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# Regional strategic and investment skills priorities for 2011-2012: policy supplement

Final report  
July 2010

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Investing in jobs and skills



# Regional strategic and investment skills priorities for 2011-2012: policy supplement

## Final report

Version 1.0  
July 2010

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# 1 Introduction

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## 1.1 Policy context

There is a need to drive sustainable economic growth in the region, which in turn can foster the investment and business success that will create new jobs. Priority needs to be given to raising the demand for higher level skills, especially within the priority sectors for growth which are critical to economic recovery and future prosperity. In particular there will be a growing demand for skills in the following areas<sup>1</sup>:

- Management and leadership skills, especially corporate managers across a wide range of sectors
- Professional skills in the computing and software sector, in parts of health and social care, in pharmaceutical and medical technology, in manufacturing (i.e. traditional and advanced), especially for STEM skills, and in teaching and research
- Technician and equivalent skills across many sectors, such as health and social care, utilities, chemicals, life sciences and pharmaceuticals, automotive engineering and broadcasting
- Intermediate vocational skills within sectors such as manufacturing, engineering, processing and construction associated with skilled trades as the current ageing workforce retires and emerging opportunities develop in some sectors and to support future demand at technician level
- The ageing population will lead to increased demand for care services with particularly significant volumes of staff in care assistant roles, that will need greater understanding of ICT to support care users with assisted living technologies
- Customer service and employability skills will be of growing importance to the service sector, including retailing as well as with after-service and maintenance roles in manufacturing and the digital economy

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<sup>1</sup> Source: UKCES Skills Audit 2010

Nevertheless in the future significant employment is expected to remain in sectors traditionally requiring lower skilled jobs. These jobs are important as an entry point for many groups, notably those seeking to move out of unemployment. However many of these jobs will need up-skilling in order to make improvements in service/product quality and to meet changes in consumer demand.

We must remain committed to the ambition of developing a world class skills base as articulated in the Leitch Review and the region's Skills Action Plan. But added emphasis needs to be placed on training people in advanced vocational skills at levels 3 and 4, alongside the need to offer more Advanced Apprenticeships to create a new technician class and to continue to expand higher education. At the same time there is a need to raise recognition among business of the value of investing in workforce skills<sup>2</sup>.

## 1.2 Research Objectives

This policy supplement provides an insight into the region's existing and likely future skill needs. It highlights the changing needs of the region's economy and labour market to inform the decisions of employers, individuals, providers and the skills system. It has been produced to inform the strategic thinking of the RSP in focusing shrinking levels of public sector investment in key areas to maximise their impact and in developing regional skills priorities and investment priorities<sup>3</sup>.

The report draws on a range of key research projects that have been commissioned by the RSP over the last year, notably:

- The 2009 Regional Skills Assessment, which considers future prospects for the region's key sectors and clusters and provides a review of qualitative intelligence on potential skill needs, gaps and issues
- Our review of key issues and challenges for the regional economy post recession, which looks in more detail at trends in GVA, productivity, employment, workforce skill levels and the size of the challenge to close the gap with other regions, the impact of recession and short term prospects, the extent of skill gaps, skill shortages and barriers to investment in skills and alternative scenarios for the future
- Our review of potential employment and skill needs at Impact Investment Locations identified by the Joint Strategy and Investment Board to act as a key focus for expenditure on economic development, housing and transport going forward<sup>4</sup>

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<sup>2</sup> Source: RSP investment priorities task & finish group March 2010 - summary of key messages from key documents (notably the UKCES Skills Audit, the BERR report on New Industries, New Jobs, Skills for Growth and Higher Ambitions)

<sup>3</sup> Source: Regional Skills Partnership draft statement of regional skills priorities March 2010

<sup>4</sup> Joint Strategy & Investment Board position statement March 2010

- ‘Position statements’ on skills priorities produced by the region’s 14 upper tier local authorities that highlight current key employment sectors and, looking forward, identify priority sectors for the future to drive economic growth and develop a high skill knowledge economy.

### 1.3 Report structure

Section 2 provides a summary of the key messages arising from the research.

Section 3 assesses the strengths and weaknesses of the regional economy. It considers the region’s recent poor economic performance and the key factors that have contributed to this. The characteristics and strengths of more successful regions that we are looking to emulate, in the UK and overseas, are also considered. We detail the weaknesses within the region’s economic structure and in particular the dependence on public sector and lower value added private sector activities in terms of GVA and jobs and the limited representation of high value added, knowledge based sectors. We highlight the low rates of productivity in many of the sectors that dominate the regional economy and assess the skill gaps and shortages the region’s businesses face and their impact on productivity and performance.

Section 4 assesses the impact of these factors on the demand for jobs and skills in the region as it emerges from recession and on prospects for GVA and employment growth over the next 5 years. We identify the sectors, clusters and places that are set to lead recovery and those that are expected to lag behind. We assess the likely scale of job growth over the next 5 years – in terms of new jobs and replacement demand due to labour turnover as people move from one job to another and older workers retire. The sectors and clusters where the new jobs, replacement demand and opportunities for new entrants to the labour market such as young people and the workless are likely to arise are also identified. We also assess the contribution that the key investment sites in the region could make to driving economic growth and raising the demand for higher level skills.

Section 5 considers ‘alternative futures’ for the region. We consider the potential business and market opportunities available in the priority sectors and clusters identified by the region’s local authorities to drive economic growth and develop a high skill knowledge economy. We then assess the role of investment in skills, innovation and enterprise in helping businesses to exploit opportunities to the full. We then quantify the scale of improvements needed to raise the productivity and performance of the existing business base via training and up-skilling and to grow and develop higher value added sectors and clusters.

Section 6 presents scenarios exploring the potential benefits for the region, in terms of additional GVA generated and new jobs created, of realising these ambitions.

## 2 Executive summary

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### Key headlines

While there is an aspiration to achieve sustainable economic growth in the region there are key weaknesses within the economy that need to be addressed.

In many parts of the region there is a dependence on lower value added sectors and limited representation of higher value added activities that create skilled jobs. At the same time there are persistent skill gap and shortage problems in many key sectors and weak private sector investment in training.

These weaknesses threaten to constrain the future growth of the region's economy. Employment prospects are likely to be dominated by 'replacement demand' and lower skilled jobs due to 'churn' in the labour market rather than new skilled jobs.

But there is potential to transform the region's prospects. There are significant potential business and market opportunities in high value added sectors that are gaining a foothold in the region. This is reflected in the aspirations within a series of 'skills position statements' produced by local authorities.

We need to develop similar strengths to those of successful regions - where investment in skills linked to innovation and enterprise is has been key. This would deliver substantial potential benefits in terms of Gross Value added (GVA) and job growth.

For example if workforce skill levels were increased to match the England average growth in GVA over the next 5 years would increase by 2 percentage points from 9% to 12% and net new job creation would nearly double from 11,000 to 21,000.

If in addition more businesses in higher value added sectors and clusters were attracted to the region. GVA would grow by some 23% by 2015 and more than 200,000 net new jobs would be created.

### 2.1 The regional economy - strengths and weaknesses

There is a need to drive sustainable economic growth in the region, which in turn can foster the investment and business success that will create job growth. This requires giving priority to higher level skills, growth sectors and the development of a world class skills base.

However in the West Midlands there is an under-representation of higher value added sectors, and a lower proportion of high growth firms than in many other regions. While research shows that high growth firms tend to be in a wide range of sectors, not just high value added ones, strong rates of innovation and enterprise are key to their creation and growth. These also lag behind in the West Midlands and contribute to a limited demand for higher level skills and creation of higher skilled, well paid jobs in the region.

There is continuing dependence within the region on lower value added private sector activities such as retail, hospitality & leisure, transport and low value business services and lower value added elements of manufacturing. This is inhibiting growth in GVA, productivity and the demand for higher skilled jobs. In turn low workforce skill levels, significant skill gaps and shortages and weak private sector investment in training and up-skilling are all adversely affecting business performance.

These sectors, which are key sources of employment in most parts of the region, are an important source of jobs for people with fewer skills and can play a key role in reducing worklessness and economic and social deprivation. But reducing the dependence of the regional economy on these activities and attracting and developing more businesses in higher value added sectors and clusters such as higher value added business & professional services, environmental technologies, digital media and medical technologies are key to improving the region's economic performance and generating more new highly skilled jobs.

## 2.2 Future prospects

### 2.2.1 Net GVA growth

These weaknesses within the regional economy mean that recovery from recession has been fragile so far and prospects for growth over the next 5 years are limited. Our baseline forecast indicates that GVA will grow by 11% (£9 billion) over the 2010-2015 period which compares with growth of 15% (over £11 billion) between 2000 and 2007.

The pace of GVA growth is forecast to be strongest in higher value added private sector industries such as ICT & telecoms and high value added business & professional services - and in areas of the region where they are most established such as Solihull and Warwickshire. Their limited representation elsewhere in the region, however, means that growth in absolute terms will be modest. Growth is expected to be much weaker in sectors that dominate the regional economy such as lower value added, traditional private sector activities and the public sector<sup>5</sup>.

### 2.2.2 Net new jobs

At 5% (representing the creation of just over 11,000 net new jobs) employment growth is forecast to be similarly modest<sup>6</sup>. Growth will be particularly modest in areas of the region where lower value added sectors are expected to continue to dominate the economy such as the Black Country and Stoke-on-Trent.

Nevertheless this aggregate picture masks significant 'churn' in the marketplace, which is likely to lead to significant job creation and loss. For example over the ten years to 2008, the number of private sector jobs in the region rose by only 2% (equivalent to around 30,000 net new jobs). However this hides a much more dynamic situation, with nearly half a million jobs created or destroyed each year in the region<sup>7</sup>. If it is assumed that rates of churn will be similar to those experienced in the last decade over 900,000 jobs are likely to be created between 2010 and 2015. At the same time, however, significant numbers of jobs are likely to be lost, giving a net increase of 11,000.

