

Response from EU Skills and the National Skills Academy for Power

Strategy consultation for RIIO-ED1 electricity distribution price control: Tools for cost assessment

About us:

Energy & Utility Skills (EU Skills) is the Sector Skills Council for the power, gas, water and waste sectors. In 2009, EU Skills, in association with power industry companies, established the National Skills Academy for Power¹ to help address the long term skills issues facing the sector. EU Skills developed a Workforce Planning Model (WPM) ahead of DPCR5 and have supported the wider industry in the modelling of long term skills needs. The WPM has assisted industry and Ofgem in quantifying the recruitment and training needs for workforce renewal over the last 6 years.

Introduction:

This consultation recognises that adequate 'workforce renewal' provision is needed under RIIO-ED1 in order to replace an ageing workforce, as well as to ensure availability of new skills required to meet the challenges of a smart-grid, low carbon future. The consultation document divides indirect operating costs into two categories: costs supporting the operational activities of the DNO (Closely Associated Indirect costs (CAIs)) and costs required to support the overall business (Business Support Costs (BSCs)). Workforce Renewal is defined in the consultation document as "the costs incurred by DNOs to recruit and train apprentices". EU Skills would like to take this opportunity to clarify that DNO workforces are replenished via a number of different routes including Engineering Apprenticeships, Technician Apprenticeships, Technical Staff Traineeships and as graduates.

Under the previous price control regime, £214 million or one per cent of total allowances was allocated to Workforce Renewal, awarded on a 'use it or lose it' basis. Whilst a similar methodology for determining workforce renewal requirements is suggested, an 'ex ante' allowance is proposed for RIIO-ED1. The details of the assessment methodology under RIIO-ED1 have not yet been defined but it is proposed that it should be based on historical and forecast trend analysis and matching workers retired to trainees and apprentices recruited. It is also proposed that, unlike under DPCR5, Workforce Renewal should be considered as part of wider training costs rather than in isolation and contractor costs should be excluded.

¹ Members of the National Skills Academy for Power include DNOs Northern Power Grids, SSE, Scottish Power, Electricity North West and UK Power Networks, and contractors working in distribution including Morrison; Balfour Beatty; Enterprise; Freedom; Alstom; ABB; Siemens; Carillion Utility Services; AMEC; Babcock International Group; Costain; Grosvenor Power and Reach Active.

Ofgem proposes to review outputs supplied by EU Skills from the industry's WPM, following submission of analysis of DNOs' direct labour requirements to Ofgem in August 2012. EU Skills is currently developing its WPM further and contractor data is due to be incorporated early in 2013. EU Skills would encourage Ofgem to ensure detailed and transparent reporting from DNOs on all aspects of workforce renewal and would welcome the opportunity to discuss how the workforce planning model might offer a suitable template for this process.

Response

Question 3: Do you believe our approach to assessing Workforce Renewal is appropriate? In particular, do you believe it is appropriate to consider Workforce Renewal allowances both in isolation and also as part of wider training and do you believe Workforce Renewal should include or exclude the training of contractors?

EU Skills and the National Skills Academy for Power support the overall proposed approach to assessing Workforce Renewal within RIIO-ED1 and the recognition given to the role of the EU Skills Workforce Planning Model (WPM). This tool pools current and projected workforce planning data from companies across the sector, enabling industry and other stakeholders to assess current and future demand and supply of different types of skill, providing reliable and detailed market intelligence. EU Skills, and the DNO companies who have supported the development of the WPM, would welcome the opportunity to explore the significant potential for extending its future use in regulatory policy making. Any additional investment required to enhance the model could be kept to a minimum by ensuring that the ED1 Workforce Renewal and the Workforce Planning Model reporting formats align with one another as closely as possible.

It is proposed that the Workforce Renewal Allowance under RIIO-ED1 should be 'ex ante', marking a departure from the 'use it or lose it' approach under DPCR5. The main difference will be that Ofgem will not claim back any excess allowance that a DNO has not used for Workforce Renewal purposes at the end of the price control period. Under this proposed change, it will become more important to ring fence the Workforce Renewal allowance to ensure that it does not come under pressure from other competing needs in the business, as may happen if any excess can be reallocated elsewhere. Equally, Ofgem will need to consider the exceptional economic conditions that have characterised the DPCR5 price control period when assessing historic data from DNOs. Whilst some DNOs may have under-delivered in terms of trainees and apprentices in comparison to their projected requirements at the start of the current price control period, this does not necessarily suggest that evidence submitted in business plans for RIIO-ED1 will also overshoot future requirements.

There are frequent references throughout the consultation documents to the challenges presented by the transition to smart networks and increased low carbon, distributed generation. Over the course of the next price control period, there will be greater certainty around the implications of new technology development for the volume and type of skills

required. In turn, new technology development will be driven, at least in part, by the direction of Government policy. For this reason, we would also support the consultation proposal for a potential mid-period review in 2018 *“for changes that can be justified by clear changes in Government policy, and the introduction of new outputs that are needed to meet the needs of consumers and other network users”*.

