

Professional and Financial Services Cluster Report



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Executive Summary

This report examines skills needs within the Professional and Financial Services (PFS) Cluster. The PFS Cluster was highlighted in the Government White paper *New Industry, New Jobs* as an area where the UK has a competitive advantage and which offers the potential for growth across global markets. The cluster represents a group of industry strands contained within five Sector Skills Councils.

The report has been produced using a combination of desk-based research and a skills foresighting exercise. Desk-based research has been used to detail the current drivers of change in the cluster and the current skills needs. A consultation exercise was then carried out with a small number of employers, as well as stakeholders for example professional bodies, from across the cluster. This exercise aimed to validate the cluster by exploring its important supply-chain links, labour market commonalities, and geography. It also explored the future drivers of change in the cluster and the skills implications of these.

The report finds that the cluster incorporates a diverse group of professional strands, but that there is a relatively strong commonality across the cluster around the extent to which firms compete for the same top graduate talent. There are also strong inter-dependencies between some cluster strands, however this is not universally true and some strands which are contained within the cluster are more peripheral.

There are a wide range of current skills needs found across the cluster. These include more generic managerial skills around business management and leadership skills which are in demand *across* strands, as well as a range of technical skills which impact on firms *within* specific professional strands.

The three broad areas of important skills demand in the future are considered to be managerial skills around partnership working, business planning and change management; a range of technical skills in the financial sector around risk-management within both firms and regulatory bodies; and, advanced green skills, across the housing and property and construction strands.

More immediately there is a need to ensure that the impact of recession does not lead to a deskilling within strands, as those losing employment do not return, or create future bottlenecks through reduced entry-level recruitment.

Government policy has a key role in supporting the future growth of this cluster. There are two areas of particular concern, these are around the impact of increasing regulation of financial services, and around the impact of public spending cuts which will affect some cluster strands.

1 About the Report

1.1 Description

The Government White paper *New Industry, New Jobs* highlighted the UK competitive advantage and potential for growth across global markets of a range of clusters which cross-cut industrial and sectoral divides¹. These clusters are defined as those with 'significant constrained potential' to which the Government 'can make a difference to the prospect of growth or high-value employment by removing barriers to market'. One of these clusters is Professional and Financial Services (PFS). Membership of the cluster comprises professions covered by five sector skills councils (SSCs):

- Skills for Justice
- Financial Services
- Asset Skills
- ConstructionSkills
- Summit Skills

Within each SSC the cluster only covers specific strands within their footprint; these are detailed in Table 1.

¹ HM Government (2009) *New Industry, New Jobs* (<http://www.berr.gov.uk/files/file51023.pdf>)

Table 1: SSCs and professional strands contained within the cluster

SSC	Strand of SSC within the cluster	Description
Skills for Justice	legal services ²	is a diverse sector which ranges from major full service firms of solicitors working on a global basis, through to more traditional ‘high street’ solicitors’ firms providing services to individuals or small companies. Barristers work largely on referral, providing advocacy and advisory services. There are a small number of separately regulated specialist providers such as licensed conveyancers, patent attorneys and law costs draftsmen. A significant minority of lawyers are employed to provide in-house services to a range of industrial, commercial and public sector organisations. The small specialist and in-house functions are largely not reported upon in this document.
Financial Services	financial services and accountancy	activities are heavily geographically clustered, with capital markets and investment banking highly concentrated in London ³ . The FSSC’s footprint also covers accountancy and the finance function. The finance function includes financial professionals operating within firms in other industries and so is largely not reported on in this document.
Asset Skills	housing and property	covers a number of professions across the public and private sectors. These include planning and surveying, estate agency and housing management.
Construction Skills	architectural and engineering activities and related technical consultancy	covers professions involved in skilled design applications, planning and surveying across the construction industry.
Summit Skills	professional consultants within skilled mechanical and electrical professions aligned to the design teams within the construction procurement process	many Building Services Engineering consultancies (particularly the larger firms) are multi-disciplinary practices that include a range of professional consultancy services including architecture and structural engineering ⁴ .

² Legal Services does not currently fall within the footprint of any SSC. However, Skills for Justice are in consultation with individuals and organisations across legal services with a view to integrating the strand in its footprint.

³ Financial Service Sector Report 2009; HM Treasury (2009) *UK International financial services – the future* (http://www.hm-treasury.gov.uk/d/uk_internationalfinancialservices070509.pdf)

⁴ *Summit Skills Report 2009*

As *New Industry, New Jobs* explains Professional and Financial Services is not a new, or emerging, cluster, rather it represents some of the UK's core economic strengths and contains sectors in which the UK enjoys a 'strong international reputation'.

This cluster report for Professional and Financial services examines the strategic position of the cluster, and explores the future of skills to support growth. The report identifies:

- What drives skill demand across the cluster?
- Current skills needs
- Anticipating what lies ahead/ skills foresighting
- Geography of the cluster and its skills needs
- Policy levers

The report covers England only

1.2 Method

This report has been produced using a combination of desk-based research and a skills foresighting exercise. Desk-based research has drawn on individual SSCs' reporting, additional literature of relevance across the cluster, and other Labour Market Information (LMI). The findings from this have been used to detail the current drivers of change in the cluster and the current skills needs. A consultation exercise was then carried out with a small number of employers, as well as stakeholders for example from professional bodies, from across the cluster. This exercise had two core aims:

Validating the cluster: by exploring how the different strands of the cluster relate to each other, including: what the important supply-chain links within the cluster are; what the labour market commonalities are; what the geography of the cluster is.

Exploring the future drivers of change within the cluster: this involved a foresighting exercise to examine which drivers of change are likely to have a significant impact on skills needs across the cluster over the next 5-10 years. For this part of the exercise participants were provided with a set of drivers derived from desk-based research. For each of these drivers they were asked to consider what they thought the most likely outcome was as well as commenting on other plausible scenarios. Under these scenarios they were asked to comment on how their profession would be impacted, how this might impact the rest of the cluster, and what skills implications might be associated with this.

2 The nature of the cluster

In this chapter the cluster is described in terms of its contribution to the national economy, its employment characteristics, and its market potential. The extent to which cluster activity is inter-dependent in business and labour market needs is then examined.

2.1 Strategic Statement

Professional and financial services are a powerful and highly valuable part of the national economy⁵. London is a premier global financial centre⁶, the UK's accountancy and legal services are 'world leaders'⁷, and firms across professional and financial strands provide opportunities for some of the best graduate talent from both the UK and abroad.

Total professional services activities (represented by the broad 2003 Standard Industrial Classification [SIC] 74) contribute 8% of total UK output and account for £15,849 million of British trade in services⁸. The specific importance of several of the professions of interest are outlined in the *Professional Services Global Competitiveness Group Report*:

⁵ HM Treasury (2009) *Professional Services Global Competitiveness Group Report* (http://www.hm-treasury.gov.uk/d/professional_services_group160309.pdf)

⁶ Z/Yen/City of London (2009) *The Global Financial Centres Index 6* (<http://www.cityoflondon.gov.uk/NR/rdonlyres/4A05FE0F-4CD1-46EB-ADB5-84672ACC05FE/0/GFCI6.pdf>)

⁷ HM Treasury (2009) *Professional Services Global Competitiveness Group Report* (http://www.hm-treasury.gov.uk/d/professional_services_group160309.pdf)

⁸ spada (2009) *British Professions Today: the state of the sector* (<http://www.spada.co.uk/wp-content/uploads/2009/05/spada-british-professions-today.pdf>)

- In 2007 the legal profession provided services costing over £10.82 billion and generated a surplus of £2.46 billion in exports
- The accountancy profession employed 245,000 individuals and generated an export surplus of £1.01 billion in 2007. Around 8 percent of graduate jobs are in accountancy.
- Private architectural practices in the UK were estimated to have earned £4.16 billion in 2008.
- Employment in real estate activities has grown by 165,000 since 1997 (7.5 per cent of total job creation).

There is a 'powerful inter-dependency' between some professional services and financial services strands, with growth driven largely by the needs of London as a global financial centre⁹. The concentration of international finance actors in London also provides opportunities for 'back and mid-office' functions to be located in the regions¹⁰. The *New Industry, New Jobs* report highlights the need for action to maintain London's position as a global financial centre.

