

To: ECONOMIC DEVELOPMENT COMMITTEE		Subject: IMPACT OF INWARD INVESTMENT ON THE LANARKSHIRE LABOUR MARKET
From: DIRECTOR OF PLANNING & DEVELOPMENT		
Date: 26 November 1998	Ref: CMcA/SW/REP507	

1. Purpose of report

This report seeks to inform members of the conclusions reached by consultants commissioned to examine the issues concerning the Lanarkshire labour market and inward investment into Lanarkshire over the last few years.

2. Introduction

The Locate in Lanarkshire partnership, identified that there was a need to establish the impact of inward investment on the Lanarkshire labour market. As a result of this, a brief was agreed between the partners involved and Cambridge Policy Consultants were commissioned to carry out the assessment.

3. Timescale

The final report was presented in June 1998 and as members will be aware, there has already been significant changes within the inward investment market since then, specifically with regard to the closure of Lite-On.

4. Research

4.1 The report provides an overview of the Lanarkshire employment market, with some specifics. Overall it was more a technical report, explaining the flows of labour as opposed to relating to detailed skills shortages or recruitment difficulties.

4.2 In general it could be concluded that companies were not experiencing any real recruitment problems except in some specialist areas as would be expected. Companies such as First Direct, Kwik-Fit and Cable & Wireless were all pleased with the response to their recruitment campaigns.

4.3 The report raises other issues, which it comments upon generally but does not conclude with any specific data. This includes public transportation issues between areas of high unemployment and areas with new employment opportunities.

5. Conclusion

5.1 The report provides an analysis on what was a calculation from available information at a specific time. From this we can conclude that the labour market has definitely improved and the prospects for the unemployed are now better, but that there is still significant capacity within the Lanarkshire labour market.

5.2 There has been some improvement in school leavers seeking employment.

5.3 National skills shortages are as prevalent within Lanarkshire as elsewhere.

6. **Executive Summary**

A copy of the executive summary is attached for information. I particularly draw your attention to the principle conclusions points 5-9.

7. **Recommendation**

It is recommended that the Committee note the contents of this report.



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EXECUTIVE SUMMARY

Introduction

1. This assignment attempts to provide an understanding of the potential of the Lanarkshire labour market to fill current and future skill requirements - both from inward investors and indigenous firms. We have not attempted to forecast the nature of the Lanarkshire economy, but rather approached the issue from the perspective of the interaction of the supply and demand side of the labour market using a labour market balance sheet.
2. The approach is similar to an accounting balance sheet where each credit or debit has to be identified and taken into account. So, for example, if employment increases by 1,000, then these new employees will have to have come from somewhere, either unemployment, new entrants, commuters etc. In order to balance, the model needs to take into account the changes in stocks in these other items. This gives a more systemic view of the labour market, as the model identifies the range and scale of adjustment required to accommodate any particular shock to the system.
3. Most people are familiar with the monthly unemployment statistics which relate to the number of people Registered as unemployed *at a point in time*. Traditionally, analyses of the labour market have focused on the net changes in this stock and it is easy to mis-interpret these net changes as being the only movement into or out of unemployment. When the unemployment figures fall by 2,000 this can mean that 2,000 people left the Register and no-one signed on, but it is much more likely that 24,000 left and 22,000 joined.
4. It is only when we start to gauge the scale of flows in the labour market that relatively large increases in net jobs arising from inward investment can be considered in context. How many jobs are filled in Lanarkshire over the year?, how many people join the Lanarkshire workforce?, how many people not registered as unemployed are filling current vacancies? We have attempted to estimate these from existing data sources and put them together within a systemic view of the Lanarkshire labour market.

Principal Conclusions

5. There is every indication that the Lanarkshire labour market has the capacity for further expansion. The proposed job creation impact of recent inward investors represents a relatively small proportion, around 5%, of all vacancies filled annually in Lanarkshire. Unemployment in Lanarkshire has fallen, but at around 8% there is still some way to go, especially as we estimate a similar number of people may not be registered but are willing to take up a job. The careers service have seen some improvement in the employment prospects of school leavers but are keen to see more. In addition, Lanarkshire has net out-commuting - people who may be interested in equivalent local employment opportunities should they arise.
6. In our experience, many aspects of the labour market consistently defy aggregate analysis and sweeping conclusions typically don't apply for long. The analysis should be regarded for what it is - a brief calculation in aggregate using available sources. It does at least concur with the discussions we have held with LDA skills, Employment Service, and Careers Service staff. The consensus is that the labour market has definitely improved and the prospects for the unemployed are now better, but that there is some way to go before the labour market could be considered as overheating. This is particularly true for school leavers seeking employment.
7. The primary conclusions from the balance sheet model and from our discussions with local actors are as follows:
 - The Lanarkshire labour market fills around 50,000 jobs each year;
 - Just under 20,000 people are registered as unemployed with a further 20,000 estimated to be willing to take up employment but not registered;
 - Around 5,000 young people leave school each year to enter the labour market, with an estimated 3,000 Lanarkshire higher and further education graduates;
 - Almost 4,000 Lanarkshire people commute out of the area to work, while 1,500 non-residents commute to jobs in Lanarkshire.

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8. Such aggregate analysis cannot provide an understanding of the matching process between the demand and supply-side of the labour market. While the inward investors may present particular issues concerning the attitudes and skills of certain occupations, many of these should be considered as 'start-up' problems which are not evident in all recent inward investment cases.
9. The balance sheet approach has demonstrated that the scale of recent inward investment is not as great as might have been thought at first sight. It has also highlighted the relative significance of various sources of labour supply and raised a number of issues concerning the nature of the Lanarkshire labour market:-
- There are distinct differences between the experiences of men and women in the labour market – women are less likely to leave the unemployment register to a job but are much less likely to return to unemployment than men;
 - Prime age males 25-44 suffer most from re-cycling in the labour market. Proportionately more of this group return to the unemployment register than any other – 4 in 5 24-44s (male and female) who leave the register to a training scheme are back signing on within 12 months. We have no evidence as to why this is the case for this group;
 - There is some anecdotal evidence that re-cycling is also an issue with job-to-job changers, with some people leaving inward investors shortly after joining them. ;
 - National skill shortages are as prevalent in LDA as elsewhere (Skills are already in discussions with local engineering firms). A shift from a very slack to an improving labour market should not be considered a threat;
 - There are a number of issues raised by the nature and scale of job-to-job changers (labour turnover), how employer hierarchies affect careers and the implications for LDA skills/business development in the process. On the demand side, inward investors have and will continue to set their wages relative to local rates. Inevitably, where these are above the current going rates, then the investor will attract people currently employed. On the supply-side, people are very aware of the terms and conditions on offer and there is some evidence to suggest that inexperienced people start at the bottom and work their way up the ladder not within one company but between firms offering better terms and conditions;

- There are spatial issues between the location of the unemployed and new employment opportunities. Some unemployment blackspots in Lanarkshire, notably Cambuslang, are some distance from the location of recent inward investors and public transport, where it exists, is relatively costly;
- Finally, while we believe that there is not sufficient data or understanding of the detailed mechanics of the labour market to make the construction of a more detailed balance sheet model worthwhile, there is sufficient evidence to suggest that the experiences of men and women can be very distinct and further investigation of this could be worthwhile.