

WHITE PAPER:
Making the case for a more strategic
approach to workforce planning



MAKING THE CASE FOR A MORE STRATEGIC APPROACH TO WORKFORCE PLANNING

In the first of two White Papers on the importance of strategic workforce planning, Rob Murphy discusses why these activities have become a priority for organisations of all sizes and sectors.

We live and work in a global knowledge economy that is highly connected and interrelated and the wider operating environment for businesses is increasingly uncertain and unstable. To operate effectively, businesses must be clear on how their most critical resource – people – could be affected by a range of internal and external factors and to develop appropriate strategies to ensure a sustainable and resilient workforce.

“People” is one of the five foundations of productivity within the UK’s Industrial Strategy¹ and all of the world’s leading HR and organisational design organisations (including Accenture, CIPD, Deloitte, EY, KPMG, PwC and SAP and Workday) recognise the importance of strategic workforce planning in preparing businesses for future prosperity.

Within the energy and utilities sector, Ofgem² and Ofwat³ now require companies to demonstrate how they will ensure they have the right quantity and quality of workforce, with the right skills to meet their business and customer needs for the price review period, plus long-term projections for at least ten years beyond.

Strategic workforce planning plays a critical role in developing these plans and ensuring that the link between human capital requirements, business strategies and financial plans is explicit and delivers the required organisational change – whether it’s from internal drivers (e.g. the efficient replacement of leavers from the workforce, meeting the demands of planned workforce growth, or more fundamental issues such as restructuring, mergers or divestments) or meeting the challenges posed by the external operating environment.

However, many companies still neglect this critical area of business intelligence. Overleaf, we identify seven factors which show that a more structured approach to strategic workforce planning and human capital reporting should be a priority for all businesses – no matter their size or sector – in order to navigate the challenges and maximise the opportunities.



- 1 Industrial Strategy: the 5 foundations, Department for Business, Energy & Industrial Strategy, 27 November 2017.
- 2 RIIIO-2 Sector Specific Methodology – Core document, Ofgem, 24 May 2019.
- 3 Delivering Water 2020: Our final methodology for the PR19 price review, Ofwat, December 2017.



1. Tough labour market conditions

Employment and general participation in the labour market are at near-record levels and the unemployment rate has not been this low since records began in the early 1970s. Many businesses have discovered that the UK's labour market, particularly in relation to technical skills, has now reached full employment. This not only means that talent can be hard to find, but that it is a "seller's market" – resulting in higher staff turnover and salary demands.

Businesses need to be aware of how many people might leave their workforce over the coming years and identify how vital skills and experience will be replaced – will they "Build" their future workforce through Apprenticeships and graduates programmes, will they "Buy" their workforce from the external market – a difficult task in a time of full employment – or will they "Borrow" through the use of contractors, consultants, etc.?

2. Non-UK population trends

Since the EU referendum in 2016, there has been a dramatic fall in the number of EU citizens coming to the UK to work and an increase in the number leaving. At the same time, the number of non-EU citizens entering the UK with the offer of employment has increased.

At the time of writing the UK will leave the EU formally at the end of the implementation period on 31st December 2020. After this time, the immigration system for EU citizens will reflect that in place for non-EU citizens – essentially meaning that any non-UK citizen can only enter the UK if they have an offer of employment in a skilled role and they meet other criteria, including the minimum salary threshold (currently set at £30,000).

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Even where a business feels that they will not be directly impacted by these changes, they almost certainly will be affected by the indirect impact of a reduction in the supply of labour (at all skill levels) in an already tight labour market (see the point above).


3. The population is growing and changing

Over the next 20 years, the UK population is predicted to grow by more than six million people. This will present a number of challenges in terms of meeting the increased demand for essential services, but it also presents an opportunity. New entrants to the labour market will bring new thoughts and ideas.

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Over recent years we have seen a significant increase in the number of people working well beyond their pensionable age – the number of people who describe themselves as retired has decreased by 430,000 since 2009. This presents both a challenge and an opportunity to businesses. On the one hand they are not losing these people's skills and experience; while on the other, it makes the process of recruitment and succession planning much more difficult and may limit the opportunities to recruit younger people.

Understanding the dynamics of your workforce can help in establishing more effective "knowledge transfer" initiatives in order to deliver a more managed handover from one generation to the next and in a way that recognises and accommodates cultural and gender differences, as well as the different wants and needs of Millennials and Generation X.



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4. Diversity and inclusion

The UK's infrastructure sector has struggled to attract females and people from BAME communities into their workforces. As the “baby boomers” continue to retire from the workforce they will need to be replaced and businesses will need to consider carefully how they will achieve this.

The workforce should reflect the characteristics of the communities that they serve and recruit from. However, in many cases, traditional methods of recruiting will not be the best way of achieving this goal. Having a greater understanding of how to engage with under-represented groups such as females and those from the BAME and LGBTQ+ communities will certainly give businesses a wider pool of labour in which to source the skills they need.

5. Competition for talent

Investment in the UK's essential infrastructure is at record levels, with more than £400bn currently detailed in the National Infrastructure and Construction Pipeline over the next five years – the energy and utilities sector accounts for more than half of this (£236bn).

