



**The impact of the economic downturn
on business and skills in England**

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Foreword

John McNamara, CEO Alliance of Sector Skills Councils

The Alliance was established in 2008 as the collective voice of Sector Skills Councils (SSCs) – the employer-led authorities on skills for sectors across the UK economy. By working together as a strong Alliance, SSCs have positioned themselves for increased impact in which the whole is greater than the sum of the parts. SSC footprints include 1,707,885 enterprises and cover 90% of the workforce across the UK

The Alliance's vision is that the UK will develop a world-class workforce, skilled to give the economy the strength and flexibility it needs to bounce back from recession and grow. It will be a world leader in skills development which really meets the needs of employers of all kinds across public, private and independent sectors. Through working together as an Alliance, Sector Skills Councils (SSCs) will be recognised for their key role in achieving this and the consequent positive impact on levels of employment, productivity and social justice.

Key to achieving these goals is effective labour market intelligence and this report presents an opportunity for The Alliance on behalf of all SSCs to articulate employers' views on the impact of the recession. This is our first research report relating to the current recession affecting England and provides a unique insight into its impact across different sectors of the economy. It highlights both common issues as well as issues that are specific to each of the 25 Sector Skills Councils.

This report is also complementary to the Sector Skills Recovery Plan developed by the Alliance¹, which recommends a short targeted campaign of industrial and skills activism delivered through individual sectors, to enable faster and greater delivery of activities directly targeted at recovery and growth.

A handwritten signature in black ink that reads 'John McNamara'. The signature is written in a cursive style and is followed by a long horizontal line that extends to the right.

¹ The Sector Skills Recovery Plan (SSRP), The Alliance of Sector Skills Councils, March 2009

1. Introduction

The purpose of this report is twofold:

- Firstly to highlight some of the common themes and issues that have been raised by employers across a number of different sectors of economic activity in relation to the current economic downturn. Although the economic downturn is affecting industrial sectors in England differently, there are nevertheless a number of common issues across a number of sectors that have been identified as a result of employer consultation carried out by different Sector Skills Councils (SSCs).
- Secondly, to provide a brief overview of the impact of the economic downturn, particularly in relation to its differential impact across and within different sectors of economic activity. This overview will also seek to highlight key issues raised by employers as a result of consultation carried out by SSCs. This is achieved by the presentation of one-page summary sheets from each of the SSCs which seek to portray the main impacts of the recession across and within different sectors of economic activity. In some instances the summaries have been based on more substantive recession-related research carried out by individual SSCs and where this is the case, appropriate references to the original research have been provided. The 25 one page SSC summary sheets are included in **Annex One** of this report.

SSCs are well placed to provide an insight into how the economic downturn is affecting employers both across and within different sectors of economic activity within the UK and England. SSCs through their work on labour market intelligence, qualifications development, information, advice and guidance, and input into strategy and policy at national and local level have a key role in articulating employers' skills needs. As a result of regular contact and consultation with employers in their sectors, SSCs are in a position to share intelligence on the impact of the downturn in their sectors and highlight some of the key issues that need to be addressed in order to provide appropriate support and the foundations for sustainable recovery.

Because the issue of the economic downturn is such a central concern to the UK Government and other public authorities, there is a strong demand for feedback on the impact of the downturn on different aspects of company performance.

The Government's expressed focus in the short-term is on supporting employment and jobs through the recession¹. Budget 2009 announces new spending measures, including additional funding for Jobcentre Plus to avoid the problems associated with long-term unemployment that took hold in previous recessions. In addition, the Government has indicated that the September guarantee of a place in education or training to every 16 and 17 year old who wants one will be met in full, an extra 54,000 student places in the next academic year.

It also needs to be acknowledged that a range of skills policy initiatives have already been announced that show the willingness of Government to consider additional support for business.

¹ Budget 2009, Building Britain's Future, Economic and Fiscal Strategy Report and Financial Statement and Budget report, April 2009

Some of the other key announcements are as follows:

- £350 million expansion of the Train to Gain programme in England, including broadening of eligibility for leadership and management training to include a greater number of small businesses; funding for small units or modules of qualifications in subjects known to be important to business; relaxation of rules to allow workers to get training up to level 2 even if they already have a previous qualification at this level.
- Expansion of the Government's Apprenticeship programme, which presents employers with an opportunity to train for the medium-term.
- "Employers' Golden Hellos" in England: Incentives of up to £2,500 paid to employers to recruit and train unemployed people.
- Government support for paid graduate internships in England, lasting for three months.

2. Common themes

The downturn related issues raised by employers can be conveniently summarised under the following categories:

- Business environment
- Recruitment
- Skill development
- Training
- Support

Each of these will be considered in turn.

2.1. Business environment

A number of themes have emerged from employer contact through SSCs in relation to the overall business environment faced by employers:

- **Business closures:** Reductions in orders/demand have led to the closure of many companies across all sectors. The Federation of Small Business indicated that about 280 small companies are going out of business every week during the current economic downturn although this figure is considerably less than the early 1990s¹.
- **Redundancies:** One of the most significant impacts of the recession has been business contraction as a result of reducing demand for goods and services and the consequent need to make redundancies in the workforce. It has been widely reported that Britain has experienced rising unemployment on a scale not seen in the labour market for almost three decades. Almost 250,000 people lost their jobs in the first three months of 2009² with unemployment rising to about 2.1 million or about 7.1%³ in March 2009.
- **Introduction of changes in terms and conditions of employment:** Many employers have been forced to introduce changes in terms and conditions of employment, particularly in relation to the hours worked by employees. This has ranged from extended factory closures, the introduction of reduced hours working, pay freezes and across the board pay reductions. These measures have often been introduced in an attempt to avoid redundancies.
- **Cash flow difficulties:** Debtors are holding onto cash for as long as possible; causing often severe cash flow difficulties, particularly for small businesses. In some instances these cash flow difficulties have resulted in the failure of perfectly sound businesses.

¹ Mark Milner, Guardian Article, 23.10.08

² Unemployment figures chart grim decline that recalls worst moments of the 1980s, Ashley Seager and Larry Elliot, Guardian, 12.05.09.

³ Human Resource Management Guide (www.hrmguide.co.uk/jobmarket/unemployment), which is based on ILO-defined unemployment.

- **Lack of credit:** Many businesses across all sectors continue to experience problems in accessing bank finance (overdraft facilities etc) to provide working capital. The shortage of credit continues to undermine the activities of many businesses. Those businesses that are in the strongest financial position currently will be best placed to negotiate with the banks in the future.
- **Fall in the value of sterling:** This is an issue that appears to be affecting businesses in different ways. On the one hand the value of sterling is impacting on the cost of imported goods and manufacturing inputs, leading to a squeeze on margins. Businesses are working closely with customers to explain the need to pass on these increased costs, but ultimately these will be passed down the supply chain to consumers. By contrast, a significant proportion of companies rely on export markets and anticipate major opportunities from improved price competitiveness arising from sterling and a strong potential to pass on increased input costs. The fall in sterling should increase tourism into the UK and benefit cultural exports. Generally speaking, the weakening of domestic currency (£Sterling) relative to the rest of the world acts to reduce import pressures (i.e. the cost to import produce effectively increases) and similarly reduces UK export prices.
- **Consolidation:** There is evidence of a trend towards consolidation involving smaller suppliers and turning to those who are more secure financially to ensure continuity of supply and service. This trend is therefore adversely affecting smaller businesses.
- **Reduced margins:** Pressure on margins from customers is creating a more difficult trading environment. For example, the food and drink market is still strong, but primary producers and processors are coming under margin pressure from national supermarket chains. For a number of other sectors such as cleaning and hospitality the proposed increase in the National Minimum Wage planned for October 2009 is also likely to squeeze company margins.
- **Public expenditure:** It is anticipated that public spending will have to be reigned-in at some point in the medium-term as the Government will have to repay the debt currently being incurred to fund the economic recovery plan. It is not only the Government (Civil Service), health, social care and justice sectors that are likely to be affected by public expenditure cutbacks. Sectors such as construction, particularly in the infrastructure and public non-residential sector, are also expected to be affected.
- **Environmental agenda:** There is concern that the green agenda will also be sidelined due to the recession. In particular the voluntary aspects of the environmental agenda are unlikely to receive the drive anticipated from businesses due to competing financial pressures.
- **Improve costs and efficiency:** There is an added emphasis on the need to reduce costs and improve efficiency, building on work already in progress.

2.2. Recruitment

Perhaps not surprisingly, many companies indicate that they currently have no plans to recruit or take on new entrants. However, the economic downturn has had a significant impact on different aspects of recruitment activity, which have been highlighted by employers:

Staff turnover: Few vacancies exist as a result of the relatively steep decline in staff turnover. It appears that worries about the recession may be deterring people from changing jobs. Perhaps not surprisingly there has been a marked increase in the number of job applicants.

Recruitment difficulties: There has generally been a very substantial easing of the recruitment difficulties being experienced by many employers only a matter of 18 months ago.

