

FUTURE SKILLS ISSUES AFFECTING INDUSTRY SECTORS IN WALES



Financial and Business Services Sector



FUTURE SKILLS ISSUES AFFECTING
INDUSTRY SECTORS IN WALES

Contents

Executive Summary p4

1. Introduction p6

2. The Financial and Business Services Sector p7

3. Sectoral and Skills Focus p14

4. Recommended Action p17

Annex A: References p19

Annex B: Welsh Sectors in Context. p20



Executive Summary

Introduction

This document is one of a series commissioned by the Future Skills Wales Research Forum. The overall project aims to extend and complement the work begun by the original Future Skills Wales project, which forecast future generic skills needs across Wales using forecasting and survey data. The current project adds studies of future vocational skills needs within key sectors in Wales. Each sector study is based on desk research and qualitative interviews with practitioners and employers, and aims to provide an overview of the sector, the skills issues, and current and potential actions to further strengthen the sector.

Businesses and employees in each of the sectors studied have achieved great successes; that is why these sectors have become important for Wales. Our focus on current skills issues should not obscure these achievements or the determination of all concerned to meet current and future challenges.

Sector Profile

The financial and business services sector is diverse, including the provision of services to businesses and individuals in banking, finance, insurance, professional and computing services.

The introduction of call centres in financial services is leading to the replacement of some of the services traditionally carried out in local branches and has been accompanied by a rationalisation of branch networks.

Business services companies have widely varying characteristics, which have significant implications in considering vocational skills developments and needs.

There were around 6,300 financial and business services establishments in Wales in 1998, around one third of these being accountancy or legal practices and 10% banks and building societies. Other sub-sectors are significantly under-represented in Wales compared to the Great Britain average, giving an overall location quotient of 0.6.

Using the broadest definition of the sector, there are around 95,000 financial and business services employees in Wales. Excluding recruitment agencies and facilities management companies, the sector employs around 57,000, two thirds of these being in South East Wales. The sector is weakly represented in Wales in employment terms, with an employment quotient of 0.6.

The sector is forecast to grow over the next ten years. However, this growth is slower than is forecast for the UK as a whole, leading to further under-representation.

In numerical terms, clerical occupations dominate sectoral employment, accounting for over a quarter of sector employment.

The broad sector had a GDP of £4,450 million in 1997, 16% of the Wales total. Across the UK as a whole, almost a quarter of GDP is derived from financial and business services.

The Future Skills Wales survey showed that the majority of sector businesses (excluding call centres) have geographically close clients and customers. This is significant given the concentration of the sector in the South East. In addition, Wales also suffers from the number of branch plants sourcing professional services elsewhere and the rationalisation of financial and business services firms.

There are in excess of 75 call centres in Wales, heavily concentrated in the South. Just over half of these call centres are in financial and business services, the majority handling basic customer transactions.

Basic transaction handling jobs are potentially threatened by technological changes leading to automated handling of simple transactions with operators handling more complex queries.

Sector and Skills Focus

The under-representation of the financial and business services sector in Wales is significant as:

- it plays a key role in creating an environment where other businesses can develop;
- business services increase the potential to attract or develop new employers.

Unlike many other sectors, there is no organisation in a position to provide a strategic overview of the financial and business services sector in Wales, or to influence sectoral developments.

There is evidence of a need to strengthen small professional firms to enable them to develop their role in supporting growth businesses and ensuring that these businesses do not look elsewhere for professional advice.

The sector has a relatively highly qualified workforce. It is not clear whether the current qualification breakdown will remain wholly appropriate as new ways of operating are introduced in the sector.

Significant education and training provision is currently available in Wales covering finance and business related subjects. However, it is not clear whether participants on these courses are either from the financial and business services sector or will seek employment in it on completion of their studies.

IT skills will be of increasing importance to employees in the sector in the future. It is also critically important for employees to be able to develop "softer" skills such as communication, business development and team leadership.

Recommended Action

There is a need to explore the feasibility of developing a strategic framework to support the development of strategies for sector development and growth.

Potential outflows of larger businesses are a possible threat to the Welsh financial and business services sector. Appropriate responses need to be developed.

There is a need to respond to the potential threat to the replacement of call centre staff with automated systems.

It is important that business services organisations are equipped to have maximum impact on client businesses. Possible approaches to achieving this need to be explored.

There needs to be a response to the increasing concentration of financial and business services in South Wales, to ensure that the sector across Wales remains sustainable.

Themes and Recommendations

Theme No:	Rec. No:	Action	Timescale	Key Partners
1	1a	Explore the potential to establish a strategic forum for the sector in Wales.	Start 2000	Assembly/WDA, NTOs/CETW/ sector groups
	1b	NTOs to be encouraged review current labour market intelligence to identify specific Welsh characteristics and issues and identify strategic response to Welsh skills and training needs.	Late 2000 start, ongoing	Cyngor NTO Council Wales/ Sector NTOs/ Future Skills Wales Research Unit
	1c	Develop links between key Welsh bodies and NTOs to explore future co-ordinated activity	Early 2001	Assembly/WDA/ Cyngor NTO Council Wales/ NTOs/CETW
2	2a	Explore the most appropriate ways to strengthen the sector in Wales through attracting inward investors and supporting existing employers.	Ongoing	WDA/CETW/ NTOs
	2b	Research approaches adopted in other parts of the UK where sector representation is strong or growing to identify potential opportunities for Wales.	Start 2000	WDA/Future Skills Wales Research Unit
3	3a	Research the reasons for sector businesses moving out of Wales, or managing Welsh activities from England. Identify further possible responses to restrict further outflows.	2001	WDA/Future Skills Wales Partnership
4	4a	Research the availability of potential employees for higher value added call centres, especially language and technical capabilities.	Late 2000	WDA/Future Skills Wales Research Unit
	4b	Review existing call centre training facilities and provision and their applicability to support wider skill needs of higher value added call centres.	Early 2001	WDA, training centres/CETW
	4c	If appropriate, develop a targeted approach to attract higher value added call centres	Late 2001 onwards	WDA/local partners
5	5a	Review the findings of the work with local accountants in Mid Wales. Explore opportunities to roll out similar initiatives in other regions and sub-sectors.	Late 2000 start	CETW/sector businesses
	5b	Work with professional bodies to explore opportunities for co-ordinated action to develop sector capacity	2001 onwards	CETW/ Employers
6	6a	Review current education and training provision and take-up in finance and business related skills. Focus on take-up and potential opportunities for sector employees and employers.	Ongoing	NTOs/colleges, universities/ providers/CETW

1. Introduction

- 1.1 This document is one of a series commissioned by the Future Skills Wales Research Forum. The overall project aims to extend and complement the work begun by the original Future Skills Wales project, which forecast future generic skills needs across Wales using forecasting and survey data. The current project aims to add studies of future vocational skills needs within key sectors in Wales.
- 1.2 Businesses and employees in each of the sectors studied have achieved great successes; that is why these sectors have become important for Wales. Our focus on current skills issues should not obscure these achievements or the determination of all concerned to meet current challenges.
- 1.3 Despite this, the findings of the forecast element of the first Future Skills Wales project showed that business and financial services were relatively weak in Wales. This weakness, which is associated with the relative lack of significant headquarters sites, is seen against a forecast of continued relative decline in manufacturing employment and a rise in the proportion of the workforce engaged in the supply of services.
- 1.4 If this development is to be positive for Welsh workers and the economy of Wales, many of these new service jobs or businesses will need to be in high added value areas. This study focuses on financial and business services and examines the potential for this sector in these terms, and the actions which might be taken to encourage the realisation of this potential.
- 1.5 Each of the individual sector reports is complemented by a report on management and information technology skills issues across the sectors studied. This reviews the situation in each sector and draws out common themes and implications.

The Method

- 1.6 The study of the business and financial services sector was conducted by means of desk research and qualitative consultations with commentators, practitioners and employers in the sector.
- 1.7 The aim was not to conduct quantitative primary research, but to consult with sector representatives in order to identify perceived skills issues, the actions being taken in response to these, and the potential for further action or policy development. The published reports should therefore provide a clear introduction to the sector, a 'snapshot' of sector issues, and pointers to current and potential action.

