

# LONDON SKILLS SURVEY

## Q3 2022

ANALYSING LONDON BUSINESSES' SKILLS NEEDS





## FOREWORD



This past year has been a turbulent experience for London businesses, for a number of reasons. However, one of the key areas that businesses have been affected is in skills. Our latest London Skills Survey shows just how much bigger the problem of skills gaps has become in the capital. When we launched our first skills survey in July 2021, around three in five London firms thought they had a skills gap in their firm. Fast forward to November 2022, and this has risen to more than two-thirds of the capital's businesses, and nearly all companies with between 10 and 249 employees (SMEs).

The skills challenges that London faces are not confined to one particular discipline, with gaps seen in areas such as sales development to advanced digital skills. The impacts of these skills gaps have been laid bare in our latest survey too: skills shortages are holding back growth of London's companies. The current cost pressures are also prohibiting firms from upskilling their workforce.

These findings should serve as a wake-up call to local and national government that urgent action is needed to address skills gaps. New reforms to post-16 education should hopefully give employers more say in provision across England. However, action is still needed to support businesses. This includes further reform of the apprenticeship levy, which remains too rigid to allow companies to train people in a flexible and supportive manner.

### **Richard Burge**

Chief Executive, London Chamber of Commerce and Industry

## METHODOLOGY

Savanta ComRes surveyed a total of 501 London business leaders between 4 August and 1 September 2022. All data were weighted to be representative of all London businesses by company size and broad industry sector. Savanta ComRes is a member of the British Polling Council and abides by its rules. Full data tables are available at [www.comresglobal.com](http://www.comresglobal.com).

## ABOUT MIDDLESEX UNIVERSITY LONDON

Middlesex is a global university with almost 40,000 students across three linked campuses in London, Mauritius and Dubai. We offer unique opportunities for people to work, study and create change.

# WHERE ARE THE SKILLS GAPS IN BUSINESS?

Skills gaps or shortages are some of the most talked about issues related to the UK labour market, and London is no different. Businesses of all sizes and sectors are seeing skills shortages in their business, at a time when the unemployment rate in the capital is at record lows.<sup>1</sup> The concern is that skills gaps are becoming more and more of an issue. In our London Skills Survey released in July 2021<sup>2</sup>, 58% of London businesses said they had a gap in at least one of the following skills<sup>3</sup> in their workforce:

- Advanced digital (e.g. programming, web design)
- Sales or business development
- Customer service or interpersonal
- Foreign languages
- Problem solving
- Time management
- Project management
- Finance and budgeting
- Data handling and analysis
- Leadership and management
- Written or verbal communication
- Administrative
- Basic digital or computer literacy
- Other skills specific to your industry

The latest figures for Q3 2022<sup>4</sup> show that the number of businesses reporting at least one of the above shortages has risen to more than two-thirds (69%). Large companies<sup>5</sup> and SMEs<sup>6</sup> were more likely to say they had a gap in one of these skill areas than their micro<sup>7</sup> counterparts (94%, versus 65% of micro firms). This is a similar trend to the skills survey from Q2 2021, but more businesses of all sizes have reported at least one skills gap in this latest skills survey for Q3 2022.

In terms of the areas where gaps were most common, companies felt that they had a gap in advanced digital skills within their current workforce (23%). This was followed by:

- Sales or business development – **20%**
- Customer service or interpersonal – **17%**
- Foreign languages – **17%**
- Problem solving – **16%**
- Time management – **16%**
- Project management – **15%**
- Finance and budgeting – **15%**
- Data handling and analysis – **14%**
- Leadership and management – **13%**
- Written or verbal communication – **9%**
- Administrative – **9%**
- Basic digital or computer literacy – **7%**
- Other skills specific to your industry – **3%**
- Don't know – **4%**
- None of the above – **27%**

<sup>1</sup> Labour market overview, UK: October 2022, Office for National Statistics, October 2022

<sup>2</sup> London Skills Survey Q2 2021

<sup>3</sup> This list is not exhaustive of skills.

<sup>4</sup> Fieldwork for the November 2022 London Skills Survey was conducted between 4 August and 1 September 2022.

<sup>5</sup> Defined as businesses with 250 or more employees.

<sup>6</sup> Defined as businesses with between 10 and 249 employees.

<sup>7</sup> Defined as businesses with fewer than 10 employees.

