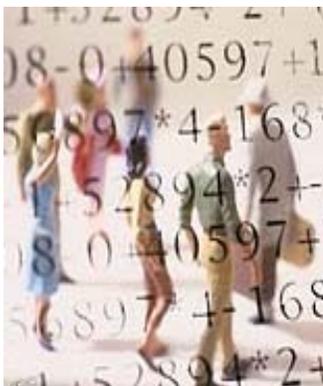




## White paper

Executive summary

**31 January 2006**



# Human Capital Reporting

A summary introduction to draft proposals

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VaLUENTiS' practitioners are skilled across a range of disciplines that include business performance, organisational architecture, financial economics, human capital management, strategy, and measurement.



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# 1 INTRODUCTION

This white paper is a consequence of a chain of events which we believe provides a breakthrough moment in the field of human capital reporting. Our previous research and work, culminating in the launch of the VB-HR™ Rating last year, had resulted in a number of approaches and methodologies in solving human capital management and measurement issues.

The Rating was the first of its kind, providing organisations (both public and private) for the first time with a cross-sectional view of human capital management performance across an organisation. Its unique reporting construct together with its ability to provide a deep diagnostic insight earmarked it as a major advance in the HR field.

Our HCM100 study<sup>1</sup> provided a fascinating insight into the practice of large organisations, both global and domestic, highlighting the lack of consistency in certain areas, most notably measurement. Our earlier paper on HR benchmarking<sup>2</sup> questioned the reliability of current practice and the myriad of validity issues with commonly used/reported metrics.

We had hoped that the work under the proposed RS1 (Operating and Financial Review) would have resulted in operating principles or something similar, but we were somewhat disappointed with both the initial and final (reduced) drafts.

The recent repealing of the Operating & Financial Review (OFR), has paradoxically presented the opportunity to rethink the proposition around human capital reporting. Currently, we understand that the OFR is being revised as a set of best practice principles to assist organisations in their various reporting duties. However, we believe that from a human capital perspective, this will not be sufficient.

The solution proposed is based on practicality, taking a lead from the way in which organisations report their financial data and subsequent analysis. In that sense, our solution is not so much revolutionary as evolutionary, applying well-used principles to an adjacent emerging discipline.

To that end we would like to think that organisations finally have a robust framework within which to report, inform and compare human capital related data; and that there is an ongoing independent support structure to help develop and expand this initial draft framework over time.

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1 VaLUENTiS VB-HR™ Rating HCM100 report, 2005. Executive summary downloadable at <http://www.vbhr.com/about/index.htm>

2 HR Benchmarking: 'The not so good, the bad and the downright ugly'

## 2 EXECUTIVE SUMMARY

1. *Summary overview I*
2. *Summary overview II – Answers to the twelve key questions*
3. *Summary overview III – HC Reporting solution*
4. *Summary overview IV – Developments*

### 2.1 Summary overview I

For a number of years, the question around standardised reporting of human capital based metrics externally has remained unanswered, despite a number of working party attempts. Varying formats and metric portfolios have been proffered but none has appeared to satisfy the expectation of the market in terms of gaining a critical mass of adoption.

There are a number of reasons which are dealt with in the main body of the text. The latest version, which was to have been mandated, the ASB's RS1 draft (relating to the Operating and Financial Review), contained further ideas on people related measures but were issued rather as a means of guidance. The UK's Financial Reporting Council has recently announced that much of the OFR will now form a 'best practice' guidance document which will assist companies in reporting business information.

We acknowledge that a number of organisations (based on our experience) are continuing to look to report externally-facing human capital information. Many have fiscal year-end reporting due in March 2006, and, with the withdrawal of the OFR, may find this template solution timely to adopt (at least in part).

Our analysis and subsequent reporting solution has gone back to first principles by reviewing the way in which accounting, accounting theory and associated reporting

formats in use have evolved as a means of providing insight, and then relating them to the field of human capital measurement.

