

# TA 12.MG03 M&G Buildings Business Case

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## Contents

Executive Summary .....	3
Scope of technical annex.....	5
AMP6 Strategy.....	6
Investment Strategy .....	6
Customer Benefits & Resilience .....	6
Drivers for change .....	6
AMP7 Strategy.....	8
Investment Strategy .....	8
Customer Benefits & Resilience.....	8
Plan Options.....	9
Costing Strategy.....	9
Key Risks and Opportunities.....	9
Key Risks: .....	9
Key Opportunities:.....	9

# Executive Summary

Name of technical annex	MG03 Buildings		
Context	Southern Water owns land holdings, facilities, operational buildings and modern office spaces that need to be maintained to enable safe reliable operations at sites.		
Scope of this technical annex	This investment case includes wholesale investment to maintain and operate our land holdings, facilities, operational buildings and offices. It does not include buildings investment associated with our Retail activities; this investment is included in the Retail investment plan.		
Customer and stakeholder views	Buildings maintenance is a support function that will support the business with improvements in current service levels and resilience in key water and wastewater metrics, such as: interruptions to water supply, pollution incidents & effluent compliance, internal & external sewer flooding, and customer complaints measure (C-MEX)		
Our aim	We aim to provide a well maintained buildings estate that provides opportunity for improved operational efficiency, staff wellbeing and productivity, which in turn will support improved affordability, operational resilience, security resilience, serviceability, and performance for customers.		
	Botex	Enhancement	Total
Totex (£'m)	50.4	-	50.4
Opex (£'m)	21.1	-	21.1
Capex (£'m)	29.3	-	29.3
Residual, post-AMP7 capex (£'m)	0	-	0
20 year whole life totex (£'m)	-	-	-
20 year cost benefit (£'m)	-	-	-
Materiality (% of the overall plan)	-	-	1.3%
Relevant business plan table lines	Tables: WS1 / WWS1 Lines: 3, 6, 13	-	Tables: WS1 / WWS1 Lines: 3, 6, 13
Botex			
Overview of AMP7 proposals	<p>We are investing £50.4m to maintain our land holdings, buildings &amp; facilities at operational sites and general office locations.</p> <p>The vision and strategy for AMP7 is to deliver an optimised portfolio of property assets and facilities management services to support the strategic business objectives. Buildings investment for AMP7 is split into 2 key parts: 1) Maintaining and enhancing our core buildings and facilities; 2) Maintaining and enhancing our operational sites buildings, roads and fences.</p> <p>This investment will ensure that we continue to adhere to building regulations and health and safety requirements to ensure our employees are able to work in a safe environment that meets all regulations. This investment will also ensure that operational sites are safe for operators</p>		

and continue to meet operational resilience and service levels for customers.  
 This investment represents a real terms increase of c.16% from current AMP6 investment levels. This increase in level of investment relates to a need to spend more on the maintenance of buildings and property (including roads and fences) and a need to spend more on meeting compliance standards in terms of site security, asbestos and fire regulations.

Why are the proposals the best option for customers

The programme level option selected is the 'minimum' cost plan option and provides the greatest value for money for customers.

