

## ABERDEEN CITY COUNCIL

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COMMITTEE	Communities, Housing & Infrastructure
DATE	18 <sup>th</sup> march 2015
DIRECTOR	Pete Leonard
TITLE OF REPORT	Bi-Annual Sector Skill Needs Audit
REPORT NUMBER	CHI/15/115
CHECKLIST COMPLETED	Yes

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### 1. PURPOSE OF REPORT

This report presents the “Draft” – “2015 Sector Skill Needs Audit”, which identifies the current and predicted skill shortages within the local economy, across all key sectors. In addition there is an opportunity to evaluate how skill shortages, barriers to recruitment and predicted employment opportunities are impacting on locally based businesses currently and in the longer term. As a further development this audit also analysis feedback on both sectoral and company size basis to identify if specific issues are prevalent in different sizes of organisations.

This report aims to present the findings of the 2015 Bi-Annual Sector Skills Needs Audit and seek approval to circulate this report to internal and external partners to support the development of future activities that will ensure that Aberdeen City has an appropriately skilled pool of labour to meet current and future skill demands.

### 2. RECOMMENDATION(S)

It is recommended that committee approve:

- a) the production and circulation of this audit as a robust tool that is reflective of the local skill situation at the time of audit, and can be used to inform interpretation and analysis of national and regional skills assessments undertaken by Skills Development Scotland (SDS).
- b) agree to the use of this audit to inform partners on the key issues being raised by responding businesses.
- c) support the use of this audit to develop appropriate responses by the Council’s services and with partners that address the issues raised.
- d) agree to the production of a future report to Communities, Housing and Infrastructure Committee outlining the draft action plan to address the key issues raised in the sector skills needs audit.

### 3. FINANCIAL IMPLICATIONS

There are no financial implications arising from the production of this report.

Delivery of future initiatives to address the issues will be financed within existing financial allocation and partner's contributions where objectives are shared.

### 4. OTHER IMPLICATIONS

#### Staffing

If approval is given for the recommendations, the future work plan of the Employability, Skills and Community Enterprise Team, within the Business Growth function of Communities, Housing and Infrastructure will reflect the issues highlighted within this audit. It is also assumed that the information contained within the audit will be used to inform the development of internal and external partners work plans, ensuring partnership working to deliver the objectives.

#### General

The potential activities that will be driven by the findings within this audit are aligned to and supportive of the current key objectives of our external partners e.g. ACSEF, Skills Development Scotland, Oil & Gas UK, Department for Work & Pensions. This will ensure that a partnership approach will be taken to ensure effective delivery and use of resources to address the identified common needs and objectives. Information contained within this audit will also inform the development of an application for 40% intervention rate funding from the £2.56 million of ESF monies accessible for Aberdeen City for the period to 2020 in relation to the increased provision of employability and support services.

### 5. BACKGROUND/MAIN ISSUES

Aberdeen City Council has now conducted the sixth sector skills needs audit that is used both internally by Aberdeen City Council and externally by our key delivery partners to drive the strategic planning and design of local activities to address the key skill issues within our city, to ensure the Aberdeen City & Shire has a sufficiently skilled population to meet the current and future demands of locally based companies.

To clearly set the context of this audit in light of the substantial decrease in Brent Crude Oil Price it must be recognised that much of this data was collected in Autumn 2014, and the impact that the Brent

Crude Oil price reduction has had on the energy sector in terms of economically viable exploration and development. This factor has currently driven a reduction in staffing across many employment categories within the Energy sector, significantly changing the recruitment landscape within the sector. Surplus staff may move from the Energy sector to other sectors showing a skill shortage (Engineering, Construction etc.) and alleviate recruitment issues within these sectors.

Since June 2014 Brent Crude has fallen by 53% but has recently recovered a little to settle at an average of \$60. The Wood Review launched late last year and the work leading up to it identified the need to cut costs particularly in the UKCS where costs of recovery increased substantially reflecting the cash available due to the high oil price. Most areas now see the need to cut costs to both remain competitive and to remain in business. Cutting back in capex and associated projects has and will continue to inflict global job losses. Economic experts predict further reductions in Brent Crude in the second and third quarters of 2015 leading to much greater job losses across the industry.

“We find both supply and demand factors have played a role in the sharp price decline since June. Futures markets suggest that oil prices will rebound but remain below the level of recent years. There is however substantial uncertainty about the evolution of supply and demand factors as the story unfolds.”

It is also worth considering that during the current downturn within the Energy sector that some displaced personnel may select this as an opportune time to retire, or seek employment overseas and never return to the UK Energy sector, which may further negatively impact on the available skills base when activity within the Energy sector increases in the future.

The development of a skills “Matching Service” for oil and gas workers and contractors by the Energy Taskforce may assist in the retention of skills within the area, due to the significant increase in civil, commercial and housing project activity within the public and private sector.

Due to continuing decline in response rates to this survey over the past 4 years the decision was made to simplify the response process and reduce the number of questions within the survey. These changes have seen a dramatic increase in response rates of almost 300% since the 2013 audit.

The restructuring and simplification of the audit questionnaire has been attributed to an increase in respondents from **35** in 2013 to **92** in 2015 ( a response rate of 18.4%) , however the increase in responses may however be partly attributed to the increased negative impact faced by locally based businesses due to the increased skill shortages reported across all sectors. Whilst this is extremely encouraging the simplification of the survey process has led to a reduction in the depth of information collated and ability to conduct meaningful comparators across previous audits.

Since the 2010 and 2013 Audits there has been considerable reported growth in business activity across all sectors within the city, especially within the Engineering, Energy and Construction sectors.

