



## Review of West Midlands skills performance - key headlines

3<sup>rd</sup> September 2010

### 1 Introduction

This report draws on recent trends in our framework of skills performance indicators and summary skills index, which is based on 10 high level measures of investment in skills by businesses and individuals. The index has been in place for the last 5 years and provides an overview of latest trends in the region's overall skills performance.

The index provides a useful context for a series of 'measures of success' currently in development - which will link to the broad aims set out in the West Midlands statement of investment priorities produced by the Regional Skills Partnership. Analysis will be published in the autumn, providing management information to help partners make informed policy decisions and to prioritise actions and resources to achieve maximum impact<sup>1</sup>. Taken together the analysis will inform the strategic thinking, policy development and priority setting of regional and local partners.

A poster showing trends in the index and the range of measures it is based on can be accessed via <http://bit.ly/9bkLMQ> and charts showing trends in all of the indicators that make up the skills performance framework can be accessed via <http://bit.ly/cOZnc3>.

### 2 Economic context

General economic prosperity in the region as measured by gross value added (GVA) per head has lagged behind national trends since the 1970s. The gap between regional and national performance continues to widen year on year. By 2008<sup>2</sup> it stood at just under £17,500, just 83% of the England average of nearly £21,000 - down from 85% in 2004<sup>3</sup>.

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<sup>1</sup> Source: West Midlands Regional Skills Partnership – West Midlands skills investment priorities 2010-2012: a framework for measuring success, August 2010

<sup>2</sup> Please note that throughout this report we quote latest available figures

<sup>3</sup> Source: ONS Regional Accounts, 2010

## 2.1 Low rates of productivity and earnings

Labour productivity within the region's businesses, as measured by GVA per employee, has also lagged behind national trends. GVA per employee in 2008 was 86% of the England average (£40,000 compared with nearly £47,000) - down from 87% in 2004<sup>4</sup>. At the same time the region's workforce is characterised by lower levels of earnings than in many other parts of the country. At £456 in 2009 average weekly earnings were more than 5% below the England average of £482<sup>5</sup>.

## 2.2 Structural weaknesses in the economy

These trends reflect serious structural weaknesses in the region's economy. While there are some high performing businesses in the West Midlands there is still a dependence on lower value added private sector industries and the public sector. Between 1998 and 2008 there was a net loss of over 60,000 private sector jobs. As a result our baseline forecasts indicate that only 11,600 net new jobs will be created over the next 5 years<sup>6</sup>. More recent analysis, moreover, suggests that the significant job losses associated with impending cuts in public sector spending across the West Midlands may lead to a stalling of this modest recovery in employment. Instead a net loss of nearly 50,000 jobs is expected by 2016<sup>7</sup>.

## 2.3 Low employment rates and high rates of worklessness

At the same time rates of participation in employment lag other regions - and again the gap with England continues to widen year on year. Less than 72% of the working age population in the West Midlands were in employment in 2009 compared with an England average of more than 74%. This represents a 2.5 percentage point gap which had widened from 1.1 percentage points in 2004. Nearly 30 % of the region's working age population were workless in 2009 compared with the England average of 27%<sup>8</sup>.

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<sup>4</sup> Source: IBID

<sup>5</sup> Source: ONS Annual Survey of Hours and Earnings, 2009

<sup>6</sup> Source: West Midlands Regional Observatory – Regional skills investment priorities 2010-2012: policy supplement, July 2010

<sup>7</sup> Source West Midlands Regional Observatory – Regional Skills Assessment 2010: briefing paper one: the local impact of public sector job cuts, September 2010

<sup>8</sup> Source: ONS Labour Force Survey, 2009

### 3 A faltering skills performance

Our skills index, which is based on a range of measures which relate to investment in skills by employers and individuals, indicates a faltering of regional skills performance. Recent movements in the index reveal that, after narrowing between 2005 and 2007, the gap in performance with England as a whole has begun to widen again - from 1.1 points in 2007 to 2.3 points in 2009. As a result the West Midlands has dropped from 5<sup>th</sup> to 6<sup>th</sup> place in the league table of English regions.

#### 3.1 Rising employer investment in skills

On a positive note the proportion of private sector businesses investing in training has continued to rise strongly. An increase of two percentage points from 64% in 2007 to 66% in 2009 was the fourth highest in the country. A relatively high proportion of the region's employers utilise key workforce development tools. For example 59% had a formal business plan in 2009 and 45% had a formal training plan - in both cases the second highest proportion in England<sup>9</sup>.

