

Sector Skills Insights: Professional and Business Services

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Foreword

The UK Commission for Employment and Skills is a social partnership, led by Commissioners from large and small employers, trade unions and the voluntary sector. Our mission is to raise skill levels to help drive enterprise, create more and better jobs and promote economic growth. Our strategic objectives are to:

- Provide outstanding labour market intelligence which helps businesses and people make the best choices for them;
- Work with businesses to develop the best market solutions which leverage greater investment in skills;
- Maximise the impact of employment and skills policies and employer behaviour to support jobs and growth and secure an internationally competitive skills base.

These strategic objectives are supported by a research programme that provides a robust evidence base for our insights and actions and which draws on good practice and the most innovative thinking. The research programme is underpinned by a number of core principles including the importance of: ensuring **'relevance'** to our most pressing strategic priorities; **'salience'** and effectively translating and sharing the key insights we find; **international benchmarking** and drawing insights from good practice abroad; **high quality** analysis which is leading edge, robust and action orientated; being **responsive** to immediate needs as well as taking a longer term perspective. We also work closely with key partners to ensure a **co-ordinated** approach to research.

This report contributes to the UK Commission's work to transform the UK's approach to investing in the skills of people as an intrinsic part of securing jobs and growth. It outlines the performance challenges faced in the **Professional and Business Services** sector, the 'real-life' skills solutions implemented by leading and successful businesses to overcome them, and the benefits from doing so. Similar reports are available for the following sectors: Advanced Manufacturing; Construction; Digital and Creative; Education; Energy; Health and Social Care; Retail; Tourism. Each report is summarised by an accompanying PowerPoint slide pack. By understanding the key performance challenges employers face and the skills solutions available to address them on a sector-by-sector basis the UK Commission can make better use of its investment funds to support economic growth.

Sharing the findings of our research and engaging with our audience is important to further develop the evidence on which we base our work. Evidence Reports are our chief means of reporting our detailed analytical work. Each Evidence Report is accompanied by an executive summary. All of our outputs can be accessed on the UK Commission's website at www.ukces.org.uk

But these outputs are only the beginning of the process and we will be continually looking for mechanisms to share our findings, debate the issues they raise and extend their reach and impact.

We hope you find this report useful and informative. If you would like to provide any feedback or comments, or have any queries please e-mail info@ukces.org.uk, quoting the report title or series number.

Lesley Giles

Deputy Director

UK Commission for Employment and Skills

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Glossary

This report uses data from several sources and uses a definition of the sector depending upon which data sources are available.

PRINCIPAL DATA SOURCES

The UK Commission's UK Employers Skills Survey 2011

The UK Commission's UK Employer Skills Survey (Davies et al., 2012) provides UK-wide data on skills deficiencies and workforce development across the UK on a comparable basis. It was undertaken at the establishment level and involved over 87,500 interviews, with a follow up survey of over 11,000 employers focusing on employers' expenditures on training.

<http://www.ukces.org.uk/publications/employer-skills-survey-2011>

Working Futures Database

Working Futures 2010-2020 (Wilson and Homenidou, 2011) is the most detailed and comprehensive set of UK labour market forecasts available. The results provide a picture of employment prospects by industry, occupation, qualification level, gender and employment status for the UK and for nations and English regions up to 2020. The database used to produce the projections is held by the University of Warwick Institute for Employment Research and Cambridge Econometrics.

<http://www.ukces.org.uk/assets/ukces/docs/publications/evidence-report-41-working-futures-2010-2020.pdf>

Employer Perspectives Survey 2010

The UK Commission's Employer Perspectives Survey 2010 (Shury et al., 2011) gathered the views of approximately 14,500 employers on the UK's employment and skills system. The aim of the survey is to provide evidence to stakeholders operating in the system across the four UK nations to inform policy and improve service delivery.

<http://www.ukces.org.uk/publications/er25-employer-perspectives-survey>

Labour Force Survey

The Labour Force Survey (LFS) is a quarterly sample survey of households living at private addresses in the United Kingdom. Its purpose is to provide information on the UK labour market that can then be used to develop, manage, evaluate and report on labour market policies. It is conducted by the Office for National Statistics. Figures quoted in this report are based on a four quarter average.

<http://www.ons.gov.uk/ons/guide-method/surveys/respondents/household/labour-force-survey/index.html>

SECTOR DEFINITIONS

For the purpose of analysis several definitions of the sector are used throughout the report. In each instance the definition being used is made clear.

Standard Industrial Classification (SIC) Based Definition

Professional and business services defined in SIC (2007) with reference to financial services and business services incorporating: 64, 65, 66, 68, 69, 70, 77, and 78. The principal data sources above use this definition of professional and business services.

Sector Skills Assessment (SSA) Definition

With respect to SSAs data are presented separately: (i) Financial, insurance & other professional services (SIC 2007, 64, 65, 66, 69, 70) and (ii) Real Estate and Facilities Management (SIC 2007, 68, 80, 81)

Employer Perspectives Survey 2010

The EPS uses Financial intermediation (SIC 2007, 64-66) and Real estate, renting and business activities (SIC 68-75, 77-82).

Executive Summary

This report considers the current situation of the professional and business services sector in the UK, the challenges it faces over the medium-term and the implications for skills. The intention is to provide a summary of the extent to which the performance challenges faced by the sector can be addressed through skill development and thereby bring about growth and contribute to the recovery of the UK economy. This is particularly important given that historical evidence suggests that recovery from recession can be hampered by skills shortages.

The Importance of the Sector

- Professional and business services was one of eight key sectors identified in the Growth Review in 2011 as being of particular importance to the UK economy. This reflects the sector's competitiveness in global markets.
- The sector had output of nearly £200,000 million in 2010 (2006 prices), having grown at 4.4 per cent a year between 2000 and 2010. The sector is important for employment in absolute terms, providing 3.65 million jobs in 2010, accounting for 12 per cent of total employment.
- Professional and business services are a vital component of the UK economy, due not solely to the sector's direct contribution to output and employment but also strategically in its contribution to growth in the other sectors of the economy that it serves. In many respects the sector is the oil in the cogs of the overall machine that is the UK economy: it allows the machine to operate smoothly through the provision of finance and a range of other specialist business services without which many businesses would grind to a halt.

Key Challenges

- Following steady and sustained growth over the medium-term, the financial crisis and ensuing recession led to a drop in employment and output, and some loss of reputation for parts of the sector, notably in financial services. The real estate sub-sector was hit hard by the reduction in economic activity and reduced availability of lending.
- A number of drivers present challenges to the sector over the medium-term. These include: increased regulation, global competition and technological change.

- These challenges also present opportunities for professional and business services which include:
 - building on pre-eminence in certain niche market sectors where the UK and London has a pre-existing advantage;
 - competing successfully in growing markets in Asia and other parts of the world;
 - dealing with the ongoing challenges of increased regulation to restore confidence in those parts of the sector most damaged by the financial crisis;
 - using new technologies to develop new products and modes of service delivery to meet the requirements of more demanding customers, and to provide more efficient services.

Employment and Skill Demand

- Employment in the sector is dominated by managers, professionals, and associate professionals who comprised approximately 55 per cent of employment in the sector in 2010. Hence the skill demand is oriented towards highly skilled and qualified people who have typically been educated to first degree level or above.
- Over the period to 2020 the number of managers, professionals, and associate professions will continue to grow with the result that by 2020 these highly skilled occupational groups will comprise 60 per cent of the workforce.
- It needs to be borne in mind that the sector has a strong demand for other occupational groups, in particular clerical and administrative, and sales and customer service workers. In 2010, there were nearly 800,000 people employed in the former occupation and nearly 250,000 in the latter.
- Overall, there are likely to be strong replacement demands for all the higher level occupations and administrative and clerical occupations in the period to 2020, which may place a number of pressures on the skills supply.
- So whilst much skill demand is for people who have attained, at a minimum, a first degree, there are many people employed in the sector who will be more typically qualified to Level 3.

Skills Supply

- Given the adverse effect of the economic downturn on recruitment, the sector faces the challenge of ensuring the skills supply is increased in order to facilitate recovery and growth over the longer term.
- The UK professional and business services sector is supported by a substantial training infrastructure, including highly regarded professional institutes, which can be drawn upon to meet the various skills and human resource challenges that are presented.
- Investing in training is found to have significant business benefits including increased viability of companies and in the face of increased demand as the economy recovers skills will be essential to ensure that firms can capitalise upon this increased demand.
- Evidence suggests that individuals are just as likely to be in receipt of training in the professional and business services sector as in the economy generally. The evidence also indicates that employers, especially in the financial sub-sector, are more likely to report the provision of training to their employees.
- Traditionally parts of the sector have been 'migrant-intensive'. While migrants have supplied, and continue to supply specialist skills, and can provide links to global markets, given increasing regulation of immigration the sector needs to widen recruitment channels, so as to look beyond traditional sources.

Skill Mismatches: Meeting the Sector's Skill Needs

- Although the sector has a higher share of skill shortage vacancies than is evident across the whole economy, it has relatively fewer skills gaps, and where skills gaps do exist employers in the sector are more likely than those in other parts of the economy to take steps to remedy them.
- Whilst the sector engages in a relatively high amount of training relative to the rest of the economy, the evidence indicates that in the financial sector, the take-up of vocational qualifications is relatively low (though not by much) compared with the economy as a whole.

- Employers appear to be reluctant to use vocational qualifications because they do not see a good fit between these and the sector's skill needs. And, certainly in the financial sub-sector, there is relatively limited engagement with external providers of training.
- Notwithstanding the above point, the evidence suggests that where employers have made use of programmes such as Apprenticeships they can point to a number of benefits from having done so. Potentially, Apprenticeships in the areas of finance and business administration, where the numbers of apprentices has grown strongly over recent years, provides an alternative pathway into a sector which has traditionally been reliant upon graduates from higher education. This may alleviate potential future skill shortages.
- Where employers have engaged with programmes such as liP a number of business benefits are readily identified.

A final word

- There are a number of conflicting data relating to the sector's training activities: relatively high volumes of training in some instances but relatively low levels of training leading to a vocational qualification or relatively little engagement with the external training system in parts of the overall sector.
- In some instances, such as in relation to the very highly qualified, especially in the City of London, the sector has been able to solve its skill needs by providing remuneration packages which will ensure that people with the skills required can be readily recruited (often on a global basis). But this is applicable to just part of the sector. Outside the City of London, and within it too, there are a wide variety of professional and business service organisations which are less able to solve their skill needs through remuneration packages. These employers are much more dependent upon being able to tap into a ready supply of skills or make use of the external training infrastructure.
- It is for these organisations where the external training infrastructure can provide a ready source of both initial and continuing vocational education. Programmes such as Apprenticeships, and frameworks such as Investors in People can assist employers meet their current and future skill needs and, at the same time, tackle the various challenges the employers in the sector will face over the medium-term.

1 The Economic and Policy Climate

Increasingly, the competitiveness of advanced industrial nations is explained with reference to the capabilities of their respective labour forces. Hence, national education and training systems are seen as providing comparative economic advantages. It is notable that over the recent past, education and training have taken centre stage in policies designed to foster the UK's competitiveness and lie at the heart of the current Government's plans to kick start the recovery against a backdrop of challenging global economic conditions. To understand the role skills development might play in stimulating growth within the professional and business services sector requires some consideration of the current economic situation and current skills policy.

In 2012 the UK economy, and indeed the global economy, is still coming to terms with the repercussions of the 2008/9 economic recession. By comparison with previous recessions, 2008/9 was relatively deep and it continues to cast a long shadow over the country's medium-term economic prospects (see Table 1.1). The economic climate at the time of the 2008/9 recession and in the period afterwards has been characterised by low interest rates and a depreciation of sterling against other currencies, notably the dollar and the euro. Whilst these would usually be sufficient to give a fillip to the economy by boosting demand and, given time, increasing output, the potential for export-led growth has been seriously undermined by continuing weak demand conditions across the global economy, especially in the Eurozone and the USA. Also the difficulties households and businesses have had gaining access to finance as the banks have sought to increase their capital has restricted growth. Moreover, the markets' continuing disquiet over developments in the Eurozone has contributed further to the climate of uncertainty in the global economy thereby further dampening demand.

Table 1.1 Four recent periods of recession in the UK

	Start date	Date of bottom of recession	Length of period from start to bottom of recession	Total decline in GDP (%)	Time taken for GDP to recover to level at start of recession
1	1974 Q4	1975 Q3	4 Quarters	3.8	7 Quarters
2	1980 Q1	1980 Q4	4 Quarters	5.9	13 Quarters
3	1990 Q3	1992 Q2	8 Quarters	2.3	11 Quarters
4	2008 Q2	2009 Q1	6 Quarters	6.3	?

Source: Office of National Statistics Quarterly Economic Accounts, 1975, 1981, 1993, 2010

As a consequence of the above developments, the rapid acceleration in growth observed after the recessions of the early 1980s and 1990s has failed to materialise. Nevertheless the economy is expected to resume its long-run growth path over time (see Chart 1.1) but in order to do so there are specific steps the UK economy needs to take. The UK Treasury has identified a number of weaknesses which need to be addressed if a sustained recovery is to be achieved (BIS / HM Treasury 2011):

- i. the level of debt-funded household consumption;
- ii. the share of the economy accounted for by the public sector;
- iii. weak business investment;
- iv. an over-dependence upon financial and business services; and
- v. unbalanced regional growth.

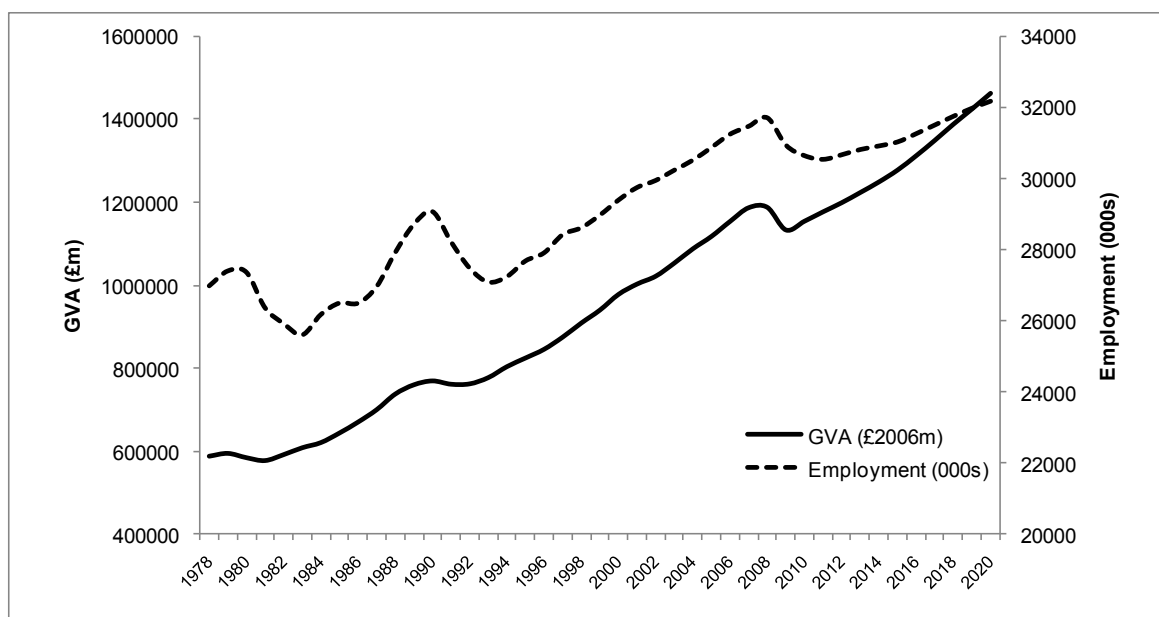
Government has identified four ambitions which need to be realised in order to restore long-term sustainable growth (BIS / HM Treasury 2011):

- i. creating the most competitive tax system in the G20;
- ii. making the UK one of the best places in Europe to start, finance and grow a business;
- iii. encouraging investment and exports as a route to a more balanced economy; and
- iv. creating a more educated workforce that is the most flexible in Europe.

Therefore, the role of skills in national economic policy is clearly an essential one; to bring about recovery and sustainability by creating jobs and growth.

From the employer's perspective there is a need to adapt to both global demand-side conditions and the consequences which are likely to arise from policies designed to rebalance the UK economy. Depending upon the sector there are likely to be a number of skill-related performance challenges which employers will need to address as they seek to consolidate existing markets, develop new ones, and introduce technical and organisational changes to improve their competitiveness. The importance of these challenges become even more apparent if one considers the role of skills in the economic cycle. Evidence demonstrates that the recovery from previous economic recessions was hampered by skill shortages, and that these skill shortages then contributed to further downturns in the economy (Blake *et al.*, 2000). Therefore, the message is clear: a failure to invest sufficiently in skills now has the potential to dampen future growth.

Chart 1.1 Employment and Gross Value-Added 1978 - 2020



Source: *Wilson and Homenidou (2011)*

At a time when capital investments are constrained as a consequence of problems in the global banking system, investments in skills, and human resources more generally, made through programmes such as Apprenticeships and Investors in People, and funded through initiatives such as the Growth and Innovation Fund, may be the most amenable to employers.

Based on the latest evidence available, this report considers the specific situation in the professional and business services sector to provide:

- i. an overview of the size and structure of the sector and the principal drivers of change over the medium term which are likely to have some bearing upon skill demand;
- ii. an outline of current and expected patterns of skill demand in the sector;
- iii. a description of skills supply and how this has adapted to changing patterns of skill demand;
- iv. an analysis of mismatches between the demand for, and supply of skills, and the implications of this for the sector.

In conclusion, the report identifies the performance challenges faced by the sector and highlights the skills solutions available to address them, thereby delivering increased levels of growth and contributing to the recovery of the UK economy..

2 The Importance of the Sector

Professional and business services was one of six key sectors identified by the Government in 2010,¹ with its importance reiterated again with it being amongst eight key sectors addressed in the Growth Review in 2011.² The selection of professional and business services as a key sector reflects its competitiveness in global markets and the fact that such services support growth and change in other sectors.

A key challenge in presenting and assessing information from a range of sources about the professional and business services sector on a comparative basis is that the sector is defined in different ways in different studies. The definition used here is outlined in Table 2.1. In some parts of this report data are presented separately for financial, insurance and other professional services on the one hand and real estate and facilities management on the other.

Table 2.1 Definition of the Professional and Business Services sector

Sub-sector	SIC 2007	Description
Financial, insurance and other professional Services	64	Financial service activities, except insurance and pension funding
	65	Insurance, reinsurance and pension funding, except compulsory social security
	66	Activities auxiliary to financial services and insurance activities
	69	Legal and accounting activities
	70	Activities of head offices; management consultancy activities
Real estate and facilities management	68	Real estate activities
	77	Rental and leasing activities
	78	Employment activities

Note that this definition outlined in Table 2.1 excludes advertising and computing services, which are often included in studies of professional and business services, as part of an ecosystem of high value, tradeable and pervasive services (BIS, 2010). It also excludes architectural and engineering activities that are included in definitions used in some studies. This means that statistics from different studies and sources relating to professional and business services are often based on different definitions and so are not strictly comparable. The Sector Skills Council footprints do not accord with the definition in Table 2.1;

¹ see HM Treasury / BIS, *The path to strong, sustainable and balanced growth*, p. 22, 2010

² see HM Treasury, *Plan for Growth*, p. 41, 2011

professional and business services as defined in Table 2.1 are subsumed within the Financial Skills Sector Partnership and parts of Asset Skills and Skills for Justice.

The activities and skills needs of the different sub-sectors (and further sub-divisions) differ, but a distinctive feature of professional and business services is that they trade primarily in knowledge, expertise, information and advice – with a distinction (see Sissons, 2011) between:

- *networked services* involving transfer of useful knowledge from one organisation or individual to another – e.g. legal services, accounting activities, financial services, management consultancy, etc.
- *intermediary services* which add value by making exchanges of products and services more efficient – e.g. leasing activities, recruitment and selection activities, etc.

Nearly all organisations in the economy need to make use of professional and business services to ensure their smooth and efficient running. These services are of crucial importance for business start-ups. Hence they are part of the infrastructure of the economy.

2.1 Overall Output and Employment Performance

Professional and Business Services have been an important sector for gross value added (GVA) and employment growth over the last 30 years (Sissons, 2011). Table 2.2 shows the key indicators for the sector in 2010 and changes from 2000 along with projections for the ten year period to 2020. The Real estate, renting and business activities sector accounts for the largest proportion of GVA across the UK economy (24 per cent), with Financial intermediation contributing a further nine per cent (ONS, 2010). GVA per person employed is proportionately higher in Finance and other professional services (£99,400) than the than the all-economy average (£36,500) and slightly under in the Real estate and facilities management sub-sector by comparison (£32,200) (ONS, 2009).

The sector had output of nearly £200,000 million in 2010 (2006 prices), having grown at 4.4 per cent a year between 2000 and 2010. Looking ahead future prospects are for slower growth at a rate of 2.7 per cent a year over the period to 2020.

