

RIIO GD2 Business Plan Appendix

Workforce Management

December 2019



SGN
Your gas. Our network.

www.sgn.co.uk

Contents

1	Overview	1
2	Workforce resilience within the business plan	3
3	GD1 performance and learnings.....	4
3.1	Overview	4
3.2	Legislative background	4
3.3	Lessons learned	5
4	Stakeholder insight	6
5	GD2 activity breakdown	10
5.1	Approach to GD2.....	12
5.2	Managing Uncertainty: Use-it-or-lose-it, volume drivers and reopeners.....	36
5.3	Financial Summary	36
6	Conclusions.....	39
7	Assurance	40
8	Glossary	41
9	Annex contents	42

1 Overview

Scope of this appendix

Central to our workforce resilience strategy and our ability to meet challenges ahead is our ambition to make SGN a 'great place to work'.

This appendix sets out our workforce resilience strategy, which is aimed at helping us respond effectively to the challenges ahead in a rapidly changing world. We will ensure our people strategy and plans are kept up-to-date and agile, engaging with external stakeholders throughout the transition of the energy system towards net-zero.

Impact

The quality and resilience of our workforce is critical to enable us to deliver our primary responsibility of delivering a safe and reliable gas network. We want to be recognised as a business that:

- Provides stable, secure employment for our employees;
- Provides opportunities for our employees to progress and develop internally, and broaden their skills;
- Provides competitive and fair rewards;
- Cares for the health, safety, welfare, wellbeing and work-life balance of our employees;
- Acts as a responsible and ethical employer which positively contributes back to society;
- Develops great managers who are skilled at motivating teams and driving performance, while maintaining employee engagement and commitment;
- Recruits and maintains a diverse and inclusive workforce who feel welcomed, valued and listened to, and which also reflects the communities we serve;
- Promotes innovation, flexibility and agility and expects the same from its employees; and
- Supports and drives the transition to a net-zero future by 2045, with the skills and knowledge required.

Simply, we believe being recognised as a great employer will help us meet the significant recruitment, retention and transition challenges we face over GD2 and beyond.

Approach to GD2

During GD2 we plan to maintain our workforce at similar levels to those seen during GD1, primarily comprised of directly employed resources. We will continue to employ contractors where it is cost effective and operationally beneficial, such as with our repex programme, where we use contractors to deliver a defined and discrete activity.

However, we will take the opportunity created through anticipated operational efficiencies and workload reductions to reduce our wider reliance upon contracted resources, by instead delivering the work using redeployed direct labour. This presents the opportunity to transfer our directly employed resources to additional productive work, building a range of multi-skilled employees while also re-distributing the associated overhead costs.

Our strategy to focus upon a primarily directly employed workforce enables us to maintain an engaged and committed workforce and retain better control over the safety and quality of our operations. This strategy also recognises, and responds to, the increasing costs and risks associated with engaging large numbers of contractors.

We believe this strategy is preferable to us reducing the number of direct operational employees, as to do so would mean risking delivery of core responsibilities during peak workloads, potentially losing valuable skills

and experience, incurring unnecessary costs, adversely impacting employee engagement and commitment and thereby reducing the overall resilience of our workforce.

In GD2, our workforce resilience will be challenged because of increasing competition in the employment market, anticipated increase in employee turnover and upward pressure on wages.

The recruitment and retention challenges we will face in GD2 and beyond have been confirmed by some workforce forecasting we commissioned from EU Skills, and is discussed in section 5.1 of this appendix.

The remaining sections within this appendix examine all the themes set-out above and more, in greater detail.

2 Workforce resilience within the business plan

Our workforce is critical to the successful delivery of our primary responsibility of a safe and reliable network, and as such impacts every function we perform on an internal and external basis, ranging from our field operatives to our support functions.

Figure 1: Appendix structure

	Distribution Mains & Services	Distribution (Governors & Crossings etc)	Transmission	Other Assets	Cost Efficiency, Financeability, Procurement, Stakeholder Engagement
Management	Work Management & Business Support				
	Environmental Action Plan				
Systems	IT & Cyber Resilience		Electrical & Instrumentation		
	Energy Futures: Whole Systems & Scenarios, Energy System Transition				
People	Workforce Management				
Other Assets	Property, Fleet, Plant & Equipment				
Customers	Customer Service & Vulnerability				
Emergency Service	Emergency Service			SIUs	
	Repair Service				
Inspection/ Maintenance		Asset Maintenance			
Repair & Revalidation	Repex	Integrity	Integrity & Compliance		
Refurbishment / Replace / Rebuild					
Growth/Resilience	Connections				
	Capacity Management				
Removal		Maintenance	Integrity & Compliance		

3 GD1 performance and learnings

3.1 Overview

In GD2 we have maintained our directly employed workforce at a total of approximately 3,900 employees, across two networks. Of these, around two-thirds are engaged in 'operational activities' (i.e. field workers, trainees and apprentices, supported by team managers, drivers, etc), and we plan to broadly maintain numbers at this level over GD2.

Most of our employees who deliver our emergency, repair and maintenance workloads are directly employed, and many of these are multi-skilled, i.e. able to work as emergency or repair operatives, or able to transfer from repair activities to repex or connections work as workloads dictate. Our direct employee workforce is supplemented with additional contractor labour within all operational processes (particularly repex) to increase our overall resilience and reduce risk.

The use of a contractor workforce is particularly important to our Southern replacement programme, where contract labour accounts for approximately 90% of the dedicated repex resources. Due to the size of the programme in these regions, we were able to take a strategic decision to create dedicated depots and teams, enabling focussed delivery of the programme in those areas, ensuring a continuous workload which maintains high utilisation rates of the contractor workforce. In Scotland the volume of repex work is lower, and therefore the number of contractors we use is proportionately smaller. Contract labour accounts for approximately 50% of resources used on repex work in Scotland.

During GD1 we moved to a 'multi-contractor' model, whereby we worked with a larger number of smaller contractors directly rather than one single large contractor providing all our needs. This was a more cost efficient approach, as we have been able to remove the management overhead typically included in large contractor models and instead provide this supervision function in-house using our existing resources. This strategy also increased our overall resilience by reducing our exposure to a single point of contractor failure. Further discussion of this strategy and the financial benefits can be found in our Procurement and Native Competition appendix (010) and our Work Management and Business Support appendix (015).

3.2 Legislative background

We maintain compliance with all key employment legislation, which includes:

- Employment Rights Act 1996;
- Employment Act 2002 and 2008;
- Equality Act 2010;
- Equal Pay Act 1970;
- National Minimum Wage 1998;
- Working Time Regulations 1998;
- Employee Relations Act 2000;
- Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE); and
- Immigration Act 2006.

We also have compliance and regulatory obligations to maintain competence and GDPR requirements to sustain training records for 40 years.

The above legislation feeds into our suite of policies and procedures, which provide guidance to managers and also ensures our employees can understand and expect how they will be treated.

Robust and appropriate workforce management is critical for our organisation to be able to deliver our key responsibilities and activities. As such, our workforce management strategy facilitates our delivery of wider legislation which applies. For example:

- In order to meet our licence obligations and safety case, we need to maintain a resilient workforce with the skills and competencies needed to run our networks safely and efficiently;
- We need to have flexible working practices and employment contracts to help ensure we can meet all regulatory standards; and
- We have managed the inclusion of travel time in the calculation of working time assessments.

We have also taken steps to ensure our employee salaries and pensions are managed effectively and transparently, to make the process easier for them. Examples are:

- We have managed payroll changes required to recognise the introduction of different tax bands/rates in Scotland; and
- We have effectively managed the introduction of pensions auto-enrolment and the ending of contracting-out of state second pension arrangements.

In terms of the legislation which has challenged us during GD1, we have managed to reach a cost-effective agreement with the Trades Unions in respect of the payment of holiday pay, which while creating a mutually agreeable outcome, added over £2m a year to our employment costs.

In terms of forthcoming legislation, we are actively monitoring for any HSE action which may compel us, in addition to the other GDNs and wider utilities, to restrict planned working hours of our standby operatives to below 16 in any 24 hour period. If the HSE does impose further restrictions, depending on their nature, we may need to fundamentally review the way we organise how we deliver our 24/7, 365 days a year working and meet our required service standards. This may create significant additional costs which at present cannot be forecast and are not included in our business plan.

Similarly, case law is currently developing in other industries which may result in the Trades Unions pressurising us to treat standby retainers as pensionable salary. This could again create additional costs which yet cannot be forecast and as such are not included in our business plan.

3.3 Lessons learned

Our primary challenge over the course of GD1 has been the recruitment and retention of the resources we require to maintain a resilient workforce, particularly in the face of increasingly tough labour markets, competition for skills, and upward pressure on wages. We have needed to balance these challenges against our aim to keep our employment costs as reasonable and as efficient as possible.

The key lesson we have learned, is faced with such challenges it has been almost impossible to avoid incurring additional costs. If we had not responded appropriately and effectively to the challenges we faced (by increasing reward for key parts of our workforce) we risked either losing significant numbers of skilled employees (who had been costly to train and would be difficult to replace) and/or risked the danger of industrial action from our heavily unionised workforce. Neither outcome would be in-line with our overall objective to be an organisation where our employees feel listened to and valued, and as such we felt compelled to incur these costs and improve our employee offering in order to maintain workforce resilience.

4 Stakeholder insight

We have undertaken an extensive programme of engagement and research with customers and stakeholders in developing our business plan. Further information is provided in chapter 4 of our business plan and the Enhanced Engagement appendix (022). We have explored with stakeholders and customers our people requirements and our role in developing skills in both current employees and young people. We have categorised this under our three commitments of making a positive impact, building a shared future and delivering a safe and efficient service.

Positive impact

We have been told by our stakeholders the work we have done with young people during GD1 to develop their skills and interest in STEM careers is a positive initiative which they support. Our programme of customer research and business plan acceptability testing has helped us to better understand the level of importance our customers place on this topic. Stakeholders are supportive of the fact we provide a route into engineering careers for both young people and people who are seeking to change career¹².

Stakeholders have endorsed the view that greater prevalence of inclusion and diversity brings positive change and have advised for this to be successful it needs to come from the top-down and be embraced by our leadership team.

Shared future

Our stakeholders have shared views we should not only consider the skills we need in our business now, but also consider these might change as technology evolves and we transition towards more low-carbon forms of energy, such as hydrogen. This was identified by stakeholders at our Moving Forward Together workshop in March 2018 when we shared with them our strategic priorities and discussed how we could drive operational excellence through innovation and technology³.

¹ Moving Forward Together Stakeholder Workshops November 2018 (ref 013 London, ref 014, Edinburgh)

² Safe and Efficient workshop - London (August 2019, ref: 089)

³ Moving Forward Together workshops 2018 (Mar 2018, ref: 011,012)

Safe and efficient

We have engaged with stakeholders throughout GD1 to better understand their level of support for our work to develop our own people and promote STEM careers. At our 2016 Moving Forward Together workshops we asked our stakeholders to rate which of three initiatives they would choose as the most important.

The pie-chart opposite illustrates the responses, and the large proportion advocating investment in and development of our people⁴.

At our Moving Forward Together workshops in November 2018 stakeholders provided their views as to what we should be considering as we seek to ensure we have a safe and competent workforce in the future. In their feedback from this event, a stakeholder remarked we were: “doing some great work highlighting shortcomings in STEM careers, try and get more females involved.”

At our Moving Forward Together workshops in November 2018, we discussed with stakeholders the importance of investing in people’s skills to develop the competent engineers we need to continue to have a safe and resilient network, both now and in the future.

Stakeholders agreed with an ageing workforce, it is important to attract new people into our business, and apprenticeships are a good way of doing this. Stakeholders agreed that there shouldn’t be an age bias on this, and the opportunity to retrain should be extended to people with more experience and transferrable skills, for example, former members of the armed forces. This also applied to enabling current employees to develop by moving into different roles within our business.

Stakeholders also provided numerous suggestions relating to how we might communicate the opportunities and potentially exciting careers on offer in our industry, ways in which we can reduce churn/encourage employee retention, and possible partnerships with other organisations to entice more people into the industry.

Our willingness to pay customer research demonstrated over three quarters of customers would be willing to pay something towards the costs of investing in our employees. Customers were asked to what extent they

Figure 2: Stakeholder priorities

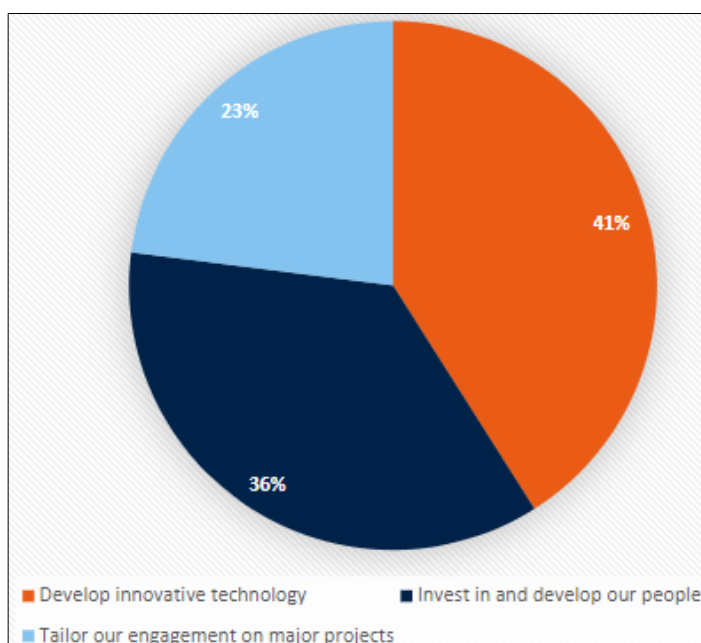


Figure 3: Moving Forward Together discussion slide

Investing in skills and supporting STEM careers

(Science, Technology, Engineering & Mathematics)

Acting safely

We could invest greater amounts in getting more people the right skills to build a workforce for the future.

