

Property Strategy Review

On the pulse of
the property world

IPD



Contents



Property Strategy Review

- Evaluation of current property strategy documentation
- Overview of RIGS tables
- Freehold and leasehold ownership policy and its impact on RIGS differential
- Survey results on people's perceptions of how the portfolio supports their work

Property Strategy Documentation



RAG Assessment of current Property Strategy

Contents	Expectation	Current position at UKPN
Organisational need (Demand)	<p>Drivers and Pressures to change the service including: Customers, Occupier, Sustainability, HR Issues (Recruitment, retention), Govt Policy, new ways of working (including direct staff), minimum standards, Performance Improvement etc</p> <p>Supporting delivery of the service including: People (FTE's), organisation, interface with other organisations, profitability, markets Utilisation etc.</p> <p>Link to business critical measures eg OFGEM measures</p>	<p>Good understanding by property team of business issues and business needs in interviews.</p> <p>However this was not recorded and would be difficult to validate in the future.</p> <p>Current property strategy has limited analysis of either business need for offices or depots requirements and linking this into an overall business strategy</p> <p>Detailed accurate FTE data by site missing</p> <p>Limited use of Ofgem measures (eg customer, line length)</p>
Current provision (Supply)	<p>Good understanding of estate performance:</p> <ul style="list-style-type: none"> • schedule of assets including floor areas, condition, capital value, revenue costs, benchmarked etc 	<p>Reasonable information provided to IPD for evaluation purposes although floor areas need changing. The benchmarking data should allow some challenge of portfolio</p>
Gap between Demand and Supply	<p>How does current portfolio support business objectives; where does it not support objectives</p>	<p>The gap between Demand and Supply appears to have happened at a tactical property level with limited input from an understanding of “Organisational Need”.</p> <p>Projects not focussed on depots</p>
Option appraisal	<p>Scenario and specific project evaluations to include</p> <ul style="list-style-type: none"> • Cost (net present value appraisal) • Quality appraisal • Risk appraisal / sensitivity analysis 	<p>For more complex property / business decisions we would expect input from finance, HR, IT and business operations to ensure that options are considered at a more strategic level.</p> <p>Tactical level projects evaluated but not strategic</p>
Action plan to improve performance of estate	<p>SMART Objectives for:</p> <ul style="list-style-type: none"> • “Just do it” (Simple tasks) • Projects within complete control of department or their stakeholders • Projects that need input from other parts of the organisation 	<p>The Property Strategy is really more a project plan focussed on the offices with limited discussion about the demand. The fact that there is limited recorded information about organisational need means it is difficult to validate whether the Action Plan is the best approach for UKPN</p>

Property strategy



Establishing demand (continued)