Recent times have however presented tough challenges to firms across the cluster. The global economic downturn has led to many professional firms reducing the size of their workforce, and there is a belief that recent economic developments will change the 'commercial and business environment irreversibly'¹¹. This will in turn produce significant changes to the regulatory structures within which firms operate. At the same time, whilst many professional occupations have gained increased 'societal importance' in recent years, they have also experienced a decline in public trust and esteem¹². These challenges provide the context for the analysis of drivers of change which follows.

2.2 Market Potential

Tables 3-6 provide data from the Labour Force Survey on the numbers employed across the cluster. The data draws on the 5 digit SIC code data for the period

⁹ HM Treasury (2009) *Professional Services Global Competitiveness Group Report* (http://www.hm-treasury.gov.uk/d/professional_services_group160309.pdf)

¹⁰ UK Trade and Investment (2009) *UK Financial Services: Delivering Regional Enterprise* (<http://www.uktradeinvest.gov.uk/ukti/showdoc/BEA+Repository/345/435524>)

¹¹ HM Treasury (2009) *Professional Services Global Competitiveness Group Report* (http://www.hm-treasury.gov.uk/d/professional_services_group160309.pdf)

¹² spada (2009) *British Professions Today: the state of the sector* (<http://www.spada.co.uk/wp-content/uploads/2009/05/spada-british-professions-today.pdf>)

January to March 2009. The 5 digit data allow for a detailed picture of the cluster by incorporating financial management, environmental consulting and quantity surveying activities which are not available at the 4 digit level. After this period data at the 5 digit level are no longer available, with the 4 digit codes the most detailed level made available. This will make the cluster more difficult to analyse in the future.

Under the 5 digit SIC code the cluster footprint is defined as covering:

Table: 2: cluster coverage by SIC 2007 codes

Sector	Sector Skills Council	SIC codes	Industry name
Financial services	FSSC	64	Financial services, except
		65	insurance and pension funding
		66	Insurance, reinsurance and pension
		69.2	funding, except compulsory social security
		70.22/1	Activities auxiliary to financial services and insurance activities
			Accounting, bookkeeping and auditing activities; tax consultancy
			Financial management
Housing and Property	Asset Skills	68	Real estate activities
Legal services	Skills for Justice	69.1	Legal activities
Architectural and Engineering Services	ConstructionSkills/ Summit Skills	71.1	Architectural and engineering activities and related technical consultancy
		74.90/1	
		74.90/2	Environmental consulting activities
			Quantity surveying activities

As Table 3 shows employment in the cluster is strongly dominated by the financial services. It accounts for around 61 per cent of total cluster employment; with 18 per cent employed in architectural and engineering services, 11 per cent in housing and property and 10 per cent in legal services¹³. The cluster is characterised by its highly qualified workforce. Almost 50 per cent of the clusters' employees are qualified at Level 4 or above (Table 4). It is these higher level skills that tend to drive innovation and growth across the cluster and which need to be supported effectively by future skills policy.

¹³ These tables draw on SIC codes and measure those working within firms whose primary function is represented.

Employment within the cluster is heavily skewed towards London, a quarter of all cluster employees are London-based, and 55 per cent are based in just three regions – London, the South East and East England (Table 5). The current labour requirements across the cluster are therefore relatively geographically concentrated. Within this broader pattern, the greatest degree of higher level skills needs will also be concentrated within these regions, which house a disproportionate amount of core business management functions and head office activities.

Table 3: Cluster employment by strand: England, 2009

Strand	Number employed
Financial Services	1,304,637
Housing and property	245,352
Legal Services	211,625
Architectural and Engineering Services	391,460
Total	2,153,074

(Source: Labour Force Survey January – March 2009)

Table 4: Cluster employment by level of qualifications of work by strand (with percentages in parenthesis): England, 2009

	Financial Services	Real Estate Services	Legal Services	Architectural and Engineering Services	Total
NVQ Level 4 and above	578,334 (44.3)	81,800 (33.3)	128,779 (60.9)	261,886 (66.9)	1,050,799 (48.8)
NVQ Level 3	242,635 (18.6)	50,667 (20.7)	20,658 (9.8)	52,318 (13.4)	366,278 (17.0)
Trade Apprenticeships	12,858 (1.0)	7,742 (3.2)	0 (0.0)	11,158 (2.9)	31,758 (1.5)
NVQ Level 2	228,864 (17.5)	45,417 (18.5)	25,832 (12.2)	26,922 (6.9)	327,035 (15.2)
Below NVQ Level 2	142,963 (11.0)	28,759 (11.7)	24,951 (11.8)	20,694 (5.3)	217,367 (10.1)
Other qualifications	67,827 (5.2)	15,149 (6.2)	3,722 (1.8)	14,070 (3.6)	100,768 (4.7)
No qualifications	31,156 (2.4)	15,818 (6.4)	7,683 (3.6)	4,412 (1.1)	59,069 (2.7)
Total	1,304,637	245,352	211,625	391,460	2,153,074

(Source: Labour Force Survey January – March 2009)

Table 5: Cluster employment by region by strand (with percentages in parenthesis): England, 2009

	Financial Services	Housing and property	Legal Services	Architectural and Engineering Services	Total
North East	39,535 (3.0)	7,737 (3.2)	5,043 (2.4)	26,193 (6.7)	78,508 (3.6)
North West	121,995 (9.4)	28,663 (11.7)	23,393 (11.1)	41,784 (10.7)	215,835 (10.0)
Yorkshire and Humberside	115,337 (8.8)	23,675 (9.6)	12,099 (5.7)	33,609 (5.7)	184,720 (8.6)
East Midlands	68,385 (5.2)	16,768 (6.8)	16,403 (7.8)	21,938 (7.8)	123,494 (5.7)
West Midlands	91,794 (7.0)	20,736 (8.5)	15,578 (7.4)	37,805 (7.4)	165,913 (7.7)
Eastern	174,847 (13.4)	31,343 (12.8)	18,834 (8.9)	45,721 (8.9)	270,745 (12.6)
London	352,724 (27.0)	47,319 (19.3)	67,048 (31.7)	60,566 (31.7)	527,657 (24.5)
South East	222,317 (17.0)	44,470 (18.1)	35,547 (16.8)	81,046 (16.8)	383,380 (17.8)
South West	117,703 (9.0)	24,641 (10.0)	17,680 (8.4)	42,798 (8.4)	202,822 (9.4)
Total	1,304,637	245,352	211,625	391,460	2,153,074

(Source: Labour Force Survey January – March 2009)

The professional and financial services cluster has been a strong driver of national economic growth in recent years. In future years it is similarly expected that this cluster will continue to drive growth through innovation and ability to capitalise on increasing global trade. An example of this potential was a 2002 study by Capital Economics which found UK businesses were wasting around £18 billion per annum on inefficient property usage¹⁴. By 2008 property-related cost savings equivalent to around 1 per cent of GDP had been made. It is estimated that further comparable reductions could still be made.

2.3 Validating the cluster

The stakeholder and employer consultation exercise asked a series of questions which probed the extent to which the cluster definition could be considered valid by looking at commonalities and linkages within the cluster. This section combines the findings of the consultation exercise with those from desk-based research to explore how the cluster can be best understood.

The cluster incorporates a wide range of professions, and whilst there are a number of commonalities these tend to represent particular strands within a sector rather than an entire sector footprint. For example, there is a significant degree of inter-dependency between parts of the financial services sector and large global legal firms specialising in corporate law. Mergers and acquisitions of companies provide significant work for the major corporate law firms, and this activity is often dependant upon the availability of credit, especially for the more highly leveraged deals. These relatively strong inter-dependency links are often highly geographically specific and are particularly apparent in London.

There is a broader inter-dependency between the availability of credit and the ability of firms in other parts of the cluster to function productively. Although this inter-dependency is not limited to the cluster, and applies across sectors throughout the economy more generally, there are some ways in which it is more pronounced within the PFS cluster. For example, the availability of credit has a very large influence on business trends in housing and property, and in construction, as lenders provide the capital to fund major development schemes. This link also applies to the provision of advisory services when working on structures for Private Finance Initiative (PFI) projects. Mergers and acquisitions of companies provide significant work for the major corporate law firms, and this activity is often dependant upon the availability of credit, especially for the more highly leveraged deals.

