

SGN-GD3-EJP-PRO-001

# Property Strategy & Projects

10 December 2024



**SGN**

Your gas. Our network.

# Contents

<b>Summary .....</b>	<b>3</b>
<b>Introduction.....</b>	<b>4</b>
<b>Background Information .....</b>	<b>5</b>
Property Strategy .....	5
Key Principles and Decisions .....	5
GD2 v GD3 Comparison .....	5
Property Transformation.....	6
<b>Optioneering .....</b>	<b>8</b>
Problem/Opportunity Statement.....	8
Why are we doing this work and what happens if we do nothing? .....	8
What is the outcome that we want to achieve? .....	8
Real life example of problem.....	9
Probability of Failure .....	9
Consequence of Failure .....	10
Summary of Options.....	10
<b>Preferred Option.....</b>	<b>12</b>
<b>Cost Drivers .....</b>	<b>13</b>
<b>Deliverability .....</b>	<b>13</b>
Spend Profile .....	13
Delivery Plan.....	14
<b>Conclusion .....</b>	<b>14</b>
<b>Appendix A – Regional Boundaries .....</b>	<b>15</b>
<b>Appendix B – Deecon Consulting Letter (2 pages).....</b>	<b>16</b>
<b>Appendix C - Graham &amp; Sibbald Letter (5 Pages) .....</b>	<b>18</b>
<b>Appendix D – Macegreen Report .....</b>	<b>23</b>
<b>Appendix E – List of GD3 Sites &amp; Projects .....</b>	<b>24</b>
<b>Appendix F - REAMS Letter (EMCOR subcontractor) .....</b>	<b>26</b>
<b>Appendix G – Delivery Plan .....</b>	<b>27</b>

## Summary

The following table provides a high-level overview of the key points detailed in this paper – see **Table 1**.

**Table 1 – Summary**

Property Management	
Name of Scheme	Property Strategy & Projects
Investment Driver	<ul style="list-style-type: none"> <li>• <b>Safety:</b> providing a safe and reliable network for our customers by providing property assets to support our Operational business; focusing on our company ‘zero harm’ culture;</li> <li>• <b>Regulatory Compliance:</b> adherence to governmental regulations and safety standards; ensure that we achieve the required statutory compliance on our properties and safeguard that we are meeting our legislative duties under the Health and Safety at Work Act 1974, Occupiers Liability Act 1984 and the Environmental Protection Act 1990;</li> <li>• <b>Infrastructure Investment:</b> appropriate and proportionate investment in our property portfolio is crucial to ensure workloads are balanced, efficient and reliable gas delivery and achieving our required standards of service; and</li> <li>• <b>Environment and Sustainability:</b> in-line with customer demand for environmentally friendly energy initiatives to help reduce and offset our business carbon footprint.</li> </ul>
BPDT/Scheme Reference No	<ul style="list-style-type: none"> <li>• C4.07 Property Management – Opex</li> <li>• C5.06 Other Capex Scotland &amp; Southern - Capex</li> </ul>
Outputs	<ul style="list-style-type: none"> <li>• <b>Safety:</b> new assets combined with strategic capital investment on existing properties are essential for ensuring the well-being of our employees;</li> <li>• <b>Financial:</b> there is long-term cost reduction in operational expenditure when pivoting from leasehold to freehold;</li> <li>• <b>Security of tenure:</b> a freehold pivoted portfolio derisks the business, providing return for investors, long-term security and reduced liabilities;</li> <li>• <b>Strategic alignment:</b> this option aligns with the overall business strategy and long-term vision; contributing to the company’s future direction and sustainability;</li> <li>• <b>Operational efficiency:</b> the Property Strategy helps streamline workstreams and tasks to improve productivity and increase operational efficiencies;</li> <li>• <b>Fit-for-purpose:</b> multifunctional properties in the right geographical locations will provide flexibility, scalability to help the business grow with demand as well as delivering a good employee experience to support retention of staff; and</li> <li>• <b>Net zero:</b> delivery of good quality buildings with high Energy Performance Certificate (EPC) will help support our environmental target in reducing our carbon footprint.</li> </ul>
Cost	The total cost of the preferred option is <b>£96.39m</b>
Delivery Year	This programme of work will be delivered between 2027-2031.
Applicable Reporting Tables	<p><i>Applicable tables included in this scheme are: -.</i></p> <ul style="list-style-type: none"> <li>• Table 2 – GD3 Financial Summary</li> <li>• Table 6 – Options</li> <li>• Table 7 – CBA Results</li> <li>• Table 8 – Network Breakdown</li> </ul>

	<ul style="list-style-type: none"> <li>Table 10 – Volume of interventions per network</li> </ul>
Historic Funding interactions	In RIIO-GD2, there was no funding for these works.
Interactive Projects	There are several projects that are directly aligned to this investment, these can be found in BPDT C5.07 Other Capex >£0.5m Scotland & Southern.

## Introduction

The infrastructure that supports our ability to manage and run our networks is, in many ways, as critical to our efficient operations as the pipes and components that make up the network.

This paper sets out the background to our investment proposal and principles for managing our property portfolio, specifically for Property Strategy & Projects including both the capital and operational expenditure (capex and opex) requirements for all 5-years of RIIO-GD3 (2027-2031). In total, we are requesting an expenditure of **£96.39m** for this price control period – see **Table 2**.

**Table 2 – GD3 Financial Summary**

Scheme	Capex (£m)	Opex (£m)	Totex (£m)
Property Strategy & Projects	59.66	36.73	96.39

The following key primary drivers that have influenced and impacted our submission are: -

- **Safety:** providing a safe and reliable network for our customers by providing property assets to support our Operational business; focusing on our company ‘zero harm’ culture;
- **Regulatory Compliance:** adherence to governmental regulations and safety standards; ensure that we achieve the required statutory compliance on our properties and safeguard that we are meeting our legislative duties under the Health and Safety at Work Act 1974, Occupiers Liability Act 1984 and the Environmental Protection Act 1990;
- **Infrastructure Investment:** appropriate and proportionate investment in our property portfolio is crucial to ensure workloads are balanced, efficient and reliable gas delivery and achieving our required standards of service; and
- **Environment and Sustainability:** in-line with customer demand for environmentally friendly energy initiatives to help reduce and offset our business carbon footprint.

There were several unforeseen developments that happened during GD2; by incorporating a robust property strategy that anticipates and mitigates project uncertainties, we can ensure that SGN can effectively navigate the complexities of property development and management. Examples of uncertainties include: -

- **Site Selection and Acquisition:** the property market remains uncertain; being able to acquire properties in the identified locations may prove to be difficult, however we have already evaluated potential properties in advance to derisk our transformation strategy;
- **Market Conditions and Planning:** the regulatory and planning environment is very challenging; we have conducted detailed feasibility studies assessing market conditions and developed contingency plans, to ensure we can adaptable our plan in response to changing market conditions;
- **Regulatory Changes:** changes in legislation can impact project timelines, approval processes, and operational compliance. Continuous monitoring of regulatory landscapes is essential; and
- **Environmental Risks:** environmental factors, such as climate change (flooding, storm/wind events, extreme cold etc) can introduce uncertainties; we have development a climate resilience plan that will be delivered in GD3 to help mitigate these risks.

## Background Information

### Property Strategy

Our GD3 approach takes into consideration our revised Property Strategy in-line with our operating model.

