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To: [Wylfa Newydd](#)
Subject: RE: IACC Deadline 2 Submission : Local Impact Report - Economic Development - Local Employment (email 5)
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Bydd fersiwn Gymraeg yn cael ei ddarparu cyn gynted a phosib / *A Welsh version of the submission will be provided in due course.*

Cofion/ *Regards,*

Manon

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Mae cynnwys y neges e-bost hon yn cynrychioli sylwadau'r gyrrwr yn unig ac nid o angenrheidrwydd yn cynrychioli sylwadau Cyngor Sir Ynys Mon. Mae Cyngor Sir

Ynys Mon yn cadw a diogelu ei hawliau i fonitro yr holl negeseuon e-bost trwy ei rwydweithiau mewnol ac allanol.

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Rev	Date	Details	Prepared by	Checked by	Approved by
1	14/02/2018	Emerging Findings	Alex Heath	Bob Perkins	Bob Perkins
2	05/03/2018	Draft Report	Alex Heath	Bob Perkins	Bob Perkins
3	19/03/2018	Final Report	Alex Heath	Bob Perkins	Bob Perkins

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1. INTRODUCTION

The following report provides a review of the recent changes to wages and conditions for workers employed in the construction of the Hinkley Point C new nuclear power station and the resulting impact on wages and labour demand for the Wylfa Newydd Nuclear New build project in Anglesey, North Wales.

The study is being commissioned to provide specific evidence to make a sound argument that wage inflation and subsequent displacement in the labour market and economy will be a specific and real impact before and during the development and construction of the Wylfa Newydd project.

The report has been produced in response to an Instruction for Work from IACC in November 2017 and a subsequent Record of Instruction (RoI) provided by AECOM. The RoI sets out the scope, approach and timetable for the work. In addition to this report the AECOM team has also reviewed the potential for impacts on labour in the social care sector in response to IACCs concerns relating to labour displacement and wage inflation. The specific concerns here relate to displacement of adult care workers on low wage contracts who would be attracted to certain jobs created by the Wylfa Newydd project with better conditions and wage levels. Further detail can be found in the associated report – Social care sector: Review of displacement in the local labour market. These improvements in conditions set a precedent for the development and construction of new nuclear builds planned across the UK. As such it is important to understand what the resulting impacts will be prior to construction so that appropriate plans and mitigation can be put in place.

The potential for wage inflation and labour being displaced from existing employers to Wylfa Newydd has been a concern for IACC during the early and later planning stages of the project. The issue has been raised consistently by IACC in the three stages of Pre-application consultation (PAC) that have been undertaken to date. In short the key issue here is the potential for higher wages and better conditions for jobs at Wylfa Newydd, particularly during the construction phase of the project, to encourage people in existing jobs on Anglesey to seek employment. In turn this would create potential problems for existing firms through both a shortage of labour and increasing wage levels as competition for labour increases.

Beyond labour market impacts the additional demand created by an influx of a large number of workers over a long period of time will also have impacts on other markets and services which are required by the incoming workforce. This includes increased demand for housing and accommodation and higher demand for a range of services and related facilities including healthcare and leisure. Anglesey is already a relatively low wage economy and a comparatively small labour market. Existing conditions mean the economy and labour market is more sensitive to changes in demand particularly of the scale predicted for Wylfa Newydd. At the peak of construction employment is predicted to be 9000 jobs.

2. APPROACH

The following section sets out the approach and specific tasks undertaken to meet the requirements of the Instruction for Work from IACC.

Task 1: Scoping & Inception meeting

While having no formal definition, social care is a term that generally describes all forms of personal care and other practical assistance for children, young people and adults. This report will consider the impact upon adult social care, which is normally considered to be the support provided to those with physical or learning disabilities, or physical or mental illnesses. This covers both personal care (such as eating, washing, or getting dressed) or for domestic routines (such as cleaning or going to the shops).

Task 2: Baseline development

The team reviewed existing evidence and data on wages and employment by sector and occupation (where data is available) to understand current conditions and set a baseline to identify the potential impacts of labour demand, higher wages and improved working conditions.

Task 3: Review of EDF deal

The recent announcement of an improved wage and benefits package for workers engaged in the development and construction of the nuclear new build power station at Hinkley Point sets a precedent for those involved in other new nuclear build projects. As such some of the assumptions which Horizon, its main contractor Menter Newydd and supply chain are making as to wage and wider benefits package will be affected.

Previous assumptions that wage levels would be based on industry standard payments (NAECI rates) will be challenged and there is a strong likelihood that a higher wage and benefits package/nuclear sector premium will need to be paid. In turn this has the potential to lead to wage inflation and labour displacement above a sustainable level.

This section sets out the parameters for the recent deal agreed for Hinkley Point C workforce to understand how this differs to previous assumptions and industry rates.

Task 4: Overview of demand – large scale infrastructure projects including Nuclear new build)

The Wylfa Newydd project will increase the demand for various skills, including but not exclusively in the construction sector. At the same time as the project is being constructed demand for skills will be high as other large scale infrastructure projects begin construction in the same time frame. The cumulative impacts from these projects on labour and skills demand could further exacerbate wage inflation and make labour shortages more acute. As such it is important to understand the broad scale of demand using existing projections and demand profiles from relevant sector skills bodies and strategic infrastructure organisations. This task provides a review of the key projects which could impact on labour demand considering those projects which overlap with Wylfa Newydd.

Task 4: Labour market dynamics and case study evidence

The team researched relevant case studies drawing on the existing evidence base relating to Wylfa Newydd and extending the search to look at other relevant projects. AECOM undertook a high level literature review of academic sources to identify key documents that consider labour market dynamics and effects in the context of major infrastructure projects.

Task 5: Impact assessment

Based on the previous tasks the team produced a high level assessment of the impacts of wage inflation on the key sectors of the economy where demand for skills and labour is most prominent.

Task 6 Conclusion

The team set out a series of conclusions setting out the key points of the argument and clarifying the relative weight and strength of evidence.

3. BASELINE

This section establishes the baseline employment and earnings conditions on Anglesey, compared with North Wales, the South West (the location of Hinkley Point C) and Wales as a whole. From this position, we will look to establish how the wage rates offered by Horizon to workers on Wylfa Newydd will impact the local economy.

Table 1. Economic Activity by Type and Area

Indicator	Anglesey		North Wales		South West		Wales	
	Number	%	Number	%	Number	%	Number	%
Economic activity rate - aged 16-64	30600	76.8	316800	76.9	2,679,400	81.0	1438500	75.7
Employment rate - aged 16-64	29500	73.9	305700	74.3	2,582,400	78.0	1367000	71.9
Unemployment	1100	3.7	11000	3.5	96,900	3.6	71500	5.0
% who are economically inactive - aged 16-64	9300	23.2	95000	23.1	629,500	19.0	461700	24.3
% of economically inactive who want a job	1900	20.4	20100	21.2	157,700	25.0	109700	23.8
% of economically inactive who do not want a job	7400	79.6	74900	78.8	471,800	75.0	352000	76.2

Source: Annual Population Survey Oct 2016-Sep 2017

The economic activity rate on Anglesey and North Wales exceeds the national average by approximately one percentage point. Anglesey and North Wales registered an unemployment rate of 3.7% and 3.5% respectively over the year to September 2017, markedly lower than the 5.0% registered across Wales as a whole. Of the economically inactive on Anglesey, 79.6% do not want a job which is higher than seen across North Wales (78.8%) and Wales (76.2%). The South West has a higher economic activity rate than that seen across Anglesey, North Wales and Wales as a whole. The percentage of the economically inactive population that want a job is much higher across the South West (25.0%) compared with Anglesey (20.4%) and North Wales (21.2%), suggesting more potential to draw labour from this pool for the Hinkley Point C project.