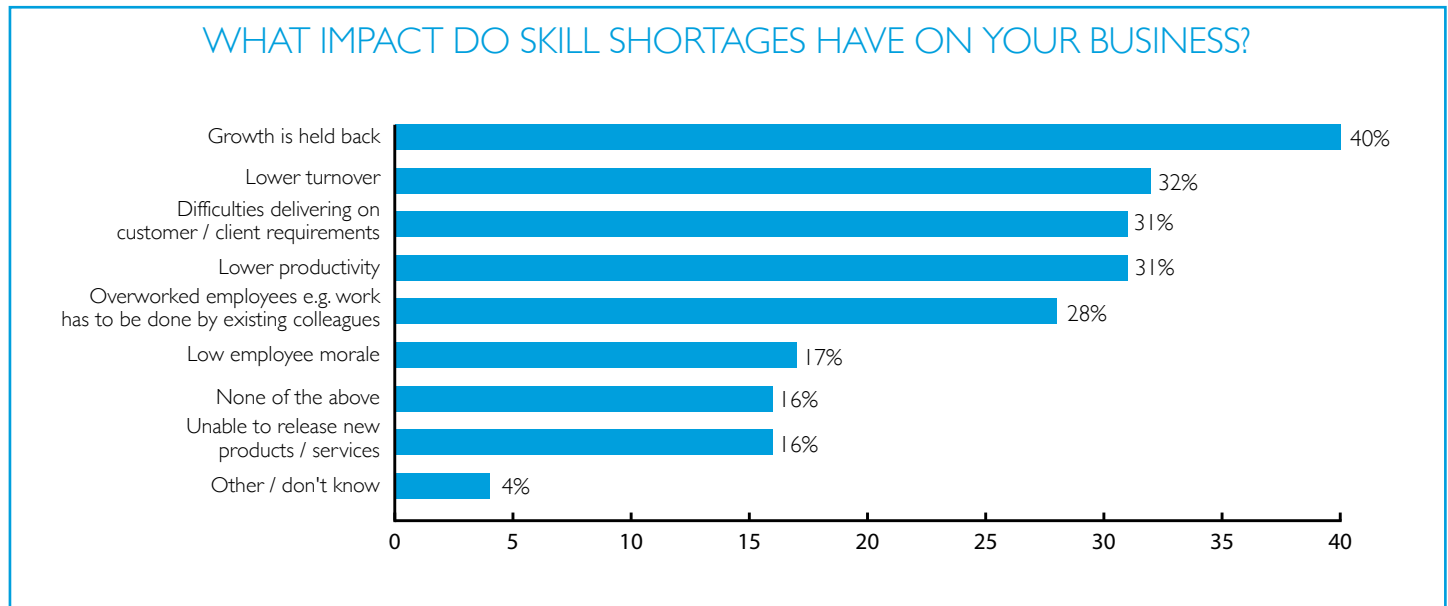
There were some variations in the gaps for businesses based on the size of the firm. For micro companies, their biggest skills gaps were in advanced digital (22%) and sales or business development (20%). SMEs were most likely to report a shortage of advanced digital (34%) and project management (32%) skills, while large businesses saw the biggest gaps in data handling and analysis and project management (both 42%); problem solving was also seen to be a gap for 41% of large companies.

The main skills shortage for manufacturers was in project management (34%), followed by customer service / interpersonal skills and sales / business development (32% and 30%, respectively). For businesses in the service sector, advanced digital (23%) and sales / business development (19%) were the biggest gaps. Manufacturers were also far more likely to report at least one skills gap than businesses in service industries (79% and 66%, respectively).



# WHAT IS THE IMPACT OF SKILLS GAPS ON YOUR BUSINESS?

Skills shortages have profound implications for businesses, which is one of the key reasons so much emphasis has been put on addressing the gaps through the recent reforms to post-16 education. Without access to the right talent, businesses are unable to operate as they would like to, which has a knock-on effect for the UK economy. According to the latest skills survey, two-fifths (40%) of London companies said skills shortages hold back growth. However, throttled business growth is not the only impact of skills gaps:



For manufacturers, the biggest impact of skills shortages was lower productivity (45%), while service sector businesses cited growth being held back as the main result of skill shortages (39%).

There were variations based on the size of the business. For micro companies, the biggest impact of skills shortages was the negative effect on growth (40%), while around a third cited lower turnover (32%) and reduced productivity (30%). For SMEs, the most cited impact of skills shortages was overworked employees (46%), followed by difficulties in meeting customer / client requirements (42%) and low employee morale (37%). Similarly, more than half of large businesses said that skills gaps were leading to overworked employees (55%), and the majority also reported growth being held back (51%).

