



### **3 Background**

- 3.1 TfL's Investment Strategy 2019/20 – Non Financial Assets for the existing commercial development portfolio is focused on utilising our core property assets to maximum economic effect.
- 3.2 This strategy and has four overarching objectives:
- (a) Sustainability – Produce a sustainable £300m per annum (and growing) operating surplus for TfL from its commercial assets;
  - (b) Self-sufficiency – Self-fund the investment programme necessary to achieve growth – whilst capital expenditure is necessary, capital receipts in the form of land sales, asset disposals and development profits will be utilised to offset the costs, alongside funding options from the new asset holding structure as necessary;
  - (c) Liquidity – Create a potential source of future liquidity for TfL – new arrangements will be considered to consolidate holdings, clarify ownership / title and through defined strategies for each asset class to maximise value and enable future transactions; and
  - (d) Deliver the Mayor's Transport Strategy – Deliver in excess of 10,000 homes under the Mayor's Transport Strategy, with a target of 50 per cent affordable for residential projects brought to market; and improve accessibility of the transport system through step free access, enhancing the customer experience through in station offering and mobile connectivity.
- 3.3 Within this strategy, and submitted as part of the approved Business Plan, the Build to Rent portfolio is the single biggest area of investment, with capital expenditure invested to deliver long term sustainable income and asset value growth. Also considered are investments in retail enhancements and estate improvements, in development Joint Venture projects and potential office opportunities.
- 3.4 Rental income is expected to grow significantly over the Business Plan period, and the consolidation of assets will assist in managing this.
- 3.5 Our commercial property assets can be divided into a range of asset classes:
- (a) land for property development;
  - (b) head office assets;
  - (c) in-station retail;
  - (d) out-of-station retail;
  - (e) arches;
  - (f) car parks;
  - (g) commercial offices;





For these reasons doing this within current structures is not recommended (it could however be part of an overall funding strategy within a standalone entity).

**(d) TfL creates a consolidated commercial property portfolio to facilitate the ability to generate both debt and equity to fund capital requirements – RECOMMENDED**

Whilst the commercial property portfolio is currently administered and predominantly managed by Commercial Development, ownership of our existing assets is dispersed across TfL and its subsidiaries. This means that our commercial property assets and related income streams are not structured in a way that would be considered liquid by the property market or straight-forward in terms of securing capital investment.

Our recommendation is to create a consolidated commercial property asset portfolio that would have its own defined balance sheet and profit / loss account. This would enable a number of options for raising debt and equity to support our Investment Strategy 2019/20 – Non Financial Assets, as the commercial property assets will be clearly defined as separate from our operational transport assets and activities (subject to the constraints outlined in paragraph 5(b) above). This will allow the portfolio to be appropriately valued and assessed by third party debt / equity providers, possibly assisting debt facilities to be set up in the future, and opens up an opportunity to seek HMT approval for any property debt facilities to be considered separately from TfL's operational transport debt requirements. Portfolios can also be easily packaged up into minority Joint Ventures to bring in outside capital and expertise, as part of an overall funding strategy.

Our advisors indicate that there is the potential to raise the required funding against secure income streams, as well as our more complex assets. This could be done in a phased manner to match the capital requirement of the business, managed to achieve business plan targets. As noted in option (b), we will need to do so in a way that does not impact the ability of TfL to borrow to invest in transport infrastructure; we will develop our financing strategy and update the Committee further at a future date.

## **6 Financial Accountability and Governance**

- 6.1 The consolidation of commercial property assets will strengthen our ability to manage performance and achieve sustainable growth. Operational performance measures such as margins, returns and yields will be able to be considered and presented at a portfolio / asset class level, in a manner more comparable with the wider London property market.
- 6.2 It will also promote more direct balance sheet responsibility. Movements in asset value will be measurable and accurately reflect management activity in a way that can be compared with industry best practice. Similarly, working capital requirement will be identifiable and lead to improved day to day financial management and accountability.
- 6.3 Cash Flow and funding requirement will be more readily transparent, leading to greater accuracy in financial planning and analysis

- 6.4 We anticipate that the increase in property development expenditure and property portfolio investment proposed by the business plan, will require greater scrutiny, oversight and guidance from property market experts, alongside focussed, robust risk management policies and procedures. Recommendations for dedicated property governance and decision-making processes will be brought to a future Committee which will consider current income generating capability, interfaces with TfL transport operations and development potential of existing portfolios and properties, as well as funding options.
- 6.5 All capital expenditure, disposals and investment decisions will continue to be conducted in accordance with Standing Orders, and in line with an agreed Business Plan and existing commitments.

## **7 Implementing a Consolidation of Assets**

- 7.1 As noted, we recommend utilising TTL Properties Limited, an existing TfL subsidiary, for this purpose. The intention is to book the revenue from the assets with effect from 1 April 2019 and formalise the legal ownership arrangements as soon as possible thereafter ( target 30 June 2019), to ensure sufficient time for proper due diligence on the assets and business preparedness for the change.
- 7.2 The main options for consolidation of the commercial property assets have been considered as:
- (a) statutory transfer scheme under the Greater London Authority Act 1999;
  - (b) grant of a series of concurrent head leases; and
  - (c) freehold transfer with lease back of the operational assets.
- 7.3 A grant of a series of head leases is recommended. Existing TfL entities retain freehold ownership of the property assets under this model. This would not be the case in a freehold transfer. Statutory transfers are also unfamiliar to investors and funders and the process could take longer for no benefit.
- 7.4 Under the head lease option, in the majority of cases the existing TfL landowning entities would each grant a long concurrent head lease to TTL Properties Limited of its non-operational assets, bundled together by asset class. The existing TfL landowning entities will retain freehold ownership and a level of control over the property assets through the head lease, retaining a flexible ability to ensure compliance with appropriate operational protections. Where the TfL landowning entity has a leasehold interest itself, the term of the lease granted to TTL Properties Limited may need to be shorter. In total, around 40 leases will be granted covering 2000+ assets. Certain short-term leasehold retail assets owned by Rail for London will be assigned to TTL Properties Limited. For certain minor asset types where a leasehold structure is not suitable, an appropriate alternative contractual structure will be used. The property transactions will be treated as a Transfer of a Going Concern for VAT purposes.
- 7.5 No Stamp Duty Land Tax will be payable on the property transactions as they are intra-group. However, group relief can be clawed back if the acquiring subsidiary ceases to be a wholly owned subsidiary of TfL within the three years following completion. A market valuation for each of the assets included in the consolidation





**Proposed list of assets to be consolidated**

**Appendix 1**

Rental income (by category)	Count	Head office sites	Other assets	Future potential development land
Arches	493	Broadway Complex	Moorfields (21)	Harrow On The Hill
Car Parks	54	Cranbourn St	Barkingside	Montford Place, Kennington
Industrial	72	Borough High St	Stanmore Car Park	Morden Bus Station
Miscellaneous	1,283	Oxford Circus	Canons Park Car Park	Nine Elms (NLE OSD)
Offices	123	Old Broad St	Rayners Lane Car Park	Poplar
Residential	182	Aldgate BTP	Woodside Park	Royal Oak Coach Station
Retail In Station	673	Western House	Sudbury Town	Southwark Station OSD
Retail out of Station	563	Buckingham Palace Road	Snaresbrook	Wembley Park
		Penton St	325 Newham Way	Arnos Grove
			70b Brentmead Place	Cockfosters
			60 Brentmead Place	Lillie Bridge Depot
<b>NCP Contract</b>			62 Brentmead Place	Limmo
<i>Lease transfer and contract novation</i>			66 Brentmead Place	Southall
Car Parks	81		54 Heathfield Gardens	Woolwich
			46 Brentmead place	
<b>ATM Contract</b>			Aylesbury street	
<i>Contract novation</i>			Albany road	
ATMs	122		286 Long lane	
			169 Holland road	
<b>Vending Contract</b>			East Finchley	
<i>Contracts novation</i>			Kingsbury Arcade	
Vending total	172		Colliers Wood site	
			Long leasehold	
<b>Total</b>	<b>3,818</b>		Great North P	
			12-22 Finchley Road	
			Bank Station	
			Bow Church	
			Hounslow West	
			Newbury Park	
			North Greenwich	
			2 Stratford Place Offices	
			100 Whitechapel	
			33-37 Charterhouse Square Offices	
			Small Sites	
			North side land Royal Mint /Cable Street	
			Residential Assets	
			Christchurch road & Brixton Hill	
			Beechwood Avenue	
			Portree street	
			Aspen Place	
			Colindale OSD	



infrastructure under a franchise agreement with KAD which is due to expire on 31 March 2021.

