

# **Realising Talent: employment and skills for the future**

**A Report for the Local Government  
Association**

**July 2014**



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# Executive Summary

This is the first report in a series of three which will set out the challenges for our employment and skills system and propose ways it can be improved. As the economy grows and employment increases, new challenges emerge for our local economies. The new challenge is how the **whole workforce** meets the jobs and skills demand of growth.

'**Realising Talent**' looks at the extent and nature of the skills gap we face in the future – at both the national and local level. A continuing trend towards higher skilled jobs will mean there will be significant changes in the demand for labour over the next seven years and beyond. This is illustrated by a number of local authority case studies in the centre pages of this report – showing what the challenges are and what they are doing about it.

## The Skills Gap

The skills gap for England is the equivalent of **increasing everyone from an average of five GCSEs to an average of three 'A' levels** (or their equivalents) by 2022. This is because employers will want many more high qualified people, and fewer people with low or no qualifications. There will still be a constant supply of low skilled jobs but we will have too many low skilled people if we don't sufficiently increase skill levels. The consequence of **not meeting this challenge by 2022** will be:

- 9.2 million low skilled people chasing 3.7 million low skilled jobs – a surplus of 5.5 million low skilled workers with an increasing risk of unemployment
- 12.6 million people with intermediate skills will chase 10.2 million jobs – a surplus of 2.4 million people
- employers will struggle to recruit to the estimated 14.8 million high skilled jobs with only 11.9 million high skilled workers – a gap of 2.9 million.

## Impact on growth

This could restrict economic growth if employers can't recruit the skills and capabilities they need. **We have calculated that in 2022 between 16% and 25% of growth could be lost by not investing in skills.** This means that up to £375 billion of output is at risk. The consequences could be that employers look

elsewhere to recruit or seek to re-locate. Our current workforce, and the young people joining it, need to grasp the opportunities that future growth will bring.

Thriving **local economies** need a local workforce with high levels of employability – one which is skilled and motivated. Without a commitment to build employability the local workforce could become a **constraint on growth** rather than a **driver of new jobs**. Responding to current employer demand is important but it is equally important to build the **workforce skills of the future**.

Achieving a step-change in qualification levels is not possible by relying on ever better qualified young people – **adults already in the workforce will need to continue to attain higher qualifications**. Our workforce is getting older both because there are fewer young people and people are working for longer.

## **Impact on areas and people**

Realising the opportunities will not be easy in every locality and for some groups of people. **The benefits of economic growth may not reach everyone**. Local economies need a good match between employer demand and labour supply – the right skill levels *and* the right sort of skills. Delivering the benefits of **local growth for local people** will mean maximising opportunities for residents to upskill, re-train, progress in work and find the job they want.

Despite recent reductions in the wide measure of unemployment, it remains 546,000 higher than immediately before the recession, and long-term unemployment remains 454,000 higher. If unemployment remains a problem, so too does the **spare capacity** in the workforce – including where people have a job but are not working as many hours as they need or want.

**In England we need 15% more jobs and across the case study areas it ranges from 10% to 30%**. Some areas have significantly higher spare capacity in their labour market than others.

Those most at risk of **not benefiting** from the upturn are: the long-term unemployed of all ages; those with low qualifications; those with disabilities and health problems; and other groups with low employment rates. People with known disadvantages in the labour market will not automatically benefit unless there are further steps to help them improve their employability and find work.

There will need to be more opportunities to improve skills and qualifications – **integrating employment and skills** provision at the local level. The Work Programme is due to be replaced in 2016. This provides an opportunity for new programmes that will meet the new challenges, especially for those with disabilities and health problems. This is best fixed at the local level – **integrating health and employment** support.

## Local influence?

The **costs of unemployment** are not only borne by national government. There are significant costs at the local level in terms of spending and lost growth. However, **the infra-structure to deliver employment and skills** for working age people is highly complex. A new report<sup>1</sup> commissioned by the LGA has identified annual expenditure of almost £13 billion on skills and employment support going through 28 different programmes and budgets. This again highlights the complicated array of national agencies and programmes, most of which have insufficient connection with local areas.

As part of the research for this report, the LGA surveyed local authorities to get their views on how national agencies are working. It found:

- 79% said that it was very or fairly difficult to alter national commissioning to suit local needs
- 39% thought national commissioning delivered good outcomes to a 'moderate extent', the rest thought it was a 'small extent' or 'not at all'
- 84% thought that DWP programmes were responsive to local needs 'to a small extent' or 'not at all', however local authorities were more positive about employment providers with 61% saying they were responsive to a 'moderate' or 'great' extent
- Local authorities were more positive about the responsiveness of the Skills Funding Agency but still 66% thought that they were responsive to local needs 'to a small extent' or 'not at all'
- 87% felt they had insufficient oversight or ability to hold providers to account
- 84% wanted to see funding devolved to LEPs and/or groups of local authorities.

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<sup>1</sup> *Fragmented Funding*, Shared Intelligence, commissioned by the Local Government Association, June 2014

The overall picture of national agencies and programmes is one of insufficient responsiveness to the needs of local economies, and insufficient partnership across the board. There was strong support for devolved funding and local commissioning in the belief that public funds would be better aligned with the needs of employers, the local economy, and local people.

But it is not just about joining-up *budgets*, it is also about joining-up *services* to deliver a more coherent and personalised service to our most vulnerable people and communities – and this is often better done at the local level. But how would a more devolved system work in practice?

Central and local government are already working together to test new ways in which local employment and skills can be improved through City Deals and Community Budgets. In addition, through LEPs, there promises to be greater influence over some skills spending in the future. These initiatives are a start, and are providing some useful learning, but they will not go far enough to meet the needs and ambitions of local economies.

Meeting the challenges of the future will require a more robust and clearer partnership between central and local government. It will need clarity of responsibilities and set out a national framework within which central and local government can work. This is why Local Labour Market and Skills Agreements being explored in the North Eastern LEP, could potentially provide a new way of working.

## Conclusions

This analysis suggests that a more agile and responsive skills and employment system will be needed in the coming years. One which is geared to:

- fast-changing employer requirements
- the needs of local people; and
- opening opportunities to reduce poverty and promote social mobility.

The challenges and barriers to achieving this are:

1. an **ageing workforce**, it will primarily be adults' skills and capabilities that will either deliver or constrain growth
2. re-claiming the **lost generation of young people by** providing better skills, improved guidance and new pathways to employment

3. achieving a **better local skills match** between publicly funded training and employer demand
4. further **improving the efficiency of the local labour market** by increasing information on jobs, education and training
5. making sure that **long-term unemployed people** and disadvantaged groups are not left behind
6. **integrating provision** at the local level – more effective and more efficient.

To take this forward there will need to be a wide acceptance within local government that the effectiveness of employment and skills support is critical to their local economies and reducing the social costs of unemployment and poverty. Many local authorities have already demonstrated their willingness to meet the challenges and want new responsibilities, but this willingness and capability will need to work everywhere.

The government has established LEPs to bring business and local government together to decide priorities for local investment in both physical and human capital. Government now needs to reinforce their capacity to take further responsibilities both in policy and commissioning.

Finally, both local and central government need to be working together to shape how a reformed system could better work for local economies and people. Relevant government departments need an active dialogue with local government over the coming period – one which moves beyond the current phase of initiatives and considers wider and more extensive devolution. For its part, local government will need to develop its vision for the future – a task which the next reports in this series will turn to.

## Introduction

The prospects for the UK economy are the strongest for many years. Growth has picked up over the last year and forecasts predict strong and continuing growth. This brings the promise of a sustained increase in employment. Unemployment has now been declining for over 12 months and most sectors are reporting a growth in vacancies.

Growth brings its own challenges for the nation and for local economies, particularly when moving out of the longest recession since the 1930's. One of the main challenges is the capabilities and capacity in the workforce – do we have the right skills and qualifications for the new jobs being created and to replace those retiring?

The Local Government's Association 'Hidden Talents' campaign focuses on the position of young people in the labour market. '**Realising Talent**' looks at the extent and nature of the skills gap we face in the future – at both the national and local level. Continuing trends towards higher skilled jobs will mean there will be significant changes in the demand for labour over the next seven years and beyond.

This is illustrated by a number of **local authority case studies** throughout the report<sup>2</sup> – showing the challenges in each of the areas and how local government and their partners are meeting them. The distinctive local economies demonstrate the range of local solutions that are needed to meet their particular challenges.

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<sup>2</sup> Data labelled in this report as *Newcastle and the North East* is for the local authorities that make up the North East Combined Authority.

## Growth for all

The employment and skills of the local workforce is assuming a higher priority for local government. Local authorities recognise that employment and skills is a key driver of local economic growth – a motivated, flexible, and skilled workforce attracts employers and boosts productivity.

However, employment and skills can also constrain growth. If the attitudes, skills and qualifications of a local workforce do not match employer needs then employers find solutions elsewhere. At worst, they can leave the area causing redundancies; at best, they can recruit from elsewhere meaning that local residents lose out.

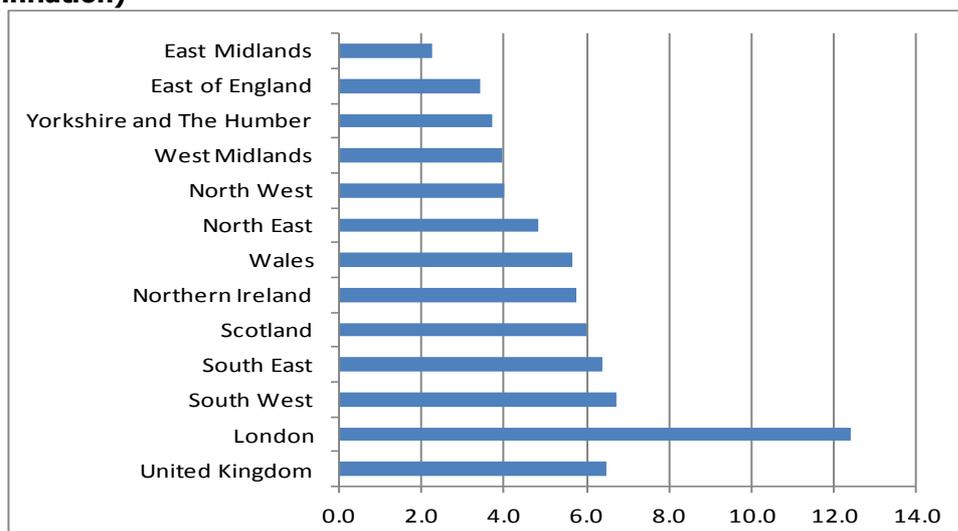
At the local level inclusive growth means that the:

- benefits of growth should be felt by people at all income levels, especially those in poverty
- benefits are seen in all parts of the community, especially deprived areas.

