West Midlands Regional Observatory




# Regional Skills Assessment Executive Summary

# 2007

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Version 1.0
15th November 2007

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Skills are now at the centre of the economic and social policy agenda and an integral part of national, regional and sub-regional strategies to develop the economy and tackle disadvantage and exclusion. This report highlights the key skills challenges that have been set for the Region. It then goes on to consider the state of the regional labour market and the factors that will influence the extent to which these challenges are met, notably:

- The Region's economic and skills performance and future prospects
- Changing regional demography
- Investment in skills by employers and individuals
- Participation in employment and worklessness
- Barriers to engagement in employment and learning

## 1.1 Policy context – the Region's skills challenges

At a national level the Leitch review[1] highlights the role of skills in maximising economic prosperity and productivity and improving social justice. However it is recognised that while the UK's skills base has improved significantly over the last decade it remains weak by international standards. Despite substantial investment and reform plans already in place, by 2020 we will only have managed to 'run to stand still' and on our current trajectory the UK's comparative position will not have improved significantly. The ambitious vision of the review is for the UK to become a world leader in skills, benchmarked against the upper quartile of the OECD. The Welfare Reform Green Paper: In Work, Better Off, Next Steps to Full Employment highlights the need to equip groups such as long term benefit claimants, minority ethnic groups, lone parents and those living in urban areas with the skills needed to compete in a global economy if their rates of participation in employment are to be improved[2].

There are also a number of strategies that articulate specific aspirations for the West Midlands

- The West Midlands Economic Strategy acknowledges that, alongside addressing low rates of innovation, improving the Region's record on skills is central to improving perceptions of the West Midlands as place in which to invest, work, learn, visit and live[3].

1 Leitch Review of Skills Final Report, December 2006

2 DWP

3 West Midlands Economic Strategy Consultation Draft, August 2007

- The Regional Spatial Strategy has two key aims of urban and rural renaissance. This means not only significant housing and commercial development but also the need for appropriately skilled people to build them and work in them. This goes hand in hand with ensuring that people and communities have access to education, training and skills development opportunities[4].
- The West Midlands Regional Skills Partnership (RSP), which comprises a mix of employers, skills providers and other public bodies, has articulated how skills development can support all of these objectives[5], in particular its aims are for:
    - Every adult and young person to have the basic employability skills and opportunities to progress.
    - Every employer to have the skilled people they need, to make effective use of their skills and to invest in workforce development.
- Partners are now charged with developing a more detailed skills delivery plan to take forward the key issues identified in these key regional strategies

At a sub-regional level the City Strategy which has been developed for the new 'city region' area encompassing Birmingham, Solihull, Coventry, the Black Country and Telford, acknowledges that achieving its vision that 'by 2020 the area will have levels of personal prosperity, business success and population growth equal to the South East of England with every individual realising his or her full potential'[6] will depend upon effective action to improve the employability and skills of the workforce.

At a local level skills and employment issues are being tackled through Local Area Agreements (LAAs) and Multi Area Agreements (MAAs). These are negotiated by key agencies such as local authorities, the LSC and AWM and set out how local needs will be addressed.

4 GOWM: Regional Planning Guidance for the West Midlands (RPGII) June 2004

5 West Midlands Regional Skills Partnership: Invest in Skills, Improve Your Bottom Line, March 2007

6 City Strategy Business Plan – June 2007 Update

## 1.2 The Region's economic and skills performance

However hopes of delivering the strategies continue to be undermined by the poor performance of the West Midlands economy relative to other regions:

- Analysis to support the development of the West Midlands Economic Strategy suggests that there is a £10 billion 'output gap' in the Region (compared to what Gross Value Added would be in the Region if it produced wealth at the current national average per head of population)[7].
- While employment levels are increasing, growth of 4% over the last 5 years (2000-2005, latest available figures) was the third lowest in England[8]. While service industries continue to be major drivers of job growth, with nearly 200,000 net new jobs created over the period this is offset by a contraction in manufacturing employment of more than 130,000.

Encouragingly, however, the skills performance index we have developed on behalf of the RSP[9] confirms that the Region is making headway in terms of its performance in relation to skills. The gap between the regional and national average has narrowed from 6 points in 2003 to 4 points in 2005. To put this in context, however, the Region's skills performance based on this measure is still the worst in England and the 'scale of the task' to close the gap remains significant.

## 1.3 Future prospects for the Region

Nevertheless over the next decade there is potential for substantial growth in employment in the Region. More than 150,000 net new jobs are forecast to be created by 2016, principally in Health & Social Care, Wholesale & Retail, Business & Professional Services, Education, Construction and Hotels & Catering. This is forecast to be offset, however, by the shedding of nearly 50,000 jobs in manufacturing[10].

