Property Strategic Plan

V2.27 – February 2017

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1. Purpose, role & vision

1.1. Purpose

We are the custodians of Network Rail's property assets and seek to maximise the value obtained from them.

1.2. Role

Our role is to optimise the contribution from property assets towards funding the railway whilst enhancing the experience of our customers, neighbours and rail users and protecting the integrity of the operational railway.

This is expanded on in our 5 Strategic Themes:

- Working in partnership with the routes to use our knowledge and expertise to improve experiences for passengers, reduce costs for the sector, secure new sources of funding and create great places for businesses and communities.
- Grow our sustainable model by generating income to reinvest and create a better railway for a better Britain.
- Help fund Network Rail's Railway Upgrade Plan by selling assets not core to Network Rail operations.
- Release land for housing to achieve government targets
- Delight our customers by putting them at the heart of everything we do

1.3. Vision

'Making Unique Places Extraordinary'

We create exceptional places from our stations and property assets for passengers, businesses and communities whilst reducing the funding burden on the taxpayer. During CP6 we aim to:

- Use our Property knowledge and expertise to support the safe operation and investment in the railway, to reduce costs and assist the railway to become more productive.
- Create great places for customers, businesses and communities:
    - Release and develop land for homes
    - Work in a collaborative way to regenerate stations and other areas around the railway
    - Support wider economic growth and success via investment in rail assets and infrastructure
    - Optimise the use of operational land, via the use of Route approved land strategies, to free up land for new homes, generate capital proceeds and improve facilities for our people.
- Attract third party investment into improving and developing network assets
- Improve our sustainable income model by growing income to reinvest and create a better railway for a better Britain
- Exceed our customers and stakeholders expectations by putting them at the heart of everything we do

Safety will always be at the heart of what we do.

2. Objectives & Stakeholder priorities

2.1. Stakeholders & priorities

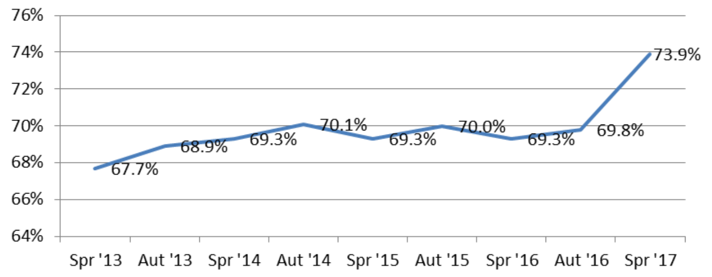
The main stakeholders and how they are considered within our plan:

- Routes – Provide professional property services as well as sharing responsibility for the delivery of positive outcomes at managed stations.
- Government – Release surplus land for housing and contribute towards reducing the taxpayer burden by maximising income and attracting third party investment
- Passengers – Improving the station experience by delivering physical improvements and an appropriate mix of retailers
- Tenants – Build mutually beneficial relationships; in particular this is reinforced by the turnover rent model employed within managed stations

We actively obtain feedback from our stakeholders by the following channels and will develop this further in CP6:

- Routes – Representation on NR Property Board, direct relationships and annual customer surveys
- Government – Representation on NR Property Board and direct relationships
- Passengers – The National Passenger Survey (NPS) contains a specific question on station retail
- Tenants – As well as annual customer surveys, we monitor attrition and actively seek feedback

These have been incorporated in the specific objectives which follow in this document.



The National Passenger Survey (NPS) score for managed station retail has improved steadily through CP5 (see above). We seek to continue this trend through CP6.

During the CP6 planning process:

- In addition to our strategy, we have shared details of station investment schemes and other projects which directly interface with the Routes
- Achieved buy-in from the Property Board for our strategy

We are currently exploring ways of sharing the risks and rewards from our income streams, in particular managed stations, with the Routes to reinforce goal congruence.

At times Property and the operational railway may have conflicting objectives. This is particularly prevalent for our retail outlets in managed stations where for example congestion issues may impact upon retail space and increased litter from food outlets impacts on operations. We are piloting a regular senior level meeting with LNW Route to find ways of working better together and will be seeking to roll this out further in the run-up to CP6.

2.2. Specific objectives

Our specific objectives aim to provide specific guidance to assist with delivering our CP6 vision:

- We will strive to grow income from our retained estate through both effective asset management and the delivery of revenue generating investment schemes.

- Although no significant disposals of revenue generating properties are included in our CP6 Plan, we will continue to divest assets to assist with the cost of funding the railway where a valid business case exists to do so and manage the interface with divested assets. Should the requirement to contribute towards PSNB (Public Sector Deficit) be relaxed, further disposal opportunities may become viable.

- Although the workplace estate has been devolved to the routes, we will continue to operate as the professional lead and promote best practice.