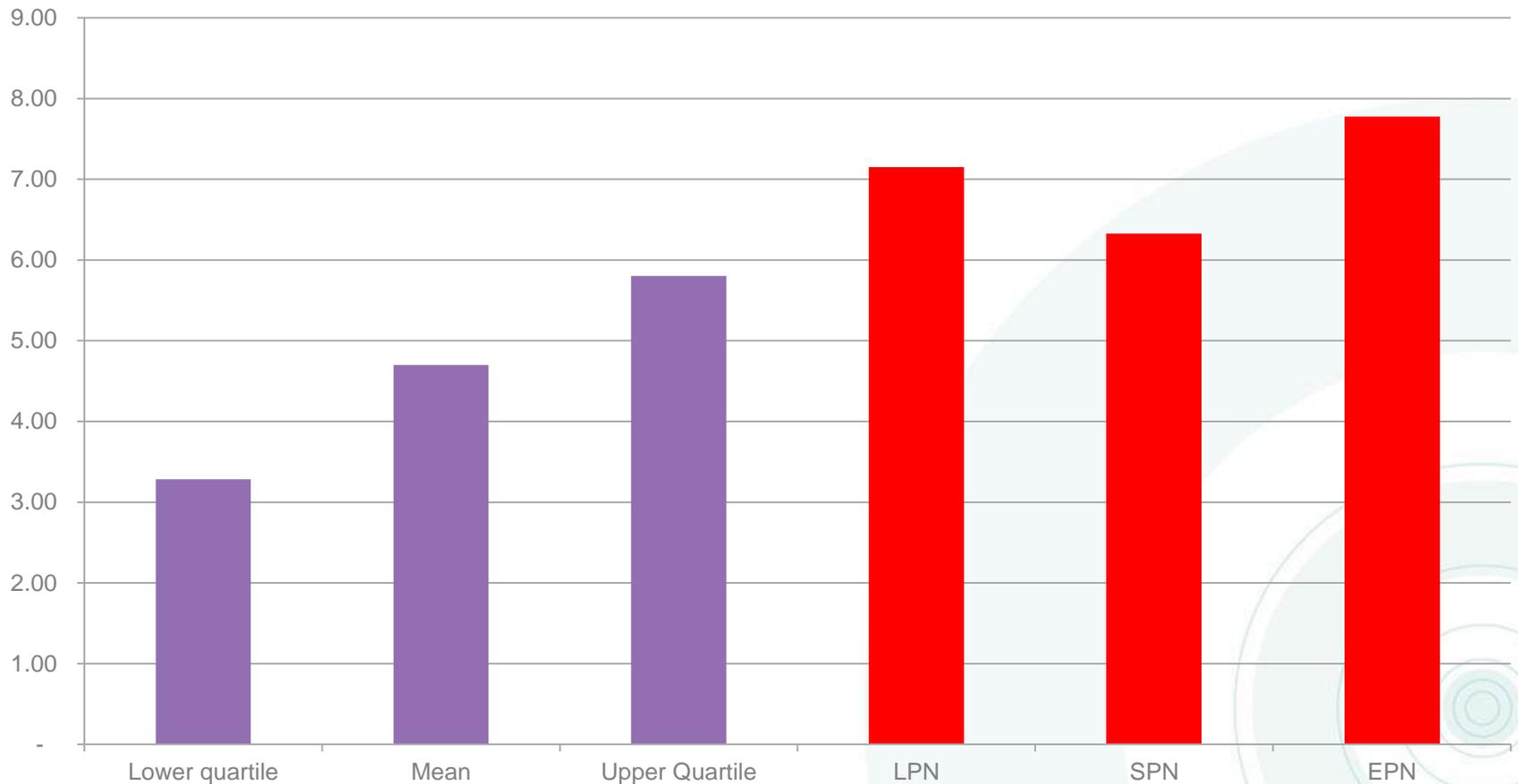
- The Property Strategy needs to:
 - Identify the wide range of policies, innovation plans, analytical procedures and assumptions which come together to identify the organisation's needs now and in the future.
 - Without those, there is no way to evaluate whether the strategy will serve the business over time or to adapt the project list to respond to changing business environments. It should contain / facilitate sensitivity analysis
 - Potentially the Property Strategy document should demonstrate that it is fully consonant with maximising the future stability of the business by minimising operational costs and achieving acceptable performance in terms of OFGEM performance benchmarks.
- The above is likely to have increasing importance to inform the property perspective of the Transformation Project over the next 1-2 Years