The sector is important for employment in absolute terms, providing 3.65 million jobs in 2010, accounting for 12 per cent of total employment. Over two-thirds of these jobs are filled

by full-time employees, although part-time employment is projected to account for over 70 per cent of the total increase in the sector employment over the decade to 2020. Self employment increased by 2.1 per cent per annum between 2000 and 2010, but is projected to decline over the period to 2020 at a rate of 1.1 per cent per annum. Although male employment grew faster than female employment from 2000 to 2010, indicative projections indicate that over the period to 2020 employment for women will grow at a slightly faster rate than for men, reflecting, in particular, the continuing increase in females in higher level non-manual occupations.

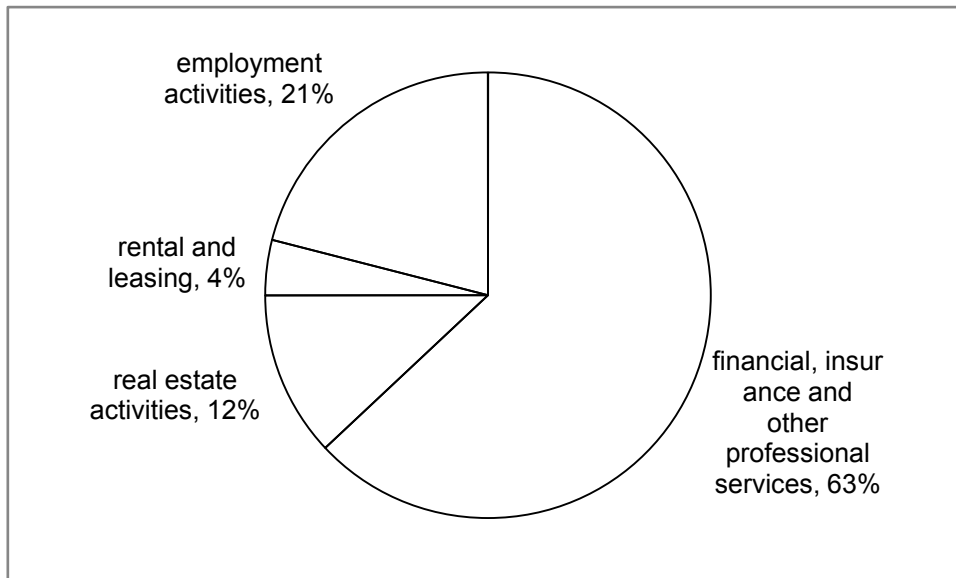
Table 2.2 Key Output and Employment Indicators: Professional & Business Services

Professional and business services	2010 level	Growth rate: 2000-2010 (% p.a.)	Changes (absolute)	Growth: 2010-2020 (%)	Growth rate: 2010-2020 (% p.a.)	Changes (absolute)
Output (£2006m)	199,769	4.4	69,758	30.6	2.7	61,030
Employment	3,648,527	1.6	544,684	11.9	1.1	434,859
Part time employment	750,548	3.7	230,614	41.9	3.6	314,810
Full time employment	2,479,120	1.0	235,683	6.6	0.6	164,815
Self employment	418,859	2.1	78,387	-10.7	-1.1	-44,766
Male employment	1,915,522	1.8	319,259	11.1	1.1	212,395
Female employment	1,733,005	1.4	225,425	12.8	1.2	222,464

Source: –Wilson and Homenidou (2011)

Chart 2.1 shows that in 2010, 63 per cent of total employment in the professional and business services sector was in the financial, insurance and other professional services sub-sector, 12 per cent in real estate activities, 4 per cent in rental and leasing and 21 per cent in employment activities. In the period from 2000 to 2010 employment growth was fastest in real estate activities (4 per cent per annum compared with 1.6 per cent per annum across the sector as a whole). Output growth in the same period was most marked in financial, insurance and other professional services (5 per cent per annum compared with 4.4 per cent per annum for the whole sector).

Chart 2.1 Employment in Professional and business services in the UK by sub-sector, 2010

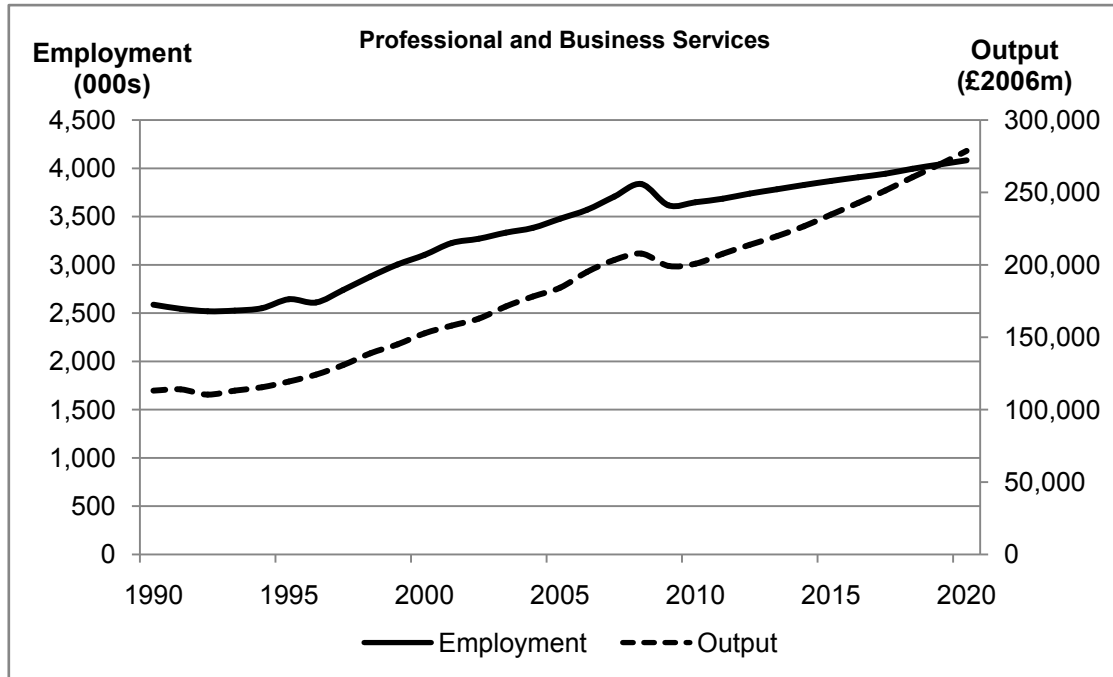


Source: Wilson and Homenidou (2011)

Chart 2.2 shows that employment and output in professional and business services were rising prior to 2008/09 recession and are projected to rise again with recovery over the medium-term. Growth in employment in the sector was particularly marked from the mid 1990s, rising from around 2.5 million in 1993 and peaking at 3.8 million in 2008. Over this same 15-year period output rose by 114 per cent. This underlines the importance of professional and business services to the UK economy in terms of both employment and output.

There was a marked drop in both employment and output from 2008 to 2009, since when employment has remained relatively unchanged and output has increased slightly. As outlined above, over the medium-term a resumption in employment and output growth is expected, albeit at a slower pace over the period from 2010 to 2020 than in the previous decade.

Chart 2.2 Trends in Employment and Output in Professional and Business Services in the UK, 1990-2020

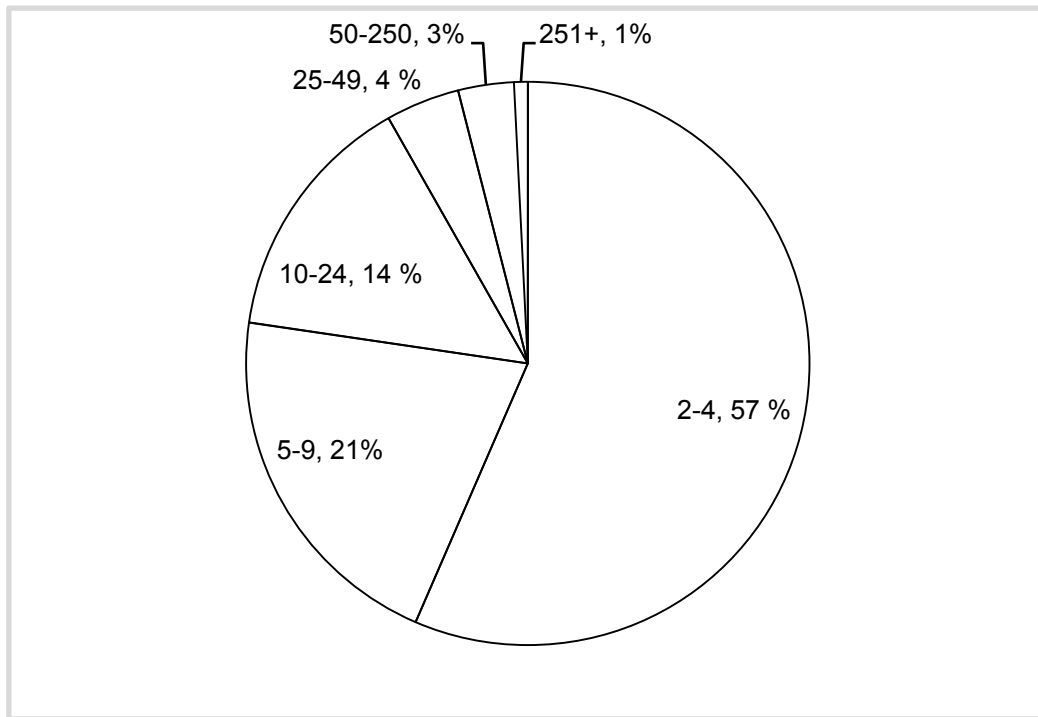


Source: Wilson and Homenidou (2011)

2.2 Employment Structure

Chart 2.3a shows the size distribution of establishments in the Financial, insurance & other professional services sector and reveals that over half of employment can be found among micro businesses (of between two and four employees) and a further 35 per cent of employment can be found among establishments of fewer than 24 employees. There are a slightly greater proportion of micro establishments in the Real estate and facilities management sector (62 per cent) and fewer employers reported in the 5-9 and 10-24 workplace size-bands (32 per cent).

Chart 2.3a Size Structure of Employment (% of establishments by employer size band)

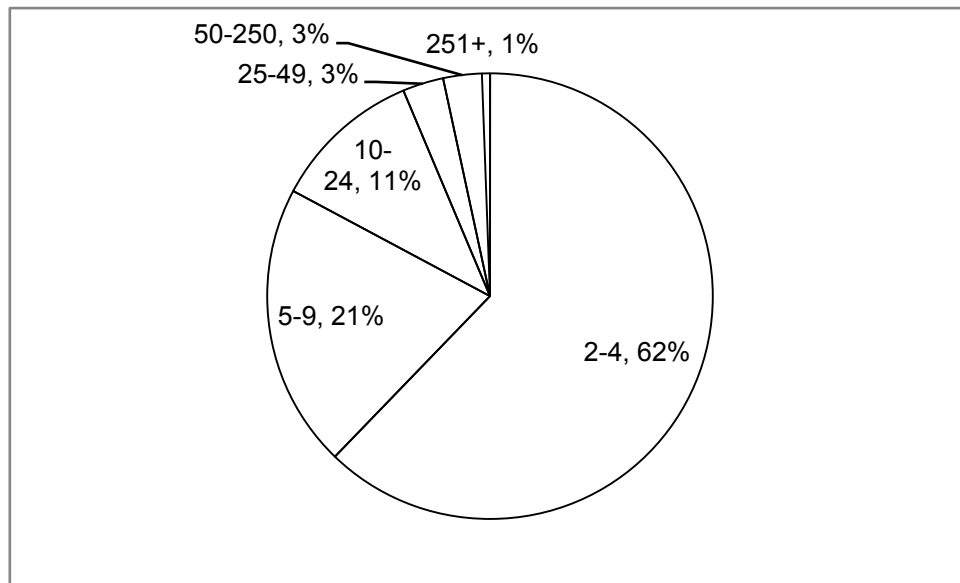


Source: *Inter-departmental Business Register (IDBR, 2010)*, ONS
Note: *Data for financial, insurance and other services*

Chart 2.3c shows the distribution of employment in professional and business services by size of employer. Relative to the distribution of total employment across the economy, employment in professional and business services is slightly more skewed towards larger firms. Those with 500 or more employees account for 23 per cent of all employment in professional and business services and those with 250 to 500 employees account for a further 12 per cent. Across the UK, 26 per cent of the professional and business services workforce is based in establishments of over 250 employees. From a skills and training perspective, this relative concentration of employment in larger firms is important in that larger firms are more likely to have formal training, skills and business development plans than smaller ones.

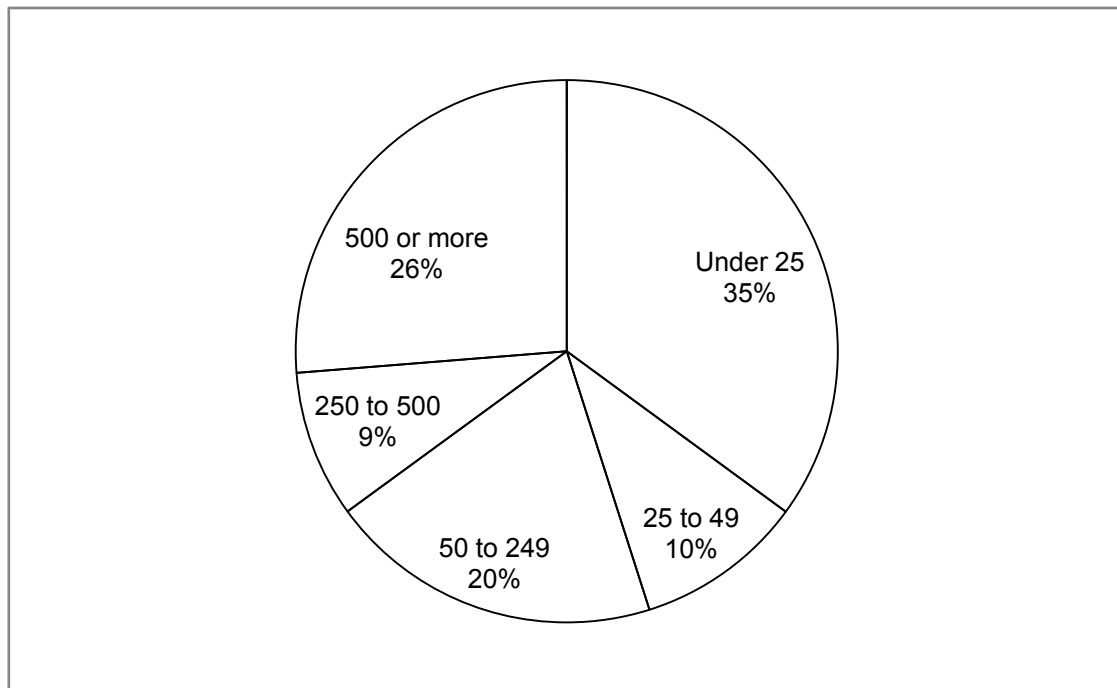
At the opposite end of the firm size spectrum, 35 per cent of employment is in firms with less than 25 employees, 10 per cent in firms with 25 to 49 employees and 20 per cent in firms with 50 to 249 employees, (see chart 2.3b). Coupled with the larger than average share of employment in large firms, this indicates a bi-polar size distribution of firm size across the sector.

Chart 2.3b Size Structure of Employment (% of establishments by employer size band)



Source: *Inter-departmental Business Register (IDBR, 2010), ONS*
Note: *Data for Real estate and facilities management services*

Chart 2.3c Size Structure of Employment (% of employment by employer size band)

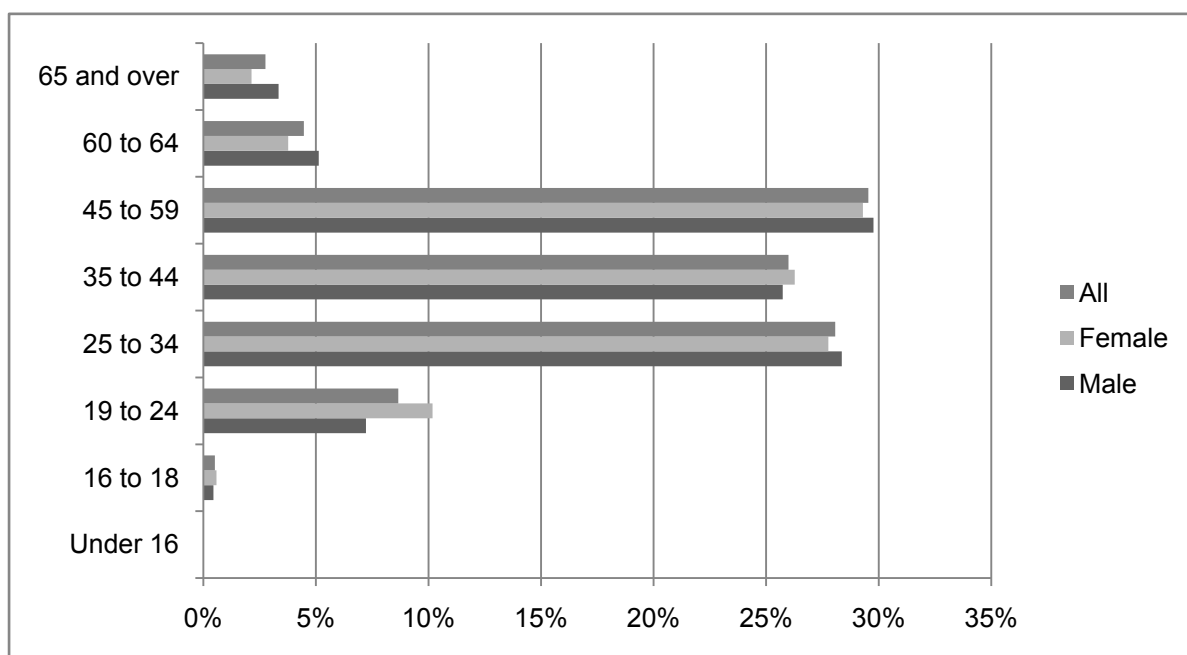


Source: *Labour Force Survey 2010*
Note: *Data for financial, insurance and other services*

2.3 Profile of employment

Relative to total employment across the economy, chart 2.4 shows that employment in professional and business services is slightly more concentrated in the 45 to 59 years age group, accounting for 30 per cent of employment in the sector, compared with 32 per cent across the economy. The 25-34 years age group accounts for 28 per cent of employment in professional and business services, compared with 22 per cent across the economy as a whole, and the 35-44 years age group accounts for 26 per cent of employment in the sector compared with 24 per cent in aggregate across the economy. Younger and older age groups are slightly under-represented in the sector.

Chart 2.4 Age Structure of Workforce in Professional and Business Services, 2010



Source: Labour Force Survey 2010

The age structure of the professional and business services workforce has implications for replacement demands (*i.e.* employment demand required to fill positions vacated due to retirement or other reasons). Though most of the work in the sector is not physically demanding, the fact that a higher than average share of the work is full-time and some of it is associated with a long hours culture may mean that some workers may choose to retire early. Parts of the sector have received adverse press in the wake of the financial crisis and recession, but the monetary rewards on offer in parts of the sector mean that it remains attractive to many potential recruits.

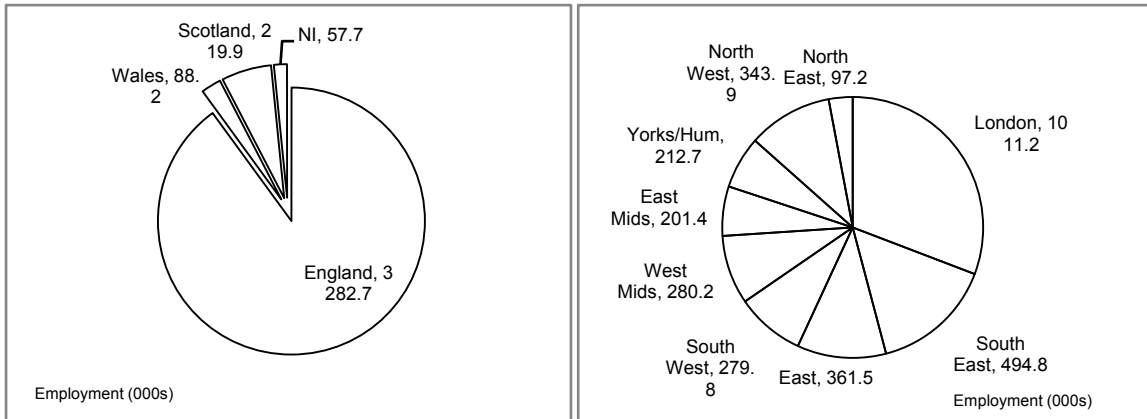
Self-employment accounted for 11 per cent of total employment in the sector in 2010, compared with around 13 per cent across the economy as a whole. There are variations between sub-sectors, with self-employment in finance, insurance and other professional services exceeding 13 per cent, while in employment activities the share of self-employment is less than 4 per cent. Across the sector, self-employment is projected to decline over the period to 2020, but this aggregate picture disguises projected growth in self-employment in employment activities and rental and leasing, (UKCES, 2011).

Full-time employees account for 68 per cent of total employment across the sector. In all sub-sectors full-time employees easily outnumber part-time employees. Men outnumber women, accounting for 52 per cent of employment across the sector in 2010. Yet at sub-sectoral level, while males outnumber females in rental and leasing and in employment activities, in financial, insurance and professional services and in real estate there are marginally more females than males in employment.