- Our provision of asset protection, property acquisition and planning advice assists with the safe and efficient operation of the railway

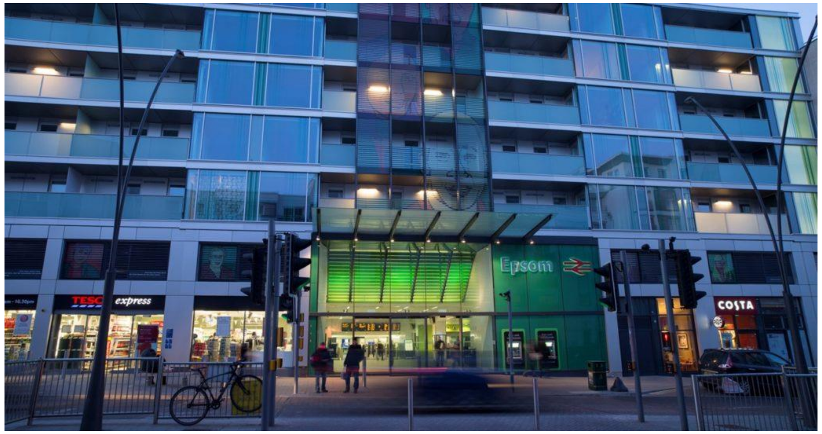
- We will continue to dispose of surplus land, to both raise capital receipts and facilitate residential developments in line with Government objectives. Where advantageous, we will develop sites with joint partners, rather than through outright disposals.

- We will assist with the development and implementation of alternative sustainable funding models for the railway; in particular stations.

- We will continue to refine our operating model. We are exploring revenue sharing mechanisms with the routes so that objectives and outcomes at

- Managed stations are aligned and improving both the efficiency and quality of our outputs under ‘Better Every Day’.

- Safety will always be at the heart of what we do. We aim to minimise risks for and emanating from our people and the wider public (including passengers and tenants) and protect the operational railway.



Epsom Station Development – Solum JV

Our key deliverables necessary to achieve our objectives are highlighted in the balanced scorecard which follows:

Safety		Target
Close Calls Closed	% of close calls closed within 90 days	85%
Safety Improvement	Achieve target% of programme milestones	80%

Asset Management		Target
Inspections	Achieve target% of programme milestones	90%
Sustainability	Achieve target% of programme milestones	90%

Financial Performance		Target
Profit Before Cumulo	Exceed target of	£1,230m
Income	Exceed target of	£1,175m
Cost Efficiency	Deliver an overall cost income ratio (excluding WPm & arch inspections) of	13.3%
Commercial Renewals	Deliver spend in line with target	£314m

Better Every Day		Target
People Programme (Incl D&I)	Achieve target% of programme milestones	90%
Efficiency Programme	Achieve target% of programme milestones	90%

Investment		Target
Top 10 Investments	Achieve target% of programme milestones	75%
Top 20 Development Schemes	Achieve target% of programme milestones	50%

Satisfaction		Target
External Customers	Improve customer scores year on year	TBC
Internal Customers	Improve customer scores year on year	TBC

3. What Property is

3.1. Structure

Property consists of the following business units:

Retail - Manage and develop the retail offering on NR Managed Stations generating rental income to offset the cost of operating the railway and meet passenger aspirations.

Stations – co-ordinate Station activity and are developing a self-sustaining model for the future of NR's Stations. The Stations team are also the fund holder for Access For All and Station Improvement Fund initiatives.

Development & Sales – Facilitate the disposal of surplus freehold land and buildings through both outright sales and working with joint venture partners where this provides an enhanced return for NR. Work closely with the Department of Communities & Local Government (DCLG) and the devolved administrations to release surplus land for housing in line with public policy.

Property Services – Assist the routes with asset protection and property acquisition as well as managing and developing income streams from easements, mobile telephone networks and freight.

Planning & Land Services – Provide professional planning advice for both Property and the remainder of NR

Workplace Management – Operate the small national core of offices, manage the national facilities management contract and provide professional advice to the routes now that their accommodation has been decentralised.

Commercial Estate – A small team will remain to manage residual assets following disposal through Project Condor; in particular Scotland. In addition planned spend of £2.9m per annum is retained to facilitate arch inspections (lost rent and lining / re-lining) post disposal. This will be devolved to the Routes by the start of CP6.

3.2. Operating model – present & future

Property is a strategic business unit of NR. The routes are kept fully apprised of our activities.

Property Services and Planning & Land Services are aligned with routes at a local level.

Responsibility for workplace accommodation was transferred to the routes in 2016/17.

No further impacts from devolution are included within our plan although this is under review; in particular income sharing at managed stations.

4. Risks, opportunities, constraints & assumptions

Summary of objectives	To grow sustainable income through asset management and investment and dispose of surplus land, either directly or through joint ventures. We provide expert property services to NR in order to support the safe and efficient operation and expansion of the railway.