2. The Financial and Business Services Sector

2.1 The financial and business services sector is diverse. The core activities relate to the provision of services to businesses, although there is also a significant element of retail services to individuals. **Table 2.1** shows the broad sectors and principal activities within these sectors (as described in Skills Task Force Research Paper 9¹).

Broad Sub-Sector	Principal Activities
Banking and Finance	Central Banking Banks Building Societies Other Financial Services – Leasing and Credit granting
Insurance	Life Insurance Pensions Non-life Insurance
Professional Services	Auxiliary Financial Activities Research and Development Legal Activities Accounting Business/Management Consultancies Market Research Advertising
Computing Services	Hardware/Software Consultancy Data Processing Maintenance and Repair

- 2.2 Banking and finance and insurance are often grouped under the heading of “Financial Services”. Within the elements of the Financial Services part of the sector, there are clear similarities in the principal activities of the businesses concerned, leading to a need to be able to attract and retain staff with a similar range of skills.
- 2.3 In Financial Services, it is important to recognise the changes which are taking place in the sector and the impact that these are having on skills. Of particular note is the introduction and expansion of call centres, replacing, in many cases, the activities carried out by staff in local branches and offices of banks and insurance companies.
- 2.4 The changing structures of Financial Services organisations is impacting on the demand for staff with different skill levels. In particular, the reduction in the scale of branch networks will reduce the demand for managers whilst the move towards direct selling and the automation of processes requires large numbers of relatively low skilled clerical operatives, with an increasing need for professional and technical staff to develop and manage systems.
- 2.5 The development of call centres reduces the need for sales and customer service staff to be located near to the customer, leading to potential development opportunities through attracting inward investors operating such facilities.

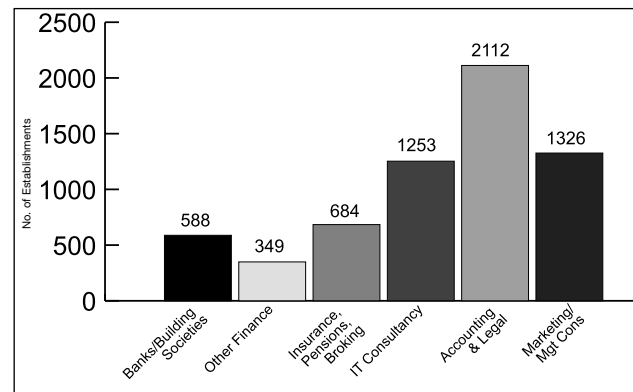
2.6 In the other business services identified above, there is much less homogeneity in the businesses concerned. This has significant implications for the consideration of vocational skills in these areas, when looking at firms as diverse as IT consultancies, accountants and advertising agencies.

Sector Characteristics

Firms

2.7 In 1998, there were in the region of 6,300 business and finance establishments in Wales². **Figure 2.1** shows a breakdown of the composition of business establishments in the sector.

Fig 2.1: Business & Finance Establishments in Wales



Source: NOMIS

- 2.8 Figure 2.1 shows that approximately one third of Welsh business and finance establishments are either accounting or legal practices. This is a significantly higher proportion than for Great Britain as a whole, where such establishments account for less than a quarter (23.3%) of the sector. Banks and building societies comprise almost 10% of sector establishments in Wales, compared to just over 5% for Great Britain as a whole.
- 2.9 The high percentage of establishments in banking, accountancy and legal services in Wales perhaps reflects the significant under-representation of the other sub-sectors of financial and business services.
- 2.10 IT Consultancy firms (hardware and software) and marketing/management consultancy firms each account for approximately one fifth of sector establishments in Wales. Across Great Britain, IT consultancies comprise 28.9% of the business and finance sector, whilst marketing/management consultancies comprise 28% of the sector.
- 2.11 Location quotients provide an indication of the degree to which a business sector is under-represented or over-represented in a particular geographical area. In total, Welsh businesses comprise around 4.2% of the Great Britain total. If all sectors were equally represented in Wales, they would comprise 4.2% of the Great Britain total for that sector and would have a location quotient of 1.0. The under-representation of finance and business services means that the sector in Wales comprises only 2.5% of all business and finance

¹Employment Prospects and Skill Needs in the Banking, Finance and Insurance Sector, Chris Hasluck, Institute for Employment Research, University of Warwick, Skills Task Force Research Group, Paper9.

² Source – NOMIS

firms in Great Britain, leading to a location quotient of only 0.6.

2.12 If we look at the location quotients for the sub-sectors, these range from 0.33 for IT related activities, to 0.71 for banks and building societies. Therefore, even banks and building societies, which account for a higher proportion of the sector than the Great Britain average, are under-represented in Wales. This, to some extents, is a reflection of the fact that “in most countries financial and business service activities are concentrated in the largest urban centres”³.

Employment

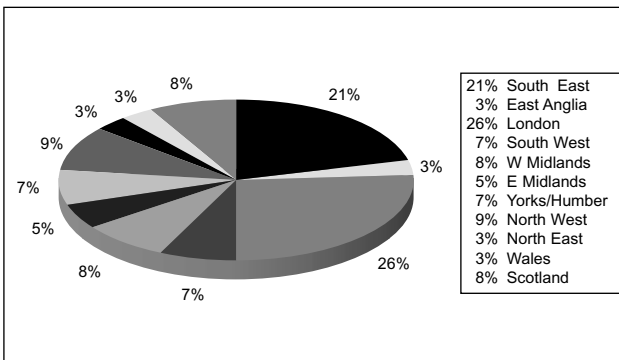
2.13 It is estimated that using a broad definition of Financial and Business Services sector in Wales employed in the region of 95,000 people, broken down across the sub-sectors as follows:

- Financial Services - 23,600;
- Business Services - 59,000;
- Other Financial and Business Services - 12,700⁴

2.14 This definition includes activities such as recruitment agencies, provision of temporary staff and facilities management. Employees in the broad sector are therefore estimated to account for around 8% of total employment in Wales, around half the UK-wide level of 16%.

2.15 **Figure 2.2** shows the breakdown of financial and business services across the English regions, Wales and Scotland.

Fig 2.2: Geographical Employment Distribution



Source: NOMIS

2.16 In Great Britain, just less than half (47%) of all financial and business services employment in 1995 was in London and the South East of England. Wales accounted for 2.7% of sector employment, a similar level to the North East of England and East Anglia.

2.17 Focusing on the activities identified in Table 2.1, BSL forecasts provided for this study indicate total employment in Wales of 57,300, 2.5% of the United Kingdom figure. **Table 2.2** shows a breakdown of employment across the Welsh regions.

Table 2.2: Geographical Employment Breakdown

Region	Number of Employees	% of Welsh Sector
South East Wales	36,800	64.2
West Wales	9,600	16.8
North Wales	7,500	13.1
Mid Wales	3,400	5.9
Total	57,300	100

2.18 **Table 2.2** clearly illustrates the dominance of South East Wales in employment terms, accounting for almost two thirds of all Welsh sectoral employment, whilst Mid Wales has less than 6% of employees.

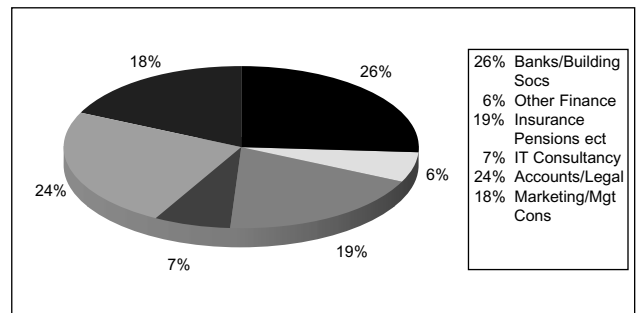
2.19 The location quotients discussed above are based on the number of establishments in Wales and therefore do not reflect their relative size in employment terms. Employment quotients reflect the strength of sectoral representation in terms of the number of employees. The employment quotient for financial and business services in Wales is 0.59, which indicates that the sector is relatively weakly represented.