In undertaking this analysis we asked twelve key questions:

1. What question were/are we trying to solve?
2. Are we looking to establish a means of communicating information, compliance or enhancing organisation performance, or all three?
3. Are we looking to report organisational intent, organisational fact or both?
4. What kind of metrics/measures should be reported?
5. How do these relate to the internal reporting perspective?
6. What challenges have been flagged and how founded were these?
7. Who is (are) the intended audience or recipient of this information?
8. What format should this take?
9. Is there one level of reporting or is there the need to establish progressive levels (with criteria to match) to assist organisations in development?
10. Given a 'solution', what would be the required industry infrastructure to monitor and develop on an ongoing basis and how would this link with other established framework infrastructures?

11. What would be the scope in terms of standardised international reporting?
12. What further questions or issues remain, and what is likely to be on any agenda, going forward?

The answers and insight from these questions provided us with a logical argument from which our proposed solution is based. Given the particularly 'one track' expectation in the market (i.e. a portfolio of ratio based HR metrics) this solution may, at first sight, shock with its apparent simplicity. However, like most reporting solutions, there are multiple layers with deepening complexity. The reporting solution is underpinned by a structured framework with associated operating principles and a standardised format (at the basic level) for both private and public enterprises. It is designed to be an external facing solution, but we would stress that this should be an internal facing framework that complements other internal reporting approaches (if used).

One of the key conclusions is that the reporting of human capital related information should be contained in a separate document as we do not believe that CSRs are the most appropriate instrument to convey HC information; though we do acknowledge that this will be ultimately down to managerial choice.

We have undertaken a review of previous attempts at producing an human capital reporting (HCR) solution to provide insight as to the challenges faced. One problem with HCR, which, surprisingly, does not appear to have been stated before now, is that HCR straddles both financial accounting and management accounting. As a rule of thumb, from a reporting perspective, financial accounting is associated

with external reporting whilst management accounting is associated with internal reporting.

So far, HCR attempts seem to have confused this issue which is why we believe it has been problematic to find a solution. Also, the confusion may have been compounded by the focus on forward-looking information associated with human capital and the estimation of value. This is a notoriously tricky area and we would argue that there is a need to ensure that current (historic) information is provided first, as a means of informing, just as with financial information. It does appear odd to report 'future-looking' information only, without grounding in the present, particularly given the inherent difficulties with accurate estimation.

It is clear that human capital reporting lacks a generic defined structure (framework), does not have an underlying taxonomy that provides a means to understanding, and therefore undermines any attempt to produce a workable external reporting framework. From an internal perspective, individual organisations have a variety of HR scorecards and report cards together with a variety of ad hoc HR analytics that contain some common metrics. The solution we put forward is designed to complement existing internal work.

Further, our review included CIPD's proposal reveals some fundamental flaws in their proposed framework. Our review of the OFR shows it to have a similar resemblance and one would suggest that it has been influenced by the said framework. We would therefore surmise that the draft OFR suffered from the similar flaws identified and that it may be no coincidence that the final OFR version of HR related metrics was

'watered down' precisely because of the issues raised in this review.

Connected with this insight, is the problem with HR benchmarking for comparative purposes. In the past, much measurement in HR has been done through benchmarking. However, benchmarking is not measurement per se, but a process to compare metrics, normally for performance improvement reasons – which is but one output of measurement. Benchmarking is not necessarily related to reporting. We believe that this is one of the reasons why confusion exists.

One of our earlier papers<sup>3</sup> assessed current metrics in use and exposed the different and/or unclear definitions of many 'HR' metrics and issues particularly with regards to benchmarking itself. As a consequence, this white paper proposes, just as in accounting, that there are certain principles (and subsidiary conventions) which organisations need to adopt to provide the required levels of transparency.

Our solution sees the introduction of the '**Human Capital Operating Statement**', the '**PeopleFlow statement**' and the '**Productivity statement**', whilst acknowledging the possible emergence of a human capital value statement (or possibly contained within an intangible value statement) as and when a robust methodology emerges.

In coming up with our solution we asked, "What would an observer or investor of an organisation want to know from a human capital perspective?"

We have looked at the area of reporting 'sensitive information' which has been flagged as a potential constraint on reporting certain data. Our findings suggest that this is a valid question on the surface, but one which seems to have deflected from, rather than feed into a solution.

