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West Midlands Skills Assessment 2010

Briefing paper two

Achieving transformational change – implications for the economy, jobs and skills

Final report
November 2010

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Investing in jobs and skills

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1 Introduction

The 2010 West Midlands Skills Assessment builds on work we have already done during the year to inform the West Midlands Skills Partnership (WMSP) in the development of Skills Investment Priorities for the region, which highlights a need for urgent, radical, transformational change to deliver the skills needed to support the creation of more and better jobs.

This briefing paper, which is the second in a series of four[1], seeks to inform the strategic thinking and priority setting of the new Local Enterprise Partnerships. Utilising our forecasting system, the Policy Assessment Model, along with some customised scenarios, we explore the potential for growth in Gross Value Added (GVA) and new skilled jobs if this transformational change can be achieved.

Specifically we assess the potential for GVA and new job growth given the likely impact of the impending cuts in public sector spending. We then explore the potential impact of up-skilling the workforce to match skill levels across England as a whole, and of combining this with a strategy to diversify the economy by attracting and developing businesses in high growth, high value added sectors. We identify the high value added industries that would spearhead growth in GVA and jobs and the likely key ‘growth points’ for GVA and new skilled jobs at a sub-regional and local level

We then go on to consider the important, and closely inter-linked, skills and competencies businesses need to develop to underpin this transformational change - in areas such as leadership and management, entrepreneurship and innovation. Finally we identify the specific technical and softer generic skills that are likely to be associated with the new jobs being created If this transformational change is achieved.

[1] The first paper, which explores the potential impact on employment prospects of the impending cuts in public sector spending, can be accessed by clicking here. The third paper, which identifies the causes of skill gaps and shortages experienced by employers, and the fourth which considers the potential size of the ‘market’ for new jobs in different parts of the West Midlands, are due to be published in December 2010.

2 Key headlines

The West Midlands was the only region in the country to see a fall in private sector jobs in the decade to 2008. Higher value added activities and high growth firms with the potential to create new, skilled jobs are less well represented than in many other regions. This has meant that, although the share of employment in the public sector is not as high as in some other parts of the country (for example the North East) the West Midlands has seen a sharp increase in dependence on public sector jobs. This has been the most significant in the country and the region is particularly vulnerable to the cuts in expenditure announced by the government. Our baseline forecast[2] indicates that West Midlands GVA will grow by only 8% (£8.8 billion) between 2010 and 2015 and there will be a net fall in employment of more than 38,000.

2.1 Achieving transformational change

As a result just focusing on matching the supply of skills with expected demand will not deliver the volume or quality of jobs needed in the West Midlands. There is a need for urgent, radical, transformational change to deliver the skills needed to support the creation of more and better jobs – and meet the demands of around one million people without jobs in the region[3].

Investment in the demand, supply and effective use of skills by existing businesses can play a key role in this process - as private sector businesses constrained by skill gaps and shortages start to achieve their growth potential. Nevertheless investment in skills alone would have only a limited impact on the region's ability to create more and better jobs.

[2] This forecast has been developed using the baseline projections from our Policy Assessment Model, combined with a scenario modeling the potential impact of the cuts in public spending which have been announced by the government. As a result some of the figures quoted are slightly different to those quoted in the West Midlands Skills Partnership's Statement of Investment Priorities, which was based on the baseline projections alone. It should also be noted that our forecasts do not model potential growth in the private sector as firms take on activities formerly undertaken by the public sector.

[3] Source: West Midlands Skills Partnership – More Jobs, Better Jobs: West Midlands Skills Investment Priorities 2011-2012

We have developed a scenario which models the potential impact of raising workforce skill levels across the West Midlands to match the England average by 2015. This would lead to an increase in growth in GVA of just four percentage points to 12% and there would still be a net fall in employment of just under 28,000. Growth in GVA and jobs would be led by the small number of areas where high value added industries with strong growth prospects are already relatively well established such as *Solihull, Tamworth, Telford & Wrekin* and *Warwick* – while significant net job losses would still be experienced elsewhere.

But under a second scenario, in which this up-skilling policy is combined with investment in other drivers of the economy such as innovation, enterprise, inward investment, transport and sites and premises, there would be a much more significant boost to GVA and job growth. If the share of GVA accounted for by fast growing, higher value added private sector industries increased to match the England average by 2015, GVA would grow by some 23% across the West Midlands and, even factoring in the impact of the public sector cuts, more than 160,000 net new jobs would be created. Nevertheless this still needs to placed in the context of around a million people without jobs in the region.

Under this scenario there is potential for significant growth in GVA and employment over the 2010-2015 period in high value added industries that have a growing presence in the West Midlands. These include *business & professional services, advanced manufacturing*, *building technologies & low carbon construction* and *ICT & digital media*.

2.2 Key growth points

Under this high growth scenario, GVA and job growth would be spread more widely across the West Midlands to all areas where these high value added industries have a less significant but growing presence. The projections based on this scenario show that:

In *Birmingham* GVA would grow by 24%, while GVA growth of 34% would be expected in *Solihull*. More than 50,000 net new jobs would be created across the area – of which some 20,000 would be in high value added industries.

GVA would grow by 33% in *Warwick* and by 25% in *Coventry* and *Stratford-on-Avon*. Overall nearly 40,000 net new jobs would be created across Coventry & Warwickshire – of which up to 12,000 would be in high value added industries.

While at 20% GVA growth in the *Black Country* would be lower than elsewhere in the West Midlands nearly 20,000 net new jobs would be created between now and 2015. Of these some 12,000 would be in high value added industries.

In *Tamworth* GVA would grow by 28%, while there would be growth of 25% in *Lichfield* and 24% in *Newcastle-under-Lyme*. Overall more than 26,000 net new jobs would be created across Stoke & Staffordshire – of which more than 13,000 would be in high value added industries.

GVA would grow by 26% in *Telford* and overall nearly 13,000 net new jobs would be created across the Marches area – of which more than 7,000 would be in high value added industries.

In *Malvern Hills* GVA would grow by 28%, while there would be growth of 27% in *Redditch*. Up to 13,000 net new jobs would be created across Worcestershire as a whole – of which nearly 8,000 would be in high value added industries.

2.3 The role of skills

To support this transformation of regional, sub-regional and local economic and employment prospects businesses will need leaders and managers that can enable their businesses to grow and exploit new opportunities. They will also need to ensure that their workforces acquire the skills needed to foster an entrepreneurial culture and promote innovation.

Subsequently, if efforts to transform the economy are successful, new and growing businesses in high value added industries will need to access specific skill sets in order to exploit the business and market opportunities on offer. For example ICT & digital media firms will need to source technical skills in software development, applications, digital technology, broadcasting and computer generated processes – as well as a range of creative management and more general business skills. In low carbon construction, meanwhile, there will be a growing demand for architects and product designers familiar with new building fabrics and materials, planners with skills relating to low carbon buildings and retro-fitting and for expertise in off-site manufacture.