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<sup>5</sup> Observatory estimates based on Cambridge Econometrics forecasts for 2010-2015 and data on business demography and firm performance in the West Midlands: 1999-2008, prepared by Aston Business School for Advantage West Midlands

<sup>6</sup> Source: baseline forecasts commissioned from Cambridge Econometrics, May 2010. We also commissioned alternative scenarios for future prospects for GVA and employment growth based on raising skill levels and promoting diversification into higher value added sectors. These are considered in section 2.3

<sup>7</sup> Business demography and firm performance in the West Midlands: 1999-2008, prepared by Aston Business School for Advantage West Midlands

### 2.2.3 Replacement demand

Net new jobs are expected to account for only 2% of more than 870,000 job vacancies that are expected to arise over the 2010-2015 period. The remainder are expected to be generated by 'replacement demand'. Of these it is estimated that more than 350,000 (40%) will be due the retirement of older workers in engineering, manufacturing, construction and the public sector<sup>8</sup>. The majority of the jobs on offer are likely to require specific skills, qualifications and experience and are likely to be filled by those already in the workforce.

At the same time nearly 510,000 (58% of all job vacancies) are expected to arise due to labour turnover and 'churn' in the labour market - notably in lower value added sectors such as retail, hospitality & leisure and low value business services. Many of the jobs will be lower skilled and are likely to be filled by new entrants to the labour market such as school and college leavers and the workless.

There are significant numbers of people likely to be competing for these job opportunities. For example there are currently 378,000 20-24 year olds in the region, of which 242,000 are expected to go into higher education<sup>9</sup> and 136,000 are expected to be new entrants to the labour market. In addition, there are over 960,000 people who are workless in the region, of which 250,000 are claimant unemployed and over 710,000 are economically inactive<sup>10</sup>.

The level of competition for these entry level jobs is likely to be particularly significant in areas of the region with high levels of worklessness such as Birmingham, Sandwell and Wolverhampton. It will be important to offer support to these individuals who often find it difficult to compete in the labour market - particularly with in-commuters with better skills, qualifications and work experience. It will also be important to help them to use opportunities as a stepping stone to sustainable employment - thus avoiding the 'revolving door' between low paid employment and worklessness.

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<sup>8</sup> Source: Observatory analysis based on Labour Force Survey data and Cambridge Econometrics forecasts, May 2010

<sup>9</sup> Observatory estimates based on UCAS data on entrants to HE

<sup>10</sup> ONS Labour Market Statistics

## 2.2.4 Key investment sites

These forecasts for growth in GVA and jobs assume that a number of key investment sites across the region will successfully attract significant numbers of high value added businesses and skilled jobs to the region in the coming years. 20 of these have been identified by the Joint Strategy & Investment Board as 'Impact Investment Locations' to act as a key focus for expenditure on economic development, housing and transport going forward. Encouragingly the 16 sites where the most significant progress has been made can potentially generate more than 116,000 new jobs in the region over the next 25 years. Of these nearly 61,000 (more than half) are expected to be higher skilled jobs in managerial, professional and technical occupations. Geographically the most significant impact is expected to be in Coventry, Solihull & Warwickshire where some 48,000 new jobs could potentially be created, the Black Country (where more than 30,000 new jobs could be generated), Birmingham (nearly 17,000 new jobs) and Staffordshire & Stoke (nearly 14,000 new jobs).

## 2.3 Transforming the region's prospects

### 2.3.1 Business and market opportunities

There are significant business and market opportunities on offer in a number of the region's key sectors. This is particularly the case in high value added sectors with a foothold in the region such as environmental technologies, medical technologies, ICT, digital media, high value added business services. There are also opportunities in engineering and building technologies, linked to the advanced manufacturing and low carbon agendas. This is recognised by the region's local authorities and is reflected in the priority sectors highlighted in their position statements.

Effective regional leadership, along with investment in skills, innovation and enterprise, is key to making the most of these opportunities - as attested by analysis of the key factors underpinning progress in more successful regions in the UK and beyond.

For example skills relating to creativity, leadership & management, communication & networking and team working are important alongside a range of specific high level technical skills to the successful exploitation of ideas at all stages of the innovation process<sup>11</sup>. Successful entrepreneurs that have established and developed high growth firms in the region, meanwhile, tend to demonstrate effective leadership & management, communication & networking, team working, financial and research skills<sup>12</sup>. In addition businesses will need to source a wide range of skills specific to particular sectors and clusters if they are to be in a position to compete effectively and exploit opportunities on offer to the full. These include both technical and vocational skills and softer generic skills<sup>13</sup>.

### 2.3.2 Alternative futures

In order to boost the scale and pace of economic recovery in the region, create more new jobs and stimulate more demand for higher level skills action is needed to both:

- Up-skill the workforce in existing businesses
- Address structural change by attracting and developing more businesses in higher value added sectors such as advanced manufacturing, environmental technologies, medical technologies, ICT, digital media and business & professional services

The scale of the challenge to achieve these objectives is significant but the potential benefits for the regional economy are substantial. For example if the region's workforce increased their skill levels to match the England average it is estimated growth in GVA over the 2010-2015 period would increase by 2 percentage points to 12% and net new job creation would nearly double from 11,000 to 21,000. If more businesses in higher value added sectors and clusters were also attracted to the region such that their share of GVA matched the England average, the benefits would be particularly significant. GVA would grow by some 23% and more than 200,000 net new jobs would be created<sup>14</sup>. Under this scenario net new jobs would account for nearly a quarter of total demand for employment over the next five years compared to just 2% in the base-line forecast.

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<sup>11</sup> Source: Innovation Lab – human facilitators of Innovation, report prepared for the Department of Employment & Learning, Northern Ireland, February 2010

<sup>12</sup> Source: Higher Education Academy 2009

<sup>13</sup> Source: Sector Skills Council and cluster employer intelligence, 2009

<sup>14</sup> Source: Cambridge Econometrics, May 2010

## 3 The regional economy - strengths and weaknesses

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There is a need to drive sustainable economic growth in the region, which in turn can foster the investment and business success that will create job growth. This requires giving priority to higher level skills, growth sectors and the development of a world class skills base<sup>15</sup>. However in the West Midlands there is an under-representation of higher value added sectors, and a lower proportion of high growth firms than in many other regions. While research shows that high growth firms tend to be in a wide range of sectors, not just high value added ones<sup>16</sup>, strong rates of innovation and enterprise are key to their creation and growth. These also lag behind in the West Midlands and contribute to a limited demand for higher level skills and creation of higher skilled, well paid jobs in the region.

The region's dependence on lower value added sectors and clusters means that workforce skill levels are also below those in other regions. To boost the region's productivity and economic performance there is also a pressing need to make the case for investment in training and up-skilling within the existing business base.

### 3.1 A weak industrial structure

Lower value added private sector activities such as wholesale & retail, hotels & catering, transport, lower value business services and cultural, recreational & sporting activities make a particularly significant contribution to the regional economy - accounting for more than half of GVA and employment (see charts 1 and 2).

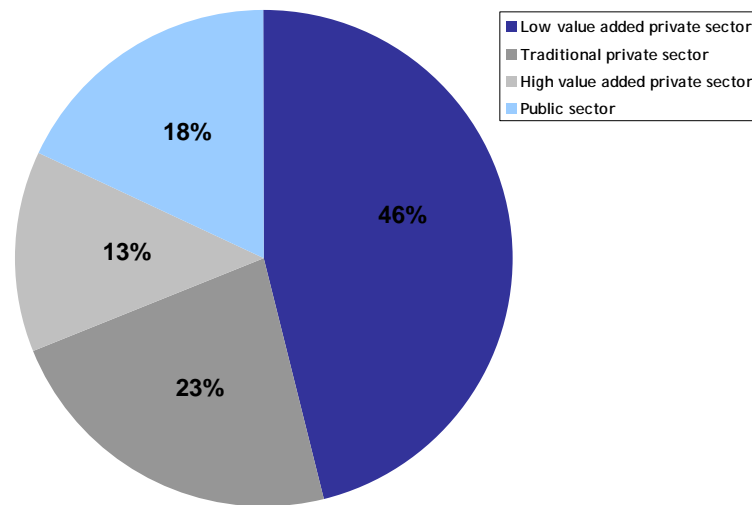
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<sup>15</sup> Source: RSP Regional Investment Priorities Task & Finish Group paper – summary of key messages from national and regional documents (notably the UKCES Skills Audit, the Leitch Review of Skills and the West Midlands Skills Action Plan), April 2010

<sup>16</sup> Source: NESTA – measuring business growth, 2009

## 1 Share of regional GVA by broad sector in 2006\*

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\* Latest data available

Source: ONS Annual Business Inquiry

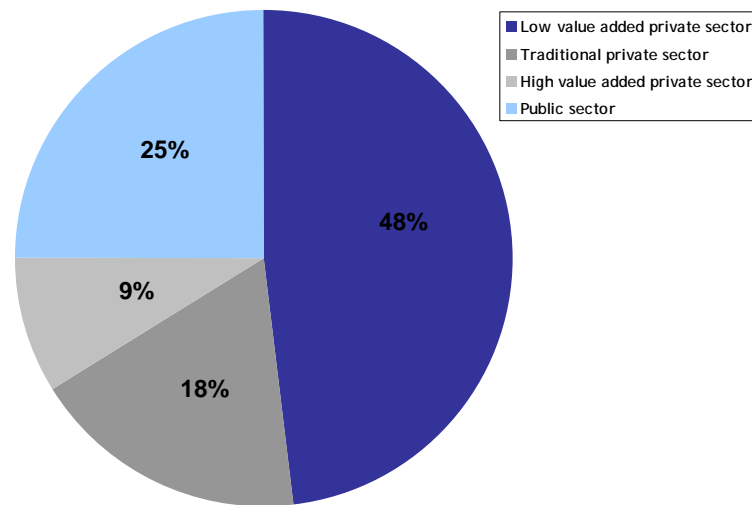
West Midlands Regional Observatory 2010 1

Traditional private sector industries such as engineering and transport technologies, other manufacturing activities such as the interiors & lifestyle and food & drink clusters, construction and building technologies also make a significant contribution - as do public sector activities such as public administration, education and health & social care<sup>17</sup>. In contrast higher value added activities such as the specialist business & professional services cluster, the environmental technologies cluster and the medical technologies cluster generate much more limited levels of GVA and employment (See charts 1 and 2).