RIGS Tables



Total Property Cost per DNO

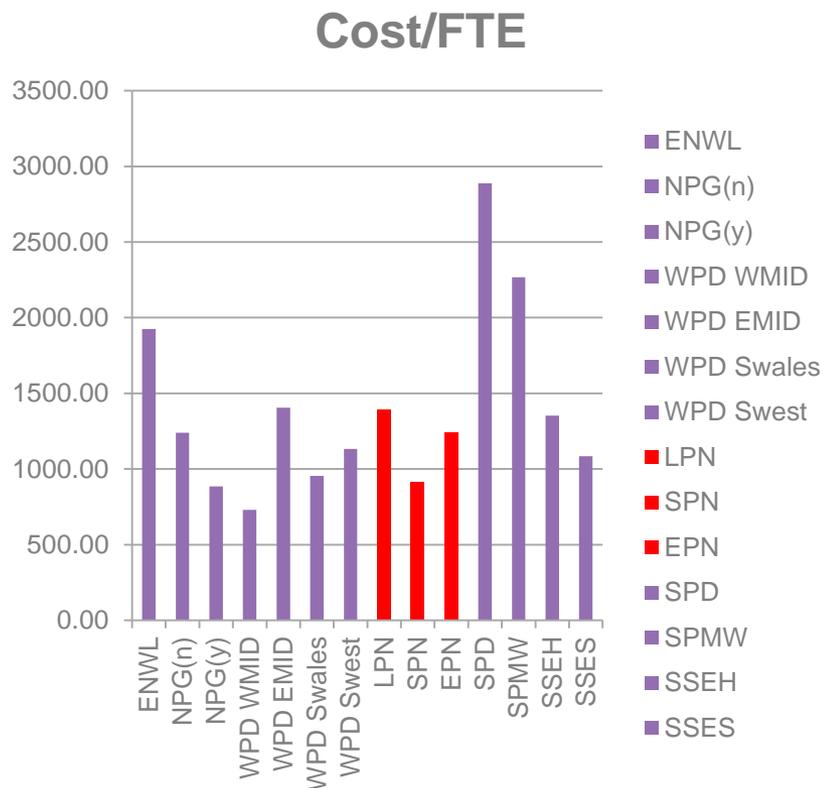
Total Property cost DNO Quartile Range (£m)



RIGS Tables



- Identified by Regulatory Framework and Engagement department that property cost is “too high compared with other DNO’s



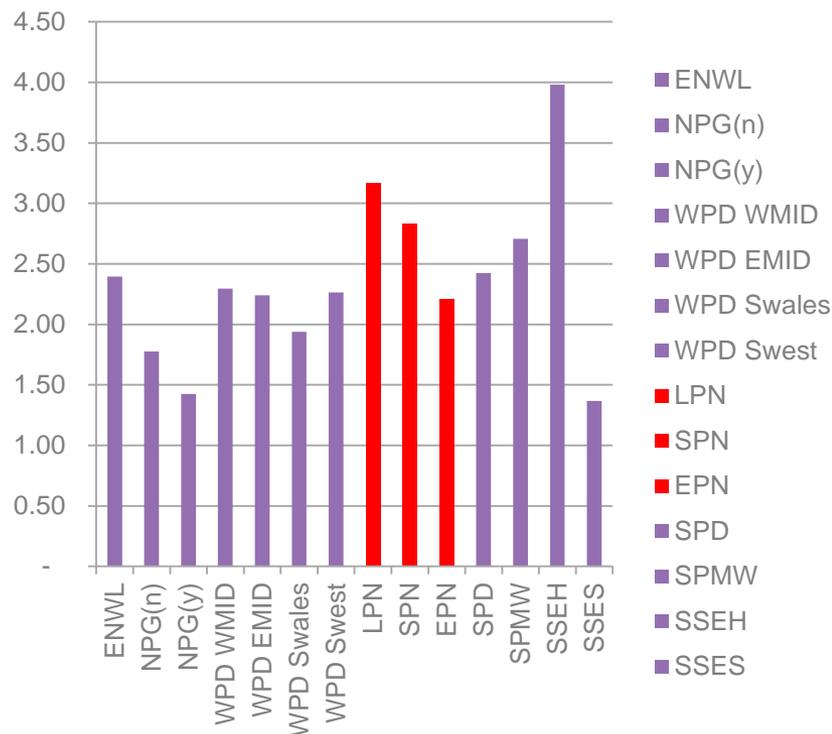
- However analysis provided only shows a cost per FTE that is towards the lower to second quartile of costs
- Based on next two slides do UKPN have too many people delivering the service (or is this reflected in different sourcing strategies)?