In advanced manufacturing industries such as transport technologies businesses need to attract more specialist professional electrical and electronic technicians and engineers. In low carbon and environmental technologies businesses have identified a need for specialist skills in areas such as design, power, process, Computer Aided Design and process, mechanical, chemical and electrical engineering, waste treatment and fuel cell technology. In medical technologies, meanwhile, businesses need to recruit individuals with higher level technical skills and shortages of engineers with specific skills that are relevant to new medical technologies need to be addressed.

Businesses across these high value added industries, meanwhile, are highlighting a range of common issues that need to be addressed to help them to access the skills they need to develop new products, services and markets. These include the need for a more flexible and innovative approach to apprenticeships to make it easier for smaller firms to recruit them. Businesses also want a stronger influence on education and training provision to ensure that it keeps pace with innovation and market developments and for mechanisms to help match graduate skills with graduate jobs.

3 Prospects for the West Midlands as a whole

The West Midlands was the only region in the country to see a fall in private sector employment over the 1998-2008 period (latest available figures) and there are serious structural weaknesses within the region's business sector. Higher value added activities and high growth firms with the potential to create new, skilled jobs are much less well represented than in other regions[4]. This has meant that, although the share of employment in the public sector is not as high as in some other parts of the country (for example the North East) the West Midlands has seen a sharp increase in dependence on public sector jobs. This has been the most significant in the country and the region is particularly vulnerable to the significant cuts in expenditure announced by the government[5].

3.1 Baseline forecast[6]

Recovery from recession in the West Midlands 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 just over 8% (£8.8 billion) over the 2010-2015 period which compares with growth of 15% (over £11 billion) between 2000 and 2007.

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[4] For more detailed analysis see the Policy Supplement paper we produced to underpin the development of Regional Skills Investment Priorities, which can be downloaded by clicking here

[5] For further details see the first briefing paper in this series which explores the likely impact of the public sector cuts on the West Midlands, which can be downloaded by clicking here.

[6] This forecast has been developed using the baseline projections from our Policy Assessment Model, combined with a scenario modeling the potential impact of the cuts in public spending which have been announced by the government. As a result some of the figures quoted are slightly different to those quoted in the West Midlands Skills Partnership's Statement of Investment Priorities, which was based on the baseline projections alone. It should also be noted that our forecasts do not model potential growth in the private sector as firms take on activities formerly undertaken by the public sector.

It is forecast that nearly 80,000 public sector jobs will be lost in the West Midlands by 2015 due to the impact of cuts in expenditure - and there will be a net fall in employment of more than 38,000 as jobs created by the private sector are offset by losses in the public sector. In addition, based on the ratio of the number of jobs dependent on public sector spending and the associated supply chain nationally, a further 310,000 jobs[7] are at risk at firms directly or indirectly reliant on public sector spending[8].

3.2 Achieving transformational change

As a result just focusing on matching the supply of skills with expected demand will not deliver the volume or quality of jobs needed in the West Midlands. The Skills Investment Priorities developed by the Partnership focus on a need for urgent, radical, transformational change to deliver the skills needed to support the creation of more and better jobs– and meet the demands of around one million people without jobs in the region [9].

We have developed a scenario which models the potential impact on business and job growth of raising workforce skill levels across the West Midlands to match the England average by 2015. This would lead to an increase in GVA growth of four percentage points to 12% as private sector businesses in high value added industries constrained by skill gaps and shortages start to achieve their growth potential (see figure 1). Nevertheless net new job creation would still be offset by the impact of cuts in public sector expenditure and a net loss of nearly 28,000 jobs is forecast.

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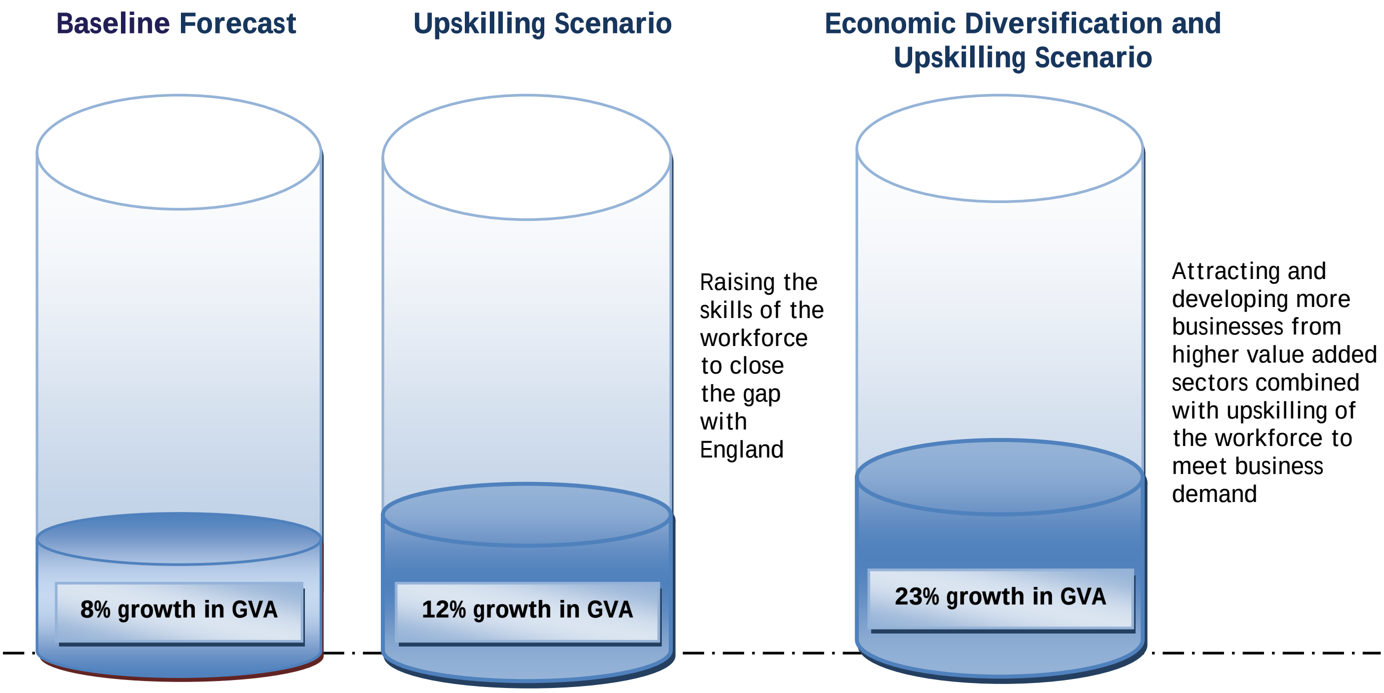
[7] Source: The Work Foundation and Oxford Economics, June 2010. It should be noted that this figure represents the number of jobs **at risk** and that not all will necessarily be lost

[8] It should be noted that this forecast does not take account of any private sector job creation that might be stimulated by new market opportunities arising due to the withdrawal of public sector services