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<sup>17</sup> While public sector activities do not generally generate sales or turnover GVA is generated by salaries and wages

## 2 Share of regional employment by broad sector in 2008



\* Latest data available

Source: ONS Annual Business Inquiry

West Midlands Regional Observatory 2010 2

These weaknesses within the region's industrial structure, with a poor representation of fast growing high value added sectors, have also led to relatively slow growth in private sector employment in recent years. Over the 1998-2008 period employment increased by just 30,000 (growth of 2% which compares to an increase of 19% across the UK as a whole). Nevertheless this aggregate picture masks significant 'churn' within the marketplace in terms of job creation and destruction. Research suggests that on an annual basis an average of 244,000 jobs were created through new firms relocating to the region and the expansion of existing firms. At the same time, however, 237,000 jobs were lost each year due to firms leaving the region and the contraction of existing firms. Rates of job creation and destruction tend to be most significant among small and micro businesses<sup>18</sup>.

The weakness of the region's industrial structure is further underlined by the fact that many of the sectors that are key sources of GVA and employment are characterised by relatively low rates of productivity. For example rates of only £32,000 per employee in wholesale & retail distribution, £31,000 per employee in cultural recreational & sporting activities just over £18,000 per employee in hotels & catering and just over £17,000 per employee in transport compares with more than £130,000 per employee in the environmental technologies cluster and nearly £75,000 per employee in the ICT cluster in 2006<sup>19</sup>.

<sup>18</sup> Source: Business demography and firm performance in the West Midlands: 1999-2008, prepared by Aston Business School for Advantage West Midlands

<sup>19</sup> Source: ONS Annual Business Inquiry 2006 (latest available figures)

As table 1 shows lower value added private sector, traditional private sector and public sector activities are key sources of employment in most parts of the region. These sectors are an important source of jobs for people with fewer skills and can play a key role in reducing worklessness and economic and social deprivation. But reducing the dependence of the regional economy on these activities and attracting and developing more businesses in higher value added sectors and clusters such as higher value added business & professional services, environmental technologies, digital media and medical technologies are key to improving the region's economic performance and generating more new highly skilled jobs.

**Table 1: Local authority statements of skills priorities - current key employment sectors**

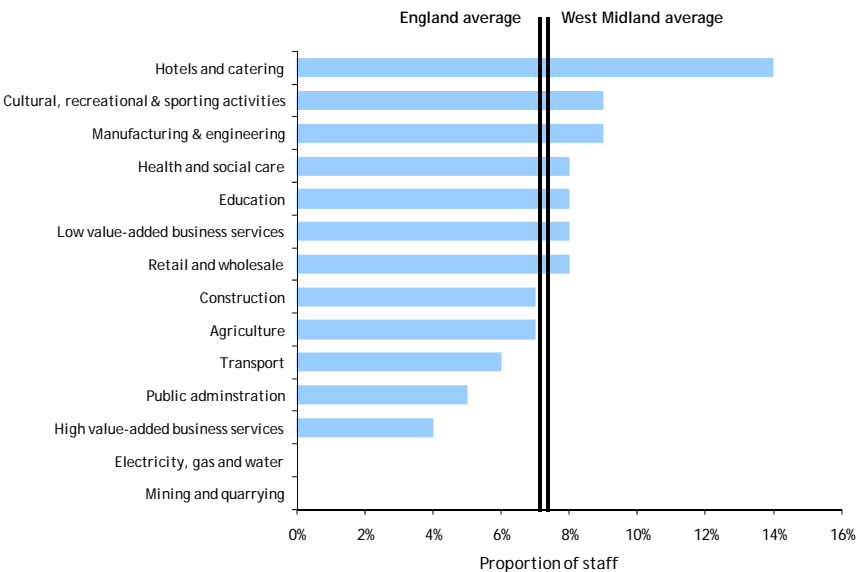
Sub-region	Local authority area	Current key employment sectors
Birmingham	Birmingham	High value added business & professional services, Wholesale & retail, Hotels & catering, Low value business services, Public administration, Education, Health & social care
Black Country	Dudley	Wholesale & retail, Hotels & catering, Low value business services, Public administration, Health & social care, High technology manufacturing
	Sandwell	Engineering, Manufacturing, Construction, Wholesale & retail, Transport, Low value business services, Education, Health & social care
	Walsall	Engineering, Manufacturing, Construction, Wholesale & retail, Low value business services, Education, Health & social care
	Wolverhampton	Engineering, Manufacturing, Construction, Wholesale & retail, Low value business services, Public administration, Education, Health & social care
Coventry Solihull & Warwickshire	Coventry	High value added business & professional services, ICT, Wholesale & retail, Low value business services, Education, Health & social care, Engineering
	Solihull	High value added business & professional services, ICT, Engineering, Manufacturing, Construction, Wholesale & retail, Transport, Education, Health & social care
	Warwickshire	High value added business & professional services, Manufacturing, Wholesale & retail, Hotels & catering, Public administration, Education, Health & social care, Transport & communications
Staffordshire & Stoke	Staffordshire	Agriculture, Wholesale & retail, Hotels & catering, Public administration, Education, Health & social care, Low value business services
	Stoke-on-Trent	Manufacturing, Wholesale & retail, Hotels & catering, Transport, Low value business services, Public administration, Education, Health & social care
Herefordshire, Shropshire & Telford	Herefordshire	Agriculture, Low value business services, Public administration, Health & social care, Distribution, Transport, Communications, Manufacturing
	Shropshire	Engineering, Food & drink, Wholesale & retail, Hotels & catering, Public administration, Education, Health & social care
	Telford & Wrekin	Engineering, Manufacturing, Wholesale & retail, Low value business services, Health & social care, Building technologies
Worcestershire	Worcestershire	Manufacturing, Low value business services, Public administration, Health & social care

*Source: Local authority position statements on skills priorities, May 2010*

### 3.2 Skill gaps and shortages

The proportion of the region’s businesses that have staff with gaps in their skills has risen in recent years and is above the England average. Lower value added private sector activities such as hotels & catering and cultural, recreational & sporting activities and traditional private sector industries such as engineering & manufacturing have the highest proportion of staff with gaps in their skills (see chart 3<sup>20</sup>).

3 Skill gaps by sector



Source: LSC National Employer Skills Survey 2009

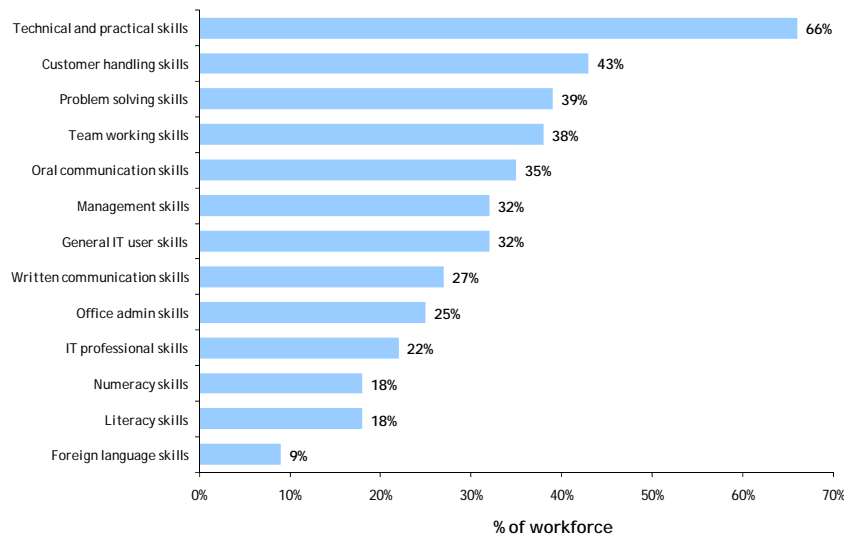
West Midlands Regional Observatory 2010 3

These issues are having a significant impact on business performance, leading to increased workloads for other staff, increased operating costs and problems in meeting quality standards and introducing new working practices<sup>21</sup>. Staff with skill gaps are most likely to lack business and sector-specific technical and practical skills. A significant proportion also lack softer generic skills in areas such as customer handling, problem solving and team working (see chart 4).

<sup>20</sup> Please note that while data for electricity, gas & water is not available at regional level due to limited sample sizes the sector is seen as priority by UKCES at a national level in terms of tackling skill gaps and shortages and increasing investment in training

<sup>21</sup> Source: UKCES National Employer Skills Survey 2009

#### 4 Main skills lacking within current workforce, 2009



Source: LSC National Employer Skills Survey 2009

West Midlands Regional Observatory 2010 4

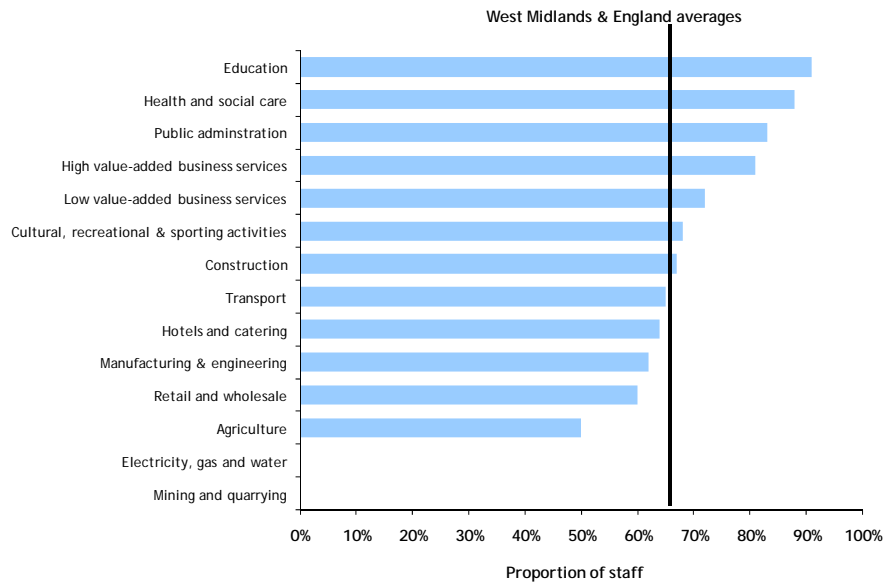
At the same time many employers are struggling to address these skill gaps via recruitment from the labour market due to deficiencies in the skills of job applicants. The most common cause of these skill shortages is a lack of adequate technical and practical skills among applicants although many were also due to a lack of softer generic skills such as customer handling, written and oral communication and team working<sup>22</sup>.

