Profile of the Financial Services sector in the South East

Workforce characteristics and skills needs

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Contents

Executive Summary

- The South East has the second largest share of UK financial services employment of any region (14%, or 129,000 employees), behind London. The region's share of employment in life insurance and financial leasing is the largest of any region, including London.

- The financial services sector accounts for 7.6% of regional Gross Value Added (GVA) – contributing £12.3 billion to the regional economy in 2007.

- The region has no particular geographic clusters of financial services employment and businesses, but there are higher densities of financial services businesses and employment in Surrey, Kent, Hampshire and West Sussex.

- Within the financial services sector, employment in insurance and pension funding is particularly concentrated in parts of Surrey, Kent, Hampshire and Berkshire. Employment in banks and building societies is fairly evenly spread throughout the region, though with concentrations in Brighton and Milton Keynes. Employment in auxiliary financial services (including investment banking and consultancy) is more heavily concentrated in parts of Kent, Sussex, Surrey and Reading.

- The vast majority of financial services businesses in the South East are small: 95 percent have fewer than 50 employees, and 78 percent have 10 or fewer staff. However, large businesses have a significant role to play in terms of *employment*: more than 40 percent of all employees in financial services work in firms with more than 200 staff.

- The workforce in the financial services sector is relatively youthful, with a larger proportion of employees (70%) aged 25-49 than in the economy as a whole, and a significantly smaller proportion of employees aged over 50.

- Employment in financial services in the South East fell between 1998 and 2006, with the most marked falls in parts of Berkshire, Portsmouth and Medway. In contrast, Wokingham, Bracknell Forest, Surrey and Milton Keynes were some of the few areas seeing employment growth in this period.

- The latest employment projections show that most parts of the South East will see modest increases in financial services employment (generally less than 1 percent growth per year) up to 2020. The greatest increases will be seen in managerial and professional posts and in sales and customer service jobs, although there will be strong replacement demand in administrative and secretarial roles. Indeed, total replacement demand, at 50,000 people, will be the main contributor to the total requirement of 65,000 additional employees in financial services between 2007 and 2017.

- One of the key difficulties facing employers in the financial services sector is a lack of applicants with the required skills. There is a greater incidence of vacancies in the South East financial services sector compared to the regional economy as a whole, with a significantly greater incidence of skills shortage vacancies.

- There will be a need for employers in the sector to access new sources of recruits – be they young adults or older returners to work, or people who have changed career.

- In 2007, 28% of vacancies in the financial services sector were related to skills shortages, while more than 80% of hard-to-fill vacancies were caused by a lack of applicants with the required skills.

- Skills which financial services employers find more difficult to recruit than employers in other sectors include business and interpersonal skills, IT professional skills, management skills and customer handling skills.

- One in six financial services employers in the South East report skills gaps, which equates to 7,000 staff in the sector who are not fully proficient. In many cases, though, these skills gaps are a result of staff's lack of experience or recent recruitment, rather than any particular deficiencies amongst the employees themselves.

- Just over 60% of the workforce in the financial services industry are qualified at NVQ Level 3 and above.

- Recent developments mean that there is now a potential progression route from Level 1 to Level 5 in financial services qualifications.

- Engagement with Apprenticeships is well below the South East average in the financial services sector. Just 6 percent of employers in the industry offered apprenticeships in 2007, compared to 12 percent in the South East economy as a whole. The low take-up apprenticeships is likely to be mainly due to their relative novelty in the financial services sector.

- Financial services employers are significantly more likely than employers in the South East as a whole to provide training for their staff. However, this partly reflects the fact that a substantial amount of training delivered in the sector is compulsory, driven by regulatory compliance.

1. Introduction

To support its business and strategic planning, the National Skills Academy for Financial Services in the South East requires information on the composition of the region's financial services sector; recent and future trends in employment and business numbers in the sector; the characteristics of the workforce; and recruitment and training.

This report summarises the latest statistical information relating to these topics, but it should be borne in mind that in the current climate of uncertainty in the economy as a whole, the trends reported for the financial services sector may be subject to change. Financial services has been one of the sectors most affected by the recent 'credit crunch', so it is important to treat the forecasts of future employment, in particular, with caution.

The report begins by profiling the composition of the financial services sector currently, looking at employment levels and number of businesses in the sector as a whole and its sub-sectors. The size of businesses and the geographical distribution of employment within the sector are also explored. The report then focuses on the characteristics of the workforce in financial services, including a gender and age profile, and a breakdown of those who are employed full-time, part-time or are self-employed. Next, trends in employment in financial services are discussed – both recent change (since the late 1990s) and projected future trends in employment, by sub-sector and sub-region. Finally, recruitment, skills and training in the financial services sector are explored, drawing mainly on data from the National Employer Skills Survey to assess the incidence and causes of vacancies reported by employers, the skills they find difficult to recruit, the extent to which they recruit young people, and skills gaps in their current workforce. Employers' training practices are also covered.

2. Composition of financial services sector in the South East

Official statistics use the Standard Industrial Classification 2003 to define the financial services industry as follows:

SIC 65	Financial intermediation, except insurance and pension funding – this sector principally includes banks and building societies.
SIC 66	Insurance and pension funding
SIC 67	Activities auxiliary to financial administration – including fund management, the stock exchange, investment banking, consultancy services.

Since this is the basis on which data is available for the financial services industry, this classification will be used when reporting data in this document.

In England as a whole there are a total of 47,000 businesses in the financial services sector (representing 2.3 percent of total business stock), employing 913,000 people, or 4 percent of total employment. The share of businesses and employment accounted for by financial services is slightly smaller in the South East (partly because the very high concentration of financial services firms in London skews the national figure upwards). In the South East there are 7,600 financial services businesses, accounting for 2 percent of the region's business stock. Employment in these businesses stands at 129,000, or 3.5 percent of total employment.[1] The South East's share of financial services employment in England is 14 percent – the second largest share of any region, behind London. The number of South East *residents* who are employed in financial services (either in the region or in London) is also significant, at more than 730,000.

The financial services industry accounts for 7.6% of regional Gross Value Added (GVA)[2] – contributing £12.3 billion to the economy in 2007. The sector is also highly productive, with GVA per employee as high as £99,900 – more than double the average for all sectors.[3]

Looking in more detail at the distribution of businesses and employment in different sub-sectors of the financial services industry, there is a clear concentration of both businesses and employment in banks and building societies (Table 1 – see also Annex 2). Approximately one third of firms and employees in the region's financial services industry fall within this sub-sector (though the region is home to just one head office of a major bank – namely, Abbey). A further one third of businesses in the South East are involved in 'auxiliary activities', which includes financial consultants, advisors and brokers. This sub-sector accounts for a larger proportion of firms in the region than in England as a whole.

The South East is second only to London in terms of employment in most sub-sectors of the financial services industry. The South East has the largest share of employment in both life insurance and financial leasing of any region

[1] Office for National Statistics, Annual Business Inquiry (ABI), 2006. Note that the ABI excludes businesses not registered for VAT and/or PAYE and the self-employed. For a sector such as Financial Services which includes a significant proportion of micro-businesses, the ABI is likely to under-estimate the number of firms and employees quite considerably. It should also be noted that due to the way in which business activities are classified, it is possible for employees working in sectors related to financial services to be classified as working in financial services, if the company they are employed by includes financial services as one of its business activities.

[2] GVA is the measure of output used at regional level. It is an internationally recognized way of measuring the contribution of a business, industry or region to the economy, by taking the sum of its outputs less the sum of intermediate purchases (such as the cost of raw materials or heating). GVA is a measure of output at basic prices, whereas GDP is a measure of output at market prices. The difference between the two is down to the treatment of taxes and subsidies: GDP = GVA + taxes – subsidies. It is not possible to measure taxation and subsidies at regional level which is why GVA is used.

[3] Experian Business Stratgies, 2008.

(including London), accounting for 20 percent of all life insurance jobs in the UK and 30 percent of total employment in financial leasing.[4]

Table 1: Distribution of businesses and employment by sub-sector, 2006

Sub-sector	No. of businesses in SE	% of total in SE	% England	Total employment in SE	% of total in SE	% England
Central banking[5]	*	*	*	*	*	0.2
Banks and building societies	2,470	32.6	33.6	43,030	33.4	43.4
Financial leasing	140	1.9	1.6	3,370	2.6	0.9
Other credit granting	340	4.5	5.0	12,850	10.0	5.0
Other financial intermediation not elsewhere classified[6]	840	11.0	11.1	10,900	8.5	6.7
Life insurance	160	2.1	2.0	12,960	10.1	6.0
Pension funding[7]	0	0.0	0.0	0	0.0	0.0
Non-life insurance	270	3.5	3.7	15,540	12.1	11.0
Administration of financial markets	70	1.0	0.8	200	0.2	0.3
Security broking and fund management	780	10.3	12.2	4,120	3.2	6.5
Activities auxiliary to financial intermediation not elsewhere classified	1,050	13.9	13.1	6,410	5.0	7.3
Activities auxiliary to insurance and pension funding	1,460	19.2	16.9	19,340	15.0	12.6
Total	**7,570**	**100.0**	**100.0**	**128,720**	**100.0**	**100.0**

Source: ONS Crown Copyright, Annual Business Inquiry, 2006

3. Geographical distribution of employment

The financial services sector has thrived in the South East because of the region's proximity to the City of London, with good transport links to the capital, its strong IT infrastructure and its highly skilled resident workforce. The South East is home to the head offices and 'back' offices of many life and pensions, insurance and investment, shares and brokerage and professional services companies. Map 1 shows the location of major financial services companies in

[4] Financial Services Skills Council, *The Skills Bill Analysis of skills needs in UK Financial Services, 2007*

[5] This category refers to activities of the Bank of England. Asterisks are used as the numbers are too small to report.

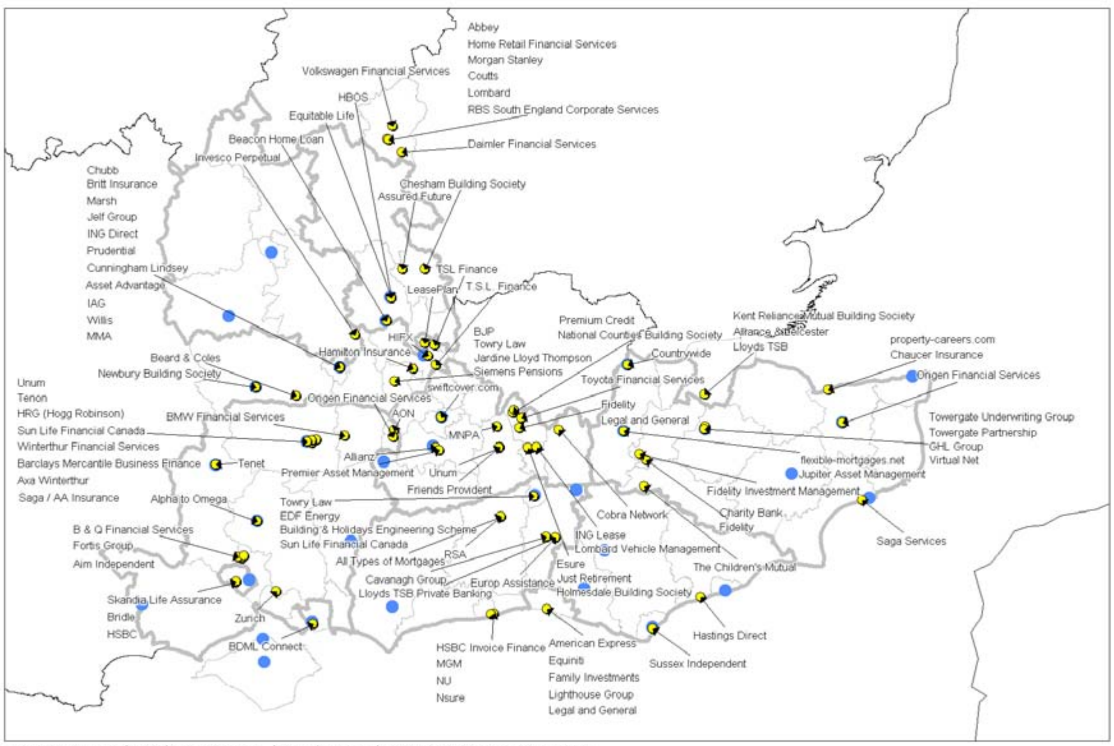
[6] This category relates to financial intermediation that is primarily concerned with distributing funds other than by making loans – including investment trusts, unit trusts, securities dealing and venture capital.