¹⁴ Cited in HM Treasury (2009) *Professional Services Global Competitiveness Group Report* (http://www.hm-treasury.gov.uk/d/professional_services_group160309.pdf)

More generally there is also a commonality in the extent to which firms across the cluster compete for the top graduate talent (for example from Russell Group universities). A lot of firms across the cluster have relaxed their recruitment criteria, with many of the strands targeting the same pool of graduates and hiring based on the skills of an individual rather than the particular degree discipline. As many employers are looking for the same skill-sets such as analytical and communication skills. There are particular hotspots in London and the South East where this competition for the best graduates is particularly pronounced.

There are on the other hand a number of questions around the extent to which the cluster makes sense. There is a public/private split between parts of the cluster. Much of the employment in housing and property strand is more reliant on public money, though ability to access credit is still very important. Similarly some of the large upcoming construction projects are publicly funded. In addition, as mentioned, only discrete parts of the individual sectors (covered by the SSC) link clearly to other cluster activities in terms of inter-dependencies in their business functions.

The extent of diversity within the cluster, and the marked difference in the level of inter-dependency between different strands, led some interviewees in the consultation exercise to question to what extent the professional and financial services should be considered a cluster.

In *New Industry, New Jobs* the key delimitation was of clusters the Government 'can make a difference to the prospect of growth or high-value employment by removing barriers to market'. It is clear that some strands of the cluster link together very well, and that removing barriers in one part of the cluster can drive growth in another, however, this is not universally true. It is clear also that the cluster is better defined in London than elsewhere. There therefore remains considerable potential for further refining the scope of the cluster, based on more detailed mapping of supply-chain linkages, inter-dependencies and labour market commonalities than is possible here.

3 Drivers of skills needs across the cluster

This chapter examines the important current drivers of change across the cluster using a PESTEL analysis derived from desk-based research.

3.1 Drivers of skills needs across the cluster

Amongst professional strands, as might be expected, there is a good degree of difference in the drivers of skills needs across the cluster. In this section some of the major drivers *within* industries are described, with the extent to which they *cross-cut* the cluster also considered. These drivers have been examined through a PESTEL analysis, which are drivers which fall into one of the following categories:

- Political
- Economic
- Social
- Technological
- Environmental
- Legal

In reality there is a significant overlap between the headings and therefore findings are reported grouped under a smaller number of themes.

3.1.1 Economic

Across the cluster the impact of recession is clearly the most significant current driver of change. The obvious impact is the reduced aggregate demand for labour and the strand specific patterns of job losses. Linked to the recession are potential regulatory responses and public spending cuts that will arise as a result, and which are considered likely to be important future drivers.

The recession has temporarily changed the dynamic of where jobs are being created and lost within the cluster. Recent trends aimed at reducing costs have

seen some back-office functions from **financial services** outsourced abroad. Similarly in **legal services** there has also been a trend of larger firms outsourcing of some routine work to other countries. Countries such as India, with a common law legal system, a well-developed higher education system, and extensive use of the English language are particularly attractive. However the impact of recession has seen the loss of jobs from across professions and skill levels.

There are therefore a number of ways the cluster has been impacted by the recession. Reduced demand for employment in the short-term has potential impacts with regard to:

- Workers, particularly older ones, losing employment in the recession and not returning when demand begins to increase, with the associated loss of skills and experience
- Potential bottlenecks arising in the future as a result of reduced recruitment at entry-levels during the recession

A recent report by the Confederation and British Industry and PriceWaterhouseCoopers suggested that some 60,000 jobs in **financial services** could be lost in 2009 as a result of recession¹⁵. This means there will be considerable excess supply which is unlikely to be reabsorbed by the sector in the short-term.

In the **housing and property** strand the recession has had a considerable impact. House prices began to decline from autumn 2007, reaching a trough in April 2009 and rising gradually since¹⁶. Estate agency has been particularly badly affected by the reduced availability of mortgage credit and the decline in house prices and sales. It was estimated that 32,000 estate agents lost their jobs in the 18 month period to December 2008, with further negative multiplier effects into other associated occupations like valuers and surveyors¹⁷. There is concern from The Royal Institute for Chartered Surveyors (RICS) that staff who are laid-off may not return to the profession, resulting in a permanent loss of their skills.

The commercial property industry is predicted to remain subdued in the medium-term but residential lettings, as a result of reduced credit flows for new mortgages, have grown. This has created some shift in focus of estate agents from commercial

¹⁵ <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/6259798/Financial-service-sector-could-shed-60000-jobs-this-year.html>

¹⁶ *Halifax House Price Index*

¹⁷ *Asset Skills Sector Report 2009*

to residential letting with some concern over whether people moving between these have the required skills or qualifications¹⁸.

Recession is important in **legal services** for several reasons. For corporate and commercial law firms it can bring both reductions in the volume of work and changes in the balance, for example with reduced merger, acquisition and company formation activity. Several firms have reduced their numbers, and a significant number of the major firms, which recruit the greatest number of trainees, have deferred the commencement of new training contracts¹⁹. For High Street firms, the slow down in the housing market will have reduced the number of conveyancing transactions, whilst crime (especially acquisitive crime according to government modelling) tends to rise²⁰ when recession produces a rise in unemployment.

In the **construction industry** the reduction in private sector work is cushioned to some extent by public sector developments – driven by public housing, public non-residential work (e.g., the Building Schools for the Future programme and Olympic site) and infrastructure (e.g., Thameslink/crossrail)²¹. However overall available work is predicted to decline between 2009 and 2011.

Across the **professional consultants in skilled mechanical and electrical design** strand the recession has had a strong impact with relatively high predictions for projects being postponed or cancelled, with even best case scenarios of almost one-third of work across private industrial and housing projects being postponed²². As a result, consultants expect the total size of their workforces to shrink in 2009 before beginning to grow again between 2009-2015, potentially opening-up more opportunities to graduates²³. However, the loss of apprentices through job loss in the recession could create some potential skills bottlenecks in future years²⁴.

¹⁸ ARLA cited in *Asset Skills Sector Report 2009*

¹⁹ <http://www.thelawyer.com/training-contract-deferrals-force-generation-y-to-learn-patience/1000315.article>

²⁰ <http://www.timesonline.co.uk/tol/news/politics/article4649056.ece>;

²¹ *CIC Impact of Recession Report*

²² *Summit Skills Sector Report 2009*

²³ *Summit Skills Sector Report 2009*

²⁴ Summit Skills (2009) *Responding to challenge and change: an analysis of building services engineering sector consultants in 2009*

Globalisation

The deregulation of financial markets (Big Bang) in the mid-1980s triggered an economic boom in the City of London. Subsequently the **financial services** strand has benefited vastly from increased globalisation, and this has been an important factor in the strong economic growth in recent years. For example, UK fund management firms managed £1.4 trillion in assets on behalf of overseas clients in 2008²⁵. The UK also dominates the global market for internationally traded insurance and reinsurance, earning 25 per cent of revenues from overseas markets²⁶.

In **legal services** processes of globalisation are similarly highly significant, for several reasons. Large corporate legal services clients require firms that can serve their needs across jurisdictions, meaning they need to be able to operate across national boundaries. Large international law firms advise on mergers and acquisitions, financing and refinancing and private equity in international capital markets²⁷. Some smaller specialist firms operate in 'specific areas such as shipping, insurance or Islamic finance'²⁸. In addition, the reputation of the English judicial system means English courts are preferred in many commercial transactions even when neither party is UK based²⁹. The contracts governing such transactions are written so as to be subject to the jurisdiction of the English courts, so as to achieve this.

Across other parts of the cluster the impact of globalisation has been less pronounced but there remains some scope for future growth. For example, within the **housing and property** strand it is considered that the opening-up of new external markets is strongly dependent on developing stronger management and leadership skills³⁰.