Table 2. Employment by Industry

Industry	Anglesey		North Wales		South West		Wales	
	Number	%	Number	%	Number	%	Number	%
Agriculture and fishing	1,600	5.0	9,400	3.2	59,300	2.2	33200	2.3
Energy and water	1,100	3.6	8,400	2.7	43,200	1.6	27100	1.9
Manufacturing	2,500	8.0	40,800	11.6	255,400	9.4	149900	10.5
Construction	2,000	6.5	24,200	7.5	191,100	7.0	101500	7.1
Distribution, hotels and restaurants	6,400	20.4	65,500	20.5	541,400	19.8	279700	19.6
Transport and communications	2,200	7.2	17,100	5.5	201,500	7.4	91600	6.4
Banking, finance and insurance	2,300	7.3	33,700	9.9	454,900	16.7	173800	12.2
Public admin. education and health	10,600	34.0	99,500	31.8	821,200	30.1	478500	33.6
Other services	1,600	5.1	17,900	5.7	153,300	5.6	74100	5.2
Total	30300		316500		2,730,900		1409400	

Source: Annual Population Survey Oct 2016-Sep 2017

A high proportion of employment on Anglesey comes from the distribution, hotels and restaurants industry, accounting for 20.4% of employment compared to the Welsh average of 19.6%, and driven by Anglesey's strong offering in the tourism sector. Anglesey also has a high proportion of employment engaged in transport and communications (7.2%) compared with the Welsh average (6.4%) which is mostly due to the presence of Holyhead Port on the Island. In relation to Wylfa Newydd, there is a high proportion of energy and water employment on the Island (3.6%) compared with Wales (1.9%). Anglesey also has a higher proportion of employment in agriculture and fishing (5.0%) compared with North Wales (3.2%) and Wales (2.3%).

In relation to Wylfa Newydd, there is a slightly lower proportion of construction employment on the Island (6.5%) compared with the South West (7.0%). The South West also benefits from a larger labour pool than North Wales owing to its geographic scale and inclusion of major urban centres (e.g. Bristol) from which construction labour can be drawn.

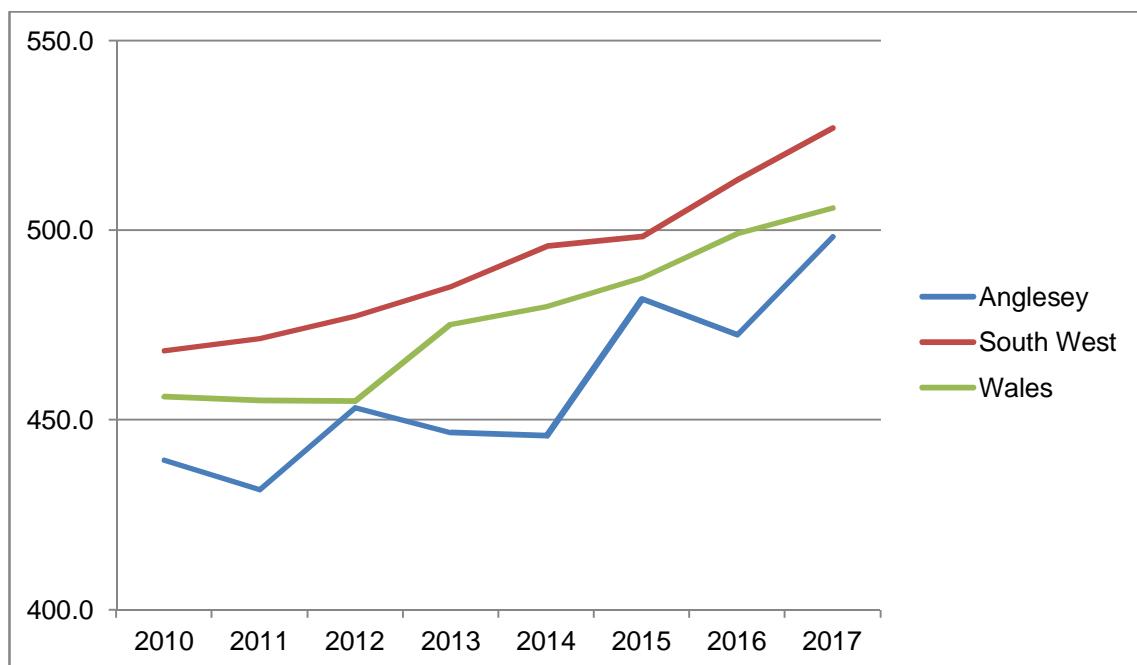
Table 3. Employment by Occupation

Industry	Anglesey		North Wales		South West		Wales	
	Number	%	Number	%	Number	%	Number	%
Managers, directors and senior officials	3,700	11.9	32,900	10.4	327,700	12.0	131,900	9.3
Professional occupations	5,300	17.0	57,100	17.7	542,200	19.9	261,600	18.4
Associate prof & tech occupations	3,800	12.1	36,100	11.4	380,200	13.9	179,200	12.6
Administrative and secretarial occupations	2,500	7.9	28,200	8.7	271,500	9.9	149,900	10.5
Skilled trades occupations	4,500	14.5	44,300	13.8	316,700	11.6	173,300	12.2
Caring, leisure and other service occupations	4,000	12.7	34,800	11.2	255,600	9.4	144,200	10.1
Sales and customer service occupations	2,000	6.4	22,600	7.0	198,300	7.3	112,800	7.9
Process, plant and machine operatives	1,800	5.7	23,700	7.1	147,500	5.4	101,800	7.1
Elementary occupations	3,400	10.8	40,000	12.3	283,600	10.4	160,700	11.3
Column Total	31,000	100	319,700	100	2,730,900	100	1,415,400	100

Source: Annual Population Survey Oct 2016-Sep 2017

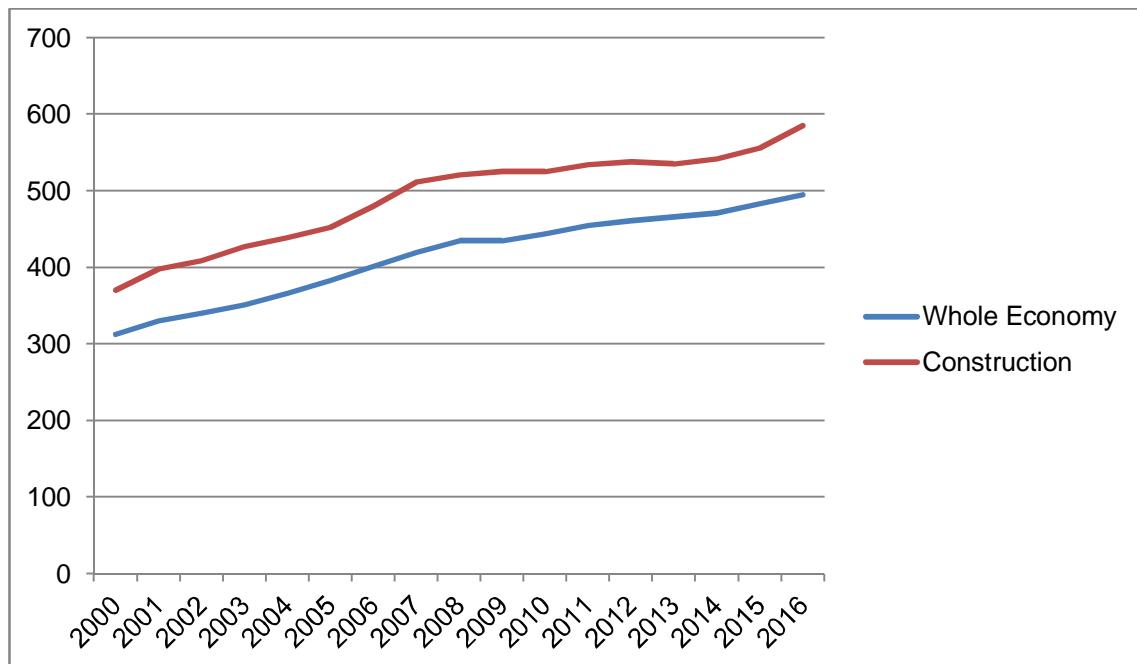
The occupational profile of the workforce on Anglesey reflects a high proportion of the population in caring, leisure and other service occupations (12.7%) compared with the Welsh average (10.1%) driven by the Island's demographic conditions (a high proportion of elderly residents). Anglesey has a lower proportion of its population at associate professional and technical occupations and above compared with the Welsh average.

In terms of the Wylfa Newydd project, Anglesey has a higher proportion of its workforce in skilled trades occupations (14.5%) compared with North Wales (13.8%) and Wales (12.2%), and is significantly higher than the 11.6% registered in the South West. Many roles on the construction of Wylfa Newydd would be expected to fall within this occupational category.

Figure 1. Gross Weekly Earnings: All Sectors

Source: ONS ASHE 2017

Gross Weekly Earnings on Anglesey have been relatively volatile over the 2010 – 2017 period. However gross weekly earnings have remained below the Welsh average over the entirety of this period, on average by 3.9%. Gross weekly earnings have also lagged those seen in the South West by 6.8% over the same period.