[7] This category relates to the provision of retirement incomes, but *excludes* pension provision through insurance companies, non-contributory largely public funded schemes and compulsory social security schemes.

the South East, the majority of which are concentrated in Surrey, Sussex, Hampshire, Reading and Milton Keynes. (See Annex 3 for a larger scale version of this map).

The UK's major banks – Abbey, HSBC, Lloyds TSB, Barclays and HBOS – all have significant offices in the South East: for example HSBC in Southampton and Lloyds TSB in Haywards Heath. They choose to locate their customer contact centres, back office processing and IT support services in the region.[8] Firms can find it particularly attractive to locate call centres in areas where housing costs and pay rates tend to be lower. These areas broadly correspond to areas of deprivation in the region, including Brighton and Hove, Portsmouth, Southampton and north Kent (See Map in Annex 5).

Map 1: Major financial services companies in the South East



Note: the blue dots represent major towns (see Map in Annex 1)

Figure 1 shows the share of South East financial services businesses and employment in each county and unitary authority. (The actual numbers of businesses and employment are in Annex 4). There are concentrations of financial services businesses and employment in Surrey, Kent, Hampshire and West Sussex. Surrey alone accounts for 19 percent of employment in financial services in the South East and 17 percent of businesses. The smallest proportions of firms and employees (less than 2 percent of the South East total)

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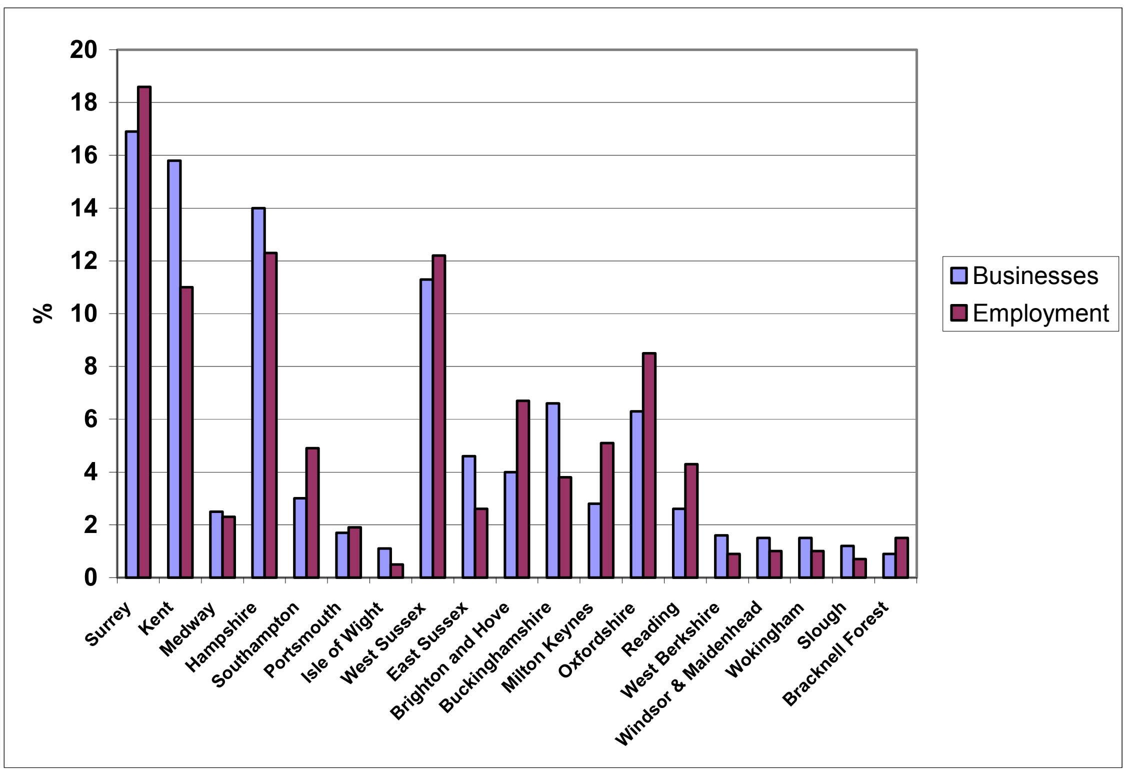
[8] SEEDA *Business and Financial Services South East Report*, June 2007.

are in the Isle of Wight, Portsmouth (excluding Fareham), and all unitary authorities in Berkshire with the exception of Reading.

In most counties and unitaries the shares of employment and businesses are relatively similar, although there are exceptions to this. In Kent and Buckinghamshire, for example, the share of businesses is significantly larger than the share of employees. This suggests that financial services firms in these two counties tend to be relatively small in size, such that there is a large number of businesses in this sector, but each of them employs relatively few people, so the share of overall employment is relatively low. By contrast, in Brighton, Milton Keynes, Southampton and Surrey, the share of employees is noticeably larger than the share of businesses. This implies that there are fewer businesses in these areas, but they tend to employ larger numbers of staff. This is consistent with the location of a number of large financial services companies in these areas, such as American Express and Family Investments in Brighton, Abbey in Milton Keynes, and Skandia Life Assurance, HSBC and Venture Finance in Southampton.[9]

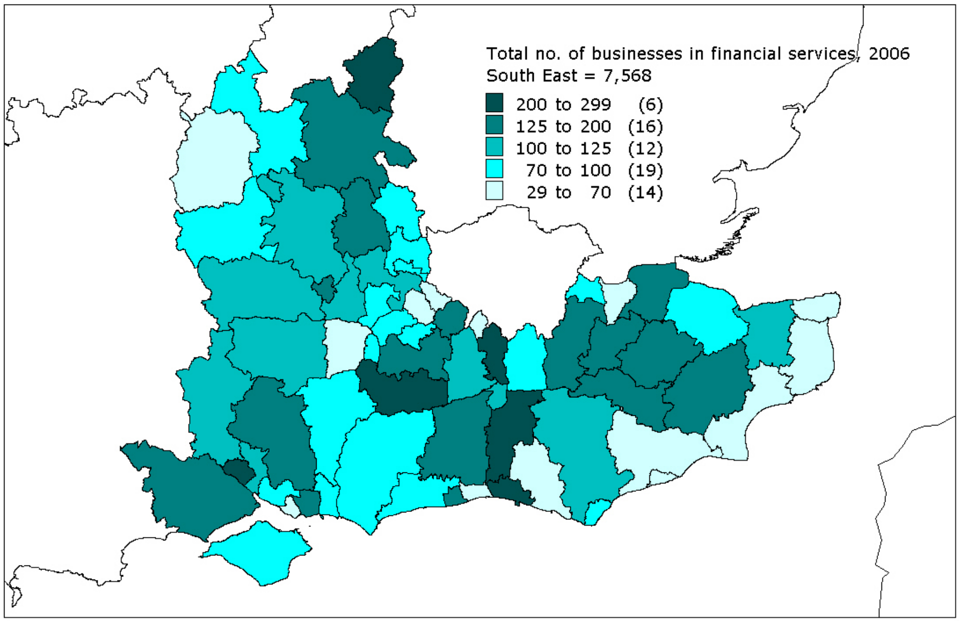
Figure 1: Share of total South East financial services businesses and employment, by county and unitary authority, 2006



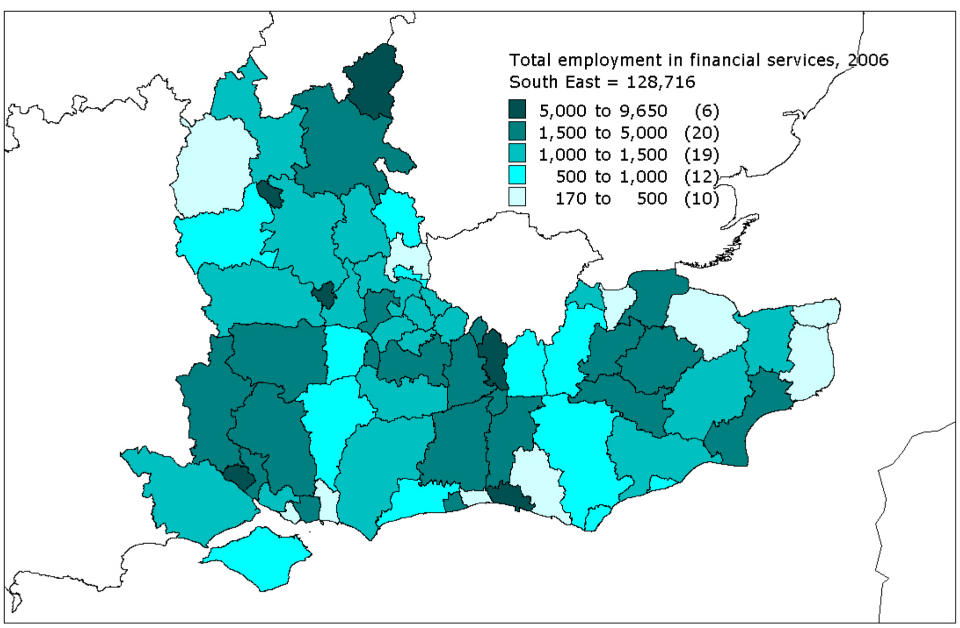
Source: ONS Crown Copyright, Annual Business Inquiry, 2006

[9] SEEDA, *Business and Financial Services South East Report*, June 2007

Map 2: Number of financial services businesses in the South East by district, 2006 *(Source: ABI)*

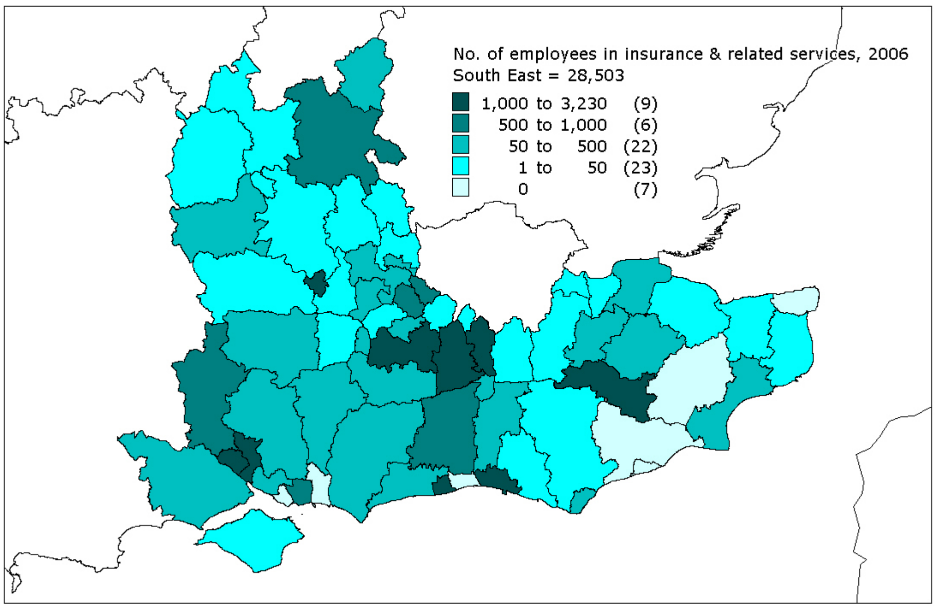


Map 3: Total employment in financial services (workplace-based) by district, 2006 *(Source: ABI)*



Maps 2 and 3 show the distribution of financial services businesses and employment across the South East by district. (See Annex 1 for a map showing district names). There is a clear concentration of businesses, and to a lesser extent employment, in the central 'core' of the region, in parts of Surrey, Sussex and Buckinghamshire. Districts with significant concentrations of financial services businesses (more than 200) include Reigate and Banstead, Brighton and Hove, Mid Sussex, Waverley, Milton Keynes and Southampton. Hotspots of financial services *employment* are also found in Reigate and Banstead, Milton Keynes and Southampton, as well as in Reading.[10]

Map 4: Employment in insurance and related services, by district, 2006
(Source: ABI)



Looking at the location of employment in different branches of the financial services industry reveals some interesting patterns. Employment in insurance and pension funding (Map 4) is particularly concentrated in parts of Surrey, Kent, Hampshire and Berkshire. These areas correspond to significant clusters of insurance companies within the region. Major companies with head offices in these parts of the South East include:

- Allianz – Guildford
- AON – Farnborough
- Axa PPP – Tunbridge Wells
- Axa Winterthur – Basingstoke
- Chaucer Insurance – Whitstable, Kent
- Equitable Life – High Wycombe/Aylesbury
- Fortis UK – Eastleigh
- Friends Provident – Dorking

[10] ONS Annual Business Inquiry, 2006. Note that the apparent concentration of financial services employment in Oxford is an anomaly in the data, which will be corrected in the next release of ABI data in December 2008.