²⁵ UK Trade and Investment (2009) *UK Financial Services: Delivering Regional Enterprise* (<http://www.uktradeinvest.gov.uk/ukti/showdoc/BEA+Repository/345/435524>)

²⁶ UK Trade and Investment (2009) *UK Financial Services: Delivering Regional Enterprise* (<http://www.uktradeinvest.gov.uk/ukti/showdoc/BEA+Repository/345/435524>)

²⁷ UK Trade and Investment (2009) *UK Financial Services: Delivering Regional Enterprise* (<http://www.uktradeinvest.gov.uk/ukti/showdoc/BEA+Repository/345/435524>)

²⁸ UK Trade and Investment (2009) *UK Financial Services: Delivering Regional Enterprise* (<http://www.uktradeinvest.gov.uk/ukti/showdoc/BEA+Repository/345/435524>)

²⁹ HM Treasury (2009) *Professional Services Global Competitiveness Group Report* (http://www.hm-treasury.gov.uk/d/professional_services_group160309.pdf)

³⁰ *Asset Skills Sector Report 2009*

3.1.2 Regulation and governance

Legislation and regulation are, and continue to be, key drivers of change within the cluster. Of particular significance to the different strands are:

- Increasing public accountability through the ongoing reduction in practices of self-regulation among professions
- Regulation being introduced in response to the global financial crisis
- Regulation around increasing sustainability and reducing environmental impact

Regulation has been a key driver across **legal services**, which has been under increased scrutiny since the 1980s. The solicitors' monopoly on conveyancing was opened up by the introduction of the new profession of licensed conveyancer³¹, whilst the barristers' monopoly of rights of audience in the higher courts was opened to solicitors³². A sequence of oversight regulators has been put in place to scrutinise the rules made by the legal professional bodies³³, starting with the Lord Chancellor's Advisory Committee on Legal Education and Conduct³⁴, then the Legal Services Consultative Panel³⁵ and finally the new Legal Service Board³⁶ which assumes its full powers on 1st January 2010. The Legal Services Board was recommended in the Clementi review of 2004³⁷. These developments have moved the system from one of self-regulation, subject only to the concurrence of the senior judges, to one of regulation supervised by an oversight body containing a majority of non-lawyers and having a statutory regulatory objective of, *inter alia*,

³¹ Provided for in the Administration of Justice Act 1985

³² Provided for in the Courts and Legal Services Act 1990

³³ The professional bodies that are currently approved regulators in respect of some or all of the types of work undertaken by their members are the Law Society, the General Council of the Bar, the Master of the Faculties, the Institute of Legal Executives, the Council for Licensed Conveyancers, the Chartered Institute of Patent Attorneys, the Institute of Trade Mark Attorneys and the Association of Law Costs Draftsmen.

³⁴ Provided for in the Courts and Legal Services Act 1990

³⁵ Provided for in the Access to Justice Act 1999

³⁶ Provided for in the Legal Services Act 2007

³⁷ Sir David Clementi *Review of the Regulatory Framework for Legal Services in England and Wales, Final Report*, December 2004

“protecting and promoting the public interest”.³⁸ . The system has been described as ‘regulated self-regulation’³⁹.

The most significant impact of the Legal Services Act is likely to be the introduction of Alternative Business Structures (ABS), which are due to be licensed to operate from 2011. ABSs are an alternative to the traditional models of partnership and self-employment, which have been the main vehicles through which legal services have been provided to the public for many years. ABSs would allow the integration of legal and other professional services⁴⁰ and would provide for outside ownership of firms (by non-lawyers) and for the introduction of outside capital. Hitherto, the capital requirements of firms have been met by partners’ equity and bank borrowing. This model has the potential to facilitate the introduction of nationally branded chains of legal services providers (sometimes referred to as “Tesco law”) which could provide serious competition to traditional High Street practices, not least because of the potential access to capital resources and the scope for national marketing.

A potential regulatory development was discussed in the Smedley Report (2009)⁴¹, commissioned by the Law Society. This suggested that a separate frontline regulator might be needed for firms undertaking corporate work, as their practices differed so significantly from high street firms. A particular concern is a mis-match between the compulsory parts of the training process and the work actually undertaken by corporate and commercial firms.

The issue was addressed in the HM Treasury *Global Competitiveness Report* which called for a greater flexibility in the operation of the Qualified Lawyers Transfer Regulations, which allow lawyers from other jurisdictions to re-qualify to practise in England and Wales.⁴² There were concerns that a lack of flexibility would make it harder for the UK to compete for the best international talent. At the heart of this concern is a mis-match between parts of the qualification process, which reflect types of work reserved by statute to solicitors, and the work of the major firms, which may involve only a few individuals in undertaking reserved activities.

³⁸ Legal Services Act 2007, s.1(1)(a).

³⁹ Parker cited in spada (2009) *British Professions Today: the state of the sector* (<http://www.spada.co.uk/wp-content/uploads/2009/05/spada-british-professions-today.pdf>)

⁴⁰ Ministry of Justice *Legal Services Reform Fact Sheet: alternative business structures* (<http://www.justice.gov.uk/publications/docs/abs-fact-sheet.pdf>)

⁴¹ Smedley, N (2009) *Review of the Regulation of Corporate Legal Work* (http://www.legalregulationreview.org.uk/files/report_smedleyfinal.pdf)

⁴² HM Treasury (2009) *Professional Services Global Competitiveness Group Report* (http://www.hm-treasury.gov.uk/d/professional_services_group160309.pdf)

Some reserved activities (for example probate) will not be undertaken at all by corporate firms.

The same mismatch is seen in the mainstream qualification process. This was addressed in a paper from the Legal Services Policy Institute⁴³ which suggested that entitlement to practise the reserved activities should be subject to separate authorisation, thus removing the need for those entering corporate practice to undertake supervised practice, during the training contract, in areas of work outside the mainstream activity of their firm. This proposal was endorsed by Lord Hunt, in his recent report to the Law Society.⁴⁴

This mismatch illustrates a general point. To remain globally competitive, professional services have to innovate and adapt. Regulation of skills training must be sufficiently flexible to accommodate both safeguards for those consumers purchasing traditional professional services, and freedom to adapt training so that it supports the skill sets needed to remain globally competitive. This is a part of the challenge posed to the legal profession by the Smedley report, but it is a challenge that may have a wider resonance within the cluster.

Another important trend in **legal services** in recent years is the growing use of paralegals by firms of solicitors. There are broadly speaking two types of paralegals. First, those working in larger firms, who tend to have a law degree and sometimes to have completed the Legal Practice Course or the Bar Vocational Course. Second, in firms serving private individuals there are types of transactional work which have become increasingly commoditised, personal injury claims being an example. Often this work is undertaken, under supervision, by individuals who may have no more than school leaving qualifications. There is potential here for the introduction of qualifications at NVQ levels 2 and 3. Demand for such qualifications may increase if there is increased competition in this field with the introduction of ABSs.

There is similarly a wide range of recent legislation that impacts on the **housing and property** strand including around energy management and conservation legislation⁴⁵. Of particular significance though is likely to be the Carsberg Review. This proposed the licensing of estate agents, and is likely, if implemented, to substantially increase the number of qualified estate agents, partially offsetting current skills shortfalls in the market⁴⁶. This changing regulation necessitates a

⁴³ Legal Services Policy Institute of the College of Law, *Training for the Future*, September 2009

⁴⁴ The Law Society, *The Hunt Review of the Regulation of Legal Services*, October 2009.

⁴⁵ *Asset Skills Sector Report 2009*

⁴⁶ *Asset Skills Sector Report 2009*

need to keep staff up-to-date either through a 'regulation training programme' or a 'personal performance development process'⁴⁷.

In **financial services** the impacts of regulation across the banking sector in response to the global financial crisis has been the subject of much debate. A process of increasing regulation of banking has already begun and the possible implications of this are discussed subsequently in the skills foresighting section.

Across the cluster environmental regulation means there will be a clear increase in demand for 'green' skills, such as eco-design, building energy management and integration of renewable energy, material use, sustainable development master planning, and strategy development. The specialist skills demanded in the **construction industry** to meet the high specifications and energy efficiency requirements of future building and infrastructure will require new levels of expertise. The construction industry has a huge part to play in delivering carbon commitments, which are now legally binding targets within the Climate Change Act 2008, and the new system of carbon budgets. Energy used in buildings accounts for around 50% of the UK's carbon emissions⁴⁸. The Government's Heat and Energy Saving Strategy sets out how existing buildings will become almost zero carbon by 2050. The consultation will become the Home Energy Management (HEM) Plan and will be published at the beginning of 2010.

In **financial services** London has a wide range of carbon market services including advisory and audit functions. It was early in establishing carbon credit markets and is 'growing into the largest marketplace for trading in environmental financial instruments' creating vital knowledge and skills around what is likely to be an area of important future growth⁴⁹.

