PLYMOUTH CITY COUNCIL

Subject:	Skills Overview
Committee:	Brexit, Infrastructure and Legislation Change Overview and Scrutiny Committee
Date:	4 July 2018
Cabinet Member:	N/A
CMT Member:	Giles Perritt - Assistant Chief Executive
Author:	Kevin McKenzie – Policy and Intelligence Advisor
Contact details	Tel: 01752 304318 email: kevin.mckenzie@plymouth.gov.uk
Ref:	BILCO/003/18
Key Decision:	No
Part:	I

Purpose of the report:

The report provides an overview of labour market and skills related issues arising that may impact the City from the decision of the UK to leave the EU.

Corporate Plan

The Brexit, Infrastructure and Legislation Change and Overview and Scrutiny Committee will hear evidence on the subject from industry and training providers. This responds to our values of being democratic and cooperative. The recommendations made by the panel will inform the development of our Growing City priorities of quality jobs and valuable skills and economic growth that benefits as many people as possible.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

None directly arising.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

None directly arising.

Equality and Diversity

Has an Equality Impact Assessment been undertaken? No - as no decision is being taken on which to base one.

Recommendations and Reasons for recommended action:
Members of the panel are asked to note the report.

Alternative options considered and rejected:
None.

Published work / information:

Minutes of Council 26 March 2018.
Brexit and Construction in the Heart of the South West Report

Background papers:

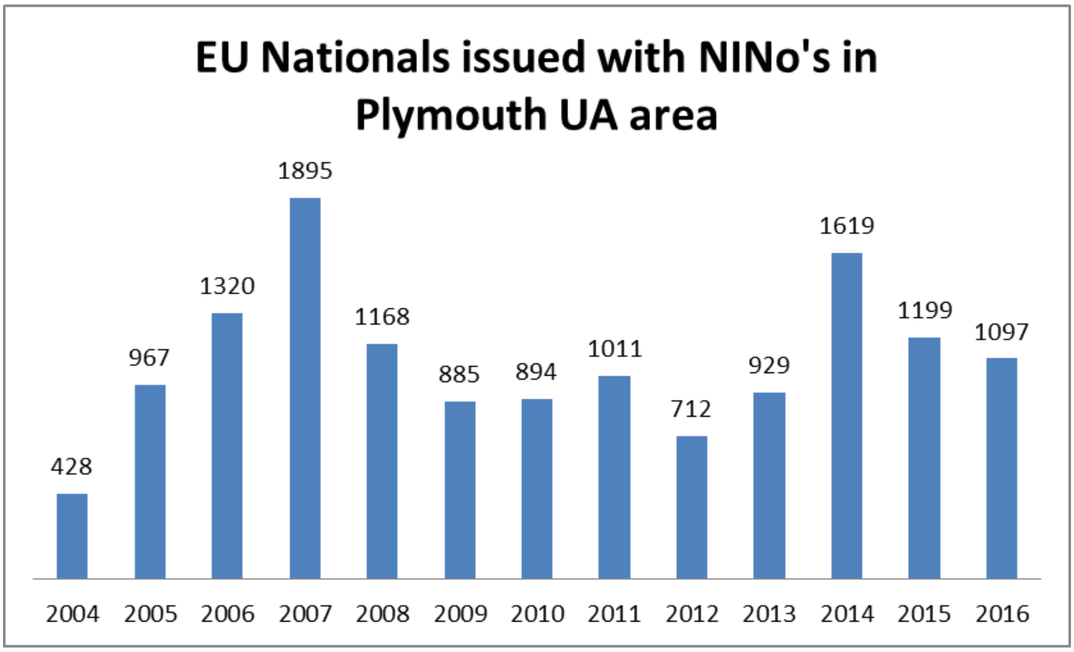
Title	Part I	Part II	Exemption Paragraph Number						
			1	2	3	4	5	6	7

Sign off: Not required as no decision is being taken.

Fin		Leg		Mon Off		HR		Assets		IT		Strat Proc	
Originating SMT Member: Giles Perritt													
Has the Cabinet Member(s) agreed the contents of the report? The view of the Leader has been sought in his capacity as the relevant Portfolio holder.													

