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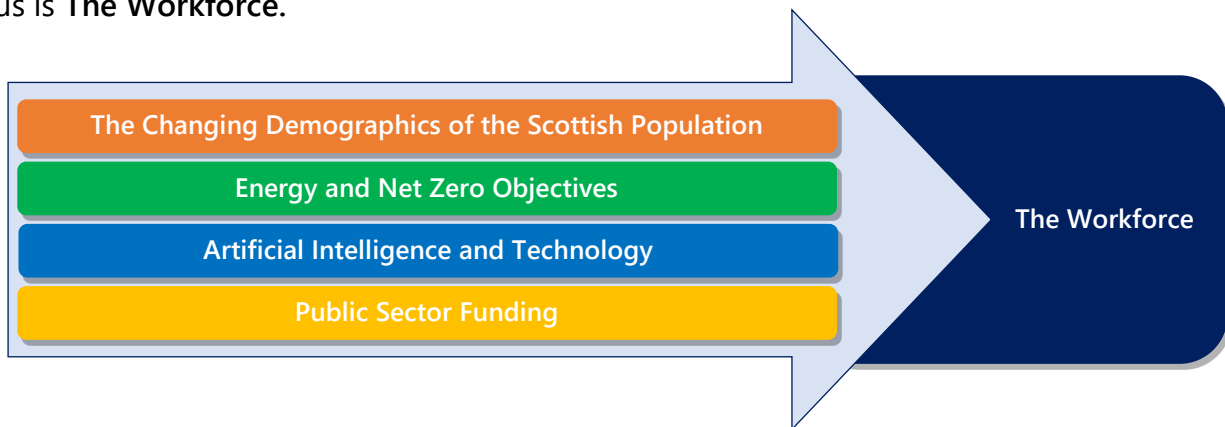
The Workforce

May 2024

Business Intelligence Insights: 2024/25

Business Intelligence Insights so far have highlighted and introduced key themes shaping the public sector and procurement landscape. These themes include The Changing Demographics of the Scottish Population, Energy and Net Zero Objectives, Artificial Intelligence and Technology, and Public Sector Funding. An archive of previous reports is available on the Scotland Excel Member's Area.

What action have you taken to prepare for the impacts of the issues explored so far?

Going forward, Business Intelligence Insights will delve deeper into the complex effects of these themes on specific factors impacting the delivery of public services in Scotland. The first area of focus is **The Workforce.**

| The Changing Demographics of the Scottish Population |
| Energy and Net Zero Objectives |
| Artificial Intelligence and Technology |
| Public Sector Funding |

The Workforce

The Workforce

In the first quarter of 2024, there were around 2,748,000 economically active people in the labour market in Scotland. This population includes employed, self-employed, and unemployed people, but excludes groups such as children, retirees, and people who are not seeking employment. In 2023, the public sector workforce made up for around 22% of the total Scottish labour market, whilst local government made up for almost 10%. However, public services rely on workers from a combination of the public, private, and third sector, who all play a key role in the delivery of public services.

Labour market developments can have profound impacts on the delivery of public services, public sector procurement, and supply chains. For example, the labour market in the United Kingdom (UK) has not yet recovered from the impacts of the Covid-19 pandemic, with its economic inactivity rate currently the highest since 2015. Further, the staff turnover rate for the NHS Scotland in 2021/22 reached 8.1%, up from 6.7% before the Covid-19 pandemic, with £321 million spent on bank and agency staffing in Scotland that year.

These staffing issues outline the need for innovation and a strategic approach to tackling the workforce challenges that threaten the sustainability of public services. Collaboration between central and local government and suppliers can help to build a resilient workforce that is equipped to meet the evolving demands for public services in Scotland.

Although public procurement has the power to boost labour market productivity throughout its supply chain and in local communities, employers must navigate economic uncertainty and recruitment challenges to achieve this.

Changing Demographics

Demographic shifts have already impacted the sustainability of the UK labour market. When state pension funding was first introduced, there was income from almost 8 workers contributing to the pension funding of each retiree. However, experts have recently advised that the UK pension age must increase to 71 by 2050 to maintain a 1:1 ratio of workers to people aged 65+.

The population of the Scottish workforce is expected to reduce over the next 5 years. Although the population of people aged 16 to 24 is expected to grow by 3% over this period, this growth is projected to be outpaced by a 5% increase in people aged 65 and over. This trend may lead to labour shortages and increased pressure on public services and the pension system. However, as life expectancy has increased by over 10 years since the state pension was first introduced, many people continue to work till later in life than they previously did.