Given certain disclosure, we would suggest that the 'market' would start to apply pressure to organisations who chose not to disclose pertinent information. For listed companies, this would manifest itself in a share-price invariably trading at a discount as with any instance where expected information is withheld. Private companies may suffer in terms of valuation (if being sold) or more pertinently in attracting talent. Disclosure within the public sector should be expected, not only in that human capital is such an important component, but that tax payers demand transparency in having a right to know.

This white paper includes all the ingredients for organisations to 'grasp the nettle' of human capital reporting both internally and externally to aid their execution of intended strategy. It provides:

- A reporting taxonomy together with appropriate rationale
- A general statement of HCR principles
- A set of supporting 'standard HCR operating principles' (SHCROPs)
- Pro forma statement templates
- A model HCR template
- A proposed reporting infrastructure in terms of HCR council, board and client user panel
- An introduction to standardised ratio analysis
- A proposition to establish a wider support network focused on specialist HC.

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<sup>3</sup> HR Benchmarking: 'The not so good, the bad and the downright ugly'.

## 2.2 Summary overview II - Answers to the twelve key questions

Through our critical analysis we answered a number of key questions:

- *What question were/are we trying to solve?*

The essential issue is one of reporting relevant HC information to identified 'stakeholder users'. To this end a means of providing a structured framework with principles of reporting was deemed the only way forward.
- *Are we looking to establish a means of communicating information, compliance or enhancing organisation performance, or all three?*

In view of the answer to the first question, HC reporting prime purpose should be to impart information. However, through so doing, and with establishing a guiding framework plus supporting principles, there is undoubtedly a move to compliance through market pressure. We would also argue that revealing HC information as proposed will undoubtedly have a knock-on effect to organisation's management which will be positively associated with improving organisational performance.
- *Are we looking to report organisational intent, organisational fact or both?*

Primarily the focus of reporting should be to report factual information through use of the proposed statements. However, there is also a perceived need to provide 'narrative' which sets out intent that can be reviewed over time which will itself provide 'market' information, in terms of execution. Also, there is a belief that HC information should also be forward-looking, which is more difficult but not impossible over time.
- *What kind of metrics/measures should be reported?*

Basically, we have identified that certain base numbers need to form the external reporting template, supplemented by selected ratios where applicable. We suggest that further ratio analysis can be provided but that these do not necessarily form part of the basic HC report mandate, but are subject to management discretion.
- *How do these relate to the internal reporting perspective?*

Technically, the external template should be just as applicable for internal reporting but will probably complement existing mechanisms such as HR scorecards and/or report cards. What should be of value is that the proposed structure may assist in defining what should be reported internally.
- *What challenges have been flagged and how founded were these?*

We have reviewed a number of challenges ranging from barriers to reporting to the actual information provided by relevant metrics. We have found that some of these to have very little substance. Our proposed reporting statements and principles are designed to overcome the informational and metrics issues.
- *Who is (are) the intended audience or recipient of this information?*

We have identified 'stakeholder users' as being investors, clients/customers, trading partners, vendors/providers, employees, industry bodies, regulators and Governments.
- *What format should this take?*

We have come to the conclusion, that the practical approach would be for a HC report to be its own document. The amount of information around people and people management that is useful to an external audience deserves its own 'home'. We feel that without it human capital will continue to be less in the eye than it should. For an example of this, the HR industry should look to the CSR movement to see what effect this has had and with pretty much qualitative data. However, we do not believe that HC reporting should be part of a CSR document because fundamentally these are two different subjects regarding organisational performance. From an investment perspective, the

HC report should rank above the CSR. This may unfortunately raise a perplexing question for some people.

- Is there one level of reporting or is there the need to establish progressive levels (with criteria to match) to assist organisations in development?
- Given a 'solution', what would be the required industry infrastructure to monitor and develop on an ongoing basis and how would this link with other established framework infrastructures?
- What would be the scope in terms of standardised international reporting?
- What further questions or issues remain, and what is likely to be on any agenda, going forward?

We believe that fundamentally there is one basic mandate for all organisations to adhere to, but there are a further two 'stepped' levels which add flexibility to enrich the information provided. The three levels are referred to as **Standard**, **Intermediate** and **Advanced**.

