
APPENDIX A7

Workforce and Supply Chain Resilience Strategy

11th December 2024

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Our Workforce and Supply Chain Resilience Strategy ensures that we retain a resilient workforce and supply chain capable of anticipating and continuously adapting to the challenges facing the industry whilst delivering a high quality and reliable service to our customers.



1. The purpose of this document and our approach to resilience

Our customers expect and deserve a secure and resilient service in the face of future uncertainty. Resilience is integral to our business as usual activities, as well as our future planning. This Workforce and Supply Chain Resilience Strategy is designed to ensure that we continue to retain a resilient workforce and supply chain capable of continuously adapting to the many challenges facing the industry and delivering a high quality and reliable service to our customers.

Global macroeconomic challenges, a changing employee relations context and the demands of the transition to a low-carbon economy are placing unprecedented pressures on all energy networks, leading to growing supply chain pressures going into RIIO-GD3. Simultaneously, innovations in technology are creating new opportunities for economic growth and supply chain resilience but also questions and challenges around skills transitions.

Underpinned by our vision, values and promises to our customers, to ensure an embedded culture of continuous best practice and collaborative learning, our Strategy aims to build and maintain a team of empowered, motivated and resilient team players committed to delivering a high-quality, reliable, affordable and ultimately secure gas supply. The Strategy has been formulated by harnessing data, stakeholder feedback and best practice to emphasise adaptability and innovation, driving sustained operational excellence and resilience for the long term.

In RIIO-GD3, we will seek to maximise and expand upon a wealth of existing initiatives and more to deliver greater customer and colleague value. This will play a key role in ensuring that we can manage a more risk adverse environment. Our Workforce and Supply Chain Resilience Strategy has been developed in the context of our broader suite of Strategy documents in relation to secure and resilient supplies:

- Network asset management;
- Climate resilience;
- Cyber resilience;
- And IT/telecoms.

There are a number of overlapping areas and interdependencies between different elements of resilience, and our Workforce and Supply Chain Resilience Strategy should be assessed in this context.

The impact of the energy transition will require us to take an agile approach to the scale and shape of our workforce and supply chain, while maintaining high levels of resilience. Our approach to RIIO-GD3 planning is based on ensuring that we will continue to be able to provide a high-quality and resilient service to our existing customer base. We also acknowledge that forecasts such as the FES23 Falling Short and FES24 Holistic Transition¹ do not indicate a significant change in residential demand for gas over the RIIO-GD3 period – and that much of our investment programme is statutory and not linked to changes in our customer base (such as the Repex programme). As such, our focus for this Strategy is primarily around business as usual delivery of our RIIO-GD3 programme and adapting to external changes, rather than any uncertainty around investment requirements.

At the same time, in line with Ofgem’s guidance, and the state of uncertainty in relation to the future of gas – in particular for domestic heating – we also refer where appropriate in our Strategy, to the potential risks and mitigations we foresee in the period beyond RIIO-GD3.²

Our Resilience Framework

Ensuring resilience has always been one of our top priorities, and this is demonstrated through our performance on unplanned interruptions outputs, uncontrolled gas escapes outputs and our Guaranteed Standards of Performance (GSOPs) (see, for example, Chapter 5 of our Business Plan).

To demonstrate that this commitment is embedded throughout our organisation, we have recently formalised our existing policies into a Resilience Framework. Our customers want and expect an uninterrupted, safe and reliable supply of gas. Our Resilience Framework brings together all of our individual resilience strategies which ensure that we are able to maintain the incredibly high service standards that our customers have come to expect from us.

Ensuring we remain resilient is a continual five-stage process (as demonstrated below in Figure A7.4):

- We invest in the right areas to improve our resistance to withstand the negative effects of hazards facing our business.
- We improve our reliability to reduce the risk of system failure or downtime.
- We ensure that we build in redundancy into our systems and avoid reliance on a single system or input which could then impact our performance.
- We consider how we can respond and recover quickly when things do go wrong.
- We reflect on our experiences regularly and build in reviews so that we can continually learn and adapt.



Figure A7.1 NGN Resilience Framework

Our culture is vital to creating a well-functioning Resilience Framework. Capturing all potential hazards to our business requires commitment from colleagues across all areas of the business, at all levels of seniority. This approach is embedded throughout this document. Chapter 5 of our business plan provides further detail around our overall approach to resilience and how the strategies interlink.

Applying the framework to our business

At NGN, we value our people and consider our workforce to be our greatest asset. Our values are at the heart of everything we do, leading our culture and day-to-day operations. We strive to ensure that every member of our team is passionate about the contribution they make to growing our reputation as a pioneering, effective, conscious and innovative business and ultimately delivering for customers. This is key to ensuring our continued success in developing and retaining talent, as well as attracting the next generation of workers to the industry. We will secure the skills and required agility to adapt in line with the evolving transition in the gas industry in RIIO-GD3, and beyond.

Consistent with Ofgem’s Business Plan Guidance, our Workforce and Supply Chain Resilience Strategy demonstrates how we seek to secure resilience through our approach to our workforce, to ensure continuous improvement in:

- Equality, diversity and inclusion;
- Workforce satisfaction and retention;
- Workforce motivation and productivity;
- Attracting new talent and skills to the energy sector to enable the low-carbon energy system of the future;
- Upskilling and multi-skilling of our workforce;
- Ensuring the health, safety and wellbeing of our workforce.

In this document we will cover each of the above areas, as well as our supply chain.

We combine our assessment of (ii) workforce satisfaction and retention with (iii) motivation and productivity and (vi) health, safety and wellbeing in Section 3.2, given the overlaps and interdependencies between these criteria of workforce resilience.

¹ [Future Energy Scenarios \(FES\) | National Energy System Operator \(neso.energy\)](#)

² In this context, we welcome Ofgem’s recognition that risks are evolving: ‘Companies should also include in their strategy, any potential forecast of particular skill shortages they foresee beyond the next price control... Where appropriate, companies should outline how they propose to utilise flexible allowance funding, such as the Resilience Reopeners to tackle these shortages and develop the necessary skill ahead of demand’ (Business Plan Guidance, para 5.25).

We also assess (iv) attracting new talent and (v) upskilling and multi-skilling of the workforce together in sections 3.3 and 3.4, given the overlaps between these criteria.

Ofgem’s guidance requires us to consider the potential skills shortages and workforce-related risks that we foresee in RIIO-GD3 and beyond, outlining how we measure and control these risks, as well as the mitigation measures needed to ensure the continuous resilience of our workforce. Where relevant, we comment on these and the steps that we are planning to take to ensure that we have the domestic supply chain and pipeline of skilled workers that we need.

Across RIIO-GD2 we began to develop our strategic approach to Workforce Resilience with our long-term approach being partly underpinned by our People and Planet (P&P) Strategy. Our P&P Strategy was developed in collaboration with over 14,000 stakeholders, including industry experts and was published in 2022. The People element of our P&P strategy, is focused around four key commitments and 3 of those commitments are central features of our Workforce Resilience strategy:

- Reflect the diversity of our communities through our workforce and eradicate inequality at all levels of our organisation.

- Improve access to opportunities and fair employment.
- Support colleagues’ safety and wellbeing.

In addition to this, our P&P Strategy also commits to:

- Spend responsibly and hold our suppliers to high sustainability standards.

This final bullet point forms a critical element of our approach to supply chain resilience.

The development of our P&P strategy paved the way for strategic conversations that followed regarding workforce resilience with the overall aim of ensuring that our business continues to operate in a responsible way into the future to deliver outcomes that our customers and stakeholders prioritise such as reliability, safety and affordability.

The strategic commitments of our P&P Strategy are summarised in Figure A7.1. Each of these commitments is underpinned by short-term (to 2026), medium-term (to 2031) and long-term (to 2050) supporting targets, as detailed in our 2023 [Annual Sustainability Report](#), and further detail will be provided in the sections that follow.



Figure A7.2 The strategic commitments of our People and Planet Strategy

We recognise that our P&P strategy does not cover all aspects of workforce resilience, and we’ll work closely with our stakeholders and industry experts to ensure that across RIIO-GD3 and beyond we are resilient to the challenges that we will face.

2. Key messages, commitments and progress across RIIO-GD2

Equality, diversity and inclusion (EDI) remains a top priority

In this Strategy, we outline our plans to enhance our EDI initiatives for RIIO-GD3. We have requested an additional resource for dedicated inclusion responsibilities, recognising that EDI is of fundamental importance in recruitment, retention, and satisfaction. We remain committed to prioritising our colleagues’ wellbeing.

Skills shortages need to be anticipated and addressed now

We must prepare to re-skill and multi-skill our colleagues while attracting emerging talent. Our effective apprenticeship program is establishing a robust succession pipeline in areas with skill shortages, preparing our workforce for the energy transition. We aim to expand our apprenticeship scheme into back-office support functions and appreciate the resilience reopener as a tool to tackle in-period workforce resilience challenges.

Long-term resilience of the supply chain must be ensured

We will be working with our suppliers, continuing to develop strong relationships and ensuring capacity through our Multi Source Frameworks. This is in addition to effective planning through efficient inventory management and early detection of risks through improved data management.

Real price effects (RPE) indexation methodology should be improved to ensure resilience to supply chain challenges

We support the continued use of RPE indexation. However, we consider that there are improvements to the methodology that could be made to ensure resilience to supply chain risks and price shocks going into RIIO-GD3.

2.1. Our commitments

Below we have outlined the commitments that we make as part of this Workforce and Supply Chain Resilience Strategy.

Area of Workforce/Supply chain resilience	Commitments for RIIO-GD3
Equality, diversity and inclusion;	Invest in a dedicated EDI resource to drive and co-ordinate our commitments including: <ul style="list-style-type: none"> • 50% reduction in the Gender Pay Gap (against 2021 baseline). • 40% female representation at a senior level. • Work with specialists to create bespoke EDI metrics covering other aspects of diversity and inclusion. • Report transparently about our diversity data via our Annual Sustainability Report. • Finalise our inclusion strategy and annual action plans alongside stakeholders. • Aim to continually improve our score in the Business in the Community Responsible Business Health Check. • Enable communities to flourish – providing dedicated budgets and exploring the creation of Communities as determined by our colleagues’ needs.
Workforce satisfaction, retention, motivation and productivity	<ul style="list-style-type: none"> • Measure uptake of benefits selected by our colleagues. • Measure our turnover rates and report this annually. • Obtain feedback wherever possible on training, colleague events and working groups. • Regularly conduct site visits to obtain first hand feedback from our colleagues. • Continue to regularly engage and communicate to all colleagues utilising all forms of media.
Attracting new talent and skills to the energy sector to enable the low-carbon energy system of the future;	<ul style="list-style-type: none"> • Reach 60,000 young people through our educational programmes. • Upskill and fill our STEMazing placements with at least 60 women from our organisation who will become STEMazing mentors.

Area of Workforce/Supply chain resilience	Commitments for RIIO-GD3
Upskilling and multi-skilling of our workforce;	<ul style="list-style-type: none"> • Create an NGN Green Academy which will support UK net-zero training for future engineers by developing whole systems energy transition training. • Continue our successful operational apprenticeship programme and recruit 12 apprentices per year, which following successful completion are guaranteed permanent full-time employment. • Develop our business admin apprenticeship programme further with an opportunity to move around the business and work across various support functions on a rotation basis. • Build a Graduate recruitment programme aligned to our resilience needs and any skills shortages identified.
Ensuring the health, safety and wellbeing of our workforce;	<ul style="list-style-type: none"> • Strive to achieve Ambassador Status , using the framework of the Better Health at Work Awards. • Continue mental health training across organisation. • Continue embedding and upskilling our wellbeing champions. • Build connections between our wellbeing and inclusion strategy to enable a more holistic approach and overall colleague wellbeing.
Supply chain	<ul style="list-style-type: none"> • 100% (as a minimum 85%) of our key contracted suppliers compliant with our Supplier Code of Conduct /NGN-approved equivalent code, which will continue to be reported annually in our Annual Environmental Report (AER). • Carry out assurance checks on suppliers signed up to the Supplier Code of Conduct • Maintain and aim to increase our levels of work with SMEs at 60% or over. • Continue identification of risks and opportunities via the Sustainability Risk Assessment at Procurement Strategy stage. • Continue building on our Supplier Information and Contract Data Portal so we can identify new supplier risks or contract risks throughout the lifecycle of their Contract – embedding additional data where needed in areas such as Cyber, Climate, ESG and EDI when requested. • Embed the new Contract Management Policy & Procedures to have more targeted Contract Management in place for Contracts across the business. • Continue to Maintain a level of above 75% where purchasing is through established Contracts where a sourcing process has been undertaken. • Deliver on circa 600 procurement events annually with a targeted savings against these events whilst ensuring sound procurement outcomes are met in a transparent, fair, equal, competitive and consistent manner. • Continue to engage with the necessary external Stakeholders, Governing bodies, other GDNs and Community Groups to ensure that we factor in changes or requirements in our sourcing events. • Enhance inventory management – using AI and Machine learning technology to improve forecasting and demand management.

Table 1: a summary of commitments made in our Workforce and Supply Chain Resilience Strategy- more detail about each of the commitments can be found in the relevant section of the document.

2.2. Stakeholder influence

Our commitment to continuous engagement has ensured that we didn't need to start 'from scratch' when developing our RIIO-GD3 Workforce & Supply Chain Resilience Strategy. Stakeholders have been involved in the formation of our commitments through their engagement with our People and Planet Strategy (see pages 6 and 7 of our Annual Sustainability Report for more information).

We engaged with our stakeholders through a variety of methods, as described in Chapter 2 of our RIIO-GD3 business plan, with the total number of stakeholders engaged through our core business plan engagement activities reaching over 13,000

We have obtained and analysed a wealth of stakeholder feedback, relevant messages from which are outlined in Table A7.2 below. This insight has been used to inform the development of our strategy to ensure it is reflective of our stakeholders' priorities.