- 3.2 The authority for this franchise was granted by the Board on 3 July 2014, and includes a pre priced option to extend the franchise term for up to a further two years and seven reporting periods up to October 2023. This option is exercisable at DLR's discretion.
- 3.3 The infrastructure on the extension to Lewisham continues to be owned by the private sector contractor under a Private Finance Initiative concession where the private sector is responsible for the design and construction of the infrastructure and its subsequent maintenance and renewal. This concession expires in 2021, coterminous with the current DLR franchise.
- 3.4 We currently retain the majority of revenue risk on the DLR network as well as the right to specify services and the current franchisee is remunerated with a fixed fee, adjusted for performance against defined service performance metrics, with a package of incentives for increased performance and abatements for below target performance. These metrics relate primarily to achieving departures on time, journey times and customer service.
- 3.5 The current franchise has been highly successful in performance terms with consistent high levels of operating performance (with KAD regularly achieving 99 per cent of trains on time).
- 3.6 There are numerous development activities happening on and around DLR infrastructure over the course of the business plan. New rolling stock is being procured, and alongside this the depot at Beckton is being redeveloped and expanded. The Isle of Dogs and South Poplar sit at the centre of an opportunity area for unlocking housing development within the London Plan. TfL has secured Housing Infrastructure Fund funding of £291m to deliver infrastructure to support the development of 18,000 new homes in the Docklands areas. This will include reviewing the development of a station at Thamesmead, and examining options for oversite development at the Poplar depot.
- 3.7 All of these projects have the potential to impact on the day to day running of the DLR. and it is proposed that going back to the market at such a time of change, and one that wasn't anticipated when the current franchise was set up, is likely to attract a premium above affordable levels. Experience of contracting both in London and in the wider UK market also suggests that changing the contractor at a point of introducing wholesale change, and particularly major depot and train introduction, invites a significantly higher degree of delivery risk, irrespective of price.

**List of appendices to this report:**

An appendix that contains supplementary information that is exempt from publication.

**List of Background Papers:**

None

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**Chair's Action**

**Date Issued: 4 July 2019**

**Title: Build to Rent**

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**This paper will be published once the decision has been made.**

**1 Purpose**

- 1.1 The purpose of this paper is to seek approval for our proposed investment partnership with Grainger Plc. to fund the development of a major Build to Rent (BtR) portfolio across London. This proposed investment partnership is consistent with TfL's current Business Plan and Commercial Development's Growth and Investment Strategy. The aim of the programme is to help deliver long term recurring income for reinvestment in the transport network, whilst also helping to deliver long term quality rental homes for individuals and families, managed fairly and to the highest standards.
- 1.2 This paper seeks the authority to invest in a joint venture vehicle (JVCo), to set up a new TfL subsidiary company (Hold Co) to hold the shares in JVCo and for Hold Co to enter into the corresponding joint venture agreement (JVA) with a Grainger entity following successful completion of the partner selection process in March 2019.
- 1.3 This paper also seeks delegated authority to the Chief Finance Officer to authorise the disposal of sites, and investment into JVCo as required, subject to the site-specific business plans satisfying agreed investment metrics and the best value and state aid obligations set out in this paper. The initial sites include Arnos Grove, Canning Town (Limmo), Cockfosters, Montford Place, Nine Elms, Southall and Woolwich.
- 1.4 A paper is included as an appendix which contains information that is exempt and is therefore not for publication to the public or press 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.
- 1.5 Members of the Committee considered this issue on 1 July 2019. As the meeting was not quorate, it was agreed that authority would be sought through Chair's Action as a decision was required before the next scheduled meeting of the Committee on 9 October 2019.
- 1.6 The members of the Committee are asked to consider the proposal and provide Ron Kalifa OBE, as Chair, with their views on or before 10.00am on 8 July 2019. The contents of this paper and the exercise of Chair's Action will be reported to the next meeting of the Committee.

## **2 Recommendations**

**2.1 The Chair of the Committee (in consultation with available members) is asked to note the paper and supplemental information provided in the exempt appendix and:**

- (a) approve the investment sum and Land Authority up to the maximum set out in the exempt appendix;**
- (b) approve the formation of a subsidiary entity (Hold Co) as a wholly owned subsidiary of TTL Properties Limited for the purposes of entering into the joint venture agreement (JVA) with a Grainger entity;**
- (c) delegate authority to the Chief Finance Officer to authorise the disposal of sites, and investment into the joint venture vehicle (JVCo) as required up to the maximum value of the investment sum, where the corresponding site-specific business plans satisfy;**
  - (i) the agreed investment metrics set out in the exempt appendix; and**
  - (ii) best value and State aid obligations;**
- (d) delegate authority to the Chief Finance Officer to authorise any other matters relating to the disposal and development of the sites including the provision of associated guarantees and warranties provided such authority shall not exceed the maximum investment sum;**
- (e) note the proposal for the formation of wholly owned subsidiaries of JVCo for the purposes of developing, operating and/or owning sites on the basis set out in this paper; and**
- (f) note the proposal for a formation of a “For Profit” Registered Provider (FPRP) as a wholly owned subsidiary of the JVCo for the purposes of operating and owning affordable homes on the basis set out in this paper.**

## **3 Background – Build to Rent Market**

**3.1 Build to Rent (BtR) is an emerging market sector that focuses on developing purpose-built residential buildings specifically for rent. BtR is distinct from the existing Private Rented Sector (PRS) as it provides high quality, purpose-built homes with professional management.**

**3.2 The investment case for BtR and the supporting market information has been prepared by our property advisors, Savills, and is set out in in Appendix 1.**

**3.3 The PRS is currently dominated by Buy to Let (BtL) investors who typically own fewer than five properties. Just 0.5 per cent of the PRS is institutionally owned and this is expected to grow considerably as it provides long-term, inflation-linked recurring income for institutions that can acquire well connected sites.**

- 3.4 The BtR sector is rapidly evolving in the UK. There are several different business models already present in the market, ranging from an US-imported service model with a focus on amenities to a more modest mid-market offering. More business models are likely to appear as the sector matures.
- 3.5 The growth of the BtR sector is underpinned by the demand for quality rental product and its current undersupply. In 1990, just fewer than 60 per cent of all households in London were owner occupied. By 2011, owner-occupation had fallen to below 50 per cent. Home ownership is expected to continue to decline, due to a combination of worsening affordability, increasing supply of quality rental product and changing attitudes towards long-term renting.
- 3.6 As home ownership has declined, the private rented sector has grown. In 2016, 28 per cent of all households in London lived in the private rented sector. By 2025, this figure is projected to rise to almost 40 per cent, with rental overtaking owner occupation as the most common form of housing in London.
- 3.7 Due to the significant demand for rental accommodation, BtR is seen as a significantly lower risk product than private for sale residential which is more vulnerable to cyclical market conditions and market saturation. According to property consultants, Jones Lang Lasalle, of the 42,600 units currently under construction in central London, 15 per cent are BtR (up from six per cent in 2014) demonstrating increasing demand and investor confidence in BtR assets.
- 3.8 The highlighted lack of supply and depth in demand for quality rental product has resulted in the private rented sector providing long-term, inflation-linked recurring income, whilst exposure to adverse markets conditions is less relative to other property assets where returns are cyclical and more volatile.
- 3.9 London residential rental income has been a strong hedge against inflation, as the market has experienced rental growth of 2.90 per cent per annum over the past 20 years, and up to 4.92 per cent per annum over the past seven years, over 100 bps premium above the Consumer Price Index (CPI).
- 3.10 The financial characteristics of the sector appeals to long-term investors. In recent years there has been considerable investor interest in the sector with a material amount of capital seeking to either purchase developed BtR assets or forward fund the purchase of assets to be developed. Currently national investor demand to purchase and develop BtR buildings is substantial.
- 3.11 Significant institutional investment has also been committed to the Affordable Housing sector in recent years through the introduction of for-profit Registered Providers (FPRPs). FPRPs are increasingly attractive to BtR investors as they facilitate consistent high quality integrated management of both affordable and private tenants. For example, Legal and General have formed a FPRP with the intention of increasing housing supply and improving service delivery. The JVCo will deliver 40 per cent Affordable Housing by habitable room on each scheme that delivers a new planning application. Retaining ownership of these homes provides an opportunity for TfL to secure an additional long-term income stream.
- 3.12 There has also been increasing policy support for BtR in recent years in part due to the recognition of the role it can play in solving the housing crisis, in particular, its ability to accelerate delivery over alternative development models. This

support is being reflected in planning policy, for example, the draft new London Plan and the National Planning Policy Framework (NPPF), as well as in financial incentives such as the BtR Fund, Homebuilding Fund and PRS Debt Guarantee scheme.

