

## Headlines

- The UK recession officially ended in Quarter 4 of 2009, after 18 months, and was the longest UK economic downturn on record.
- Despite entering a period of recovery, the industries that make up the Asset Skills footprint, are still feeling the effect of the challenging economic conditions.
- Significant challenges are expected to remain due to the expected cuts in public finance.
- Given the disparate nature of the industries that comprise the Asset Skills footprint, the impact the recession has had on each industry is considered in turn.
- Particular attention is given to the implications the economy has on skills needs, training, learning and development within the Asset Skills industries.

Asset Skills is one of 22 Sector Skills Councils licensed by the Government. Each Sector Skills Council has responsibility for improving the skills of workers in its particular industries.

Asset Skills covers facilities management, housing, property and planning, cleaning and parking. Businesses in these industries share the goal of ensuring the environment in which we work, live and play is developed, managed and maintained to the benefit of all.

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## The Impact of the Economy

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This paper explores the impact the recession has had on the industries that make up the Asset Skills footprint, and the implications the economy has on skills needs, training, learning and development.

### The Current Economic Landscape – Setting the Scene

- The UK recession began in Quarter 2 of 2008, and was the longest UK downturn on record.
- During 18 months of recession, it was estimated that public borrowing increased to £178 billion.
- However, the latest figures from the Office for National statistics have shown that the UK economy grew by 0.3% in the final three months of last year, faster than previously estimated. The revision was due to stronger growth in services and production.
- The better-than-expected revision confirms the UK's economic recovery. But analysts have said that there is still a chance that the economy could contract again in the current quarter.
- There are concerns that the rise in VAT, which returned to 17.5% in January, and the decision in February to stop quantitative easing, could act as a drag on growth<sup>1</sup>.

### Consumer confidence is on the rise

- A recent report from the Nationwide stated that consumer confidence reached a two-year high in February 2010, as sentiment was buoyed by the news that the country had exited recession.
- Furthermore the report stated that consumers were also more confident about how the economy will develop as 2010 progresses<sup>2</sup>.

### The UK jobs market

- A recent report published by KMPG<sup>3</sup> reported that more full-time jobs were added in February 2010 than at any time since July 2007<sup>4</sup>. Furthermore, the report stated that demand for more staff has now grown for five consecutive months.
- However, it cautioned that the rise in temporary positions in February was the slowest for three months.
- Furthermore, plans to cut public sector jobs may impact on the wider economy.
- The latest figures from the Office for National Statistics suggest that total unemployment fell by 33,000 over the quarter to January 2010 to 2.45 million, the lowest for almost a year, and the biggest three-month fall for almost three years<sup>5</sup>.

<sup>1</sup> UK economic growth revised upward (<http://news.bbc.co.uk/go/pr/fr/-/1/hi/business/8538293.stm>)

<sup>2</sup> UK consumer confidence 'rising' (<http://news.bbc.co.uk/go/pr/fr/-/1/hi/business/8546711.stm>)

<sup>3</sup> The report is compiled from speaking to 400 employment consultancies.

<sup>4</sup> Job market 'continues to improve' (<http://news.bbc.co.uk/go/pr/fr/-/1/hi/business/8547333.stm>)

<sup>5</sup> Employment rate falls to 72.2%, Office for National Statistics, March 2010



## The Housing Sector

### Increased demand for social housing and homelessness services

Almost 9 out of 10 councils are experiencing or anticipate an increase in demand for social housing as a direct result of the recession<sup>6</sup>.

This has increased due to: a rise in demand for affordable housing following previously unsustainably high house prices; a sharp fall in mortgage lending; and the decline in the numbers of affordable housing being delivered, aligned with the decline in the housing industry.

The latest figures released from the Council for Mortgage Lenders (CML) has shown that there were 46,000 repossessions in 2009, 15% higher than at the end of 2008.

In terms of payment difficulties, 188,300 mortgages ended 2009 with arrears equivalent to at least 2.5% of the outstanding mortgage balance; this was 3% higher than at the end of 2008.