This would help attract people to the industry, including young people and those looking to retrain, by offering opportunities to develop a range of skills.

As an industry faced with an aging workforce, it would also ensure there are enough people to safely and competently manage the gas network of the future.

Who pays: **Current bill payers**

Q. What are your thoughts on this option?

Q. Is there anything else you'd like to see us doing?



⁴ MFT Workshop March 2016 London and Edinburgh (ref 006,007)

supported investing in employee training (an extra 30p per year on their gas bill). 79% of respondents were supportive of this option, with 7% of the remaining 21% strongly opposed⁵. During the first phase of our customer research, customers suggested we could do more to raise awareness and educate people on topics such as alternative greener energy solutions and how to use energy more efficiently. However, in the second phase of the research, customers were asked to prioritise this idea of us educating customers to boost awareness against other attributes. This was seen as the least most important priority. However, customers did view investment in our current and future employees so they have the right skills for the future as a moderate priority⁶.

In our second wave of willingness to pay research customers were asked about potential improvements relating to developing life skills for young people and increasing work opportunities for disadvantaged groups in society. The results showed domestic customers would be willing to pay an additional £1.48 for us to extend our programme for helping young people develop life skills to reach 6,000 young people a year, up from the current number of 2,000. This was a lower priority for domestic customers when compared to other attributes tested in the research⁷. Domestic customers were slightly more willing to pay for us to increase work opportunities for disadvantaged groups in society, with a value of £1.78 for the best level of support we could offer.

In our customer business plan acceptability testing, we further tested with customers their support for our ambition to increase skill levels for local people in the communities we serve. Customers were also asked for their views as to whether they'd like to see us investing in training and developing our people to ensure future resilience⁸.

Our customers saw the value of appointing apprentices in the recruitment mix but were mindful of the costs involved and felt the right balance needed to be struck between the added value apprentices would bring and the additional costs which may result.

Trade Union engagement

We regularly engage with our Trades Unions about our future business plans and challenges at our quarterly held national Joint Consultative Committee (JCC) and will continue to do so.

Most recently and specifically, at the JCC held in July 2019 we took senior Trade Union representatives (including national GMB and Unison TU Officers and SGN Directors) through an initial draft of our GD2 workforce strategy. We held a subsequent meeting in August 2019, attended by nominated senior TU officials and national officers, to further discuss the issues raised at the July meeting.

Points of note included the Trades Unions strong support for continued appointment of apprentices within our recruitment mix, and their full support for all the initiatives we are taking to improve the employee experience offered to our employees.

Future D&I stakeholder engagement plans

We have developed a comprehensive D&I engagement plan for the rest of GD1 and into GD2, and this is set out in detail in section 5.2 (Approach to GD2, becoming a truly diverse and inclusive employer) below.

In addition, we will further develop our links with the Ministry of Defence (MOD), with which we already have a gold award through its Employer Recognition Scheme.

As we develop our plans to recruit apprentices and trainees, and particularly to ensure we have a diverse

⁵ Conjoint and WtP summary report (Valuation phase) (ref 005)

⁶ Max Diff Prioritisation Phase Report (ref 003, 004)

⁷ Valuation Phase (Conjoint & WtP) Summary report (Ref 094)

⁸ Qualitative workshops (BPAT) May 2019 (Apr/May 2019, 078)

range of applicants, we will be forging links with local educational establishments (including FE Colleges, schools and universities).

Consultation on future skills requirements

Through our membership of various external groups, we have started to consult widely to discuss future skills requirements, particularly technical skills requirements given the ongoing 'future of energy' debate.

Our Head of Talent and Development (HTD) is in discussions with both the EU Skills Delivery Board (of which she is a member) and IGEM about the development of standards for future qualifications e.g. Hydrogen apprenticeships. Our HTD collaborates with the other GDNs on development issues to ensure we maximise opportunities to work together where this delivers value, and we are in active discussion with The Gas Network Skills Form and the Hydrogen Transformation Group. In addition, we engage with fellow members of the Engineering Council, the Engineering Equipment Materials User Association and the UK Onshore Pipeline Operators Association.

We are building on the engagement carried out in 2018 to discuss future skills development with stakeholders⁹. Recognising the importance of ongoing engagement throughout GD2, particularly as skills requirements change, we are setting up a Technical Training Steering Group (TTSG) which will bring together representatives from expert external organisations and key leaders from within the business.

Given other future skills requirements such as cyber, digital and leadership, our intention is to broaden out the TTSG during GD2 and hold an annual Skills Update forum to ensure that our people development strategy is aligned with latest thinking. We are currently consulting with Ashridge and specialist consultants to develop our thinking on leadership requirements for GD2.

To widen our talent pool as far as possible, encouraged by our CEG, we are refining our diversity and inclusion strategy for GD2, engaging with stakeholders with expertise in disability (such as Scope) and BAME to develop our plan. We have created an ongoing engagement programme, which we will continue to iterate with input from our TTSG and annual Skills Forum.

⁹ Moving Forward Together Stakeholder Workshops November 2018 (Insight ref 013 London, Insight ref 014, Edinburgh)

5 GD2 activity breakdown

Future energy solutions

We recognise there are significant decisions in terms of future energy policy which will be taken at Government level within the GD2 price control period.

As we make the transition to net-zero by 2045, we will need to prepare for alternative heat solutions and a greater proportion of greener gases in our network. As the future mix of heat solutions becomes clearer, we need to be agile enough as a company to respond effectively to a range of alternative or piecemeal solutions.

As the nature of the gas contained within our networks changes, equally so will engineering policy and procedures. The talent challenges cited in other sections of this document will compound the need for increased volumes of training required due to churn and upskilling.

The extensive work proposed in GD2 to create a pathway towards long-term adoption of 100% hydrogen may create a strain on resources inside and outside the organisation in the form of accessible Subject Material Experts, furthering and communicating the programme. These expert skill shortages may impact our organisational capacity for upskilling, creating a capacity restriction on the design and delivery of additional training.

Stakeholders¹⁰ helped highlight the potential hydrogen pathway will result in a greater need for skills not currently available in our business. This will result in an increased need for graduate engineers and project managers to feed the talent pipeline. It is also envisaged greater levels of further education and training covering these new 'hydrogen engineers' will be needed, such as 'hydrogen apprenticeships'. This is likely to be an ongoing theme as programmes of education will be in the order of three to four years in length.

Our talent and succession plans currently underway in 2019 (up to five years in duration), will need to incorporate the above requirements. Our annual Skills Forum update will provide ongoing input from stakeholders, to support business and industry-wide solutions. We will also continue our ongoing programme of engagement with experts and associations.

In GD2, we will acquire experience and knowledge from our H100 hydrogen demonstration project, building a trial network which delivers 100% hydrogen to customers' homes. This will deliver proof-of-concept and additional understanding of the skills, competencies, training and upskilling that will be needed by our future workforce. Our training and development team will be closely involved with these trials, so they can assess new training and competency requirements, make preparations and liaise with training providers as necessary.

Worthy of note in our future skills strategy is the scenario of 'decommissioning parts of the network', which may result from future heat policy decisions, made either locally or nationally. The view is that the current skillsets in the business could decommission the network as required, however the full implications on resourcing would be considered during GD2 as government net-zero planning takes shape.

New learning strategies

Beyond the decarbonisation agenda, we are embracing and enhancing new technologies to develop the learning experience, with less need for hands-on training and more simulated and virtual environments. Current technologies are being used in educational contexts such as AR and VR and will no doubt become scalable and cost effective over a ten-year period with suitable investment. Give the rate of change in this field in the next 10-year period many other emerging technologies may place unknown pressures on the skills strategy. However, these technologies create increased opportunity for greater collaboration across all GDNs and perhaps wider into energy and utility providers across the sector. This approach to resilience is an

¹⁰ Moving Forward Together Stakeholder Workshops November 2018 (Insight ref 013 London, Insight ref 014, Edinburgh)

aspiration which we support wholeheartedly.

The following are measures we will use to help measure the overall effectiveness of our workforce resilience strategy:

- **Maintain company performance** - continue to deliver a safe, reliable and cost-effective network, maintain our standards of service and deliver an efficient Emergency Service on a 24/7 basis;
- **Resourcing** - successfully recruit and train/develop employees in the numbers and locations we need to maintain a resilient workforce;
- **Talent and succession** - evidence our leaders are actively involved in talent management to ensure all critical/senior leadership roles have a robust succession plan to meet both short and long-term requirements;
- **Employee development** - evidence all individuals named on succession plans have active, monitored development plans to achieve successional requirements within specified timescales, with retention risks monitored and addressed as far as is possible. Aspire to fill 80% of internal managerial vacancies with internal applicants;
- **Diversity and inclusion** – a 30% increase in appointments of females in second and third pay quartiles 2021/22 versus the baseline reported in our Gender Pay Report of March 2019. We will also look for improvements year-on-year in our inclusivity index. As a second phase, we will be improving the way we collect BAME data;
- **Improved employee engagement** - a 5% improvement in the 2021/22 measure versus the 2020/21 baseline. Continuous improvement throughout GD2;
- **Improved stakeholder engagement** - demonstrating improvement in stakeholder satisfaction scores from benchmarks set at the start of GD2;
- **Control churn among those we have invested in most heavily** - (e.g. trainees, apprentices, graduates, and other technical employees with sought after skills and experience) to be kept below 10%; and
- **Use reward strategy to help ensure we achieve targets important to our stakeholders** - (in addition to financial and regulatory targets). Our current long-term bonus scheme for executives and senior leaders includes the targets below and our intention is to follow this theme through to short-term bonus determination in the future.
 - Achievement of safety and environmental targets;
 - Achieving future de-carbonised energy solutions;
 - Achieving customer service targets;
 - Achieving stakeholder satisfaction improvement targets;
 - Achieving support for vulnerable communities' targets; and
 - Achieving people targets such as talent and succession, diversity and inclusion, and employee engagement.

5.1 Approach to GD2

As discussed in section 1, our primary focus for GD2 is to maintain a resilient workforce to enable us to respond effectively to the challenges ahead in a rapidly changing world. Our strategy is comprised of multiple factors, as follows:

Resourcing decreasing workload trends

The following processes within SGN are likely to see a reduction in workloads during GD2:

- **Mains and services repairs** - (due to our ongoing mains replacement programme);
- **Mains replacement** - (due to less emphasis in tier 2 and 3 diameter bands);
- **Mains reinforcement** - (due to reduced upgrading of the distribution network);
- **Meter work** - unregulated (due to the smart meter installation programme); and
- **Connections work** - with workload reducing in the last three years of GD2 as a result of the Government's policy of no gas boilers in new homes.

We could plan to use these reducing workloads to reduce head count in our direct operational workforce. However, our preferred strategy is to maintain this workforce at its current level and use any spare capacity either to displace external contractors or to allocate other productive work to our direct workforce.

The reasons for our preferred strategy, outlined above, are as follows:

- To ensure we continue to meet our standards of service 24/7, we need sufficient numbers of employees in the right places to resource our standby rotas. We believe our standby rotas are already optimally resourced, and any further reductions in direct operational workforce could jeopardise our ability to run them effectively and therefore meet service standards. Further detail on our resourcing of peak workload requirements can be found in our Emergency Services and Repair appendices (013 and 014);
- Shedding direct employees would result in us losing valuable skills, experience and flexibility which would reduce our workforce resilience (particularly during periods of high demand i.e. a gas supply incident or extreme weather conditions); and
- Direct employee reduction programmes may well result in significant costs (particularly when dealing with final salary pension members), cause disruption and uncertainty within our company, reduce employee engagement and commitment and reduce the overall resilience of our workforce. As such, the costs of either solution are likely to be broadly consistent.

We have undertaken internal modelling which has allowed us to analyse the impact of these expected future workload reductions, and our ability to use the skills and flexibilities of our existing directly employed operational workforce to displace contractors and/or take on additional duties.

In summary, we see a future where reducing workload increases bandwidth for our direct operational employees, which in turn enables them to take on more repex and new connections work (thereby replacing contractors), or other productive work. This enables us to deliver a reduced contractor expenditure without negatively impacting on the overall resilience of our workforce.

