

July 2011

## Skills shortage - A key ESG risk

Over the year, much has been reported in the media about the skills shortage which is expected to impact on a number of industry sectors in Australia. Skills shortage is a material risk, leading to wages pressure, project delays and bottlenecks and the curbing of expansion plans. Goldman Sachs recently reported that the shortage of engineers is holding up the design stage of infrastructure projects and resulting in unexpected delays to project start-ups.

Whilst there appears to have been a degree of softening in the job market in the near term, overall employment growth is expected to continue into 2012 on the back of soaring resources prices and commodity revenues. Over the year, the labour market has continued to strengthen, with the unemployment rate at 4.9 per cent in March 2011, down from 5.4 in March 2010.<sup>1</sup> The resources sector is a major driver of this employment growth, but in Regnan's opinion a number of industry segments are likely to face wage pressures and increasing competition for skilled workers. Even in areas of oversupply, employers are still finding it hard to find specific skill sets. For example, rapid developments in the IT sector are leaving many candidates with dated IT skills, which are no longer in high demand.<sup>2</sup>

Regnan notes that companies are finding it increasingly difficult to fill skilled positions in professional and technical fields and this is increasing their focus on employment attraction and retention strategies. The human capital management (HCM) analysis indicates that more companies are increasing their investment (both in terms of strategic focus and money) on retaining their current workforce and 'growing their own skilled workforce' to minimise the need to compete for skilled workers. Flexible working conditions, work from home, phased retirement, job sharing, employee training, career development and forging closer ties to universities and TAFEs (offering apprenticeships, traineeships and graduate programs) are all increasingly being employed.

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<sup>1</sup> KPMG Econtech, Clarius Skills Index March Quarter, April 2011

<sup>2</sup> Ibid

Companies are also lobbying government for the easing of restrictions on temporary migration visas and expect overseas employment (particular from Asia) will help mitigate skills shortages in some areas over the short to medium term. Construction and engineering, IT and trade sectors are likely to benefit from a relaxation in visa rules. However, in Regnan's opinion skilled migration is unlikely to pose a longer term solution to meeting Australia's demand for labour.

### **Company/Sectoral exposure to HCM risk**

Regnan's ESG analysis includes analysis of HCM exposure and controls and over the past year, and skills shortage has been a focus of our analysis and company engagement. Whilst the following sectors have been broadly identified as having a high HCM exposure, the actual risk exposure of a particular company will depend on a number of factors including:

- (1) proportion of employees in Australia and in what region they are based,
- (2) proportion of skilled workers employed in occupations experiencing shortages, and
- (3) contract structures which affect the ability to pass on additional employment costs.

Evidence suggests the following sectors have a high exposure to skills shortage:

*Resources:* Labour market reports indicate a strong growth in vacancies for engineering professionals and in key trades in the resources sector. Current skills shortages at the national level include civil, electrical, mechanical, mining and petroleum engineers, project managers, geologists, carpenters, plumbers and automotive trades. In WA, there is also a shortage of earthmoving plant operators, mechanics, carpenters and joiners.<sup>3</sup> As yet these shortages have not led to large wage blowouts but as the construction of new projects ramp up, the likelihood of skills shortages and wage pressures increases. The Australian Mines and Metals Association claims 86% of companies it surveyed are having trouble recruiting staff.<sup>4</sup>

In the *oil and gas* sector: Demand is very strong, and electrical engineers, technicians and construction project managers are in high demand.<sup>5</sup> Companies in this sector are paying higher wages for skilled employees, placing pressure on wages across the sector, especially for skilled service technicians and project engineers. Australia is currently paying the highest average salaries of any nation. In the *coal sector* long-wall mining in particular appears to be impacted by skills shortage. Whitehaven Coal mentions that their Narrabri Coal project has been hampered by lack of qualified workers experienced in this technology.

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<sup>3</sup> National Institute of Labour Studies, 2008, 'The Labour Force Outlook in the Australian Minerals Sector: 2008 to 2020', prepared for the Minerals Council of Australia, p11

<sup>4</sup> *The Nation*, 2011, 'Boss seeks action on mine labour shortage', 30 June, available at <<http://www.amma.org.au/home/news/ammanews/584006385?&sid=0>>

<sup>5</sup> See n1

*Engineering and Construction:* Employment indices predict that mining, gas and infrastructure investment will be a key driver of construction activity over the next few years and is expected to fuel labour demand. Over the year (to September 2010), the mining sector expanded by 20%.<sup>6</sup> Furthermore, employee turnover in the resources sector tends to be high due to the difficulty of work, remote locations and competition for skills.<sup>7</sup>

*Information and Communication Technology (ICT):* Labour market data indicates increasing evidence of skills shortages for IT Professionals driven by the resources boom, increased spending by government, service upgrades in the financial services industry, the big four banks and telecommunications (NBN). Vacancies for ICT professionals represented ~50% of internet vacancies for 'Professionals' in May 2011.<sup>8</sup>

*Banking, Wealth Management and Superannuation:* are experiencing a shortage of skilled workers, particularly in sales and financial planning where there remains a critical shortage of experience labour to meet demand. Almost zero per cent unemployment exists in the banking sector, with client-facing and revenue-generating employees in highest demand.<sup>9</sup>

*Health:* The healthcare and allied health sectors are exposed to on-going skills shortages. Companies most impacted include Ramsay Healthcare (nurses in particular), and to a lesser extent, companies which rely on pathologists and radiologists (Sonic, Primary). Although demand for health professionals appears to have moderated over the short term, it is expected to continue to increase as the proportion of older Australians in the population increases. Skilled migration has the potential to moderate the skills shortages issues in the health sector. Regnan notes that skills, retention, and training are increasing as competitive factors in the healthcare sector, and are increasingly critical to business reputation.

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<sup>6</sup>KPMG Econtech, 2010, Clarius Skills Index, September Quarter, October

<sup>7</sup>Australian Government, 2010, *Resourcing the Future*, National Resources Sector Employment Taskforce – Discussion Paper, March

<sup>8</sup>Department of Education, Employment and Workplace Relations, June 2011, Vacancy Report

<sup>9</sup> See n1