Regional Skills Assessment 2009

Main Report
January 2010

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V1.0 for Publication
January 2010

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1 Introduction

The 2009 Regional Skills Assessment has been produced to inform the planning and strategic thinking of the RSP Board and Executive Group and a wide range of individual partners. In particular the Assessment provides intelligence to inform:

- Organisations providing support to businesses in areas such as recruitment, skills and training
- Organisations commissioning education and training
- The institutions developing and delivering education and training
- Organisations providing careers information, advice and guidance to young people and adults
- Organisations connecting disadvantaged communities with emerging employment opportunities
- Local authorities developing Local Economic Assessments

The Assessment considers:

- The national and regional policy context
- Recent trends in regional skills performance
- The impact of recession and prospects for recovery
- Key growth sectors and clusters
- Drivers of skills change and emerging skill needs
- Prospects for sub-regions and localities
- Changing workforce demographics
- Skills issues for disadvantaged communities
- The scale of the challenge to achieve our skills ambitions

This main report, which highlights key messages and policy implications, is complemented by[1]:

- A report identifying key skills needs and issues in each of the region's key sectors and clusters
- A series of sub-regional skills profiles that assess recent trends and future prospects for both the demand for and supply of skills and highlight key issues to support, in particular, the development of Local Economic Assessments and commissioning advice for the planning of 16-19 learning provision

[1] Hyperlinks to these reports will be included

2 Key headlines and conclusions

2.1 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.

2.2 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[2].

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

2.3 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.

2.4 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.

2.5 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.

2.6 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.

2.7 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.

2.7.1 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.

2.7.2 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.

2.8 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.

2.9 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[3]. 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.

2.10 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[4].

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[3] 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

[4] Source: Observatory Annual Review of Regional Skills Performance, July 2009

3 Skills for productivity and economic prosperity

3.1 National ambitions

At a national level there is an ambition to be in the top quartile of OECD countries for jobs and productivity. In its 2009 report 'Ambition 2020: world class skills and jobs for the UK' the UK Commission for Employment and Skills (UKCES) states that *'Our future prosperity depends ultimately on employment and productivity: how many people are in work and how productive they are when they are working'.* Skills are vital to both employment and productivity. *'They increase the likelihood of individuals being in employment and the wages they can earn. They increase the chance of business survival and contribute to business growth and productivity'*[5]*.*

'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. 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[6]. 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.

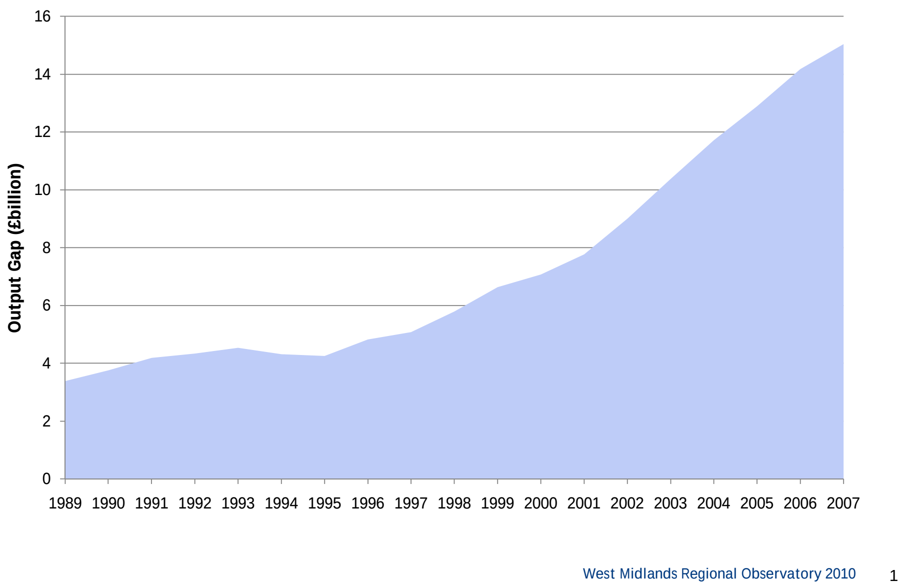
[5] Source: Ambition 2020: World Class Skills and Jobs for the UK – UK Commission for Employment and Skills 2009

[6] Source: Skills for Growth – the National Skills Strategy - Department for Business, Innovation & Skills, 2009

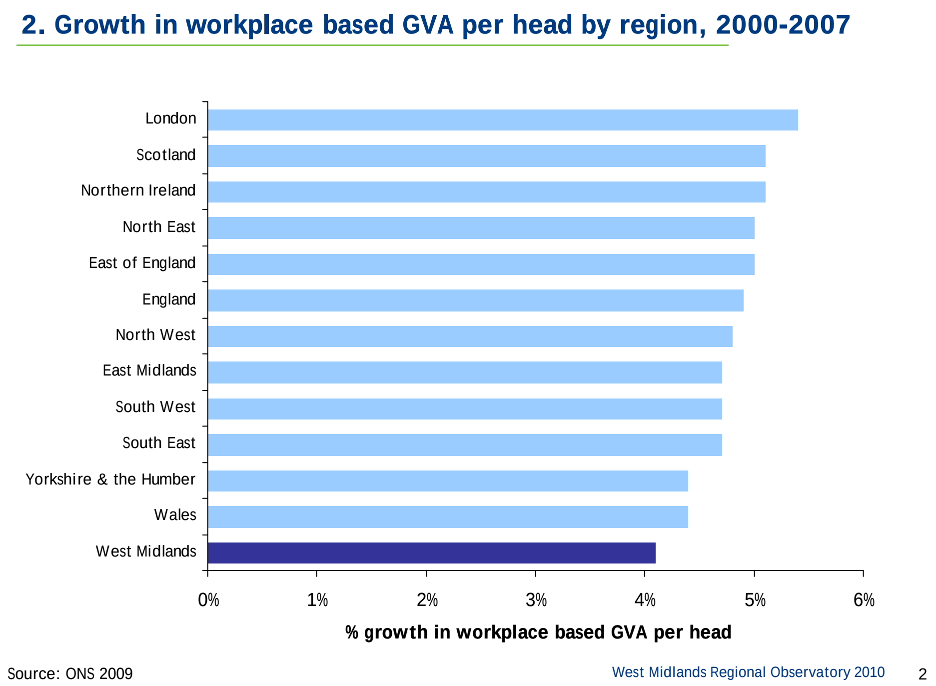
3.2 Regional ambitions

The West Midlands Skills Action Plan developed by the Regional Skills Partnership, also recognises the role of skills, along with innovation, enterprise, capital investment and markets as a key driver of productivity and economic performance[7]. Growth in GVA has lagged other regions in recent years and in 2007 (latest available figures) a regional GVA per head of just under £17,200 compares with an England average of nearly £20,500. Indeed it is estimated that if the region performed at the national average its economy would be some £15 billion richer and the 'output gap' continues to widen year on year[8] (see charts 1 and 2)[9].

1. Growth of the West Midlands Output Gap 1989 -2007

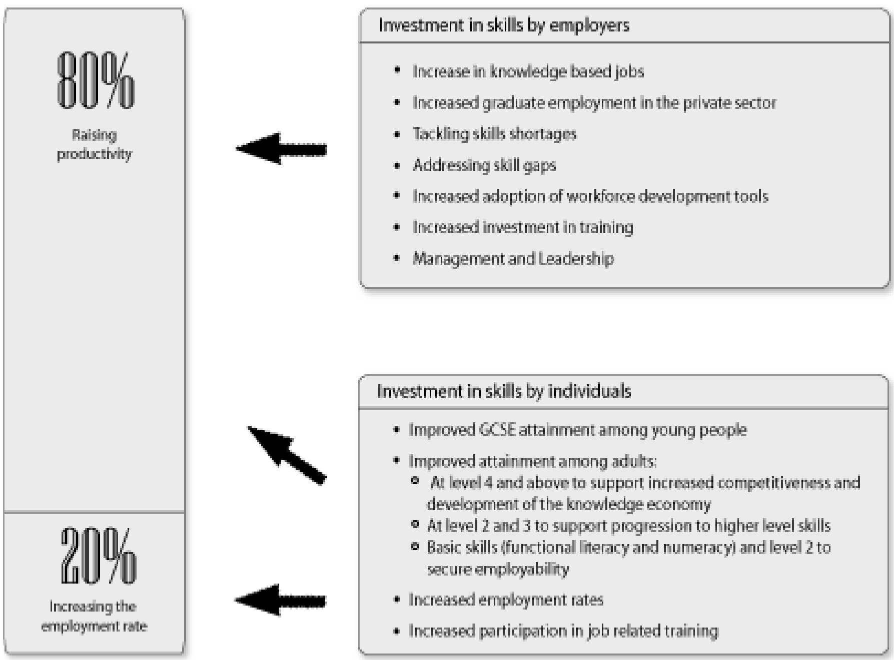


[7] Source: West Midlands Skills Action Plan: Update and Refresh – West Midlands Regional Skills Partnership 2009
[8] Source: Observatory State of the Region Synthesis Report, 2009
[9] It should be noted that part of the increase in the output gap reflects changes in the way that regional GVA is calculated by ONS. However even when this is taken into account the gap has increased by around £2 billion over the last 2 years.



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 – which are all limiting the demand for higher level skills and the creation of higher skilled, well paid jobs in the region. Figure 1 shows how various aspects of skills performance can contribute to closing the output gap.