Ageing workforce: Companies still face the problem of an ageing workforce and a need to bring in capable recruits – this will be critical in the medium term and a number of SSCs have argued that this needs to be addressed now.

Migrant workers: The mix of the recession and new restrictions on non-EU migrants is likely to lead to an exodus of migrant workers from England. The loss of this workforce will be a blow to many employers across a range of sectors where migrant workers make up a substantial element of the workforce. For example, migrant workers account for about 37% of the current cleaning workforce in England and have been responsible for easing recruitment problems for many employers¹.

2.3. Skill development

SSCs generally indicate that the skill shortages that appeared over the last few years have largely disappeared. However, this is at odds with recent survey results from IPSOS Mori that indicate that more than half (55%) of Human Resource decision makers are still experiencing skill shortages in spite of the downturn². The shortages of skills are felt most in operations, management and IT. One of the major concerns expressed by companies across all sectors of the economy was that in taking action to survive the effects of the recession, businesses will lose valuable, sometimes irreplaceable, skills and experience:

- **Realising future opportunities:** There is a widespread concern as to whether companies are sufficiently skilled to deal with opportunities that will emerge when the economy starts to grow. Companies acknowledge that without skills investment they may not be able to respond adequately to the upturn when it comes. Safeguarding jobs can have a particularly important role to play in this respect. In some sectors the problem of an ageing workforce can exacerbate the loss of skills within a business. For example, The Royal Institute for Chartered Surveyors (RICS) has expressed concern that staff who are laid off during this recession may not re-enter the sector when the economy improves, essentially resulting in the permanent loss of their skills. RICS also argues that the built environment sector is already missing key leaders who may have been attracted into other professions such as law and accounting, exacerbating existing skills shortages such as surveying.
- **Investment in skills:** Companies still see a need to upgrade skills but may not be in a position to invest in the short to medium term. For those companies undertaking investment there will be a need to upskill the workforce e.g. new technology will create demand for technicians at the expense of operatives.

¹ The Importance of Migrant Workers to the Cleaning Industry, Asset Skills 2007

² Skill Shortages in Recession, IPSOS Mori survey of 355 UK companies from all major sectors

- **Management and leadership:** Such skills are a priority, in terms of managing the workforce and developing the people skills needed to engage with suppliers and customers in a difficult environment.
- **Impact on manufacturing:** Some companies report that a shortage of skilled people threatens their ability to maintain or grow a manufacturing base in the UK. This is a concern since the perceived weakness in the value of sterling has strengthened the business case for manufacturing on-shore.
- **Higher level skills:** There is a long term move towards higher level skills; these must continue to be developed, or the industry's ability to recover from the downturn could be badly affected, especially if the upturn is as sharp when it comes.

2.4. Training

Reduced training commitment: SSCs have indicated that across the individual sectors there is a general reduction in employers' commitment to training. Many businesses have reduced training budgets as part of wider cost-cutting measures. Many businesses are focusing on mandatory training only and refocusing training monies to be used elsewhere in the business. Recent research undertaken by the Chartered Institute of Personnel and Development indicated that a positive net balance of employees reported that their employers are placing less emphasis on a range of activities, including investment in learning and development¹.

Focus on specific needs: Where businesses are continuing to invest in training they are looking to meet very specific business needs. This includes:

- Up-skilling individuals due to taking on additional job roles
- Bite sized learning which is bespoke to the needs of the business
- Learning to support the growth and/or diversification of the business

Apprentices: There is widespread anecdotal evidence of employers not taking on new apprentices in the coming year due to recession. This aspect is of particular concern given the evidence that the employment prospects for young people appear to be particularly poor in the current economic climate. In this regard the Chief Economist at the Chartered Institute of Personnel and Development commented²:

"While the recession is now hitting every sector, every occupation and every region the big losers are young people. Youth employment prospects are crumbling, with the toll of job losses falling most heavily on the under-25s. One in 6 18-24 year olds in the jobs market are already unemployed..."

Qualifications reform: It is considered that the Government needs to provide added flexibility and responsiveness to the skills system. In particular, qualifications reform remains a priority in a number of sectors. Targeted, bite-size chunks of training are considered to be critical, supported by a flexible funding system.

¹ Employee Outlook, Employee Attitudes and the Recession, Quarterly Survey Report, CIPD, Spring 2009.

² Human Resource Management Guide (www.hrmguide.co.uk/jobmarket/unemployment)

2.5. Support

A number of suggestions for sector support put forward by Proskills are considered to be equally applicable and relevant to other SSCs¹:

- Work with companies that are already training or will commit to improving the training opportunities offered to staff, with these companies best engaged through their SSC. This will cushion staff and businesses from the worst effects of redundancy, lay-offs and site shutdowns and help prepare for the upturn when skilled, qualified people will be needed quickly.
- Target the large number of companies working short time, and subsidise the employment costs for employers who will run, or will continue to run, recognised training for staff during any lay off period. This will help businesses and their people to keep going through short time working periods, avoiding redundancy or skilled people leaving.
- Accelerate the implementation of the Qualifications and Credit Framework² in England such that employers can offer modular training to employees during lay off periods. The size and lack of flexibility of the current qualification structure is too often a barrier to employers in the sector, and in the current climate it would not make sense to sign up staff for two year programmes. The recently announced SME flexibilities may help in this, particularly if expanded.
- Accelerate the recognition of in-house training, properly delivered and assessed.
- Expand support for apprentices to include wage compensation. Apprentices are by their very nature the cheapest to layoff, and because they are inexperienced, the least flexible and harder to utilise in the wide variety of roles that a contracting business demands; the fear is that they will go first.
- Enhance the offer for older workers such that training, or even mature apprenticeships can make up the time in work before potential redundancy.

For many employers, both large and small, the skills and learning system is complex. At a time of downturn, employers want the system to be able to respond quickly and effectively to their needs. Employers find the system difficult to navigate, are unclear as to where to go to get information, advice, guidance and support on funding or provision that could meet their needs. Employers would like to receive clear information on what could be funded / supported by the public bodies in England.

There is also evidence that employers are looking for information on how to support employees through redundancy.

¹ Improved strategy for supporting business put forward by the Proskills Board for the processing and manufacturing sector

² A new Qualifications and Credit Framework was introduced in 2008 for recognising and accrediting qualifications in England, Wales and Northern Ireland.

2.6. Conclusions

The current economic climate is having a significant impact on employers, but a key message from the Alliance of Sector Skills Councils (The Alliance) is that downturn is also having a differential impact on different sectors of the economy. Whilst sectors such as financial services, property, construction and automotive have faced serious contraction and redundancies as a result of reduced levels of demand, other sectors such as food and drink, energy and utility, creative and cultural and the passenger transport industry have been less badly affected by the economic downturn. Even within sectors the impact of the recession can be mixed. Although the economic downturn has had a marked impact on the residential property sales market, the residential property lettings market continues to grow. The impact of the downturn on the financial services sector has been dramatic and contrasts with the relative good fortune of the accountancy sector and the finance function. In this regard the economic downturn is much more sector and sub-sector specific in impact.

As a result of the Government's fiscal stimulus package there will be a need to repay the debt currently being incurred through cuts in public spending. This will increasingly become a priority and is likely to impact across both public and private sectors.

There is a major concern that in taking action to survive the effects of the recession, businesses will lose valuable, irreplaceable skills and experience. Looking to the future, all industries have faced or will face the impact of the current economic climate. It is therefore imperative that incentives to invest in training are promoted for resilience and sustainability. Maintaining the skills pipeline is regarded as being essential to many sectors of the economy.

It is also clearly important that during this period of downturn, skills and training issues are highlighted with a view to increasing levels of productivity.

Many sectors of the UK economy have an ageing workforce, and the need to emerge from the downturn as productive as possible to remain competitive is continually reinforced. There is an ongoing need to bring fresh talent into all sectors of the economy. Otherwise there is a risk that significant numbers of skilled people in the workforce are seeking to retire just as the economy starts to emerge from the downturn.

A particular feature of current unemployment is the disproportionate impact on young people. One in six 18-24 year olds are already unemployed and there appears to be a particular need for concerted action to expand the opportunities available for young people.

Annex One

Asset Skills

Property, Housing, Facilities Management, Cleaning and Parking

Information on the key challenges facing each of the sectors that constitute the Asset Skills' footprint is included below from the Barometer Survey¹ and other referenced sources.

Property

The recession and consequent decline in the residential sales market has had a number of impacts. It is estimated that almost half of the 80,000 estate agents who were in work 18 months ago have now been made unemployed. Predictions for the housing market include rising repossessions – as high as 90,000 in 2009 in addition to 3.5 million households falling into arrears.

Within the commercial property sector, the RICS Forecast suggests that rising rental defaults and a lack of credit will prevent recovery of the commercial market in the short term². It is anticipated that tenant demand will remain subdued for at least two years, pushing down rents in some sectors.

