

8 November 2019

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Government Buildings
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Dear Sir

Human Capital Indicators Consultation and Programme - Response

Thank you for the opportunity to respond to your review of how you measure human capital in the UK, and your interest in hearing from groups such as ours as to what we think about the ONS and its proposals. We believe it is an optimum moment for the UK economy and labour market.

This letter is submitted on behalf of Energy & Utility Skills. We are a not-for-profit workforce and labour market specialist organisation, working with around 70 major utility employers from across Northern Ireland, Wales, Scotland and England. Our main markets are gas, power, water, waste and waste recycling. Our members form the largest contributor to the UK government £0.6 trillion National Infrastructure Plan and provide essential services such as heat, light, power, fresh drinking water, sanitation and waste collection and re-use to around 67 million people each day.

Collectively the sector employs around half a million workers and is managing its human capital investment and enhancement through the [Energy & Utilities Skills Partnership](#), and the [Workforce Renewal and Skills Strategy](#) that it launched for the UK utility sector in 2017. The Partnership is guided by twenty-eight Chief Executives and Managing Directors from across the four industries we work with, including the major contractors. The Partnership is working to ensure that the sector has the quantity and quality of human capital it needs, with the workforce able to flow between nations and regions efficiently and effectively.

In this letter, I have summarised our views on your three key requested areas i.e. what we think of the ONS, what we think about the multi-phase review of measures of human capital and specific answers to your consultation questions where we have a view. You also asked for any wider perspectives and these are included at the end.

1) View of the Office of National Statistics

In our view, the ONS is recognised as the UK's largest and leading independent producer of official statistics. We agree with your view that the ONS is the leading national statistical institute for the UK. Remaining an evidence-based and trusted adviser to all ensures that UK policies and debates can all be informed by one set of credible statistics.

With so much of the UK government approach to the labour market and skills research abandoned, skills policy and research increasingly devolved to nations - and now to ever more local areas - and with accompanying budgets significantly reduced, the role played by the ONS gets ever more important. The volatile environment between and within UK political parties also requires bodies like the ONS to be there, to be the trusted and credible experts that every interest group can rely on to be above reproach and offer robust evidence. We value the role and credibility of the ONS greatly.

We support the role and continued rigor of the ONS.

2) View of the multiphase review of human capital measures

The timing for this consultation is well judged, as the subject of understanding and valuing human capital is vital to ensuring the UK remains a globally competitive economy and is quickly gaining ground in the infrastructure sector in the UK. The ONS recognises that this is also the case for a number of international governments and economies. For example, the U.S. has been rapidly expanding its human capital approach across government in just the last few weeks and the U.S. Securities and Exchange Commission has [just published proposed rules](#), which, if implemented, will bring human capital disclosure to U.S publicly traded companies.

We support the approach that this initial consultation should only be the first of several phases in what will be a wider review of measuring, understanding and building human capital.

We support the 2018 Spring Statement by the Chancellor of the Exchequer that the ONS should develop a more sophisticated measure of human capital that can help target efforts to improve sustainable growth in the UK economy.

We support the conclusion that there is growing UK user interest in better understanding human capital measurement. We recommend this should focus initially on sectors of strategic value to the economy, understanding their skills gaps, labour market needs and impacts from automation.

We support the intent to give the UK a human capital measure that will enable it to judge its place internationally and invest with precision to be a global leading economy.

We support the recommendation to build a dashboard of indicators, to enable all parties to easily understand the UK position with regards to human capital, and to allow tracking of how well that human capital becomes human equity.

We support your recognition that major organisations such as the World Bank and OECD are focusing on defining and valuing human capital and then considering how to increase it.

Why Human Capital is relevant to the UK utility sector

Energy & Utility Skills initially adopted the subject of human capital as one part of our work to take the subject of solving vital labour market and workforce resilience issues in to the board room. We sought to create a new and more strategic dialogue with infrastructure policy makers, owners and regulators. As the ONS will know, the OECD and major economic authorities already have [human capital](#) recognised as one of the main ‘macro trends’ or ‘global trends’ impacting society.

Using only the language of ‘skills’ had led us to siloed discussions with the main interest groups on detailed education or internal HR policies with increasingly fractured, devolved and poorly empowered audiences. Changing that phrasing to discuss capital and equity was already natural for policy makers, regulators, regulated businesses, investors, unions and major supply chain companies in the infrastructure industry. Many already discussed regulatory, environmental and financial capital at Board level on a regular basis and some were already reporting annually against the 6 capitals reporting model.

Over time, the term *human capital* is becoming embedded alongside the term *workforce resilience* in the environmental infrastructure sector and is leading to a more strategic discourse.

Water regulation

One example is water regulation. The economic water regulator Ofwat, in its price setting process for England and Wales, set out its methodology aimed at protecting and enhancing the sector’s human capital. Through an initial strategic approach called [Resilience in the Round](#) and then via their [PR19 Final Methodology](#) they now require water undertakers to set out their workforce strategy in their business plan submissions for the five years of the review, plus a further ten years and to consider the direct and indirect workforce that delivers their regulatory commitments.

