Property Strategic Plan

V4.1 – March 2019

Contents

1. Purpose, role & vision

1.1. Purpose

We seek to maximiose the value of our property assets in the interest of passengers, rail operators and wider communities

1.2. Role

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

Putting passengers first is at the heart of our operations. 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 income 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 passengers and other 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 passengers, 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 passenger and stakeholder 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

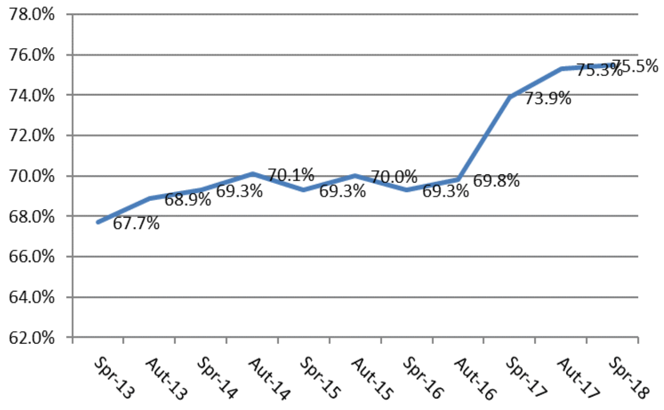
The main stakeholders and how they are considered within our plan:

- 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, station masterlanning 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 and more detailed research has established a hierarchy of passenger needs at each station
- Tenants – As well as annual customer surveys, we monitor attrition and actively seek feedback

In particular we lead the station masterplanning process which aims to draw together both internal and external stakeholders (including government and local authorities etc where appropriate) to develop a vision for each managed station which guides both our investment process and development joint ventures where appropriate.



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 share details of station investment schemes and other projects which directly interface with the Routes on an ongoing basis
- 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 working with our route colleagues to deliver mutually beneficial outcomes which put the passenger first.

2.2. Specific objectives

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

- Place passengers at the heart of everything we do: working in partnership with our route colleagues, we aim to turn our managed stations into destinations of choice in their own right
- Support route devolution through the creation of route based land strategies: we are supporting the routes to achieve the optimal use of their property assets
- Show greater ambition to bring forward complex development sites such as our large station estate and create new land through over-site or over railway development: again working in partnership with our route colleagues we aim to deliver wider economic benefits as well as generating a financial return for NR in the form of both cash and infrastructure improvments
- Return to the sustainable revenue model and identify new areas for investment: unlike CP5, we envisage there being no significant asset diposals in CP6. We will invest to provide an ongoing sustainable financial return which reduce the burden of funding the railway borne by the taxpayer as well as generating other outputs such as the regeneration of local communities e.g. Kings Cross
- Deliver land for housing to meet Government targets: 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.
- Champion ‘Open for Business’ to the Property / Development world: we will work together with commercial partners to develop and implement alternative sustainable funding models for the railway; in particular stations

- 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 thedraft scorecard below (outer years are currently under development):

Property Scorecard 2019/20 - proposal (as at 01/02/19)