The residential lettings market continues to grow with new instructions being up by 72% compared to last year³. This is forcing down the rental price of properties.

Housing

Most of the 85 Housing Associations which build estates rely on private sales to subsidise their rented homes. With over 10,000 homes standing empty and unable to be sold due to the credit crunch, many Housing Associations are under threat of collapse⁴. This is against the backdrop of rapidly rising demand for more affordable homes.

Facilities Management

There are mixed messages about the future opportunities of Facilities Management (FM) during the recession. Effects of the downturn have been felt harder in some specific sections of the industry - especially those firms which offer single service lines and smaller organisations that are less able to ride out the harsh conditions⁵. Diversity remains the key to success, allowing companies to shift and reallocate resources within their own businesses. The fortunes of FM services are inextricably linked with the sectors which they serve, but there is some evidence to suggest that companies holding long-term contracts will be better placed to see through the downturn than others. Some skill shortages which have appeared over the last few years, such as bid management, are slowly disappearing⁶.

Cleaning

The industry is viewed as being more 'recession proof' than other sectors as it remains a necessity. There are also indications that demand for domestic cleaners may increase as more people work longer hours to keep their job.

¹ The Asset Skills Barometer was launched in July 2008. The information contained within this report is from phase 1 which took place between July and Sept 2008.

² RICS Commercial Property Sector Forecast, 2008

³ Hamptons International in www.aboutproperty.co.uk

⁴ Council Ghettos may return as recession kills mixed estates. Timesonline. 12/12/08

⁵ The Credit Crunch and the Job Market. Maxwell Stevens

⁶ The Credit Crunch and the Job Market. Maxwell Stevens

Automotive Skills / The Institute of the Motor Industry Automotive Retail Sector

In general, anecdotal evidence suggests that the sector has been affected negatively by the recession with reports of widespread, increased levels of redundancies and business closures throughout the sub-sectors. Some independent garages are reported to have benefited from the recession as consumers seek cheaper alternatives for maintaining their vehicles.

The new car market continues to experience difficult economic operating conditions. The new car market fell for the eighth successive month in December 2008, with new car registrations falling by 21.2%. The pace of decline was less than the expected 35%, however, with the cut in VAT on 1 December possibly a contributory factor.

Registrations in the final quarter of the year were down 27.2%, the steepest fall of any quarter in 2008. Registrations ended 2008 at 2,131,795 units, the lowest since 1996 and down 11.3% from 2007 figures. A further decline to 1.78 million units is currently forecast for 2009 – the lowest since 1992. New car registrations fell 21.9% in February to 54,359 units

The overall market for trucks and vans also saw a similar downturn in registrations, down 22.0% in December and 10.7% to 346,873 in 2008.

Figures released by Society of Motor Manufacturers and Traders and Experian show that 2008 sales of used cars fared better than those for new vehicles, with full year volumes down only marginally on 2007 to 7,157,982 or -4.4%. Anecdotally, used car sales businesses are finding it difficult to get hold of some models due to consumers holding onto their cars for longer.

There is a general view that the maintenance and repair sub-sector has also experienced a negative impact from the recession, more so in dealerships than in independent garages. Anecdotally consumers are, more and more, only taking vehicles in for essential maintenance/repair.

Body builders are reporting a reduction in orders, accident and repair businesses are reporting decreased business as well.

Parts suppliers are making redundancies as demand has reduced dramatically.

There is widespread anecdotal evidence of employers not taking on new apprentices in the coming year due to the recession. This is true of independent garages, dealerships and manufacturers. There is anecdotal evidence to suggest that most prestige car apprenticeship schemes are not planning to take any apprentices on next year.

Recent research conducted adds further evidence that the recession is clearly and seriously beginning to affect apprenticeships. A higher proportion of apprentices are now unemployed than was the case when they completed their programmes. 63% of employers surveyed did not expect to take on any new apprentices in the New Year, over half of which sited the recession as the reason for this.

Reports on the effect that the recession is having on investment in training are mixed.

Cogent

Chemical, Pharmaceutical, Nuclear, Polymers and Oil and Gas Industries

The intensity of this recession is clearly articulated by Cogent employers, but taking a view across all Cogent sectors the impact is varied with some resilient stories of note amongst the more general downbeat mood in the economy. This variance will feed through to skills and employment in the short and medium terms with some employers sustaining business, some rationalising and some growing to fill the gaps.

Manufacturers supplying essential consumer and healthcare products (sub-sectors of chemical, pharmaceutical, polymers) have been withstanding the economic downturn. Companies involved in the supply chain to other manufacturers and more expensive consumer products (sub-sectors of chemicals, polymers) have been experiencing a more harsh economic climate. Sectors of strategic and infrastructural significance (oil & gas, refining and nuclear) are affected also by policy and regulatory drivers and global demand. In the case of the latter, this has had a positive effect on perceived future employment prospects, particularly for nuclear new build which will be sustained well into the next decade. More detailed analysis indicates that in relation to:

- **Chemicals:** The most affected areas are those supplying the construction and automotive sectors. Sub-sectors still doing well include agrochemicals and supply to pharmaceutical companies. Parts of the sector that supply chemicals and packaging for food and drink manufacturers are withstanding the general downturn. Production of soaps, detergents, cosmetics and toiletries also continue to do relatively well. However, paints and other industrial markets have noted a marked decline, linked to the slowdown in the housing market.
- **Pharmaceuticals:** The rise of generic drugs (post patent lifetime) and contract manufacturing had already preceded the recession. It could be argued that these trends will continue to exert a stronger influence on the future of the industry than the latest recession. However, many small and medium pharmaceutical companies are riding the recession to date.
- **Polymers:** The brunt of the recession has been borne by polymer employers more than any other Cogent sector. Evidence across the EU illustrates that polymer industry activity and migration can be an economic barometer of major manufacturing capacity.
- **Nuclear:** To date there is no evidence that the recession is having a significant effect on skills in the nuclear industry.
- **Oil & Gas:** The effects of the recession combined with the global banking crisis are causing the oil and gas industry to act urgently to ensure continued new investment in the declining UK Continental Shelf reserves.
- **Petroleum (refining and retail):** The general economic downturn has affected demand for fuels but there is a threshold level at which decline in demand will bottom out given the demand for transport from all sectors beyond that of industrial and business.

Looking to the future, all industries across the Cogent sector have or will face the impact of the current economic climate. It is therefore imperative that incentives to invest in training are promoted for resilience and sustainability.

ConstructionSkills Construction

The construction industry is facing the prospect of the most severe contraction in 30 years. The majority of major contractors have reported a steep decline in activity and the signs are that the current situation might well worsen prior to any sustained recovery. The Construction Confederation State of Trade survey for the fourth quarter of 2008 indicated that 70% of contractors reported that construction output was expected to fall over the following quarter, and 50% expected a fall in output over the following 12 months.

Housing and commercial construction have fared particularly badly as developers struggle for cash. Demand for office and retail space have plummeted and house builders have been hit hard as banks have cut lending to prospective buyers and house prices continue to fall. For example, in the three months to January 2009 compared with the same period a year earlier, private housing orders fell by a massive 55% and public housing orders fell by a similarly staggering 45%.

Activity in the infrastructure and public non-residential sector is expected to increase across 2009 and into 2010 as a result of the Government's fiscal stimulus package, but then tail off as the need to repay the debt currently being incurred to fund the economic recovery plan through cuts in public spending becomes a priority.

The shortage of credit continues to undermine the activity of many contractors, including some major provincial contractors. This has significantly impacted on construction and has led to insolvencies and job losses.

Despite recession, construction (including professional services) is still likely to employ around 2.5 million people in 2009 and will require new entrants to replace those leaving and meet the demand. However, the Construction Skills Network (CSN) shows that the slowdown has reduced the requirement in England from an average of about 74,340 per year to 29,840 per year between 2009 and 2013.

The Construction Confederation State of Trade survey indicated a substantial easing in recruitment difficulties experienced by employers and the rate of vacancies within the sector is at its lowest level in more than a decade. The main issue is simply reduced levels of work, particularly in the new-build housing sector, as contractors either cancel projects or put them on hold. The lack of demand has significant implications for the sector:

- Around a third of employers interviewed by ConstructionSkills had been forced to make redundancies, ranging from laying off a few workers through to one letting go of two-thirds of its workforce.
- National statistics show that the rate of unemployment in the industry grew significantly during 2008, rising from 11 per 1,000 employees in the first quarter to 31 per 1,000 in the fourth quarter.
- The lack of demand represents a significant challenge in ensuring the sector maintains capacity in the medium to long term, particularly in relation to skills.

ConstructionSkills' research provides some evidence that training budgets are also being reduced as part of cost cutting measures. This reduction in training appears to be mostly limited to management training and induction training.

Creative and Cultural Skills

Creative and Cultural

In comparison to industry sectors like construction or financial services, the creative and cultural sector is relatively unaffected by the recession with many employers in the industry yet to notice any impact.

