



“AIMING HIGH”

**SPEECH TO MORAY LABOUR MARKET
INFORMATION EVENT**

FEBRUARY 17th 2009

Good morning ladies and gentlemen. It is my pleasure to have this opportunity to follow the Cabinet Secretary and speak today about opportunities SCDI sees in the labour market at present and in the future.

I would like to thank Ian Carse from Skills Development Scotland and Graham Milton from Careers Scotland for the invitation.

For those of you who do not know SCDI, we are an independent body, funded by our wide membership from businesses large and small, trade unions, local and national government, academia and the third sector. Our key role since we formed in 1931 has been to influence government policy to create a stronger environment for economic growth here in Scotland.

SCDI has a strong and successful track record in promoting Scottish businesses overseas and working to attract foreign firms to Scotland. In the last twenty years, we have also been closely involved in enterprise education and today we run an active and expanding network of over 300 Young Engineers and Science clubs in schools around the country.

We have a strong presence in the Highlands and Islands, and the North East, with regional offices in Inverness and Aberdeen supporting our work and members in these areas. Here in Moray, we are engaging with the new Moray Business Panel and our members include a number of the key players in the economy such as Diageo, Johnstons, Robertson Group, Walkers, Gordon and Macphail, and Forsyths.

And we would welcome your support in helping us achieve our shared goals and ambition for Scotland.

My colleague Gareth Williams and SCDI's Young Engineers and Science Club co-ordinator for the North East of Scotland, Maureen Traquair, are both here today and would be delighted to speak to you to tell you more about our work in this area and across Scotland.

These four pillars of SCDI's work – policy, membership networking, international and skills – give us a unique, joined-up overview of the economy, the challenges it is now facing and the opportunities we see in the future.

But today we want to talk to you about four things: Firstly, the recession and its impact on the labour market; Secondly, what you as education and training professionals can do to support the economy at this present time;

Thirdly, how we can correct the mis-match between aspects of education and training, and the needs of the economy; and finally, share with you SCDI's views on long-term skills needs if the Scottish economy is to achieve its sustainable growth targets.

Skills development has been SCDI members' number one strategic priority for a number of years. For businesses, a highly-skilled and qualified working population has consistently been identified as perhaps the most crucial issue in improving their performance and productivity.

Our members fully recognise the critical role of education in enabling people and thereby employers to improve competitiveness. This also reflects the fact that many businesses believe that, for all Scotland's strong record on education, training and employment, there is a mis-match between aspects of education and training, and the needs of the economy.

FutureSkills Scotland research has shown that employers struggled to fill one in every two vacancies, mainly because applicants did not have the right skills.

But, if we were to survey members today, there is a strong possibility that skills development would have slipped down the pecking order behind the availability of credit and sharply contracting market demand.

Businesses are being squeezed from both directions at present and the effects are evident to us all. The latest figures show that Scotland's GDP fell by 0.8 per cent in the third quarter of last year, a faster rate than for the UK as a whole, and since then the rate of de-celeration has increased.

The central forecast in the Fraser of Allander Institute's Economic Commentary published in November 2008 was that Scotland will be in recession this year and have five years of below trend growth. Unemployment, which has already risen by 8,000 in the last year, may peak at 162,300 in 2010. But, we know, the risks are definitely on the downside.

There is a chance that we are facing a severe recession, which will continue through 2010, with inward investment, business and consumer confidence remaining fragile for the foreseeable future. In this scenario, unemployment may peak at 187,000 and then remain at well above current levels.

Without question, the Moray economy is not insulated from this downturn. I understand that, while there have been no large scale redundancies, smaller scale job losses in the area already amount to 400 people and these are themselves significant in the local economy.

SCDI is working with our members and government on initiatives and action which prevents this worst case scenario and but we want to be clear that it is not all gloom and doom.

Scotland is starting from a relatively strong position where we have a higher employment rate, lower unemployment rate and higher economic activity rate than the UK average.

A recent Association of Graduate Recruiters survey found that there was a 14% increase in the number of graduate jobs in Scotland, compared to a 5% drop across the UK. A number of our members continue to perform well and, indeed, are actively recruiting. Sectors of our economy, such as energy and whisky, are still benefiting from significant investment.

Tourism has got off to a good start this year and is marketing the twin attractions of the Year of Homecoming and the weak pound.

