VACANCIES AND SKILLS GAPS IN LIGHT OF COVID-19

Key Findings

- Vacancies have increased faster locally than nationally.
- The Heart of the South West was already close to full employment over 2020.
- There are multiple reports from recruitment websites and the CIPD of national staff shortages for sectors like hospitality and tourism, key sectors for the LEP area
- Highest vacancy numbers nationally and locally are in healthcare: this sector is reported to be on the brink of a crisis. Understaffing is harming staff and making them more likely to quit, creating a vicious circle.
- However, applications for nursing degrees have risen by nearly a third this application cycle.
- The impact of furlough withdrawal is still unclear, but Accommodation and food services and Arts, entertainment and recreation were still highly dependent on it very recently
- Heart of the South West LEP area has a lower ratio of unemployment benefits claimants to vacancies than nationally, indicating a tighter market
- The percentage of employment made up of EU nationals has dropped locally and nationally: Adzuna reports notable drops in overseas jobseeker interest. There are particular concerns about the agricultural impact.
- Skills gaps have worsened in recent years but graduate mismatch has improved over the pandemic.
- A significant number of older people have retired before they originally intended to, and the Heart of the South West has a distinctly ageing demographic and poor working age population growth to counterbalance this. Older people are also more worried about losing their jobs when furlough ends.
- NEET levels nationally are at a record low, but they have increased markedly in the South West.
- Higher education applications nationally have jumped by nearly 50,000, the highest number since 2016, but regional data for this cycle is not available.
- House prices in the South West are increasing at the fastest rate, but faster at the upper end of the market and affordability is worse in Devon than in Somerset. This is a problem for an economy with a large proportion of low wage roles.
- Despite anecdotal evidence, there is little data on salary expectations yet, aside from London startup salary expectations dropping.
- We still need to find out how long these vacancies are staying open, and what impact it has had on aspirations.