Encouragingly the proportion of the region's workforce being trained by their employer has continued to increase despite the recession. However it is notable that people working in the public sector are much more likely to be trained by their employer and the proportions are far lower in traditional private sector industries such as engineering & manufacturing and in lower value added private sector activities such as hotels & catering and retail & wholesale distribution (see chart 5).

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<sup>22</sup> Source: *ibid*

## 5 Investment in training by sector



Source: LSC National Employer Skills Survey 2009

West Midlands Regional Observatory 2010 5

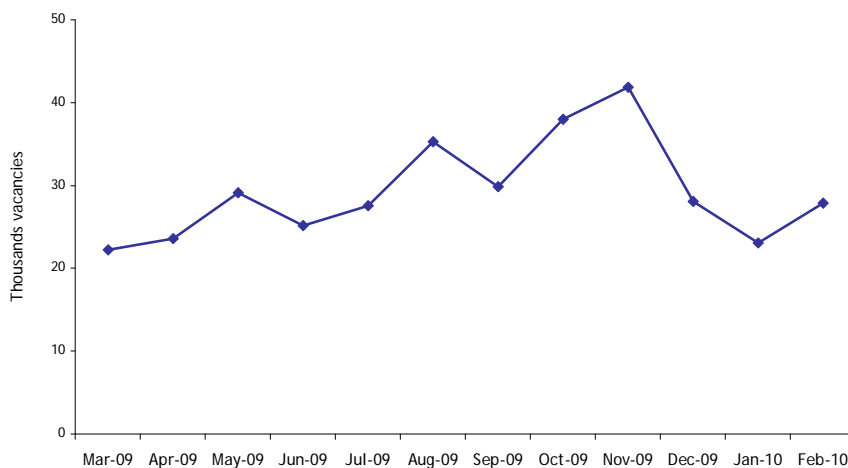
## 4 Future prospects

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### 4.1 Recession, recovery and the demand for skills

Nationally economic performance remains fragile with only limited signs of recovery so far. In the West Midlands a dependence on lower value added activities and poor workforce skill levels mean that recovery has been equally fragile. After rising in the second half of 2009 recruitment activity has faltered in the early months of 2010 (see chart 6).

**6 Trends in the number of total notified vacancies in the West Midlands, March 2009 - February 2010**



Source: Nomis

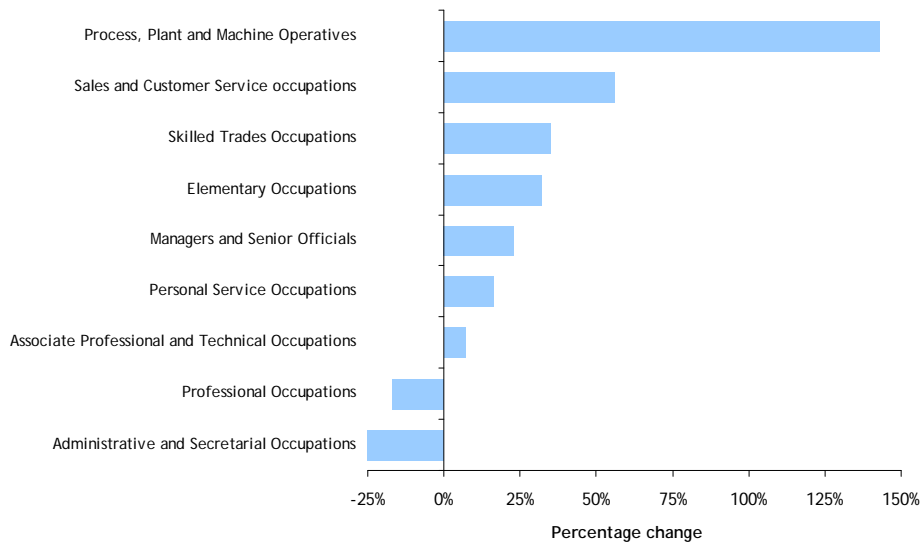
West Midlands Regional Observatory 2010 6

Vacancies in the public sector are in decline, reflecting the impact of tightening budgets and pressure on staffing levels and the focus of growth in vacancies in the private sector, meanwhile, has been lower skilled jobs in sales & customer service and operative occupations (see chart 7)<sup>23</sup>.

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<sup>23</sup> While growth in vacancies at the lower skilled end of the market is very significant it should be noted that many higher skilled vacancies are not traditionally notified to Job Centres

## 7 Percentage change in the number of notified vacancies by occupation in the West Midlands, March 2009 - February 2010



Source: Nomis

West Midlands Regional Observatory 2010 7

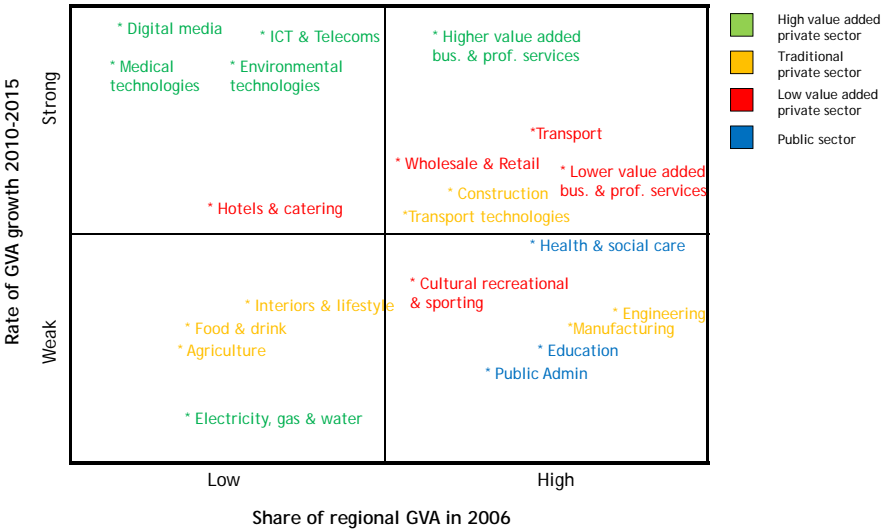
Geographically the areas expected to experience the most fragile economic recovery in terms of growth in GVA and jobs are traditional industrial areas (such as the Black Country and Stoke-on-Trent) and 'transition centres' (such as Cannock Chase, North Warwickshire, Nuneaton & Bedworth, Redditch, Tamworth and Wyre Forest) which have also historically been dependent on low value added industries but are in the process of diversifying their economies. Growth is likely to be inhibited by dependence on a narrow range of traditional low value added manufacturing industries, weak private sector knowledge economies, low rates of enterprise and entrepreneurship and a weak skills base. Recovery is expected to be strongest in areas clustered in the south and east of the region in Solihull and Warwickshire. These areas have historically been key foci for growth and are characterised by a strong presence of high value added, knowledge based industries, high business formation rates, good communication links and good environmental quality.

## 4.2 Short term prospects

### 4.2.1 Net growth in GVA

Between 2000 and 2007, overall regional GVA increased by over £11 billion (15%). However, the pace of economic growth in the region over the next 5 years is forecast to be fairly modest. GVA is forecast to grow by 11% (£9 billion) over the 2010-2015 period<sup>24</sup>. While the pace of growth is forecast to be strongest in higher value added private sector activities (such as ICT & telecoms and high value added business & professional services) they account for only a limited share of GVA. Growth is expected to be much weaker in sectors that dominate the regional economy such as traditional private sector activities and the public sector (see chart 8).

8 GVA growth prospects by sector and cluster

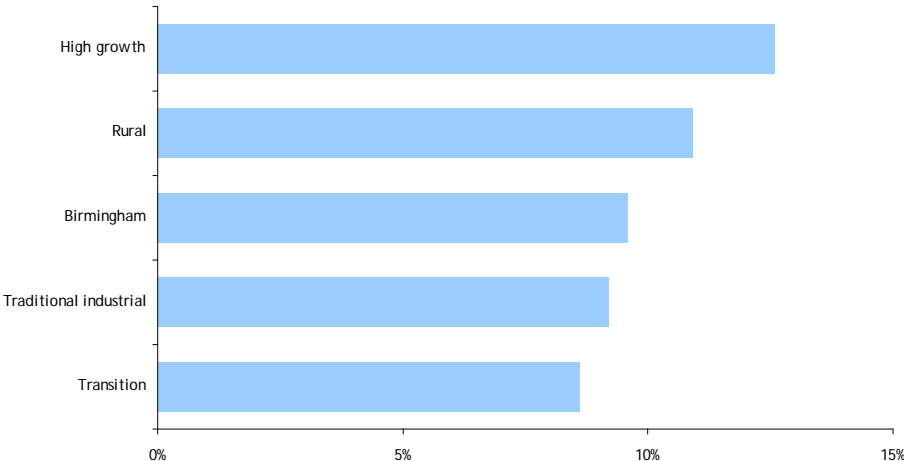


Source: Cambridge Econometrics

<sup>24</sup> Source: baseline forecasts commissioned from Cambridge Econometrics, May 2010. It should be noted that the potential impact of Impact Investment Locations is not taken into account in the baseline forecasts

Geographically GVA is forecast to grow most strongly (by some 13% between 2010 and 2015) in areas identified as those with potential to lead the region’s recovery in section 4.1 such as Solihull, Warwick and Stratford-on-Avon. The weakest growth, meanwhile (less than 9% over the period) is expected in traditional industrial areas identified as having long term issues that may inhibit recovery such as Wolverhampton, Walsall and Stoke-on-Trent and Sandwell and ‘transition centres’ such as Redditch, Nuneaton & Bedworth and Wyre Forest (see chart 9).