[9] Source: West Midlands Skills Partnership – More Jobs, Better Jobs: West Midlands Skills Investment Priorities 2011-2012

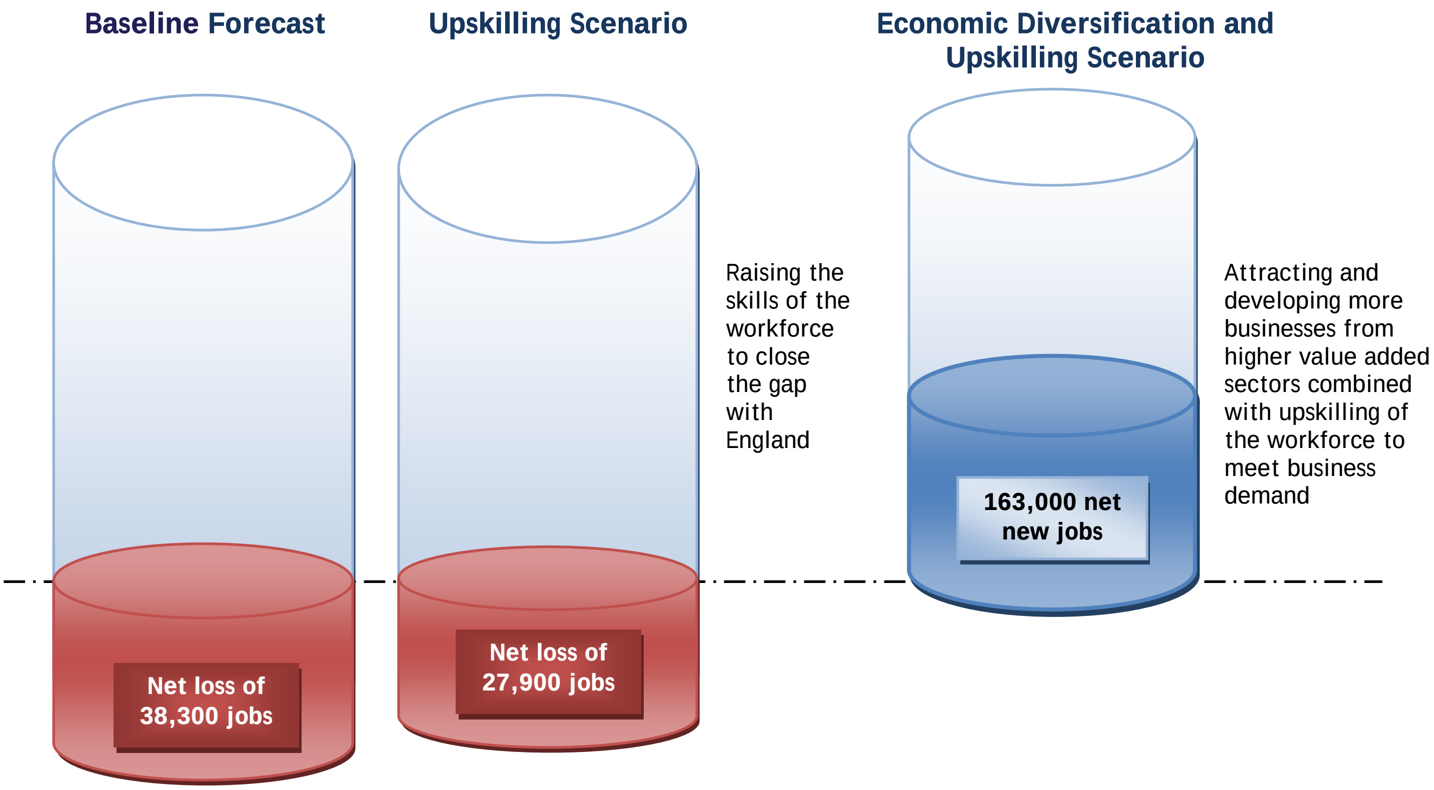
Figure 1: forecast GVA growth 2010-2015: alternative scenarios for the West Midlands as a whole



Source: Cambridge Econometrics/Observatory analysis

But under a second scenario, in which this up-skilling policy is combined with investment in other drivers of the economy such as innovation, enterprise, inward investment, transport and sites and premises, and the share of GVA accounted for by fast growing, higher value added private sector industries increased to match the England average by 2015, there would be a much more significant boost to GVA and job growth. GVA would grow by some 23% across the West Midlands and, even factoring in the impact of the public sector cuts, more than 160,000 net new jobs would be created (see figure 2).

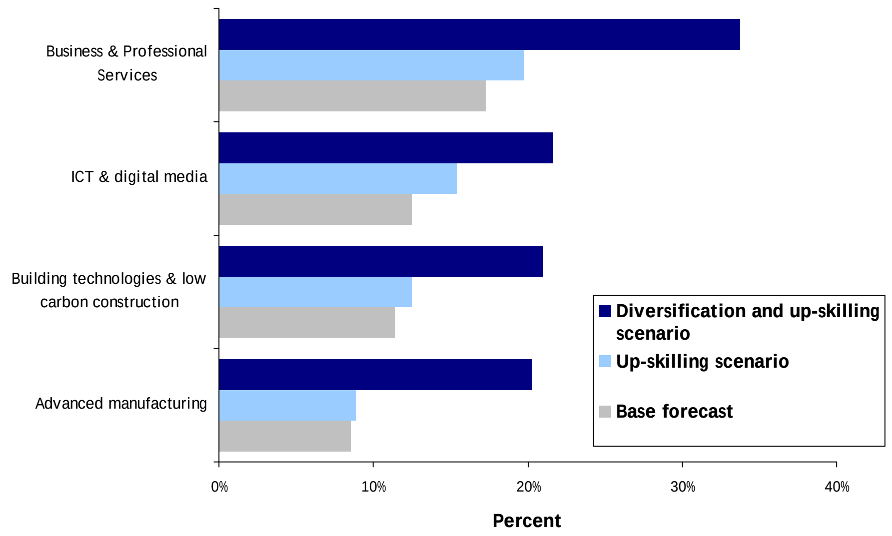
Figure 2: forecast employment trends 2010-2015: alternative scenarios for the West Midlands as a whole



Key growth sectors

Under this economic diversification and up-skilling scenario growth would be spearheaded by higher value added private sector industries that are established, but under-represented, in the West Midlands. For example there is potential for GVA growth of up to more than 30% in business & professional services, and more than 20% in advanced manufacturing (which includes environmental, medical and transport technologies), building technologies & low carbon construction and ICT & digital media (see chart 1).

