge*

In July 2012, the Mayor asked TfL to help with the feasibility and planning stages for a pedestrian bridge to be built across 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. Active fundraising is expected to begin in 2015, and construction in 2016, ready for the bridge to open in 2018.

Initial forecasts suggest that it will cost £150 million to build, and the Trust plans to raise the majority of the required funding from the private sector. The government has pledged to provide £30 million for the bridge, and the Mayor has pledged £30 million from TfL. The Trust is looking to raise the remaining £90 million from the private sector.

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### How the Committee will conduct this investigation

The Committee will investigate this topic over two meetings, scheduled for 25 June 2014 and 3 July 2014. The intention is to publish a report in the autumn.

Prior to the June meeting, officers will carry out desk-based research, and request written submissions from TfL, Barclays, Emirates and the Garden Bridge Trust.

#### *First Committee meeting*

The meeting on 25 June will be used to discuss performance against expectations of the Barclays Cycle Hire Scheme and the Emirates Air Line, with representatives of TfL, the Mayor's Office and transport experts. The meeting will also be used to look at TfL's current plans for these schemes. Some of the key questions that will be explored at the first meeting are:

- Compared with original forecasts:
  - How much have the two schemes cost to set up and run?
  - How much sponsorship income has TfL received?
  - How many people have used the schemes and how much revenue has been generated?
- What benefits have the two schemes generated and do these justify the schemes' costs?

- What are TfL's plans for the Emirates Air Line and the Barclays Cycle Hire Scheme? How does TfL intend to increase their usage and make them more cost effective?

#### *Second Committee meeting*

The meeting on 3 July will be used to discuss TfL's strategy for ensuring best value from sponsored transport schemes in the future. Guests at the meeting are likely to include representatives from TfL and the Mayor's Office, supporters of the Garden Bridge scheme and other transport and sponsorship experts. Some of the key questions which will be examined in the meeting are:

- What role can private sector funding play in creating and improving TfL's transport network, and what is TfL's strategy for attracting this kind of funding?
- What schemes is TfL considering for private sector funding and how can it secure best value for money from them?
- How can TfL manage the risks around under-performance of future schemes and protect the public purse?

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### Further information

For further information about this investigation, please contact William Roberts, Budget and Performance Adviser ([william.roberts@london.gov.uk](mailto:william.roberts@london.gov.uk); 020 7983 4958).

### End notes

<sup>1</sup> *Mayor unveils programme to transform cycling and walking in London*, Mayoral press release, 8 February 2008

<sup>2</sup> *Getting London Moving*, Boris Johnson election manifesto, <http://image.guardian.co.uk/sys-files/Guardian/documents/2009/04/27/Transportmanifesto.pdf>

<sup>3</sup> *TfL Business case, ST-PJ302C Project Cycle Hire Scheme*, 6 January 2009

<sup>4</sup> *TfL Business case, ST-PJ302C Barclays Cycle Hire Phase 1*, December 2011,

<sup>5</sup> Evidence provided by TfL to the Transport Committee for its investigation into cycling in London - *Pedal Power*, November 2010

<sup>6</sup> *Numbers of Bicycle Hires*, London DataStore – the average for 2013/14 is based on data up to the end of February 2014

<sup>7</sup> *Mayor's flagship Barclays Cycle Hire celebrates first birthday with additional £25m investment from Barclays*, GLA press release, 28 July 2011

<sup>8</sup> TfL Commissioner's report, TfL Board meeting, 11 December 2013

<sup>9</sup> *TfL written response for investigation, 28 May 2014*

<sup>10</sup> *TfL Submission to request for information from the Transport Committee*, November 2013

<sup>11</sup> Plans unveiled for a new Thames crossing with London's first cable car system, TfL press release, 4 July 2010

<sup>12</sup> *Cable car need and business case*, Transport for London, 2011

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<sup>13</sup> *Cable car need and business case*, Transport for London, 2011

<sup>14</sup> For a 7-day period in October 2013, there were only four Multi-Use (+5) Oyster discounts used and 18 Multi-Trip paper boarding passes purchased. Emirates Air Line user figures, FOI request from TfL by Darryl Chamberlain, 20 October 2013, <https://www.whatdotheyknow.com/request/emirates-air-line-user-figures?unfold=1#incoming-451013>

<sup>15</sup> *Mayor secures Emirates Airline to sponsor new river crossing*, Mayoral press release, 7 October 2011

<sup>16</sup> *TfL written response for investigation, 28 May 2014*