2.20 BSL forecasts for employment in 2010 show the number of financial and business services employees in Wales increasing by around 11% to 63,500. This represents consistent Welsh growth over the ten year period 1.04% a year. However, if this growth rate is achieved, it will actually lead to Wales having a falling proportion of the sector total. Across the UK as a whole, sector employment is forecast to grow at over 1.5% each year between 2000 and 2010, giving overall growth of 16.6% over this period. This trend will lead to the employment quotient falling slightly to 0.53.

2.21 The forecasts show a slight increase in the concentration of Welsh financial and business services employment in South East Wales up to 2010, by which time over 65% of sector employment will be in the region. This is a result of slight reductions in employment in each of the other three regions.

2.22 **Figure 2.3** shows a breakdown of employment in Wales across the sub-sectors of financial and business services, based on data from the Annual Employment Survey.

Fig 2.23: Welsh Employment Breakdown by Sub-sector



Source: NOMIS

2.23 Around half of all Welsh employment in financial and business services is in two main sub-sectors -

³Source – Bristow, Gripiaios and Munday, 1998.

⁴Source – Future Skills Wales, BSL Forecasts

banks and building societies (26%) and in accountancy and legal practices (24%). IT consultancies account for 7% of sector employment, with the majority of these employees (85%) being involved in software consultancies.

2.24 The employment breakdown indicates that, on average, finance and business establishments are small, with approximately eight employees per site. The largest establishments are banks and building societies, employing around 21 people on average, whilst IT consultancies tend to be very small in Wales, with around three employees on average.

2.25 The small scale of establishments in Wales, especially in banking, finance and insurance, is an illustration that these businesses are small local branches of businesses whose head offices and, in a growing number of cases, regional offices, are outside Wales.

Occupations

2.26 The key occupations in financial and business services include:

- strategic managers, including directors, divisional and branch managers;
- operational managers, including branch and office managers;
- treasury and investment specialists;
- business specialists, including economists, statisticians, underwriters, claims negotiators and lending specialists;
- IT specialists, including systems managers, systems analysts, IT trainers and computer operators;
- support specialists, including personnel managers and trainers;
- sales and marketing personnel;
- professional staff, including accountants, lawyers, solicitors and actuarial staff;
- telephone sales staff, including call centre staff;
- clerical staff, cashiers, secretaries and clerks.

2.27 The occupational breakdown gives a broad indication of the nature of the skills required in the business and finance sector. The occupations include specific sectoral specialisms, such as underwriters and claims negotiators in insurance, where skills will be specific to these roles.

2.28 However, many of the occupations in financial and business services are also found in other business sectors. For example, in accountancy, qualified accountants may work either in a firm of accountants, or in other parts of the business and financial services sector, or as financial experts within industry.

2.29 The cross-over of occupations between sectors applies to clerical and support staff, as well as to the professional occupations. This has important implications when seeking to attract or retain staff in the finance and business services sector.

2.30 The BSL forecast data shows seven occupational groups accounting for almost two thirds (61%) of sector employment, as follows:

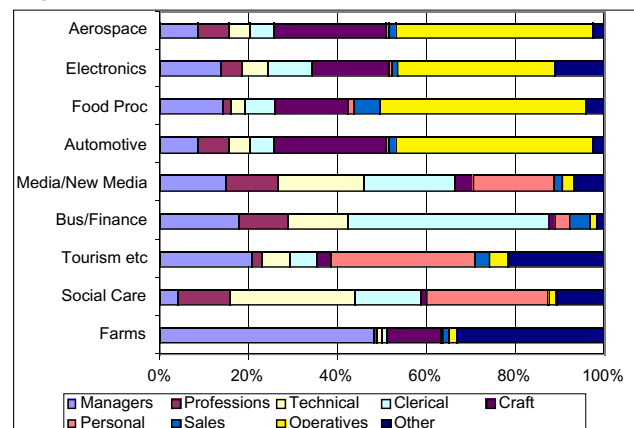
- 2,500 specialist managers (4.3% of the total);

- almost 5,600 financial institution managers (9.7%);
- 1,500 legal professionals (2.6%);
- 1,300 business and finance professionals (2.2%);
- 3,500 business and finance associate professionals (6.1%);
- 15,200 numerical clerks and cashiers (26.4%);
- 5,300 secretaries and personal assistants (9.3%).

2.31 This demonstrates the clear importance of clerical occupations in numerical terms in the sector, accounting for over a quarter of all employees. The nature of these occupations and the management occupations will change with developments in technology and operational approaches. Whilst the numbers employed in these occupations are currently forecast to increase slightly, other changes affecting the sector as a whole may influence these forecasts.

2.32 Recent forecasts by Business Strategies Limited provide an estimate of the broad occupational profile of this and the other sectors studied by York Consulting. **Figure 2.4** below compares the profiles. The business and financial services sector employs relatively high proportions of managers and of clerical staff.

Figure 2.4: Sector Occupational Profiles, 2000



Source: BSL Future Skills Wales Sector Forecasts, 2000

2.33 Further comparisons between the sectors covered in York Consulting's work for the Future Skills Wales Research Forum are provided in **Annex B**.

Output

2.34 Estimates of the output of the financial and business services sector in Wales by the Office for National Statistics published in Regional Trends showed that in 1997, the Welsh financial and business services sector (including activities such as estate agencies, renting etc) had a gross domestic product (GDP) of around £4,540 million or 16% of the total. This equates to a GDP per employee of around £45,000, which was second only to the South East of England and around 6% above the Great Britain average.

2.35 These figures therefore indicate that whilst the financial and business services sector is under-represented in Wales in terms of the number of businesses and employees, the sector is relatively productive. However, it is important to break these figures down by sub-sector.

2.36 In 1994, banking and finance had a GDP per full-time employee of £51,000, almost double the figure for computing services (£26,000) and more than twice the figure for accounting services (£22,000)⁵. Banking and finance output in Wales declined over the period from 1991 to 1995. Continuation of this trend will impact on the capacity to increase overall financial and business services output in the future. Continued rationalisation of branch networks in rural areas and the increasing delivery of high value added services from outside Wales is likely to continue this trend.

2.37 BSL forecasts prepared for Future Skills Wales indicate that output in Financial and Business Services in Wales (excluding estate agencies, renting etc) was in the region of £2,755 million, or around 12% of national output. The sector accounts for a significantly lower proportion of output in Wales than in the UK as a whole. Across the UK, almost a quarter of output (22.3%) is derived from the Financial and Business Services sector.

Markets

2.38 The Future Skills Wales survey found that businesses within the sector operate in relatively small geographical markets, attracting almost three quarters of their customers from within a 25 mile radius (compared to two thirds of customers across all sectors in Wales).

2.39 Competition for the majority of business and finance companies also tends to be relatively local, with two thirds of main competitors being within a 25 mile radius.

2.40 The local nature of operations in financial and business services reflects the fact that it is relatively costly to deliver these services to geographically distant markets. Significant steps have been made in adapting the ways in which financial and other services are delivered to individual consumers, through the use of call centres and increasing use of the internet and other technology. However, the delivery of services to business has seen fewer such changes to date. This is significant as, according to estimates by the Welsh Economy Research Unit in 1997, almost 40% of employment and output in financial and business services in Wales is concentrated in South East Wales.

2.41 The nature of the financial and business services sector is itself a reflection of the client businesses which are being served. It is possible to make a distinction between indigenous Welsh businesses and branch plants or offices of companies whose core is elsewhere.

2.42 Bristow, Gripaios and Munday indicated that the significant number of branch plants (either foreign or domestically owned) in Wales and other peripheral regions leads to a tendency for the purchase of services to be channelled through corporate headquarters, often in metropolitan areas. Therefore, these plants do not develop close links with the local business services sector. This may explain, to an extent, the under-representation of the sector in Wales.

2.43 Wales has tended to suffer as a result of rationalisation of larger financial and business services firms, with a loss of headquarters and regional offices to Bristol, the South West and West Midlands having an impact on South East Wales in particular. For example, National Westminster Bank now covers Wales from the West Midlands, whilst Lloyds Bank's operations are managed from South West England. Bristow, Gripaios and Munday reported similar patterns in insurance, where South Wales is served by regional offices in the West Midlands and South West England, whilst North Wales is served by regional offices in the North West of England.