**9 Percentage change in GVA by place grouping in the West Midlands between 2010 and 2015**



Source: Cambridge Econometrics

West Midlands Regional Observatory 2010 9

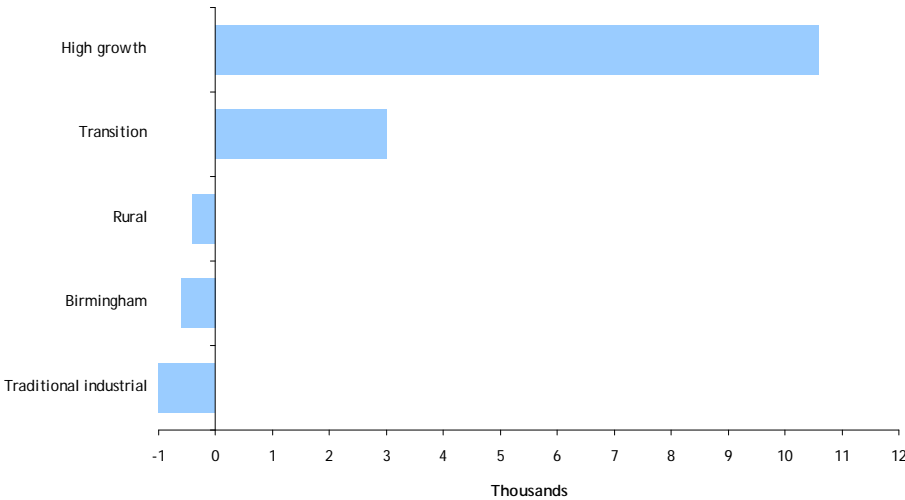
### 4.2.2 Net new jobs

At 5% over the period (representing the creating of just over 11,000 net new jobs) employment growth is forecast to be similarly modest. Again the pace of job growth is expected to be strongest in these higher value added activities. Job shedding is forecast to continue, meanwhile, in traditional private sector industries such as engineering, manufacturing and public sector activities such as education, public administration and health & social care.

Geographically the most significant new job growth is forecast to be in areas identified as those with potential to lead the region’s recovery in section 5.1 such as Solihull and Warwickshire where high value added activities are well established and are expected to drive future growth.

In contrast employment is expected to continue to fall in traditional industrial areas such as Wolverhampton, Stoke-on-Trent and Sandwell where traditional and lower value added activities are expected to continue to dominate the economy going forward. For the same reason employment prospects are also limited in 'transition centres' such as Redditch and Wyre Forest in Worcestershire and Nuneaton & Bedworth in Warwickshire. Falling employment levels are also forecast in a number of rural areas - notably Bridgnorth, North and South Shropshire, Herefordshire and Wychavon districts (see chart 10).

**10 Absolute change in employment by place grouping in the West Midlands between 2010 and 2015**



Source: Cambridge Econometrics

West Midlands Regional Observatory 2010 10

### 4.2.3 Job creation and loss

Nevertheless this aggregate picture masks significant 'churn' in the marketplace, which is likely to lead to significant job creation and loss. For example over the ten years to 2008, the number of private sector jobs in the region rose by only 2% (equivalent to around 30,000 net new jobs). However this hides much more dynamic situation, with nearly half a million jobs created or destroyed each year in the region. Just over half of jobs created were through growth of existing firms, with the remainder in new businesses. Over half of the jobs destroyed were due to firms no longer operating in the region, with the remainder due to contraction of firms which continued to exist<sup>25</sup>.

<sup>25</sup> Business demography and firm performance in the West Midlands: 1999-2008, prepared by Aston Business School for Advantage West Midlands

If it is assumed that rates of churn will be similar to those experienced in the last decade over 900,000 jobs are likely to be created between 2010 and 2015. At the same time significant numbers of jobs are likely to be lost, giving a net increase of 11,000.

The pace of GVA and employment growth is forecast to be strongest in higher value added private sector industries such as ICT & telecoms and high value added business & professional services - and in areas of the region where they are most established such as Solihull and Warwickshire. Their limited representation elsewhere in the region, however, means that growth in absolute terms will be modest. Growth is expected to be much weaker in sectors that dominate the regional economy such as lower value added, traditional private sector activities and the public sector<sup>26</sup>.

#### 4.2.4 Replacement demand

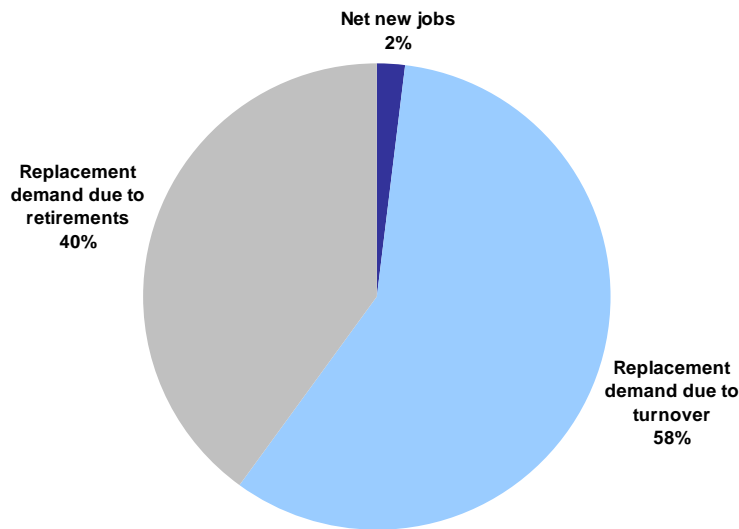
In addition some 860,000 job vacancies are expected to arise over the 2010-2015 period due to 'replacement demand' - with net new jobs created by the region's businesses accounting for only 2% of total employment demand (see chart 11). Of the jobs created due to replacement demand it is estimated that more than 350,000 (40%) will be due the retirement of older workers in sectors with an ageing workforce such as engineering, manufacturing, construction and the public sector<sup>27</sup> (See chart 12). A significant proportion of the jobs on offer are likely to require specific skills, qualifications and experience and in each case more than 90% are expected to be filled by people already in employment (see chart 13).

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<sup>26</sup> Observatory estimates based on Cambridge Econometrics forecasts for 2010-2015 and data on business demography and firm performance in the West Midlands: 1999-2008, prepared by Aston Business School for Advantage West Midlands

<sup>27</sup> Source: Observatory analysis based on Labour Force Survey data and Cambridge Econometrics forecasts, May 2010

## 11 Overall job vacancies on offer in the West Midlands between 2010 and 2015

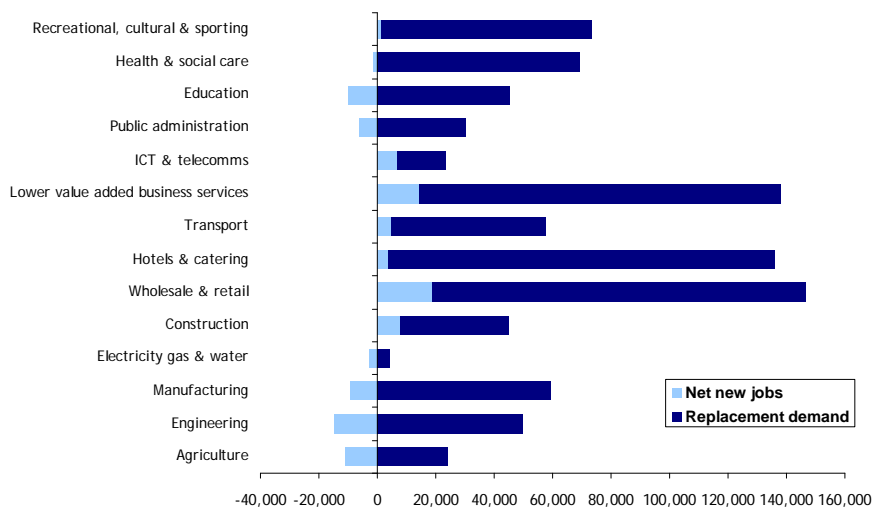


Source: Observatory analysis based on Cambridge Econometrics forecasts and Labour Force Survey data

West Midlands Regional Observatory 2010 11

At the same time nearly 510,000 (58% of all job vacancies) are expected to arise due to labour turnover and 'churn' in the labour market - notably in lower value added sectors such as retail, hospitality & leisure and low value business services. Many of the jobs will be lower skilled and likely to be filled by new entrants to the labour market such as school and college leavers and the workless.

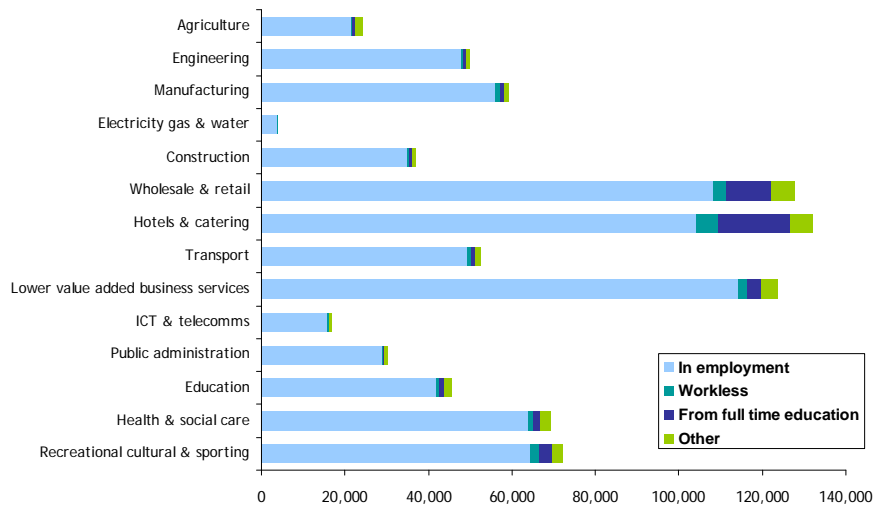
## 12 Net new jobs and replacement demand by sector : 2010-2015



Source: Observatory analysis based on Cambridge Econometrics forecasts and Labour Force Survey data

West Midlands Regional Observatory 2010 12

### 13 Replacement demand by sector and source of employment : 2010-2015



Source: Observatory analysis based on Cambridge Econometrics forecasts and Labour Force Survey data

West Midlands Regional Observatory 2010 13

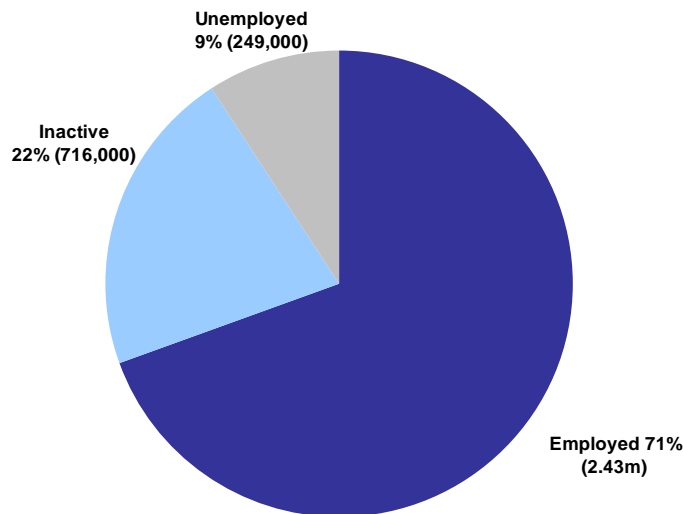
There are significant numbers of people likely to be competing for the job opportunities on offer. There are currently 378,000 20-24 year olds in the region, of which 242,000 are expected to go into higher education<sup>28</sup> and 136,000 are expected to be new entrants to the labour market. In addition, there are over 960,000 people who are workless in the region, of which nearly 250,000 are claimant unemployed and over 710,000 are economically inactive<sup>29</sup> (see chart 14).