7 West Midlands Economic Strategy Consultation Draft, August 2007

8 ONS Annual Business Inquiry

9 The index is based on measures relating to employers such as the extent of skill gaps and shortages, investment in training and knowledge intensive employment and measures relating to individuals such as graduate retention, qualification attainment and participation in learning and employment

10 Based on projections from the WMRO Regional Economy Environment Input Output (REEIO) model for the West Midlands Region

Nearly 150,000 net new jobs are expected to be created in higher skilled and customer facing roles and nearly 600,000 additional job opportunities are expected to arise due ‘replacement demand’, driven by retirements and job moves. More than 40,000 jobs are forecast to be shed in administrative, skilled manual and operative occupations, although this will be offset by more than 350,000 additional job opportunities arising due ‘replacement demand’. However in elementary unskilled occupations the 44,000 jobs generated by replacement demand will be outweighed by the shedding of more than 50,000 jobs

A range of key investment projects are generating further job growth across the Region. For example:

- The £550 million redevelopment of Birmingham New Street railway station is expected to generate up to 3,000 new job opportunities in retail, hospitality and business & professional services by 2013.[11]
- There is potential for a significant proportion of the estimated £2 billion worth of tourism related spending nationally associated with the Olympics[12] to be attracted to the Region.
- Major office and leisure developments at Eastside, Birmingham, office developments in Wolverhampton city centre and to the north at I54, and in and around Coventry.

## 1.4 Investment in skills by employers

If this potential for growth and the aspirations for the region articulated in the key strategies are to be realised, further investment by employers in training and up-skilling will be critical in a range of key sectors. For example:

- The Region’s construction sector is faced with significant skill gaps and shortages relating to skilled trade occupations such as bricklayers, wood trades and plumbers. Problems are exacerbated by the poor image of the sector as a career choice. This may impact on the Region’s ability to deliver sufficient new housing, commercial and retail development and to regenerate enough brownfield land sites to meet the Regional Spatial Strategy’s objectives for urban and rural renaissance[13].

11 Birmingham City Council, AWM

12 DCMS, 2006

13 Based on analysis from Construction Skills and Summitskills Sector Skills Councils

- Many of those working in the passenger transport sector, particularly in customer facing roles, are deficient in communication and customer service skills. This may impact on the extent to which ambitions to enhance and improve the public transport infrastructure can be realised[14].
- Skill gaps and shortages in the electricity, gas, water and waste management industries are being exacerbated by competition from other sectors, largely reflecting the poor image of the sector as a career choice and a lack of awareness of the kind of opportunities available. This may impact on sector's ability to service the new Regional Spatial Strategy and its ability to develop the sources of renewable energy and new approaches to waste treatment and recycling required to reduce the region's carbon footprint[15]
- A need for a better qualified workforce has been identified across a number of key sectors. In agriculture and other land based industries, construction, wholesale & retail and transport (which together account for 30% of the Region's workforce[16]) there is expected to be a significant demand for upskilling to NVQ Level 3 over the next few years[17]. In engineering, electricity, gas and water, business and professional services ICT and telecommunications and education (which together account for a further 35% of the Region's workforce) a shift in the share of employment towards higher skilled roles is expected to create further demand for individuals with NVQ level 4 and 5 qualifications.

At the same time a range of cross sector skills issues need to be addressed:

- *Issues relating to 'employability' skills*. Employers are often of the opinion that the right mix of employability skills (notably literacy and numeracy, written and oral communication, basic IT customer handling, team working and problem solving skills and personal attributes such as work ethic and attitude ) is a bigger advantage for staff than having the necessary industry knowledge. Employers highlight deficiencies in these skills in both prospective job applicants and the existing workforce[18].