Figure 2. Average Weekly Earnings: Construction vs. Whole Economy

Source: ONS ASHE 2017

While figures are unavailable at an Anglesey or Wales level, Figure 3 illustrates the wage differential between the construction sector and the rest of the economy for the UK as a whole. In 2016, weekly wages in the construction sector were 18.2% higher than the average weekly earnings across the whole economy. Between 2000 and 2016, the wage differential peaked at 21.9% (in 2007) and was at its lowest at 14.8% (in 2013).

Summary

The baseline employment and earnings conditions on Anglesey demonstrate that economic activity is higher than that seen across Wales as a whole, with unemployment markedly lower on Anglesey and North Wales.

Furthermore, of the economically inactive, a very high percentage are not seeking a job and therefore the Wylfa Newydd project will struggle to bring these people back into the labour market.

The industries driving employment on Anglesey tend to be related to its key assets such as Wylfa A (Energy & Water), Holyhead Port (Transport & Communications) and tourism (Distribution, Hotels & Restaurants).

On an occupational level, Anglesey sees a high proportion in Skilled Trades; Caring, leisure and other service occupations and Managers, directors and senior officials compared with the regional and national comparators.

While economic activity is higher on Anglesey, this is not reflected by higher wages, which are on average around 4% lower than the average seen across Wales. The average wage for construction workers was found to be significantly higher than the average wage level across the whole economy.

4. LABOUR MARKET AND CASE STUDY ASSESSMENT

This section of the Report looks to analyse the likely wage conditions for workers on the Wylfa Newydd project, in order to understand how these compare to the earnings data gathered in the baseline section.

4.1 Pay Conditions on Major Engineering Construction Projects

For over 30 years, pay conditions on major and basic engineering construction projects throughout the UK has been governed by the National Agreement for the Engineering Construction Industry (NAECI). The NAECI is an agreement between trade unions and employers which sets out the terms and conditions of employment for hourly-paid engineering construction workers on major and basic engineering construction projects, repair and maintenance sites and events/outages throughout the UK. Its principal is to ensure that the quality of staff to undertake project work is in place and that the UK remains competitive against international competition.

The signatories to the NAECI are the members of the National Joint Council for the Engineering Construction Industry (NJC) which is formed of the Engineering Construction Industry Association (ECIA), Electrical Contractors' Association of Scotland (SELECT), Thermal Insulation Contractors' Association (TICA) and union representation from Unite and GMB – the main trade unions representing workers on the Hinkley Point C project.

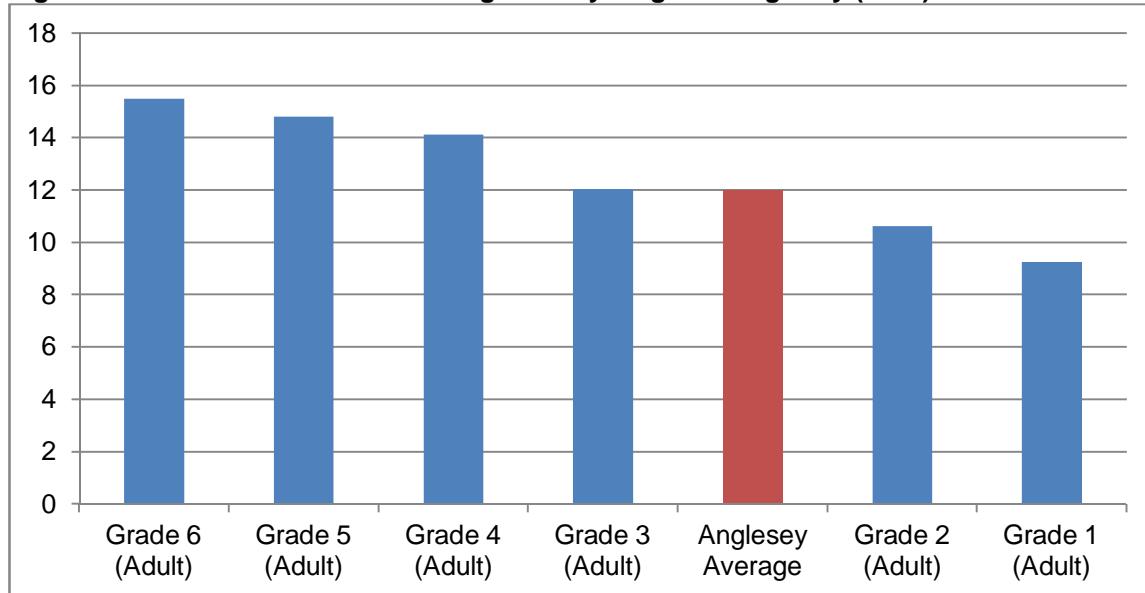
Nuclear New Build is included within the scope of the NAECI, therefore requiring contractors to ensure that employees receive the applicable base, shift and/or overtime rates as set out in the National Guaranteed provisions. Figure 4 below outlines the NAECI rates as of January 2018.

Table 4. National Guaranteed Rates of Pay (NAECI) 2018

National Guaranteed Rates for graded employees	Grade 1 Adult	Grade 1 16/17 years	Grade 2 Adult	Grade 2 16/17 years	Grade 3 Adult	Grade 3 16/17 years	Grade 4	Grade 5	Grade 6
Basic rate/day work	£9.70	£7.51	£11.12	£8.55	£12.60	£9.70	£14.76	£15.50	£16.22
Night shift	£12.27	£9.50	£14.07	£10.81	£15.94	£12.27	£18.67	£19.60	£20.51
Afternoon shift	£11.43	£8.86	£13.11	£10.08	£14.85	£11.43	£17.40	£18.27	£19.12
Double day shift:									
- mornings	£11.26	£8.72	£12.91	£9.92	£14.63	£11.26	£17.14	£17.99	£18.83
- afternoons	£12.01	£9.31	£13.78	£10.59	£15.61	£12.01	£18.29	£19.20	£20.09
3 shifts:									
- 5 days	£11.86	£9.19	£13.60	£10.45	£15.41	£11.86	£18.05	£18.95	£19.83
- 7 days	£12.01	£9.31	£13.78	£10.59	£15.61	£12.01	£18.29	£19.20	£20.09
Rolling shifts:									
- days	£11.64	£9.02	£13.35	£10.26	£15.12	£11.64	£17.71	£18.60	£19.46
- nights	£12.80	£9.92	£14.68	£11.28	£16.63	£12.80	£19.48	£20.46	£21.40
Overtime:									
- Rate 'A'	£13.58	£10.52	£15.57	£11.97	£17.64	£13.58	£20.66	£21.70	£22.70
- Rate 'B'	£17.46	£13.52	£20.02	£15.39	£22.68	£17.46	£26.57	£27.90	£29.20

Source: NJC National Agreement for the Engineering Construction Industry 2016-2018

The NAECI rates are set for different grades based on their respective skill levels. Grades 1, 2 and 3 are at the operative level whereas Grades 4, 5 and 6 represent skilled employees (Craft, Advanced Craft and Skilled Working Chargehand respectively). Figure 5 below demonstrates how Base NAECI rates compare to wages on Anglesey.

Figure 3. Base NAEI Rate vs. Average Hourly Wage on Anglesey (2016)

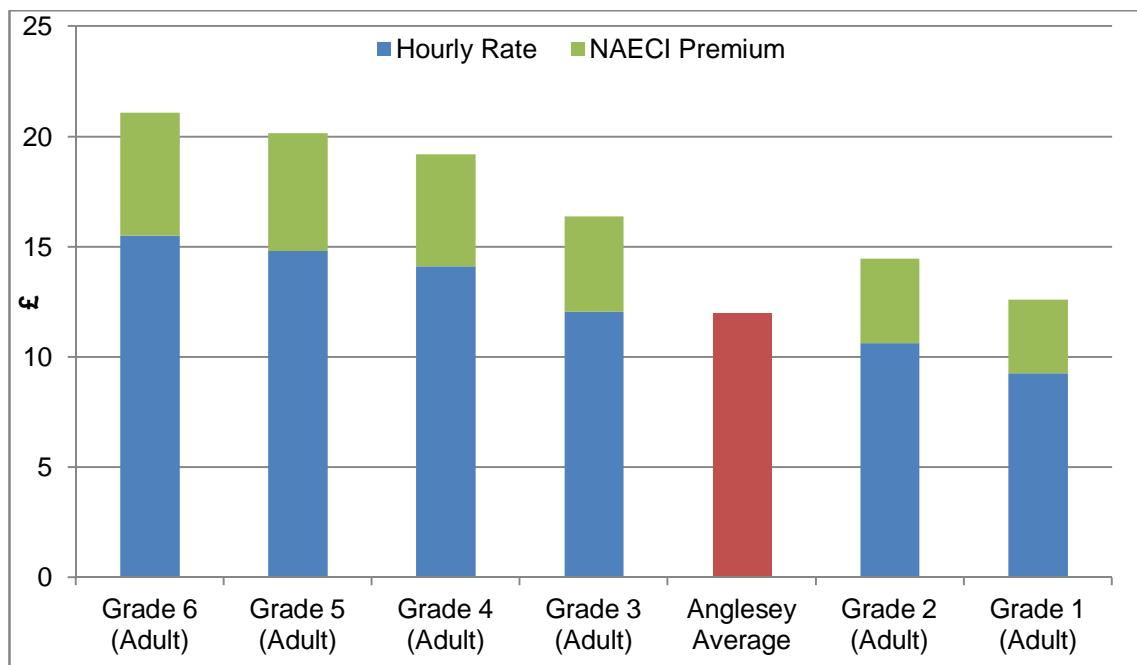
Source: NJC National Agreement for the Engineering Construction Industry / ONS ASHE 2017