This audit specifically focused on “Skill shortage” within the business community and the “Economic Impact” these shortages would have in the long and short term, on local businesses.

Analysis of returns clearly identified skill issues across all sectors within the city, with these issues most strongly felt within the Energy, Engineering, Construction, Manufacturing and Healthcare sectors.

The most prevalent recruitment difficulties are for professional and technician level staff, closely followed by semi-skilled staff. These shortages have driven a significant increase in contractor numbers, which potentially increase operating costs and reduce company competitiveness. Rates for contractors within the Energy sector have been recently reduced to assist in addressing increased operating costs, with the sector currently seeking to reduce costs by 20 – 40% per boe – (Barrel of oil equivalent) to ensure a sustainable future for the UK Continental Shelf, as unit operating costs rose to an all-time high of £ 18.50 per boe in 2014, up from £ 17 in 2013. This level of operating costs makes the UKCS unattractive for investment currently, further emphasising the need to increase the skill pool within the region for this sector.

Companies were actively recruiting and training unemployed and unskilled personnel as a means to increase the labour pool and address skill shortages. There is a significant opportunity to increase business engagement with and recruitment directly from secondary, further and higher education establishments, with only 42% of respondents currently engaging with these establishments.

53% of companies increased salaries as a tool to attract new staff, again this will potentially increase operating costs and reduce company competitiveness. Companies with over 200 and less than 5 employees were least likely to increase salaries to attract staff.

This audit also highlighted that there is scope for more companies to use retired, part-time workers and Modern Apprenticeships to address skill shortages.

Both construction and manufacturing sectors cited increased the usage of agency workers as the best way to attract new staff whilst the engineering sectors most successful recruitment initiative was to recruit from outwith the UK.

Overall the 3 key barriers to recruitment are:

**Lack of qualified people**  
**High Salary expectations**  
**Lack of experienced people**

Quality of school/further education leavers was only a barrier to recruitment for the Engineering sector and within companies with 51 - 100 staff.

Efforts to increase the skilled labour pool by attracting people from outside the city were negatively impacted by:

**Lack of affordable accommodation**

**Cost of Living**  
**Competition from other sectors/employers**

All businesses stated that skill shortages were negatively impacting on their business across 7 broad categories, with the overall 3 top issues being:

**Struggle to meet contractual obligations and obtain new work**  
**Increased stress and workload on staff**  
**Restricted business growth**

Increased workforce stress has never been highlighted as an issue in any of the 5 previous audits

Looking at longer term business impacts driven by continued skill shortages larger organisations were most concerned about the:

**Reduction in quality of service**

Whilst smaller companies were most concerned about the:

**Reduction of business growth potential**

Clearly there are still issues in relation to skill shortages within the city across all sectors which if not addressed will have serious impacts on the sustainability, growth and competitiveness of our locally based companies and potentially a negative impact on the health of their employees.

Finally when asked what Aberdeen City Council could do to assist in addressing the current recruitment and retention difficulties within the city responses were broadly segmented in to 5 key sections:

**Increased Business/School links**  
**Accommodation – access to more affordable accommodation/cost of living.**  
**Infrastructure Improvements – Road network improvement/bus service and public transport costs**  
**Introduce Weighting Allowance**  
**Attract more people to the city**

6. IMPACT

The project contributes directly to the achievement of

Single Outcome agreement (SOA) National Outcomes:

1. We realise our full economic potential with more and better employment opportunities for our people
2. We are better educated, more skilled and more successful

## Aberdeen the smarter City

1. We will enhance the physical and emotional wellbeing of all our citizens by offering support and activities which promote independence, resilience, confidence and self-esteem
2. Working with our third, public and private sector partners, we will provide opportunities for lifelong learning which will develop knowledge, skills and attributes of our citizens to enable them to meet the changing demands of the 21st century.
3. Again, working with partners, we will create a City of Learning which will empower individuals to fulfill their potential and contribute to the economic, social and cultural wellbeing of our communities.
4. We will aim to have a workforce across the city which has the skills and knowledge to sustain, grow and diversify the city economy.

Any initiative driven by the findings within this audit will be delivered and developed in partnership with our key external agencies and functions across the council, reflecting and complimenting Scotland's new Economic Strategy, the Youth Employment Strategy that led from the Wood Commission for Developing Scotland's Young Workforce - Education for All, and the recent Regional Skills Assessment and the emanating ACSEF Skills Strategy.

## Public

This report will have no specific interest to the public.

A full Equality and Human Rights Assessment has not been conducted at this stage, however full EHRA will be conducted when developing and delivering any activity driven by the findings within the Sector Skill Needs Audit.

## 7. MANAGEMENT OF RISK

The increased level of business participation in this audit identifies the priority placed on skill issues by locally based businesses, to fail to produce, circulate and act on these findings will severely reduce the number of respondents participating in future audits.

This audit has also recognised and identified the impact skill shortages are having on businesses currently, and for the first time identified that businesses recognise these shortages are impacting on their existing workforce. By producing this audit Aberdeen City Council and its partners will be able to deliver initiatives that will support businesses address these issues. The Business Booster programme (delivered by the Employability, Skills and Community Enterprise team) which supports the development of small to medium enterprises in the city has already scheduled an event on identifying and addressing stress in the workplace as a response to audit.

## 8. BACKGROUND PAPERS

Bi-Annual sector skill needs audit 2015

No other background papers were used in the production of this report

## 9. REPORT AUTHOR DETAILS

Heather Farquhar  
Senior Officer, Employability, Skills and Community Enterprise

[hfarquhar@aberdeencity.gov.uk](mailto:hfarquhar@aberdeencity.gov.uk)

01224 523361