The same principles for inclusive growth apply at the national level. Economic growth always tends to be uneven across the country – reflecting the growth and decline of different industries. In general, growth in the UK has become more uneven as manufacturing has declined (disadvantaging the former industrial areas) and business services and finance have increased (favouring London and the South East).

Between 2007-11, London's nominal GVA grew by 12.4% whilst the UK grew at 6.5% and with East Midlands the lowest at 2.3%. See Chart 1. However, beneath this broad regional picture there are some significant areas of growth, as well as areas of increased deprivation. For example, Leeds has seen a significant increase in finance jobs but in the South many seaside towns have not shared in the wider success of the region.

**Chart 1: ONS measure of nominal GVA growth 2007-11 (not accounting for inflation)**



*Source: ONS*

Central Government through 'The Plan for Growth' and other reports have set out its actions for stimulating growth across industries and regions. This has seen the establishment of Local Enterprise Partnerships (LEPs), Enterprise Zones, City Deals and funds for investment at the regional and local levels. The Heseltine report (No Stone Unturned) advocated a strong localist approach to pursue the objective of more even growth across the country.

Local authorities and employers (often through Local Enterprise Partnerships) work together to identify how growth can be stimulated in their areas. Central to this is a thorough understanding of the changing nature of local economies – which industries are growing and which are in decline? It has been particularly urgent for those local economies with a high proportion of public sector jobs to identify ways in which private sector employment can be stimulated.

Local authorities and their partners will need to be improving how they target resources and support to business. Allied to this is the need for increased local ability to focus effort on identified job growth areas. Through local growth plans and City Deals, local authorities and LEPs are increasingly showing how they can boost growth for their local economies, although much more could be done.

Aiming for a **more balanced growth will need greater co-ordination** between local authorities, LEPs and employers **and stronger powers** to steer public spending for the benefit of their local economies.

## The skills and employability challenge

Up to 2022 there will be over 12 million jobs to which employers will need to recruit skilled workers. Working Futures<sup>3</sup> has forecast there will be around 1.8 million new jobs created up to 2022 and 12.5 million job vacancies because people have retired or left the labour market.

However, the nature of these jobs is changing. In general, there will be more white-collar jobs requiring higher levels of qualifications. The occupations with the largest new employment growth will be managers, professional and technical jobs, and caring and leisure occupations. Table 1 shows the change for each occupation.

**Table 1: Change in demand for different occupations**

Percentage Shares	2012	2022	% Net Change
1. Managers, directors and senior officials	10.7	11.8	17.7
2. Professional occupations	19.7	22.1	18.6
3. Associate professional and technical	13.4	14.4	14
4. Administrative and secretarial	11.7	9.5	-13.5
5. Skilled trades occupations	10.8	9.3	-8.8
6. Caring, leisure and other service	9	10.4	22.8
7. Sales and customer service	8.4	7.8	-2.1
8. Process, plant and machine operatives	6.2	5.2	-10.4
9. Elementary occupations	10.3	9.5	-1.8
<b>Total</b>	100	100	5.9

Source: Working Futures, UKCES

Because people are retiring (or leaving the labour market for other reasons) there are always plenty of workers that have to be replaced – the so-called ‘replacement demand’. These replacement jobs outnumber the new growth in jobs by six to one, and by putting the two together we get a better picture of total demand – over 12 million jobs with 55% of all the jobs coming from the top three high qualification occupations. See Annex 2 for the total estimated change in employer demand between 1992 and 2022.

<sup>3</sup> Working Futures 2012-2022, UKCES, 2014, analysis for England

The demand for skills that need higher level qualifications is rising but so too are the number of people with higher qualifications. Most of this increase in the supply of higher qualifications comes from better qualified young people joining the labour market.

**However, the increase in qualifications is not happening fast enough.** New forecasts of qualification levels in 2022 show that we will have an under-qualified workforce compared to that being demanded by employers.

Against the backdrop of a strong increase in business confidence, the Federation of Small Businesses has recently highlighted skills shortages as a significant barrier to growth for small firms. In a survey, almost one third (29.9%) of SMEs reported skills shortages as hampering growth.<sup>4</sup>

“It is therefore crucial to the long term sustainability of economic expansion that training for the right types of skills is provided, and for the stock of human capital is increased – a longstanding area of weakness for the UK economy.”

*Federation of Small Business, June 2014*

Our analysis also shows there are important differences between local economies with areas requiring very different types of uplifts in qualifications.

## The skills gap

We have identified the skills gap for England and for each of our case study areas – gaps that will constrain the level of economic growth unless closed.

The skills gap is the difference between:

- the **qualifications of the future** that will be needed for the jobs in 2022, as identified by Working Futures
- the **qualifications of the workforce** in 2022 based on projecting demographic changes from the 2011 Census.

To calculate the qualifications of the workforce in 2022 we have factored in the increasing age of retirement, and assumed the current level of qualification

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<sup>4</sup> Small Business Index Q2 2014, Federation of Small Business, 2014

attainment of young people will persist through to 2022. So with each year of young people joining the labour market our workforce becomes more qualified – but not fast enough. Annex 1 describes how we calculated these changes.

“Better qualified people have a higher probability of obtaining and retaining a job than someone less well qualified. They are also more likely to be active in the labour market than less qualified people, except when they are young and still acquiring qualifications.”

*UK Commission for Employment & Skills, Working Futures 2014*

To more easily show the difference we have divided the eight National Qualification Framework (NQF) levels into three – high, intermediate, and low.<sup>5</sup>

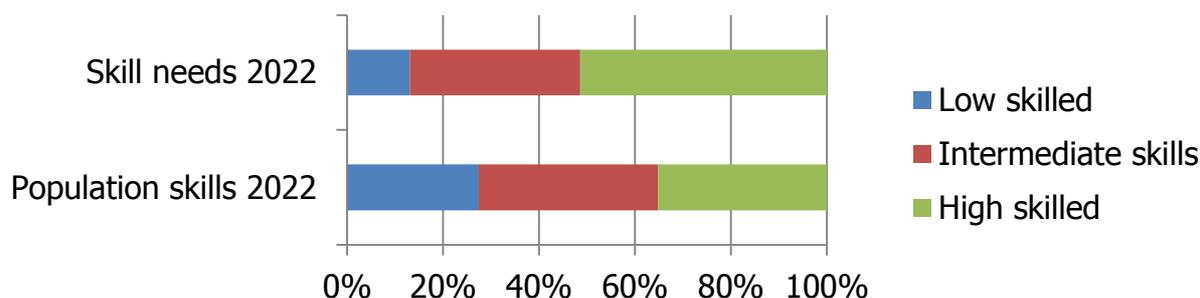
For England in 2022 this analysis shows that for:

- the **qualifications of the future** will need an average qualification level of NQF Level 3 or 3 'A' Levels of the equivalent
- the **qualifications of the workforce** will have an average qualification level of NQF 2.3, or just above 5 GCSE's or equivalent.

The gap between the two is 0.7, or almost one whole National Qualification Framework (NQF) 'level' of qualification. **It means, on average, we have to lift England's workforce to A-level standard rather than the projected 5 GCSEs standard.**

Chart 2 shows the difference between the skills needs of 2022 and the projected population skills of the English workforce in 2022.

**Chart 2: Projected skills needs and population skills levels 2022**



*Source: Inclusion estimates*

<sup>5</sup> See Annex 3 for the definition of NQF levels. Those without qualifications are counted as 'low'.

Table 2, below, shows the deficit of high-level skills that England faces if we do not do more to increase qualification levels.

**Table 2: Skill levels and jobs in 2022 (England)**

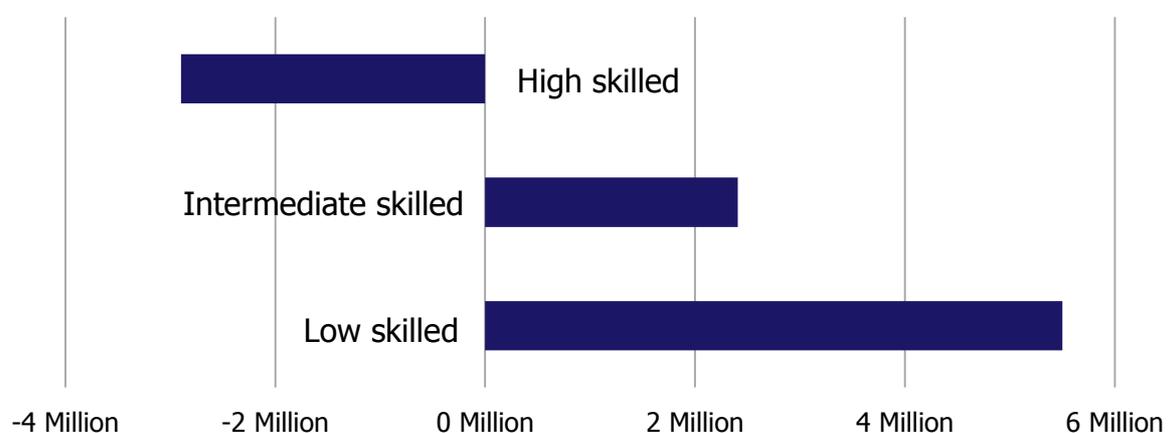
	<b>Low skilled</b>	<b>Intermediate skills</b>	<b>High skilled</b>
<b>Population skills in 2022</b>	9,246,904	12,610,938	11,877,076
<b>Employer skill needs in 2022</b>	3,746,573	10,203,578	14,775,959
<b>Skills gap 2022</b>	+5,500,330	+2,407,360	-2,898,883

Source: Inclusion estimates from Working Futures

On these forecasts we will have:

- 9.2 million low skilled people chasing 3.7 million low skilled jobs - a surplus of 5.5 million low skilled workers with an increasing risk of unemployment
- 12.6 million people with intermediate skills will chase 10.2 million jobs – a surplus of 2.4 million people
- employers will struggle to recruit to the estimated 14.8 million high skilled jobs with only 11.9 million high skilled workers – a gap of 2.9 million.