Insight number	Insight message	Where this is incorporated in this strategy
5	Our informed customers value the People and Planet strategy, but transparency in reporting is key.	We commit to reporting transparently via our Annual Sustainability report and other mechanisms such as our Annual Environmental Report where applicable. See section 3.1.1 Measuring progress against our short-term commitments in the P&P strategy.
4	Stakeholders say go 'next level' on supply chain sustainability.	See section 4.2.1 Sustainability as a resilience strategy
8	NGN's focus should be on keeping customers' lives running by providing reliable and uninterrupted supplies and minimising disruption to their daily activities.	There are many reports demonstrating the intrinsic link between wellbeing and productivity. We want our colleagues to thrive in all areas of wellbeing ultimately leading to delivering for our customers. See section 3.2 Workforce Satisfaction, retention, motivation & productivity.
12	The future workforce is looking for organisations with a positive reputation, inclusive culture, diversity and green skills development opportunities.	Positive reputation, culture and diversity are covered in section 3.1. Green skills are covered in section 3.4.1 Green Academy.
12	Informed customers, future customers, national, local and industry stakeholders are voicing a consistent expectation that NGN will make broad reaching workforce training commitments.	See section 3.4.1 Green Academy.

Table 2: the key stakeholder messages that have shaped this strategy.



2.3. Progress across RIIO-GD2

The external context of our organisation has changed at pace across RIIO-GD2. Events such as Brexit, Covid-19 and the cost-of-living crisis have all impacted businesses and supply chains in the UK and globally. Throughout this time, we have worked hard to ensure the resilience of our workforce and supply chain.

Some of the key steps in this process are outlined in the timeline below (figure A7.3) with further detail provided in each relevant section of this document. As you can see from the below, our approach has been evolving across the last 5 years, and this will continue to the end of RIIO-GD2 until we enter RIIO-GD3. Actions in the timeline below have formed a strong basis for the commitments that we make for RIIO-GD3

	2020	2021	2022	2023	2024
Supply Chain	<ul style="list-style-type: none"> Sustainable Procurement Strategy created and launched Implementation of NGN's own MRP System to mitigate supply chain pressures, factoring historical supply and demand patterns, ensuring timely sourcing of essential goods, pre planning our anticipated requirements and preparing for seasonal crises or supply chain disruptions Levels of expenditure with SME's at over 40% 	<ul style="list-style-type: none"> Supplier Code of Conduct (SCC) shaped by stakeholders such as Federation of small businesses Embedded sustainability questions into PQQ including mandatory pass/fail questions Introduced flexibility into sourcing processes to accommodate SMEs where appropriate Supply Risk determination embedded into sourcing processes 	<ul style="list-style-type: none"> Launched SCC and commitment to have 80% of suppliers signed up by 2026. Joined Supply Chain Sustainability School to help upskill our suppliers around ESG topics. Assurance checks added to sourcing processes to ensure cross-functional input has been considered Levels of expenditure with SME's at over 60% 	<ul style="list-style-type: none"> Webinar with suppliers about UNSDGs By March 2023 we achieved 79% compliance with our SCC Suppliers who make up 45% of our annual spend provided environmental data Introduction of Maintenance critical stock into MRP process to alleviate long lead times CIPS Ethical Mark gained by NGN's Procurement & Supply Chain Team 	<ul style="list-style-type: none"> Design and launch of DSP operative incentive scheme (see case study 5) Integrating Market Dojo to improve supplier holistic data and down stream supply chain for critical suppliers By March 2024 we achieved 82% compliance with our SCC Supplier Risk determination and Contract risk assessments embedded into contract management processes Introduction of Sustainability Risk Assessment
Workforce	<ul style="list-style-type: none"> BITC Responsible Business Tracker overall score of 56% and inclusion identified as an initial area for improvement Inclusion Working Group established bringing together colleagues and leaders to set the direction for Inclusion Created vision for inclusion at NGN Colleague Communities formed Best practice workshops with leading businesses 	<ul style="list-style-type: none"> Redesigned recruitment processes to promote fairness and remove gender specific language resulting in a tripling of the number of female apprentices in our workforce Engagement with our Citizens Panel to understand what our principles for inclusion should be Partner with Energy and Utility Skills (EU skills) to share best practice Signed the Social Mobility Pledge 	<ul style="list-style-type: none"> We engaged with over 2,600 customers about our approach to inclusion and belonging- helping to shape our People and Planet strategy. Including embedding inclusion specific targets Updated staff inductions to include inclusion and belonging Overall score in BITC Tracker 74% Launched our Foundations Skills programme 	<ul style="list-style-type: none"> Executive sponsors assigned for each Colleague Community Holiday swapping for Religious festivals Created Microaggressions video and related communications campaign Launched Inclusion and Belonging training programme 50 colleagues attended our first Inclusion Summit Joined the Business Disability Forum Central fund set up for disability adjustments 	<ul style="list-style-type: none"> Inclusion information displayed at recruitment stage Review of all family policies to remove gendered language Signed the Race at Work Charter 16 policies updated or created by Colleague Communities Overall score in BITC Tracker 86% Introduction of NGN Way objective to encourage colleague involvement in resilience/inclusion related activities.

Figure A7.3 a timeline showing highlights and progress made across RIIO-GD2 around workforce and supply chain resilience.

3. Workforce resilience

3.1. Equality, diversity and inclusion (EDI)

3.1.1 Our approach in RIIO-GD2

We know that diverse workplaces are more innovative, productive and resilient³ and in addition to this, our Stakeholders tell us that they want to work for organisations that are diverse (Insight 12). By fostering an environment where diverse perspectives are valued and all backgrounds and genders are represented, we can enhance creativity, problem-solving and decision-making. These are all vital attributes in the transition to a low carbon energy future and net zero, where fast-paced problem-solving is key.

At NGN, we value difference, we are committed to diversity and inclusivity, and we strive to create equal opportunities for all to ensure that we continue to develop and maintain a resilient workforce. We want colleagues to feel comfortable with being themselves when they come into work, without question or judgement. However, in the UK, less than 30% of board members in the energy sector are women⁴, and in 2020, only 7% of the sector's workforce were from black, Asian or ethnic minority groups⁵. Our workforce (as of September 2024) of over 1,600 colleagues stands at 81% male and 98% British. These factors combined made RIIO-GD2 a key time to bring into focus our existing inclusion initiatives, take targeted action to improve, widen their reach, and create long-term commitments to embed inclusion and address diversity across our organisation.

Our journey across RIIO-GD2 is summarised in the timeline in figure A7.3 (timeline) in section 2.3. We have come a long way since the formation of our Inclusion and Belonging Working Group in 2020. Our progress is well documented in our Inclusion and Belonging statements for each year, which can be found here; [2021](#), [2022](#), [2023](#).

In the two case studies that follow, we outline some of our key EDI highlights and challenges that we have faced in RIIO-GD2.

3 As explored in the London School of Economics (LSE)'s Diversity and Productivity research project on the relationship between a diverse workforce, an inclusive workplace, and individual and firm productivity. See <https://blogs.lse.ac.uk/businessreview/2023/03/30/why-we-need-to-study-the-links-between-diversity-and-productivity/>.

4 <https://powerfulwomen.org.uk/board-statistics-by-company-2024/>

5 <https://www.euskills.co.uk/the-sectors-inclusion-commitment/>

CASE STUDY 1: CELEBRATING OUR COLLEAGUE COMMUNITY SUCCESSES

Our Colleague Communities were formed in 2020, which were guided by our colleagues, asking them which groups they saw most value in. As a result of this approach, five groups were formed:

- Women's Community
- LGBTQIA+ Community
- Carers and Parents Community
- DisABILITY Community
- Ethnic Minority Community

These Colleague Communities help us to tackle issues head on by breaking down internal barriers, highlighting the varying perspectives and experiences of our under-represented workforce and empowering them to have a strong and authentic voice. They also provide outside experiences/challenges from their wider community. One of our P&P commitments is to reflect the diversity of our communities throughout our workforce, our colleague communities and their insights help and guide us on that journey. They each meet on a regular basis as determined by their group to identify issues, discuss solutions and agree actions to solve challenges.

To date, NGN's Communities have surmounted an impressive list of successes, including but not limited to the following:

- They have helped to educate senior management through reverse mentoring on issues that relate to their group, the importance of inclusion and belonging and the benefits this can bring to the business.
- They have been instrumental in creating our video on microaggressions, which explains the impact of non-inclusive language in an informal setting, to create awareness among peers and colleagues.
- The Ethnic Minority Colleague Community has signed up to the Race at Work Charter. This is a public commitment to improve race equality and inclusion in the workplace, including in our supply chain.
- All of the Communities have representation at our Policy Review Group. Since their inclusion the group have reviewed 16 of our People Policies. The most recent success saw the introduction of our new Trans and Non-Binary Inclusion Policy.

- Hosting the first Women's Utility Network event in the North of England at our Leeds office, with panel speakers from both inside and outside the industry, focussing on levelling up decision making in business.

NGN were shortlisted for 'Best Equality Diversity & Inclusion (EDI) Initiative' for our pioneering Colleague Communities. Our submission focussed on the work that all our communities do to improve equality, diversity, and inclusion throughout our business through removing barriers and amplifying the voices of our lesser represented groups. There were more than 200 entries in this category alone, so just to be shortlisted was an incredible achievement.

Maturing our Communities with governance

We have put in place robust governance around the Communities to ensure that they can add value wherever possible. This includes the following:

- Formation of the Inclusion and Belonging Working Group, to oversee all EDI activities across NGN.
- Terms of Reference for each Community, which is published openly to display the purpose of the group and its activities.
- Establishment of the 'NGN Way' objective, linking to behaviours and bonusable achievements
- Executive Sponsors for each Community, for two-way mentoring.
- An EDI permanent agenda item on the Executive Management Team (EMT) meetings and business updates to ensure that all business directors are aware of progress and initiatives.

Our approach to governance was commended in our 2023 Business in the Community (BITC) Responsible Business Tracker submission which noted the following:

"You have strong governance structures in place, and you partner with BITC to deliver inclusion training to colleagues to further embed your focus on D&I. To develop and inform a comprehensive D&I Strategy, we recommend that you collect data on your organisational diversity, with results analysed by race, ethnicity and other diversity strands."

(p.18)

CASE STUDY 2 – GATHERING COLLEAGUE DATA TO INFORM OUR COMMITMENTS

A key challenge for NGN and many companies with a dispersed and operational workforce is the collection of granular diversity data. We have a process in place to collect data and will report a baseline once we reach threshold of 75% of staff providing their information.

This information is needed to:

- Inform us about our workforce composition and the extent of its representativeness of the local communities we serve;
- Track progress on initiatives; and
- Inform our future strategies.

We continue to partner with Business in the Community (BITC), working together closely around the delivery of our inclusion commitments and strategy. They too identified the issue of data collation and noted it can often be down to colleague perception; that colleagues are unsure as to why they are being asked to provide such sensitive information and what the impact for them will be. Therefore, one of our first priorities was the delivery of a dedicated education programme for our colleagues to build their understanding about what inclusion and belonging actually is.

Across 2023–24, we delivered 50 workshops for our colleagues, amounting to over 1,710 hours of training. These workshops focused on empowering our colleagues to challenge their own biases and identify and address non-inclusive behaviours in the workplace.

The programme continues and feedback is continually reviewed, helping to create our action plans going forward.

Our focus during the remainder of RIIO-GD2 is to build a targeted action plan and communications campaign to help increase the percentage of colleagues sharing their diversity data, so as a business we can be ready well before any legislative changes for diversity pay gap reporting anticipated from the Labour Government. Part of this would include the business clearly demonstrating the benefits of sharing such sensitive information, along with reassuring colleagues of how and when we will use this data.

These steps towards improving our data collection process will enable us to ensure that the metrics we develop, capture our performance accurately and support the building of common metrics across the industry.

We also plan to apply a diversity lens to our existing MI, helping us to gain greater understanding in to the experiences of our colleagues across the lifecycle of their career with NGN – such as appraisal results, succession planning, compensation decisions, career development and recruitment/exit. Ultimately, we aim to keep challenging ourselves to ensure inclusive practices, and the removal of barriers that may unintentionally exclude diverse talent/development opportunities, both internally and externally.

Measuring progress against our short-term commitments in the P&P strategy

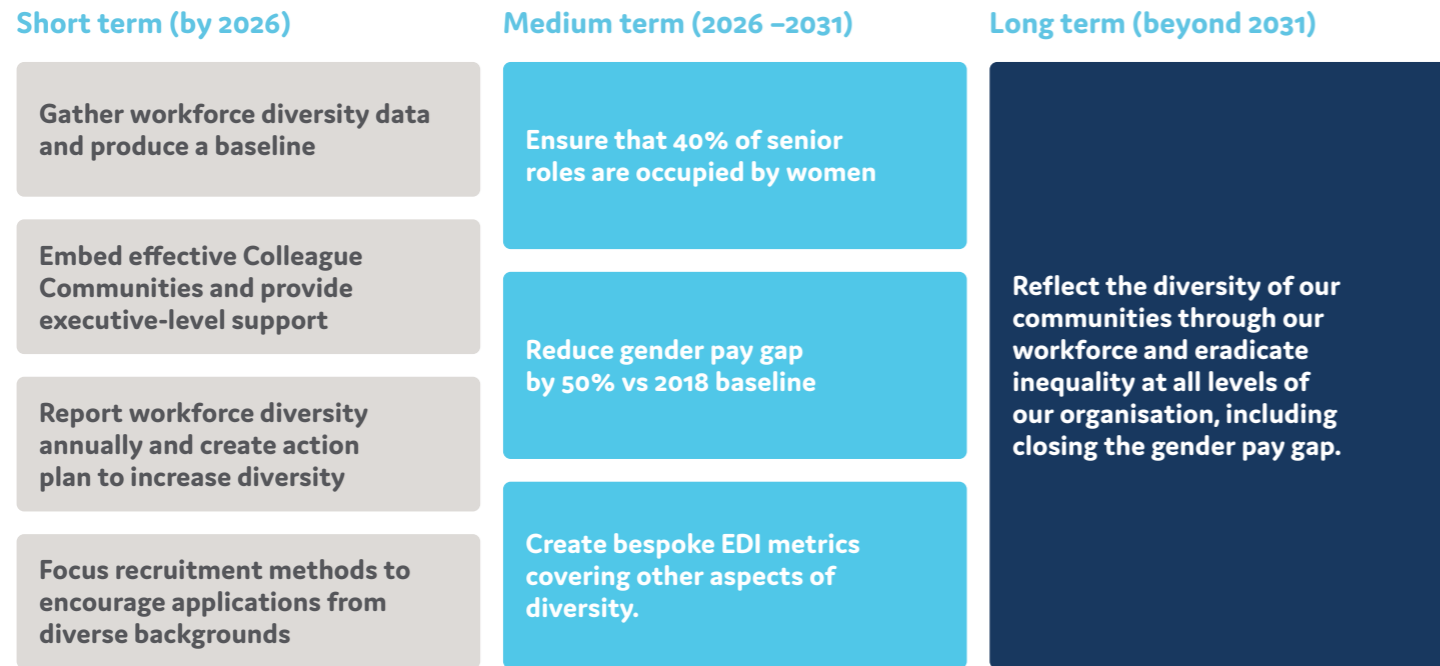


Figure A7.4 Short, medium and long term commitments in our People and Planet Strategy

As identified earlier, in RIIO-GD2 we embedded our People and Planet (P&P) strategy across the organisation. Our high-level commitment to reflect the diversity of our communities through our workforce, is supported by short and medium-term targets as shown in figure A7.1 above. Across RIIO-GD2 to date, we have tracked and reported our progress against our inclusion commitments via our annual Inclusion and Belonging Statement. To meet our stakeholders’ expectations for transparent and accountable sustainability reporting (Insight 5), from 2023 onwards we have clearly documented our progress against our short-term commitments in our Annual Sustainability Report (ASR).