RIGS Tables



- Identified by Regulatory Framework and Engagement department that property cost is “too high compared with other DNO’s

Cost / customer



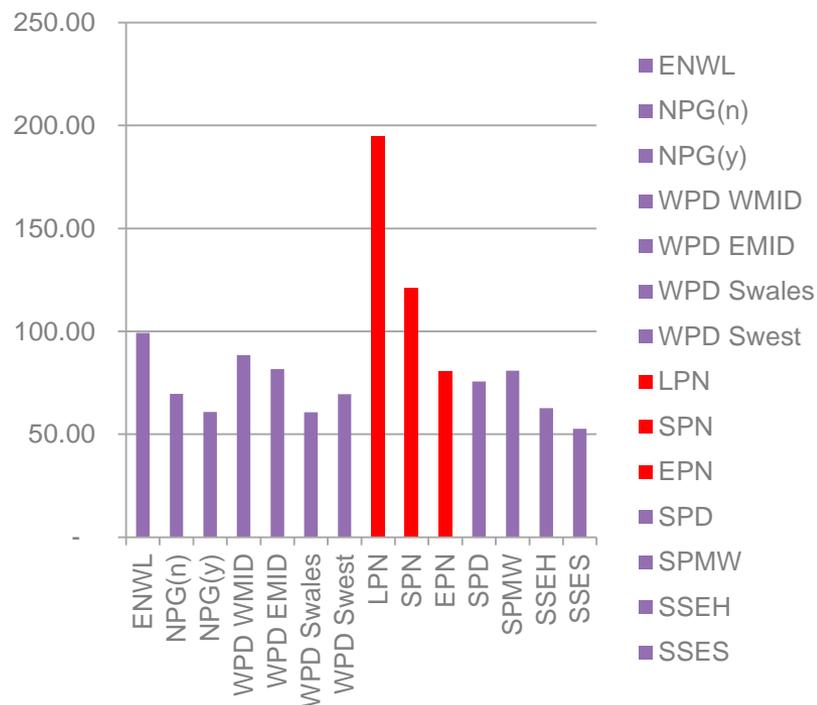
- Cost per customer is above mean value
- Note: See IPD analysis - IPD have compared with their analysis of total cost and this is more favourable for last year after FM cost savings realised

RIGS Tables



- Identified by Regulatory Framework and Engagement department that property cost is “too high compared with other DNO’s

Cost per line length



- Cost per mile of line length is above upper quartile value
- Note: IPD have compared with their analysis of total cost and this is more favourable for last year after FM cost savings realised