In their initial *Resilience in the Round* approach, they set out three pillars of resilience, which were financial, corporate and operational. Workforce was seen by Ofwat as critical to two - *operational* and *corporate* resilience. We believe that this ONS ongoing work could help Ofwat, the other UK economic regulators and the regulated utilities in UK environmental infrastructure, to better explore how best to use human capital accounting methods to evaluate companies’ activities and inform their decision making. They already use this process for evaluating natural capital.

Energy regulation

The energy regulator Ofgem has now adopted a similar process in their price setting process for gas and power companies, which is called *R11O2*.

In its *Final Methodology* and supporting [Sector Scenarios](#) the energy economic regulator for England, Wales and Scotland set out the need for workforce resilience, workforce strategy and long-term sustainability. The onus for action sits fully with the regulated business, but the regulator has recognised the human capital issue and called on companies to submit compelling,

well evidenced and sustainable business plans. At their 2019 RII02 stakeholder engagement workshop in London, their Director of Price Controls advised *“We want to make sure that the labour force is maintained, and human capital is kept in this industry”*. Of particular relevance to this consultation is that at this same event Ofgem advised *“We would be much more comfortable funding resilience in this area if we have some form of measure or evidence to show us that the investment is having the right effect”*.

Institutional Investors

Increasingly, the major institutional investors are calling for better and wider information to help them understand their investee’s approach to human capital. This is because of the direct link between management and workforce performance and investment returns, and also because they are increasingly looking at human capital management and investment approaches as a useful barometer for corporate governance and management approaches in other areas.

Energy & Utility Skills are now working closely with the charity *Share Action*, that runs the programme of work called the [Workforce Disclosure Initiative \(WDI\)](#). This initiative brings together over 130 institutional investors worth over £14 trillion under management, and all are calling for their chosen companies to demonstrate with evidence how they are valuing and developing human capital.

The WDI is funded by the Department for International Development (DFID) and run in partnership with Canada’s Shareholder Association for Research and Education (SHARE) and the Responsible Investment Association Australasia (RIAA). In addition, a range of civil society and private sector organisations are helping to shape the WDI. The initiative is also endorsed by the Pensions and Lifetime Savings Association (PLSA).

One of the participating investors, Aberdeen Standard Investments, has stated: *“Our attention on human capital management and labour issues has significantly increased over the recent years. We consider these issues important, not just from an ESG investment perspective as a socially responsible investor, but also in respect of their link to sustainable business performance of companies, which ultimately will have an impact on shareholder value. This attention is only going to increase as more meaningful workforce data becomes available and more companies start to take human capital management seriously as a key driver of value creation.”*

We recommend that the ONS connect with the Workforce Disclosure Initiative team as part of its work on measuring human capital.

Regulated utilities

An example of leadership in investigating how to value human capital is the major UK energy company SSE. They initially invested in human capital research called [Valuing Human Capital](#) to help their business to better understand the direct business benefits from increasing investment in their workforce. They then expanded their work to help their business understand the human capital benefits of building inclusion and diversity. Their report is entitled [Valuing the Difference](#).

We recommend that the ONS consult with the energy company SSE as leaders in this area, and we have let them know of this consultation so that they can also respond directly.

Major consulting organisations

A number of the major economic advisory consultancies now provide information on how to define and grow human capital. One example is the [Deloitte Global Human Capital Trends](#) report. This annual report provides wide ranging intelligence and insight on the subject, including on perceived impacts from artificial intelligence. Other consultants experienced in this area include Oxera, PA Consulting, PWC, EY etc.

Professional bodies

Some professional representative organisations, such as the *Chartered Institute of Professional Development*, already provide extensive resources to help explain what human capital is and how best to value it. They also produced a research report in 2017 entitled [The intangible workforce, do investors see the potential of people data?](#) which looked specifically at human capital reporting and its influence within the financial community. The CIPD is currently looking at human capital reporting and building evaluation frameworks.

We also recommend connecting with the BSI who, through the direction of their [Standards Policy and Strategy committee \(HCS/1\)](#) are responsible for the preparation, publication, review and revision of human capital standards, including the UK input to ISO/TC/260 for Human Resource Management. My team sit on this committee and have helped develop a range of national and international standards relating to the management of human capital. This includes BS ISO 30414 "[Human Resource Management – Guidelines for internal and external human capital reporting](#)"

3) Your questions on human capital measures

Q1. Yes. We support the ONS building a comprehensive human capital workplan, including these proposed indicators that will help the UK to fully understand its strategic position with regards to its labour market sustainability, global competitiveness economically and enable it to set policies, spending priorities and economic direction to optimise productivity.

Q2. Yes. As set out across this consultation response, valuing and enhancing human capital is vital for the workforce planning strategies of the UK infrastructure sector in the areas we support.

Q3. We recommend consulting with the organisations referred to in this document, to bring together the greatest level of expertise that is focused on producing the economic needs that the Chancellor of the Exchequer was initially seeking.

We do not support your belief in these early stages that it is important to consider the wider individual context rather than human capital for facilitation of labour market outcomes. Whilst later phases of your work might look to do this as secondary outcomes, the primary need of this human capital work is to provide analysis for the Exchequer and UK business. We strongly recommend not going too wide in your ambitions in the early stages and focus on what the UK economy urgently needs.