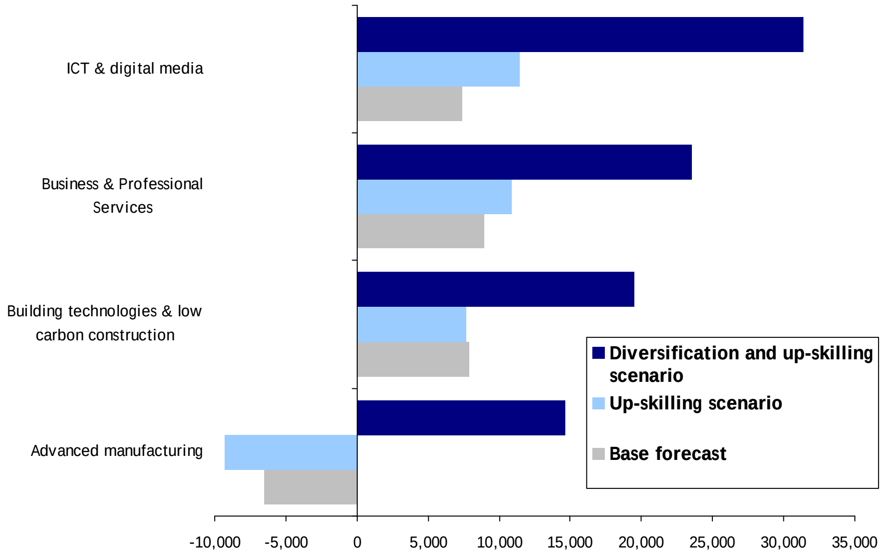
1. GVA growth in key industries 2010-2015 – alternative scenarios



Source: Cambridge Econometrics/Observatory analysis West Midlands Regional Observatory 2010 1

In terms of employment there is potential for the creation of more than 30,000 net new jobs in ICT & digital media, nearly 25,000 net new jobs in business & professional services and nearly 20,000 net new jobs in building technologies & low carbon construction. There is also potential for the creation of nearly 15,000 net new jobs in advanced manufacturing (see chart 2).

2. Net new jobs in key industries 2010-2015 – alternative scenarios



Source: Cambridge Econometrics/Observatory analysis

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4 Prospects at a sub-regional and local level

Prospects for GVA growth and new job creation vary in different parts of the West Midlands. In particular future prospects depend on the structure of the local economy and the extent to which:

- The area is dependent on the public sector and thus its vulnerability to the impending cuts in spending
- Higher value added private sector activities with potential to grow and create skilled jobs have a significant presence in the area
- This is reflected in local authority expectations and aspirations for growth and the identification of priority investment locations, as reflected in their position statements on skills priorities

4.1 Baseline forecast

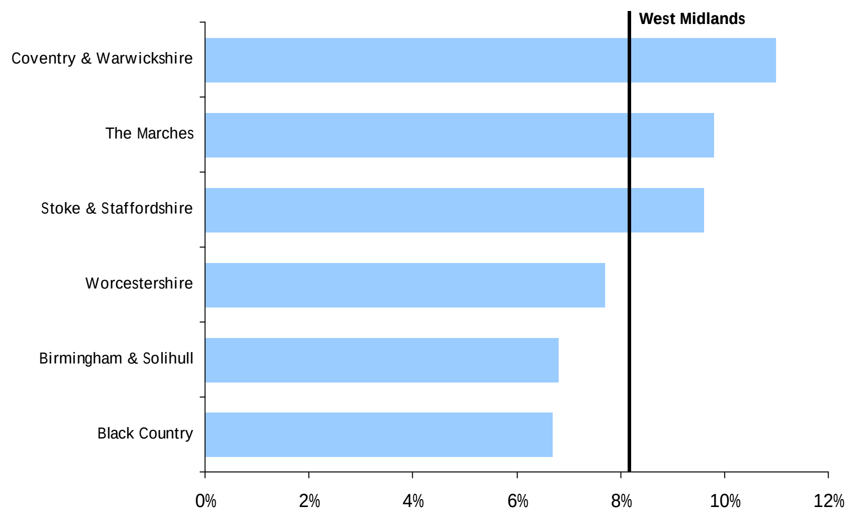
Modest growth in GVA of just over 8% is forecast across the region as a whole between 2010 and 2015. As chart 3 shows growth is expected to be a little higher than this in Coventry & Warwickshire (11%) and the Marches and Stoke & Staffordshire (just under 10% in both cases). Growth in these areas is forecast to be led by Tamworth (15%), Warwick (14%) and Telford & Wrekin (12%) where high value added private sector industries with strong growth prospects are well represented[10].

At the same time, however, growth of just 9% for Oswestry, 8% for Stafford, 7% for Shrewsbury and 6% for Stoke-on-Trent, where dependence on the public sector is particularly significant, is forecast. In addition GVA growth of just 8% in North Shropshire and only 7% in both Wyre Forest and Wychavon is forecast, where lower value added industries such as agriculture, manufacturing industries such as food & drink, construction, hotels & catering, transport and retail, rather than higher value added activities, tend to dominate the economy.

[10] For more detailed analysis please see the set of six sub-regional profiles, which are appended as an annex to this report.

GVA growth of less than 7% between now and 2015 is also forecast across the Black Country, where high value added private sector industries are relatively poorly represented. In addition there is a particularly significant dependence on the public sector in Dudley and Wolverhampton. Similarly GVA growth of less than 7% is expected in Worcestershire. Growth of less than 7% is forecast in both Wyre Forest and Wychavon, where lower value added industries tend to dominate, and growth of just 6% is forecast in Worcester, where the public sector is key to the local economy. Birmingham & Solihull is also forecast to see GVA growth of less than 7%. While healthy growth of 13% is expected in Solihull, where high value added industries are strongly represented, growth of just 6% is forecast for Birmingham, where the public sector accounts for a significant share of activity.

3. Baseline forecast: GVA growth by sub-region 2010-2015



Source: Cambridge Econometrics/Observatory analysis

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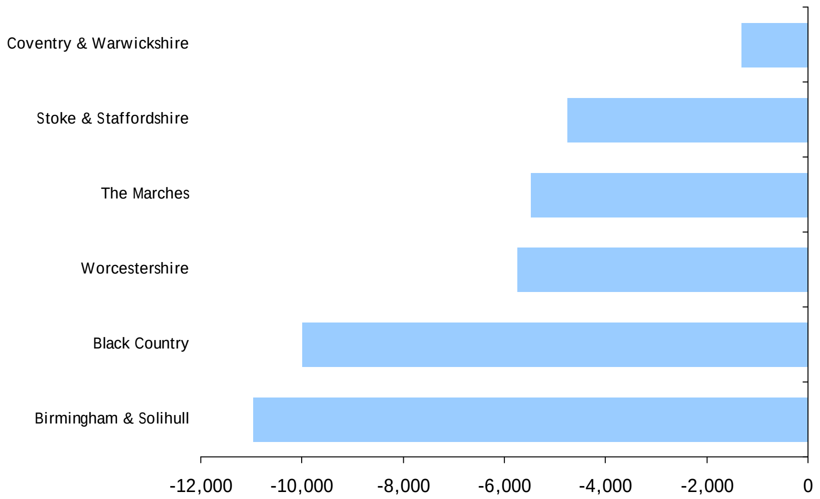
As chart 4 shows, a net fall in employment is forecast in all six sub-regions between now and 2010. A loss of nearly 11,000 jobs is forecast in Birmingham and Solihull – with a modest increase of just under 1,800 jobs in Solihull offset by a loss of nearly 13,000 jobs in Birmingham. A fall in employment of nearly 10,000 is forecast for the Black Country, meanwhile, spread fairly evenly across the area. A drop of nearly 6,000 jobs is forecast in Worcestershire, with falls in employment of around 900 in both Worcester and Bromsgrove and more than 2,000 in Wychavon.