Examples of how we can re-deploy our resources across our emergency, asset maintenance, repair, repex and connections activities are:

- **Emergency** - we use our First Call Operatives (FCOs) to undertake meter work in the unregulated part of our business, when they are not attending a gas emergency. This creates a saving by moving the proportionate overheads out of our emergency costs and into our un-regulated (also known as non-formula) costs. The smart meter roll-out will gradually replace the existing legacy meters for which we undertake this work, and as such an increasing proportion of the associated overheads will return to our

emergency costs. To mitigate this return of overheads to our emergency costs, we plan to utilise FCOs on other work where it is available. For example, there is likely to be an increase in scheduled surveying of assets associated with our network, which our FCOs would be qualified to undertake;

- **Repair and repex** - reducing repair workloads will release more teams from our repair activities, and with further multi-skilling training we will be able to utilise them to replace existing contractor teams in our tier 1 replacement work; and
- **Connections** - and potentially also new connections work.

Retention of our existing direct operational workforce at its current level will enable us to better maintain our current commitments to safety and customer service. It will also provide a greater resilience for maintaining our standards of service during periods of high demand i.e. a gas supply incident or extreme weather conditions.

It is worth noting we have modelled our workforce requirements against forecast workloads during GD2 on the assumption there is a continuing significant role for natural gas in the energy mix. However, we are also mindful of the need to prepare for alternative outcomes and to remain agile and flexible enough as a company to respond effectively to such alternative outcomes if necessary.

Contracting strategy

Notwithstanding any reductions in contractor numbers resulting from redeployment of direct employees (in circumstances described in 'resourcing decreasing workload trends', above), our mains replacement programme in Southern is likely to continue to be delivered largely by contract labour (reflecting the size of the programme in these regions). In Scotland repex workloads will continue to support around a 50/50 split.

We are likely to continue with our 'multi-contractor' model which has reduced our risks and increased resilience by reducing our exposure to contractor failure. However, we recognise our contractors have been exposed to the same tough labour market conditions as we have (which has increased contractor costs). We expect these tough conditions and cost pressures to continue into GD2 and we will therefore continue to keep under review the balance of contract-to-direct resources to ensure we are managing risks effectively and delivering our programmes as cost-effectively as possible.

As examples, we have recently (2019) insourced 61 contractor emergency resources (FCOs) into direct employment in Southern (and these are included in our model numbers over the next two years). We are also planning to recruit 28 direct labour teams into our Southern repex activities and these are also included in model numbers over the next two years.

Maintaining and growing our skills base - in GD2 and beyond

Over GD1 we have faced increasing challenges from high levels of retirements and increasing churn rates. Backfilling leavers and training employees with the skills and competencies required has required significant recruitment, training and development effort and spend. Our GD1 experience in terms of retirement and churn rates and maintaining our skills base, is set out in more detail in Annex A to this appendix.

We expect the challenges we are experiencing during GD1 to continue, and likely worsen during GD2.

In terms of numbers, and to maintain a similar sized operational workforce throughout GD2 to maintain workforce resilience, we commissioned EU Skills to forecast our workforce requirements over GD2 (and out to 2035).

In summary, its forecast conclusions were:

- Increased numbers of employees are likely to leave us during GD2 (nearly 400 more during GD2 compared to the first five years of GD1, mainly down to increased churn);
- To maintain our current direct workforce size, we will need to replace these leavers with around 1,861

new employees during GD2 (including 185 apprentices under our preferred option); and

- This means we are likely to face a significant increase in recruitment and training/development effort over GD2, compared with GD1.

To recruit, train and develop the employees we need to maintain our skills base over GD2, we plan to use an effective and efficient mix of internal development, training and upskilling, and external recruitment of apprentices, trainees, graduates, and contractors.

We will continue to be innovative in our recruitment methods, not only in ways to attract people from more diverse backgrounds, but also in terms of exploring specific sectors where we might attract people who have similar skills to those we need (e.g. armed forces, where we already have established firm links). We will also continue our longstanding efforts to encourage flexibility, adaptability and multi-skilling among our existing workforce who we might move into different roles within the business, if and when opportunities or necessities arise.

We plan to support all of this through effective workforce planning, talent management and development, succession planning and by having a flexible training team able to respond effectively to changing future training needs.

Forecasting numbers of leavers over GD2

To make sense of the challenges ahead and help determine the resources we will need to recruit, train and upskill during GD2 to maintain a resilient workforce, we commissioned EU Skills to undertake detailed workforce forecasting for us.

The reports produced by EU Skills assume we maintain our current (as at March 2019) numbers of directly employed resources throughout GD2.

In terms of churn rates, its reports assume the challenges which have pushed up our churn rates in recent years (see Annex 2, GD1 experience) will continue into GD2 and beyond. In summary, the reasons we believe our churn rates will at least prevail into GD2, and most likely increase, are as follows:

- In Southern, external factors (e.g. large construction projects - Heathrow, HS2, Crossrail; possible resumption of large-scale inward investment following eventual Brexit resolution; reduction in non-UK labour) are likely to add to already virtually full employment rates to make the labour market even tougher and push our churn rates up further. The report we commissioned from EU Skills reached the same conclusion, reporting that: *".... it is likely that the current labour market conditions will prevail for some time to come."*
- In Scotland, the relative scarcity of potential new employees which we will need to replace the experienced employees who will retire will present its own challenges; and
- The composition of our workforce will continue to change. Significant numbers of our most experienced and 'lower-churn' legacy/final salary pension employees will continue to retire, and the proportion of our workforce made up of 'higher-churn' market rewarded/DC pension scheme SGNC employees will increase.

Taking these factors into account, the assumption EU Skills used in its forecasting was our churn rates into GD2 would continue at their present rates (for 2018/19), plus 0.5%.

For the purposes of their analysis, EU Skills assumed final salary pension scheme members retire at age 60 and those in DC schemes at age 67.

In terms of contractor strategy, we will continue to try and secure effective, cost-efficient and reliable contracts to continue the delivery of our repex programme, being prepared to insource/recruit to change the balance of contractor-to-direct workforce numbers where this improves overall resilience and reduces risk with no significant impact on costs.

Taking all the above factors into account, EU Skills forecast numbers of leavers (as a result of retirement and churn) over GD2 and beyond, as summarised in the tables below:

Table 1: EU Skills forecasts of our retirements over GD2 and beyond

Year	Retirements	Year	Retirements	Year	Retirements
2021/22	68	2026/27	86	2031/32	64
2022/23	101	2027/28	85	2032/33	73
2023/24	88	2028/29	65	2033/34	80
2024/25	104	2029/30	68	2034/35	92
2025/26	100	2030/31	72	2035/36	84
Total	461	Total	376	Total	393

Table 2: EU Skills forecasts of our churn over GD2 and beyond

Year	Retirements	Year	Retirements	Year	Retirements
2021/22	271	2026/27	297	2031/32	306
2022/23	278	2027/28	298	2032/33	308
2023/24	279	2028/29	303	2033/34	310
2024/25	284	2029/30	303	2034/35	311
2025/26	288	2030/31	305	2035/36	311
Total	1,400	Total	1,505	Total	1,546

Table 3: EU Skills forecasts of our total leavers over GD2 and beyond

Year	Total leavers	Year	Total leavers	Year	Total leavers
2021/22	339	2026/27	383	2031/32	370
2022/23	379	2027/28	383	2032/33	381
2023/24	367	2028/29	367	2033/34	390
2024/25	388	2029/30	371	2034/35	403
2025/26	388	2030/31	377	2035/36	395
Total	1,861	Total	1,881	Total	1,939

The key conclusion from the forecasts EU Skills has undertaken is more people are expected to leave (through retirement and churn) over the five year GD2 period (1,861) than left over the entire first six years of GD1 (1,846). Over the first five years of GD1 we lost 1,470 employees, and in the last five years of GD1, we have lost 1,608 employees. GD1 leaver numbers are shown in tables in Annex 2.

EU Skills concluded 1,861 employees would leave us during GD2 (around 400 more than during the first five years of GD1), this increase being mainly due to increased levels of churn. This means in order to maintain our current level of directly employed resources (which, as set-out in the resource strategy section below, we believe is key to us maintaining a resilient workforce), we need to recruit and train significantly more employees over GD2 than over any five year period of GD1.

Attracting and recruiting the number of new employees, and training and developing them with the skills

required, will be a challenge in itself. However, this challenge will be made all the harder due to additional factors such as:

- Tough regional labour markets, particularly in the south, resulting in high competition for skills and upwards pressure on regional wages and therefore increased churn among our workforce;
- Continuing significant levels of retirement among our most experienced workers;
- The transition from market-leading remuneration packages to a market-based reward and defined contribution pension arrangements and the relative increase in employee turnover which this creates;
- Changing expectations of a multi-generation workforce and challenges of balancing the differing needs of each group;
- The impact of varied and portfolio careers where employees are less likely to stay with an employer long-term;
- The changing nature of work due to continued innovation and the increase in digital processing; and
- Within our energy sector, decarbonisation will add a higher level of complexity and requirement for change. We will keep role profiles and skill requirements under review and be prepared and agile enough to adjust as required to meet future business needs.

Forecasting recruitment and training needs over GD2

Recruitment scenarios

We asked EU Skills to forecast how many employees we would need to recruit and train over GD2 and beyond to maintain our current numbers of direct employees.

We asked for this in according to three different scenarios:

Scenario 1	Reduced apprenticeships (in comparison to GD1)
Scenario 2	Consistent apprenticeships (with GD1)
Scenario 3	Increased apprenticeships (in comparison to GD1) (based on ideal numbers according to operational directors)

Each different scenario resulted in a different recruitment mix and costs and these are explored in detail below.

Central to each scenario is the inclusion of apprentices within the recruitment mix (although Scenario 1 includes only a small number).

Inclusion of apprentices in the recruitment mix is our preference for the following reasons:

- Apprenticeships have been the traditional and significant route into an operational career with gas networks such as ours, and our preference has been to offer good quality, professional and nationally recognised apprenticeship schemes;
- They are attractive to prospective recruits and we find it easier to attract a higher calibre of applicant in the numbers we need;
- The higher calibre of employee we recruit through apprenticeships provides a source for our future technical and management succession planning needs;
- Apprentices graduate with a better breadth and depth of gas distribution knowledge;
- Experience shows apprentices tend to stay with us longer and churn slower than employees who join us

through other routes;

- We can build innovative means of retaining such employees (in whom we have invested heavily) into the longer-term through retention/loyalty payments, claw-back payments and active management of their careers and employee experience;
- Our employees and key stakeholders all believe (as do we) it is socially responsible for a company like us to continue to appoint apprentices on good quality apprenticeship schemes. Apprentices also help maintain the overall stock of skills within the UK. At our stakeholder workshops we have received strong feedback we should continue to provide opportunities for STEM careers, such as a high-quality apprenticeship scheme¹¹¹². In addition, our 'willingness to pay' customer research revealed 79% of customers would support paying an additional 30p a year on their gas bill for us to invest in employee training¹³;
- It provides us with mechanisms to move our direct workforce in the direction of greater diversity, which means we can better reflect the diversity of communities we serve; and
- The government also has raised the profile of apprenticeships through introduction of its new levy (0.5% of our pay bill from 2017) in England and Wales. In England, we have been instrumental in shaping the apprenticeship standards following the introduction of the levy.

Scenario 1: Reduced apprenticeships

Under this scenario we asked EU Skills to forecast our GD2 recruitment and training needs on the basis vacancies resulting from retirements/churn would be replaced by trainees on much shorter, and generally cheaper, training schemes. This reserved apprenticeships for a few highly technical vacancies, such as our electrical and instrumentation (E&I) craftsperson working in our asset maintenance functions.

On this basis, EU Skills forecast future recruitment/internal upskilling numbers during GD2 as shown below:

Table 4: Recruitment/internal upskilling (Scenario 1)

Entry route	No. of appointments GD2, 2021 to 2026
Apprenticeships (2-4 years)	9
Trainees (1-3 year schemes)	578
Graduates (2 year schemes)	22
Trainee team managers (2 year scheme)	159
Other external appointments	1,088
Internal recruiting	929
Total recruitment/upskilling	2,785

Scenario 2: Consistent apprenticeships

Under this scenario we asked EU Skills to forecast on the basis our recruitment plans would involve us recruiting the same number of apprentices (185) as we recruited during GD1.

¹¹ Moving Forward Together stakeholder workshops, November 2018 (ref 013 London, ref 014 Edinburgh)

¹² Safe & Efficient workshop London, August 2019 (Ref: 089)

¹³ Conjoint and WtP summary report (Valuation Phase) (Ref 005)

On this basis, EU Skills forecast future recruitment/internal upskilling numbers during GD2 as shown in the table below:

Table 5: Recruitment/upskilling (Scenario 2)

Entry route	No. of appointments GD2, 2021 to 2026
Apprenticeships (2-4 years)	185
Trainees (1-3 year schemes)	478
Graduates (2 year schemes)	22
Trainee team managers (2 year scheme)	159
Other external appointments	1,054
Internal upskilling	895
Total recruitment/upskilling	2,792

Scenario 3: Increased apprenticeships

Under this scenario we asked EU Skills to forecast on the basis that our recruitment plans would involve us recruiting a higher number of apprentices than we have recruited during GD1.