Freehold vs leasehold



Introduction to property ownership at UKPN

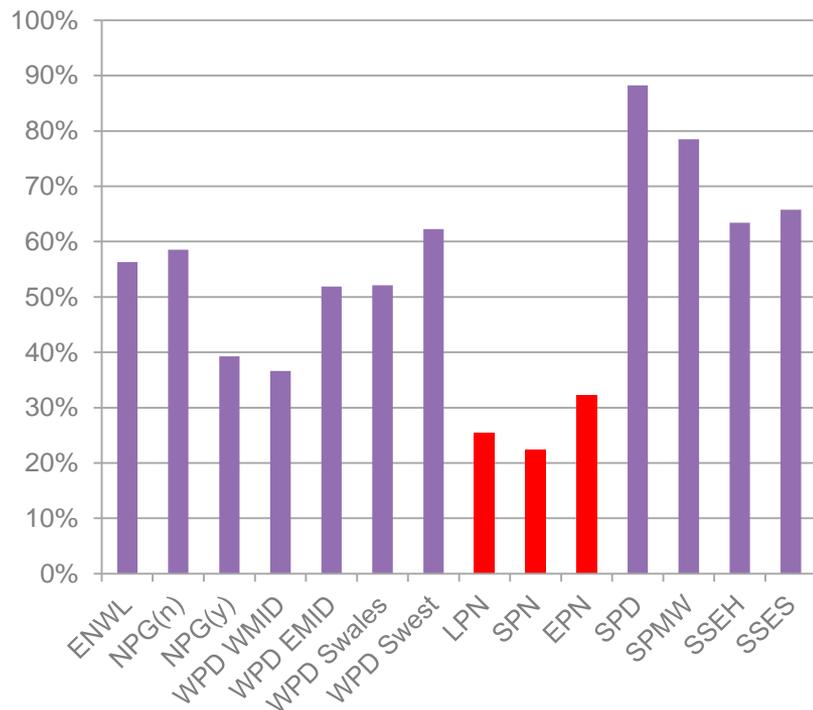
- We received conflicting views as to whether the policy was to pursue freehold or leasehold in future.
- UKNP can be viewed to hold 3 categories of property rather than the more usual 2:
 - Leasehold
 - Freehold and
 - ‘Peppercorn sites’. Held on long very cheap peppercorn leases. Cannot be sold. They offer some of the benefits of freehold (no ongoing large rents) without the disadvantage of tying up capital at what maybe ROCE at a lower level than the business can generate. There is a risk associated with peppercorn sites; they look cheap in isolation. However, UKNP needs to ensure that use and development of them is entirely consistent with operational efficiency; savings on rent should never be outweighed by the costs of inefficient operations that can result from either or both the wrong buildings in the wrong place.

Freehold vs leasehold



- We believe that the likelihood of the “Freehold vs Leasehold” issue does not reflect the differential in the high costs for UKPN in the RIGS tables

Buildings cost as percentage of total property costs %



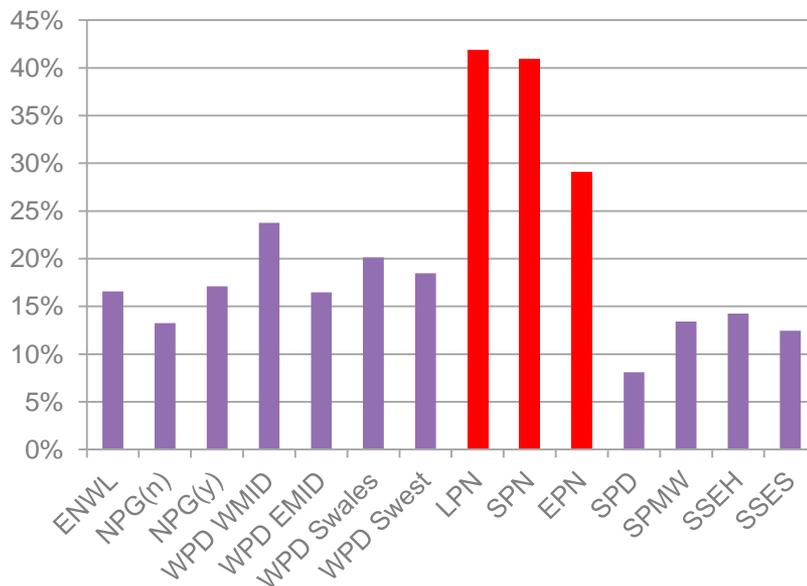
- The buildings costs are significantly below the average for the sector.
- Therefore whichever costs are included in the RIGS submission changing the approach to freehold and leasehold is only likely to increase this value
- A more likely area for investigation is maintenance which appears to be disproportionately high compared with the other submissions (see next slide)

Freehold vs leasehold



- We believe that the maintenance allocation is more of a likely cause for high costs than the “Freehold vs Leasehold”

Maintenance cost as percentage of Total Property cost



- In our experience the other DNO's are more in line with the expected relationship between Buildings and Maintenance
- Repair and maintenance based on strict IPD categorisation is lower than average for the 10 office properties
- Question whether there is any misallocated costs to maintenance
- Potential allocation issues – see next slides for definitions

RIGS Table Breakdown



Definitions

- Why is property management definition different to RIGS Breakdown provided (needs further investigation)
- Ditto Buildings and maintenance

Building

A walled construction, of brick, block or concrete, which encapsulates the contents. This excludes GRP and steel enclosures.