A further area where there has been considerable recent government influence has been around expanding the diversity agenda within professional occupations. Spanning across the professions, the Milburn Report argued for the need to re-establish vocational progression routes to professional occupations⁵⁰. For example in **legal services** there has been a reduction in the use of legal executives, traditionally the non-graduate route to becoming a solicitor. Roles previously

⁴⁷ *Asset Skills Sector Report 2009*

⁴⁸ *Manifesto for the Built Environment*

⁴⁹ *Financial Services Sector Report 2009*

⁵⁰ Panel on Fair Access to the Professions (2009) *Unleashing Aspiration: The Final Report of the Panel on Fair Access to the Professions*
(http://news.bbc.co.uk/1/shared/bsp/hi/pdfs/21_07_09_fair_access.pdf)

fulfilled by legal executives are now sometimes filled by paralegals holding law degrees.

Regulation in some areas is increasingly defined at supra-national level and this creates some issues around retaining competitive advantage. For example across management consultancy, investment banking and major law firms the opt-out of the EU Working Time directive is considered a 'valuable tool in the professions competitiveness'⁵¹.

3.1.3 Technology

Use of ICT in daily working practices is commonplace across professional sectors. This has had particular implications in **financial services**. Here IT innovations tend to trigger strong investment in high-level skills by 'leveraging the workforce's generic competences and complementing high-level quantitative skills', but often with a lag time as staff adapt to new technologies⁵². On the other hand technological change can reduce the need for lower-skilled labour. **Financial services** have historically been more dependent on highly skilled staff than other industries and this trend is increasing; by 2014, as many as '41,000 low value-added roles could be replaced through investment in high-level skills or the use of technology'⁵³.

3.1.4 Demographic

Migration of highly skilled workers has generally benefited the cluster and helped to plug skills gaps although the introduction of the Points Based System will impact on the ability to meet future skills shortages if they are not evidenced.

Law firms which operate global networks of offices will often move lawyers with particular skills between offices in the network. The need for greater flexibility in requalification arrangements, discussed above, is of importance to facilitating this movement. European legislation aimed at facilitating the mobility of professional labour and services in the EU has an impact on all groups within the cluster. Of particular relevance are the mutual recognition directive⁵⁴ which provides for professional qualifications awarded in one member state to be recognised in all others, and the services directive (sometimes referred to as the establishment

⁵¹ HM Treasury (2009) *Professional Services Global Competitiveness Group Report* (http://www.hm-treasury.gov.uk/d/professional_services_group160309.pdf)

⁵² Financial Services Sector Council *The view from Europe*

⁵³ Financial Services Sector Council *The view from Europe*

⁵⁴ Directive 89/48/EEC of 21 December 1988

directive)⁵⁵ which simplifies the procedures for an EU national to establish a professional business in another member state, and which is due to be fully implemented from 28th December 2009.

Trends towards an ageing population has two primary influences across the cluster – firms need to replace the skills of workers reaching retirement age; and there are changing consumer trends to which firms need to plan, adapt and innovate.

In the **construction industry** the ageing workforce is the source of some concern, with future retirements of Construction Profession Service professionals expected to exacerbate skills gaps at the top of the industry⁵⁶. Research by the Chartered Institute of Building has shown that many professionals are working into their retirement years because the skills are not available to replace their expertise⁵⁷.

⁵⁵ Directive 2006/123/EC of 12 December 2006

⁵⁶ CSAPPG press release 2007

⁵⁷ *Manifesto for the Built Environment*

4 Current and future skills needs

This chapter begins by exploring the current and medium-term skills needs across the cluster before discussing the future drivers of change and their skills implications.

4.1 Current skills needs

There are a range of current and impending skills needs which are apparent across the cluster. Some of these are generic skills and tend to operate across the cluster; others are technical skills which tend to be focused on a single strand or profession. In general the skills needs are for higher-level skills, as some lower level skill occupations have been reduced in number through outsourcing and technological change.

Within the cluster the **construction industry** suffers from the greatest proportional incidence of hard-to-fill vacancies, these are significant in both skilled trades and professionals. In **housing and property** skill-shortage vacancies similarly tend to be more among managerial and professional level staff⁵⁸. More generally, there tends to be a higher proportion of hard-to-fill, skill shortages vacancies, and skills-gaps in London.

In several cases rather than lack of skills, lack of new entrants more generally is considered a problem. There is a potential issue associated with recession induced, or exacerbated, skills bottlenecks as a result of reduced intake of apprentices across occupations in **skilled mechanical and electrical design**. The **construction industry** also has concerns that since fewer individuals are joining the industry due to the current recession and the number of places for those in training or apprenticeship has been cut back dramatically, the 'skills gap' will widen in a few

⁵⁸ *National Employer Skills Survey* (2007)

years time as the economy rebounds, unless there is a commitment from employers to invest in training and to develop new skills at all levels⁵⁹.

There is also an issue around the effective balancing of new supply of (graduate) talent with demand. For example in **legal services** there is some concern about the number of people completing a Bar Vocational Course (BVC) who cannot then obtain a pupillage, as well as some concern about there being more individuals completing the Legal Practice Course (LPC) than there are places available in training contracts. There was an increase in applications for undergraduate places on full-time law degree courses of around a third between 2006 and 2007⁶⁰, and this may increase the number of applications for places on the BVC and LPC. However, it should be noted that some of those who do not secure training contracts obtain employment as graduate paralegals, thus utilising their skills.

4.1.1 Generic skills

Generic skills are a broad range of non-technical skills which are required to facilitate effective working. They include, for example, communication skills, interpersonal skills, problem-solving skills, and management skills

There is a good degree of commonality within the cluster around the types of generic skills which are in greatest demand. These skills needs tend to be focused at the higher-levels, and particularly concern business management and leadership skills as areas of priority for development:

- In **financial services**, management and leadership skills 'will be in greater demand post-recession in order to operate more efficiently'⁶¹. At the entry-level there is perceived to be a lack of work-readiness among many new recruits, with particular gaps in important soft or generic skills⁶²
- Across the social housing sub-strand of **housing and property** increased demand for accommodation and difficulties in driving forward new developments because of reduced availability of credit and reluctance of developers require increasingly strong management, business planning,

⁵⁹ *Manifesto for the Built Environment*

⁶⁰ Law Society(2008) *Annual Statistical Report*
(<http://www.lawsociety.org.uk/secure/file/180111/e:/teamsite-deployed/documents/templatedata/Publications/Research%20Publications/Documents/asr2008report.pdf>)

⁶¹ Financial Services Skills Council *The view from Europe*

⁶² *Skills Bill: Sector Skills Agreement for Financial Services*

procurement and partnership working skills among professionals⁶³. Across the property strand the *Mind the Gap* report identified generic skills gaps around project management and financial management.

- In **legal services** there is greater need for business management, change management and commercial skills⁶⁴.
- In the **construction industry** there are large skills gaps around managerial skills as a result of the ageing workforce.

4.1.2 Technical skills

In addition to the generic skills identified there are a number of more specific technical skills which impact on particular professions within the cluster.

In the **housing and property** strand the changing balance of work between commercial and residential property lettings means individuals will need to develop the sub-sector relevant skills. There is some concern that when the property market begins to grow there will not be the skills to support it as anecdotal evidence suggests that skilled practitioners in professions like surveying and planning may opt for early retirement, further exacerbating skills shortages in these areas⁶⁵. The *Carsberg Report* recommends the need for greater analysis of correlations between valuations and achieved prices, with this knowledge feeding into upskilling current and future members of the workforce⁶⁶.

The *Mind the Gap*⁶⁷ report identified a number of areas of skills needs and highlighted a number of professions where there will be either a labour or skills shortage over the next few years.

- Surveyors, 35% of surveyors are concerned about their specialist skills, 50% about knowledge of specialist procedures.

⁶³ *Asset Skills Sector Report 2009*

⁶⁴ A more general consumer trend in legal services which the Clementi Review (2004) identified the poor business and customer service by some lawyers who 'reject the notion that they are in business'.

⁶⁵ *Asset Skills Sector Report 2009*

⁶⁶ RICs (2002) *Property Valuation: the Carsberg Report*
(http://www.cili.org.uk/library/papers/carsberg_report.pdf)

⁶⁷ Academy for Sustainable Communities 'Mind the Gap: the skills we need for sustainable communities'
(http://www.hcaacademy.co.uk/sites/default/files/mind_the_skills_gap_full_report.pdf)

- Engineers, the shortage in skilled engineers is predicted to widen to 17% by 2012.
- Sustainable Development Experts, a shortage of sustainable development experts is likely to steadily increase to more than 70% in the period up to 2012. Individuals reported concern about the depth and breadth of their technical skills, given the wide subject matter involved
- Planners, labour shortage is predicted to increase to 46% by 2012. Planners are identified by approximately 10% of organisations surveyed as requiring improvement in their technical skills, with particular gaps in development control

The report also shows there are pronounced regional differences within these patterns; with surpluses in some northern regions but very acute shortages across the south of the country.