2.44 This situation can create something of a vicious circle. A strong financial and business services sector can help to attract corporate headquarters, further strengthening the business services sector. This is significant for Wales as the financial and business services sector is relatively under-represented and has experienced slow growth compared to the sector elsewhere in the UK. Under-representation and slow growth are significant if the financial and business services sector in Wales is to achieve a significant impact on the Welsh economy as a whole.

Sources of Change

Banks and Building Societies

2.45 Throughout the 1990s, the banking industry underwent considerable changes, both structurally and culturally. The changes have been brought about as a result of the recession in the early 1990s, liberalising legislation, and increased competition. For example, some of the supermarket chains have moved into core banking and financial services, whilst there has been direct competition between banks and building societies since the 1986 Building Society Act.

2.46 Research by CREATE⁶ on behalf of the banking sector indicated that the business culture is becoming more performance focused. At the same time there have been significant changes in structures, which, in turn, have had a major impact on occupational structures and the nature of skills required in the industry.

2.47 Banks have traditionally worked through branch networks, with branches providing a comprehensive range of services, co-ordinated through regional offices and head offices. There has been a well publicised rationalisation of the banks' branch networks, especially in rural areas.

2.48 At the same time, the range of services provided by banks has increased significantly, especially in terms of mortgages and insurance. Technological changes have led to the introduction of telephone and internet banking. All these changes have led to a more complex operating structure, with the growth in call centres and sales staff who are mobile between branches and offices. In addition, acquisitions (such as the Lloyds Bank acquisition of Cheltenham & Gloucester) and mergers in the industry (such as Lloyds and TSB) have led to a continuing rationalisation of branch networks. Further mergers in the industry are seen as inevitable.

⁵Source: Hill and Roberts (1996), *Input Output Table for Wales*, as reported in Bristow, Gripaios and Munday.

- 2.49 The changing structure of the banking industry will have an impact on the nature of the work to be carried out. Traditional clerical jobs will decline in importance, to be replaced by data entry or telesales staff, customer service advisors and more specialist sales staff. The move towards telephone and internet banking reduces the need for many functions to be located close to the customer. The changes lead to a reduced demand for branch managers, whilst increasing the demand for supervisors and technical specialists to manage and maintain systems and equipment.
- 2.50 The key changes impacting on building societies have been mergers and conversions, leading to a reduction in the number of societies from around 200 to 68. However, the building societies that remain are strongly committed to retaining their mutual status, which influences their approaches.
- 2.51 Whilst bank branch networks are generally contracting, building societies are either retaining or expanding their networks. Research carried out by the Centre for Urban and Regional Development Studies (CURDS) at the University of Newcastle upon Tyne published in late 1999 has indicated that building societies:
- are more likely than banks to maintain their branch networks;
 - are less likely to close branches in more socially deprived areas.
- 2.52 The remaining building societies are seeing steady business growth, which the CREATE research indicates will lead to changes to societies' structures in future. In particular, there is likely to be a similar move among the remaining larger societies to offering direct (telephone or on-line) services. This, in turn, will lead to a need for more IT specialists, developing systems and internet services.

Insurance

- 2.53 The insurance industry has undergone similarly dramatic changes over recent years. There have been a number of high profile mergers (e.g. Royal Insurance and Sun Alliance; Commercial Union and General Accident), with the industry undergoing a period of consolidation and globalisation.
- 2.54 The drivers of these changes have been rising customer expectations (through easier access to a greater choice of providers), competition from other financial institutions and other sources (e.g. banks and former building societies) and increasing regulatory pressures.
- 2.55 A key change has been the development of new sales channels, most notably the establishment of direct sales operations through call centres, with increasing use of new technologies.
- 2.56 The changes in the structures and operations of insurance companies are having a range of impacts:
- delayering of management;
 - smaller numbers of traditional clerical and administrative staff;

- increasing numbers of sales and marketing staff;
- increasing numbers of business and IT specialists.

2.57 Technology is expected to lead to a wider range of approaches to selling insurance products, although it is expected that call centres will remain important in meeting customer needs.

2.58 Mergers in banking and insurance will have an impact on the financial and business services sector in Wales, with increasing centralisation and a move to larger operating regions meaning a potential loss of key activities to the bordering English regions.

Call Centres

2.59 Call Centres have been expanding rapidly in recent years and, as outlined above, are playing an increasingly important role in the financial services sector. Research by Mital in 1999 indicated that there were 2,150 call centres employing over 20 people in the UK, with a total employment of 270,000. By 2002, it is expected that this will rise to 5,000 centres, with around 480,000 employees in total.

2.60 Call centres are not a business sector as such - they are not exclusive to one type of business or market; and for this reason they are not visible in many of the public statistics, which classify businesses in these terms. A call centre is an operational strategy for the delivery of services to clients, which involves the convergence of telecommunications and information technologies.

2.61 There are seven key vertical markets in which call centres are located in the UK. These are financial services, (remote) retailing, utilities, consumer products, travel and transport, entertainment, command and control centres - including emergency services and breakdown centres. The typical features of call centre operations in these markets are as follows:

- **Financial services:** both in-bound and outbound calls. In-bound customer liaison. Out-bound selling of policies and retail financial products and debt recovery;
- **Utilities:** mainly in-bound calls dealing with supply interruption and billing enquiries;
- **Remote Shopping:** mainly in-bound calls dealing with order taking or customer complaints;
- **Consumer Products:** both in-bound and out-bound calls. Inbound calls to product helplines, dealing with detailed technical enquiries. Sending packs in response to information requests. Outbound calls selling products to targeted clients;
- **Travel and Transport:** mainly inbound calls for ticket booking and timetable enquiries;
- **Entertainment:** mainly inbound calls for ticket bookings.

2.62 A hierarchy of call centre activities can also be identified. Early call centres were characterised by operatives handling relatively basic undemanding

tasks. Whilst these tasks remain to some extent, call centres are now handling highly sophisticated and high value activities, providing technical support to customers. There is a set of generic core skills (identified in an InterConnect Communications report) for call centre operatives:

- good telephone manner;
- strong customer service commitment;
- keyboard familiarity.

2.63 In those higher value added call centres, these core skills are supplemented by task specific competencies. Wales has been less successful than some other UK regions in attracting the business services call centres that require a higher level of skills and consequently pay higher wage rates.

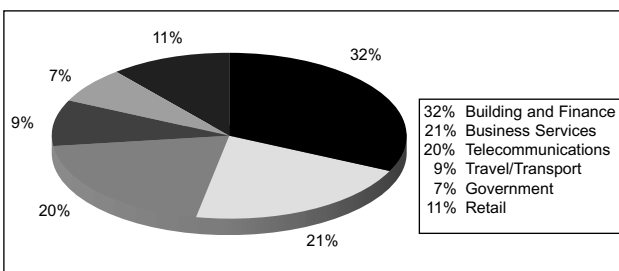
Welsh Call Centres

2.64 There are in excess of 75 call centres in operation across Wales, although these are heavily concentrated in the south, which accounts for 55 of these locations. A Call Centre Forum operates in South Wales, with 53 members, undertaking internal and UK-wide benchmarking. In the medium to long term, workforce development is seen to be a priority in call centres, with a high degree of co-operation on training and development activities.

2.65 Whilst the south dominates the call centre market in Wales, it is not yet exhibiting the signs of overheating being seen in other parts of the UK, such as West Yorkshire, with staff travelling in from a wide surrounding area and upward pressure on wages. However, efforts are currently being made to broaden the number of call centre locations away from the concentrations in Cardiff, Newport and Swansea, with some successes, such as a 600 seat call centre in Pembrokeshire.

2.66 **Figure 2.6** shows a breakdown of the types of call centres currently operating in Wales.

Fig 2.6: Types of Call Centre in Wales



2.67 Figure 2.6 shows that Welsh call centres are dominated by financial and business services operations, which account for just over half of all centres. The WDA's Financial Services Initiative specifically focused on attracting financial services businesses to Wales, which contributed to the inflow of financial services call centres. There is a distinction between the call centre and non-call centre elements of the financial and business services sector. The call centres are inward investments and serve a wide market area, often the United Kingdom but potentially much wider than this. The non-call centre operations tend not to be highly mobile and are embedded within relatively small geographical markets.