In the Marches a fall in employment of just under 5,500 is forecast – with a modest increase of around 200 jobs in Telford & Wrekin offset by falls of around 900 in Herefordshire, 700 in North Shropshire and 500 in Shrewsbury. Similarly a loss of just under 5,000 jobs is forecast for Stoke & Staffordshire – with an increase of around 1,000 in Tamworth offset by falls of nearly 2,000 in Stafford and some 3,000 in Stoke-on-Trent. A slight fall in employment of just under 1,400 is also forecast for Coventry & Warwickshire – with a modest increase of around 800 jobs in Warwick offset by falls elsewhere.

4. Baseline forecast: net employment change by sub-region 2010-2015



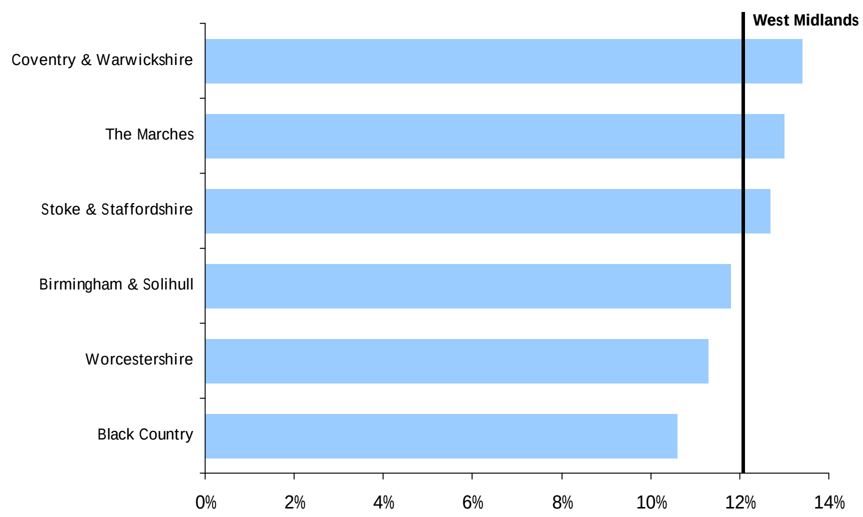
Source: Cambridge Econometrics/Observatory analysis   West Midlands Regional Observatory 2010   4

4.2 Up-skilling scenario

Our first scenario illustrates the potential impact on GVA and job growth of raising workforce skill levels across the West Midlands to match the England average by 2015.

As chart 5 shows GVA growth over the 2010-2015 period would rise to 13% in Coventry & Warwickshire, the Marches and Stoke & Staffordshire as private sector businesses constrained by skill gaps and shortages start to achieve their growth potential. Within these areas growth would be led by the limited number of locations where high value added industries with strong growth prospects are already relatively well established such as *Tamworth*, *Telford & Wrekin* and *Warwick* (16% in each case). Growth would remain modest, however, in areas such as Herefordshire, North Shropshire, Oswestry, South Shropshire, Stafford and Shrewsbury (all 12%) and Stoke-on-Trent (10%).

5. Up-skilling scenario: GVA growth by sub-region 2010-2015



Source: Cambridge Econometrics/Observatory analysis

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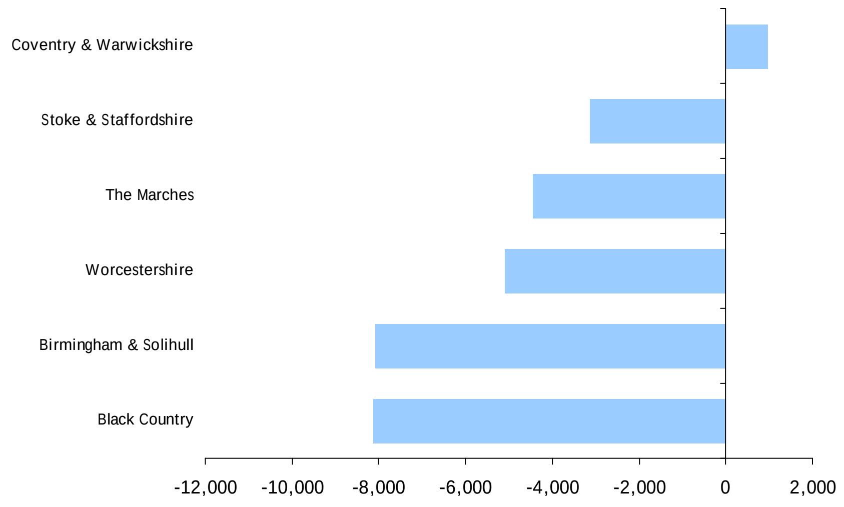
Growth in GVA of 12% is projected for Birmingham & Solihull – in line with the figure for the West Midlands as a whole. While there would be growth of 15% in Solihull more modest growth of 11% is projected for Birmingham. GVA growth of just 11% is projected, meanwhile, for both the Black Country and Worcestershire – where growth of 13% in Malvern Hills and Redditch will be offset by growth of just 10% in Wyre Forest and 9% in Wychavon.

As chart 6 shows employment prospects, while improving, would remain modest under this scenario. Just under 1,000 net new jobs would be created in Coventry & Warwickshire between now and 2015 – with an increase in employment of more than 1,000 in Warwick expected to be offset by falls in other areas.

6. Up-skilling scenario: net employment change by sub-region 2010-2015



Source: Cambridge Econometrics/Observatory analysis

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There would still be net falls in employment, meanwhile, of more than 3,000 in Stoke & Staffordshire (where 1,200 more jobs in Tamworth would be offset by falls of 1,600 jobs in Stafford and 2,600 jobs in Stoke-on-Trent) and nearly 4,500 in the Marches (where 500 extra jobs in Telford & Wrekin would be offset by falls in employment of 400 in Shrewsbury, 600 in North Shropshire and 700 in Herefordshire).

There would also be losses of more than 5,000 jobs in Worcestershire and more than 8,000 in Birmingham & Solihull (where an increase in employment of 2,000 in Solihull would be offset by a fall of 10,000 in Birmingham) and the Black Country.