A recent report by a group of UK **financial services** leaders emphasised several areas of immediate need for skills development⁶⁸. These were around:

- skill shortages in risk and management skills, legal, analytical, statistical, IT,
- leadership and management, change management, and language skills
- regulatory and compliance knowledge and skills.

In **management consultancy** professions there are ongoing challenges around recruiting entrants with the right skills, particularly sufficient IT skills⁶⁹.

Looking forward a survey of international professional accounting bodies undertaken by IFAC found that using new technologies (like eXtensible Business Reporting Language) was likely to become more important⁷⁰. It also suggested that risk and compliance would become bigger issues for accountancy firms and that they would require increasing competence in types of external (financial) assurance, corporate recovery and insolvency services, and forensic accounting.

⁶⁸ HM Treasury (2009) *UK International financial services – the future* (http://www.hm-treasury.gov.uk/d/uk_internationalfinancialservices070509.pdf)

⁶⁹ HM Treasury (2009) *Professional Services Global Competitiveness Group Report* (http://www.hm-treasury.gov.uk/d/professional_services_group160309.pdf)

⁷⁰ IFAC (2008) *Global Leadership Survey on the Accountancy Profession* (2008 IFAC Global Leadership Survey on the Accountancy Profession)

Additionally, the *Retail Distribution Review* (RDR) is a 'watershed change in the approach to regulating retail investment advisers'⁷¹. These new rules will increase the minimum qualification level for retail investment advisers as part of a broader suite of measures to increase professionalism and trust in the sector. The regulators proposal includes all investment advisers to be qualified to QCF Level 4 by 2012 and the development of an independent Professional Standards Board. These new requirements will affect some 60,000 individuals and imply significant efforts as well as costs. There is likely to be some loss of experienced professionals as a result of these reforms⁷². There have also been recruitment difficulties of young people into retail investment and advisory services in recent years.

Across the **professional consultants in skilled mechanical and electrical design** strand there are several areas of identified skills deficiencies, which consultancies reported in a recent survey. These included specific technical and engineering skills as well as broader business and people management, and more general communication skills⁷³. There is some concern that funding restrictions for students with Equivalent or Higher Level Qualifications (EHQL) might affect the future supply of these skills, particularly where individuals with other qualifications want to retrain to enter the profession⁷⁴.

4.2 Skills foresighting across the cluster

This section explores future drivers of change across the cluster and their skills implications. These have been identified from both desk-research and foresighting input from the individual SSCs reporting processes, and the findings have been developed and validated through the consultation exercise. The possible impacts of particular combinations of these drivers are explored in Section 5.2 which develops a small number of alternative future scenarios for the cluster.

4.2.1 Economic

Working Futures III projects that growth in UK employment between 2007 and 2017 will be largely driven by increases among financial and business services (increasing by 1,306,000). With employment growth across the economy concentrated among managers and senior officials, and professional occupations

⁷¹ *Financial Services Sector Report 2009*

⁷² FSA cited in *Financial Services Sector Report 2009*

⁷³ *Summit Skills Sector Report 2009*

⁷⁴ Summit Skills (2009) *Responding to challenge and change: an analysis of building services engineering sector consultants in 2009*

(872,000 and 643,000 respectively). The bulk of the employment increase of managerial staff is predicted to be across London, South East and East of England. The net replacement demands for managerial and professional occupations tend to be quite large in all regions but again are most acute in London and the South East.

Other, more recent, projections, which take into account more fully the impact of the recession tend to suggest that growth in demand may be more modest than Working Futures suggests:

- Research by CEBR for the FSSC suggests employment in **financial services** will fall by 5.6 per cent in 2009 and 0.7 per cent in 2010 before rising slowly from 2011 onwards.
- Employment forecasts by Oxford Economics suggested that employment levels in **financial services** in London are not expected to reach pre-recession levels again until some point between 2015 and 2019.
- Research by CEBR for the FSSC suggests that employment demand for highly skilled **accountants** will decline from a high in 2007 through 2008 and 2009 before beginning to increase slowly over the subsequent years and returning to around its 2008 level by 2014⁷⁵. This growth is premised on more general economic recovery and increasing deals activity. For low-skilled accountancy activity the decline in employment is predicted to bottom-out in 2011-2012 before increasing more slowly.
- Employment in the **construction** is projected to begin to grow again from late 2010 onwards with a rise of 2.9% between 2009 and 2013. Total employment growth will be strongest in London and the South East⁷⁶. However growth in professional positions will be relatively modest, including 1,170 civil engineers, 1,670 other construction professional and 400 architects.

Within this picture of changing demand there are though several occupational areas where it appears likely that economic change will drive growth in demand. Recent research identifies two areas which contributed to the recent turmoil in global economic markets, and which need to be addressed; these are around risk-management and corporate governance⁷⁷.

⁷⁵ CEBR (2009) *The prospects for accountancy employment forecast: a summary report on the FSSC accountancy employment forecast*

⁷⁶ Construction Skills Network *Blueprint for UK construction 2009-2013*

⁷⁷ La Rosiere cited in *Financial Services Sector Report 2009*; FSA (2009) *The Turner Review: A regulatory response to the global financial crisis*

Lack of experience and knowledge of risk and risk management within many banks makes improving the skills required for this a priority area for both risk managers *and* for senior management and non-executive directors⁷⁸. This is an area where there is likely to be rising demand for suitably qualified people. Risk management skills are also likely to become increasingly important across the **legal services** strand

Another impact of the recession are the proposed future cuts in public spending which are set to impact on some strands within the cluster. This will be particularly pronounced across the social housing sub-strand of **housing and property** and will impact on the provision of legal aid services in **legal services**. It may also impact on the rate at which publicly funded **construction** projects come on stream, having obvious implications for architectural and engineering activities and related technical consultancy, as post-2011 construction employment is likely to be driven by a few large projects (for example the Severn Barrage and port projects – Harwich and Thames Gateway). Over the longer-term there is likely to be fall in public investment in construction as public debt is addressed⁷⁹.

Globalisation

Globalisation has been an important element of the strong growth which financial and professional services have enjoyed in recent years. The UK **financial services** sector is also already a leader in growth areas like Islamic finance, sovereign wealth funds and financing emerging market growth and so is in a strong position to continue to benefit from increasing globalisation⁸⁰.

Whilst recessions can lead to bouts of national protectionism, globalisation is now so deeply ingrained that a retreat to more protectionist stances are considered unlikely⁸¹. However any retrenchment would potentially have a highly damaging impact on parts of financial services, and particularly on the City of London.

In **legal services** there remains strong potential for further moves into international markets. This will though require some strengthening of business

(http://www.fsa.gov.uk/pubs/other/turner_review.pdf); HM Treasury (2009) *Reforming Financial Markets* (http://www.hm-treasury.gov.uk/d/reforming_financial_markets080709.pdf)

⁷⁸ *Financial Services Sector Report 2009*

⁷⁹ *CIC Impact of Recession, 2009 unpublished*

⁸⁰ HM Treasury (2009) *UK International financial services – the future* (http://www.hm-treasury.gov.uk/d/uk_internationalfinancialservices070509.pdf)

⁸¹ McKinsey cited in *Financial Services Sector Report 2009*. See also recent G20 statements on anti-protectionism

management and commercial acumen skills which have not traditionally been strong across the strand.

4.2.2 Regulation and governance

The global financial crises has triggered widespread demand for greater regulatory control over banks and other financial institutions over how they manage risk, how much they pay their staff, and how they structure their incentives and bonuses. This regulation will be driven by several different tiers including national government, European policy and global regulatory agreements.

Changes to regulation are therefore likely to be the single biggest factor influencing the **financial services** industry in the coming years⁸². Research suggests that increasing levels of regulation have lead to a lower qualified and lower-paid financial services workforce, whilst deregulation has reversed these trends⁸³. Recent estimates from JP Morgan also suggest that tighter regulatory measures could significantly reduce the average return on equity⁸⁴.