To enable our stakeholders to easily understand our progress, each commitment is awarded a rating of maturity as follows:

- Delivering: Our pathway is well-defined, and we are on track to achieve.
- Developing: We are evolving our approach.
- Refining: Our approach requires further refinement, and/or our delivery is dependent on the actions of others, such as government policies.

The below table summarises our progression against our Inclusion and Belonging commitments to 2026.

Short term commitment	Maturity rating (as per 2023 ASR)	Progress as of Sept 2024
Gather workforce diversity data and produce baseline.	Refining	A key challenge for NGN and many companies with a dispersed and operational workforce is the collection of granular diversity data. We have a process in place to collect data and will report a baseline once we reach threshold of 75% of staff providing data. See Inclusion and Belonging statement 2023 (page 9) and case study 2 for more information.
Embed effective Colleague Communities and provide executive level support.	Delivering	Colleague communities are now an integral feature of NGN’s culture. Our Colleague Communities help us to tackle issues head on by breaking down internal barriers, highlighting the varying perspectives and experiences of our under-represented workforce and empowering them to have a strong and authentic voice. They meet on a regular basis to identify issues, discuss solutions and agree actions to solve challenges. Case study 1 provides further detail around our colleague communities.

Short term commitment	Maturity rating (as per 2023 ASR)	Progress as of Sept 2024
Report workforce diversity annually and create action plan to increase diversity.	Refining	As above, this will be reported when we reach 75% of staff providing data. In the meantime, we commit to creating meaningful metrics to track diversity across our organisation.
Focus recruitment methods to encourage applications from diverse backgrounds.	Refining	We have trialled new recruitment processes to encourage a diversity of applicants. We are working to be able to measure the effectiveness of our actions, and report this in 2024/25.

Table 3: a summary of our progress against short term (RIIO-GD2) inclusion goals

Measuring progress via the Responsible Business Tracker

Since 2019, we have taken part in the bi-annual BITC Responsible Business Tracker. This is a comprehensive measure of our performance as a responsible business and is based around the United Nations Sustainable Development Goals (UNSDGs). The assessment covers all aspects of responsible business, from climate and carbon to inclusion, and diversity to supply chain. We have taken part in 2019, 2021 and 2023 and have seen impressive incremental increases in our overall score across that time (Table A7.1).

Year	Overall score
2019	56%
2021	74%
2023	86%

Table 4: BITC Responsible Business Tracker results 2019-2023

In 2023, we were commended for our approach to inclusion, and we saw our score for this area increase by 17% between 2021 and 2023.

We scored 100% for measures we have in place to govern inclusion at the highest level of the organisation. BITC highlighted that we have multiple pathways for meaningful colleague engagement, including the Inclusion and Belonging Working Group, Executive Sponsors, Learning Lunches, Colleague Forums and our Colleague Communities.

We scored 88% around how we publicly disclosure our performance in this area, highlighting that we disclose information through multiple channels and that we share information throughout the recruitment process.

Our aim is for the continual improvement of performance in all areas of the BITC Responsible Business Tracker. We are also working collaboratively with the other Gas Distribution Networks (GDNs) on the EU Skills Measurement Framework to report overall resilience.

3.1.2 Our approach to RIIO-GD3

We have made real progress in RIIO-GD2, but during this next period, we continue to strive to make a measurable impact on our focus areas. To achieve this, we are developing an Inclusion & Belonging Strategy which will feed into the existing P&P Strategy underpinned by our action plans to ensure we can deliver at the pace our colleagues and stakeholders expect.

In RIIO-GD3 we will invest in a dedicated EDI resource to drive and co-ordinate our commitments, including:

- 50% reduction in the Gender Pay Gap (against 2021 baseline).
- 40% female representation at a senior level
- Work with specialists to create bespoke EDI metrics covering other aspects of diversity and inclusion.
- Report transparently about our diversity data via our Annual Sustainability Report.
- Finalise our inclusion strategy and annual action plans alongside stakeholders.
- Aim to continually improve our score in the Business in the Community Responsible Business Health Check
- Enable Colleague Communities to flourish – provide dedicated budgets and exploring the creation of new communities as determined by our colleagues’ needs.

To achieve our challenging ambitions in this area, we need to build connections with the broader community to ensure that we have a diverse pipeline for the future. Through our apprenticeship schemes and targeted recruitment activity, we are now seeking to test how we attract a more diverse workforce – including advertising our jobs in women only spaces for example. This is only the start of this journey and broadening our attraction and recruitment will remain a key priority and focus. This will ultimately lead to a more widely represented workforce, with the aspiration that in time we will begin to change the course of our gender pay gap.

3.2. Workforce satisfaction, retention, motivation and productivity

In this section, we outline our strategy for enhancing workforce wellbeing, satisfaction, retention, and productivity. We acknowledge that these four elements are intrinsically connected, and excelling in each will lead to exceptional outcomes for our customers. Our dedicated workforce is essential to the successful implementation of our RIIO-GD3 strategy.

Our approach across RIIO-GD2 has focused on 3 key areas:

- Aligning our benefits with our colleague wants and needs.
- The health, safety and mental wellbeing of our colleagues.
- Effective colleague communication.

3.2.1 Aligning our benefits with what our colleagues want and need

Our approach in RIIO-GD2

Colleague satisfaction and retention are key components to ensure workforce resilience and stability; we know that the benefits (including remuneration and other benefits) offered by employers can significantly impact upon these factors. Higher staff turnover can lead to greater instability, reducing resilience, and so it is key that we look to align our colleague benefits with best practice. At NGN the average tenure of an employee is over 10 years, this demonstrates why our long term agreements with our colleagues are vital.

We regularly review our colleague benefits to ensure that we remain competitive with the market, undertaking benchmarking against the market in our geographical area and other utilities companies to ensure competitive salaries and terms and conditions. We also undertake more targeted external benchmarking via the Hay Group for specific roles when required, who operate a globally recognised job evaluation methodology which NGN have adopted.

We continue to reward our colleagues for their performance/productivity via various bonus schemes across the business, driven by the type of roles colleagues perform. However, all the bonus schemes, at all levels, are designed to ensure we are delivering our vision and linked directly to our values and our customer outcomes.

Colleagues', and future colleagues' expectations are constantly evolving, which is why we are always seeking to challenge ourselves, to ensure that we remain attractive as an employer and offer more than just a competitive remuneration package.

We prioritise the wellbeing and satisfaction of our colleagues via our benefits provision, offering comprehensive support systems to help them thrive both personally and professionally. We are dedicated to evolving our benefit provision and ensuring it meets the changing needs of our colleagues. In recent years, this has been aligned to the well-being and financial security of our workforce, demonstrating that our commitment extends beyond traditional benefits, as we strive to tackle financial hurdles faced by our colleagues. Initiatives like free mortgage advice and partnerships with organizations like the Fuel Bank and Leeds Credit Union are designed to address specific needs, ensuring our colleagues can access essential services without undue stress. By providing diverse financial aids and savings options, we empower our colleagues to achieve greater financial stability.

Our recent flexible benefit provisions have also included additional healthcare initiatives, car maintenance packages, car salary sacrifice lease schemes and technology vouchers, all of which are designed to help colleagues spread the cost of these items.

Our holistic approach not only enhances employee satisfaction but strengthens the overall workplace culture, fostering loyalty and productivity. When surveyed, our colleagues rated their satisfaction with the range of the benefits provided as 8 out of 10.

During the most recent annual benefit enrolment period:

- 62% of colleagues logged onto iBenefit during the election window.
- 37% submitted a benefit (against an industry peer measure of 36%).
- There was a 50% increase in the number of colleagues self-funding private medical insurance.

We pride ourselves on our service recognition policy which recognises short, medium and long-term tenure in a variety of different ways, from recognition from our CEO, additional days off, to shopping vouchers and invites to our service recognition events.

Our benefits approach goes beyond the financial, with all colleagues receiving two days' paid leave per year to benefit the local communities within our network. Our volunteering days have been made more flexible so that colleagues can take these in smaller bites, to help spread their time for the most benefit to their chosen charity/community project. The uptake on days taken by colleagues has improved (see Figure A7.3):

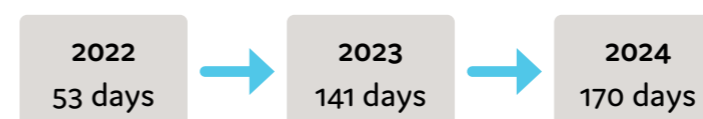


Figure A7.5 NGN colleague volunteering days used 2022- 2024

Noting that the 170 volunteering days in 2024 is up until the end of July 2024, this is a significant increase from prior years.

Our approach to RIIO-GD3

Our aim throughout RIIO-GD3 is to continue to build on what we are already doing well. We will continue to seek out ways to ensure our colleagues are offered affordable access to products and services via our Flexible Benefits programme, and we will seek out ways to support our colleagues with financial wellbeing via the above and supporting our colleagues via financial wellbeing educational programmes.

To enable us to maximise NGN's use of paid volunteering days as well as progress our inclusion agenda, we will work with our Colleague Communities to identify volunteering opportunities that NGN can advocate for, which benefit underrepresented groups within our regional communities. We will do this via dedicated sessions with the Colleague Communities to discover any community projects/charities that can be highlighted to other colleagues within NGN.

Separately but relevant, our hybrid way of working remains a key aspect for attraction and retention and will remain so for RIIO-GD3, this is so that we can continue to offer where possible and beneficial to the business, a hybrid working model, which offers the flexibility and work-life balance to our current colleagues and attracts new hires who are seeking this in today's job market.

Our benefit and reward provision remains holistic and deep, with the overarching strategy of supporting recruitment and retention, demonstrating longer-term commitment between NGN and our colleagues.

3.2.2 The health, safety and mental wellbeing of our colleagues

Our approach to RIIO-GD2

We want NGN colleagues to:

- Own their health and thrive in all areas of their wellbeing;
- Have the time and energy to live a full life outside of work;
- Bring more of themselves into the workplace and positively contribute to achieving our goals set within our culture, values and promise.

We want our managers to know what is expected of them, to be more resilient themselves and become better at supporting and driving team wellbeing.

Our Wellbeing Strategy Action Plan will help us to deliver this and has developed through the phases of getting the basics right, embedding good practice and now moving into maintaining excellence throughout RIIO-GD2 and beyond.

Working within the BITC Workwell Commitment that we signed in 2023, we will continue to benchmark against other organisations with the work we do within the wellbeing area. The Business in the Community Workwell Commitment is a simple framework for employers looking to prioritise their people, enabling them to thrive at work.

An ongoing area of focus is a requirement which has been set out by the Health and Safety Executive (HSE), to minimise the risks associated with fatigue and working patterns, predominantly focused on length of shifts and dedicated rest periods. We are working proactively with the HSE and have presented our long-term plan to address and proactively manage this risk.

Our Occupational Health provision was brought in-house in 2020. This dedicated team takes a proactive approach to both physical and mental wellbeing, and post-Covid-19 pandemic, the team successfully delivers an onsite health and wellbeing roadshow across the network on a quarterly basis. Information is also shared monthly via news articles and other communication channels such as Yammer.

A Wellbeing Champions Network of over 40+ colleagues has been established, whose members are all trained in mental health support. All Champions are trained in Mental Health First Aid via Washington MIND delivering the Mental Health First Aid England approved course content. This content is attuned to provide our Champions who deliver with updated NGN-specific guidance on what support they have available to them at, or through work, with the purpose of providing immediate mental health support and to signpost colleagues to the help available.

We also have 14 trained Wellbeing Advocates to support the Occupational Health Team with raising awareness and improving communication of physical and mental health wellbeing messages. They also provide support for the Better Health at Work Award. Our aim during RIIO-GD3 is to build greater connections between our wellbeing and

inclusion & belonging activities to enable a more holistic approach and overall colleague impact. A great example of this is the Women's Community working within the Occupational Health Team to highlight and signpost the fantastic menopause support services available.

Line manager mental health awareness training commenced in 2022 with Leeds MIND and to date 71% of managers have completed the training. This was followed up in 2023 with Britsafe to deliver content on behalf of Mates in Mind for Stress Management within the workplace and 50% of managers in the south of the network and 65% of managers in the north of the network have completed that training module.

To ensure that all line managers are trained on an ongoing basis, we have partnered with Our Minds Work, who will be running future line manager training. This workshop is accredited and includes mental health awareness, stress awareness and practical skills to manage and support stress and mental health in the workplace.