Further measures, over and above the Workforce Renewal allowance, may be required to support contractors, and the wider industry, in establishing the new skills, knowledge and competence required to adapt to greater uptake of emerging low carbon network technologies within the RII0-ED1 price control period and beyond into ED2. Feedback from the industry indicates that there is a clear need for some type of collaborative ‘pump priming’ initiative to facilitate access to up skilling courses; re skilling courses; continuing professional development programmes, new entrant programmes, knowledge-based delivery; equipment familiarisation; qualification module delivery and professional engineering development opportunities for organisations and individuals across the supply chain. Funding under the Network Innovation Competition under RII0-ED1 could help catalyse this process and facilitate joint action amongst the DNOs.

It is correct to consider Workforce Renewal both in isolation and also as part of wider training

Workforce renewal is a vital issue for the whole sector and it is important that the question of when and how to replace an ageing workforce is not lost amongst a host of other training and skills issues. However, significant benefits are also derived from viewing Workforce Renewal in its wider context. This will allow DNOs to change their recruitment and skills investment strategies without losing part of their Workforce Renewal Allowance. This approach also paves the way for innovative approaches to improving recruitment and training efficiency which impact on both operational and non-operational costs. For example, common competency standards have been developed by the Skills Academy, membership for which may be funded from the Workforce Renewal Allowance of its members, and yet the resulting savings are realised from reduced operational training costs.

Transmission and distribution companies have recognised for some time that the fundamental requirements for training and assessment of employees to prove operational competence are very similar across the UK. Consequently, the sector has worked together to identify any duplication and establish national standards of competency which all market participants can agree to recognise. This means that employees moving from one company to another do not have to undertake unnecessary training and assessment to prove competence that had already been established with their previous employer. This is particularly relevant for supply chain contractors who consistently move between different companies and are obliged to undergo duplicated training and assessment multiple times for competency that has already been achieved.

In an effort to resolve this, 28 organisations in the sector signed a 'Competency Accord' agreement in March 2011, pledging to work together towards recognising common competency standards across the sector. The National Skills Academy for Power has worked with the industry on several schemes and introduced a method of registration of competency which companies within the Competency Accord can accept across the sector as proof of competence. The industry is keen to develop this initiative further across the industry and maximise the savings made on training both inexperienced and experienced employees by power companies across the UK.

'Workforce Renewal' should include the training of contractors

There is a degree of polarisation of views amongst industry participants on the treatment of the training of contractors in relation to the Workforce Renewal allowance. Disparities in views between contractors and asset owners, and even between different asset owners, serve to highlight the potential risks and opportunities of the different options.

Many contractors already build a provision into their tenders to cover skills development, assessment and training for new and existing staff. They maintain that it is the responsibility of the contracting company to ensure the upkeep of the skills and knowledge base of their workforce and, consequently, the long term health of their business. Furthermore, some stakeholders would be concerned by a move towards inclusion of contractor costs within the Workforce Renewal allowance as this would promote a longer term relationship between the contracting company and the DNO charged with distributing the funds, potentially limiting the autonomy of the contractor to redeploy its workforce in the best overall interests of the business and the DNO to change its strategy or supplier without perceived financial penalty. There is also a risk of added administrative complexity for those contractors falling within the scope of the CITB levy.

However, as DNOs seek to achieve greater efficiencies and the contractors' margins are subjected to increased pressure, it becomes challenging for contractors to ring fence the necessary funds for current and future investment in training and development. Effectively, contracting companies are expected to lower their overall competitiveness and make a significant upfront investment in trainees against a backdrop of contract uncertainty. Indeed, contractors require 5-8 years to see a return on trainee investment (EU Skills will have access to data on the potential volume of contractor requirements early in 2013). Current and future skills investment risks falling prey to a market failure as contractors seek to remain competitive whilst procurement departments may be attracted to the lowest bid for the work required. The long term and incremental nature of workforce renewal can lead to a perception that it is an 'optional extra' rather than a fundamental requirement. This would suggest that inclusion of contractor costs within the Workforce Renewal Allowance would be the most effective means of ensuring sufficient future investment in training and skills and distributing the cost burden evenly across the sector.

Additionally, SMEs are unlikely to have the human or financial resources to participate in wider industry initiatives around future skills planning and strategy development. DNOs, on the other hand, are able to access Workforce Renewal funds which enable them to participate in cross-industry organisations, such as the National Skills Academy for Power. Tier 1 contractors also need access to longer term strategic planning opportunities and the most feasible route is via the DNOs and their Workforce Renewal-funded participation in broader, longer term industry groups and initiatives.

It is of vital importance to the future of the sector that there is adequate and sustained long term investment in skills and training and this is the primary objective of the Workforce Renewal component of RII0-ED1. Whilst there is a range of views amongst stakeholders, inclusion of contractor costs within the Workforce Renewal Allowance would serve the purpose of safeguarding and securing investment in workforce renewal for the future through a more collaborative and efficient process. In light of this, EU Skills recommends that the Workforce Renewal allowance should include the training of contractors.

Please do not hesitate to contact Grace Bennett on 0845 0777032 or Grace.Bennett@euskills.co.uk in case of any queries regarding this response.