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14 Based on analysis from Goskills Sector Skills Council

15 Based on analysis from EUskills Sector Skills Council

16 ABI 2005

17 For further details see the Supplement on Skills Issues and Challenges in Key Sectors

18 Derived from West Midlands data from the 2005 National Employer Skills Survey

- However individuals looking to secure or progress in employment such as graduates, school leavers and the disadvantaged in the labour market tend to view a lack of job specific skills, experience and qualifications as the key barriers[19]. Indeed, at odds with the employer view, many such individuals have a positive perception of their employability, believing themselves to be 'job-ready'. While this misconception represents a significant barrier to entry to the labour market for many individuals and to recruitment for employers, there appears to be little feedback from employers to candidates on shortcomings in employability skills, reinforcing the problem.
- *A need for improved management and leadership skills*. Across all of the Region's key sectors the role of managers and leaders within organisations in terms of their contribution to improvements in organisational performance and competitiveness is being increasingly recognised:
    - Deployed intelligently, information technology can enable organisations to make dramatic leaps in productivity and redefine competition within whole sectors[20].
    - Research suggests that the most innovative companies have visionary managers and leaders that inspire their workforce, management teams with a commitment to investment in innovation, the stamina to see things through and an openness to new people and ideas[21] and have introduced systems, structures, processes, culture and networks that stimulate creativity[22].
    - Managers and leaders have a critical role to play in supporting improvements in business performance via the development and deployment of workforce skills

As highlighted by our framework of skills performance indicators and discussed previously in the 2006 Assessment, in 2005 (latest available data) the proportion of the Region's workforce being trained by their employer is the lowest in England. Encouragingly, however, case study research we have conducted provides examples of employers giving training and up-skilling a high priority. Many have adopted good practice that has realised real business benefits and could be replicated more widely, for example:[23]

19 Vector Research (2001) – The Supply of and Demand for Skills in the East Birmingham/North Solihull Regeneration Zone, WMRO – Regional Lifestyle Survey 2005

20 Chartered Management Institute: Business Leadership of Technological Change – Five Key Challenges Facing CEOs, March 2007

21 The Manufacturing Foundation: Innovation Essentials, 2003

22 AIM Management Research Forum in co-operation with the Chartered Management Institute: Leadership for Innovation, 2005

23 A series of 25 employer and 10 employee case studies that explore the benefits and barriers to investment in skills by employers commissioned by WMRO on behalf of the RSP

- Developing tailored on-site training solutions
- A management team or board that recognizes the importance of training
- Adoption of recognised HR standards
- Monitoring of the impact of training
- Evaluation of training undertaken
- Effective assessment of the training needs to be addressed

A number of employers, principally from the engineering sector, have made a serious attempt to specifically quantify the benefits of training in terms of increased productivity, increased sales per employee and increased effectiveness of plant and equipment. Employers were more likely, however, to cite 'softer' more qualitative benefits of investment in training, notably:

- From an employee perspective development and up-skilling can help facilitate career progression, improve job satisfaction and boost confidence
- From an employer perspective investment in training can make a major contribution to improving customer satisfaction, winning new business and reducing staff turnover

The case studies have also provided an insight into the issues and barriers that can inhibit investment in training, for example:

- Time – being able to free up staff to cover for those being trained
- High costs – particularly in relation to external providers
- Concern about return on investment – fear of poaching of staff who have been trained and that training may end up being for someone else's benefit
- Low self esteem and negative attitudes among staff – often leading to a fear of training
- Problems with the delivery of training by providers – notably relating to preparation and co-ordination

## 1.5 Trends in regional demography and migration

It will also be important for employers, skills providers and other regional partners to respond to the significant changes in the Region's demographic profile that are taking place, which are having a significant impact on the available supply of labour and skills. These include:

- An ageing population, with a forecast increase of 120,000 from 640,000 to 760,000 in numbers of 55-64 year olds over the 2001-2025 period[24].

24 ONS 2005 mid-year population estimates, ONS local authority projections

- Rapid growth in the size of the Region's minority ethnic communities within urban areas. Over the 2001-2025 period it is forecast that the Region's Asian communities will expand by some 90,000 from 370,000 to 460,000, the Region's black communities will expand by 30,000 from 95,000 to 125,000, numbers of people of mixed heritage will increase by nearly 30,000 from 75,000 to 100,000 and numbers of people from other minority ethnic groups will increase by double from 30,000 to 60,000[25].

The growth in the size of the Region's minority ethnic communities being given further impetus by the significant influx of migrant workers into the Region in recent years, principally from Poland and other eastern European countries and from India, the Philippines, China, South Africa and Zimbabwe[26]. Migrant workers tend to be employed and contributing to the economy in sectors where labour demand is buoyant and recruitment problems and skill shortages are significant, notably agriculture, hospitality & catering, manufacturing generally (and food processing industries in particular), transport, health services and construction. Common occupations are nurses and other healthcare related occupations, chefs and lower skilled occupations such as process operatives in factories, farm workers, warehouse operatives and packers.

## 1.6 Investment in skills by individuals

While investment in skills by employers is important it will also be crucial for individuals to invest in their own skills and qualifications.