SCDI has also been working closely with the construction industry through our Construction Action Plan. Part of this is to actively lobby government to bring forward infrastructure projects to maintain capacity.

We are pleased that the Scottish Government is speeding up work on the Fochabers Bypass. There are long-term commitments which we have consistently advocated to dualling the A9 to Inverness, upgrading the Aberdeen-Inverness rail line, improvements to the A96 and flood and water schemes in Moray. On behalf of members, we will continue to press Ministers for Elgin and Keith bypasses, and significant improvements to the A95.

But we only have to look back at the consequences of previous severe economic recessions to know that this is a critical juncture for the labour market. The endemic economic inactivity in many communities in the west of Scotland where I am based is not just a result of the loss of heavy industry in the 1980s, but also of the failure to get those furthest away from the job market into good quality training programmes and the failure to make the step change necessary to address the huge social and health issues and the ingrained culture of worklessness in certain communities.

This recession will, we believe, will highlight long-standing concerns on basic skills and work readiness. In the good years, young people in particular have got used to plenty of career choices, the opportunity to intersperse work with gap years and job security.

In this tight labour market, employers had to accept and were able to pay for remedial training for recruits lacking basic skills. But those days are over.

We all need to step up to the mark - including employers – recognising that companies no longer have the time or the money to teach everyday skills.

So there is a particular onus on schools, colleges, universities and training providers to prepare their students well for the workplace. But while a new report by the UK Commission for Employment and Skills “The Employability Challenge” has found that

some do so, it concluded that too many do not. Too many students lack work etiquette and soft skills.

What must we do better? The Commission identify six key features in the best programmes. I want to highlight them to you because they chime with what our members tell SCDI.

The best programmes are firstly, based on real workplace practice – ideally with real employer involvement or the involvement of people from outside the learning environment.

Secondly are practical and applied in nature – based around genuine workplace experiences or high-quality work simulations, with learners progressing by learning through doing things well – or wrongly.

Thirdly, they are personalised – to reflect individual needs, strengths and weaknesses and preferred learning styles.

Fourthly, they are serious and disciplined – incorporating clear feedback and real consequences for success or failure, just as in the workplace.

They are also reflective – providing continuing opportunities for individuals to reflect on their own, and each other's action and learn from them.

And finally, they are underpinned by a whole institution commitment to employability – with strong leadership and resources, including extra investment in staff development and capability, and even whole institutional change.

This recession is concentrating employers' minds on the most work ready and committed talent. "Recession-proofing" learners by improving their employability is a key challenge – not just because we want to give them and their potential employers the best short-term prospects, but because we know some of the long-term consequences if we do not. So we would suggest that how to embed those six key features should be central to your discussions today.

SCDI is pleased that this is an agenda which Skills Development Scotland is now driving. Moreover, we are encouraged by the seamless service which is being created in partnership with the Scottish Funding Council and Job Centre Plus to minimise the time people affected by redundancy are out of work.

These short-term challenges require collective focus. But it would be a mistake to lose sight of the longer-term. How do we ensure that Scotland's strong record on education, training and employment, translates into stronger productivity and more robust economic growth?

How do we address the mis-match between aspects of education and training, and the needs of the economy?

And we also need to consider how we best connect supply and demand, how we connect training with future economic opportunities and how we make more businesses aware of the benefits of investment in training

SCDI believes that investment in skills and education is not sufficient to guarantee economic success, but it is absolutely necessary to compete in the modern world.

On most measures Scotland has a more highly-qualified population than the rest of the United Kingdom, and we also have more people in work, yet our productivity is lower than that of the UK, which in turn is significantly behind the most productive nations such as the US and France.

I mentioned earlier that FutureSkills Scotland research showed that employers were struggling to fill one in every two vacancies, generally because job applicants were not equipped with the right skills. Perhaps this is not much of a problem if an organisation is standing still or shrinking. But imagine the impact on a growing business that needs to recruit to increase sales or access new markets.

Perhaps, too, this is not much of a worry for an economy chugging along with steady if unspectacular growth. But imagine the impact if it needs to recover from a prolonged downturn and find new areas of competitive advantage, while facing competition from giant, fast-developing countries.

SCDI believes that, for too long, the focus in the Scotland and, indeed, the UK, has been on the “supply side”. For example, despite years of asking, nobody can tell SCDI the targets for Modern Apprenticeships, how they were arrived at, and how this relates to demand in each industry sector.

