

Debate Pack

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By Brigid Francis-Devine,
Isabel Buchanan

Skills and labour shortages

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Summary

A Westminster Hall debate has been scheduled for 12 January 2023 at 3.00pm on skills and labour shortages. The debate will be opened by Patricia Gibson MP.

1 Skills and labour shortages

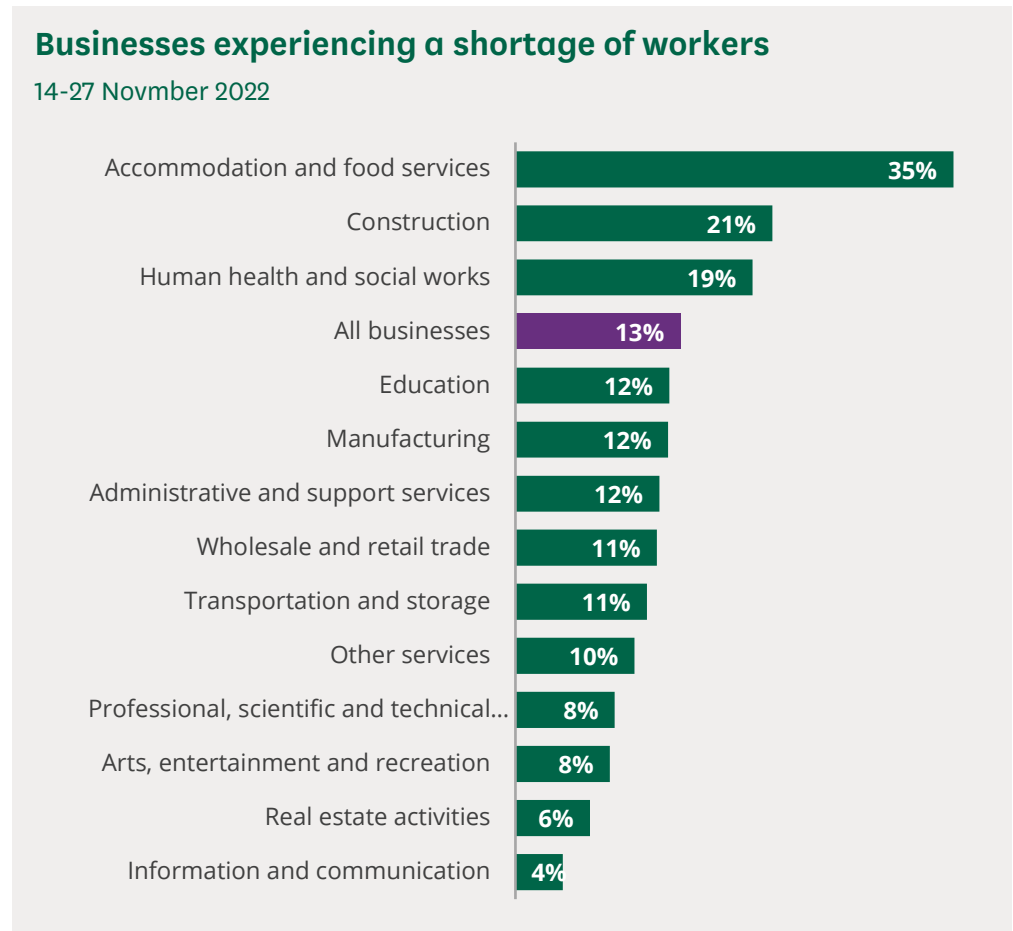
1.1 Businesses experiencing a shortage of workers

In November 2022, 13.3% of businesses surveyed by the ONS reported experiencing a shortage of workers. The percentage of businesses experiencing a shortage of workers has been between 12.9% and 15.4% since October 2021, with the exception of August 2022, when 16.8% of businesses reported a shortage.

Worker shortages vary considerably between industries. The table below provides data on the percentage of businesses in each industry which reported experiencing worker shortages in November 2022.