2.4 Distribution of Employment by Nation and Region

UK employment in professional and business services is not evenly distributed, as 90 per cent of employment in the sector is based in England, 6 per cent in Scotland, just over 2 per cent in Wales and slightly less than 2 per cent in Northern Ireland (see Chart 2.5). Within England the key distinguishing feature of professional and business services employment is its concentration in London, which accounts for 30 per cent of the sector's employment in England. This reflects the particular concentration of the financial, insurance and other professional services sub-sector in the City of London, a world leading international financial and business services centre, which is home to a highly competitive cluster of financial, trading, insurance, legal and associated firms (see also section 2.5). The South East, the East of England and North West account for the next largest shares of employment by English region, with 15 per cent, 11 per cent and 11 per cent of England's employment in this sector, respectively. While there is an important distinction between the nature of activity and markets served by professional and business services in London and elsewhere, the sector has a key role outside London in supporting businesses in the wider UK economy.

Chart 2.5 Employment in Professional and Business Services by Nation and Region, 2010



Source: Wilson and Homenidou (2011)

Outside London cities, employment in the sector is strongly concentrated in Edinburgh, Birmingham, Leeds, Manchester, Glasgow and Bristol. Towns such as Bournemouth also have a strong presence, reflecting employment in back office functions in financial services being decentralised from London (City of London, 2011a).

2.5 International Standing of the Sector

The sector is relatively large in the UK compared with the rest of the EU. In financial, insurance & other professional services, the UK accounts for 17 per cent of the sector's employment in the EU-27, and in Real estate and facilities management it accounts for 16 per cent of the sector's employment in the EU. It should be noted that overall the UK accounts for 13 per cent of EU-27 total employment.³

The finance sub-sector is also relatively large within the UK compared with the overall situation in the EU. Financial, insurance & other professional services accounts for 10 per cent of total employment in the UK compared with 8 per cent in the EU. Real estate and facilities management accounts for 1 per cent of employment in the UK compared with 1 per cent in the EU-27.

The UK has world-leading breadth and capability in many aspects of professional and business services. The hub of professional and business services in London currently represents one of the world's most successful business clusters. The agglomeration of such

³ All data for 2008

services in London allows customers to tap into combined expertise (for example, of internationally-facing legal and financial services). It is the concentration of such activity in London that is key to its success. Prior regional investment and an unrivalled combination of skills, knowledge and markets stimulate economic growth and innovation, with movement and competition for workers between firms. Much of London's (and the UK's) expertise has been built up over a long period, and historical factors and reputation play a key role in sustaining the international standing of the sector.

Sub-sectors where the UK has strong international comparative advantage include parts of financial services, insurance services, legal services and accountancy. In global financial markets London also gains from spanning the opening times of Asian and North American financial markets.

Many of the key features of the international standing of the sector relate to the particular concentration of financial, legal and associated activities in London, and more specifically the City of London. Features of the UK's international standing in professional and business services include:

- the UK has international comparative advantage in most aspects of professional and business service in relation to both emerging markets and G7 competitors (BIS, 2010);
- the UK has a greater trade balance in finance than any other country in the world (The Economist, 2011);
- the UK leads the world in a number of financial services including cross-border banking, foreign exchange, over the counter derivatives and marine insurance (City of London Corporation, 2011b);
- within financial services the UK is a growth leader in areas such as Islamic finance and sovereign wealth funds;
- the UK dominates the global market for internationally traded insurance and reinsurance;
- London is ranked first on the 'people' element of the Global Financial Centres Index, a ranking of the competitiveness of financial centres (Z/Yen, 2010; Oxford Economics and City of London Corporation Economic Development Office, 2011);

- London is at the heart of world trade: a large share of ocean transportation of industrial bulk commodities from producer to end user arranged through the Baltic Exchange in the City of London;
- London has a strong community of international law firms and London is the global centre for international dispute resolution.

While the UK's international standing in professional and business services is associated particularly with London, the international standing of sub-sectors such as accountancy and law extends beyond London to other parts of the UK.

2.6 Conclusion

Professional and business services make a significant contribution to the UK economy, directly through output and employment, as well as through underpinning and supporting growth in all other sectors. The composition of the sector is varied, with different sub-sectors encompassing different activities and requirements in terms of employment and skills. Overall, however, the sector is a highly skilled and qualified one – as Chapter 4 will demonstrate – with a strong demand for people in managerial, professional, and associate professional occupations, typically qualified to degree level.

In aggregate, the professional and business services sector is more biased towards London and towards full-time employment than in the economy as a whole.

Section 3 looks at the key challenges facing the sector over the medium-term, including implications for employment, and demand for skills.

3 Key Drivers of Skills Demand over the Medium Term

A number of key challenges face professional and business services and will be particularly influential over the medium-term. Of course, the impact of the 2008/9 recession and policies to address some of the issues contributing to the financial crisis and to stimulate recovery will have implications for the sector's performance in the years to come, whilst other issues which have been important for the sector in recent years will continue to present challenges and many will become increasingly important. This section considers these key challenges over the medium-term.

3.1 Impact of the 2008/09 recession

The financial crisis preceding the 2008/09 recession implicated practices in parts of the financial services in precipitating economic downturn. In the short-term there were job losses in professional and business services. Information from the *Working Futures* (Wilson and Homenidou, 2011) for further details of the projections) indicate that 220,000 jobs were lost in the year from 2008 to 2009, and it is not until 2015 that employment is projected to retain the level achieved in 2008. Output also fell between 2008 and 2009, but was projected to recover to 2008 levels by the end of 2011.

Importantly the recession has led to calls for tighter regulation (discussed in more detail in section 3.5) at sectoral, national and international levels. This has implications for global competition (section 3.4), and for the demand and supply of skills (see chapters 4 and 5)

In the real estate sub-sector, the impact of the recent recession resulted in a contraction in demand for commercial space. Estate agencies were affected by the reduced availability of mortgage credit and a fall in property prices. This had negative multiplier effects for valuers, surveyors and for construction and other sectors. Within legal services there was a reduction in demand for conveyancing and similar activities.

Across all sub-sectors of professional and business services it is important to ensure that the recession does not result in either de-skilling, as those losing employment do not return to the sector, or a reduction in entry-level recruitment. Evidence indicates that recruitment has stalled at best or contracted, with a survey of employers in the finance, accountancy and financial services sectors indicating that 42 per cent of them did not recruit in 2010 (Financial

Services Skills Council, 2010). Moreover, the uncertainty following the recession has led to a general trend for employers to be reactive rather than proactive in their investment decisions, including in training and development activities.

In all sectors of the economy there is an increasing emphasis on increasing efficiency and cutting costs. Given that the role of professional and business is to service other sectors of the economy, these pressures have been felt acutely in the sector. This is especially so in facilities management (Asset Skills, 2010).

3.2 Investment, Innovation and R&D

Investment is a key driver of productivity – raising productivity by increasing the amount of capital available per worker, or through the adoption of new, better technologies in production and delivery processes. Investment in financial intermediation, as a share of economy-wide investment, fell from 5.6 per cent in 2008 to 4.6 per cent in 2009 (UK Commission for Employment and Skills Almanac 2010). In real estate, renting and business services investment fell from 15 per cent (the largest single share for any of the sectors listed in Table 3.1) to 12 per cent in 2009. This highlights the early impact of recession on financial and business services.

Table 3.1 Sector investment as a share of total investment

Sector	2006 %	2007 %	2008 %	2009 %
Agriculture	1.9	1.8	2.1	2.0
Mining and quarrying	3.1	3.5	3.1	3.5
Manufacturing	9.2	8.9	8.4	7.9
Electricity, gas and water supply	3.7	4.5	5.1	6.3
Construction	2.3	2.1	1.7	1.4
Distribution	12.1	12.4	10.9	10.1
Hotels and restaurants	4.1	4.2	4.2	3.6
Transport and communications	15.6	14.5	15.2	16.0
Financial intermediation	5.5	5.5	5.6	4.6
Real estate, renting & business services	14.0	15.4	13.8	11.5
Public administration and defence	7.9	7.9	9.1	10.8
Education	5.3	4.9	5.6	7.2
Health and social welfare	3.3	3.2	3.7	4.5
Other services	11.9	11.2	11.5	10.5
Total	100	100	100	100

Note: Percentage shares of total investment based on current price data.

Source: UKCES (2011a)

Rather than investment in tangible assets (such as machines and buildings), most investment in professional and business services is in intangible assets where investments tend not to be well captured by conventional measures (Brinkley, 2008). As intimated in section 3.3, much product and process innovation in professional and business services is tied in with Information, Communication and Technology (ICT) and in investment in new financial products (Riley and Robinson, 2011); consumers increasingly expect to be able to access services electronically and ICT also lies at the heart of trading of services.

3.3 Technology

Technology impacts on professional and business services in various ways.

First, use of ICT in daily working practices across the sector is commonplace. Technology changes the way in which transactions are made and services are delivered, and also the types of products demanded. For example, digital/ internet banking is set to overtake branch networks as the main way customers interact with their bank by 2015, as digital innovations change business models and customer experiences. Technology enables services to be delivered remotely which would previously have required face-to-face contact.

Survey research by PwC (2011) showed that in the UK, nearly two-thirds of respondents are willing to pay for services such as social media notifications, an electronic wallet for loyalty cards and other technology-based financial tools. Hence, investing in innovative digital services is a possible revenue source for banks and financial services. For some customers, a bank's digital service offering is more important than brand or branch location in making decisions about which banks to use. Seven in ten respondents to the PwC survey indicated that they used the internet to purchase financial products. This underlines the growth in self-service and do-it-yourself professional and business services and highlights the importance of providers having a good Web presence, competitive products and services, and improved digital offerings in order to attract new customers. Banks and other financial service providers may need to find partners with the necessary skills, experience and track record in other sectors of the economy in order to realise the opportunities for new business and compete effectively on this front.

Additionally, the growing importance of products and services based on new technology does not negate the importance of other supporting skills in providing advice and relationship management to customers. Banks and other financial and business services also need to have systems in place for dealing with fraud, which has grown alongside the increasing use of technology. There are also business opportunities here in designing, developing and showcasing how such systems may be used effectively.

Secondly, while technology has the potential to support the development of new products and services and so create new jobs, as outlined above, it also enables the separation out of different activities and allows less complex activities to be standardised. In the latter instance, this may culminate in a reduction of jobs and/or deskilling.

Thirdly, developments in technology have implications for where services are delivered from and where transactions are undertaken. In the UK, centres outside London (such as Birmingham) are competing for back-office functions to be located there. In particular, there are pressures to outsource IT, customer care, legal, training and routine financial functions. Automation also enables outsourcing to locations outside the UK, and while the UK is one of the largest off-shorers of business services, it attracts substantially more of them. As intimated above, customers can increasingly access services at home and on the move.

3.4 Global competition

The deregulation of financial markets (in the so-called 'Big Bang' in the mid-1980s) triggered an economic boom, especially in the City of London, as financial services benefited from increased globalisation. The shift in the global balance of trade to emerging economies brings both opportunities to penetrate emerging markets and threats for the sector in terms of increasing competition in existing markets. High value-added activities trading internationally are likely to face increasing competition from centres such as Frankfurt, Geneva, Delhi, Hong Kong and Singapore (to name but a few). Concerns have arisen regarding off-shoring of activity and employment from the UK, and although the UK is one of the largest off-shorers of business services in the G7, it on-shores substantially more of them (BIS, 2010).

It is not only financial services that operate in global markets. Processes of globalisation are also apparent in legal services. Large corporate legal services clients require firms that can serve their needs – for example, for advice on mergers and acquisitions, across jurisdictions. Hence there are opportunities for expansion in global markets.

Acquisition of the right skills, coupled with advances in ICT are part of the mix in helping professional and business services to remain globally competitive.

3.5 Regulation, Legislation and Policy

As highlighted in section 3.1, the global financial crisis and recession triggered a widespread demand for increased regulatory control over banks and financial institutions, in order to minimise the likelihood of any repeat in such circumstances. This regulation is occurring at national, European and global levels. Internationally, Basel III regulations on banks set out new capital and liquidity requirements, but how these are likely to influence business models, product development and skills requirements is debateable. In the short-term changes in the regulatory environment appear to have had a paralysing effect, with the structuring of new products having ground to a halt (Financial Service Skills Council, 2010). Similarly, Solvency II regulations are affecting insurers.

Alongside the measures outlined above, increasing demands for public accountability has led to a shift away from pure self-regulation of practices amongst professionals in the sector, towards more transparent procedures, in a situation described as ‘regulated self-regulation’ (IES, 2010). Historically, changes in regulations have provided challenges by instituting change in parts of the sector. For instance, in the 1980s the solicitors’ monopoly on conveyancing was opened up by the introduction of a new profession of licensed conveyance, and in the 1990s barristers’ monopoly of rights of audience in higher courts was opened to solicitors.

Regulation is a key issue for professional and financial services; in financial services it has been identified as “the most important driver behind employment and skills” (Financial Services Skills Council, 2010: 18).

Another aspect of public policy of particular significance for professional and business services, given the migration-intensive nature of the sector, is migration policy: specifically the introduction of the Points Based System (PBS) and a migration cap (see also section 5.5). Qualitative research undertaken in 2011 (Consensus Research, 2011) on the impact of migration limits on UK professional and financial business services concluded that businesses have faced additional costs in adhering and adapting to changing migration policy. The same research found that larger firms have found it easier to absorb these additional costs than smaller ones (Consensus Research, 2011). In particular, uncertainty regarding the nature of future migration policy has been difficult to cope with. It has caused some businesses to postpone or delay decisions about expansion and growth. Greater certainty about migration policies in countries other than the UK, places those other countries at a relative advantage in competition for global talent. Some professional and business services recruit talent well in advance (sometimes up to two years) of employing them, so change and uncertainty in migration policy has implications for such recruitment. This means that migration has moved up the strategic agenda of those businesses that have traditionally recruited from non-EEA countries to meet their business needs, such that is no longer solely in the domain of human resources policy, (Consensus Research, 2011).

In those parts of professional and business services that trade internationally to the greatest degree, and where highly mobile specialists earn high salaries, tax policy has implications for the attractiveness of the UK as a place to do business. The cut in the top rate of tax to 45p in the 2012 budget is attempting to make London more attractive for high net-worth individuals. Such individuals are generally highly footloose, and may choose to locate elsewhere.

3.6 Environment and Low / Zero Carbon

In recent years successive governments have put energy and climate change high on its list of priorities. There are a vast number of initiatives related to climate change, energy certification, zero carbon and sustainability which have implications for construction. These policy initiatives have particular implications for the real estate and facilities management parts of the sector, and as well as posing challenges also present opportunities. Energy assessment is playing an increasingly important role here, especially in the management of buildings (Asset Skills, 2010). Evidence from the facilities management sector indicates that clients are putting increasing emphasis on having a track record in operating in an environmentally sound way. Price competitiveness is not sufficient to win business and considerations over quality and innovation must come into play (Asset Skills, 2010). There is an important role here for Asset Skills to work closely with the Department for Energy and Climate Change and the Department for Communities and Local Government (in England) and with governments in the other nations of the UK to ensure the skills requirements are met for new and emerging low carbon initiatives.

3.7 The Role of Skills in Overall Competitiveness

Skills are vital to the competitiveness of firms in all sectors, including professional and business services. Firms in the sector need various skills in order to take advantage of opportunities currently presented in the sector by the green agenda, technological developments and demands for new financial products, for example, and those expected to come to the fore over the medium to long term. In particular firms need specialist technical skills to deal with requirements for increased regulation, as well as core business and interpersonal skills to improve competitiveness and understand customers' needs. Having capacity in terms of skills enhances firms' abilities to respond to a dynamic business and regulatory environment and to deliver services in an efficient and timely fashion. In the face of increased global competition, firm capabilities are crucial to the exploitation of new opportunities, and having the sufficient levels of the right skills is especially pertinent.

3.8 Strategic Role of Management Skills

Management skills play a key role in how well professional and business services firms respond to the challenges presented above. Management and leadership skills to take a strategic view in working in an uncertain environment in the context of increased regulation and global competition are particularly important. So too are people management skills in order that firms can get most out of their workforce. In professional services it is common to create internal competition with various league tables and people promoting premium value to their own role. The case study below shows how one consulting firm, with the support of Investors in People, instituted a more collaborative approach to knowledge sharing through clear and open people management practices, to the benefit of the business. Investors in People is the UK's leading people management standard. It specialises in transforming business performance through people.

Case Study: Using best practice people management practices to institute high performance working and achieve strategic goals

The challenge

M3 Consulting, a property development management and consulting services company with nearly 40 employees has an ethos that people management is critical and wanted to start building a more collaborative culture.

The approach

M3 Consulting used Investors in People to provide constructive feedback on people management. People management policies are designed to promote personal and team performance while avoiding unhealthy internal competition, on the basis that success comes from blending, motivating and rewarding all of the talent available, with an emphasis on sharing knowledge face-to-face.

The Benefits

During the recession annual turnover recovered to £6.7 million (latest figure available) following an initial drop from £6 million in 2008 to £3.8 million in 2009. Throughout this period of lower turnover, M3 Consulting made very limited redundancies and continued with their graduate recruitment programme:

"If you treat people like numbers, then they will behave accordingly, without loyalty, motivation or soul. The commercial and profitability benefit of treating people well is that they feel inspired to excel. And our business results prove that they do," General Manager, M3 Consulting.

Source: <http://www.m3c.co.uk/>

3.9 Conclusion

A number of key challenges face the professional and business services sector. The recession hit the sector hard in terms of employment and associated regulatory and policy changes and ongoing economic uncertainty pose serious challenges for future trading and investment decisions. While the sector has a strong base on which to build, it may take time to recover from damage to the reputation of some firms and specific parts of the sector.

Section 4 considers the implications of these various drivers of change for employment and skills demand.

4 Employment and Skill Demand in the Sector

4.1 The Changing Demand for Employment

Employment in professional and business services was on a steady upward trend until 2008. Despite a dip in employment numbers in certain parts of the sector, more recent figures have been encouraging. *Working Futures 2010-20* projects a resumption of the previous trend of rising employment over the medium-term (Wilson and Homenidou, 2011).

All sub-sectors are projected to experience expansion demand (i.e. positive net change in employment) from 2010: with over 220,000 additional jobs in finance, insurance and professional services, 107,000 more jobs in real estate, and 103,000 extra jobs in employment activities. In rental and leasing, a small increase of 3,000 jobs is projected.

Factors which affect skills demand in the industry, while not unique to professional and business services, have different implications on the resulting demand for skills compared to other sectors. The main factors affecting the demand for skills in the professional and business services are explored in section 4.2.

4.2 Factors Affecting the Demand for Skill

The *National Strategic Skills Audit* (UKCES, 2010) identifies a number of key drivers that will impact on the demand for skills in the future. These drivers are interdependent and the dynamic interplay of these means that the future skill requirements are not certain.

Some of these drivers and their impacts on the sector have been discussed in Chapter 3. The implications of these drivers for skills demand are explored further here.

Policy, regulation and legislation – including environment/low carbon regulations

Government policy, regulation and legislation (especially nationally and internationally), have significant implications for professional and business services and the sector's demand for skills. There is a clear trend for greater regulation in the sector, especially in financial services, and this means that awareness of new regulation, and additional skills required to accord with them, will need to be updated on an ongoing basis. Continuing professional development is likely to play an ever more important role, given that skills sets in professional and other occupations will need to be re-evaluated on a frequent basis to ensure that they meet requirements. Regulation of skills training needs to be sufficiently

flexible to accommodate both safeguards for those customers purchasing traditional professional services and freedom to adapt training so that it supports innovation. Professional institutes, which are generally well regarded, and employers both have an important role to play here in ensuring high standards of professional conduct.

Greater regulatory requirements have led to increased demand for some specialist skills and roles, notably for specialist legal and actuarial staff, and for compliance and risk management functions. Actuaries are included on the Migration Advisory Committee's November 2011 list of skill shortage occupations (UK Border Agency, 2011). However, regulation or minimum standards can have unintended consequences and may not always lead to an increased demand for skills as it can result in a levelling down to the minimum required level by employers and individuals.

In real estate and facilities management, understanding emerging environmental regulation in relation to low- or zero-carbon technologies is crucial in determining future skills requirements.

Technology

Technology plays an increasingly important role in all parts of professional and business services. This reflects both the use of ICT in day-to-day roles, and the greater role of technology in delivery of services, both in trading systems and delivery of online services. The latter trend calls for a combination of technical and communication skills to support customers in their use of such systems and to help business efficiency more generally. Indeed, in the real estate and property industry, ICT skills have been identified as the single most significant perceived skills need alongside soft communication and customer service skills (Asset Skills, 2010).

In general, ICT innovations tend to trigger strong investment in high level skills. Yet, just as further automation requires specialist ICT skills, it may also result in de-skilling of some other functions. The further streamlining of professional and business services operations is likely to lead to some replacement of lower level skills by technology. The emphasis is on the continued importance of obtaining higher qualifications in order to secure better employment prospects in the professional and business services sector.