**Chart 3: Skills gap 2022, numbers of people**

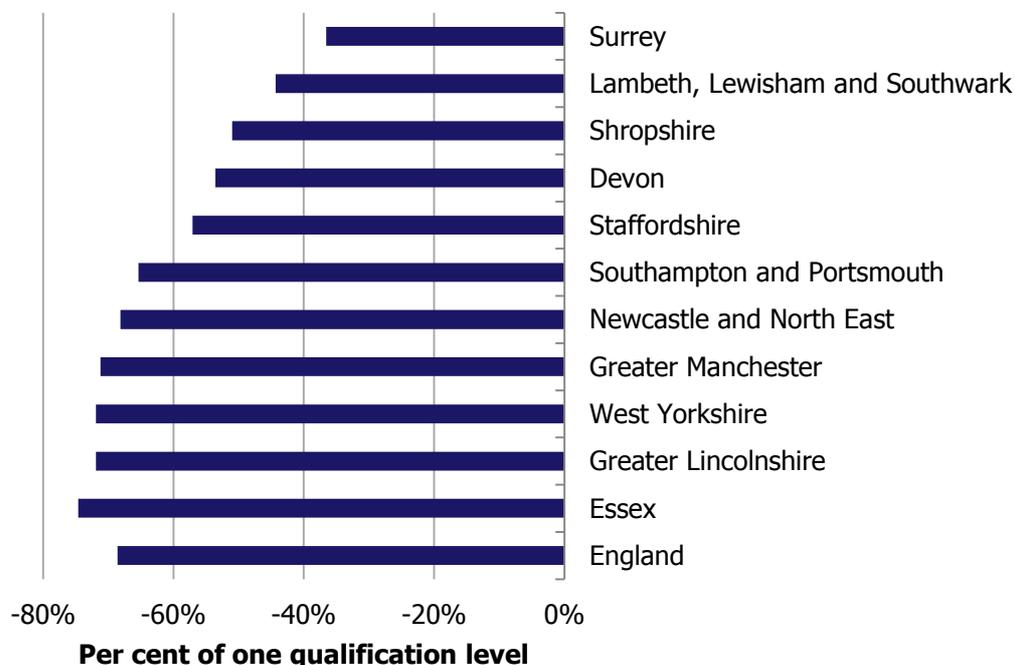


Source: Inclusion estimates

## Different local skills gaps

Chart 4 shows the qualification gaps for our case study areas. The gap is expressed as the percentage of one qualification level that each area must catch up by 2022. For example, Surrey has 37% of one qualification level to catch up whilst Essex has 75% of one qualification level (on average) to meet their employer needs in 2022.

**Chart 4: Qualification skills gaps for case study areas in 2022**



Source: Inclusion estimates

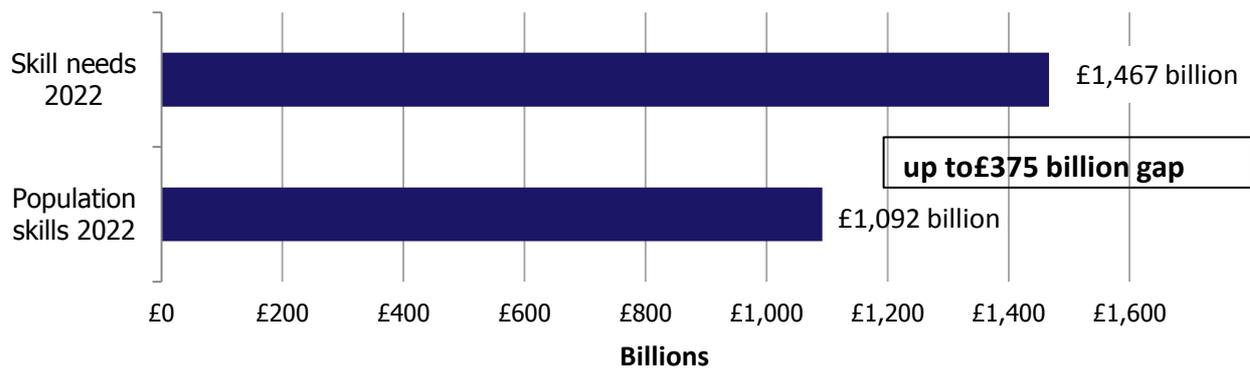
## Growth at risk

A skills gap can constrain the extent and nature of economic growth. Research<sup>6</sup> indicates that there is strong relationship between skills and productivity. Consequently, any shortfall in the qualifications needed for the future will likely lead to a shortfall in productivity and growth. We have used the skills gaps we have identified for England, and each of the case study areas, and calculated the potential loss of economic output in 2022.

<sup>6</sup> 'Skills, Workforce Characteristics and Firm-Level Productivity: Evidence from the Matched ABI/Employer Skills survey', Galindo-Rueda and Haskel, IZA, 2005

Chart 5 shows the growth at risk of not meeting the skills challenge for England. For England we have calculated that **in 2022 between 16% and 25% of growth could be lost if we do not bring skills up to the levels expected by employers.**<sup>7</sup> This means that up to £375 billion of output is at risk.

**Chart 5: GVA gap**

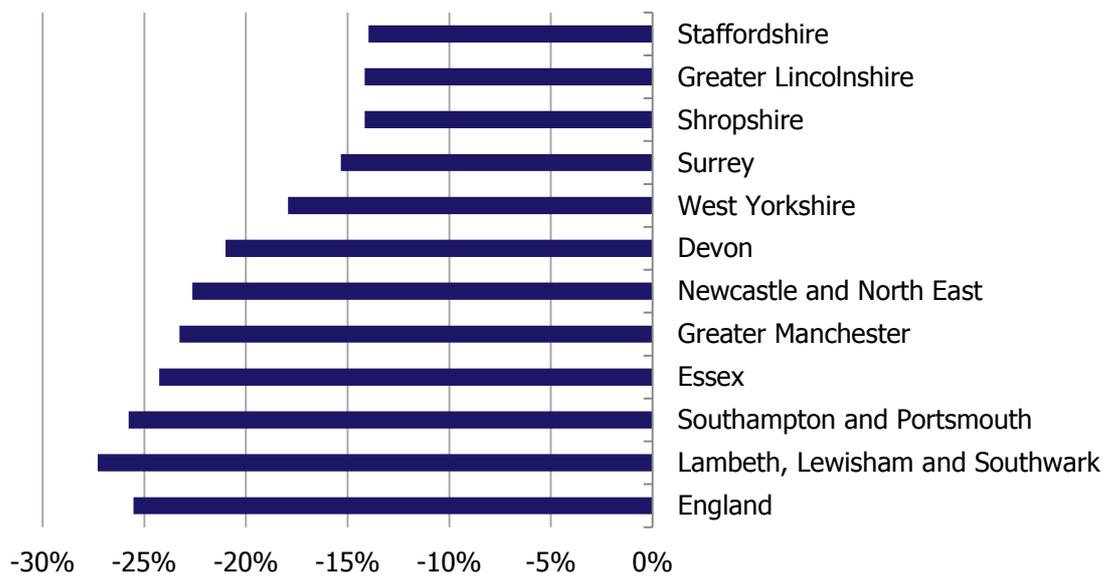


*Source: Inclusion estimates*

We have calculated the growth at risk for each of the case study areas. This ranges from 14% of growth at risk for Staffordshire to 27% for the London Boroughs of Lambeth, Lewisham and Southwark. Whilst the London Boroughs do not have a large skills gap in comparison with other areas, the GVA per head of population is much higher in London, therefore more growth will be at risk compared to other areas.

<sup>7</sup> We used two different models to generate a productivity per filled job estimate for each area and the resultant GVA. We have given the range of impact given the results from the models. See Annex 1.

**Chart 6: Growth at risk in 2022 for case study areas**



*Source: Inclusion estimates*

## The spare capacity in the Labour Market

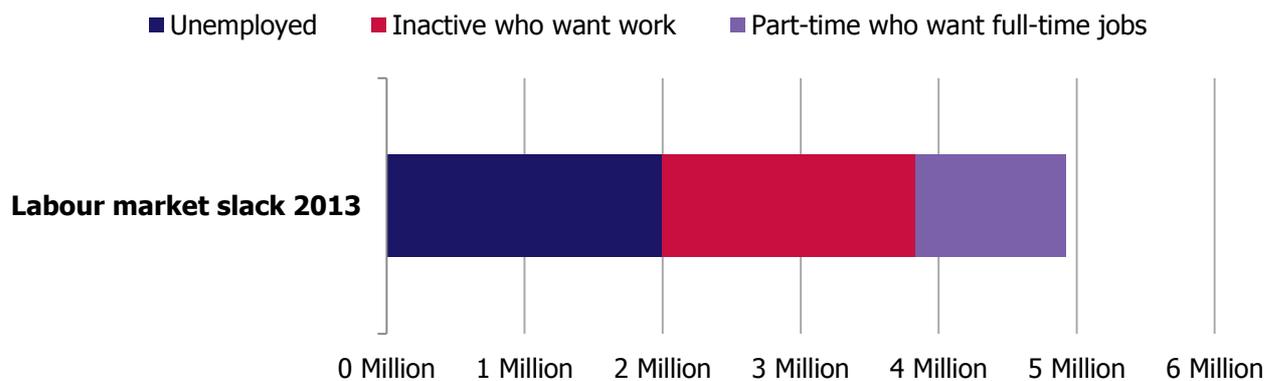
Unemployment in the last recession did not increase to the extent that would have been expected from previous recessions but there is still plenty of spare capacity in the labour market.

We have used the Office for National Statistics definition of 'slack' or the spare capacity that exists in the labour market. For England this is composed of:

- 2 million unemployed people
- 1.8 million of the economically inactive who say they want a job; and
- 1.1 million who are working part-time but want a full-time job.

This amounts to almost 5 million people who want a job or more hours. In England this amounts to 16% of spare capacity in the working age population.

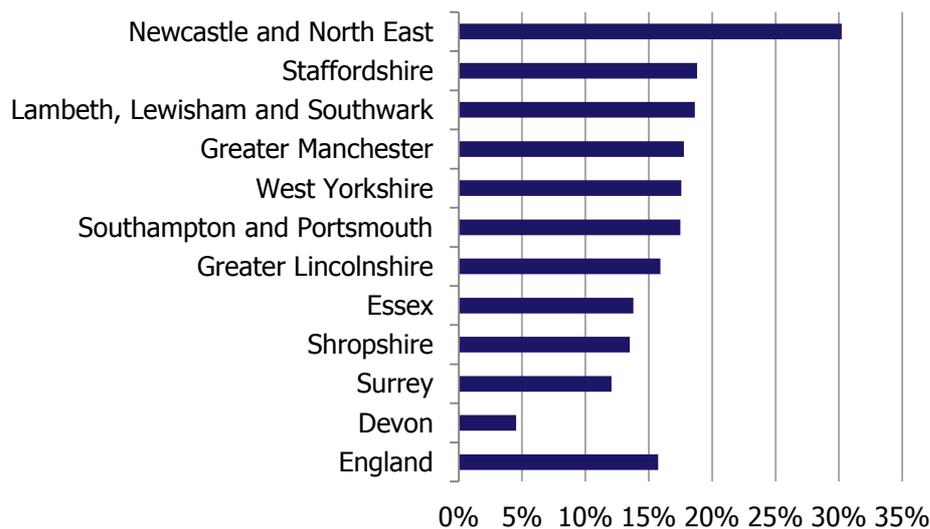
### Chart 7: Spare capacity in the labour market (England)



Source: NOMIS (Annual Population Survey), Inclusion estimates

The variation in the amount of spare capacity in our case study areas ranges between 5% in Devon and 30% in the North East Combined Authority (NECA) area.