2.68 TEC South East Wales and the Cardiff and Newport Call Centre Initiative pioneered the establishment of dedicated training suites housed within local FE Colleges. Partnerships between TECs, Call Centre Groups and the WDA have been instrumental in supporting the development of an all Wales training infrastructure. Six training facilities are in operation with further potential. These Partnerships have worked with local employers to map the current competencies and knowledge requirements of a modern call centre to input into the revised pre-entry and higher level NVQ frameworks, levels 2, 3 & 4.

Prospects for the Future

2.69 Projections for the financial and business services sector produced by the Institute for Employment Research indicate that strong growth in output in financial and other business services will continue. However, employment change is expected to be variable. Between 1997 and 2006, employment in 'other business services' is forecast to increase by just less than one million, whilst the number employed in insurance will increase by less than 20,000. Over the same period, the total employed in banking is forecast to fall by 27,000, these losses being mainly in full time jobs (both male and female).

2.70 The main areas of occupational growth in banking are as follows:

- other professional;
- other associate professional;
- personal services.

2.71 Reductions are forecast in the total numbers employed in clerical and secretarial occupations and managers in the banking sector. This reflects an expected shift from managerial to clerical jobs as a result of organisational and technological changes.

2.72 In insurance, projections indicate that the numbers of corporate managers and administrators will increase, whilst employment in lower level management occupations will fall. Other areas of growth include professional and associate professionals and clerical occupations. This reflects the shift away from the employment of brokers and sales staff to direct sales through call centres.

Call Centres

2.73 A recent report suggests that advances in speech recognition technology will eliminate 20% of the new call centre jobs forecast within the next five years, and 40% overall (OTR Group, 1999). New technology means that increasingly sophisticated computerised response systems can replace the more routine telephone based transactions. Existing centres now routinely route such transactions - for example simple balance enquiries - to these systems, leaving the agents free to deal with more complex issues. Related developments, notably the growth of Internet based services, and the much heralded advent of 'TV banking', are also cited in support of the argument that call centres will wither away. Due to the nature of the call centres attracted to Wales to date, Wales is particularly exposed to such changes, as many of the centres focus on basic transaction handling.

- 2.74 Such systems will undoubtedly grow in importance - as will system to system transactions, in which the client's PC talks to the provider's system without the need for any human intervention (PC banking services already run on this principle).
- 2.75 However, it can also be argued that as financial and other service products become increasingly sophisticated, and increasingly targeted at certain market segments, the need to supplement routinised systems with human contact will remain. What will increase is the degree of sophistication and skill required of the call handling agent, who will need to understand complex products and relate these to the particular client circumstances. In this scenario, there may be fewer call centres dedicated to routine enquiries or services, but a smaller number of more highly skilled and tightly integrated service providers will remain important. Furthermore, the proportion of 'higher-tech' jobs associated with these - supporting and developing new automated service products - may well increase.

3. Sectoral and Skills Focus

- 3.1 The discussion in Section 2 has identified a range of issues relating to the financial and business services sector in Wales. In particular it highlights the relative under-representation of the sector and some of the issues to be faced in the near future.
- 3.2 The under-representation of the sector is significant for two key reasons:
- the financial and business services sector plays a key role in creating an environment where other types of businesses can develop and flourish;
 - these business services increase the potential to attract or develop new employers across a range of sectors.
- 3.3 Business services can drive, and benefit from, the general growth in the value and complexity of traded services. Therefore, there are supply and demand side issues that need to be considered. Much of this links with management issues, especially of small and medium-sized businesses.
- 3.4 Unlike many other sectors in Wales, there is no organisation in a position to provide an overview of the financial and business services sector. This reflects, to some extent, the range of different types of businesses, which could be classified in at least four sub-sectors, each with a range of different characteristics.
- 3.5 Whilst the National Training Organisations have undertaken a range of labour market and skills research in the sector, most notably in banking and insurance, this has been at the Great Britain or United Kingdom level, with little, if any, focus on specific issues facing Wales.
- 3.6 In mid-Wales, research carried out by the TEC into management development in SMEs showed that they tend to seek guidance and advice on business development from their accountants. However, similar work with larger businesses has shown that they tend to seek professional advice from further afield due to a perceived lack of local capacity to address the needs of these larger businesses.
- 3.7 The TEC has been researching the added value that local accountants can bring to businesses, through work with local accountancy firms and business people, identifying what client businesses want, what local accountants consider that they can provide and what the support that public agencies can offer. This work has identified differences in the perceptions of professional firms and potential clients of what the services that the accountants can and do offer.
- 3.8 This raises two fundamental questions:
- do the local accountancy firms have the skills and capacity needed to support the development of growing businesses?
 - if they have the skills and capacity, are they able to market them effectively in order to develop this aspect of their business?
- 3.9 This highlights the fact that business services firms, be they accountants, legal practices, management consultants or IT support businesses, need to be

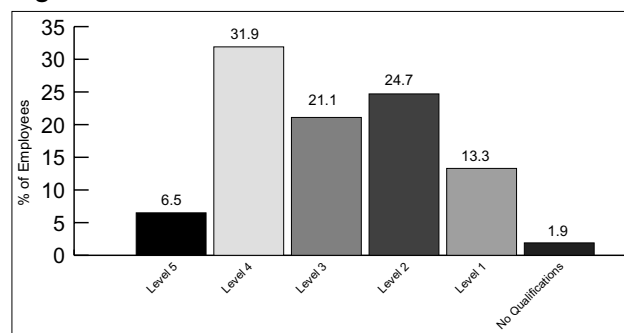
able to identify the market opportunities open to them and to be able to develop these opportunities into income generating business. In this respect, small business services firms are no different from any other business.

- 3.10 Work is currently being carried out in mid-Wales to assess if there is a demand for capacity development work among professional service firms. It is possible that failure to recognise development needs, or a failure to act on them, creates barriers to the growth of professional firms. This may have a knock-on effect on the success of client businesses.
- 3.11 Given the importance of the sub-sector for future development, it must be valuable to produce an initial investigation of these services in Wales, and an early mapping of skills issues. The range of different types of businesses in the sector means it will not be possible within this study to provide a comprehensive overview of these skills issues. What it will be possible to do is highlight issues from a small sample of businesses as a means of identifying possible priorities for action by the public sector partners.

Qualifications

- 3.12 The breakdown of qualifications held by employees in business and financial services provides an illustration of the nature of employment in the sector. **Figure 3.1** shows the qualifications breakdown provided by the Labour Force Survey for the business and financial services sector in Wales during Winter 1999/2000.

Fig 3.1: Qualifications Breakdown



Source: Labour Force Survey

- 3.13 What is clear from Figure 3.1 is the significance of relatively highly qualified employees in the sector, with almost one third of employees holding a first degree or equivalent (a Level 4 qualification) and a further 6.5% having a higher degree or equivalent (Level 5).
- 3.14 Employees qualified to Levels 2 and 3, accounting for just less than half of all sector employment, highlight the importance of clerical and support staff in business and financial services.
- 3.15 It is important to reflect on this qualifications breakdown in the light of the changes that are taking place in the way in which banking and insurance services are delivered and the impact that these changes will have on the skills and qualifications required of employees.

- 3.16 As indicated above, the increasing use of call centres and reductions in bank branch networks is likely to lead to a reduction in the number of managers, whilst increasing the need for relatively low skilled clerical staff.

Education and Training Provision

- 3.17 Appropriate education and training provision is important in being able to develop and improve on skill levels in any sector. In financial and business services, the range of skills needed mean that training and development opportunities are sought from a number of sources. These will include colleges, universities and private training providers, but professional bodies also play a major role in the initial training and continuing professional development of professional staff.
- 3.18 It is important to recognise that specific educational or vocational qualifications are not a pre-entry requirement for many jobs in financial and business services and that many people who study directly related college, university or other courses will go on to work in other sectors. However, it is useful to consider the number of students studying directly related courses.