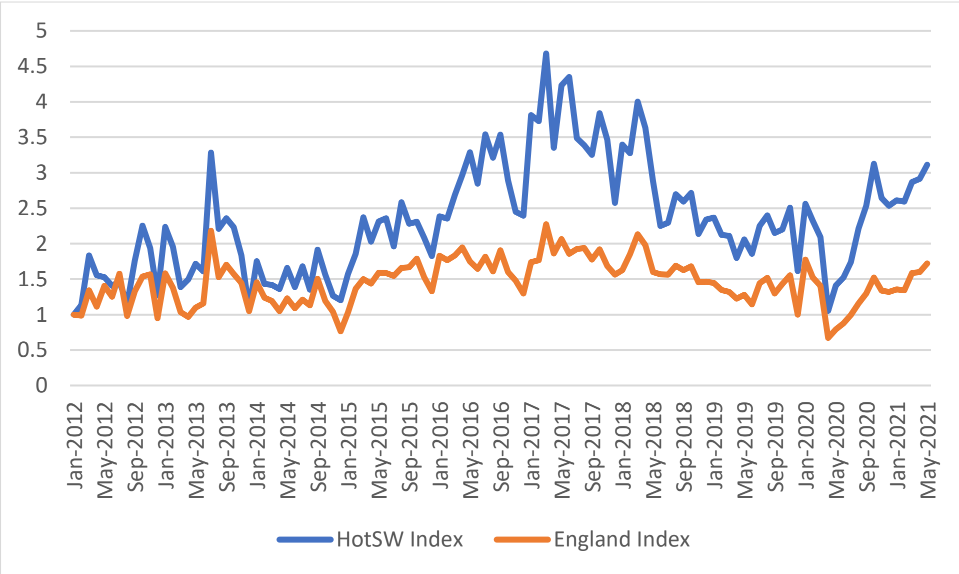
Introduction

As the economy begins to recover from the impact of the pandemic, vacancies have also begun to recover, particularly in contrast with the deepest points of lockdown in the early pandemic (Burning Glass, 2021). However, some initial evidence suggests that despite expectations of increased unemployment surrounding the eventual withdrawal of furlough support and the economic impact on the most vulnerable sectors during the pandemic, the recovery may not be that simple. While the processes of digitalisation and changes to the nature of the way we work have been accelerated by the pandemic as part of the so-called Fourth Industrial Revolution, this does not explain early reports of serious issues with recruitment in sectors harder to digitalise such as hospitality. The BBC reports that hospitality venues are struggling to fill thousands of vacancies (BBC 2021), while The Telegraph reports one in three retail leaders struggling to fill roles, with fashion retailers hit the hardest, followed by small businesses (Onita 2021).

Findings

The first and most important point to establish is that vacancies are on the recovery: they are definitively increasing. The following graph shows vacancies indexed against January 2012 (the start of records) for Heart of the South West and England. It becomes rapidly apparent that vacancies have increased since the recent low point of April 2020. Interestingly, the Heart of the South West reports higher increases since its 2012 vacancy level than England does. Rapid increase in demand does create a level of challenge, as according to the CIPD and Adecco, employers plan to hire at their fastest rate for eight years (Partington 2021).

Figure 1 Indexed Vacancies by January 2012 for Heart of the South West and England



Source: Burning Glass – Labour Insights

Nonetheless, there are some concerns that these vacancies simply are not being filled: in The Economist's "Where have all the workers gone?" episode of their regular podcast, the guests discuss this as a global phenomenon, citing examples such as McDonald's in the US while emphasising that this problem is not unique to America: different nations have addressed the pandemic differently and yet this unexpected difficulty in filling vacancies is found across the world (The Economist 2021). This then goes on to impact chains of demand: reduced work in construction, for example, reduces demand for the supplies, machinery and other resources (The Economist 2021). Early signs suggest that recruitment problems are particularly problematic in hospitality (BBC 2021) and retail (Onita 2021). The Telegraph reports some specific sector-based issues including a shortage of HGV drivers and restaurants forced to cut back on their services to manage the shortage (Onita 2021). The most sought-after positions locally include nurses, office assistants, care staff, software engineers and project managers (Marchmont Observatory 2021). The Heart of the South West LEP area also has a higher-than-average dependency on tourism and hospitality as part of its economy, rendering it especially vulnerable here. According to the Annual Population Survey, the Heart of the South West was close to full employment in 2019 (79.3%) and 2020 (77.2%), seeing a drop of just over 2 points over the pandemic and maintaining a higher employment rate than the UK average.

Demand for healthcare and nursing vacancies has been consistently high over this time period on both a local and a national level, suggesting a chronic issue with skills gaps: this is a matter of some urgency as a recent parliamentary briefing describes an "emerging crisis" in nursing in particular in light of Covid, with low pay, poor management support, treatment of staff and low staffing levels resulting in being overstretched all given by respondents to a Royal College of Nursing survey on why staff were considering leaving (Public Accounts Committee 2020). This is supported by a report from The King's Fund describing the enormous strain on NHS staff, and arguing that "urgent action is required to tackle a vicious cycle of shortages and increased pressures on staff, which has been exacerbated by the Covid-19 pandemic" (The King's Fund 2021). The King's Fund notes that current needs suggest that at least 5000 nurses per year need to be recruited from overseas due to the lag before new staff can be trained (The King's Fund 2021). However, while recruiting from abroad may become more of a challenge due to the pandemic and Brexit, UCAS reports that nursing degree applications have risen by nearly a third to reach 60,130, including increases in all age groups (UCAS 2021).