However, redundancies and business failures are occurring, notably in relation to those creative and cultural industry employers (CCIs) losing income from corporate clients or consumers. Advertising is currently suffering the highest rate of business failure (13%) and cultural heritage the lowest rate (6%). Government funding is also cited as under threat.

There is evidence that the recession will exacerbate the key skills challenges and companies who were vulnerable pre-recession are less likely to survive. There are also worries that businesses will be less able to invest in skills and training, which will leave them worse off when the recession ends.

There is a particular concern that economic conditions will worsen over 2009, especially if normal levels of bank lending are not resumed and consumer/corporate confidence restored.

However, on the upside, opportunities for the sector can be observed. The fall in sterling should increase tourism into the UK and benefit cultural exports. On the whole, consumers are continuing to spend on culture. Creative digital industries are doing well and this is forecast to continue. Past recessions have produced huge bursts of innovation and creativity within the creative and cultural industry, both in terms of production and business practice. Historically the sector has experienced a higher than average rate of business start-ups during recessions and there is evidence this is occurring now.

The sector was at record levels of growth prior to the recession and this has been predicted to continue when it ends. There is some evidence to suggest the UK is going through a structural economic shift to the benefit of the creative and cultural sector.

- According to government, the creative and cultural industries are seen as a growth sector, and pivotal to the UK's future productivity
- Projections developed by National Endowment for Science, Technology and the Arts predict that between 2009 and 2013 the UK creative industries will grow on average at 4% - more than double the rate expected in the rest of the economy¹
- The Work Foundation also identifies a definite opportunity for the creative industries to be the sector to lead the UK out of the recession²
- The Centre for Cities - Cities Outlook 2009 has flagged UK cities with dense clusters of knowledge industries as best placed to recover from the recession³

¹ <http://www.nesta.org.uk/uk-creative-industry-to-drive-significant-growth-in-uk-economy/>

² The Work Foundation seminar - 'How the Creative Industries might come through the recession'

³ Centres for Cities report -

<http://www.eveningnews24.co.uk/content/News/story.aspx?brand=ENOnline&category=News&tBrand=enonline&tCategory=news&itemid=NOED26%20Jan%202009%2016%3A47%3A07%3A683>

e-skills UK

Information Technology and Communications

An analysis of the impact of the recession to date shows the technology sector holding up better than many other industries. The latest assessment of UK GDP trends by the Office of National Statistics highlights only one area of growth, computing, set against an overall contraction of 1.5% in the fourth quarter of 2008.

The sector is far from immune to the difficult economic environment, but its relative strength is probably due to three main reasons:

- The lessons of the dotcom bubble of 2001 have led to technology companies adopting increasingly flexible business models, which allow for a swift response to changing global markets.
- A significant part of an organisation's IT budget is spent on the ongoing management and maintenance of technology systems. These systems are now the backbone of most companies, critical for everything from service delivery to financial management.
- There is a growing appreciation that IT can help companies weather the downturn. Making the most of technology will help organisations to achieve their business objectives, whether these are to cut costs, reach new markets, or boost productivity.

The IT professional workforce will be central to the UK's recovery from recession. All industries need, and will continue to require, highly skilled technical professionals. There is an arguably even greater need for business-focused technologists who can understand business needs, know how to apply IT to solve business problems, and can manage technology projects to deliver direct business value.

Maintaining the skills pipeline is essential. With a UK workforce of one million IT professionals, the sector has a constant need to recruit. The number of job vacancies advertised has been declining since early 2008, but there were still 121,000 vacancies advertised during the last quarter of 2008.

The pace of technological change continues to accelerate. To make the most of this – not just now, but to aid recovery, and long after the recession is over – the UK must continue to invest in the technology skills pool: from the IT professionals who create the systems, to the business managers who need to be able to exploit them for business benefit, to the individuals who need to be able to use them in their day to day jobs.

Energy and Utility Skills

Gas, Power, Waste Management and Water Industries

Anecdotally the recession seems to be having relatively little impact to date although this does vary slightly across the different industries that make up the sector and also within the different regions of England.

- The generation, transmission, supply and regional distribution aspects of the gas, power and water industries appear to be relatively unaffected by the current economic downturn.
- There have been a small number of redundancies at some of the larger waste management companies. Impacts may be felt within local authority workforces due to the recent budget announcements regarding the cutting of Government Service spending. It is assumed that there will also be some impact amongst SME's, particularly those selling recyclables where the market prices have plummeted.
- Electricity, Upstream Gas and Water - Asset owners and their principal contractors are suffering from the collapse in demand for "new connections" (e.g. connecting newly built properties to the distribution network). Jobs losses are being experienced by employers in this area.
- Downstream Gas (e.g. CORGI registered gas installers) - there is evidence to suggest that demand for new and replacement domestic central heating systems is slowing significantly, thereby causing severe difficulties to the many self-employed and micro businesses that operate in this industry. Job losses are being experienced.
- No aspects of the sector, other than renewable energy, are showing signs of growth, although investments plans remain in place for the replacement and upgrading of existing infrastructure; these have significant recruitment and training requirements. It remains to be seen whether financial institutions will remain forthcoming with the necessary finance for these projects to take place in the short-term.
- Some downstream gas companies are already recruiting and upstream gas alliance companies planning to recruit.
- It appears that the recession is having an impact on apprenticeships in the sector. In the North East and Yorkshire Humber regions, contractors are reviewing numbers. In the North West region there is a mixed picture, for example a large utility employer planned to recruit 25 apprentices in 2009 but is now having to review their budget availability. In the East of England region employers plan to keep their existing apprentices but are not recruiting new ones.
- However, it is considered that longer term demand is still strong due to high levels of capital investment being largely unaffected. Recent workforce modelling has demonstrated the effects of an ageing workforce, and the need to emerge from the downturn as productive as possible to remain competitive is continually reinforced. Employer demand for Energy and Utility Skills to add new pathways to existing apprenticeships and develop new apprenticeships where they do not exist is stronger than ever over recent months.

Financial Services Skills Council

Financial Services and Accountancy

The **financial services sector** is among the hardest hit by the current recession. It is anticipated that the severe contraction in investment banking activities and the nationalisation and merger of several financial institutions across the UK will cause widespread job losses. In 2008, redundancies made throughout the UK economy, have steadily increased, rising to 180,000 in the three months to the end of October, according to the Office for National Statistics (ONS). Meanwhile, the redundancy rate has risen from 4.4 per 1,000 employees in early 2008 to 7.1 currently and is set to climb in the coming months.

A Confederation of British Industry (CBI) survey indicates that job losses are expected to accelerate sharply in the first months of 2009 as business activity and profitability fall at record rates. Job losses in the UK financial sector are to rise from about 10,000 a quarter in recent periods up to 16,000 in the first quarter of this year. The CBI estimates that high street banks and other lenders made redundant about 10,000 staff between October and December 2008¹.

In December 2008, job appointments and vacancies fell to their lowest level for more than 11 years, according to a poll of recruitment companies recently published by the Recruitment and Employment Confederation (REC) and KPMG. Staff turnover declined more steeply, as a sign that fewer vacancies and worries about the recession may be deterring people from changing jobs².

There are reasons to believe that in the long term, the UK financial services industry could witness a structural decline, at least in relation to its contribution to the UK GDP.

Within the **accountancy sector and the finance function** rising numbers of redundancies across the entire economy have clearly impacted finance departments' headcounts. On the other hand, an increased appetite for accountability, liquidity, financial and risk management and statutory reporting, not to mention insolvency and bankruptcy expertise are creating unprecedented opportunities for the accountancy profession and financial practitioners.

While the big four and other accountancy firms may be carefully considering their options in the corporate finance arena where core activities have ground to a virtual standstill, forensic accountants and turn-around and insolvency practitioners are really busy. For instance, the complexities inherent in the administration and liquidation of global financial institutions will require considerable amounts of expertise to be deployed in this area.

A recent survey conducted by Badenoch & Clark, a recruitment consultancy, gives a nuanced account of the current landscape in the accounting and finance profession. Key findings include:

- Many employers are still recruiting and there are openings for the talented professional.
- Over half of the employers surveyed, find it as difficult as it was one year ago to hire the right person for the vacancy.
- Despite the downturn, only 24% of finance departments have been asked to freeze their recruitment programmes for 2009.

¹ http://business.timesonline.co.uk/tol/business/industry_sectors/banking_and_finance/article

² CBI/PwC financial services survey, December 2008

Government Skills

Government Departments, Non-Departmental Public Bodies and the Armed Forces

The impact of the recession on central government is intrinsically bound up with the Government's approach to the financial management of the economy. The Economic and Fiscal Strategy Report and the Financial Statement and Budget Report for 2009 contain the Government's assessment of the medium-term economic and budgetary position. They set out the Government's tax and spending plans, including those for public investment, in the context of its overall approach to social, economic and environmental objectives.

Budget 2009, Building's Britain's Future, announced targeted discretionary support for the economy through the current recession, while continuing sustained fiscal consolidation from 2010-11 when the economy is expected to be recovering and able to support a reduction in borrowing.