Further Education

- 3.19 Figures from the 1997/98 Individualised Student Record (ISR) indicated that business and management was the largest single area of study in FE colleges, based on student numbers. In 1997/98, just over 52,000 people were studying business and management courses, 13% of the total of 398,000 across Wales. Just over a third of these people were aiming to achieve specific business or management qualifications.
- 3.20 Around half of the business and management students were in South Wales, with just over a quarter (27%) in the South West Wales economic forum area. North Wales accounted for 14% of business and management students whilst 8% were from Mid Wales.
- 3.21 Given the increasing importance of IT skills in financial and business services, especially in clerical posts, it is significant to note that just less than 52,000 people were studying IT related courses during 1997/98.

Higher Education

- 3.22 Figures from the 1997/98 HESA Student Record indicated that almost 14,000 people were studying business and administrative subjects at universities in Wales, accounting for 13.8% of the total number of students.
- 3.23 Business and administrative studies was the most significant area of study in Wales during 1997/98, in terms of total student numbers. Almost two thirds of people taking these courses were studying full time.
- 3.24 The figures for educational participation in business-related subjects indicate relatively high numbers of people studying courses that are broadly related to financial and business services. However, it is not clear how much of this provision is directly relevant to equipping people with the

skills needed now, or in the future, in financial and business services occupations.

Future Skills Demand

- 3.25 Forecasts of employment trends over the next ten years indicate relatively modest growth in total financial and business services. Whilst there is not forecast to be significant growth in employment, changes in the nature of occupations will impact on skills.
- 3.26 Across the sector as a whole, as with many sectors, IT skills will be increasingly important. In banking and insurance, the increasing use of call centres will have specific skills implications for management and clerical staff. In this context, it will be important to consider whether existing employees either have, or can develop, the appropriate skills, or if there will be a significant replacement element over time.
- 3.27 Changes in the nature of call centres may further impact on skills requirements. It is anticipated that basic call handling functions will increasingly be undertaken either on-line or using voice recognition equipment. Technical support will still be required however, leading to demand for a smaller number of operatives with perhaps higher level skills.
- 3.28 In other parts of financial and business services, the skills needed include a combination of professional/technical skills and “softer” skills including communication, business development and team leadership. It is likely that some of the smaller business services firms are strong on professional or technical skills, but less so on the broader skills, which impact on the ability to develop the firm. Lack of the skills necessary to develop firms will impact on the overall strength of the business services sector and the development of client businesses.
- 3.29 The skills needs identified in the sector raise questions over how best to respond to them, especially with the absence of a clear lead organisation in Wales. It will be important to consider how to address the requirements of a diverse sector with wide ranging business characteristics most effectively.

Case Study: IB Business Development Ltd

IB Business Development is a Cardiff-based IT support company and software reseller. Its core business is providing IT support to small businesses and branch offices of larger companies. The firm, which has six employees was established in 1989 and became a limited company in 1996.

IB Business Development's clients are businesses or branches that are making use of IT, but are too small to employ an IT manager and do not have the appropriate skills in-house. IB Business Development provides a "bolt-on IT department" for its clients, advising on hardware and software and providing on-going IT support. Small businesses are often more comfortable dealing with other small firms, but large vendors do not recognise this. The company is on the pilot scheme of the Technology Means Business accreditation and see the scheme as an important tool in becoming recognised as quality advisors to SMEs.

IB Business Development has developed a package of support for SMEs under the Business Assist brand that provides IT solutions through an on-going relationship. The firm is also the founder of Business Advantage, a partnership of private & public sector which aims to assist Welsh SMEs to make the most of IT.

Keeping up to date with changes in technology and new IT products is a constant need for IB Business Development and other similar firms. However, in seeking to update knowledge, it is essential to maintain a focus on what the company's SME clients need, otherwise there is a danger of spreading expertise too thinly. Whilst the majority of SMEs are not early adopters of new technologies, their advisors do need to be aware of developments and trends in order to provide appropriate support.

To grow further, IB Business Development will need to recruit people with a combination of technical skills and the softer skills that are needed to work effectively with client businesses. In particular, staff need to have the communication and inter-personal skills to build relationships with clients. It can be difficult to identify people with the appropriate technical skills, but it is more difficult to recruit people with the right combination of technical abilities and softer skills to be effective business advisors.

Case Study: HSBC

HSBC's Western England and Wales region in Wales covers the bank's branch network and agricultural trade services across all of Wales and the South West of England, from a regional office in Cardiff. The bank's call centres are managed centrally, rather than from the regional office.

HSBC is seeking to retain its community banking presence, which includes providing a dedicated Welsh service for those customers who request it. This includes direct telephone access to a Welsh speaking adviser through a dedicated telephone number.

HSBC is recruiting following a period where little recruitment took place. The key skills that the bank seeks in its branch staff relate to the ability to work with customers, in particular inter-personal skills and the development of customer relationships. Whilst specific job-related skills are required, these can usually be developed through training. HSBC therefore seeks to recruit people who can demonstrate numeracy, accuracy and commitment, combined with customer drive.

There has been little change in the broad nature of the skills that HSBC seeks in its staff. However, they are now better at identifying the skills needed in the people they are recruiting. Accredited recruitment specialists are involved in this process.

Job applicants are now found to have higher level qualifications than previously. There are three main recruitment routes - ordinary entry, a management training programme and an executive programme. The management and executive programmes are graduate focused and are organised nationally, whilst other posts are filled within the region. An increasing number of graduates are now applying for ordinary entry. These higher qualifications need to be balanced by the customer-facing skills referred to earlier.

The introduction of call centres is having an impact on the mix of activities undertaken in branches. The reduction in the number of basic transactions taking place within branches provides more opportunities for branch staff to work with customers.

4. Recommended Action

- 4.1 The key issue which has been faced in undertaking this research into the financial and business services sector is the absence of an organisation or body with the ability to provide a strategic overview of the sector in Wales. A range of organisations have a stake in this, including a number of NTOs and professional bodies, although the extent to which they focus on Wales is limited.
- 4.2 Given the importance of having a strong financial and business services sector in Wales, we recommend exploring the feasibility of developing a framework or structure for the key public sector partners in Wales to link into the sector and its employers. Achieving this sector input will be essential if the Welsh Assembly, the WDA and other public bodies are to develop appropriate strategies for sector growth which will have real meaning and be taken up by the sector. In this context, it will be important to review the outcomes of the work commissioned by the DTI to support the development of strategic business clusters.
- 4.3 With relation to skills specifically, the partners should seek to develop direct links with the NTOs covering the financial and business services sector to identify the most appropriate ways in which Welsh priorities and issues can be addressed.
- 4.4 Wales could potentially suffer significantly through outflows of national and multi-national businesses as a result of increasing centralisation and further mergers and acquisitions. It is important to consider the best response to this issue, both in terms of influencing those businesses that have reduced their presence in Wales and in avoiding further outflows of significant financial services employers.
- 4.5 Wales has been relatively successful in attracting financial services call centres. However, these centres tend to be handling the more straightforward transactions that have the potential to be replaced by automated systems in the future. There is a need to recognise this potential threat and identify how best to respond to it, both in terms of existing centres and any potential new inward investments.
- 4.6 Business services organisations have the potential to make a significant contribution to the development of their client businesses. However, the service organisations need to be equipped to work with growing and dynamic businesses. This may be a development need. There is potential to build on the work that is currently being carried out in Mid Wales.
- 4.7 The business services sector in Wales is heavily concentrated in the south east. The danger with this is that this creates a pull factor which leads to declining numbers of establishments and employment in the other regions. There is a need to consider how best to ensure on-going sustainability of the sector across Wales. Without this, there is a danger of businesses, particularly in North and Mid Wales, looking towards neighbouring English regions for their suppliers of business services.

Themes

- 4.8 The key themes for action on financial and business services skills are:
- developing a **strategic lead** for sectoral issues;
 - addressing **under-representation** of the sector;
 - **reducing outflows** of existing businesses;
 - **increasing value added** call centres;
 - **strengthening business services** organisations;
 - reviewing the **supply of training and development**.