3.13 Focusing our future housing development programme on BtR will allow us to:

- (a) enhance the speed of housing delivery as there is less risk of market saturation in the BtR market and bigger schemes are therefore capable of being built;
- (b) retain income producing property assets that can be included on our balance sheet underpin our role as long term stewards of our estate;
- (c) diversify our development programme, managing our exposure to the residential for sale market;
- (d) establish exemplar safety and tenant management practices and showcase the best customer experience in the rented sector; and
- (e) Retain ownership of high-quality, tenure-blind, income producing Affordable Housing for the long-term.

3.14 The BtR initiative is already planned for in the Commercial Development Growth and Investment Strategy which has four overarching objectives:

- (a) sustainability – Produce growing and sustainable operating surplus for TfL from its commercial assets;
- (b) self-sufficiency – Self-fund the investment programme necessary to achieve growth;
- (c) liquidity – Create a potential source of future liquidity for TfL through defined strategies for each asset class to maximise value and enable future transactions; and
- (d) deliver the Mayor's Transport Strategy – Deliver more than 10,000 homes under the Mayor's Transport Strategy, with a target of 50 per cent Affordable Housing by habitable room for residential projects brought to market by mid-2020; and improve accessibility of the transport system through step free access, enhancing the customer experience through in station offering and mobile connectivity.

3.15 Within this strategy, and submitted as part of the approved TfL Business Plan FY18/19, the BtR portfolio was the single biggest area of investment. In line with the approved Business Plan, the Commercial Development Growth and Investment Strategy includes target financial metrics which the investment will need to be projected to meet including:

- (a) ensuring we meet best value obligations and our own financial requirements;

- (b) net income yield on capital investment at practical completion, which represents the net operating income p.a. divided by total capital investment; and
- (c) project IRR (internal rate of return) which reflects the annualised return over the long term (30-year hold), assuming no debt is utilised, i.e. it is all equity funded.

## 4 Delivering on Mayoral Priorities

- 4.1 Our long term investment in the BtR programme aligns our financial interests with the continued success of the places and communities we want to create in London. Combined with our mandate to deliver transport, this puts us in a position to be delivering the “Good Growth” set out in the draft new London Plan.
- 4.2 Given the scale and nature of this opportunity, TfL has the opportunity to drive transformative change across London in line with Mayoral priorities. The BtR programme will allow TfL to:
- (a) place quality and sustainability at the heart of development, with the aspiration of delivering best-in-class projects and creating a valuable new legacy for TfL;
  - (b) implement the Healthy Streets approach in strategic locations across London as part of fully integrated transport-oriented developments, and create a new benchmark for sustainable development best practice in the process;
  - (c) implement emerging building technologies, such as precision manufactured homes, to deliver optimised building performance with respect to energy, carbon, water, waste, and circular economy across the entirety of the building lifecycle;
- (a) achieve improvements in local air quality through low-emission building specifications and active measures; and
  - (b) promote green cover and biodiversity through the inclusion of green / blue infrastructure (i.e. natural systems that provide the ecological and amenity value associated with urban greening and water management) in developments, particularly on sites with poor levels of urban greening (such as car parks).
- 4.3 Where feasible and appropriate, the BtR portfolio also provides an opportunity to implement other work streams within TfL, such as:
- (a) the delivery of active travel infrastructure (such as dedicated pedestrian routes, public cycle parking, and cycle lanes) as part of the Healthy Streets approach;
  - (b) the deployment of renewable energy technologies (such as solar panels and ground source heating) as part of TfL’s emerging energy strategy; and

- (c) the creation of employment and learning opportunities (through TfL's hub of the Mayor's Construction Academy and onsite learning facilities).
- 4.4 By delivering on these aspirations, we will be able to create higher quality projects, reducing risk and driving improved financial returns and long-term value across the BtR portfolio.
- 4.5 Whilst delivering on our financial objectives it is important that we also consider non-financial elements. As an example, all our developments will comply with the terms of the draft new London Plan. Within our tender documents we stipulated a minimum four star Home Quality Mark (HQM) or equivalent accreditation and an aspiration for four Star HQM status. The HQM is a national standard for new homes, which uses a simple 5-star rating to provide impartial information from independent experts on a new home's design, construction quality and running costs.
- 4.6 The draft London Plan also contains the requirements for housing in terms of accessibility (Policy D5 Accessible Housing) which all of our schemes will need to adhere to as a minimum. The Policy requires us to provide suitable housing and genuine choice for London's diverse population, including disabled people, older people and families with young children, residential development must ensure that:
  - (a) at least 10 per cent of new build dwellings meet Building Regulation requirement M4(3) 'wheelchair user dwellings', i.e. designed to be wheelchair accessible, or easily adaptable for residents who are wheelchair users; and
  - (b) all other new build dwellings meet Building Regulation requirement M4 (2) 'accessible and adaptable dwellings'.

## **5 Programme Objectives**

- 5.1 TfL Commercial Development has committed to deliver a sustainable operating surplus for TfL from its property assets for reinvestment into the transport system, and this is the key objective of the BtR programme.
- 5.2 The BtR programme offers an opportunity to enter into an emerging growth market and support our investment strategy to deliver sustainable long-term revenue.
- 5.3 The BtR programme has five further objectives which align with our Business Plan and targets for housing delivery:
  - (a) starting on sites that will deliver 3,000 homes by March 2021;
  - (b) deliver Affordable Housing in all new BtR planning consents;
  - (c) ensure the delivery of high-quality BtR-led developments across London, with support that includes the Mayoral Design Advocates (the Mayoral Design Advocates are a panel of 50 built environment professionals selected based on their skills and experience to help the Mayor support London's growth. They are independent and impartial, and provide support, advice, critique and expertise on London's built environment);

- (d) drive the case for modern methods of constructions; and
- (e) establish exemplar health and safety and tenant management practices.

## **6 Investment Partnership Proposal**

6.1 Since spring 2018 we have worked with external property and legal advisors to develop a BtR proposition that would seek to meet our objectives and be aligned to the aspirations of the emerging BtR market. Further information is set out in exempt appendix.

### **Structuring considerations**

6.2 The key requirements for the structure included the ability to appoint a sole investment partner and establish a single joint venture structure in order that a commercial property vehicle could be created, with an ability to grow a brand and consolidate future build to rent projects within one structure. It was agreed that the joint venture partner should be a long-term partner, but the structure should provide flexibility to introduce third-party investors or permit different percentage interests between the joint venture partners on a property-by-property basis.