### Chart 8: Spare capacity in the labour market



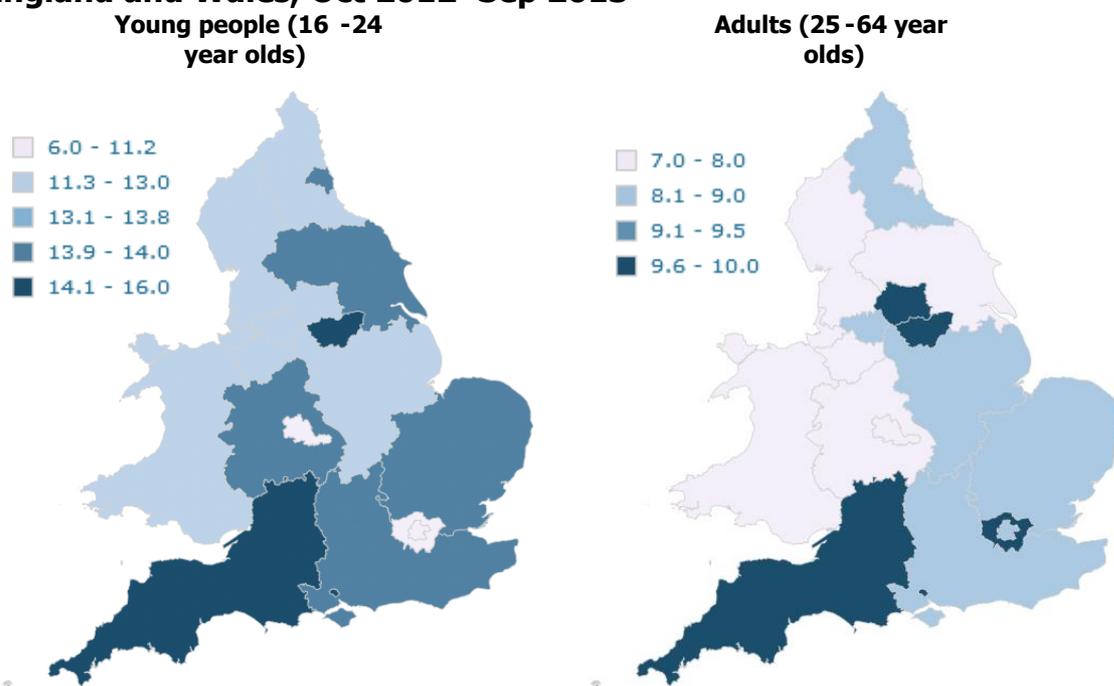
Source: NOMIS (Annual Population Survey), Inclusion estimates

To add to this picture an earlier LGA report<sup>8</sup> looked at under-employment for young people and adults across the country. 'Under-employment' incorporates a wider definition of spare capacity to include those that are working below their skill level.

<sup>8</sup> 'Hidden Talents: Totalling Hidden Talent: youth unemployment and underemployment in England and Wales', Local Government Association, April 2014

Chart 9 shows that the South West has significant levels of under-employment mainly due to higher numbers of graduates not working at their skill level. Taken together these indicators show the extent to which local economies need local labour market strategies that meet their particular challenges.

**Chart 9: Under-employed people as a proportion of the population (%), England and Wales, Oct 2012–Sep 2013**



Source: NOMIS (Annual Population Survey), Inclusion estimates

## The changing nature of worklessness

Worklessness in this recession is very different from previous recessions. Chart 10 below shows the peaks in worklessness over the last three recessions. The 1980's and '90's were dominated by large numbers of people on unemployment benefits, but with incapacity benefits growing rapidly in the 1990's.

Now there is a more even split between those on different benefits and those saying they are unemployed and not claiming benefits at all (a trend that has been growing for over a decade). This new picture of worklessness means local and national interventions need to be more balanced and responsive to different circumstances.

**... continued on page 28**

# Realising Talent: Case Studies

Eleven local authorities, or groupings of local authorities, agreed to profile their employment and skills ambitions and challenges – and what they are doing about it.

All of the areas are doing much more than can be profiled here, and there are many other local authorities who are taking action. In future reports we will look in more detail at what is happening across England.

## Devon County Council

### Ambitions and Challenges

Devon's employment growth is expected to be 5% from 2013 – 2020 and a further 3.7% from 2020-2025. The sectors with the largest quantities of employment are the public sector, construction, distribution, hotels/accommodation and food, and business and finance. Of these, construction will see the most growth in the next 12 years at 38%, almost 20% more than the expected UK growth. Other sectors identified as having growth potential in Devon include professional services, logistics and creative media. The public sector, on which there has been much historical reliance, will see minimal growth, with both the traditional sectors of agriculture and manufacturing declining.

### Realising the ambition and meeting the challenges

But, the real challenge for Devon, masked by the figures, is the volume of part time jobs and opportunities, alongside the amount of 'underemployment' in the county, with a great number of people not realising their full potential, employed in roles that do not fully utilise their skills and qualifications. Both of these challenges are compounded by the rural nature of the county.

## Essex County Council

### Ambitions and Challenges

If the Government honours the Growth Deal, 117,745 new jobs will be created by 2021. Through this, economic growth will come from advanced manufacturing, medical technologies, health/care economy, logistics, renewable energy and digital / creative industries, which will grow significantly. The service, health and public sectors are the largest employment sectors. The service sector will grow more quickly in line with population growth, whilst the public sector will continue to shrink. The challenge is to address the relatively poor skills and basic skills gaps, which will impede local growth and our residents' employability. Key sectors need higher level academic, practical and technical skills to compete and innovate. Preparing young people for higher value jobs and upskilling the workforce are vital. For this to happen, the skills system needs systemic change and greater localism.

### Realising the ambition and meeting the challenges

Statutory provision needs to be more responsive to business needs. This requires localised employment, skills and welfare, steered by Essex's Employment & Skills Board. Key initiatives to address the skills mismatch include *Essex Apprenticeships* and (higher level) *Skills for Economic Growth* to support SME growth.

## Greater Lincolnshire

### Ambitions and Challenges

13,000 new jobs are expected by 2030. Growth and greatest competitiveness will come through six sectors which are agri-food, manufacturing/engineering, the visitor economy, health and care, port and logistics, and low carbon. Demand for experienced, higher skilled staff (technological and managerial) has grown in sectors traditionally lower skilled. Some employers are struggling to recruit. The ambition is to meet demand with local labour. A lack of available information from DWP is challenging in relation to LEP decisions about future activity for unemployed residents.

### Realising the ambition and meeting the challenges

Greater Lincolnshire is working to change perceptions about their sectors through better Labour Market Intelligence.

With excellent Level 2 qualification results, the ambition is to support the local population to progress to Level 3, and Level 4. The 16-35 population falls behind national averages considerably. Freedom has been sought to use European Social Fund (ESF) to deliver training at Level 3 to support our ambitions.

## **Greater Manchester Combined Authority**

### **Ambitions and Challenges**

101,000 additional jobs are forecast in Greater Manchester (GM) over the next decade, 70% of which will be in professional and business services. Over 60% of new jobs will require Level 3 or above skills. Jobs in public administration, education and manufacturing are forecast to reduce.

Challenges include higher levels of long term worklessness (especially young people), low skills and working poverty resulting from poor quality work.

Greater Manchester's Combined Authority works well with Job Centre Plus (JCP), employers and providers to address labour market failures, such as via an Apprenticeship Hub, a Youth Contract Extension, Jobs with Training for long term young unemployed, and Working Well - a comprehensive employment support offer co-funded with DWP for ESA claimants who have not found jobs via the Work Programme.

### **Realising the ambition and meeting the challenges**

Flexibilities sought include more influence over Skills Funding Agency (SFA) budgets in line with local priorities and ESF, a role within future DWP programme procurement, and financial risk/reward models between GM and Whitehall with devolved accountability.

## **London Boroughs of Lambeth, Lewisham and Southwark community budget**

### **Ambitions and Challenges**

Lambeth, Lewisham and Southwark are developing an integrated system of support from welfare through to employment. The aim is to get the right intervention at the right time, from universal credit application to employment, supported by skills and training provision that meets local needs.