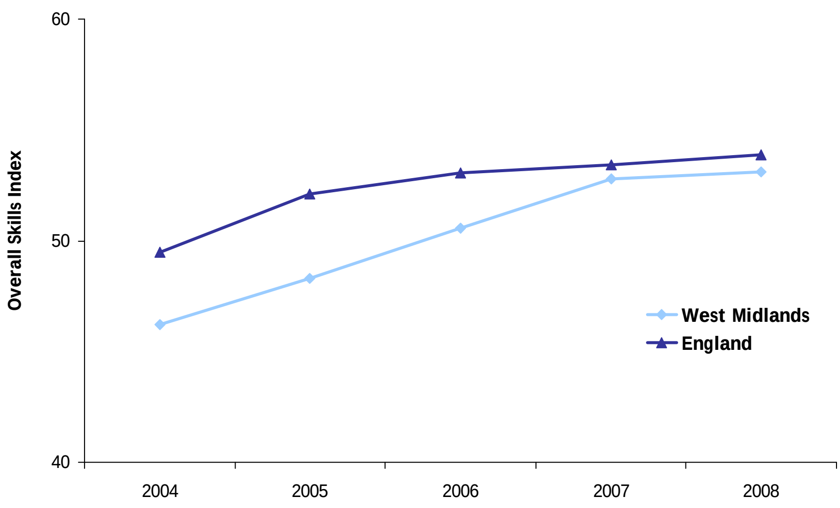
Figure 1: Skills and the Output Gap



4 Closing the gap - the region's recent skills performance

The region's skills performance has shown an encouraging improvement in recent years. This has lead to the closing of the gap with other regions and the England average. Our summary 'skills performance index' is based on 10 key indicators of trends in investment in skills by businesses and individuals[10]. This indicates that the gap in performance with England has narrowed from 6 percentage points in 2003 to 1 percentage point in 2007, a position which has been maintained in 2008 (see chart 3).The region has moved from 9th (bottom) of the regional 'league table' in 2005 to 5th in 2008[11].

3. Skills Performance Index



Source: WMRO

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[10] These include investment in training by employers, use of workforce development tools, skill gaps, skill shortages, recruitment of higher skilled workers, qualification attainment by young people and adults, graduate retention and participation in vocational training

[11] For further details of how the index is calculated and about our framework of skills performance indicators go to our website http://www.wmro.org/standardTemplate.aspx/Home/OurResearch/Businesseconomy/Skillsperformanceindicatorframework

4.1 Demand side issues

4.1.1 Business engagement

This improvement is being underpinned by a number of factors. In particular skills provision is becoming more responsive and employer-led, including for example the £1 billion Train to Gain programme. Apprenticeship numbers across all UK nations have risen dramatically and remain a key platform for the future[12]. The West Midlands has been at the forefront of these developments. In particular there has been an increase in the proportion of staff being trained by their employer to the highest in England in 2007[13]. These trends, in turn, have been driven by a strong uptake of key initiatives. For example, over 17,000 employers (the highest in England) and 158,000 individuals (the second highest) were engaged in the Train to Gain Programme between April 2006, when the service started, and March 2009[14].

While the majority of training undertaken as a result of the programme (more than 70% of employees) has been for NVQ Level 2 qualifications, 7% has related to basic skills, 12% has been as part of an Apprenticeship programme and nearly 10% has been modular or bespoke training to meet specific business needs. Businesses in a wide range of sectors have been engaged in the programme. While a quarter were from the wholesale & retail sector, 19% were from the public sector, 16% were engineering and manufacturing firms, 14% were from business & professional services, 7% were construction and building technologies firms, 7% were firms in creative industries and digital media and 7% were tourism & leisure firms. Take up tends to be lower in sectors where training is more expensive to deliver and the availability of courses is more limited.

In 2007/08 the region had the highest Apprenticeship success rates in England at 67% for young people (see chart 4) and 66% for adults[15] (representing a rise of some 19 percentage points since 2005/06). The highest proportions of employers with staff undertaking Apprenticeships are in education (19%), construction (17%) and engineering (15%)[16].

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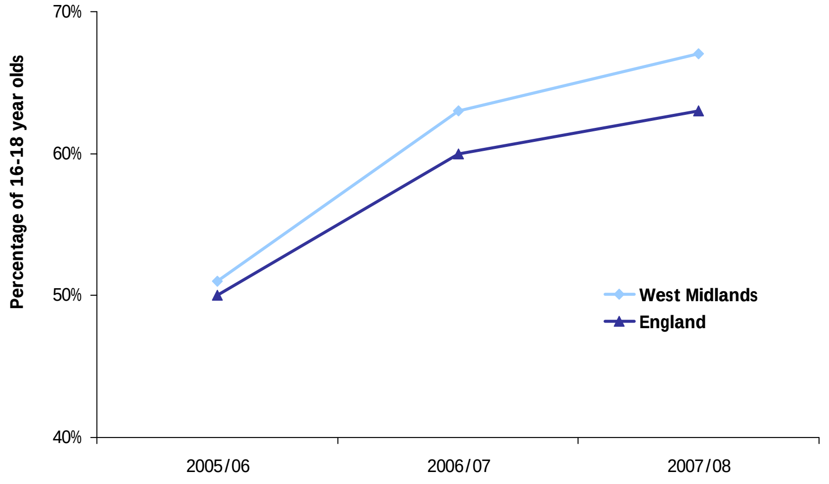
[12] Source: Ambition 2020: World Class Skills and Jobs for the UK – UK Commission for Employment and Skills 2009
[13] Source: LSC National Employer Skills Survey 2007 (latest available figures, the 2009 survey results are due to be released in late 2009/early 2010)
[14] Source: LSC 2008
[15] Source: LSC 2008
[16] Source: :SC national Employer Skills Survey 2007 (latest available data)

4. Young People (16-18 year olds) Overall Apprenticeships Framework Success Rate



Source: LSC Performance Scorecard (Provisional)

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The region has also pioneered schemes to help undergraduates and recent graduates to find professional paid placements and internships with local employers and the level of business engagement has been strong. For example between September and November 2009 the number of employers enquiring about internships has increased by more than 260 (70%)[17].

In the first quarter of 2009 the region was also on track to meet a number of the targets for 2011 set in the Skills Action Plan – notably for 40% of the region's workforce (equating to 1 million people) to be employed in organisations signed up to the Skills Pledge[18] and for 75% (or more than 100) public sector organisations to be signed up to the Public Sector Skills Challenge[19].

Effective action is also being taken to provide re-training and development for those being made redundant during the recession. This is helping to match unemployed people to available job opportunities and tackle the recruitment difficulties that, as highlighted in section 3, many businesses continue to face. For example in the 6 months to September 2009 nearly 3,000 people were provided with re-training and other pre-redundancy support via a project run by the LSC and the Unity trade union. Nearly two thirds of these formerly worked in automotive, engineering and other manufacturing industries which, as highlighted in section 3, have been particularly hard hit by redundancies. A further 10% formerly worked in other badly affected sectors such as construction, retail, hotels & catering[20].

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[17] Source: West Midlands Graduate Internships November 2009
[18] Source: LSC 2008
[19] Source: LSC 2008
[20] Source: LSC/Unity Better West Midlands Project September 2009

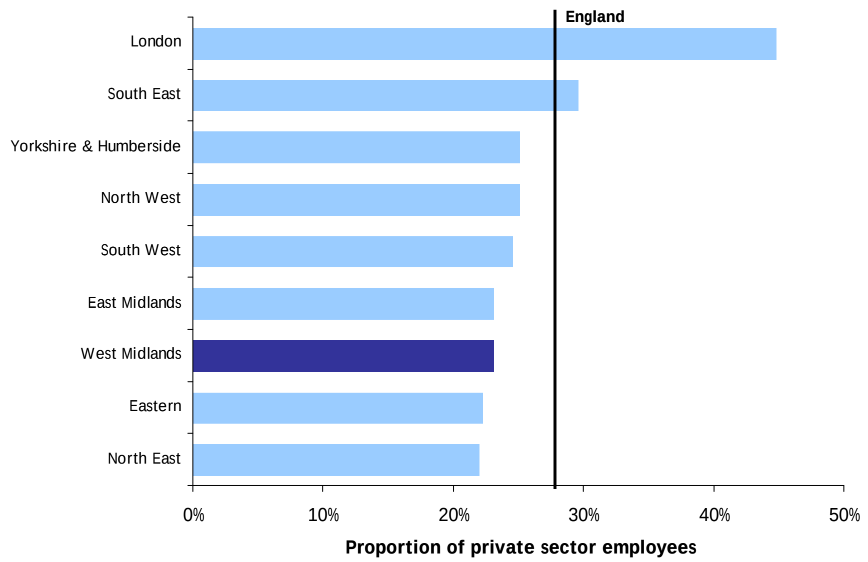
4.1.2 Higher level skills and the knowledge economy

However, as a nation we are faced with the problem of a weaker demand for higher level skills than our international competitors. In its 2009 report 'Ambition 2020: world class skills and jobs for the UK' the UK Commission for Employment and Skills (UKCES) states that *'the UK has too few high performance workplaces, too few businesses in high value added sectors. This means that in order to build an internationally competitive economy the future employment and skills system will need to invest as much effort in raising employer ambition, in stimulating demand, as it does in enhancing skills supply'.*

In turn, although increasing numbers of employers are tapping into the pool of graduates emerging from the region's universities via placement and internship schemes, 'knowledge intensive' private sector industries are still poorly represented in the region. The West Midlands performs poorly compared with other regions in terms of the recruitment and development of highly skilled workers as measured by the proportion of employees of working age in the private sector qualified to NVQ4 or above.

A figure of 23% in 2008 compares with an England average of 28%, 30% in the South East and 45% in London[21] (see chart 5). This reflects a poor representation of high value added 'knowledge intensive' private sector industries in the region (see section 5.2 for further details). The limited demand for higher level skills means that, after improving in recent years, there was a fall in the region's graduate retention rate from 65% in 2005/06 to 64% in 2006/07[22].