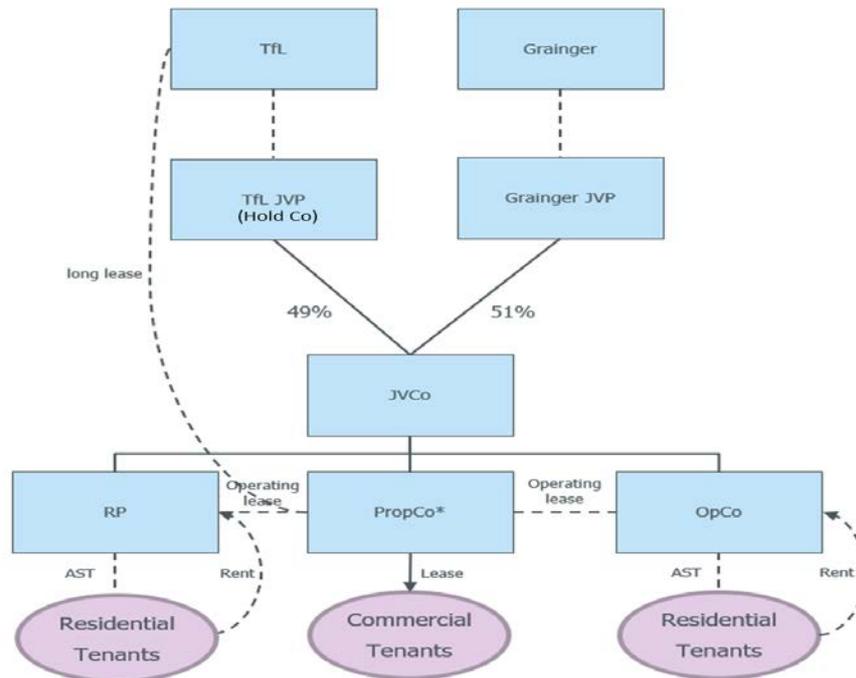
6.3 Our assumed model sees a JVCo and subsidiary companies (wholly-owned by JVCo): a property company for each site ("PropCo"); an operating company ("OpCo") to hold operating leases over the residential elements of all the sites; and a For Profit Registered Provider (FPRP) to hold operating leases over the grant-funded residential elements all of the sites.

6.4 As illustrated in the structure chart below, the proposed structure meets the requirements described in 6.1. allowing a single joint venture partner to be introduced at the top of the structure, with each partner holding indirect interests in the underlying property holding vehicles. If required, third-party investors could invest into the structure at PropCo level to ensure that the overall percentage holdings between the joint venture partners would not be changed at the global, strategic level.

6.5 Utilising a PropCo / OpCo structure such as this has several key benefits:

- (a) it ring-fences the risks of each development within a single PropCo ;
- (b) it facilitates third-party lending as security to be granted over individual properties meaning that finance can be obtained on either a portfolio or individual property basis;
- (c) it preserves the ability to make a corporate disposal of the PropCo and / or change the ownership of the PropCo without altering the ownership of the rest of the structure; and
- (d) it provides a VAT efficient structure, which is the key tax consideration in relation to a build to rent portfolio such as this where various chargeable supplies may be made.

## Proposed Investment Partnership Structure Overview



- 6.6 The proposed structure assumes that a global JVCo, governed by an overall strategic Business Plan, is established on the basis of a commitment from TfL and Grainger Plc. to fund equity in a 49:51 split based on the capital requirements for the first sites.
- 6.7 These arrangements are documented by way of a shareholders' agreement. All JVCo Group entities will be UK limited companies subject to UK corporation tax.
- 6.8 The JVCo will have the ability to achieve considerable scale through access to our wider landholdings with the potential to deliver tens of thousands of homes, where such scale would deliver on our key objective of long term recurring income and meet our investment metrics.
- 6.9 In addition to direct delivery, it is envisaged that the investment partnership may seek to acquire additional units on other existing TfL sites via direct negotiations. We fully intend to retain our interest in the JVCo, the related properties and the underlying income streams for the long term, so long as this is in TfL best financial interests.

### PropCo

- 6.10 Each PropCo will be responsible for implementing a site-specific business plan and reporting to the JVCo Board on progress, objectives and deliverables.
- 6.11 Each PropCo will be funded by a combination of equity and debt.

## **Registered Provider**

- 6.12 As grant funding for affordable housing can only be received by a Registered Provider (RP), the JVCo will also set up a single, wholly-owned subsidiary to own affordable housing. This will be in the form of a FPRP which will be regulated by the Regulator for Social Housing (RSH).
- 6.13 Registration of the FPRP with the RSH, and granting of partner status with the GLA, will enable it to seek grant funding from the GLA. This will increase the viability of the affordable housing on each scheme and de-risk delivery.
- 6.14 This will preserve the optionality for the JVCo to manage affordable housing. It is common for BtR developers to retain affordable housing and this is key to realising our vision of providing integrated high quality, affordable housing onsite, as well as enabling the opportunity to benefit from a long-term stable income stream.
- 6.15 We have taken legal advice in relation to the operation of a FPRP and the associated regularity regime (see paragraphs 7.7 – 7.11). The process of setting up the FPRP will commence at an early stage to give sufficient time to obtain the necessary regulatory approvals.

## **OpCo**

- 6.16 Once the first site is nearing completion, JVCo will set up a single, wholly-owned subsidiary to act as operator of the properties (OpCo).
- 6.17 On completion of the developments, the properties are to be held as long-term investments by the JVCo and managed by the OpCo.
- 6.18 The Opco will be responsible for appointing and monitoring the performance of the property manager, collection of rents and reporting to the JVCo Board on progress on the objectives and deliverables in relation to the operational metrics within the site-specific business plan.
- 6.19 It is envisaged that the properties will be refinanced at appropriate junctures with any Net Operating Income (NOI) generated being distributed back to the JVCo participants based on their established equity position levels.

## **7 Governance**

### **JVCo Governance**

- 7.1 The JVCo will be governed at distinct levels. The JVCo Board, the individual PropCo Boards, the OpCo Board and the RP Board.
- 7.2 The JVCo Board will represent the two partners and is responsible for the decision making and strategic direction of the partnership.
- 7.3 The JVCo Board is responsible to the shareholders for implementing the strategic business plan.

## **PropCo and OpCo Governance**

- 7.4 The PropCo boards and OpCo board will report in to the JVCo board.
- 7.5 The PropCo boards will meet at least monthly with responsibility for implementing the site-specific business plans and reporting to the JVCo board on progress on the objectives and deliverables in relation to the site-specific business plans.
- 7.6 Following completion of the developments the OpCo board will meet monthly with responsibility for implementing the operational phase of the site-specific business plans and reporting to the JVCo board on progress on the objectives and deliverables in relation to the operational metrics within the site-specific business plans.

## **Registered Provider Governance**

- 7.7 The regulation of registered social housing providers is governed by the Housing and Regeneration Act 2008 (2008 Act). The 2008 Act empowers the RSH to set standards which must be met by RPs.
- 7.8 Seven such standards have been issued, which can be separated broadly into two categories of economic and consumer standards. The RSH monitors compliance with these standards and has a broad range of enforcement powers should a RP be non-compliant.
- 7.9 The FPRP will need to have an independent board capable of demonstrating compliance with the requirements of the regulator. Whilst JVCo Board members will be on the board of the FPRP it will need to have an independent Chair and include other independent non-executive directors.
- 7.10 The FPRP will receive a rating from the RSH based on the quality of both governance and financial viability. The FPRP will quickly become large enough to attract in depth assessments of its governance and financial viability (similar to an OFSTED inspection).
- 7.11 In line with regulatory expectations the FPRP will pay out dividends only to the extent that they are demonstrably not required for the maintenance and management of the social housing owned by the FPRP (including the maintenance of appropriate reserves) and ongoing compliance with its regulatory standards.

## **8 Partner Selection Process**

- 8.1 In September 2018, in consultation with the GLA, we launched an open competition to procure an investment partner to co-invest in a new corporate joint venture vehicle (JVCo).
- 8.2 Following 15 Expressions of Interest, we shortlisted three bidders with significant experience of Build to Rent: Argent Related, Grainger and Greystar. Final tenders from the three shortlisted bidders were received on 20 February 2019. The evaluation process incorporated input from both the GLA and our independent advisors, Savills. On 29 March 2019 Grainger plc. was named as the preferred joint venture partner and advanced to the final contract negotiation stage.

## **9 Grainger Plc Investment Strategy Overview**

- 9.1 The JVCo vision proposed by Grainger Plc. in its bid is to “create high quality rental homes for London in sustainable communities where people from all backgrounds are living, connecting and thriving”. The proposed investment strategy is set out in the exempt appendix.