In addition to in-house resources, we have expanded the scope of support available to colleagues by working with several external providers. This focus of these initiatives is to enable colleagues to access the support they need, as and when they need it:

- **Employee Assistance Service (EAP):** This is our 24/7 support line for colleagues. The EAP provision was upgraded in 2024. Colleagues can now access more counselling services (face-to-face, online, via an app or on the telephone) as well as life-coaching support.
- **Physiotherapy service:** Introduced in 2021, colleagues have access to a self-help portal for minor musculoskeletal issues, and access to physiotherapy clinical assessment and treatment is possible following initial triage with the internal Occupational Health team.
- **24/7 GP telephone service:** Colleagues can also access a 24/7 GP telephone service, which can be particularly beneficial to our colleagues working non-standard hours or working patterns. ZGP24, our virtual GP and Second Medical Opinion Service, is open to colleagues and their partners/spouses and dependents living in the same household. The virtual GP offers 24/7, 365-day unlimited access to experienced GPs, via phone or video (video consultations 8am–10pm, seven days a week excluding Christmas Day), which includes the writing of private prescriptions and referrals.



CASE STUDY 3: STRESS MANAGEMENT PROJECT

In 2023, we completed a review, with the principal goal being to explore the root causes of work-related stress within our organisation. The work involved the use of an existing stress risk assessment tool (the HSE Stress Indicator Tool (SIT)) and the development of a bespoke tool for NGN colleagues. The work was carried out by a team of specialists from the Centre of Human Factors at the University of Hull and in compliance with HSE best practice recommendations.

The tool was designed on the principles of stressor/strain frameworks, consistent with the HSE Management Standards. This incorporates subscales of:

- **Demands** (workload, shift patterns, work environment)
- **Control** (discretion over timing and working method)
- **Support** (formal and informal resources at the organisational, line management and peer level)
- **Relationships** (conflict and positive working)
- **Role** (clarity and feasibility of role within the organisation) and
- **Change** (management and communication of change).

Among the overall population (1,533), the final sample was 630 which represents 41% of the target population.

This response rate is considered to be very good, considering the length and complexity of the survey, which can impact on survey completion.

The results were followed up by working groups. One group reviewed the recommendations from the university related to Operational Colleagues and the other group focused on the recommendations for Non-Operational Colleagues and Management. Action plans have been created in the following key areas:

- Training and development
- Trauma support
- Communication and culture

A rolling training programme for managers was established, which covers the people skills required to manage and support their team members confidently and effectively.

A rolling training programme for managers is being established, which will cover the people skills required to manage and support their team members confidently and effectively.

Mental Health Awareness Training modules exist for colleagues, but this is currently limited to non-operational colleagues, a training programme for all colleagues will be established which will empower them to recognise and manage stress in themselves and others. The survey will be rolled out periodically and the associated action plans evaluated to ensure that we continue to make progress in this area.

Measuring Progress

Our approach to wellbeing is assessed bi-annually as part of our submission to the BITC Responsible Business Tracker and the BITC Workwell Commitment. Our results for 2023, were really impressive seeing a 28% increase in our score for this topic. BITC commended our approach as follows:

You scored 95% on Health & Wellbeing which reflects your commitment to ensuring Wellbeing is central to your organisational strategy. It is governed at the highest level with senior sponsors who sit within the Wellbeing focus group. We commend you for ensuring that wellbeing sits on the agenda throughout the business.

(p.18 of our BITC 2023 Tracker Report)

Approach to RIIO-GD3

Our approach will be to maintain our high level of wellbeing support and focus, always being ready to adjust our approach based on colleague needs, which is made possible by our in-house team. By building on the significant progress made during RIIO-GD2 we will strive to achieve the Better Health at Work Awards Ambassador Status in RIIO-GD3. This framework will provide structured guidance on the delivery of evidence-led workplace initiatives. It will also provide opportunities for colleagues to play an integral part in shaping the support they have in place within the workplace, which is in line with our overall colleague-led approach. To maximise wellbeing for colleagues during RIIO-GD3 we also aim to build greater connections between our wellbeing and inclusion & belonging strategies to enable a more holistic, joined up approach to colleague engagement. An essential enabler to providing a resilient service to our customers is ensuring our colleagues' wellbeing remains a priority.

3.2.3 Effective Colleague communication

Approach to RIIO-GD2

Consistent communication and engagement are paramount to colleague satisfaction and engagement. We keep our colleagues up to date on all areas of business performance, news and updates in a variety of ways in order to reach our dispersed workforce. This approach enables all our colleagues to understand and see how we are performing against corporate or regulatory targets. Specific information is provided for site managers using a scorecard on local performance and depot displays are used to show performance against targets for engineers. This is not only so colleagues can see how the business is performing but it makes the connection to our customers, and colleagues can see directly how they contribute to our vision.

Business performance is discussed regularly in our internal communication channels (CEO Call and Business Chats) along with our Trade Union Forums (Communication Consultation Forum (CCF)). We continually review the effectiveness and impact of these channels to ensure maximum reach but also to ensure it is a two-way process that allows us to gather feedback.

We pride ourselves in the operation of our 'Bounce events' (where colleagues are invited to openly discuss key issues and help to provide resolutions around a number of efficiency, customer focus and safety criteria). We have an 'Ask Mark' section to our business chats and publish the link on email communications and our intranet. Colleagues can use this forum to pose a question to our CEO who will ensure a response either directly, via the CEO Call or through the Business Chats.

Celebrating success with our colleagues continues to be a key pillar of engagement, and we have recently refreshed some recognition events following a pause during the Covid-19 pandemic. This includes our annual 'We are the Network' Awards. The most recent event took place in October 2024, with colleagues nominated under a variety of categories. This year, we have received well over 300 nominations.

NGN has been a member of the Institute of Customer Service (ICS) and has held the nationally recognized ServCheck accreditation since 2013. Every 18 months, we conduct a mid-point reaccreditation involving customer and colleague surveys. These surveys capture colleague feedback on our strategy, culture, and processes, allowing us to benchmark performance and identify areas for improvement in our customer strategy.

In 2021, feedback indicated colleagues struggled to connect excellent customer service with career progression. To address this, we added the NGN Way objective to performance goals, which encourages involvement in community groups and training related to customer experience. In 2022/23, we also launched a communications program with blogs, news stories, and recordings to help colleagues understand their role's impact on customer outcomes.

The survey results, analyzed by gender, age, and role, will help shape our inclusion strategy for RIIO-GD3.

Approach to RIIO-GD3

We will continue our approach to consistent communication and engagement with colleagues, whilst responding to colleague feedback (from all sources, including exit interviews) and adjusting our approach whenever needed to ensure we maximise all engagement opportunities.

To continuously improve in this area, we will review innovative and emerging technologies to support both the impact of our engagement and communications to assess the accessibility to our workforce.

3.3. Attracting new talent and skills

Our aim is to build and maintain a team of empowered, motivated and positive team players that share a genuine sense of pride, passion and respect to ensure we are equipped to deliver the low-carbon energy system of the future.

3.3.1 Our Approach in RIIO-GD2, and our commitments for RIIO-GD3

We have engaged with our stakeholders across RIIO-GD2 around our priorities and a key message was the need to work harder to engage and inspire young people about our role in the energy transition and future careers options to ensure we can continue to deliver for customers. Stakeholders told us that these efforts were crucial to filling the skills gap. Across RIIO-GD2 we took a wide-reaching approach to this, including:

- Our schools education programme
- STEM support programme
- Improvements to our recruitment practices

Initiative	Progress across RIIO-GD2	Ambition for RIIO-GD3
Schools educational programme	Appointed a dedicated education officer to deliver a net zero STEM education programme for secondary schools, helping us to develop our approach to engaging with schools and help students understand that careers in the energy sector are varied and vital to reach the UK's net-zero targets. In the first 6 months we engaged over 10,800 young people across 119 sessions.	During RIIO-GD3, our ambition is to reach 60,000 young people.
STEM support programme	One way in which we have sought to ensure that we are securing our future workforce pipeline is through our STEM school support programme. This programme is intended to raise aspirations and awareness among young people, and to encourage women to want to work in the energy industry. Across RIIO-GD2 the STEMazing partnership, has enabled seven female members of staff to deliver 1,056 STEMazing kids' sessions with 176 primary school pupils across our network.	Our commitment for RIIO-GD3 is to continue this programme, and across the period train 60 female colleagues to be STEMazing mentors.
Inclusive recruitment	We worked with our Young Innovation Council (YIC) to refresh our recruitment strategy and redesign our careers page, focusing on ways to increase accessibility and improve access to job opportunities. We now provide inclusion information on our recruitment website, including demonstrating our family-friendly policies, and where applicable to the role, hybrid ways of working. Our refreshed approach was utilised for our apprenticeship recruitment campaign in 2021 which saw us triple our female engineering workforce through the use of a gender decoder in our job adverts and advertising to different groups.	We will continue to trial and implement inclusive recruitment strategies across RIIO-GD3. See page 5 of our Annual Inclusion and Belonging Statement for further details

Table 5: a summary of our progress across RIIO-GD2 and our ambitions for RIIO-GD3 around attracting new skills and talent to our workforce.

This is a complex and ever evolving area, where it is essential to keep engaging sensitively with our stakeholders to understand their needs. In addition to those above, we have existing commitments in our P&P strategy that will facilitate the attraction of new talent through proof of our inclusive culture, such as:

- Reducing our gender pay gap by 50% vs 2021 baseline.
- Focusing our recruitment methods further to encourage applications from a wider diversity of backgrounds.

3.4. Upskilling and multi-skilling of our workforce

3.4.1 Approach in RIIO-GD2

To ensure that we can continue the success of our programmes, from apprenticeships to upskilling and re-skilling our colleagues, we have invested in a new purpose-built bespoke training centre in York. The training facility has been specifically designed and created to deliver the knowledge, skills and behaviours required across specialist areas identified in our resilience planning. The current priority areas are our Network Engineering and Maintenance teams, which includes apprenticeships, to ensure that we address the skills shortages specifically within our Pressure Management, Mechanical Engineering and Electrical & Instrumentation teams.

We adopt a holistic approach to make every contact count. When colleagues visit customers, we encourage them to provide comprehensive service, addressing gas supply issues and offering resources for vulnerable customers. This enhances service quality, skill development, job satisfaction, and customer advocacy. Across RIIO-GD2 we have trained or upskilled our colleagues in many areas. Most notably we have:

- Provided more than 170 managers with the skills to help signpost or support colleagues who may be experiencing mental health issues (via training in association with Mind).
- Offered training to 627 of our DSP colleagues to help them identify and help those with vulnerabilities to access support (via our Making Every Contact count training).
- Enrolled 14 colleagues on our Foundation Skills Programmes for English enabling colleagues who didn't achieve formal qualifications prior to employment with NGN to feel confident in applying for or seeking progression opportunities.
- Upskilled 12 engineers to Level 3 Craftsperson to support longer term succession/resilience planning requirements.

Apprenticeships

Due to the success of the operational apprenticeships, across RIIO-GD2 we have further expanded our scheme to include a Business Administration Apprenticeships (BAA) programme. We now employ eight BAAs across our depots/offices.

We currently have 69 operational apprentices across the network in the Operative, Emergency Response, Pressure Management, and Electrical & Instrumentation disciplines. Each year we have added to our accumulated number of apprentices who each undertake a 4 year programme. During 2024, we recruited a further 12 apprentices. We recruit for the scheme on an annual basis to ensure we have a pipeline to fulfil the succession needs identified in our resilience planning.

Based on engagement with our stakeholders, we believe that as the needs of the gas sector transition (including potential investments in hydrogen) begin to crystallise, we should be well placed to retrain the existing workforce to operate a blended or pure hydrogen network. The apprenticeship levy is currently under transition to Skills England. Working collaboratively with the Institute for Apprenticeships and Technical Education, and the Education and Skills Funding Agency, we aim to ensure that training programmes become available as soon as the need is identified. By working collaboratively with EU Skills across the industry, we continue to play an active role in the National Skills Academy for Gas to ensure that we are defining the right skills and re-skilling required.

3.4.2 Approach in RIIO-GD3

Identifying and addressing skills gaps

We have already identified a need for project managers and graduates as part of our strategy to attract the talent required to lead business into the future. We plan to continue to build connections with higher education providers across the network in order to maintain our status as an employer of choice in the region. During RIIO-GD3 we will go further and build a well-defined graduate programme. We will review and adapt our business administration apprenticeship scheme to align to the needs of the business as well as future skill requirements. Our Young Innovators Council (YIC) helped us to shape our ambition to build an apprenticeship programme during RIIO-GD3 where colleagues have the opportunity to rotate around various support functions in the business to gain wider experience and knowledge, whilst at the same time considering their longer-term career path.

Cyber resilience is and will remain a top priority – retaining and developing these skills is a key element of our workforce strategy. These highly sought-after skills and talent can be challenging to attract and retain, so we will ensure a continuous review of our market competitiveness based on the methods described in the satisfaction and retention section (Section 3.2).

In the future, the gas industry will increasingly require professionals focused on cyber resilience, prompting collaboration between two traditionally male-dominated fields: energy and cybersecurity. To avoid diminishing workforce diversity, it is crucial to establish a robust foundation for inclusion. This can be achieved through continuing to creating an inclusive culture that values diverse perspectives- something that the creation of our Inclusion Strategy will do. By prioritising inclusion initiatives, especially where there is an intersection between industries, we can ensure that the integration of these industries enriches our workforce, reflecting a broader range of experiences and ideas essential for innovation.

The future of our business continues to require great leaders and future managers to ensure that the network is safely and correctly managed in line with our values and promise. To this end, we continually invest and adapt in programmes for all line managers. This currently includes programmes accredited via the Institute of Leadership and Management and the Chartered Management Institute (CMI). We strive to ensure that this is updated, repeated and consistent for all new and existing managers.

Green Academy

As referenced previously, in relation to the Future Energy Scenarios in RIIO-GD3, we aspire to build a resilient net-zero-ready workforce through building on our apprenticeship success during RIIO-GD2 and moving further to create a Green Academy.

The NGN Green Academy will support UK net-zero training for future engineers by developing whole systems energy transition training. This programme will also ensure that all our colleagues have a good understanding of the road to net zero. We will be looking to work with a credible education partner and IGEM (the Institution of Gas Engineers and Managers), as well as considering expanding links with other organisations such as the Institute of Chemical Engineers, Institute of Engineering and Technology, Institute of Mechanical Engineers, Royal Academy of Engineering and Gas Safe Engineers, to develop a whole systems engineering curriculum and sponsor a number of colleges within the NGN geographical network.

We have invested in recruiting a Talent Development Manager to oversee, develop and lead on all areas of retaining and attracting talent, which remains a critical element of the Resilience Strategy. This role will ensure that we can maximise all opportunities both internally and externally to demonstrate our exciting career paths, while navigating through the changes ahead for the industry.