The industries with the highest percentage of businesses experiencing worker shortages in November 2022 were Accommodation and food services (35.5%) and Construction (20.7%).¹

¹ 14-27 November 2022, ONS, [Business insights and impact on the UK economy](#), 1 December 2022



Source: ONS, [Business insights and impact on the UK economy](#), 1 December 2022

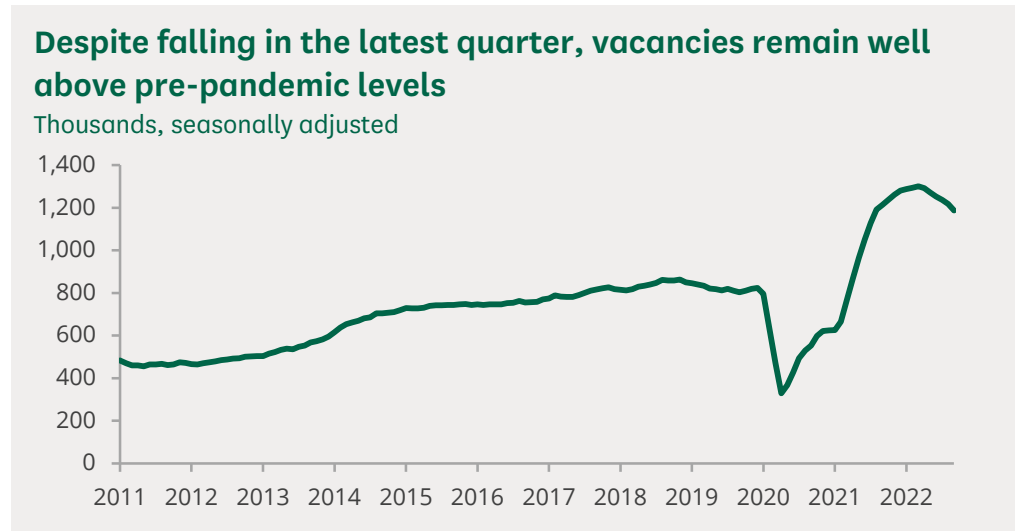
1.2

Vacancies

In September-November 2022, there were 1.19 million vacancies in the UK, similar to the number of unemployed people.

Vacancy levels rose quickly throughout 2021, and reached their highest level in March-May 2022 since comparable records began in 2001, before falling in recent quarters. Vacancies remain much higher than pre-pandemic levels.²

² ONS, [VACS01: Vacancies and unemployment](#), 15 November 2022



Source: ONS, [VACS01: Vacancies and unemployment](#), 13 December 2022

Vacancies by industry

The number of vacancies varies by industry.

Human health and social work had the highest number of vacancies in September-November 2022 with 208,000, 3.9 vacancies for every 100 employee jobs.

Accommodation and food services had the most vacancies per 100 employee jobs, with 6.7 vacancies for every 100 jobs.³

³ ONS, [VACS02: Vacancies by industry](#), 15 November 2022

Vacancies by Industry

September–November 2022

SIC 2007 sections	No. of vacancies (thousands)	Vacancies per 100 employee
All vacancies	1,187	3.9
Human health & social work activities	208	4.9
Wholesale & retail trade; repair of motor vehicles and motor cycles	148	3.3
Accommodation & food service activities	146	6.7
Professional scientific & technical activities	125	4.6
Retail	91	3.2
Manufacturing	84	3.5
Education	75	2.8
Administrative & support service activities	70	2.5
Information & communication	62	4.6
Transport & storage	50	3.2
Construction	48	3.2
Financial & insurance activities	48	4.7
Public admin & defence; compulsory social security	41	2.9
Wholesale	34	3.0
Arts, entertainment & recreation	27	3.9
Other service activities	24	4.3
Motor Trades	23	4.4
Real estate activities	15	2.8
Water supply, sewerage, waste & remediation activities	7	3.1
Electricity, gas, steam & air conditioning supply	6	4.3
Mining & quarrying	2	3.4

Source: ONS, [VACS02: Vacancies by industry](#), 13 December 2022

1.3

Skills shortages

Businesses are reporting having difficulty recruiting employees with the relevant skills.⁴ In August 2022 the Federation of Small Businesses found that 80% of small firms faced difficulties recruiting applicants with suitable skills in the previous 12 months.⁵

⁴ The Edge Foundation report [Skills shortages in the UK economy \(PDF\)](#), November 2022, provides a summary of the sources referenced in this section as well as more information on skills shortages in the UK.

