

Date: 18 October 2022

Item: Investment, Business and Corporate Planning 2023/24

This paper will be considered in public

1 Summary

1.1 This paper outlines the strategic activity TTL Properties (TTLP) is undertaking over the next six months in preparation for financial year 2023/24. This activity builds on the current TTLP Investment Strategy and Business Plan, as set out in the Committee paper of 30 June 2022, and reflects also TTLP's half-year performance and the wider market conditions.

2 Recommendation

2.1 **The Committee is asked to note the paper.**

3 Corporate Strategy

3.1 Significant work has been undertaken on the development of the TTLP Purpose, which has included the creation of a vision statement and nine operating principles. This work was consciously aligned with TfL's Vision and Values. By April 2023, this work will be extended through the creation of a new document that will outline:

- (a) TTLP's purpose and vision;
- (b) TTLP's corporate objectives; and
- (c) measurement criteria for achievement of the objectives.

3.2 This document will be developed jointly with the Committee and will be supported by the TTLP Investment Strategy, the TTLP Environmental, Social, and Governance (ESG) Strategy and the TTLP Business Plan. Together, these will set out how TTLP will deliver its Corporate Strategy.

4 Investment Strategy

4.1 The Investment Strategy is a framework for investment decisions that allows the organisation to deliver on its objectives in a way that maximises returns and mitigates risk across the estate. The strategy sets two primary objectives:

- (a) generate sustainable and growing net income; and
- (b) deliver new homes and communities.

4.2 The 2022/23 TTLP Investment Strategy was the first such consolidated strategy created for Tfl's commercial property portfolio. It provides a clear long-term direction, though requires an annual review to ensure it stays relevant. The strategy sets out objectives for the portfolio and project delivery including commercial performance metrics.

4.3 The Investment Strategy will be reviewed and updated for 2023/24. The review of the strategy will build on previous work and continue the long-term direction and aspiration of the business. The Investment Strategy will be supplemented by relevant other strategies. This work will be carried out over the coming months and focus on:

- (a) ESG Strategy – the existing Investment Strategy sets out a series of commitments that support TTLP's ESG aspirations. Work is underway to build on this with a consolidated TTLP ESG Strategy that will provide more detail to supplement the Investment Strategy and include supporting objectives. This workstream is critical to the resilience, future proofing and growth of TTLP. Further information is provided below;
- (b) Commercial Performance Metrics Review – as set out in the TTLP Half-Year Performance paper, inflationary pressures and rises in the cost of debt are leading to changes in investor appetite and return targets. The Commercial Performance Metrics Review will consider the appropriateness of the commercial performance metrics (by sector and / or by project) set out in the existing strategy;
- (c) Capital Allocation and Expenditure – as noted in the TTLP Half-Year Performance paper, there has been an underspend in capital across the programme over this half year. This is in part due to market forces but also TTLP's ability to mobilise capital at the pace required. Further detail is provided later in this paper; and
- (d) New Market Sectors – two additional sectors offering investment scope and strong synergies with the business have been identified:
 - (i) Industrial and Logistics – this sector has seen significant value growth in recent years as a result of growing ecommerce and a move to a stronger delivery culture, combined with a loss of industrial land in the capital. TTLP has significant, though disparate, industrial landholdings, with further opportunities across the estate. A defined strategy for this sector would create strong investment opportunities and help support businesses and job creation across the capital; and
 - (ii) Electric Vehicle (EV) Charging – TTLP has an opportunity to position itself within the emerging EV charging market. This is driven by several strategic advantages, most notably as a landowner in high charging value locations. Investment in green energy infrastructure will also support TTLP's ESG Strategy. TTLP's EV Charging team is currently working up a commercial proposal to take to market. This will be further developed over the next six months.