Micro companies were twice as likely as SMEs or large businesses to say that skills gaps had no impact on their business (17%, versus 8% for large firms and SMEs).

# BARRIERS TO MEETING SKILLS NEEDS

When faced with skills shortages, businesses have different tools to overcome the challenge, such as recruitment or training. However, not every business is able to meet their skills needs easily, as evidenced by the high level of vacancies currently seen in the UK.<sup>8</sup>

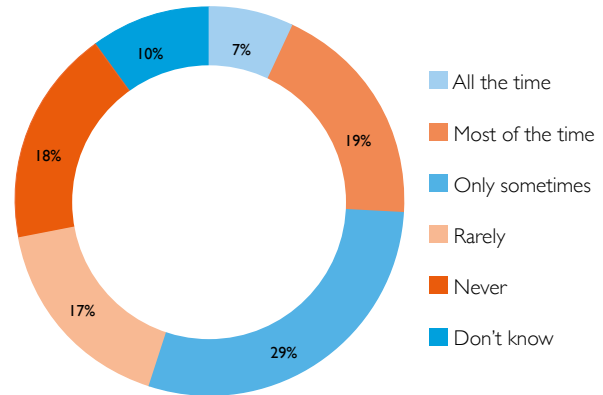
According to the latest LCCI skills survey, 55% of companies said they face barriers when trying to address skills needs in their firm at least occasionally, with a quarter (26%) experiencing difficulties most or all of the time. This rises to 86% of SMEs and 94% of large businesses.

More than three-quarters (78%) of large companies said that they experience barriers in meeting their skills needs either all or most of the time. This is much higher than in micro firms (24%) or SMEs (45%).

Around three-fifths (60%) of manufacturing companies said they experience barriers either occasionally, most, or all of the time when trying to fill skills needs. The types of barriers faced by businesses come in different forms. Companies were asked to identify the barriers they face when trying to meet their skills needs. The biggest barrier reported by all London firms was insufficient budget for investment in workforce training (27%), followed closely by 'a lack of suitably skilled candidates in the job market' (24%). However, there were a number of other barriers:

- Lack of budget for investment in workforce training – **27%**
- Lack of suitably skilled candidates in the job market – **24%**
- Costs of training too high – **17%**
- Those leaving school / education do not have the skills my business needs – **14%**
- Unable to recruit non-UK workers with relevant skills – **13%**
- Skills requirements are changing too quickly in my industry – **11%**
- Can't find or access the training required – **10%**
- High turnover of staff – **9%**
- Lack of flexibility or local powers in local skills system – **8%**
- My industry is not considered attractive to UK workers – **7%**

## DO YOU ENCOUNTER BARRIERS WHEN TRYING TO MEET YOUR FIRM'S SKILLS NEEDS?



Micro businesses reported a lack of budget for training investment as the biggest barrier (27%), while SMEs and large firms said a lack of suitably skilled candidates was the main blockade to meeting skills needs (both 42%).

With insufficient budgets being cited as a barrier to meeting skills needs, it is not surprising to see that the cost of doing business crisis is also playing a role. Close to a third (29%) of firms said that the cost of doing business crisis was having a major / big impact on their ability to fill skills gaps in the business, while a similar share said there was no / little impact (32%). More than half (52%) of large companies said that the cost of doing business crisis was having a significant negative effect on their ability to meet skills needs, compared to 38% of SMEs, and 28% of micro businesses. Half (55%) of manufacturers also said that the elevated costs environment was harming their ability to meet skills needs in a sizeable way, compared to 27% of service sector companies.

The issue of available funding is also impacting businesses' ability to fund training, with 27% saying they had no finance available to provide training in the previous 12 months, and 20% saying that external courses were too expensive. Close to a third (31%) of businesses also said that there was not enough time to attend, organise or give training at their company.





