Land and Property Committee

Date: **21 September 2023**

Item: **Business Plan Update**

This paper will be considered in public

1 Summary

1.1 In common with Transport for London (TfL), Places for London has been working in recent months to develop a long-term Business Plan, setting out how we will deliver on our purpose: to move London forward with thriving, connected places. We are following TfL's business planning programme and process, and consistent with this will present the final plan to the Committee at its meeting on 20 December 2023.

1.2 This paper summarises our work to date. It also includes updates on the development of our value framework and progress on our Environment, Social and Governance (ESG) workstream.

2 Recommendation

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

3 Background

3.1 The Business Plan in preparation will, when approved by the Board as a component of the wider TfL Business Plan, supersede Places for London's first comprehensive Business Plan, which accompanied our application to the banks for our initial three-year Revolving Credit Facility and was presented to the Committee at its meeting on 30 June 2022. That original plan set out set out an ambition to grow recurring income from £81m to £162m per annum and a growth in asset value from £2.1bn to £4.0bn.

3.2 Over the course of the past year, Places for London has established a clear direction of travel underpinned by three core objectives for the business which provide the basis for the planning process:

(a) generate sustainable growing net income and shareholder growth;

(b) deliver new homes, neighbourhoods and communities; and

(c) future-proof our portfolio to achieve Net Zero Carbon.

3.3 The new plan will set out how we will achieve these objectives in the period from 2024 to 2034 and will describe the projects and ongoing activity we will prioritise. The plan will be predicated on long-term growth driven by strategic asset investment and a strong delivery pipeline that starts with committed projects currently underway. It grows to a longer-term programme to meet the needs of London and the people who live, work and visit our city.

3.4 Our work to develop the new plan has taken into consideration a series of external factors that have made delivering the current plan significantly more challenging. These include the economy (increasing interest rates and inflation), construction cost increases and challenges around planning particularly uncertainty in future building safety requirements.

3.5 In addition, the process of transforming the Places for London business into one that can make the most of our opportunity has driven additional cost into the plan. As part of the business planning process, we will analyse the relative strength of these factors and the effect they have on our business.

3.6 We have adopted a three stage approach where we consider a number of categories of work which cumulatively would enable us to achieve our company objectives during the period of the Business Plan that is being drafted. We have approached this as follows:

3.7 First, we consider our core activities, the areas we believe we must invest in to deliver our purpose. These include:

(a) health, safety and compliance – ensuring our estate is safe and accessible to all, with a proactive approach to legal and regulatory compliance across our portfolio;

(b) homes delivery – ensuring we have a clear plan and delivery mechanisms in place to deliver on our 20,000 homes promise; and

(c) a deep commitment to environmental sustainability, social value and inclusivity – as well as how we prioritise the delivery of transport benefits alongside our capital schemes.

3.8 Second, we consider the options that will underpin and enable how we deliver our purpose, and which we can flex up and down across the plan depending both on our ambition and the financial envelope. These options are intrinsically linked to each other and to our non-negotiables and include:

(a) digital and data – putting in place the systems and processes to optimise speed and efficiency across our business;

(b) asset disposals – de-risking our investment portfolio and rebalancing our sectors and asset holdings, with capital receipts reinvested into our business; and

(c) organisational change and structure – ensuring we have an organisation with sufficient capacity, capability and commitment to our core purpose and values to support the delivery of our core activities.

3.9 Third, we consider investment in asset management and the emerging options. The former looks at pro-active investment to drive income growth and the second,, the activity areas that have not featured prominently in previous plans but which we are considering for inclusion given their contribution to meeting London's challenges. Prominent among these is our nascent green energy work with electric vehicle charging at its heart, which will contribute directly to meeting the air quality improvement goals set out in the Mayors Transport Strategy.

3.10 We have developed three indicative scenarios setting out how different variations and combinations of these options could come together as packages: Base Plan, Target Plan and Ambition Plan. All were looked at through a lens of long-term affordability, sustainability and growth for our shareholder.

3.11 The Base Plan is predicated on our existing business structure and capabilities, ensuring our core outcomes are met and consistent business growth is supported by investment elsewhere. The Target Plan is deliverable within our existing business structures but would need to be accompanied by significant change and growth activity to improve the efficiency of the organisation. As its name suggests, the Ambition Plan is more aspirational. This third scenario would require us to add delivery capability over what currently exists, and this would include significant external support and expertise.