There is no doubt that any bona fide HC reporting solution must require ongoing infrastructure to help with monitoring and development. With that in mind we have proposed a HCR Council, Board and Client user panel similar to that employed in accounting. Preparations are already underway to have these in place by 1<sup>st</sup> March 2006. There is then scope to formalise relationships with relevant bodies (for example the HCR Council forming a subsidiary reporting body to the FRC).

It is obvious that as accounting moves towards a more standardised accounting format, we have the ability from the human capital perspective to achieve this at the same time and thus avoid issues (to a great degree, but not all) which has plagued financial accounting. We should view this as a big positive from HR's perspective.

Essentially, we see four main areas of development.

- Firstly, the challenge and/or ability to report additional HC management practices, such as talent management, workforce competencies/capabilities, leadership etc in a standardised and meaningful format. Rating instruments<sup>4</sup> already exist that can measure these in an index format or as part of a larger instrument.
- Secondly, the big challenge to provide information on human capital value as a reportable template. We remain guarded in terms of how easy this is to achieve. We believe that the answer may lie in being part of a larger intangibles value statement<sup>5</sup>.
- Thirdly, the continued development of definitions and selection of the various HR measurement conventions as already identified. The field of human capital management is complex and dynamic, similar if not more so than Finance, and, therefore attention needs constant monitoring to ensure relevance and completeness.
- Fourthly, we believe that there will be a need to naturally review the narrative component to reporting. References to diversity, equal opportunities and work-life balance may, in fact and over time, become transitory. We think that reporting these areas will in future become less relevant, not because they are not important, but that they will have become embedded in organisational practice and that reference to these may in fact become synonymous with an inherent organisational problem. Thus, the HR profession needs to be aware of this going forward as organisations are constantly looking to differentiate in terms of their employer brand.

4 VaLUENTiS VB-HR™ Rating – go to [www.vbhr.com](http://www.vbhr.com)

5 See for example VaLUENTiS Value-based Enterprise Performance white paper due to be published shortly

## 2.3 Summary overview III - HC Reporting Solution

The reporting solution is designed in such a way as to provide organisations with a progressive level in HC reporting, containing three classes: 'Standard', 'Intermediate' and 'Advanced'. The difference between the levels is one of comprehensiveness with the 'Standard' level providing, what is considered, an acceptable level of disclosure.

### Levels of HC Reporting

Level of HC reporting	Part of existing document	Separate dedicated HC Report	HC Policies	HC Initiatives	Company practice specifics	HCO Statement	PeopleFlow statement	Productivity statement	KPIs	Segmental analysis	Enhanced ratio reporting	Additional HC domain reporting	VB-HR™ Rating or equivalent	VB-HR™ Rating narrative	HC Value statement
Standard	Optional	Optional	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Optional	Optional	-	-	-
Intermediate	-	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Optional	Optional	Mandatory	Optional	-
Advanced	-	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Optional	Mandatory	Mandatory	Optional

Optional	Optional
Mandatory	Mandatory
-	Not applicable

The three levels are designed to provide organisations with flexible options given their intent to publish human capital related information.

We have put forward an HC reporting template which contains a number of reporting components as shown in the table above. To recognise the variety of organisations and their particular focus, we have proposed three levels, **'Standard'**, **'Intermediate'** and **'Advanced'**, with a progressive incorporation of reporting components with an

allowance built in for anticipated future developments. [For an example of a completed report see the accompanying document: HC Reporting example template.]

### **Explanation of terms**

**HC Policies:** Narrative providing overview of organisational human capital related policies

**HC Initiatives:** Narrative providing details of human capital initiatives carried out during the respective time period together with any planned initiatives for the new fiscal year.

**Company practice specifics:** Organisations may choose to supplement the above two narratives with more example case-study type narrative on people.

**Human Capital Operating Statement:** Reporting template including overall organisational financial and people related numbers together with notes to provide further explanatory detail. (See Appendix I for example template).

**PeopleFlow Statement:** Reporting template including information on the overall people dynamics of the organisation during the specified time period together with notes to provide further explanatory detail. (See Appendix II for example template).

**HC Productivity Statement:** Reporting template including information on overall people productivity within the organisation during the specified time period together with notes to provide further explanatory detail. (See Appendix III for example template).