5. Proportion of private sector employees with NVQ Level 4+, 2008



Source: LFS 2008

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[21] Source: ONS Labour Force Survey Q4 2008
[22] Source: HESA 2007 (latest available figures)

A growing number of students at the region's universities are from overseas, and particularly from China and other Asian countries. However while they represent a potentially valuable source of talent and ideas for the region's businesses their numbers increased by only 5% between 2005/6 and 2007/8, which compares to a growth of more than 15% across England as a whole.

4.2 Supply side issues

4.2.1 Demographic trends

While the region's population profile is ageing, especially in rural areas, in many key urban centres it is young, ethnically diverse and growing[23]. For example, while less than a third of the working age population was aged under 35 in 2008 in Herefordshire, Worcestershire, Shropshire, Staffordshire and Solihull, the figure was more than half in Birmingham, Coventry and Sandwell. While less than 5% of the working age population was from a minority ethnic group in Herefordshire, Worcestershire, Shropshire and Staffordshire the figure rises to 17% in Coventry, 20% in Sandwell, 26% in Wolverhampton and 29% in Birmingham.

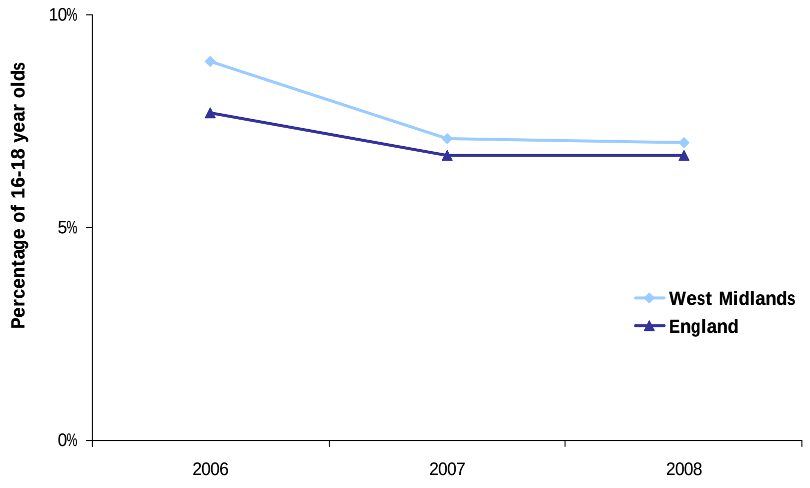
4.2.2 14-19 qualification attainment

There have been considerable improvements in the achievements of the region's young people in recent years – in terms of both qualification attainment while in compulsory education and participation in post 16 learning. Over the last 12 months performance has outstripped the England average on a number of key measures:

- The proportion of 15 year olds achieving 5 or more GCSEs at A*-C including Maths and English – which has increased from 43% in 2007 to 46% in 2008, narrowing the gap with the England average from 3 percentage points in 2007 to 2 points[24].
- The proportion of 16-18 year olds not in employment, education or training (NEET) – which has fallen from 9% in 2006 to 7% in 2008, narrowing the gap with the England average from more than 1% percentage point to less than half a percentage point[25](see chart 6).

[23] Source: ONS mid-year population estimates 2008
[24] Source: DCSF 2008
[25] Source: Connexions/LSC 2008

6. Proportion of 16-18 year olds not in employment, education or training (NEET)



Source: Connexions/LSC

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The LSC's Regional Strategic Analysis for Young People, published in August 2009, provides further analysis of improvements in performance. In particular between 2003/4 and 2007/8 there has been a significant rise in the number of 19 year olds achieving level 2 and level 3 qualifications (an 8% increase for level 2 was one of the highest in England). The 'September Guarantee', which offers young people a place in post-16 education or training on reaching the statutory school leaving age, was introduced in 2005 and extended to all in 2007. Alongside improvements to curriculum pathways, with the introduction of Young Apprenticeships and Diplomas, it has helped retain young people in learning[26].

Nevertheless qualification attainment rates continue to vary significantly across the region. For example while the proportion of 15 year olds achieving 5 or more GCSEs at A*-C including Maths and English was well above the England average in Warwickshire, Herefordshire, Shropshire and Solihull in 2008, achievement was 6 percentage points below the regional average in Walsall and Wolverhampton , 9 points lower in Stoke-on-Trent and 15 points lower in Sandwell[27].

[26] Source: Learning & Skills Council West Midlands regional strategic analysis – young people, 2009
[27] Source: DCSF 2008

There were also pockets of low attainment outside these urban centres – with achievement 4 percentage points below the regional average in Nuneaton & Bedworth, 6 points lower in Cannock, 8 points lower in North Warwickshire, 9 points lower in Wyre Forest and some 13 points lower in Tamworth. The proportion of 16-18 year olds not in employment, education or training was well below the regional average in areas such as Shropshire, Worcestershire, Staffordshire and Dudley in 2008. However the proportion was still nearly 3 points higher in Telford & Wrekin and nearly 5 points higher in Sandwell and Stoke-on-Trent[28].

4.2.3 Adult skills

Although improving overall, adult qualification attainment continues to lag national trends. As table 1 shows in 2008 the region was 8th in England in terms of the proportion of working age adults qualified to level 3 and above (46%) and bottom for level 2 and above (68%). The West Midlands also continues to have the highest proportion of adults with no qualifications in England (14%).

Table 1: Adult qualification rates across the West Midlands in 2008

Qualification level	Regional attainment in 2008	England average	Rank out of 9 English regions	Areas of strong performance	Areas where performance was poorer
Level 4+	27%	31%	8	Solihull (34%) Warwickshire (34%) Herefordshire (31%) Shropshire (31%)	Wolverhampton (22%) Walsall (20%) Stoke-on-Trent (15%) Sandwell (15%)
Level 3+	46%	50%	8	Solihull (54%) Warwickshire (53%) Herefordshire (51%)	Wolverhampton (35%) Stoke-on-Trent (34%) Sandwell (30%)
Level 2+	68%	70%	9	Warwickshire (73%) Herefordshire (72%) Worcestershire (72%) Solihull (71%)	Stoke-on-Trent (58%) Sandwell (55%) Wolverhampton (54%)
No qualifications	14%	11%	9	Staffordshire (11%) Herefordshire (11%) Warwickshire (11%)	Birmingham (20%) Sandwell (21%) Stoke-on-Trent (23%) Wolverhampton (28%)

Source: ONS Annual Population Survey 2008

[28] Source: Connexions 2008

As is the case for young people, attainment among working age adults was generally much higher than the regional average, and indeed above the national average in Warwickshire, Herefordshire, Shropshire and Solihull. Attainment was much lower in a number of urban areas, however. For example the proportion of adults qualified to level 4 or above (i.e. degree level) was 5 percentage points below the regional average in Wolverhampton, 7 points lower in Walsall and some 12 points lower in both Stoke-on-Trent and Sandwell.

The proportion of the adult working age population with higher level qualifications fell from 28% in 2007 to 27% in 2008[29]. In addition, while attainment rates were higher than this in areas such as Solihull, Warwickshire and Shropshire they were much lower in a number of urban areas – some 8 percentage points lower in Walsall, 9 points lower in Stoke-on-Trent and 11 points lower in Sandwell. The proportion of adults with no qualifications, meanwhile, was 6 percentage points above the regional average in Birmingham, 7 points higher in Sandwell, 8 points higher in Stoke-on-Trent and some 14 points higher in Wolverhampton.

There were pockets of poorer performance in areas performing well overall too. For example the proportion of adults qualified to level 4 or above was 11 percentage points below the regional average in Cannock Chase, 8 points lower in Wyre Forest, 5 points lower in Nuneaton & Bedworth and 4 points lower in Redditch and Newcastle –Under-Lyme. The proportion of adults with no qualifications was 2 percentage points above the regional average in Wyre Forest, Nuneaton & Bedworth and North Shropshire.

It is notable that the gap in attainment between better and poorer performing areas continues to widen as those who are already relatively qualified continue to be most likely to improve their qualification levels, with disadvantaged areas and groups falling further behind. These trends reflect a number of inter-related factors. While significant numbers of NEET young people are entering the available for work population many people that 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.

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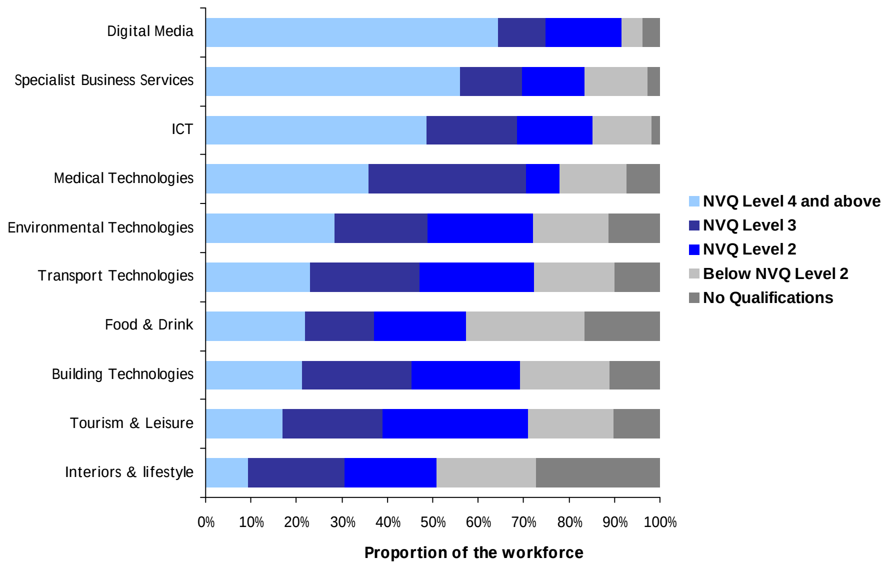
[29] Source: ONS Labour Force Survey Q4 2008

4.2.4 Skills in the workforce

These trends are reflected in skill levels in the region's workforce. In 2008 nearly 40% of manufacturing workers, 42% of those in the food & drink cluster and nearly 50% of those in the interiors & lifestyle cluster lacked a level 2 qualification, which is increasingly becoming a requirement even for jobs that have been viewed as routine and unskilled in the past. Furthermore while higher level skills are increasingly important to businesses looking to boost their productivity and move into higher value products, services and markets only 23% of manufacturing employees, 22% of those in the food & drink cluster and just 9% of those in lifestyles & interiors cluster were qualified to level 4 or above. The figure was only 17% in construction and 21% in building technologies (see chart 7)[30] .