To determine the number of apprentices to include in the forecast recruitment mix under this scenario, we consulted operational directors within our company to determine the ideal number of apprentices to appoint over GD2 (based on retirement/churn forecasts and their business knowledge).

Table 6: below represents the feedback from our operational directors, and we asked EU Skills to forecast on this basis:

Table 6: Resourcing strategy by role

Job role	Resourcing strategy
NC01 operative level (all company)	<ul style="list-style-type: none"> 100% met through external appointments (three months training/on job experience)
Repair craftspersons (all company)	<ul style="list-style-type: none"> 50% met through upskilling NC01s (four months training/on job experience) 20% met through external appointment and one-year modular training scheme 30% met through external appointment and two-year apprenticeship
FCOs (all company)	<ul style="list-style-type: none"> 20% met through upskilling NC01s (10 months training/on job experience) 30% met through external appointment and one-year modular training 50% met through external appointment and two-year apprenticeship
E&I craftspersons (all company)	<ul style="list-style-type: none"> 40% met through external appointments and three-year modular training/on job experience 60% met through external appointment and four-year apprenticeship

Job role	Resourcing strategy
Pressure control/pipelines craftspersons (all company)	<ul style="list-style-type: none"> 40% met through external appointments and two-year modular training/on job experience 60% met through external appointment and three-year apprenticeship
Admin/basic technical (<30k) (all company)	<ul style="list-style-type: none"> 100% future needs met through external appointments
First line managers (Southern and Scotland operations and asset maintenance)	<ul style="list-style-type: none"> 50% met through upskilling internal employees (typically coming from craftspersons and FCOs) 50% met through external appointment and two-year traineeship
First line managers (rest of company)	<ul style="list-style-type: none"> 80% met through upskilling internal employees (typically coming from admin/basic technical employees) 20% met through external appointment and two-year traineeship
Other managers/techs /support staff (all company)	<ul style="list-style-type: none"> 80% met through upskilling internal employees (typically coming from Admin/basic technical employees and first line managers) 20% met through external appointment and two-year traineeship
Middle managers/ professionals (all company)	<ul style="list-style-type: none"> 80% met through upskilling internal employees (typically coming from other managers/techs/support employees - to 45k) 20% met through external appointment and two-year graduate traineeship
Senior Managers / Professionals (all company)	<ul style="list-style-type: none"> 80% met through upskilling internal employees (typically coming from middle managers/professionals) 20% met through external appointment and two-year graduate traineeship

On the above basis, and on an increased churn level of +2%, EU Skills forecast future recruitment/internal upskilling numbers during GD2 as shown below:

Table 7: Recruitment/upskilling (Scenario 3)

Entry route	No. of appointments GD2, 2021 to 2026
Apprenticeships (2-4 years)	398
Trainees (1-3 year schemes)	252
Graduates (2 year schemes)	35
Trainee team managers (2 year scheme)	182
Other external appointments	1,225
Internal upskilling	974
Total recruitment / upskilling	3,066

Scenario comparison

The key difference in the above three scenarios is the number of apprentices we would plan to recruit over GD2, being:

Scenario	1	2	3
Number of apprentices	9	185	398

As discussed, we believe good quality apprenticeships attract good quality applicants (that tend to churn less and contribute more to our ‘talent pipelines’) and produce employees with well-rounded knowledge of gas distribution engineering, which is of significant value given the nature of our business and the product we deal with.

By offering apprenticeships we also contribute to the overall stock of skills within the UK, positively impacting the wider UK economy.

The stakeholders we have engaged with on this subject (particularly with our Customer Engagement Group, our Trades Unions and our own managers and employees) all recognise and appreciate the value of appointing apprentices and agree they should be part of our future recruitment mix. However, our CEG wanted to ensure overall costs were also taken into account, reflecting our customers’ priority that we keep bill costs down.

The approximate costs of the three scenarios (at an SGN summary level and including the impact of the apprenticeship levy where applicable) are shown below in Table 8:

Table 8: Comparison of scenario costs

	Scenario 1	Scenario 2	Scenario 3
Apprenticeships (2-4 years)	9	185	398
Trainees (1-3 year schemes)	578	478	252
Graduates (2 year schemes)	22	22	35
Trainee team managers (2 year scheme)	159	159	182
Other external appointments	1,088	1,054	1,225
Internal upskilling	929	895	974
Total numbers of appointments	2,785	2,792	3,066
Total scenario cost (£m)	£26.7	£39.6	£59.2
Cost of maintaining existing competencies (£m)	£2.6	£2.6	£2.6
Cost of SGN training team (£m)	£10.7	£10.7	£10.7
Total numbers (£m)	£40.0	£52.9	£72.4

A detailed breakdown of costs at Scotland and Southern level is shown in Annex B to this appendix.

From the above tables it is clear more apprentices create a higher training cost initially, albeit the impact is less significant in Southern where we are able to utilise the government apprentice levy. Apprenticeships also require a longer training period. Despite this we believe apprentices still represent good value in the longer run.

Taking everything into account and balancing our need to keep our costs down against the needs and preferences of the business and the views of stakeholders, we have chosen to base our business plans on the forecasts under Scenario 2 (same number of apprentices as in GD1).

Growing our skills base over GD2 - Talent management, succession planning and learning transformation

Talent and succession management

We recognise recruiting sufficient resources to backfill those who leave is only part of the overall story. We also need to ensure:

- We train those who join us with the skills and competencies required to ensure we can maintain a resilient workforce which continues to deliver a safe, reliable and efficient gas network;
- We equip our managers and leaders with the skills and systems they need to effectively performance manage and motivate their teams, while at the same time retaining their full engagement and commitment;
- We maintain effective succession planning processes to ensure suitably qualified individuals are identified and developed to support the future needs of the business, with our employees recognising if they have the aspiration and ability they will have good opportunities to develop and progress within our company;
- We maintain effective processes to ensure critical knowledge and expertise is captured effectively, and not lost when long serving and experienced employees leave us; and
- We maintain a professional and agile training team, able to deliver effective and efficient training/learning and respond to future challenges.

Talent and succession management is now one of our top priorities for the remainder of GD1 and into GD2.

A number of initiatives we are developing, and will continue to develop through GD2 and beyond, include:

- Embedding talent review processes within the business for all managerial and critical technical roles within the company;
- Embedding effective management training, 'Manager Essentials', for all new and existing managers within the company. The philosophy behind this new training is getting the right balance between effective performance and people management, maintaining a committed, engaged workforce and upholding our company values;
- Establishing robust succession plans and associated development plans for regular review at Executive and Board level; and
- Appointing a Talent Manager to drive and manage these new talent and succession processes and to ensure we have first class development programmes in place to feed our talent pipeline to include programmes to support our 'talent pools' (for example newly appointed team managers and aspiring team managers).

Learning transformation

To deliver the increased training and development needs and challenges in GD2 and beyond, and in preparation for the anticipated challenge of a multi-generation workforce, we are undertaking an ambitious programme of learning transformation by introducing, developing and modernising skills within our training and development team, and embracing new technology and innovation in the workplace (e.g. blended and e-learning, robotics/AI, core-and-vac). This learning transformation will increase our agility and help to build the adaptability that we will need to respond to the net-zero challenge and the energy system transition.

Beyond technical training, we are also improving the focus on managing and developing talent at all levels of the organisation, bringing in new people into our T&D team with talent management skills and introducing new systems to improve the way we manage performance, succession planning and employee development.

Among several workstreams one of particular note is the move toward more blended learning solutions

(online and workshop). This type of learning creates greater flexibility of delivery and is seen as an enabler of productivity in the field force as our employees can fit their training around time spent on-the-job.

We are currently rebuilding some of our longer classroom-based training programmes and refresher sessions into blended solutions with a mix of online pre-work and workshop practice. This involves extensive redesign and bespoke eLearning packages being created in-house together with upgrades to our Training Centre workshop facilities.

Of note is the backdrop of talent challenges of an aging workforce in our current training team largely recruited from experienced operatives in the industrial workforce. This presents a further challenge in the need for a 'skills shift' in our present training workforce. Skills for digitized learning solutions such as eLearning packages, video creation and production together with virtual reality and enhanced visualisation technologies are becoming ever more required. All of these technologies can be used to capture critical knowledge before it leaves our business through retirements.

We are taking steps to mitigate the significant loss of knowledge from the business created by the retirement of experienced employees by building up knowledge banks, including video capture.

We are also collaborating with other GDNs and providers to share experience, knowledge, and best-practise and even costs where there is mutual benefit. In particular we collaborate with other GDNs at the Gas Network Skills Forum and one of our senior training managers has chaired this for several years.

Future skills requirements

Through our membership of various external groups, we have started to consult widely to discuss future skills requirements, particularly technical skills requirements given the ongoing Future of Energy debate.

Our Head of Talent and Development is in discussions with both the EU Skills Delivery Board (of which she is a member) and IGEM about the development of standards for future qualifications e.g. Hydrogen apprenticeships. Our HR Director collaborates with the other GDNs on development issues to ensure we maximise opportunities to work together where this delivers value, and we are actively in discussion with The Gas Network Skills Forum and the Hydrogen Transformation Group. In addition, we engage with fellow members of the Engineering Council, the Engineering Equipment Materials User Association and the UK Onshore Pipeline Operators Association.

We are building on the engagement carried out in our GD2 engagement programme to discuss future skills development with stakeholders¹⁴. Recognising the importance of ongoing engagement throughout GD2, particularly as skills requirements change, we are setting up a Technical Training Steering Group (TTSG) which will bring together representatives from expert external organisations and key leaders from within the business.

Given other future skills requirements such as cyber, digital and leadership, our intention is to broaden out the TTSG during GD2 and hold an annual Skills Update forum to ensure that our people development strategy is aligned with latest thinking. We are currently consulting with Ashridge and specialist consultants to develop our thinking on Leadership requirements for GD2.

To widen our talent pool as far as possible, encouraged by our CEG, we are refining our diversity and inclusion strategy for GD2, engaging with stakeholders with expertise in disability (such as Scope) and BAME to develop our plan. We have created an ongoing engagement programme, which we will continue to iterate with input from our TTSG and annual Skills Forum.

¹⁴ Moving Forward Together Stakeholder Workshops November 2018 (Insight ref 013 London, Insight ref 014, Edinburgh)

Brand attraction

As discussed above, and according to EU Skills forecasts, we face the very significant challenge of recruiting 1,861 employees over GD2. This challenge will be made all the harder due to factors discussed previously in this appendix (tough regional labour markets, high competition for skills, upwards pressure on regional wages, changing composition of our workforce, changing expectations of a multi-generation workforce and a potential move away from natural gas in the transition to net-zero).

In the face of these challenges, we recognise that our brand attractiveness will be an important factor in attracting people to us as a prospective employer in the numbers and quality we need.

It is apparent that we (as the 'SGN brand') have much work to do to achieve the same levels of brand recognition as the companies from which we were born (British Gas/National Grid/Transco). Nonetheless, we've been working to develop a strong SGN brand identity which resonates with, and is recognised by, our customers and those we would wish to come and work for us, and this work will continue during GD2.

Leveraging social and digital media channels

We are creating compelling content on our external and internal websites relating to workplace insights, successful storytelling and effective promotion of current opportunities.

We engage with our colleagues and enhance the authenticity of our employer brand by encouraging employee generated content and two-way dialogue on our internal intranet sites. We recognise our colleagues can act as an extension of our employer brand, acting as advocates and ambassadors.

We engage with prospective colleagues by leveraging a range of social and digital channels that facilitate two-way dialogue, e.g. Facebook, Twitter and LinkedIn, and demonstrate our commitment to transparency by inviting our people to share their experiences on Glassdoor.

Ultimately, our aim is to develop our employer branding to levels which will provide candidates with a positive and lasting impression of SGN, creating a convincing case for them to apply.

Putting something back into society and local communities

Our primary societal responsibility is the delivery of a safe, reliable and efficient gas network, at good value for money for our customers and stakeholders.

However, as a major employer of repute, it is right we also recognise we have broader societal responsibilities. The engagement undertaken with our stakeholders demonstrates this is important to them too. At stakeholder workshops in November 2018, to support our planning process we discussed the potential skills shortage with our stakeholders and asked for their advice to attract high quality people to our business and our industry¹⁵. Stakeholders focused on the importance of bringing younger people into the industry, providing training and development opportunities, and building an inclusive culture of performance and reward¹⁶. We have built this focus into our plans.

We believe being seen as a socially responsible employer is also an important factor in establishing us as an attractive employer brand, which in turn is an important factor in attracting people to come and work for us in the numbers we need during GD2.