Safety	PRP % WEIGHTING		WORSE THAN TARGET	TARGET	BETTER THAN TARGET	Measure Description	Measure Calculation Methodology	Achievability
Close Calls Closed	*20%*	10%	80%	85%	90%	% of close calls closed within 90 days	Follows the same methodology as the National Scorecard measure.	
Safety Improvement		10%	60%	80%	100%	Achieve target % of programme milestones.	Safety Improvement Plan milestones that are achieved on or before baseline date.	
Financial Performance	**PRP % WEIGHTING**		**WORSE THAN TARGET**	**TARGET**	**BETTER THAN TARGET**	**Measure Description**	**Measure Calculation Methodology**	
FPM (Profit After Sales)	*40%*	30%	£266.8m (-2%)	£272.3m	£277.7m (+2%)	Achieve our 2019/20 profit target	FY profit performance vs target	
Revenue-generating renewals (enhancements)		5%	£25.0m (-5%)	£26.3m	£27.64m (+5%)	Spend enhancements capex in line with budget	FY spend vs budget	
Like-for-like Renewals		5%	£3.46m (-5%)	£3.64m	£3.82m (+5%)	Spend renewals capex in line with scope & price of approved budget	FY spend vs budget.	
Cash Compliance		0%			0.0			
Investment	**PRP % WEIGHTING**		**WORSE THAN TARGET**	**TARGET**	**BETTER THAN TARGET**	**Measure Description**	**Measure Calculation Methodology**	
Top 10 Investments	*10%*	0%	65%	75%	85%	Achieve target % of programme milestones for our top investment schemes	Key 'end goal' milestones that are achieved on or before baseline date. Interim milestones to act as YTD indicator, but do not count towards YE	
Top 20 Development Schemes		5%	40%	50%	60%	Achieve target % of programme milestones for our top Property development schemes	Key 'end goal' milestones that are achieved on or before baseline date. Interim milestones to act as YTD indicator, but do not count towards YE	
Resi Housing Numbers		5%	1,244	1,915	2,417	Achieve risk adjusted Resi numbers. Target to be set based on year-end outturn.	Resi housing is based on the Public Sector Land Guidelines under which key criteria must be met in addition to Network Rail LC7 or regulatory consent.	
Asset Management	**PRP % WEIGHTING**		**WORSE THAN TARGET**	**TARGET**	**BETTER THAN TARGET**	**Measure Description**	**Measure Calculation Methodology**	
Inspections	*10%*	10%	80%	90%	100%	Achieve target % of property inspections	% of completed property inspections against their due date. This covers inspections across CE, Retail, Developments, Property Services and WPM.	
Sustainability		0%	60%	80%	100%	Achieve target % of programme milestones that are aligned to Property's sustainability strategy	% of sustainability strategy milestones that are achieved on or before baseline date.	
People & Process	**PRP % WEIGHTING**		**WORSE THAN TARGET**	**TARGET**	**BETTER THAN TARGET**	**Measure Description**	**Measure Calculation Methodology**	
Better Everyday - People, D&I, H&W and Processes	*10%*	0%	50%	75%	100%	Achieve target % of programme milestones	Key 'end goal' milestones that are achieved on or before baseline date. Interim milestones to act as YTD indicator, but do not count towards YE	
Add: 100 day review (tba)		10%	tba	tba	tba	tba	tba	
Satisfaction	**PRP % WEIGHTING**		**WORSE THAN TARGET**	**TARGET**	**BETTER THAN TARGET**	**Measure Description**	**Measure Calculation Methodology**	
External customers *	*10%*	5%	3.90 (-5%)	4.11	4.21 (+2.5%)	Improve external customer scores year on year and achieve key customer improvement milestones	Based on weighted average of external customer survey results. Target based on 17-18 results excluding Commercial Estate.	
Internal customers *		5%	4.03 (-5%)	4.24	4.32 (+2.0%)	Improve internal customer scores year on year and achieve key customer improvement milestones	Two thirds based on weighted average of internal customer survey results and one third based on achievement of key milestones. Target is 17-18.	
		100%						

NB: Commercial Estate included in targets and actuals until point of sale. Agreement required on process to rebaseline targets/performance post sale.

** Targets subject to change post 2018/19 year-end outturn*

Achievability definitions (applies to "target" value)	
RED	Very challenging, likely to require substantial organisational and cultural change to achieve and/or highly dependent on third party involvement
AMBER	Challenging, likely to require moderate organisational and cultural change to achieve and/or dependent on third party involvement
GREEN	Achievable, builds on existing organisational and cultural capabilities and little or no dependency on third parties for delivery

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.

Residual Estate – A small team will remain to manage residual assets following disposal through Project Condor; in particular Scotland.