Figure 5 demonstrates that the average hourly wage on Anglesey falls between Grade 2 and Grade 3 (experienced operative level). 4 of the 6 NAEI grade levels therefore have hourly rates exceeding the average wage on Anglesey, suggesting the opportunity for workers on Anglesey to earn a premium should these rates be adopted on the Wylfa Newydd project. This is assuming payment of the base rate to employees and does not account for overtime or shift patterns, suggesting that the wage differential between construction workers on Wylfa and average wages on Anglesey could be even starker.

4.2 Hinkley Point C

The case of the Hinkley Point C project suggests that the wage premium effect will be more acute than that outlined in Figure 5. A new pay offer, which is applicable to 1,000 construction employees, will see rates that are up to 36% more than the minimum pay rates of the NAEI. This has been agreed to ensure that construction workers' rates are in line with the rates associated with the mechanical and engineering (M&E) contract on Hinkley Point C.

Figure 4: Base NAEI Rate + premium associated with the Hinkley Point C Pay Deal vs. Average Hourly Wage on Anglesey (2016)



Source: NJC National Agreement for the Engineering Construction Industry / ONS ASHE 2017

As an example, a top skilled craft worker (Grade 6; Skilled Working Changehand) consistently working 48 hours a week would earn £45,000 a year before bonus and allowances under the new pay agreement at Hinkley Point C1. This is within the top 10% of average wages across Wales as a whole (ASHE 2017) and suggests average hourly wages across all grades of £17.32 per hour which would represent a 44% premium to average wages on Anglesey².

The impacts of such a rise in wages could be significant on Anglesey, owing to the size of the DCCZ which at 166,000 people in employment is significantly lower than that of Hinkley Point C (1.25 million in employment³). As such, demand for labour in certain occupational categories at higher than average wage levels, should it result in displacement, would make it difficult for local firms to find replacement labour due to the overall size and composition of the labour force. As a result, these firms could have to increase their own wages to retain or attract staff to roles, with this inflation feeding through into the wider economy – thereby having an effect wider than solely on the Wylfa Newydd project.

With Unite's announcement following the deal that "this is a landmark agreement which will now set the benchmark for pay rates on flagship construction projects throughout the UK" it would be expected that these rates would be required on Wylfa Newydd as Unite is a member of the NJC which sets and agrees the NAEI rates.

4.3 Summary

Existing pay conditions on major infrastructure projects, through the NAEI agreement, stood to exceed current pay levels registered on Anglesey. However, with the announcement of the Hinkley Point C pay deal and the associated premium set to be paid above the existing NAEI rates, wages on Wylfa Newydd – should a similar pay deal be secured for the construction workforce – could be significantly higher than pay conditions on the Island. This raises the potential for wage inflation on the Island and the displacement of workers from existing productive activity on Anglesey.

¹<https://www.employeefbenefits.co.uk/issues/october-online-2017/edf-energy-agrees-pay-deal-1000-hinkley-point-employees/>

² This assumes that the workforce is evenly spread across the 6 Grades in Figure 3.

³ Hinkley Point Economic strategy, DCO Application, October 2011.

5. EVIDENCE BASE

Having established the potential for the Wylfa Newydd project to pay higher wages – as evidenced through the pay deal secured by construction and M&E workers on the Hinkley Point C project – this section looks at the wider academic evidence base to understand the potential for wage inflation and how large major infrastructure projects can impact local labour markets.

5.1 Evidence of wage inflation and displacement

The potential for large projects to pay a wage premium is apparent within the economic literature. Large firms have been found to have the ability to pay more, with the more productive nature of activity at Wylfa Newydd compared to wider economic activity locally suggesting that there will be a requirement to deliver higher wages. Furthermore, large companies such as Horizon have the ability to share excess profits with workers, hire more qualified workers and substitute high monitoring costs with wage premia⁴. In the Socioeconomic Review of Megaprojects, Lehtonen et al. (YEAR) also found that megaprojects typically result in localised inflation and that, while contractors related to the project are often compensated for this; local businesses may suffer if they cannot attract staff. Inflationary effects were also found to often be more prominent in remote areas.

Therefore, the existing evidence suggests that there is potential for large companies or so-called “megaprojects” – a category which Wylfa Newydd project falls into – have the ability to offer pay conditions that are in excess of existing conditions in their host location. This stands to result in the displacement of workers based on the wage premia that Wylfa has the potential to offer, and can feed through to wider inflation in the local economy.

The impact of major projects in terms of displacing local workers is apparent in the example of Sizewell B, the most recently completed of the UK’s nuclear power plants. A review of the economic benefits of the Sizewell B project undertaken by Glasson (2015) found that, during the early years of the project, approximately 600 employees annually were drawn to the site from local employers. Taking into account that the peak workforce associated with Sizewell B was just over 5,000 – compared with between 8,000 and 10,000 at Wylfa Newydd – and the more ruralised and remote location of Anglesey (with a reduced supply of labour within commuting distance) the impact of displacement could be much higher in the case of the Wylfa Newydd project.

Inflationary impacts will not only be evident on wage levels but also on a range of other markets/services that the influx of workers will increase demand for. This includes housing,

5.2 Evidence of labour market capacity to cope with displacement

In considering the issue of displacement, a key factor to take into account is the labour market’s ability to absorb increased levels of displacement on top of that already in existence under current conditions.

This issue was assessed by Horizon, which itself found that between 2012 and 2013, employment across the 90 minute drive time area grew by around 7,800 jobs overall however this was a result of just over 12,500 job movements (the sum of jobs lost and gained over the same period). This general turnover of jobs represented around 9% of the average total employment for the area. Over the same period, general turnover came in at 16% across Anglesey and 6% across Wales as a whole.

Horizon states that the general turnover of 9% across the DCCZ would imply that the local economy could sustain a minimum of 5,560 of the workers defined as possessing nuclear relevant skills moving from their existing jobs into new jobs created by Wylfa Newydd without causing an effect beyond the capacity of the local economy to absorb. However, this assumes that displacement resulting from the Wylfa Newydd project – with 2,000 roles expected to come

⁴ The Establishment-Size Wage Premium: Evidence from European Countries (2005) - <https://www.econstor.eu/bitstream/10419/33633/1/485624524.pdf>

from within the DCCZ – will not be on top of the level of general turnover already evident.

Oxford Economics' baseline forecasts (i.e. without the Wylfa Newydd development) suggest that workplace jobs in the Isle of Anglesey will rise from 25,600 in 2016 to 26,800 in 2023, equivalent of 1,200 net new jobs over the seven-year period. Therefore the additional 2,000 jobs will represent growth of 7.5 percent over its baseline forecast for 2023. And as such there is a risk that Horizon overstates the local economy's ability to absorb this displacement.

Furthermore, while the turnover capacity of 5,560 workers relates to a blanket categorisation of “all nuclear-relevant skills” there are certain trades that are in demand and have limited spare capacity to cope with displacement. For instance, in its Jobs & Skills Strategy, Horizon notes a number of trades for which the Wylfa Newydd Project is expected to have significant need, and where there are forecast skills or recruitment shortages, either in North Wales or the adjacent North West region of England:

Table 5. Wylfa Newydd Workforce Capacity Constraints by Trade

Discipline	Trade	Peak Volume	Peak Year
Civil Engineering/Construction	Labourers	1,127	2023 Q4
	Carpentry	750	2021 Q4
	Steel Fixing	518	2021 Q4
	Scaffolding	462	2023 Q3
	Plant Operatives / Rigger	376 / 269	2023 Q3
Mechanical & Electrical Engineering	Electrician	929	2023 Q3
	Pipe Fitter	680	2023 Q3
Site Services	Offsite services – security & clerical	393	2022 Q3
	Site services – security & clerical	499	-

Source: Horizon

As such, owing to their constrained supply and – in cases such as site services – the potential for the majority of roles to be sourced from within the DCCZ, there is significant potential for displacement to occur.