To this end we plan to:

- Continue to operate as a good, ethical employer, providing opportunities and long-term, secure employment for people mainly within our geographic footprint;

¹⁵ Moving Forward Together Stakeholder Workshops November 2018 (Insight ref 013 London, Insight ref 014, Edinburgh)

¹⁶ Safe & Efficient workshop London (August 2019, Ref: 089)

- We will work with partners and our own employees to extend opportunities for those seeking to return to the labour market, for example working with organisations that support veterans, the homeless or disadvantaged young people. Through mentoring, work preparation programmes and work experience we will build life and work-related skills in our local communities. Partnership programmes to encourage a diverse range of people into the gas industry will also have positive benefits for us, attracting new talent and supporting workforce resilience;
- Continue to provide our direct workforce with fair and competitive reward above both the national living wage rate, and the real living wage rate. We are committed to ensuring contractors and other service providers who provide employees to work on our behalf also pay their employees above the national living wage;
- Align our executive, senior leader and other bonus arrangements to achievement of targets important to our stakeholders (in addition to financial and regulatory targets), namely:
 - Continuing to deliver a safe, reliable and cost-effective network, maintaining our standards of service and delivering an Emergency Service on a 24/7 basis;
 - Achievement of safety and environmental targets;
 - Achieving future de-carbonised energy solutions;
 - Achieving customer service targets;
 - Achieving stakeholder satisfaction improvement targets;
 - Achieving support for vulnerable communities' targets; and
 - Achieving people targets such as talent & succession, diversity and inclusion, and employee engagement.
- Provide those who join us with effective, professional training. In particular we plan to offer nationally recognised apprenticeship opportunities during GD2, which will be of particular appeal to young people within our geographic footprint and which will help maintain the stock of key skills within the UK as a whole. Apprenticeships are something that have been recognised by all our stakeholders as something of real value and customers have exhibited a willingness to pay for investment in employee training¹⁷¹⁸;
- Continue to run professional adult traineeships and graduate programmes which will provide good opportunities for broader range of age groups within our geographic footprint;
- Promote diversity and inclusion both within and beyond our company, for example within our supply chain;
- Operate ethical internal policies that encourage our employees and those who work on our behalf to always 'do the right thing';
- Continue to be a company which recognises Trades Unions and affords them and their members the treatment expected in law and good practice. We will continue to consult them in a spirit of partnership over any significant issue that may impact on our business and/or their members and our employees;
- Help instil confidence in the public and others impacted by our operations by operating fair policies designed to encourage professional and safe conduct by our employees and by acting swiftly and decisively where expected standards are broken;
- Continue to be an environmentally aware organisation in all respects, and particularly to emphasise the efforts we are making to prepare for a net-zero decarbonised future, with a potential future role for the gas networks as part of the solution rather than the problem; and

¹⁷ Moving Forward Together Stakeholder Workshops November 2018 (Ref 013 London, Ref 014, Edinburgh)

¹⁸ Conjoint and WtP summary report (Valuation Phase) (Ref 005)

- We will continue to operate our Community Action Programmes (CAP), providing all employees with paid leave to support local charities and initiatives. Plus we will continue to provide mentors/ambassadors for school pupils/girl guides through our community programmes, all designed to put something back into local communities and build social value.

Our achievements

We're extremely proud of the awards and accreditations we've achieved in recent years, which all help develop our employer brand, including:

- Our achievement of the Ministry of Defence (MOD) Employer Recognition Scheme gold award for showing outstanding support to the military community and the Armed Forces Covenant;
- Our achievement of the OpenCompany accreditation from Glassdoor in recognition of our commitment to openness and transparency;
- Our endorsement by specialist recruitment firm WORK180 for our dedication to improve diversity and inclusion.

Employee retention - improving the employee experience

Of equal challenge to recruiting, training and developing the 1,861 extra employees we need to replace those who are likely to leave us during GD2, is encouraging those who join us, or who are already with us, to stay.

As discussed elsewhere within this appendix, we believe the increasing churn rates we have experienced over recent years will continue into GD2.

Although reasonable levels of churn are often a good thing for an organisation (insofar as it can create opportunities and introduce fresh thinking), unacceptable levels of churn can cause disruption within a business.

Of particular concern to us is churn among those employees in whom we have made a significant investment in terms of formal training, upskilling and development.

Over GD1, 73% of all our leavers have been from our operational teams, each of whom will have left following significant training investment by us. For example, the cost of training an FCO through a nationally recognised apprenticeship is around £100,000. Nearly 300 FCOs have left our company during GD1 to end March 2019.

Retention of apprentices who have completed their training can be challenging in a competitive market, as our sector-leading apprenticeship schemes make our employees highly valuable and sought-after.

As such, we believe it is important that we take steps to keep our churn levels within acceptable levels and to retain those in whom we have invested most heavily and who have the greatest experience and expertise.

We aim to do this by continuing to enhance the overall employee experience we provide over GD2 and beyond, thereby making SGN a great place to work, where people feel welcome, valued, and listened to, and therefore want to build a long-term career within the organisation.

Reward strategy

Reward strategy is clearly an important factor that impacts on retention, and our aspiration is to continue to be an employer that provides secure, long-term employment and fair, competitive, and innovative market-rate reward.

As discussed, we also align our executive, senior leader and other bonus arrangements to achievement of targets important to our stakeholders.

All of this, however, needs to be delivered within regulatory / budgetary constraints to ensure value for money for our customers and stakeholders.

The key challenges around our reward strategy and employment costs are:

- For much of GD1, employees placed a high value on the long-term, secure employment we provided, which helped suppress our churn rates and recruitment costs;
- However, over recent years we have faced a ‘perfect storm’ of increasingly tough regional labour markets, high competition for the sort of skills our employees possess, national and regional skill shortages, the changing composition of our workforce (now a majority on market-based reward/DC pensions), high cost of living (particularly housing costs in the south), and upward pressure on regional wages.

This ‘perfect storm’ has pushed up our employment costs and increased our churn. These circumstances are expected to continue into GD2 and therefore there is every reason to expect our employees to try to push for further improvements in reward. If we are unable to meet their aspirations, it is likely, in the face of continuing competition for skills and tough regional labour markets, we will inevitably lose employees who are seeking better opportunities/greater reward elsewhere.

Looking ahead, our ambition during GD2 is to keep our reward and retention packages under close review (using salary benchmarking, supported by trend analysis of starters/leavers and employee engagement) and to strive to keep them as competitive as possible given other business constraints.

Beyond this we plan to pursue innovative and agile strategies that help us attract and retain the talent we need, particularly those in whom we have invested heavily in terms of training and development or who have critical knowledge/experience.

As specific examples, over GD2 we plan to:

- Extend our use of reasonable retention payments where justified by business needs and risks;
- Continue to develop short-term, longer-term, and project-based bonus opportunities and incentive payments that add value, drive performance, and shape longer term thinking;
- Continue to review the basic/variable pay mix at all levels of the organisation. In common with many traditional utilities, a significant proportion of the total reward for our field workers is made up of variable overtime pay, in the same way a significant proportion of the total reward for our senior leaders and executive team is made up of variable bonus. We plan to keep this under review and adjust (in favour of more stable and certain basic pay) where necessary to help retain and recruit the talent we need at minimal additional cost to the business,
- Continue to review our gender pay performance and adjust as necessary to ensure we are attracting and retaining the diversity of talent we need;
- Continue to review our CEO pay ratio to ensure it aligns broadly with socially acceptable norms;
- Seek accreditation as a living wage employer.

Listening to and communicating with our employees

We are passionate about listening to our people and acting on their feedback to continually improve the way we all work. We believe employees who feel valued and that their views count are more likely to want to stay with us as an employer.

For a total of eight years, up to and including 2016, we ran our employee opinion survey which measured engagement, communication, leadership, inclusion and diversity and managers.

The quantitative and qualitative data from these surveys helped us to identify gaps and areas for improvement.

The overall response rate of our 2016 survey was 86% with an Engagement index of 82%, but it was agreed we should have a break from our all employee survey and instead gather more specific employee feedback

through a variety of lifecycle surveys (e.g. new hire and leaver surveys) and deep dive surveys on subjects like diversity and inclusion. We also listened to our people who attended focus groups (e.g. covering recognition) and utilised reviews from the recruitment platform Glassdoor.

The employee opinion survey was re-introduced after a three-year break this year (September 2019). Responding to employee feedback and trends in the employee listening market, the survey was online only and focused on measures to improve the overall employee experience. Three key metrics, inclusion, leadership and sustainable engagement, ensure managers' actions plans are aligned with business priorities as we prepare for GD2. All indices are positioned as equally important to ensure there's a focus on improving different dimensions of the employee experience, rather than just the historical focus of engagement.

In addition, working with global research specialist Willis Towers Watson as survey partner, allows for comparisons with more than 200 UK companies across various sectors. This offers extra insight to help with future focused action planning, which is currently underway.

As we move into GD2 and beyond, some of our ambitions and plans include:

- Exploring ways to join up employee insight from multiple sources, such as employee lifecycle surveys, deep dive surveys, employee opinion survey, and sentiment from Yammer and SGNapp. Ultimately this will give us a richer source of data, all in one place, better informing actions;
- Ensuring data from employee opinion surveys and other sources is incorporated into other relevant plans, specifically D&I plans; and
- Building on efforts to adopt more of a continuous listening approach.

In terms of communicating with our employees, we plan to continue to effectively communicate our purpose, goals, strategy and performance, so employees understand how they fit in and how their contribution makes a difference. We will also continue to provide and develop communication channels across a number of different channels and digital platforms.

Communicating with our recognised Trades Unions and employee representatives

Given our nationalised industry history, the majority of our employees are in a Trade Union, and we will continue to be a company that recognises Trades Unions and affords them and their members the treatment expected in law and in accordance with good practice.

We have always strived to maintain good working relationships with our Trades Unions (GMB and Unison). We have largely been successful; for example, we have never suffered any industrial action. Key to the maintenance of these good relationships has been our employee relations mechanisms which provides regular fora in which we can consult union officials and representatives in a spirit of partnership over any significant issue which may impact our business and/or their members and our employees into the future.

We have a quarterly national Joint Consultative Committee and local joint industrial and non-industrial committees to discuss business matters and terms and conditions, and a quarterly national Safety and Environment Committee and local safety forums to discuss all matters relating to safety and environment. These formal meetings are supplemented by regular informal meetings both at national and local level.

Moving forwards, our ambition during GD2 is to plan to further strengthen working relationships with our Trades Unions, and improve the operation of employee relations within SGN, through initiatives such as:

- Forging effective relationships with senior officials within the GMB/Unison (at both regional and national level) to identify areas of mutual concern and interest and developing plans to address these;
- Reviewing the 'facilities agreement' we have with our Trades Unions to ensure it remains lawful and in line with best practice, and is working effectively in the best interests of all parties;
- Supporting local Trade Union representatives in their dealings with their members and our employees,

particularly when communicating and managing change;

- Further streamlining committee structures and numbers of Trade Union representatives; and
- Arranging joint training for newly appointed TU representatives in terms of health, safety and handling key HR issues such as excessive sickness absence, capability, discipline and grievances.

Effective preboarding, onboarding, offboarding and policies

We believe official interactions we have with our employees shape their views of us as an employer and depending on the nature and quality of these interactions they can either become ambassadors for us, or detractors.

Ambassadors who have a good experience of us as an employer will be more inclined to stay with us and tell their friends and family of their good experiences, which improves our attractiveness as an employer brand.

Therefore, over recent years we have been developing and improving the employee experience at the following key touch-points during their careers, and these developments will continue into GD2 and beyond.

Preboarding

At the very beginning of an SGN career, we want to make sure that even before our new hires start their new role, they get to know us a little better and get an idea of what it will be like to work at SGN. We've created a Preboarding app that does just that and includes:

- Welcome videos from our CEO and our HR Director;
- Virtual tour which shows the variety of work we do, our depot and office locations and the diversity of our people; and
- New hire testimonies sharing their experience.

After 30 days, we survey our new hires to make sure their induction experience has been positive and effective, and they have a clear work and development plan. This survey feedback helps us provide a realistic picture of what is working well and where we can improve how we do things, how we retain good people and how we can move forward.

As we move forward into GD2, we will continue to collate valuable insight from our new hires through the new hire survey, but we will also look to introduce a candidate survey, capturing the views and experiences of successful and unsuccessful candidates alike. The candidate survey will focus on the recruitment experiences, whereas the new hire survey will concentrate on the first 30 days. Introducing this additional survey will provide us with the critical information we need to continuously improve experiences for those who interview at and join us.

Onboarding

It is vitally important that new employees get a good impression of us, as their new employer. If we do not make a new hire feel welcomed and valued when they arrive, it is more likely that they will leave.

We've created a managers' onboarding checklist, designed as a foundation to create an effective onboarding plan. It covers all the necessary paperwork, security and induction essentials but builds on this to encourage a person focused approach.

We also created an onboarding planner as a springboard to crafting an effective onboarding plan and is job/role specific. The new hire can reference the planner for personal research/reading recommendations, a list of useful contacts, key event dates and an overview of work specific training /tasks to be completed within the onboarding period.

After completing the checklist and a successful onboarding, we encourage our managers to continue to convey our values, provide feedback on a regular basis and encourage constant communication - all this is key to

employee loyalty and longevity.