Vacancies may be affected by economic inactivity rates and perceptions of work availability, as well as the complicated labour market status of furloughed staff. Locally, the economic activity rate is lower than the UK average, particularly for young people aged 16-19 in the Heart of the South West (50% compared to 60% nationally) (Marchmont 2021). Labour market status is complicated by the support of the furlough scheme: it is difficult to predict exactly what will happen but where employees are returning to their original jobs in place of options available during the pandemic, this will also cause constriction in the labour supply. Not all businesses will successfully reopen, but vacancies cannot be guaranteed to match the skills of the resultant unemployed. It is also possible that furloughed workers may return to their countries of origin, or retire (discussed in greater detail below), or move to a different sector, such as leaving front line roles in hospitality or health care due to factors such as wages, pandemic exposure, and public treatment. Comparing the claimant count to the number of vacancies shown by Burning Glass for April 2021 suggests that there are fewer unemployed per vacancy in the Heart of the South West and Devon than England (3.48 and 3.15 against 4.24), indicating possible greater impact from labour market constriction. On a national level, the following table shows the percentage of employees by sector that are still furloughed:

Table 1 Furlough take-up rate by sector, UK, April 2021

Sector	Take-up rate at 30 April (provisional)
Agriculture, forestry and fishing	7%
Mining and quarrying	3%
Manufacturing	11%
Energy production and supply	1%
Water supply, sewerage and waste	5%
Construction	13%
Wholesale and retail; repair of motor vehicles	14%

Transportation and storage	12%
Accommodation and food services	48%
Information and communication	7%
Finance and insurance	2%
Real estate	11%
Professional, scientific and technical	10%
Administrative and support services	11%
Public administration and defence; social security	0%
Education	3%
Health and social work	3%
Arts, entertainment and recreation	42%
Other service activities	29%
Households	2%
Unknown and other	-

Source: HMRC - Coronavirus Job Retention Scheme statistics: 3 June 2021

Accommodation and food services stands out as having an especially high rate of take-up (along with Arts, entertainment and recreation): this is likely to drop considerably in light of relaxation of lockdown, but with multiple sources highlighting issues with recruitment (BBC 2021, The Telegraph 2021), it raises the question of how many staff will have found other jobs during this time, or otherwise left the profession such as returning to education, as this sector has a high proportion of young workers, having returned to their home countries due to the pandemic, having retired, or having had their employer close down.

A key factor brought up in reports and analysis so far has been the impact of reduced overseas labour supply. Concerns were expressed well before the pandemic that the UK's exit from the European Union would cause serious issues. This included NFU concern about a lack of staff to gather fruit, resulting in the Pick for Britain campaign in 2020 and the ongoing support for the Seasonal Workers pilot scheme (NFU 2020). Labour shortages had already been reported in this area with only 1% of seasonal workers being British in 2017, and British workers citing early hours, long days, physical toll, seasonality, lack of affordable transport and the need for trailer housing as reasons to reject these roles (Booth and Adam 2018). The Heart of the South West is highly rural, with a higher-than-average dependence on agriculture and saw its largest sectoral percentage increase in vacancies in Agriculture between February 2020 and April 2021 (Burning Glass 2021). According to data from the Annual Population Survey, the percentage of the population with an EU nationality in the South West dropped from 4.1% in 2019 to 3.3% in 2020, reflecting a UK drop from 5.8 to 5.0%. Similar drops were seen in this group's total percentage of employment. Adzuna has warned of a steep decline in overseas jobseeker interest overall (Partington 2021).

Skills gaps are an existing issue, but one that has worsened in recent years: according to the Open University's Business Barometer, the skills gap now costs companies £6.6 billion per year, a 39% increase since 2019 (Owen 2020). People Management advises that while solving skills gaps with temporary hires may seem appealing, this can be expensive and unsustainable, and increased training, despite the typical neglect of learning and development in crises, is important (Owen 2020). Skills problems also include the underutilisation of skills, but the ONS reports that graduate skill mismatch, defined as the proportion of graduates not employed in graduate occupations, decreased by 5.0

percentage points to 25.5% between Quarter 3 2019 and Quarter 3 2020 as part of an overall decrease in graduate skill mismatches (ONS 2021c).