Q.4 As stated in our answer to Q3, we see your greatest project risk as using the limited resources at your disposal to try to do everything and “boil the ocean”, rather than focus on ensuring it delivers the greatly needed tangible outcomes for the UK economy at a time of high volatility, change and uncertainty. We strongly recommend initially focusing on delivering success in the primary labour market enabling areas first, before moving on to secondary wider social dimensions at a later stage.

Q5, Q6 and Q7 – All as stated in Q3 & Q4

Q8. As indicated in Q3 and Q4, we feel it is critical that this human capital project commences with a focus on the primary labour market needs for the UK economy and its competitiveness and sustainability. Whatever the mix of inputs, outputs and enablers, the key driver should be to define and achieve what the country needs ONS to deliver most, so that the available ONS resources can be totally focused on the fastest and most effective solution.

Q9 & Q10 As stated in Q3 & Q4, we strongly recommend ONS focusing on constructing the optimal set of indicators to deliver the vital human capital answers for the economy and to secure a sustainable and skilled UK labour market. We support the concept of further research later, to better understand personality traits, health issues etc. but as secondary targets. We urge the ONS to focus the available ONS resources on delivering what the UK can benefit most highly from in the primary phase.

Q11. Would you be interested in joining a technical panel to help oversee the development of the indicators, methods and data sources to measure human capital?

Yes, via our workforce planning specialist Rob Murphy rob.murphy@euskills.co.uk or myself

Q12. Would you be interested in attending the workshop engagement event in the autumn, as well as future workshops, to discuss the proposals , methods and data sources to measure human capital?

Yes, via our workforce planning specialist Rob Murphy rob.murphy@euskills.co.uk or myself

Other points to consider

The UK labour market has continued to tighten, with human capital now at its most constrained since the Office of National Statistics records began in 1975. HM Treasury continues to describe the UK as “*at full employment*” economically. Helping UK and devolved governments to be able to understand the economic human capital we possess, where more focus is needed and where to most accurately apply resources would be of great value.

Competition for human capital between the four UK nations; between the UK and its international counterparts and between UK and international business sectors, has also continued to increase. These extraneous factors cannot realistically be managed by individual employers alone, and it is for UK government to understand its human capital position, where the risks and opportunities lie, and then to prioritise its investments and policies accordingly.

Currently there is no evident understanding of human capital value built in to the major policies – such as Industrial Strategy or immigration / migration - to ensure the UK is focused on staying a global leading economy.

The UK industrial strategy also puts all the major employment and labour market policies within central government, whilst the vital skills and upskilling side is increasingly a devolved matter and continues to fragment down to local authority level. There is no coherent approach between the two disciplines that make up human capital, and in the key policy areas the responsible authorities often act in opposition or direct competition to each other.

The Infrastructure & Projects Authority currently owns the [National Infrastructure Plan for Skills](#) to ensure the £0.6 trillion [National Infrastructure Plan](#) is delivered. This document is now years out of date and despite efforts from my organisation and sector, does little to recognise or offer any support for sustaining or building human capital.

Energy & Utility Skills are in dialogue with the Home Office *migration, immigration and skills policy* teams to help them better understand the human capital impacts of their approach on the UK utility sector. Whilst setting these policies, the Home Office officials appear to have been given no knowledge of the human capital needs created by the long-term strategies of government departments including for UK waste management and recycling, water, transport and energy. In each case, the human capital requirements are likely to be negatively impacted by the current intended migration and immigration policies. The lack of synergy is clear.

We also recommended the ONS connect with the main trade unions as part of the human capital work, to bring in their wide perspective and knowledge of UK labour market and government employment matters and multiple utility sectors. Energy & Utility Skills work closely with the TUC, GMB, Prospect, Unison and Unite on ensuring utility-wide workforce resilience and we would be pleased to assist if and where we can help.

The TUC, for example, are already key partners of the Westminster government in developing and launching the major [National Retraining Scheme](#) to reskill human capital in technology impacted industries and are working with universities and investors to help ensure that workforce adaption to zero carbon policies is sustainable. They maintain an informed, focused and evidence-based approach to maintaining a safe, skilled and sustainable UK workforce.

As a final example of where a better understanding of the economic impacts from human capital can be of direct value to the economy, a previous Infrastructure UK study entitled [Smoothing Investment Cycles in the Water Sector](#), looked at the impacts of utility sector cyclical price reviews on the workforce.

At that time, the Treasury team concluded that between 20,000 to 40,000 workers would be lost and then re-hired due to the cyclical effects of each price review. It would cost around £600m each year and take away vital corporate memory, competence and compliance knowledge. We are already seeing the first public announcements of such major job losses from water and energy companies for the PR19 and RII02 price setting reviews, and neither BEIS or Defra has any evident understanding of the human capital impacts on their major economic and environmental policy commitments.

My organisation and the utility sector would be pleased to be involved with your future phases of this vital project and are available for any further briefing you may need. I look forward to hearing more in due course.

Yours faithfully



Nick Ellins, Chief Executive