1. INTRODUCTION

1.1 Following the local elections in May 2018 the new administration has established a Brexit, Infrastructure and Legislation Change Overview and Scrutiny Committee. At its first meeting the Committee received a report setting out the broad implications of Brexit for the City. The report noted that potential restrictions on the supply of labour represented a significant risk.



1.2 Whilst Plymouth has a slightly lower proportion of EU migrants in our labour force the delay in clarification of the status of EU citizens in the UK after we leave had already seen some high profile departures. 81% of EU migrants in the SW were employed compared to 71% of the UK born population.

1.3 Locally EU migrant labour represents particular skills sets in academia, advanced engineering, manufacturing, construction, tourism and health and social care. Our industrial strategy response recognises that the city's skills shortages both now and in our future growth sectors are around construction, advanced engineering, manufacturing and nuclear. Care providers have reported that they are finding that the majority of suitable applicants are from outside of the UK.

1.4 Whilst we are addressing skills shortages in construction and the built environment through our Building Plymouth Programme our future demand for construction skills is likely to increase if we are to meet our new homes targets and the other capital programmes that are already in the pipeline. Our report for the Heart of the SW LEP, Brexit Risks and Opportunities Group, "Brexit and Construction in the Heart of the South West", concludes that restrictions around the movement of labour must not exacerbate existing shortages.

1.5 We have responded to the Migration Advisory Committee call for evidence expressing our concerns and must now await the forthcoming Immigration White Paper before we have a clear indication of how restrictions on the free movement of labour will be applied.

2. LABOUR MARKET SPRING 2018

2.1 The quarterly CIPD Labour Market Outlook (LMO) provides a set of forward-looking labour market indicators, highlighting employers' recruitment, redundancy and pay intentions. The survey is based on responses from 1,008 employers. Additionally, this report also considers the extent to which the tightening in the UK labour market is hampering employers' ability to find staff and putting modest upward pressure on wages.

2.2 This survey points to continued growth in demand for labour in Q2 2018, which will lead to a further tightening of the UK labour market for employers. This quarter's net employment balance – which measures the difference between the proportion of employers who expect to increase staff levels and those who expect to decrease staff levels in the second quarter of 2018 – has increased to +26 from +16 over the past three months (Figure 1). The measure is at its highest level since it was introduced in the winter 2012/13 report.

2.3 The survey data is consistent with official labour market data, which show that employment growth remains strong while the number of vacancies in the UK economy remains well above historical average levels. However, the positive employment picture contrasts with disappointing first quarter GDP growth estimates for 2018 of just 0.1%, which, alongside other economic indicators, point to lower economic activity.

2.4 In addition, the strong demand for labour is not being matched by labour supply, which has also been affected modestly by a relatively abrupt slowing in the growth rate of EU nationals coming to the UK over the last 12 months.

2.5 The surprising degree of optimism amongst employers therefore poses a conundrum to our understanding of the current state of the UK labour market and economy. One possible explanation is that the recent agreement between the UK Government and the EU at the March Council meeting may have ended uncertainty for some employers in the short to medium term. The settlement gives EU citizens that arrive during the transitional period the right to stay here indefinitely if they stay here for a continuous period of five years and ensures that free movement of labour and the existing trading arrangements will continue during the transitional period from March 2019 to December 2020. This development could therefore be good news for labour demand and supply.

2.6 A second factor may be that employers will need more people to employ because of changing demographics. According to the Bank of England, overall labour supply is expected to fall in the coming years, partly due to an increasing proportion of older workers, who tend to work fewer hours. At the same time, EU nationals tend to work longer hours than UK workers. Taking these two factors together, potential labour supply is projected to grow by less than the recent average, which may increase demand for workers.

2.7 From a sector perspective, the depreciation in the pound may also be helping to boost industries where employment growth looks particularly strong in Q2, such as business services (+35) and manufacturing (+38). Nonetheless, the sectoral data is consistent with official figures, which show that employment levels in manufacturing are growing modestly following a relatively long period of decline. Employment growth in healthcare (+20) also looks set to grow in the short term, building on the sharp growth in the number of people employed in this sector in recent years.