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 and embedded within them

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

The impact from devolution ('Putting Passengers First') on Property, has not been included within this plan in line with instructions

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	Our bid for commercial enhancement funding has been accepted in the ORR Final Determination, however we are aware of the potential risk posed by the accounting change from AME to DEL and plan to counter this by remaining flexible and delivering investment returns which exceed expectations	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	C: The routes are the asset owners of stations,; therefore all planned investment must be agreed with them.	We are developing retail station strategies which will be pre-approved by the routes and are designed to support their own objectives.	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	R: HS2 does not provide compensation for the loss of retail income at Euston	We have overtly stated our assumptions that existing protocols in the HM Tresury Green Book will be followed	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 are ineffective in delivering investments resulting is safety incidents, cost overruns and delayed income	We have added project management resources to our team to enhance our delivery of both investment schemes and developments	David Biggs	Ongoing
9	R: 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. Spend of £372m spend on revenue generating renewals and working capital for joint ventures is maintained through the control period.

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

3. There are no material disposals of income generating assets in CP6

4. We have included the strip and re-line costs for arch inspections in our plan submission. Likewise the routes should have included compensation for lost income.

5. Workplace renewal costs, with the exception of the central estate and HS2 linked spend have now been fully devolved to the routes.

6. Retail income from Clapham Junction & Guildford stations is included within our submission

7. We have assumed that any loss of income resulting from HS2 at Euston and other stations will be compensated for on an arms-length basis in line with the principles of the HMT Green Book

Waterloo Balcony Retail Scheme

5. Expenditure & efficiency

5.1. Cost and volume summary

Unit of measure		CP5	CP6						CP7	
		18/19	19/20	20/21	21/22	22/23	23/24	CP6	24/25	25/26
Renewals	£m	9	35	56	60	116	106	372	86	89
Controllable Opex	£m	32	13	10	10	13	12	57	11	11
Non-controllable industry costs	£m	222	228	232	237	336	343	1,376	350	357
Total	£m	264	276	298	307	465	460	1,806	447	457
Permanent Headcount		380	388	389	389	388	387	387	387	387
Agency								0		
Total headcount		380	388	389	389	388	387	387	387	387
Income	£m	-313	-239	-249	-256	-270	-288	-1,302	-316	-337
Net Property Sales	£m	-55	-44	-91	-28	-29	-43	-234	-42	-43

Basis for costs

Renewals

Property where applicable have now reallocated renewals spend for corporate offices to the routes (in line with current responsibilities). Property continue to hold spend for the central estate and HS2 related relocation (Eversholt St and Square1).

£251m has been provided to support the improvement of station retail and wider station environments; including wi-fi. The major scheme previously outlined at Victoria has been reduced in scope; similarly, the scheme at Liverpool St has been deferred. Should this funding not be forthcoming our income will reduce by a minimum of £18m over CP6. 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.

We have included £81m (closing balance) to cover the working capital requirements for joint venture development schemes. Due to the need to apprise our funders of wider cash requirements, we have additionally specified that working capital is 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.

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.

Controllable Opex

Underlying Opex reduces from 2018/19 to 2019/20 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 in 2020/21.

We are no longer assuming that the Quadrant, Milton Keynes is subject to a sale and leaseback arrangement.

Following discussions with the central business planning team and the routes, we have included £10m over CP6 for the strip and re-line element of arch inspections. The routes will include the cost of compensation for lost rent.

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 this from CP5 exit at being £1m although this could vary as precedents emerge.

Non Controllable Industry Costs

The 2022/23 increase reflects the impact of statutory revaluation on Cumulo Rates

Property Income

This reduces from 2018/19 due to the divestment of the Commercial Estate. Furthermore, the size of the residual Commercial Estate in CP6 is smaller than originally anticipated due to acceleration in the drawdown of sites for operational and development use.

Growing and maintaining income is dependent on both investment spend and achieving real growth. £263m has been provided to support the improvement of station retail and wider station environments which will typically generate a 10% ROI. Underlying market conditions for Managed Stations Retail, our main income stream, are not currently favourable as demonstrated by the significant number of business failures and Creditors Voluntary Agreements (CVA) in the sector this year. Retailers are under pressure from reduced consumer confidence, higher business rates and the low value of the Pound amongst other factors. Of special significance is the reduced footfall in the managed stations which is symptomatic of a general reduction in rail passengers. We currently anticipate that Managed Stations Retail income will decline in terms of real growth in 2019/20, with 1.23% being achieved each year thereafter in CP6. Additionally, the CP5 exit point will be lower than expected due to the difficult trading conditions previously mentioned.