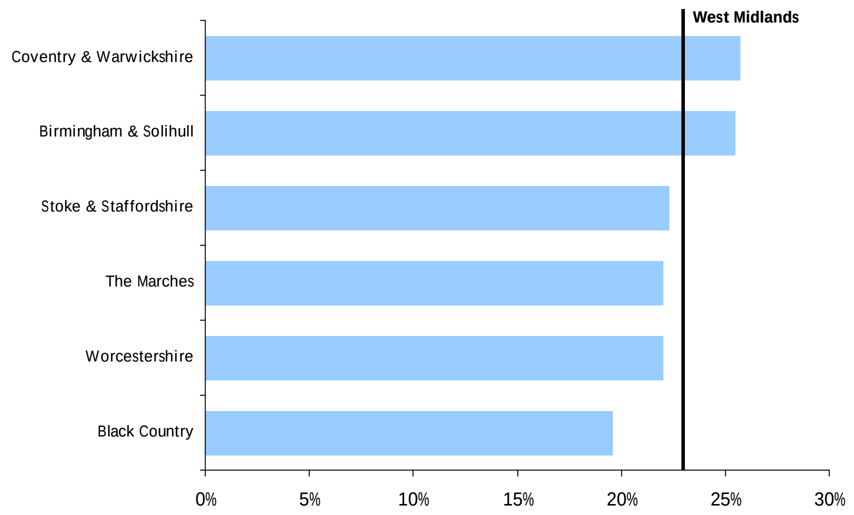
4.3 Up-skilling and diversification scenario

Our second scenario illustrates the potential impact of combining this up-skilling with a strategy to attract more businesses in higher value added private sector industries to the West Midlands such that their share of GVA matches the England average by 2015.

As chart 7 shows this would lead to a much more significant boost to GVA growth, spread more widely across the West Midlands to all areas where these industries have a growing presence. In particular:

- Growth of nearly 26% over the 2010-2015 period is projected for both Birmingham & Solihull (where there would be growth of 34% in Solihull and 24% in Birmingham) and Coventry & Warwickshire (where growth of 33% in Warwick and 25% in Coventry, North Warwickshire and Stratford-on-Avon is expected).
- GVA growth of around 22%, meanwhile, is projected for the Marches (where growth of 26% is expected in Telford and Wrekin), Stoke & Staffordshire (where growth of 28% in Tamworth, 25% in Lichfield and Staffordshire Moorlands and 24% in Newcastle-under-Lyme is expected) and Worcestershire (where growth of 28% in Malvern Hills and 27% in Redditch is expected).
- GVA growth of 20% is also projected across the Black Country.

7. Up-skilling & diversification scenario: GVA growth by sub-region 2010-2015



Source: Cambridge Econometrics/Observatory analysis

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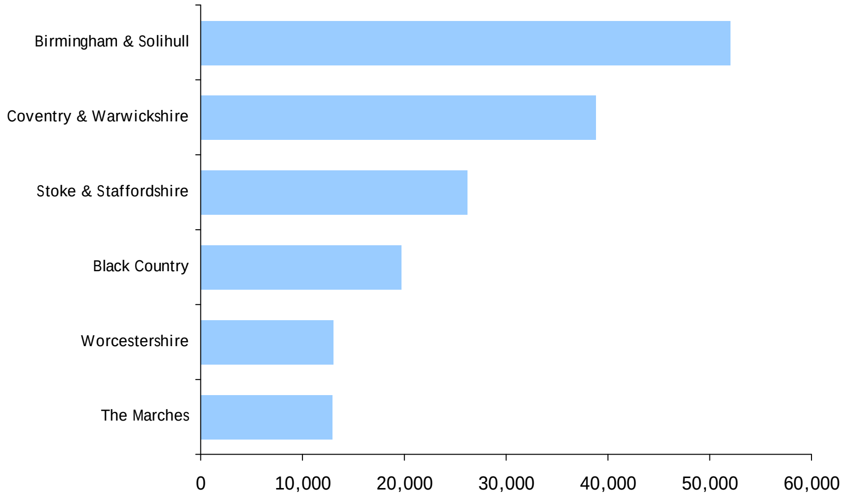
4.3.1 New job creation – key growth points

Faster rates of GVA growth mean that, even factoring in the impact of the public sector cuts it is forecast that significant numbers of net new jobs would be created across the West Midlands.

For example as chart 8 shows more than 50,000 extra jobs would be created in *Birmingham & Solihull*. Of these more than 40,000 would be created in Birmingham and nearly 10,000 would be created in Solihull.

8. Up-skilling scenario: net employment change by sub-region 2010-2015



Source: Cambridge Econometrics/Observatory analysis

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As shown in table 1 some 20,000 of these would be higher skilled jobs in higher value added activities. While business & professional services would create around 7,000 net new jobs by 2015, advanced manufacturing (transport technologies in both areas and medical technologies in Birmingham) would create nearly 7,000 net new jobs and ICT & digital media (ICT in both areas and digital media in Birmingham) would create more than 6,000 net new jobs.

Nearly 40,000 jobs, meanwhile, would be created in *Coventry & Warwickshire*. Of these around 6,000 would be created in *Stratford-on-Avon*, more than 12,000 would be created in *Coventry* and nearly 13,000 would be created in *Warwick*. Up to 12,000 would be higher skilled jobs in higher value added activities. In particular ICT & digital media would create around 8,000 net new jobs by 2015, 5,000 net new jobs would be created in business & professional services while advanced manufacturing industries such as transport technologies and environmental technologies would create more than 2,000 net new jobs.

Table 1: High value added sectors and growth points by sub-region

Local Authority area	Key growth sectors linked to local priorities[11]	Employment in 2008[12]	Employment growth 2010-2015: diversification and up-skilling scenario[13]	Related key investment sites[14]
Birmingham & Solihull	Business & professional services Advanced manufacturing ICT & digital media	28,300 12,800 21,100	7,000 6,600 6,500	Birmingham Gateway, Longbridge, Eastside, Solihull town centre
Black Country	Building technologies ICT & digital media Business & professional services Advanced manufacturing	40,300 4,900 3,400 16,900	5,200 3,700 2,000 1,000	Dudley waterfront, Walsall waterfront
Coventry & Warwickshire	ICT & digital media Business & professional services Advanced manufacturing	15,700 14,600 22,500	8,000 5,000 2,300	Ansty Business Park, Coventry City Centre, Friargate
Stoke & Staffordshire	ICT & digital media Business & professional services Building technologies Advanced manufacturing	9,900 6,300 25,800 5,700	4,700 4,000 3,900 500	I54, Chatterley valley, Keele Science Park
The Marches	ICT & digital media Building technologies Business & Professional services Advanced manufacturing	4,000 13,900 4,500 5,200	3,000 2,700 2,000 600	Edgar Street grid, Telford town centre
Worcestershire	ICT & digital media Building technologies Business & professional services Advanced manufacturing	7,900 17,300 8,400 11,300	2,600 2,200 2,000 800	Central Technology Belt, Malvern Hills science park, Worcester technology park

More than 26,000 net new jobs would be created in *Stoke & Staffordshire*. Of these nearly 3,500 would be created in *Tamworth* and more than 3,000 would be created in both *Lichfield* and *Newcastle-under-Lyme*. More than 13,000 would be higher skilled jobs in higher value added activities.