3.5. Measuring workforce resilience and quantifying areas at risk of skills shortage

NGN's risk assessment process is documented in our Risk Management Procedure and is embedded across the organisation. Risks are identified, assessed, treated, reported and reviewed. This applies to all business risks, not just skills related ones. All risks and opportunities are quantified and assessed on both on a financial and non-financial basis in a consistent, systematic manner. The likelihood of each risk occurring is then scored and the control measures (which already exist to mitigate the risk occurring) are documented and assessed to derive the overall risk level. This process is documented via departmental risk registers, and the HR register captures risks related to skills shortages. Risk registers are reviewed each quarter to ensure they encompass current risks.

We measure and monitor key workforce resilience measures on a monthly basis to highlight trends and areas of focus. These are key KPI based and include: headcount/FTE, sickness absence levels, attrition levels, exit interview responses, number of applications for vacancies and training hours undertaken.

Collaboration to develop common metrics

This strategy details how we are measuring outcomes across each of the sub-areas of workforce resilience. These build on our historical business as usual approach to monitoring performance through a range of metrics in the following ways:

- In addition to monitoring key metrics, we also continue to use feedback collected via colleague surveys. An area previously identified as not having had dedicated review via our Wellbeing Strategy was stress management, which has since been included.
- We are working collaboratively with other GDNs, EU Skills and trade bodies to discuss and agree on key priority metrics which demonstrate workforce resilience, taking into account best practice and knowledge sharing along the way. These would allow us to capture information on our workforce characteristics, resourcing, skills development and retention. An initial data set has been shared and will continue to be developed further as we collect more data. We also share and build on best practice to ensure that we optimise the process of collecting and monitoring workforce data. The common metrics will also ensure we can compare and measure ourselves against the other GDNs and in turn our stakeholders will be able to, ensuring greater transparency and challenge to ensure we hold ourselves to account against our progress towards our commitments.
- Throughout RIIO-GD3, we aim to maximise the technology/systems we have in place to improve the colleague experience, deliver more efficient training and ensure that we can regularly and

consistently provide meaningful reports and insights. This will allow us to collate the necessary data to assess measurement against the metrics we will be developing throughout RIIO-GD3.

3.5.1 Approach to RIIO-GD3

NGN is cognisant of potential issues with shortages of specialist employees. The pool of specialist resources we draw from is limited, and these workers tend to prefer projects that last longer than our typical pipeline of work. For example, we found it difficult to find inspectors because water companies were running larger projects at the same time. Furthermore, as a frontier operator, NGN has less ability to meet demands for higher salaries than companies that receive a larger allowance to deliver the same output.

Given the uncertainty over the future of the industry – especially the unpredictability around the shape and pace of the energy transition in the period beyond RIIO-GD3 – it is becoming more challenging to attract new talent, particularly with regard to being able to access and retain specialist staff in the medium to long term. The costs of hiring specialised labour are increasing and expected to rise further, as are the costs of retaining existing contracts on fixed-term projects.

Given the anticipated shape of our investment programme over RIIO-GD3 and beyond, which is largely a continuation of historical levels of activity (for example, completing the Repex programme), we are not directly engaging with government on our supply chain and workforce pipeline. However, we work collaboratively with EU Skills, other GDNs and energy sector partners – with our work with EU Skills enabling us to influence the future direction of the sector apprenticeships/skills required. We will seek to maximise the initiatives we embarked on in RIIO-GD2 and expand on these in RIIO-GD3 and beyond to deliver greater customer and colleague value.

The overriding objective of our Workforce Resilience Strategy remains to operate a safe, highly skilled and resilient workforce that consistently delivers high-quality and efficient services to our customers. We will continue to develop our workforce through the delivery of continuous but adaptable quality learning and development initiatives in order to futureproof our business for all of our stakeholders and customers.

We identified a risk through resilience planning of a skills gap due to the demographic of our workforce. In mitigation, we have built and delivered plans that have futureproofed our workforce resilience, ensuring that we have the correct knowledge, skills and behaviours across our network now and a pipeline for the years ahead. A key driver to deliver this was our biggest-ever apprenticeship recruitment campaigns in both the Emergency Response and Network Maintenance teams. We have also invested in other critical key skills areas that take significant periods

of time to develop competence in, such as upskilling 12 engineers to Level 3 Craftsperson to support longer-term succession.

We remain committed to supporting professional development to ensure a high level of skill in our workforce, to aid progression, succession and secure workforce resilience for RIIO-GD3 and beyond. We have set out our process for developing a workforce pipeline that is adapted to our needs in Section 3.4 on our York training facility.

We have continued our connections with the NGN Alumni (mentor) network during RIIO-GD2 to provide specialist industry skills, knowledge and support as part of our Mentor programme. We currently have a group of ten mentors who enhance our overall training delivery with their specialist skills and experience.

We expect our workforce numbers to increase going into the last years of RIIO-GD2, with this increased level maintained into RIIO-GD3. This increase in workforce is required to ensure that we have a pipeline of talent and sufficient critical skills within the company to promote resilience. Figure A7.5 summarises the historical and forecast workforce breakdown.

We will continue to monitor recruitment activity through our resilience metrics, to be able to respond to any changing trends in attracting candidates. At this time, we have not experienced any decline in our response to recruitment and as such are not forecasting specific skills shortages within this strategy. Key recruitment metrics will form part of the workforce resilience measurements. We welcome Ofgem’s guidance that potential workforce needs that are not yet known could be covered under the resilience reopener and would look to utilise this facility should it be required.

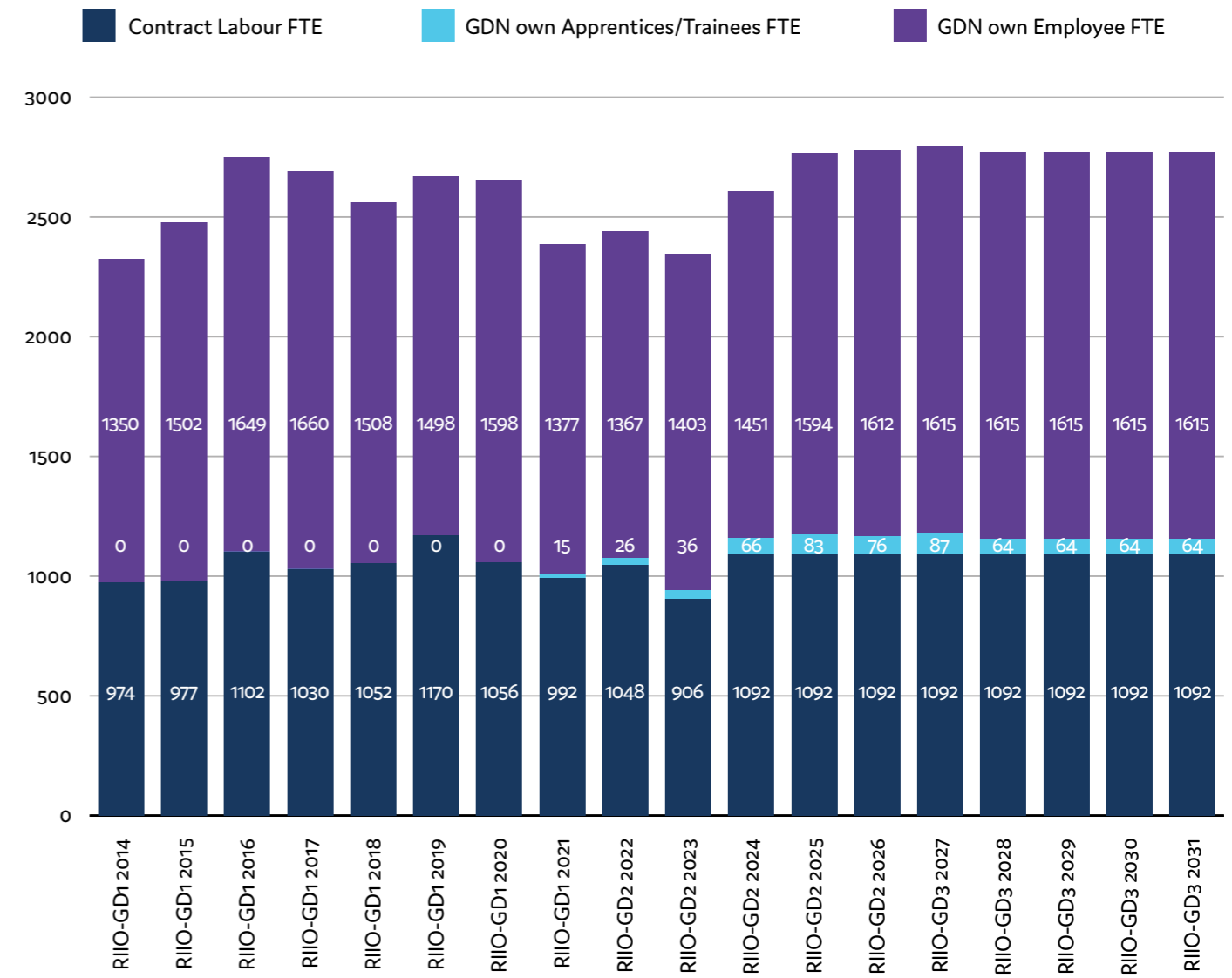


Figure A7.6 NGN Total full-time equivalent hours (FTEs) by category (RIIO-GD1-3)

4. Supply chain resilience

The Strategy sets out the actions we are already taking and our next phase of work to enable the efficient and reliable flow of critical supplies and services. The measures we are setting out will ensure that we can build on our work to date and mark milestones in building a resilient, open and innovative supply chain to provide economic security and prosperity for NGN and its customers.

Ofgem's guidance requires us to set out how our Strategy will create long-term capacity in our supply chain to ensure that we are resilient to risks going into RIIO-GD3. At the same time, we are required to outline how we will maintain maximum competitive tension in our supply chain to identify efficient costs, ideas and innovation to bring value and ensure continued delivery to our customers.

In this section, we first provide an overview of supply chain challenges we have already faced in RIIO-GD2 and expect to face going into RIIO-GD3. We then set out our strategy to ensure that our supply chain remains resilient, including long-term capacity and maintaining competitive tension. We conclude by focusing on the regulatory changes required to enable supply chain resilience – in particular, improvement to the real price effects (RPE) indexation.

In Section 4.2, we summarise how our approach gives the supply chain long-term visibility of the tender processes we are intending to run. This is supplemented by access to a diverse group of suppliers, by harnessing the power of data and digitalisation and by fostering deep relations with the supply chain. Section 4.2 also sets out the wide range of industry and local government bodies we collaborate with to signal our supply chain needs – supporting local capability to mobilise to meet our future demand.

Given that we are delivering a level of investment largely consistent with the business as usual environment prevailing over the RIIO-GD1 and RIIO-GD2 periods, the key pressures we are facing relate to constraints in the existing supply chain. We also set out in Section 4.2 how we are managing this risk through inventory management and our direct relationships with suppliers.

We then set out how we ensure that stakeholders are kept informed of upcoming competitive tender and procurement processes, consistent with our obligations by relevant Procurement Directives (currently the Utilities Contracts Regulations 2016). We also outline how we maintain competitive tension throughout these processes to ensure that we are securing the best value for our customers.

We follow this by summarising how our Strategy enables us to tailor our procurement strategy for a given input to consider option value and flexibility in the solutions we are procuring through the supply chain.

Ahead of any investment of significant value, our Investment team put forward business cases outlining:

- Varying whole lifecycle cost options
- The risks and associated costs of doing nothing
- The benefits of the specific investment
- The options that could result in better outcomes for our existing and future consumers.

This supports how we shape our tender design and assessment approach, and the weight we place on seeking an innovative, technology-agnostic range of ideas, as opposed to a specified input.

A resilient supply chain is one that is both diverse and sustainable. It is one that can adapt to the shocks and stresses outlined in our Resilience Framework (see Figure A7.4) which have the potential to impact the availability and cost of supply chain resources required to deliver our commitments in RIIO-GD3 and beyond.

Throughout RIIO-GD2, we have worked to start the process of embedding diversity and sustainability in our tendering processes and throughout our supply chain. We have done this by improving our processes, data and systems in readiness for the future. Our plan for RIIO-GD3 is a combination of enhancing our current processes and introducing new ways of working to address emerging challenges.

4.1. Supply chain challenges

There are significant macroeconomic and industry-specific trends that make procurement for high-quality network equipment and services more costly and uncertain. This section sets out some of the key challenges that we have identified as part of our Workforce and Supply Chain Resilience Strategy.

We summarise how we are proposing to build on the significant progress we have made to understand and develop our supply chain during RIIO-GD2, to manage the greater scope for supply chain pressure over the RIIO-GD3 period. This experience is reflected in our key requirement for the RIIO-GD3 regulatory framework in relation to supply chain resilience, which is to implement the changes to the RPE indexation approach set out in A21 – Cost Assessment and Benchmarking Approach. Taking these steps to remediate the current mechanism is essential to ensure that our investment programme and operations are resilient to external changes in the commercial environment.

4.1.1 Limited pool of quality suppliers

As outlined in Figure A7.7, we continually reflect on our experiences and ensure that our systems are reliable. Our supply chain is no exception, and this is why we value our suppliers based on the quality of service and inputs that they can provide. This naturally reduces the pool of suppliers available to us. Demand for these superior

suppliers also tends to be higher, which can result in us having to pay a higher price than lower quality suppliers. The alternative could leave NGN and its customers exposed to poorer quality inputs (risking the integrity of our network and systems) or longer lead times.

4.1.2 NGN has limited buyer power

NGN supplies 2.7 million homes and businesses, compared to other GDNs that supply between 5.9 million to 11 million.⁶ Many of our suppliers also work across the wider utilities industry, including electricity and water, which increases the market for these inputs further. Due to the size of our business, we are likely to be purchasing smaller volumes than some others in the utilities sector, which reduces scope for negotiating on purchase prices.

This impact is exacerbated when GDNs are competing for resources at the same time (e.g. the district governor site upgrade programme). As decisions on, and timings of, much of our investment programme are set by regulators and government, we have limited scope to fully mitigate the cost and lead-time risk associated with the impact on our buyer power, relative to the supply chain.