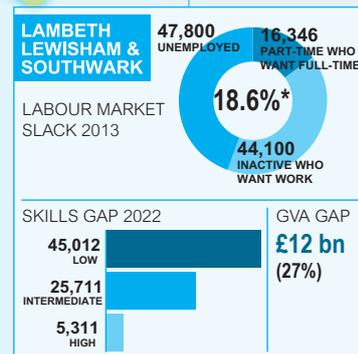
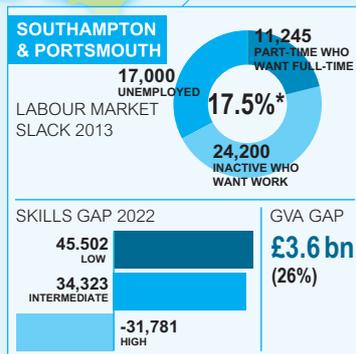
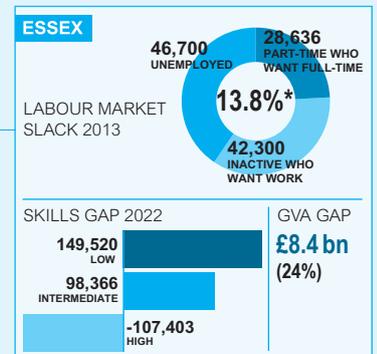
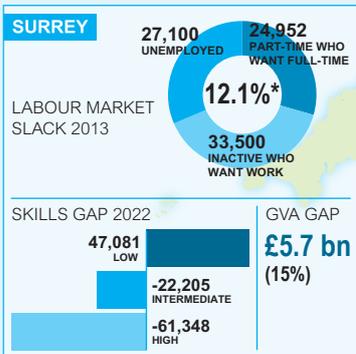
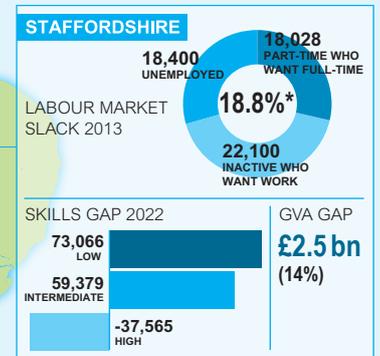
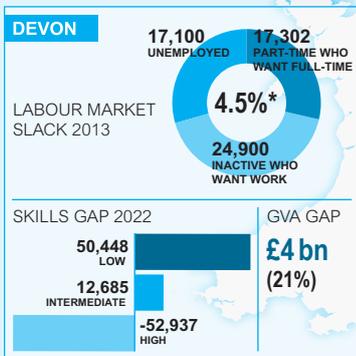
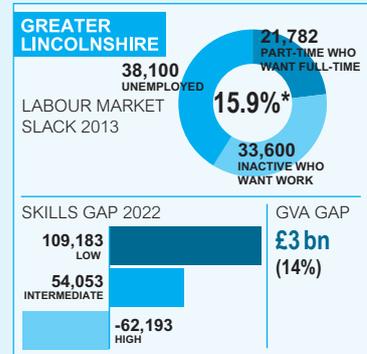
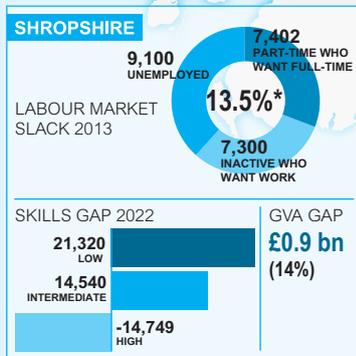
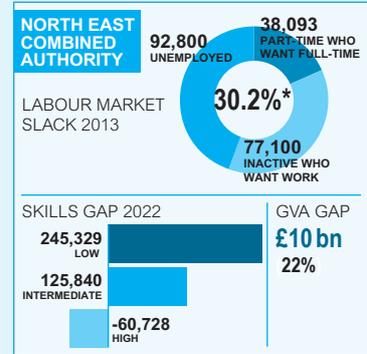
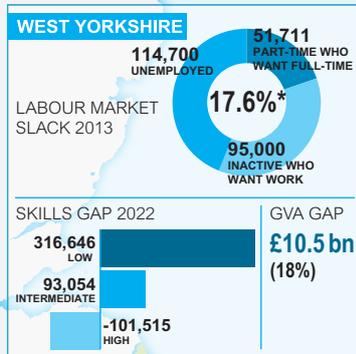
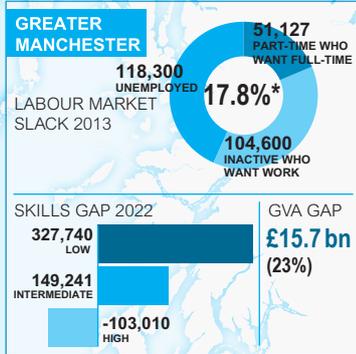
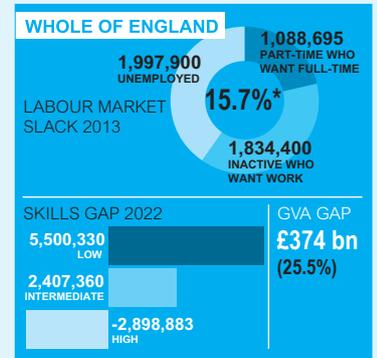
Current support does not always deliver the best deal for residents especially those with complex needs. It can be confusing and hard to navigate, skewed as it is towards national objectives, and in the worst cases, can drive residents further away from, and not closer to, the world of work.

### **Realising the ambition and meeting the challenges**

We want to embrace the opportunities (and risks) that a more locally integrated system brings. This means government letting go, being prepared to share intelligence (e.g. on employment destination data) and creating financial incentives to local skills providers to improve the quality of provision. We are ready to act; we hope that the Government is too.

# Labour Market Challenge 2022: local and England wide

Closing the skills gap looks different in different local economies. Securing growth means getting the best local skills match between local employer demand and local skills. A positive skills gap bar means a surplus of people and a negative bar means a shortage. Labour Market Slack 2013 highlights the current challenge.



**Key**

\* % of spare capacity of the Working Age Population

**Skills gap** surplus or shortage of people in 2022

**GVA gap** estimated impact of the skills gap on Gross Value Added

**GVA gap** percent of growth at risk in 2022

## North Eastern Local Enterprise Partnership

### Ambitions and Challenges

The North East Combined Authority (NECA) is legal body that brings together seven\* local authorities to drive economic growth and improve employment and skills performance in a challenging area. While employability and skills leadership and resources are currently dispersed across a number of national and local organisations, evidence suggests locally-led models aligned with other services can enable more effective and efficient delivery.

### Realising the ambition and meeting the challenges

The NECA ambition, articulated through the [Strategic Economic Plan](#), is a more coordinated and locally accountable approach through a NE Labour Market and Skills Agreement. The agreement will support NECA in negotiations with government to:

- develop a framework for local management and delivery of services responsive to specific area needs, including a locally-led and commissioned framework; and
- explore devolution of funding and programme design, flexibilities in performance, improved data sharing and progression tracking across programmes.

*\*County Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland*

## Shropshire part of the Marches LEP

### Ambitions and Challenges

By 2020, Shropshire is forecast to have an additional 4,400 jobs – a 4% increase. The Marches LEP will see an increase in support services, construction, and professional services. Declining sectors will be agriculture, engineering, manufacturing (excluding food and drink) and public administration. Demand for occupations requiring high qualifications will rise by 17%, while there will be a 10.3% drop in process and plant operatives requiring lower qualifications. By 2020, 37.3% of the Marches LEP workforce is forecast to be qualified to NVQ level 4 and above compared with 27.6% in 2010. The challenge will be to support local people into sustained jobs, particularly those in rural areas with low level qualifications.

### Realising the ambition and meeting the challenges

Shropshire's Economic Growth Strategy includes initiatives such as a new University campus in Shrewsbury with an innovation centre to increase employment in growth sectors, new sustainable urban extensions with office parks, and incentives and start-up support for high growth businesses. Shropshire seeks an alignment of funding and providing an easier platform to fund local initiatives that can improve impact.

## Southampton and Portsmouth City Councils

### Ambitions and Challenges

The two maritime cities are working together to support local people with skills to compete for jobs created through major developments and public sector procurement. The aim is to create a LEP-wide 'Solent Jobsmatch' employment and skills 'hub' to co-ordinate, support and monitor activity across Solent's eleven local authorities.

### Realising the ambition and meeting the challenges

An existing integrated approach in Southampton has led to 616 supported jobs for unemployed people, 203 new apprenticeships, 345 work placements and 411 pre-employment training opportunities over five years, and the pace is increasing. The programme seeks to match publicly funded provision with private sector demand across Solent. The challenge is coordinating employment and skills funding streams, which vary greatly in local flexibility and responsiveness, from a range of national agencies (EFA, SFA, DWP and HEFC) and their providers.

A devolved and flexible local budget with local brokerage would increase the impact and scale of this initiative, enable integration with local funds and joint commissioning, and offer a truly responsive solution to private sector demand.

## West Yorkshire Combined Authority

### Ambitions and Challenges

The LEP ambition is to become NEET-free with more and better jobs and a skilled workforce. Over 500,000 new and replacement job opportunities will be created in the Combined Authority area over the next decade, however skills gaps persist. Six key growth sectors are financial and professional services, health and life sciences, innovative manufacturing, creative and digital, food and drink, low carbon and environmental.

### Realising the ambition and meeting the challenges

Current initiatives include: £4.6m City Deal Apprenticeship Hub network across the region, creating 2,500 additional SME Apprenticeships; £4.6m Cabinet Office funded Headstart programme supporting 18-24s into jobs; Devolved Youth Contract (DYC) pilot in Leeds, Bradford and Wakefield, engaging 16/17 year olds through community projects; *Five three one* campaign brokering skills support for companies of any size or sector (adding £7 million to the economy); working with SMEs to address software engineering/coding skills shortages; and strong integration with local authority job programmes.

Devolved Youth Contract has achieved 68% engagement, compared to circa 30% nationally. Further devolution will provide flexibility of design and delivery, local responsiveness and increased outcomes as a result.

## Staffordshire County Council

### Ambitions and Challenges

56,000 more jobs are expected by 2025. Largest increases will be professional, managers and senior officials, associate professional and technical occupations. High growth sectors will include engineering and manufacturing. A targeted skills policy is needed to upskill Staffordshire's workforce, where areas have up to 20% with no qualifications, and other places less than a fifth qualified to level 4+.

### Realising the ambition and meeting the challenges

Initiatives include:

- **Open Door**, council run 12 week work placement for unemployed/vulnerable groups, now developed with local employers.
- Devolved £39m **Skills Pilot** with local colleges using Adult Skills Budget (ASB) to deliver LEP priorities. 5% redistribution applied where priorities are not met.
- **Sector Based Work Academy** with Jaguar Land Rover to recruit semi skilled workers to I54 Manufacturing Centre. Those completing a 6 week programme are guaranteed a place at the Assessment Centre (ASB funded).
- New **automotive/engineering hub** in Tamworth, funded through City Deal, the County Council and South Staffordshire College.
- **Delivering employability** and ICT courses for Work Programme leavers through Adult and Community Learning in conjunction with Jobcentre Plus.

## Surrey County Council

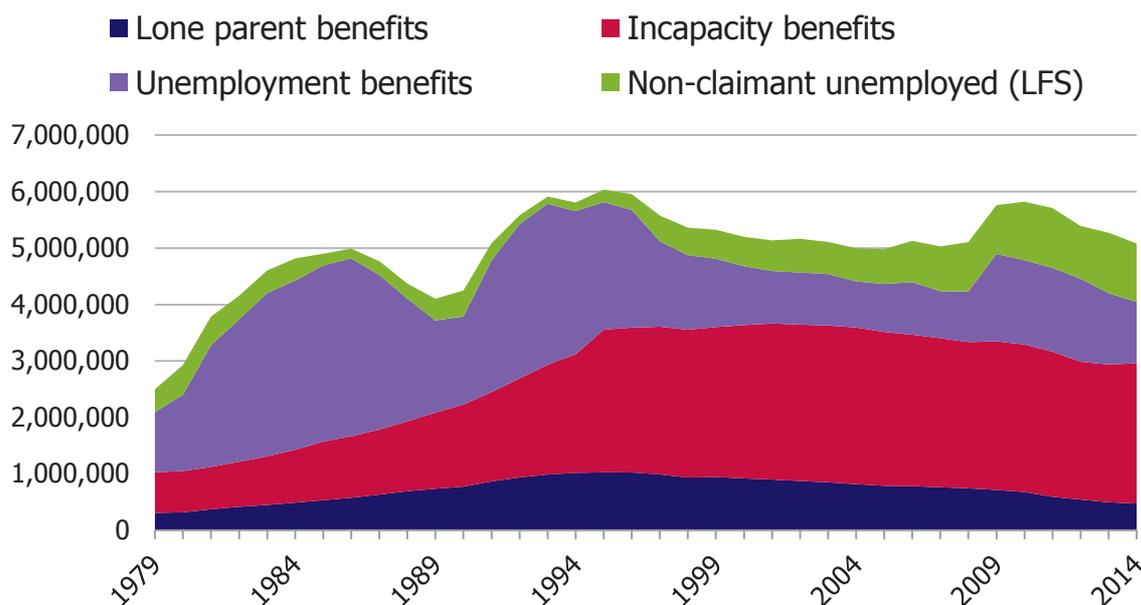
### Ambitions and Challenges

Job growth sectors will be health and social care, professional and business services, retail, government services and construction. Over half of all jobs in Surrey are already in the top three high qualified occupations; this trend will increase. Challenges will be new jobs outstripping population growth, employers struggle to recruit young people with employability skills, and re-engaging hard to reach young people not in education, employment or training.