The manager's role in ensuring a positive onboarding experience is critically important and, as such, an area of focus as we move forward into GD2 concerns upskilling our people managers. A host of resources will be introduced to equip managers with the information and tools they need to create a positive and lasting first impression. It is expected these resources will include case study examples of positive onboarding experiences to educate and inspire, and a template welcome pack for managers to tailor for their new hire.

To provide a first-class onboarding experience, we are considering introducing a corporate induction which all new hires will experience. This will involve introductions from prominent figures from within the organisation and an introduction to our core business operation, values and vision for the future. The corporate induction will ensure consistent delivery of key business imperatives and allow new hires to begin establishing valuable relationships and building a network within our company.

Offboarding

When any of our employees leave us, we want to make sure their experience is just as positive on leaving as it was when they started working with us. The benefits of this are:

- An organised process for offboarding can help give our outgoing employees direction and structure so that they continue to give a high-level of productivity in their final weeks with us;
- When outgoing employees record important processes and have an efficient handover of work, it becomes easier to develop new/existing employees. With a smoother and shorter development time, new/existing employees can make positive impacts more quickly;
- When we highlight and celebrate an employee's contribution to the business, it ensures they leave feeling valued and recognised for their efforts. Employees who have left and have a positive relationship with the company are more likely to return as employees later in their career or refer friends for new positions; and
- We can learn a lot from employees who leave us after many years' service and with a wealth of experience, particularly in terms of improvements we can make into the future.

Policy reviews

We have formed policy working groups designed to review a number of key policy documents employees may experience during their careers with us, to make them more accessible and easier to understand. In particular, we have reviewed and revised our maternity guidelines for expectant mothers and their managers, which has been well received.

Becoming a truly diverse and inclusive employer

Like many traditional utility companies, our workforce is not currently representative of the UK workforce for gender, Black, Asian and Minority Ethnic (BAME), disability and under-24s. As reported in our 2018 Gender Pay Gap report, only 17% of our workforce is female (although numbers have increased year-on-year since 2013).

However, we remain committed to building a truly diverse workforce that reflects the communities we serve into GD2 and beyond, and we're working hard to build a more inclusive culture where everyone feels valued and supported.

We believe a diverse and inclusive workplace is better for our business, better for our colleagues, and better for our customers and stakeholders. In addition, we believe it will help make the job of securing the numbers of people we need to recruit over GD2 and beyond much easier if we are attractive to women (> 50% of population) and people from minority groups (such as those from BAME communities).

During GD1, we're continuing to take steps to create a more diverse and inclusive SGN. For example, we're: starting to close the gender gap; supporting our leaders and managers to be more inclusive; encouraging

colleagues to consider their everyday actions to create an inclusive workplace; and partnering with organisations across the energy industry to make the sector more accessible. This will help us attract, recruit and retain people from different backgrounds and perspectives, making SGN a great place to work. But we believe there's much more we can do.

For GD2, encouraged by our CEG we recently engaged with specialist stakeholders to help us to refresh and simplify our diversity and inclusion strategy. Our revised strategy builds on the progress made during GD1 and focuses on what's right for our company, as informed by our stakeholders. The strategy sets out our ambition and programme of work to help make our company more diverse and inclusive, delivering benefits for employees, our business, and the customers and communities we serve. We will continuously review progress on our strategy, engaging with relevant stakeholders and refocusing as new insight and priorities emerge.

Our ambition is for our people to feel valued and supported, delivering a shared future together.

In terms of our strategic aims, we will:

- Create an inclusive workplace where everyone is valued, respected and encouraged to do their best;
- Build a diverse workforce, reflective of our customers and communities, bringing together different perspectives and enabling innovation.

Our diversity and inclusion strategy recognises that some under-represented groups face more challenges than others. Through our work, we're aiming to level the playing field for everyone, so everyone can be their best.

In the short-term our outcomes are to:

- Move diversity and inclusion from being an HR priority to a business-driven approach;
- Achieve better gender-balance with initiatives to attract, develop and retain female talent; and
- Ensure business decisions are informed by people data and employee insights.

As above, we recognise our sector is not representative of the UK workforce for gender, BAME, disability and under 24s, and much of our workforce is male and white. Although the focus of our diversity aim during GD1 has been to improve gender balance, this does not mean we'll disregard other areas of diversity.

As we move towards the next price control, we are focusing on three key longer-term areas. The actions we take will be informed by ongoing stakeholder engagement, with some of our key focusses below:

- Address the imbalance of our own workforce with initiatives to attract, develop and retain all under-represented groups;
- Active participation in industry-wide initiatives to champion a more diverse workforce in the energy sector; and
- Develop a culture of inclusion that truly reflects the diverse nature of the customers and communities we serve.

Our approach will also be informed by data and will target the most impactful areas. When developing initiatives, for example, to attract and retain BAME groups, given the working population in Scotland is currently 3% BAME, whereas London is 38% BAME, our efforts will be targeted towards increasing the diversity of our workforce in London rather than across the entire organisation. This approach has been recommended following recent discussion with some of our BAME stakeholders.

To deliver our strategy throughout GD1, GD2 and beyond, we're keeping the focus on both diversity and inclusion with a clear strategy: engage, educate and embed, underpinned by communication and measurement.

We recognise the importance of engaging with relevant stakeholders to inform our D&I strategy and actions. The engagement process continues throughout the rest of GD1 and into GD2 as we refine and iterate our

plans. Engagement with individual stakeholders and expert groups will be supported by the annual Skills Forum of stakeholders, ensuring that our thinking stays up-to-date.

Some of the key stakeholders we are engaging with are listed below:

Table 9: Stakeholder engagement groups

Stakeholder group	How	When
SGN employees	<ul style="list-style-type: none"> • D&I surveys, focus groups and interviews • Annual employee survey with inclusion index to monitor progress • Feedback through intranet, Yammer, App and social media groups 	Ongoing through GD1 and GD2
EU Skills D&I Forum and LinkedIn group, (40 members across utility sector)	<ul style="list-style-type: none"> • Twice yearly meetings and tele conferences 	Ongoing through GD1 and GD2
D&I forum follow-on meetings - Remploy - Equal Group (EG)	<ul style="list-style-type: none"> • Remploy provided practical guidance at a forum on the changes we can make to become a disability confident sector. • Meeting to understand the work EG does to measure effectiveness of D&I and what to do more of/less of. 	Sep 2019 Oct 2019
Special interest groups - Gender Powerful Women (PFW)	<ul style="list-style-type: none"> • Ongoing support and advice from Non-Executive Director (NED) • SGN delegates attend annual PFW conference 	As required
Special interest groups - Gender Work180	<ul style="list-style-type: none"> • Ongoing support and recommendations from our partnership with Work180 	Bi-monthly
Special interest groups - Disability Scope	<ul style="list-style-type: none"> • Meeting helped our understanding of the services Scope provides and approach to equality for disabled people in the workplace 	Oct 2019

Government departments: BAME focus - Deputy Director Inclusion, Wellbeing and Public Appointments. Ministry of Housing, Communities and Local Government	<ul style="list-style-type: none"> Meeting helped our understanding of the approach taken to encourage BAME civil servants to progress throughout this government department 	Nov 2019
Special interest groups - BAME Zinithya Trust Charity	<ul style="list-style-type: none"> Meeting gave an awareness of the work this charity does to support some of society's most vulnerable groups into work 	Nov 2019
D&I specialist, NED for Registers of Scotland, artist, R&D VR immersive tech, D&I lead (Kainos)	<ul style="list-style-type: none"> Utilising a wealth of experience in D&I strategies and led the initial work for the government in NI Meeting gave an overview of recent work undertaken to develop a strategy and action plan for a global organisation 	Nov 2019
D&I specialist	<ul style="list-style-type: none"> Introducing an associate working with Channel 4 Meeting to understand Channel 4's approach to BAME recruitment 	Q2 2020
National Inclusion Standard - Evidence-based, accreditation tool for assessing and promoting inclusion in the workplace.	<ul style="list-style-type: none"> Initial conversations held in Oct, registered to begin assessment in Dec 19 	Starting Dec 19
Royal Academy of Engineering - D&I Measurement framework	<ul style="list-style-type: none"> Engagement via EU Skills D&I forum 	Ongoing

Flexible/agile working

We have always encouraged a flexible/agile working culture within our workforce as we believe this is a 'win-win'. Employees with a flexible approach get to be involved in varied types of work, which enriches their employee experience, and a flexible and multi-skilled workforce allows us to respond more effectively to changing work priorities.

We recognise that providing our workforce with a good work-life balance is a key factor in improving their overall employee experience and ensuring we retain key workers.

While we have always been prepared to consider flexible working for any employee, this has been more prevalent amongst our office workers.

For our wider workforce, we will also operate and further develop modern maternity, paternity, adoption, leave and flexible working policies.

In view of the above and looking forward to GD2, we'll be developing guidance for managers on flexible working to ensure they are well equipped to respond to flexible working requests, it is our view that the guidance will include case studies from colleagues who work flexibly; showcasing the benefits to both the individual and their team.

On advice from an external consultant, we may consider a new approach to handling flexible working requests in which the default response to any reasonable request involves approving the proposal and trialling it for a time. This would allow both colleagues and managers to experience the proposed changes before making a final decision.

Finally, we'll continue to work with organisations in the utilities sector to share best practice and learn from their experiences. In GD1 we engaged with Scottish Water and learned about the 'working styles' they had applied to their workforce. They had undertaken an audit of every role within the company and assigned a working style, these include 'fixed', 'fluid' and 'field'. The extent of locational and temporal flexibility across each of the styles varies and ensures a degree of flexibility is achievable across a wide range of roles. It is our intention to further explore this model and assess the suitability for implementation in our company.

Addressing long-hours culture in our operational field workforce

In terms of our majority field workforce, work-life balance has become increasingly important to them over recent years, with our operational leavers often citing a lack of work-life balance, due to frequent long-hours working, as a factor in them deciding to leave.

Gas distribution businesses like ourselves need to provide emergency cover for our customers on a 24/7 basis. The traditional way we and most other utilities have done this is through standby and call out working (i.e. our operational workers remain 'on call' after they have completed their normal hours, so they can attend out-of-hours gas emergencies and other priority work as required). In busy periods, this can often result in long-hours.

We have of course always had protections built in to ensure employees who spend significant time 'called out' overnight have rest-time before starting work the next day. However, changing societal attitudes and concerns shared by ourselves, the HSE and the Trades Unions about long-hours working have compelled us to review our approach. The shared concerns are that those who work very long-hours, and particularly on safety critical tasks, could potentially suffer fatigue and put themselves and others at increased risk. This in addition to them often experiencing a poor work life balance.

Addressing this issue has been very challenging as it has meant changing working practices that have existed for decades, but we successfully developed revised working patterns in collaboration with our Trades Unions and in consultation with the HSE, which has now been operational since November 2019.

The revised working patterns have been designed to mitigate against the possibility of employees working more than 16 planned hours, including standby/call out, in any 24-hour period. **Commercial Confidentiality**

. However, we believe it has been the right thing to do to improve safety and work-life balance for our employees, which in turn will help us improve the employee experience, retain key workers and maintain workforce resilience. We identified this cost in the October version of our business plan but did not include the cost in totex since it was still under discussion with Trades Unions and employees. The cost has been included in our business plan.

We believe the HSE view the changes we are making as positive and a significant step forward in making our workforce safer and improving their work-life balance (as do we, and our Trades Unions). However, they are continuing their industry wide consultations on this matter, and during consultations with us regularly refer to a benchmark of 12 hours maximum working hours in any 24 hour period **Commercial Confidentiality**

Given the current uncertainty around this matter, we have included a re-opener should the HSE enforce a different standard.

Employee wellbeing

While we believe that everyone needs to take personal responsibility for their health and wellbeing, we recognise that there may be occasions where some support from us as their employer will be welcome and appreciated.

Below are examples of initiatives implemented to date:

- **Financial health** - we have partnered with an independent financial wellbeing partner that offers - low cost loans, debt consolidation, savings facility and a financial education hub for all. It's clear from the take up data that many of our employees are taking up these benefits and to complement the offer, we're hoping to introduce a salary advance element later this year;
- **Mental health** - we have introduced more than 70 mental health supporters. These are employees who volunteered for the role and have had relevant training. Awareness training was also delivered to all our managers to ensure they understood what the role of the supporters is and allow them time to support those with possible mental health concerns;
- **Physical health** - to further help our people improve their physical health, we partnered with a discount gym/fitness company who offer discounts to our employees and their families;
- **Employee Assistance Programme (EAP)** - we have recently replaced our provider and package so this service is more aligned to our employees' needs;
- **Flexible working and work-life balance** - as set out above, we also recognise work-life balance has become of increasing importance to our employees in terms of their overall wellbeing. We are working collaboratively with employees and our Trades Unions to change working patterns and practices (to manage out the possibility of employees working the longest hours and reduce the possibility of fatigue). This collaboration is ongoing and will continue into GD2.

Our ambition for GD2 is to put wellbeing, resilience and health at the heart of what we do. We want to demonstrate to our employees they are a highly valuable asset, thus creating a culture of wellness where employee performance and engagement is high.