- Hastings Direct - Bexhill
- Hiscox – Tunbridge Wells
- Just Retirement – Reigate
- Esure - Reigate
- Legal and General – Tadworth, Hove and Shoreham
- MGM Advantage – Worthing
- MMA – Reading
- Prudential – Reading
- RSA - Horsham
- Skandia – Southampton
- UNUM – Dorking
- Zurich – Whitely (near Fareham) and Farnborough

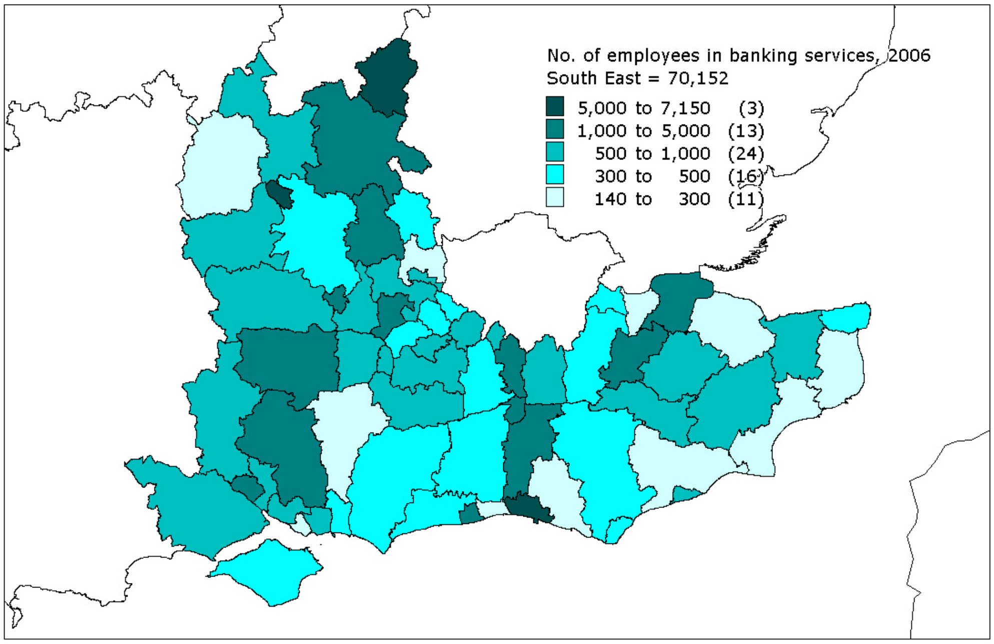
As would be expected, employment in banks and building societies is fairly evenly spread throughout the region, although there are particular concentrations of employment in Brighton and Milton Keynes (Map 5). Companies in this sub-sector with a significant presence in the South East include:

- Abbey – Milton Keynes and Bletchley
- American Express – European headquarters in Brighton
- HSBC – Southampton
- Lloyds TSB – Haywards Heath
- Royal Bank of Scotland – Milton Keynes
- Barclays – Basingstoke and Reading
- HBOS – High Wycombe
- Charity Bank – head office in Tonbridge, Kent
- Newbury Building Society – head office in Newbury
- National Counties Building Society – head office in Epsom
- Kent Reliance Mutual – head office in Chatham
- Chesham Building Society – head office in Chesham

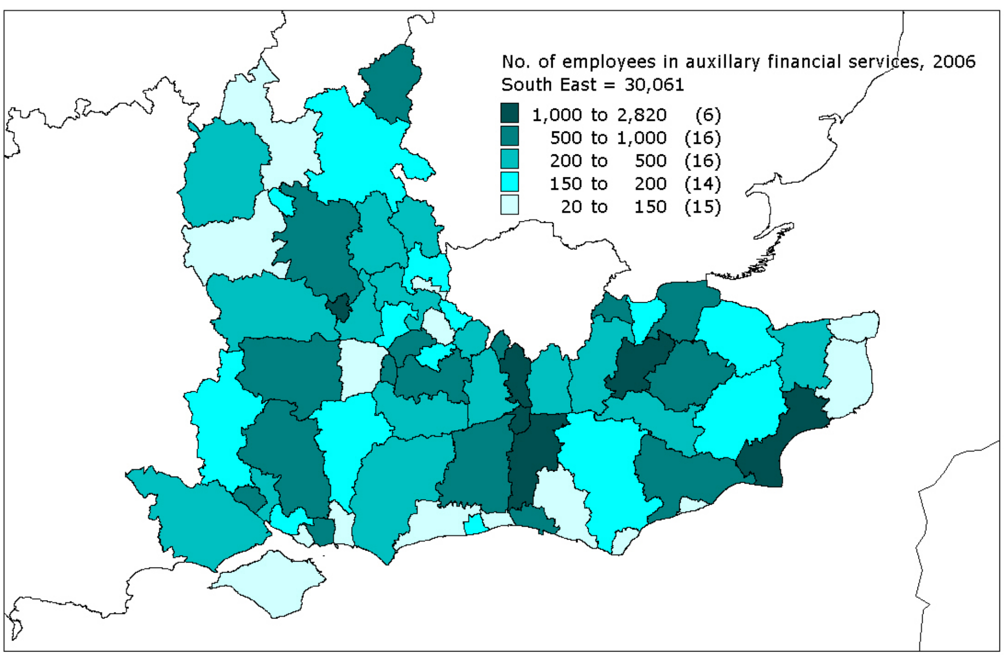
Financial leasing companies include:

- Visa Europe – head office in Reading
- ING Lease – head office in Redhill
- Cabot Financial – head office in West Malling, Kent

Map 5: Employment in banking services, by district, 2006 *(Source: ABI)*



Map 6: Employment in auxiliary financial services, by district, 2006
(Source: ABI)



Employment in auxiliary financial services (including fund management, investment banking and consultancy) tends to be more heavily concentrated in southern and eastern parts of the region, with particularly large numbers of employees in the local authorities of Shepway and Tonbridge and Malling in Kent, Mid Sussex, Crawley, Reigate and Banstead and Reading (Map 6). Major firms in these areas include:

- All Types of Mortgages – head office in Horsham
- Alpha to Omega (IFA) – head office in Winchester
- Asset Advantage (IFA) – Reading
- Assurant Solutions – Slough
- BDML Connect - Portmsouth
- Cavanagh Group (IFA) – head office in Cuckfield, West Sussex
- COBRA Network – Caterham
- Equiniti (share register company) – head office in Brighton & Hove
- Family Investments – head office in Brighton and Hove
- Fidelity Investments – Kingswood, Surrey and Tonbridge, Kent
- GMAC-RFC – head office in Bracknell
- HRG (IFA) – head office in Reading
- Invesco Perpetual – head office in Henley
- Jardine Lloyd Thompson - Bracknell
- Jupiter – West Malling, Kent
- Lighthouse Group - Brighton
- Origen FS (IFA) – Farnborough
- Positive Solutions – Southampton
- Premier Asset Management – Guildford
- Saga – Folkestone and Thanet, and with the AA – Basingstoke
- The Children's Mutual – head office in Tunbridge Wells
- Towergate – Maidstone
- Towry Law (IFA) – head office in Bracknell

There are also a number of motor manufacturer financial services head offices in the South East:

- BMW – Hook, Hampshire
- Daimler – Milton Keynes
- Toyota - Epsom
- Volkswagen – Milton Keynes

Table 2: Twenty largest concentrations of different types of Financial Services employment in the South East, 2006

Sub-sector	County / unitary authority	No. of people employed in 2006 in largest concentrations	% of regional employment within that sub-sector
Other financial intermediation not elsewhere classified[11]	Oxfordshire	6,700	62
Other monetary intermediation	West Sussex	6,100	14
Other monetary intermediation	Kent	5,200	12
Other monetary intermediation	Hampshire	5,100	12
Life insurance	Surrey	4,600	35
Other monetary intermediation	Milton Keynes	4,400	10
Other monetary intermediation	Surrey	4,200	10
Activities auxiliary to insurance and pension funding	Surrey	3,600	19
Non-life insurance	Surrey	3,500	22
Non-life insurance	West Sussex	3,500	22
Activities auxiliary to insurance and pension funding	Kent	3,400	18
Non-life insurance	Hampshire	3,300	21
Activities auxiliary to insurance and pension funding	West Sussex	3,000	15
Other monetary intermediation	Brighton & Hove	2,800	6
Activities auxiliary to insurance and pension funding	Hampshire	2,600	13
Other monetary intermediation	Southampton	2,500	6
Other credit granting	Brighton & Hove	2,500	19
Other monetary intermediation	Buckingham-shire	2,300	5
Life insurance	Brighton & Hove	2,200	17
Financial leasing	Surrey	2,200	66

Source: ONS Crown Copyright, Annual Business Inquiry, 2006

Looking in more detail at employment in particular sub-sectors of the financial services sector, Table 2 shows the 20 largest concentrations of employment in particular sub-sectors of the financial services industry within the South East. It can be seen that:

[11] This category relates to financial intermediation that is primarily concerned with distributing funds other than by making loans – including investment trusts, unit trusts, securities dealing and venture capital.

- Whilst Oxfordshire appears to have the greatest number of jobs in any one sub-sector, this is misleading since employment in financial services in Oxford was overestimated in the latest survey from which this data is derived (see note 10 on page 11).

- The largest single share of employment by sub-sector is in Financial leasing in Surrey, where 66% of all regional employment in this sub-sector is concentrated.