5 ESG Strategy

- 5.1 Over the next six months, TTLP will develop its first consolidated TTLP ESG Strategy, enhancing the alignment between TTLP's purpose and operating principles with the Investment Strategy. It is recognised that a robust and credible ESG Strategy will be key to the financial sustainability of TTLP's portfolio, including any future refinancing exercise. The ESG Strategy will also demonstrate the significant potential of TTLP's business to deliver environmental and social benefits to London.
- 5.2 The ESG Strategy will build upon existing sustainability activities and success, especially the Sustainable Development Framework (SDF). The SDF is a bespoke framework that was developed in Commercial Development to monitor and drive sustainability performance across TTLP's development portfolio. The rigour of the performance-focused methodology established by the SDF will be used to inform the approach for measuring and improving the impact of TTLP's existing estate, which will be a key priority of the ESG Strategy. Adopting and enhancing a customer-led approach will also be crucial.
- 5.3 As with the Investment Strategy, the ESG Strategy will be underpinned by the two elements of the TTLP Purpose: creating thriving places and generating sustainable income. The first step has been the establishment of a core TTLP ESG team, which brings together expertise from across property development and the existing estate and elevates ESG to a central strategic function running across the business.
- 5.4 Work will be carried out over the coming months to compile the ESG Strategy. It will focus on understanding and responding to the ESG market and regulatory opportunities and the risks to our property portfolio. The strategy will include short-term priorities, including:
- (a) environmental impact – baselining and forming a robust roadmap to drive activity across our existing estate to support our commitment to Net Zero Carbon by 2030. This work will be integral to the annual portfolio valuation. The rolling programme of undertaking Energy Performance Certificates (EPCs) across our existing assets will also be accelerated;
 - (b) social value – measuring TTLP's existing and potential social impact and instigating strategies to enhance this – will include TTLP's approach to both affordable housing and affordable workspace;
 - (c) customer experience – TTLP will continue to evolve its partnership-led approach, working closely with occupiers, and focused on unlocking local prosperity. TTLP will continue to build on and develop regular metrics to measure its customer-led approach – building on a pilot undertaken for the Arches portfolio. This will provide a comprehensive, end-to-end map of our customers' property interactions with TTLP; and
 - (d) unlocking value – enhancing TTLP's operating margin and contributing to local prosperity and place-making through prioritisation of filling vacant properties and a rolling refurbishment and compliance programme; and, where appropriate, utilising meanwhile strategies.

5.5 Work will also be undertaken on how TTLP measures ESG performance and impact, looking across the existing estate and future development pipeline, with metrics cascading from the corporate level to individual sectors and assets. This will ensure that TTLP can comply with existing and emerging governance requirements, commitments and expectations. This will build on TTLP's existing GRESB accreditation, which currently applies to property development only. TTLP will also consider the benefits of adopting other accreditation systems.

6 Business Plan Update

6.1 The emerging Investment Strategy for 2023/24 will directly inform the Business Plan update for April 2023. The updated Business Plan will focus in detail on the short-term including known and committed projects, with a high-level update on the medium and long-term elements of the plan.

6.2 The focus of the Business Plan work will be:

- (a) a detailed short-term plan – this will be focused on known and committed projects and will prioritise the 'Focus' and 'Optimise' elements of the current Investment Strategy, with particular attention on compliance and essential activity;
- (b) sector-led Profit and Loss accounts (P&Ls) – producing sector-led P&Ls (combining to a TTLP-level P&L) will establish greater clarity on sector performance and help reinforce the Investment Strategy. It will also drive accountability into the business, empowering performance. As noted in the Half-Year Performance paper, TTLP has a challenge to significantly improve its operating margin by 2025/26. The ability to measure and drive P&Ls at sector level will help meet this target;
- (c) operating costs – a detailed review of TTLP's operating costs (by sector and ultimately by unit) will provide a greater understanding of true efficiency levels within the business and help improve the operating margin. This work will lead to an action plan to mitigate the cost base and feed through to the new TTLP operating model;
- (d) income and capital investment – as set out in the Half-Year Performance paper, there is a significant underspend on the capital account in the first six months of this year. Long-term income growth and the realisation of wider social and environmental benefits for London are dependent on capital investment in the portfolio. The next iteration of the Business Plan will set out the steps to improve the mobilisation of capital spend; and