Encouragingly qualification attainment rates for young people are improving. In particular the proportion of 19 year olds achieving a level 2 qualification[27] has increased significantly, by 6 percentage points to 70% between 2004 and 2006 and the gap with the England average has narrowed to 1 percentage point[28]. The proportion of 19 year olds achieving a level 3 qualification has also risen strongly by 5 percentage points to 44% between 2004 and 2006.

25 Joseph Rowntree Foundation 2006

26 Analysis taken from forthcoming the Economic Impact of Migrant Workers Study commissioned by Regional Partners, due to be published in full in October 2007

27 For a definition of qualifications see the glossary of terms at the back of this document

28 DfES/LSC matched administrative dataset

The proportion of adults acquiring qualifications is also improving. The gap with the England average remains, however, and performance in the West Midlands continues to compare poorly with other regions. In 2006 the proportion of the Region's working age population with no qualifications (17.5%) was the highest in England and the proportions qualified to level 2 and above (64%) and level 3 and above (42%) were the lowest in England[29]. Attainment of higher level qualifications is the only level for which the Region is not the worst performing (both the North East and Yorkshire & Humber have lower rates of attainment).

At all levels, the gap between attainment in the region's urban areas (notably Birmingham, Stoke-on-Trent and the Black Country) and the 'shire counties', remains pronounced. At level 2 and above rates of attainment ranged from more than 70% in Warwickshire, Solihull and Shropshire to less than 60% in Birmingham and Stoke-on-Trent and less than 55% in Walsall, Wolverhampton and Sandwell in 2006 while at level 3 and above rates of attainment range from 30% in Sandwell to 50% in Solihull. At level 4 and above Sandwell's rate of attainment of just 16% is just over half the figure for Solihull (31%).

While the proportion of the workforce qualified to level 2 and above was close to the England average in most sectors in 2006, rates of attainment are much lower in engineering and other manufacturing industries. Improving rates of attainment will be critical in these key industries, where better skilled and qualified workers are needed to support improvements in competitiveness.

Older people and people from minority ethnic groups, who as already mentioned are making up a growing proportion of the working age population, tend to be less qualified and less likely to be participating in learning than the Region's working age population as a whole. In 2006:

- Almost 1 in 5 over-40s in the region hold no qualifications
- Only 16% of those of mixed parentage and less than 10% of those from the Black Caribbean, Pakistani and Bangladeshi communities hold higher level qualifications
- Only 5% of those from Pakistani and Bangladeshi communities and 10% of those from the Black Caribbean community participated in vocational training (inside or outside employment)

Encouragingly, however, the proportion of people that have made the commitment to invest in their skills positive about their experiences is high relative to other regions. In 2007 28% of students in further education in the Region felt that the training has been a worthwhile investment of time and money, the third highest proportion in England, while 45% said they are participating in the course to help them progress in their career, the highest proportion in the country[30].

29 APS/LFS

30 DIUS

## 1.7 Employment and worklessness

A lack of investment in relevant skills and qualifications can act as a key barrier to participation in employment. Regional employment rates are falling (from 73.8% in 2002 to 72.9% in 2006) and rates of worklessness[31] are rising (from 26.2% to 27.1%).

Within the Region rates of employment and worklessness vary widely:

- In Stoke-on-Trent and the Black Country 70% or less of the working age population are in employment leaving 30% or more workless. Some 63% of people in Birmingham are in employment leaving 37% workless. This compares with figures of 80% of people in employment leaving 20% workless in Herefordshire and Worcestershire.
- Rates of youth unemployment are particularly high in the Region. Overall 1 in 6 16-24 year olds are unemployed and in Wolverhampton, Walsall and Birmingham more than 1 in 5 young people are unemployed.
- Employment rates are particularly low among older people and certain minority ethnic groups. The rate of employment of men aged 50 plus is 13 percentage points lower than the rate for 45-49 year olds. Less than half of those of mixed parentage and those from Pakistani and Bangladeshi communities are in employment and the figure is less than 60% for those from the Black Caribbean and Black African communities

31 The unemployed and economically inactive including, for example, those on incapacity benefits and a significant proportion of lone parents

## 1.8 Barriers to engagement in employment and learning

These low levels of participation in employment and learning by some groups and communities in the Region reflect a range of interconnected issues and barriers. Research conducted by WMRO in collaboration with Job centre Plus focusing on the young unemployed, unemployed and low paid adults, specific minority ethnic groups such as Pakistanis, Bangladeshis and Black Caribbeans, older people, people with a disability, migrants and refugees, explores these and identifies practical action that could be taken to address them, for example:

- There a need for improved access to information, advice and guidance – many of those consulted had no idea where to go for help and relied principally on friends, family and the internet.
- There is a need to more effectively link learning to employment opportunities – which was identified by many as a key 'trigger' to increased participation.
- The third sector has a key role to play in providing a link for people with a mistrust of institutions or poor experiences of learning and work and in breaking down barriers through the provision of flexible, low cost, local and culturally-sensitive learning.