7. Workforce profile by Qualifications attained and cluster in 2008



Source: ONS Annual Population Survey

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4.3 Skill gaps and shortages

The proportion of employers facing skill gaps (where there is a gap between the skills of the workforce and those needed to develop and grow) and skill shortages (where people with the skills employers require are not available in the local labour market) has reduced in recent years. By 2007 (latest available figures[31]) the proportion of staff with skill gaps and deficiencies (5%) had fallen to below the national average and the proportion of vacancies due to skill shortages (11%) to the lowest in England.

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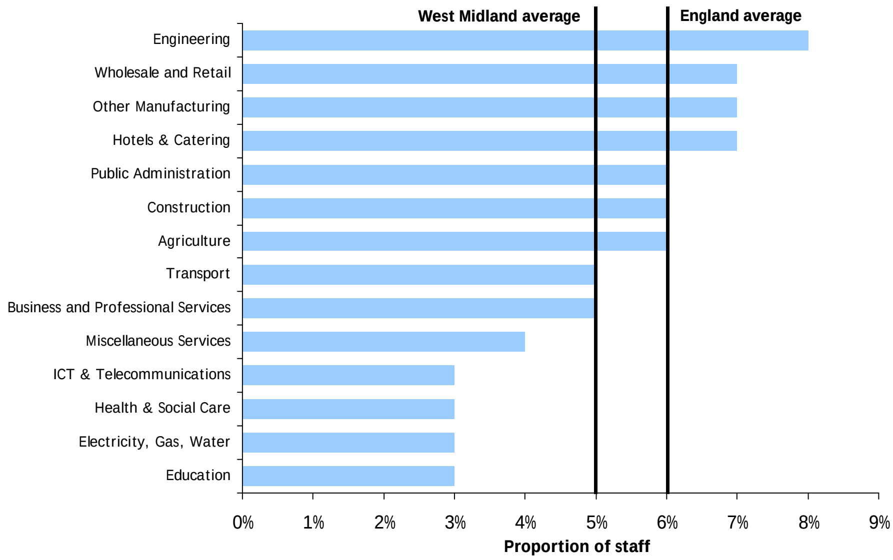
[30] Source: ONS Labour Force Survey 2008
[31] Source: LSC National Employer Skills Survey 2007 (update available in February 2010)

However weaknesses in the region's skill base mean that there is a wide variation in the extent of problems in different sectors and clusters. In particular the proportion of staff with skill gaps remained well above the regional average in engineering (8%) and manufacturing (7% - see chart 8) and the proportion of job vacancies due to skill shortages remained significantly above the England average in construction (33%), engineering (32%) and manufacturing (27% - see chart 9). These sectors also have a significant percentage of staff aged 45+ who are set to retire in the next few years, taking their skills and experience with them and generating significant 'replacement demand' for employment and skills. In 2008 the figure was 43% in engineering and 45% in transport technologies, 44% in other manufacturing and 38% in construction[32].

8. Proportion of staff with skill gaps & deficiencies by sector



Source: LSC National Employer Skills Survey 2007

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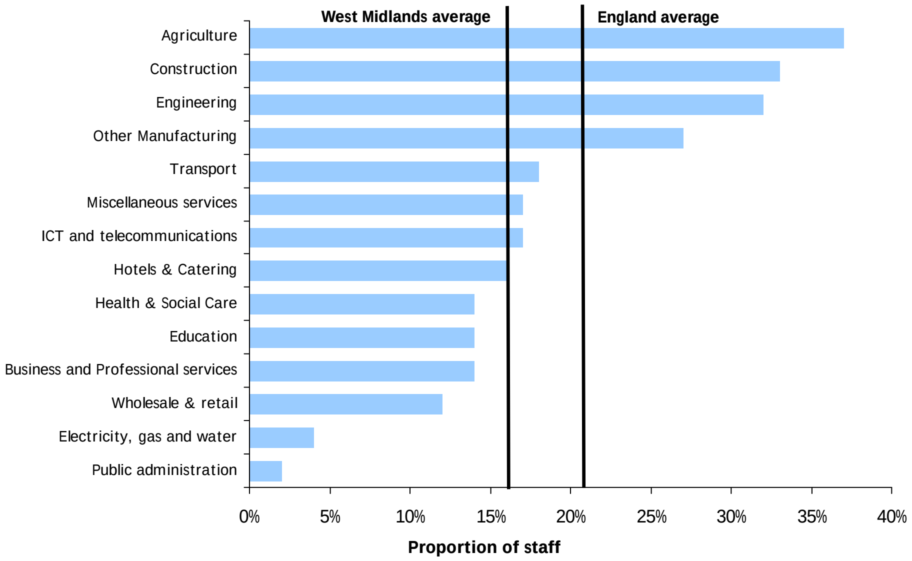
[32] Source: ONS Labour Force Survey 2008

9. Proportion of vacancies due to skill shortages by sector



Source: LSC National Employer Skills Survey 2007

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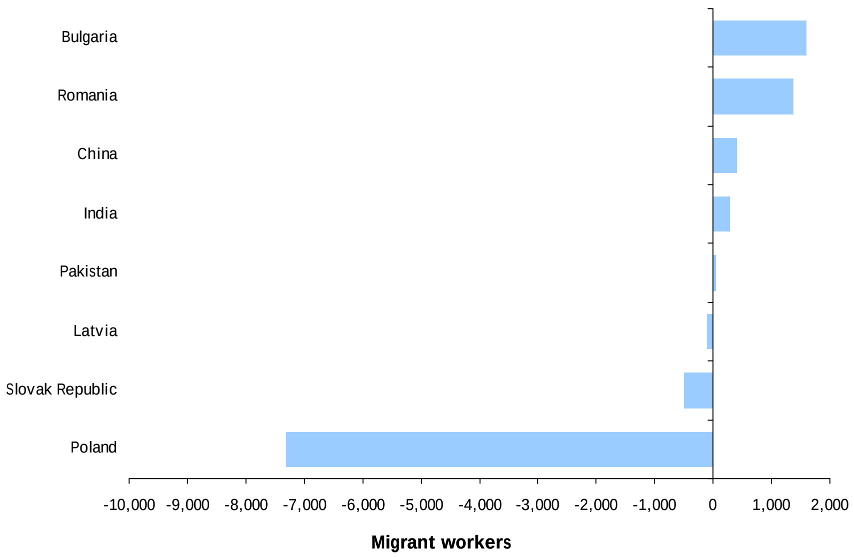
4.4 Migrant workers

Many businesses have taken advantage of the influx of migrant workers into the region to address their labour and skills problems. In 2008/2009 there were nearly 44,000 migrant workers arriving in the region, employed principally in manufacturing, tourism & leisure, transport and construction, mainly in lower skilled, and lower paying occupations. Numbers are a little down from a peak of 47,000 people in 2006/2007, largely reflecting a significant decline in Polish nationals based in the region. However there has been an increase in migrants from newly established EU countries such as Bulgaria and Romania and from India, Pakistan and China.

10. Trends in numbers of migrant workers based in the Region by country of origin, 2006/07 to 2008/09



Source: DWP Registrations

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4.5 Unemployment and worklessness

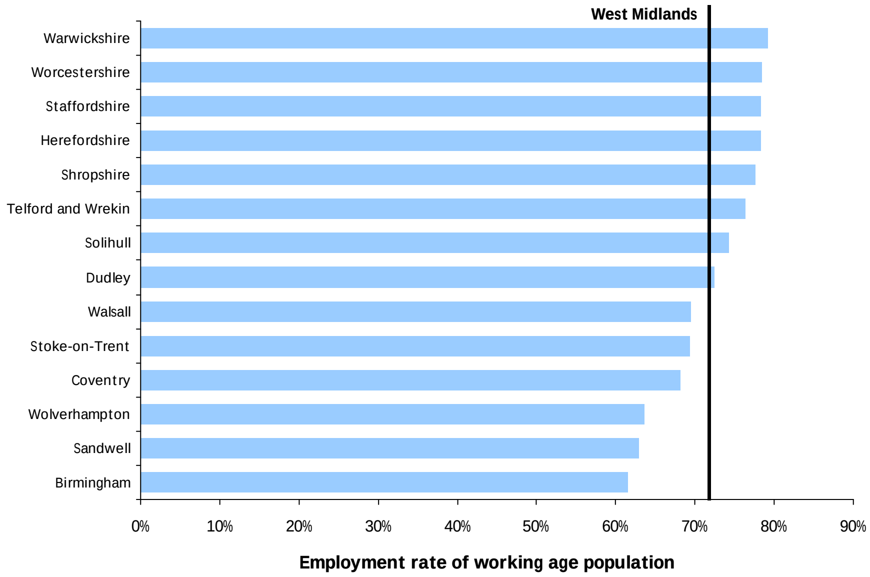
At the same time a lack of relevant skills, often in combination with factors such as disabilities and health problems and a lack of mobility, are key barriers to participation in employment for disadvantaged individuals[33].

Issues such as disabilities and long term health problems combine with poor skills levels to limit their choices to temporary, low paid employment. This makes it difficult for people to make the transition from benefits to work, with many ending up back on benefit[34]. In turn inactivity or underemployment is debilitating, sapping aspiration, talent and determination and leading to social costs as well as lost productivity[35].