The Property Strategy focuses on improvements in productivity, these are dependent on the successful delivery of multiple transformation initiatives; these enablers will incrementally support the effectiveness and efficiency of our resources and our ways of working. New regional boundaries have been implemented in support of this to reduce regional geography and scale, this is expected to positively impact speed and efficiency of attending jobs, managers closer to teams/delivery enabling assurance activities.

For example, the Property Strategy proposes retaining the current regional boundaries in Scotland and transformation of the regional boundaries from 5 to 9 in the South of England – see **Appendix A**.

The submission also covers a variety of other expenditure including new lease or freehold acquisitions, rent, rates, services charges and fit-out costs.

### Key Principles and Decisions

The key high-level Property Strategy principles and decisions that have been applied in our submission are: -

- The current portfolio includes a **significant number of leased properties** from third parties, the strategy aims to **increase security of tenure** by **pivoting** from leasehold to **freehold** where beneficial to SGN's delivery of standards of service to our customers;
- Many of the current portfolio properties are **not fit-for-purpose**, affecting operational efficiency and creating constraints, the strategy seeks to address this and provide **highly efficient, collaborative and co-working accommodation**;
- The future Property Strategy is based on **9 Southern regions** and **4 Scotland regions**;
- **Volume of staff** (post Covid), **locations**, **type of property** and **use**;
- The **total number of property assets** will reduce from **68** to **56** by the end of **GD3**.

The Property Strategy and Projects process was been independently supported by Deecon Consulting ([www.deeconconsulting.com](http://www.deeconconsulting.com)) for strategy and transformation – **Appendix B**; Graham & Sibbald ([www.g-s.co.uk](http://www.g-s.co.uk)) and Carter Jonas ([www.carterjonas.co.uk](http://www.carterjonas.co.uk)) who are both leading UK based property consultancy firms for market research, acquisition and lease cost option assurance reports – see **Appendix C**; and lastly Macegreen Consulting ([www.macegreen.co.uk](http://www.macegreen.co.uk)) who are specialist in building and cost consultancy, they have reviewed our submission and compared costs to current and previous market rates including future inflation and risk elements ensuring accuracy and value for money for customers – see **Appendix D**.

### GD2 v GD3 Comparison

In GD2, SGN's property strategy was focused on maintaining the existing property portfolio, we did not plan to purchase any additional assets; instead, we leased properties to provide the business with required flexibility until the long-term future of gas is known. However, in GD3 we recognise that change is required; we need to ensure all properties are fit-for-purpose and aligned to the needs of the company as well as providing operational efficiencies. The strategy has been designed to accommodate these changes whether its location, type of property, ownership etc. In addition, we are aiming to deliver good employee experience, improve staff engagement, and provide a sense of belonging. Lastly, we intend to provide good quality buildings that can achieve our environmental targets (reducing our carbon footprint) and are aligned to our core values.

Our strategy is based around 5 main workstreams: -

- **New demand acquisition:** to meet new property requirements to areas of the business where there is no current provision or where a justified business change is required;
- **Replacement acquisition:** to replace existing property at the end of their current lease terms, end of life or if the location requirements have changed due to a shift in workload;
- **Fit-out:** to provide the required internal and/or external specification for new demand or replacement acquisition premises to meet the occupiers needs including expansion and reduction;
- **Asset upgrade:** end of life fixed assets (e.g. storage provision) within property boundaries as identified through planned and preventative maintenance or failure; and
- **Dilapidation:** end of lease assets where substantial alterations were made to accommodate SGN require work to return the asset to its original state. Cost may be reduced through landlord negotiation for elements that enhance the property, however these cannot be pre-determined.

The scope of works required to maintain any new acquisitions in terms of cost and compliance requirements are unforeseen, can be extensive, and varied. For example, a new leased or freehold property depends on the market at the time which can be unpredictable in terms of matching location, space, and versatility for adaptation to SGN's requirements. As such, 'fit-out' works are an essential part of each property project to provide the required space and safe working environment which includes demolition, building, decoration, IT infrastructure, fire safety compliances, utility services, building regulation compliance, lighting, security, groundworks, parking, innovation, business resilience and environmental enhancements.

## Property Transformation

In total, the existing SGN property portfolio comprises of 68 occupied sites (offices, depots, satellite depots etc) across both Scotland and South of England – see **Table 3**. In total, we have 29 freehold properties and 39 leasehold properties – see **Table 4**; this is a current ratio of 43:64.

**Table 3 – No of site by network**

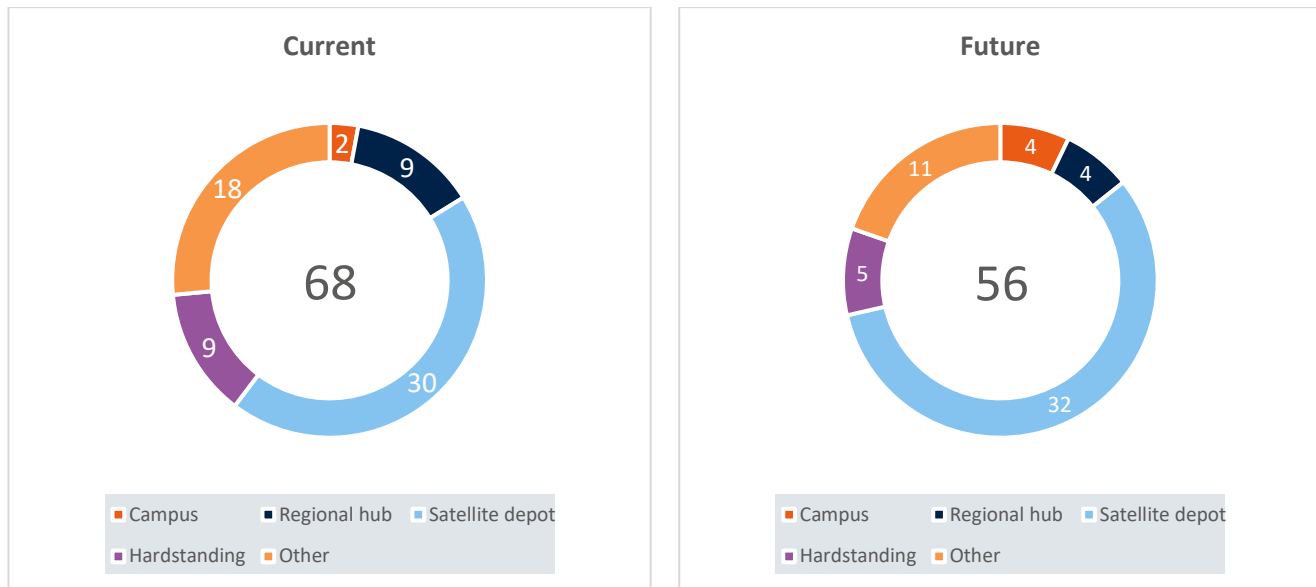
Network	No of sites
Scotland	32
Southern	36
<b>Total</b>	<b>68</b>

**Table 4 – Freehold v Leasehold**

Network	Freehold	Leasehold
Scotland	13	19
Southern	16	20
<b>Total</b>	<b>29</b>	<b>39</b>

The Property Strategy and future state of the business includes the reduction in total number of property assets to 56 (18%) and increase in freehold ratio to 48%, this is illustrated in **Figure 1** below. In addition, a high-level description of site type is detailed in **Table 5**.