The recent Turner Review of the global banking system made a number of recommendations for financial reforms with potentially wide-ranging effects on financial services and also other industries. These include⁸⁵:

- Fundamental changes to bank capital and liquidity regulations and to bank published accounts;
- More and higher quality bank capital, with several times as much capital required to support risky trading activity;
- Counter-cyclical capital buffers, building up in good economic times so that they can be drawn on in downturns, and reflected in published account estimates of future potential losses;
- A central role for much tighter regulation of liquidity;
- Regulation of "shadow banking" activities on the basis of economic substance not legal form: increased reporting requirements for unregulated financial institutions such as hedge funds, and regulator powers to extend capital regulation;

⁸² Financial Services Sector Report 2009

⁸³ Phillippon and Sharef cited in *Financial Services Sector Report 2009*

⁸⁴ *Financial Services Sector Report 2009*

⁸⁵ *The Turner Review* (2009)

- Regulation of Credit Rating Agencies to limit conflicts of interest and inappropriate application of rating techniques;
- National and international action to ensure that remuneration policies are designed to discourage excessive risk-taking;
- Major changes in the FSA's supervisory approach, building on the existing Supervisory Enhancement Programme (SEP), with a focus on business strategies and system wide risks, rather than internal processes and structures; and
- Major reforms in the regulation of the European banking market, combining a new European regulatory authority and increased national powers to constrain risky cross-border activity.

It is though not just banking regulation; other regulatory changes will also impact on strands of the cluster. In **legal services** the Legal Services Board assumes its new regulatory responsibilities, including that of providing the regulatory framework for Alternative Business Structures, from 1st January 2010. Market-based Legal Aid Procurement, which is best-value tendering for criminal defence work begins in 2012. This will require additional skills development in tendering and costing and procurement skills on the part of the Legal Services Commission.

Changing environmental regulation is already creating new occupational roles, for example environmental consultants⁸⁶. All new homes will be zero-carbon by 2016 and all new buildings by 2019. In the next twenty years, the UK will need to roll out low carbon energy generation on a huge scale. There are nine ageing nuclear power plants which have to be closed within the next fifteen years and there is a drive to produce 20% of the nation's energy from renewables by 2020.

The application of the range of 'green' technologies will require the **construction industry** to advise on and install appropriate solutions across a range of markets. In order to maximise opportunities the construction industry will need to develop not only its technical capability but to interface with other sectors, for example energy producers, and their supply chains. This could mean a significant shift in the skills and competence of the existing industry as part of a major process of innovation.

There will therefore be demand for high-level environmental construction and design skills in these growth areas⁸⁷. However new jobs created in environmental markets will not all require totally new skills, but will often be an addition to

⁸⁶ *Manifesto for the Built Environment*

⁸⁷ *Manifesto for the Built Environment*

existing workers skill-sets. As this market develops it is likely that a significant number of the existing workforce will move into specialist environmental niches. This transfer would 'free up' jobs in other parts of the construction industry and help to create wider opportunities for new entrants.

Finally, as has been detailed, as global targets around emissions develop the UK financial services strand is in a strong position to be a global leader in carbon trading⁸⁸.

4.2.3 Technological

Technological change is likely to impact on working practices across the cluster. This will include new patterns of working, for example increased remote working. Increasing use of technology in the workplace is also likely to impact. For example in **financial services** the growing popularity of online banking may translate into fewer high street branches and a reduction in the number of customer facing roles.

Changes in technology relating to environment and sustainability are also likely to impact widely across housing and across construction design strands. Changing practices are likely to be associated with technological change across the skilled **construction** design and **housing and property** strands, with trends towards offsite, modular and more standardisation potentially lessening need for professionals through the decreased requirement for bespoke work⁸⁹.

4.2.4 Demographic

In recent years the in-migration of highly skilled workers has tended to benefit the cluster, allowing skills gaps to be addressed and the best global talent to be attracted. Any future restrictions on the ability to recruit staff through Tiers 1 or 2 of the Points Based System would impact on the ability of firms to recruit these workers⁹⁰. On the other hand any reduced demand for skilled architecture and engineering professionals in the UK may be mitigated by increasing opportunities abroad, for example in the Far East and Middle East.

In **property and housing** strands changing consumer demands will also be an important driver. For example, older people's attitudes towards downsizing will

⁸⁸ HM Treasury (2009) *UK International financial services – the future* (http://www.hm-treasury.gov.uk/d/uk_internationalfinancialservices070509.pdf)

⁸⁹ *CIC Impact of Recession*

⁹⁰ *Financial Services Sector Report 2009*

be very important⁹¹. Within **financial services** providers, the ageing of the population is likely to mean increased emphases on products which cushion the drop in income experienced between employment and retirement⁹².

In the longer-term, changes in the UK demographic structure may mean an insufficient supply of new qualified graduates across many strands within the cluster to compensate for the loss of skills through retirement. Professional firms have previously concentrated on recruiting from the graduate market but these demographic trends may require a change in current recruitment practices⁹³.

4.3 Skills Timeline

On the basis of the current generic and technical skills needs identified in section 4.1, the projections of the future supply and demand, and the drivers which appear to be most significant, a table of current and future skills needs has been developed. This identifies needs which are current across the cluster, those which are developing and are likely to be most important in the next few years, and those which are likely to impact more in the longer-term.

⁹¹ RICS (2009) *An examination of the housing needs and supply for an ageing society* (http://www.rics.org/site/download_feed.aspx?fileID=4559&fileExtension=PDF); REIM (2009) *Real Estate Investment Management 2020 and Beyond Workshop Report* (http://www.reutersrealestate.com/library/images/REIM_2020_report.pdf)

⁹² *Financial Services Sector Report 2009*

⁹³ HM Treasury (2009) *Professional Services Global Competitiveness Group Report* (http://www.hm-treasury.gov.uk/d/professional_services_group160309.pdf)

Sector	Current needs	Short-term needs (2010-2014)	Longer-term priorities (2014 onwards)
Housing and property	Housing management Valuation Surveyors	Sustainable development experts Planners Regeneration officers Management and business planning	Financial management skills Environmental skills Managing diversity
Financial services	Risk management Retail Distribution Review Islamic finance	Risk management High-skilled accountancy Corporate governance and regulatory skills IT and new technology skills	Increasing knowledge in growth areas including carbon trading, financing emerging market growth
Legal Services	Risk management Upskilling of paralegals involved in transactional work	Business management Commercial skills Tendering and unit cost skills	
Architectural and engineering	Project management	Environmental skills relating to zero carbon building and retrofitting Project management skills	Advanced environmental skills
Professional consultants in skilled mechanical and electrical design teams		Environmental skills relating to zero carbon building and retrofitting Project management skills	Advanced environmental skills

5 Government priorities and future scenarios

In this concluding chapter potential government responses, through both industrial and skills policies, to encourage economic and employment growth across the cluster are discussed. Subsequently, a number of alternative scenarios for future development across the cluster are developed to show a range of outcomes associated with the drivers detailed in Chapter 4. Finally, some brief conclusions are presented on the nature of the cluster and current and future skills needs.

5.1 Priorities for Government industry and skills policy

Government policy will have a crucial role in influencing how the cluster develops in subsequent years. This section outlines where industry and skills policy can best facilitate growth of the Professional and Financial Services cluster by drawing together the most important report findings.

5.1.1 Industrial policy priorities

Regulation: The regulation of the banking and financial sectors in response to the recession has the potential to impact profoundly across the cluster. Too much, or the wrong type, of regulation risks jeopardising growth driven by financial services, and even the position of London as a premier global financial centre. Changes to the tax regime, including ‘non-dom’ tax regulation, the 50 per cent tax increase, and changes to corporation tax, will also have potential repercussions. These developments would have further impacts across the cluster. For example a reduction in financial activities, like mergers and acquisitions transactions, would reduce demand for the legal services facilitating such activity.

Public spending: Reductions in public spending will have a significant impact across some parts of the cluster. Parts of the housing and property and legal services strands are heavily reliant on public funding and so the scale and quality of delivery is liable to be impacted by cuts in public spending. Similarly there are large construction projects due to come on stream in future years which are dependent on public financing.

Geography: The inter-dependency in high-value services in the cluster is most pronounced in London and this is where support for the cluster may be most advantageous. London is also where employment in the cluster is concentrated and provides conditions such as a dense labour market with a global pull which are difficult to replicate elsewhere.