So, the competition for skills will be intense not just from within the energy and utilities sector, but from right across the infrastructure and construction sectors – for example from HS2, Hinkley Point C, rail electrification, broadband upgrades and upstream oil and gas. With many of these projects running concurrently, it is likely that the current labour market challenges will prevail for some time to come.

This will not only affect technical and engineering skills, but also cross-sector skills such as cyber security, data analysts/scientists, IT architecture, project management, quantity surveyors and drivers to name but a few.

It is important to note that much of the infrastructure pipeline will ultimately be delivered by partners in the supply chain. So, asset owners and client businesses need to be mindful of not simply pushing the human capital challenges down the supply chain. Working in collaboration to identify the challenges and opportunities could help ensure projects are delivered on time and to budget.

6. The supply of talent

It is widely recognised that there is a dearth of engineering talent in the UK at the moment. An estimated additional 203,000 people with level 3+ engineering skills will be needed every year to meet demand through to 2024, as well as an annual shortfall of 59,000 engineering graduates and technicians⁴.

Also, as we have seen above, the availability of labour from traditional sources (generally white males in technical and engineering roles) is diminishing, particularly in urban areas. So there has never been a more pressing need for businesses to develop new strategies for talent attraction, development and retention – and which focuses on the changing characteristics, needs and desires of a new generation.

The introduction of the Apprenticeship Levy in 2017 has added a new dynamic to how businesses approach the recruitment and training of new entrants. Maximising the returns on their Levy investment is now becoming a driver for many businesses. Strategic workforce planning will play a central role in determining how this can be achieved in the most effective and efficient manner.

4 Engineering UK: The state of engineering, EngineeringUK, 2018.



7. Preparing for a different future

PwC's Joint Global Leader in People and Organisation, Bhushan Sethi, describes workforce planning for the future as a "no regrets" move⁵ – and there is lots to plan for:

- Technological developments such as automation and artificial intelligence will change the way that customers are engaged with and how some technical activities will be carried out
- Decarbonisation and decentralisation will transform the energy landscape in terms of generating and distributing power and heat
- Digitisation will bring about a greater understanding of our customers' behaviours and demand management
- Demographic changes in the workforce and population as a whole
- Political and policy uncertainty at national and international levels

Each in their own way will affect the skills required, how they are packaged and how they are attracted, developed and deployed.

It is essential that job design keeps up with the required pace of change. Job and person specifications need to reflect the requirements of today and the foreseeable future – and not the activities of the past or the person they're replacing.

In the regulated industries, strategic workforce planning can play a central role in smoothing out the peaks and troughs of staffing levels as businesses move through price review periods. It is estimated that these funding cycles can reduce productivity by between three and five per cent based upon the costs of redundancy and rehiring staff. Within the water industry alone, between 20,000 and 40,000 jobs are lost during each five-year period, with associated impacts on skills, training, health and safety performance, productivity and morale⁶. This situation can threaten the very survival of our supply chain partners.

Through our engagement right across the UK's energy and utilities sector, we are now seeing businesses take a more structured approach to workforce planning and human capital reporting (for example, through adopting new standards^{7,8}). The outputs and learning from these activities are increasingly forming the basis of their entire approach to developing and maintaining a sustainable and resilient workforce.

While it may involve new ways of thinking and working – which can take time and external expertise to develop – the benefits are clear; as are the risks of not acting, including lower staff retention, engagement and productivity, higher recruiting, salary and project delivery costs, unfilled vacancies and skills shortages, competition between supply chain partners for the talent and project budgets and timelines being exceeded.

The final word goes to Ofwat, as stated in their PR19 final methodology⁹:

"In order to be corporately resilient, companies must ensure that they have the capability within their workforce to provide the services their customers expect not only today but over the long term, in the face of potentially significant changes in how they do this and in the wider employment landscape. A focus on long-term resilience should therefore also include companies identifying and addressing possible skills gaps in the future . . . Companies therefore need to ensure that they have plans in place to secure access to the workforce they need, including transferring knowledge and increasing diversity."

The logic behind this requirement applies to businesses of all shapes, sizes and sectors. These plans, as a result of a more structured approach to strategic workforce planning and human capital reporting, will give all stakeholders – be they employees, senior leaders or investors – confidence that the business has the requisite people strategies in place to minimise people-related risks and maximise the opportunities.

⁵ Preparing for tomorrow's workforce, today: Insights from a global survey of business and HR leaders, PwC, 2018

⁶ Smoothing investment cycles in the water sector, HM Treasury, July 2012.

⁷ BS ISO 30414:2018 Human resource management - Guidelines for internal and external human capital reporting

⁸ BS ISO 30409:2016 Human resource management – Workforce planning

⁹ Delivering Water 2020: Our final methodology for the PR19 price review, Ofwat, December 2017.

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 information, visit euskills.co.uk.

If you'd like to discuss any of the issues discussed in this White Paper, please contact **Rob Murphy, Workforce Planning Consultant**, on **0121 745 1310** or workforceplanning@euskills.co.uk.



Up next . . .

Strategic workforce planning and the reporting of human capital measures does not have to be complicated or expensive. In most cases it is a case of working smarter with current data to create new insights – and learning from best practice for your business size and sector.

In the second White Paper, Rob will put forward a pragmatic approach to strategic workforce planning and human capital reporting – one that leans on more than a decade of supporting many of the UK's energy and utilities businesses in developing and delivering effective and efficient workforce planning solutions.

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