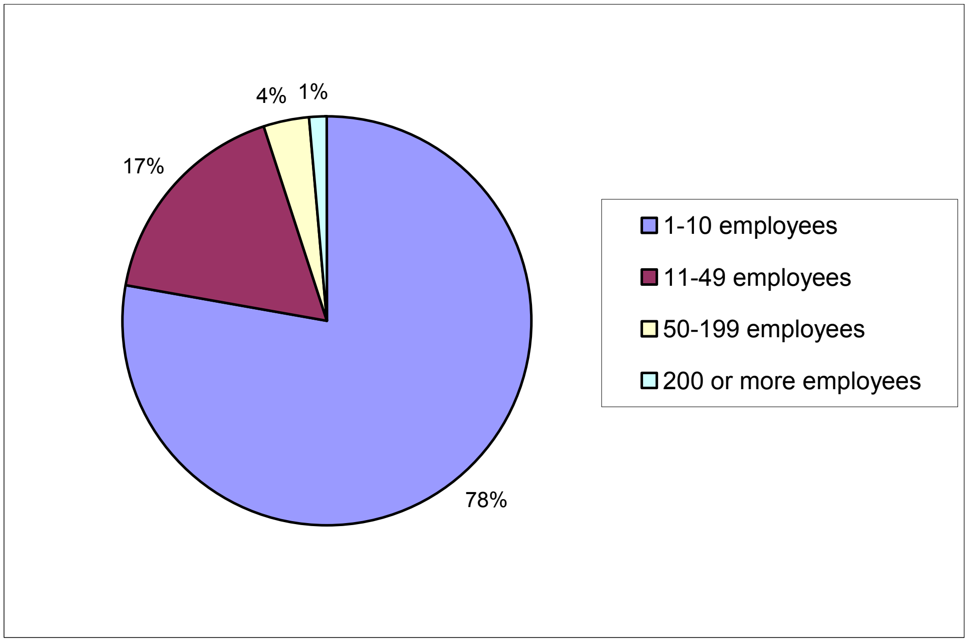
- More than half of all Life insurance jobs in the South East are concentrated in Surrey (35 percent) and Brighton and Hove (17 percent).

- There are significant concentrations of employment in Non-life insurance in Surrey (22 percent of all jobs in this sub-sector in the South East), West Sussex (22 percent) and Hampshire (21 percent).

4. Business size

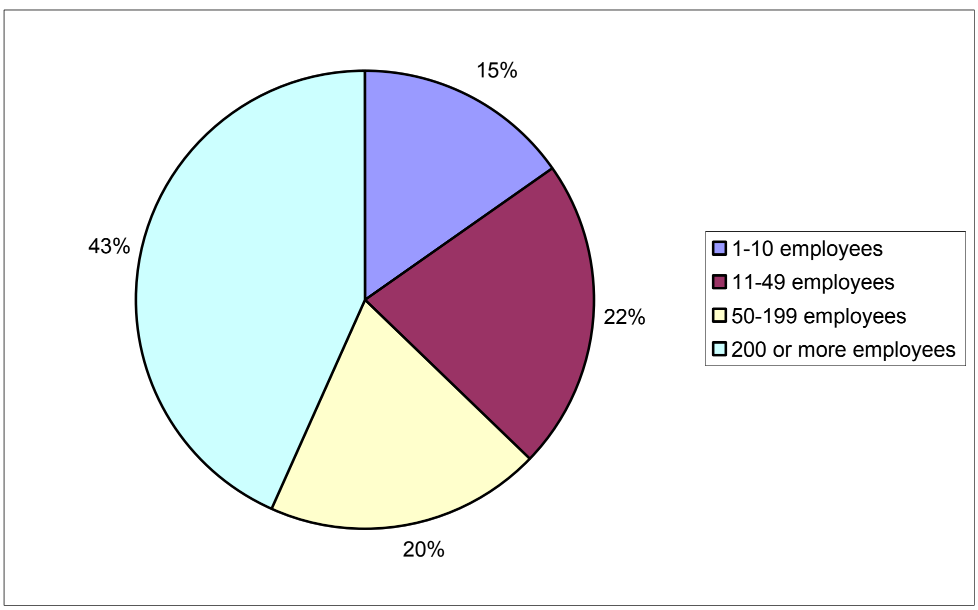
The vast majority of financial services businesses in the South East are small in size. Ninety-five percent have fewer than 50 employees, with 78 percent having 10 or fewer staff (5,900 businesses). (Figure 2a). This proportion is slightly larger than in England as a whole, where 75 percent of financial services businesses have 10 or fewer employees. Just 1 percent of businesses both regionally and nationally have 200 or more employees. However, in terms of *employment*, large businesses have a significant role to play: more than 40 percent of all employees in financial services work in firms with more than 200 staff, while just 15 percent of employees work in firms with 10 or fewer staff (Figure 2b).

Figure 2a: Proportion of financial services businesses in the South East in different size bands (measured by employee numbers), 2006



Source: ONS Crown Copyright, Annual Business Inquiry, 2006

Figure 2b: Proportion of financial services employees working in different firm size categories, 2006



Source: ONS Crown Copyright, Annual Business Inquiry, 2006

5. Workforce characteristics

As Table 3 shows, there are some significant differences between the financial services sector and the South East economy as a whole in terms of the make-up of the workforce.

Table 3: Characteristics of the workforce in the South East – Financial Services and whole economy compared, 2007 (age group data is for 2006)[12]

	Financial Services		All sectors
	Numbers	**%**	**%**
Male	98,000	54	53
Female	84,000	46	47
Full-time	156,000	86	73
Part-time	26,000	14	26
Self-employed	8,000	4	14
16-24	21,900	13	15
25-49	122,000	70	60
50+	32,000	18	26

Source: ONS Crown Copyright, Annual Population Survey, 2006 and 2007

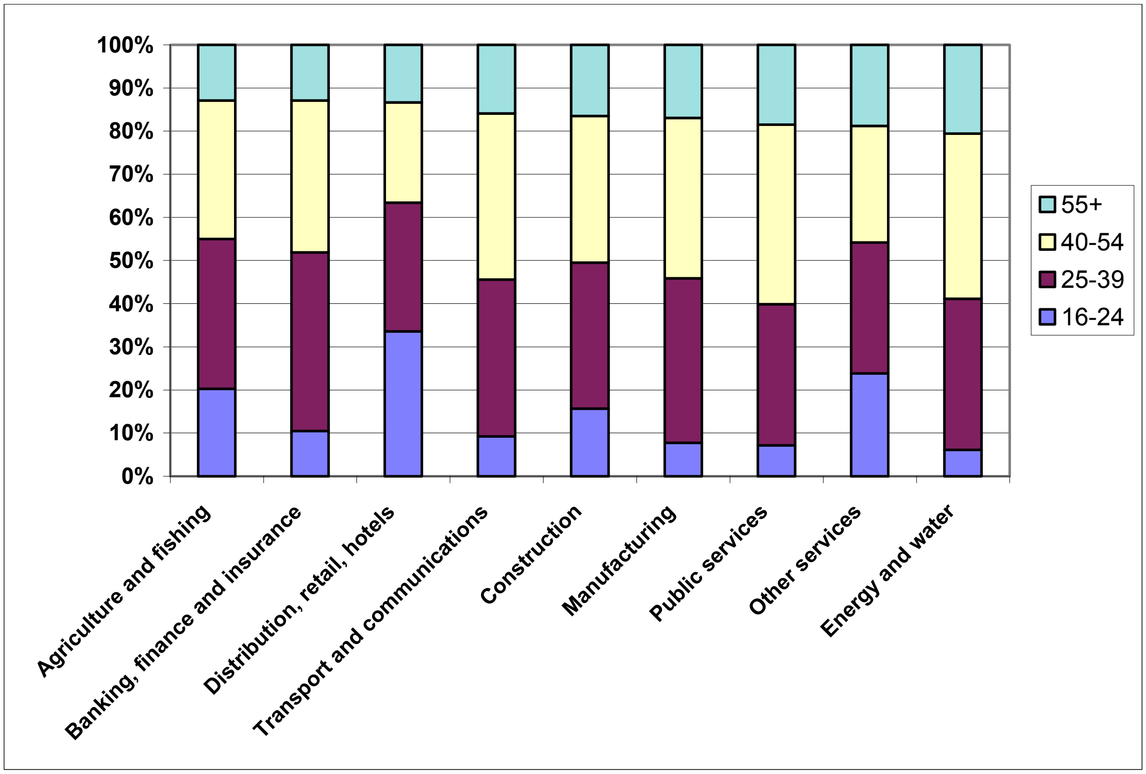
- The workforce in the financial services sector is relatively youthful, with a larger proportion of employees aged 25-49 than in the economy as a whole, and a significantly smaller proportion of employees aged over 50 (18 percent compared to 26 percent for all sectors). The proportion of employees aged 16-24 is slightly smaller than the average for all sectors, reflecting the high level of qualifications required by the financial services sector. Employers recognize the need to recruit from this younger age group, however.

- Employees in the financial services sector are more likely to work full-time, with 86 percent of the workforce doing so compared to 73 percent of the total workforce in the South East.

- Workers in financial services are much less likely to be self-employed than the average for all sectors. Just 4 percent of the workforce are self-employed, compared to 14 percent in the economy as a whole.

[12] Note that the difference between the total number of employees in this table and the total number recorded in the Annual Business Inquiry is that the ABI data refers to people who *work* in the South East, but do not necessarily live in the region as well, while the Annual Population Survey relates to people who *live* in the South East and are employed in the financial services industry, but may work outside the region.

Figure 3: Proportion of the South East workforce in different age bands, by sector, 2006



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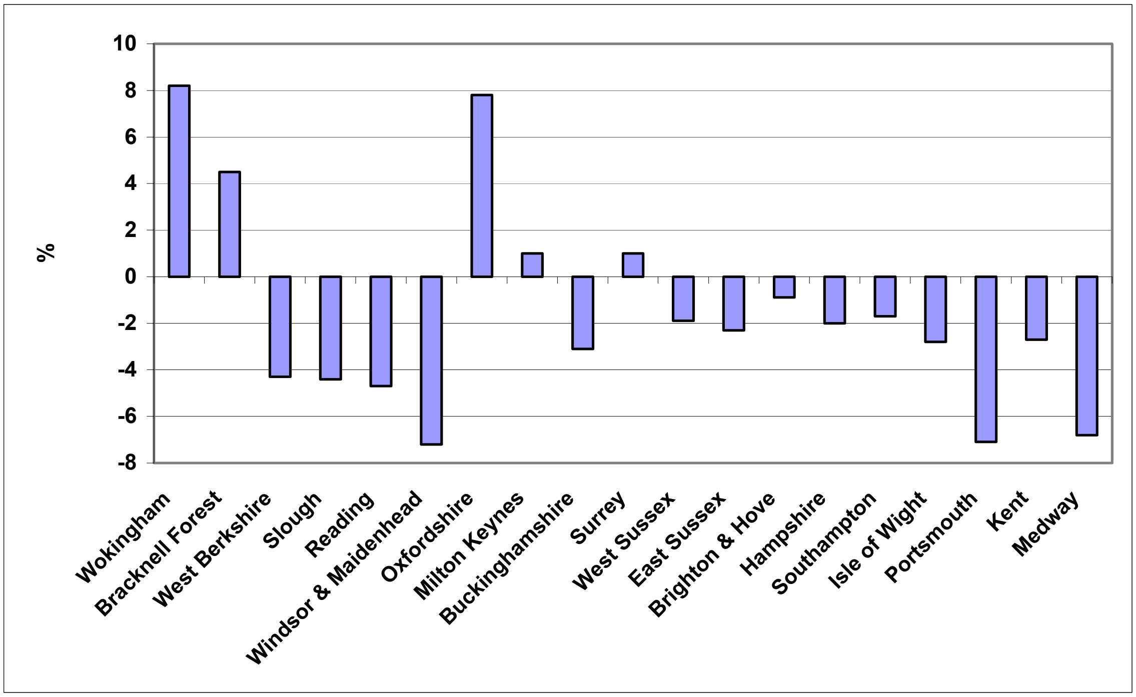
Source: ONS Crown Copyright, Annual Population Survey, 2006

With the ageing of the population forecast to intensify in the next two decades, there is a need to ensure that older people in the South East are encouraged to remain in or re-enter the labour market. In financial services a relatively small proportion of the workforce is aged over 50. As Figure 3 shows, the financial and business services sector has one of the least mature workforces of any industry in the South East. The proportion of employees aged 55 and over is the smallest of any sector (except agriculture), at 13 percent – reflecting redundancies in the industry in recent years – whilst the proportion of employees aged 25 to 39 is the largest of any sector (41 percent). Encouraging employers to make the most of older workers' skills, and ensuring that adequate training is in place to keep their skills up-to-date may help to address skills shortages and skills gaps in the financial services industry. However, this course of action may not be desirable or feasible for some financial services firms. Later sections will show that a lack of applicants with the required skills is one of the key difficulties employers in the region are facing.