Scope of work includes any civil works to a building that are required to enable plant asset replacement, for example:

- complete building replacement
- building extensions
- modifications to building doors or roofs to accommodate installation of plant
- plinth and trenching works within the building
- building foundation works

Property Management

The costs of providing, managing and maintaining all non-operational premises (with the exception of operational training centres)

INCLUDES:

- Rent and rates or any other property taxes for non-operational properties
- Utilities (electricity, gas, water supply and sewerage charges)
- Inspection and maintenance costs
- Facilities management costs, including security and reception
- The provision of all office equipment with the exception of IT or Telecoms equipment

EXCLUDES :

- Any costs relating to operational property (including substation electricity)
- Cumulo or business rates as defined in CRC 2 (excluded from all activity headings; include in Non-Activity Based Costs)
- Operational training centres (include under Operational Training)
- Any of the IT systems associated with property management (include under IT)
- Relocation costs to or from non-operational premises (include costs of employee relocation with the costs of that employee)

RIGS cost submissions



Greater clarity around submission required

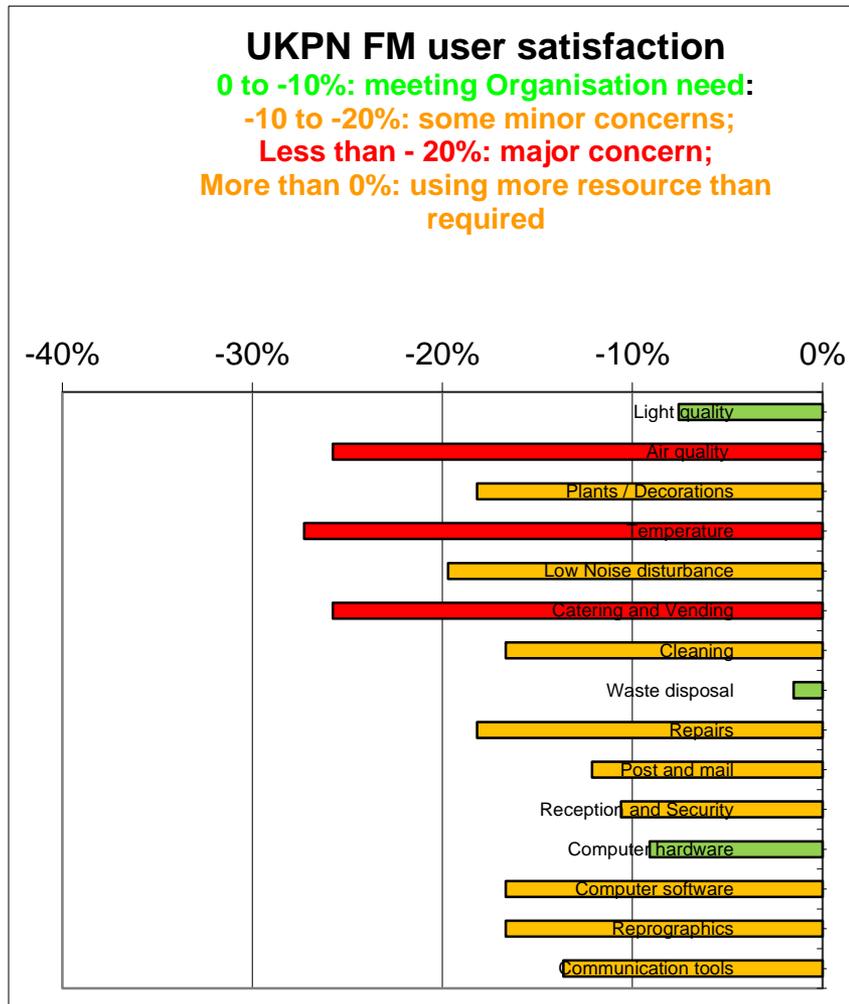
- It is unclear what should be included in the submission but it is noted that there are significant discrepancies in costs codes used in RIGS and the information UKPN allocate to cost code eg
- Bidder street has Waste and utilities in total rent cost