An additional factor impacting this is the impact of the pandemic on older workers. This feeds into skill shortages in higher skill roles by exacerbating replacement demand. According to the Institute for Fiscal Studies, a significant minority of older people working immediately before the coronavirus crisis have now retired (6% of those aged 66-70 and 11% of those 71 and older): half of those surveyed had not originally planned to retire at this time (Crawford and Karjalainen 2020). The Heart of the South West has an older than average demographic profile, and this trend looks likely to continue according to ONS projections (Annex B 2021). The Heart of the South West's working age population has increased only modestly (2%) over the last 15 years and by a smaller percentage than the national average (8%). Within this sub-set of the population, as nationally, the number of 16- to 19-year-olds and 35- to 49-year-olds has declined, while all other age groups have increased. In addition, the number of residents aged 65 and over has also increased by over one-third (35%) (Annex A 2021). As a corollary effect, older people are more likely to have complex medical and care needs (Annex A 2021), increasing pressures on the already overstretched healthcare sector. According to the ONS, over a quarter of furloughed employments nationally are people aged 50 years and over (1.3 million), with 3 in 10 older workers on furlough thinking there is a 50% chance or higher that they will lose their job when the scheme ends.

At the opposite end of the scale, there has been some concern about the pandemic increasing the numbers of young people not in education, employment, or training. However, as of January to March 2021 this is at a record low of 10.6% (ONS 2021). There were also record lows for the number of people NEET and economically inactive. This indicates a lack of labour supply at the younger end of the labour market on top of the increased retirements. Data from UCAS shows a jump of nearly 50,000 applications to university in the 2021 application cycle, leaping from 568,330 to 616,360, in contrast with the increase of less than 7000 from 2019 to 2020 (UCAS 2021b). However, looking at the regional data, the only statistically significant change was the South West, which saw an increase from 8.2% to 12.4% between October to December 2019 and October to December 2020, despite the fact that along with the South East, this region has historically had the lowest NEET rates (DfE 2021). This suggests something is qualitatively different about the local economy.

It is also possible that there is some impact from rapidly growing house prices reducing the ability of workers to live in the area on lower wages. The Homes for the South West group of housing associations has called for £1 billion from Government to almost double their new housing output and boost the region's post-COVID recovery, highlighting the area's reliance on low-wage sectors such as tourism and hospitality and the prohibitively high cost of housing, with affordability likely to decrease further as house prices across the country soar (Building Products 2021). House prices in the South West have risen fastest over the past year, although the rise has been particularly fast in the upper end of the market including detached homes (Peachey 2020). In 2020 the South West has an affordability ratio of 8.8 (house price to median income), higher than all other regions except London, the South East and the East – affordability ratios have largely dropped by a small amount since 2019. Somerset has a ratio of 8.39, but Devon's is 9.67. Devon has had a consistently high ratio since 2017 but Somerset saw a notable drop in 2019 (ONS 2021b).

Related to the price of houses, there has been some anecdotal reporting locally of accountants relocating to the Heart of the South West but still expecting London salaries. Expectations are not typically gathered data: this may be best suited by a household survey.

According to job platform Kandidate, salary expectations have dropped for startup roles in London in almost all departments apart from data science and business intelligence (Bussy 2020). While this is a limited amount of data, it raises questions about mutual alterations to wage levels. The Heart of the South West does have a higher-than-average proportion of self-employed, which can act as a depressor of wages as well and linking back into the discussion of impact on older workers, they are much more likely to be self-employed.

Key Questions

Although there has been sufficient data to look at answering some questions on the impact of the pandemic, some major questions still remain.

How long are these vacancies staying open? It is difficult to identify these hard-to-fill vacancies outside of the Employer Skills Survey, which is no longer in-date.

What will the actual impact of furlough withdrawal be? This is yet to be actually seen due to the continued extension of the scheme in response to further waves of coronavirus: this question may be delayed again should there be a critical change in circumstances, especially if the next phase of lockdown relaxation is delayed.

How will remote working affect regional salaries, and how does this differ from salary expectations?

Why are NEET rates locally distinctly different from the national average?

What impact has the pandemic had on aspirations?

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