Looking ahead, the CML has forecast that there will be 205,000 arrears cases and 53,000 repossessions in 2010<sup>7</sup>.

According to the recently released Social Housing Outlook, published by Barclays, demand for social housing continues to rise.

With unemployment and repossession rates high, the waiting list is expected to increase to around 5 million in 2010<sup>8</sup>.

In addition, providers have seen an increase in the numbers of people approaching them due to actual or impending homelessness. This includes people who have never faced such problems before but have experienced a change in circumstances due to the recession.

### Housing Association Rents

Of particular note within the housing sector in England is the announcement by the Office for National Statistics that the Retail Price Index (RPI) was at minus 1.4% in September 2009<sup>9</sup>. This has serious implications, since the vast majority of Housing Association rents are set at 0.5% above the RPI rate each September

for the following year. This means that Housing Association rents have to decrease by 0.9%.

At the same time, many Housing Associations long-term business plans have assumed that RPI will either stay the same or increase; consequently, savings on top of savings will have to be made in direct response to the recession.

This will undoubtedly have a significant impact on service delivery and pay within the sector.

During the second half of last year, when it became apparent that RPI could well be into negative figures in September 2009, many organisations carried out financial modeling to examine the effects on their business plans, and for some organisations this will be quite painful.

Research undertaken by Asset Skills has identified a number of strategies that housing organisations have put into place to mitigate the impact of rent decreases:

- Pay increases for 2009/10 were paid at 50% with a view to the other 50% being paid during 2010/11, to lessen the impact.

- 2009/10 and 2010/11 pay increases had been set at 0% in anticipation.
- Recruitment has been frozen.
- Budgets have been cut – sometimes specific budgets, sometimes an across the board target of 10% has been put in place.
- In some cases, there is evidence that the training and development budgets have been cut considerably in some organisations.
- Some organisations are renegotiating expected activity and service levels with tenants.
- Some organisations anticipate an impact on their borrowing and associated interest levels and fees.

For those organisations that have relied on housing sales, the impact will be more severely felt.

There are many who have undertaken considerable restructuring of their business plans and, organisational structures, in response to the recession and now need to make further savings based on reduced income from their existing stock.

<sup>6</sup> Demand for social housing fuelled by recession, Local Government Association, March 2009

<sup>7</sup> Mortgage arrears and possessions declined in fourth quarter of 2009, Council of Mortgage Lenders, 11/02/2010

<sup>8</sup> Social Housing Outlook, First Quarter 2010, Barclays, 05/02/2010

<sup>9</sup> Retail Price Index: Monthly index numbers of retail prices, 1948-2009 (RPI) (RPIX), Office for National Statistics

## Challenges remain, but Housing Associations remain cautiously optimistic

Despite the significant challenges of the economic downturn, a recent survey by the Tenant Services Housing Authority (TSA) has shown that whilst the housing sector is still being impacted by conditions in the wider economic environment and that significant challenges remain, housing providers continue to “demonstrate resilience and are still able to attract sufficient investment to deliver their aspirations.”<sup>10</sup>

The survey also shows that sentiment across the sector remains cautiously optimistic. January 2009 was the first time survey respondents expressed the view that the finance and housing markets were starting to stabilise.

In October 2008, just over three-quarters of survey respondents believed both markets had deteriorated in the quarter, which represented a peak for this indicator. Over the course of 2009, sentiment was seen to stabilise then improve.

The indication from the TSAs January 2010 survey is that 65% of Finance Directors consider that the

finance and housing markets have remained the same over the quarter. The remaining 35% see the markets as having improved.

Overall, whilst views of the markets have improved amongst many Housing Associations, this is often expressed as ‘cautious optimism’. There is recognition that many challenges remain.

### The Impact of the Economy on Skills and Training within the Housing Sector

Research published by the Chartered Institute of Housing (CIH) has indicated that the recession is placing increasing pressure on the learning and development activities of housing organisations in England<sup>11</sup>.