The increasing use of online services, together with regulatory requirements, raises the issue of security and data protection. This is an area where there is increasing demand for specialist skills.

Globalisation

The UK professional and business services sector is ranked highly in international terms and some firms have substantial experience of operating successfully internationally. The sector is facing increasing global competition and in order to compete, firms will need to innovate and adapt. Some firms serving international markets need access to the global talent pool to remain competitive, given that the skills required for international competition are somewhat more varied than those required for operation only in domestic markets. To penetrate some new markets internationally the sector needs to draw on expertise and cultural awareness of those markets, and so draw on local talent. This is where some of the concerns about migration policy, outlined in section 3.5, are rooted.

More generally, greater onus is placed on management and technical capabilities in order to respond to the fast-moving demands of globalised service markets. A combination of hard (technical) and soft (generic) skills is needed to remain agile.

Consumer demand

The professional and business services sector supplies services to companies in the same and other sectors, to individuals and the government. The demand from these consumers is ultimately the driver of the activities taking place in the sector and the types of services produced.

Overall, consumer uncertainty in the face of recession and restricted credit conditions has increased overall uncertainty in the market and dampened consumer demand for professional and business services and overall. In this environment, consumers have placed greater onus on better performance, efficient delivery and value for money. The increasing importance of generic skills such as in customer service delivery is expected to impact on ways of working and demand for skills in the domain. Specifically, this means focusing on understanding and meeting customer demands, multi-skilling and more effective use of technology.

Operating in the same direction as drivers for greater regulation, consumer demand pressures are placing greater onus on financial planning and budgeting skills, client focus and management and leadership capability. There is an increased requirement for managerial skills around partnership working, business planning and change management.

Demographic change

Demographic change also drives demand in the sector. An ageing population means increased requirements for specific types of service and advice, for example in relation to retirement planning.

Although the age structure of the workforce in professional and business services is biased towards the middle age range, the ageing of the workforce more generally has implications for the supply of skills in the sector. Key skills can be lost through retirement and there is a need to replenish by bringing younger recruits to the industry in order to replace lost skills. There is also the challenge to increasingly develop older workers.

A more diverse population has implications for skills in that it is important to understand the different service requirements of different sections of the population. This may require the development of skills in managing diversity and also in serving niche markets.

4.3 Changing Patterns of Skill Demand

Table 4.1 shows changing patterns of skill demand based on *Working Futures* 2010-20 projections (Wilson and Homenidou, 2011). Employment in 2010 in the sector is greatest among administrative and clerical and professional occupations. Employment is projected to increase by approximately one fifth for managers, directors and senior officials, for professional occupations and for associate professional and technical occupations between 2010 and 2020. Together, these three occupational groups accounted for 56 per cent of total employment in the sector in 2010 and are projected to comprise 60 per cent of the total in 2020. This is broadly consistent with UK figures.

Similar tables are also presented for each of the sub-sectors (Tables 4.2-4.5). In the financial, insurance and other professional services sub-sector, the concentration of employment in these occupational groups is even greater at 64 per cent in 2010 and projected to rise to nearly 70 per cent of the total in 2020 (Table 4.2). In employment activities the share of employment in these occupations is around 35 per cent in 2010 and is expected to rise slightly to 37 per cent by 2020 (Table 4.5).

Administrative and secretarial occupations in the professional and business services sector are expected to experience a six per cent net loss in jobs over the period to 2020. Their share of total employment in professional and business services is projected to decrease from nearly 22 per cent in 2010 to just over 18 per cent in 2020. Only the real estate sub-sector bucks this trend, with a projected increase in employment in this occupational group over the period (Table 4.5)

The direction of occupational change outlined above is consistent with general changes across the economy, and reflect the challenges to provide both more specialised and more holistic services, in an era of greater regulation.

In aggregate across the sector, elementary occupations and sales and customer service occupations are the next largest occupational groups accounting for around 8 per cent and 7 per cent of total employment in the sector, respectively, in 2010. The employment activities sub-sector is distinctive here with over 30 per cent of total employment in elementary occupations in 2010. Across all professional and business services, net employment increases of around 30,000 in each of these occupational groups over the period to 2020 mean that their shares of total employment in the sector are expected to remain fairly constant.

Table 4.1 Projected Employment Change by Occupation in Professional and Business Services, 2010-20

Professional and Business Services:	2010	2015	2020	2010	2015	2020	2010-20		2010-20
Employment Growth	Numbers (000s)			% shares			Change (000s)	Change (%)	All Sectors
Managers, directors and senior officials	514	569	621	14.1	14.7	15.2	107	18.0	20.9
Professional occupations	774	842	918	21.2	21.8	22.5	143	14.9	18.5
Associate professional and technical	762	827	904	20.9	21.4	22.1	142	14.0	18.6
Administrative and secretarial	793	776	747	21.7	20.1	18.3	-46	-10.5	-5.9
Skilled trades occupations	136	134	132	3.7	3.5	3.2	-3	-6.5	-2.5
Caring, leisure and other service	65	83	97	1.8	2.2	2.4	32	11.5	48.3
Sales and customer service	243	258	271	6.7	6.7	6.6	27	0.1	11.3
Process, plant and machine operatives	74	76	76	2.0	2.0	1.9	2	-10.9	2.6
Elementary occupations	287	304	318	7.9	7.9	7.8	31	3.2	10.9
All occupations	3649	3869	4083	100.0	100.0	100.0	435	5.1	11.9

Source: Wilson and Homenidou (2011)

Table 4.2 Projected Employment Change by Occupation in Financial, Insurance and Other Professional Services, 2010-2020

Financial, insurance & other professional services	2010	2015	2020	2010	2015	2020	2010-2020	
Employment Growth	Numbers (000s)			% shares			Change (000s)	Change (%)
Managers, directors and senior officials	317	344	380	13.9	14.5	15.1	62	19.7
Professional occupations	621	667	724	27.1	28.1	28.9	104	16.7
Associate professional and technical	539	579	635	23.6	24.4	25.3	96	17.7
Administrative and secretarial	578	548	523	25.3	23.1	20.8	-55	-9.6
Skilled trades occupations	52	51	51	2.3	2.1	2.0	-1	-1.2
Caring, leisure and other service	9	10	11	0.4	0.4	0.4	2	16.6
Sales and customer service	128	132	138	5.6	5.6	5.5	11	8.3
Process, plant and machine operatives	18	18	19	0.8	0.8	0.8	1	2.9
Elementary occupations	25	26	28	1.1	1.1	1.1	3	12.2
All occupations	2288	2374	2509	100.0	100.0	100.0	222	9.7

Source: Wilson and Homenidou (2011)

Table 4.3 Projected Employment Change by Occupation in Real Estate, 2010-2020

Real estate	2010	2015	2020	2010	2015	2020	2010-2020	
Employment Growth	Numbers (000s)			% shares			Change (000s)	Change (%)
Managers, directors and senior officials	92	107	118	21.2	21.6	21.8	26	28.2
Professional occupations	63	72	81	14.4	14.6	15.0	19	30.0
Associate professional and technical	74	87	99	17.1	17.6	18.2	25	32.9
Administrative and secretarial	94	104	109	21.5	21.0	20.2	16	16.6
Skilled trades occupations	37	38	38	8.4	7.7	7.0	1	4.0
Caring, leisure and other service	11	15	18	2.6	2.9	3.2	6	56.3
Sales and customer service	43	49	55	9.9	9.9	10.1	12	26.8
Process, plant and machine operatives	7	7	7	1.5	1.4	1.3	1	8.3
Elementary occupations	15	16	17	3.4	3.2	3.1	2	13.6
All occupations	436	495	543	100.0	100.0	100.0	107	24.5

Source: Wilson and Homenidou (2011)

Table 4.4 Projected Employment Change by Occupation in Rental and Leasing, 2010-2020

Rental and leasing	2010	2015	2020	2010	2015	2020	2010-2020	
Employment Growth	Numbers (000s)			% shares			Change (000s)	Change (%)
Managers, directors and senior officials	27	29	30	18.4	19.6	20.5	4	13.5
Professional occupations	21	23	24	14.7	15.2	15.9	2	10.8
Associate professional and technical	19	20	20	13.3	13.6	13.8	1	6.1
Administrative and secretarial	19	19	17	12.9	12.4	11.4	-2	-10.1
Skilled trades occupations	18	17	15	12.4	11.2	10.2	-3	-15.9
Caring, leisure and other service	3	4	4	2.1	2.6	2.9	1	39.9
Sales and customer service	14	14	13	9.4	9.2	9.0	0	-2.4
Process, plant and machine operatives	20	21	20	14.0	13.7	13.7	0	-0.3
Elementary occupations	4	4	4	2.6	2.5	2.5	0	-2.5
All occupations	145	150	148	100.0	100.0	100.0	3	2.1

Source: Wilson and Homenidou (2011)

Table 4.5 Projected Employment Change by Occupation in Employment Activities, 2010-2020

Employment activities	2010	2015	2020	2010	2015	2020	2010-2020	
Employment Growth	Numbers (000s)			% shares			Change (000s)	Change (%)
Managers, directors and senior officials	78	88	93	9.9	10.4	10.5	15	19.8
Professional occupations	70	80	88	8.9	9.4	10.0	18	26.5
Associate professional and technical	129	141	149	16.5	16.6	16.9	20	15.9
Administrative and secretarial	103	105	98	13.1	12.4	11.1	-5	-4.6
Skilled trades occupations	29	29	28	3.7	3.4	3.1	-1	-4.9
Caring, leisure and other service	42	55	64	5.4	6.5	7.3	22	53.6
Sales and customer service	59	63	64	7.5	7.4	7.3	6	9.6
Process, plant and machine operatives	28	29	29	3.6	3.5	3.3	1	3.2
Elementary occupations	243	258	270	31.2	30.4	30.5	26	10.8
All occupations	780	849	884	100.0	100.0	100.0	103	13.2

Source: –Wilson and Homenidou (2011)

Skilled trades occupations, plant and machine operatives and caring, leisure and other service occupations together made up just under 8 per cent of total employment in the sector in 2010, although skilled trades occupations and plant and machine operatives account for a greater share of total employment in rental and leasing (Table 4.5) and real estate (Table 4.4) sub-sectors than elsewhere. Employment levels for skilled trades occupations and process, plant and machine operatives are projected to remain stable over the medium-term, whereas demand for caring, leisure and other service occupations is projected to increase by around half over the medium-term, from a small base, accounting for a net gain of over 30,000 jobs.

Table 4.6a shows projected changes in employment in financial, insurance & other professional services by qualification level. In 2020, 59 per cent of the workforce is projected to be qualified to at least degree level, up from 47 per cent in 2010. Over the period from 1990 there has been a substantial decline in the proportion of the workforce qualified to QCF3 A level and equivalent level.

Table 4.6b replicates Table 4.6a for the real estate and facilities management sub-sector and reveals a different pattern. There has been a growth in the number of people qualified to degree level but by 2020 it is projected that 37 per cent of the workforce will be qualified to QCF Level 5 – 8 compared to 31 per cent in 2010. The percentage of people qualified to QCF Level 3 and 4 – projected to be 24 per cent in 2020 – has remained more or less stable over the past twenty years although is projected to account for a slightly lower share of the overall workforce by 2020 compared with 2010.

Table 4.6a Changing Pattern of Skill Demand by Qualification

column percentages

Financial, insurance & other professional services	1990	2000	2010	2020
QCF8 Doctorate	1.3	0.9	1.8	2.9
QCF7 Other higher degree	3.9	6.4	13.5	21.1
QCF6 First degree	12.7	19.2	27.5	32.0
QCF5 Foundation degree; Nursing; Teaching	11.2	7.8	4.4	3.0
QCF 5 – 8	29.1	34.3	47.1	59.1
QCF4 HE below degree level	5.6	5.3	5.4	5.2
QCF3 A level & equivalent	22.9	19.8	16.0	16.7
QCF 3 and 4	28.5	25.1	21.4	21.9
QCF2 GCSE(A-C) & equivalent	23.5	20.9	17.1	13.7
QCF1 GCSE(below grade C) & equivalent	16.0	16.0	11.8	8.8
No Qualification	2.9	3.8	2.7	2.2
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
Whole Economy				
QCF8 Doctorate	1.1	0.7	1.1	1.8
QCF7 Other higher degree	3.6	4.0	7.5	11.8
QCF6 First degree	7.6	10.2	15.3	19.3
QCF5 Foundation degree; Nursing; Teaching	7.4	6.0	5.6	5.2
QCF 5 – 8	19.7	20.9	29.6	38.1
QCF4 HE below degree level	5.6	4.4	4.7	5.2
QCF3 A level & equivalent	19.6	19.4	19.3	16.7
QCF 3 and 4	25.1	23.8	24.0	21.9
QCF2 GCSE(A-C) & equivalent	21.4	21.5	20.8	19.5
QCF1 GCSE(below grade C) & equivalent	19.4	19.5	16.4	14.8
No Qualification	14.3	14.3	9.2	5.7
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source: Wilson and Homenidou (2011)

Table 4.6b Changing Pattern of Skill Demand by Qualification

column percentages

Real estate	1990	2000	2010	2020
QCF8 Doctorate	1.0	0.4	0.2	0.3
QCF7 Other higher degree	3.5	3.6	8.6	13.4
QCF6 First degree	14.1	15.9	17.4	16.6
QCF5 Foundation degree; Nursing; Teaching	11.0	7.5	5.2	6.3
QCF 5 – 8	29.5	27.4	31.5	36.6
QCF4 HE below degree level	6.8	5.2	6.9	8.2
QCF3 A level & equivalent	15.1	17.9	19.2	16.0
QCF 3 and 4	21.9	23.1	26.0	24.2
QCF2 GCSE(A-C) & equivalent	19.4	19.6	20.0	18.5
QCF1 GCSE(below grade C) & equivalent	20.6	19.6	14.9	12.2
No Qualification	8.5	10.3	7.6	8.5
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
Whole Economy				
QCF8 Doctorate	1.1	0.7	1.1	1.8
QCF7 Other higher degree	3.6	4.0	7.5	11.8
QCF6 First degree	7.6	10.2	15.3	19.3
QCF5 Foundation degree; Nursing; Teaching	7.4	6.0	5.6	5.2
QCF 5 – 8	19.7	20.9	29.6	38.1
QCF4 HE below degree level	5.6	4.4	4.7	5.2
QCF3 A level & equivalent	19.6	19.4	19.3	16.7
QCF 3 and 4	25.1	23.8	24.0	21.9
QCF2 GCSE(A-C) & equivalent	21.4	21.5	20.8	19.5
QCF1 GCSE(below grade C) & equivalent	19.4	19.5	16.4	14.8
No Qualification	14.3	14.3	9.2	5.7
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

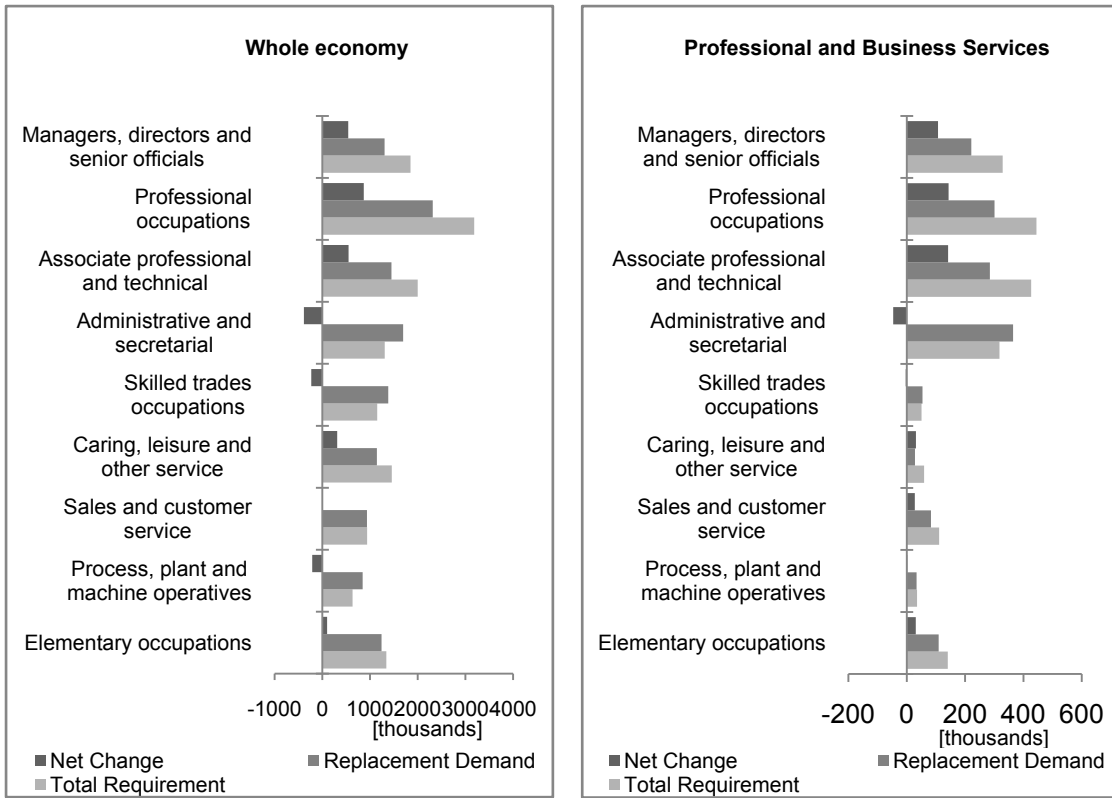
Source: Wilson and Homenidou (2011)

4.4 Replacement Demands

Chart 4.1 shows the net change in employment by replacement demand (i.e. wider job openings created by people who leave the labour market through retirement) and total employment requirements for professional and business services and the whole UK economy. Whilst across all sectors there is a net decrease in employment projected between 2010 and 2020 for administrative and secretarial occupations, skilled trades occupations and process, plant and machine operatives, in professional and business services the key feature is the projected loss of employment in administrative and secretarial occupations. This reflects the importance of this occupational group (accounting for the single largest share of employment of any of the nine occupational groups identified in 2010). Replacement demand (i.e. demand necessary to replace existing employees leaving the sector) in administrative and secretarial occupations is, however, 365,000. Replacement demand is also very substantial in absolute terms in professional occupations (300,000), associate professional and technical occupations (285,000) and for managers, directors and senior officials (just over 220,000), and is substantially larger than expansion demand in these occupational groups.

Replacement demands for other occupational groups are more modest in absolute terms, reflecting the occupational profile of employment in professional and business services. Caring, leisure and other personal service occupations are distinctive in being the only occupational group where replacement demand constitutes a minority of the total requirement over the period to 2020.

Chart 4.1 Replacement demands, 2010-2020



Source: Wilson and Homenidou (2011)

4.5 Conclusion

The key drivers of change in professional and business service (as discussed in Section 3) have a variety of implications of skills demand in the sector. Meeting regulatory requirements is a key driver going forward. Together with meeting the challenges of globalisation and technological change this results in an increasing demand for higher level skills, particularly in financial, insurance and other professional services. Over the medium-term a projected increase in employment levels in the sector mean an increase in demand for skills. Moreover, the net requirement is greater than these increases in skills requirements associated with expansion demand because of the need for skills to fill replacement demand as older workers leave the sector.

Section 5 looks at the other side of the skills equation- skills supply in UK professional and business services.

5 Skills Supply

5.1 The Supply Infrastructure

Organisations responsible for training supply

Skills supply is dependent upon the supply of labour, the skills infrastructure (including compulsory education, further education and higher education), and employers' investment in skills. A sufficient supply of skills is required to meet future demand for skills thus encouraging growth in professional and business services.

Skills training in professional and business service is provided by a range of institutions, including professional institutes, private training providers and higher and further education institutions. In some instances, employers work in partnership with these different institutions to ensure skills development is tailored to their needs. The importance of the different institutions varies by sub-sector, and whether training is designed for initial entry into the sector or is part of on-going continuing professional development.

There are three Sector Skills Councils (SSCs) covering professional and business services which provide the employer leadership to address skills needs within and across sectors.

- Financial Skills Partnership covers financial services, finance and accounting sectors;
- Skills for Justice includes legal services but also has a wider ranging remit incorporating community safety, offender management, policing, *etc.*;
- Asset Skills includes facilities management, cleaning and property, alongside housing and parking.

The SSCs are important players in the supply infrastructure because they analyse what skills are needed in the sector, help articulate the voice of employers on skills and have a role in galvanising employer ambition and investment in skills and developing innovative skills solutions to address skills needs. They also have responsibility for developing and issuing apprenticeship frameworks.

There is also a National Skills Academy for Financial Services. As with other National Skills Academies, this is an employer-led organisation working in partnership with training organisations and educational institutions to play a leading role in developing the infrastructure needed to develop specialist skills. It offers a range of professional services to support employers, as well as developing diagnostic tools and e-learning services. The case study below from Bristol illustrates how National Skills Academies play an important role in organising training to meet skills requirements, in this instance through arranging bespoke courses and coaching, as well as delivering NVQs.

Case Study: National Skills Academy for Financial Services meeting emerging skills requirements

The challenge

Addressing emerging skills requirements through training.