<sup>28</sup> Observatory estimates based on UCAS data on entrants to HE

<sup>29</sup> ONS Labour Market Statistics

## 14 Employment status of working age population in the West Midlands, January - March 2010

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Source: ONS Labour Market Bulletin , May 2010

West Midlands Regional Observatory 2010 14

The level of competition for these entry level jobs is likely to be particularly significant in areas of the region with high levels of worklessness such as Birmingham (nearly 380,000 people - 40% of the working age population), Sandwell (nearly 110,000 people - 39% of the working age population) and Wolverhampton (91,000 people - 36% of the working age population)<sup>30</sup>.

It will be important to offer support to these individuals, who often find that issues such as low educational attainment and aspirations, disabilities and long term health problems prevent them from accessing and securing sustainable employment. Many find it difficult to compete in the labour market - particularly with in-commuters with better skills, qualifications and work experience. For example 36% of jobs in Birmingham, 48% of jobs in Sandwell and 42% of jobs in Wolverhampton are taken by in-commuters<sup>31</sup>. Many of those that do find employment, moreover, encounter difficulties in making the transition from benefits to work, with many ending up back on benefit<sup>32</sup>. It will therefore be important to help them to use opportunities as a stepping stone to sustainable employment - thus avoiding the 'revolving door' between low paid employment and worklessness.

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<sup>30</sup> Source: ONS Annual Population Survey 2009

<sup>31</sup> Source 2001 Census (latest available data)

<sup>32</sup> Source: Economic Inclusion Baseline Report – Observatory Economic Inclusion Team 2009

### 4.3 The role of key investment locations in driving growth

These forecasts for growth in GVA and jobs assume that a number of key investment sites across the region will successfully attract significant numbers of high value added businesses and skilled jobs in the coming years (see table 2 overleaf).

20 of these have been identified by the Joint Strategy & Investment Board as 'Impact Investment Locations' to act as a key focus for expenditure on economic development, housing and transport going forward. Research undertaken by the Observatory and Reiver 128 Ltd reveals that the 16 sites where the most significant progress has been made can potentially make a significant contribution to driving economic growth, generating new job opportunities and raising the demand for higher level skills.

Specifically they could potentially generate more than 116,000 new jobs in the region over the next 25 years. Of these nearly 61,000 (more than half) are expected to be higher skilled jobs in managerial, professional and technical occupations. A significant proportion of these jobs are likely to be created in activities such as high technology manufacturing and high value added business & professional services. A further 25,000 (22%) are expected to be created in skilled trade, personal service and customer service occupations. These opportunities will predominantly be at the retail, hospitality and leisure developments and the education and health facilities to be developed at the sites. Only 30,000 (26%) of the jobs created are expected to be in semi and unskilled occupations.

**Table 2 Impact Investment Locations & other key sites by Local Authority**

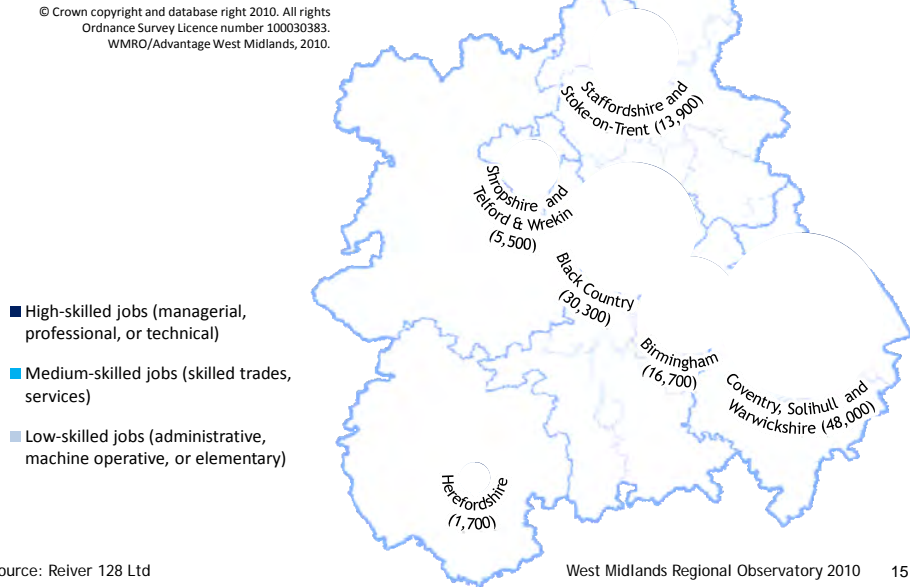
Sub-region	Local Authority Area	Impact investment locations & other major investments/programmes
Birmingham	Birmingham	Eastside, Icknield Port Loop, Longbridge development and Birmingham Gateway
Black Country	Dudley	Castle Hill, Waterfront and Daniel's Wharf, Stourbridge and Halesowen
	Sandwell	West Bromwich town centre, Sandwell Hospital, New Sandwell College and Tesco
	Walsall	Brownhills/Goscote/Moxley, Darlaston and Willenhall (new homes) and Walsall town centre/waterfront
	Wolverhampton	Wolverhampton City Centre
Coventry, Solihull & Warwickshire	Coventry	Ansty Business Park, Coventry City Centre & Coventry North and Friargate
	Solihull	Regenerating North Solihull Programme, Birmingham International Airport runway extension, Solihull town centre
	Warwickshire	Ansty, Birch Coppice, Ryton and Ford Foundry
Staffordshire & Stoke	Staffordshire	I54, Burton-upon-Trent and Stafford, Keele Science Park, JCB Academy, new county council HQ Stafford, Newcastle (housing development)
	Stoke	New business district, University Quarter, Cultural Quarter, Blythe Vale Business Park, Chatterley Valley and Victoria Business Park
Shropshire, Telford & Wrekin	Telford	Telford town centre, direct link with Birmingham International Airport and London & direct link from the M54 and M6 Toll Road
Herefordshire & Worcestershire	Herefordshire	Edgar Street Grid, Ross on Wye Model Farm, Rotherwas Industrial Estate, outer distributor road and Blackfriars university gateway
	Worcestershire	Central Technology Belt, Malvern Hills Science Park and future Worcester Technology Park

As chart 15 below shows geographically the most significant impact in employment terms is expected to be in Coventry, Solihull & Warwickshire at the Coventry City Centre, Ansty Park and North Solihull developments where some 48,000 new jobs could potentially be created. Of these, 27,000 (nearly 60%) will be in higher skilled managerial, professional and technical occupations. There is also potential for the creation of more than 30,000 new jobs in the Black Country at the Wolverhampton City Centre, West Bromwich town centre, Dudley town centre & Brierley Hill, Bilston Urban Village and Walsall waterfront developments. Of these nearly 16,000 (more than half) will be higher skilled. In Birmingham nearly 17,000 new jobs could potentially be created at the Birmingham Gateway, Eastside and Longbridge developments. Of these, more than 8,000 (around half) will be higher skilled. Nearly 14,000 new jobs could potentially be created in Staffordshire & Stoke at the Chatterley Valley, i54 and Stoke university quarter developments. Of these, nearly 6,500 (nearly half) will be higher skilled. Finally, in Herefordshire, Shropshire & Telford nearly 7,300 new jobs could potentially be created at the Edgar Street grid and Telford town centre developments. Of these, more than 3,800 (more than half) will be higher skilled.

Across all these sectors organisations will need to source a wide range of both sector and business specific technical skills and softer generic skills if they are to be in a position to compete effectively and exploit growth opportunities. Business support agencies and training providers will need to engage with employers to develop skills provision to meet these emerging needs.

While timescales are not yet confirmed for all developments it is forecast that at least 10,000 jobs will be created in the short term (i.e. between now and 2015), a further 15,000 will be created in the medium term (i.e. by 2020) and an additional 60,000 will be created in the longer term (i.e. by 2025).

## 15 Impact Investment Locations: potential job creation by location and skill level



## 5 Transforming the region's prospects

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### 5.1 Business and market opportunities

There are significant business and market opportunities on offer in a number of the region's key sectors.

For example in environmental technologies significant opportunities are expected to arise in renewable energy technologies, recycling and waste management and clean and waste water management. In medical technologies there are opportunities associated with the development of new healthcare technology. The demand for specialist business & professional services, meanwhile, is being driven by growth in the use of e-commerce and potential for establishing the West Midlands as a 'centre of excellence' for Islamic Finance. In ICT there are opportunities associated with digital convergence - with an emerging global market for services covering communications, IT and media. A similar convergence is creating opportunities for digital media firms, with the creation of new platforms, devices and channels and demand for more and different content, products and services.

There are also significant potential business and market opportunities for businesses in traditional private sector activities such as engineering, the transport technologies cluster, construction and the building technologies cluster - notably relating to advanced manufacturing and the low carbon agenda.

Opportunities are less significant in lower value added private sector activities such as wholesale & retail distribution, hotels & catering, transport and cultural, recreational & sporting activities. Nevertheless there is still a need for businesses to upgrade the skills of their workforce in order to address the challenges and opportunities they face going forward. Organisations in public sector activities such as public administration, education and health & social care, meanwhile, also face significant challenges going forward, with a need to adapt and develop the services they offer at a time of declining resources.

The region's local authorities have highlighted the need to grow and develop these sectors and clusters in their 'position statements' on local skills priorities (see table 3 overleaf).