Over recent years, we have identified a trend indicating that fewer suppliers are interested in participating in NGN's quality vendor database frameworks for Capital Goods and Products. When we have sought feedback from suppliers, they have highlighted that this is primarily related to the smaller volume and prescribed timing of orders required under these frameworks.

4.1.3 The market is wider than the UK

Industries across the world are becoming more globalised, with geographic boundaries becoming increasingly blurred. The same can be said for the market for input materials, as buyers from multiple countries are competing for those same supplies. Our recent experience with the supply chain indicates that we are facing competition for suppliers not only from domestic companies but with international buyers from jurisdictions such as Canada.

4.1.4 Input prices have been affected significantly by inflation

During RIIO-GD2, we have experienced significant inflationary pressures which have affected the cost of raw materials, energy and logistics across the majority of our suppliers. The magnitude of the inflationary pressure faced by NGN has far outpaced the general economy.

As an example, the prices charged for coiled pipes have increased by 82% in the period from January 2021 to August 2023.

4.1.5 External shocks have increased lead times

The global trade environment has become increasingly volatile over recent years due to external shocks such as:

- The Covid-19 pandemic
- The Suez Canal blockage
- Russia's invasion of Ukraine
- Rising geopolitical tensions.

The cumulative effect has increased the cadence of disruptions in the supply chain, leading to increases in lead times, shipping and storage costs on the delivery of products.

4.1.6 Net-zero requirements are likely to exacerbate supply chain issues

International and cross-sectoral competition on procurement will be further driven by the energy transition. As energy transition and related investment needs begin to materialise internationally, companies across the value chain of energy industries are beginning to procure increasingly large volumes of goods and services. The result of this is both higher prices and longer lead times.

This is particularly relevant for NGN when considered in the context of the reduced buyer power of the NGN network on a global scale, as outlined in Section 4.1.2. In order to maintain maximum competitive tension in the face of these challenges as we transition towards Net Zero, we will continue our focus on nurturing strong relationships and collaboration and diversifying our supplier pool where possible. We discuss this more in Sections 4.2.2, 4.2.5 and 4.2.8.

4.1.7 Uncertainty over the future of gas may reduce our supplier pool further

As outlined in Section 4.1.6, suppliers are decreasing their investment/specialisation into gas network-related technologies due to growing uncertainties over the use of gas in the future.

4.1.8 Climate change is impacting our supply routes

Our supply chain is also at risk of being impacted by climate change and we are already seeing more extreme weather events disrupting trade routes and these will increase. However, the emergence of new technologies are reshaping how goods are exported, transported and imported globally. Technologies such as Internet of Things (IoT) technology in supply chains, digital payments, e-commerce platforms, cloud computing and 5G is helping to build resilient supply chains globally and maintain the flow of critical goods and services. These technologies are changing the traditional international trade landscape by

⁶ See SGN and Cadent.

increasing efficiency, transparency and resilience in supply chains. Ports/Transporters are investing in their facilities, expanding their capacity to handle increased shipping volumes and support smoother, faster operations, adopting advanced digital technologies, building connections with inland transportation networks, collaborating with stakeholders to better manage disruptions, maintain continuity and investing in green infrastructure to help mitigate climate impacts.

The strategy outlines actions NGN are already taking and the next phase of work to ensure efficient and reliable supplies to NGN. This includes leveraging data and enhanced visibility to respond quickly to unexpected events and mitigate disruptions, maintaining strong relationships with our critical suppliers and building a resilient inventory management system as outlined further in sections 4.2.3 4.2.4 and 4.2.5

4.2. Ensuring our supply chain is resilient

Our mission is to support our suppliers through these changes, build resilient supply chains and maintain supplies of the critical goods and essential services needed for NGN and ultimately our customers.

We consider our supply chain to be resilient if it has the ability to respond quickly to unexpected events, and is able to prevent and mitigate disruptions in the supply chain. Our entire supply chain needs to be underpinned by data and enhanced visibility. Increased information and visibility of supply chain needs and supplier data needs to underpin all efforts to increase resilience by providing the information needed to inform action.

In this section, we set out our existing strategies for ensuring the resilience and sustainability of our supply chain, which we will bolster to ensure a strong position in the face of the growing supply chain pressures going into RIIO-GD3. For each of the outlined policies in Figure A7.6 we map how these will contribute to achieving the objectives set out for us by Ofgem; namely, maintaining maximum competitive tension and ensuring long-term capacity.



Figure A7.7 Supply chain resilience building blocks

4.2.1 Sustainability as a resilience strategy

The need to demonstrate sustainability is ever-growing in today's society as companies come under increased scrutiny regarding unethical business operations in their supply chains. Sustainability is no longer an optional add-on but a fundamental part of everyday procurement activity. NGN recognises the harmful impacts that negligence towards sustainable procurement can cause, and we aim to take actions to minimise these risks by driving continuous improvement internally and working collaboratively with our supply chain. This is a key area in which our approach to supply chain resilience overlaps with other dimensions of our wider strategy to ensure secure and resilient suppliers – in particular in relation to our Climate Resilience Strategy.

Our Sustainable Procurement Strategy outlines our objectives, which are aimed at maintaining and enhancing sustainable procurement practices and increasing the transparency of our supply chain. We ensure that all procurement at NGN benefits from a cross-functional input, whereby technical considerations are balanced with commercial and sustainability considerations. We aim to ensure that all procurement activity at NGN follows the principles of the Triple Bottom Line. This means that in addition to generating profit, we are also committed to creating a greater value for people and the environment by focusing on four main objectives: resilient supply chains, social sustainability, environmental sustainability and internal culture.

We are committed to spending responsibly and holding our suppliers to high sustainability standards. We consciously choose to partner with like-minded suppliers who share the same values and commitment towards operating responsibly through our Supplier Code of Conduct (SCC). Currently 80% of our key contracted suppliers are compliant with our SCC, or equivalent requirements. Key contractors are typically those that make up 80% of our expenditure. Compliance with our Code of Conduct also enables better mapping and visibility to sustainability risks, thus improving our data capture and measurement of performance.

In RIIO-GD3, we will continuously review our SCC to ensure that it is driving towards higher sustainable outcomes. We will also perform assurance to this Code with our most invested suppliers. Putting sustainability at the heart of our supply chain strategy will ensure that we act as a responsible business and help promote long-term capacity by encouraging our suppliers to adhere to industry best practices.

By 2031, we aim to have 100% (as a minimum 85%) of our key contracted suppliers being compliant with our Code/ NGN-approved equivalent Code, which will continue to be reported annually in our Annual Environmental Report (AER). Key contracted suppliers are typically those that make up 80% of our expenditure.

4.2.2 Diversifying our supplier network

A diverse supply chain increases our ability to improve our competitive advantage through innovation, access to new markets, positive socioeconomic impacts, and ensuring sufficient capacity and efficient pricing due to competitive tension.

Our procurement strategies, policies and regulations ensure that we achieve long-term capacity in our deliverables, aggregating supply and services to ensure supply resilience, awarding work packages to increase efficiency and appointing multi-source frameworks for our critical deliverables within our Business Plan. These include:

- Direct Service Provider frameworks: We have just awarded a long-term framework with primary, secondary and a buffer supply base to deliver our mains replacement programme. We have awarded geographical work packages to local small and medium sized enterprises to avoid cycles of mobilisation and demobilisation and support socioeconomic growth.
- Critical polyethylene (PE) pipe fittings and mechanical fittings: PE pipes and fittings are due for re-tender in RIIO-GD2 for a potential eight-year multi-source primary and secondary framework and a long-term multi-source framework in place for mechanical fittings. Ongoing supplier relationship management and forecast sharing ensures that suppliers can align production to meet anticipated network demand and any seasonal fluctuations.

- Logistics management long-term contract: Outsourced third-party logistics management of central distribution centre, stock purchasing and distribution function provides NGN with access to a wide range of resource and expertise in all areas related to logistics, allowing us to quickly scale operations up or down in response to changing requirements.
- Utilisation of existing contracts: Using our existing workforce under mains works contracting frameworks to deliver site upgrade programmes, District Governor civils upgrades and decommissioning programmes.
- Fleet replacement programme: Commitment of annual bulk purchases to maintain our fleet requirements which will include for Electric, Low Emission, and Hybrid solutions where viable. We have a rollout programme which will see a total of 284 vehicles replaced up to 2026 with plans to continue within RIIO-GD3, placing the orders with manufacturers a year in advance. During RIIO-GD3, we have a vehicle replacement programme aiming to replace 540 vehicles, which will be done by widening our current single-supply contract to a multi-source framework with various vehicle manufacturers with exploration of a common Procurement Framework with other GDNs. Alongside this will be the continued single-supply contracts for vehicle conversion services, the Open Balancing Platform (OBP) Solution and vehicle telematics that will be competitively tendered through regulated procurement processes for over-threshold tenders. Replacement wheeled plant, mini-excavators and HGV Vac-Ex units are planned for purchasing in RIIO-GD3, which again will see advanced competitive tenders being carried out to ensure the most advantageous results are sought for NGN.
- Local gas treatment (LGT) overhaul: full requirement to single supplier to manufacture and install, alleviating demobilisation and remobilisation to improve cost and deliverable efficiencies.

4.2.3 Building a resilient inventory management system

We plan to enhance our supply chain stock-keeping for daily operational activities, including the introduction of critical maintenance stock, which will alleviate long lead times. This ensures that we will maintain the right balance between just-in-time inventory and safety stock, using advanced stock management techniques and predictive analytics.

We take a strategic approach to mitigating supply chain pressures by ensuring that we have materials requirements planning (MRP) accurately set up for critical and long lead-time products, ensuring timely sourcing of essential goods such as pipes and fittings. This supports our emergency, repair, connections, maintenance and

replacement programmes. We share forecasts with our suppliers periodically to allow them to pre-plan our anticipated requirements.

Additionally, we consolidate materials requirements across the full business and other GDNs/group-owned companies. This maximises efficiency in our requirements purchasing and ensures the most advantageous tender outcomes for NGN. An example of this is our approach to jointly tendering with Wales & West Utilities (WWU) for metering equipment.

Materials requirements for our replacement and connections projects are captured through our recently improved 'Materials Take Off' process during the early stages of project planning. These requirements are input into SAP and feed into the MRP system. This consolidates requirements to enable the efficient use of existing stock while also providing sufficient time for longer lead-time products to be sourced from suppliers. By building our materials requirements into the system in advance, in the event of a shortage situation we are able to identify any potentially impacted projects and prioritise allocation of materials, or rearrange work schedules to avoid impact on operational delivery.

Alongside our inventory management system (IMS), we collate vital information from our critical suppliers to allow us to have visibility of their supply chain exposures and work with them proactively if issues occur. We have robust processes in place to increase and decrease our logistics storage capacity and stock levels where appropriate, buying in bulk where necessary when seasonal crises or supply chain disruptions occur.

At an individual product level, our comprehensive approach to inventory management factors in historical supply –and demand patterns and criticality to determine a stock-holding level that reflects the unique situation of each material. We also take a strategic approach to managing inventory as a whole, by identifying, preparing for and responding to external factors that may impact the flow of materials. Approaches used to mitigate potential issues include bulk purchasing, pre-purchasing with vesting agreements and pre-approval of alternative products. We conduct informal collaboration between GDNs when it comes to product shortage scenarios. GDNs will look to source goods from other GDNs in cases where the supplier base is unable to provide the material(s) in time.

In addition to our IMS, we have specific programmes and long-term contracts in place for continued bulk buy of certain goods/assets, such as our vehicle replacement programme and our datalogger purchase programme.

Within our Capital Programme, there are some materials and equipment with significant lead times, some as long as 52 weeks, which can impact when we are able to deliver projects. To mitigate the impact of long lead times affecting delivery of our Capital Programme, we carry out proactive planning and forecasting using P6 software. Working backwards from when we need a project commissioned, we meticulously plan when we need to

start design so that we have the material take-off (MTO) in time to order the long lead materials and equipment. This can then be delivered to the site when we need it. This often requires NGN to order the materials prior to the awarding of the main works contract to the contractor, as material orders need to be placed before the design is complete and the construction works can be tendered.

An efficient inventory management strategy will help secure the long-term capacity of NGN and improve resilience to supply chain risks. Improving the ability to forecast any potential disruptions to supply ensures that these disruptions are mitigated by having sufficient safety stock.

4.2.4 Harnessing the power of data and digitalisation

Data and digitalisation are crucial in maintaining a resilient supply chain. They also provide valuable insights into the status of suppliers and allow visibility of sources of uncertainty and variability, as well as enabling the early detection of risks and issues. For this reason in RIIO-GD2 we have focused on improving our data and systems through our digital transformation programme by implementing a supplier data and contract data-mapping portal. The portal assists us in mapping out our entire supply chain and identifies our critical suppliers, supporting us in recognising their co-dependent supply chains in order to identify areas such as sustainability, health and safety, cybersecurity risks and opportunities for improvement. This is achieved by:

- Creating and sending out questionnaires to obtain the required data from suppliers;
- Exploring methods and tools to facilitate measuring supply chain sustainability performance.

Below explains how we are digitising our processes:

CASE STUDY 4: SUPPLIER DATA AND CONTRACT PORTAL

Market Dojo: the supplier and contract information management portal

Challenge

We wanted to digitise aspects of the upstream procurement process to improve procurement performance and utilise intuitive procurement technology.

Solution

The Market Dojo solution delivers efficiency and standardisation through reduced manual workload and improved reporting capabilities. This helps to maximise cost reduction, increase compliance and mitigate financial and reputational risk.

Market Dojo has delivered the following:

1. A full suite of supplier information for critical and non-critical tiered suppliers. This ensures that appropriate details around areas such as cybersecurity, health and safety, the environment, sustainability, the downstream supply chain and legal issues are readily available.
2. Clearly defined and auditable process for onboarding suppliers as a means for information data capture following an award of a contract.
3. Increased process compliance through automated supplier onboarding, meaning that all suppliers go through a minimum threshold of data capture and more standardisation across the business.
4. Reducing our risk exposure from suppliers by ensuring certifications and accreditations are up to date and in adherence with the latest security protocols.
5. A reduction in the time to onboard suppliers through greater visibility and automatic prompts from the solution when there is inactivity.
6. An accessible contracts repository to assist with high-level reporting and increasing the sourcing pipeline by up to 30% by having better visibility of opportunities. It also mitigates against costly contract auto-renewals by giving advance notice.
7. An increase in procurement and supply chains' ability to impact top- and bottom-line revenue performance through notifications for claiming rebates and checking price increases in contracts, linked to the Consumer Prices Index (CPI).
8. A central portal for viewing all supplier information and ongoing supplier relationship management through activity tracking.