No.	Key constraints, risks and opportunities	What we plan to do	Owner	Timescale (start/ finish)
1	C: Investment funding – This was reduced during CP5 due to wider NR cash constraints impacting income	We have submitted a balanced bid for investment funding in CP6 and also identified what is required to fund our joint venture activity	David Biggs	Ongoing
2	R: The economy – There is significant uncertainty regarding the economic outlook post BREXIT. This impacts on both commercial rents receivable and sales receipts	We remain ready to adapt to both opportunities and challenges presented by market and economic conditions as far as possible. This includes considering more defensive retail tenant mixes where necessary.	David Biggs	Ongoing
3	O: Conversely to the above, opportunity may exist in the future due to economic conditions.	We remain ready to adapt to both opportunities and challenges presented by market and economic conditions as far as possible.	David Biggs	Ongoing
4	R: The Green Book is amended so that land for housing is transferred to across Government bodies at no cost impacting on sales receipts.	We are in contact with Government to understand as far as possible future expectations, but don't believe this will be implemented in the short term	David Biggs	Ongoing
5	O: Government accounting assumptions impacting disposals are amended in that PSNB contributions are not required	This is not something we can influence, but we are monitoring developments and will revisit previous disposal proposals if this does change	David Biggs	Ongoing
6	R: Market led demand in the SE, makes it difficult to retain and attract key staff	We have a resource plan in place and benchmark salaries and terms and conditions against the market	David Biggs	Ongoing
7	R: We fail to establish an ongoing pipeline of viable investments which impacts upon income	We have station and asset plans in place already and have commenced pre-feasibility studies for CP6	David Biggs	Ongoing
8	R: We ineffective in delivering investments resulting is safety incidents, cost overruns and delayed income	We are currently reviewing our project management capabilities with a view to enhancing their robustness	David Biggs	Ongoing
9	O: Property fails to instil both awareness and compliance with our safety principles in the activities of our staff, visitors, contractors and tenants and as a result significant operational disruption, personal injury and commercial loss occurs	We have robust safety management and inspection regimes in place which are subject to continuous review and improvement	David Biggs	Ongoing

4.1. Notable assumptions

1. Station improvement funding of £300m is made available for CP6 along with £135m of working capital to support joint ventures. Should station improvement funding not be forthcoming, then our income will be reduced by £32m over CP6 (£2m of this impacts on ‘Opex Income’ lines). Likewise £37m of development receipts will not be generated if working capital funding is not forthcoming. As well as providing a finacial return, this spend improves the facilities for station users as well as providing wider economic benefits in line with our vision.

2. The current economic trajectory continues and there is no significant downturn post BREXIT

3. The Commercial Estate is largely divested (85%+ of properties) under Project Condor during CP5. There are no other material disposals in CP6.

4. Following discussions with the central business planning team we have included £2.9m per annum for arch inspections. This primarily covers lost rent on the basis that the Routes have included strip and re-line costs.

Waterloo Balcony Retail Scheme

5. Expenditure & efficiency

5.1. Cost and volume summary

Expenditure (post headwinds and efficiencies in 17/18 prices)

Unit of measure		CP5						CP6						CP7
		14/15	15/16	16/17	17/18	18/19	CP5	19/20	20/21	21/22	22/23	23/24	CP6	24/25
Renewals	**£m**	25	15	22	24	18	**104**	42	66	67	91	133	**399**	78
Controllable opex	**£m**	33	16	21	32	15	**117**	13	13	13	13	13	**65**	13
Non-controllable industry costs	**£m**	163	165	164	215	215	**922**	217	217	217	301	301	**1,252**	301
Total	**£m**	**221**	**196**	**207**	**271**	**248**	**1143**	**273**	**295**	**297**	**406**	**448**	**1,719**	**392**
Permanent Headcount		356	380	423	474	454	**454**	**364**	**364**	**364**	**364**	**364**	**364**	**364**
Agency		18	11	12	5	2	**2**	2	2	2	2	2	**2**	2
Total headcount		**374**	**391**	**435**	**479**	**456**	**456**	**366**	**366**	**366**	**366**	**366**	**366**	**366**
Income	**£m**	-262	-285	-299	-305	-325	-1,488	-230	-233	-233	-238	-241	**-1,175**	-264
Property Sales	**£m**	-36	-91	-64	-41	-43	-270	-26	-29	-20	-22	-28	**-125**	-27
Enhancements	**£m**	99	123	83	63	60	428	0	0	0	0	0	**0**	0
JV Working Capital	**£m**	N/A	N/A	N/A	N/A	N/A	68	41	12	47	25	11	**135**	11

Basis for costs

Renewals

Property are still holding £85m of renewals for the workplace estate (as requested by Group Finance for planning purposes). The bulk of these will be reallocated to the routes in advance of CP6.

£300m has been provided to support the improvement of station retail and wider station environments. Particularly notable are large Retail projects at Victoria £77m and Liverpool St £65m which are linked to wider operational schemes where we will be working with the appropriate routes. Should this funding not be forthcoming our income will reduce by a minimum of £32m over CP6 (£2m of this impacts on 'Opex Income'). This funding will continue the improvement of our stations for their users and also positively impact on the wider economy in line with our vision.

Controllable Opex

Underlying Opex reduces from 2017/18 to 2018/19 due to the divestment of the Commercial Estate. Costs further reduce from 2018/19 to 2019/20 due to the cessation of compensation payments for Reading & Bristol TM stations and the disposal of Puddledock.