Property Sales

CP6 reflects a risk adjusted identified pipeline of £107m, with an overlay of £53m added – see below. We have anticipated that a capital receipt will be payable for retail units directly consumed by HS2 at Euston; in line with HM Treasury Green Book rules.

	£m
Identified Schemes	-107
JV Profit Share	-19
Overlay - Small Schemes	-27
Overlay - Large Schemes	-26
Euston HS2	-55
Total	**-234**

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.

Summary of costs by team or activity within the function

Activity/team	CP6 total (£m)	Comments
Retail	191	Includes £126m of income
Retainedl Estate	50	Ex Commercial Estate
Workplace Mgmt	65	Central estate + HS2 renewals
Cumulo Rates	1,376	Semi Controllable – covers all NR
Other	123	Includes £81m JV working capital
Total	**1,806**	

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)				271	297	307	465	460	1,800
Scotland Cost (£m)				28	27	31	41	43	170
Scotland (%)				10%	9%	10%	9%	9%	9%
National Cost	Please see table below								
Basis for allocation to Route Business Scotland	By property location where feasible, otherwise generally income. Cumulo is a direct charge from Scottish Govt								
Activity	Please see text below								

GB

	19/20	20/21	21/22	22/23	23/24	Total
Property Rental Income	-239	-249	-256	-270	-288	**-1,302**
Property Sales	-44	-91	-28	-29	-43	**-234**
Total Income	-283	-340	-284	-299	-331	**-1,536**
Opex	13	10	10	13	12	**57**
Cumulo Rates	228	232	237	336	343	**1,376**
Renewals	30	55	60	116	106	**367**
Total Cost	271	297	307	465	460	**1,800**

SCOTLAND

	19/20	20/21	21/22	22/23	23/24	Total
Property Rental Income	-19	-20	-19	-22	-23	**-104**
Property Sales	-2	-0	-2	-2	-3	**-10**
Total Income	-22	-21	-21	-24	-27	**-114**
Opex	1	1	0	1	1	**4**
Cumulo Rates	24	25	25	36	37	**147**
Renewals	3	2	5	4	6	**18**
Total Cost	28	27	31	41	43	**170**

SCOTLAND %

	19/20	20/21	21/22	22/23	23/24	Total
Property Rental Income	8%	8%	7%	8%	8%	**8%**
Property Sales	5%	0%	6%	6%	8%	**4%**
Total Income	8%	6%	7%	8%	8%	**7%**
Opex	7%	6%	5%	8%	8%	**7%**
Cumulo Rates	11%	11%	11%	11%	11%	**11%**
Renewals	8%	3%	8%	3%	5%	**5%**
Total Cost	10%	9%	10%	9%	9%	**9%**

During CP6, we intend to deliver or facilitate the following:

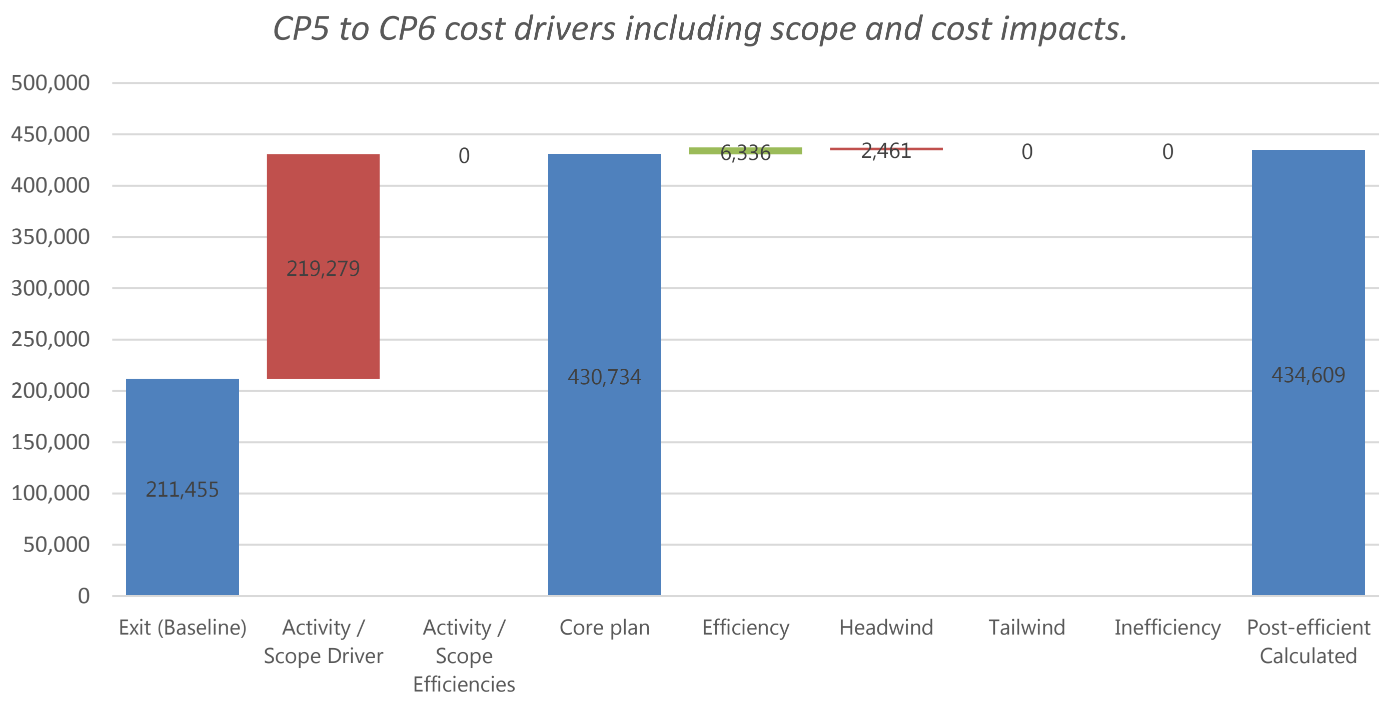
- Land strategy development, working collaboratively with Scotland Route and involving early interaction with key stakeholders
- The provision of planning, heritage and statutory powers advice
- Amendments to established processes that more consistently address the process for securing access to, and 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.
- Subject to business case approval, we intend to continue our investment in retail at Glasgow Central and Edinburgh Waverley as well as minor schemes throughout the control period. The proceeds of this are remitted to Scotland.
- 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 have request funding of £2.5m to deliver this initiative, subject to regulatory approval.

Waverley Arches

5.3. Cost drivers, headwinds and efficiency

Summary of cost changes between CP5 and CP6



Summary of Property efficiency

Totex (O,M,R)	CP5	CP6					CP6 total	CP7	
	18/19	19/20	20/21	21/22	22/23	23/24		24/25	25/26
Pre-efficient plan[1] (£m)	41	41	41	41	41	41	206		
Activity/scope efficiencies (%)		-7%	-57%	-71%	-210%	-186%	-106%		
Core plan (£m)		44	65	71	128	118	426		
Head winds (%)		5%	2%	3%	4%	4%	4%		
Efficiency (%)		4%	-2%	-4%	-4%	-4%	-3%		
Tailwinds (%)		0%	0%	0%	0%	0%	0%		
Inefficiency (%)		0%	0%	0%	0%	0%	0%		
Post-HW, post-Eff spend (£m)		48	65	70	129	118	430		

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.