Table 4.1: Themes and Recommendations

Theme No:	Rec. No:	Action	Timescale	Key Partners
1	1a	Explore the potential to establish a strategic forum for the sector in Wales.	Start 2000	Assembly/WDA, NTOs/CETW/ sector groups
	1b	NTOs to be encouraged review current labour market intelligence to identify specific Welsh characteristics and issues and identify strategic response to Welsh skills and training needs.	Late 2000 start, ongoing	Cyngor NTO Council Wales/ Sector NTOs/ Future Skills Wales Research Unit
	1c	Develop links between key Welsh bodies and NTOs to explore future co-ordinated activity	Early 2001	Assembly/WDA/ Cyngor NTO Council Wales/ NTOs/CETW
2	2a	Explore the most appropriate ways to strengthen the sector in Wales through attracting inward investors and supporting existing employers.	Ongoing	WDA/CETW/ NTOs
	2b	Research approaches adopted in other parts of the UK where sector representation is strong or growing to identify potential opportunities for Wales.	Start 2000	WDA/Future Skills Wales Research Unit
3	3a	Research the reasons for sector businesses moving out of Wales, or managing Welsh activities from England. Identify further possible responses to restrict further outflows.	2001	WDA/Future Skills Wales Partnership
4	4a	Research the availability of potential employees for higher value added call centres, especially language and technical capabilities.	Late 2000	WDA/Future Skills Wales Research Unit
	4b	Review existing call centre training facilities and provision and their applicability to support wider skill needs of higher value added call centres.	Early 2001	WDA, training centres/CETW
	4c	If appropriate, develop a targeted approach to attract higher value added call centres	Late 2001 onwards	WDA/local partners
5	5a	Review the findings of the work with local accountants in Mid Wales. Explore opportunities to roll out similar initiatives in other regions and sub-sectors.	Late 2000 start	CETW/sector businesses
	5b	Work with professional bodies to explore opportunities for co-ordinated action to develop sector capacity	2001 onwards	CETW/ Employers
6	6a	Review current education and training provision and take-up in finance and business related skills. Focus on take-up and potential opportunities for sector employees and employers.	Ongoing	NTOs/colleges, universities/ providers/CETW

Annex A: References

'Employment Prospects and Skill Needs in the Banking, Finance and Insurance Sector',
Chris Hasluck, Institute for Employment Research,
University of Warwick,
Skills Task Research Group Paper 9.

'Financial and Business Services and Uneven Economic Development: Some Welsh Evidence',
Bristow, Gripaios and Munday, 1988.

Business Strategies Limited (BSL), Sector Forecasts for the Future Skills Wales Research Forum,
August 2000.

'Competing Through Skills',
Amin Rajan, Penny van Eupen and Kirsty Chapple.

Annex B: Welsh Sectors in Context

A Brief Overview of the Relative Size and Importance of Welsh Sectors

This paper presents an overview of the sectors selected for study within the Future Skills Wales Sectoral Skills project. It aims to give the relative scale of the sectors involved and some idea of their relative importance in Wales.

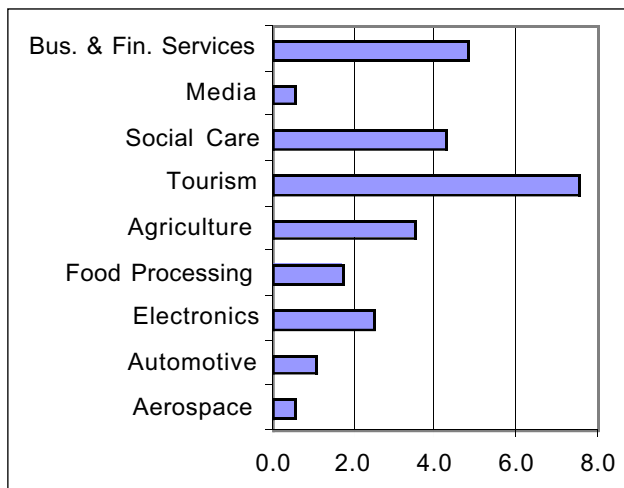
The data on employment used in this section is taken from the latest estimates from Business Strategies Limited (August 2000). Data on business units are taken from NOMIS. Some of the values given (for example for the number of businesses within Wales, or the size of the workforce, for a given sector) will not agree with estimates or calculations from other sources. This is due to differences in the detailed definitions of sectors, or in methods of estimation. However by using one source in this discussion, consistency in measurement or estimation is established, and better comparability is ensured. This is appropriate since here we are concerned with the relative sizes of sectors and their workforces, as much as with absolute numbers.

Sector Size: Workforce Numbers

Figure B.1 shows the employment figures for each of the sectors (employees and self employed) as a percentage of the total for Wales. By this measure Tourism, Leisure and Hospitality is the largest of the selected sectors, followed by Business and Financial Services, Social Care, and Agriculture and Farm Enterprises.

Together, the nine sectors selected for study in this project provide work (either as employees or in self employment) for around 26% of people working in Wales. This indicates the scope and potential importance of the exercise for the understanding of skills issues in Wales and the formulation of policy responses. (The rest of employment in Wales is accounted for by a large public sector, including government, education and public sector healthcare, and by the primary, construction, transport and distribution sectors, including retail).

Figure B.1: Employment as a percentage of Welsh Employment: by Sector



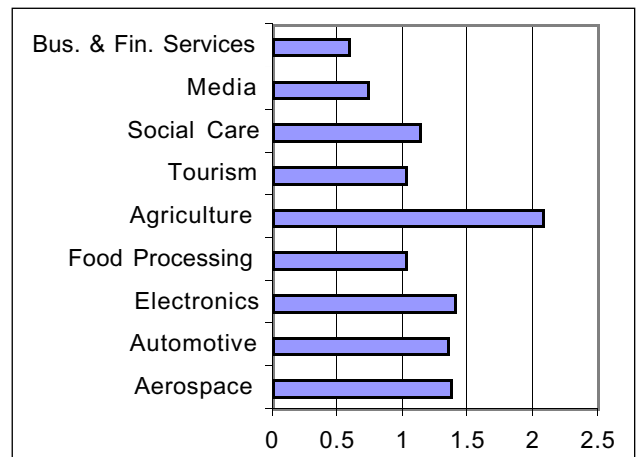
Source: BSL FSW Sector Forecast

Employment Location Quotients

Figure B.2 provides a different view of the sectors, in terms of their importance within Wales relative to the UK as a whole. It does this by comparing the employment

location quotients for the sectors. Employment location quotients are used to express the degree to which employment in a given sector is located in a selected region. To calculate a location quotient, an average percentage is first calculated for all employment in the region. Using the BSL estimates, for example, one finds that 4.3% of all employment in the UK is located in Wales.

Figure B.2: Employment Location Quotients for Wales: by Sector



Source: BSL FSW Sector Forecast

Therefore, if employment in a given sector is distributed evenly over all regions of the UK, one would expect 4.3% of its employment to be in Wales. The sector's Welsh employment percentage, at 4.3%, will be equivalent to the average employment percentage for Wales.

To calculate the employment location quotient, the sector's percentage is expressed as a ratio of the Welsh average percentage. For example if a sector has 5.2% of UK employment, the employment location quotient will be the ratio of 5.2 to 4.3, or 1.2. Quotients of more than 1 therefore indicate over-representation of employment in the Welsh sector relative to the UK as a whole. Quotients of around 1 indicate that employment in the sector in Wales is much as one would expect given the overall distribution of employment across the UK; and quotients below 1 indicates that the sector in Wales is relatively under-represented in terms of employment.

Figure B.2 shows that the strongest Welsh sectors, in these terms, are Agriculture, plus three of the manufacturing subsectors - Automotive, Aerospace and Electronics Manufacturing. UK employment is relatively concentrated in Wales for these sectors, despite the fact that some of them are small in relation to Welsh employment as a whole (Figure B.1). The Social Care sector also shows employment strength, while Food Processing and Tourism, Leisure and Hospitality are approximately in line with the Welsh share of UK employment.

Media and New Media, and the Business and Financial Services sector, are both under-represented in Wales in employment terms, with employment location quotients well below 1.

