

Board

Date: 19 September 2017

Item: TfL International

This paper will be considered in public

1 Summary

- 1.1 The Mayor has asked TfL to explore the generation of new income streams by establishing a trading arm that can run bus and other local transport services and sell TfL's expertise, at home and abroad. The revenues it makes will be used to keep fares down in London just as foreign state-owned transport firms currently take profits made here to subsidise their services.
- 1.2 This paper describes key areas of opportunity in such a venture and proposals for a steering group to provide oversight of the next stages of such commercial activity and further development of a business case and proposals for governance of a dedicated trading arm of Transport for London, with a view to seeking approvals in due course from the Finance Committee for the establishment of a new corporate entity.
- 1.3 Regular updates will be provided to the Finance Committee in the Quarterly Performance Reports.

2 Recommendation

- 2.1 **The Board is asked to note the paper and to delegate to the Finance Committee authority to give any approvals required for the establishment of a division of Transport for London dedicated to the commercial exploitation of Transport for London's specialist expertise including, without limitation, establishing a new subsidiary entity to undertake such activity.**

3 Background

- 3.1 The Mayor has asked TfL to explore the generation of new income streams by establishing a trading arm that can run bus and other local transport services and sell TfL's expertise, at home and abroad. The revenues it makes will be used to keep fares down in London just as foreign state-owned transport firms currently take profits made here to subsidise their services.
- 3.2 This paper describes key areas of opportunity in such a venture and proposals for a steering group to provide oversight of the next stages of such commercial activity and further development of a business case and proposals for governance of a dedicated trading arm of Transport for London, with a view to seeking approvals in due course from the Finance Committee for the establishment of a new corporate entity.
- 3.3 There are three potential streams of activity for the trading arm: supporting other UK authorities, undertaking international consultancy and undertaking international operations and maintenance (O&M) activity.

- 3.4 Partnership building and knowledge sharing with UK authorities aligns with our desire to support other cities and would help test our consultancy model. Selling our experience on packages of consultancy work would assist other cities, broaden our experience and could form a route into potential O&M work. Undertaking on-going, multi-year operations offers the greatest opportunity to generate financial return, though such opportunities are less frequent and would normally incur bid costs. All activity would have to be managed so as not to distract from our core services in London.

4 Opportunities

- 4.1 It is clear that there is significant interest in us offering consultancy and operational support to cities and authorities around the UK and internationally. Initial indications are that the greatest commercial potential comes from us providing strategic transport planning services, the setting up and management of integrated control centres, offering sophisticated fares and ticketing systems, procuring and running transport services (metro, light rail and bus), and developing and running programmes to improve reliability, particularly alongside running an existing metro network.
- 4.2 To avoid significant set-up costs, and to allow us to make progress more quickly, the proposal is to partner with established consultancies and transport organisations on the larger and more complex opportunities. This will allow us to leverage our partner's infrastructure and reach, whilst we utilise our global brand, intellectual property and unique experience to secure contracts. This way we avoid, for example, the fixed cost of establishing overseas bureaux. Our brand is very important and valuable to us and to London, and we will only operate where we exert enough control to protect our reputation.
- 4.3 The trading arm must have freedom to pursue opportunities, but with firm controls in place to ensure both that new contracts can be delivered and that the core operational service in London is not compromised. The proposed governance structure will allow the trading flexibility and responsiveness needed to respond in a timely manner to the opportunities identified. Controls will also be required to allow cost to be tracked and to facilitate working with joint venture partners whilst maintaining the necessary information barriers; this will be essential to ensure compliance with competition law requirements.
- 4.4 There are a number of international comparators upon which we can draw. Régie Autonome des Transports Parisiens (RATP) has two discrete trading businesses: RATP Dev: operating RATP Group services outside Paris and SYSTRA (part owned with SNCF) an international engineering and consulting group. Deutsche Bahn Regio had run a series of operations outside Germany, before the 2011 acquisition of Arriva brought all its international operations under one brand. Madrid Metro initially undertook consultancy work, including providing support to London Underground in 2013, before it set up a joint venture with Ineco focused on building and commissioning of systems. These organisations have all demonstrated that there are significant financial returns and wider synergies in combining a local transport operation with an international trading business that offers consultancy services and runs a series of discrete transport operations.

- 4.5 A consulting operation, London Transport International Ltd (LTI), was set up in 1976. LTI undertook major projects in Dublin, Caracas, New York, Hong Kong and Singapore. It generated some £6 million in profit (2017 basis) from 1976 to 1985 on turnover of £42.6 million (2017 basis). A series of issues, including a failure to manage costs, caused the business to fall into loss in the late 1980s, and LTI was closed in 1992. Learning lessons from LTI, we will make full use of skills from across the rest of TfL, approval will be sought from the Finance Committee for all major bidding decisions and we will avoid an expensive fixed cost based through the proposed partnership model.
- 4.6 Individual pieces of consultancy work have been done since the closure of LTI, but these have not been planned or managed in a consistent way. Over the past year we have been assessing the opportunity and it is clear that our brand and reputation are attractive around the world.
- 4.7 As a public-sector body representing London and the United Kingdom, we believe that we should consider more than just the demand for our services and our economic requirements when assessing overseas opportunities. We have therefore agreed with the GLA that our consultancy services will be delivered in a manner that reflects our values including human rights, labour standards, the environment and anti-corruption. Similarly we remain committed to extending our heritage of ethical sourcing and employment to our activities abroad. These principles are now set out in the GLA Group Responsible Procurement Strategy.

5 Steering Group

- 5.1 Given the opportunities and risks offered posed by the trading arm, it is proposed that bespoke governance arrangements are put in place with oversight by a Trading Arm Steering Group whose remit will include:
- (a) ensuring co-ordination between trading arm activities (consultancy and operations) and TfL's operational activities;
 - (b) ensuring that trading arm activities are consistent with TfL's Finance plans and objectives;
 - (c) ensuring that there are strategies for trading activities – and plans to deliver on those strategies; and
 - (d) monitoring delivery against plans.
- 5.2 Membership of the Trading Arm Steering Group will be agreed by the Commissioner.
- 5.3 Regular updates will be provided to the Finance Committee in the Quarterly Performance Reports.
- 5.4 Whilst the Steering Group will oversee the activities of the trading arm, decisions will be taken in accordance with Standing Orders. Given the likely need for prompt decisions, particularly on bidding, it is proposed that the Finance Committee approve decisions on activity undertaken by the trading arm.

5.5 Key of course will be the ability to integrate the requirements of the trading arm with the wider organisation. With these arrangements in place, we are confident that the trading arm can successfully exploit the unique experience and brand that TfL offers to improve transport services around the world, bring innovation and experience back to benefit London, and create significant revenue streams that can be reinvested in transport in the capital.

List of appendices to this report:

None

List of Background Papers:

None

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