Material activity / scope changes in activity have occurred due to:

- The disposal of Commercial Estate
- Managed station investment schemes now classified as renewals (were treated as enhancements in CP5)

Headwinds

- Additional demand for office space (HS2 and Digital Railway) combined with increased spend due the distribution of inflation gains and miscellaneous small items

Efficiencies

- We have assumed a delivery efficiency for renewal spend from 2021/22+

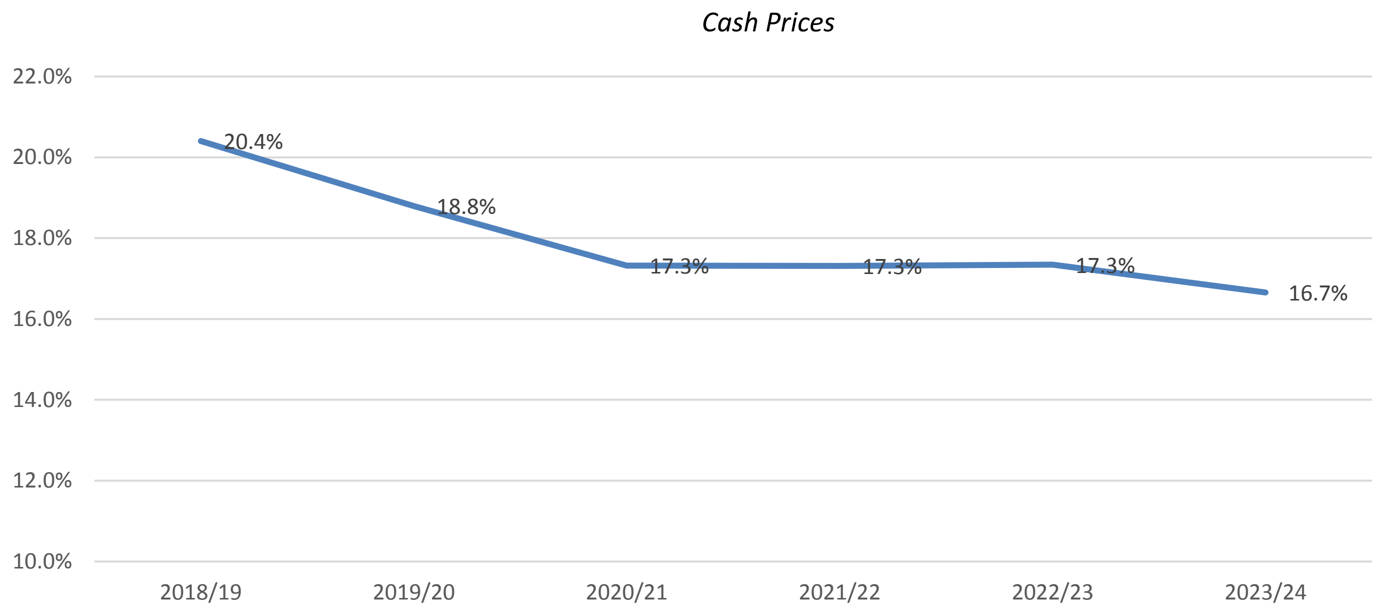
- The planned disposal of Puddledock by the end of 2019/20

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)		0%
	Tailwind (6b)		
	Inefficiency (6c)		
	Headwind (6d)		
Design (7)	Efficiency (7a)		0%
	Tailwind (7b)		
	Inefficiency (7c)		
	Headwind (7d)		
Commercial (8)	Efficiency (8a)		-2%
	Tailwind (8b)	Puddledock disposal	
	Inefficiency (8c)		
	Headwind (8d)		
Other (9)	Efficiency (9a)		-2%
	Tailwind (9b)		
	Inefficiency (9c)	Renewals (primarily scope and specification)	
	Headwind (9d)		

Relevant benchmarks

Our cost income ratio (treating opex income as income) shows long term improvement:



Key Events:

2019/20 - Commercial Estate divestment impact
2020/21 - Puddledock disposal impact
2023/24 - Material upwards impact from investment schemes on income

5.4. Risk and uncertainty in the CP6 plan

This section sets out our estimate of the degree of financial uncertainty within our plan.