The research, which was undertaken in November 2009, indicated that the training activity of 52% of housing organisations, who participated in the survey, had already been affected by the recession. 70% of housing organisations questioned expected the recession to have an impact, on their training activity in 2010.

However, the research showed that different types

of housing organisations are likely to be affected by the recession, to varying degrees, with Housing Associations expecting to be least affected by the recession 62%, followed by Arms Length Management Organisations (ARLMOs) (76%). However, nearly all of local authorities (92%) expect to be affected.

The research showed that by the end of 2009, 25% of respondents had reduced their externally provided training. Almost one fifth (17%) had incurred a reduction in the value of their training budget, and a further 17% reported they were training fewer people. To compensate, nearly a third (31%) of respondents indicated that they had increased the amount of training they deliver themselves.

The evidence seems to suggest that housing organisations have been examining their training activities and some budgets are already being adversely affected.

There is concern that what may start as, temporary or short-term cuts in training and development could potentially, turn into a major under-investment in skills “spanning an entire generation of housing professionals.”



There is still much uncertainty about when the economy will fully recover from the recession, and more importantly what it will mean for public finances.

### Skills Implications for the Housing Sector

Asset Skills research<sup>12</sup> has identified, that in addition to improving skills in front-line housing as a result of the recession, more specialised skills will need to be developed in the following areas<sup>13</sup>:

- Higher level decision making.
- Communication skills.
- Management and Leadership.
- Negotiating, enabling skills and partnership working.
- Business planning.
- Procurement skills.
- Money advice, benefits awareness and support for homeless and vulnerable people.

<sup>10</sup> Quarterly survey of housing associations and review of 2009-2010, Tenant Services Authority, January 2010

<sup>11</sup> Recession puts pressure on skills, Chartered Institute of Housing, 05/03/2010

<sup>12</sup> In July 2008, Asset Skills launched ‘The Barometer’. This survey is designed to periodically sample employers’ response to skills and productivity issues at 6 monthly intervals and therefore better understand the current performance and challenges of companies within the sector. Companies are also questioned on their expected performance and any significant changes which they face in their operating environment. Please look on the Asset Skills research pages for further information [http://www.assetskills.org/Research/Projects/Barometer\\_Questionnaire.aspx](http://www.assetskills.org/Research/Projects/Barometer_Questionnaire.aspx)

<sup>13</sup> Asset Skills Barometer, 2009; Sector Skills Assessment for the Housing Sector, Asset Skills, February 2010



## The Property Industry

At the end of 2008, it was reported that almost half of the 80,000 estate agents who were in work 18 months previously had been made redundant<sup>14</sup>, this has had a significant knock-on effects to associated occupations, leading to further job losses for valuers and surveyors.

The Royal Institution of Chartered Surveyors (RICS) has expressed concern that staff who were made redundant during the recession may not re-enter the sector when the economy improves, essentially resulting in the permanent loss of their skills.

RICS also argues that the built environment sector is already missing key leaders who may have been attracted into other professions such as law and accounting, further exacerbating existing skills shortages in occupations such as surveying.

The residential lettings market continues to grow, with new instructions up by 72% compared to 2007.

This is having the impact of forcing down the rental price of properties. Overall, the supply of rented residential property is outstripping the supply of tenants.

As estate agents shift the focus of their business to lettings, there are concerns that people moving into this area of work do not have the required level of skills and qualifications<sup>15</sup>.

The economic climate has also created uncertainty for employed planners, those who run their own practice and graduates looking to gain employment with some planning consultants reporting a slowdown in work<sup>16</sup>.

The outlook for the property industry has improved marginally in recent months, and 2010 is generally looked upon with a certain amount of optimism.

Furthermore, the new two-year Stamp Duty Land Tax Holiday, to be introduced for first time buyers with purchases under £250,000 is expected to lead to an increase in transaction activity.

Research conducted by RICS suggests that this change could help sales rise above 1 million for the first time since 2007.