2.8 The high degree of optimism amongst employers about short-term employment prospects suggests that recruitment expectations are at present being more strongly influenced by changing demographics, more certainty about the status of current and future EU citizens and the recent strength of the global economy than by recent indications that the UK economy may be slowing. However, employer optimism is likely to weaken if the current slowdown persists.

3. SECTOR ANALYSIS

3.1 Academia

Our Higher Education sector feel they may need to offer a pay premium to attract the best talent internationally and remuneration packages for international staff are likely to increase. The University of Plymouth has a disproportionate compliment of EU staff, 622 FTE staff of 3,300 covering 735 positions.

The majority of core roles (n.139) held by EU citizens are academic and research positions, and EU citizens account for 12.8% of all contractual academic and research positions at the University.

Changes to visa requirements and/or restricted numbers of visas for EU citizens entering the UK will impact on future recruitment particularly in disciplines where EU staff are particularly common (e.g. Economics, Mathematics, Computer Science, Medicine) and also in senior roles.

If EU staff are to come under the Tier 2 visa process, then the annual cap is already over-subscribed and would need to be increased substantially. If salary thresholds for Tier 2 Visas are increased, then in order to ensure equity and fairness to UK employees, salaries are likely to be pushed up across the sector which will impact the university pay bill across the board.

3.2 Construction

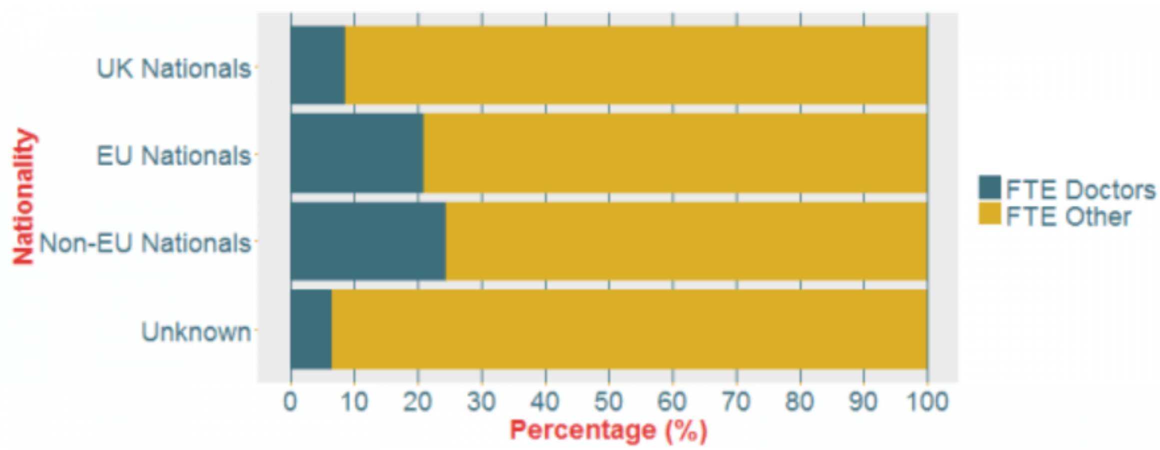
Whilst we are addressing skills shortages in construction and the built environment through our Building Plymouth Programme our future demand for construction skills is likely to increase if we are to meet our new homes targets and the other capital programmes that are already in the pipeline.

Slow growth in productivity in this industry coupled with an aging local workforce will compound the impact of leaving the EU. Regional competition for labour, where skill shortages emerge, may increase, e.g. the requirement for construction skills which are already in high demand and short supply, with the imminent significant potential for Hinkley C to draw labour from other areas.