[redacted]

Following discussions with the central business planning team we have included £2.9m per annum for arch inspections. This primarily covers lost rent on the basis that the Routes have included strip and re-line costs.

The Electronic Telecommunications Code 2017 will mean that rents are calculated on the value of the right to the landowner, and not the provision or use of an electronic communications network. This is similar to the compulsory purchase system as used for other utilities. We have assessed the impact of the CP6 impact of this at being £12m although this could vary as precedents emerge.

Non Controllable Industry Costs

Both 2017/18 and 2022/23 increases reflect the impact of revaluations on Cumulo Rates

Property Income

This reduces from 2017/18 due to the divestment of the Commercial Estate. Income of £7.5m is lost at London Victoria station in 2019/20 due to decongestion measures and ongoing works in the central area of the station. This flows through CP6 and is not recovered until the start of CP7 when a mitigating scheme is complete. Income is further reduced in 2019/20 due to the divestment of the freight properties with a combined rent of £3.5m. Growing and maintaining income is dependent on both enhancement spend and achieving real growth. The assumptions used are detailed in the table following:

	2019/20	2020/21	2021/22	2022/23	2023/24
Station Retail	1.23%	1.23%	1.23%	1.23%	1.23%
Station Advertising	0.85%	0.85%	0.85%	0.85%	0.85%
Roadside Advertising	0.00%	0.00%	0.00%	0.00%	0.00%
Other	0.50%	0.50%	0.50%	0.50%	0.50%

Property Sales

CP6 reflects a risk adjusted identified pipeline of £58m, with an overlay of £67m added – see below. Residential sales are assumed to breakeven.

	£m
Large Schemes - Pipeline	41
JV Profits (excl land value)	17
Large Schemes - Overlay	42
Small Schemes - Overlay	25
Total Net Sales	125

Enhancements

These solely consist of ring-fenced funds – Access For All (AFA) and the National Station Improvement Fund (NSIP) and are subject to final DfT confirmation. Property acts as sponsor for schemes utilising these funds; the NR routes and TOCs are deliverer.

Joint Venture Working Capital

Due to the need to apprise our funders of wider cash requirements, we have additionally specified the £135m of working capital required to deliver our planned joint venture outputs. This facility will be repaid once developments are completed and is seen as being in lieu of bank finance and represents only NR's share of development funding. Our JV partners will be expected to raise their own debt. Similar activities were funded through the loan cap in CP5. JV working capital requirements and receipts are detailed in the following table:

£m	2019/20	2020/21	2021/22	2022/23	2023/24	CP6
Working Capital Balance	**115.1**	**83.5**	**118.2**	**135.0**	**130.9**	**130.9**
Land Receipts	2.3	1.7	0.5	2.8	1.3	8.5
Profit	1.7	2.2	3.9	3.9	5.2	17.0
Station Works	3.5	2.4	2.8	1.5	1.2	11.4
Total Receipts	**7.6**	**6.3**	**7.2**	**8.2**	**7.6**	**36.9**

In addition to providing cash returns to NR and in some instances infrastructure gains, our JVs contribute to the wider economy by potentially providing jobs and housing in line with our vision.

Summary of costs by team or activity within the function

Activity/team	CP6 total (£m)	Comments
Retail	238	Includes £345m of costs offset by £107m of income
Commercial Estate	45	Remaining 15% of estate. Includes £14.5m route arch inspections
Workplace Mgmt	152	Includes £85m renewals to be transferred to Routes
Other	1,284	Includes £1,252m Cumulo Rates
Total	**1,719**	

5.2. Route Business Scotland details

	CP5 Year			CP6 Year					CP6 total
	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	
National Cost (£m)				272	295	297	405	447	1,715
Scotland Cost (£m)				30	34	35	38	38	176
Scotland (%)				11%	12%	12%	9%	9%	10%
National Cost	Opex, Renewals & Semi Controllable (Cumulo Rates)								
Basis for allocation to Route Business Scotland	Station (Retail), Organisation (CE), Actual Billing (Cumulo) and a mixture of track miles / heads for the remainder								
Activity	Please see below								

Property Scotland Strategy

CP6 is shaping up to be a control period full of challenges and opportunities for the Property team. Among the challenges will be our support of Scotland Route's ambitious programme of enhancement, renewal and maintenance projects allied to its objective of delivering frontline, fit for purpose welfare and track road / rail / pedestrian access points. On the income side our challenge will be to grow our contribution not just from the 3rd party let estate and disposal of non-core assets but also in attracting Development of our assets resulting in 3rd party funding contributions either in cash or in kind to support our ambition to build the best railway that Scotland has ever had. Property enjoys a close working relationship with Scotland Route who are supportive of our ideas for developing our managed stations, and in developing facilities that showcase the best of Scotland and bring back into use by the community or business vacant heritage or inner city buildings and arches. Our opportunity is to successfully partner with Scotland Route/Transport Scotland to build a CP6 plan that first and foremost delivers the HLOS by specifying realistic target improvement areas and identifies funding for them. In order to meet the challenges and opportunities detailed above the Scotland Property team will deliver or facilitate:

- Land strategy development, working collaboratively with the Routes and involving early interaction with key stakeholders e.g. Business Development Directors, Directors Route Sponsorship & System Operators, TOC's.