Furthermore, Horizon notes that the level of movement depends upon the nature of the job opportunity on offer, in terms of how long the opportunity will last and the level of pay on offer compared to the prevailing rate of pay in the area. Movement levels will also depend upon the relevance of detailed capabilities of the local workforce in so far as certain types of apparent skills matches may be less than first appear. As noted above, large projects such as Wylfa Newydd have the potential to offer higher wages due to their more productive activity compared with existing activity in the DCCZ and due to the size of Horizon as a company. The nature of employment on the Horizon project would also offer workers the opportunity to work for a global conglomerate, providing opportunities for advancement and professional development, and a sense of purpose by working on a nationally-significant project – both which have been found to be key non-pecuniary factors attracting workers to roles and companies⁵. The project would therefore attract workers through both financial and non-financial package that it offers. The extent to which displacement occurs is also dependent on the employment counterfactual i.e. what workers would be doing before/in absence of the Wylfa Newydd project. Broadly speaking, there are three alternatives: they could be employed in some other job; economically inactive; or unemployed⁶.

⁵ <https://www.forbes.com/sites/ashleystahl/2016/10/12/employers-take-note-heres-what-employees-really-want/#5ac6444e1c83>

⁶ “Transport investment and economic performance: implications for project appraisal” Venables et al. (2014)

An efficient labour market – i.e. one with full employment – suggests that jobs from new investments will be drawn from other productive activities in the area in question and therefore represent limited social value without appropriate mitigation. According to the Office for Budget Responsibility the UK's Non- Accelerating Inflation Rate of Unemployment (NAIRU) (or its natural unemployment rate) is around 4.5%⁷ whereas on Anglesey the current unemployment rate is 3.7% (ONS Annual Population Survey 2017). This suggests that there is significant potential for new jobs associated with Wylfa Newydd to displace workers already active in the Anglesey workforce due to the lack of spare capacity currently in the labour market.

Furthermore, the estimate from the OBR is informed by an assessment of past trends in the observed unemployment rate, as well as other recent labour market developments (such as wage growth, changes in the level of long-term unemployment or evidence of labour market mismatch). As shown in Table 4, Anglesey has significantly higher long-term unemployment, as measured by the duration of claimants' drawdown of jobseeker's allowance. This further limits the potential supply of labour from the unemployed cohort with higher proportions than the UK average figures. This again supports the theory that employment on the Wylfa Newydd project is likely to be displacing existing employment given a tighter supply of labour.

Table 6. Jobseeker's Allowance by Duration and Age

Area	Age Bracket	Durations over 6 months	Durations over 12 months	Durations over 18 months	Durations over 24 months
Isle of Anglesey	Persons aged 16 to 24	8.4%	5.3%	3.2%	2.1%
	Persons aged 25 and over	51.6%	37.9%	28.9%	22.6%
Wales	Persons aged 16 to 24	7.2%	4.0%	2.4%	1.5%
	Persons aged 25 and over	42.8%	28.6%	21.1%	16.8%
United Kingdom	Persons aged 16 to 24	5.5%	2.6%	1.5%	0.9%
	Persons aged 25 and over	40.6%	26.7%	19.9%	15.9%

Source: NOMIS

5.3 Summary

The existing academic evidence base demonstrates that major infrastructure projects have the capacity to pay higher wages, which has been found to feed through to inflation in the wider economy. The experience on Sizewell B also evidences that this can feed through to the displacement of workers that are undertaking productive activities already in the local economy. The potential for displacement differs by location, however the conditions on Anglesey, with limited spare capacity in the labour market, lower-than-average pay levels and its remote location reducing the wider pool of available labour, suggests that there is significant potential for higher wages to cause a large impact through displacement.

⁷ <http://obr.uk/forecasts-in-depth/the-economy-forecast/potential-output-and-the-output-gap/>

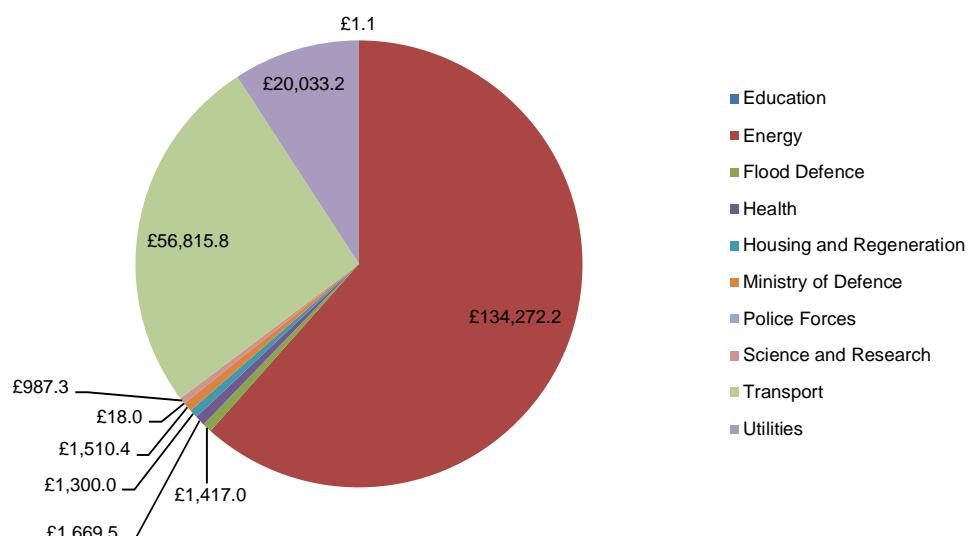
6. WIDER DEMAND ASSESSMENT

The Wylfa Newydd project takes place at a time of significant infrastructure investment across the UK, with projects such as HS2 and Hinkley Point C putting pressure on the construction workforce across the UK. This section outlines the scale of investment across the construction sector and how this will affect demand for construction skills.

6.1 The National Infrastructure Pipeline

The National Infrastructure and Construction Pipeline contains £218,024.4 million in capital expenditure to be invested post-2020/218. This includes, for example, long-term programmes such as High Speed 2, and Manchester Airport's £1 billion transformation programme. After 2020/21 the pipeline also includes around £110 billion of electricity generation investment; part of this spend is on known projects – such as Hinkley Point C and Triton Knoll offshore windfarm. This suggests significant demand for construction labour over the period in which the Wylfa Newydd project is to be delivered.

Figure 5. National Infrastructure Pipeline Post 2020/21



Source: <https://www.gov.uk/government/publications/national-infrastructure-and-construction-pipeline-2017>

Furthermore, these figures do not account for projects that are to be confirmed, and the NIP provides a 10 year projection of around £600 billion of public and private investment, covering the period 2017/18 to 2026/27. This owes to government capital budgets and future price control periods for the regulated utilities not having yet been set for the period beyond 2020/21.

This level of demand will place strain on the construction industry's labour force. Between 2017 and 2021, there is £244.675 million investment in the National Infrastructure Pipeline. During this period, the construction sector is expected to need to recruit an additional 35,740 staff. This demand is expected to be driven by growth in infrastructure investment, which is expected to average 5.4% over the five years (with 2019 expected to deliver growth at an impressive 10%). Over this period, in terms of overall numbers, the largest annual recruitment requirements (ARRs) are predicted for wood trades and interior fit out (3,850), electrical trades and insulation (2,250), and other construction professionals and technical staff (2,240).