The approach

The NSA supports firms of all sizes within Financial Services with the recruitment, induction and the skill development of their general workforce. It has developed a suite of products and services that help employers in the sector to run their business more successfully whilst making a social contribution to the industry that are delivered through a network of 130 colleges and training providers.

The *City of Bristol College* is the lead provider for the NSA. Its clients include Computershare, Bristol Wessex Billing Services, Britannia Staff Union and Allianz

The College delivers training courses either flexibly in-company or via open courses, encompassing both generic skills such as business administration or more technically-specific courses such as financial planning. A key feature of delivery is that the content is employer driven.

The benefits

As a result of employer involvement and leadership the following training and qualifications have been created and proved successful:

- sector-specific NVQs e.g. Providing Financial Advice
- Financial Services Apprenticeships at Levels 2 and 3
- coaching for the owner-managers of SMEs

A client of the college summarised the benefits it received: "Allianz gains qualified staff and we can retain those employees more easily as they are being developed. [The staff] feel that we've gone out of our way to provide training for them and this acts as motivation." (Allianz Training Manager)

Source: <http://www.nsafs.co.uk/new-talent/>

The professional institutes (for example, in accountancy, insurance, *etc.*) play a key role in initial and continuing skills development. They aim to provide business-relevant qualifications to recognised standards, both nationally and globally. UK professional institutes have a strong reputation globally. As well as setting examinations and maintaining standards, they have a strong focus on professional values and ethics. The reach of professional institutes extends across both large and small businesses, and the institutes recognise the role of their membership in promoting business development.

Employers in newer and growing sub-sectors see a role for professional institutes in addressing skills needs for employers and partner organisations. As part of the Growth and Innovation Fund (GIF) at the UK Commission, the Employment and Related Services Group is setting up a Professional Institute for Employability Professionals in England which will oversee the development of new professional qualifications and standards for the welfare to work industry. The vision is to professionalise the sector, including associated third sector organisations, and set goals for skills attainment at practitioner and manager level; the initial aim is for 40 per cent of sector practitioners to hold or be working towards industry qualifications by 2013. The plan is for the Institute to develop a voluntary licence to practise scheme as part of the drive to raise standards.

5.2 Trends in Skill Supply: Individuals

Table 5.1 indicates the number of employees in receipt of work-related training over the past 13 weeks. The proportion of the workforce in professional and business services in receipt of such training (around 27 per cent) is slightly higher than the proportion across the whole economy (just under 26 per cent). In part, the higher than average proportion of the workforce in receipt of work-related training is a function of the occupational structure of the workforce. Across the economy as a whole, those in professional and associate professional occupations are amongst the groups most likely to receive work-related training and these groups account for a disproportionately large share of employment in professional and business services.

Workers in professional and associate professional and technical occupations are less likely to have received work-related training in the last 13 weeks than their counterparts across the economy as a whole. By contrast, managers, senior directors and senior officials, those in administrative and clerical occupations, skilled trades occupations and sales and customer service occupations are more likely to have been in receipt of training over the last 13 weeks than across the whole economy. The percentage of workers in elementary occupations,

process plant and machine operatives and in caring, leisure and other service occupations who have received such training is lower in professional and business services than across the whole economy.

Table 5.1 **Number of employees in receipt of work-related training
over the past 13 weeks, 2010**

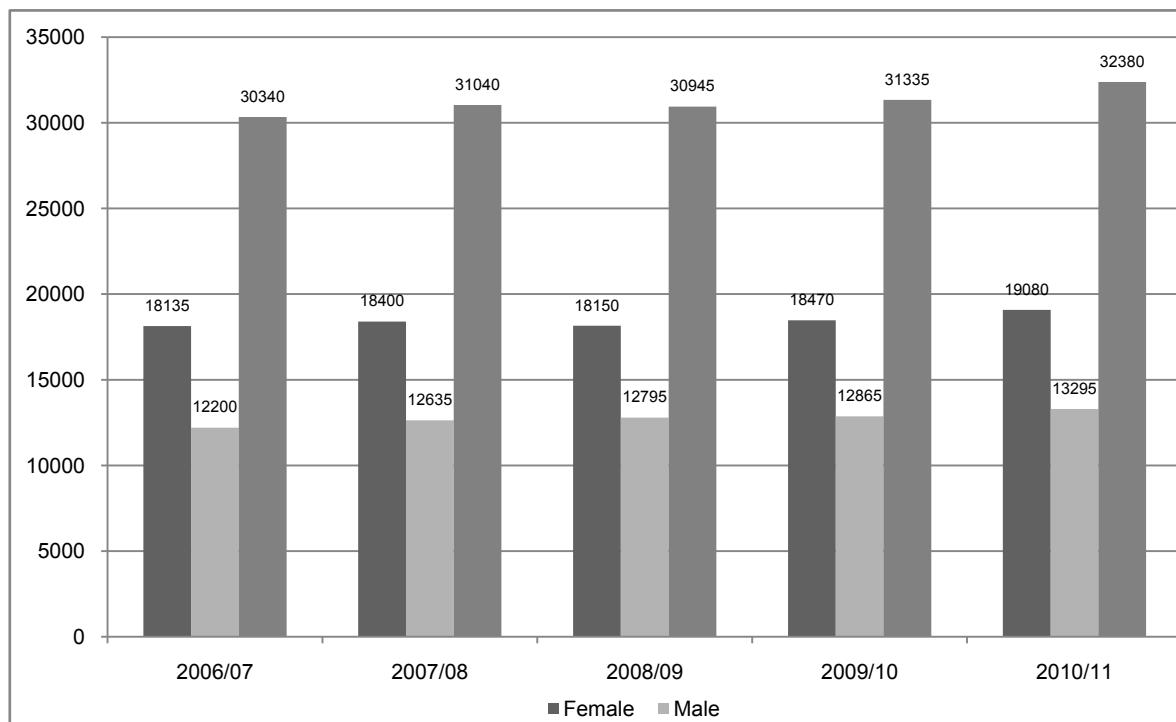
Occupation (SOC Major Groups)	Professional and Business Services		Whole economy	
	Number	% of workforce	Number	% of workforce
All	700,997	26.9	7,352,628	25.5
Managers, directors and senior officials	160,376	24.8	1,008,425	22.6
Professional occupations	172,570	36.4	1,588,563	39.5
Associate professional and technical	168,810	29.6	1,505,022	35.3
Administrative and secretarial	140,798	22.6	670,009	21.1
Skilled trades occupations	7,064	20.8	476,943	15.6
Caring, leisure and other service	9,124	31.3	927,704	36.5
Sales and customer service	32,201	22.4	416,531	19.4
Process, plant and machine operatives	4,466	13.2	288,954	15.2
Elementary occupations	5,589	10.2	470,477	14.5
Women	334,332	26.4	3,868,241	28.9
Men	366,665	27.4	3,484,387	22.6
People aged under 25	85,039	25.1	1,091,698	29.5

Source: Labour Force Survey 2010

Higher Education Institutions (HEIs) are one of the main suppliers of skills to the sector. They have provided a high quality supply of candidates to the sector. Traditionally, much of the sector has recruited across subject disciplines, and has then made provision for recruits to study for professional qualifications alongside their work. The sector has proved attractive to candidates across disciplines, especially in the City of London, because of attractive remuneration packages. Law, as a vocational subject, is an exception to the tendency to recruit across disciplines, with legal firms appointing those with law degrees to professional posts.

Chart 5.1 shows the trend in the number of higher education graduate and post-graduate qualifications obtained in Law from UK HEIs over the period from 2006/07 to 2010/11. Over this period the number of such qualifications has increased by 10 per cent from over 30,000 in 2006/07 to nearly 33,000 in 2010/11. The increase for all subjects over the same period is similar at 10 per cent. Women account for nearly three-fifths of Law qualifications and the gender split has remained fairly constant over time. This similar to the average for all subjects with nearly 57 per cent of HE qualifications achieved by women.

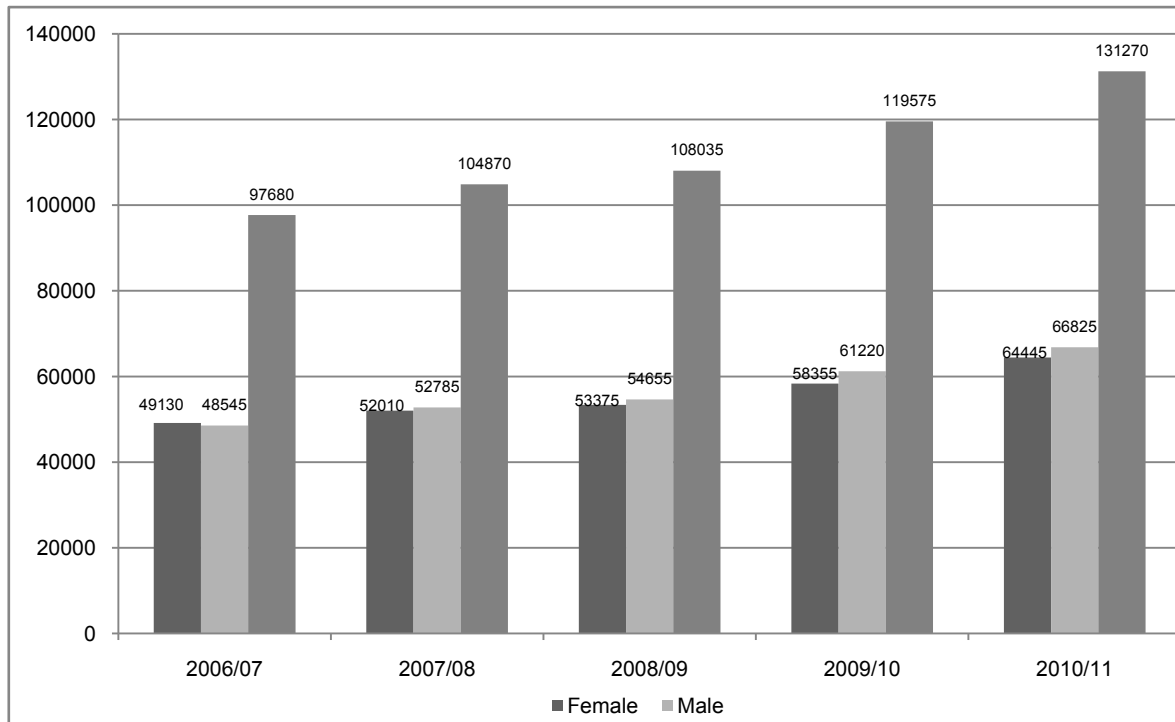
Chart 5.1 Higher Education qualifications attained in Law in UK HEIs, 2006/07 to 2010/11



Source: HESA, 2011

By contrast, there has been an increase of approximately a third in the number of higher education qualifications attained in Business and Administrative Studies over the period (Chart 5.2). While individuals with such qualifications will work across a variety of sectors, it is clear that there has been an increase in the supply of individuals with such qualifications. The share by gender is fairly even, but with slightly more such qualifications attained by men than by women from 2007/08 onwards. As noted above, it should be borne in mind that the sector competes for individuals with higher education qualifications across many subject areas.

Chart 5.2 Higher Education qualifications attained Business and Administrative Studies in UK HEIs, 2006/07 to 2010/11



Source: HESA, 2012

Some employers in the sector are looking to broaden their recruitment pool for high skilled jobs, given ongoing changes in the higher education sector. Many employers in the City of London have traditionally recruited from elite universities. As illustrated in the case study below, some of these employers are looking to widen their recruitment pool and to help local individuals from adjacent deprived areas to access jobs that, traditionally, have been seen as beyond their reach.

Case Study: Widening Recruitment – Ways into Work

The challenge

With changes in higher education fees and funding employers have started to look at alternative recruitment channels, by helping local residents from adjacent deprived areas access jobs that conventionally they have not seen as being 'for them.'

The approach

The City of London Corporation has formed recruitment partnerships with employers to introduce local residents into paid placements in City companies. The ***City of London Business Traineeship (CBT) scheme*** places around 90 A-level school and college leavers from the City fringes into paid placements in City companies each year. The Programme is delivered by the Brokerage Citylink, a charity assisting local job-seekers into City employment.

The benefits

While the sector will still rely on international migration to fill some posts at senior levels, these activities introduce young people to employment opportunities in the City, whilst also promoting local recruitment to City firms. For many firms, the scheme is an excellent fit with their agenda to promote diversity in the workplace, whilst also providing a talented source of local labour.

http://www.cityoflondon.gov.uk/Corporation/LGNL_Services/Education_and_learning/

Although numbers taking accountancy/business qualifications at school and university increased by 11 per cent between 2006 and 2010, there is an interest in widening the talent pool by providing alternative routes of entry. In accountancy, for example, employers and others are coming together to provide new routes of entry (see case study below).

Case study: Broadening the talent pool in accountancy

The challenge:

Accountancy contributes to economic growth not only through specialist accountancy firms but also through the contribution it makes to business across industries. Ensuring the profession is able to secure the best talent and the right skills is essential for this to continue.

The approach:

Employers are taking a leading role in partnership with universities and with the professional accounting bodies to 'grow their own' supply of skills. The *KPMG School Leaver Programme* is one example of where this has been a success. It is a partnership between the firm, Durham and Exeter Universities and professional accountancy and together they have developed and embedded a tailored and degree programme.

The benefits:

Students have a job and salary from the outset, and complete the programme with a degree and professional qualification after 6 years. The programme provides a vocational route to gaining a degree by providing a blend of work experience and professional qualifications which the employer has helped shape. As a result the employer has access to a ready-made pool of candidates prepared for full-time employment with the skills, qualifications and experience it requires. The programme appeals to talented individuals who traditionally may not see university as an option or who wish to avoid the debts associated with full-time higher education. KPMG envisages that school leaver schemes of this type may account for the majority of its annual trainee Chartered Accountant intake in the future.

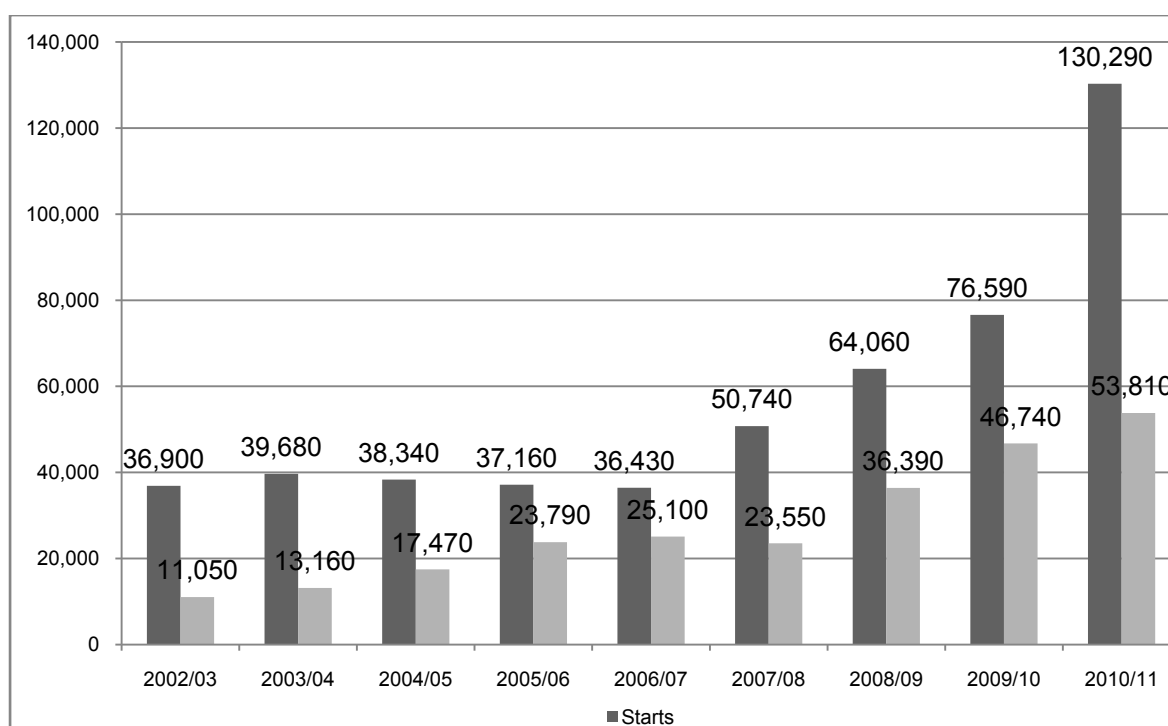
Source: UKCES (2011b)

With Growth and Investment funding from the UK Commission, the Financial Skills Partnership will develop a foundation college, pre-employment programme, internships and an employment pathway, which will recruit unemployed graduates and fast track their employability into Small and Medium sized Enterprises.

While the professional and business services sector has traditionally drawn on higher education for its supply of skills, Apprenticeships have had less prominence than in sectors such as construction. Table 5.2 shows starts in Intermediate (Level 2 Apprenticeships), Advanced Apprenticeships (Level 3) and Higher Apprenticeships by age between 2002/03 and 2010/11 for Business, Administration and Law (note that this is a broad framework and that these apprentices will be engaged in a wide range of industries other than professional and business services.)

Chart 5.3 shows Business, Administration and Law Apprenticeship starts and achievements between 2002/03 and 2010/11. It is clear that the numbers of starts has risen considerably in recent years by more than 250% compared with 173% for all apprenticeship starts, Much of the growth reported in Chart 5.3 is accounted for by those aged 19 and over. It seems likely that this is indicative of Apprenticeships increasingly being taken up by employees at their employer's request, to enhance their skills. The interesting issue here is whether Apprenticeships will increasingly provide a pathway into a sector which has relied heavily upon graduates from higher education.

Chart 5.3 Business, Administration and Law Apprenticeship starts and achievements (all levels), 2002/03 to 2010/11



Source: The Data Service (2012)

Notes: 2010/11 figures are provisional

Over the period from 2002/03 to 2005/06 the majority of starts were by apprentices under the age of 19 years at intermediate level, (NQF level 2), and a small majority of these were aged less than 19 years. Starts at advanced level (NQF level 3) are mainly accounted for by individuals aged between 19 and 24 years, whilst starts at advanced level (NQF level 4) have been more evenly distributed between under 19 years of age and 19 to 24 year olds. From 2008/09 onwards starts on Advanced Apprenticeships by individuals aged over 25 years have outstripped those in each of the two younger age groups shown in Table 5.3.

Table 5.3 Business, Administration and Law Apprenticeship starts by level and age, 2002/03 to 2010/11

Intermediate Apprenticeships									
	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11
<19	15,650	15,750	15,220	14,110	13,140	12,910	11,720	17,680	24,070
19-24	11,730	13,490	13,690	13,460	13,040	16,970	17,300	22,290	27,080
25+	-	-	10	10	20	6,640	15,520	13,280	34,920
Total	27,380	29,190	28,920	27,570	26,210	36,520	44,530	53,250	86,070
Advanced Apprenticeships									
	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11
<19	2,290	2,430	2,360	2,450	2,730	2,570	2,370	2,640	4,250
19-24	7,230	8,060	7,050	7,120	7,450	7,240	6,970	9,500	12,060
25+	-	-	10	20	40	4,420	10,110	9,900	25,900
Total	9,520	10,490	9,430	9,590	10,220	14,220	19,450	22,040	42,220
Higher Apprenticeships									
	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11
<19	-	-	-	-	-	-	20	100	130
19-24	-	-	-	-	-	-	70	1,080	1,220
25+	-	-	-	-	-	-	10	120	650
Total	-	-	-	-	-	-	90	1,300	2,000
All Apprenticeships									
	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11
<19	17,940	18,180	17,580	16,570	15,870	15,480	14,100	20,420	28,460
19-24	18,960	21,500	20,740	20,570	20,490	24,210	24,340	32,870	40,360
25+	-	-	20	20	60	11,050	25,630	23,300	61,470
Total	36,900	39,680	38,340	37,160	36,430	50,740	64,060	76,590	130,290

Source: Data Service (2012)

Notes: 2010/11 figures are provisional

Estate agency and property is an example of a sub-sector that often recruits people with earlier experience in other sectors (see Case Study below). Apprenticeships in property services can provide training for new recruits and for existing staff. The downturn in the property market with the recession has also led to some employers giving more attention to investment in skills of their staff so that they can offer a broader and higher quality service to clients – whether through Apprenticeships, studying for NVQs, more structured work experience or in-house training.

Case Studies: Enhancing skills of new recruits and the existing workforce in estate agency and property services

The challenge

Enhancing skills is especially important in property services that recruits from older workers from other sectors, the unemployed, and younger people – with apprenticeships in property services provide training for new recruits & existing staff.

The approach

Keith Pattinson Estate Agents in north-east England have 90-100 staff enrolled onto Apprenticeship programmes to train as estate agents in residential sales and lettings; and in a new scheme with Jobcentre Plus takes on unemployed people and uses Apprenticeship funding to train them as self-employed estate agents. Skills training includes time spent in head office, in a local branch, in the auction department and in customer care.