6. Employment trends

Figure 4: Average annual percentage change in financial services employment, by county and unitary authority, 1998-2006



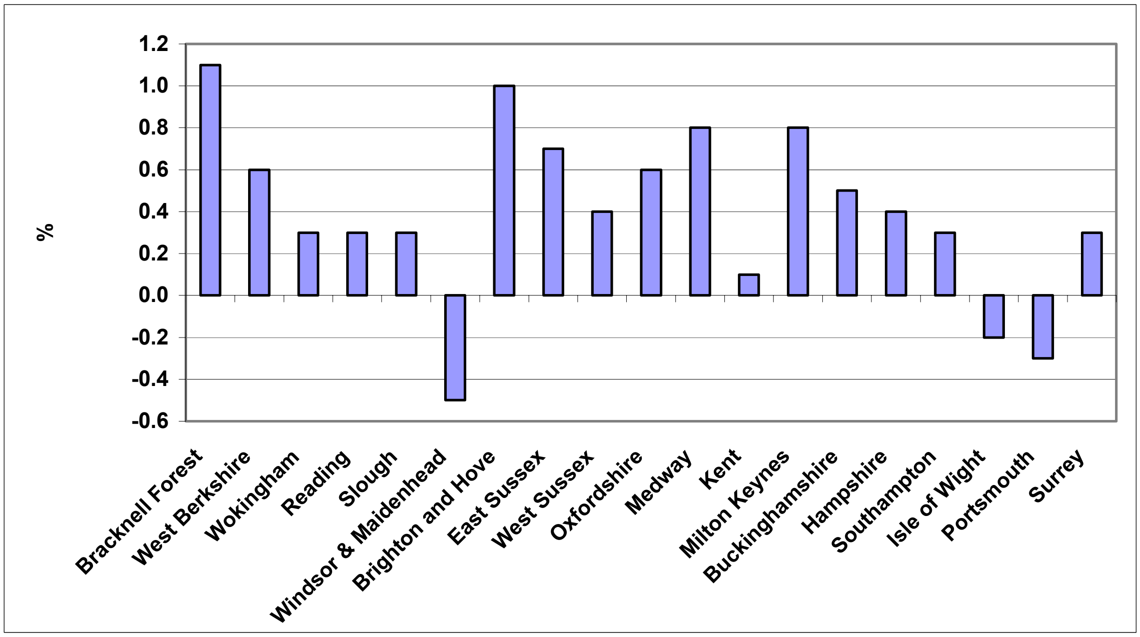
Source: ONS Crown Copyright, Annual Business Inquiry, 1998-2006[13]

Between 1998 and 2006 there was a fall in financial services employment in the South East as a whole – by 2.1 percent per year on average. As Figure 4 shows, the sub-regional picture has been mixed. Only five county or unitary authorities in the region saw growth in employment in financial services over this period, with the strongest growth being in Wokingham, Oxfordshire and Bracknell Forest (respectively 8.2, 7.8 and 4.5 percent per year on average). However, the growth in employment in Oxfordshire is likely to be slightly exaggerated due to an over-estimate of the number of employees in financial services in Oxford in 2006 (see note 10 on page 11).

The slowest rate of employment decline (not more than 2 percent per year) tended to be in Sussex and Hampshire, whilst the most significant fall in employment occurred in parts of Berkshire, Portsmouth and Medway. In Windsor and Maidenhead, for example, employment in financial services fell by an average of 7.2 percent per year between 1998 and 2006, and in Reading by 4.7 percent per year, while in Medway there was a decline of 6.8 percent per year on average. In Portsmouth, Medway and Windsor and Maidenhead employment in financial services fell by more than 40 percent overall between 1998 and 2006.

[13] Note that it can be difficult to measure change over time accurately using ABI data, due to changes in the way the data is collected over recent years.

Figure 5: Forecast average annual percentage change in financial services employment, by county and unitary authority, 2006-2020[14]



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Source: Experian Business Strategies, Local Markets Database, 2008

Projections of future employment change from Experian suggest that most county and unitary authorities in the South East will see a small increase in employment in financial services over the period 2006-2020 (generally less than 1 percent growth per year on average). This represents a recovery from the employment decline of the late nineties and early years of the present century. However, Windsor and Maidenhead and Portsmouth are forecast to continue to witness employment decline in this sector (by 0.5 percent and 0.3 percent per year on average), as is the Isle of Wight (-0.2 percent per year), though the numbers of employees in financial services in the Isle of Wight are very low. The fastest growth in employment in financial services (just over 1 percent per year on average) is projected to occur in Bracknell Forest and Brighton and Hove – the latter having a significant concentration of jobs in this industry already (Figure 5).

The Experian forecasts are based on existing trends from the Annual Business Inquiry (as reported in Figure 4) extrapolated forward. These trend-based forecasts are adjusted using estimates of employee jobs calculated by the Office for National Statistics on a quarterly basis.

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[14] Note that the figures for counties include the unitaries within them, except for Hampshire which excludes the Isle of Wight.

Table 4: Forecast changes in financial services employment in the South East, by occupational group[15], 2007-2017 - thousands

	2007	2012	2017	2007-17 net change	Replace-ment demand	Total require-ment
Managers and Senior officials	22	24	26	4	8	12
Professional Occupations	12	14	16	3	4	8
Associate Professional and Technical Occupations	16	17	19	3	5	8
Administrative and Secretarial Occupations	58	57	57	-1	23	23
Skilled Trades	4	4	4	0	1	2
Personal Service Occupations	2	2	3	1	1	1
Sales and Customer Service Occupations	11	13	14	3	4	6
Machine and Transport Operatives	2	2	3	1	1	1
Elementary Occupations	7	8	9	2	3	4
Total	134	142	149	15	50	65

Source: Institute for Employment Research and Cambridge Econometrics, Working Futures 2007-2017

Looking at a different set of forecasts – the Working Futures 2007-2017 projections – shows a slightly different picture.[16] Following strong growth in output in the financial services industry in the decade prior to 2007, output is projected to continue to grow over the ten years to 2017 but at a slower rate of 2.5 to 3 percent per year. However, employment growth is expected to remain fairly flat, with only modest increases to 2017 (less than 1 percent per year). This is a reflection of the slower growth in productivity and output in the financial services sector in response to the current credit crisis.

Looking at projections of employment by occupational group for the financial services industry in the South East, Working Futures suggests that the only occupational group forecast to see a decline in the number of employees will be administrative and secretarial occupations (Table 4). This reflects the continued expansion of on-line banking, which reduces the demand for front-line staff. There are likely to be small increases in employment for managers and senior officials and associate professionals and in sales and customer service

[15] Note that the occupational groups used here form part of the Standard Occupational Classification used by the Office for National Statistics when reporting official data. The numbers in the table do not always appear to add up, due to rounding.

[16] Working Futures 2007-2017 is an update to Working Futures 2004-2014. The projections are prepared by Cambridge Econometrics and the Institute for Employment Research at the University of Warwick.

occupations, as marketing activities have become increasingly important in the financial sector.

Although administrative and secretarial occupations are forecast to see a decline, if *replacement demand* is taken into account (that is, the number of people required to replace those who retire or leave the area), these occupations will in fact see the greatest increase in jobs overall. The South East financial industry is forecast to see a fall of 1,000 in the number of people required in administrative and secretarial occupations between 2007 and 2017, but replacement demand for these occupations is as high as 23,000. Overall, therefore, there is a total requirement of nearly 23,000 people in this occupational group. Substantial replacement demand is also forecast in higher skilled occupational groups, with a projected 8,000 additional mangers and senior officials needed by 2017 to replace those who retire or leave, and a further 5,000 associate professionals. Indeed, total replacement demand, at 50,000, will be the largest contributor to the total requirement of 65,000 employees in financial services over the decade from 2007.

It is worth noting that all these forecasts are likely to change as the current credit crisis and downturn in the economy continues to develop over the coming months. It is likely that projections of job growth will be revised downwards, particularly in a sector like financial services which is especially vulnerable to the effects of an economic downturn.

7. Skills needs and Recruitment

Employers in the financial services sector experience particular difficulty in recruiting staff with the skills they require. The latest National Employer Skills Survey (for 2007) found that the financial services sector in the South East has the third highest incidence of skills shortage vacancies (SSVs) of the 25 sectors covered by Sector Skills Councils.[17] Skills shortage vacancies are those which are hard to fill because of a lack of applicants with the right skills.

Table 5: Density of recruitment problems – financial services and SE economy as a whole compared, 2007

	Nos of vacancies	Vacancies as a % of employment	SSVs as a % of all vacancies	Hard-to-fill vacancies as a % of all vacancies	SSVs as a % of hard-to-fill vacancies
Financial services	4,618	3.8	28	33.6	82.7
All industries	116,000	3.2	22	31.0	72.2

Source: LSC National Employer Skills Survey, 2007

[17] LSC South East, Employers Skills Survey 2007 – Main Report (April 2008).

As Table 5 shows, there is a greater incidence of vacancies in the South East financial services sector compared to the regional economy as a whole, with a significantly greater incidence of skills shortage vacancies. More than a quarter of employers in the South East financial services sector (26 percent) have vacancies, which is higher than the regional average of 18 percent and the fourth highest of any sector. Hard-to-fill vacancies are reported by 10 percent of employers in the financial services sector (the third highest of any sector) – above the regional average of 7 percent.

Table 6: Top five causes of hard to fill vacancies, financial services sector and all sectors (national figures), 2007

	% of employers with hard to fill vacancies	
	FSSC (England)	**All sectors (England)**
Low numbers of applicants with required skills	47.2	36.0
Lack of work experience the company demands	25.8	21.4
Low number of applicants generally	14.3	11.4
Lack of qualifications the company demands	13.2	13.4
Low number of applicants with required attitude / motivation	12.7	13.6

Source: LSC National Employer Skills Survey 2007

The main causes of hard to fill vacancies in the financial services sector are reported in Table 6 (though note that the figures relate to England as a whole since regional figures are too small to be reliable). In all sectors, not just financial services, employers are finding that applicants do not possess the right mix of skills or relevant work experience. This suggests a need for schools, universities and training providers to work more closely with the financial services industry to ensure that new entrants to the workforce have the skills that employers are seeking.

This is particularly imperative given the extent to which employers in the financial services sector are reliant on young people to meet their recruitment needs. As Table 7 shows, financial services employers in the South East are more likely than average to have recruited young people under the age of 24 direct from education in the last 12 months. Given the greater demand for higher skills levels in this sector, the majority of recruitment has focused on graduates and far less on young school leavers.

A total of 8 percent of employers in the finance industry reported any Skills Shortage Vacancies in 2007 – well above the regional average of 4 percent. Indeed, as Table 5 shows, vacancies are significantly more likely to be hard to fill because of a lack of applicants with the required skills in the financial sector compared to the all-industry average: 83 percent of hard-to-fill vacancies in the financial sector are skills shortage vacancies, whilst the figure for the South East as a whole is 72 percent.