**Figure 1 – Current v Future State**



**Table 5 – Type of sites**

Site type	Operational requirements
Campus	<ul style="list-style-type: none"> <li>Greater than 20,000 sq ft (dependant on co-located functions)</li> <li>Desks for +100 staff</li> <li>6/8 meeting rooms</li> <li>Multifunctional property for Operations, Network, Training and other Corporate Services</li> </ul>
Regional hubs	<ul style="list-style-type: none"> <li>20,000 sq ft on a 40,000 sq ft site</li> <li>Desks for 40-60 staff</li> <li>4 meeting rooms</li> <li>If TOTEX depot (additional desks for 30 staff and 5 meeting rooms)</li> </ul>
Satellite depot	<ul style="list-style-type: none"> <li>10,000 sq ft Office/storage on a 20,000 sq ft site</li> <li>Desks for 10-20 staff</li> <li>3 meeting rooms</li> </ul>
Hardstanding	<ul style="list-style-type: none"> <li>1,000–2,000 sq ft site</li> <li>Hard surface only</li> <li>Secure perimeter with lighting</li> <li>Optional space for secure emergency storage</li> </ul>
Other – training centre, logistics or call centre	<ul style="list-style-type: none"> <li>Bespoke to stakeholder requirements</li> </ul>

The submission also includes a total of 56 major property projects, these are detailed in **Appendix E**. All projects have been identified categorised from the above workstreams depending on the project scope, examples of projects are: -



- **New acquisition:** freehold or leasehold;
- **Disposal:** exit from existing property e.g. sale of property, surrender/end of lease;
- **Storage:** compliant internal and external storage including racking or for wheeled plant, pipe stillages, SLG storage, waste and reinstatement materials;
- **Surfaces:** car parking and access roads for staff and commercial vehicles;
- **Services:** utility installations e.g. electricity, water, gas & communications (including IT) EV charging zones;
- **Security for new sites:** physical (fencing, gates etc) and technology (CCTV, Access Control etc);
- **Workshops:** plant & equipment and electrical & instrumentation workshops; and
- **Logistics:** distribution centres, racking, offices, external yards.

## Optioneering

### Problem/Opportunity Statement

The current occupied property estate is aging and, in several instances, not fit-for-purpose, this is affecting operational efficiency and creating constraints, the strategy needs to address this and provide highly efficient, collaborative and co-working accommodation. In many cases, our leased sites are coming to a natural end with no option to extend or where business strategy dictates a change from leasehold to freehold ownership capital investment is preferred. There are also locations within the network that require a change in sites to maintain our standards of service due to the geographical constraints and network density affecting workload and response key performance indicators.

We also have property assets reaching or exceeding their economic and/or technological lifecycle, are no longer safety compliant, these require upgrade or replacement to continue to provide employee experience and support the company vision for SGN to be a great place to work.

### Why are we doing this work and what happens if we do nothing?

If we choose to do nothing and exceed the existing assets past their economic life and allow leases to expire without options or solutions, we will see increased business risks and costs in the following areas: -

- **Economic:** increased repair costs due to increased frequency of failure and utility/carbon cost wastage through operating inefficient assets beyond economic life;
- **Safety, security and legislation:** unplanned failures of assets leading to safety and security incidents and potential intervention/prosecution;
- **Reputation:** should any part of the property portfolio suffer an asset failure or not be appropriately maintained; the business could face reputational damage;
- **Environmental:** if assets exceed their economic life, it is likely that they would not be operating in the most up to date environmental effectiveness (emissions, energy efficiency, sustainability etc);
- **Business disruption:** loss of building function leading to partial or total business continuity incidents having indirect impact to customers or breach of licence conditions; and
- **Productivity loss:** decreases in staff productivity due to poor quality working conditions negatively impacting on staff health and wellbeing.

### What is the outcome that we want to achieve?

As well as a seamless transition from end of lease properties to newly acquisitioned properties the outcome that we want to achieve is to maintain the operational standards of our managed sites ultimately reducing risk to the business.

Compliance and safety standards must be met through a reduction in non-compliant shipping mac container use for storage, standardisation of storage facilities using innovative methods for managing stores and



maintaining personnel safety in terms of plant and people segregation, manual handling, and safe operating standards.

The office environment and current ways of working will be supported through geographical location, furniture upgrade, welfare facilities, meeting and training room facilities and staff security providing an inclusive employee experience across the property portfolio.

## Real life example of problem

In GD2, in order to maintain operational readiness we leased 2 sites in Aberdeen: -

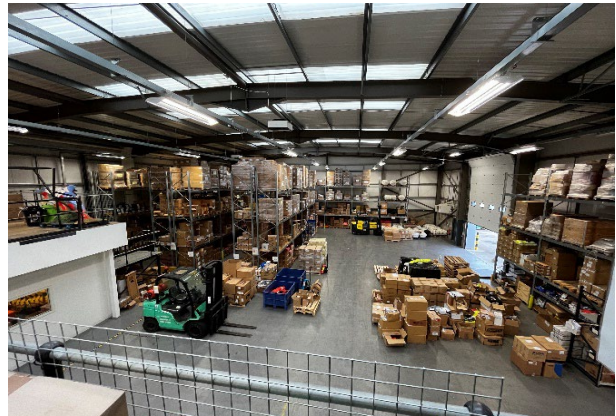
- **Redmoss:** stores facilities; and
- **Ashgrove:** office and meeting facilities

These sites did not provide us with sufficient office or stores facilities and proved to be inefficient due to their separate locations at either side of the city.

We conducted market research and viewed a number of comparable properties, the selected property Aberdeen Gateway (**Example 1**), was deemed best value for money based on location, quality and our intended use. The premises also require minimal investment prior to occupation compared to other sites we have viewed.

We negotiated terms including a rent-free period and a tenant only break option at year 10 to provide further flexibility. The new site provided SGN with the opportunity to co-locate 2 inefficient facilities into one modern facility providing operational benefits and secures our property requirements in this area for the future.

### *Example 1 – Aberdeen Gateway Replacement Depot*



## Probability of Failure

To help prevent the probability of failure we have implemented a combination of strategies, practices and continuous improvement, these include: -

- **Risk assessment:** identify potential risks and evaluate their impact and likelihood, this will help focus efforts on the most critical areas;
- **Planning and preparation:** developing thorough plans, objectives, resourcing, timelines etc;
- **Monitoring:** regularly monitor asset conditions;
- **Proactive improvement:** adopt practices to ensure continuous improvement and reduce chance of failure e.g. Plan-Do-Check-Act; and
- **Lessons learned:** when failures do occur, analyse and understand the root cause.

Through the support of our consultants EMCOR UK ([www.emcoruk.com](http://www.emcoruk.com)) we have conducted asset health and condition surveys – see **Appendix F**; we have therefore used data-driven intelligence to make informed decisions, allowing us to adapt and respond to our evolving demands. We have also conducted internal

audits/inspections and identified some properties where improvements to property safety compliance needs to be implemented in order to bring them into line with the latest HSE regulations.

Additionally, the property strategy team monitor leases and have identified sites within the portfolio where the lease terms are no longer favourable to SGN or where break notices have been implied as 'will be implemented.' Where we can do so, and in accordance with the core business needs for site locations, we will continue to negotiate lease renewal terms in favour of SGN with flexibility retained for future business change and growth. For others where this is absolute, new premises will need to be acquired.