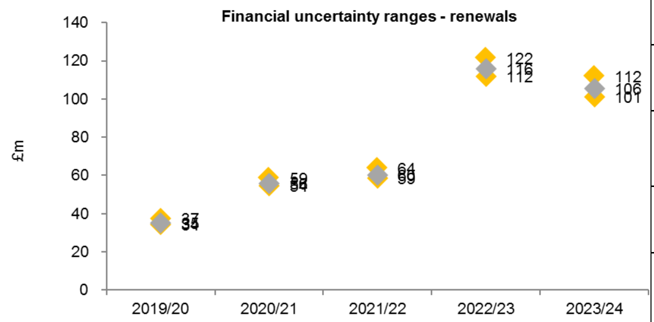
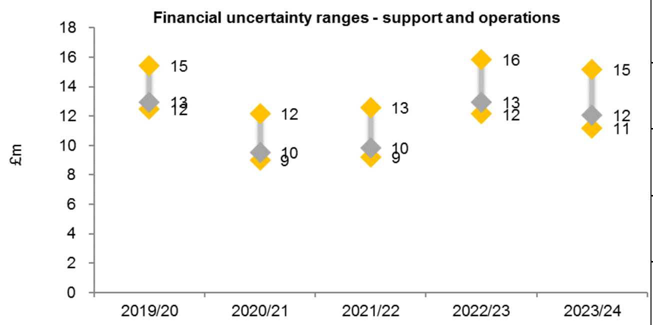
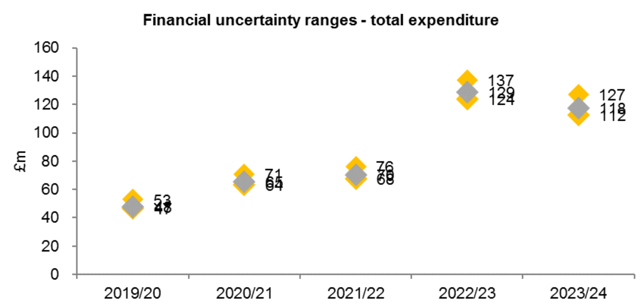
Pre-efficient costs in our plan are based on ‘current rates’ but include any additional scope needed to deliver the outputs in the plan. We have used 2016/17 unit rates to develop our capital expenditure forecasts and CP5 exit rates for support, operations and maintenance expenditure forecasts. Drivers 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.

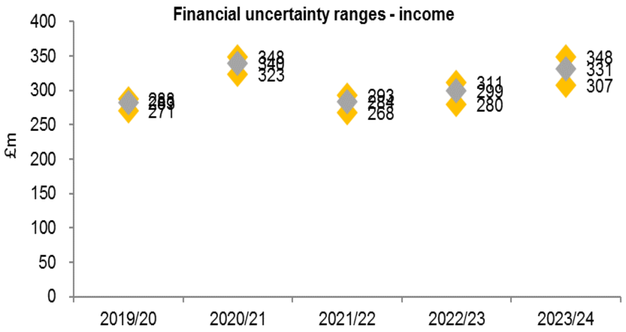
The combination of our core CP6 plan, headwinds/tailwinds and efficiencies/inefficiencies is our ‘submission’ and represents the ‘most likely outcome’ for CP6. However, it excludes any funding for financial risk that sits in our plan.

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 (i.e. our plan is set at around P50). This means that approximately half of the time, we will be able to deliver our plan for the forecast cost. However, financial uncertainty varies between expenditure categories. For example, we consider that there is significantly more uncertainty in our renewals plan than in the support, operations and maintenance plans in CP6. Our analysis also shows that there is significantly more financial uncertainty in later years of the control period.

Figure 5.6, below, presents our estimate of the overall range of financial uncertainty across our income and expenditure for CP6. It also identifies the main drivers of the uncertainty ranges. The information in this table is based on route analysis of the financial uncertainty in support and operations, maintenance and renewals costs, and income. The spot values in Figure 11.1 include headwinds/tailwinds and efficiencies/inefficiencies. The financial uncertainty ranges represent our assessment of the outturn income and expenditure that could occur in 95% of scenarios in CP6. 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