⁵ Federation of Small Businesses, [Scaling Up Skills](#), August 2022

The Open University's 2022 Business Barometer estimated that 78% of UK organisations suffered a decline in output, profitability or growth as a consequence of a lack of available skills. In response, 52% of large organisations and 47% of SMEs plan to invest more in staff training in the next year.⁶

The Recruitment & Employment Confederation estimates that if labour shortages are not addressed, the UK economy will be £39 billion worse off each year from 2024.⁷

⁶ British Chamber of Commerce, [The Open University Business Barometer 2022 report: Navigating the skills landscape](#), June 2022

⁷ Recruitment & Employment Confederation, [Overcoming shortages - How to create a sustainable labour market](#), 18 July 2022

2 The causes of labour market shortages

2.1 Labour supply and demand since the pandemic

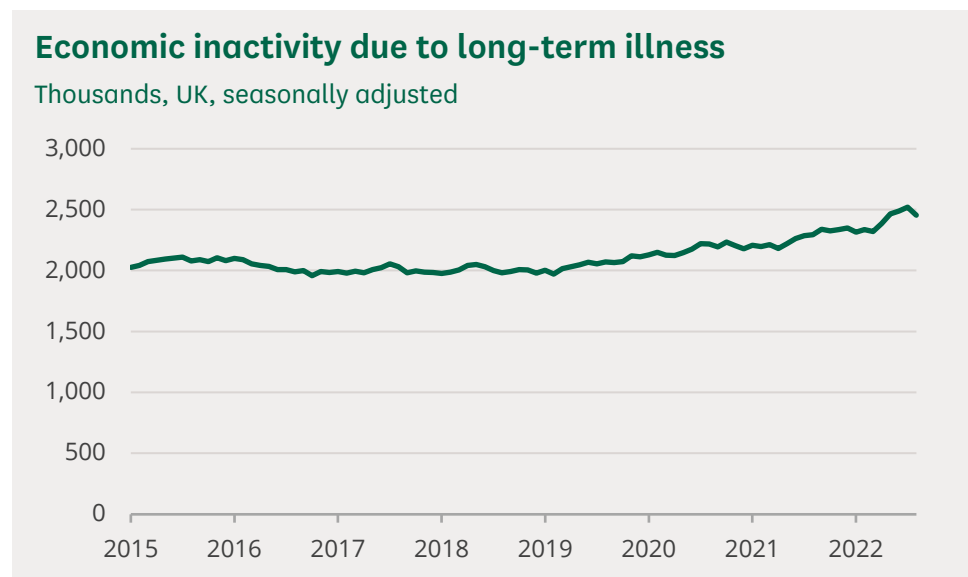
An adult is 'economically inactive' if they are not in work and not looking for work.

A key reason for labour shortages is that demand for labour has recovered faster than labour supply since the pandemic.⁸ The Bank of England's [August 2022 Monetary Policy Report](#) points out that labour demand – measured by the number of people in employment and the number of vacancies – is above pre-pandemic levels, while labour supply is below pre-pandemic levels.⁹

Labour supply and employment are below pre-pandemic levels because of a rise in economic inactivity – people who are not in work and not looking for work. In August-October 2022, the leading reasons for economic inactivity were being a student (27%) and a long-term illness (27%). 13% were inactive because they were retired.¹⁰

Long-term illness

In July-September 2022 the number of economically inactive people with a long-term illness reached its highest recorded level since comparable records began in 1993, and was over 2.5 million for the first time. In August-October 2022 it was 2.46 million. The chart below shows the trend since 2015:



Source: ONS table [INAC01 SA: Economic inactivity by reason](#)