[11] Source: local authority position statements on skills priorities, June 2010
[12] Source: ONS Annual Business Inquiry, 2008
[13] Source: Cambridge Econometrics and Observatory analysis, September 2010
[14] Source: West Midlands Regional Observatory - review of employment and skill needs at Impact Investment sites, June 2010 and local authority position statements on skills priorities, June 2010

ICT & digital media would create nearly 5,000 net new jobs by 2015. Business & professional services, meanwhile, and building technologies & low carbon construction would each create up to 4,000 net new jobs. Advanced manufacturing (and transport technologies in particular) would create around 500 net new jobs.

More than 26,000 net new jobs would be created, meanwhile, in the *Black Country*. Of these nearly 6,000 are forecast to be created in *Sandwell*, nearly 5,000 would be created in both *Dudley* and *Wolverhampton* and just over 4,000 would be created in *Walsall*. Up to 12,000 would be higher skilled jobs in higher value added activities.

Building technologies & low carbon construction would create more than 5,000 net new jobs over the next 5 years. ICT & digital media, meanwhile, would create nearly 4,000 net new jobs and business & professional services would create up to 2,000 net new jobs. Advanced manufacturing (transport technologies in Dudley, Walsall and Wolverhampton and environmental technologies in Walsall) would create nearly around 1,000 net new jobs.

Nearly 13,000 net new jobs would be created in *Worcestershire*, of which nearly 4,000 are expected to be created in *Malvern Hills*, nearly 3,000 would be created in *Redditch* and more than 2,500 would be created in *Worcester*. Nearly 8,000 would be higher skilled jobs in higher value added activities.

While ICT & digital media would create nearly 3,000 net new jobs by 2015, building technologies & low carbon construction would create more than 2,000 net new jobs and business & professional services would create around 2,000 net new jobs. Advanced manufacturing (and transport technologies in particular), meanwhile, would create around 800 net new jobs.

Nearly 13,000 net new jobs, meanwhile, would be created in *the Marches*. Of these more than 7,000 would be created in *Telford & Wrekin* and more than 8,000 would be higher skilled jobs in higher value added activities. ICT & digital media would create around 3,000 net new jobs by 2015, while building technologies & low carbon construction would create nearly 3,000 net new jobs and business & professional services would create up to 2,000 net new jobs. Advanced manufacturing (and transport technologies in particular), meanwhile, would create around 600 net new jobs.

5 The role of skills

5.1 Kick starting transformational change

5.1.1 Leadership and management

In the West Midlands there are approximately 350,000 leaders and managers, who have a direct influence over GVA of around £77 billion annually and will play a key role in helping to achieve this transformation of regional, sub-regional and local economic prospects[15].

Strong leadership and management skills are vital to help businesses grow and exploit new opportunities. In particular leaders and managers need to be effective in areas such as strategic thinking, managing and controlling their resources and motivating and coaching their staff[16]. This has been identified as a national, cross-sectoral issue and Sector Skills Councils have come together to develop a range of initiatives to support the development of management, supervisory, coaching, mentoring and team building skills[17].

5.1.2 Entrepreneurship and innovation

Leaders and managers will also need to ensure that their workforces are equipped with the skills and attributes required to promote entrepreneurship and innovation.

For example businesses with an entrepreneurial culture tend to be characterised by a workforce with strong communication & networking, team working and planning & organisational skills. They also tend to demonstrate key traits such as initiative, self motivation & discipline, adaptability, the ability to work under pressure and a propensity to take risks[18].

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15 www.cw-chamber.co.uk
16 West Midlands Regional Observatory - Management and Leadership Cross-cutting Issues Report, 2006
17 Source: Alliance of Sector Skills Councils, 2010
18 Source: http://www.growthink.com

Skills are also critical to the successful exploitation of ideas at all stages of the innovation process. For example in the initial knowledge gathering phase creative skills are vital to recognise, assimilate and absorb information, adapt it to the needs of the organisation and apply it to commercial ends. In transforming that knowledge into new products, processes or services, meanwhile, there is a need for an ability to exploit and manage technology and manage and share knowledge[19].

5.1.3 Supporting future business growth

Subsequently, if efforts to transform the economy are successful, new and growing businesses would be looking to source a wide range of new skills. In particular firms in high value added industries will need access to specific skill sets to help exploit business and market opportunities on offer.

The West Midlands has a thriving ICT & digital media industry, with a particular strength in computer games and social media. There is increasing demand for the creation of new platforms, devices and channels and demand for more and different content, products and services. Emerging global market opportunities for West Midlands businesses include developing digital content for entertainment, exploiting digital content to develop innovative education and using digital media in a wide range of business activities[20]. This is likely to stimulate a growing need for technical skills in software development, applications, digital technology, broadcasting and computer generated processes. There is also demand for creative management skills such as achieving effective responses to design briefs, budgeting, scheduling and production management and more general business, finance and people management skills[21].

By 2020 it is expected that construction will be a completely low carbon industry, meanwhile. This is expected to underpin a growing demand for architects and product designers with an understanding of how design, coupled with the use of different building fabrics and materials, can help minimise carbon emissions. Planners, meanwhile, need to develop skills relating to low carbon buildings and retro-fitting. There will also be a growing need for expertise in off-site manufacture, joining technologies and the properties of new and advanced materials[22].

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[19] Source: Innovation Lab – human facilitators of Innovation, report prepared for the Department of Employment & Learning, Northern Ireland
[20] Source: Advantage West Midlands – Investing in Skills for Business Clusters, 2010
[21] Source: Sector Skills Agreement for the Creative Media Industries England Update 2008-2011
[22] Source: Construction Sector Skills Council, 2010

There are a number of developments that can potentially drive the growth of advanced manufacturing industries in the West Midlands. For example the region has established strengths in transport technologies and a shift to low emission vehicles (such as hydrogen powered, plug-in hybrid and fully electric cars) and intelligent transportation systems will potentially create new markets for West Midlands companies. To take full advantage of these new opportunities businesses need to attract more specialist professional electrical and electronic technicians and engineers[23].

Building on its strength as a national centre for the engineering industry, the West Midlands also has strengths in fast growing areas of low carbon and environmental technologies such as wind, hydroelectric, marine and biomass. To exploit these to the full going forward businesses have identified a need for specialist skills in areas such as design, power, process, Computer Aided Design and process, mechanical, chemical and electrical engineering, waste treatment and fuel cell technology[24].

In medical technologies, meanwhile, the region has emerging strengths in areas such as intelligent health, assistive living, infection control, human engineering and clinical trialling. There is significant scope for companies to take advantage of growing market opportunities brought about as a result of changing demographics and healthcare delivery To exploit these opportunities to the full businesses need to recruit individuals with higher level technical skills and shortages of engineers with specific skills that are relevant to new medical technologies need to be addressed[25].