The Budget 2009 projections show that public sector net borrowing (PSNB) is projected to peak at 12.4 per cent of GDP in 2009-10, as the economic downturn significantly reduces tax receipts, particularly from the financial sector. PSNB is then projected to decline to 5.5% of GDP by 2013-14 as the economy recovers and the Government takes action to ensure the sustainability of the public finances.

The Government's short-term focus is on supporting employment and jobs through the recession. Whilst the government states that it will continue to invest in front-line public services there is also a stronger drive on value for money. In this regard Budget 2009 announces:

- £5 billion recoverable value for money savings in 2010-11, raising the 2007 Comprehensive Spending Review (CSR) target from £30 billion to £35 billion, while maintaining in full the allocations planned for key front-line services.
- Plans to increase the Government's target on relocating posts out of London to 24,000 by 2010.
- In the next Spending Review period, additional efficiencies to help support the economy and front-line services drawn from procurement, back office and IT, and property running costs, rising to £9 billion of additional efficiency savings by 2013-14.
- New incentives and mechanisms with the aim of realising up to £16 billion of property and other asset sales in the three years from 2011-12 with proceeds used to supplement capital budgets.
- An expansion of the Public Value Programme to ensure demanding Value for Money reviews are conducted right across departmental budgets. The expanded programme will cover a minimum of 50% of each department's budget, with a particular focus on areas of spend that impact across departmental boundaries.

The drive for efficiency saving through the Operational Efficiency Programme and expanded Public Value Programme is likely to have a significant impact on Government Skills. However, it is particularly difficult to predict the precise impacts of the Government's approach on different parts of the public sector. This lack of certainty about the specific impacts on the sector is also compounded by the fact that there is likely to be a General Election in 2010.

GoSkills Passenger Transport

In general, there appears to have been a slight downturn in the passenger transport sector reported back to GoSkills, mostly in terms of passenger numbers. However, it can be difficult to isolate the impact of the economic downturn on business compared with other factors; for example, the increase in fuel prices during the 3rd quarter of 2008 is thought to have had a positive impact on business with fewer people using their cars. Also some regions have been shown to be more susceptible than others to the effects of the economic difficulties. In general, it might be said that the passenger transport industry has held up reasonably well over the 2008 period with the economic difficulties causing fewer problems than in some of the other sectors.

For the bus industry, those companies we have spoken to have said that passenger numbers have been stable and in some areas showing slight increases. Concessionary fares may have an impact on these figures and, as mentioned above, it could be speculated that the high fuel prices experienced over the last year increased passenger numbers as the cost of motoring rose sharply, but that is pure conjecture. The Department for Transport figures show that bus and light rail use in London was up in 2007/08 compared to the previous year, though declined slightly across the rest of England.

For the tourism part of GoSkills bus and coach industries' work, the majority of employers have been reporting fewer bookings, although others have been saying that they have been stable, so it is a bit of a mixed bag. The effect of the weak pound, it is hoped, will bring increased business in 2009 with more foreign tourists and stay-at-home British holidaymakers. There may well be benefits for long distance coach travel though with rail journeys perceived as more expensive.

Business rail does not yet appear to have been hit by the economic downturn.

For the aviation industry, passenger numbers declined at airports across the UK by 2% during 2008, compared to the previous year. This was the first year since 1991 that passenger numbers have fallen. Discount airlines are likely to be badly affected as they cater predominantly for the leisure market.

Driving instructors have been reporting a downturn in business. This would normally happen after Christmas but has been particularly marked for this period. There is also a worry that more people will be attracted into the industry after being made redundant, resulting in more instructors chasing less work.

Anecdotal feedback from the taxi industry is that business is significantly down due to less business work and fewer people socialising. However, drivers do have the opportunity to work longer hours to try and make their money up.

Improve Ltd

Food & Drink Manufacturing

The sudden and dramatic change in the economic climate in the latter part of 2008 has hit parts of the wider economy severely, primarily exemplified by the construction industry and its supply chain and certain elements of the retail sector, with some companies able to track the specific week when business performance fell off the cliff! For the food and drink sector some companies are reporting smaller order books, others extended line shut downs because of reduction in demand, and for some such as the meat processing industry demand is down over 20%, putting an estimated 10% of employees at risk.

It is noticeable that even with the downturn being global in scale, the accompanying general lack of confidence in the economy as a whole is hitting UK industries differently depending on the degree they rely on discretionary spend within the economy. At present, supply chain indicators for the food and drink sector, such as paper and card packaging products seem to be little affected.

One of the few areas of optimism is that the lower value of sterling is making the export markets more attractive, and off-shoring decisions are being deferred, or even reversed. At this moment, whether 'green shoots' can be seen or not, the general level of production activity has not been adversely impacted on and the sector does appear to be weathering the recession better than most. It has been noticeable that this recession seems to be more sectorally specific in impact than previous ones.

There is a major concern that in taking action to survive the effects of the recession, businesses will lose valuable, irreplaceable skills and experience. It is feared that this will damage the industry's ability to recover from the downturn, especially if the upturn is as sharp when it comes.

Improve has concluded that the Government, in all parts of the UK, would be more effective in supporting business by adopting an improved strategy and working with food and drink companies that are *already* training or will commit to improving the training opportunities offered to staff, with these companies best engaged through Improve as their SSC. This will cushion staff and businesses from the worst effects of redundancy, lay-offs and site shutdowns and help prepare for the upturn when skilled, qualified people will be needed quickly.

The economic reality is that across the economy businesses will contract and go out of business and the continuing credit freeze and other major issues with the financial system are set to make this recession more pervasive than that of the 1990s.

The ambition for employers is to weather the storm, keep efficient and profitable plants and production open (once closed many facilities never re-open) and to keep valuable skills in place. The demographics of the workforce are such that the efforts over the last few years to bring fresh talent into the sector must not stop; otherwise we shall see significant numbers of skilled people in the workforce retiring just as we emerge from the downturn.

Lantra Environmental and Land Based

The footprint, to which Lantra is responsible, has a diverse spread of 17 industries. Although these industries share many common characteristics the global credit crisis is unlikely to affect all industries in England to similar extents.

Agriculture: Generally speaking, the weakening of domestic currency (£Sterling) relative to the rest of the world acts to reduce import pressures on UK farmers (i.e. the cost to import produce effectively increases) and similarly reduces UK export prices. Food and drink is therefore one of the few areas in which the prospects are favourable and the recession is likely to present positive opportunities. However, consumers are seeking cheaper, better value for money alternatives to the more expensive organic and fair trade products and farming strategies will therefore need to realign themselves with these current market demands.

Trees and timber: Within the trees and timber industry demand has evaporated; many businesses face the unpleasant scenario of short-term working and redundancies. Production for 2008 is estimated to have decreased by as much as 25-40% on the 2007 figures (estimates reported in the timber trades journal: 20/12/08). All parties involved along the wood supply chain, from harvesting contractors to panel products, are suffering.

Production Horticulture: The recession has made it easier for businesses within production horticulture to recruit labour from local populations as opposed to employing migrant workers who now look upon the industry less favourably because the returns are not as attractive.

Landscape: A downturn in the housing market has seen a reduction in the number of new housing development projects which has resulted in a decline in the availability of work. The shrinkage in employment within construction has displaced a number of workers and labourers (both skilled and unskilled) into neighbouring industries, such as landscape, resulting in a proliferation of 'cowboys' within the industry.

Fencing: Contrary to trees and timber and landscape, another industry linked to construction, fencing looks to be on the rise again as contracts return following a particularly difficult Christmas period.

Floristry: During the economic downturn the UK is witnessing a decline in discretionary spending by households. This directly affects the floristry industry. Anecdotal evidence suggests that floristry businesses are closing down each week as a result of this recent frugal consumer mentality. The suggested impacts of the recession on floristry wholesalers are, however, more mixed.

Environmental: The environmental sector, as a largely Government funded sector, is likely to experience some short term cutbacks (i.e. recruitment will be reduced) but will largely remain stable.

Other: The prospective tourism boom is likely to benefit several industries within the Land-based and Environmental sector (e.g. Gaming and Wildlife and Fisheries Management).

Lifelong Learning UK (LLUK)

Employers who deliver and/or support the delivery of lifelong learning

The lifelong learning sector consists of employers in further education colleges, work based learning, community learning and development, higher education and libraries, archives and information services. These all provide a range of post 16 learning activities. For the past couple of years, the Government has redirected public funding to courses that lead to full qualifications. However, in the autumn of 2008, the Government relaxed these rules, in an effort to support training and keep people employed.

Further Education

Generally speaking, the recession is resulting in increased demand for further education places from post 16 learners including the recent unemployed, who are redirected into training to make themselves more competitive in a tighter labour market.

In February 2009, the University College Admissions Service (UCAS) reported a record number of applicants, with 465,000 for the 2009/10 academic year, a 7.8% increase over the previous year and a 9.5% increase since 2007. The number of international applications has also increased.