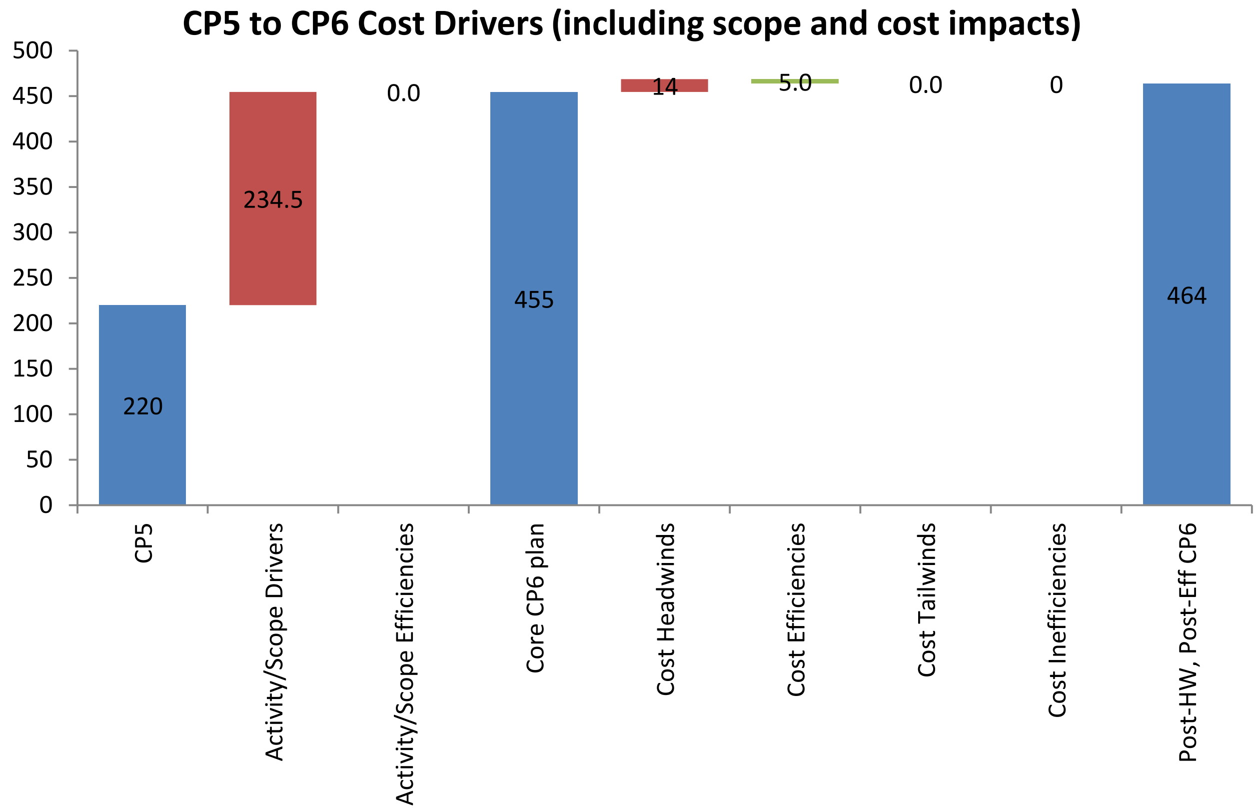
- The provision of planning, heritage and use of statutory powers advice
- Amendments to established processes that more consistently address the process for securing access to, and the terms for use, of temporary land
- A centre of excellence supporting both the strategy for and the provision of effective and efficient workplace accommodation in line with business requirements
- Land and property acquisitions to support the delivery of enhancement, renewal and maintenance projects as well as permanently improving Network Rails lineside land ownership corridor making future access more self-managed and less problematic.
- Appropriate asset protection advice bearing in mind the outputs of the recent Hansford Review
- Managing and growing commercial income streams as part of a wider asset management regime which includes: portfolio planning and the identification of investment opportunities, managing the asset inspection programme designed to reduce the risk of disruption to the railway and delivery of the renewals and planned maintenance programme. Key income streams include:
    - Retail within Managed Stations (Edinburgh Waverley & Glasgow Central)
    - The Commercial Estate which includes letting in close proximity to the railway such as arches
    - Easements, wayleaves and telecoms
    - Rail freight sites
    - Disposal of surplus assets (subject to approval) when appropriate to do so, in particular to support the provision of housing and other projects which promote wider economic benefits

- The bulk disposal of Commercial Estate or other income generating assets is not happening in Scotland in line with Scottish Government requests however investment is still required, the proceeds of which will be remitted to Scotland.
- Subject to business case approval, we intend to continue our investment in retail at Glasgow Central (Caledonian Chambers) and Edinburgh Waverley (new retail building at rear of station) as well as minor schemes throughout the control period. We envisage this spend totalling c£18m
- Commercial Estate schemes would ordinarily be expected to generate a return of 6.5%, however due to the Scottish Governments stated desire to deliver wider community benefits; we have halved this return to allow for commercially marginal schemes which may deliver wider benefits. We currently believe that investment in Community Schemes is likely to require regulatory approval. We have request funding of £2.5m to deliver this initiative.