[33] Source: West Midlands Regional Observatory - Economic Inclusion Baseline Report, 2009
[34] Source: Economic Inclusion Baseline Report – Observatory Economic Inclusion Team 2009
[35] Source: Ambition 2020: World Class Skills and Jobs for the UK – UK Commission for Employment and Skills 2009

At 72%, the proportion of working age adults in employment in the West Midlands was below the England average of 74% in 2008 and well under the figure of 79% in the South East, the best performing region[36]. Participation was particularly low in many urban areas (the employment rate was only 64% in Wolverhampton, 63% in Sandwell and just 61% in Birmingham – see chart 11). Participation rates were lowest among young people living in these areas (the employment rate for 16-24 year olds was 45% in Sandwell and only 43% in Coventry and Birmingham) and within minority ethnic communities (the employment rate was 43% for Black African and Black other communities and only 42% for the Pakistani and Bangladeshi community).

11. Employment rates by local authority area, 2008



Source: APS 2008

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[36] Source: ONS Annual Population Survey 2009

There is encouraging evidence, however, that interventions by partners are starting to help raise learning participation and attainment among 'harder to help' groups. The 14-19 reform agenda, which in part includes curriculum development and targeted information, advice and guidance as part of the 'September Guarantee', has begun to help raise participation and attainment levels among vulnerable groups and reducing NEET rates[37]. Research demonstrates that participation in learning can help break the cycle of disadvantage for unemployed adults and aid their progression – both into and within employment and on to further learning. For example a longitudinal study of unemployed learners in the region carried out between summer 2007 and winter 2008[38] shows that the proportion of learners in paid employment increased from 36% to 41%, 40% of learners had gone on to undertake further, higher level learning or training and 25% of learners had gone on to achieve a further qualification.

[37] Source: Learning & Skills Council West Midlands regional strategic analysis – young people, 2009
[38] Source: LSC/IFF Research: a longitudinal study of further education learners – West Midlands City Region, September 2009

5 Skills and the recession

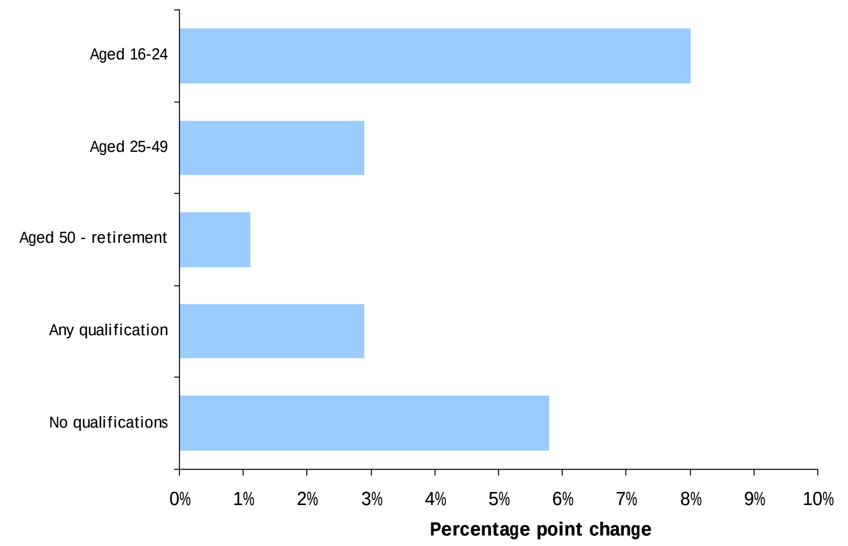
The 2003-2007 period was one of continuous economic growth - both nationally and regionally. This is reflected in trends in employment. Across the West Midlands employment expanded by 36,000 (1.6%) between 2003 and 2007[39]. Since then, however, the UK and the Region have entered a global recession which has led to falling employment and rising unemployment. The West Midlands has been particularly affected because of its significant manufacturing base, which has been particularly hard hit by the falling value of sterling and reduced consumer spending.

The region has seen the sharpest fall in business output in England[40] and the number of people claiming unemployment benefit has almost doubled over the last year from just over 98,000 in June 2008 to nearly 176,000 in June 2009[41]. In absolute terms, urban areas of the region have been the worst affected – with increases of some 15,000 in Birmingham and more than 20,000 in the Black Country. Over the same period, the rate of growth in unemployment, while from a relatively lower base, has been highest in rural areas such as Worcestershire (143%), Staffordshire (130%) and Herefordshire (113%). Business closures and redundancies tend to have a particularly significant impact in areas where there are often few alternative sources of employment[42].

The recession has had a disproportionate impact on those with fewer skills and qualifications. In particular between quarter 1 2008 and quarter 2 2009 the ILO unemployment rate[43] for people with no qualifications has rose by nearly 6 percentage points to stand at nearly 18%. This was double the increase for the Region's working age population as a whole (see chart 12). The rate for young people, meanwhile, rose by some 8 percentage points to stand at more than 23%[44].

[39] Source: ONS Annual Business Inquiry 2003-2007
[40] Source: Advantage West Midlands - West Midlands scale of the challenge – presentation to the JSIB, 2009
[41] Source: JSA Claimant Count July 2009
[42] These issues are explored in more detail in our 2008 Rural Skills Assessment available via our website http://www.wmro.org/resources/res.aspx?p=/CmsResource/resourceFilename/2642/Regional-Skills-Assessment-2008-Rural-Profile_V1.0_Report_RK.pdf
[43] International Labour Organisation definition - all those economically active not in employment
[44] Source: Monitoring the impact of the recession on the population of the West Midlands – West Midlands Regional Observatory July 2009

12. Change in ILO unemployment rates Q1 2008 - Q1 2009



Source: LFS 2009 West Midlands Regional Observatory 2010 12

5.1 Tentative signs of recovery

While more recent official figures on overall employment levels are not yet available, data from the British Chambers of Commerce Quarterly Economic Survey[45] gives an indication of trends in the region over the last 2 years. Although in the 3rd quarter of 2007 14% more **manufacturing** companies planned to increase employment over the next 3 months than reduce it, the figure had fallen to 2% by the 2nd quarter of 2008 and to a negative balance of 28% by the 1st quarter of 2009 (see chart 13).

In the **service sector** a positive balance of employment of 26% in the 3rd quarter of 2007 fell to 12% by the 2nd quarter of 2008 and to a negative balance of 13% in the 1st quarter of 2009. However there are now tentative signs of initial recovery in the labour market. In manufacturing the negative balance was reduced to 2% in the 3rd quarter of 2009 and in the service sector there was a positive balance of 8%. The demand for specific labour and skills has remained relatively strong despite a shrinking workforce. Although the proportion has fallen during the recession in the 3rd quarter of 2009 there were still more than 30% of West Midlands companies looking to recruit.

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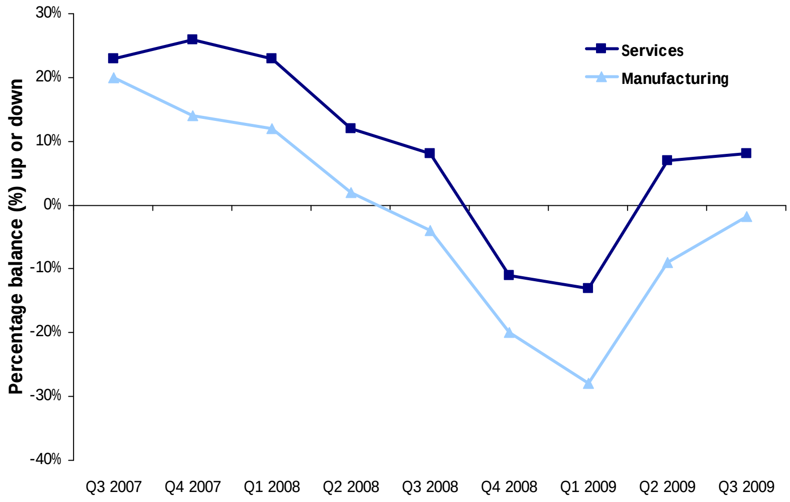
[45] These issues are explored in more detail in our 2008 Rural Skills Assessment available via our website http://www.wmro.org/resources/res.aspx?p=/CmsResource/resourceFilename/2642/Regional-Skills-Assessment-2008-Rural-Profile_V1.0_Report_RK.pdf

13. Planned labour force changes in the West Midlands over the next 3 months



Source: Chamber of Commerce survey

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Anecdotal intelligence from the network of Sector Skills Councils[46] indicates that some key regional industries have been particularly hard hit by the recession with significant business closures, redundancies and short time working. These include automotive assembly, components and sales, private housing construction and related trades, specialist retailers such as greengrocers, fishmongers and butchers and independent pubs, bars and restaurants. Other industries have fared better, however and are still looking to expand their activities and recruit new staff. These include extractive industries such as quarrying (notably when linked to infrastructure and other public sector projects), manufacturing of paper & packaging products, vehicle repair, maintenance & parts suppliers, electricity, gas & water suppliers, supermarkets, low cost & budget retail, bus, coach & rail transport and health & social care.