3.3 Health and Social Care

Recruitment in the health and social care sector was already problematic before the referendum. In December 2015 a survey conducted by NHS Employers reported that:

- The overall vacancy rate across organisations that provided their nurse staffing establishment data was calculated at ten per cent (21,000 FTE).
- 137 NHS trusts (93 per cent of those surveyed) reported that they are experiencing registered nurse supply shortages.
- 92 NHS trusts (63 per cent of those surveyed) had actively recruited from outside of the UK in the last 12 months, with most focusing on EU countries. Spain, Italy and Portugal were the most commonly targeted.
- Over 60 per cent of planned new appointments are for non-EEA recruitment in the next 12 months, with countries such as the Philippines and India featuring predominantly in future international recruitment plans.



The Home Office has announced that there will be no restriction on the numbers of doctors and nurses who can be employed through the Tier 2 visa route. The change will be outlined in the Immigration Rules laid before Parliament.

Care providers report that most of the applicants they see are from EEA countries. It is worth noting that our local college has almost 500 people signed up this year for their English language classes for the autumn and they expect most to seek work in the care sector.

- The Institute for Public Policy Research (IPPR) calculates that around 6 per cent of people employed in social care – approximately 60,000 workers – are European Economic Area migrants. Around 20,000 of these workers have arrived since 2012.
- IPPR project that the UK will need to have recruited and trained 1.6 million low-skill health and social care workers up to 2022 in order to replace those leaving the profession as well as to meet increased demand. This is the equivalent of two-thirds of the current low-skill health and social care workforce, and is larger than for any other occupation in the UK.

3.4 Hospitality

ONS suggests that tourism and hospitality is the sector which sees the highest proportions of EU/ EEA workers: 14.2% of workers in accommodation & food services are EU nationals, compared to 6.6%, on average, across all industries.

Much of the work in the tourism sector is seasonal with low entry requirements. It is an ideal source of work for students and historically they make up a significant proportion of the work force, however they do not tend to see it as an attractive career option and it is management and supervisory roles where the gaps are most likely to emerge.

People 1st estimate that the industry needs to recruit 843,000 people by 2020 to account for the high rate of turnover and increasing demand – 215.000 of these will need to be skilled.

Our Mayflower 400 programme is likely to create additional demand for tourism jobs as it seeks to increase the number of visitors by 1 million by 2020.

3.5 Manufacturing

Plymouth has a strong advanced manufacturing sector and has the highest concentration of manufacturing and engineering employment of any city in the South of England. Locally, manufacturing accounts for 16% of the total economy (compared to 10% nationally) and 13% of the labour market.

The age profile of workers in engineering firms across the country, as well as in Plymouth, is of great concern, and an increase in replacement demand is expected. This so-called ‘demographic time bomb’ shows that workers aged between 40-60 are often the highest qualified and will very soon need to be replaced as they come up for retirement. Those following on behind aged 25-40 are amongst the least well qualified.

Moreover, the UKCES Employer Skills survey showed that the science, research, engineering and technology professionals’ category had the highest ratio of skills shortage vacancies of any of the 25 occupational sub-major groups. At 43%, it is almost double the overall average of 23%. In a CBI survey, 44% of engineering, science and hi-tech firms reported difficulties in finding experienced recruits with the right STEM skills. It is clear, therefore, that the sector is facing significant skills shortages.

There is a large EEA worker presence in our manufacturing sectors (15 – 25%) and the food processing industry and other industries have a significant requirement for low skilled labour. It is not clear how companies would replace this labour if lower-skilled EU migrants were not granted access.

3.6 Other affected industries

The agriculture, forestry and food sector also employs significant numbers of EU migrant workers. Skills shortages in these areas would have limited direct effect on the City but may feed through in the form of higher food prices. Agriculture is heavily dependent on seasonal pickers at harvest time and it possible we might see cross sector competition for low skilled labour with consequent upward pressure on wages.

4. KEY ISSUES TO CONSIDER

4.1 The interim report from the Migration Advisory Committee has suggested that most labour shortages will be amenable to an increase in wage rates, at the level of the national economy this may be desirable as wage stagnation has been a feature of recent years, however in the care sector and in public construction this would have a knock on impact of public sector viability.