## Consequence of Failure

Increased failure rates or catastrophic failure of occupied building assets could potentially have the following impacts: -

- **Indirect loss of supply to customers:** some of our large sites house business critical functions e.g. Gas Control which, in the event of an unplanned loss of building, could result in indirect loss of supply or disruption to service during a BCM event;
- **Health, safety, security and welfare:** realisation of associated risks to the health, safety, security and wellbeing of employees being impacted by asset failure. e.g. electrical safety due to failure of protective devices or wellbeing impact due to loss of heating/hot water;
- **Non-compliance / HSE intervention:** asset failure can lead to statutory compliance non-conformance, which could lead to HSE intervention, fine or prosecution;
- **Increased operational expenditure:** assets at end of economic life will result in increased opex spend on corrective repair or maintenance;
- **Human resource:** indirect impact on productivity and increased turnover due to the provision of poor-quality working and wellbeing environments for staff; and
- **Environmental impact:** economical or technological end of life assets will result increased costs in utilities and carbon costs until they are replaced. This will have a detrimental impact in our business energy and sustainability strategy and environmental action plan. Inadequate security measures have the potential to facilitate negative environmental impacts.

## Summary of Options

The summary of all intervention options considered, and CBA output (**SGN-GD3-CBA-PRO-001**) are detailed in Tables 6-7.

**Table 6 – Options**

No	Option	Benefits	Disbenefits	Total Expenditure (£m)
1	Baseline	<ol style="list-style-type: none"> <li>1. We will implement the Property Strategy, including the switch to 9 Southern regions and 4 Scotland regions.</li> <li>2. We will continue with our existing leasehold properties and where possible look to implement a like-for-like replacement strategy when required; fit-out costs have been included where change is required.</li> </ol>	<ol style="list-style-type: none"> <li>1. The Property Strategy will be implemented inefficiently using our existing portfolio of 68 assets; it was designed to accommodate change to provide operational efficiencies.</li> <li>2. Our existing leasehold portfolio is no longer fit-for-purpose and requires investment. Continuing with leasehold properties is not in-line with our</li> </ol>	58.87

No	Option	Benefits	Disbenefits	Total Expenditure (£m)
			<p>pivot to a freehold bias property portfolio.</p> <p>3. We will continue to repair, maintain and replace our property assets, recognising that the likelihood of failure increases with this option.</p> <p>4. Other factors include increased safety risk, potential breach of licence conditions through loss of buildings and productivity.</p>	
2	Future Property Strategy	<p>1. We will implement the Property Strategy, including the switch to 9 Southern regions and 4 Scotland regions, including a reduction in the total number of property assets from 68 to 56 (18%), therefore reducing operational expenditure over time.</p> <p>2. We will aim to increase security of tenure by pivoting from a leasehold bias to a freehold bias where beneficial to SGN; capital expenditure costs include acquisition and fit-out.</p> <p>3. Freehold property assets will appreciate in value.</p> <p>4. Whereby properties are not fit-for-purpose, affecting operational efficiency and creating constraints, the strategy seeks to address this and provide highly efficient, collaborative and co-working accommodation to help maintain staffing levels, productivity and wellbeing.</p> <p>5. There are other perceived benefits like cost avoidance in areas like</p>	<p>1. Pivoting to a freehold bias property portfolio will require a short-term increase of capital expenditure in GD3 for the acquisition and fit-out costs.</p> <p>2. The property market remains uncertain; being able to acquire properties in the identified locations may prove to be difficult, however we have already evaluated potential properties in advance to derisk our transformation strategy.</p> <p>3. Market conditions and planning is very challenging; we have conducted detailed feasibility studies assessing market conditions and developed contingency plans, to ensure we can adaptable our plan in response to changing market conditions.</p>	96.39

No	Option	Benefits	Disbenefits	Total Expenditure (£m)
		safety, climate resilience are expected with new property assets		
3	Freehold Bias	1. This option includes all of benefits above for option 2, however it also applies a more aggressive pivot to freehold by exercising our availability to terminate leases without penalty or convert existing leases into freehold e.g. Fullarton House at ~£10m.	1. This option requires significantly more investment ~£35m compared to other options. 2. The investment is not proportionate over a short 5-year period (GD3); however should be considered over multiple price control periods.	122.51

Table 7 – CBA results

No	Description of Option	Preferred Option (Y/N)	Total Forecast Exp (£m)	2035 (£m)	2040 (£m)	2045 (£m)	2050 (£m)	2060 (£m)	2070 (£m)
1	Baseline	N	58.87	67.84	100.49	109.45	111.36	112.72	113.87
2	Future Property Strategy	Y	96.39	85.33	112.57	115.78	112.48	105.09	99.66
3	Freehold Bias	N	122.51	90.50	123.43	127.49	123.07	112.59	105.01

## Preferred Option

The preferred option for GD3 is No2 above, 'Future Property Strategy'; the immediate benefits of this option are: -

- **Safety:** new assets combined with strategic capital investment on existing properties are essential for ensuring the well-being of our employees;
- **Financial:** there is long-term cost reduction in operational expenditure (from GD4 onwards) when pivoting from leasehold to freehold, although it requires short-term capital investment for acquisition and fit-out to achieve this;
- **Security of tenure:** a freehold pivoted portfolio derisks the business, providing return for investors, long-term security and reduced liabilities. At present our leasehold portfolio means that we have limited control and are susceptible to unfavourable break-notices i.e. 12-months or less;
- **Strategic alignment:** this option aligns with the overall business strategy and long-term vision; contributing to the company's future direction and sustainability;
- **Operational efficiency:** the Property Strategy helps streamline workstreams and tasks to improve productivity and increase operational efficiencies;
- **Fit-for-purpose:** multifunctional properties in the right geographical locations will provide flexibility, scalability to help the business grow with demand as well as delivering a good employee experience to support retention of staff; and
- **Net zero:** delivery of good quality buildings with high Energy Performance Certificate (EPC) will help support our environmental target in reducing our carbon footprint.

## Cost Drivers

There are several cost factors that have influenced our submission; by managing the following cost drivers, we can make informed decisions when delivering our strategy: -

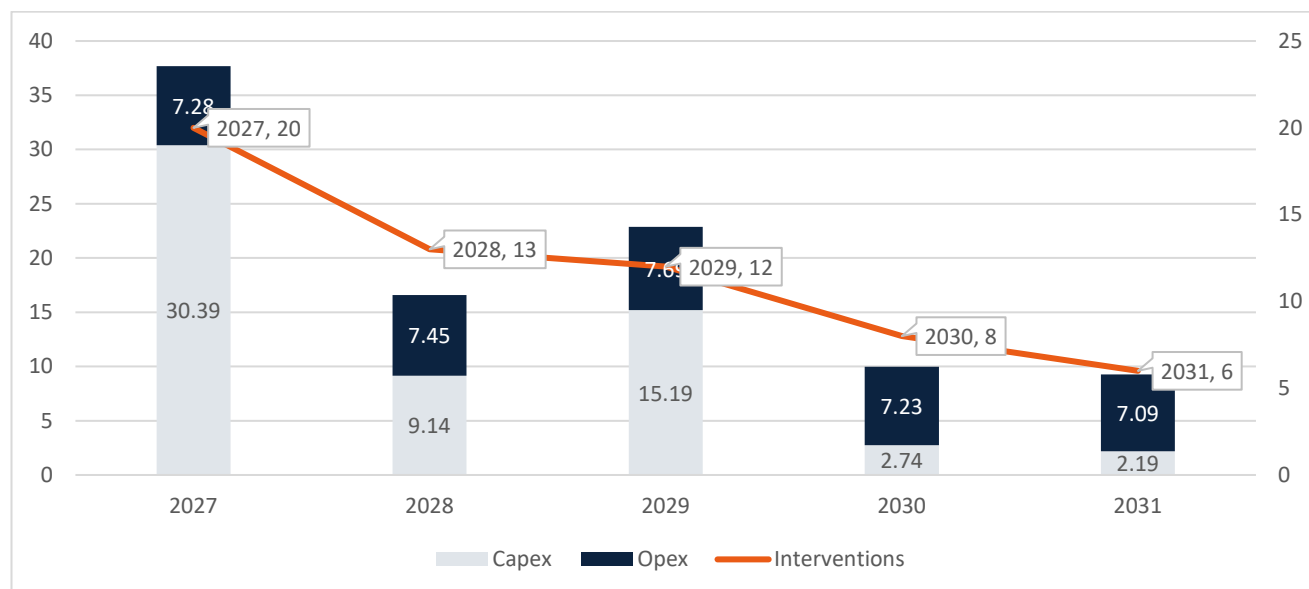
- **Market Conditions:** changes in requirements, competition, and other economic factors can influence pricing and cost structures;
- **Material Costs:** prices of raw materials and supplies can vary and directly affect production costs;
- **Labor Costs:** wages, benefits, training, and productivity levels can significantly impact overall costs;
- **Overhead Costs:** fixed costs, such as rent, utilities, and equipment depreciation, can drive costs up;
- **Regulatory Compliance:** costs associated with meeting government regulations can add to total expenses; and
- **Supply Chain Efficiency:** the effectiveness and reliability of suppliers and logistics affect overall costs.