And nobody can tell us that this is optimal investment in the needs of the economy. It was striking that the recent debate on funding for more apprenticeships in the Scottish Budget was, once again, on the numbers and not on meeting the demands of the economy.

In SCDI’s view, funding and training resources must follow industry demand. Fundamentally, we need to improve the connection between spending, and targets and demand. An apprenticeship is not an end in itself, but a route to a more highly-skilled and a more productive workforce.

We accept that, of course, there will never be a perfect match between demands of learners, education resources and the requirements of employers. But surely we must try and rise to the challenge of optimising the economic return on the huge investment this country makes in education and skills each year, especially as we become an ever greater knowledge-based economy.

The changes announced last week by Skills Development Scotland to create a flexible, adaptive and more responsive service are a definite step in the right direction which will be welcomed by business. But just as we need to think of individuals and not absolute numbers in terms of supply, we also need to focus more on the demand side.

Greater financial incentives and practical support for employers are needed to create a “pull” and “push”, moving those furthest away from the labour market towards work. Raising awareness among employers of training programmes has to be a priority.

So a particular challenge is that only 35% of employers know about their Sector Skills Council. With 70% of the 2020 workforce already in the labour market, it is vital that employers are engaged in up-skilling and renewing the workforce.

And looking ahead, how do we ensure that we address the long-term skills needs of the Scottish economy?

The biggest sector by far of the Scottish economy today is Services which accounts for 74% of Scottish GDP. Manufacturing makes up 14%. Construction, although without doubt it will be lower at present, takes up 7%, engineering and electronics make up 4.2%, and the Primary sector contributes 1.6%. Within the services sector, at 23% of GDP and also accounting for around 23% of employment, the Public Sector is a significant component of the economy.

The one thing that we can say for certain is that these figures will have changed by 2020. But no-one can project forward, least of all at this time of unprecedented economic upheaval, and confidently predict the shape of the future Scottish economy.

Rather, I want to highlight some sectors which SCDI believes have strong growth prospects and touch on opportunities for Moray identified in its Economic Development Programme.

The tourism sector is already the largest in the Scottish economy and it has ambitions to grow its revenues by 50% by 2015. With the Homecoming Scotland celebrations, the weak pound and the unique assets we have in areas like Moray, we currently have a great platform.

But to achieve those targets we will have to radically improve our offering, skills and infrastructure. I understand that Moray is developing an Inward Investment Proposition. And, of course, we hope that Lossiemouth will in the next few years be the launch-pad for Virgin Galactic's planes!

Part of the appeal of Moray as a destination comes from its wonderful reputation for food and drink. The industry itself has a target to create a sector worth £10bn by 2017, up from

£7.5bn today. And Moray has plans to build a new research institute which helps individual businesses move up the value chain via product, packaging and process development.

As the world economy recovers, the demand for energy will once again soar. There are still up to 25bn barrels of oil in the North Sea and the Scottish-based oil and gas services industry is now truly global. But, of course, with the challenge of climate change, clean energy is an increasing priority. Some predict that a carbon capture and storage industry is as great an opportunity for Scotland as North Sea oil and gas.

SCDI has recently published a major independent study of Scotland's energy future which found that £10bn of investment will be needed by 2020. The Scottish Government believes that at least 16,000 "green jobs" will be created and Moray is planning a sustainability cluster in a new eco-business park.

The Scottish Government has also recently announced that Education will become Scotland's seventh key priority industry sector, it already generates around £2bn per year for the economy and is set to grow. SCDI is fully supportive of the University of the Highlands and Islands concept. As a "University town", Elgin can attract new investment and life sciences facility is planned which will create a niche around wellness, rural medicine, tele-health, research and teaching.

So there are many opportunities. But there are threats too. Scotland has an ageing population, which poses challenges for our labour force, but also our care sector. The benefits for our economy from Eastern European migrant workers are being lost as they return home in growing numbers.

The opportunities for the sectors which I have mentioned with the rise of China and India, will also increase the competition for talent. With all this in mind, Scotland will also need to ask itself whether the relative size of our public sector is sustainable in the medium term.