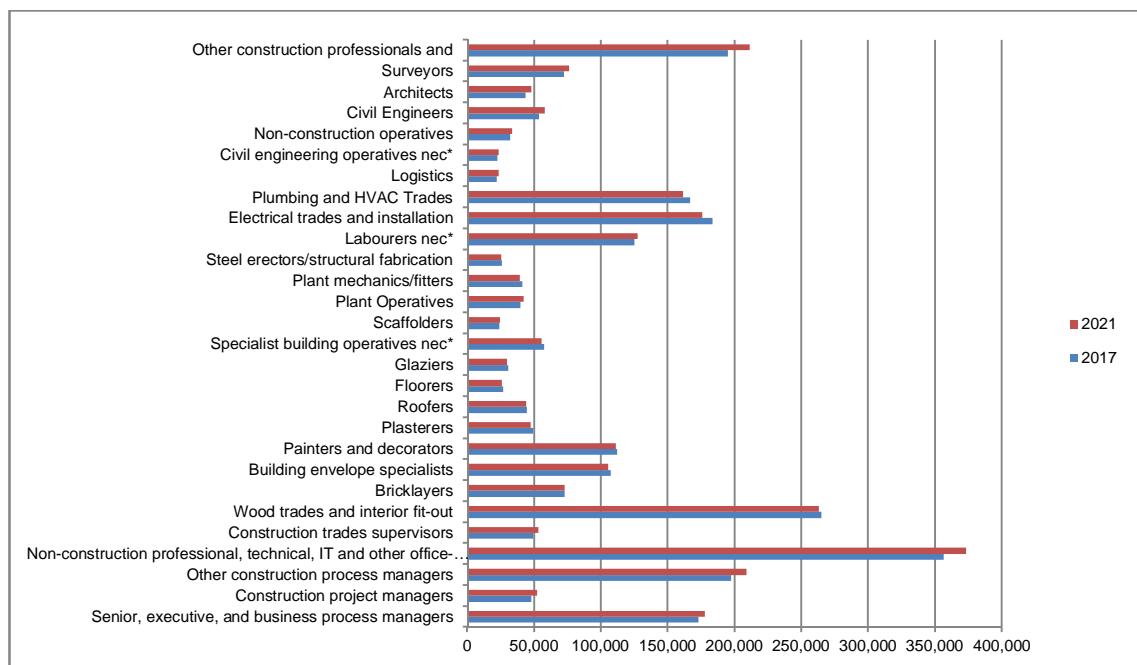
⁸ The pipeline contains projects and programmes distributed across the UK but the majority of the value of the pipeline (around 90%) relates to spending in England. This is because most infrastructure spending in Scotland, Wales and Northern Ireland is the responsibility of each devolved administration, and therefore is not included in this pipeline.

Taken as a proportion of 2017 employment levels, the highest ARRs are for logistics personnel (3.8%), construction trades supervisors (2.9%) and civil engineers (2.7%). In light of the 10 year projection of £600 billion public and private investment from 2017/18 to 2026/27, it would be expected that recruitment shortfalls will continue to be registered over the construction period of the Wylfa Newydd project.

To meet these demand shortfalls, the industry will be required to train more personnel or attract workers from other sectors/industries that have similar skillsets. Taking into account the ageing workforce within the construction sector – with 22% of the workforce aged between 50 and 60 years old⁹ – and the impact of Brexit on the workforce - the construction sector is reliant on migrant labour, this challenge is sizeable. Skills gaps and shortages are likely to exacerbate an already difficult position.

This constrained supply of labour opens up the potential for wage inflation in order to retain vital skilled workers within the workforce (such as in the disciplines outlined above) or attract workers from outside the sector and new trainees.

Figure 6. Construction Annual Recruitment Requirement 2017-2021



Source: Construction Skills Network Forecasts 2017–2021

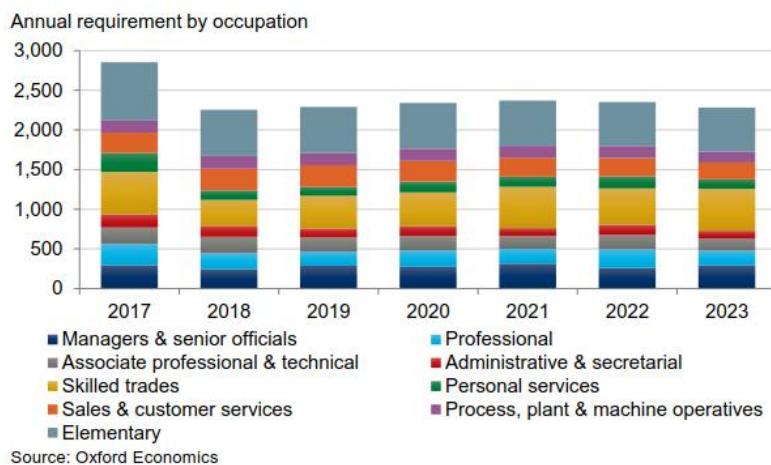
Wales is forecast to register annual average construction output growth of 6.2% over the five years to 2021, the strongest of any of the English regions and devolved nations. The Wylfa Newydd project is a key driver of this growth.

Employment growth is projected to average 2.7% annually between 2017 and 2021, well above the UK rate of 0.6%, with the Welsh construction workforce reaching close to 128,000 by 2021. This employment growth is reflected in an annual recruitment requirement of 3,890 over the same period. This is the highest as a ratio of base 2017 employment (3.4%), which is significantly higher than the ratio of 1.4% for the UK as a whole. Wales traditionally suffers from high net outflows of its construction workforce to other areas of the UK, in particular to the South West and North West of England, and thus tends to have a high relative ARR.

⁹ <http://www.mynewsdesk.com/uk/uk-construction-media-2/pressreleases/the-biggest-challenges-in-the-construction-industry-1842613>

In relation to Anglesey itself, the cumulative impact of major infrastructure projects and growth in the wider economy is expected to have a marked effect on annual recruitment requirements.

Figure 7. Cumulative Demand by Occupation on Anglesey



After accounting for replacement demand and expansion demand, elementary occupations represent the largest share of jobs required under the growth scenario. Up to 2023 – the employment peak for Wylfa Newydd – the overall demand for elementary occupations in Anglesey is forecast to equal 4,400 jobs. This represents almost a quarter (24%) of total labour demand on the island.

It is estimated that there will be demand for almost 3,800 people to fill skilled trades roles in the Anglesey economy (over one fifth of labour demand to 2023). Demand for high skilled occupations, such as managers & senior officials, professionals and associate professional & technical occupations in Anglesey also rise. Collectively these occupations will require 5,100 jobs to be filled up to 2023, over a quarter (28%) of the net total recruitment requirement.

Nearly three-fifths (58%) of job creation on Anglesey is expected to be realised in the construction sector, equating to 6,200 additional jobs. As a result, by 2023, there will be 8,600 employed in the construction sector in Anglesey (two and half times larger than 2016 levels of 2,400).

6.2 Summary

Previous sections within this report have highlighted the potential for major projects such as Wylfa Newydd to lead to increased wages within the local economy, potentially resulting in the displacement of workers and localised inflation. This section has established that, while the demand for labour associated with the Wylfa Newydd project is significant, and a once in a generation opportunity for the Anglesey economy, it comes at a time of significant infrastructure investment across the UK.

This will put increasing pressure on the construction workforce, with high annual recruitment requirements putting strain on certain disciplines such as construction trades supervisors and civil engineering operatives nec, both with annual average growth rates of over 4% across Wales. With Wales known to suffer from high net outflows of its construction workforce to meet demand in other areas of the UK, any shortfalls in supply could cause further wage increases to attract workers (either from within the construction sector or to transfer from other sectors). Therefore, the scale of cumulative demand is such that it could result in even greater wage inflation and displacement on Anglesey.

7. IMPACT ASSESSMENT

This section provides a high level assessment of the impacts of wage inflation on the Anglesey economy. It focuses on the key occupational categories for which demand for skills and labour associated with the Wylfa Newydd project is most prominent.

Horizon currently estimates that the Wylfa Newydd project will create 9,000 jobs at peak construction in 2023 and that 22.4% (2,000) of these jobs will be open to the 'local' population.

Table 7. Wylfa Newydd On-Site Jobs at Peak

Occupation	Wylfa Newydd	
	Total	Local
Site services, security and clerical staff	500	111
Supervisory/managerial	1,975	439
Civil engineering	3,050	678
Mechanical and electrical operatives	2,670	593
Operatives	425	94
Off-site Services, Security and Clerical staff	380	84
Total	9,000	2,000

Source: Horizon / Oxford Economics 2018

It is possible to map these roles based on occupational classifications, as set out in the below table. The majority of roles (63%) are expected to fall within the skilled trades category, with 22% in managers, directors and senior officials, 10% in elementary occupations and 5% in process, plant and machine operatives.

