

WHITE PAPER:

IS ENOUGH VALUE PLACED ON HUMAN CAPITAL TO DELIVER VITAL INFRASTRUCTURE?

Energy & Utility Skills and SSE, working on behalf of
the Energy & Utilities Skills Partnership



**ENERGY & UTILITIES
SKILLS PARTNERSHIP**
SUSTAINABLE TALENT FOR ESSENTIAL SERVICES
AND SUSTAINABLE INFRASTRUCTURE

Is Enough Value Placed on Human Capital to Deliver Vital Infrastructure?

In Summary

- Collectively, the energy and utilities sector is the largest single contributor to the National Infrastructure Delivery Plan (NIDP), and plays an essential role in narrowing the productivity gap between the UK and our international competitors.
- Despite being accountable for delivering around 56% of the half a trillion pound investment plan, there is no clear strategy in the National Infrastructure Plan for Skills for electricity, gas, water and sewage, and waste management to enable the successful delivery of the NIDP.
- SSE commissioned a 'human capital' report which demonstrates how both a company and society benefit from proper investment in its workforce through increased earnings for individuals and resulting increased tax payments.
- People are a critical asset that need to be quantified and the value of a resilient and sustainable workforce needs to be recognised. Human capital should not be thought of as an asset that a company owns, rather it's the people that are "borrowed" from society, which allow businesses to operate and to grow.
- Failure to secure the skilled workforce required to deliver infrastructure projects could lead to higher project costs, delays, reduced quality, reliance on overseas skills, loss of intellectual property, stifled innovation and damage to the UK economy and its global competitiveness.

Introduction

The energy and utilities sector provides essential services every day to 65 million consumers and businesses across the four nations. It is also critical to the UK economy. Collectively, this sector is the largest single contributor to the NIDP, and plays an essential role in narrowing the productivity gap between the UK and our international competitors.

There is currently no clear strategy in the National Infrastructure Plan for Skills for electricity, gas, water and sewage, and waste management. These industries are accountable for delivering around 56% of the half a trillion

pound NIDP¹. This paper examines whether enough value is placed on the human capital needed to deliver vital infrastructure.

Valuing Human Capital

Valuing human capital can create a better understanding of the significance of employees to a business to provide insights into the drivers of growth. This generates opportunities for an organisation to enhance the productivity of its workforce, not only for its own benefit but for the benefit of individuals and wider society too.

According to the OECD, human capital is defined as "the knowledge, skills, competencies and other attributes embodied in individuals or groups of individuals acquired during their life and used to produce goods, services or ideas in market circumstances".

SSE has invested in a 'human capital' report which measures the economic value of the skills and capabilities of the people it employs, leading the way in the UK.

Long-term Investment in Talent

SSE commissioned professional services firm PwC to help estimate the economic value of the energy company's human capital. The methodology to value human capital uses the expected lifetime earnings of each SSE employee, depending on skills and qualifications, and adjusts for such factors as the expected length of time an employee is expected to stay with SSE and applies a discount factor for company specific risk.

The results highlight the value to the UK economy of SSE's long-term investment in the talent of tomorrow. Since 2007 SSE has invested £60m in apprentice training. The new report found that for every £1 SSE invests in apprentices there is an economic return on that investment of £4.29 and for technical trainees it is £7.65.

"The total economic value of SSE's human capital is estimated at £3.4bn (as at 1 April 2014), equating to an average human capital per head of £173,000"

¹ UK infrastructure projects in the pipeline up to 2020/21

Borrowed from Society

Human capital should not be thought of as an asset a company owns, rather it's the people borrowed from society which allows our business to operate and to grow. SSE's report demonstrates both a company and society benefits from proper investment in its workforce through increased earnings for individuals and resulting increased tax payments. PwC estimated the economic impact of SSE's operations and found that over the past three years it contributed £27bn to the UK economy.

By breaking new ground with this report SSE can properly understand the economic return on investment and shape future HR plans and investment in training. The total economic value of SSE's human capital is estimated at £3.4bn (as at 1 April 2014), equating to an average human capital per head of £173,000.

Critical Asset

People, and the skills those people have, are the key to turning investment in infrastructure into energy, clean water and a better environment. There is intense competition for talent, with 36% of sector vacancies identified as hard to fill due to a lack of skilled applicants. This is now higher than in any other sector (UK figure is 23%)². Policy makers and regulators have yet to approach the challenge as sector-wide or to quantify the value of people as a critical asset.

In tackling our ageing workforce, the new demands of the NIDP projects and emerging technologies, the need to attract and retain talent in to the energy and utilities sector is more crucial than ever before in meeting our skills challenges and in avoiding increased levels of skills shortages.

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The Value of a Resilient and Sustainable Workforce

Government action on workforce renewal and skills is needed in order to empower the energy and utilities sector to maximise its contribution to productivity and growth. The recognition of skills as a critical economic driver in the 2017 Industrial Strategy consultations is a very welcome first step

in the process.

Industry leaders have come together to form the Energy & Utilities Skills Partnership, to build and launch the first ever joint Workforce Renewal and Skills Strategy for the sector. The Skills Strategy seeks to evidence the value of a resilient and sustainable workforce.

Future Strategy

SSE's decision to develop a methodology which quantifies its human capital value is one step on a journey which will advance its knowledge and future strategy. SSE is committed to playing their part in developing dialogue around human capital measurement and management. Work is currently being undertaken to understand how the value has changed since the report was published in 2015.

“SSE's human capital results show the importance of valuing people and investing in them, for the company and society.”

Conclusions

SSE's human capital results show the importance of valuing people and investing in them, for the company and society. The challenge is to create a paradigm shift in company reports and policy making by integrating this into corporate and government thinking.

Failure to secure the skilled workforce required to deliver such infrastructure projects could lead to higher project costs, delays, reduced quality, reliance on overseas skills, loss of intellectual property, stifled innovation and damage to the UK economy and its global competitiveness.

As such an important enabler of the economy and society, there is a need for collective action. Policy makers, regulators, regulated businesses and the vital delivery partners and suppliers must all face up to this strategic workforce renewal and skills task. The value of a resilient and sustainable workforce to deliver vital infrastructure, needs to be recognised.

² UKCES (2016) Employer Skills Survey

Energy & Utility Skills, the expert voice on workforce issues across the sector, has been the driving force behind the creation of the Skills Partnership. Energy & Utility Skills is the provider of choice for guidance, employer solutions, setting, registering and assessing competency standards and bespoke consultancy. It helps employers attract new talent, develop their workforces and assure a high level of competence across their businesses. For more, visit euskills.co.uk

The Energy & Utilities Skills Partnership is a collective of 29 leading sector employers that are working together to secure the continual seamless delivery of the wider sector's services across the UK. For more, visit euskills.co.uk/energy-utilities-skills-partnership

SSE plc is one of the UK's leading energy companies, involved in the generation, distribution and supply of electricity and in the extraction, storage, distribution and supply of gas. Its core purpose is to provide the energy people need in a reliable and sustainable way. It supplies energy to around 7.77 million energy customers throughout Great Britain and Ireland, is frequently ranked number one for customer service and is the UK's leading generator of electricity from renewable sources. It became a Living Wage employer in September 2013 and was accredited with the Fair Tax Mark in October 2014. For more, visit sse.com



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