Performance Commitments supported by this technical annex

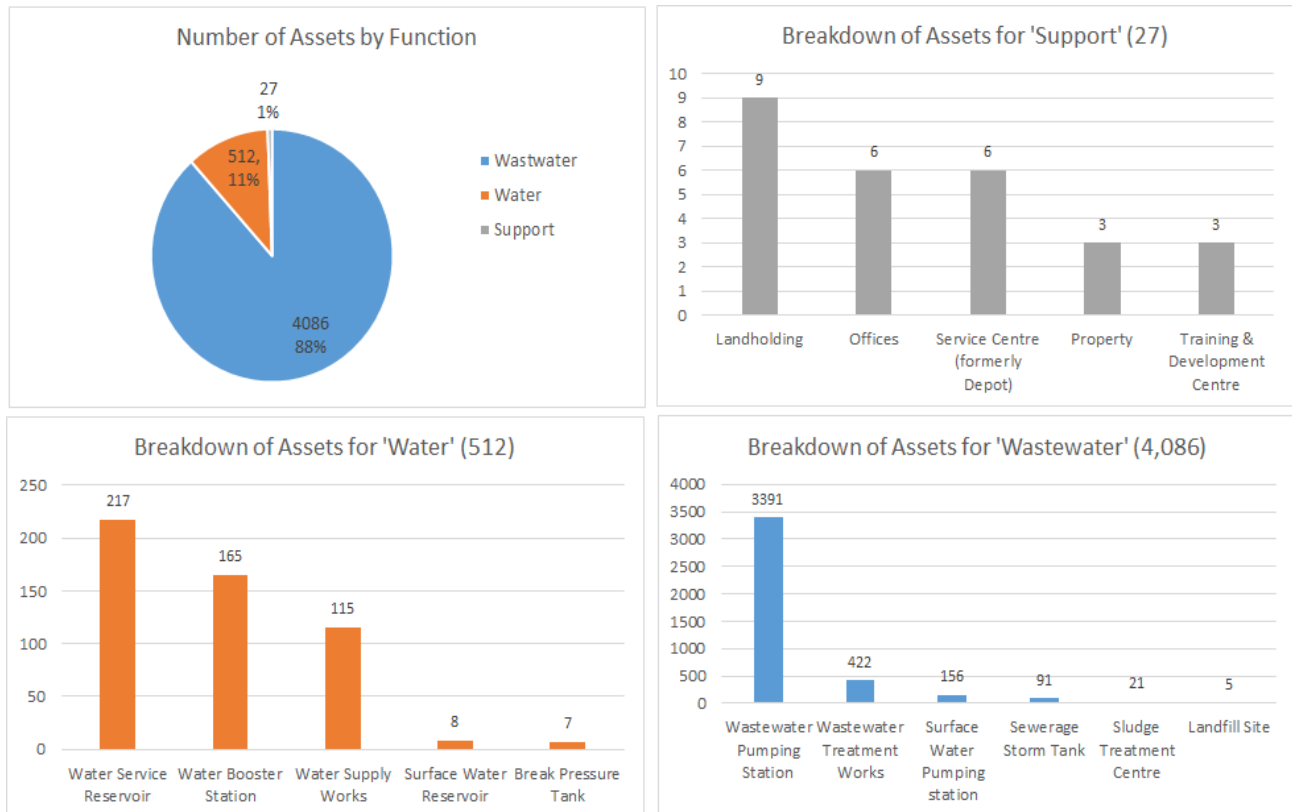
PC	How relevant is this technical annex?	Comment
Interruptions to Supply	Some, but limited relevance as this is a support function.	These levels of maintenance and improvements are needed so we can comply with site security, buildings regulations, fire regulations, health & safety compliance, and site environmental controls. Appropriate site security and access in times of emergency will also prevent the likelihood of a shut down and/or allow performance recovery, leading to fewer interruptions to supply, sewer flooding incidents, customer complaints, and pollution incidents.
Customer complaints measure		
Internal / External Flooding		
Pollution		

# Scope of technical annex

Southern Water’s land holding and associated statutory interests in land extends to over 10,600 locations. This ranges from major wastewater and sludge treatment centres with extensive buildings and structures to combined storm overflows and micro pumping stations serving just a couple of properties but providing essential flood protection.

The core sites comprise wastewater, water and support locations, totalling 4,625 by number. The vast majority of locations (almost 75%) are wastewater pumping stations. There are 5 principle office hubs that are included within this Investment Case.

A summary of these are shown below.



**Figure 1: Summary diagrams of SWS buildings estate by asset function (Water / Wastewater / Support)**

This investment case shows the Buildings investment associated with the Wholesale plan. A small proportion of Buildings costs, associated with a small proportion of the main office buildings costs (at Falmer and Durrington), are included in the Retail investment plan. Careful consideration has been made to ensure that the correct allocation between price controls has been made. Retail investment is discussed in the Chapter 13 – Retail Controls.

# AMP6 Strategy

## Investment Strategy

In early 2012 Southern Water carried out a strategic review of accommodation requirements for the period to 2020, and beyond.

This review took into account of Southern Water's strategic objectives, business plans, forecast headcount trends, and relevant external factors (as they were understood at that time). The review identified how the business could best rationalise its accommodation portfolio. Since this review took place a series of major milestones have been achieved as a series of enabling works to support the AMP6 Operating Model having been undertaken. In particular:

- The Workspace Programme has completed the refurbishment of collaborative and flexible workspace at our main offices at Falmer and Durrington (part); incorporating significant co-location with key supply chain partners.
- Creation of a new Alarm Monitoring Centre (AMC) at the heart of the Operational hub at Durrington.
- Refurbishment of the Regional Control Centre at Durrington.

## Customer Benefits & Resilience

Adherence to standards and statutory requirements such as health and safety is essential in ensuring the estate run smoothly and performs well. Failures have the potential to have a direct impact on serviceability and resilience.

The current condition of our property assets require a targeted programme of investment to maintain the estate at a serviceable condition.

## Drivers for change

Southern Water property services needs a flexible approach to manage the changing demands across **building regulation**, **Health and Safety** and **market regulation**. The **security** of our sites is a priority met through delivering the security and emergency measures directive. In addition we need to deliver **estate optimisation & improved productivity** supporting the changes in working patterns and ways of working.