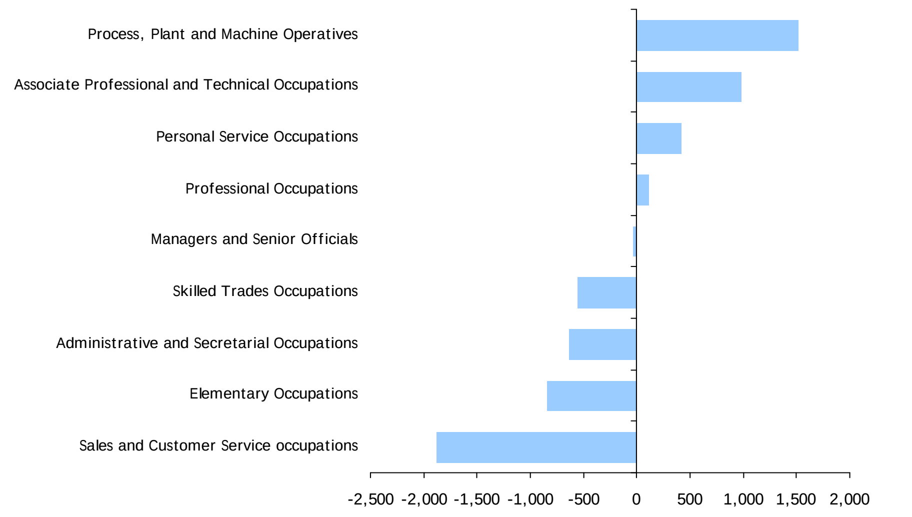
[46] Sector Skills Council Regional managers complete a data template on a six weekly basis in a programme of activity coordinated by the Alliance of Sector Skills Councils. Analysis is provided on a quarterly basis by the Observatory in its downturn briefing available via our website http://www.wmro.org/standardTemplate.aspx/Home/OurResearch/Recessionmonitoring/Impactonskillsandlabourmarket

5.2 Skill gaps and mismatches

The British Chambers of Commerce Quarterly Economic Survey also reveals that, despite rising unemployment, many companies are still looking to recruit people with the skills, experience and qualifications they require to survive the recession and gear up for recovery. Significant numbers of employers are struggling to source the skills they need. In the 3rd quarter of 2009 more than 30% of West Midlands companies looking to recruit were encountering difficulties. Recruitment difficulties and skill shortages are being highlighted for specific occupations and roles - for example for mechanical engineers, design engineers and chartered electrical engineers, project managers and maintenance staff[47].

There has been a continuing decline in job vacancies notified to Job Centres in many sectors (notably agriculture, construction, retail, hotels & restaurants, transport and banking & finance) and occupations (notably sales & customer service, skilled trades, admin & secretarial, unskilled elementary and managerial)[48]. But in the first three quarters of 2009 numbers of job vacancies have increased in health and care (up by 2,800), education (up by 700), manufacturing (up by 200) and in occupations such as plant & machine operatives (up by 1,500), associate professional & technical (up by 1,000) and personal & protective service (up by 400 – see chart 14).

14. Trends in vacancies notified to the West Midlands Job Centres by occupation, October 2008 – October 2009



Source: NOMIS (JCP)

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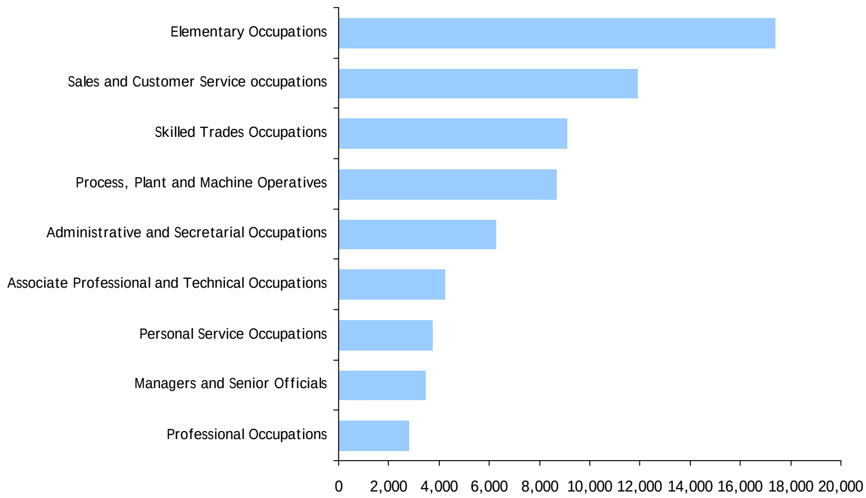
[47] Alliance of Sector Skills Councils- The impact of the economic downturn on business and skills in England – 28th May 2009

[48] Source: Job centre Plus – it should be noted that not all job vacancies are covered by this data, and those in higher level occupations are less well represented. Nevertheless latest estimates indicate that at least two thirds of vacancies are captured in the data, which is a reliable estimate of trends over time

Not surprisingly there has been a sharp increase in numbers of claimant unemployed who previously worked in occupations hardest hit by the recession. But there has also been a significant rise in unemployment among people with skills and experience in occupations for which vacancies are increasing and there is a need to more effectively match unemployed people to available vacancies. For example between October 2008 and October 2009 the number of unemployed people who formerly worked as plant & machine operatives rose by 8,700 and there were increases of 4,200 for those in associate professional & technical occupations and 3,700 for those in personal & protective service occupations (see chart 15).

15. Change in the West Midlands claimant unemployed by occupation, October 2008 - October 2009



Source: NOMIS (Claimant Count) West Midlands Regional Observatory 2010 15

6 Future prospects

At a national level the UK Commission for Employment and Skills comments that *'future employment growth will be slower than in the past. However growth will come, with an expected 2 million new jobs between now and 2020 and, because of retirements and other labour market changes, a further 11 million job opportunities are likely to become available'*. There will be a growing need for people with higher level skills and qualifications – especially in the medium and longer term: *'most of the new jobs will require higher level skills and we need to build a system to match the high skill, people-driven economy of the future'*[49].

The source for the forecasts presented in this report is the Integrated Policy Model (IPM) developed by Cambridge Econometrics (CE) on behalf of the Observatory. This is based on latest CE sectoral and regional projections of gross value added (GVA) and employment. As such the IPM takes account of the impact of the recession and provides forecasts of the likely timing of recovery[50]. As a result the forecasts present a more realistic view of future prospects than those previously available to partners. These include the Working Futures projections developed by the former Sector Skills Development Agency (SSDA) and the LSC which were quoted in the 2008 Skills Assessment. For a detailed comparison of the two sets of forecasts see Appendix 1.

6.1 Short and medium term prospects (2009-2014)

Signs of recovery in the region's labour market will take some time to feed through to increases in headline regional GVA and employment levels. In the UK as a whole GVA fell by 4% in 2009 and a further 0.5% decline is expected over the course of 2010. Thereafter growth of around 2% per annum is forecast for 2011-2014.

In the West Midlands trends in GVA are forecast to be broadly in line with those nationally. In terms of regional employment, after a fall of some 60,000 jobs in 2009 a further decline of 45,000 jobs is expected in 2010. Thereafter employment is forecast to decline by a further 8,000 jobs in 2011 and 4,000 in 2012. While employment levels are expected to begin to rise gradually from 2013 onwards they are not expected to return to pre-recession levels until 2024.

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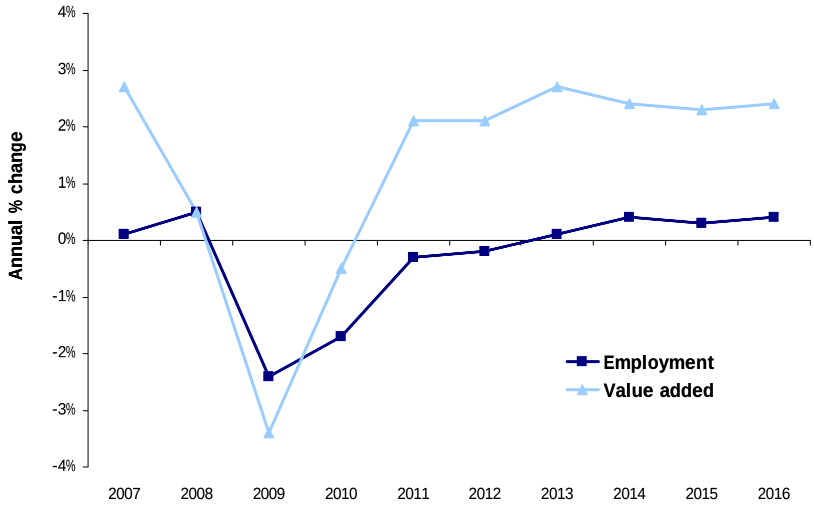
[49] Source: Ambition 2020: World Class Skills and Jobs for the UK – UK Commission for Employment and Skills 2009
[50] Further details on the how the IPM has been developed and how it can be used are available on the Observatory's website http://www.wmro.org/resources/res.aspx?p=/CmsResource/resourceFilename/2865/IPM-Flier-09_v1.0_Briefing-note_SH.pdf

16. Base forecast – regional trends in employment and value added



Source: Observatory Integrated Policy Model

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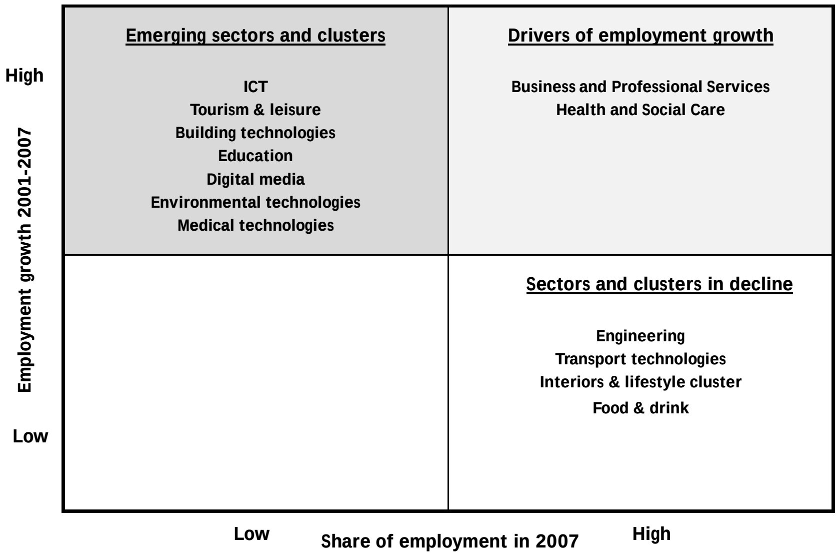
6.2 Longer term prospects (to 2024)

Over the longer term (i.e. over the next 15 years) further gradual growth is expected. The region's economy is forecast to generate an additional £29 billion of GVA and create nearly 110,000 net new jobs – although this will only return employment to pre-recession levels. Growth is forecast to be led by sectors and clusters which already account for a significant proportion of regional employment (see chart 16). These include business & professional services where an additional £4 billion of GVA and 32,000 net new jobs are forecast to be generated and health & social care where an additional £8 billion of GVA and 63,000 net new jobs are forecast to be created.