The benefits

The scheme is well received by new recruits:

“I love this job and think I'm good at it. I feel extremely supported by the people I am working with. The training is flexible and fits around my work time,” unemployed individual taken on as an apprentice via the link up with Jobcentre Plus.

source:

<http://www.assetskills.org/PropertyAndPlanning/CaseStudies/PropertyPlanningCaseStudies.aspx>

5.3 Employer Investment in Skills

Employer Engagement with Training

In the UK Employers Skills Survey 2011: First Findings Report (Vivian *et al.*, 2011), 67 per cent of employers in financial, insurance and other professional services reported that they were providing training to their employees compared with 59 per cent of employers across all sectors (see Table 5.3). At 57 per cent the proportion of employers providing training in real estate and facilities management was similar to the average across the economy. The average number of days of training per trainee was 9.7 days in financial, insurance and other professional services, which was slightly more than across all sectors (8.9 days). The average number of days training in real estate and facilities management was slightly lower than the average across the economy, at 8.1 days.

Expenditure on training is higher in real estate and facilities management compared with economy as a whole: £4,000 spent per trainee compared with £3,200 in the economy as a whole. In contrast, financial, insurance and other professional services expended less than the UK average on training (£2,400 per trainee), though more employers in this sector engage in training and generally provided training of longer duration.

The Continuing Vocational Training Survey (Eurostat, 2005) provides comparative evidence about employers' training activities across the EU. The CVT's definition of training is, "pre-arranged training that was at least partially funded by your organisation or training that took place during employee's paid working time." This definition differs to that used in the UK Employer Skills Survey (Davies *et al.*, 2012), which asks about training arranged and/or funded by an employer in the last 12 months. The CVT survey indicates that during the last calendar year across the EU, 88 per cent of employers in financial intermediation provide training, compared with 96 per cent in the UK, and 75 per cent of employers in real estate in the EU provide training compared with 98 per cent in the UK. The incidence of training in finance and real estate in the UK is relatively high compared with the EU average across all sectors of 54 per cent. Whilst the incidence of training is relatively high, employers in the UK financial sector provide training of shorter duration (10 hours compared with 20 hours for the sub-sector in the EU). In the real estate sector employers in the UK provide training of the same duration: 10 hours in the EU and the UK respectively. In the UK, the average duration of training was 9 hours across all sectors, in line with EU figures.

Table 5.3 Employer Investments in Skill

	Financial, insurance & other professional services	Real estate and facilities management	All sectors
% of employers training	67	57	59
% of workforce receiving training	51	47	46
% average number of training days <i>per</i> trainee	9.7	8.1	8.9
Average expenditure on training <i>per</i> trainee	£2,450	£4,050	£3,275
Average expenditure on training per employee	£1,450	£2,075	£1,775

Source: *Davies et al. (2012)*

Note: *Based on SSA definition of the sector*

Base: *All trainers completing the Investment in Training Survey 87,572 unweighted*

Table 5.4 reveals that in 2011, relatively small shares of employers recruited people under 19 years of age straight into employment from school or college, averaging around three per cent. This is two per cent less than the all-sector average. In relation to higher education graduates, however, 10 per cent of employers in the financial, insurance and other professional services sub-sector recruited individuals to their first job directly recruitment directly from universities compared with an average of 7 per cent of employers across the whole economy. This contrasts markedly with only 3 per cent of employers in the real estate and facilities management sub-sector.

With respect to Apprenticeships, the *Employer Perspectives Survey* (UKCES, 2010) - which uses slightly different labels to describe the Professional and Business Services sector – provides information about the extent to which employers have recruited apprentices (see Table 5.5). The data reveal that in relation to both sub-sectors relatively few employers currently had apprentices in 2010 (3 per cent for both sub-sectors compared with 5 per cent across all sub-sectors). This is despite the fact that the take-up of apprentices in frameworks related to the sector have increased substantially over recent years as revealed in Chart 5.3.

Table 5.4 Recruitment of young people

	Financial, insurance & other professional services (%)	Real Estate and facilities management (%)	All sectors (%)
16 year olds recruited to first job from school	2	3	4
17 or 18 year olds recruited to first job from school	3	3	5
17 or 18 year olds recruited to first job from FE College	3	3	5
Recruited to their first job from University or other Higher Education institution	10	3	7

Source *Davies et al. (2012)*

Note: *Based on SSA definition of sector*

Base: *All establishments 85,069 unweighted (not asked in Scotland)*

Table 5.5 Recruitment of apprentices

	Financial intermediation (%)	Real estate, renting and business activities (%)	All sectors (%)
Currently have staff undertaking Apprenticeships	3	3	5
Currently offer but have no staff on Apprenticeships	1	3	4
Plan to offer Apprenticeships in future	6	9	8

Source: *Shury et al. (2011)*

Note: *Based on Employer Perspectives Survey definition*

Base: *All establishments 14,390 unweighted*

Table 5.6 outlines other measures of learning and development activity, such as the existence of training plans, budgets and annual performance reviews of staff. It reveals that where employers do train in the sector it tends to be relatively more formally organised with relatively high shares in both sub-sectors reporting that they have a training plan, or that they have a training budget in comparison with the all-sector average. Related to this, relatively high shares of employers also reported that they had annual performance reviews. Additionally a larger proportion of employers in real estate and facilities management reported that they assess the training they deliver (70 per cent compared with 66 per cent in

financial services, and 65 per cent in the economy as a whole). Table 5.6 also reveals that where employers engage in training, they are slightly less likely to provide training leading to a vocational qualification compared with all employers in the economy: 38 per cent of employers in financial services, and 39 per cent in real estate and facilities management did so compared with 43 per cent across all employers. In financial services, a relatively high share of training lead to a Level 4 qualification (22 per cent) compared with a 12 per cent average across all sectors. This reflects the point made earlier that this sub-sector is highly dependent upon people educated to at least degree level.

Table 5.6 Other Indicators of Training Activity

	Financial, insurance & other professional services	Real estate and facilities Management	All sectors
% all establishments with business plan	69%	68%	61%
% all establishments with training plan	45%	40%	38%
% all establishments with training budget	35%	32%	29%
Annual review of staff (all establishments)			
All staff reviewed	57%	52%	47%
No staff reviewed	31%	37%	43%
Provide training (all establishments)	67%	57%	59%
Train towards qualification (all employers providing training)	38%	39%	43%
Training to Level 2 qualification	5%	12%	14%
Training to Level 3 qualification	9%	12%	16%
Training to Level 4 qualification	22%	8%	12%
Assess training delivered	66%	70%	65%
% of employees trained towards a qualification in last 12 months	9%	12%	12%

Source: Davies et al. (2012)

Note: Based on SSA definition of sector

Base: All Establishments 87,572 unweighted; Where the base is all establishments providing training, this is 66,916 unweighted establishments

The statistics above give an overview of the level of training and skills development activity undertaken by employers, but insights can also be obtained from looking at specific examples of employers' training activities and the value they place in what they provide.

Employer use of, and satisfaction with, the external training infrastructure

Much of the discussion above relates to how employers engage with the external vocational training system. Table 5.7, from the Employer Perspectives Survey 2010 shows the extent to which employers in the sector engage with the external training system.

Table 5.7 Use of External Training Providers

	Financial intermediation	Real estate, renting and business activities	All
Private training providers	47	57	54
Further Education colleges	8	23	23
3 rd Sector / not for profit providers	11	16	19
Higher Education Institutions	11	11	13
No external providers	42	27	29

Source: Shury et al. (2011)

Note: Based on Employer Perspectives Survey definition

Base: All establishments 11,568 unweighted

The evidence suggests that employers in financial intermediation are less likely to engage with external training providers than employers in general: 42 per cent of these employers had no contact with external providers compared with 27 per cent of business services employers and 29 of all employers. Employers in business services were just as likely to make use of the different types of trainer as employers in the economy as a whole, but those in financial intermediation were less likely to make use of any type of provider. Given that the evidence presented earlier (table 5.3) suggests that relatively high shares of employers in the finance sub-sector invest in training this suggests that it is being conducted in-house.

Where employers in financial intermediation engaged with further education colleges they were less likely to be satisfied compared with business service employers or all employers generally. Their satisfaction score was 6.8 - out of 10 where a high score indicates relative satisfaction – compared with 7.8 in business services and 7.4 for all employers. The same pattern emerges with respect to satisfaction with using higher education institutions. Where financial intermediation employers engaged with higher education institutions they were less likely to be satisfied compared with business service employers or all employers generally. Their satisfaction score was 6.8 compared with 7.7 in business services and for all employers respectively.

Skills Utilisation

It is not just through formal training of one kind or another that employers can increase their supply of skills; sometimes there is an extant supply of skills within their current workforce which is not being used for one reason or another. The evidence from the UK Employers Skills Survey (UKCES, 2012) suggests that in the economy generally around 49 per cent of establishments have employees whose qualifications and skill levels are in advance of those required to do their jobs. This compares with 45 per cent of employers in the financial, insurance & other professional services sub-sector and 49 per cent in real estate and facilities management.

Even though the percentage of employers in the sector reporting that some staff are under-utilised is at or below the UK average, the evidence nonetheless suggests that substantial proportions of employers may have an extant stock of skills which could be used within the organisation. Investors in People – which is addressed in Chapter 6 – is a specific programme which looks to effectively deploy skills in the workplace and which might ensure that employees' skills are fully utilised, but there are a range of measures employers can take themselves to achieve this end. One way of ensuring effective deployment of skills is by having measures in place which allow employees with high potential or particular talents to be identified and nurtured. The data from the UK Commission's UK Employer Skills Survey indicates the extent to which employers have such processes in place (see Table 5.8). The main finding is that the financial, insurance & other professional services sub-sector is more likely to have formal or informal measures in place compared with either the real estate and facilities management sub-sector or the economy overall. Again, this may reflect this sub-sector's relative dependence upon highly skilled and qualified employees.

Table 5.8 Processes in Place to Identify Talented Individuals

	Financial, insurance & other professional services (%)	Real Estate and facilities management (%)	All sectors (%)
Yes, formal processes	18	13	14
Yes, informal processes	33	30	31
No	47	52	52
Total	100	100	100

Source

Davies et al. (2012)

Note:

Based on SSA definition of sector / Don't Knows have been excluded

Base:

All establishments 87,572 unweighted

5.4 Migrant Labour Supply

The professional and business services sector is relatively migrant-intensive. A key reason underlying this is the fact that the sector in London is internationally-oriented, and global businesses require staff to be mobile internationally to serve their clients. It is in London where concerns about the introduction, and more especially, the operation, of the Points Based System and a migration cap on migrants from outside the European Economic Area (EEA) have greatest impact (as outlined in section 3.5).

The introduction of migration limits in April 2011 forced businesses recruiting from outside the EEA to review recruitment policies and skills needs. In internationally-oriented professional and business services firms in London, a good deal of mobility in professional and business services (as in other sectors) occurs under Intra Company Transfers; the Consensus Research (2011) study describes them as “business critical”. Intra Company Transfers are not included under the quota system, but to be eligible for an Intra Company Transfer an individual must have worked for at least a year with a particular company before they can enter the UK.

While businesses in the sector recruit locally where this fulfils their skills requirements, there are advantages of recruiting non-EEA nationals to provide cultural, linguistic and business insights and expertise in new markets outside the UK. The Consensus Research (2011:35) study raised concerns that a restrictive migration policy erodes London’s status as a global business centre, especially given perceptions that getting to the UK is “very complicated, messy and expensive”.

There are ‘inward multiplier effects’ and ‘outward multiplier effects’ around migration. In the former instance, a team built around a skilled migrant worker could create jobs filled by recruitment from the resident labour market. Multiplier effects can, however, work in the opposite direction, where because a visa cannot be secured for a skilled migrant worker in the UK, teams of non-EEA and UK workers might be relocated elsewhere:

“There have been instances when a Bank in the City of London has said they will not bring employee X into London because it is so difficult, they can reorganise themselves and send employee X to Zurich instead and they will base employee X and his department out of Zurich” (Consensus Research, 2011: 34).

This demonstrates the challenges inherent in achieving an appropriate balance in migration policy to attract new jobs and secure comparative advantage for the UK.

5.5 Conclusion

The evidence demonstrates that the financial and professional services parts of the sector have traditionally recruited from higher education and have also relied on the ability to bring in talent from outside the UK, especially in order to compete in global markets. Professional institutes have a long history in developing and upholding standards and their strong reputation for doing so has benefited professional and business services in the UK. In some other parts of the sector there has been less tradition of recruiting from higher education, and in recent years many employers have developed Apprenticeships as a means of developing the skills of their workforce. Employer investment in skills is slightly greater in the sector than across the whole economy, but whether this will be maintained in the face of pressures on training budgets remains to be seen. Restrictions on international migration from outside the EEA mean that some employers will need to recruit more people from the UK and EEA. It is important that suitably qualified potential recruits are available in order to maintain the UK as an attractive location for internationally footloose services.

6 Skill Mismatches

6.1 Defining Skill Mismatches

Previous evidence has demonstrated that mismatches between the demand for, and supply of skills, can be damaging for organisational performance (Wilson and Hogarth, 2003). To some extent, skill mismatches result from ongoing processes of technical and organisational changes within firms, and shifts in the pattern of demand for skills in external markets. To some degree, these will be transitional mismatches as the demand side begins to fully articulate its skill requirements and the supply side responds accordingly. But there are also likely to be structural mismatches where the demand for, and supply of, skills remain out of kilter despite the market signalling what skills are required.

As there is no direct measure of mismatches between the demand for, and supply of, skills at the sectoral level, inferences about the balance between the two are typically made through various means given that each measure provides only partial information. There are several common methods of gauging the level of mismatch. One is observing trends in wages which assumes that employers respond to difficulties finding the skills they need by increasing wages. A second is estimating the rate of return to obtaining sector related qualifications; this provides a further indication of the extent to which a premium is attached to obtaining the skills deployed in a given sector. A third way of measuring skills mismatches is to examine employer reports of skill mismatches in the form of hard-to-fill vacancies (HtFVs) (i.e. vacancies which the establishment is finding it difficult to fill) and skill-shortage vacancies (SSVs) (i.e. vacancies which are difficult to fill due to the establishment not being able to find applicants with the appropriate skills, qualifications or experience). This can provide an indication of the difficulties employers have in recruiting people from the external labour market with the skills and attributes they require. Surveys also capture information about problems employers experience with the skills of existing staff with respect to the extent they lack full proficiency in their jobs (*i.e.* skill gaps). This chapter focuses on relative wage growth, evidence of employer-related skill deficiencies and the causes, impacts and remedies for these gaps.

6.2 Evidence of Relative Wage Growth

Table 6.1 provides a comparison of wage levels for full-time employees in professional and business services based on the classification provided in Table 2.1.

The median and mean wage in financial and insurance activities exceeds the all full-time employee average across the total economy, and wage levels have also increased faster in the sector relative to the economy as a whole. This disguises different patterns in different sub-sectors, with central banking, life insurance and security and commodity contracts brokerage all seeing a decline in annual pay. The averages presented here also disguise large variations within sub-sectors, with fund managers having median and mean gross annual pay at least double the sub-sector average.

For legal and accounting activities average gross pay is similar to that for the total economy, but there was a reduction over the year. Gross annual pay for full-time employees in real estate activities is lower than the average across the whole economy. It should be noted that this snapshot covers what, in terms of the historical trend, has been an atypical period for the sector, given the impact of the financial crisis and recession. It is also apparent that mean gross pay in rental and leasing has grown at more or less the same rate as all pay, but in employment activities it has contracted by a relatively large amount compared with the whole economy.

Table 6.1 Annual pay - Gross (£) - For full-time employee jobs, selected sub-sectors in the UK, 2010

	SIC Code	Median	Annual percentage change	Mean	Annual percentage change
All Employees (all sectors)		25,882	0.3	32,204	1.0
Financial service activities, except insurance and pension funding	64	33,399	4.8	54,156	13.3
Insurance, reinsurance and pension funding, except compulsory social security	65	31,568	-1.8	43,436	-3.0
Activities auxiliary to financial services and insurance activities	66	35,000	0.0	64,892	2.2
Real estate activities	68	24,772	1.5	31,805	-4.5
Legal and accounting activities	69	30,090	-2.6	38,361	-4.8
Activities of head offices; management consultancy activities	70	36,000	6.3	52,628	
Rental and leasing activities	77	23,299	-0.9	27,644	0.9
Employment activities	78	20,000	-9.1	25,393	-12.4

Source: Annual Survey of Hours and Earnings 2010 (Revised Tables, Table 4.7a)

Note: Based on SIC 2007; Annual Gross Pay - employees on adult rates who have been in the same job for more than a year.

Education is an important determinant of wage and tertiary education brings substantial economic benefits for individuals. An individual with a higher education qualification can expect to earn over 50 per cent more than an individual with an upper secondary or post-secondary non-tertiary education (OECD, 2011). As outlined in previous chapters, the professional and business services sector has a higher proportion of highly qualified workers than the economy as a whole.

6.3 Evidence of employer reported skill deficiencies

The UK Commission's UK Employer Skills Survey (Davies et al., 2012) provides an opportunity to gauge the current state of recruitment problems at a time when demand in professional and business services is stabilising following the downturn of the recession. Tables 6.2a details the vacancies, hard-to-fill vacancies (HtFV), skill shortage vacancies (SSV) and skills gaps for two sub-sectors of professional and business services (financial, insurance and other professional services, and real estate and facilities management).

Table 6.2a Incidence of Skill Deficiencies

	Financial, insurance & other professional services	Real estate and facilities management	All Sectors
Vacancies (total)	58,847	31,115	635,900
Vacancies / 1,000 employees	28.7	26.3	23.1
% of establishments with at least one vacancy	13%	10%	12%
HtFVs (total)	11,732	5,773	143,550
% of establishments with at least one HTFV	3%	3%	4%
SSVs (total)	10,623	4,252	103,453
SSVs / 1,000 employees	5.2	3.6	3.8
% of establishment with at least one SSV	3%	2%	3%
Skill gaps	92,599	64,302	1,489,500
Skill gaps / 1,000 employees	45.1	54.3	54.1
% of establishments reporting a skill gap	12%	8%	13%

Source: Davies et al. (2012)

Base: Vacancies as a % of employees based on all employment (N=87,571 establishments unweighted).

Hard-to-fill vacancies as a % of vacancies based on all vacancies (N=17,166 establishments unweighted)

SSVs as a % of vacancies based on all vacancies (N=17,166 establishments unweighted)

Skills gaps as a % of employees based on all employment (N=87,571 establishments unweighted)

Notes: numbers rounded to nearest 50
based on SSA definition of sector

Table 6.2b looks at the extent of skill shortages as a proportion of all vacancies and skills gaps as a proportion of all employees.

Table 6.2b Density of Skill Deficiencies

Density	Financial, insurance & other professional services	Real estate and facilities management	All sectors
Vacancies as a proportion of employees	3%	3%	2%
HTF vacancies as a % of vacancies	20%	19%	23%
SSV as % of all vacancies (prompted plus unprompted)	18%	14%	16%
Skills gaps as a % of all employees	5%	5%	5%

Source: Davies et al (2012)

Base: Vacancies as a % of employees based on all employment (N=87,571 establishments unweighted).

Hard-to-fill vacancies as a % of vacancies based on all vacancies (N=17,166 establishments unweighted)

SSVs as a % of vacancies based on all vacancies (N=17,166 establishments unweighted)

Skills gaps as a % of employees based on all employment (N=87,571 establishments unweighted)

Notes: numbers rounded to nearest 50 based on SSA definition of sector

Vacancies are higher in both sub-sectors than across the economy as a whole. In financial, insurance and other professional services vacancies are more prevalent than across the whole economy, but HtFVs are slightly less than the all-sector average. Most of these vacancies are the result of a lack of available skills (SSVs). In this sub-sector, the gap relative to the picture across the economy as a whole is more pronounced for SSVs than for HtFVs, thus underlying that skill shortages are more of an issue for the sub-sector than across the economy as a whole. Conversely, for real estate and facilities management, the prevalence of HtFVs and SSVs is slightly below the whole economy average.