SITE	Rent & Rates												
	Rents	Spend Recharged to Unregulated	Internal Rents (SE Ltd.)	Service Charges	Dilapidations & BNPP Fees etc.	Insurances	Rates (Source GVA Grimley)	Waste Management (Scheduled)	Waste Management (On Demand)	Waste Management (Reactive) 2.5% of FM Fixed.	Electricity & Gas	Water	TOTAL Rent & Rates etc.
								758055	758055	758055	758011	758010	£
Bidder Street			111,423.78					40,982.64	469.00		89,477.16	5,040.00	247,392.58

- Brimstone North has no rent or notional rent in total rent

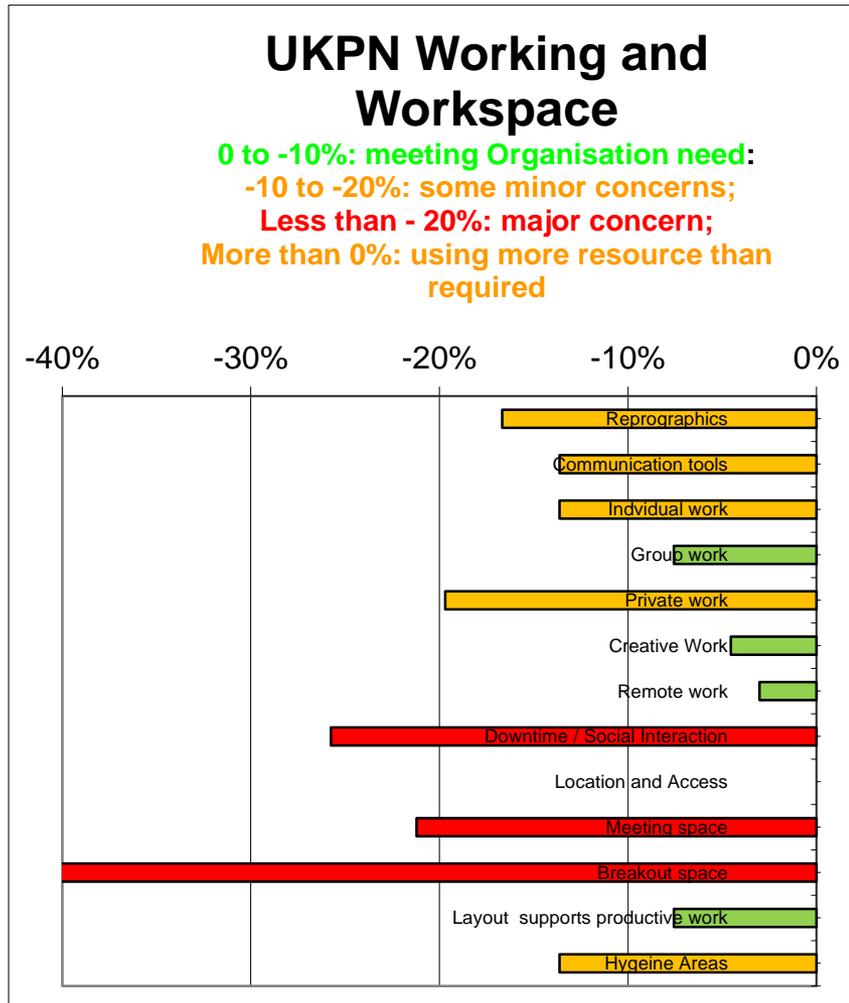
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								758055	758055	758055	758011	758010	£
Brimdown North								13,534.13			15,600.00		29,134.13