3.12 The three plans have been evaluated through our financial model, which shows us that we can comfortably deliver a Base Plan within our current affordability envelope. However, the other plans will require us to significantly streamline, rephase and prioritise our operating costs and rephase our capital spend

3.13 In all three modelled scenarios, the financial year ending 2026 is the most challenging because of a combination of increased costs (both operational and investment) and delay in generating associated income and returns caused by the current market conditions. In addition, the increased cost of debt means that the longer-term ambition plan is less affordable than the June 2022 plan.

3.14 Nonetheless, we are confident that we can address this in the next stages of the plan's development, including by rephasing and control of costs. In doing so, we will generate a long-term plan which meets our shareholder and company objectives in an affordable way.

4 Investment Metrics

4.1 Underpinning the successful delivery of our Business Plan will be a set of financial metrics guiding investment decision making and risk appetite. The current levels were set in June 2022 when TTLP became financially independent and are being used to evaluate investment decisions today

4.2 TfL recently confirmed to Places for London that it is seeking a long-term equity return target of 7.5 per cent per annum. This broadly reflects four per cent cost of funding for TfL and a 3.5 per cent premium. This target will be reviewed against market comparators over the next year.

4.3 The confirmation of the equity return target has allowed us to create a corporate Weighted Average Cost of Capital (WACC) metric. This will be a function of both the 7.5 per cent required return on equity and our cost of debt. We will review our WACC annually to ensure our cost of capital remains reflective of market conditions.

4.4 We will use WACC to establish a revised methodology around project hurdle rates that will enable us to properly evaluate the varying risks we face in different aspects of our business (including build risk, new market risk, regulatory risk delivery, growth risk, structure risk) and set them against benefits (delivery of strategic objectives, social value or transport benefits). This will help us to more effectively evaluate and prioritise our investment projects in a constrained capital environment.

4.5 We are reviewing our existing suite of investment metrics and will report back to the Committee in December setting out how the metrics and any changes to them align with and support our long-term goals.

5 Our Impact – Strategic Impact Framework

5.1 The scale of our investment portfolio and development programme provides a unique opportunity to set the standard for how the private and public sector can work in partnership to deliver societal, environmental, economic and transport benefits across London. It is important we can measure and monitor our impact in a meaningful way that encompasses more than financial return. As such, we have progressed work to put in place an impact framework rooted in our strategies and the emerging Business Plan, and which will inform the development of our strategic scorecard.

5.2 In doing so, we have analysed our key activities, asset pipeline and a range of data generated in our business. This has enabled us to develop the series of candidate output, impact and key performance metrics which are the starting point for us being able to present a picture of our productivity, business health, contribution to TfL’s operations, and impact on London.

Places Theme	Focus Areas	Candidate Impact Metrics
Partnerships	Business, community benefits	• Economic value of tenant base • Commercial space improvements • Community
People	Jobs, skills, education	• Jobs/skills outcomes • London Living Wage jobs/coverage • Education interventions
Planet	Net Zero, sustainability	• CO_2/greenhouse gas reductions • Biodiversity net gain

Places Theme	Focus Areas	Candidate Impact Metrics
Place	Housing, place-making	• Homes delivered (including affordable homes) • Public realm improvements
Productivity	Operations, transport	• Transport investment • Mode shift • Ridership, revenue, accessibility

5.3 Places for London will deliver benefits that directly support the goals of TfL and the Mayor's Transport Strategy. Our investment programme will deliver improvements to the customer experience and transport choices that will drive mode shift towards public transport supporting active, sustainable travel. These direct investments improve the public transport experience for all, including making more step-free accessible journeys possible.

5.4 We are using these inputs to develop a more detailed impact framework which will enable us to track and measure progress towards our strategy, Business Plan outcomes and scorecard targets. Our next steps will include:

(a) further analysis of best practice in real estate and the wider commercial and public sectors;

(b) work to ascertain gross and net benefit – what can we legitimately claim to have directly and indirectly delivered or influenced;

(c) identification and mapping of target groups and beneficiaries;

(d) framing measurement methodologies, including an assessment of data availability and mechanisms for capture through our corporate processes; and

(e) understanding and utilisation of established TfL impact methodologies and establishing mechanisms for alignment of investment and operational priorities.

5.5 Our strategic impact framework will also be central to the ongoing development of our ESG strategy and plans, and the function that will ensure their delivery. This will include using the framework to understand the contribution projects make to our ESG and corporate priorities and applying this at the investment allocation stage.

6 Environment, Social and Governance Update

6.1 Creating thriving places sits at the heart of our vision for London. As one of London's largest landowners we can lead the way in delivering a greener, more sustainable city through our people, places and properties. ESG is at the heart of our programme, and while we will focus on the path to Net Zero Carbon (NZC), we will also reflect our wider investment in our physical assets to future proof our portfolio and operations, underpinning long-term sustainable revenue and value growth.