Although this figure is still below the 1.7 million transactions that were taking place at the height of the market<sup>17</sup>.

However, whilst the changes to stamp duty should have a positive impact on the property market, any improvement will be limited by the ongoing lack of housing supply and restricted mortgage lending.

## The Impact of the Economy on Skills and Training within the Property Industry

Given the professional characteristics of the surveying and planning occupations, acquisition of qualifications and participation in training has traditionally been high.

However, there is little tradition of developing internal staff within estate agency with many entering the industry later in life and from other industries.

Furthermore, negotiators and sales staff in estate agency operate autonomously and are peripatetic with little opportunity for structured management support, training, development and access to assessment within the workplace.

Given the very difficult economic conditions, and the significant challenges within the property industry, it is highly likely that investment in training and skills development have been impacted negatively as a result of the recession.

## Skills Implications for the Property Industry

Asset Skills research has identified, that the skills which will be of significant importance during the challenging economic conditions include<sup>18</sup>:

- Letting skills, which will be particularly amongst estate agents who are new to the lettings sector.
- There is a need to broaden skills and increase employability.
- Professions such as surveying and planning may suffer as skilled practitioners take the opportunity to retire early in this recession, further exacerbating the skills shortages in this area once the market recovers.



<sup>14</sup> Housing market crash has led to 32,000 estate agents losing their jobs, [www.telegraph.co.uk](http://www.telegraph.co.uk), 27/12/08

<sup>15</sup> ARLA Members Survey of the Private Rented Sector, First Quarter 2009

<sup>16</sup> Support during the recession, Royal Town Planning Institute, November 2008

<sup>17</sup> 2010 UK Budget: RICS Response and Analysis, March 2010

<sup>18</sup> Asset Skills Barometer, 2009; Sector Skills Assessment for the Property Industry, February 2010



## The Cleaning and Support Services Industry

The cleaning and support services industry is viewed as being more 'recession proof' than other sectors as it remains an essential service industry<sup>19</sup>.

There is anecdotal evidence that the industry is faring well, although companies are obviously subject to the fortunes of the clients with whom they hold contracts.

The industry has suffered most when companies have been reliant on a small number of contracts and those client companies have folded.

Many cleaning and support services companies are also being proactive and actively negotiating contracts, recognising the need to offer the service at a level which is affordable and acceptable to the client in challenging economic conditions.

This makes them less at risk of being undercut through the retendering process.

There is some evidence to suggest that clients are also becoming more demanding during the recession.

Consequently companies operating within the cleaning and support services industry need to ensure that they continually demonstrate a high level of service and value for money.

### National Minimum Wage increases

Following the increase of the National Minimum Wage (NMW) in October 2009 from £5.73 to £5.80, research undertaken by the Cleaning and Support Services Association (CSSA) reported the following impacts<sup>20</sup>:

- Cleaning firms were unable to build the NMW increase into quotations for long-term contracts.
- Higher wage rates may take employee wages over the threshold for National Insurance (NI) and other payments.
- Additional employer costs will be incurred on NI contributions.

Generally wages are squeezed between the NMW level and £6 per hour (75% of survey respondents pay their staff this rate).

This will have significant implications for employers within the cleaning and support services sector, given the latest increase in NMW from £5.80 to £5.93 per hour, announced in March's budget<sup>21</sup>.

Research has further shown that many cleaning and support services employers claim that the differential between cleaners and supervisory staff have been reduced artificially as a result of the upward pressure on lower wage levels.

One of the most significant impacts of the increase in the NMW reported is one of service debasement.

While clients may accept the cost increase when NMW is increased, when a contract is subsequently retendered, it will be tendered on a shorter number of hours or a lower specification so as to cut the cost to the pre-NMW increase level.

In other cases, clients do not accept that they should fund the increased in NMW through changes in contract prices; this is especially true of long-term fixed price contracts.

In those instances the contractor either has to absorb the costs and reduce margins, or cut something else, for example a bonus scheme or training.