## Deliverability

### Spend Profile

A simple spend profile that includes our proposed capex and opex expenditure is detailed in **Figure 2** below, the profile is heavily weighted in capex and volume of interventions for year-1, however this is due to the requirement of multiple acquisitions and fit-outs in-line with the future Property Strategy. By implementing these changes at the beginning of GD3, there is direct cost reduction in opex from GD4 and future price control periods e.g. rent & rates. A full breakdown per network, totex split and volume of interventions is shown in **Tables 8-10**.

**Figure 2 – Spend Profile**



**Table 8 – Network breakdown**

Network	Capex £m	Opex £m	Totex £m
Scotland	6.61	13.87	20.60
Southern	53.05	22.86	76.30
<b>Total</b>	<b>59.66</b>	<b>36.73</b>	<b>96.39</b>

**Table 9 – Totex split per annum**

	2027	2028	2029	2030	2031	Total
Capex	30.39	9.14	15.19	2.74	2.19	59.66
Opex	7.28	7.45	7.69	7.23	7.09	36.73
<b>Totex</b>	<b>37.67</b>	<b>16.59</b>	<b>22.88</b>	<b>9.97</b>	<b>9.28</b>	<b>96.39</b>

**Table 10 – Volume of interventions per network**

Volume of interventions	2027	2028	2029	2030	2031	Total
Scotland	6	9	0	4	2	21
Southern	14	4	12	4	4	38
<b>Total</b>	<b>20</b>	<b>13</b>	<b>12</b>	<b>8</b>	<b>6</b>	<b>59</b>

## Delivery Plan

A delivery plan by site, type of work and forecasted year(s) is available in **Appendix G**.

## Conclusion

In conclusion, we have developed a proportionate and effective Property Strategy & Projects submission that delivers on our key primary drivers: -

- **Safety:** providing a safe and reliable network; a ‘zero harm’ culture;
- **Regulatory Compliance:** adherence to governmental regulations; ensuring that we achieve the statutory compliance on our properties;
- **Infrastructure Investment:** investment to ensure workloads are balanced and we are achieving our required standards of service; and
- **Environment and Sustainability:** deliver environmentally friendly energy initiatives to help reduce and offset our business carbon footprint.

The submission provides a clear breakdown of costs per network and spend profile; we have achieved this through comprehensive industry benchmarking and utilised independent expert consultants to provide confidence to our customers that our costs are efficient, such as: -

- **Deecon Consulting:** for strategy and transformation;
- **Graham & Sibbald and Carter Jonas:** for market research, acquisition and lease cost option assurance reports;
- **Macegreen Consulting:** for cost consultancy; and
- **EMCOR UK:** for asset health and condition model.

The Property Strategy & Projects submission also supports the delivery of our operating model, which is key to improvements in our productivity, it support the effectiveness and efficiency of our resources and our ways of working. Having new property assets located in the identified regional boundaries is expected to positively impact speed and efficiency of attending jobs, managers closer to teams/delivery enabling assurance activities.

All of this combined helps us serve our customers and their communities by keeping everyone safe and warm; ensuring that SGN plays it part in a fair and affordable energy transition.