Edinburgh – Glasgow Improvement Programme (EGIP)

5.3. Cost drivers, headwinds and efficiency

Summary of cost changes between CP5 and CP6



Our costs have been impacted by significant structural changes which are detailed on Page 17

Summary of Property efficiency

Totex (O,M,R)	Year			Year					CP6 total
	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	
Pre-efficient plan[1] (£m)	42	56	33	33	33	33	33	33	296
Activity/scope efficiencies (%)				68%	138%	143%	212%	337%	180%
Core plan (£m)	42	56	33	55	78	80	103	144	459
Head winds (%)				4%	3%	3%	4%	3%	3%
Efficiency (%)				-2%	-1%	-1%	-1%	-1%	-1%
Tailwinds (%)									
Inefficiency (%)									
Post-HW, post-Eff spend (£m)	42	56	33	56	79	81	105	147	468

It should be noted Property efficiencies are primarily income and not opex driven, therefore we expect little in the way of cost efficiencies and tailwinds as income is our primary profit driver. Please refer to the Cost / Income section which follows shortly.

Material changes in activity have occurred due to:

- The disposal of Commercial Estate
- Managed station investment schemes now classified as renewals
- Workplace renewal costs were artificially reduced due to cash constraints in CP5. Their return to original CP5 levels has also been treated as a structural change

[redacted]

Further detail which quantifies each individual item preceding is shown below:

£m	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Pre Efficient B/F	33	33	33	33	33	165
Station Retail Investments	22	46	48	72	113	300
Commercial Estate Divested	-14	-14	-14	-14	-14	-70
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
CP5 Exit Renewals Phasing	8	8	8	8	8	40
Additional Income From Renewals	0	0	0	-1	-2	-4
Core Plan	**55**	**78**	**80**	**103**	**144**	**459**
Headwinds - Digital Telecoms Code	2	2	2	3	3	12
Miscellaneous Opex	0	0	0	0	0	2
Efficiencies - Opex Income	0	0	0	0	0	-1
Efficiencies - WPM Renewals	-1	-1	-1	-1	-1	-5
Net	**56**	**79**	**81**	**105**	**147**	**468**

Headwinds

- The Electronic Telecommunications Code 2017 will mean that rents are calculated on the value of the right to the landowner, and not the provision or use of an electronic communications network.

Efficiencies

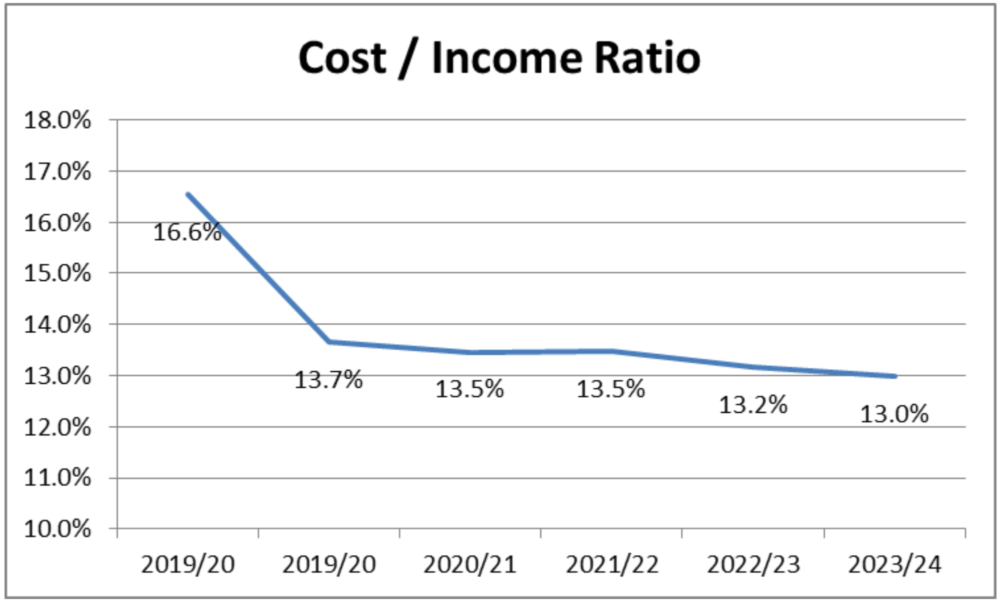
- Positive asset management is assumed to increase rents on income lines within Opex
- We have assumed a delivery efficiency against the original CP5 baseline for workplace renewals