Sector Size: Number of Businesses

An alternative method of comparing sectors is by the number of business units in each sector. This can be less straightforward than the employment location quotient

method used above. Here we are using data on business units in Wales and for Great Britain as a whole, provided in NOMIS. The main difficulty is the definition of a business unit within the published figures. This does not make a distinction between separate businesses, and locations representing branches or sites within one business. It also omits small 'one-person' business sites without formal employees.

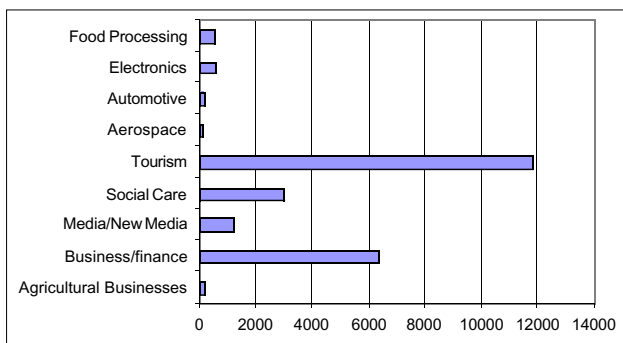
This means, in particular, that these figures are apt to be misleading as applied to the agricultural sector, since they represent agricultural businesses with employees, rather than all farms. They therefore greatly under-represent the number of agricultural enterprises in Wales. Although the business unit figures for agriculture have been included in the following analysis, they are therefore not a reliable guide to agricultural sites in Wales.

Figure B.3 shows the sectors studied in terms of the number of business units in Wales. It shows that, by this measure, the Tourism, Leisure and Hospitality sector is by some way the largest. According to the NOMIS figures, this sector contains 12.4% of all Welsh business units, - around 1 in every 8.

A further 6.6% of Welsh business units are in the Business and Finance sector, and 3.2% in Social Care. The next largest sector, Media and New Media, includes a large number of businesses classified under 'Other computer related services'. Many of these may be 'New Media' businesses within our study definition. Others, however, may be providing services which are not relevant within this definition. As explained above, the figures for agriculture do not represent the farming sector accurately.

In total the sectors covered by the study account for over 25% of business units located in Wales.

Figure B.3: Number of Business Units - Selected Sectors



Source: NOMIS

Site Location Quotients of Welsh Sectors

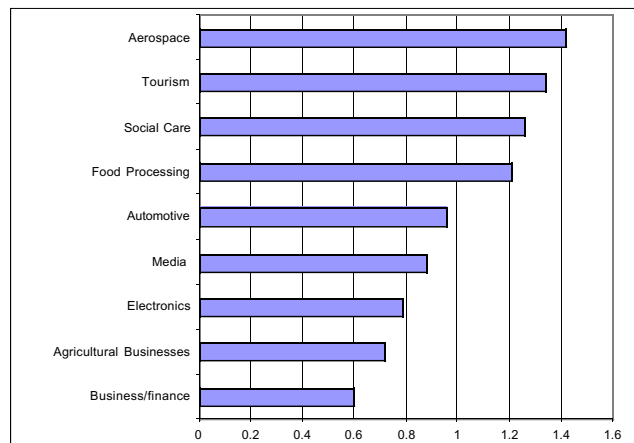
Figure B.4 shows the site location quotients calculated for the sectors covered by this study. These are calculated as for the employment location quotients used earlier, but using business unit figures instead of employment numbers. Four of the sectors have quotients greater than 1. In other words, these sectors are 'over-represented' in Wales relative to what one might expect taking Great Britain as a whole. These quotients represent a degree of concentration of business units in these sectors within Wales. These sectors are Aerospace, Tourism, Hospitality and Leisure, Social Care, and Food Processing.

The Automotive Manufacturing sector in Wales, with a

location quotient of 0.96, is close to the size one might expect (in terms of numbers of business units). In other words, Wales has 'a fair share' of business units in this sector, according to these NOMIS figures. At the other end of the scale, the Business and Finance sector, with a site location quotient of only 0.6, is under-represented within Wales - confirming the findings of the first Future Skills Wales study in 1998.

Again, the quotient for 'Agricultural Businesses' reflects the limitations of the method, although it may indicate that Welsh farms and agricultural businesses tend to be smaller than the average for Great Britain, inasmuch as fewer of them are large enough to be included as business units.

Figure B.4: Site Location Quotients



Source: NOMIS

Selection of Sectors for the Study

The above discussion sheds light on the reasons for selecting this set of nine sectors. The reasons vary, but can be simply expressed as follows (some sectors are selected for more than one reason):

- sectors with significant proportions of Welsh businesses and/or workforce (Tourism, Business and Finance, Social Care);
- sectors which are important components of manufacturing industry within Wales (Aerospace, Electronics, Automotive, Food Processing);
- sectors which are relatively strong in Wales (Aerospace, Tourism, Social Care, Food Processing);
- sectors which are relatively weak in Wales, but are important for future growth (Business and Finance, Media/New Media);
- sectors with particular significance for Welsh culture and communities (Agriculture, Media/New Media).

The Manufacturing Sector

Manufacturing has been more important in the Welsh economy than for the UK as a whole. In 1998 employment in manufacturing (including but not limited to the sectors studied in this project) accounted for 19.7% of Welsh employment. This contrasted with 16.6% for the UK - a difference of 3.4 percentage points. Projections for 2004 show manufacturing employment as a lower percentage of employment in both cases - 17.3% in Wales, against 14% for the UK. Although the percentages

are smaller, the difference between Wales and the UK, at 3.3 percentage points, remains almost unaffected. (DfEE, Skillsbase/IER, June 2000).

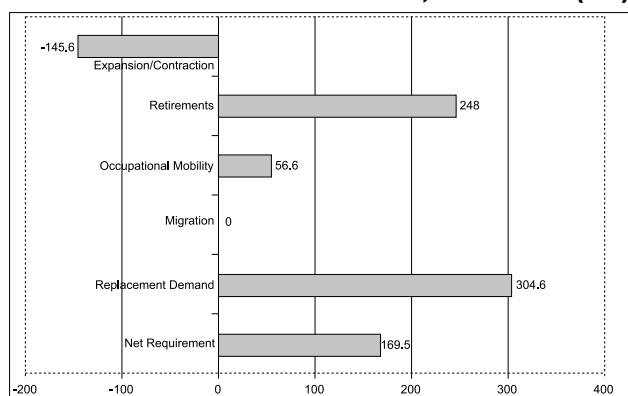
Although these projections show a fairly significant decline in the size of the manufacturing sector as a percentage of overall Welsh employment, the absolute numbers involved change less significantly. This is due to a projected rise in the total numbers employed in Wales over the period 1998-2004. Thus, the figure of 227,000 for those employed in manufacturing in 1998, becomes 205,000 in 2004 - a decline of 22,000, or just under ten percent.

When considering the future demand for skills it is important to keep in mind that, as illustrated above, relative decline in the manufacturing sector does not imply lack of future demand for manufacturing skills. This was one of the insights behind the original Future Skills Wales project methodology.

This point is further illustrated by the replacement demand projections for occupations associated with manufacturing. **Figure B.5** shows the replacement demand projection for skilled metal and electrical trades (SOC 52) for the period 1998-2004, across the UK. In this period, 145,600 jobs in these trades are expected to disappear - part of the overall decline in employment in manufacturing noted above. However, losses from these trades are projected consisting of 248,000 from retirement, and 56,600 from occupational mobility (movement into other jobs), a total of 304,600 workers to be replaced. This more than offsets the effects of declining employment, leaving a net requirement figure of 169,500. This represents the requirement for new, trained entrants to these trades in these six years. These may be new entrants to the workforce, or existing workers who have upgraded or added to their skills and qualifications.

Based on the assumption that Wales would require about 4.5% of this number (this being the approximate size of the Welsh workforce relative to that of the UK), this implies a net requirement for some 7,600 skilled metal and electrical tradespeople over this period for Wales.

Figure B.5: Replacement Demand: Skilled Metal and Electrical Trades, 1998-2004 (UK)



Source: DfEE Skillsbase/IER