**KPIs:** A section including both numbers and narrative around specific KPIs that the organisation wishes to report. This is particularly appropriate for public sector organisations. The objective here is to provide more performance related

data to enrich that contained within the three operating statements.

**Segmental analysis:** This follows normal financial accounting policies (e.g. SSAP25/IAS14) in terms of providing appropriate breakdown of numbers (disaggregation), together with narrative, into respective operating segments as dictated by the organisation (i.e. region/country, group/business unit, body/directorate etc).

**Enhanced ratio analysis:** This section provides further performance related information through use of standard HC ratios, together with cautionary and explanatory notes. This is entirely optional to the organisation at Standard and Intermediate levels but becomes mandatory at '**Advanced**' level.

**Additional HC domain reporting:** This section is entirely optional in that organisations are left to report additional elements of HC management practice such as talent management, capability, leadership etc. Over time, some of these elements may develop and become part of standardised reporting but the issue will be as to whether there will be wide acceptance of organisations wishing to report these.

**HC/HCM Rating:** The emergence of Rating systems<sup>6</sup> that measure organisational performance of human capital management provides organisations with a ready-made construct to report. We expect that this will become a significant area of reporting due to wide stakeholder interest, as it is a means of differentiation in the market-place

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<sup>6</sup> For example, VaLUENTiS VB-HR™ Rating – see [www.vbhr.com](http://www.vbhr.com)

across and within industry. This becomes mandatory for '**Intermediate**' and '**Advanced**' levels of reporting.

**HC/HCM Rating narrative:** The Rating described above can be reported in graphical format only. The narrative provides further insight into the Rating and though optional for '**Intermediate**' reporting, it becomes mandatory at the '**Advanced**' level.

**HC Value statement:** Provision is made here for the possibility of organisations producing a value-based statement relating to human capital (or as part of some wider intangible value statement). Current designs are still very much experimental, though certain HC modelling analytic projects contain linkage to value generation. Whether these can be fully developed or whether organisations wish to report these, remains to be seen.

We anticipate that organisations may at first require some external assistance with preparation (or indeed outsource) the process and we expect the market to provide accordingly<sup>7</sup>.

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<sup>7</sup> see for example VaLUENTiS Corporate HCR Solutions.

## 2.4 Summary overview IV - Developments

### ***HCR - Statement of General Principles***

In order to provide a framework for reporting, we have published a set of overarching 'HCR Principles' which describe the basis for reporting. They have some similarity to those published by the Accounting Standards Board which underpin financial accounting, due in the main that (i) there are certain irrelevances for HR, and (ii) acknowledging that there are still some inherent issues with regard to their content.

These general 'HCR Principles' are supplemented by Standard HCR Operating Principles (SHCROPs) which provide more detail in terms of reporting guidance.

The Principles are:

1. Objective of Human Capital Reporting
2. The Reporting Entity
3. Presentation of human capital related information
4. Qualitative characteristics of human capital related information
5. Measurement in human capital related statements
6. Recognition of human capital related information

### ***HC Operating Principles (SHCROPs)***

There are over 50 parts relating to the SHCROPs providing guidance to individual components of the HC Operating statements. The full presentation of the draft principles are contained within the full white paper<sup>8</sup> - '***Human Capital Reporting – A summary introduction to draft proposals***'.

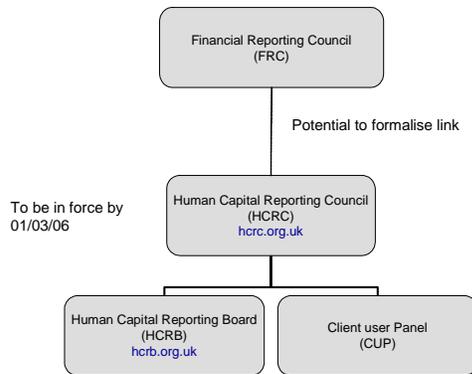
Appendixes I – III provide an illustration of the template HC statements for reference.

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<sup>8</sup> [www.valuentis.com](http://www.valuentis.com) – new products

**HC Reporting – proposed infrastructure**

To assist with any standard reporting framework, it is important to recognise the importance of a supporting infrastructure to ensure continuing development, dealing with specific arising issues and an overarching council to act as a steering group.