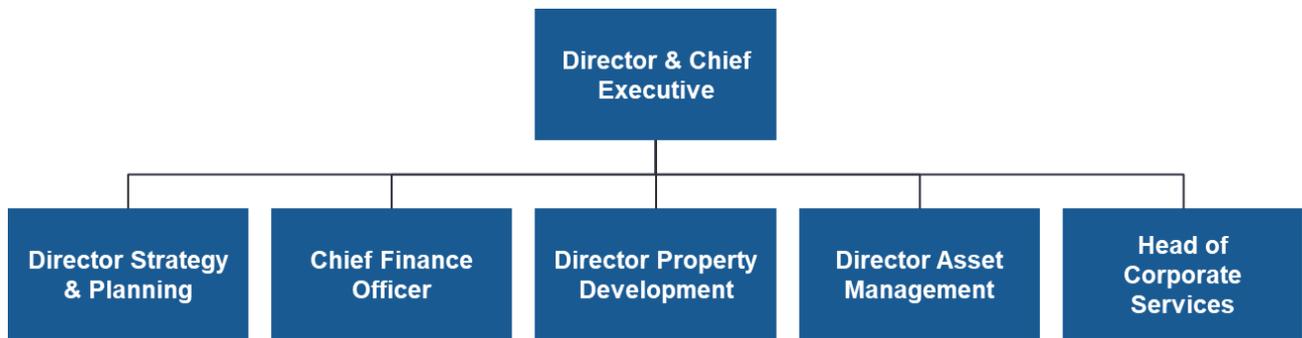
6.3 A key next step will be the development of a design and implementation plan for TTLP's planning and performance cycle, to be delivered over the next 12 months. This plan will outline how TTLP will deliver its objectives at a corporate, portfolio and sector level. TTLP's new Strategy and Planning function will work closely with TfL and the Committee to develop and agree the optimal performance cycle for the organisation.

7 Digital

- 7.1 Given the scale of TTLP's assets, effective use of digital is essential to both efficiently running the existing estate and enhancing the portfolio. TTLP is currently reviewing its digital and data capabilities with the overall goal of creating processes, systems and data that reflect a commercial property business rather than a department in an operational transport organisation.
- 7.2 'Digitally Connected' is one of TTLP's nine Operating Principles and is pivotal to achieving TTLP's Vision. TTLP Digital will deliver technology, data and innovation capabilities that maximise the value and return of TTLP's assets through enabling data-driven decision making and driving transformation across the organisation.
- 7.3 The Digital review will initially focus on:
- (a) setting up digital foundations by bringing in new skills and ways of working, including leveraging TfL's existing digital services; and
 - (b) supporting ongoing data improvement to enable the business to take data-informed decision.
- 7.4 Throughout the Digital workstream, the team will review the current systems, data and processes in order to transform to a robust digitally connected organisation. The goal is for TTLP to:
- (a) rely on a robust single source of data for decision making;
 - (b) provide great digital customer service;
 - (c) be digitally connecting individuals with businesses, homes and opportunities; and
 - (d) utilise technology that improves social mobility, drives economic performance and tackles environmental challenges.

8 People Plan and Operating Model

- 8.1 People are the single most important element in the success of TTLP. By the end of 2022, TTLP will have set out the core principles of its new People Plan that establishes TTLP as an employer of choice, one that is capable of attracting, recruiting, rewarding and retaining a diverse, high-performing workforce that reflects the city it serves. The plan will draw on the views of TTLP's own people, gleaned through engagement this autumn, as well as benchmarking within the Greater London Authority Group and externally, where appropriate. The plan will be in place by April 2023.
- 8.2 As set out in the papers for the Committee on 30 June, TTLP is adopting a simple, flat structure that reflects both TfL's own value chain and commercial best practice (see diagram below).



8.3 Recruitment to the vacant Director posts has taken place. The next stage will be to establish a target operating model for TTLP that will support the delivery of the organisation's objectives. This will be followed by the design and delivery of the detailed organisational structures within each of the teams.

8.4 Critical to the delivery of the Investment Strategy will be a fully resourced team. The 2023/24 Business Plan will therefore clearly set out the required resource at all levels in TTLP for the Committee's endorsement.

9 Conclusion

9.1 It was only 12 months ago that TTLP created its first Investment Strategy to inform and drive individual investment decisions across the organisation. The value of the Investment Strategy is already clear. The next iteration will take on board the lessons from this year's performance and be updated to reflect the current market conditions.

9.2 Crucially, an ESG Strategy will sit alongside the Investment Strategy to clearly set out the basis for all investment in TTLP. These strategies will be produced in conjunction with the Committee. The Business Plan that flows from these documents will also reference the need to invest in both digital infrastructure and people.

9.3 Together, these documents will set out how TTLP will deliver its Corporate Strategy and allow TTLP to move forward with rigour and confidence in realising the opportunities ahead.

List of appendices to this report:

None

List of Background Papers:

None

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