### Realising the ambition and meeting the challenges

'Skills for the Future', part of Surrey's Public Service Transformation Network programme, will develop new interventions for young people. These include an integrated, reformed and localised IAG system from Year 8, an employability curriculum for Year 10s, and a Young Adult Employment Support scheme to equip young people with adaptive employability skills for future jobs. This could result in savings to central Government through a reduction in JSA claimants and increased tax returns to HMRC. Surrey is keen to negotiate a gain share agreement based on these, to ensure savings are reinvested in the ongoing delivery of services for local residents.

**Chart 10: Numbers of workless people 1979 to 2014**



Source: NOMIS (Annual Population Survey)

Long-term unemployment remains a significant problem across the country and in local communities. Whilst it has recently started to decline, it remains at 1997 levels for adults and 1994 levels for young people. Altogether there remain **900,000 people who say they are long-term unemployed.**

**Chart 11: ILO Long-term unemployment**



Source: NOMIS (Annual Population Survey)

However, historically high proportions of the long-term unemployed are not claiming JSA. 70% of young long-term unemployed people are not claiming JSA and 46% of adults are not claiming. There are a number of different reasons for the high proportion who are not claiming<sup>9</sup>. However, the consequence is that there are increasing numbers of long-term unemployed people who are outside the benefits system and therefore not eligible for most employment and skills support. This adds to the challenges at the local level where the social costs of long-term unemployment are felt but where there is diminishing engagement with the long-term unemployed.

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<sup>9</sup> See 'Economic & Labour Market Review', Clancy and Stam, July 2010

# Filling the skills gap: challenges along the way

## Ageing population, ageing workforce

The impact of an ageing population is well understood by local government as social care costs absorb an increasing proportion of funding. The average age of a 'working age' person is now just tipping over 40, and by 2017 it will be 41 and will continue to steadily increase until 2037 when it will be over 44<sup>10</sup>.

The number of people aged between 50 and 64 in employment in the UK has increased by nearly 2 million over the past 15 years to 7.7 million. Overall it is estimated that the proportion of over-50s in the workforce will be a **third of all workers** by 2020. However, qualification levels reduce with age. For example, 44% of thirty year olds have a degree but only 30% of 55-64 years olds have one.

At the same time there are fewer young people entering the labour market up to 2018. In 2021 the total number of 16 year olds is expected to be below current levels. In addition, the 'raising of participation age' will lead to reduced numbers of 16-18 years olds in employment.

**This means, as a country, we will be more reliant on our adult workforce to deliver the economic growth we need. It will primarily be adults' skills and capabilities that will either deliver or constrain growth.**

The adult unemployed account for 66% of the ILO unemployed – more than double the number of young unemployed. This should be the case given the range of years covered by 25 to 64 year olds compared to 18-24 year olds. Adults also represent the majority of the long-term unemployed at 63% of the entire total. 82% of those finding jobs from unemployment were aged 25 plus.

**The skills of the adult unemployed will become more important in tomorrow's labour market.** This should mean there will need to be a greater emphasis by BIS and DWP programmes on upskilling or re-training adults – fit for local economies.

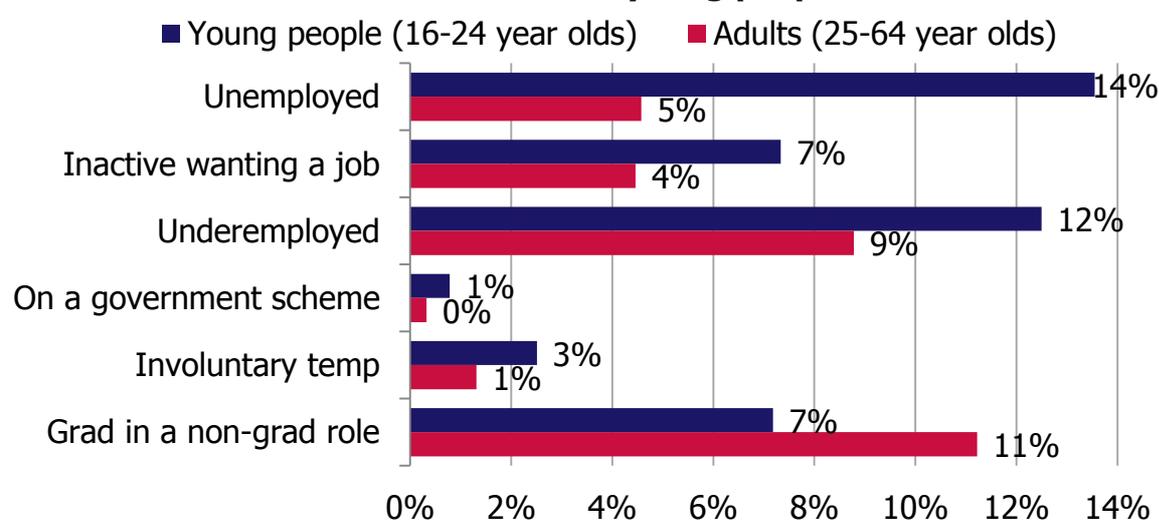
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<sup>10</sup> These projections take into account the changes to state pension age.

## Young people

Research for the LGA's Hidden Talents campaign has consistently highlighted the challenges faced by young people in the labour market. The most recent report examined the extent of under-employment<sup>11</sup> amongst young people. Chart 12 below shows the difference between young people and adults. The research for this report forecast that whilst **youth under-employment would fall, it would still be higher in 2018 than it was in 2005.**

**Chart 12: Total Hidden Talent amongst young people**



## Employers want higher qualifications

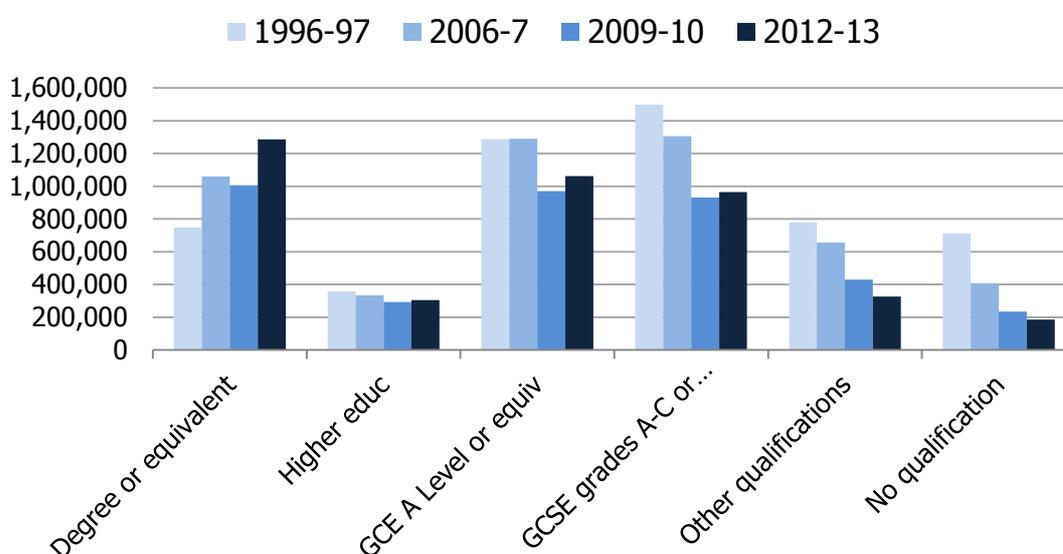
Over the last two decades, graduates are clearly doing better compared to all other qualification groups. Those with 'A' Levels (or NQF Level 3) are doing better than those with GCSEs (or Level 2), but both are dropping further behind graduates.

Chart 13 shows the qualifications of those people who have been recruited for each of the years given. It shows **recruitment of graduates now stands well above the recession and has increased steadily since 1996/7**. This is in contrast to those with low qualifications for whom hiring rates have consistently declined. This is reflecting the change in occupations over the same period – see Annex 2.

<sup>11</sup> Totalling Hidden Talent: youth unemployment and underemployment in England and Wales, LGA, June 2014

Overall, **employers are preferring to recruit people with higher levels of qualifications** for the jobs that are being created and this trend is forecast to continue. This will mean that those **local economies with fewer people with high qualifications may be disadvantaged in creating new jobs and attracting inward investment.**

**Chart 13: Hiring by qualifications**



Source: Inclusion analysis of the Labour Force Survey

### Are employers hiring the unemployed?

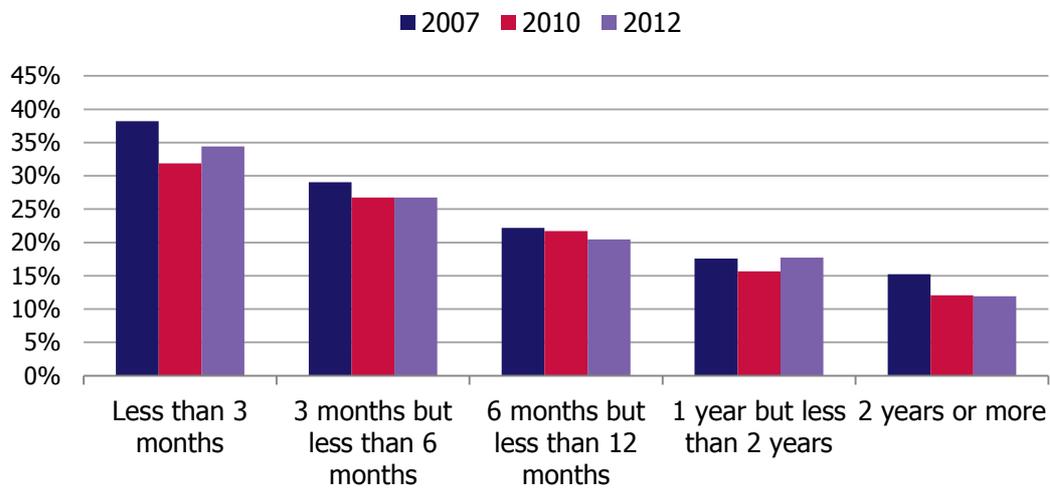
The hiring rate<sup>12</sup> for the long-term unemployed is very much lower than for the short-term unemployed. More than one-third of those who were short-term unemployed had jobs three months later. This declined to **one in eight** of those who had been unemployed for two years or more.