Table 8. Local On-Site Jobs at Wylfa Newydd (Peak) by Occupational Category

Occupation	Wylfa		Average Wage (Anglesey) ¹⁰
	Jobs	%	
Managers, directors and senior officials	440	22	31295.93
Professional occupations			32587.51
Associate prof & tech occupations			25520.32
Administrative and secretarial occupations			17421.01
Skilled trades occupations	1260	63	23661.74
Caring, leisure and other service occupations			13597.19
Sales and customer service occupations			11401.3
Process, plant and machine operatives	100	5	20545.22
Elementary occupations	200	10	12848.57
Column Total	2000	100	

Source: Oxford Economics / ONS ASHE 2017

¹⁰ Note, this is the average wage for Wales, deflated by the average wage differential between Wales and Anglesey

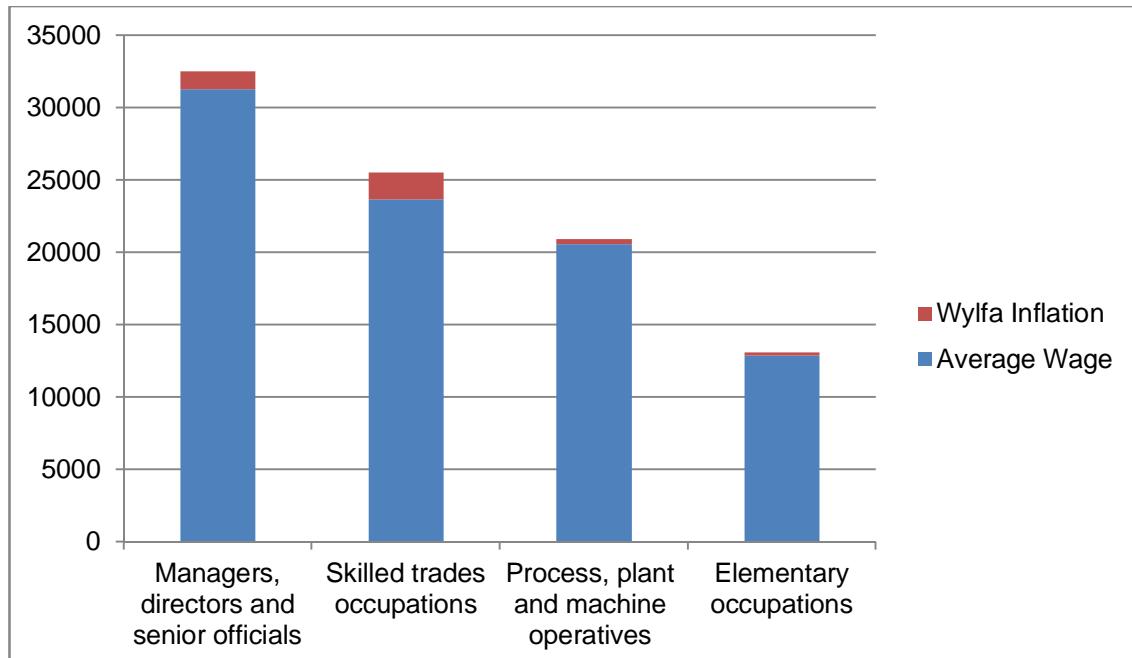
To understand the impact of wage inflation we consider a number of scenarios as outlined below.

7.1 Scenario 1: Wage inflation of 36%¹¹ and 2,000 local jobs on Anglesey

Under this scenario, we assume that the level of wage inflation is 36%, in line with the pay deal secured by the construction workforce on Hinkley Point C and 2,000 workers from on the Isle of Anglesey. As a result, 2,000 workers across the occupational categories stand to receive a 36% premium on wages received under normal conditions.

Under this assumption, the average wage in each occupational category across Anglesey will rise by 4.2%. This is set out below:

Figure 8: Average Wage Inflation under Scenario 1



Source: Oxford Economics / ONS ASHE 2017 / AECOM calculations

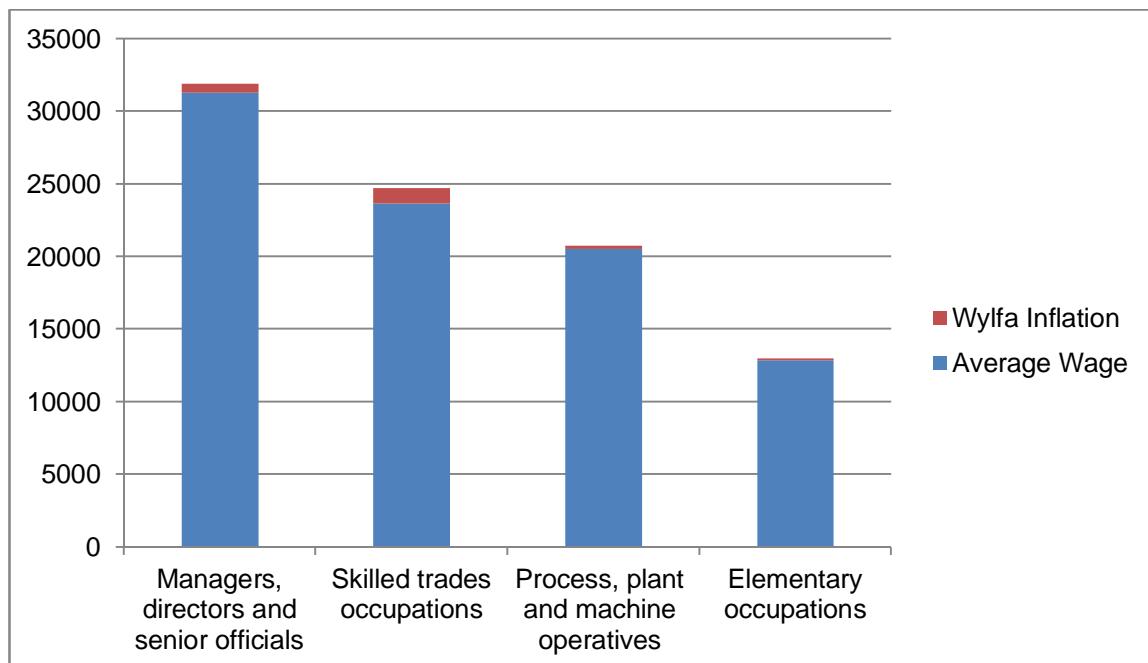
Under this Scenario, the average wage for skilled trades occupations will rise by 7.8% on Anglesey; managers, directors and senior officials (3.8%), elementary occupations (2.0%) and process, plant and machine operatives (1.9%).

7.2 Scenario 2: Wage inflation of 36% and 1,000 local jobs on Anglesey

Under this scenario, we assume that the level of wage inflation is 36%, in line with the pay deal secured by the construction workforce on Hinkley Point C and 1,000 workers from on the Isle of Anglesey. As a result, 1,000 workers across the occupational categories stand to receive a 36% premium on wages received under normal conditions.

Under this assumption, the average wage in each occupational category across Anglesey will rise by 2.3%. This is set out below:

¹¹ as under the Hinkley Point C pay deal

Figure 9: Average Wage Inflation under Scenario 2

Source: Oxford Economics / ONS ASHE 2017 / AECOM calculations

Under this Scenario, the average wage for skilled trades occupations will rise by 4.4% on Anglesey; managers, directors and senior officials (2.0%), elementary occupations (1.0%) and process, plant and machine operatives (1.0%).

However, these scenarios assume a perfect supply of labour whereas, in reality, there will be shortfalls in certain occupational categories.

Table 9: Demand vs. Supply by Occupational Category

Occupation	Anglesey			Wylfa Newydd	
	Employed	Unemployed: Usual role	Unemployed: Sought role	Jobs at peak	% employment on Anglesey
Managers, directors and senior officials	3,700	20	25	440	11.9%
Skilled trades occupations	4,500	30	30	1260	28.0%
Process, plant and machine operatives	1,800	30	25	100	5.6%
Elementary occupations	3,400	65	70	200	5.9%
Column Total	13,400	145	150	2000	

Source: ONS / Oxford Economics

As demonstrated in Table 7, there are significant shortfalls in supply vs. demand particularly in skilled trades occupations with Horizon demand representing 28% of total supply and only 30 jobseekers on Anglesey currently seeking roles in the category. Wylfa also represents 12% of overall demand for managers, directors and senior officials on Anglesey and, as of December 2016 there were only 25 seeking roles at this level. These occupations therefore demonstrate a potential for displacement of activity, with the shortfall in supply suggesting the potential for further wage inflation in the wider economy to retain workers and replace workers who have moved to jobs on the Wylfa Newydd project.