Examples of planned activities include:

- Continuing to develop and improve wellbeing policies related to work-life balance, making them more accessible to all our people and complimentary to our employees' lifestyle;
- Creating an employee wellbeing focus group (HR, SHE, TU, employees, management representative) to maintain focus on our employee wellbeing;
- Having an annual communications plan to promote wellbeing, including our EAP offering;
- Developing a more accessible Occupational Health (OH) service allowing more focused, consistent and proactive management of employee issues. This will enable case management to be handled in a timelier manner and give the appropriate focus on our initiatives;

- Putting in place, most likely through internal OH, processes to enhance the management of stress and mental health requirements, with a view to reducing levels of employee absence;
- Investigating the provision of a muscular skeletal (MSK)/mental health facility to help employees remain in their substantive roles;
- Continue to develop our current mental health offering, including continuing to remove the stigma associated with mental health;
- Considering the introduction of an employee health cash plan, with an employee option to upgrade;
- Continuing with discounted gym membership; and
- Continuing with the financial wellbeing offering, broadening it to include the option to attend 'expert' focused discussion on particular topics e.g. mortgages.

Employee recognition

We recognise 'thanking' employees who have done a good job or who have gone the extra mile is well received and is important to maintaining an engaged and motivated workforce.

In response to employee feedback and market trends in recognition, for the remainder of GD1, we're improving our recognition offer, creating a new system introducing: social recognition, instant recognition of moments that really matter and meaningful rewards. The system will provide a more people-centred experience, to help achieve our ambitions.

Social media recognition through platforms such as Facebook is giving rise to social recognition. This empowers our people to share the successes of their colleagues directly, either with their team, or with the whole organisation. Our main focus is to encourage a culture of recognition, without the expectation of a reward. Each employee will have access - whether they are at a desk, on the move or through their smartphone.

In terms of meaningful rewards, we're designing an automated, simple peer-to-peer scheme that will maximise employee engagement, improve motivation and inspire others. The system will be easy to use, mobile and instant. Rewards will be lower value and easy to redeem.

Building on the benefits the new recognition platform offers, and taking account of changing employee expectations, as we move towards GD2 we want recognition to be a transformative force for good, helping us reach our strategic priorities. We want people to express authentically how they feel about peers and the contributions they make. Some of the activities we may focus on include:

- Educating our people on the why and how of meaningful recognition through better resources such as online training, video and written content;
- Exploring ways to make recognition even more interactive with use of video and audio messages for sending messages of praise and acknowledgement;
- Aligning recognition efforts to strategic priorities, for example with greener rewards or rewards aligned with our wellbeing agenda;
- Improving data to give greater insight into employee behaviour to enhance loyalty, pride and engagement; and
- Extending the recognition offer to incorporate long service awards, employee suggestions and a nominations process for monthly, quarterly and annual awards.

5.2 Managing Uncertainty: Use-it-or-lose-it, volume drivers and reopeners

The HSE has an ongoing and industry-wide focus on potential fatigue issues among gas operatives involved in safety critical tasks.

We are therefore introducing changes to work patterns, policies and processes aimed at addressing such potential fatigue issues.

Our revised working patterns have been designed to engineer-out the possibility of employees working more than 16 hours, including standby/call out, in any 24. Making these changes has been at a significant cost to us as we have had to apply more expensive T&Cs to facilitate the additional flexibility required.

We believe the HSE view the changes we are making as positive and a significant step forward in making our workforce safer and improving their work-life balance.

However, they are continuing their industry wide consultations on this matter, and during consultations with us regularly refer to a benchmark of 12 hours maximum working hours in any 24 hour period (although the reference for this appears to be based on research on continuous shift work, rather than the standby/call-out model we operate).

While we believe we can manage our new 16 hour maximum work patterns within existing resource levels, this would not necessarily be the case if the HSE required us (and other GDNs/utilities) to limit working hours to a figure below 16. In this event, and to maintain our customer standards and continue to run a safe, reliable, and efficient network, we would need to recruit and train and equip significant numbers of additional resources.

If the HSE does mandate us in the future to make further changes to our working patterns (e.g. limit working hours to a figure below 16), and if it would be impossible for us to address these changes without adding significant costs into the business, then we would consider this a material legislative change for which we would seek a re-opener. In doing so, this protects customers from a risk premium being included in our forecast to account for the potential increase in costs which may not materialise.

5.3 Financial Summary

We plan to keep our reward packages and employment costs under review over GD2 and beyond through effective benchmarking and analysis of leaver trends/regional factors.

Our aim will be to control these costs in a way that both provides good value for money for our customers and stakeholders (and adheres to regulatory and budgetary constraints) while at the same time providing fair and competitive market-rate reward for our employees and those who we want to recruit.

We will continue to collectively bargain pay deals and other significant changes to T&Cs with our recognised Trades Unions and aim to continue and build upon the good relationships we have forged with them over our history to maintain a good, stable employee relations environment.

However, it must be recognised any employer offering market rate reward in the face of continuing competition for skills and tough regional labour markets will face challenges, as there will be plenty of opportunities for those who seek better reward elsewhere.

We therefore envisage more challenges ahead during GD2 in terms of controlling our employment costs.

Employment costs during GD1

We have always looked to introduce change within SGN through foresight and evolution rather than through radical change, and this has helped us enjoy very good and stable employee relations throughout our history (as an example, we have never experienced any strike action or had to make compulsory redundancies).

These stable employee relations have helped us secure hard-won long term pay deals through collective bargaining with our recognised TUs over GD1. This in turn has helped provide stability and certainty for our employees, stakeholders and customers and has helped manage employment.

We have also used collective bargaining effectively to leverage increased flexibilities from the workforce in terms of travelling time, days and times of work, and Saturday working.

However, things have become much more challenging over recent years:

Commercial Confidentiality

Commercial Confidentiality

6 Conclusions

- Our focus during GD2 will be on maintaining a resilient workforce that can continue to deliver a safe, reliable and efficient network;
- To this end we plan to continue to employ the majority of our workforce directly rather than through external contractors (although we will continue to employ contractors where cost effective and sensible, particularly on our Repex programme);
- We will use expected reductions in core workload over GD2 to reduce our contractor costs and/or take on additional productive work;
- We expect the ‘perfect storm’ of challenges we have faced over GD1 in terms of continuing high levels of retirements and churn, coupled with extremely tight labour markets and competition for skills, to continue, and possibly worsen, during GD2;
- According to workforce forecasting commissioned from EU Skills, increased numbers of employees are likely to leave us during GD2 (nearly 400 more, 1,861 versus 1,470 in first five years of GD1);
- As a result, we will need to recruit more people during GD2 compared with GD1. EU Skills forecast we will need to recruit 1,897 employees during GD2 (including 185 Apprentices under our preferred option). This will require increased recruitment and training effort/investment, and of course funding;
- We will need to offer competitive reward and other benefits to enable us to recruit and retain these numbers. However, this will present challenges in terms of keeping our employment costs under control;
- Our aim will be to control our employment costs in a way that both provides good value for money for our customers and stakeholders (and adheres to regulatory and budgetary constraints) while at the same time providing fair and competitive market-rate reward for our employees and those who we want to recruit. However, it has to be recognised any employer offering market-rate reward in the face of continuing competition for skills and tough regional labour markets will face challenges, as there will be plenty of opportunities for those who seek better reward elsewhere;
- We recognise recruitment and retention success is not just about reward, we will also support our recruitment and retention efforts by further developing our employee brand and the overall employee experience we provide;
- We also recognise as a major employer of repute, it is right we recognise we have broader societal responsibilities, and to this end we plan to continue to operate as a good, ethical employer, providing good opportunities and long-term, secure employment for people mainly within our geographic footprint, and offering them fair and competitive reward above the ‘living wage’;
- We will provide those who join us with effective, professional training, including nationally recognised apprenticeship opportunities plus other professional adult traineeships and graduate programme;
- We will promote diversity and inclusion both within and beyond our company and operate ethical internal policies (including procurement policy) that encourage our employees and those who work on our behalf to always ‘do the right thing’; and
- We recognise there are significant decisions in terms of future energy policy which will be taken at Government level within the GD2 period and we remain committed to remain agile enough as a company to respond effectively. We will improve our engagement with external stakeholders to facilitate this.

7 Assurance

Our business plan and appendices have been subject to a rigorous assurance process which is detailed in Chapter 3 of the Plan and the Board Assurance Statement.

Our HR & Services Director was appointed as the sponsor for this HR and Workforce appendix (009) which has been through the following levels of review and assurance:

First line

This was undertaken at project level by the team producing the document, as a regular self-check or peer review.

Second line

This was undertaken independently within the organisation to review and feedback on product development, including GD2 workshops on HR & procurement, resource modelling for GD2 and workforce resilience.

Both senior manager and director sign-off was obtained and our GD2 Executive Committee: (i) considered the appropriateness of assurance activity for the appendix and (ii) provided assurance to our Board the business plan meets Ofgem's assurance requirements.

Third line

This was undertaken by external advisors and groups providing critical challenge during the development of products within the business plan. In addition to the feedback and challenge provided by the Customer Engagement Group (CEG) and Customer Challenge Group (CCG) this appendix was developed after consultation with and advice from:

Advisor/group	Contribution
EU Skills	Forecast leaver numbers and training requirements to meet forecast workload

Fourth Line

This was undertaken by independent and impartial external providers, who provided a detailed and comprehensive report to both the Executive Committee and Board of Directors:

Advisor/group	Contribution
PwC	Business Plan Data Template review: FTE

8 Glossary

All acronyms and associated descriptions can be found within the Glossary appendix.

9 Annex contents

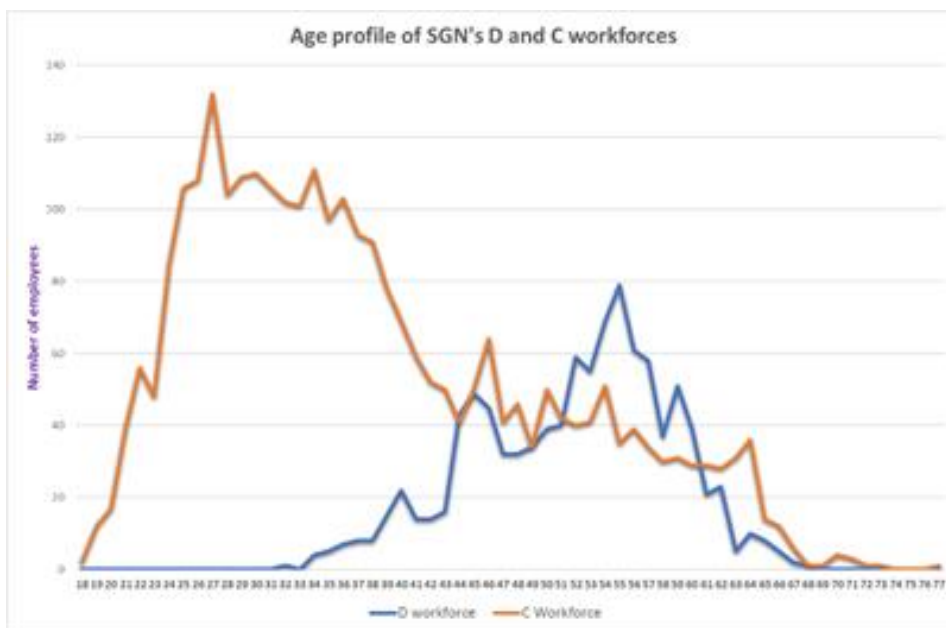
1. Annex A: GD1 retirements, churn and maintaining our skills base 45
2. Annex B: Recruitment scenario costs by Southern/Scotland 50

1. Annex A: GD1 retirements, churn and maintaining our skills base

GD1 retirements

- Our retirement levels are driven largely by our age profile as shown in the graph below.
- Overall, 19.6% of our direct workforce is aged 55 or over (20.2% Scotland, 19.2% Southern).
- However, 39.6% of our original legacy (ex-Transco) employees are aged 55 or over. These legacy employees are our longest-serving, best trained and most experienced employees, and therefore the hardest to replace on a like-for-like basis. As at end March 2019 we had nearly 1,000 legacy employees, but these numbers (and the proportion of our direct workforce they represent) are reducing year-on-year. Significantly, this group of employees are on final salary pension arrangements with a normal pension retirement age of 60 (or alternatively have taken cash transfers out of the final salary pension scheme under Government Pension Freedoms, which means they can retire at any age from 55 onwards).
- Just 12.6% of our SGNC workforce are aged 55 or over. Our SGNC employees are all employees we have appointed since SGN was formed in 2005. As at end March 2019 we had around 2,900 SGNC employees, and these numbers (and the proportion of our direct workforce they represent) are increasing year-on-year. SGNC employees are typically younger and at an earlier stage of their career in the gas networks, with less direct experience, and are on market-based salaries. Significantly, they are all on defined contribution pension arrangements rather than the final salary pension scheme (which has been unavailable for any new SGN starter from 2005) and as a result there is less financial incentive binding them into the company and they tend to move more readily.