Headwinds and efficiency by theme

Theme	Area	Description	Net % change
Access (3)	Efficiency (3a)		0%
	Tailwind (3b)		
	Inefficiency (3c)		
	Headwind (3d)		
Workbank planning (4)	Efficiency (4a)		0%
	Tailwind (4b)		
	Inefficiency (4c)		
	Headwind (4d)		
Technology (5)	Efficiency (5a)		0%
	Tailwind (5b)		
	Inefficiency (5c)		
	Headwind (5d)		
Delivery (6)	Efficiency (6a)	Workplace Renewals	<-1%
	Tailwind (6b)		
	Inefficiency (6c)		
	Headwind (6d)		
Design (7)	Efficiency (7a)		0%
	Tailwind (7b)		
	Inefficiency (7c)		
	Headwind (7d)		
Commercial (8)	Efficiency (8a)		0%
	Tailwind (8b)		
	Inefficiency (8c)		
	Headwind (8d)		
Other (9)	Efficiency (9a)	Organic growth on Opex Income	2%
	Tailwind (9b)		
	Inefficiency (9c)		
	Headwind (9d)	Digital Telecoms Code	

Relevant benchmarks

Our cost income ratio (excluding WPM, headwinds and arch inspections, all income treated as such) shows continuous improvement:



5.4. Risk and uncertainty in the CP6 plan

This section provides an explanation of the how we have built up our overall plan and sets out our estimate of the degree of financial uncertainty within this plan.

Pre-efficient costs in our plan are based on ‘current rates’ but include any additional scope needed to deliver the outputs in the plan. We have used 2016/17 unit rates to develop our capital expenditure forecasts and CP5 exit rates for support, operations and maintenance expenditure forecasts. Drivers of rate increases (headwinds/inefficiencies), or rate reductions (efficiencies/tailwinds), where there is a reasonable expectation they will occur, have been identified separately from the core CP6 plan.
The combination of our core CP6 plan, headwinds/tailwinds and efficiencies/inefficiencies is our ‘submission’ and represents the ‘most likely

outcome' for CP6. The content of our plans reflect the funding that we understand to be available in CP6. We consider this plan to be realistic and, therefore, deliverable in CP6.

Current unit rates are likely to include some risks that were not originally included in CP5 plans but that have materialised during the current control period. As a result of this approach, it is likely that some risk and uncertainty is already be included in our core CP6 plan, as we have not sought to remove the impact of these unplanned events from our unit rate estimates.

Whilst it is difficult to precisely estimate the likelihood of delivering our plan in CP6, it seems reasonable to suggest that overall, there is a 45% to 55% likelihood of the outputs in the plan being delivered for the forecast cost in our CP6 plan. This means that there approximately half of the time, we will be able to deliver our plan for the forecast cost. However, this uncertainty varies between expenditure and income categories; in particular the latter. Our income projections are dependent on both the availability of investment funding and largely uncontrollable economic factors which drive property rents and occupancy levels.

West Hampstead Residential Development - Joint Venture with Ballymore

5.5. Uncertainty ranges for CP6

The information in the table below, presents our estimate of the overall range of uncertainty across our expenditure and income for CP6. We have also identified the main drivers of the uncertainty ranges. The information in this table is based on the detailed inputs provided in our opex, renewals and income submissions. Headwinds/tailwinds and efficiencies/inefficiencies are included in the spot estimates.

Area (S, O, M, R, Income)	Potential range (low – spot – high)	Summary of key drivers of the uncertainty range	
		Driver of range	**% of range**
I f Renewals	Low (-£20m) Spot (£399m) High (+£20m)	These include income generating station retail investments and are largely bespoke assets with non-standard costs. Variances may emerge once surveys are prepared and due to unknown asset issues emerging. These can potentially be managed by reducing other spend (this may impact on income).	+/- 5%
a n Maintenance y	Low (-£xm) Spot (£xm) High (+£xm)	Not Applicable	
Support and operations	Low (-£5m) Spot (£65m) High (+£9m)	Potential variances almost certainly can be attributed to income lines within opex. This is influenced by the availability of investment spend and economic factors. Further uncertainty of +/- £3m is introduced by the Digital Telecoms Code	+14% / -8%
Total expenditure	**Low (-£22m) Spot (£450m) High (+£24m)**		
t Income h	Low (-£32m) Spot (£1,206m High (+£12m)	Over performance may occur due to positive economic factors +£12m	+1%
		Should income generating renewal funding become unavailable - £20m	-2%
		Under performance may occur due to negative economic factors -£12m	-1%

6. Sign-off

- This document and accompanying templates are owned by the Finance Director, Property
- Submission of this document indicates confirmation that:
- all appropriate level 1 assurance activities have been undertaken (see separate advice on definition of level 1 assurance);
- the Finance Director, Property is satisfied with the quality, currency and appropriateness of the content of this document as well as the cost, volume and activity projections to which it refers;
- the signatories are satisfied that the plan has been assessed as deliverable, subject to the assumptions articulated in Appendix B.