#### 3.2 But investment is too focused on meeting existing needs

However there is concern that this investment is too focused on meeting existing needs - and not sufficiently targeted at the skills needed stimulate new business development and job creation. For example the demand for higher level skills within private sector businesses in the West Midlands - as measured by the proportion of staff qualified to degree level or above - fell slightly from 24.1% in 2007 to 24% in 2009. This compares with a rise of more than 2 percentage points across England as a whole and the West Midlands was 7<sup>th</sup> out of the 9 English regions on this measure<sup>10</sup>.

Skill gap and shortage problems also persist across the region - suggesting that there is a need to align investment in education and training more closely with business needs. The proportion of West Midlands employers identifying skill gaps and deficiencies within their workforce has increased from 5% in 2007 to 8% in 2009 - now the second highest figure in England. At the same time, while the proportion of job vacancies due to skill shortages continues to fall, the rate of decline is well below the England average - and that achieved in previous years. While the figure fell by 1 percentage point from 16% in 2007 to 15% in 2009 this compares with a fall of nearly 5 percentage points across England as a whole - and a decline of 5 percentage points between 2005 and 2007<sup>11</sup>.

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<sup>9</sup> Source: UKCES National Employer Skills Survey, 2009

<sup>10</sup> Source: ONS Labour Force Survey, 2009

<sup>11</sup> Source: UKCES National Employer Skills Survey, 2009

### 3.3 Qualification attainment still lags behind other regions

From an individuals' perspective qualification attainment, while improving, still lags behind many other regions. For example only 49% of 15 year olds attained 5 or more GCSEs at A\*-C including English and Maths in 2008/09, two percentage points below the England average, and the West Midlands was 8<sup>th</sup> out of the 9 English regions<sup>12</sup>. Among 19 year olds, meanwhile, 75% were qualified to level 2 or above in 2008 (nearly 2 percentage points below the England average) and 47% were qualified to level 3 or above (nearly 3 percentage points lower)<sup>13</sup>.

Only 28% of adults in the West Midlands, meanwhile, were qualified to degree level or above in 2009 - 5 percentage points below the England average. At 47% the proportion qualified to level 3 or above lagged the England average by 6 percentage points and at 69% the proportion qualified to level 2 or above was 4 percentage points below the national figure. On both of these measures the West Midlands is the worst performer in England. As a result at 12% the West Midlands had the second highest proportion of the working age population with no qualifications in the country. Too many people lack the basics in literacy, language and numeracy and do not have the platform of wider skills and qualifications to support sustained, productive employment<sup>14</sup>.

On a more positive note the proportion of West Midlands graduates finding employment in the Region rose from 64% in 2006/07 to 67% in 2007/08 - a figure above the England average (66%). However, rather than indicating growth in demand for higher level skills in the West Midlands, this largely reflects a decline in job opportunities in areas such as London, the South East and the East of England, which traditionally attract large numbers of West Midlands graduates. These areas were the first to see the impact of the recession in 2008 and 2009 and graduate retention rates fell sharply - by 2 percentage points in the East of England, nearly 3 percentage points in London and 4 percentage points in the South East<sup>15</sup>.

### 3.4 A need for radical, transformational change

There is an urgent need for radical, transformational change in order to create more and better jobs that will provide work for the unemployed, help maintain social cohesion and provide prosperity for all in the region.

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<sup>12</sup> Source: DCSF, 2010

<sup>13</sup> Source: DfES/FFT matched dataset, 2010

<sup>14</sup> Source: ONS Labour Force Survey, 2009

<sup>15</sup> Source: Higher Education Statistics Agency, 2010

To this end, as well as investing in the skills to meet existing needs, there is a need for long term investment in the skills needed stimulate new business development and job creation. In particular there is a need for skills that support enterprise and entrepreneurship, innovation, strong leadership and management and the development of priority sectors such as digital media, low carbon, low carbon construction and advanced manufacturing<sup>16</sup>.

## 4 Conclusions

The West Midlands continues to lag behind other regions in terms of economic performance due to serious structural weaknesses and impending cuts in public sector spending mean that future employment prospects are poor.

Latest movements in the skills index show a faltering of the region's skills performance. There is still insufficient investment in skills, by either businesses or individuals, to support the radical, transformational change needed to create more and better jobs.

There is a need to align investment in education and training more closely with business needs. At the same time businesses need give greater priority to the long term, strategic skills required to achieve sustainable growth and create new high quality jobs. Despite a continuing gradual improvement, meanwhile, too many people lack the skills needed to support sustained, productive employment.

The measures of success linked to regional investment priorities will help partners to identify the policy responses and specific actions required to tackle these issues.

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<sup>16</sup> Source: West Midlands Regional Skills Partnership – West Midlands skills investment priorities 2010-2012: a framework for measuring success, August 2010