⁸ Bank of England, [Monetary Policy Report - August 2022](#), 4 August 2022

⁹ Bank of England, [Monetary Policy Report - August 2022](#), 4 August 2022

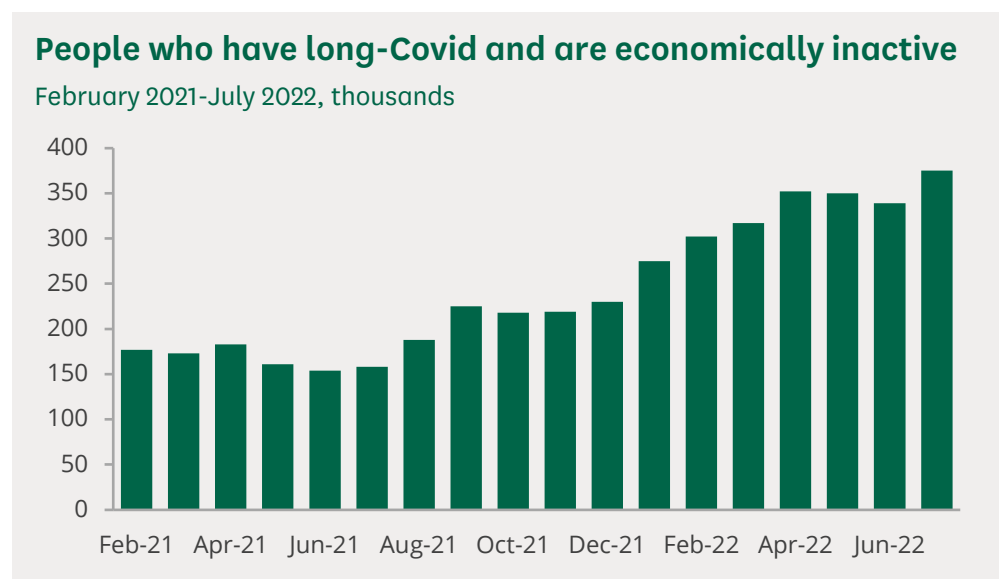
¹⁰ ONS, [INAC01 SA: Economic inactivity by reason \(seasonally adjusted\)](#), 13 December 2022

The Library briefing [UK Labour Market Statistics](#) and The Library insight [Will more economic inactivity be a legacy of the pandemic?](#) provide more information on economic inactivity by reason.

Long covid

The ONS released experimental data in December 2022 on people with long Covid who are economically inactive. As shown in the chart below, for the most part, this has slowly been increasing since February 2021.

Note that this data does not tell us whether each person was economically inactive before they suffered with long Covid, nor whether long Covid is the reason for their inactivity.



Source: ONS, [Self-reported long COVID and labour market outcomes, UK: 2022](#), 5 December 2022

The Institute for Fiscal Studies (IFS) estimated that in 2021 long Covid caused around 4.4 million lost working hours per week, 110,000 workers off sick, and an aggregate loss in earnings of nearly £1.5 billion a year.¹¹

Ill-health and long-Covid is not the whole story

Analysis by the Financial Times showed that the UK is the only developed country where the percentage of working-age people who are economically inactive continued to rise after the pandemic.¹² As pointed out by Demos and the Physiological Society in November 2022:

¹¹ Institute for Fiscal Studies, [Long COVID and the labour market, 27 July 2022](#)

¹² [“Chronic illness makes UK workforce the sickest in developed world”](#) Financial Times, 21 July 2022

“if long COVID-19 was a key reason for the rise in economic inactivity, it is surprising that this is not observed in other countries which also had high rates of COVID-19 infections during the pandemic.”¹³

In October 2022 the IFS used longitudinal data to show that many of the older population who are economically inactive because of long-term illness left the labour market before they became ill, and had left because they decided to retire.¹⁴

A December 2022 House of Lords Economic Affairs Committee report points out that even if long-term illness is highest among people who have already left the labour market, this still has an impact on the workforce, since illness has made this group less likely to return to work.¹⁵

Early retirement

A [report by the Institute for Fiscal studies in June 2022](#) put forward the following reasons for the rise in economic inactivity among people in their 50s and 60s:

- Older workers responded to the initial reduction in labour demand caused by the pandemic by no longer looking for work. This meant they went from being unemployed to inactive.
- An increase in the number of people unable to work due to health reasons.
- The impact of the trend towards remote working: either because this did not suit older workers due to the reduction in opportunities for socialising, or because they appreciated the extra time at home and were unwilling to return to the workplace.
- An increase in wealth during the pandemic (due to fewer consumption opportunities), and an increase in asset prices (such as housing) allowed older people to retire early.¹⁶

¹³ Demos and Physiological Society, [Understanding ‘Early Exiters’ The case for a Healthy Ageing Workforce Strategy \(PDF\)](#), November 2022

¹⁴ Institute for Fiscal Studies, [Is worsening health leading to more older workers quitting work, driving up rates of economic inactivity?](#), 26 October 2022

¹⁵ House of Lords Economic Affairs Committee, 2nd Report, [Where have all the workers gone?](#), 20 December 2022

¹⁶ Institute for Fiscal Studies, [Recent and future patterns of work around state pension age](#), 20 June 2022

2.2

The impact of Brexit on labour supply

While the UK is not unique in experiencing shortages of materials and workers, commentators have noted that new immigration rules post-Brexit may have exacerbated the situation.¹⁷ There are different views on the extent to which Brexit-related factors are contributing to supply chain issues in the UK.¹⁸

The Bank of England reports that slowing population growth is partly responsible for a decreased labour supply, which has been driven by lower net migration from the EU.¹⁹

A [September 2021 ONS article provides statistics on how many companies cited a lack of EU applicants](#) specifically as a reason why they were unable to fill vacancies. Almost half of businesses in the Transport and storage sector (46% of businesses) cited this, as did over a third of businesses in Administration (40%), Education (39%) and Arts and recreation (36%).²⁰

Some occupations have been particularly affected by shortages. The Institute for Government notes that the number of HGV drivers who were EU nationals fell by 37% between March 2020 and 2021.²¹

The Migration Observatory argues that many of the short-run disruptions to business caused by the end of free movement to another immigration system will resolve themselves after a period of adjustment. However, the effects could last longer in rural areas where industries which relied on EU workers are harder to replace.²²

Madeleine Sumption, the Director of the Migration Observatory argued in a January 2023 article that Brexit has had a particular impact on London: by June 2021 London was the UK region which had seen the biggest decline in employment of EU workers.²³

¹⁷ [Is Brexit or Covid to blame for Britain's supply chain crisis?](#), The Guardian, 24 September 2021; [No McDonald's milkshakes, no chicken, no gas: Why the U.K.'s supply-chain woes are so acute](#), Fortune, 26 August 2021.

¹⁸ [Covid or Brexit: What's to blame for Britain's shortages?](#), The Sunday Times, 9 October 2021; [Remainer hysteria over shortages does not mean Brexit is to blame](#), Julian Jessop, The Telegraph, 26 August 2021 (subscription only, available [here via Nexis News](#)).

¹⁹ Bank of England, [Monetary Policy Report - August 2022](#), 4 August 2022

²⁰ ONS, [Hospitality businesses are most likely to be struggling to fill vacancies](#), 16 September 2021

²¹ Institute for Government, [What is causing supply chain problems?](#) (Accessed 9 December 2022)

²² Migration Observatory, [How is the End of Free Movement Affecting the Low-wage Labour Force in the UK?](#), 15 August 2022

²³ ["Madeleine Sumption: Brexit is not the only cause of London's labour shortages but it is clearly one of them"](#), OnLondon, 4 January 2023

Box 1 Post-Brexit immigration rules

The end of EU free movement laws in the UK has made it more difficult to recruit new EU workers compared to when the UK was in the EU.