4.2.5 Nurturing strong relationships

We also recognise the importance of nurturing strong supplier relationships. An ever-changing external landscape is set to place increased demands on supply chains and increase competition for labour and materials. Developing strong relationships with our suppliers will help build resilience and long-term capacity in our supply chain.

We do this by implementing contract management policies and processes that ensure robust contract management exists throughout the lifecycle of the contract. Open lines of communication, trust and collaboration are our top priorities.

NGN's Contract Management Procedure and Policy sets a foundation for the implementation of a consistent approach to contract management across the business. This involves assigning contract managers, contract administration tasks, performance/relationship management and risk management.

Having a contract risk assessment carried out on all of our contracts under a tiered decision factor process allows us to allocate the correct band and level of contract management needed.

Throughout the last five years, our relationships with our supply chain have been pivotal in enabling the business to excel under difficult operating conditions. For example, in preparation for the potential trade disruption created by Brexit, we worked closely with our key material suppliers to strategically build up stocks to a level that provided a significant buffer to mitigate the risk of any disruption to supply. We did so in a way that allowed for production to be scaled up by suppliers at sustainable levels, while also reaching contractual agreements that managed the risks associated with the additional inventory holding for both parties.

As we enter RIIO-GD3 and beyond, a period of significant uncertainty for the industry due to the energy transition, maintaining and developing these close relationships will be more important than ever. This will ensure that we continue to have access to a supplier base that is able to provide the goods and services required for the challenges of the coming years. Collaboration will be key, and we will continue to engage and collaborate with external bodies, other industries and suppliers through collaboration forums and our innovation processes such as the following:

- Gas Distribution Networks Technical Standards Forum: NGN representatives sit on the Technical Standards Forum (TSF) which involves working with suppliers to develop industry specifications to reflect changes in supplier capability of market technology. For example, there may be discussions on reviewing the standard which specifies a 12-month PE pipe 'shelf life', with a view to modifying the standard to allow pipes to be stored outside for up to 24 months prior to use. This provides more flexibility for suppliers and also enables different stocking options for GDNs. Another example is a review of the standards for the packaging of electrofusion fittings to explore options that allow for more sustainable packaging.
- Energy Innovation Centre Collaboration Agreement
- The previous Redcar HVT project: This involved significant collaboration with industry
- GDN/group-owned companies: Inter-company procurement collaboration forums
- Leeds Anchor Procurement Steering Group: A group of the city's largest (mainly) public sector employers come together and focus on areas where, as a group, we can make a difference for people. This could be as an employer, through procurement, through service delivery or as a civic partner.
- Achilles Utilities Vendor Database Steering Group: Working closely with key buying organisations in the sector, this community meets quarterly to manage changes in procurement across organisations, helping us to achieve the highest standards of supply chain assurance
- Future Energy Network (FEN): Forums and consultations on broader issues in supply chain procurement that affect the energy industry, such as new procurement regulations, e.g. Transforming Public Procurement

4.2.6 Mapping the risks

We have introduced subject-specific risk assessments, which enable us to identify:

- Supply risk (pre-source), and
- Supplier risk (upon contract), which determines the levels of supply relationship and contract management required.

Both of these are underpinned by a sustainable risk assessment which identifies the sustainability risks involved from the outset of the sourcing through to the end of contract.

In obtaining supplier and contract information via our data platform, we are then able to start 'heat mapping' our suppliers and identifying where our key risks and exposures are. We work proactively with the suppliers to improve in areas of concern and look at ways to mitigate the risks identified.

This continues during the contract management phase of the lifecycle. By maintaining close working relationships with our suppliers, we can identify potential exposures and risks that arise, and implement effective mitigation strategies to reduce both the likelihood and consequences of the risks.

We assess our supply risk based on the Kraljic Matrix model which drives the most effective procurement strategy for each event. For example, where the supply risk is deemed as critical, we would look to enhance our tender assessments to include requirements around business continuity plans and management.

When suppliers are awarded contracts, we assess the supplier risk through our contracts risk assessment, which establishes a banding for the amount of contract management that needs to be carried out within each contract.

All of this is underpinned at the beginning of a procurement event by carrying out a Sustainability Risk Assessment. This draws on the risks and what we can do to mitigate them, as well as opportunities we can include in our requirements, whether this is at the specification writing stage, pre-selection stage, tender assessment stage or throughout the lifecycle of the contract as a contracted term or under key performance indicators (KPIs).

Business continuity management (BCM) plans are in place to ensure that supply chain services can continue to operate to support the business in the event of any disruption to key areas such as facilities, systems, transport and workforce. This BCM planning also extends to key suppliers, whose plans are regularly reviewed to ensure that adequate preparation has taken place to identify key risks, and document and test workarounds.

4.2.7 Strengthening our transportation and logistics

Gathering data on our downstream supply chain helps us to mitigate any disruption risks due to transportation. We now have a specialised logistics management function in place to ensure that all of our sites and depots have the goods to perform the activities to run our network. We use route optimisation modelling software to identify the most efficient way to deliver materials around the network, reducing fuel consumption as well as vehicle wear and tear.

Our agreement with our third-party logistics provider includes provisions for access to replacement vehicles in the event of any issues affecting the availability of the primary vehicles. This ensures that we are still able to get materials out to the network to support operations. In addition, access to extra transport capacity provides cover in the event of a supplier transport failure, allowing for collection of the goods to take place if a supplier's ability to deliver is affected for any reason.

We also have an Operational Fleet rollout programme which will see a total of 284 vehicles replaced up to 2026, with plans to continue within RIIO-GD3, placing the orders with manufacturers a year in advance. During RIIO-GD3, we have a vehicle replacement programme aiming to replace 540 vehicles which will include for Electric, Low Emission, and Hybrid solutions where viable alongside replacement wheeled plant, mini-excavators and HGV Vac-Ex units which it is planned will be purchased in RIIO-GD3.

Improved transportation and logistics will help to contribute towards our strategy of securing long-term capacity and resilience in the supply chain in the face of the challenges and risks expected during RIIO-GD3.

4.2.8 Maintaining maximum competitive tension

NGN operates an efficient Direct Service Provider (DSP) model for Repex that has contributed significantly to our frontier efficiency. There are increasing pressures for these providers to work in adjacent regions and sectors for higher rates, such as for the installation of fiberoptic broadband, which highlights the interrelatedness with other markets. NGN is having to increasingly offer above-inflation premiums on historic rates to retain this specialist resource. This will only increase as other sectors ramp up investment over the same period and as we come to the end of the Iron Mains Risk Reduction Programme (IMRRP) (see Case Study 5). NGN will look to collaborate with all GDNs, potentially bringing an external provider in to carry out a market study (if all agreeable) to review the challenge of not driving up costs for customer via competition across the regions/utilities.



CASE STUDY 5: DSP OPERATIVE INCENTIVE SCHEME

NGN has established, implemented and maintained a robust and resilient contracting model with over 20 varying small- and medium-sized enterprise (SME) Direct Service Providers (DSPs) to deliver the IMRRP work for the past ten years. In close partnership, we have fostered long-term relationships with the DSP community, and we have worked together to ensure a sustainable workforce in all areas of environmental, economic and social aspects.

In April 2024, we competitively tendered (under UCR2016) and established new long-term contracts with 21 suppliers under a framework arrangement, with all successful organisations meeting the NGN standard in areas such as health and safety, environment, financial and insurance, responsible and sustainable procurement, and technical capability. Commercial submissions then determined the position of each organisation for the duration of the framework. Commercial submissions on 2024/2025 work packages established a ranking for all suppliers in a particular lot/geographical area (as primary, secondary, etc.). When further/continued work packages are issued, they will be negotiated initially with the primary suppliers in that lot/geographical area.

Negotiations with secondary suppliers may proceed if primary suppliers are unfavourable to NGN (under commercial and non-commercial criteria at NGN's discretion). Other suppliers in other lots/geographical areas may also be approached if the aforementioned negotiations are not concluded. This approach ensures that we are delivering the best value for our consumers.

We continue to build on and maintain our close relationships with the DSP community by conducting regular cadence, supplier relationship reviews, safety standdown days and close commercial management of contracts, which includes monitoring of KPIs.

Challenge

The HSE's IMRRP will come to an end in 2032. The challenge we face now in RIIO-GD3 is the risk that our network loses DSP operatives over and above the usual operative 'churn' to other utilities as we

get closer to the end of the programme. This could potentially leave NGN's replacement programme unfinished and in breach of legal requirements. With the uncertainty around hydrogen, other utilities initiating their replacement programmes, and the cross-functional cross-sector abilities of the workforce, current contracting arrangements for the gas distribution sector may not be resilient enough to retain the workforce we require to complete our programme. Because of this, NGN and this market is becoming less competitive, and we need a solution to create the maximum competitive tension possible in this area.

Solution

With the support of the initiative from the HSE, to mitigate against this risk and drive greater cost efficiency, the DSP Incentive Scheme has been introduced, which rewards loyalty of the DSP operatives working on NGN's network up to the completion of the programme to boost workforce and supply chain resilience and create competitive tension in this market.

NGN launched its DSP Incentive Scheme on 1 July 2024. This incentive scheme will provide a one-off payment to all DSP operatives working on the NGN network at the end of the Repex programme, in accordance with the rules of the scheme. £200 will be accrued per DSP operative per month, up to a maximum of £18,600. This amount will be paid to each DSP operative who works continually on the NGN network until the completion of the Repex programme in 2032.

By introducing this Incentive Scheme we are maintaining a trained, competent and safe workforce throughout the incentive period (contractors not leaving or coming back frequently). This reduces costs on training, PPE etc. Maintaining a steady workforce will also provide a standard rate of pay, as the workforce will be content to stay on the Network and not move to other GDNs. Other GDNs currently pay more per shift than NGN, so the £200 per month, is still lower than the overall other GDN shift payment, but NGN will maintain a resilient workforce which overall provides better value for our customers.

NGN, where practical, will competitively source all requirements with an aggregated value of over £20,000 and award contracts following the most advantageous tender submissions, taking into consideration technical capabilities, innovation, health and safety, environmental aspects, sustainability subjects, contract risk and efficient commercials.

Our procurement strategies consider:

- Contract lotting
- Geographical allocation
- Primary/secondary allocation
- Awarding packages of work
- Phased approaches to tendering – such as specialist contractor tendering separate to utilising Mains Works Contractor frameworks, in order to avoid sub-management costs and other unnecessary commercial risks

We maintain high standards on contracting terms, with the majority of contracts being placed under NGN terms or industry standard terms such as NECs. We do not take on high-risk contractual arrangements, but we do allow for compromise on terms that will benefit both parties – making use of standard advantageous payment terms for the supplier.

Our multi-source frameworks are based on non-guaranteed volumes, where appropriate, to ensure that competitive tension remains through mini-tendering. Where necessary, we will refresh frameworks to ensure that an adequate number of suppliers are involved in competitive bidding under each framework.

Innovation and value engineering are built into all aspects of the business, from concept at investment decision stage all the way through to delivery – and is incorporated into our tender requirements. Innovation and value engineering are then considered as part of the award criteria and tender assessments. We make use of options to incentivise suppliers to identify and implement innovative ideas throughout the lifetime of the contract, where suitable. This ensures that incentives to innovate remain constant throughout the delivery phase.

In our Capital Programme, we have awarded three frameworks to ensure that we are as economical as possible when delivering the diverse types of asset upgrades NGN undertakes. Our major framework is designed for our more complex and third-party projects and involves mini-tenders to ensure competitive tension. Our minor frameworks, of which there are two for different construction disciplines, are split into north and south geographical lots to take advantage of local skills and resources and reduce travel time. Work Package Orders are negotiated with our framework partners; however, no work is guaranteed and where we are unable to agree an efficient price through negotiation, we have the option to competitively tender the Work Package Order to all partners on the framework.

NGN does most of its IT work (Service and Projects) through our in-house teams, delivering significant commercial savings compared to outsourced work. The costs of fully employed project managers and software developers are far more commercially efficient than contracting with consultants under our established Professional Services frameworks.

Where NGN does take a decision to outsource work, we do not tender large IT contracts to system integrators on a turnkey basis. Instead, we operate competitive frameworks with specialist companies to engage just the type of skills and expertise that we need at competitively tendered day rates. These engagements can be as short as a single day and ensure that NGN has a competitive supply chain for IT. We also only pay for the work that is needed and not the overheads associated with traditional system integrator contracts.

To ensure that we consider option value and flexible solutions within our tender design and assessment approach, ahead of any investment of significant value, our Investment team puts forward business cases with varying whole lifecycle cost options: the risks and associated costs of doing nothing, the benefits of the specific investment and the options of added benefits that could result in better outcomes for our existing and future consumers.

Throughout RIIO-GD2, we have continued to drive procurement efficiency through an annual programme of tender events. Around 80% of our purchases are covered by contracts or framework agreements. The annual procurement programme has an average of 600 procurement events which are continually tracked and performance monitored against targets and cost savings/avoidances as part of the sourcing deliverable. During RIIO-GD3, we expect to undertake about 3,000 procurement events. In order to secure our critical supply, all of our high-value contracts/frameworks will be, have been, or are in the process of being re-tendered to cover the RIIO-GD3 period. We will continue to provide visibility of upcoming procurement events to the market via pre-market engagement, Contract Notices/Qualification Systems Notice, Expression of Interests and where appropriate using a Competitive Dialogue Tender approach for Innovative requirements.

As we are governed by the Procurement Directives (currently the Utilities Contracts Regulations 2016), we have mandatory requirements to advertise all 'over-threshold' procurement opportunities to the market via the government portal. We use a government-approved qualification system (the Achilles Utilities Vendor Database) that publishes notices on our behalf annually, advertising the opportunities that are available with NGN. If we process our procurement outside of Achilles, we are obligated to issue a Contracts Notice, advertising the opportunity as a single notice/opportunity directly through the government portal. There is a mandatory time frame for interested suppliers to express their interest, and where they meet the qualifying criteria, they have to be invited to tender.