## 1.9 Conclusions

The Leitch Review, and Welfare Reform Green Paper at a national level, the Economic and Spatial Strategies at a regional level and the City Strategy at a sub-regional level set ambitious targets in relation to improving economic performance and tackling deprivation and exclusion, which in turn depend upon substantial progress being made in raising skill levels and participation and progression in employment. If these challenges are to be met, however, a range of key issues need to be addressed in the forthcoming skills delivery plan for the Region. In particular:

- In order to develop and grow employers require a workforce that is more highly qualified, with a better mix of 'employability' skills and with improved management & leadership capabilities. However the proportion of employers providing training for their employees remains low relative to other regions and to close the gap it will be important to:
    - Build on good practice in training and up-skilling identified among individual employers
    - Publicise the real business benefits they have derived
    - Take action to address the potential barriers to investment that have been identified

- Rates of skills and qualification attainment lag national trends and a lack of investment in skills is acting as a barrier to participation in employment, particularly in urban areas of the Region and among specific groups such as older people, unemployed young people, long term unemployed adults, lone parents, people with a disability and a number of minority ethnic groups (notably the Pakistani, Bangladeshi and Black Caribbean communities and people of mixed parentage). If they are to take the initiative and invest in learning and training to upgrade their skills and qualifications the numerous inter-related barriers to participation they face will need to be addressed.
- While this will help to raise employment rates and tackle disadvantage and exclusion there will also be benefits for employers and the wider economy:
    - The recent influx of new migrants is already helping to meet employers' skill needs and address skill gaps and shortages.
    - Demographic trends mean that older people and those from the longer established minority ethnic communities represent another growing, but hitherto under-utilised, source of labour and skills.

The skills delivery plan can also be informed by new research to be completed in the coming months, including:

- Outcomes of a recent study assessing in detail the economic impact on the region of migrant workers (November 2007)
- Research investigating the key factors influencing graduate retention, attraction and employment in the Region (March 2008)
- A detailed assessment of the ‘scale of the task’ to meet the targets set by the Leitch review in the West Midlands and the potential benefits (March 2008)

# Full document information

| | |
|---|---|
| Title | Regional Skills Assessment 2007: Executive Summary |
| Date created | 2007-11-15 |
| Type | Report |
| Description | A report examining the situation regarding skills in the West Midlands. The Assessment explores the fundamental changes taking place in the Regional economy and the way in which these are driving changes in the demand for skills from employers, individuals and communities. The report then examines the skill levels of the available workforce and whether they match the demands of the economy. |
| Creator | Skills Team<br>West Midlands Regional Observatory<br>Level L1, Millennium Point<br>Curzon Street<br>Birmingham B4 7XG<br><br>Telephone: 0121 202 3250<br>Fax: 0121 202 3240<br>Email: enquiries@wmro.org<br>Website: www.wmro.org |
| Publisher | West Midlands Regional Observatory<br>Level L1, Millennium Point<br>Curzon Street<br>Birmingham B4 7XG<br><br>Telephone: 0121 202 3250<br>Fax: 0121 202 3240<br>Email: enquiries@wmro.org<br>Website: www.wmro.org |
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| Location | West Midlands Regional Observatory |
| Coverage, Time period | 2007/2008 |
| Coverage, Geographical | West Midlands |
| Format | Text, PDF, Internet |
| Subject category | Education, Careers and Employment; Education and Skills.<br>Business and Industry; Business Sectors.<br>Science, Technology and Innovation; Research and Development. |

| | |
|---|---|
| Subject keywords | Skills assessment, report, business, growth, economy, GVA, sectors, projections, demographics, communities, social exclusion, economic exclusion, employment, unemployment, graduates, qualifications, basic skills, ethnic minorities, mature workforce, older people, gender |
| Date available | 15th November 2007 |
| Next version due | Oct 2008 |
| Frequency of update | Annual |
| Cost | Free |
| Access restrictions | Read only |
| Language | English |
| Identifier URL | www.wmro.org |
| Status | Version 1.0 |

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THIS PROJECT IS BEING
PART-FINANCED BY THE
EUROPEAN COMMUNITY
European Regional
Development Fund