5.1.2 Skills priorities

Management abilities: Growth in demand for labour is projected to be considerable for those with managerial and professional skills (in replacement demand and new job creation). There will be particular need for skills around partnership working, business planning and change management. These skills needs will be driven by the changing business environment, including the reduced availability of credit and declining public-spending.

The degree of overlap in the type of generic, primarily managerial, skills which are considered in greatest need across the cluster suggests there are possibilities for some more joined-up career and skills development opportunities. In addition, there are some skills apparent in abundance in parts of the cluster which are in relatively short-supply elsewhere. For example, the need for increasing commercial acumen and business management skills in legal services may be well served by developing greater career learning or secondment links with other firms in the cluster.

Critical technical skills: there are two broad areas across the cluster where advanced technical skills will be in great need in the future. These are around *risk-management*, primarily within financial services; and around *sustainability and green skills*, these will be important across housing and property and construction strands. These broad skill sets will need to be prioritised in skills policy going forward.

Supply and demand: Across the cluster it is largely high-end technical and managerial skills which will be in greatest demand in future years. On the other hand in some parts of the cluster technology and changing consumer trends will mean a reduction in demand for less-skilled individuals. This will require either upskilling, or reskilling, as some job roles are reduced in number.

There is some potential to do more to smooth regional differences in demand and supply. As detailed, there are some professions and skills which are in oversupply in some regions and shortage in others. These are primarily shortages in London and the South East but over-supply in some other regions. This raises important questions about how these can be addressed to enable the most efficient matching to jobs and use of skills. This can be tackled in a number of ways involving either diffusion of demand, inter-regional migration or commuting of supply, or it can be alleviated by changing ways of working, for example by increased remote working.

5.2 Scenario building

In order to synthesize possible future changes within the cluster several short alternative scenarios for the cluster's development are described. The important drivers identified in the foresighting section, which were developed from the stakeholder and employer interviews combined with insights from the desk-based research⁹⁴, have been used inductively to develop three possible alternative scenarios for the cluster. These were developed using the cone of plausibility method which can be used to develop three or more possible scenarios⁹⁵.

Scenarios are a way of preparing for the future. They were first used by the RAND Institute in the 1940s and subsequently developed by the Stanford Research Institute and the Hudson Research Institute. Scenarios are now considered a central tool in organisational planning and are used by a diverse range of actors including companies, government departments and international forums.

Scenarios are stories about the future based on the evolution of certain trends. They are not forecasts or predictions, they are the presentation of several plausible versions of what the future might look like. They ask 'what if' rather than 'whether'. They therefore provide a way to explore what skills needs might be most significant under what circumstances. They also allow for consideration of how action and policy can help shape this future.

The first scenario developed using this model tends to be a form of baseline scenario which is generally a simple projection forward of the current state. This is made more difficult because of the current recession and so has been based on

⁹⁴ Including other scenario work by the Foresight Horizon Scanning Centre (Government Office for Science) *World trade: possible futures*; The World Economic Forum *The future of the global financial system: a near-term outlook and long-term scenarios*; and, The London School of Economics in *London's place in the UK economy, 2009-2010*

⁹⁵ For an explanation of this see Government Office for Science *Scenario Planning: Guidance Note* - http://www.foresight.gov.uk/Horizon%20Scanning%20Centre/foresight_scenario_planning.pdf

what the literature, and the consultation participants, perceived was most likely to happen.

The second scenario involves a change in one or more assumptions from the first. In this case changing the emphasis of government policy, generating a scenario which is seen as being highly plausible.

The third scenario is considered to be less likely but its results much more dramatic. This is generated by changing several of the assumptions which underpin the baseline model. In this scenario these changes include economic growth patterns and the scope of regulation.

Scenario 1: Return to growth

- Recovery of GDP from 2010 and employment from 2011
- Increasing national regulation of financial services sector. Increased capital requirements and liquidity ratios. Enhanced risk management. Availability of credit is reduced.
- Global trade flows begin to increase driven by emerging economies
- Financial services and the City of London remain areas of national economic priority. Financial incentives mean they retain a strong pull for graduates.

The skills implications here would be largely for the financial sector. In particular firms will need to develop much greater higher-level skills around risk management. In other strands like housing and property the reduced availability of credit will mean the need for strong business planning and innovation in driving forward new social housing developments. The growth in emerging economies creates enhanced opportunities for firms in the finance sector as well as for large global legal services providers.

Scenario 2: Greening growth

- Recovery of GDP from 2010 and employment from 2011
- Increasing national regulation of the financial services sector. Increased capital requirements and liquidity ratios. Enhanced risk management. Availability of credit is reduced.
- Global trade flows begin to increase driven by emerging economies
- Increasing focus of new government industrial policy favours 'greening for growth' and low carbon industries. Graduates attracted towards these areas.

Again there are skills implications for the financial sector around greater higher-level skills around risk management but more difficulty recruiting the best graduates to train. The government industrial policy which favours green growth means that more graduates are attracted towards architecture and engineering professions. Across the construction strand there is increasingly strong innovation around sustainability which is design intensive. There is increased partnership working between social housing landlords and designers to maximise sustainability and manage cost.

Scenario 3: Rebalancing the national economy

- The country remains in economic stagnation
- Radical tightening of financial services regulation. National and international regulatory institutions strengthen control of bank lending
- The recession raises protectionist practices. Global flows of capital and labour into the UK are reduced.
- Opportunity for radical change in the national economy and a rebalancing towards more 'socially useful' and 'sustainable' activity. Sectors like manufacturing and green industries are given greater Government priority (and subsidy).
- There is a more critical view of London's role in the national economy.

There is greatly reduced availability of credit meaning costs are squeezed across the cluster. Financial services employment is badly effected and there is a need to absorb the surplus labour into other sectors. There is strong support for sustainable development practices. Skills-gaps become much less likely to be filled through migration and more effective retraining is required. Labour supply and demand in some professions are matched more effectively due to the more diffused demand.

The three scenarios present a number of ways in which change associated with different drivers would impact differentially across the strands within the cluster. However there are a number of broad key skills which are likely to be important under all scenarios; although the exact demand of the mix required is heavily dependent on the drivers outlined particularly government policy and global economic trends. These key skills are around partnership and business planning, risk management, and a range of green skills.

5.3 Conclusions

The cluster incorporates a diverse group of professional strands from within the member SSCs. There is a relatively strong commonality across the cluster around the extent to which firms compete for the same top graduate talent. It is also clear that there exist strong inter-dependencies between some cluster strands, and that removing barriers in one part of the cluster can drive growth in another. However this is not universally true and some strands which are contained within the cluster are somewhat peripheral. There is therefore potential for further refining the scope of the cluster, based on detailed mapping of supply-chain linkages, inter-dependencies and labour market commonalities.

There are a wide range of current skills needs across the cluster. These concern more generic managerial skills around business management and leadership skills, as well as a range of technical skills, for example surveying, engineering, and IT, which impact on firms within specific strands of the cluster.

In the future there are considered to be three broad areas of important skills demand. There will be a particular need for ever increasing managerial skills around partnership working, business planning and change management – driven by the changing business environment, the reduced availability and credit and declining public-spending. There will also be demand for a range of technical skills in financial services around risk-management within both firms and regulatory bodies. As well as this, a broad range of advanced green skills, including eco-design, integration of renewable energy, and sustainable development master planning will be required in housing and property and construction strands.

There is considerable scope for government policy to support the growth of the cluster. Of particular significance will be the way regulation evolves. This is particularly salient with regards to the regulation of the financial services. Public spending patterns are also critical to some parts of the cluster which may feel the impact of proposed cuts. In addition, the government need to work to continue the progress made in opening-up global trade in services which has vastly benefited the cluster.

In terms of skills development, support is needed to develop the high-end skills areas identified in management skills, risk management and green skills to facilitate long-term economic growth. More generally there are some possibilities for establishing more joined-up career and skills development opportunities within the cluster.

Most immediately there is a need to ensure that the impact of recession does not lead to a deskilling within strands, as those losing employment do not return, or

create future bottlenecks through reduced entry-level recruitment. It is also clear that in some parts of the cluster technological and social attitudinal change may reduce the number of lower-skilled posts, and therefore processes of upskilling or reskilling at these levels will also be important in the longer-term.