Regional Skills Assessment 2009: Key headlines and conclusions

West Midlands Regional Observatory
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1.1 National and regional ambitions

At a national level there is an ambition to move from the second to the first quartile of OECD countries for jobs and productivity. In turn in the West Midlands there is a desire to close the £15 billion output gap with the UK in terms of Gross Value Added (GVA) per head which is widening year on year, thereby boosting productivity and reducing worklessness. In particular there is a need to tackle an under-representation of higher value added sectors, a lower proportion of high growth firms and lower rates of innovation and enterprise than in many other regions. This will help to both boost productivity and reduce worklessness in a region that has been particularly hard hit by the recession and has the highest unemployment rate in the country.

'Skills for Growth', the National Skills Strategy published by the Government in November 2009 highlights the fact that skilled people are one of the building blocks of successful businesses. The role of higher education in equipping people with these skills is recognised in 'Higher Ambitions – the future of universities in a knowledge economy' – a framework for the future development of higher education. As well as widening access to higher education to all sections of the population the framework also highlights the need to strengthen universities' research capacity to ensure that they make an even greater contribution to economic recovery and future growth.

1.2 Skills and economic performance

The Region's Skills Action Plan recognises that, in combination with other key drivers such as enterprise, innovation and investment, skills can play a key role in realising these ambitions. Skilled workers can carry out more complex tasks, work more effectively and produce 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[1].

[1] This is also highlighted in 'Skills for Growth' – the new national skills strategy published in November 2009 by the Department for Business, Innovation & Skills

1.3 The region's recent skills performance

Encouragingly the region's overall skills performance has improved in recent years, closing the gap with England. This has been underpinned by an upturn in employer investment in skills, notably via the Train to Gain and Apprenticeships programmes. Rates of attainment of skills and qualifications by young people have also improved significantly. But although increasing numbers of employers are tapping into the pool of graduates emerging from the region's universities via placements and internships, 'knowledge intensive' private sector industries are still poorly represented in the region. As a result the demand for higher level skills is still weaker than in many other regions and the graduate retention rate continues to fall.

While overall the region's working age population is ageing, in many key urban centres it is young, ethnically diverse and growing. However, while qualification attainment rates are improving, a significant proportion of people, and especially young people and those from minority ethnic communities in urban areas, lack the skills and qualifications required to access and progress in employment. Only the North East has a lower proportion of adults with the higher level skills needed to work in high value added, knowledge intensive industries and the West Midlands has the highest proportion of adults with no qualifications in the country.

The gap in attainment between better and poorer performing areas continues to widen as those who are already relatively qualified continue to be those most likely to improve their qualification levels, while disadvantaged areas and groups are falling further behind. These trends reflect a number of factors. While significant numbers of young people not in education, employment or training (NEET) are entering the available for work population, many people who are gaining better skills and qualifications are migrating out of these areas. This is leaving a core population of disadvantaged and hard to reach individuals.

1.4 Skill gaps and mismatches

As a result businesses still report significant skill gaps and shortages – particularly in sectors like engineering and manufacturing where firms are struggling to replace an ageing workforce. Many businesses have taken advantage of the influx of migrant workers into the region to address their labour and skills problems. While overall migration figures are a little down on their 2006/2007 peak, a significant reduction in numbers of Polish nationals has been offset by increasing numbers of migrants from Bulgaria and Romania and from India, Pakistan and China.

At the same time, however, a significant and rising proportion of the region's working age population is becoming workless. A lack of relevant skills, often in combination with factors such as disabilities and health problems and a lack of mobility are key barriers to participation in employment. In turn inactivity or underemployment is debilitating, sapping aspiration, talent and determination and leading to social costs as well as lost productivity.

1.5 Skills and the recession

The recession has placed these issues in sharper focus. The region has been particularly hard hit by the downturn and has the highest unemployment rate in the country. While unemployment rates have risen steeply, particularly among those with fewest skills and qualifications, recruitment difficulties and skill shortages have persisted. A key challenge is to get people back to work and equip them with the skills they need to access and progress in employment.

1.6 Future prospects

While there are tentative signs of an upturn in the labour market, with more firms looking to recruit new staff and invest in training, the economic recovery is expected to be weak and protracted. While headline regional GVA is expected to begin to rise in 2010 and an upturn in employment is not expected until 2012. We are faced with these challenges, moreover, at a time when public investment in skills is likely to be reduced and re-prioritised.

1.7 Focusing skills investment to support recovery

If we are to boost the pace and strength of the region's recovery there is a need to focus this investment in sectors, clusters and geographical areas where it will make the most impact in terms of increasing productivity and creating employment opportunities for individuals.