6.2 The investment in better environmental outcomes will be captured in updates to our ESG and other strategies in the coming months. Delivery of these strategies will be supported by increases in both capacity and capability in this area. Alongside, we will be progressing activity in key workstreams as set out below.

Task Force on Carbon-Related Financial Disclosures (TCFD)

6.3 TCFD is about how we enshrine ESG in Places for London's business and ways of working. We've worked across our organisation to complete our first comprehensive TCFD report which sets out our maturity against the core elements of the TCFD framework: governance, strategy, risk management, and metrics and targets. In each of these areas we are making good progress but have identified a range of actions we will put in place to further improve our performance against the framework.

(a) **Governance** – to strengthen our focus on ESG and improve our ability to drive forward activity across the business, we will establish an ESG Group, reporting directly to our Executive Leadership Group;

(b) **Strategy** – to inform our ESG strategy, we will undertake an initial materiality assessment covering the impact of climate-related physical and transition risks and opportunities on our business, strategy and financial planning;

(c) **Risk Management** – we will put in place processes for identifying, assessing, and managing climate-related risks and integrate them into Places for London's overall risk management approach; and

(d) **Metrics & Targets** – in support of the development of our NZC roadmap, we will work to get better data on Scopes 1, 2 and 3[1], with a view to including NZC targets in next year's TCFD return, as well as the strategic scorecard.

6.4 Completion of the TCFD report means we have met the first of the ESG milestones in our 2023/24 scorecard.

Climate Adaptation

6.5 We have worked with the TfL Safety, Health and Environment (SHE) team to understand common risks and areas for focus. This collaborative work has included a contribution to the voluntary response to Government's request for climate risk assessments in relation to the Adaptation Reporting Power (ARP3). As part of this work, utilising qualitive information, we identified 33 asset, people and services risks across our business.

[1] The greenhouse gas (GHG) Protocol established comprehensive global standardised frameworks to measure and manage greenhouse gas emissions. These specify Scope 1 covers direct emissions from owned or controlled sources; Scope 2 covers indirect emissions from the purchase and use of electricity, steam, heating and cooling (by using the energy, an organisation is indirectly responsible for the release of these GHG emissions); and Scope 3 includes all other indirect emissions that occur in the upstream and downstream activities of an organisation. In Places for London's case, Scope 3 would include e.g. the emissions from our commercial tenants.

6.6 Looking ahead, building on the TCFD report, we will carry out a high-level assessment to understand which of our assets are in most need of adaptation. This will be used to inform investment decisions. We will also continue working with TfL SHE on the response to the next Adaptation Reporting Power (ARP4 – due in late 2024), which will provide greater pan-TfL understanding of how to protect its estate and the links and dependencies with other sectors.

<u>Net Zero Carbon (NZC) Roadmap</u>

6.7 As a member of the Better Buildings Partnership, we are committed to regularly updating and publishing a NZC Roadmap. We are currently working on an update that takes account of the Mayor’s commitment to 2030 and which is consistent with the wider TfL approach in this area, including its recent commitment to setting science-based targets for carbon emissions.

6.8 The update will also reflect the progress we have made as a business, including the ongoing development of a robust, data-led baseline which we continue to work to improve.

6.9 At this stage, we expect our commitments will include:

(a) achieving NZC for Scopes 1 and 2 by 2030 in line with TfL and Mayoral goals;

(b) a target date for achieving alignment with a 1.5-degree Celsius target across the portfolio;

(c) operational energy limits and upfront embodied carbon limits for our property development pipeline; and

(d) minimum reductions in carbon emissions and energy consumption for our existing estate.

6.10 For most businesses and public bodies, the majority of their greenhouse gas emissions are outside their own operations. This is also the case in Places for London. Some 95 per cent of our 2021 baseline emissions were Scope 3, so increasing engagement across our supply chain will be essential.

6.11 In addition, our ESG strategy will set out our aspiration to play a wider role in supporting a “just” transition for London, for example by providing support and training for small and medium enterprise occupiers across our existing estate.

6.12 To inform the development of our NZC roadmap, we will deliver a series of sustainable retrofit demonstrator projects, and introduce Green Lease clauses for future lettings, focused on energy data sharing.

6.13 We will keep the Committee informed of the progress we are making ahead of a comprehensive ESG update at the 19 March 2024 meeting.

List of Appendices:

None.

List of Background Papers:

Mayor’s Transport Strategy.

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