## **10 Best Value**

- 10.1 As part of the competitive process we tested the suitability of the initial seed sites and established a combination of land values and marketed tested KPIs which the JVCo will be required to deliver against to ensure Best Value is achieved. These KPIs will be monitored over the life time of the JVCo to ensure we continue to satisfy our Best Value requirements. We have set out below our robust process for injecting future sites into the JVCo where we feel it is appropriate to do so.
- 10.2 Where an initial site options analysis (undertaken by TfL Property Development) for a site determines BtR as the likely “best use” in terms of aligning with our best value obligations, we will present the JVCo the opportunity to submit an offer for the site. This analysis will include both land value and TfL’s future share of receipts / profit from a JVCo structure. As such the comparison looks at the total returns to TfL from the various options (on a Net Present Value (“NPV”) basis) over a fixed period.
- 10.3 Following receipt of the JVCo’s offer, we (as landowner), with input from our third-party valuers, will determine if we wish to accept it.
- 10.4 Assuming the offer is accepted by us (as landowner) an agreement for lease will be entered into. At this stage a Best Value report will be provided by a third party valuer stating the transaction meets with TfL statutory best value and state aid obligations.
- 10.5 Following this approach will help ensure our financial responsibility and State aid obligations are met. This process has been ratified by Savills acting as our external valuation advisors.

## **11 Contractual Arrangements**

- 11.1 It is anticipated that following the obtaining of their respective internal approvals, the relevant TfL and Grainger subsidiaries will as soon as reasonably possible enter into the JVA. That agreement will regulate the decision making of the overall investment partnership, and in particular will periodically review and update the strategic business plan.
- 11.2 Where TfL as landowner and the JV agree a price for a site (following the process outlined in section 8) an individual PropCo will be set up and will enter into an agreement for lease (AfL), which will be conditional on discharging relevant critical conditions related to the delivery of the development.
- 11.3 Assuming any conditions governing the AfLs are satisfied, TfL will grant a lease to PropCo under the relevant AfL for an agreed consideration.

- 11.4 The land payment (paid to TfL as Landowner), unless otherwise agreed, is determined by way of market valuation having regard to RICS Valuation Professional Standards subject to town planning consent and vacant possession and also any special assumptions as defined in the site-specific business plan.
- 11.5 The sites will then be developed directly by the PropCo, to be funded with equity provided by the JVCo and third-party debt.
- 11.6 A summary of the key terms and principles of the joint venture agreement is included in the exempt appendix.

## **12 Guarantees**

- 12.1 Details of guarantees to be provided are set out in the exempt appendix.

## **13 Financial Implications for TfL**

- 13.1 The BtR portfolio gives us the opportunity to secure a sustainable revenue stream and long-term asset growth as part of our proposed 49 per cent share in the JV.

### **TfL Business Plan 18/19**

- 13.2 The BtR portfolio has been included within the 2018/19 Business Plan and subsequently included in the 2019/20 Budget. Details are set out in the exempt appendix.
- 13.3 The initial sites include Arnos Grove, Canning Town (Limmo), Cockfosters, Montford Place, Nine Elms, Southall and Woolwich.

## **14 Risks and Opportunities**

- 14.1 We have set out below a series of key risks to the investment partnership and the mitigation measures that we have or will put in place:
  - (a) Delay / Planning Risk – In order to prepare ourselves for the next stage of the process, we have thoroughly resourced the preparation for the delivery of all the initial portfolio of sites. Planning work will be progressed on each site as we move through contract negotiation. This work will mitigate any delay and help to ensure that we will be able to deliver starts on site by March 2021. There is planning risk around emerging design principals for BtR being put forward by the market (including unit mix, amenity space and balconies) compared to some existing local planning and design policy. The ongoing planning work proposed will seek to address this, along with ongoing market engagement through the process;
  - (b) Viability – Initial analysis on the proposed initial seed sites indicates their suitability for BtR use. Site-specific business plans have been developed on two of the sites (with detailed responses being provided on the remaining sites) as part of the partner selection process. There is the opportunity to exclude or substitute sites to manage viability risk on a site by site basis;
  - (c) Reputational Risk – Poor management service levels could cause a reputational risk. To mitigate this, we set out management standards and

formulated the evaluation criteria of the customer strategy with input from third-party experts as part of the bidding process to ensure we selected a preferred partner that will deliver the highest standard of tenant management as tested through the selection process;

- (d) Rents – In line with the Mayor’s Affordable Housing Supplementary Planning Guidance, we informed bidders of our expectation that any rent increases within the tenancies will be formula-linked and made clear to the tenant before a tenancy agreement is signed. We have met with the GLA to discuss emerging thinking on rent controls and will continue to work with the GLA to ensure an approach consistent with the emerging draft London Plan; and
- (e) Build costs and growth assumptions – The bids are assessed to ensure appropriate market-facing assumptions and contingencies have been included for both build costs and growth assumptions. Sensitivity analysis will also be undertaken to assess the likely impact a change in these variables would have on returns. These variables will continue to be monitored by the JVCo to ensure the key valuation metrics for the BtR portfolio going forward can be met. Any site injected into the JVCo will need to meet these financial KPIs, unless otherwise agreed by shareholders.

**List of appendices to this report:**

Appendix 1- Investment Case

An appendix that contains supplementary information that is exempt from publication.

**List of Background Papers:**

None

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TRANSPORT  
FOR LONDON

MAYOR OF LONDON

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**TRANSPORT  
FOR LONDON**  
BUILD TO RENT  
PARTNERSHIP

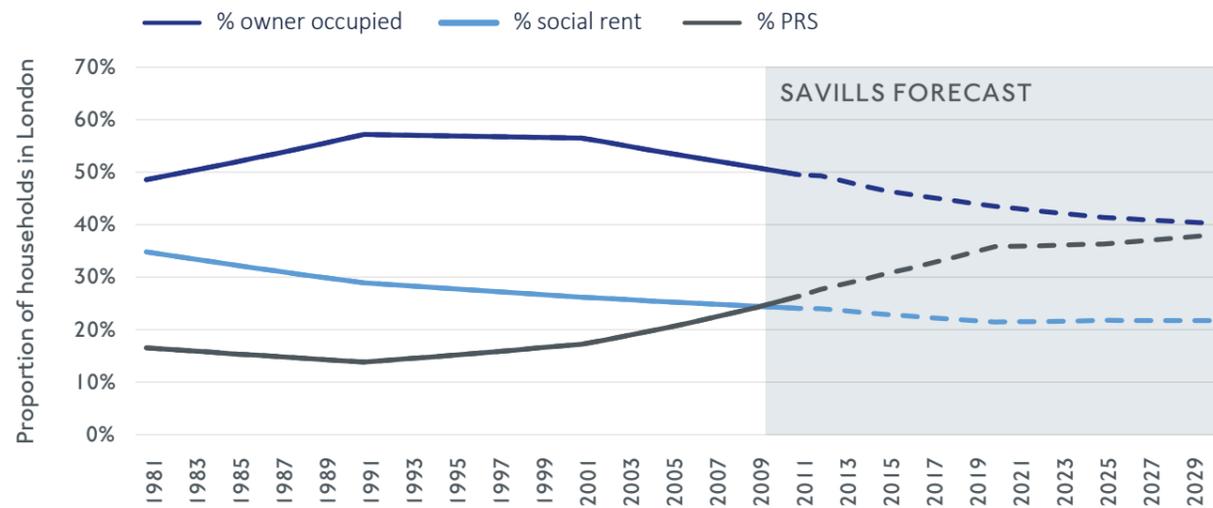
A rare opportunity to partner with Transport for London  
to develop a large scale residential rental portfolio

# BTR MARKET OVERVIEW

This section summarises the nuances of the Build to Rent market, including some 'technical' terminology, the drivers of tenant demand, macro level support for the sector and what this means for investors.

The proportion of those living in rented accommodation has rapidly increased in the last 10 years, so much so, that by 2028 it is estimated that approximately 40% of London's households will rent their property<sup>1</sup>.

In 1991, the Private Rented Sector (PRS) accounted for 9% of UK households (London: 14%), versus 21% today (London: 33%) and the total number of private rented households in London more than doubled in the years<sup>2</sup> between 2003 and 2016 to c.955,000<sup>3</sup>.



Source: Savills Research, Census, DCLG

<sup>1</sup> English Housing Survey  
<sup>2</sup> DCLG  
<sup>3</sup> ONS

## THE STRUCTURE OF THE UK RESIDENTIAL MARKET

Residential tenure terminology is diverse, below we break down the subsectors of the market.