The hiring rate of the unemployed varies from around 18% (Merseyside) to almost 30% (East England and the South East). This means there are **significant differences in the strength of local labour markets** and this should mean that different responses are needed for how the unemployed are supported.

<sup>12</sup> The 'hiring rate' shows the percentage of the unemployed who start work in a three month period. A high percentage shows larger numbers of unemployed successfully competing for jobs.

The hiring rates of **economically inactive** people markedly decline with age. The 25-29 age group is the highest and will include some moving from education to employment. The hiring rates for over-50's (economically inactive) is just one-third of younger workers, however hirings for older workers now exceed pre-recession levels.

**Chart 14: Hiring rates of the unemployed by duration of unemployment**

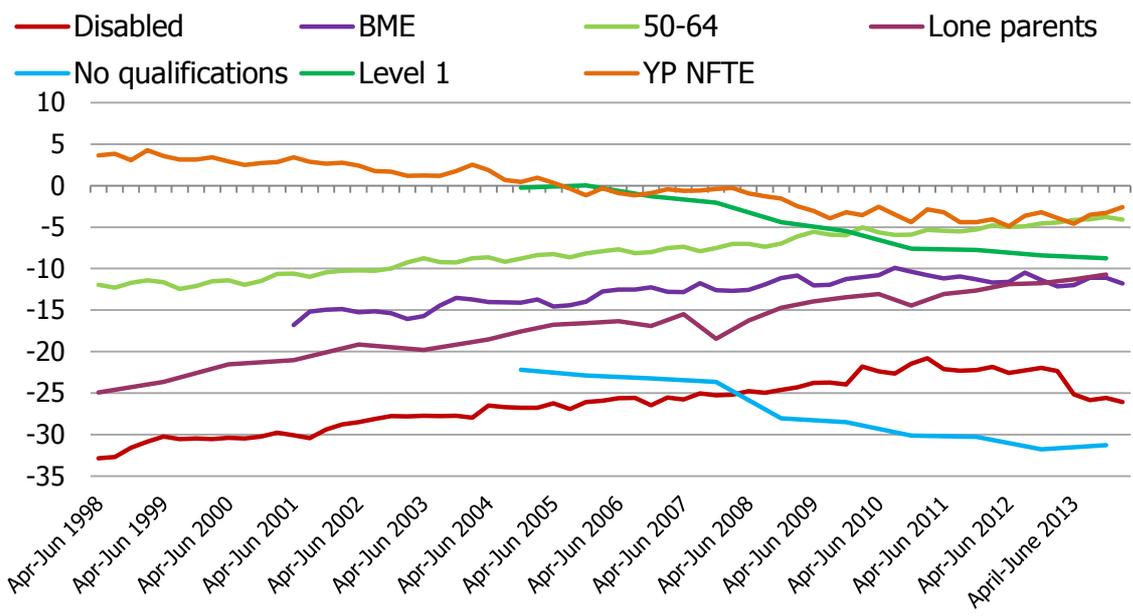


Source: Inclusion analysis of the Labour Force Survey

### Mixed picture for disadvantaged people

Disadvantaged groups are those that have had employment rates consistently below the national average. Chart 15 below shows the extent of the gap from the national employment rate. The success of over-50's can be seen clearly – almost closing the gap from a minus 12% deficit in the 1990's. Conversely young people (not in full-time education) have moved from a positive to a negative gap as a result of the recession. The sharpest deterioration has been for the low skilled. The Level 1 qualification rate has opened up a -10% deficit and those with 'no qualifications' always had a low employment rate but this has worsened to an almost -35% deficit.

**Chart 15: Employment rate gaps for disadvantaged groups**

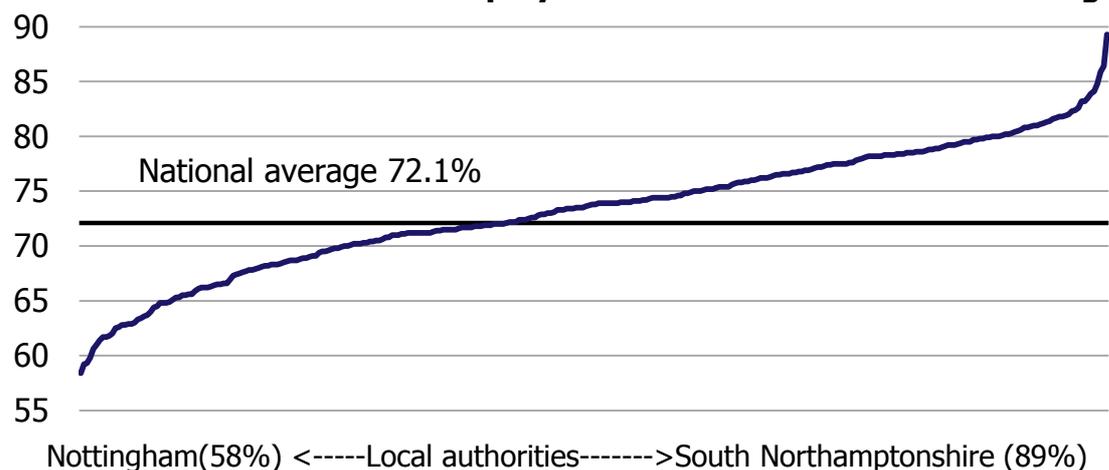


Source: Office for National Statistics, NOMIS and Inclusion analysis

## Closing the geographical gaps?

There are 134 local authorities with an employment rate below the national average and a group of 29 local authorities with an employment rate below 65%. The difference between **employment rates** in local authorities is stark with Nottingham at 58% and South Northamptonshire at 89% - a difference of 31 percentage points. The **difference in employment rates and labour market conditions across local authorities is clearly highly significant**, but local authorities have few levers to influence the nature of labour market interventions.

**Chart 16: Local Authorities employment rates – ranked lowest to highest**



Source: NOMIS (Annual Population Survey) and Inclusion analysis

Responding to the skills gap challenge cannot be solved by a national solution alone for upskilling everyone. Local economies have their own distinctive challenges governed by their:

- levels of employment, unemployment and economic activity;
- existing skills profile of the population;
- profile of benefit claimants, especially those on Employment Support Allowance;
- the nature of the spare capacity in the local labour market; and
- the growth and declining sectors in the local economy.

This reinforces the need to integrate provision at a more local level – driven by employer needs and the strategic economic priorities of local government and LEPs.

## **Age and Benefit claimants**

Too often the monthly unemployment and JSA figures mask the full scale of claimants on ESA which, in turn, masks the full extent of adults claiming out of work benefits. JSA is clearly a 'young persons' benefit – 26% are 18-24 and 52% are under 35. On ESA, just 8% are young people and 42% are over-50 (compared to 17% over-50 on JSA). In addition, of the remaining 500,000 still on Incapacity Benefit, 260,000 are over-50 years old.

Taken together there are:

- half a million 18-24 claimants, 70% on JSA
- 4 million over-25s on benefits, and three-quarters are on ESA.

This raises questions about how local government can be empowered to work more closely with health services to tackle barriers to work for people with disabilities and health problems.

## The delivery infra-structure

The employment and skills infra-structure, almost exclusively funded by central government, is supposed to play a critical role in improving the employability of the local workforce. The infra-structure controlled by central government consists of:

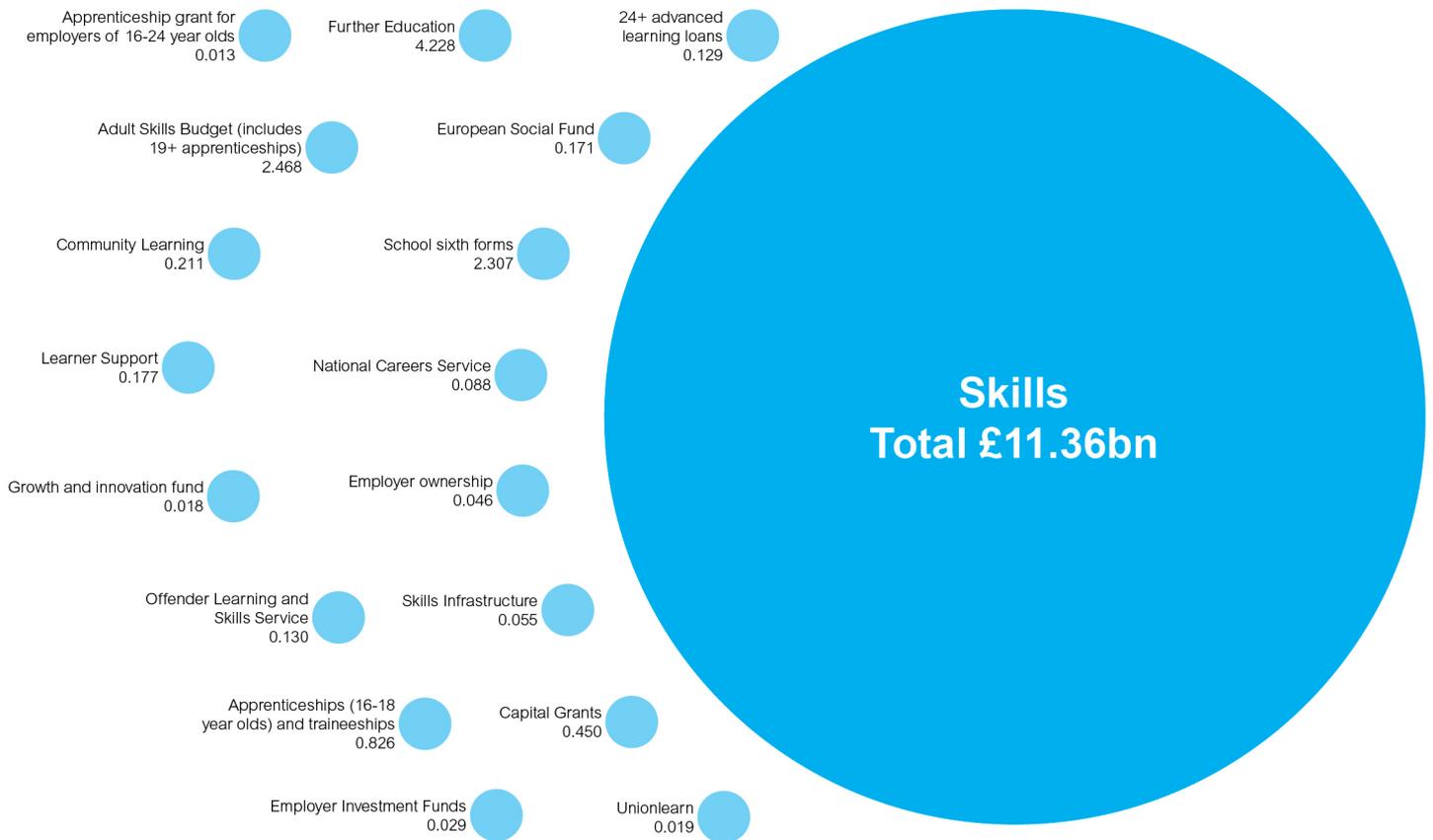
- Jobcentre Plus: administering most benefits; monitoring and improving jobsearch; recruitment support for local employers; managing the Flexible Support Fund; support to some Work Programme leavers.
- Department for Work & Pensions contractors: providing the Work Programme, Work Choice, Community Work Placement, and other programmes
- Skills Funding Agency: providing funding for adults (18 plus) in local colleges and providers of training; responsible for the National Apprenticeship Service and delivering apprenticeships and traineeships
- Education Funding Agency: providing funding for 16-19 year olds in colleges, providers, schools and academies
- National Careers Service: provides online and phone careers advice, and face-to-face interviews for 19 year olds and over.