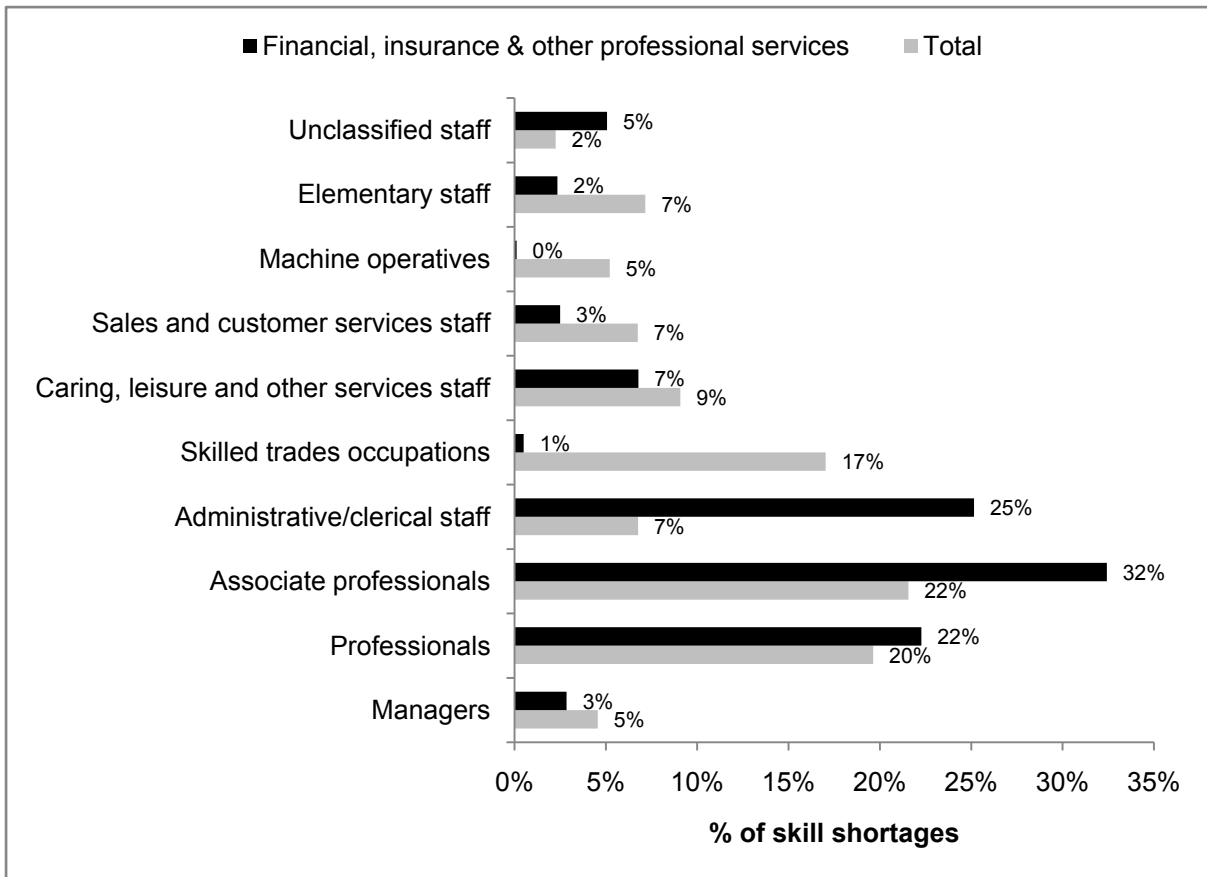
In relation to skills gaps – the extent to which employers regard their workforce as being fully proficient in their existing job – the level of skills gaps in financial, insurance and other professional services is lower than in the economy more generally. In real estate and facilities management the level of skills gaps is similar to that across the economy as a whole.

6.4 Other Evidence on Skill Deficiencies

Across the economy as a whole the incidence of skill shortage vacancies is greatest in associate professional and technical occupations and professional occupations (see Figure 6.1 for financial, insurance and other professional services and Figure 6.2 for real estate and facilities management). These occupations account for a greater than average share of employment in financial, insurance and other professional services, and this is reflected in a higher than aggregate share of skill shortage vacancies in these occupations. The administrative and clerical occupation group also accounts for a large proportion of skill shortage vacancies (Chart 6.1).

Associate professional and technical occupations and administrative staff are also crucial groups for the real estate and facilities management sub-sector. Chart 6.2 highlights a larger share of skills shortage vacancies in elementary occupations in real estate and facilities management than across the economy as a whole.

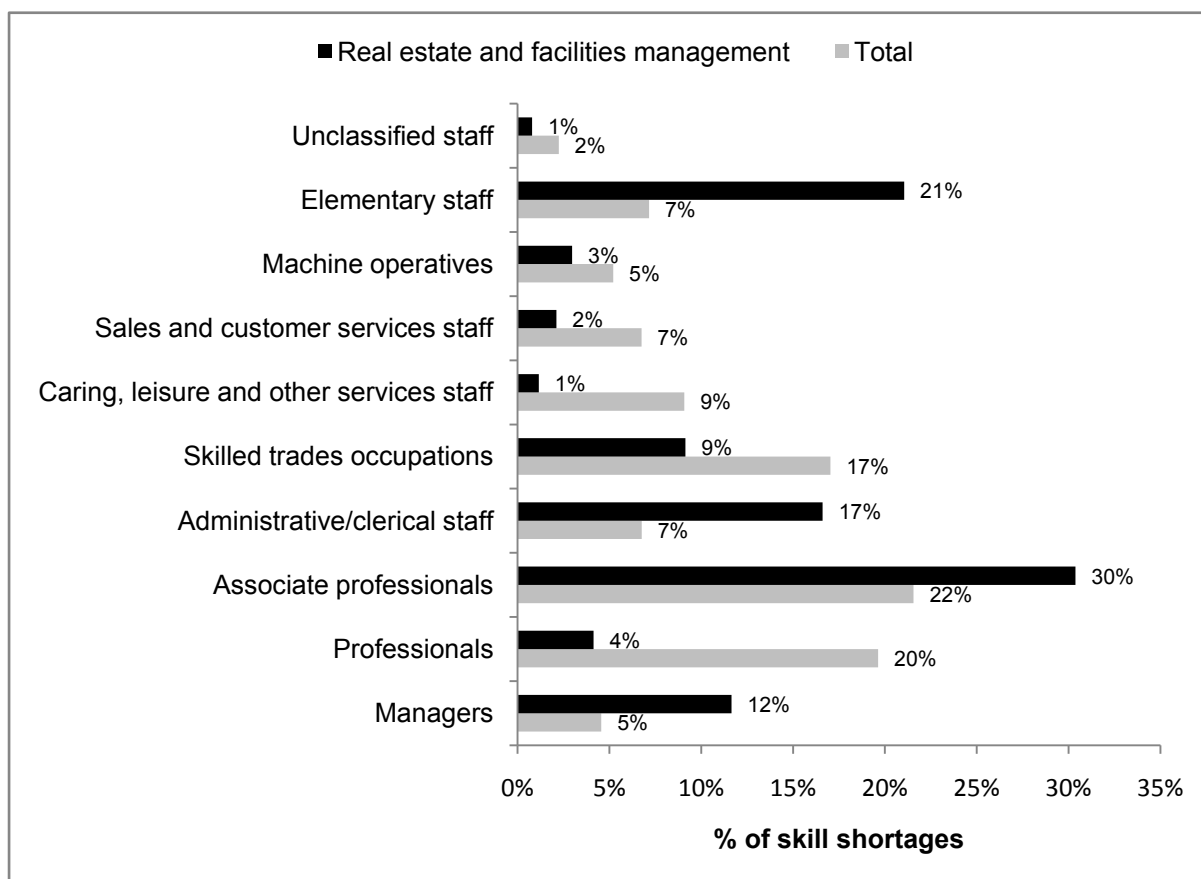
Chart 6.1 Occupational distribution of skill shortages in financial, insurance and other professional services



Source: Davies et al. (2012)

Base: All skill shortage vacancies;

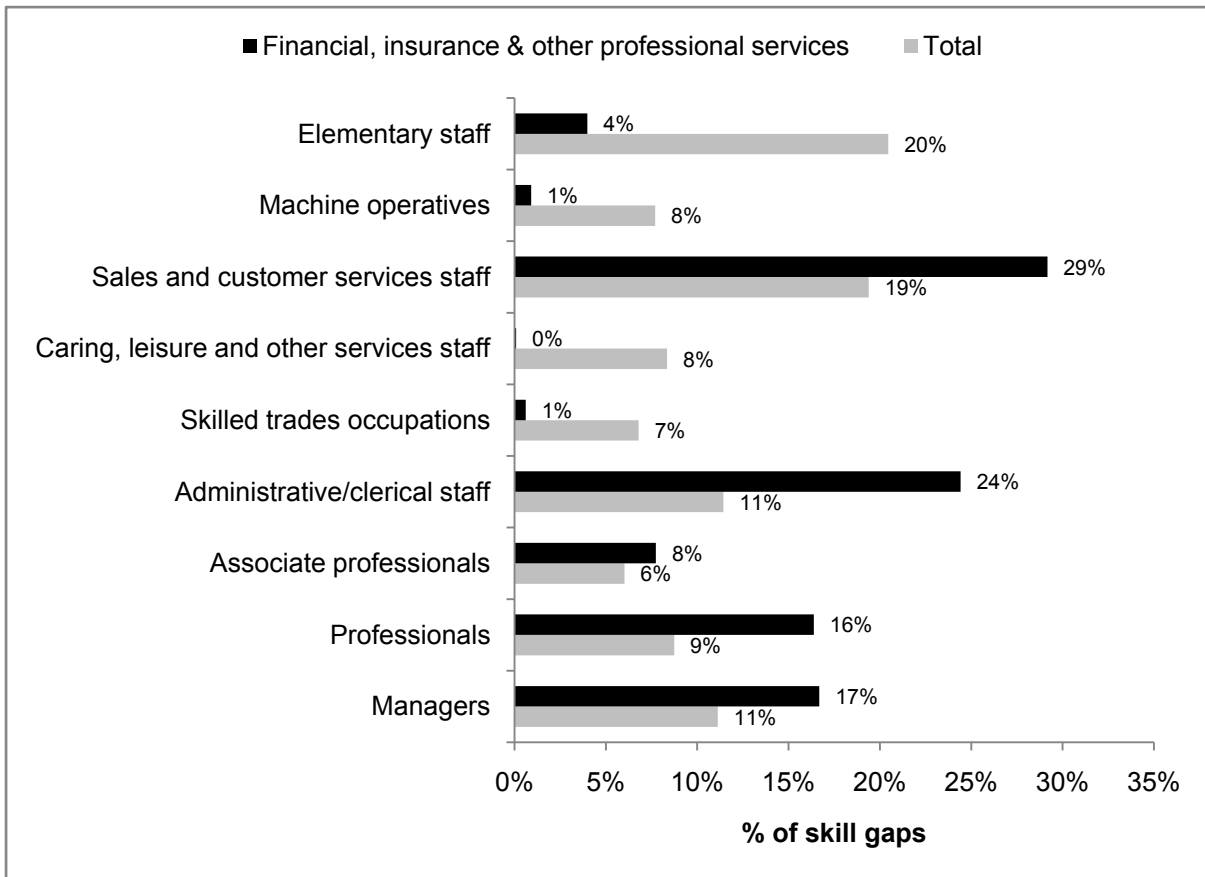
Chart 6.2 Occupational distribution of skill shortages in real estate and facilities management



Source: Davies et al. (2012)
 Base: All skill shortage vacancies

Chart 6.3 reports on the distribution of skill gaps in financial, insurance and other professional services. Skill gaps are disproportionately shared among managerial, professional, associate professional and technical occupations, administrative / clerical and sales and customer service occupations in the sub-sector, relative to the picture across the whole economy. This reflects the occupational structure of employment in this sub-sector, it also points to the need for upgrading of skills to meet changing requirements (e.g. with respect to regulation).

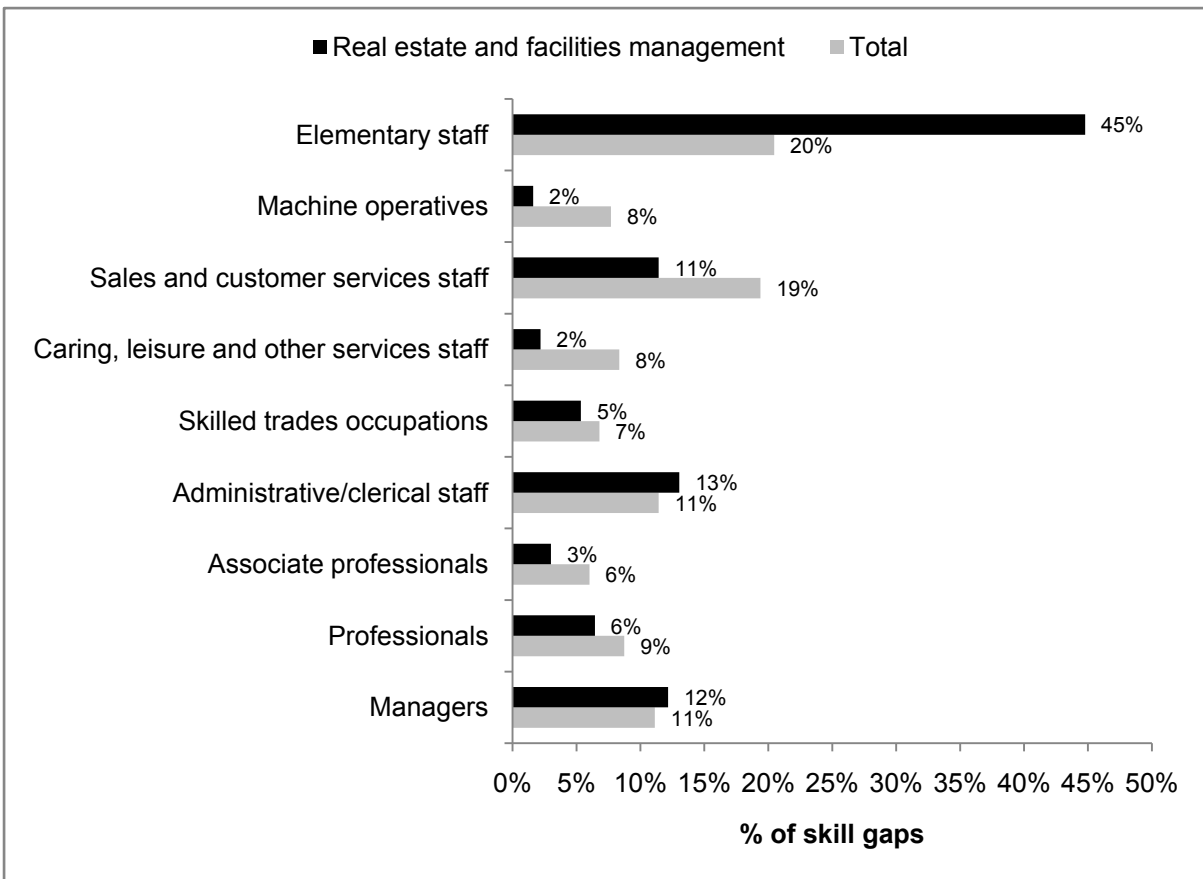
Chart 6.3 Occupational distribution of skill gaps in financial, insurance and other professional services



Source: Davies et al. (2012)
 Base: All skills gaps

In real estate and facilities management the key feature evident from Chart 6.4 is the disproportionate percentage of skill gaps reported among elementary occupations. This is likely to reflect the increasingly diverse portfolio of attributes and skills required in this sector, especially given ongoing pressures to provide services as efficiently as possible.

Chart 6.4 Occupational distribution of skill gaps in real estate and facilities management



Source: Davies et al. (2012)

Base: All skills gaps

Evidence from the *National Strategic Skills Audit* (UKCES, 2010) indicates that, compared with the economy as a whole, relatively more managers in the sector are qualified to Level 4 and more people in associate professional positions are qualified to at least Level 3. This suggests the extent to which there is less of a qualifications deficit in this sector than is the case in others.

6.5 Causes, Impacts and Remedies

Causes and Impacts

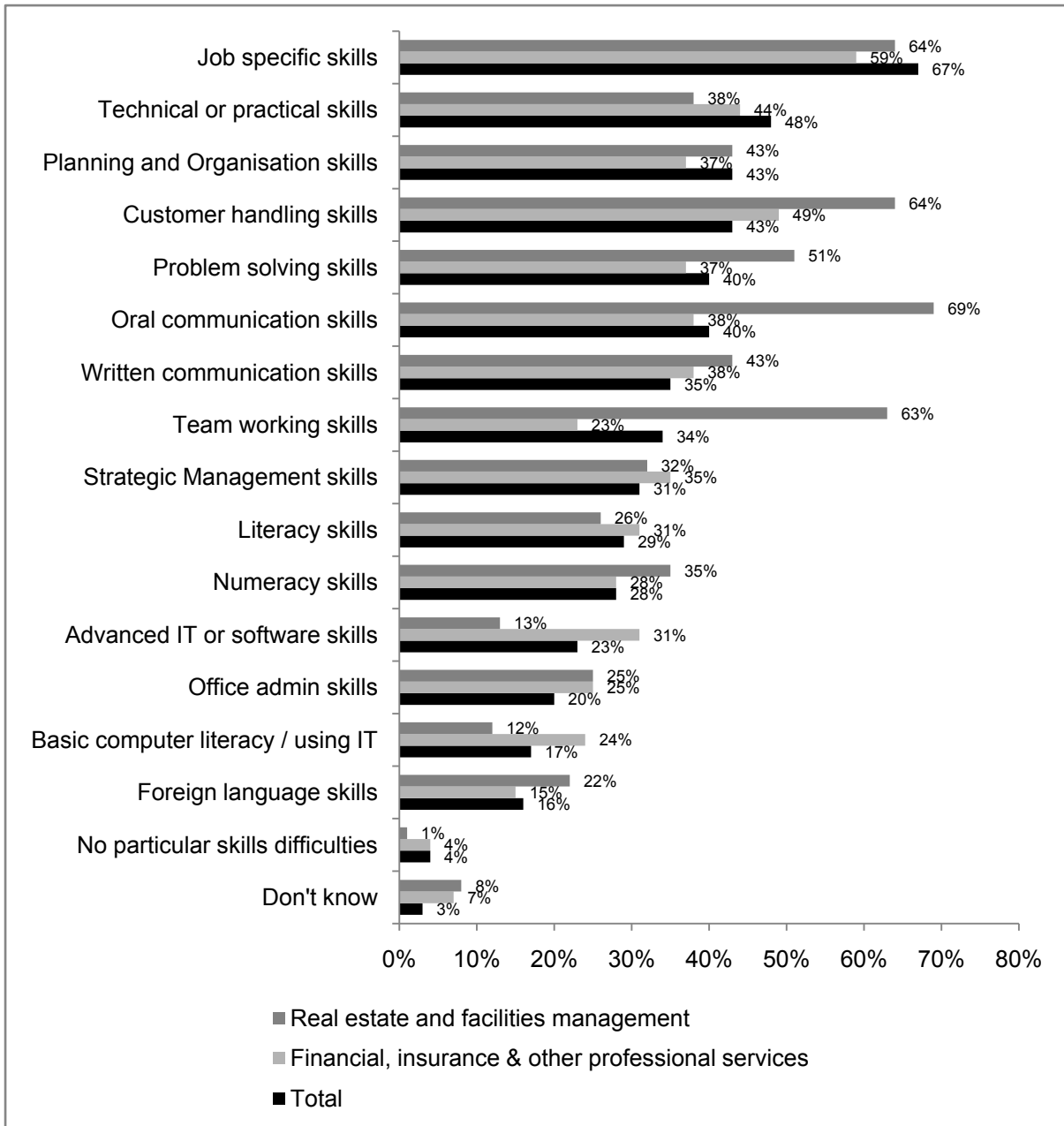
The UK Employer Skills Survey 2011 (UKCES, 2012) provides a wealth of information about the causes and implications of skill shortages and skill gaps. In general, the main cause of skill shortages was reported as being a shortage of applicants with the required skills, reported by 46 per cent of financial, insurance and other professional services employers and 39 per cent of real estate and facilities management employers, compared with 40 per

cent of employers across all sectors. A lack of work experience the company demands was also commonly cited, particularly in the financial, insurance and other professional services sub-sector (38 per cent, compared with 28 per cent in real estate and facilities management and 21 per cent in the economy as a whole). In the real estate and facilities management sub-sector a low number of applicants with the required motivation or attitude was a commonly cited cause (35 per cent, compared with 18 per cent of all employers); for financial, insurance and other professional services the proportion was 22 per cent. A lack of qualifications the company demands was also cited as more commonly than average (19 per cent, compared with 11 per cent of all employers) for the financial, insurance and other professional services sub-sector.

Chart 6.5 shows a range of skills that employers found difficult to obtain from applicants. For financial, insurance and other professional services, the skills most commonly cited among employers as being hard to obtain were job-specific skills (mentioned by 59 per cent of sub-sector employers compared with 67 per cent of all employers) The next most commonly cited skills that were difficult to obtain were customer handling skills (mentioned by 49 per cent of sub-sector employers compared with 43 per cent of all employers). Next, technical and practical skills (mentioned by 44 per cent of sub-sector employers), oral communication skills and written communications skills (each mentioned by 38 per cent of employers) were reported as hard to come by. In these three instances, the proportions were similar to the shares for all employers. Employers in the sub-sector were more likely to cite difficulties in obtaining advanced IT and software skills (31 per cent of sub-sector employers compared with 23 per cent of all employers) and basic IT skills (mentioned by 24 per cent of sub-sector employers compared with 17 per cent of all employers).

For employers in the real estate and facilities management sub-sector the profile of skills they found difficult to obtain from applicants were rather different (see Chart 6.5). Those most commonly cited were oral communication skills (cited by 69 per cent of sub-sector employers compared with 40 per cent of all employers), customer handling skills (mentioned by 64 per cent of sub-sector employers and 43 per cent of all employers, and job specific skills (where the respective proportions were 64 per cent of sub-sector employers and 67 per cent of all employers). Other skills cited by a large share of real estate and facilities management employers, and to a greater extent than all employers, were team working skills (63 per cent of sub-sector employers compared with 34 per cent of all employers) and problem solving (mentioned by 51 per cent of sub-sector employers and 40 per cent of all employers).