There will also be an upturn in emerging sectors and clusters that have the potential to be key drivers of growth in the future. These include education where an additional £1.8 billion of GVA and 12,000 net new jobs are forecast to be generated, building technologies (£1.7 billion of GVA and 27,000 net new jobs) and tourism & leisure (£0.7 billion of GVA and 5,000 net new jobs).

17. Employment growth/share matrix for the West Midlands



Source: ABI   West Midlands Regional Observatory 2010   17

In contrast, GVA is forecast to rise only modestly in engineering, other manufacturing and the transport technologies, lifestyle & interiors and food & drink clusters. Overall employment levels are expected to continue to decline, meanwhile, as businesses look to maximise productivity in a highly competitive market.

It is also notable that, while they have gained a foothold in the region in recent years, high value added sectors and clusters such as ICT, environmental technologies, medical technologies and digital media account for only a limited share of regional GVA and employment. These sectors and clusters are characterised by high value added activity, highly skilled employment and link to key priorities articulated in the West Midlands Economic Strategy and the government's New Industries New Jobs agenda. They lag behind national trends in terms of productivity and GVA growth and only ICT is forecast to grow significantly over the next 15 years (generating £3 billion of GVA and 15,000 net new jobs).

6.3 Focusing skills investment to support recovery

We are faced with these challenges, at a time when public investment in skills is likely to be reduced and re-prioritised. If we are to boost the pace and strength of the region's recovery there is a need to focus this investment in areas where it will make the most impact.

While as highlighted in section 6.3 high value-added sectors and clusters are to date relatively poorly represented in the region, the majority of employers 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 exploit the considerable expertise and research capability available at a number of the Region's universities. 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 such as business & professional services, health & social care, building technologies, tourism & leisure, engineering and the transport technologies cluster and the food & drink and interiors & lifestyle cluster.

6.4 Drivers of skills change and emerging skill needs

To realise the potential for growth businesses in the region's key sectors and clusters need to take advantage of a range of key business and market opportunities and drivers. In turn these could potentially generate demand for a range of new and enhanced skills.

In *ICT* the marriage of computing, communications, content, and consumer electronics is creating a wealth of opportunities. Key emerging markets include ICT security, informatics, mobile & wireless, photonics and radio frequency identification. These trends could in turn create a demand for high level leadership and relationship management, project and programme management skills, business intelligence, information analytics and architecture skills, networking and a range of specific software skills[51].

In *environmental technologies* significant opportunities are expected to arise in renewable energy and micro generation technologies, recycling and waste management and clean and waste water management. This could potentially create a demand 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 more generic skills such as an ability to combine technical skills and commercial acumen, awareness of the global development of environmental technologies and a broad based understanding of sustainability issues[52].

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[51] Source: AWM cluster skills research 2009
[52] West Midlands Regional Observatory/Labour Market Solutions Ltd – environmental technologies skills review, 2009

In *digital media* key drivers of change include a need to develop digital content for entertainment, with a focus on film, television, games, audio and music, exploit digital content to develop innovative and future focused education and encourage a healthy lifestyle and use digital media in a range of business activities such as training, scenario and business planning and virtual conferences. This could potentially create a need to address skill gaps among graduates looking to move into the cluster and provide training for existing staff to help them keep abreast of new developments and technological advances[53].

The *medical technologies* market provides a key opportunity for the region's manufacturing companies as public spending on healthcare rises due to an ageing population. At the same time there are opportunities associated with the development of new healthcare technology. To be in a position to exploit these opportunities to the full companies need to address shortages in engineering skills with a medical technology slant and management & leadership skills.

In *business & professional services* key drivers of change include a growing demand for services to support e-commerce and from an ageing population and the potential to develop the West Midlands as a 'centre of excellence' for Islamic Finance. This is creating a potential demand for skilled paraprofessional staff such as legal executives and accounting technicians and for better developed generic skills in areas such as leadership & management, managing teams, sales and managing relationships[54].

In *health & social care* key drivers of change include the demands of an ageing population and a need to achieve efficiency savings via exploiting new technology and service redesign. This is creating a potential demand for literacy and numeracy, communication and interpersonal skills, IT skills and for expertise in information sharing, leading and working in multi-agency teams[55].

In *education* there is an increasing need to identify and secure new sources of funding, develop services that are responsive to changing customer needs and to exploit the benefits of new technology. In turn this could potentially generate a demand for professionals with specific technical and practical skills and for transferable and wider employability skills in areas such as ICT, customer service and leadership & management. [56]

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[53] Source: AWM cluster skills research 2009
[54] Source: AWM cluster skills research 2009
[55] Skills for Health Policy and Labour Market Intelligence Briefing Issue 2 – July 2009
[56] Source: Lifelong Learning Sector Skills Council Sector Skills Agreement 2006

In *building technologies* there is an increasing need to respond to changes in building regulations, new legislation in areas such as procurement and employment, to improve performance in areas such as safety, productivity and customer satisfaction and to exploit opportunities associated with innovation and new technology and the demand for more sustainable products and processes. In turn this is potentially generating a demand for skilled and experienced managers and specialist professional staff. [57]

In *tourism & leisure* examples of key drivers of change include a demand from consumers for a high standard of customer service, for freshly prepared ingredients, cooking from scratch and for a wider range of international cuisines. This is creating a potential demand, for example, for better leadership & management, good customer service skills and for chefs with a high level of technical skills[58].

In *engineering and transport technologies* opportunities are emerging in areas linked to the government's New Industries New Jobs agenda such as global project management, computer modelling and simulation, electronic components and integrated systems, composite materials and low carbon engine design and manufacture. As a result there is a potential emerging need for graduates and highly skilled technicians and for management and leadership and high level organisational management skills. [59]

In *food & drink* key drivers of change in the future will be the demands of the major retailers, global sourcing of raw materials, tighter requirements for waste management and the need to control energy use and carbon emissions. In turn this could potentially create a demand for food technologists, chemists, microbiologists, engineers and fitters[60].

Similarly in *other manufacturing industries* market opportunities are arising associated with developments such as the development of plastic electronics technology and the expansion of strategic industries such as nuclear power. As a result there is potentially an increasing need for skilled managers and specialist technical staff and for generic skills such as communication, business development, customer service, team working and project management.[61]

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[57] Source: Construction Skills Sector Skills Council Sector Skills Agreement (Making the Case for Change) September 2005
[58] People 1st Sector Skills Council Sector Skills Agreement, 2007
[59] Source: SEMTA Sector Skills Council Sector Skills Agreement 2006
[60] Source: Improve Sector Skills Council Sector Skills Agreement 2006
[61] Source: COGENT Sector Skills Council Sector Skills Agreement 2006

6.5 Impact investment locations

The regions shadow Joint Strategy and Investment Board has identified a series of 20 Impact Investment Locations. These underpin its advice to Government on future funding priorities and will be an important focus for job creation in these sectors and clusters in the future[62]. For 5 of these locations research has already been undertaken to identify the scale and type of job growth that is likely to occur (see table 2). Overall, nearly 30,000 net new jobs could be created over the next 5 years with nearly 16,000 opportunities in higher skilled managerial, professional and technical occupations[63].

Other locations include the Eastside urban regeneration project, the Longbridge development and the North Solihull regeneration project in Birmingham & Solihull where a total of more than 16,000 new jobs could potentially be created. In the Black Country nearly 40,000 new jobs could potentially be created at the Dudley town centre/Brierley Hill, Walsall Waterfront and Wolverhampton town centre developments. Elsewhere, up to 1,250 new jobs could be created at the Edgar Street Grid development in Herefordshire, up to 4,000 new jobs could be created at the Telford town centre development in Shropshire and up to 18,000 new jobs could be created at the i54, Stafford town centre and Stoke city centre developments in Staffordshire.

[62] Source: West Midlands Regional Funding Advice: Shadow Joint Investment & Strategy Board, 2009
[63] Similar research for the remaining locations is planned in late 2009/early 2010

Table 2: potential job creation at selected Impact Investment Locations

Key investment location	Potential new job creation	Location	Timeline	Key sectors, occupations and skill levels
Birmingham New Street Station: Remodelling station, and redevelopment of the Pallisades retail centre, Office development at Southside Tower	Up to 2,750	Birmingham	2009-2014 To be determined by market conditions	Business & professional services, public sector services. Nearly two thirds will be higher skilled managerial, professional or technical jobs.
Ansty Park: development of a high technology business park, science part and technology centre	Up to 3,150	Coventry	2009-2011	High technology engineering and manufacturing. Nearly half will be higher skilled managerial, professional or technical jobs.
West Bromwich town centre: office and hotel development	Up to 1,600	Sandwell	2010-2014	Business & professional services, hotels & catering. Nearly two thirds will be higher skilled managerial, professional or technical jobs.
Bilston Urban Village: residential development plus a School, leisure centre and health care facility	Up to 900	Wolverhampton	2009-2014	Public sector services, health & social care. Nearly two thirds will be higher skilled managerial, professional or technical jobs.
North Solihull	Up to 2,000	Solihull	2009-2014	Education, public sector services, retail. Nearly half will be higher skilled managerial, professional or technical jobs.