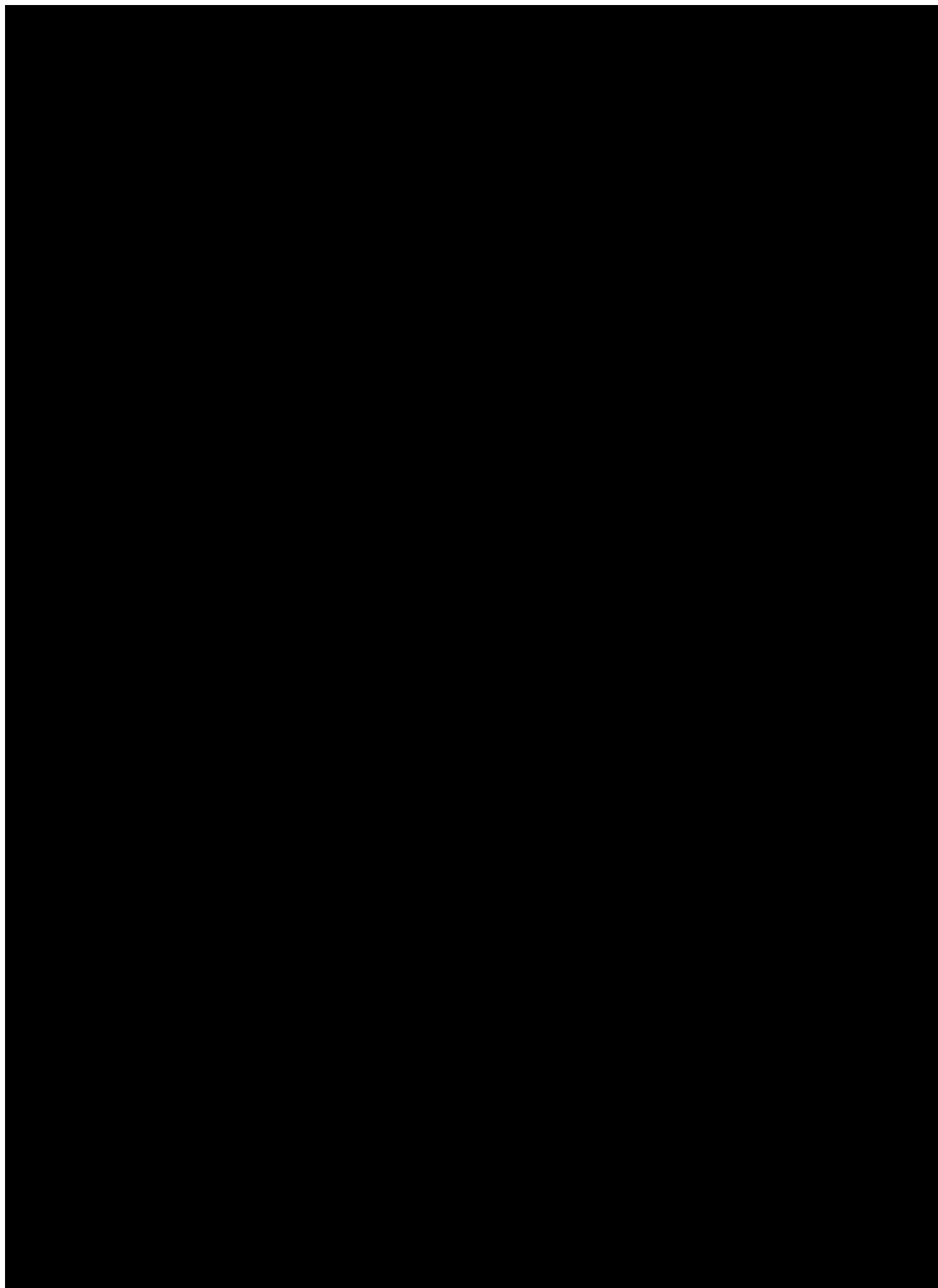
## Appendix A – Regional Boundaries

Link to document →



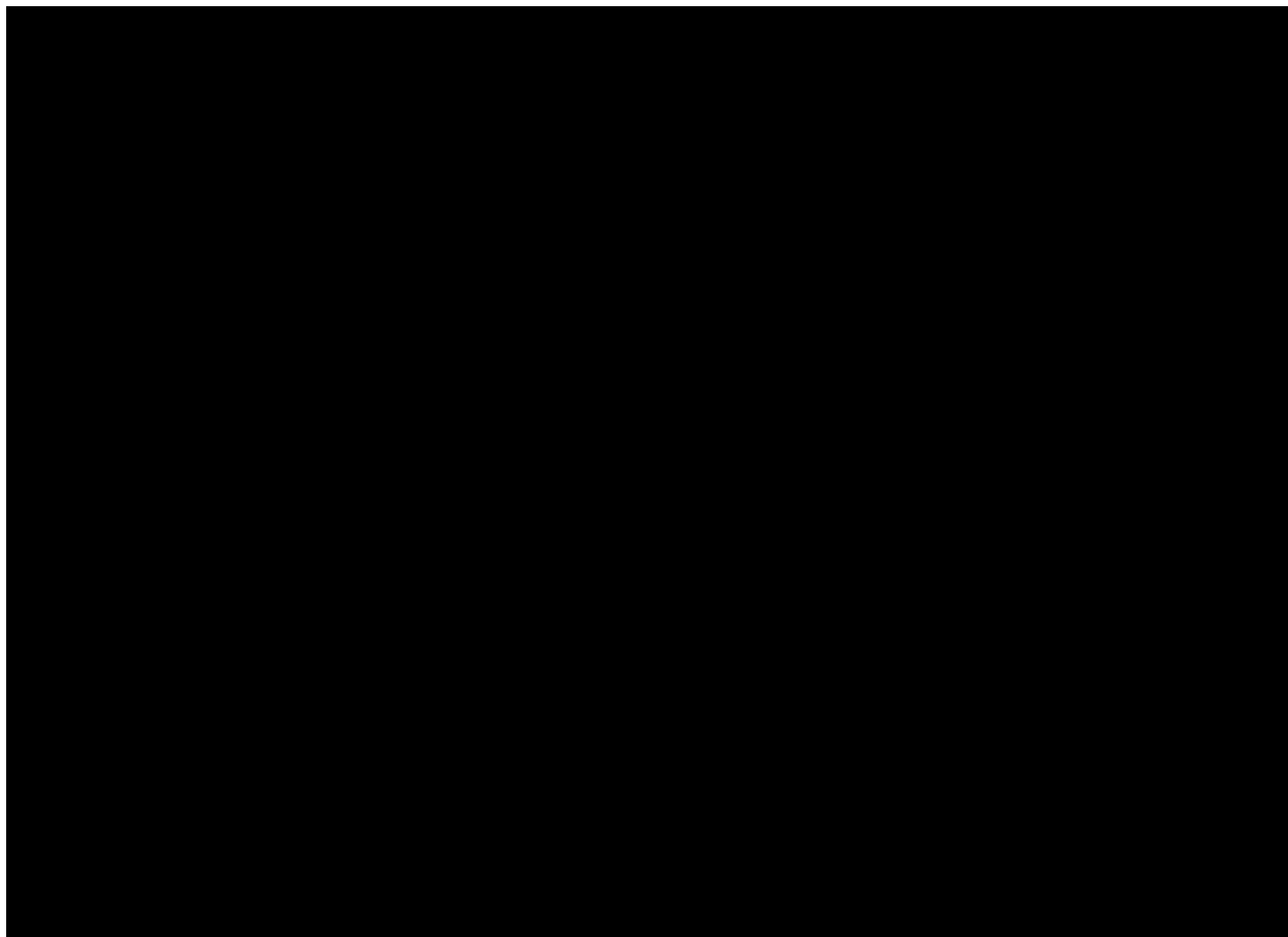
## Appendix B –

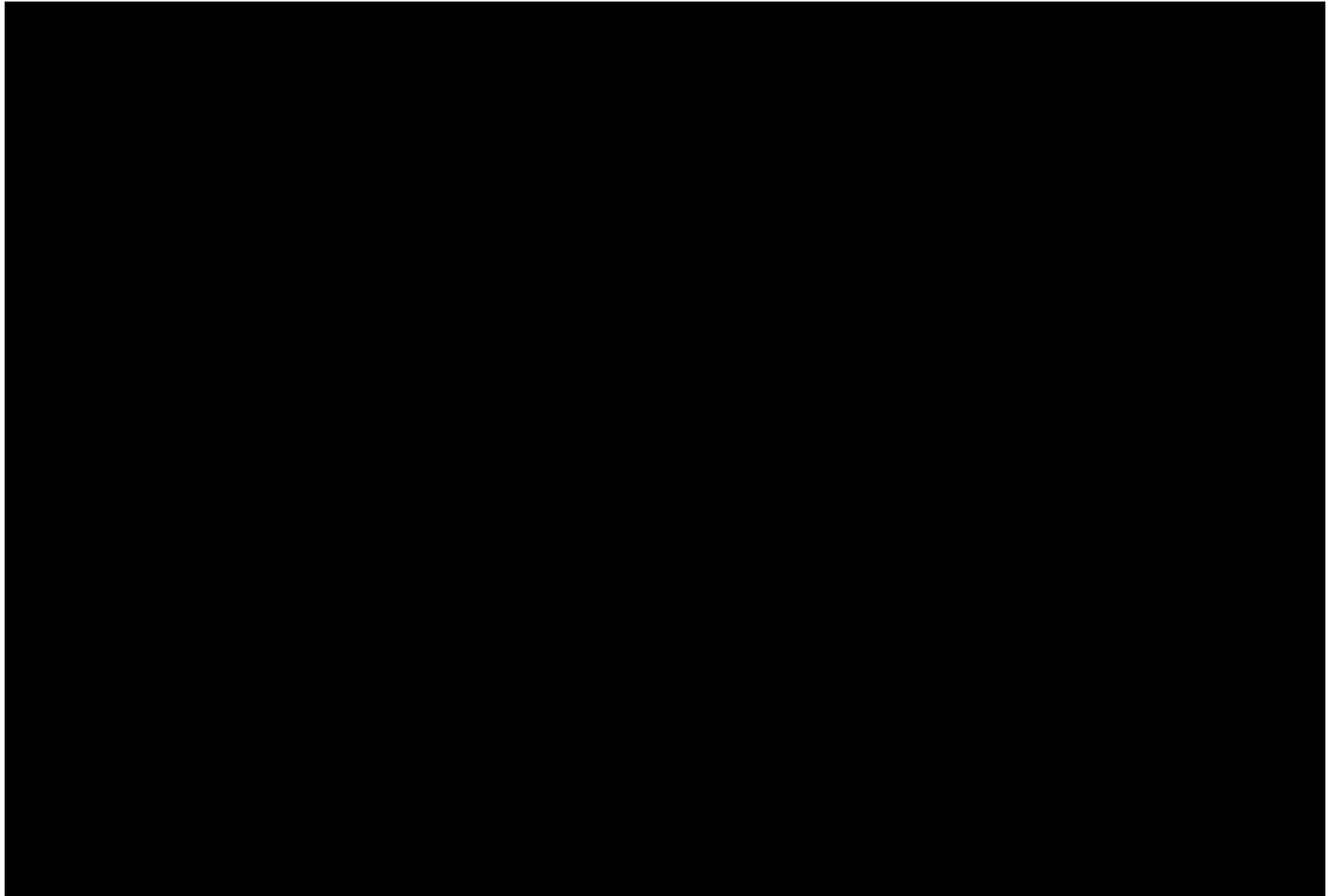


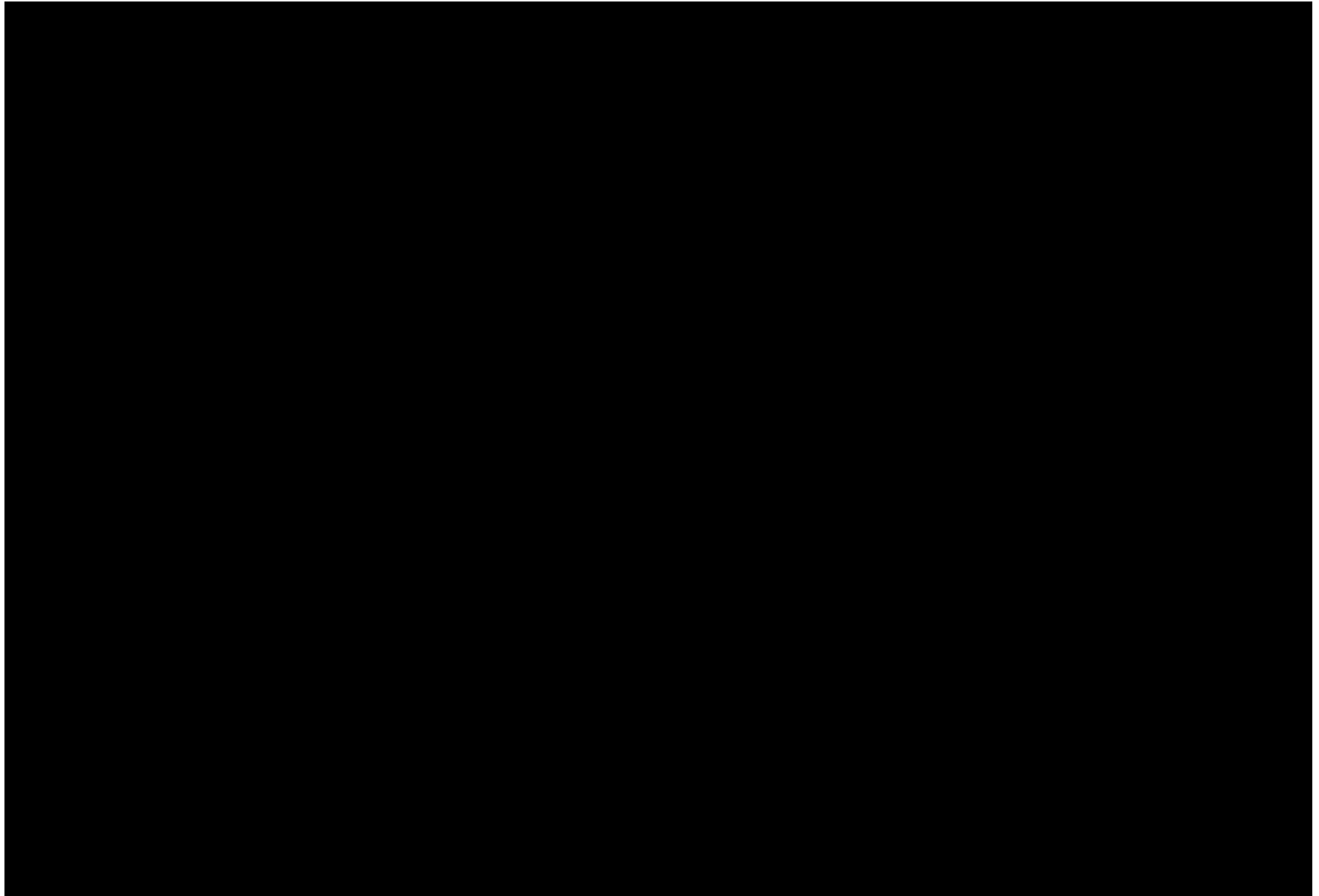


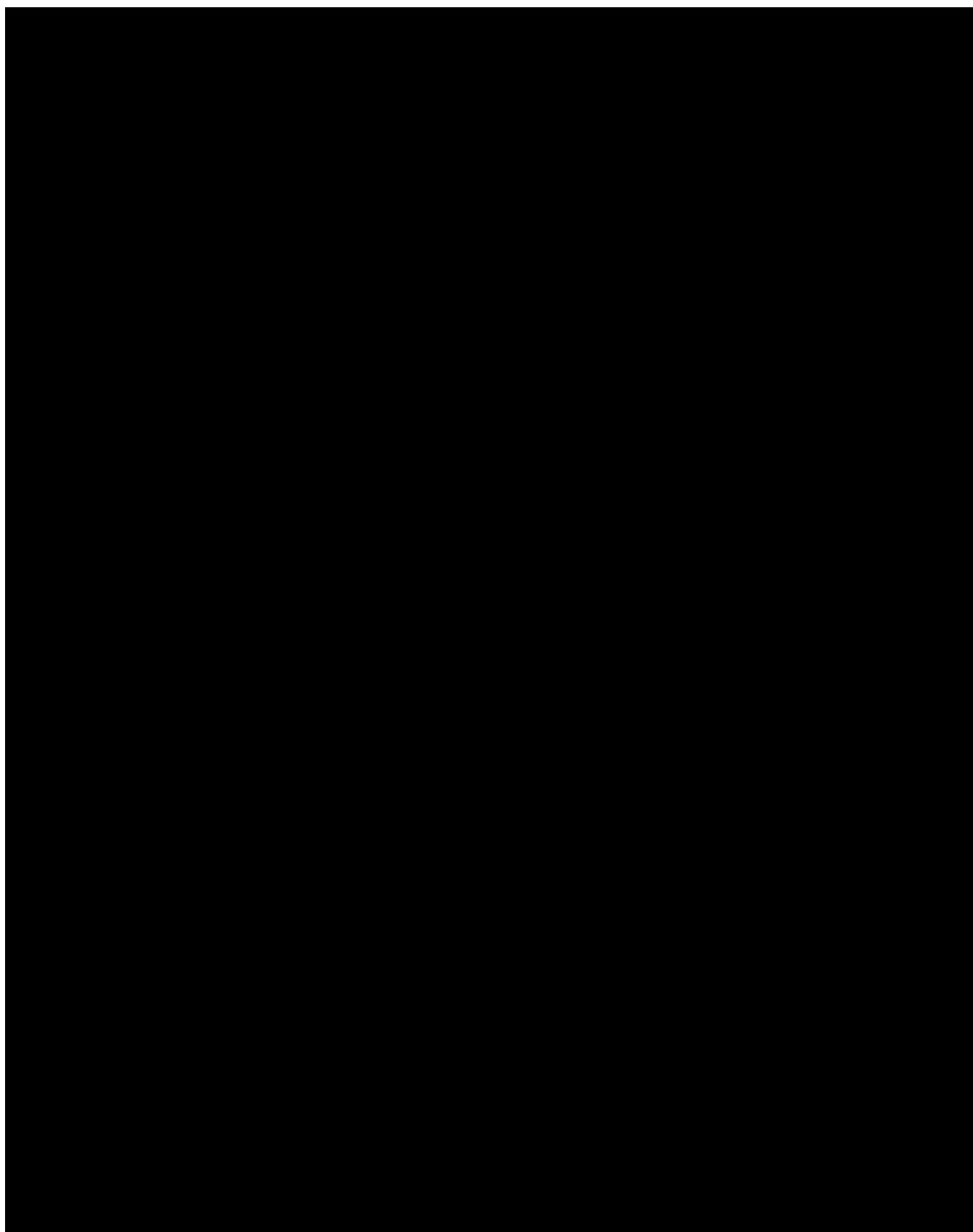
## Appendix C -












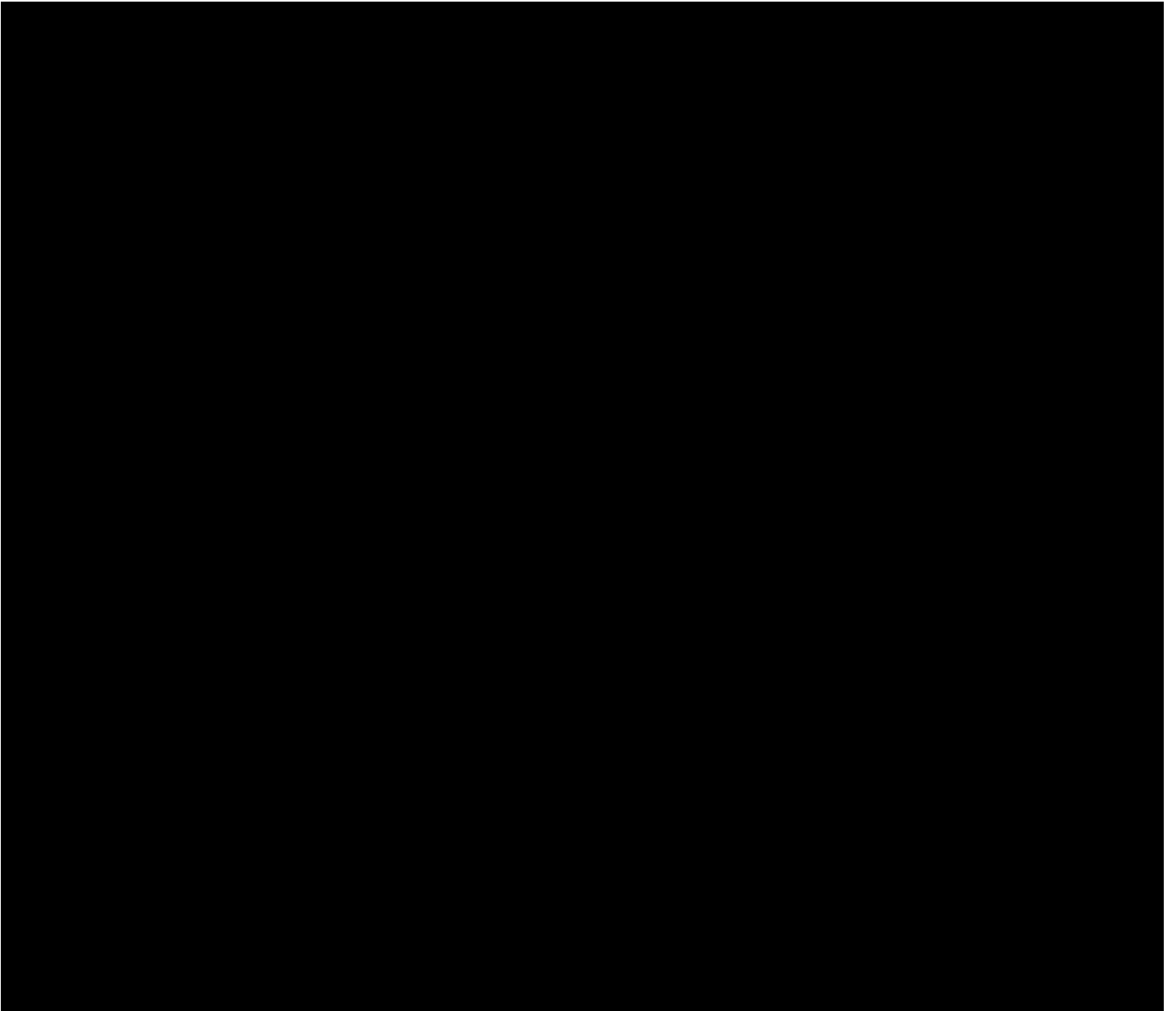


## Appendix D – Macegreen Report

Link to document → 

## Appendix E –





## Appendix F - REAMS Letter (EMCOR subcontractor)

Link to document → [REDACTED]



REAMS (GB) LIMITED  
CARDIFF HOUSE  
CARDIFF ROAD  
BARRY  
CF63 2AW

23<sup>rd</sup> September 2024

### **REAMS – ASSET DISCOVERY FOR SGN**

Dear Steve,

I am writing confirm that as part of their asset discovery journey SGN engaged with REAMS, a market leading asset management consultancy in 2023.