5.5. Uncertainty ranges for CP6

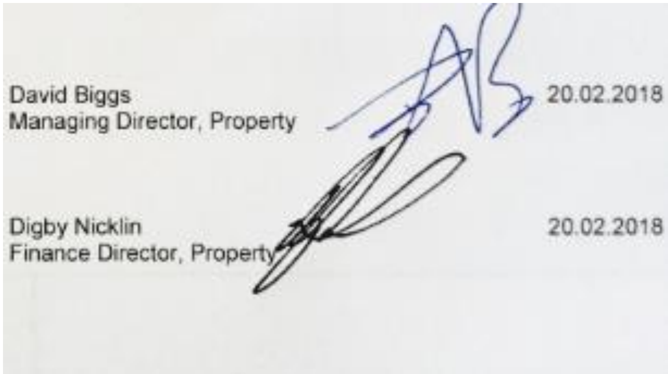
Area	Potential range (low – spot – high)	Summary of key drivers of the uncertainty range	% of range	
		Driver of range	Lower %	Upper %
Renewals				
		Project over / under spend - unforeseen issues / contingency release	-3%	+6%
		In most instances under and over spend offset one another and there are opportunities to scale back marginal schemes as mitigation		
Support and operations		Costs may fluctuate due to Impact of economic fluctuations on Opex Income lines - see income and a one-off unforeseen event e.g. major tenant failure	-6%	+24%
Total expenditure		Weighted average of the above	-4%	+8%

Income		Over performance may occur due to positive economic factors	-6%	+3.0%
		Under performance may occur due to negative economic factors such as reduced consumer spending, supply side impacts on tenants and reduced footfall. Active asset management may potentially mitigate some of these. Impact of catastrophic Brexit are excluded		

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
20.02.2018

Digby Nicklin
Finance Director, Property
20.02.2018

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	Spend of £372m spend on revenue generating renewals and working capital for joint ventures is maintained through the control period.	Income / Opex (Opex Income lines only)	Yes
2	The economy	The current economic trajectory continues and there is no downturn post BREXIT.	Income / Opex (Opex Income lines only) / Property Sales	No
3	Strategic disposals	We have assumed there are no material disposals of income generating assets in CP6	Income / Opex	Yes
4	Additional managed stations	Retail income at Clapham Junction & Guildford are included within our projections	Income / Opex	Yes
5	Ring fenced funds	We have assumed that the DfT will continue to directly fund Access For All and Station Improvement Fund	Enhancements	No
6	Puddledock	We have assumed this is divested at the end of 2019/20	Income / Opex	Yes
7	London Victoria	We have aligned our plan to the revised scheme proposed by South Eastern Route	Income / Investment	Yes
8	Workplace Renewals	Workplace renewal costs, with the exception of the central estate and HS2 linked spend have now been fully devolved to the routes.	Renewals	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?
9	Joint Venture Working Capital	We have assumed that working funding is made available to support our CP6 Joint Venture activity	Income	Yes
10	London Liverpool St	We have assumed that the Anglia Route led mezzanine scheme has no impact on retail income during CP6	Income / Investment	Yes
11	HS2	We have assumed that any loss of income resulting from HS2 at Euston and other stations will be compensated for on an arms-length basis in line with the principles of the HMT Green Book	Income	No
12	The Quadrant MK	We have assumed this is not subject a sale and leaseback arrangement.	Opex	Yes
13	Arch Inspections	We have included the strip and re-line costs for arch inspections in our plan submission. Likewise the routes should have included compensation for lost income.	Opex	Yes
14	Digital Telecoms Code	We have included the impacts of this within 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: decrease in total remaining expenditure for CP6

This section describes the impact of a 10% decrease in expenditure across CP6 based on all risk funding has been exhausted.

Area of spend	Outstanding CP6 expenditure	Maximum potential saving	Risk of curtailing expenditure				Comment on impacts/issues
			Safety	Performance	Sustainability	Reputation	
Opex	57	6	A	A	A	A	Some negative impact on income and asset management capability
Renewals	372	37	G	G	A	A	Some negative impact on income and station environments
Total	429	37					

Key to risk colours

G: no additional risk
A: some additional risk
R: considerable additional risk

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.

[Business case 1]	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			