### Future opportunities

The five transformational programmes will have an impact on our estate with the following three highlighted being most dependent on property services, as detailed in Figure 2.

- Network 2030
- Sustainable Drainage 2030
- Target 100
- Resource Hubs
- Catchment First

Network 2030	Resource Hubs	Catchment First
<ul style="list-style-type: none"> <li>• Release of sites and in particular water resource sites for masterplanning initiatives (see below).</li> </ul>	<ul style="list-style-type: none"> <li>• Addition of a process or function to a site to provide additional value for the company, customers and community e.g. Recycling at Peacehaven.</li> </ul>	<ul style="list-style-type: none"> <li>• Using stakeholder capability to develop joint propositions with landowners for mutual benefit. This can be linked to the disposal of sludge.</li> </ul>

**Figure 2: Description of transformational programmes.**

# AMP7 Strategy

## Investment Strategy

The vision and strategy for AMP7 is to deliver an optimised portfolio of Property Assets and Facilities Management Services to support the Strategic Business Objectives.

Investment for AMP7 is split into 2 key parts: 1) Maintaining and enhancing our core buildings and facilities; 2) Maintaining and enhancing our operational sites buildings, roads and fences. There are increased levels of spend planned in AMP7 across the following areas (Figure 3 breaking out the comparative view):

- Site security cost increases
- Asbestos risk mitigation activities
- SSSI site maintenance
- Increased levels of spend on operational sites (buildings, roads and fences)

(£'m)	AMP6 Actual	AMP7 Total
<b>TOTEX</b>	<b>43.324</b>	<b>50.442</b>
<b>CAPEX</b>	<b>22.493</b>	<b>29.316</b>
Facilities Maintain & Enhance	14.175	11.819
Bioresources - Buildings, access roads and fences	0	4.577
Water - Buildings, access roads and fences	3.632	6.513
Wastewater - Buildings, access roads and fences	4.686	6.407
<b>OPEX</b>	<b>20.831</b>	<b>21.125</b>
Facilities Maintain & Enhance	10.062	16.325
Water - Buildings, access roads and fences	2.888	1.7
Wastewater - Buildings, access roads and fences	7.881	3.1

Figure 3: Summary of AMP7 investment proposals for Buildings Management & General

## Customer Benefits & Resilience

In addition to protecting the public, our property and buildings maintenance and enhancements will indirectly support, and in some cases improve, current service levels and resilience in key water and wastewater metrics. The key customer performance areas this AMP7 Buildings strategy will support are:

- Interruptions to water supply
- Pollution Incidents & Effluent Compliance
- Internal / External Sewer Flooding
- Customer Complaints Measure (CMEX)



## Plan Options

For Buildings Management & General, Southern Water have considered 4 programme level options for building maintenance in AMP7, see Figure 4.

		AMP7 Totex £m	Summary of option
	Transformational	£211m	<i>Priority based budgeting approach 4 - phased plan to improve property condition to a high standard of repair with full planned maintenance schedule. Condition rating 1</i>
	Improve the basics	£ 123m	<i>Priority based budgeting approach 3 - phased plan to improve property condition to good repair but with minor defects requiring some renewal to maintain this condition. Condition rating 2</i>
	Fix the basics	£79m	<i>Priority based budgeting approach 2 - compile phased plan to deliver reasonable standard of weather-tight for each property relevant to use and criticality. Implement ongoing 20% per year condition survey approach. Condition rating 3</i>
Included in Investment Plan	Minimum plan	£50m	<i>Priority based budgeting approach 1 - compile phased plan to deliver minimum standard of weather-tight for every critical operational property. Implement ongoing 20% per year condition survey approach. Condition rating 4</i>

**Figure 4: Summary of investment options reviewed for Buildings Management & General**

The 'minimum' option is considered the best option in terms of cost, value and customer benefits.

## Costing Strategy

The Buildings Management and General costs have been derived by subject matter experts (Facilities Managers & Southern Water Engineers) reviewing current cost data and projecting this spend into the future (understanding what the future requirements will be). Review of this cost data showed that general buildings maintenance and enhancement investment levels need to continue at similar levels to AMP6, but with some minor increases in investment in AMP7 to cover new and enhanced site security requirements, SSSI site maintenance, asbestos compliance and increased operational site maintenance.

## Key Risks and Opportunities

Risk / opportunity mitigation action plans are being developed to support the delivery of the plan.

### Key Risks:

- There is a risk there could be a need to carry out new significant site security measures over and above those currently understood.

### Key Opportunities:

- An improved Commercial property strategy could result in additional investment to accelerate the property transformation.