However, the Anglesey economy is in a better position to absorb the Wylfa Newydd project's demand for process, plant and machine operatives and elementary occupations, suggesting less potential for wider wage inflation.

7.3 Summary

This section of the report has identified the occupational categories in which the local jobs at Wylfa Newydd will fit. The scenarios outlined suggest that the additional local labour demand at Wylfa Newydd will result in inflation in the local labour market, particularly in the skilled trades occupations and managers, directors and senior officials where demand is highest. The constrained supply of available labour locally – particularly in skilled trades – suggests that this inflation could be higher as local firms seek to retain and replace skilled workers attracted to the Wylfa Newydd project.

8. CONCLUSION

Based on the review of evidence available the AECOM team make the following conclusions:

8.1 Baseline

- The baseline employment and earnings conditions on Anglesey demonstrate that economic activity is higher than that seen across Wales as a whole, with unemployment markedly lower on Anglesey and North Wales.
- Furthermore, of the economically inactive, a very high percentage are not seeking a job and therefore the Wylfa Newydd project will struggle to bring these people back into the labour market.
- The industries driving employment on Anglesey tend to be related to its key assets such as Wylfa A (Energy & Water), Holyhead Port (Transport & Communications) and tourism (Distribution, Hotels & Restaurants).
- On an occupational level, Anglesey sees a high proportion in Skilled Trades; Caring, leisure and other service occupations and Managers, directors and senior officials compared with the regional and national comparators.
- While economic activity is higher on Anglesey, this is not reflected by higher wages, which are on average around 4% lower than the average seen across Wales. The average wage for construction workers was found to be significantly higher than the average wage level across the whole economy.

8.2 Labour market evidence

- The recent precedent set at Hinkley Point C will impact other nuclear new build construction projects in the UK by increasing wage levels and setting a benchmark for working conditions and wider benefits.
- The existing academic evidence base demonstrates that major infrastructure projects have the capacity to pay higher wages, which has been found to feed through to inflation in the wider economy. The experience on Sizewell B also evidences that this can feed through to the displacement of workers that are undertaking productive activities already in the local economy.
- The potential for displacement differs by location, however the conditions on Anglesey, with limited spare capacity in the labour market, lower-than-average pay levels and its remote location reducing the wider pool of available labour, suggests that there is significant potential for higher wages to cause a large impact through displacement.

8.3 Wider demand

- The demand for labour associated with the Wylfa Newydd project is significant, and a once in a generation opportunity for the Anglesey economy, it comes at a time of significant infrastructure investment across the UK.
- This will put increasing pressure on the construction workforce, with high annual recruitment requirements and strain on certain disciplines such as construction trades supervisors and civil engineering operatives, both with annual average growth rates of over 4% across Wales.
- With Wales known to suffer from high net outflows of its construction workforce to meet demand in other areas of the UK, any shortfalls in supply could cause further wage increases to attract workers (either from within the construction sector or to transfer from other sectors). Therefore, the scale of cumulative demand is such that it could result in even greater wage inflation and displacement on Anglesey.

8.4 Impact Assessment

- The scenarios outlined suggest that the additional local labour demand at Wylfa Newydd will result in inflation in the local labour market, particularly in the skilled trades occupations and managers, directors and senior officials where demand is highest. The constrained supply of available labour locally – particularly in skilled trades – suggests that this inflation could be higher as local firms seek to retain and replace skilled workers attracted to the Wylfa Newydd project.

9. APPENDIX A

The DCO documentation suggests that, while a uniform 22.4% of jobs is set out above, the percentage of local jobs in different occupational classifications will differ depending on Horizon's view of the labour market – the skills and capacity to fill such roles. As such, the table below outlines the expected labour content in Horizon's occupational classifications.

Table 10. Summary of the occupational skills profile of the workforce across the DCCZ for construction

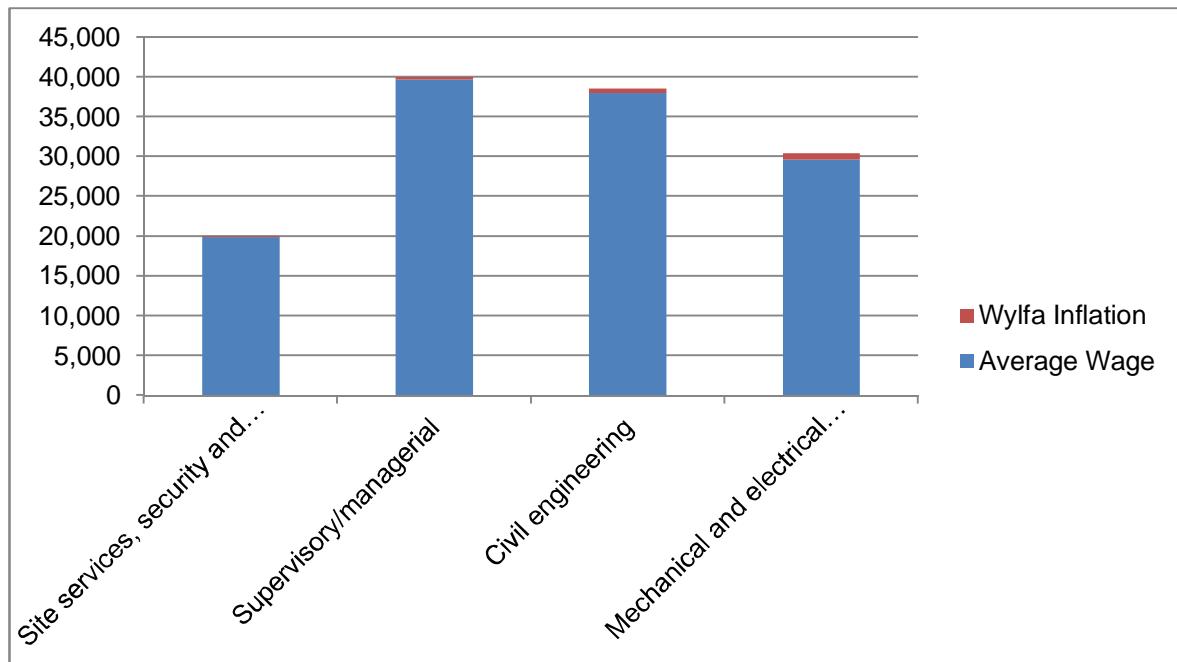
		Wylfa Newydd	
Occupation Classification	Peak Total	Peak Local	% Local
Site services, security and clerical staff	902	689	76.4%
Supervisory/managerial	1,998	237	11.9%
Civil engineering	3,069	675	22.0%
Mechanical and electrical operatives	2,580	208	8.1%
Operatives	451	191	42.4 %
Total	9,000	2,000	

Source: Horizon DCO Application Technical Appendix

9.1 Scenario i: 36% Wage premium on all roles

Under this scenario, we assume that the level of wage inflation is 36%, in line with the pay deal secured by the construction workforce on Hinkley Point C and 2,000 workers from the DCCZ. As a result, 2,000 workers across the occupational categories stand to receive a 36% premium on wages received under normal conditions.

Under this assumption, the average wage in each occupational category across the DCCZ will rise by 1.4%. This is set out below:

Figure 1. Average Wage Inflation under Scenario i

Source: Oxford Economics / ONS ASHE 2017 / AECOM calculations

Under this Scenario, the average wage for mechanical and electrical operatives will rise by 2.6% across the DCCZ; civil engineering (1.4%), site services, security and clerical staff (0.8%) and supervisory/managerial (0.8%) will also register wage inflation.

Table 11. Available labour supply vs. requirements of Wylfa Newydd

Occupation	DCCZ		Wylfa Newydd	
	Labour Force	Claimants	Jobs at peak	% employment across the DCCZ
Site services, security and clerical staff	31520	2,210	689	2.2%
Supervisory/managerial	10795	25	237	2.2%
Civil engineering	16744	345	675	4.0%
Mechanical and electrical operatives	2725	10	208	7.6%
Column Total	13,400	2,590	2000	

Source: Horizon / Oxford Economics

The demand relative to the labour supply across the DCCZ suggests that there is potential for displacement of existing activity, particularly in relation to supervisory/managerial staff and mechanical and electrical operatives, with the shortfall in available supply (i.e. the number of claimants vs. number of roles) suggesting the potential for further wage inflation in the wider economy to retain workers and replace workers who have moved to jobs on the Wylfa Newydd project. Furthermore, in some cases the wage premium offered to take jobs on Wylfa Newydd may have to be increased, should the shortfall in supply be sufficiently acute.