Chart 6.5 Types of skills employers found difficult to obtain from applicants



Source: Davies et al. (2012)

Base: All employers with prompted or unprompted skill shortage vacancies

The main implications of skill shortages for the operation of the organisation was to increase the workload of others, mentioned by 83 per cent of financial, insurance and professional services employers, 85 per cent of real estate and facilities management employers and 83 per cent of all employers. In the financial, insurance and professional services sub-sector the next most cited implications were having difficulty meeting customer service requirements (mentioned by 50 per cent of sub-sector employers compared with 45 per cent of all

employers) and losing business to competitors (mentioned by 42 per cent of sub-sector employers, which was the same proportion as for all employers). In real estate and facilities management the main implications of skill shortages were delays experienced in developing new products and services, difficulties meeting quality standards and losing business to competitors, mentioned by 67 per cent, 66 per cent and 57 per cent of sub-sector employers, respectively, compared with 41 per cent, 34 per cent and 42 per cent of all employers.

Remedies

The main responses to experiencing skill shortages were to use new recruitment methods or channels, particularly by financial, insurance and professional services employers, and to increase advertising or recruitment spend, particularly by real estate and facilities management employers. Employers in real estate and facilities management were slightly more likely than all employers to increase or expand trainee programmes (9 per cent indicated that they would do this, compared with 6 per cent of all employers, and only 4 per cent of finance, insurance and professional services employers).

The case study below provides an example of how, in facilities management, achieving an appropriate blend of skills across a wide range is crucial. Apprenticeships have a role to play in enabling workers to gain an appreciation of their role in a way that was difficult to achieve before such investment in training.

Case Study: Broadening skills to provide quality and efficiency in facilities management

The challenge

Facilities management is concerned with providing expertise and services such as catering, cleaning, portage, reception, security, and office supplies to ensure a smooth operating environment. Career progression often involved a specialist moving into a generic facilities management role. A specific skill-set deficiency in facilities management is an appropriate blend of commercial awareness, people management and financial management skills, alongside technical and practical skills.

The approach

Broadening skill-sets can provide quality and efficiency in facilities management. A new **Apprenticeship in Facilities Management** was developed jointly by Asset Skills (the relevant Sector Skills Council), trade bodies and employers whereby the skills and experience of current managers are accredited and any gaps in knowledge and skills can be identified and filled.

The benefits

Compass Group UK and Ireland piloted the Level 3 Apprenticeship programme - covering building maintenance, energy management, resource management, environmental protection, procurement, security, reception and customer care. The company can see "significant benefits for our business going forward," giving individuals "a much better understanding of how to deliver services and manage all the different aspects efficiently and effectively."

Source: <http://www.compass-group.co.uk/facilities-management-qualification.htm>

A further case study amplifies the points made above in the apprenticeship programme being rolled out by HSBC (City & Guilds, 2012) (see case study below).

Case Study: HSBC's use of apprenticeships to help professionalise their workforce

The challenge

With a headquarters in London and around 7,500 offices around the world, HSBC is one of the largest banking and financial services organisations in the world.

HSBC aims to realise competitive advantage by providing a superior service to customers. This means investing in the workforce. The underlying philosophy is that if employees believe that HSBC is the 'Best Place to Work', they will deliver a service such that customers recognise HSBC as the 'Best Place to Bank'.

The approach

Apprenticeships have been selected as an ideal means of helping professionalise the workforce because they are work based training programmes that are designed to give people the skills, knowledge and understanding that they need to do their job well.

The benefits

The approach has been tested at an office in Birmingham providing a range of supporting services to credit and debit card customers. Feedback indicates 85 per cent of the apprentices there believe that the programme will up-skill them and more than 90 per cent say that their learning plan is relevant to them and that their line managers are supportive.

HSBC is continuing to develop their approach as apprenticeships are rolled out to different areas of the business. Between September and December 2011 over 300 employees joined the apprenticeship programme in a number of pilot areas across the branch network.

Source: <http://www.million-extra.co.uk/downloads/The%20Value%20of%20Apprenticeships.pdf>

In relation to skill gaps experienced in role, these were seen to result from staff being only partially trained or being new to their role. Real estate and facilities management employers also reported that skills gaps resulted from staff not receiving the appropriate training (33 per cent, compared with 27 per cent of all employers) and the introduction of new technology (25 per cent, compared with 19 per cent of all employer). The relatively low incidence of skills gaps in financial, insurance and other professional services is reflected in the fact that the only reasons sub-sector employers were more likely than all employers to report was that staff were new or only partially trained.

The skills that needed improving were most commonly:

- job specific skills (reported by 68 per cent of financial, insurance and other professional services employers and 60 per cent of real estate and facilities management employers, compared with 61 per cent of all employers);

- planning and organisational skills, (53 per cent of financial, insurance and other professional services employers and 52 per cent respectively of real estate and facilities management employers and 52 per cent of all employers.)
- customer handling skills, (46 per cent of financial, insurance and other professional services employers, 43 per cent of real estate and facilities management employers, and 42 per cent of all employers.

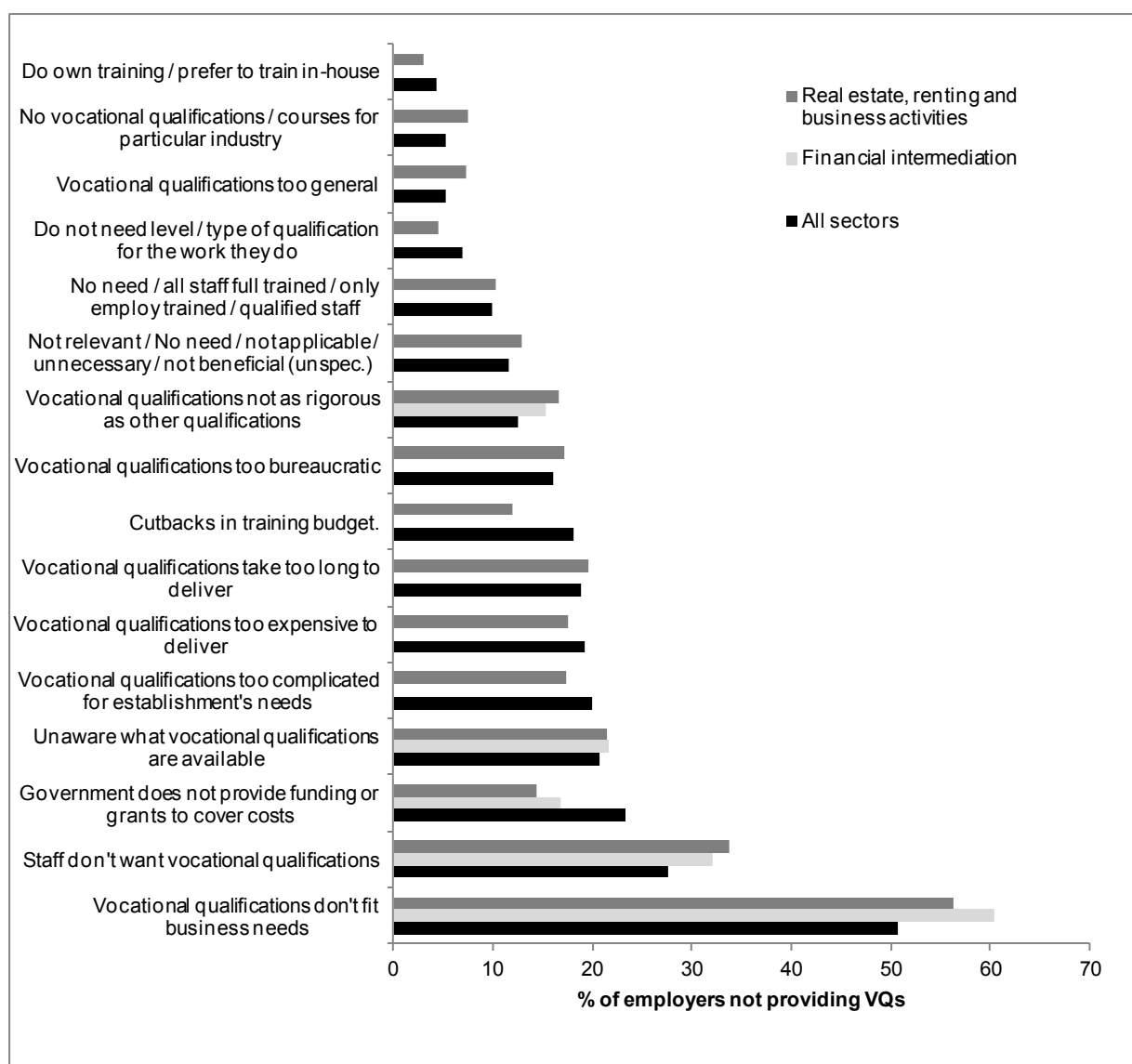
Skills gaps were having a major impact on how the establishment performed in 17 per cent of establishments in each of the sub-sectors of interest, compared with 15 per cent across all sectors. The main implications of skills gaps were increased workload for other staff and increased operating costs, as was the case across all firms. A particular issue for real estate and facilities management employers was having difficulty in meeting quality standards, mentioned by 47 per cent of employers in the sub-sector compared with 40 per cent of all employers. Employers in the sub-sector were more likely to outsource (mentioned by 24 per cent), compared with 15 per cent of all employers with a skills gap that impacted upon establishment performance.

80 per cent of financial, insurance and professional services employers with a skills gap had taken steps to improve the proficiency or skills of staff with skills gaps. The respective proportion for employers in the real estate and facilities management sub-sector was 74 per cent, compared with 75 per cent of all employers with a skills gap. The actions that were taken were broadly in line with those across all sectors – most commonly increasing training activity/spend or increasing or expanding trainee programmes, more supervision of staff, more appraisals/performance reviews and re-allocating work. Employers in the financial, insurance and professional services sub-sector were more likely than all employers to recruit non-UK residents.

Facilitating Training

In some respects, when encouraging employers to invest further in training, it is important to recognise the barriers some employers encounter in providing training, especially that leading to a vocational qualification. Chart 6.6 below, derived from the Employer Perspectives Survey 2010, reports on the responses to employers as to why they did not provide training leading to a vocational qualification (VQ). By far the main reason is that employers think that VQs do not meet the needs of the business, followed by staff not wanting to work towards a VQ, or their being insufficient public funding available.

Chart 6.6 Reasons for not providing training leading to a vocational qualification



Source: *Employer Perspectives Survey (UKCES, 2011)*

Base: *All not providing vocational qualifications*

A further obstacle may be the reluctance of some employers, especially in local labour markets which are characterised by strong competition for very highly skilled and qualified labour, to engage in training which might increase the attractiveness of employees to other employers (Bosworth, *et al.*, 2012; Vogler-Ludwig and Giernalczyk, 2010). In the City of London, for example, there is, arguably, relatively little networked sharing of knowledge between organisations in the financial services sector through their supply chain relationships because knowledge is regarded as a commodity to be traded rather than to be shared. Firms, in practice, are engaged in competition to recruit and retain highly skilled employees. So, in some respects, the acquisition of knowledge is an individual rather than

employer issue unless it is organisation-specific. This can provide a formidable barrier to training taking place other than that which individuals may choose to fund themselves.

6.6 Investors in People and Other Programmes

Training can be facilitated through a number of programmes. Mention has already been made throughout the report of the benefits employers derive from engaging in programmes such as Apprenticeship. GIF funding may also bear some influence over training activities in the sector. Perhaps the most formidable barrier to employers engaging in training relates to recognition of a need for it to take place and ensure that it meets the needs of the business. This is particularly important in certain sections of the professional and business services sector where substantial shares of employers are not engaged with the external training system, regard VQs as not being relevant to their business, or see training at least some sections of their workforce as being beneficial more to the individual than the employer. In some respects the question becomes one persuading employers to engage with the vocational training system in the first instance so that they can begin to see how VQs potentially fit their businesses product market strategies or how VQs can be shaped to do so without losing any of their core characteristics. Investors in People (IiP) is one approach to solving this issue insofar as it provides a framework in which employers can construct their training plans. Table 6.3 shows current levels of accreditation to IiP and reveals that in financial services accreditation levels are on a par with the situation across all sectors, but accreditation rates are relatively high in real estate and facilities management.

Table 6.3 Investors in People Accreditation

	IIP accredited (%)	Not IIP accredited (%)	Don't know (%)	Total (%)
Financial, insurance & other professional services	16	71	12	100
Real estate and facilities management	23	65	12	100
All Sectors	16	69	15	100

Source: UK Commission Employer Skills Survey (UKCES, 2012)

Note: Based on SSA definition of sector

Base: All Establishments 87,572 unweighted

The benefits which derive from IiP relate in many respect to ensuring that training is effective given a business' goals as the case study below illustrates (*see panel*).

Case Study: Carlyle Finance

The challenge

Following a change of ownership in 2006 motor finance company Carlyle embarked on an ambitious growth strategy with the aim of becoming the “leading independent motor finance company in the UK”

The approach

In 2010 Carlyle used Investors in People to help them “benchmark themselves against some of the very best employers in the UK” with a view to achieving further improvement in the leadership and management of their people. In 2011 their dealer customers rated Carlyle’s team consistently higher than the competition, which includes some of the biggest names in UK finance.

The benefits

In a declining market, Carlyle’s highly energised and engaged team has achieved double digit growth in four out of the last five years. Last year, their new business lending increased from £270m to £365m. Their profit doubled year-on-year from £10m to £20m before tax in 2011.

One of the impacts the Managing Director identified was in relation to the effectiveness of training: “...historically we’ve invested a lot of time and money in training, but having gone through Investors in People we are now much more focussed on what it delivers. It’s absolutely aligned to the goals of the business. Currently, all of our junior and middle managers are undergoing a developing managers programme. We ensure it’s aligned to the business needs and there’s ongoing evaluation, ensuring what has been learned is put into practice and delivering tangible value. We’ve followed exactly the same approach with training for our account managers and we now have absolute confidence that every pound we spend is properly targeted and making a difference”.

Source:

<http://www.investorsinpeople.co.uk/MediaResearch/CaseStudy/Pages/CaseStudyDetails.aspx?CSID=288>

6.7 Conclusion

The most recent evidence relating to skills mismatches and skills deficiencies in professional and business services points to stronger overall demand than across the economy as a whole, and more pronounced difficulties in finding the right skills. Gaps in the proficiency of existing staff are less common than across the UK workforce as a whole. Where skills gaps did exist they were more likely to be having a major impact in professional and business services than across the economy as a whole, and in the financial, insurance and professional services sub-sector they were more likely than those elsewhere to have taken steps to remedy them.

7 Conclusion

7.1 The Sector Today and Tomorrow

Professional and business services (including financial services, insurance, accountancy, legal services, employment activities and leasing services) is an important sector to the UK economy with respect to both the volume of employment and gross value added it contributes. The sector accounted for over 3.6 million jobs in 2010 and is the key source of the UK's international trade in high value-added services. The UK is a world leading provider of professional and business services, with London playing an important role as a global financial and business services centre. Strategically the sector is important in contributing to the success of UK companies in other sectors of the economy through the provision of ancillary support services.

The sector is facing increasing international competition, as established and newer centres vie to become leaders for provision of professional and business services. The financial crisis and ensuing recession dealt a blow to the reputation of the sector. UK policy initiatives intend to rebalance the economy sectorally away from an undue reliance on financial services and spatially away from London and the South East where the sector is concentrated, yet the contribution of the sector to exports and to aiding growth in other sectors should not be overlooked. It is important that skills shortages in the sector do not hamper recovery from the recession.

Although rocked by the financial crisis and economic downturn, as the sector develops over the medium-term it has a number of opportunities related to:

- maintaining and improving the premier global status of London and the UK as a professional and business services provider in existing market, especially in financial and legal services, but alongside a more even spread of employment across UK nations and regions;
- ensuring that the highest calibre talent from around the world is attracted to the professional and business services sector;
- the sector as a whole recognising talent as a source of comparative advantage, and employers collaborating on, leading and owning solutions to the sector's skills issues;
- exploiting opportunities in new markets;

- responding successfully to challenges of enhanced regulation and developing a strong reputation for quality service;
- developing new services – from complex financial and legal products to DIY services (in wills, conveyancing, *etc.*) – to meet customer demands and retain a strong position in existing markets, while successfully exploiting new ones; and
- in partnership with professional institutes, educators and government, professional and business services employers ensuring that the UK has the capability to sustain its already strong position, with the consequent benefits in terms of jobs and wealth generation across the whole economy.

Realising this vision is dependent upon the sector being able to drive up its skill levels across the workforce and introducing the types of higher performance working practices which will make it an enticing sector in which to work and will thereby attract talented individuals, including from non-traditional sources, to work in the sector. Hence, effective strategic management, and also people management in the widest sense of the term, is a necessity for the industry. There is a role here for employers to work together to develop solutions to common challenges for their mutual gain.

7.2 The Performance Challenge

The performance challenge for employers currently based in the UK is that of rising to the challenges which will be posed by:

- global competition – especially from financial centres elsewhere in Europe and in Asia;
- increasing regulation (at national, European and global levels), which is impacting on business models, product development and service delivery;
- the environmental and low carbon agenda which is tied in with increasing regulation and which is becoming a more dominant consideration in the facilities management and the real estate parts of the sector; and
- technological developments in changing the nature of products, the delivery of services and the location of activity.

At the heart of these performance challenges is the need to bring about change at a time when many employers are facing uncertainty and when the detailed nature of some of the challenges, notably regulation, is unclear.

Nestled within the wider set of performance challenges is a set of skill challenges which the sector, though increasingly aware of, will need to take more action to address, including:

- attracting and retaining talent so as to ensure future skills supply;
- continuing to invest in the skills of the existing workforce to ensure that they possess the skills which will be required in the short- and medium-term; and
- improving management of business and people.

Addressing these skills challenges will help the sector better respond to performance challenges and opportunities. The UK has a substantial training infrastructure which can be drawn upon in meeting these skills and human resources challenges.

7.3 Growth through Skills

There is a substantial training and skills development infrastructure provided through the Sector Skills Councils and the National Skills Academies networks that serve the sector, as well as professional institutes, the education sector and private training providers. Available evidence suggests that:

- employers in the sector traditionally have relied on higher education institutions, and especially elite universities in the case of the cluster of professional and business services activities in the City of London, to provide graduates (from many different disciplinary backgrounds) as a source of new recruits to the sector;
- some employers are looking to broaden the talent pool from which they recruit, so bringing the prospect of careers in the sector to individuals who might not otherwise have considered working in professional and business services as being ‘for them’;
- continuing professional development and training, through the auspices of highly regarded professional institutes, is well established across large parts of the sector for skills development of professionals, and increasingly other staff;
- there are examples of professional institutes working with employers, universities and other training providers to tailor training courses to better meet employers’ needs;
- while there has not been a strong tradition of Apprenticeships in the sector, and the sector’s employers have been considered ‘lukewarm’ about them, there is increasing interest in take up of Apprenticeships to broaden the skills sets of existing employees, and as a means of providing necessary training for new (including older) recruits to the sector; and

- programmes such as liP provide a broad framework within which employers can attract, develop, and retain talented individuals at all levels of the business.

The case studies of widening recruitment where the City of London Corporation has formed partnerships with employers to introduce non-traditional recruits to the sector, and of broadening the talent pool in accountancy (UKCES, 2011), show possible ways forward here to harness new recruits. The evidence and case studies presented in this report point to where companies have made use of apprenticeship and organisational development programmes they have been able to obtain returns with respect to being able to obtain and develop the skills they need to meet to meet an increasingly demanding business environment.

7.4 Business Benefits

There are a range of business benefits that investment in training can bring. Evidence across a number of sectors suggests that employers who invest in training are more likely to survive than those who do not (Collier, *et al.*, 2007). The ability of the professional and business services sector to recover from the financial crisis and recession, capitalise on recovery and embrace new opportunities will be enhanced by having access to the right skills.

The business benefits of training go beyond company survival. Businesses that are willing and able to innovate and develop new services, as well as enhancing the efficiency of existing services, will reap rewards through increased sales and turnover, and staff satisfaction and retention. To generate maximum wealth from the professional and business services sector, and so support growth in other sectors of the economy which it serves, the sector will need to continually develop its existing workforce. In the past parts of the sector have recruited internationally. In the light of changes in migration policy some of these former recruitment channels may be closed. This underscores the need to invest in training of the existing workforce and to look more broadly for new recruits (as highlighted above). The costs to the sector of not training might be quite substantial. To some extent looking to new recruitment channels and instituting talent development initiatives within wide human resource development programmes might be easier for larger than for smaller firms. The benefits to them of cultivating a skilled workforce include improved management of staff retention, developing clear career paths for employees, acquiring new skills as and when needed to realise opportunities as they emerge, and meeting and exceeding customer expectations.

Conveying some of these benefits to smaller employers is not an easy task, although they too would reap some of these benefits through workforce training. The evidence demonstrates that there are relatively good returns for individuals and employers to invest in skills and that there is a strong and developing infrastructure to support them via professional institutes, apprenticeships and IIP. The case study evidence suggests that small and large employers can gain from engaging with such initiatives and programmes.

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Review of Employer Collective Measures: Policy Review

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Review of Employer Collective Measures: Policy Prioritisation

Evidence Report 10

Review of Employer Collective Measures: Final Report

Evidence Report 11

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