Finance Committee

Date: **5 July 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.**

3 Commercial Development 2016/17 Financial Overview

3.1 As shown in Appendix 1, full year gross operating income was £186.9m, £7.2m (4.0 per cent) above budget and £8.0m (4.5 per cent) higher than 2015/16. In addition to the release of a budgeted over programming risk adjustment of £18.5m the variance to budget includes:

(a) £6.4m higher than budgeted property rental income mainly due to the collection of back dated rents, offset by:

(b) £10.2m lower income across commercial media activities;

(c) £5.2m lower Operational Property receipts

3.2 Operating expenditure for the year was £37.6m, £9.9m (35.7 per cent) more than budget and £6.3m (20 per cent) above last year. This is primarily driven by £8.9m of property development feasibility expenditure that had been budgeted as capital.

3.3 Capital expenditure was £42.5m, £103.3m (70.9 per cent) lower than budget. The primary drivers of the shortfall were the release of £27.1m of property development over-programming costs relating to budgeted risk adjustments and other capex underspends including:

(a) £21.9m of capital expenditure on property development deferred due to the prioritisation of demolition works and the deferral of other works;

(b) £25.9m of underspend on property development projects that were deferred due to changes in strategy;

(c) £19.4m underspend due to rationalisation of the Arches, Offices and Car Parks programmes within Commercial Property and £8.1m underspent on Retail projects within Commercial Property;

(d) £10.2m due to the rephasing of the capex delivery programme within commercial media; and

(e) £8.8m lower spend due to limited investment opportunities arising.

Offsetting these underspends to a degree was the unbudgeted purchase for £15m of Kingsbourne House in January 2017.

3.4 Capital income was £15.6m, £111.1m (87.7 per cent) below budget. The primary driver of this was the £98m delay in disposal of 55 Broadway. Other drivers include:

(a) £20m lower income due to deferring of disposal of surplus properties due to the review of the accommodation strategy and the market conditions;

(b) £4m lower income from projects that were delayed to 2018; offset by:

(c) £9.1m income from the unbudgeted sale of 45-49 Charing Cross Road; and

(d) £1.8m from the unbudgeted disposal of Fielden House.

4 Commercial Development 2016/17 outturn against P12 forecast

4.1 As shown in Appendix 1, the full year net operating surplus was £6.5m above the P12 forecast. This was primarily related to:

(a) £2.4m of additional income from the Property Portfolio – representing £3.5m of additional income from the lettings portfolio, primarily from the receipt of backdated rents, offset by a shortfall in Operating Property income; offset by

(b) £2.2m lower than forecast income across commercial media activities.

(c) £6.1m of operating expenditure underspends, including £2.8m of underspend on Property feasibility deferred to 17/18, a £1.4m release of a provision for a bad debt relating to the advertising contract, and a £2.4m reduction in Property Management costs, again driven by bad debt write backs;

4.2 The year end capital account finished the year £2.4m up against the P12 forecast due primarily to:

(a) A £2.1m underspend due to the rephasing of the capex delivery programme within commercial media;

(b) A £2.5m underspend on Property Portfolio projects, specifically arches and retail, due to the deferment of works to 2017/18; offset by

(c) £2.5m of spend relating to the Emergency Services Network which was not forecast until a Grant Agreement with the Home Office was signed.

5 Recent Development Activity

5.1 Good progress continues to be made on development activity. South Kensington Underground Station was launched to open market with a view to finding a partner to work with us on a long-term basis to restore and develop the station and bring forward a redevelopment with step-free access to the District and Circle line. High quality bids were received and we have since selected six bidders for the short-list. Subject to planning, the development could be complete by 2022.

5.2 In March we announced our preferred bidder for the joint venture to deliver 400 new homes – half of which will be affordable – at Kidbrooke with Triangle London Developments, a consortium of Notting Hill Housing and U+I.

5.3 Also in March 2017, contracts were exchanged with Hertfordshire County Council (HCC) for a long lease over on land near the Metropolitan Line at Croxley Green. This land is identified for educational use.

5.4 Bids have been received back on the Property Partnerships development at Blackhorse Road Car Park. The site is currently a commuter car park of 1.8 acres with potential for a residential-led scheme of 368 units and almost 20,000 sq ft of commercial space.

5.5 At Landmark Court in Southwark, bids have been evaluated and the announcement of the winning bidder is due imminently.

5.6 Overall, five sites have been brought to market during 2016/17. These sites will deliver over 1,000 homes, half of which will be affordable. With GLA support, we have achieved this while meeting the financial targets previously set.

6 Future Reports

6.1 In future Commercial Development activity will be included as part of the Quarterly Performance Report.

List of appendices to this report:
Full Year Summary 2016/17

List of Background Papers:
None

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Appendix 1

2016/17 Full Year Summary

YTD Performance - P13

	FY Actual	Prior Year	Variance to PY	FY Budget	Variance to Budget	FY Forecast	Variance to FY Forecast
Media & Telecoms Income	101.1	90.1	11.0	112.5	(11.5)	103.1	(2.0)
Property Income	85.8	88.8	(3.0)	85.7	0.1	83.4	2.4
Overprogramming	0.0	(0.0)	0.0	(18.5)	18.5	0.0	0.0
Operating Income	**186.9**	**178.9**	**8.0**	**179.7**	**7.2**	**186.5**	**0.4**
Operating Expenditure	(37.6)	(31.3)	(6.3)	(27.7)	(9.9)	(43.7)	6.1
Net Operating Income	**149.3**	**147.6**	**1.6**	**152.0**	**(2.7)**	**142.8**	**6.5**
Capital Investment	(42.5)	(96.4)	53.9	(145.8)	103.3	(45.9)	3.4
Capital Proceeds	15.6	21.6	(6.0)	126.8	(111.2)	16.6	(1.0)
Net Capital Income	**(26.8)**	**(74.8)**	**47.9**	**(18.9)**	**(7.9)**	**(29.3)**	**2.4**
Total Net Income	122.4	72.9	49.5	133.0	(10.6)	113.5	8.9

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