1.7.1 Support for emerging high value added sectors and clusters

To develop the region's knowledge economy and stimulate more demand for higher level skills there is a need to support the region's emerging high value added sectors and clusters. These include high technology manufacturing, ICT, environmental technologies, digital media and medical technologies. They align with the government's New Industries, New Jobs agenda, as well as linking with the enterprise, innovation and inward investment priorities articulated in the West Midlands Economic Strategy.

While these sectors and clusters have gained a foothold in the region so far they only account for a limited share of employment and GVA. In many cases they lag behind national trends in terms of productivity (ICT, medical technologies and digital media) and GVA growth (environmental technologies, medical technologies and digital media). Nevertheless the majority are in a position, providing that they have access to the right skills, to exploit a range of business and market opportunities. There is also an opportunity to take advantage of the considerable expertise and research capability available at a number of the region's universities.

1.7.2 Promoting up-skilling in sectors driving employment growth

At the same time there is a need to promote up-skilling and diversification into higher value added products, services and markets in other sectors and clusters that continue to dominate the region's economy. Many support significant numbers of jobs in the region, which are set to increase due to growing 'replacement demand' as older workers retire. In particular there is a need to:

- Support diversification into higher value added activities in the region's business & professional services sector, where there is a greater reliance on lower value added activities (e.g. recruitment services, property services, facilities management and cleaning services) than in other parts of the country
- Support continuing diversification within the building technologies cluster into activities that link with the New Industries, New Jobs agenda such as low carbon buildings and renewable energy sources
- Promote the development of higher value added activities in the region's education and health sectors such as research and development. This will stimulate the creation of significant numbers of highly skilled jobs and support the development of high value sectors and clusters such as ICT, medical technologies, environmental technologies and digital media
- Boost productivity and promote diversification into advanced materials and high technology products and services in engineering and manufacturing.

1.8 Emerging skill needs

In particular intelligence from Sector Skills Councils and Business Clusters indicates that businesses need support to help them exploit new technology, adapt to new legislation (notably relating to low carbon and sustainability issues), meet the demands of an ageing population and satisfy ever more demanding consumers. This may potentially lead to a growing need for higher level technical skills specific to sectors, industries and individual businesses. For example:

- In *ICT* there is likely to be a growing need for leadership and relationship management, project and programme management skills, business intelligence, information analytics and architecture skills and for a range of specific software skills
- In *environmental technologies* there is expected to be a growing need for scientific specialists, operational waste plant specialists, installation skills relating to renewable energy systems and appropriately skilled and qualified energy assessors. There is also a demand for engineers with the ability to combine technical skills and commercial acumen, an awareness of environmental technology development globally and a broad based understanding of sustainability issues
- In *digital media* there is likely to be a need for skills in developing and exploiting digital content for a range of markets including film, television, games, audio and music, education, health, training and business planning
- In *medical technologies* there is set to be a growing need for engineers with specialist expertise in new healthcare technology and for leadership and management skills.

Across all occupations there could potentially be a growing requirement for ICT skills to exploit the potential of new technology and inter-personal skills such as communication and working in teams, problem solving and customer service.

1.9 Hot spots for growth

Geographically one of the drivers of economic and employment growth and the demand for new skills will be the 20 Impact Investment locations. These have been identified by the Shadow Joint Strategy & Investment Board as areas in which investment in economic development, regeneration and transport should be concentrated to support regional economic growth[2]. There is also likely to be a significant demand for labour and skills in locations that are acting as a focus for inward investment such as central Birmingham, Solihull, Coventry and Telford.

[2] These include New St Station, Eastside and Longbridge in Birmingham, Birmingham International Airport and North Solihull, Ansty Park in Coventry, Bilston, Dudley, West Bromwich, Walsall and Wolverhampton town centres in the Black Country, i54, Stafford town centre and Stoke city centre in Staffordshire, Edgar St Grid in Herefordshire and Telford town centre in Shropshire

1.10 The scale of the challenge

The West Midlands lags behind many other regions in terms of skills attainment and on many measures the scale of the challenge is growing over time. To close the gap with the England average, based on the 2008 position, 89,000 more highly qualified people would need to be recruited into the private sector, a further 119,800 would need to attain level 4 or above, 112,000 would need to attain level 3 or above and 94,700 would need to acquire NVQ level 2 or above. Some 98,700 adults with no qualifications, meanwhile, would need to be supported in accessing education and training. To achieve the targets set in the Skills Action Plan for 2020 some 360,000 more working age adults will need to achieve level 2 or above. Furthermore, some 212,000 more working age adults, will need to achieve level 4 or above