Authorised by:

David Biggs Managing Director, Property	09.02.2018
Digby Nicklin Finance Director, Property	09.02.2018

Appendix A N/A

Appendix B Key assumptions

Ref no.	Topic (e.g. dependency, deliverability, climate etc.)	Assumption	Areas of spend impacted (e.g. all opex, single team, all spend etc.)	Is this a change of assumption for CP6?
1	Investment funding	We have assumed that £300m of station improvement funding is made available.	Income / Opex (Opex Income lines only)	Yes
2	The economy	The current economic trajectory continues and there is no downturn post BREXIT. Average LFL real growth of 1.2% is currently projected on Managed Stations Retail income	Income / Opex (Opex Income lines only) / Property Sales	
3	Strategic disposals	The Commercial Estate is largely divested (85%+ of properties) under Project Condor during CP5. There are no other material disposals in CP6. Our plan includes £2.9m per annum to fund the impact of route arch inspections on divested properties. This will be redistributed to the Routes at the start of CP6.	Income / Opex	Yes
4	Additional managed stations	Clapham Junction & Guildford are not included within our projections and will be accommodated with budget flexes should the transfer occur	Income / Opex	
5	Ring fenced funds	We have assumed that £200m(£400m in total) is available for both the Access For All and Station Improvement Fund	Enhancements	
6	Puddledock	We have assumed this is divested at the start of CP6	Income / Opex	Yes
7	London Victoria	We have assumed that the station undergoes significant work commencing in 2019/20 reducing income until investment driven	Income / Investment	Yes

Ref no.	Topic (e.g. dependency, deliverability, climate etc.)	Assumption	Areas of spend impacted (e.g. all opex, single team, all spend etc.)	Is this a change of assumption for CP6?
		mitigation can be employed in 2024/25		
8	Workplace Renewals	Our plan contains £85m for workplace accommodation. With the exception of spend on national offices, this will reallocated to the routes	Renewals	
9	Joint Venture Working Capital	We have assumed that £136m (net) is made available through CP6 in addition to the CP5 B/F of £68m	Income	Yes
10	London Liverpool St	It is currently unknown whether the proposed operational investment scheme will lead to any significant loss of income during delivery	Income / Investment	Yes
11	HS2	We have assumed that any loss of income (temporary or permanent) resulting from HS2 at Euston and other stations will be compensated for on an arms-length basis	Income	Yes
12	[redacted]	[redacted]	Opex	Yes
13	Arch Inspections	Following discussions with the central business planning team we have included £2.9m per annum for arch inspections. This primarily covers lost rent on the basis that the Routes have included strip and re-line costs.	Opex	Yes
14	Digital Telecoms Code	We have included a £12m estimated impact over CP6 in our plan. Due to the absence of precedents, this could vary by +/- £3m	Opex	Yes

Appendix C N/A

Appendix D Scenario planning

Part (1): Tactical scenario planning for CP5
Provide information on the impacts on CP5 of each of the following scenarios:

- Scenario 1: 20% increase in total remaining expenditure

Ordinarily we would utilise increased expenditure to fund additional revenue generating investment schemes, however such are the delivery lead times that it's highly unlikely these would be complete by the end of CP5. A further option of acquiring sites adjacent to managed stations is precluded by Licence Condition 4. It would however de-risk and potentially accelerate income from CP6 schemes if pre-feasibility studies were brought forward.

Details and benefits of additional expenditure in CP5

Area of spend	Yr 4-5 outstanding spend (£m)	Potential investment increase (£m)	Comment on benefits
Pre-feasibility		£2m	Will potentially bring forward or de-risk CP6 investment – No BCR
Total		£2m	

- Scenario 2: 20% decrease in total remaining expenditure

Details and impacts of reduced expenditure in CP5

Area of saving	Yr 4-5 outstanding spend (£m)	Maximum potential saving (£m)	Comment on impacts/issues
			Costs are now either committed or will impact negatively on income if constrained
Total		£0m	

Part 2: CP6 scenario planning: investment options

This section describes the benefits of additional investment in the function, over an appraisal period of 30 years.

Our main opportunity to deliver significantly increased income through CP6 would be by acquiring sites adjacent or near to managed stations where there is a potential for marriage value. As this is in essence a 'blue skies' exercise due to the provisions of Licence Condition 4, we have not progressed it further.

Acquisitions	**CP6 total: (£m)**		**CP6 capex: (£m)**		**CP6 opex: (£m)**		**Total BCR**		**Appraisal period**	30 years
Description	**Qualitative benefits**						**Quantitative benefits**			

[Business case 2]	**CP6 total: (£m)**		**CP6 capex: (£m)**		**CP6 opex: (£m)**		**Total BCR**		**Appraisal period**	30 years
Description	**Qualitative benefits**						**Quantitative benefits**			

[Business case 3]	**CP6 total: (£m)**		**CP6 capex: (£m)**		**CP6 opex: (£m)**		**Total BCR**		**Appraisal period**	30 years
Description	**Qualitative benefits**						**Quantitative benefits**			

Appendix E N/A

Appendix F N/A

Appendix G N/A