Therefore, employers must adapt to support the employment of older workers. The employment of older people can bring significant economic contributions – National Insurance Contributions could increase by £800 million per year by increasing the number of employed people aged 50-64 in the UK by 1%. Further, the sharing and transfer of knowledge from experienced workers can improve the productivity of lesser experienced employees.

Despite the benefits that they can bring, 36% of people aged 50-69 feel disadvantaged in recruitment processes due to their age, and the employment rate for 50-64 year olds is 15 percentage points below that of 35-49 year olds. In light of the changing demographics of the workforce, what measures can be taken to make employment opportunities more accessible for older workers?

Energy and Net Zero Objectives

Policy objectives impact the labour market by influencing both the types of jobs that people do, and the ways in which people work. As the local and central government work together to achieve national objectives, the impacts of policies to employers may vary between rural and urban areas.

An example of a policy objective influencing the Scottish workforce is the journey towards Net Zero Emissions by 2045. The Scottish Government recently adjusted their Net Zero objectives for 2030, including a commitment to deliver an additional 2,400 electric vehicle charging points by 2030. Therefore, the Scottish workforce must adapt to new ways of working to achieve policy objectives.

Land Use and Forestry has been highlighted as the sector requiring the most investment in Scotland in the journey towards Net Zero Emissions. Examples of items requiring action include the production of crops for energy usage, peatland restoration, and forestry initiatives. Although Scotland populates only 8% of the total UK population, it hosts 32% of UK land mass and around 50% of the trees in the UK. Therefore, the required per-person investment in this sector is relatively high in Scotland compared to the rest of the UK. What role could public sector initiatives play in tackling this issue?

Net Zero policy objectives can support skills development, innovation, and transform job opportunities for the Scottish workforce. However, the transition towards low carbon ways of working may impact the sustainability of existing occupations in traditionally high emission sectors.

How can public sector bodies adapt to ensure the delivery of policy objectives whilst also maintaining employment opportunities?

Artificial Intelligence

Artificial Intelligence (AI) can help to mitigate workforce challenges and skills shortages by driving long-term efficiencies and reducing employee workloads. For example, by automating repetitive tasks to allow workers to focus on items that require human expertise. However, the environmental, social, and financial costs of integrating AI into processes must be carefully considered.

Although the initial costs of purchasing and implementing AI technology may be high, its adoption may come at a lower long-term cost for employers in comparison to the employment of workers. Output derived from AI technology does not currently come at the cost of wages, taxes, or pension contributions. However, AI is reliant on data centres and hardware that can be costly and energy intensive to run.

AI has the potential to transform ways of working. Research based in London suggests that the adoption of self-driving taxi-bots could reduce the number of vehicles on roads by 90% and emissions by 27%. Whilst this evolving area has the potential to create up to 38,000 jobs in the UK by 2035, how will this impact the jobs of existing workers in the transport and vehicle industry?

The employment of technological solutions must be monitored and regulated by experienced and appropriately skilled workers. It is important that technology is effectively deployed to support the evolving needs of the Scottish workforce and the achievement of policy objectives, instead of displacing or disrupting human labour. How can public sector supply chains enhance efficiency by integrating AI whilst protecting the employment of workers?

Public Sector Funding

Labour market challenges are particularly complex for public sector employers, who are restricted in the ways in which they can incentivise employment to candidates in comparison to the private sector. In addition to public sector regulations that must be followed, public sector funding restrictions impact both the ability of public bodies to invest in supply chains, and the wages and benefits can be offered to employees.

The restricted capacity for public sector bodies to increase wages is a key factor in strike action and employees seeking better paid employment in other sectors. In 2023, there were an estimated 2,663,000 working days lost due to industrial action in the UK, and an average of 52% of social care staff that moved jobs, left the sector completely. As the backbone of public service delivery, retaining a skilled workforce is fundamental for local government to continue meet the demands of local communities.

Factors already explored such as demographics and policy objectives impact the spending priorities of local government. The characteristics of each local authority area determines its unique demand for public services, which impact the employment of workers delivering services in that area. How can local government navigate these complex challenges whilst fostering local employment opportunities?

As councils continue to deliver key public services, they must make complex budget-setting decisions. The impacts of councils increasing or decreasing their spending in service areas are felt both by local communities and throughout public sector supply chains. How can councils continue to boost labour market productivity despite facing budget constraints?