# DRIVERS OF RENTAL DEMAND

There are both non-discretionary and discretionary drivers of rental demand.

## SUPPLY AND DEMAND IMBALANCE

The UK housing market is facing a crisis. Years of under supply and increasing demand generated by rising life expectancy, immigration and a growing number of one-person households have created a chronic shortage of affordable and convenient homes in those places that need them most.

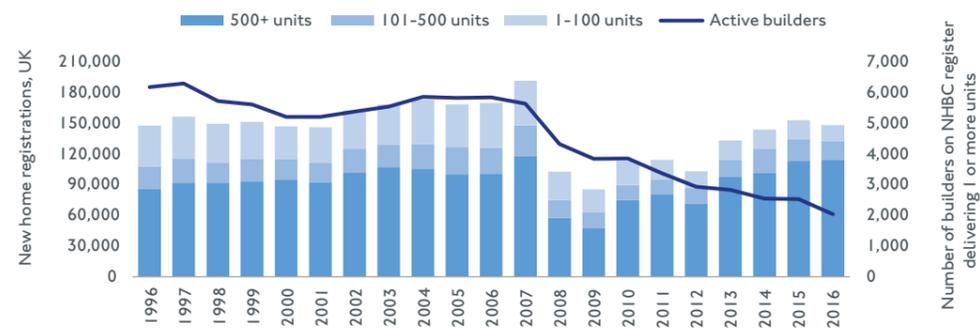
### Undersupply

In the UK, it is estimated that 300,000<sup>4</sup> homes p.a. are required. Last year there was a shortfall of 83,000. The issue is even more acute in London – 66,000 homes p.a.<sup>5</sup> are needed to meet demand, with this number estimated to be c.90,000<sup>6</sup> if we are to ease the pressure this places on affordability.

## Delivery

More units are being produced by fewer large industry players as a result of market consolidation. This has in turn served to increase barriers to entry within the UK residential development sector – the ramifications of which are felt in BtR development with few options for procuring large-scale BtR portfolios.

Furthermore, residential planning applications across London fell in 2017 by 3.4%<sup>7</sup>. This has now led to lower 'starts on site' (down 7.3% to 21,000<sup>8</sup> units in 2017) and is largely the result of developers becoming increasingly cautious over stalling house price growth.



4 Autumn Budget 2017, HM Treasury  
 5 Strategic Housing Market Assessment  
 6 Savills Research  
 7 Government Planning Statistics  
 8 Moliar



## Demography and Socio-economics

London's population makes up 13.6%<sup>9</sup> of the UK and is predicted to reach 10.8m households by 2037<sup>10</sup>. Additionally, household growth is being driven by an increase in single person households – in part due to an ageing population and changing family formation and break up trends. This population increase will further strain existing housing infrastructure, creating additional demand for rental accommodation.

London has both a high proportion of prime working age inhabitants (25-54 year olds) and prime age renters (20-34 year olds) at 48%<sup>11</sup> and 26%<sup>12</sup> of the total London population respectively. These persisting demographic trends partly underpin the growth of the PRS in London.

Despite an ageing population, London will retain favourable working age demographics compared to the rest of the UK and the city's ageing population will have higher levels of disposable income and greater net worth than preceding generations.

London's renters are primarily in 'Professional' or 'Science and Technology' roles<sup>13</sup>, sectors that are expected to witness the second fastest growth in London in the next 10 years<sup>14</sup>. With Oxford Economics forecasting total employment to grow 9.5% by 2025, representing an additional 540,000 jobs<sup>15</sup>.

## AFFORDABILITY CONSTRAINTS

Driven by this supply and demand imbalance, affordability constraints have underpinned the persistent growth of the PRS.

House prices in London are seven times higher<sup>16</sup> than they were in 1993 (four times higher nationally) and have significantly outstripped wage growth.

This has severely constrained home ownership across the country which is exacerbated in London, where the median house price is 13.9<sup>17</sup> times the median wage. This is further demonstrated by deposits for first time buyers in London having reached £106k<sup>18</sup> in 2018 – three times the gross median London wage. Affordability has also been further constrained by the Mortgage Market Review restricting borrowings to around four times earnings.

## CHANGING ATTITUDES TOWARDS LONG-TERM RENTING

In addition to the above, there are changing attitudes towards long-term renting that are generating growth in the sector with fewer people aspiring homeowners.

Renters are placing greater emphasis on the flexibility and convenience of renting and their ability to rent in higher quality, better served accommodation than they could otherwise afford to purchase is fuelling demand. This 'Generation Rent' has grown up with the benefit of high quality Purpose Built Student Accommodation, and the associated enhanced service offering, and as such is more likely to expect quality accommodation and value the services provided at typical BtR developments.

9 ONS  
 10 Oxford Economics, ASHE, Land Registry  
 11 ONS  
 12 ONS  
 13 Oxford Economics  
 14 Oxford Economics  
 15 Oxford Economics  
 16 Nationwide, Halifax  
 17 Nationwide, ASHE, Savills  
 18 Halifax

# THE RISE OF BTR

Whilst the PRS in the UK is mooted to be worth some £1.5tn (or 5.17m households), much of this, (approximately 95%), is in the hands of single, Buy to Let (BtL) property landlords, with a significant lack of investment grade stock available for trading.

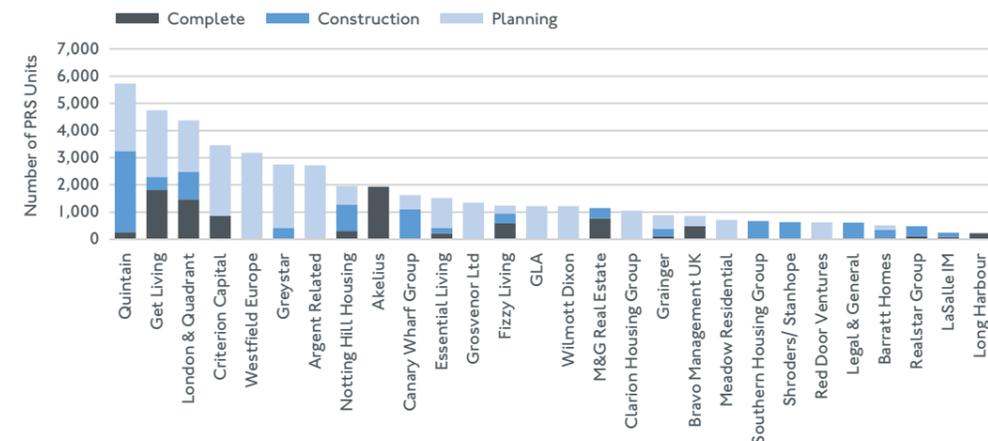
To meet this growing demand for high quality, well managed, purpose built rental accommodation, 'Build to Rent' has emerged in the UK over the last six years as the sector has attracted growing institutional interest and tenants' attitudes have changed.

In total, there are now c.118,000 new BtR units completed, under construction or with planning permission across the country, with over half of these units in London. Despite growth in the sector, demand for new BtR homes in London exceeds the potential supply pipeline by 231,000 units and 822,000 across the UK.<sup>19</sup>

Status	London	Regions	Total
Complete	12,062	8,801	20,863
Under Construction	12,611	20,464	33,075
In Planning	35,857	28,098	63,955
<b>Total</b>	<b>60,530</b>	<b>57,363</b>	<b>117,893</b>

Source: BPF

## LONDON BTR PIPELINE



Source: BPF/Savills

<sup>19</sup> BPF BTR Database

# THE INVESTMENT CASE

The residential investment sector has outperformed all real estate asset classes on a total returns basis since 2000.

Investment into UK residential assets reached £2.7 billion in 2017, up 23% on 2016. The residential rental sector showed resilience during the Global Financial Crisis with rental growth declining significantly less than other sectors. The gap between supply and demand is continuing to underpin rental increases in the short term, especially in high-demand, well-connected areas like that of mainstream London. The UK's low levels of institutional ownership in the residential sector is in contrast to the US (37%) and parts of Europe such as Germany (20%)<sup>20</sup>. Given the strong, entrenched demographic and socio-economic factors underpinning the BtR sector, its continued growth and maturity into an established asset class is imminent.