**Table 3: Local authority statements of skills priorities - priority & growth sectors for the future**

Sub-region	Local Authority Area	Priority/growth sectors
Birmingham	Birmingham	Environmental technologies, High value added business & professional services, Digital media, ICT, Health and social care, Retailing
Black Country	Dudley	Advanced manufacturing, Engineering, Low value business services, ICT, Construction, Distribution
	Sandwell	High value added manufacturing, Food & drink, Green industries/Environmental technologies, High value added business & professional services, Construction, Wholesale & retail, Transport, Low value business services
	Walsall	High value added manufacturing, High value added business & professional services, Construction, Low value business services
	Wolverhampton	Aerospace, Advanced manufacturing, IT software, Manufacturing, Education, Health & social care, Wholesale & retail
Coventry Solihull & Warwickshire	Coventry	Advanced manufacturing, Engineering design, Financial services, IT software/ ICT, Business management and services, Distribution
	Solihull	High value added business services, ICT, construction and building technologies, Engineering and Transport technologies, Transport services, Tourism & leisure
	Warwickshire	Advanced manufacturing, Environmental technologies, Medical technologies, Digital media, High value added business & professional services, Distribution, Hotels and catering, Transport, Communications, Public administration, Education, Health & social care
Staffordshire & Stoke	Staffordshire	Low carbon/environmental technologies, Medical technologies, Digital media, High value added business & professional services, Distribution hotels and catering, Financial and business, Transport, Communication, Construction, Health & social care
	Stoke-on-Trent	Healthcare, Medical technologies, Environmental & low carbon technologies, Creative industries/digital media, Low value business services
Herefordshire, Shropshire & Telford	Herefordshire	ICT, High value added business & professional services, Construction & Building technologies, Low value business services, Education, Transport, Healthcare
	Shropshire	High value added business & professional services, Low value business services, Construction, Wholesale & retail, Hotels & catering, Transport & communication, Public administration, Education, Healthcare
	Telford & Wrekin	Advanced engineering, Polymers, ICT, High value added business & professional services, Low value business services, Health & social care, Building technologies, Tourism & leisure
Worcestershire	Worcestershire	Digital economy, Creative industries, Low carbon economy, Advanced manufacturing, Life sciences, Low value business services, Construction, Education

Source: Local authority position statements on skills priorities, May 2010

## 5.2 The attributes of successful regions

If the West Midlands is to achieve a step change in its economic performance it will be important to learn lessons from more successful regions within the UK and beyond. Research shows that while key strengths of these regions include institutional and governance factors such as effective leadership, mature and stable working relationships between partners and strong business buy in and engagement, they also include intrinsic assets such as a strong knowledge economy, demand for higher level skills and innovative and adaptive businesses. Key examples of successful regions, from which lessons can be learned, include Rhone-Alpes in France where economic growth has been driven by the integration of skills, innovation and enterprise in developing a strong knowledge economy and the Basque Country in Spain where links between clusters of firms and universities are driving growth and competitiveness<sup>33</sup>.

## 5.3 Alternative futures

In order to boost the scale and pace of economic recovery in the region, create more new jobs and stimulate more demand for higher level skills action is needed to:

- Up-skill the workforce in existing businesses
- Attract and develop more businesses in higher value added sectors such as advanced manufacturing, environmental technologies, medical technologies, ICT, digital media and business & professional services

### 5.3.1 Rising to the challenge - the role of skills

Skilled people are one of the building blocks of successful businesses, carrying out complex tasks and producing higher value products and services. They are also better at adapting to changing working environments, enabling firms to respond better to changing global competition and technology. This tends to be particularly effective when businesses use these skills in combination with investment in innovation and technology<sup>34</sup>.

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<sup>33</sup> What makes for a successful region? SQW Consulting on behalf of AWM, 2010

<sup>34</sup> Source: Skills for Growth – the new national skills strategy published in November 2009 by the Department for Business, Innovation & Skills

For example skills relating to creativity, leadership & management, communication & networking and team working are important alongside a range of specific high level technical skills to the successful exploitation of ideas at all stages of the innovation process<sup>35</sup>. Successful entrepreneurs that have established and developed high growth firms in the region, meanwhile, tend to demonstrate effective leadership & management, communication & networking, team working, financial and research skills<sup>36</sup>. Research indicates that around 900 'growth firms' in the region (i.e. with average employment growth rates of more than 20% per annum) generated some 84,000 new jobs over the 2005-2008 period - a rate of net job creation three times greater than the business base as a whole. While growth firms are spread fairly evenly across sectors they are most likely to be small or micro businesses<sup>37</sup>.

In addition businesses will need to source a wide range of skills specific to particular sectors and clusters if they are to be in a position to compete effectively and exploit opportunities on offer to the full. These include both technical and vocational skills and softer generic skills.

For example in environmental technologies there is a need to recruit and develop scientific and operational waste plant specialists and to develop more generic workforce skills such as an ability to combine technical skills and commercial acumen, awareness of environmental technology development globally and a broad based understanding of sustainability issues<sup>38</sup>. Medical technologies firms need to recruit and develop more highly skilled technicians qualified to degree and higher degree level. There are also emerging generic skill needs in areas such as leadership and management<sup>39</sup>. In high value added business & professional services, meanwhile, there will be a need to recruit and develop more skilled paraprofessional staff such as legal executives and accounting technicians. Both new recruits and the existing workforce, meanwhile, will need to develop better generic skills in areas such as leadership & management, interpersonal skills, literacy & numeracy, complex mathematical and statistical skills, customer service, basic ICT, and skills in managing teams, making sales and managing relationships<sup>40</sup>.

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<sup>35</sup> Source: Innovation Lab – human facilitators of Innovation, report prepared for the Department of Employment & Learning, Northern Ireland

<sup>36</sup> Source: Higher Education Academy 2009

<sup>37</sup> Source: Business demography and firm performance in the West Midlands – Economics & Strategy Group, Aston Business School and Economic Research Institute of Northern Ireland for Advantage West Midlands 2010

<sup>38</sup> West Midlands Regional Observatory/Labour Market Solutions Ltd – environmental technologies skills review, 2009

<sup>39</sup> Source: AWM cluster skills research 2009

<sup>40</sup> Sector Skills Agreement for Financial Services – March 2008

In ICT businesses need to develop a sophisticated multi-skilled workforce, combining business and personal skills with technical competence. Specifically new skills are needed in areas such as relationship management, business process analysis and design, project and programme management, business change management, systems architecture, networking, risk management and security. Digital media firms, meanwhile, need to develop technical skills in software development, applications, digital technology, broadcasting and computer generated processes. They also need to develop creative management skills such as achieving effective responses to design briefs, budgeting, scheduling, production management, legal, business and financial expertise, funding and marketing. More general business, finance and people management skills will continue to be in demand, meanwhile, among large companies, smaller enterprises and freelancers alike<sup>41</sup>.

In engineering businesses will need to recruit people with high level skills in science, technology, engineering and maths. There will also be a need to recruit and develop workers with an understanding of multiple scientific disciplines, skills in new product development and commercialisation and expertise relating to appropriate target markets and supply chains<sup>42</sup>. In transport technologies businesses need to recruit and develop skills in core disciplines such as production, electronic and control engineering and in areas such as strategic leadership & management. There is also a need to upgrade basic skills in the workforce. In the interiors & lifestyle cluster businesses will need to recruit and develop new higher level skills in areas such as business development, design and branding<sup>43</sup>. In food & drink, meanwhile, businesses need to recruit and develop more food technologists, chemists, microbiologists, engineers and fitters<sup>44</sup>.

In the construction and the building technologies cluster businesses need to recruit and develop more highly skilled managers and professionals such as chartered engineers and scientists, project managers and designers, site construction managers and safety specialists<sup>45</sup>. There is also a need to develop skills in areas such as the installation and maintenance of new energy efficient equipment such as photovoltaic cells, the use of new building fabrics and in the installation of building products manufactured off site<sup>46</sup>.

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<sup>41</sup> Source: Sector Skills Agreement for the Creative Media Industries England Update 2008-2011

<sup>42</sup> Source: UKCES: Skills for jobs today and tomorrow – the national strategic skills audit for England 2010

<sup>43</sup> Source: AWM Cluster Skills Research 2009

<sup>44</sup> Source: Improve Sector Skills Council – Sector Skills Agreement, West Midlands Summary 2007

<sup>45</sup> Source: UKCES: Skills for jobs today and tomorrow – the national strategic skills audit for England 2010

<sup>46</sup> Source: Sector Skills Agreement for Construction (Making the Case for Change) – September 2005

While lower value added private sector activities are characterised by low productivity and significant numbers of lower skilled jobs there is still a need for businesses to upgrade the skills of their workforce in order to address the challenges and opportunities they face going forward.

For example in wholesale & retail businesses are operating in an increasingly competitive environment with a rapid pace of innovation<sup>47</sup>. To survive and prosper companies need to develop a range of new skills. At management level these include negotiation skills, business planning and development, people management, customer handling and practical skills relating to visual merchandise, facilities management, website development and internet use. For sales staff these include oral communication, team working and practical skills relating to selling, merchandising, product knowledge and consumer rights<sup>48</sup>.

In hotels & catering there is a need for more competent and effective managers and chefs with a high level of technical skills to meet a growing consumer demand for freshly prepared ingredients, cooking from scratch and for a wider range of international cuisines. Good customer service skills are also increasingly required, to include behaviours such as genuine interest in the consumer, the ability to spot potential problems and conflict management<sup>49</sup>.

The 2012 Olympics and Paralympics offer key business opportunities within cultural recreational & sporting activities through the Cultural Olympiad, Cultural Programme and legacy activities<sup>50</sup>. Major sporting events will be held at different locations across the UK and a number of pre-games training camps are to be located in the West Midlands, attracting world class competitors and boosting the visitor economy<sup>51</sup>. To maximise the potential benefits organisations need to develop leadership skills to encourage innovation and strategic planning, negotiation skills for client and contract management and selling, marketing and PR skills<sup>52</sup>.