In addition, the extension of the participation age to 18 will cause an increase in student numbers. The 2009 budget announced investment of £251 million to ensure that places are funded.

The Government has increased funding for new apprenticeships and pledged to establish 21,000 apprenticeships in the public sector. However, there is concern that private sector employers may terminate existing apprenticeships to save money.

Higher Education

University College Admissions Service (UCAS) reported a record number of applicants for the 2009/10 academic year. However, graduate unemployment is expected to rise during the recession. A guardian survey of 100 top employers in mid January 2009 reported that on average, they would be cutting graduate placements by about one-sixth

However, the economic crisis has also slashed endowments made to Higher Education institutions. In December 2009, *The Guardian* reported that these might have lost as much as £250 million, with the University of Glasgow losing a third and University College London nearly a quarter. Oxford and Cambridge were both predicted to lose about 15% of their endowments. University research budgets, especially where funded through links with business, may be equally affected.

Libraries, Archives and Information Services (LAIS)

As money gets tighter, the value of libraries as sources of free reading and information becomes more apparent. Anecdotal evidence suggests that the recession is encouraging more people to use libraries. However, libraries will not be able to provide services for this increased demand unless they get enough investment, during and beyond the recession. With tighter budgets, local authorities may reduce their investment in libraries. A wave of closures has already been announced, the most serious in Wirral.

People1st Hospitality, Leisure, Travel and Tourism sectors

Whilst it is still a mixed picture, the recession appears to be starting to bite in the hospitality industry, particularly for hotels and some restaurants.

The Chartered Institute of Purchasing and Supply Index indicated that jobs have been cut in the hospitality sector in each of the past 9 months and the number of staff in the sector is falling at its fastest rate in 12 years¹.

The decline in revenue per available room (revpar) slowed to 2.7% at London hotels in the week ending 31 January 2009, according to figures from hospitality research company STR Global. Revpar dropped to £89.36, down from £91.80 in the equivalent week of 2008.

The lower end of the hospitality market appears to be fairing best as customers trade down. One independent hotel interviewed by the People1st research team in February indicated that:

“Turnover levels are down in the upper end of the accommodation. We’ve got the same number of bookings but less revenue. People are trading down”. (Independent hotel, February 2009)

“At the tail end of last year we saw a rapid increase in inflation on certain ingredients and changed our menus to include cheaper cuts of beef for example. The price of beef has gone down again now but we kept the cheaper cuts to improve margins.” (Independent hotel, February 2009)

The difficulties being experienced by the higher end of the hospitality market is exemplified by recent returns from leading hotel groups. Millennium and Copthorne Hotels experienced a dramatic decline in group revenue per available room (revpar) in the first five weeks of 2009. Job losses are expected to be announced at Hilton, InterContinental Hotel Group and the Four Seasons.

High-street travel agency revenues for summer 2009 holidays are only down by 1% despite a double-digit fall in year-on-year bookings².

Winners:

- KFC plan to open up to 3,000 new stores creating up to 9,000 new jobs in Britain.
- Subway plan to open 600 new stores and create 7,000 new jobs in Britain.
- Dominos’ sales were up 18 percent in 2008 and it plans to double franchised outlets to 1,000.
- Greggs’ sales are up 5% and plan to expand.
- In the licensed trade industry there are opportunities for entrepreneurs to pick up sites and projects which would have been too expensive in the past.

¹ The Chartered Institute of Purchasing and Supply Index

² Trade press

Proskills

Process and Manufacturing

The credit crunch has had a major impact on the sector. Preliminary findings from Proskills' latest research (February/March 09) shows that 77% of employers are saying that they are affected to some or great extent by the current economic conditions. Anecdotal evidence suggests that some companies are seeing a 40% drop in orders, and a move to short-time working in many areas; the building products, print and paper industries seem to be the most affected. There is also some evidence that a number of companies across the sector are closing or at risk of closing because of the current situation.

Our research seems to show that the current economic conditions are affecting a majority of companies. However, 32% of employers say they expect their business to expand a bit or a lot, and over 40% say their business will stay the same. Most employers say the size of the workforce will remain the same over the next 12 months, with a small number actually saying they expect to increase their workforce. Only one in five employers say they are currently cutting staff numbers; but recruitment across the sector has dropped significantly from 13% in 2007 to 6% in the first quarter of 2009.

In the coming 3 months, employers are saying, perhaps unsurprisingly, that lack of demand is the top issue that will affect their businesses, with energy costs and domestic competition being identified as other important issues.

Employers say that the top strategies for dealing with the recession are reducing production costs, and looking for new markets. Only some 17% say they will "invest in staff" as an action to deal with the recession. But the research does show that 80% of employers will maintain their expenditure on training in the coming 12 months, and 14% say they intend to increase spending; only 8% say they will reduce their spend on training.

There is some evidence to suggest that the credit crunch is affecting large and small companies differently. More larger companies are affected by the recession than smaller ones, and more larger companies say they will decrease the size of the workforce.

It looks as though there has been much severe action taken by employers up to and just beyond Christmas 2008 to address issues associated with the credit crunch, and that there is now a feeling of trying to "sit out" the credit crunch. When asked an open question on how they intended to respond to the recession, the biggest response was "wait for the upturn".

The economic reality is that businesses will need to contract, some will go out of business and there are major issues with the financial system which are set to make this recession more pervasive than that of the 1990s. The ambition for employers is to weather the storm, keep plants and production open (once closed many facilities never re-open) and to keep valuable skills in place.

Semta

Science, Engineering and Manufacturing Technologies

Evidence from a study carried out by the Engineering Employers Federation (EEF) (with a sample of over 600 employer members of the organisation) suggests that many engineering manufacturing companies have opted to freeze pay in an effort to halt redundancies¹. There have been several high-profile cases where pay freezes have been agreed with the support of unions². Some automotive manufacturing companies have introduced measures such as cutting hours to a 30 hour week and earlier in the year an extended winter closedown.

English regions that have high employment in the automotive sector such as the West Midlands, the North West, the South West around Swindon, the South East around Oxfordshire and the North East have been particularly affected. However, these employers have made efforts and approaches to Government to avoid redundancies and complete closures that would lead to the loss of skilled and experienced workers who will be essential to the business recovery as the market for new vehicles revives. Business for the large number of UK companies involved in the automotive supply chain has also been affected, from small and medium sized enterprises manufacturing vehicle components to larger steel manufacturing companies in the Yorkshire and Humber region.

However, on a more positive note, whilst media attention has tended to be focused on the redundancies and business closures, some new business and expansion is taking place within companies that Semta represents.

Job opportunities are also still evident amongst employers within the Semta footprint. Jobcentre plus vacancies reported on Nomis, by engineering manufacturing employers across England are in the region of 1,500 for March with highest figures reported in the West Midlands and North West of England. Reviewing a range of engineering and science recruitment websites indicates that managers, project leaders, professional engineers, technicians and experienced skilled craftspeople are still widely sought by employers across England.

In relation to practical steps to help tackle the impact of the recession:

- The Government announced that they will be setting aside £50 million as part of the new Strategic Investment Fund to enable the Technology Strategy Board (TSB) to increase its capacity to support innovation in areas which have high potential to drive future growth, such as low-carbon technologies, advanced manufacturing and the life sciences³.
- It is important during this period of downturn in the engineering and manufacturing sectors that skills and training issues are highlighted with a view to increasing levels of productivity. In this context, Semta are assisting businesses in England to access £65 million worth of funding which forms part of a "compact" with the government, helping employers develop staff to ensure their business is well placed to beat the recession and prepare for recovery.

¹ Financial Times on March 9 2009

² Press and news releases monitored by Semta

³ Announced in the Budget report on 22nd April

SkillsActive

Sport & Recreation, Health & Fitness, Playwork, the Outdoors and Caravanning

Currently feedback from the sector is mixed. This is partly due to the way in which the sector and sub-sectors operate and are funded (e.g. they are a mix of private, public and voluntary). Looking at specific sub-sectors:

Sport

The Government's strategy for sport, through Sport England is allocating funding to the National Governing Bodies to develop their sports participation and excellence over the next four years. As yet we are not seeing any impact of the recession on public/voluntary sport, partly due to the cushioning effect of the Government's investment.

Health and fitness

In the build up to Christmas 2008 feedback indicated that private gym memberships was unaffected by the recession in general. January is a key period for new annual membership and clubs have been more creative this year in offering shorter, more flexible packages.

Public leisure facilities (including public gyms)

Across the country, across the public sector, leisure management contractors, trusts, core-cities and in-house teams have all seen strong growth in a range of sports participation, fitness membership and income.

The Outdoors

Within the Outdoors sector, bookings remain constant and in line with previous years. Bookings from Local Authorities or schools are likely to be resistant to recessionary pressure. The Outdoors may even benefit from any trend to "holidaying at home".