## RENTAL GROWTH

Savills 2018-22 rental forecast of 17% - 20% (published Nov 2017) is in line with forecast earnings growth over the period. Subsequent (2022-28) rental growth is also expected to be in line with earnings growth and is forecast to average 3.50% p.a. over the next 10 years<sup>21</sup>.

There is evidence of London-based PRS portfolios having delivered annual rental growth of 3.70% since 2013. This rental growth is supported by Rightmove whereby an aggregate of their London rental listings witnessed annual rental growth of 4.92% in London over the past seven years and 3.96% over the past 10 years. Published indices are largely made up of BtL investors (typically with older, inefficiently configured properties, that own single units or pepper potted stock). BtR developments are more efficient to run and evidence is starting to demonstrate the rental premiums that tenants are prepared to pay for amenities and services; they can consequently expect to outperform average rental growth.

## RETURNS

Prior to 2010, net residential income returns were lower than gilts, as capital value made up such a large proportion of total return. But as gilt rates have fallen and capital growth eased, it has been possible for income-producing residential property to deliver a premium over gilts which further supports the residential investment case.

In addition to this, the residential investment sector has outperformed all real estate assets classes on a total returns basis since 2000<sup>22</sup>, fully supporting increased investment into the sector, either from those wishing to diversify away from traditional real estate investments or new dedicated residential investors.

<sup>20</sup> Savills, Green Street Advisors

<sup>21</sup> Savills, Oxford Economics

<sup>22</sup> MSCI, IPD, Green Street Advisors

# GOVERNMENT SUPPORT

## THERE IS CONTINUING GOVERNMENT CROSS-PARTY SUPPORT FOR BTR

Various policy measures have been introduced by Government to encourage expansion of the sector. The policies incentivise developers to add to overall housing supply typically by building out sites faster than more traditional 'for sale' developments.

BtR was given a boost in the Housing White Paper, which suggested that local planning authorities will have to plan proactively for BtR development where there is an identifiable need and has subsequently been supported by recognition in the National Planning Policy Framework (NPPF) and through the National Planning Practice Guidance (NPPG) which states:

*“Build to Rent is a distinct asset class within the private rented sector and has been defined in the National Planning Policy Framework glossary, in order to simplify its treatment within the planning system.”*

**NPPG**

Mayor Sadiq Khan's Draft New London Plan was issued in November 2017 (and modified in August 2018), promising a strategy that is 'ambitious' with a 'step change' in approach and a 'blueprint' for future development and growth in London. It recognises the benefits of the sector:

*“The planning system should take a positive approach to the Build to Rent sector to enable it to better contribute to the delivery of new homes.”*

**Draft New London Plan**

There have also been a range of financial measures targeting housing and increasingly BtR. £53bn is available across all housing support programmes including Homes England's £44bn funding mandate likely to include the delivery of BtR.

The BtR Fund was an early indicator of support for the sector, providing £1bn of equity or debt finance for developers to kick-start delivery. This has subsequently become part of the 'Home Building Fund', which comprises £2bn of infrastructure funding and £1bn of development finance for housing.

The PRS Debt Guarantee provides c.£3.5bn in guarantees for BtR with the goal of reducing cost of investment finance for borrowers. In total, £700m of loans have been approved and there is a further £1.2bn of loans in the application process.

► Illustrative CGI of Woolwich proposed scheme



# MARKET HIGHLIGHTS – A SUMMARY

## CONSIDERABLE DEMAND

The number of private rented households in London has more than doubled over the period 2003-16 to over 30% of the population (c.955,000 two households) and is forecast to be nearly 40% of all tenures by 2028. With the worsening affordability of home ownership, a growing population, favourable demographics and improving rental products and services, the growth of the PRS in London is set to continue.

## CONSTRAINED DELIVERY

Although BtR supply has started to rise, demand for new BtR homes in London still exceeds the potential supply pipeline by 231,000 units. These demand metrics, coupled with the supply shortfall has driven significant institutional interest in the sector; however, securing a scaled pipeline has been a major barrier to entry.

## EMERGING SECTOR

The PRS is currently dominated by Buy to Let (BtL) investors who typically own fewer than five properties. Less than 67% of the PRS is institutionally owned and an even smaller proportion of this stock is purpose built, providing an opportunity for institutions who can access a pipeline of high quality purpose built accommodation.

## POLITICAL SUPPORT

There has been increasing political support for BtR in recent years in part due to the recognition of the role it can play in solving the housing crisis, in particular its ability to accelerate delivery over alternative development models. This support is being reflected in planning policy, for example, the Draft New London Plan and the National Planning Policy Framework (NPPF), as well as in financial incentives such as the BtR Fund, Homebuilding Fund and PRS Debt Guarantee scheme.

Conversely political opinion has swung against BtL investors leading to a worsening tax environment, including but not limited to: mortgage lending constraints, reduction of mortgage interest rate relief, the revision of the 10% wear and tear allowance, and the supplementary Stamp Duty Land Tax (SDLT) charge of 3%.

## POTENTIAL FOR GROWTH

The BtR market provides access to stable, inflation linked, long term revenue streams. London residential rental income has been a strong hedge against inflation, as the market has experienced rental growth of 2.90% p.a. over the past 20 years, and up to 4.92% p.a. over the past seven years, over 100 bps premium above the Consumer Price Index (CPI). Residential rents across London are forecast to grow 3.50% p.a. over the next ten years.



Date Issued: 4 July 2019

Item: **Technical Facilities Management Services**

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**This paper will be published once the decision has been made.**

## **1 Summary**

- 1.1 The purpose of this paper is to brief the Committee on the status of a competitive tender process for award of a contract to supply maintenance and upgrade services to CCTV, access control and security systems across the TfL estate including London Underground stations, depots, lineside buildings and offices; Surface bus stations and shelters and TfL corporate office premises. The paper seeks approval to award the contract and grant Procurement Authority.
- 1.2 The exempt appendix contains supplementary information that is exempt from publication by virtue of paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL and in respect of which a claim to legal professional privilege could be made.
- 1.3 Members of the Committee considered this issue on 1 July 2019. As the meeting was not quorate, it was agreed that authority would be sought through Chair's Action as a decision was required before the next scheduled meeting of the Committee on 9 October 2019.
- 1.4 The members of the Committee are asked to consider the proposal and provide Ron Kalifa OBE, as Chair, with their views on or before 10.00am on 8 July 2019. The contents of this paper and the exercise of Chair's Action will be reported to the next meeting of the Committee.

## **2 Recommendation**

- 2.1 **The Chair of the Committee (in consultation with available members) is asked to note the paper and the supplementary exempt appendix to this paper and approve the award of a contract for the supply of maintenance and upgrade services for CCTV, access control and security systems to the winning bidder and grant Procurement Authority as set out in the exempt appendix.**

## **3 Background**

- 3.1 The tender process commenced on 30 July 2018 with the issue of an Official Journal of the European Union contract notice seeking expressions of interest in tendering. Selection Questionnaires were issued to all companies expressing interest, from which five companies submitted completed questionnaires for evaluation. From these submissions three companies were successful in passing

all the selection criteria and submitted bids. These three companies were Engie Services Ltd, Telent Technology Services Ltd and Thales Transport and Security Ltd. Bids have been evaluated and a winning bidder has been identified. Contract award will be subject to completion of a standstill period in compliance with regulatory requirements. Further details are set out in the exempt appendix.