Under the ‘[points-based immigration system](#)’, which applies to both EU and non-EU citizens, workers cannot be recruited from overseas to fill jobs considered lower-skilled. There is a [list of roles eligible for sponsorship](#) under the main work visa route (known as [Skilled Worker](#)); roles not listed cannot be sponsored.²⁴

There are two main exceptions to the general rule that ‘lower-skilled’ workers cannot get visas. First, social care workers have been eligible for the Skilled Worker visa since 15 February 2022.²⁵ This despite the skill level of the work being below the threshold usually required.²⁶ However, it was [announced as a “temporary” measure](#) which would be reviewed after 12 months.²⁷

Second, there is a bespoke [visa for seasonal agricultural workers](#). This Seasonal Worker visa is intended to help alleviate labour shortages in the sector but not to meet all of its estimated need for labour. The Government maintains that the agricultural sector should make greater use of automation and recruitment of domestic workers to meet demand.²⁸

The Johnson Government said in September 2022 that it was unlikely to agree any further sectoral visa exceptions “bar truly exceptional circumstances”.²⁹

Where EU citizens do qualify for work visas, some employers regard the costs and bureaucracy of sponsorship as prohibitive, particularly for lower-paid roles and smaller businesses.

²⁴ Home Office, [Immigration Rules Appendix Skilled Occupations](#) (accessed 9 January 2023)

²⁵ Home Office, [Statement of changes to the Immigration Rules: HC 1019](#), 24 January 2022

²⁶ Migration Advisory Committee, [Letter to the MAC about care workers and home carers](#), 7 January 2022

²⁷ Home Office press release, [Biggest visa boost for social care as Health and Care Visa scheme expanded](#), 24 December 2021

²⁸ See Library briefing [Seasonal Worker visas and UK agriculture](#), 4 November 2022

²⁹ Migration Advisory Committee, [MAC commissioned to review shortage occupation list](#), 1 September 2022

3

Government response

In his [Autumn Statement in November 2022](#), Chancellor Jeremy Hunt announced that the Prime Minister asked the Work and Pensions Secretary to “thoroughly review issues holding back workforce participation due to conclude early in the new year.”³⁰ A report on this review has yet to be published.

As explained in Box 1, the Government has responded to difficulties with recruitment after the end of EU free movement by making a temporary exception to the ‘skilled workers’ criteria under its [‘points-based immigration system’](#), for care workers and introducing a bespoke [visa for seasonal agricultural workers](#).

During the pandemic, the Government introduced a number of training and employment support schemes, including the Kickstart scheme, which ran until 3 January 2023 and the [Way to Work campaign](#). The Library briefing [Coronavirus: Getting people back into work](#) provides more detail on employment support schemes.

The Government commissioned the Migration Advisory Committee to review the Shortage Occupation List, but this review is paused.³¹

The Department for Education’s [Unit for Future Skills](#) provides data on skills and jobs on its [career pathways dashboard](#) and [local skills dashboard](#).

³⁰ Gov.uk, [The Autumn Statement 2022 speech](#), 17 November 2022

³¹ PQ HL4133 [Question for Home Office: Migrant Workers: Skilled Workers](#). Answered 21 December 2022

4 Parliamentary material

4.1 House of Commons written questions

[Question for Department for Business, Energy and Industrial Strategy: Skilled Workers: Vacancies: UIN 114677](#)

Asked by Seema Malhotra

Asked on 20 December 2022

To ask the Secretary of State for Business, Energy and Industrial Strategy, what assessment he has made of the impacts of skills shortages on businesses.

Due for answer 9 January 2023

[Question for Treasury: self employed: UIN 92045](#)

Asked by John Redwood

Asked on 21 November 2022

To ask the Chancellor of the Exchequer, how many people have ceased to be self-employed since the introduction of the 2021 IR 35 rules.

Answered by Victoria Atkins

Answered on 29 November 2022

It is an anticipated outcome of the 2021 off-payroll working (IR35) reform that organisations and contractors will consider the best way for contractors to provide their services, while being compliant with tax legislation.

The Office for National Statistics (ONS) publish data on trends in employment. [Dataset A02 NSA](#) provides quarterly estimates of the number of self-employed individuals over the age of 16 for the period sought. On 6 September ONS officials gave evidence to the House of Lords Economic Affairs Committee on changes in the number of individuals self-reporting as self-employed during the relevant period as a part of the committee's UK Labour Supply Inquiry. That evidence stated that some part of the change in individuals self-reporting as self-employed is due to changes in how people classify themselves, without having changed the way they work.