Table 7: Proportion of establishments recruiting young people in the last 12 months – financial services sector and all industries compared (2007)

	FSSC (SE)	All sectors (SE)
Have recruited any under 24 year olds straight from education (school, college, HE)	27	25
Of these:		
Have recruited 16 year old school leavers	6	26
Have recruited 17/18 year old school or college leavers	41	48
Have recruited under 24 year olds straight from HE	56	42

Source: LSC National Employer Skills Survey 2007

When employers are asked about the specific skills they find difficult to recruit from applicants, there are some differences between the financial services sector and the economy as a whole[18] (Table 8). Most notably:

- A much higher proportion of employers in the financial services sector report office administration skills as being difficult to recruit (23 percent compared to 15 percent for all sectors). This is supported by the fact that the largest proportion of SSVs in the South East financial services sector (46 percent) are concentrated in administrative and secretarial occupations.[19]

- Other skills which are mentioned more commonly as difficult to recruit in the financial services sector include IT professional skills, management skills, technical or job-specific skills, and customer handling.

- Employers in financial services are much less likely than the average to report team working, literacy and general IT user skills as difficult to recruit.

[18] But note that due to regional figures being too small to be reliable, these findings relate to England as a whole.
[19] LSC South East, Employers Skills Survey 2007 – Main Report (April 2008).

Table 8: Skills found difficult to recruit from applicants (national figures), 2007

	% of employers with skills shortage vacancies	
	FSSC (England)	**All sectors (England)**
Technical or job-specific	55.9	52.9
Customer handling	36.7	33.8
Oral communication	35.7	33.7
Problem solving	29.2	29.3
Management	26.9	23.2
Written communication	25.8	26.8
Office administration	22.5	14.7
Numeracy	20.0	20.2
Literacy	19.5	24.1
Team working	18.1	26.6
IT professional skills	16.8	12.5
Foreign language skills	11.9	12.1
General IT user skills	10.0	13.9

Source: LSC National Employer Skills Survey 2007

It should be noted that the relatively high density of skills shortage vacancies in the financial services sector in the South East could be explained by high levels of recruitment activity rather than simply skills shortages per se. Given that the size of the labour force in financial services has not been increasing significantly in recent years (as shown in section 6), the high level of recruitment activity is indicative of high levels of staff turnover. A key element in attracting and retaining the best staff is the provision of training as part of planned career development, rather than just to tackle immediate skills shortages. The next section looks at the current provision of training by employers in the financial services sector.

Not only do some financial services employers have difficulty recruiting staff with the required skills – many also face problems due to a lack of proficiency amongst their *existing* staff. One in six financial services employers (17 percent) in the South East report 'skills gaps' – that is, gaps between the skills their workforce possess and those which employers need to meet their business objectives. This equates to 7,000 staff in the sector who are not fully proficient (80,000 in the financial services industry nationally). Skills gaps are more prevalent in the financial sector than in the economy as a whole: the average proportion of employers reporting skills gaps in all sectors is 15 percent. Nevertheless, the proportion of financial services employers with skills gaps in the South East is amongst the lowest of any region.[20]

Perhaps encouragingly, lack of proficiency amongst staff in the financial services sector is more likely than in other sectors to be caused by institutional or circumstantial factors and less likely to be due to particular deficiencies amongst

[20] LSC National Employer Skills Survey 2007.

the staff themselves (Table 9). For example, 78 percent of employers in financial services who reported skills gaps cited staff's lack of experience or recent recruitment as a cause of those skills gaps, compared to the all-sector average of 65 percent. Failure to train and develop staff was mentioned by 18 percent of financial services employers compared to 15 percent of all employers. Indeed, recent research by the FSSC suggests that fierce competition between employers for staff has led some of them to adopt aggressive recruitment practices at the expense of developing their existing employees.[21] Meanwhile, the inability of staff to keep up with change and a lack of motivation amongst employees were less frequently cited by employers overall, and particularly in the financial services industry.

Table 9: Main causes of lack of proficiency amongst staff in the SE, 2007

	% of employers with skills gaps	
	FSSC	**All sectors**
Failure to train and develop staff	18.0	14.6
Inability of workforce to keep up with change	9.3	11.1
Lack of experience / recently recruited	77.7	65.0
Staff lack motivation	14.7	17.9

Source: National Employer Skills Survey 2007

Both skills shortages and gaps affect the South East to a greater extent than other regions. National skills surveys, together with the FSSC's own survey of 800 employers (to inform its Sector Skills Agreement) show that the South East, along with Yorkshire and the Humber and Scotland and Wales, faces the twin challenges of significant skills deficiencies in the existing workforce and an insufficient supply of skills in the labour market to meet employer demand. The latter is common to a number of sectors in the South East, given the region's 'tight' labour market, which results in a general shortage of labour. Economic activity rates (i.e. the proportion of working age people in employment or available for work) are the highest in the country (82% compared to 78.4% in the UK in 2007) suggesting that the pool of people available to enter the workforce is relatively low. Meanwhile, unemployment rates are amongst the lowest of any region (4.3%) and well below the national average (5.3%).

Key skills priorities identified by the FSSC[22] include:

- Significantly improving understanding of the industry and its products amongst new entrants, including school leavers and graduates.
- Working with the education system to equip junior staff with better business language, communication and interpersonal skills.

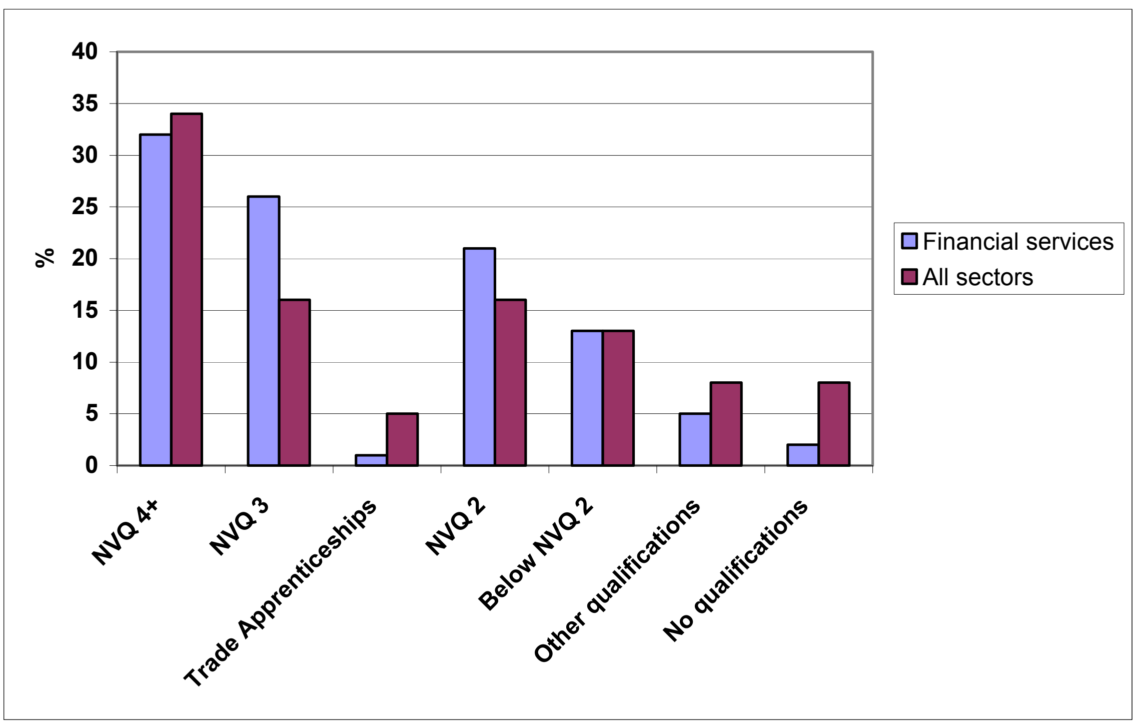
[21] The Skills Bill - Analysis of skills needs in UK Financial Services (FSSC, 2007).
[22] The Skills Bill - Analysis of skills needs in UK Financial Services (FSSC, 2007).

- Investing in management development, both for existing managers and future managers – with a particular focus on improving relationship management skills.
- Maintaining the current level of expertise of professional and technical staff as the industry continues to innovate. To achieve this, the focus should be on increasing awareness of customer needs and ensuring that organizations draw on a range of sources of specialist expertise through better teamwork.

8. Qualifications and training

Figure 6 compares the qualifications profile of the workforce in financial services with the average for all sectors. A significantly larger proportion of employees in financial services have intermediate level qualifications, particularly at NVQ 3. A very small proportion of the workforce has no qualifications (just 2 percent compared to the regional average of 8 percent) but perhaps surprisingly, the proportion of the workforce with degrees is slightly smaller than the average for all sectors.

Figure 6: Highest qualification achieved by the workforce, financial services and SE economy as a whole, 2007



Source: ONS Crown Copyright, Annual Population Survey, January-December 2007

Figure 6 highlights the very low take-up of apprenticeships in the financial services sector. Just 1 percent of employees have a trade apprenticeship compared to 5 percent in the South East as a whole. Indeed financial services is one of the sectors where engagement with Apprenticeships is well below average. Just 6 percent of employers in the industry offered apprenticeships in 2007 – half the proportion in the South East as a whole (12 percent). Meanwhile only 4 percent of financial services employers had recruited any apprentices aged between 16 and 24 in the last 12 months, compared to the all-industry average of 6 percent.[23]

The current low take-up of apprenticeships is likely to be accounted for mainly by their relative novelty in the financial services sector. The new Pathways were signed off as recently as Autumn 2007. Before this, there had never been a culture of apprenticeship embedded in the financial sector, in contrast to some other industries.

Employers cite a range of reasons for not offering apprenticeships, the most common of which could be argued to be a result of misinformation. One fifth of financial services employers who don't offer apprenticeships believe that they are not relevant or applicable to their business, whilst significant proportions demonstrate a preference not to train on the job (all their staff are fully trained, they prefer fully trained recruits, or they do not require staff to be that skilled). Only a relatively small proportion (6 percent) believe that their business is too small – significantly lower than the South East average (Table 10).

Table 10: Main reasons given by employers for not offering Apprenticeships (financial services sector and SE economy as a whole), 2007

Main reasons for not offering Apprenticeships	FSSC (SE)	All sectors (SE)
Not relevant/applicable to business	20	16
All staff fully trained	20	19
Prefer to employ fully qualified/trained recruits	13	8
Don't require staff to be that skilled	10	10
Don't take on young people	7	5
No apprenticeships available for our industry/specialism	7	5
Business is too small	6	12

Source: LSC National Employer Skills Survey 2007

Financial services employers are significantly more likely than employers in the South East as a whole to provide training for their staff: according to the latest National Employer Skills Survey 80 percent had funded or arranged training either on-the-job or off-the-job – well above the South East average of 69 percent (Table 11). However, there is evidence at national level that a significant amount of training delivered in this sector is compulsory, driven by the need for regulatory compliance. This may help to explain the large proportion of employers providing training.

[23] LSC South East, Employers Skills Survey 2007 – Main Report (April 2008).

Table 11: Training activity by South East employers – financial services and all sectors compared (2007)

	% of establishments with a training plan	% of establishments with a training budget	% of establishments who have funded or arranged training for staff
Financial services	66	50	80
All sectors	49	37	69

Source: LSC National Employer Skills Survey 2007

Nevertheless, employers in the financial sector are more likely to adopt a planned approach to training, rather than simply reacting to immediate skills needs. Two thirds of employers in this sector (66 percent) have a training plan, compared to only half of employers in the South East as a whole (49 percent). Meanwhile half the employers in financial services have a budget for training compared to the regional average of just over one third (37 percent).

9. Employment and Skills Boards

A new development which will have a bearing on the way in which employment and skills issues are tackled at regional and local level (in all sectors) is the emergence of Employment and Skills Boards (ESBs). The concept of ESBs as a mechanism to co-ordinate employment and skills activity at regional and local level was first proposed in the Leitch Review,[24] and has been supported by a range of national and regional policies including the Sub-national Review. Sub-regional partnerships focusing on employment and skills issues are already in place in the South East, in the form of Local Skills for Productivity Alliances (LSPAs). Work is now underway to evolve the LSPAs into ESBs in the South East.