Source: analysis of the employment potential and skills requirements of selected Key Investment Locations, Advantage West Midlands, 2009

The extent to which inward investment is attracted into the region will be a key factor in the success of these locations in generating economic and employment growth. It is expected that future investment will be concentrated in sectors and clusters in which the region has already developed a strong knowledge and skills base such as ICT, business & professional services and automotive[64]. Investment is likely to be focused in areas where this is concentrated, such as Warwickshire, Telford & Wrekin, Solihull and central Birmingham. Job creation is expected to principally be in office based activities such as R&D, marketing and sales & distribution rather than manufacturing activity. While many jobs are likely to require graduate level skills there will also be a demand for people with lower or intermediate level skills combined with work experience.

[64] Source: AWM Inward Investment Team

7 Achieving our skills ambitions: the scale of the challenge

As highlighted in section 3, there is a desire to close the Region's £15 billion output gap with the UK in terms of GVA per head. This is underpinned by 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.

Skilled people are one of the building blocks of successful businesses, particularly when they are used in combination with investment in innovation and technology. However while the region's overall skills performance has improved in recent years 'knowledge intensive' private sector industries are still poorly represented in the region – leading to a weak demand for higher level skills and a falling graduate retention rate.

At the same time 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. The gap in attainment between better and poorer performing areas continues to widen as those who are already relatively qualified continue to be most likely to improve their qualification levels, with disadvantaged areas and groups falling further behind. These trends reflect a number of inter-related factors. While significant numbers of NEET young people are entering the available for work population many people that 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.

As a result businesses still report significant skill gaps and shortages and a significant and rising proportion of the region's working age population is becoming workless. The recession has placed these issues in sharper focus. Recruitment difficulties and skill shortages have persisted despite the sharp rise in unemployment. Unemployment rates have risen most steeply, meanwhile, among those with fewest skills and qualifications.

If we are to boost the pace and strength of the region's recovery there is a need to focus this investment in areas where it will make the most impact. In particular, there is a need to support the region's emerging high value added sectors and clusters such as high technology manufacturing, ICT, environmental technologies, digital media and medical technologies. The majority are in a position, providing that they have access to the right skills, to exploit a range of business and market opportunities. 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 such as business & professional services, health & social care, building technologies, tourism & leisure, engineering and the transport technologies cluster and the food & drink and interiors & lifestyle cluster.

To realise the potential for growth businesses in the region's key sectors and clusters need to take advantage of a range of key market opportunities and drivers. In turn, these could potentially generate demand for a range of new and enhanced skills. However, 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 [65,66].

To achieve the targets set in the Skills Action Plan for 2020 – again based on the 2008 position some 360,000 more working age adults will need to achieve level 2 or above. Some 212,000 more working age adults, meanwhile, will need to achieve level 4 or above (see chart 17).

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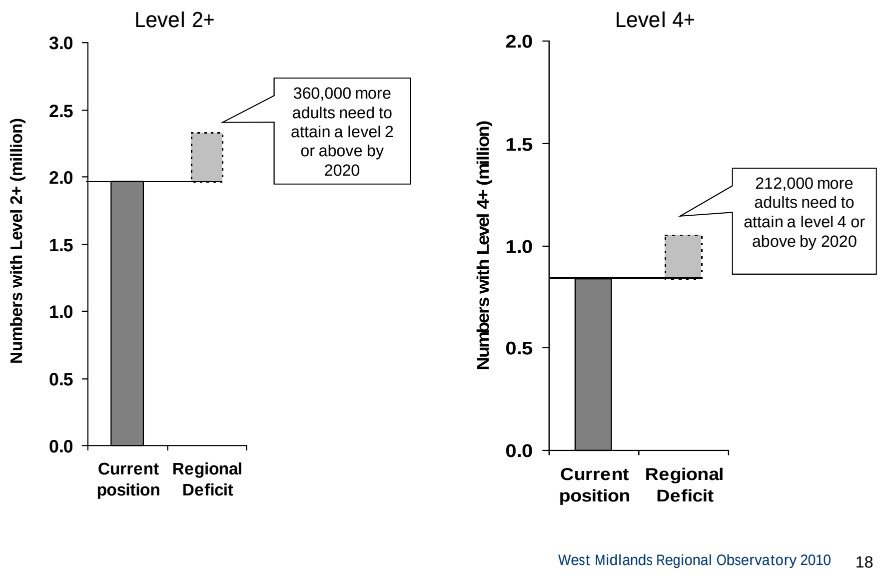
[65] Source: Framework of Regional Skills Performance Indicators: Review of Performance 2008- West Midlands Regional Observatory. To download the report go to our website http://www.wmro.org/standardTemplate.aspx/Home/OurResearch/Businesseconomy/Skillsperformanceindicatorframework

[66] Appendix 2 provides further detail on the scale of the challenge to close the gap with England and the best performing region on a range of measures, together with recent progress

18. Scale of the challenge to meet Skills Action Plan targets for 2020



Appendix 1: Comparison of Forecasts – Integrated Policy Model and Working Futures

The table below compares:

- The forecasts presented in this report, which are based on the Integrated Policy Model (IPM) developed by Cambridge Econometrics (CE) on behalf of the Observatory which takes account of the impact of the recession and provides forecasts of the likely timing of recovery
- The Working Futures projections developed by the former Sector Skills Development Agency (SSDA) and the LSC which were quoted in the 2008 Skills Assessment

Sector	Net change in employment: 2007-2017	
	New forecast (IPM)	Old forecast (Working Futures)
Agriculture	-10,800	-12,800
Mining & quarrying	-400	+300
Engineering	-40,700	-14,400
Other manufacturing	-29,800	+27,700
Electricity, gas & water	-900	-2,500
Construction	+800	-+14,300
Wholesale & retail	-3,500	+31,800
Hotels & catering	-12,400	+20,000
Transport & communication	-16,600	-5,800
Banking & finance	-1,500	-200
Business & professional services	-100	+32,700
Public administration	-6,100	+1,700
Education	+6,300	+12,600
Health & social care	+36,800	+38,700
Other services	-1,500	+5,000
Total	-67,700	+80,400

Appendix 2: The Scale of the Challenge – Progress 2007-2008

Measure		Scale of the Task with the England average			Scale of the task with Best Performing region			
		2007	2008	Difference	Best performing Region	2007	2008	Difference
Demand issues:								
1. Proportion of staff trained over past 12 months*	-	n/a	-	-	NE	112,200	-	-
2. Proportion of staff with skill gaps*	-	n/a	-	-	Y&H	9,300	-	-
3. Density of skill shortage vacancies*	-	n/a	-	-	WM	n/a	-	-
4. Proportion of graduates finding employment in their region of study after graduation		100	400	300	NW	1,600	1,900	300
Supply issues:								
5. Private sector employees educated to NVQ Level 4+		67,200	89,000	21,800	Lon	333,400	386,300	52,900
6. Proportion of pupils achieving 5+ GCSE A*-C grades (inc Maths & English)		1,800	1,400	-400	SE	4,000	3,600	-400
7. Proportion of working age population with NVQ4+		77,300	119,800	42,500	Lon	333,500	425,900	92,400
8. Proportion of working age population with NVQ3+		106,500	112,000	5,500	Lon	234,600	268,100	33,500
9. Proportion of working age population with NVQ2+		96,000	94,700	-1,300		SW - 206,200	SE - 198,700	-7,500
10. Proportion of working age population with No qualifications		100,800	98,700	-2,100	SW	202,100	184,400	-17,700
11. Proportion of employees who participated in job related training in the last 4 weeks		7,700	4,800	-2,900	NE	84,500	37,400	-47,100
12. Proportion of 16-17 year olds in education or Work Based Learning		400	n/a	n/a	Lon	4,800	9,900	5,100

= Widening the gap with England = Closing the gap with England n/a = Exceeds the average * = 2007 data as indicator has not been updated

Full document information

Title	Regional Skills Assessment 2009
Date created	2010-01-22
Type	Report
Description	A report examining the situation regarding skills in the West Midlands. The Assessment explores the fundamental changes taking place in the Regional economy and the way in which these are driving changes in the demand for skills from employers, individuals and communities. The report then examines the skill levels of the available workforce and whether they match the demands of the economy.
Creator	Skills Research Team West Midlands Regional Observatory Level 3, Millennium Point Curzon Street Birmingham B4 7XG Telephone: 0121 202 3250 Fax: 0121 202 3240 Email: enquiries@wmro.org Website: www.wmro.org
Publisher	West Midlands Regional Observatory Level 3, Millennium Point Curzon Street Birmingham B4 7XG Telephone: 0121 202 3250 Fax: 0121 202 3240 Email: enquiries@wmro.org Web site: www.wmro.org
Rights	Copyright 2010 West Midlands Regional Observatory
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Location	West Midlands Regional Observatory
Coverage, Time period	2009
Coverage, Geographical	West Midlands
Format	Text, PDF, Internet
Subject category	Education, Careers and Employment; Education and Skills. Business and Industry; Business Sectors. Science, Technology and Innovation; Research and Development.

Subject keywords	Skills assessment, report, business, growth, economy, GVA, sectors, projections, demographics, communities, social exclusion, economic exclusion, employment, unemployment, graduates, qualifications, basic skills, ethnic minorities, mature workforce, older people, gender
Date available	22nd January 2010
Next version due	Oct 2010
Frequency of update	Annual
Cost	Free
Access restrictions	Read only
Language	English
Identifier URL	http://www.wmro.org/resources/res.aspx?p=/CmsResource/resourceFilename/3016/Regional-Skills-Assessment-2009-main-report.pdf
Status	V1.0 for Publication

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