Users view of FM



- High level of dissatisfaction with FM related services – would normally expect Red to not exceed 10% and Red and Amber not to exceed 30% (by number)
- Note this is only 10 interviews out of circa 3,000 employees – this will need further validation before UK PN use this to inform strategy

Users view of workplace



- High level of dissatisfaction with Working and workspace related services – would normally expect Red to not exceed 10% and Red and Amber not to exceed 30%
- Main areas of concern are about, breakout,, meeting, private, downtime / social interaction space
- Not enough different spaces in office according to interviewees

Survey undertaken by UKPN



Facilities	
Newington House	<ul style="list-style-type: none"> Better shower and locker facilities Office is cramped* Insufficient meeting rooms* Blind spots in the stairwell
Energy House	<ul style="list-style-type: none"> Poor state of repair Lifts often don't work Cleanliness onsite Hedges are overgrown – restricting pedestrian paths
Balfour Beatty	<ul style="list-style-type: none"> 'Shoddy service'* Responsiveness – long time to respond to requests ** Systems not user friendly Issues about quality of cleanliness** Cheap redundancies No consultation of changes
Bury	<ul style="list-style-type: none"> Canteen would be good
Control Room	<ul style="list-style-type: none"> Poor lighting Inferior air con
Tea & Coffee	<ul style="list-style-type: none"> Like the free tea and coffee Is not free/available at all sites*
General (no location information)	<ul style="list-style-type: none"> Open plan is too noisy. It would be good to have quiet zones Office ceiling leaks* Air-con in the office is poor Cleanliness on site* Canteen facilities*

- Common issues from UKPN survey support findings with IPD survey
- Preferred employer of choice – Anecdotal
 - Sandwiches in car parks
 - Drying rooms
 - Etc

Survey results



Findings

- The graphs reflect buildings that do not offer the types and mix of space, and facilities needed for people to operate efficiently or that will encourage high levels of retention.
- Further, we did not directly poll the people who actually physically maintain the network (the work most closely monitored by OFGEM) who it seems likely would have more negative views about the facilities they use – or don't have.
 - Eg Complaints about no drying rooms for direct staff?? Should be gap analysis of what makes staff works well and then do a cost benefit analysis of items to introduce
 - Yards are too untidy – might not be an issue needs logical analysis (needs a process to evaluate)

Findings

- The corporate definition of space (operational / non-operational) is unhelpful to the clarity of a property strategy and to perceptions and understanding of operational efficiency.
- A definition which would be more beneficial would be:
 - Operational buildings – substations etc.
 - Instead of non operational buildings could be
 - ‘Direct’ buildings– used by people who maintain the network and the people who directly manage them
 - ‘Indirect’ buildings– used by people who administer the business
- Densities should not just be workstation based should also be FTE as well
 - Current UKPN strategy to encourage more office working and multi desk occupation for some managers not perceived to be current good practice

What do UKPN need to do next?



Slide 3 Property Strategy RAG – further thoughts

- Check RIGS submissions are on same basis as other DNO's (eg maintenance cost is properly apportioned, notional rents accounted for etc)
- Better management information to inform organisational need (including FTE's allocated to individual buildings)
- Clear understanding of Depot strategy needs to be translated into narrative
- Undertake more structured surveys / information gathering to understand how effectively portfolio supports the organisation generally and employees specifically
- Increase accuracy of Asset register and use this to inform financial modelling
- Understand the benchmarking message and identify key opportunities and gaps
- Undertake more detailed reviews to understand VFM for FM services
- Financial modelling of scenarios
- Development of detailed business cases
- Action plan for “just do it”
- Project plans for developing more complex strategies (including feeding into Transformation project)