So what are the implications for skills development? For one thing, it tells us that we will need to focus on both academic and vocational skills. Take, for example, the food and drink sector. Research recently published by its skills council, Improve, suggests that, partly as a result of improved productivity, employment in the sector in Scotland will contract by 3% between 2007 and 2017, with job losses concentrated in low and mid-skill level occupations.

However, expanding number of high-skills level occupations are predicted – Managers, Senior Officials and Professionals – with recruitment equivalent to over 50% of current levels necessary to meet employer demands.

Furthermore, with retirements due at all levels, the total figure for the recruitment requirements of food and drink is 16,000 people. The same picture is true for the wider manufacturing sector. So, we absolutely need more high-level skills.

However, nor should we loose our focus on vocational skills recognising that we need to be supporting and developing young people at all levels.

The survey by “Improve” also found that there will be a particular demand for Food Scientists, Food Technologists and Engineers. This demand for Scientists, Technologists and Engineers is common across a number of the growth sectors which I have mentioned – energy and sustainability, life sciences, food and drink, education – and others such as digital media.

The UK Government projects that the UK will need 2.4m people to work in scientific occupations by 2014. SCDI's forthcoming annual conference titled 'Connecting Scotland' will consider how Scotland can capitalise on these industries to enhance our productivity, global competitiveness and sustainability. And if you have not yet already signed up, I would urge you all to attend.

But we will only be able to do this in the long-term by taking urgent action to tackle the crisis in science, technology, engineering and maths education. A recent international publication, “Trends in International Maths and Science Survey”, underlined that

Scotland's performance in maths and science subjects is deteriorating alarmingly and that we are now nearly bottom of the OECD class.

In addition to our practical work in schools, SCDI has also published a major policy report in this area. We know that the Scottish Government is addressing the issue. And we also facilitate the involvement of the private sector through our Young Engineers and Science Clubs.

But a major cause of the problem is that many pupils, teachers, parents and careers advisers view the subjects as too hard and not relevant, have a largely negative perception of the careers and lifestyles in science and technology, and are largely unaware of the range of career opportunities.

Many of you here will be careers advisers. We believe that we need to all work together more effectively to make Scotland, once again, world-renowned for the high-quality of its science, technology, engineering and maths education.

We should involve children in science in a fun, hands-on and practical way. Setting up a Young Engineers and Science Club is one way to achieve this.

We need to develop the content of the curriculum and make it more relevant to students' lives. Everyone in careers advice should make themselves aware of the facts. For instance, more than double the science, mathematics and engineering learners consider themselves to be at an appropriate level in employment compared to arts students.

They are more likely to be in full-time employment than their peers; and, across the skills spectrum, skilled engineers have recently enjoyed some of the largest pay increases. Above all, let us spread the message that if you want a wide range of rewarding opportunities, to help to grow the Scottish economy and to be at the cutting edge of global challenges then these subjects are paths which you really should consider following.

Of course, the rapid pace of change in technology and the economy, makes forecasting specific knowledge and skills requirements very difficult. With this in mind, in conclusion, We would like to leave you with four skills sets that are of growing value to business.

Firstly, there are the so-called soft skills. Education and training must not only ensure that literacy and numeracy rates improve, but that our future workers can communicate, participate in teams and are willing to continue learning.

They will need to be able to problem solve and absorb new and often complex information, and demonstrate adaptability. Flexibility enables people to experience radical job change in a working life rather than periods of unemployment.

Secondly, businesses are looking for commercial acumen and an entrepreneurial attitude. After what has happened in the global banking system, an appreciation of risk management will be sought after. Risk-taking is vital, but our future workers will need to balance the rewards against the potential downside.

Thirdly, sales and marketing skills will be highly valued. You could have the most innovative idea in the world, but without an ability to sell that idea or concept, it will be much harder to make it a success.

Finally, employers want their future employees to show maturity and readiness for work.

We believe that this is achievable and that we can all rise to this challenge.

At SCDI we will continue to play our part to drive the skills agenda for Scotland. Our economy will get through this downturn and whilst we need to take radical and painful short-term action we also need to be focusing on the long-term opportunities and continuing to invest for the future.

Ensuring that we have the skills base for the future will be vital to our success.

We all have important roles to play in promoting the Moray area and Scotland as great places in which to live, visit, work and study.

Thank you for listening and I hope that you enjoy the rest of your conference and we look forward to working with you all.