To provide context on the pace and nature of the procurement exercises we regularly carry out, Table A7.5 sets out the high-value contracts we are currently expecting to re-tender over the RIIO-GD3 period.

Description	Contract value	Contract expiry	Re-tender
Direct Service Provider framework	£380m	Initial term – 2029 Extension – 2032	N/A
Purge and Relight framework	£11m	Initial term – 2027 Extension – 2029	2028
Capex Delivery framework	£100m	Initial term – 2027 Extension – 2030	2029
Reinstatement	£32m	Initial term – 2024 Extension – 2028	2027
Shrinkage gas	£26m	March 2025	2024
PE pipe and fittings	£40m	March 2025	2024
Fleet management services	£7m	August 2025 Extension – 2028	2027
Personal protective equipment	£6m	Initial term – 2026 Extension – 2029	2028
Inspection services	£3m	Initial term – 2027 Extension – 2032	N/A
Facilities management	£7m	Initial term – 2025 Extension – 2032	N/A
Logistics provision	£7m	Initial term – 2028 Extension – 2031	2030
Traffic management	£12m	December 2025	2024
Mechanical fittings	£17m	Initial term – 2025 Extension – 2030	2029
Technical engineering services	£8m	Initial term – 2025 Extension – 2029	2028
Road furniture	£4m	Initial term – 2025 Extensions – 2029	2028
Hand tools and consumables	£6m	Initial term – 2025 Extension – 2030	2029
Plant hire	£5m	Initial term – 2027 Extensions – 2029	2028
Capital projects – Goods and Products framework	£27m	Initial term – 2029 Extension – 2032	N/A
Design and Engineering framework	£4.5m	Initial term – 2027 Extension – 2032	N/A
Vehicle purchase and conversion	£15m	Initial term – 2027 Extension – 2032 (vehicle conversion)	2026 (vehicle purchase)

4.3. Looking forward to RIIO-GD3

Supply chain pressures over RIIO-GD2 to date have been challenging, particularly with regard to the impact that wider macroeconomic pressures have had on the ability of NGN to continue to source its inputs at an efficient cost. Over the past few years, our supply chain has been impacted from a number of directions simultaneously. We have seen commodity shortages and extended lead times caused by high demand for materials, while also facing increases to unit costs due to inflation-linked contracts. At the same time, our suppliers have faced logistical challenges caused by conflict and other global tensions.

As we move forward into RIIO-GD3 and beyond, we expect this volatility in the costs faced by GDNs to procure goods and services from our supply chain to continue, and we must plan for this. We are competing for resources not only with other GDNs but also with other utilities such as water and electricity, which will be investing huge amounts into their networks in the coming years.

We will continue to utilise storage so that we are resilient against material shortages, but we must also be prepared to be more agile in our procurement processes. We need to ensure that we can source our inputs in a timely manner, accepting that at times we will need to procure at a higher cost in order to receive the inputs sooner and maintain our high quality of service to customers.

4.3.1 Real price effects

As outlined in Chapter 6 of our Business Plan, NGN supports the continued need for real price effect (RPE) adjustments beyond the Consumer Price Index with Housing Costs (CPIH). NGN also takes into account the cost pressures due to macroeconomic factors and competition for limited specialist resources that are specific to the energy industry. For example, the pool of contractors available to deliver large Capex projects and able to work across GB and across sectors is limited, with other utilities also procuring these resources at the same time for their own extensive capital projects programmes.

During GD2, all networks have seen relatively large swings in real-term allowances year to year due to RPE and inflation volatility from the geopolitical energy shocks in 2022 and 2023. Ofgem is again proposing to index Totex allowances to RPEs at RIIO-GD3, similar to how RPEs were treated in RIIO-GD2. In principle, the indexation of revenues to RPEs limits GDNs' exposure to exogenous input price fluctuations and mitigates the risk of windfall gains and losses. NGN supports this continued approach but considers that there are improvements to the methodology that can be made, as set out later in this section.

There are potential improvements to be made to the choice of reference index for each input, and the 'notional structure' used to calculate the GD RPE index. In particular, NGN considers that the price indices used to construct the RPEs have not accurately reflected the prices facing GDNs in recent years (e.g. the wage indices used to construct the labour RPE may not reflect the wage pressures facing GDNs) and that there is scope to refine the basket of reference indices to better capture actual GD input price movements.

The gas networks commissioned KPMG to look at the RPE methodology, with the work concluding in May 2024. This work supports NGN's view that the core elements of the RIIO-GD2 RPE methodology should be maintained into RIIO-GD3, while others should be revisited to make iterative improvements. We propose that Ofgem considers the following adjustments to the RPE indexation methodology:

- **Materiality thresholds:** Ofgem should reexamine its materiality thresholds for selecting input categories. The use of materiality thresholds in RIIO-GD2 has been previously perceived to be arbitrary and potentially subjective in terms of cost categorisation and risk allocation. This has led to several input categories being excluded from the RPE mechanism, despite the experience of significant cost pressure during RIIO-GD2.
- **Index selection and the use of time lags:** an assessment of the accuracy of RIIO-GD2 material indices reveals that the lagged indices may have greater explanatory power for some material costs. A review of regulatory precedents implied the existence of additional and potentially relevant indices that are deemed relevant and which should be included in RIIO-GD3's longlist. These were omitted during the GD2 and T2 index compilation process. To counter these shortcomings, Ofgem should:
 - Consider a broader range of indices in the longlist at RIIO-GD3 to improve the likelihood of selecting indices that track network-specific costs;
 - Reconsider the adoption of equal weights for indices within each input category;
 - Consider the role of volatility in index selection;
 - Set out the accuracy assessment in detail and consider lagged indices in the assessment.
- **Creation of an index shortlist:** An indicative assessment of the longlist of price indices is performed using the threshold criteria of independence and accuracy. Our assessment results in a shortlist of seven labour indices, five material indices, and five indices related to transport and plant inputs. In addition, Ofgem may in practice consider further indices, such as region-specific indices.

- **Weighting:** Index weighting should be informed by data from companies based on the merit of their relative importance, and supported by robust evidence. Also, unlike the use of notional weights for input categories in RIIO-GD2, the next price control should reconsider the use of regionalisation in determining input category structures for GDNs and other aspects of the RPE framework.
- **Volatility and selection of input category:** Given the major economic uncertainty, it is understandable to account for volatility in the RIIO-GD3 RPE framework. This should be reconsidered in the RIIO-GD3 selection of input categories or price indices since some indices may capture the volatility of prices, while others are less responsive to economic shocks. On one hand, index volatility undermines the credibility of the estimates, thus increasing the degree of uncertainty. On the other hand, the volatility of an index may imply that the index is responsive to economic developments and provides more accurate results.
- **Long-term average growth (LTAG) assumption:** The RIIO-GD2 index forecasts were revised each year during the Annual Iterative Process (AIP) based on outturn data and on the assumption that prices would revert to the LTAG rate following an inflationary spike. However, the outturn data reveals that price growth rates have historically deviated from the LTAG since 2021. Getting revised forecasts correct during the AIP could be important for protecting cashflows.
- **Modelling approach:** The use of economy-wide wage movements or some sector-specific indices as a proxy to capture input price changes in RIIO-GD2/T2 may not be a satisfactory or reliable approach. The demand and wage pressures faced in the gas industry may be different from the wider economy and other utilities. For example, electricity and water companies may be able to offer longer-term contracts, placing more pressure on the ability of GDNs to compete for the same inputs.
- **True-ups:** The RPE true-ups approach introduced in GD2 and T2 RPE allowances during the AIP should be continued in RIIO-GD3.

4.3.2 Resourcing our Supply Chain and Procurement team

A cross-cutting theme within the eight dimensions of the supply chain resilience building blocks highlighted in Section 4.2 is the need to have well-resourced teams able to manage the supply chain and procurement activities required to secure resilient supplies at a competitive price. As per our commitments outlined in our EAP, Case Study 6 below highlights the increased need for dedicated resource.

CASE STUDY 6: INCREASE IN ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REQUIREMENTS ON THE SUPPLY BASE

Introduction

Social and environmental issues impact every industry and our customers. From poor waste disposal to human rights violations, it is more important than ever for buyers and suppliers to understand sustainable procurement and implement ethical and eco-friendly sustainability practices. The opportunity to create value through sustainable procurement – and conversely, the costs of failing to adequately consider sustainability in our approach to the supply chain – are better understood, more salient for our consumers and greater in magnitude now than in the equivalent RIIO-GD2 business planning period.

Challenge

Consumers have rightly increased their demands that all organisations focus on and switch to more sustainable and environmentally friendly tactics to reduce their impact on the planet and our people. As a monopoly provider of an essential service, it is of critical importance that we are able to respond to our customers' changing expectations of how the GDN sector operates.

Despite the many important drivers of sustainable procurement, numerous challenges can prevent our procurement team, and our downstream supply chain, from switching to more sustainable methods, including the following:

Lack of knowledge about sustainability: When dealing with a lack of sustainability knowledge within procurement teams, wider stakeholders and suppliers, we need better resources, increased education and training courses to prepare and teach about the importance and process of sustainable procurement.

Limited internal resources from both buyers and suppliers: Time, funding and other resources are essential in ensuring the best results from our sustainability efforts. Adopting new skills and practices that are better for the planet will not happen overnight. Defining and implementing long-term goals are essential to overcoming a lack of internal resources. Considerable resources are needed to follow legislative developments, changes and training to the right standard.

Pushback from suppliers: To ensure a fully eco-conscious procurement process, procurement will need to judge and evaluate the sustainability of the suppliers in addition to our own sustainability efforts. Because suppliers are separate from our company, they may have different values (or limited resources available) and might not be open to the new approaches that we require to secure sustainability. Further, they may not know how to obtain the appropriate data we need to evaluate their efforts. Sustainable procurement requires cooperation among everyone in the supply chain, and associated internal departments and external organisations could be resistant to change. Shifting to a more sustainable way requires a significant amount of preparation, extra resource and education.

Higher costs: The initial costs of establishing sustainable procurement policies, practices and training can be very high for both buyers and suppliers. Our internal benchmarks and expectations need to be adequately calibrated to reflect differences between supplier bids in how they meet our sustainability standards.

Difficulty accessing the proper technology: A number of challenges arise in accessing and/or recording data through the right technology. Performance measurement may also be complex and costly, requiring the development of indicators, tools and systems to track and report progress from both a buyer and supplier perspective.

Solution

NGN continues to work on delivering on their Procurement Sustainability Strategy, by meeting four main objectives, which will help alleviate the challenges as mentioned above.

1. Resilient supply chains: we take steps to build sustainable and resilient supply chains beyond Tier 1

- Introduction of mandatory pre-qualification requirements in the area of sustainability, ensuring that gateway questions are easily understood for all suppliers, irrespective of size and providing support to enhance their sustainability performance.
- Implementation of a supplier data portal that will assist in mapping out our critical supply chains, which will also support us in recognising their co-dependent supply chains in order to identify areas of sustainability risks and opportunities.

2. Social sustainability: We proactively identify and manage impacts on people caused by our procurement decisions

- We will continue to encourage diversity in our supply chain, and assist local SMEs in bidding for contracts. Currently, we work with over 60% SMEs and we will continue to maintain or strengthen this.
- We have developed a Supplier Code of Conduct and make compliance with the Code a mandatory requirement at the pre-qualification stage for all new contracts, with an assurance programme throughout the lifecycle of the contract.
- Through our Sustainability Risk Assessment, at the strategy stage of our sourcing events, we will seek opportunities and mitigate any risk that is associated with social sustainability.

3. Environmental sustainability: We ensure our procurement activities do not compromise long-term environmental quality

- Continue (where relevant) to ensure that our suppliers have an environmental policy and are certified to relevant standards at pre-qualification stages. They will have continual engagement with NGN's internal Environment team prior to any sourcing event to ensure that specifications and evaluation criteria include environmental considerations. This takes place by way of a sustainable risk assessment which helps to identify opportunities and mitigate risk in this area. The assessment is based on the principles of reducing, re-using and recycling to minimise carbon emissions, waste and harmful impacts on the environment, taking a whole lifecycle analysis approach to procurement. This includes taking into consideration production processes, product transport and end of life.

4. Internal culture: We create and reinforce sustainable procurement culture internally

- All Procurement and Supply Chain team members will maintain their CIPS Corporate Ethical Mark, with management maintaining education in ESG knowledge (such as the ESG Academy courses run by Achilles UVDB). This is alongside attending webinars and educational sessions under the Supply Chain Sustainability School, utilising resources and considering methods to embed into our current procurement processes.
- More focus will be given by the Procurement team on engaging with the end users at tender documentation-forming stage. The team will consider sustainability and make it part of the evaluation award criteria at a more granular level as well as at pre-qualification at an organisation level. The Sustainability Risk Assessment will assist in this pre-internal engagement to ensure a joined-up approach and understanding around sustainability in the products and services we procure.

Each of these activities requires capturing information for assessment and evaluation during the tender process and throughout the lifecycle of the contract. It also increases the level of audits, assurance and verification activity required. An example of the new requirements that our Supply Chain and Procurement team is required to meet is set out in the ESG case study (Case Study 5).

We also need to leverage the advantages available to us through our investments in data and digitalisation. However, depending on how the requirements and needs for supply chain resilience evolve, up to and over the RIIO-GD3 period relative to our expectations, we may need to consider increasing the levels of resource in the team to accommodate any significant increase in supply chain and procurement demand relative to our plan. The regulatory reopener mechanisms which would allow us to increase our funding allowance where increases are driven by unforeseen external cost or demand pressures on our Supply Chain and Procurement team are beneficial as we move into RIIO-GD3.

The expansion in the demands on the team required to improve our resilience in the context of a challenging and uncertain operating environment is placing increasing pressure on the resources of the team to deliver effectively. Key drivers of increased resource need include the following:

- Increased cyber-requirements including purchasing of services, tools, consultancy, etc., along with the increased requirement to vet and continually monitor supply performance in this area.
- Increased data requirements from our supply chain in relation to climate resilience.
- Increased data collection, monitoring and engagement with the supply chain and downstream for critical stock and services
- Increased requirement to procure service to support vulnerable customers.