Caravan Industry

The most pronounced impact has been on the Caravan Industry. Manufacturing of new caravans declined dramatically during the second half of 2008. More than 1,000 jobs have been lost in caravan manufacturing in the Hull / Humberside area in the second half of 2008.

Caravan Parks

The National Caravan Council are predicting there will be an extra two million caravan holidays in 2009, taking the number to 14 million, as a result of people seeking better value holidays at home.

Overview

There is anecdotal feedback that despite longstanding overdraft arrangements with banks and good credit histories Outdoors and Caravan parks have experienced difficulty in continuing such arrangements, which will adversely impact on their business.

Forecasts produced by Experian as part of the SkillsActive SSA in 2005 whilst understandably not predicting the current level of recession did show a slowdown in growth but with the Active Leisure sector still out-performing the rest of the economy. Such continued growth is being reflected by more recent surveys with overall employment in the whole Sector now at 660,000 (from 636,000 in 2005).

Skillfast-UK

Fashion and Textiles Sector

Published company results from fashion and textile retailers for 2008 reveal a mixed picture with “Value” retailers and supermarkets, such as Tesco, Sainsbury’s, Primark and Matalan generally out-performing the overall market in terms of clothing sales. By contrast, in companies such as Marks & Spencer and Next clothing sales have declined. A significant number of retailers have entered administration, including Viyella, Adam’s Childrenswear and MK One but these tend to be the poorer performing players in the sector.

Statistical evidence from published sources also presents a mixed picture for the fashion and textile sectors in 2008 with evidence of:

- Consumer demand increasing between July-Sept 2008 compared with the corresponding quarter of 2007 (chained volume measures, seasonally adjusted).
- Clothing and footwear prices falling (by 7.1% on the consumer prices index in the 12 months to November 2008, compared with an overall index increase of 4.1%).
- Manufacturing output declining by 1.4% in the three months to November 2008, compared with the previous quarter.
- Exports of sector products falling by 7% in November 2008 compared with November 2007. The product areas worst-affected were man-made filaments, leather goods, technical fabrics and knitted apparel.
- Employment remaining at a stable level between Q2 and Q3 (July-Sept) of 2008.

Although a complex picture, anecdotal evidence drawn from Skillfast-UK consultations with fashion and textiles businesses indicates that:

- Many companies believed that 2008 was a reasonable year from a sales and profitability point of view, with orders still holding up in to early 2009.
- Suppliers of niche / luxury and branded products (e.g. cashmere garments, luxury leather goods, premium fashion etc.) and some mass market businesses have been doing relatively well.
- Companies serving technical markets, including overseas, textiles (e.g. weavers who are generally export reliant) and directly consumer-facing activities such as high street dry-cleaners are not doing as well in the current economic climate.

The outlook remains mixed with many companies still cautiously optimistic about 2009, although they recognise it will be a tough trading environment. A number of trends relating to the downturn have been identified for 2009 and beyond including:

- Consolidation in some parts of the sector (e.g. commercial laundry), leading to rationalisation of employment.
- Problems experienced by fashion retailers being transmitted up the supply chain to manufacturers and importers, with an impact on orders and profitability. The pre-production and sourcing functions of retailers are already being affected (e.g. job losses at Per Una), which will increasingly be ‘offshored’.
- A movement to factory direct sourcing by retailers, leading to pressure on private label importers.
- The identification of skills gaps in critical areas such as costing, but shortages of skilled people to fill technical roles at operative / craft level still remain in the sector (e.g. sewing machinists, tailors).

Skills for Care and Development

The Early Years, Children's and Adult Social Care Sector

Overall the recession is increasing demand for many social care services. The economic stresses placed upon families and individuals have personal and social consequences (mental health problems, drug and alcohol misuse, family breakdown etc.). A significant proportion of older people are also buying their own care, the effects of low interest rates upon their savings will also put further pressure on social care providers.

However, the long-term prospect for the sector is for continued growth due to demographic change. But like every part of the economy, there is a risk of short-term job losses in some parts of the sector. There are concerns about job security and uncertainty within some parts of the workforce. However numbers of recorded vacancies for the principal occupations within the sector footprint remain at levels similar to those recorded a year ago. Significant job opportunities exist within the sector and there are shortages of skilled workers needed for some key occupations.

In response, central and local Government have been proactive in supporting people to enter the sector workforce. The Department for Health has launched a new strategy for the social care workforce which is backed by a new £75 million "CareFirst" to get 50,000 unemployed people into social care jobs. Employers will receive a £1,500 subsidy to take on social care trainees aged between 18 and 24.

Initiatives in the adult social care workforce strategy include:

- Increasing the number of apprenticeships in social care by around 1,300 targeting groups which have not traditionally taken up careers in social care.
- Establishing a new National Management Trainee Scheme to encourage graduates and top quality executives to move into the social care sector.
- A new voluntary registration scheme for home care workers from 2010 to help safeguard people who use services and improve quality.
- More support for newly qualified social workers in their first year, backed by £4 million.

Major initiatives have also been launched to support recruitment of social workers into the children's workforce (as set out in the Government's response to the Laming report).

- The Children's Workforce Development Council social work programme is a comprehensive three-year programme of activity that will drive and support improvements in the way social workers are recruited, trained and supported to work with children and families in England. It offers measures to address shortages of children and families social workers, and high turnover rates.
- The Local Government Association also launched a campaign at the start of March this year to recruit and retain child social workers and hopes to re-employ some of the 5,000 professionals who have recently left the profession.
- Plans were announced in February by the Department for Children, Schools and Families to create an additional 4,500 apprenticeships in schools and children's services - including apprenticeships in childcare, youth work and social care.
- And to support the third sector, the 2009 Budget included the launch of a new £20 million Hardship Fund to provide grant support to third sector organisations, delivering front-line services to those that have been most adversely affected by the recession.

Skills for Health Health Sector

Over the past 10 years the UK's health sector has experienced a period of high investment and growth in employment. Between 1998 and 2008 employment in the sector as a whole has increased by 18% from 1.8million to 2.1million. The current recession would appear at first glance to have had little impact on employment and skills across the sector. However, it is anticipated the recession will feed strongly into the sectors future employment and skills needs.

The 2008/09 Operating Framework for the NHS in England tasked organisations to deliver 3% efficiency savings per annum between 2008/09 and 2010/11. Looking forward the recent budget projected that spending across the whole of the public sector will decrease by 0.7% per annum from 2011-12. The Institute for Fiscal Studies¹ believes that the reduction could be as much as 2.3% in real terms.

The impact of the recession on the independent health sector is more aligned with market forces. Recent reports from Laing and Buisson² highlight that 2007 recorded the first fall (in real terms) in spending on private treatments in twenty years. The pressures on the independent health sector are likely to continue as businesses, individuals and families continue to economise.

The third sector will also face challenges as a result of the recession. For many charities, and non-profit making providers the demand for the services will increase as well-being in the population decreases. At the same time, there is downward pressure on the levels of donations and available grants.

The drive for employers across the whole sector, public, private and 'third' will be on achieving sustainable efficiency savings over the forthcoming years in order to maintain financial balance and high quality patient care. These challenges are likely to be achieved through a combination of exploiting new technological advancements, service redesign, workforce redesign and up-skilling the workforce.

There are also other impacts on employment and skills in the health sector. Anecdotal evidence suggests that there has been:

- A decrease in workforce turnover rates.
- A marked increase in the number of applicants for administrative, managerial, and entry level posts within the NHS.
- An increase in highly skilled people wishing to use the sector as a place to develop their career portfolio through volunteering.

The NHS has challenging targets for apprenticeships and has been asked to work towards an estimated five thousand places, particularly for young people as part of a contribution to tackle joblessness.

¹ Gainsbury S, Public Spending Cuts will be worse than predicted – Institute for Fiscal Studies. Health Service Journal 24th April 2009

² Laing and Buisson Press Release, 29th October 2008
http://www.laingbuisson.co.uk/Portals/1/PressReleases/Laings_Review_2008.pdf

Skills for Justice

Justice Sector

The Justice sector covers public, third and private sector employers who may experience the impact of the recession differently. A key impact is the likely rise in criminal activity and the resulting pressure on service delivery, coupled with increasingly tight budgets. Previously, in times of recession the following offences have risen:

- Property crime.
- Acquisitive crime (theft, burglary, robbery).
- Stealing through violence and intimidation.
- Shoplifting.
- Fraud and other "dishonesty" offences.

The Police have warned of more domestic based offences (in particular domestic abuse leading to murder) due to the pressure of recession – from money difficulties, unemployment and knock-on effects such as being 'trapped' in the same space. They have also highlighted the likelihood of more retail and business crime, and the fact that offences linked to tourism have already increased as foreign visitors attracted by the weak pound flocked to Britain.

Previous experience tells us that these factors are likely to lead to higher crime figures and pressure on services right across the sector:

- Courts may favour custodial sentences to prevent those inclined to offend due to unemployment and more free time to commit further offences.
- Increased need for prevention work with young people.
- Increase in need for and use of Police Community Support Officers and other community justice roles.
- Pressure on third sector organisations working with victims, survivors and witnesses of crime as well as those working with offenders.
- Pressure on capacity and public sector building projects e.g. Titan prisons.