SGN required a solution for M&E asset verification across their estate. Asset data needed to be structured and stored in such a manner to allow for a multitude of uses including for accurate and continued interrogation, reporting and analysis leading to the provision of CAFM data upload reports, forward maintenance, and capital expenditure plans.

REAMS surveyors collated, condition rated and tagged the mechanical, electrical and fabric assets in scope within their buildings so that SGN could accurately load the asset data into the chosen CAFM platform. This allowed them to maintain all assets efficiently and accurately whilst managing their commercial and operational risk through an accurate and robust target operating model that covers each maintainable asset.

Summarised below were the key project deliverables:

- A detailed comprehensive asset register for each facility covering the mechanical, electrical and public health assets.
- Collection of key asset attribute information such as location, asset type, year of installation, capacity, rating, and position in lifecycle.
- A 5-year lifecycle plan (FMR) utilising SPONS replacement costs against each asset based on condition and remaining life.
- Application of QR asset labels on identified core assets.
- A dynamic photographic report linked to individual assets or observations that support the condition and criticality reporting assumptions by identifying any assets in a poor, unsafe, or obvious non-compliant condition, or where there is a need for a further, detailed inspection.

Kind regards,

Dan Childs  
**Associate Director**  
**Real Estate Asset Management Solutions**  
E: [dan.childs@realestateams.com](mailto:dan.childs@realestateams.com)  
M: +44(0)7770368382

## Appendix G – Delivery Plan

Link to document →