The Human Capital Reporting Council will act as a steering group, having overall responsibility for overlooking the whole process. Its membership is drawn from a cross-section of industry representing various professions, and those who are concerned with the use, preparation and interpretation of HC reports. It is also expected to take on an international role.

The remit of the Human Capital Reporting Board is to ensure that HCR operating principles are maintained in terms of relevance and completeness, and to issue new or amended principles and conventions/policies.

A client user panel will act as a direct feedback mechanism to the Board and Council to ensure speedy and direct action.

**Dedicated training & development support to the industry**

Our review of current approaches and frameworks has demonstrated that external human capital reporting is currently an emerging field and not one that is well established and supported. Consequently, it is likely that few HR professionals currently possess expertise, in the form of a high level of familiarity with the range of required concepts and/or approaches. Current approaches towards HC reporting tend to focus on aspects of the HR function's performance, and the efficiency or coverage of key related HCM processes.

Whilst these aspects are still relevant, the evolving nature of human capital reporting places greater emphasis on measurement concepts that relate to the strategy of the HR function and of the organisation itself. This broader scope requires HR professionals to develop a much more commercial approach and in-depth understanding of business and operating models than has perhaps traditionally been the case, with the intent of linking these more specifically to HCM practice.

**International School of Human Capital Management**

In order to meet the need for specialised training and development for HR professionals identified above, the International School of Human Capital Management will utilise courses developed as an extension to VaLUENTiS' internal university to provide clients with the similar

accredited levels of development<sup>9</sup>, launching on 1<sup>st</sup> March 2006.

Specialist courses cover the themes of human capital reporting (internal and external), HR effectiveness and audit, VB-HR™ System, employee engagement, performance and reward, organisational architecture, value-based management and risk. These are intended to enhance current levels of understanding amongst HR professionals and support their knowledge acquisition in the emerging field of human capital reporting (linking to human capital management practice and understanding of operating models, as outlined above).

In addition, the School will provide elective modules into approaches towards human capital reporting, from both an internal and external perspective; the linkage between human capital management practices and key organisational performance drivers; and an advanced understanding of broader commercial and operational issues by different sector.

### ***Journal of Applied Human Capital Management***

To accompany the launch of the International School of Human Capital Management, VaLUENTiS is also launching the Journal of Applied Human Capital Management. The Journal will be dedicated to enhancing HR practitioner knowledge of human capital reporting, with accompanying insights gained through VaLUENTiS application of the VB-HR™ Rating. The Journal will put forward original insight, presenting models, new ways of analysis and ratio generation, case studies from

organisations and the findings from scientifically-based studies. It is intended that the Journal will cover different sector groupings and industries from both the public and private sectors.

### ***Specialist analytical support to industry and the wider investment community***

The establishment of a standardised HC reporting format will provide the basis for the development of third-party specialist analytical support<sup>10</sup> with the aim of extracting additional value-adding insight from the interpretation of the published data. We envisage that analysts (not necessarily financial) will develop proprietary techniques and insights (e.g. through the development of particular ratios based on reported information) to produce a variety of evaluative reports, of benefit to both the organisations reported on, and their external stakeholders.

These are likely to include periodic company reports linked to the external reporting cycle (based on interpretation of publicly-available information, potentially supplemented through analysts developing expert knowledge of the organisations covered), macro-reports evaluating human capital management themes across particular groups of companies or specific sectors (e.g. evolution of approaches towards managing absenteeism and its impact on the cost base), and specialist reports identifying likely themes and emerging trends in human capital practices, through review of specific organisations or sectors.

<sup>9</sup> See [www.ishcm.com](http://www.ishcm.com) for further information.

<sup>10</sup> For example, VaLUENTiS' HC Analyst Services Practice

Similar to financial analyst reports, these will provide companies with external assessment and specific insight into the effectiveness of their HCM practices, as well as giving investors and other external stakeholders a greater awareness of the effectiveness of HCM practice (and its linkage to organisational performance).

We believe that the emergence of any such specialist analysis will help to further raise the profile and relevance of human capital reporting in the eyes of both internal and external stakeholders and elevate the importance of good human capital management practice and its effect on organisational performance.