The business & professional services industry has strength across a wide range of activities and has a regional, national and international client base. Historically it has enjoyed a sustained period of growth which has since been slowed by the economic downturn. However new and emerging markets include Islamic banking, e-commerce and low carbon opportunities. While there is intense competition for graduate level jobs in the larger banks, law and accountancy firms, smaller businesses, which account for 80% of the industry in the West Midlands, are encountering difficulties in attracting graduate talent[26] .

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[23] Source: The UK Low Carbon Industrial Strategy, July 2009
[24] Source: West Midlands Regional Observatory/Labour Market Solutions Ltd – environmental technologies skills review, 2009
[25] Source: Advantage West Midlands – Investing in Skills for Business Clusters, 2010
[26] Source: Advantage West Midlands – Investing in Skills for Business Clusters, 2010

Businesses across these high value added industries, meanwhile, are highlighting a range of common issues that need to be addressed to help them to access the skills they need to develop new products, services and markets. These include a more flexible and innovative approach to apprenticeships to make it easier for smaller firms to recruit them. There is also a need for stronger links between businesses and education and training institutions. This will help them to exert a greater influence on education and training provision to ensure that it keeps pace with innovation and market developments and is flexible enough to meet their needs. It will also improve opportunities for innovation and knowledge transfer between businesses and universities. An effective mechanism for matching graduate skills to graduate jobs, moreover, will be increasingly important going forward[27].

[27] Source: Advantage West Midlands – Investing in Skills for Business Clusters, 2010

6 Conclusions and implications

6.1 An imbalanced economy

A need to diversify the economy into activities with strong growth prospects and the potential to create new, high quality jobs is a key priority at national level.

‘Whilst our leading employers are amongst the best in the world, there are questions about the balance of our economy as a whole. Relative to other industrialised nations we have too few businesses in low skill, low value added industries and high performance workplaces creating high skilled jobs. We need more and better jobs which can only come from more and better businesses’.

UK Commission for Employment & Skills: Ambition 2020 – World Class Skills and Jobs for the UK, 2010

‘We are determined that this should change. That doesn’t mean picking winners but it does mean supporting growing industries – aerospace, pharmaceuticals, high-value manufacturing, hi-tech engineering, low carbon technology and all the knowledge-based businesses including the creative industries’.

David Cameron – May 2010

This imbalance is a particular issue in the West Midlands. There are serious structural weaknesses in the region’s business sector. Higher value added activities and high growth firms with the potential to create new, skilled jobs are relatively poorly represented and the West Midlands was the only region in the country to see a fall in private sector jobs in the last decade. There has been a sharp increase in dependence on public sector jobs and the region is particularly vulnerable to the cuts in expenditure announced by the government. Only sluggish growth in GVA is forecast between now and 2015 and there will be a net fall in employment of more than 38,000.

Job prospects are more favourable in areas such as Solihull, Tamworth, Warwick and Telford & Wrekin, where high value added private sector industries with strong growth prospects are well represented. But employment prospects are much poorer in urban areas such as the Black Country and Stoke-on-Trent and rural areas such as Herefordshire, North Shropshire and Wychavon where low value added industries are still predominant. Prospects are also poor in areas particularly reliant on public sector jobs such as Oswestry, Shrewsbury, Stafford and Worcester.

6.2 A need for transformational change

As a result there is a need for urgent, radical, transformational change to deliver the skills needed to support the creation of more and better jobs in the West Midlands – and meet the demands of around one million people without jobs in the region.

> 'Skills are vital to our future – a skilled workforce is necessary to stimulate the private sector-led growth that will bring new jobs and new prosperity for people all over this country … our ambition is that the UK should have a world class skills base that provides a consistent source of competitive advantage'.
>
> Department for Business, Innovation & Skills, Skills for Sustainable Growth Strategy Document, November 2010

Investment in the demand, supply and effective use of skills by existing businesses can play a key role in this process - as private sector businesses constrained by skill gaps and shortages start to achieve their growth potential. In particular investment is needed in the skills that will stimulate the transformation of our economic and employment prospects. For example businesses will need leaders and managers that can drive growth and the exploitation of new opportunities. They will also need to ensure that their workforces acquire the skills needed to foster an entrepreneurial culture and promote innovation. Subsequently, if efforts to transform the economy are successful, new and growing businesses in high value added industries will need to access specific skill sets in order to exploit the business and market opportunities on offer.

In the future skills provision will increasingly be funded by employers rather than the government. As a result there is a need for universities, colleges and other training providers to communicate better with employers, using their language, and more effective engagement with the business agenda. The region's businesses want a stronger influence on education and training provision to ensure that it keeps pace with innovation and market developments, a more flexible and innovative approach to apprenticeships and mechanisms to better match graduate skills with graduate jobs.

> 'Employers do not want low cost approaches that deliver second class results. They are willing to invest in the skills of their workforces if they can be sure that the training they buy will be high quality and geared to their needs'.
>
> 'Small and medium sized enterprises are often unaware of the full extent of growth opportunities in the economy and how the skills system can support them to achieve their growth potential … they find engaging with the skills system costly and burdensome and often lack the resources to adequately invest in their staff'.
>
> Department for Business, Innovation & Skills, Skills for Sustainable Growth Strategy Document, November 2010

6.3 But investment in skills alone is not enough

However while universities and colleges in the West Midlands are already investing in new, flexible, business-focused education and training, take up has been limited so far. Many of the region's private sector businesses are operating in low value-added, low margin markets and are still struggling to turn the corner after the recent deep and damaging recession meaning they lack the resources required to invest in the skills of their workforces.

As a result investment in skills alone would have only a limited impact on the region's ability to create more and better jobs. Raising the skills of the West Midlands workforce to close the gap with England as a whole would lead to an increase in growth in GVA of just four percentage points to 12% and there would still be a net fall in employment of just under 28,000.

Making the case for investment in skills, linked to improvements in businesses 'bottom line', is the key to success – and up-skilling policies need to be combined with investment in other drivers of the economy. These include innovation, enterprise, transport systems and the development of sites and premises that will attract fast growth firms and high value-added activities.

This approach would have significant benefits in terms of economic growth and the creation of new jobs. For example if the share of employment accounted for by fast growing, higher value added private sector industries was increased to match the England average by 2015 GVA would grow by some 23% across the West Midlands. Even factoring in the impact of the public sector cuts, more than 160,000 net new jobs would be created – although this still needs to placed in the context of around a million people without jobs in the region.

Prosperity and new employment opportunities would be spread throughout the West Midlands. GVA and job growth would be strong in areas such as Solihull, Tamworth, Telford & Wrekin and Warwick, where fast growth firms and high value-added sectors are already well established. But the benefits would also spread to areas where these businesses have a less significant but growing presence – such as Birmingham, Coventry, Stratford-on-Avon, Lichfield, Newcastle-under-Lyme, Malvern Hills and Redditch.

Full document information

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