4.2 Improving skills and addressing current and future skills gaps, particularly in Science, Technology, Engineering, and Mathematics (STEM) subjects, to grow, keep and attract a skilled workforce now and in the future is a critical challenge. This needs to be coupled with greater freedoms in developing the right skills within our workforce, including better careers advice and a more flexible skills offer that is informed by closer working with local businesses.

5. WHAT DO WE NEED TO ENSURE WE HAVE THE RIGHT SKILLS

5.1 Enabling Greater Local Control of Careers' Advice and Guidance

- Improving skills and addressing current and future skills gaps, particularly in Science, Technology, Engineering, and Mathematics (STEM) subjects, to grow, keep and attract a skilled workforce now and in the future is a critical challenge. Our STEM strategy and work through the Plymouth Challenge will support this. This needs to be coupled with greater freedoms in developing the right skills within our workforce, including better careers advice and a more flexible skills offer that is informed by closer working with local and regional businesses.

5.2 Support to Develop a Skills Advisory Panel

- We are working with our HotSW partners to establish a local Skills Advisory Panel enabling us to build on the work we already undertaken on a LEP wide geography in providing local labour market intelligence and regional outcomes data. We want Government to recognise and support this initiative and to commit to engaging with us to drive this forward. This could be likely but cannot say any more at the moment.

5.3 The Shared Prosperity Fund must Recognises the Importance of Workforce Development

- The Industrial Strategy is about building a Britain fit for the future by investing in the development of skills to meet the changing needs of business, increase productivity and drive growth across the whole country. Like other parts of the UK we have skills gaps that could be filled by our residents. We want to expand on our successful Building Plymouth programme to ensure we have sufficient skilled construction workers to meet the demands of our ambitious construction programme and we would like to develop similar pipelines for our manufacturing, tourism and social care sectors providing the labour supply we need, with opportunities for our young people as well as for people returning to the labour market.

5.4 Devolved Funding for Further Education, Adult Education and Employment Support Programmes

- We have one of the most centralised employment and skills systems in the developed world. Local areas have little ability to influence priorities, funding or delivery. The Local Government Association's Work Local campaign reveals 17 funding streams managed by eight departments or agencies, spending more than £10 billion a year. Despite this investment, they often fail to meet local need, address economic and social challenges, or make a decisive impact on outcomes for people or places. This is bad for the economy, for employers and for individuals.
- With over 13,000 people in our City in receipt of Employment Support Allowance we see the need for specific measures to support adults who have spent significant periods out of work through ill health. We feel that face-to-face careers guidance is an essential to helping this group to reconnect with the labour market.
- Businesses are an essential part of the local conversation to re-engineer the education and skills landscape so that industry directly benefits from developing the local workforce. This includes being able to influence appropriate training to match current and future skills requirements, and particularly pre-empting the skills associated with new technologies.

5.5 Establish a 'Laboratory' approach with the Plymouth University Peninsula School of Medicine and Dentistry (PU PSMD) to Develop New Training Models and Pathways that Support and Prepare Future Professionals to Work in a Fully Integrated Healthcare Environment

- The Plymouth University Peninsula Schools of Medicine and Dentistry (PU PSMD) have an excellent track record and national and international reputation as forward-looking exemplar training institutions. Working with partners across the Peninsula, the Schools provide training in almost every medical discipline, with a strong focus on preparing professionals to work in a fully integrated healthcare environment. Building on this, the Schools and partners want to further promote and develop the emphasis on an integrated care culture, by influencing and co-designing new national models for training pathways.

5.6 Works with Plymouth Health Partners to Influence the National Model for the Numbers of Junior Doctors and other Health Specialists Required for the Area going Forward

- In addition, the institutions would welcome the opportunity to be part of any national reassessment of the numbers and allocations of junior doctors. Plymouth Hospitals NHS Trust is the largest hospital in the South West Peninsula, providing comprehensive secondary and tertiary healthcare, and is the region's major trauma centre. With an immediate catchment population of 450,000 and a wider peninsula population of almost 2,000,000 people who can access specialist services, the hospital plays a vital role.