### 3 APPENDICES

## APPENDIX I Human Capital Operating Statement [template]

	ye 31 <sup>st</sup> Dec 2005		ye 31 <sup>st</sup> Dec 2004	
<b>OPERATING INCOME</b>		%		
Revenue (£000s)	1,057,016		1,015,020	
FTEs	16,352		16,047	
Revenue per FTE	64,641		63,253	
<b>OPERATING COSTS</b>				
Total operating costs (£000s)	904,371		815,094	
People costs (£000s)	532,181		464,317	
Human Capital Intensity (HCI)		58.85		56.96
<b>OPERATING INCOME ATTRIBUTABLE TO HC (HCIR per FTE)</b>	<b>38,041</b>		<b>36,029</b>	
	£	%	£	%
<b>ANCILLARY PEOPLE COSTS (APC)</b>				
Training & Development costs (£000s)	8,176		7,342	
Recruitment costs (£000s)	2,314		2,954	
Health & Safety costs (£000s)	740		691	
HR functional and related costs (£000s)	6,254		6,879	
Outplacement costs (£000s)	256		53	
<b>Total</b>	<b>17,740</b>		<b>17,919</b>	
<b>HC LEVERAGE (HCIR/APC per FTE)</b>	<b>35.06</b>		<b>32.26</b>	

### Notes

## APPENDIX II PeopleFlow® Statement [template]

STAFFING	ye 31 <sup>st</sup> Dec 2005	ye 31 <sup>st</sup> Dec 2004	
		%	
No of full-time staff at start of year	14,011		13,865
Number of part-time staff at start of year (FTE eqv)	1,932		1,491
Number of other at start of year (FTE eqv)	104		175
<b>Full time equivalents (FTEs) at start of year</b>	<b>16,047</b>		<b>15,531</b>
<b>STAFFING MOVEMENT</b>			
		%	£ %
Number of FTEs recruited in period (+)	1,427		1,874
Number of acquisitioned FTEs during period (+)	-		-
	1,427		1,874
Number of voluntary leavers (FTE) in period (-)	996		1,065
Number of FTEs made redundant or outplaced in period (-)	35		217
Number of FTE retirements in period (-)	91		76
Number of FTEs outsourced in period (-)	-		
<b>Full time equivalents (FTEs) at end of year</b>	<b>16,352</b>		<b>16,047</b>
<b>STAFFING MISCELLANEOUS</b>			
Mean tenure (years)	5.2		5.3
Mean age of workforce	34		34
Retirement population	5,391		5,304

### Notes

## APPENDIX III HC Productivity Statement [template]

<b>CONTRACTED RESOURCE</b>	ye 31 <sup>st</sup> Dec 2005	ye 31 <sup>st</sup> Dec 2004
	%	
Total number of FTE days contracted in year	3,530,340	3,401,289
Total number of FTE vacation days taken in year	336,987	333,144
<b>TOTAL NUMBER OF CONTRACTED FTE DAYS AVAILABLE</b>	<b>3,193,353</b>	<b>3,068,145</b>
<b>WORK RESOURCE ADJUSTMENT</b>	%	£ %
FTE days gained through recorded overtime work (+)	61,932	65,371
FTE days lost to illness (-)	18,431	19,016
FTE days lost to work-related illness/injury (-)	2,773	2,816
FTE days lost to industrial action (-)	249	167
FTE days recorded as lost under miscellaneous (-)	763	1,075
<b>ACTUAL NUMBER OF CONTRACTED FTE DAYS WORKED</b>	<b>3,233,069</b>	<b>3,110,442</b>
<b>PRODUCTIVITY</b>		
HCI*Revenue per FTE day (optimal)	192.56	185.42
HCI*Revenue per FTE day (actual)	190.59	182.90
HCI*Revenue per FTE day differential	1.97	2.52
<b>EMPLOYER-EMPLOYEE RELATED INDICES</b>		
Employee engagement index	69.2	68.5
Employer brand index	71.3	71.0
<b>HUMAN CAPITAL MANAGEMENT INDEX</b>		
VB-HR Rating	BB-BB-R	BB-B-R
HC Performance	Sustain +	Sustain+

### Notes