There will be six Sub-Regional ESBs – covering Berkshire, Kent & Medway, Hampshire & Isle of Wight, MKOB (Milton Keynes, Oxfordshire & Buckinghamshire), Surrey and Sussex. However, because of the diversity within some sub-regions there is also a need to have a number of 'county' based ESBs reporting in to the sub-regional ESB. For example, in Sussex there will be ESBs for West Sussex, East Sussex and Brighton & Hove, and this is likely to be mirrored in MKOB. Each Local Skills for Productivity Alliance is at very different stages of evolution towards becoming an ESB. For example, Kent & Medway, Sussex, Surrey and Berkshire have become ESBs and are currently working on their strategic plan, while MKOB and Hampshire/IOW are still in a transition phase.

[24] Leitch Review of Skills (2006) *Prosperity for all in the global economy – world class skills, Final Report*

Employer representation on each of the sub-regional ESBs will vary depending on existing employer networks within a sub-region. For example, some ESBs will have at least 50% employer representation, while others may have only two or three employers who represent a number of existing employer networks. However, common to each ESB will be a key employer as chair, who will be supported by an ESB Manager (previously an LSPA Manager). The remit for ESBs is to provide the authoritative sub-regional voice on employment and skills and strategically influence the employment and skills agenda. In this respect, there is an opportunity for ESBs and SSCs to work together on a number of common agendas - for example, local labour market and skills intelligence and influencing future supply-side provision.

10. Conclusion and considerations

Implications for employers and training providers

- The foregoing research raises issues and opportunities for consideration by the National Skills Academy and its Regional Employers' Board, training providers, SEEDA and the South East LSC.

- The financial services sector is a major employer in the South East region and is a significant contributor to the region's wealth and growth.

- The Leitch Review, the development of the Skills Academy, the skills needs identified by the Skills Council's Sector Skills Agreement and others provide a platform from which to deliver to the needs of the employer.

- The public sector in the South East (LSC, FE colleges) has had relatively little engagement with the financial services industry to date; public sector support and delivery for the industry will need to be enhanced to meet employers' needs.

- The skills education landscape is beginning to change quite dramatically for the financial services sector, in that (i) new skills programmes (that have been and will be employer influenced) have recently been approved; (ii) there is now meaningful access to public funding to support these programmes; and (iii) the new National Skills Academy for Financial Services can spearhead these opportunities with employers. This message needs to be widely canvassed to and understood by both employers and providers.

- For the first time for the sector there should be a realisation of joined up logic and development of financial services qualifications from Levels 1 to 5 – qualifications that address employers' concerns by combining the (previously omitted) practical skills assessment with the (traditional) technical skills:

    - Levels 1-3: Diploma in Business, Finance and Administration (from 2009)

    - Levels 2 and 3: New Apprenticeship frameworks

    - Level 4: New Foundation degree framework

    - Level 5: Full degree option from above

- The key skills issues which have been identified as needing improvement are:
    - Business and Interpersonal skills
    - Leadership and Management
    - Work readiness of the prospective workforce and their perceptions/understanding of the Sector.

- The financial services sector in the South East has the third highest incidence of skills shortage vacancies of the 25 sectors covered by Sector Skills Councils.

- The South East financial services industry faces the challenge of significant skills gaps in the existing workforce, coupled with an insufficient supply of skills in the labour market to meet employer demand.

- Larger employers have a good propensity to develop their staff (fundamentally driven by regulatory requirements) but the skills needs identified above remain.

- As with most sectors, effective training amongst smaller employers is hampered by lack of time to organise and to release staff, as well as a lack of resources to fund training.

- Over the next decade, 65,000 new employees will be required in the region's financial services industry. Almost 60% of these will be needed to meet replacement demand.

    - The Managers and Senior Officials occupational category is forecast to have a net requirement of 12,000 employees between 2007 and 2017.

    - Despite technology advances, there is projected to be a net requirement of nearly 23,000 new employees in administrative and secretarial occupations (all of which is due to replacement demand).

- There will be a need for employers to access new sources of recruits – be they young adults or older people returning to work or changing career.

- Further Education in the region (with a few exceptions) is not well engaged with the financial services sector, but the new FS Apprenticeships should provide an opportunity to re-engage. The Further Education sector is uniquely positioned to deliver programme-led apprenticeships, as well as being sufficiently experienced in apprenticeships to manage and deliver the new FS apprenticeships in their entirety.

- Further Education (on the whole) does not have FS focused staff, and there is a need to develop and/or recruit appropriate deliverers; ensure a supply of Assessors and Verifiers; and to be more aware of and alert to the Sector.

- Employers need to consider the opportunities arising from linking their in-house provision with the Academy's offer.

- Involvement in the Skills Academy will help providers address the needs of employers and the deficiencies of current provision.

Impact of current economic downturn

- The financial services sector is a more significant contributor to the economy and labour market in the South East than it is in all other UK regions with the exception of London. This makes the region more vulnerable to any downturn in the economy, which tends to affect the financial services sector earlier than some other industries. For example, the recent demise of the fourth largest US investment bank, Lehman Brothers, has led to several hundred job losses in High Wycombe in addition to the 4,000 jobs lost in London.

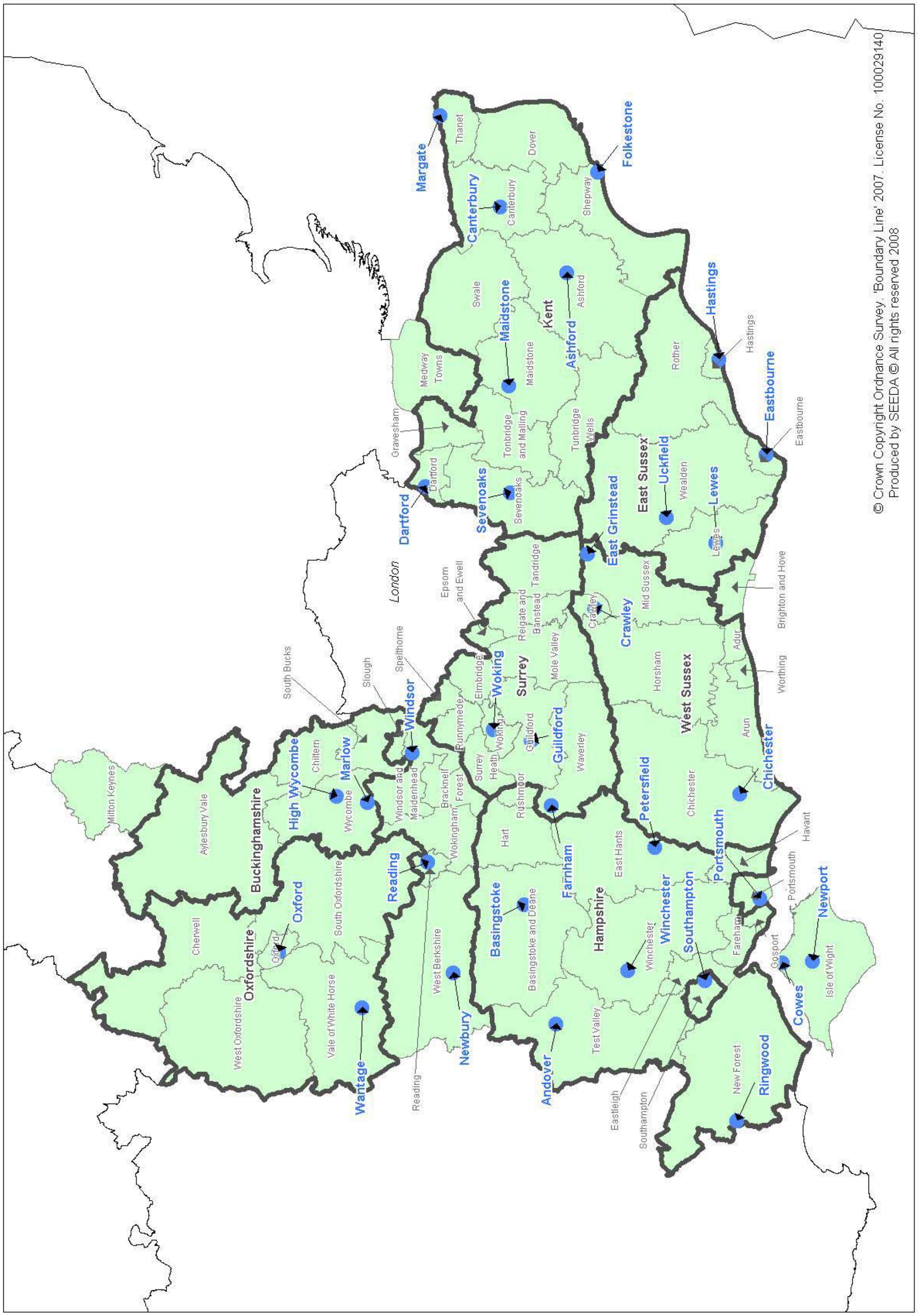
- The current uncertainty within the global financial markets could have an impact on employment within several large financial institutions with a presence in the South East. The large US investment bank Merrill Lynch has a presence in Camberley, and Morgan Stanley, another large US back, has employees in Milton Keynes.

- The significance of financial services in the South East economy is magnified by the fact that a large number of residents in the region (more than 730,000) are employed in the financial services industry – many in London. This means that the region is particularly vulnerable to any job losses affecting the financial sector. During the recession of the early 1990s the areas around London saw a sharp increase in unemployment, associated with a downturn in financial services.

- The extent of the current downturn is still uncertain, but it is important to keep in mind that there could be significant changes in the financial services sector in the coming months – with losses of major names, mergers of key players, and changes in the regulatory regime. All of this will have an impact on the nature of employment in the sector and the skills required of employees.

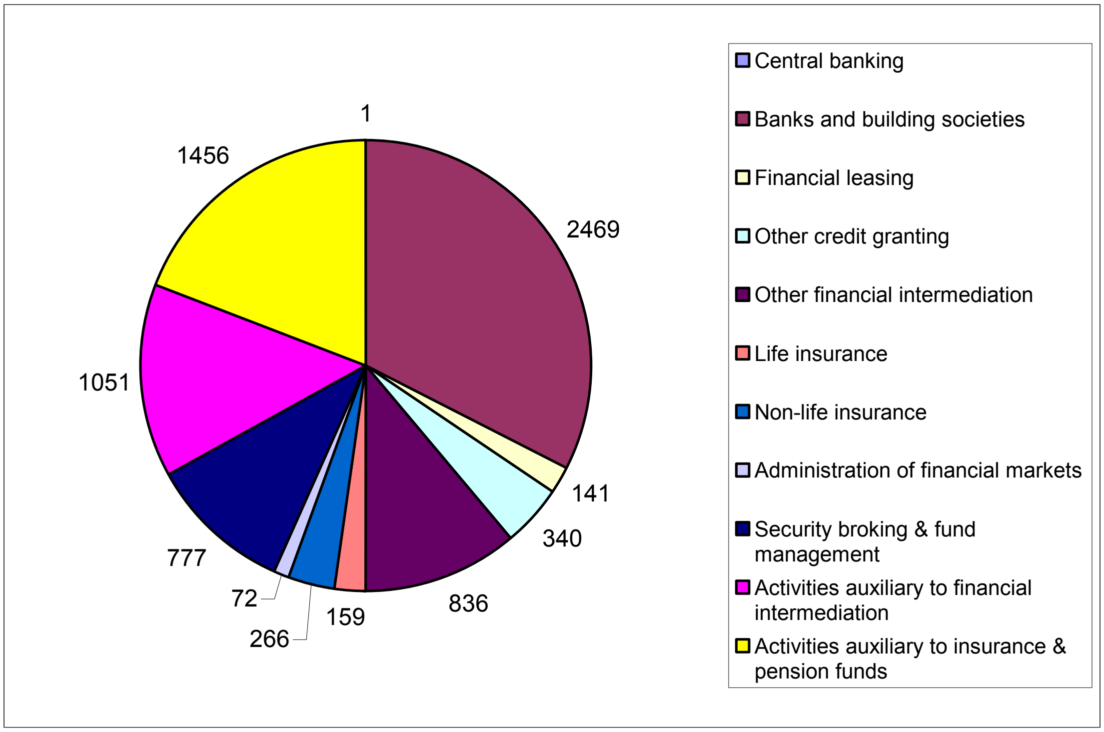
- In the context of the current downturn, it would be useful for the National Skills Academy for Financial Services, working with SEEDA and the LSC, to consider following the model being developed in Yorkshire, where the Skills Academy is closely involved in anticipating redundancies and making provision for retraining programmes, including for senior managers.