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<sup>47</sup> Source: Skillsmart - SSA West Midlands Regional Summary (Spring 2008)

<sup>48</sup> Source: Skillsmart Retail – Sector Skills Agreement for the Retail Sector (Stage three report for England) – October 2007

<sup>49</sup> Source: People 1<sup>st</sup> Sector Skills Council Sector Skills Agreement, 2007

<sup>50</sup> Source: The Sector Skills Agreement for the Creative and Cultural Industries – June 2008

<sup>51</sup> Source: Sector Skills Assessment for the SkillsActive Sector Skills Council – December 2009

<sup>52</sup> Source: The Sector Skills Agreement for the Creative and Cultural Industries – June 2008

In transport there is a need for staff to develop the skills needed to maximise the benefits of new technology. For example engineers and maintenance staff need develop the ICT skills needed to work with new engine technologies, drivers need to be able to operate satellite navigation systems and in aviation check in staff and baggage handlers need to be competent in using computerised registration systems<sup>53 54</sup>. There is also an increased need for technical skills such as cost control and performance management and interpersonal skills such as communication, networking, team working and customer service<sup>55</sup>.

Similarly public sector organisations face significant challenges going forward, with a need to adapt and develop the services they offer at a time of declining resources.

For example in public administration there is a need to adapt to changes in legislation and policy and for a greater use of IT to enable more effective and efficient sharing of information and intelligence. Organisations will need to develop new skills in multi-agency working, management and leadership (notably in areas such as performance and quality management, managing change, financial and resource management, risk management and contracting and procurement) and ICT<sup>56</sup>.

In education there is a growing need for skills to secure and sustain funding from an increasingly diverse range of sources. There is also a need for staff with the skills and expertise to develop provision that is responsive in both content and style of delivery to meet the needs of increasingly demanding paying customers, be they learners or their employers. There is also a growing need for ICT skills with the introduction of new hardware, new services and provision based on technology and a need for wider employability skills in areas such as customer service skills and leadership and management<sup>57</sup>.

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<sup>53</sup> Source: Assessment of Current and Future Skills Needs in the Logistics Sector – October 2005

<sup>54</sup> Source: Go Skills Sector Skills Agreement Stage 1 Executive Summary

<sup>55</sup> Source: Assessment of Current and Future Skills Needs in the Logistics Sector – October 2005

<sup>56</sup> Source: Sector Skills Agreement for the Justice sector – England, 2009

<sup>57</sup> Source: Lifelong Learning Sector Skills Council- sector skills agreement (2006)

In health & social care organisations need to respond to rapid changes in the demand for services due to an ageing population<sup>58</sup>. At the same time they need to achieve efficiency savings while maintaining high quality patient care - by exploiting new technological advancements, service redesign and upskilling of the workforce<sup>59</sup>. To support these changes organisations will need to develop a range of generic skills including literacy and numeracy, communication and interpersonal skills and IT skills. There is also an increasing need for an ability to work with colleagues from other sectors and to lead or work in multi-agency teams.

### 5.3.2 Up-skilling the workforce

The scale of the challenge for the region's businesses to up-skill their staff to the level required to exploit these opportunities is substantial. For example to bring the skills profile of the region's workforce into line with the England average there is a need to recruit or up-skill around 66,000 higher skilled workers. At a sectoral level to match the England average 17,000 more higher skilled workers would be needed in wholesale & retail distribution, 16,000 in lower value added business services, 7,000 in the transport sector and more than 3,000 in the hotels & catering sector. There is also a requirement to recruit or up-skill substantial numbers of higher skilled workers in traditional private sector industries -notably some 7,000 in the engineering sector and 6,900 in manufacturing.

### 5.3.3 Addressing structural change

To boost the scale and pace of economic recovery in the region and stimulate more demand for higher level skills it will also be important to attract and develop more businesses and jobs in higher skilled and value added clusters. To increase the share of regional employment to match the England average in these activities more than 25,000 new jobs would need to be created in higher value added business & professional services and nearly 20,000 new jobs in ICT, more than 15,000 jobs in digital media and more than 10,000 new jobs in medical technologies would need to be created.

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<sup>58</sup> Source: Skills for Health Sector Skills Agreement Executive Summary – England,2009

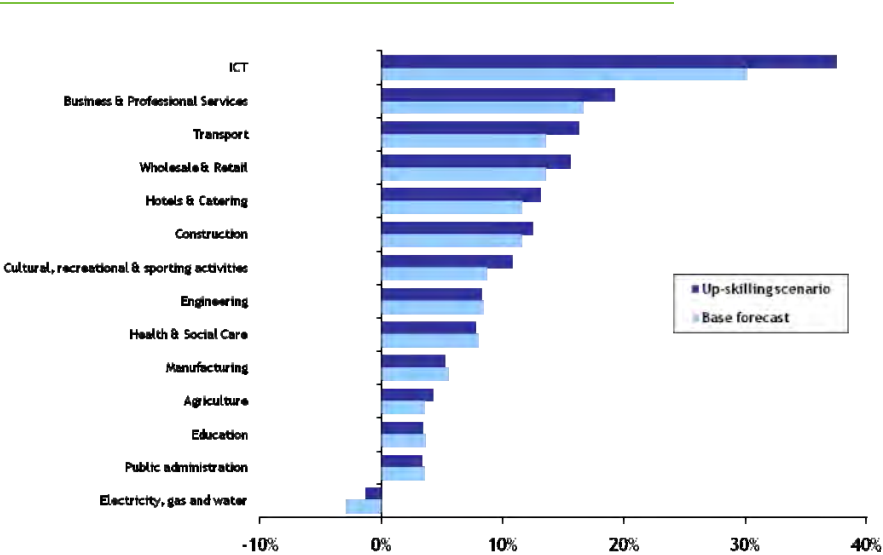
<sup>59</sup> Source: Skills for Health Policy and Labour Market Intelligence Briefing Issue 2 – July 2009

### 5.3.4 Achieving these objectives - the economic benefits

#### 5.3.4.1 Up-skilling the workforce

If the skill levels in region’s workforce were raised to match the England average it is estimated that the additional GVA they would generate between 2010 and 2015 would increase from just under £9 billion to more than £10 billion and growth in GVA would increase from less than 10% to more than 12%. The main beneficiaries would be sectors and clusters where skill gaps and shortages are acting as a significant constraint on growth. These include high value added activities such as ICT where GVA growth would increase by 7 percentage points over the period from 30% to 37% and high value added business & professional services where growth would increase by nearly 3 percentage points from 14% to 17% (see chart 16).

16 GVA growth 2010-2015: base forecast and ‘up-skilling’ scenario



Source: Cambridge Econometrics

West Midlands Regional Observatory 2010 16

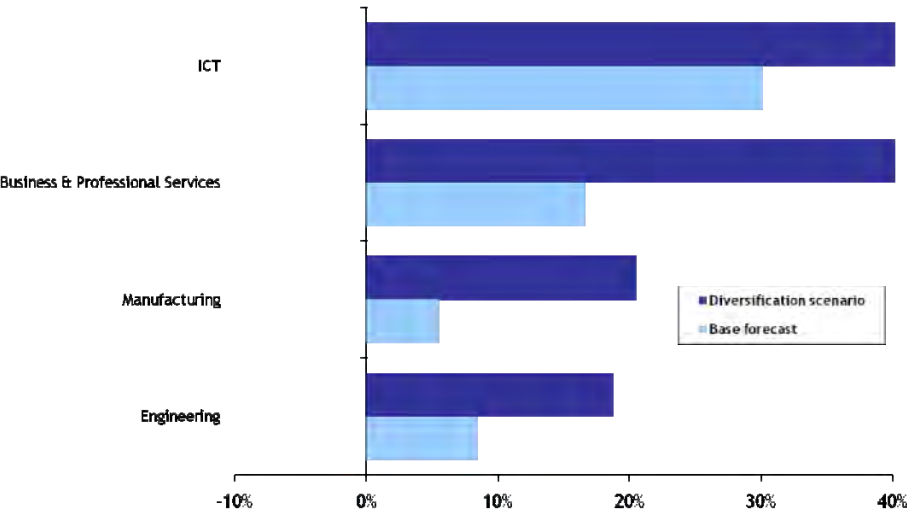
At the same time, however, in traditional private sector industries investment in training and up-skilling is likely to be part of wider rationalization and productivity improvements - resulting in slightly reduced GVA growth. For example over the period growth would fall from 8.4% to 8.3% in engineering, from 5.5% to 5.2% in manufacturing and from 7.5% to 7% in the interiors & lifestyle cluster.

It is estimated that under this 'up-skilling' scenario the net increase in regional employment over the 2010-2015 period would be around 21,000, almost double the base forecast of 11,000. Again impact would vary widely by sector and cluster. The number of net new jobs created over the period would increase from just under 7,000 to more than 9,000 in ICT, from 14,000 to 21,000 in high value added business & professional services, from just over 18,000 to nearly 20,000 in wholesale & retail distribution and from just under 5,000 to nearly 6,000 in transport. At the same time, however, job shedding would increase in engineering and manufacturing.

**5.3.4.2 Addressing structural change**

Economic growth would increase more significantly, however, if more businesses in higher value added sectors and clusters were also attracted to the region such that their share of GVA matched the England average. Additional GVA generated in the region between 2010 and 2015 would increase to nearly £21 billion, representing growth of some 23%. The key beneficiaries would be high value added activities such as ICT where GVA growth over the period would rise to 68% and business & professional services where growth would rise to 46%. GVA growth over the period would also rise 11 percentage points compared to the baseline from 8% to 19% in engineering and 15 percentage points from 5% to 20% in manufacturing (See chart 17).

17 GVA growth 2010-2015: base forecast and 'diversification' scenario



Source: Cambridge Econometrics

Under this 'diversification' scenario new job growth would be much more significant with an increase of more than 200,000 in total regional employment. Activities such as high value added business & professional services (where more than 100,000 net new jobs would be created) and ICT (30,000 net new jobs) are notable beneficiaries. There would also be modest increases in employment levels in engineering (nearly 3,000 net new jobs) and manufacturing (nearly 6,000 net new jobs) as jobs created by incoming businesses offset those being shed by firms already based in the region.

## Full document information

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Title	Regional strategic and investment skills priorities for 2011-2012: policy supplement
Date created	2010-07-12
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Description	This policy supplement provides an insight into the region's existing and likely future skill needs. It highlights the changing needs of the region's economy and labour market to inform the decisions of employers, individuals, providers and the skills system.
Creator	Skills Research Team West Midlands Regional Observatory Level 3, Millennium Point Curzon Street Birmingham B4 7XG  Telephone: 0121 202 3250 Fax: 0121 202 3240 Email: <a href="mailto:info@wmro.org">info@wmro.org</a> Website: <a href="http://www.wmro.org">http://www.wmro.org</a>
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