# WHAT SKILLS WILL YOU TARGET IN THE NEXT YEAR?

In order to better inform education and training providers on the types of skills that businesses will look to add to their firm in the coming year, LCCI asked companies which of the following they think they will need in 12 months' time:

- Advanced digital (e.g. programming, web design)
- Sales or business development
- Customer service or interpersonal
- Foreign languages
- Problem solving
- Time management
- Project management
- Finance and budgeting
- Data handling and analysis
- Leadership and management
- Written or verbal communication
- Administrative
- Basic digital or computer literacy
- Other skills specific to your industry

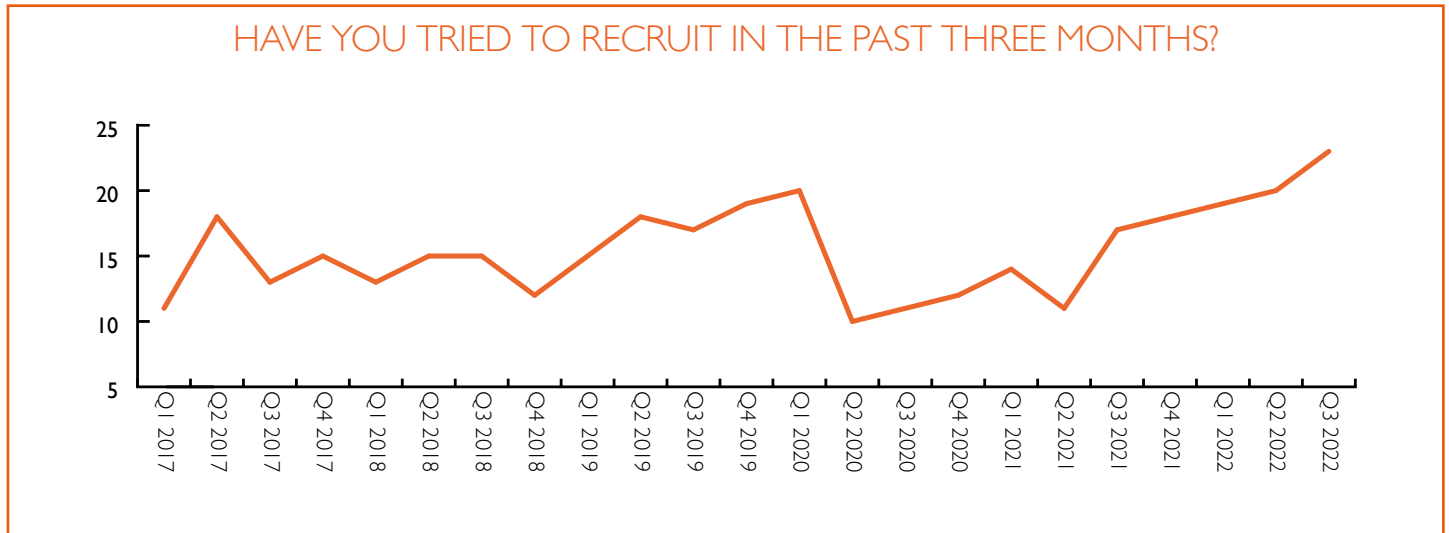
Of this list, sales or business development skills were cited by 31% of London businesses. Around a quarter of companies said they think they will need customer service, project management, finance and budgeting, and time management skills in the next 12 months. There was a fairly even split in demand across the listed skills above, highlighting the difficulties businesses are facing in adequately on-boarding the skills they need.

Sales / business development skills were likely to be sought after by micro companies (31%), while SMEs suggested they would emphasise their search for project management skills (41%). Large businesses were most interested in data handling and analysis skills (43%). On a sectoral basis, service sector companies think that their business will need sales or business development skills in the next 12 months as a priority, while manufacturers cited the greatest need for project management skills (36%).

In light of the aforementioned difficulties with recruiting, businesses are likely to favour training existing staff to gain necessary skills, as opposed to recruiting new people. However, as has been made clear, there are a number of barriers to investment in training for businesses.

# RECRUITMENT AND TRAINING IN LONDON

Recruitment activity by London businesses has been on an upward trajectory since Q2 2021, with 23% looking to hire in the previous three months in Q3 2022.



Most recruiters are nevertheless experiencing difficulties in doing so, with 70% saying they had problems in Q3 2022. Chief among these difficulties is a perceived lack of qualified candidates, cited by half (49%) of businesses who had difficulties recruiting in Q3 2022. This was followed closely by difficulties in offering competitive salaries (44%), highlighting the impact of rising inflation and a tight labour market. A lack of interested candidates was also seen to be a barrier to recruitment by 39% of firms who had difficulties recruiting, while 30% cited the UK's departure from the EU.

In general, firms who tried to recruit are looking to fill a combination of existing gaps in the workforce, and new positions (50%).

It is possible that recruitment activity will remain at these elevated levels in the context of continued skills shortages. LCCI asked businesses how they would look to on-board skills into their workforce over the next 12 months, and hiring new staff was cited by around a quarter of firms for most skills areas. Training existing staff remains the most utilised method of getting new skills into the business.



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