Annex 1: South East county and district map

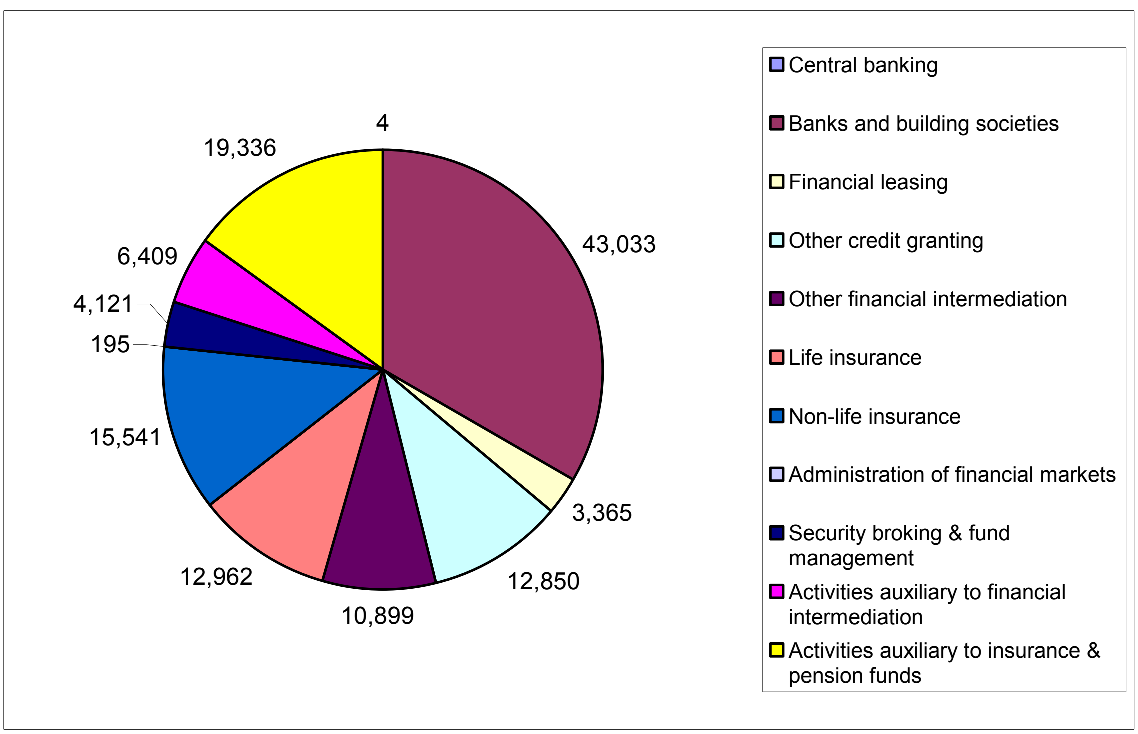


Annex 2: Distribution of financial services businesses and employment by sub-sector in the South East (Source: ABI 2006)

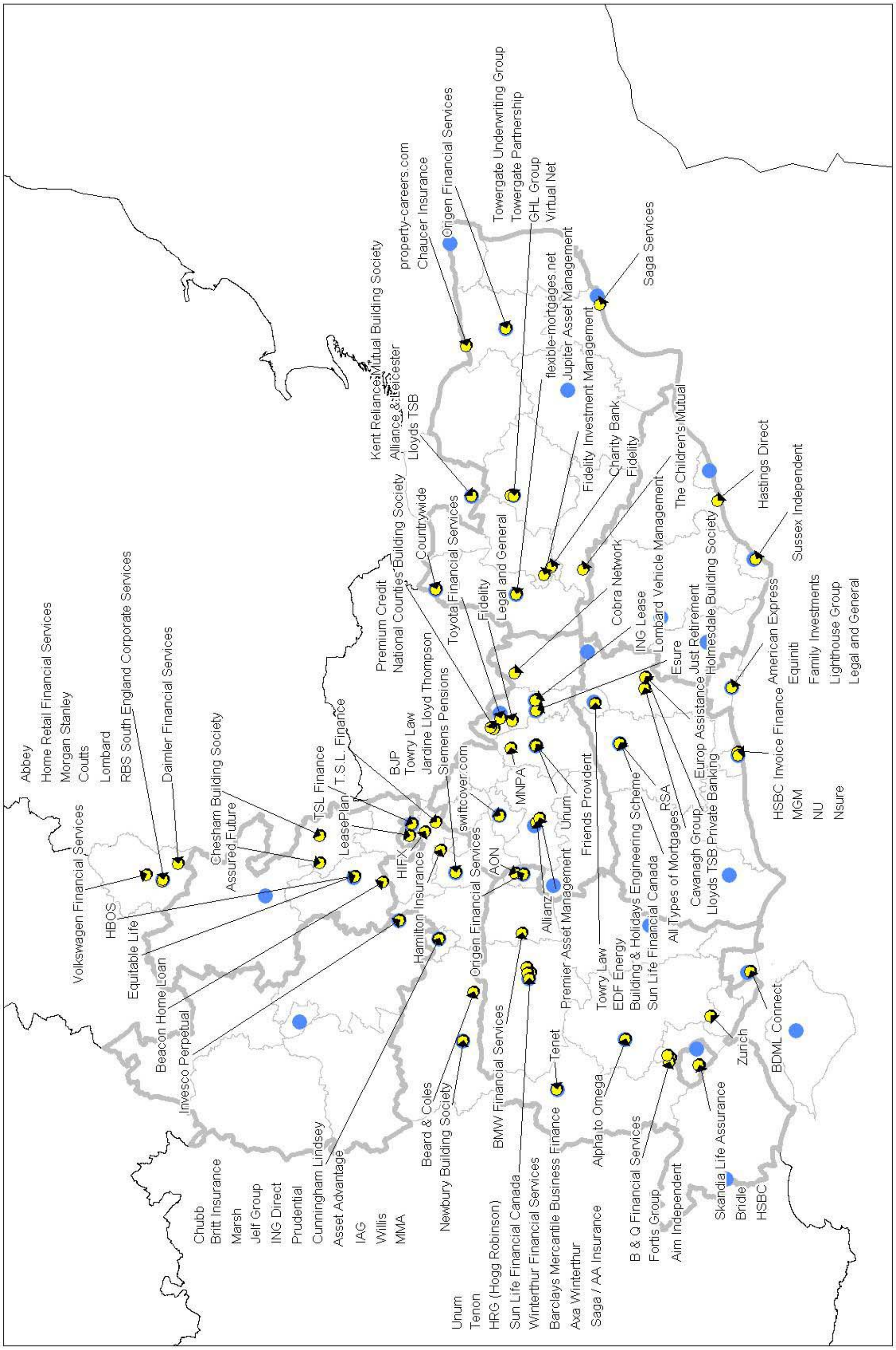
Number of financial services businesses by sub-sector, 2006



Number of employees in financial services, by sub-sector, 2006



Annex 3: Major financial services companies in the South East (larger scale map)

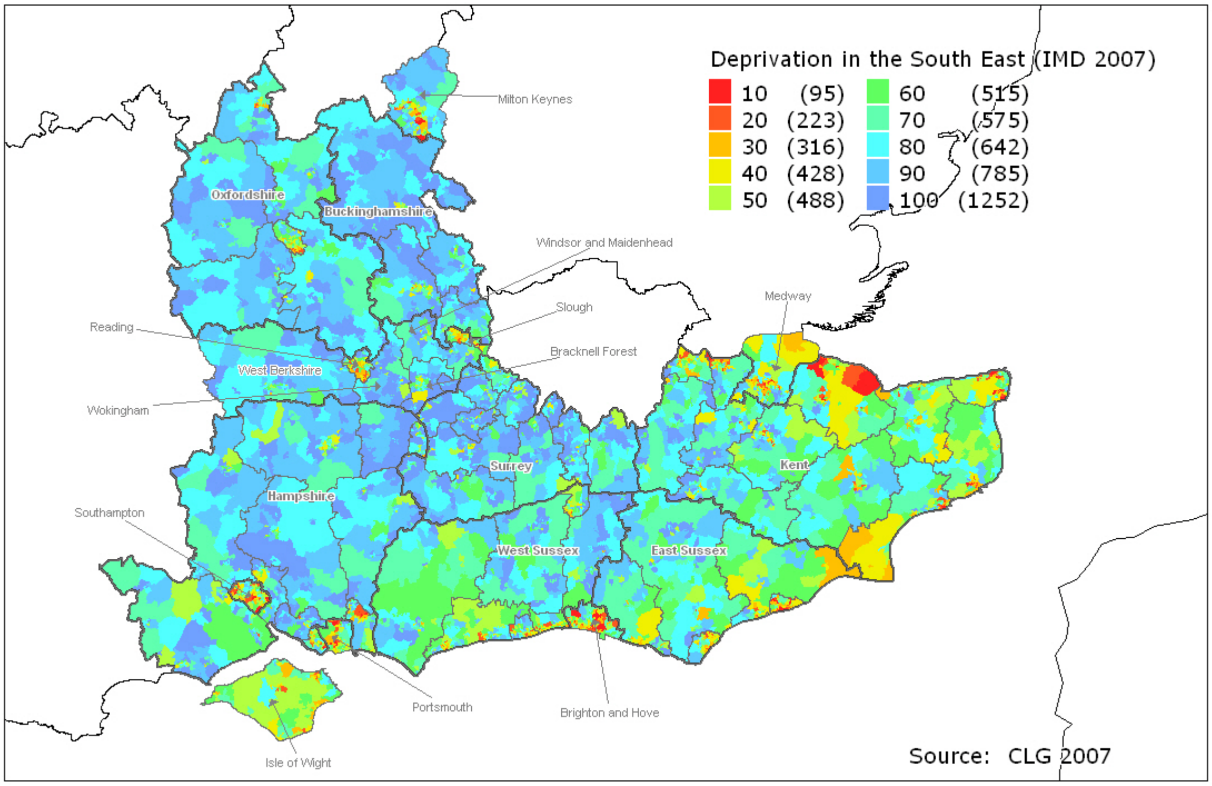


Annex 4: Number of businesses and employees in financial services, by county and unitary authority, 2006

County / UA	No. of businesses	No. of employees
Surrey	1,280	23,940
Kent	1,200	15,810
Medway	190	2,990
Hampshire	1,060	15,690
Southampton	230	5,590
Portsmouth	130	2,500
Isle of Wight	90	970
West Sussex	860	14,200
East Sussex	350	6,610
Brighton and Hove	300	6,310
Buckinghamshire	500	10,920
Milton Keynes	210	4,830
Oxfordshire	480	8,680
Reading	200	3,380
West Berkshire	120	1,970
Windsor and Maidenhead	120	1,350
Wokingham	120	1,280
Slough	90	1,140
Bracknell Forest	70	590

Source: ONS Annual Business Inquiry, 2006

Annex 5: Indices of Deprivation, 2007



Note: Yellow and red colours indicate areas of greatest deprivation