Figure 10: Age profile of C and D workforce



- Over GD1 and until 31 March 2019, we lost 688 employees through retirement (386 Southern, 302 Scotland).
- The large majority of these retirements have been from our legacy employees.
- The table below shows our retirement numbers and rates over GD1, split between Southern and Scotland.

Scotland			Southern			SGN Total		
Year	Retirees	% rate	Year	Retirees	% rate	Year	Retirees	% rate
2013/14	65	3.1%	2013/14	43	2.8%	2013/14	108	2.9%
2014/15	62	2.6%	2014/15	38	2.6%	2014/15	100	2.7%
2015/16	70	3.1%	2015/16	45	2.9%	2015/16	115	3.0%
2016/17	67	3.6%	2016/17	51	2.8%	2016/17	118	3.1%
2017/18	62	4.2%	2017/18	61	2.6%	2017/18	123	3.2%
2018/19	60	4.3%	2018/19	64	2.5%	2018/19	124	3.2%
Total	386		Total	302		Total	688	

- However, the company averages shown in the table above hide a large discrepancy between our legacy and SGNC employees.
- Retirement rates for our legacy employees during 2018/19 for example was 9.5%, compared to just 0.7% for our SGNC workforce.
- In the early part of GD1 we could logically expect our legacy employees to stay with us and retire at their normal pensionable retirement age of 60, in order to maximise their (final salary) pensions. Retiring prior to this would have required them to take a reduction in their final salary pension. The abolition of the default retirement age, in 2011, and the introduction of Pensions Freedoms by the Government in 2015 have made the future more uncertain. More than 400 SGND employees have chosen to transfer their pension pots out of the final salary scheme into personal SPPs. This gives them access to their pension pots from age 55. This encourages earlier 'retirement' among these employees, and this is expected to continue into GD2.
- As a result of these profiles, we are likely to experience a continuation of the significant retirement levels among our (long-serving, experienced and highly trained) legacy workforce for the remainder of GD1 and beyond, and these employees are hard to replace in terms of skills and experience.

GD1 churn

- Churn refers to the turnover in employees for reasons other than retirement (mainly resignations).
- Our churn has increased significantly every year since 2013, as illustrated by the table below:

Scotland			Southern			SGN Total		
Year	Churn No's	% rate	Year	Churn No's	% rate	Year	Churn No's	% rate
2013/14	86	3.1%	2013/14	44	3.7%	2013/14	130	3.5%
2014/15	100	3.1%	2014/15	44	4.3%	2014/15	144	3.8%
2015/16	128	3.3%	2015/16	48	5.3%	2015/16	176	4.6%
2016/17	166	3.9%	2016/17	56	6.9%	2016/17	222	5.7%
2017/18	159	5.2%	2017/18	75	6.6%	2017/18	234	6.1%
2018/19	183	4.7%	2018/19	69	7.5%	2018/19	252	6.5%
Total	822		Total	336		Total	1,158	

- However, the above company averages mask larger discrepancies between our legacy and SGNC employees, and between different regions.
- Overall churn rates are higher amongst our SGNC employees (8.0% for 2018/19, compared to 2.7% for legacy employees). Of the 1,158 leavers (not including retirees) since the start of GD1, 86% were from our SGNC group.

- Churn rates are higher in Southern on average than in Scotland (9.6% for SGNC employees in Southern for 2018/19, compared to 5.1% for Scotland).
- Of major concern from a retention of key skills perspective, churn rates are much higher among some of our highly trained SGNC employees, such as FCOs, service layers, mains layers and mates. In 2018/19 in Southern, churn among FCOs was 13.4%, and 8.7% for service layers, mains layers and mates.
- It is of major concern, as we focus on retaining key skills, that churn rates are highest among some of our most highly trained employees.
- **Commercial Confidentiality**

Why has churn increased during GD1?

- **Changing composition of our workforce.** Our workforce is increasingly becoming comprised of SGNC employees who are typically younger, are on median market rate salaries (which means as many employers pay more than us, as pay less) and DC pension arrangements.

The average age of our direct workforce is declining. At the start of GD1 the average age of our direct workforce was over 45 and is now 39.

This growing group of younger employees have different attitudes, expectations and aspirations than their more senior peers, and are more market led and prepared to follow increased salary potential promised by other employers.

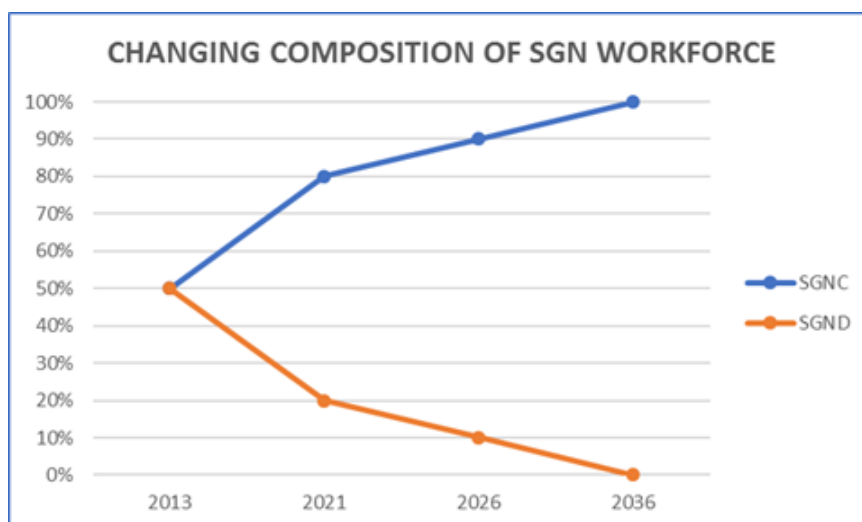
Inevitably, and despite us investing significantly through improved reward and T&Cs, and through training, upskilling and development opportunities, SGNC employees are less inclined to stay with us long-term.

At the start of GD1 the proportion of legacy to SGNC employees was around 50:50, but by the end of GD1 we forecast that the split will be 20:80. By the end of GD2 we forecast the split will be 90:10, and that the legacy employees will have mostly retired by the late 2030s.

We currently have around 2,900 SGNC employees and 1,000 legacy employees.

The graph below illustrates the historical and forecast changes.

Figure 10: Workforce composition



- **Tough labour markets.** With employment and unemployment levels in the UK at near record levels, and high levels of competition for the sort of skills and training levels possessed by our employees, recruiting and retaining the employees we need has been particularly challenging. In such labour market conditions, employees are more confident of their employability and are more likely to consider leaving a secure job and taking a chance elsewhere, particularly where they are being offered improved reward. This has increased the possibility of us losing employees with the skills we need and have invested in heavily.

In the report we commissioned from EU Skills, they reported:

“Employment, unemployment and economic inactivity are at, or near, records levels (in the UK); adding to anecdotal evidence from employers that the skilled technical and engineering labour market is, and has been for some time, at ‘full employment’. This is reflected in the prevalence of skills shortages in the industry – which are nearly twice the national average at 44% (compared to 22%) – and higher salary demands.

(in addition) The UK is planning to invest more than £600bn in the nation’s essential infrastructure over the coming five years, with the utilities sector accounting for one in every five pounds of investment. Many of these projects (there are 31 worth £1bn+ - e.g. HS2, Hinkley Point C, broadband upgrades, upstream oil and gas, etc) will run concurrently through to 2023/24 which will result in continued and significant demand for skilled labour. Therefore, it is likely the current labour market conditions will prevail for some time to come.

Since 2016 there has been a dramatic fall in the number of EU citizens coming to the UK to work and an increase in the number of them leaving the UK. While this may not directly impact upon the GDNs’ ability to recruit and retain talent (the proportion of EU citizens working in the industry is low), this trend will likely exacerbate the tight labour market conditions that currently prevail in the UK.

Meanwhile, a growing population is creating increased demand for heat and power.”

- **Regional factors.** Our Southern network operates in a significantly more densely populated urban environment than other GDNs. Skilled workers are in high demand from utilities and other employers not just within the M25, but over the majority of the southeast and M4 corridor. The ‘London influence’ now stretches well beyond the M25, and we’ve experienced increasing difficulties over GD1 in recruiting and retaining skilled and trained employees well beyond the M25.

Large parts of Southern networks area operate within regions with the highest levels of employment and pay, and lowest levels of unemployment. Areas where we are experiencing increasing difficulties in recruiting and retaining suitable employees include a number of key towns such as; Oxford, Reading, Bracknell, Guildford, Horley, Crawley, Sevenoaks and Dartford.

Wages and cost-of-living (most noticeably in terms of house prices) in the south are significantly higher than those prevailing in other regions and for most other GDNs.

Large projects that need skilled/trained labour (Heathrow, Crossrail, HS2, to name but three) are in abundance within these regions and, arguably, once Brexit is resolved and more confidence returns, history suggests inward flows of investment will inevitably focus on London and the south too.

Our Scotland network operates in a significantly more sparsely populated environment than other GDNs. That has implications for attracting local workers in some of the most remote areas, as well as finding and retaining appropriately skilled staff in the more densely populated and complex areas like Edinburgh or Glasgow. In these regions we compete with other utilities for a much smaller talent pool than in Southern.

- **Contractor workforce.** Our contractors have faced the same tough labour market conditions and competition for skills as we have with our direct workforce, which has presented challenges in us securing effective, cost-efficient and reliable contracts to continue delivery of our Repex programme.

Maintaining our skills base over GD1

- Over GD1 to date 73% of all our leavers (1,353) have been from our operational workforce, and their replacements have required significant operational training to allow them to work competently and safely on our networks (even though formal training never provides a complete and immediate like-for-like replacement, as new operational starters still need several years of service before they develop the experience and know-how of the workers they replace).
- The above total included 163 of our operational first-line managers, most of which (two thirds) where SGND employees with a good depth and breadth of gas distribution knowledge.
- Over the period 2013 to 2018, we appointed the following numbers on formal training schemes:
 - 184 repair, emergency and maintenance apprentices on three or four year apprenticeships (128 in Southern, 56 in Scotland);
 - 18 graduates on two-year traineeships (12 in Southern, 6 in Scotland);
 - 45 trainee team managers on two-year traineeships (25 in Southern, 20 in Scotland); and
 - 74 maintenance trainees on two-year traineeships (63 in Southern, 11 in Scotland).
- Over the same period, we have of course also upskilled significant numbers of internal employees and recruited significant numbers from external sources and trained them to competence through less formal means;
- We have fully utilised and appreciated the allowance granted to us in GD1 for apprentices, graduates and trainees, and this has supported significant numbers of apprentices and trainees over the first half of GD1;
- However, in contrast to our normal apprenticeship route, over the period 2015-18 our pragmatic need to respond quickly to increasing churn/retirements among our highly skilled and trained maintenance employees, required us to appoint trainees on shorter diploma training courses rather than three to four year apprentices. Our experience has been the calibre of applicants for these traineeships (rather than apprenticeships), and the quality of those who complete the training, is not as quite good as those we have trained-up previously as apprentices.

2. Annex B: Recruitment scenario costs by Southern/Scotland

Scenario 1	Reduced apprenticeships (in comparison to GD1)
Scenario 2	Consistent apprenticeships (with GD1)
Scenario 3	Increased apprenticeships (in comparison to GD1) (based on ideal numbers according to operational directors)

Figure 11: Southern recruitment

Southern	Scenario 1	Scenario 2	Scenario 3
APPRENTICESHIPS (2 – 4 years)	8	133	263
TRAINEES (1 – 3 year schemes)	378	305	162
GRADUATES (2 year schemes)	17	17	24
TRAINEE TEAM MANAGERS (2 yr scheme)	101	101	109
OTHER EXTERNAL APPOINTMENTS	732	707	789
INTERNAL UPSKILLING	660	635	593
Total Numbers	1896	1898	1940
Total Scenario Cost £m	£18.5	£26.5	£35.7

Figure 12: Scotland recruitment

Scotland	Scenario 1	Scenario 2	Scenario 3
APPRENTICESHIPS (2 – 4 years)	1	52	135
TRAINEES (1 – 3 year schemes)	200	172	90
GRADUATES (2 year schemes)	5	5	11
TRAINEE TEAM MANAGERS (2 yr scheme)	58	58	73
OTHER EXTERNAL APPOINTMENTS	356	347	436
INTERNAL UPSKILLING	269	260	381
Total Numbers	889	894	1126
Total Scenario Cost £m	£8.3	£13.2	£23.5

Figure 13: SGN total recruitment

SGN	Scenario 1	Scenario 2	Scenario 3
APPRENTICESHIPS (2 – 4 years)	9	185	398
TRAINEES (1 – 3 year schemes)	578	477	252
GRADUATES (2 year schemes)	22	22	35
TRAINEE TEAM MANAGERS (2 yr scheme)	159	159	182
OTHER EXTERNAL APPOINTMENTS	1,088	1,054	1,225
INTERNAL UPSKILLING	929	895	974
Total Numbers	2785	2792	3066
Total Scenario Cost £m	£26.7	£39.6	£59.2
Cost of Maintaining existing competencies £m	£2.6	£2.6	£2.6
Cost of SGN Training Team £m	£10.7	£10.7	£10.7
Total Cost £m	£40.0	£52.9	£72.4