In the short term, higher demand for services means that there is less likely to be job cuts in the Justice sector, and there may be some gains, for example prison expansion may provide jobs. However experience shows that in the longer term, budget cuts will impact on jobs.

Skills for Logistics

Freight Logistics industries

The logistics sector is currently operating in a very mixed environment. The outlook from both quantifiable and anecdotal research highlights a varied trading environment with some areas struggling and others enjoyed continuing good performance. Logistics services the whole economy and as such there is a vast difference in sub-sectoral and supply chain performance, mirroring what is happening in England at present.

Companies involved in third party logistics, and also servicing sectors such as construction, clothing & footwear, furniture & furnishings and automotive supply chains have been particularly hit due to the collapse in consumer spending and demand for these services. This has also impacted on logistics companies further down these supply chains as demand for textiles, steel and other materials has diminished.

On the other hand, the continuing need for the purchase of essential household consumables, utilities and pharmaceutical products has ensured continuing resilience for firms involved in these supply chains.

The backdrop to this situation is that Job Centre Plus vacancy data for key logistics occupations has shown a steep drop in jobs advertised. Although January is traditionally a month of low demand, this year's January figures show a steep decline in demand compared to the previous 2 years. HGV drivers particularly, saw the seventh successive monthly fall in vacancies advertised, down from a high of over 16,000 vacancies in June 2008.

	Jan 2007	Jan 2008	Jan 2009
1161 : Transport and distribution managers	114	103	44
1162 : Storage and warehouse managers	116	151	102
4134 : Transport and distribution clerks	244	290	83
8211 : Heavy goods vehicle drivers	3,367	5,154	1,421
8212 : Van drivers	2,832	3,345	1,120
9149 : Other goods handling and storage occupations n.e.c.	2,839	4,368	2,222
9211 : Postal workers, mail sorters, messengers, couriers	1,355	1,939	1,148

Source: JobCentre Plus via NOMIS

Skillset

Creative Media industries

Within creative media, the sectors where the impact of the recession has been most documented are publishing, particularly newspapers, and TV. Those working in the newspaper industry have been largely affected by the decline of regional newspapers. Over the past 13 months, there has been a net loss of 42 titles¹, which gives an indication of the mood across newspapers, although this loss represents less than 4% of newsprint titles. While all regions have been affected by the decline of regional newspapers, the South West has been less affected and has experienced no newspaper closures². The regions most affected have been London, the West Midlands, the North West and the North East.

Amongst work for freelancers, the NUJ report less usage of freelancers across all newspapers, both for articles and photographs. The lack of existing work amongst freelancers at a time when redundancies mean more individuals in the industry will be turning freelance, may create a problem of undercutting and leave issues like skills and pensions neglected as competition for work increases.

In TV, there are implications of the BBC's down-sizing, which although agreed before the recession hit, is coming into effect now. This coupled with its increasing focus on the nations and regions, as well as the development in Salford, may mean jobs are lost in London but maintained or increased elsewhere. Channel 4 announced 200 job cuts in December 2008, and ITV is also likely to make cuts. Very recently, discussions have been taking place about a merger between Channel 4, ITV and Five. It is unclear what this will mean for employees at the moment.³

In computer games⁴, Microsoft predicts they will lose 5,000 jobs in the 18 months from February 2009, 30% of which will come from the games testing division. In January 2009, Games Studios cut 2,000 jobs across Europe and the USA, and Intel have planned to cut 6,000 jobs from their engineering facilities worldwide. Sony has committed to cutting 16,000 jobs but these do not look like they will come from their games division.

However, in TV and other sectors across the creative media industry, the recession is likely to hit independent production companies and SMEs more generally, through the lack of advertising revenue and available credit. This impact on SMEs, particularly those with business-facing attributes (e.g. advertising, software development), has been predicted to signal a decline through 2009 by NESTA⁵. They do predict, however, that there will be a recovery through 2010, especially amongst organisations and sectors with household-facing attributes (e.g. TV, radio, newspapers). Recovery and development of the creative media industry beyond 2010 relies on the adoption of new and innovative digital media.

¹ <http://www.guardian.co.uk/media/greenslade/2009/feb/19/local-newspapers-newspapers>

² Data from the NUJ: [Download our report on freelance cutbacks](#), [View Larger Map](#)

³ <http://www.guardian.co.uk/media/2009/feb/25/itv-share-price-merger>

⁴ All computer games data from Develop Magazine 'Redundancies rocket as recession hits development teams', Feb 09

⁵ <http://www.nesta.org.uk/uk-creative-industry-to-drive-significant-growth-in-uk-economy>

Skillsmart Retail

Retail

Redundancy on a large scale in the retail sector is very different from mass redundancies in sectors such as manufacturing. Firstly, when a large company such as Woolworth's closes, the distributed nature of retail means that it affects individuals in communities across the UK. Secondly, on average, retail accounts for 10% of the workforce whatever the economic circumstances and, even in this challenging trading environment, it is likely to remain the largest private sector employer for the foreseeable future. Finally, it is recognised that retail has high annual staff turnover (average 40% across the sector).

It can also be argued that the retail sector needs people with retail experience and that the current job losses could easily be absorbed by the sector. Modelling of the retail sector shows:

- Annual job replacement demand¹ - 1,159,000 jobs per year².
- Annual job growth³ - 214,000 new retail jobs required by 2017⁴, an average of 21,400 jobs per year.
- Total retail labour⁵ requirement per year – 1,180,400 jobs.

Throughout the last quarter of 2008 and into 2009, the media has been headlining the state of the UK retail sector. However, with 3 million employees, the closure of 25 retail companies equating to the loss of 48,000 jobs still only relates to 1.6% of retail employees being made redundant. At the same time, the media has not emphasised the 39,500 new job announcements made in 2009 by Morrisons, Sainsbury's, Tesco and Poundland.

Although conditions are undoubtedly extremely challenging for UK retailers, the ongoing situation is less of a threat than an opportunity for the majority of retailers. Skillsmart Retail is putting into place a specific initiative to support individuals who have been made redundant by putting them in touch with the Retail Trust Helpline where, in collaboration with Job Centre Plus they will get appropriate advice. Guidance will be offered on a range of programmes that will be funded through the 28 Skills Shops distributed across the UK that potentially will become members of the National Skills Academy for Retail. Depending on their background and experience, individuals will be able to undertake elements of the Technical Certificate in Retail at levels 2 or 3, or a management programme and gain a relevant qualification.

¹ Replacement Demand is the demand for employment jobs created as a result of workers leaving the industry due to sickness, retirement, mortality or other reasons.

² Skillsmart Retail Sector Skills Agreement Stage One Assessment of Current and Future Needs. Summer 2007.

³ Annual Growth is expressed as Expansion Demand – the result of new jobs being created as the sector grows.

⁴ Working Futures 3 (LSC, IER, Cambridge Econometrics).

⁵ Total Labour requirement is achieved by adding the annual replacement growth figures.

SummitSkills

Building Services Engineering

Recent survey work undertaken by SummitSkills explored the potential impact of the recession on the building services engineering (BSE) sector within the UK and the current experiences of BSE consultants interviewed¹

The survey indicates that up to and including 2008, the BSE sector enjoyed a significant period of 'boom' in relation to the growth of business, as the demand for construction across all the work sectors covered expanded. The majority of consultants interviewed through the survey had increased staffing levels.

However, building services engineering consultants expect a significant drop in work over the next two years due to postponement or cancellation of projects affected by the recession.

In line with the rest of the economy, estimations from those interviewed show that for 2009 there is expected to be a considerable percentage of contracts that will be postponed or cancelled. The impact of this on the BSE sector is likely to be significant, particularly in relation to employment.

Since the economic downturn, 9% of the sample interviewed (which consisted primarily of the larger companies) had made some staff redundant. The majority of consultants (61%) expect the recession to last for two years, until the end of 2010.

For 2009, a majority of the consultants estimate that the size of their workforce will remain the same, although 29% of the sample thinks that workforce numbers will decrease. Once the recession is over, post-2010, then the majority interviewed expect the size of their workforce to increase again.

Approximate calculations indicate there could be job losses of between 67,000 and 154,000 across the building services engineering sector in the UK. Within these figures, there is potential for between 2,300 and 5,400 apprentices to be made redundant.

As a result of this research, SummitSkills has identified four key areas to work on with its stakeholders with the aim of reducing the impact of the recession on the sector. Work on these four work areas is already underway and will continue through 2009. The work will explore ways to:

- Redeploy and maintain the training of redundant apprentices.
- Support employers to develop the skills of existing workers in new building services market areas.
- Support the education and training delivery infrastructure.
- Maintain the stream of new entrants in preparation for the sector coming out of recession.

¹ Fifty-six BSE consultancy companies took part in the research