Finance Committee

Date: **26 January 2017**

Item: **Commercial Development Quarterly Update Report**

This paper will be considered in public

1 Summary

1.1 This paper provides an overview of TfL’s Commercial Development activity.

2 Recommendation

2.1 The Committee is asked to note the update report

3 Commercial Development Financial Overview

3.1 As shown in Figure 1 overleaf, year to date gross operating income is £130.0m, £0.5m (0.4 per cent) higher than budget and £18m (16 per cent) higher than at the same point in 2015/16. This variance to budget includes:

- £3.2m of additional income from the property portfolio, offset by:
- £2m less than budgeted from commercial media.

3.2 Year to date operating expenditure is £25.4m, £6.5m (34.4 per cent) more than budget and £0.6m (2.2 per cent) less than last year. This is primarily driven by £4.3 of property development operating expenditure that was budgeted as capital.

3.3 The capital account year to date sits at -£8.6m net compared to a budget of -£77.9m. The primary drivers of this are the release of £14m property development over-programming coupled with lower than expected project expenditure across the portfolio and:

- £5.8m of spend budgeted for works that are no longer expected to take place;
- £11.3m of works on projects that have been deferred due to a change of strategy;
- £3.2m due to a rationalisation of the arches programme; and
- £1.3m of delays to the delivery of capital works to support commercial media.

Figure 1 – Year to Date Summary

	YTD Actual	Prior Year	Variance to PY	% Variance	YTD Budget	Variance to Budget	% Variance	FY Forecast	FY Budget
Media & Telecoms	72.3	54.5	17.9	32.8%	74.9	(2.6)	(3.5%)	103.3	112.5
Property Income	58.3	58.1	0.2	0.3%	55.1	3.2	5.8%	77.3	80.5
Operational Property	0.0	1.3	(1.3)	(100.0%)	0.0	0.0	>100%	0.0	5.2
Overprogramming	0.0	(0.0)	0.0	>100%	0.0	0.0	>100%	0.0	(18.5)
Operating Income	**130.6**	**113.9**	**16.7**	**14.7%**	**130.0**	**0.5**	**0.4%**	**180.6**	**179.7**
Operating Expenditure	(25.4)	(25.9)	0.6	(2.2%)	(18.9)	(6.5)	34.4%	(44.1)	(27.3)
Net Operating Income	**105.2**	**87.9**	**17.3**	**19.7%**	**111.2**	**(6.0)**	**(5.4%)**	**136.5**	**152.4**
Capital Investment	(12.3)	(81.4)	69.1	(84.9%)	(82.5)	70.2	(85.1%)	(41.8)	(145.8)
Capital Proceeds	3.7	4.7	(1.0)	(21.7%)	4.6	(1.0)	(20.8%)	17.7	126.8
Net Capital Income	**(8.6)**	**(76.7)**	**68.1**	**(88.8%)**	**(77.9)**	**69.2**	**(88.9%)**	**(24.1)**	**(18.9)**
Total Net Income	**96.6**	**11.2**	**85.4**	**761.6%**	**33.3**	**63.3**	**189.8%**	**112.4**	**133.4**

Variance ( ) = lower income and higher expenditure £000s

3.4 Material items impacting upon the year end total net income position are:

- the disposal and leaseback of 55 Broadway which is now expected to take place in 2017/18;
- a £6.4m reduction in income from commercial media; and
- a total capital investment variance across the portfolio of £110m.

3.5 Full year, gross operating income is forecast to meet budget despite difficult market conditions through most of the year. Operating expenditure is higher than budget primarily due to feasibility costs budgeted as capex. Gross capital proceeds are lower than budget primarily due to the deferral of the disposal of 55 Broadway to 2017/18. Forecast full year capex remains below budget despite the unbudgeted acquisition in December of the long lease at Kingsbourne House (see below).

4 Recent Activity

4.1 October 2016 saw the launch of the 'Hello London' partnership with Exterion Media. This brought together for the first time all the advertising across our rail operations, making this the largest outdoor advertising contract in the world. Annual revenue from rail advertising is forecast to grow from £69m in 2015/16 to £164m by 2023/24.

4.2 This increase in income is achieved through investment in new technology and the development of data insights to support more targeted advertising. The investment will also see us introduce new premium products, with the first example being at Canary Wharf, where we have installed double sided 7x4m digital LED advertising screens as shown below.

4.3 Also in October 2016 we announced the award of a contract to Outdoor Plus for new digital screens at up to nine roadside locations across London. This deal will generate at least £13m. The first screen has recently been installed at Malden Way, Kingston.

4.4 On property development, we have seen a significant ramping up of activity with three sites (Kidbrooke, Fenwick and Landmark Court) brought to market in the past 6 months. Between January and March 2017, we will be aiming to bring a further three sites to market. At Earl's Court, demolition works on the site of the former Exhibition Centres was successfully completed on time and to budget, and the world's largest crane is now on site to remove 61 portal beams, the largest of which is 1,500 tonnes, that currently sit over the London Underground tunnels.

4.5 Good progress is also being made on improving the management of our property portfolio and this is reflected in increasing rent collection. In November, we ran public engagement events for our proposals for Wood Lane arches. This will see us transform 31 currently disused arches into retail units, workspace and public through routes. Our proposals had strong support from those that attended the events. A planning application has since been submitted and we should receive a determination in the next two months.

4.6 Separately, following on from a strategic review of our long leasehold portfolio, we have identified potential future opportunities to either generate capital receipts or enhance income from restructuring and extending leases. In December 2016 we agreed terms for the acquisition of the long lease at Kingsbourne House, above Holborn station. The property comprises a fully occupied retail and office investment with a current rental income. The freehold on the property is already owned by LUL and the benefits of acquisition include the "marriage value" of collapsing the leasehold interests, cost savings for the Holborn Station Capacity Upgrade project and the option to dispose of the property via a new long leasehold sale.

5 Amendments to Property Partnership Framework Delegations

5.1 On 3 February 2016, the Board approved the setting up of the Property Partnership Framework to maximise the value of our property assets to assist with the delivery of £3.4bn of non fares income over the TfL Business Plan and delegated authority to TfL Officers and Subsidiaries to put in place any call off contracts let under the Framework.

5.2 At that time it was envisaged that TfL would set up the joint venture companies necessary to deliver the joint venture and offer shares in those companies to our joint venture partners (via share sale or the issue of new shares). In certain cases, however, it may be more efficient for the Framework Partner to set up the joint venture vehicle. Further, the Transport for London Act 2016 came into force on 4 July 2016, which enables TfL to set up Limited Liability Partnerships (LLPs). As a result, we propose to ask the Board, at its meeting on 29 March 2017, to amend the Property Partnership Framework delegations given to TfL Officers and Subsidiaries in February 2016 to enable TfL to:

(a) acquire, sell, issue and subscribe for shares in any joint venture company established for the purpose of the joint venture; and

(b) form or become a member of any LLP established for the purpose of the joint venture.

List of appendices to this report:
None

List of Background Papers:
None

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