4.2 House of Commons Debates

[Labour and Skills Shortages: Temporary Recovery Visa](#), HC Deb 8 November 2022

[Labour Shortages: Agriculture and Fishing](#), HC Deb 8 September 2022

4.3 House of Lords written questions

[Question for Home Office: Visas: Seasonal Workers: UIN: HL4242](#)

Asked by Lord Taylor of Warwick

Asked on 12 December 2022

To ask His Majesty's Government what steps they are taking to mitigate any shortages of foreign workers caused by the operation of the seasonal farm worker visa scheme.

Answered by Lord Murray of Blidworth

Answered on 4 January 2023

The Seasonal Worker route allows workers to come to the UK for up to six months to pick both edible and ornamental crops, enabling UK growers to access seasonal workers throughout the calendar year.

The UK government is committed to supporting the agricultural industry. The Seasonal Worker route will be expanded in 2023, with 45,000 visas available. The separate poultry quota will remain at 2,000 places.

This enlarged route will be kept under review with the potential to increase it by a further 10,000 if necessary, and is contingent on sponsors and growers improving and abiding by worker welfare standards, including ensuring workers are guaranteed a minimum number of paid hours each week.

Employers should look to recruit from the domestic labour market in the first instance which includes those who have EU settled status or others with status which provides general work rights.

[Question for Home Office: Migrant Workers: Skilled Workers: UIN: HL4133](#)

Asked by Lord Allen of Kensington

Asked on 8 December 2022

To ask His Majesty's Government when the Migration Advisory Committee will report its recommendations to change the shortage occupation list (SAL).

Answered by Lord Murray of Blidworth

Answered on 21 December 2022

The Government has commissioned the Migration Advisory Committee to review the Shortage Occupation List, however the review is currently paused.

The Home Office is working closely with the Migration Advisory Committee in considering their workplan, in light of other migration issues.

4.4

House of Lords Debates

[Public Services: Workforce \(Public Services Committee Report\)](#), HL Deb 16 December 2022

5 Further reading

5.1 Library products

[UK labour market statistics](#)

[UK supply chain problems](#)

[Will more economic inactivity be a legacy of the pandemic?](#)

5.2 Reports

[Where have all the workers gone?](#)

House of Lords Economic Affairs Committee, 20 December 2022

[Business insights and impact on the UK economy](#)

Office for National Statistics, 1 December 2022

[Monetary Policy Report - August 2022](#)

Bank of England, 4 August 2022

[Long COVID and the labour market](#)

Institute for Fiscal Studies, 27 July 2022

[Skills shortages in the UK economy \(PDF\)](#)

Edge Foundation, November 2022,

[Is worsening health leading to more older workers quitting work, driving up rates of economic inactivity?](#)

Institute for Fiscal Studies, 26 October 2022

[Not working. Exploring changing trends in youth worklessness in the UK, from the 1990s to the Covid-19 pandemic](#)

Resolution Foundation, 13 June 2022

[How is the End of Free Movement Affecting the Low-wage Labour Force in the UK?](#)

Migration Observatory, 15 August 2022

5.3

Press material

[How can Britain solve its post-Brexit labour shortage?](#)

Financial Times, 25 November 2022

[Brexit end of free movement causing labour shortage ‘shock’ but not wage growth, government advisers warn](#)

Independent, 13 December 2022

[Pubs struggle to retain staff after Brexit and Covid ‘double whammy’](#)

Guardian, 28 December 2022

[UK labour shortages are ‘shape of things to come’, lords warn](#)

Financial Times, 20 December 2022

[Chronic illness makes UK workforce the sickest in developed world](#)

Financial Times, 21 July 2022

[Is Brexit or Covid to blame for Britain’s supply chain crisis?](#)

The Guardian, 24 September 2021

[Covid or Brexit: What’s to blame for Britain’s shortages?](#)

The Sunday Times, 9 October 2021

[Why is the NHS in its worst ever crisis?](#)

Financial Times, 3 January 202

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