### The Impact of the Economy on Skills and Training within the Cleaning and Support Services Industry

Take up of training within the cleaning and support services industry has traditionally been low, and in 2008 37% of the workforce held no qualifications<sup>22</sup>.

The cleaning and support services industry faces a number of challenges within its workforce.

It still suffers from an image problem, and the challenge of high turnover and retention problems still affect much of the industry. Furthermore, companies are operating in highly competitive markets with low profit margins and short term contracts which creates a barrier to access to qualifications, and release for training. The recent economic conditions have further heightened this challenging operating environment.

### Skills Implications for the Cleaning and Support Services Industry

Asset Skills research has identified, that the skills which will be of significant importance as a result of the recession include:

- Management and leadership skills.
- Customer service skills.
- Negotiation skills to improve client retention.
- Sustainability skills.

<sup>19</sup> Cleaning Hygiene Today, June 2009

<sup>20</sup> Survey data on the impact of the National Minimum Wage on CSSA members, CSSA, October 2009

<sup>21</sup> Budget 2010: Economic and Fiscal; Strategy Report and Financial Statement and Budget Report, HM Treasury, March 2010

<sup>22</sup> Asset Skills analysis of the Annual Population Survey, 2008

<sup>23</sup> Asset Skills Barometer, 2009; Sector Skills Assessment for the Cleaning and Support Services Industry, February 2010



## The Facilities Management Industry

The effects of the economic downturn have been felt harder in some specific sections of the industry, especially those firms that offer single service lines and smaller entities that are less able to ride out the recent challenging economic conditions<sup>24</sup>.

Evidence suggests that diversity remains the key to success, allowing large companies to shift and reallocate resources within their own businesses.

Those companies with a global footprint are also reporting good profits. However, it would appear that the fortunes of facilities management companies are inextricably linked with the industries they serve.

There is some evidence that many facilities management companies holding long-term contracts have been better placed to see through the economic downturn than others.

However, organisations are taking a proactive approach to renegotiate contracts with clients to ensure business continuity and many clients are currently keen to avoid costly retendering of contracts.

## The Impact of the Economy on Skills and Training within the Facilities Management Industry

Facilities management is a relatively new industry that has experienced rapid growth over the last decade.

There has been significant consolidation within the industry, with a number of take-overs and mergers, many of which have been driven by the need to acquire the skills of the workforce within those companies.

There is no tradition of direct recruitment into facilities management, with many entrants coming from other sectors or from specialised services, which results in the need for discreet modules of learning and assessment in order to ensure new staff have the necessary skills.

Horizon scanning research undertaken by Asset Skills with employers within the facilities management industry has revealed that economic stability remains a key requirement for future productivity within the industry.

Furthermore, the Asset Skills Barometer revealed that the economy, in terms of dealing with the recession and associated budget cuts, remains the most significant challenge for employers within the facilities management industry.

There is evidence to suggest that the challenging economic conditions have resulted in a reduction of external training programmes within the facilities management industry.

## Skills Implications for the Facilities Management Industry

The skills which will be of significant importance as a result of the recession include<sup>25</sup>:

- Management and leadership.
- Contract and client management.
- Financial and budget management.
- Strategic planning.
- Innovation.



## Conclusions – The Asset Skills viewpoint

- Whilst the UK is officially out of recession, the aftershocks of the economic downturn are still being felt by many employers within the Asset Skills footprint.
- Furthermore, there is still much uncertainty about when the economy will fully recover from the recession, and more importantly what it will mean for public finances.
- The challenging economic conditions will have undoubtedly reduced the training budgets available in many organisations, and there is a danger that what may start off as temporary or short-term cuts in training, development and learning could turn into a long-term under-investment in skills.

<sup>24</sup> The Credit Crunch and the Facilities Management Job Market, Maxwell Stevens, September 2008

<sup>25</sup> Asset Skills Barometer, 2009; Sector Skills Assessment for the Facilities Management Industry, February 2010