

Date: 20 December 2023

Item: Financial Metrics

This paper will be considered in public

1 Summary

- 1.1 Places for London has been reviewing its existing suite of investment metrics, including considering how these metrics support the delivery of the Business Plan, including the target for financial return to Transport Trading Limited, as shareholder, and balance risk exposure across the activities that Places for London is involved in.
- 1.2 This paper summarises the work to date. It also includes updates on the approach to Weighted Average Cost of Capital (WACC), risk-adjusted WACCs and their application in investment decision making.
- 1.3 A paper is included on Part 2 of the agenda which contains exempt supplementary information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial and business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

- 2.1 **The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda.**

3 Background

- 3.1 Places for London became financially independent from Transport for London (TfL) in April 2022. In June 2022, Places for London raised its own corporate debt finance and now proposes to fund its activity through a mix of equity and debt.
- 3.2 Underpinning the new Places for London Business Plan are a series of assumptions about proposed investments. These investments have been evaluated in the context of the financial metrics that were set out in March 2023, Corporate and Investment Strategies, with qualitative overlay for project risks.
- 3.3 As part of Places for London's evolution and to support investment decision making, we are refining financial metrics to ensure they align with our now stand alone cost of funding and consider the specific risks inherent within different activity within the Business Plan. We are therefore proposing to establish a Places for London WACC rate considering our cost of funding and a set of Risk-Adjusted WACC rates taking account of these different risks.

- 3.4 WACC is the financial metric used to assess the cost of financing a company's operations and investments. WACC represents the weighted average costs of different types of capital that Places for London uses to fund its activities, taking into account the proportion of each type of capital employed within the company's capital structure.
- 3.5 WACC will act as a critical financial tool that determines a target return required from an investment to cover the cost of capital required to support the project. The primary purpose of WACC is to help Places for London make informed financial decisions across capital budgeting, investment evaluation, financing decisions and performance evaluation.

List of appendices to this report:

Exempt supplementary information is included in the paper on Part 2 of the agenda.

List of Background Papers:

None

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