- 3.2 The proposed contract award is required to replace the following contracts which are all due to expire on 31 December 2019:
- (a) Installation and Maintenance Services to Communication Assets and Systems - London Underground stations and head office buildings;
  - (b) Supply of Maintenance Services to LU Operational Facilities Security Systems – London Underground operational buildings;
  - (c) Installation and maintenance of PA systems on Bus Services Infrastructure - Surface Transport; and
  - (d) CCTV Maintenance Services - Surface Transport.
- 3.3 The duration of the proposed contract is an initial term of seven years and three months with an option to extend exercisable by TfL once for a maximum further term of five years (12 years and three months in total).
- 3.4 The proposed contract is structured by service type which includes:
- (a) Maintenance Services;
  - (b) Integrated Team Services (design, planning and estimating services for Upgrade Work Activities); and
  - (c) Upgrade Work Activities (as may be instructed by TfL annually).
- 3.5 The Maintenance Services and Upgrade Work Activities are to be contracted on a target cost basis with payment linked to incurred defined cost. There will be a Guaranteed Maximum Price (GMP) for each target cost. Cost overruns and underruns will be shared in equal proportion with the Supplier (up to the value of the GMP in the case of cost overruns). Where costs exceed the GMP the supplier bears the cost of the excess.
- 3.6 The Integrated Team comprises of staff from TfL and the supplier and progresses the design of each Upgrade Works activity. Integrated Team Services will be paid for on a cost reimbursable basis subject to annual prior agreement of budget costs and resourcing for each Budget Period. Where the supplier is successful in providing design solutions that achieve the output requirements set for each Upgrade Work activity for a sum less than TfL's budget, the supplier receives a value management bonus payment linked to the value of the saving made.
- 3.7 Key Performance indicators (KPIs) are used across all service types to create a focus on safe and reliable service delivery, continuous improvement, cost control and innovation. For the maintenance services these KPIs can result in payment abatements. Additional remedies include an escalation process and delay damages for upgrade works.

## **4 Assurance**

- 4.1 TfL Project Assurance have reviewed the documentation and are content that the procurement has been carried out in accordance with the procurement strategy.

### **List of appendices to this report:**

An appendix that contains supplementary information that is exempt from publication.

### **List of Background Papers:**

None

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**Date issued: 1 August 2019**

**Item: RideLondon Cycling Event Delivery Partner Agreement**

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**This paper will be published with the papers for the next meeting of the Finance Committee**

## **1 Summary**

- 1.1 The purpose of this paper is to request approval for Procurement Authority to enter into a Delivery Partner Agreement with London Marathon Events Limited (LME) to deliver the annual RideLondon cycling event from 2021 to 2030.
- 1.2 The supplemental paper contains supplementary information that is exempt from publication by virtue of paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL and LME. It also contains legally privileged advice.
- 1.3 The use of Chair’s Action is considered appropriate as a decision to enter into the Delivery Partner Agreement is required before the next meeting of the Committee in October 2019. It is also intended to announce the contract award via a press notice on 2 August, to coincide with this year’s event on 3 and 4 August 2019. Announcing the award immediately prior to the 2019 event weekend will help LME to secure post 2020 financial commitments from sponsors and charities in attendance.
- 1.4 The contents of this paper and the exercise of the Chair’s Action will be reported to the next meeting of the Committee.

## **2 Recommendation**

**The Chair of the Committee, in consultation with available members of the Committee, is asked to note the paper and the exempt supplementary paper and:**

- (a) **approve the award of the Delivery Partner Agreement to London Marathon Events Limited in respect of the RideLondon cycling event from 2021 to 2030; and**
- (b) **grant Procurement Authority as set out in the exempt supplementary paper.**

## **3 Background**

- 3.1 To provide a lasting legacy of the 2012 Olympics and Paralympics Games, the then Mayor asked TfL to develop a ‘marathon on wheels’, a world class festival of cycling. A key objective is that the event be cost neutral to TfL.])This was a

significant challenge, given the established model for such events was for the city to pay organisers hosting fees to cover the cost of staging an event].

- 3.2 In 2012, we awarded London & Surrey Cycling Partnership (LSCP) a five year contract to deliver the Mayor's annual cycling event from 2013 to 2017 (with an option to extend for two more years).
- 3.3 We worked closely with LSCP and key stakeholders, including the GLA and London & Partners, to create and develop the event and the "RideLondon" brand.
- 3.4 After the inaugural event in 2013, RideLondon quickly established itself as the 'largest festival of cycling in the world', attracting 250,000 people to participate or spectate over each event weekend.
- 3.5 In 2015, we extended the term of the contract with LSCP for a further two years. In 2018 an additional one year extension was agreed to cover the 2020 event and to allow sufficient time to run a procurement process for a new contract for the RideLondon event from 2021.

#### **4 Procurement of a New Delivery Partner**

- 4.1 In late 2017, a process was started for procuring a delivery partner for the RideLondon event from 2021. After some early market engagement, following the issue of a Prior Information Notice on 29 March 2018, a formal Official Journal of the European Union (OJEU) Notice was issued under the Concession Contracts Regulations on 2 June 2018.
- 4.2 The strategic objectives for the new event were set out in the OJEU Notice and ITT (see Appendix). Examples of the strategic objectives include:
  - (a) inspire more Londoners to start cycling as part of their daily lives;
  - (b) deliver an event which attracts new people to cycle and people that don't cycle regularly;
  - (c) engage the full range of London's diverse communities;
  - (d) focus participation on women, inactive people, people with disabilities, and people from BAME groups; and
  - (e) cost neutral to TfL, the Mayor of London and London taxpayers and facilitates investment in cycling.

- 4.3 Only LME submitted a bid in response to the invitation to tender (ITT).
- 4.4 After a period of evaluation and negotiation with LME we have agreed the key principles of the new Delivery Partner Agreement based on the strategic objectives for the event.
- 4.5 The proposed new Delivery Partner Agreement is required to replace the existing contract which is due to expire after the 2020 RideLondon event.
- 4.6 The duration of the proposed new Delivery Partner Agreement will cover the events from 2021 to 2030.

## **5 RideLondon Event**

- 5.1 The RideLondon event will continue to be run in its current form as an annual, world class, two-day, summer cycling event, unless a change is mutually agreed between TfL and LME. The current form is as follows:

### **Day 1 (Saturday)**

- Fun Ride: A free family fun ride (7 miles)
- Festival Activity: Family-friendly entertainment that encourages cycling for all
- Elite Women's race: on a closed road circuit in central London

### **Day 2 (Sunday)**

- Elite Men's Road Race: world-class professional cyclists on a route that fulfils the requirements of highest level of professional road cycling participation
- Three mass participation 'Challenge Rides' for up to 32,000 riders of all ages and riding ability, utilising many of the same roads as the Elite Men's Road Race. A 100 mile route for around 25,000 riders, a 45 mile route for around 5,000 participants and a 20 mile route for around 2,000 participants

- 5.2 Critical Success Criteria are used to ensure a focus on safe event delivery, increased active travel, participant diversity, and both economic and environmental sustainability.

### **List of appendices to this report:**

Appendix 1: Event Objectives

A supplementary paper contains information that is exempt from publication.

### **List of Background Papers:**

None

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### Event Objectives

To be the world's greatest celebration of cycling and for LME to deliver a world class event which achieves the following strategic objectives:

- Delivers a safe event with minimal impact on Londoners.
- Delivers a safe event for participants, spectators, staff, volunteers and road users.
- Manages impacts and delivers benefits so that Londoners and UK residents view the event positively.
- Ensure Londoners are informed of RideLondon's impact of any road or bridge closures via an appropriate and effective communications campaign.
- Inspires more Londoners to start cycling as part of their daily lives.
- Delivers an event which attracts new people to cycle and people that don't cycle regularly.
- Engages the full range of London's diverse communities in all London Boroughs.
- Particular focus on: Women; BAME; Inactive people; People with disabilities; Young people; Elderly people.
- Creates a genuinely world class event, which is positively viewed by London residents and businesses, the rest of the UK, and internationally.
- Includes a mass participation event, recognised worldwide as one of the leading cycling events.
- Includes top quality elite event(s).
- Is part of London's calendar of high profile events, which attracts mass spectators and showcases London's iconic assets, promoted by a robust marketing and PR strategy.
- Delivers economic benefit to London.
- Have a significant impact on the reputation of the London 'brand'; and people's predisposition to visit, invest and study here.

- Is cost neutral to TfL, the Mayor of London and London tax payers; and facilitates investment in cycling.
- Secures and maintains sufficient income to cover all costs.
- Commercial partnerships share long term vision and synergy with the strategic objectives.
- Creates benefit to local communities in London and any regions the Event goes through.
- Creates benefit to local communities either via charity fundraising and/or other activity.

### **Wider GLA Objectives**

Meets wider objectives from the Mayor's Transport Strategy:

- Meet Healthy Streets agenda.
- Encourage mode shift from car to bikes.
- Contribute to the targets of the Mayor's London Environment Strategy, particularly to improve air quality.
- Address Road danger reduction – Vision Zero.
- Healthy living.