In addition, some of the infra-structure is controlled or administered at the local level:

- Local authorities: manage Housing Benefit administration for DWP; control of Council Tax Reduction; delivers Troubled Families with CLG funding; responsible for public health; some local funding for targeted projects.
- Local Enterprise Partnerships: access to Growth Funds and support for Enterprise Zones; future responsibility of European funds for skills training.
- Clinical Commissioning Groups: increasing interest in work and health with some funding for related projects.
- Voluntary sector: often contracts to central and local government but provides some independent local projects and services, for example, funded through Trust funds and Big Lottery.

In addition, there are specialist services commissioned by central and local government that aim to improve employability of specific groups, for example, ex-offenders, drug and alcohol misusers. It adds up to a **complex mix of funding**

## Realising Talent



Infographic source: LGA 2014

**and agencies.** A new LGA report<sup>13</sup> has identified annual expenditure of almost £13 billion on skills and employment support going through 28 different programmes and budgets.

## The view from local government

As part of the research for this report, the LGA surveyed local authorities<sup>14</sup> to get their views on how national agencies and programmes are working in their areas. This was the first survey of its kind, so there was no benchmark for the results. The intention was to understand the extent to which local authorities felt that national agencies were responsive to local needs.

### Delivering outcomes?

Overall, 59% thought national commissioning by the Department for Work and Pensions (DWP), Skills Funding Agency (SFA) and Education Funding Agency (EFA) delivered 'good outcomes' to a 'small extent' (48%) or 'not at all' (11%). 39% thought that national commissioning delivered good outcomes to a 'moderate extent', but none thought that it delivered good outcomes to 'a great extent'.

Adults (25+) were felt to get less effective support. 54% thought that support for those aged 50+ was less effective than for other age groups, and this was 41% for 25-49 year olds. However, only 15% thought that support for 16/17 year olds was less effective.

Those groups that were thought to lose out the most from employment and skills support were claimants with complex needs, and those who are already in employment but want to progress (presumably reflecting an increased local concern about in-work poverty).

### Responsive?

Overall 66% felt that national commissioning was insufficiently responsive to local needs and 75% felt that they had little or no influence in commissioning local employment and skills provision. When it came to views on local government's ability to influence commissioning to suit changing local needs, 79% said that it was 'very or fairly difficult'.

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<sup>13</sup> *Fragmented Funding*, Shared Intelligence, commissioned by the Local Government Association, June 2014

<sup>14</sup> LGA Supply chain for skills and employment survey 2014 (due to be published at summer 2014 [www.local.gov.uk](http://www.local.gov.uk)). Data are based on responses from 56 out of 353 local authorities in England (16 per cent).

84% were critical of the local responsiveness of DWP programmes – 39% thought they were responsive 'to a small extent' and 45% 'not at all'. Whilst still critical, local authorities were relatively more positive about the Skills Funding Agency (66%) and the Education Funding Agency (53%).

However, local authorities were more balanced in their views of their local Jobcentre Plus. 48% thought they were responsive to a 'great or moderate extent', whilst 51% thought they were responsive to a 'small extent or not at all'.

Local authorities thought that employment and skills providers were more locally responsive, with almost two-thirds (61%) saying they were responsive to a 'moderate or great' extent.

### **The right match?**

82% thought there was a mismatch between local SFA funded provision and local employer demand. Whilst 33% thought that the SFA were responding 'moderately' to employer needs generally, 45% thought they were only responding to a 'small extent or not at all'.

### **The Work Programme**

33% were fairly satisfied or very satisfied with the support provided by the Work Programme and 47% were either fairly or very dissatisfied. There was a strong view that prime contractors and their sub-contractors did not engage sufficiently with local government – 67% thought they did not.

### **Information Advice and Guidance in schools**

There was a high level of dissatisfaction with the level of careers advice provided in schools – 88% were dissatisfied or very dissatisfied.

### **Local Enterprise Partnerships (LEPs)**

Local authorities were asked if they thought that LEPs and cross-authority working was leading to improvements? 49% thought they were and 29% thought they were not, with the rest (22%) saying they didn't know.

### **Devolving funds**

87% felt they had insufficient oversight or ability to hold providers to account and 84% wanted to see funding devolved to LEPs and/or groups of local authorities to

integrate employment and skills provision. However, 31% also supported national commissioning combined with consultation with local authorities.

## **Why local government should be concerned**

Local authorities are persistently attempting to ensure they are creating the conditions for a healthy local economy – one which enables local businesses to grow and to attract new inward investment. Most local authorities recognise that the well-being of their citizens is directly related to not just levels of employment, but also to the nature and quality of jobs available locally.

High levels of adult unemployment puts more pressure on local government services as well as other services, such as health. Adult unemployment is more likely to be related to high levels of child poverty with the pressures this brings on schools and Children Services. However, as highlighted recently by the Joseph Rowntree Foundation, the majority of people in poverty are now in work rather than out of work. This reinforces the need to help adults increase their earnings whilst in work and not only helping jobseekers.

There will be a greater incidence of workless households in high adult unemployment areas and these families often have multiple problems leading to high levels of public expenditure. The DCLG Troubled Families and the DWP ESF Families programmes are primarily targeted on these families.

Local authorities can have a strong influence through their planning and economic development powers to increase the attractiveness of their areas to business. However, local government is constrained in their influence on the labour market because:

- their boundaries often do not reflect local economies; and
- they have little or no influence over employment and skills budgets.

This is why new ways of working through Combined Authorities and Local Enterprise Partnerships will begin to break down these constraints – they are more likely to reflect functioning local economies and Community Budgets and City Deals demonstrate the extent of ambition and enthusiasm by local government to do more. LEPs are now being used to increase the local influence over skills funding and channel funds to the local level:

- European Social Fund (ESF) spending will be prioritised by LEPs from 2015

- skills capital spending will also go through LEPs
- some LEPs are the vehicle for some City Deals which include skills and support for unemployed
- the £2 billion Local Growth Fund is delivered through LEPs in response to local plans.

Whilst LEPs remain a fragile infra-structure with significant variation in quality, they will also be adopting new responsibilities that will have a direct bearing on adult employability.

## Implications and questions for local government

The future challenges that local economies will face are:

1. an **ageing workforce**, it will primarily be adults' skills and capabilities that will either deliver or constrain growth
2. re-claiming the **lost generation of young people by** providing better skills, improved guidance and new pathways to employment
3. achieving a **better local skills match** between publicly funded training and employer demand
4. further **improving the efficiency of the local labour market** by increasing information on jobs, education and training
5. making sure that **long-term unemployed people** and disadvantaged groups are not left behind
6. **integrating provision** at the local level – more effective and more efficient.

Meeting the challenges of the future will require a more robust and clearer partnership between central and local government. It will need clarity of the responsibilities and set out a national framework within which central and local government can work. This is why Local Labour Market and Skills Agreements, as being explored in the North Eastern LEP/NECA, could potentially provide a new way of working. The re-contracting of the Work Programme in 2016 also provides a good opportunity to explore how a more localised programme could work.

To take this forward there will need to be a wide acceptance within local government that the effectiveness of employment and skills support is critical to their local economies and reducing the social costs of unemployment and poverty.

Many local authorities have already demonstrated their willingness to meet the challenges and want new responsibilities, but this willingness and capability will need to work everywhere.

The government has established LEPs to bring business and local government together to decide priorities for local investment in both physical and human capital. Government now needs to reinforce their capacity to take further responsibilities both in policy and commissioning.

Finally, both local and central government need to be working together to shape how a reformed system could better work for local economies and people. Relevant government departments need an active dialogue with local government over the coming period – one which moves beyond the current phase of initiatives and considers wider and more extensive devolution. For its part, local government will need to develop its vision for the future – a task which the next reports in this series will turn to.

## **Centre for Economic & Social Inclusion**

July 2014

# Annex 1: Calculating the skills gap and impact on growth

## Calculating the skills gap

The UK Commission on Employment and Skills (UKCES) commissioned the Institute for Employment Research at Warwick University (IER) and Cambridge Econometrics to produce forecasts of employment demand in 2022 as the Working Futures 2012-2022 project. This is the fifth of a series of forecasts carried out every 2-3 years since 2002.

Working Futures 2012-22 produces estimates of employment numbers in 2022 by, among other analyses, qualification at national level, regional level and, by special licence, LEP level.

We estimated the 2022 employment by skills in the case study areas by taking the current case study area proportion of LEP employment and applying that percentage to the Working Futures LEP forecasts. For most case study areas, the local authority is a large proportion of the LEP area.

We estimated the skills distribution of the population in 2022 by 'bringing forward' the 2011 census pattern of qualifications to 2021. Those over 25 in 2011 were assumed to have reached their qualification level that applied in 2021, when they would be over 35. Those over 55 in 2011 were assumed to have retired in 2021. The qualification distribution of those under 35 in 2021 was assumed to be the qualification pattern of under-35s in 2013 (the latest figures) to apply to 2021.

As our source data for Census and 2013 data (Annual Population Survey) uses qualifications up to 'Level 4 and above', we have summed the Working Futures estimates for NQF Levels 4 to 8 to give a Level 4 and above figure. We have presented the charts as 'low skilled' - qualifications under Level 2 or none, 'intermediate skills' - qualifications from Level 2 to Level 3 including trade apprenticeships (which here are those with no equivalence level known), and 'high skilled' - Level 4 and above.

This produces Census based population estimates for 2021 (assumed similar to 2022) and Working Futures based employment estimates for 2022. For the skills distribution charts, we have presented these as percentages of the respective totals, and the skills gap as the difference between the percentages in the categories.

## **Estimating the impact of the Skills Gap on Gross Value Added**

We reviewed the economics literature that explores a relationship between skills and productivity. However, the models discussed in these academic papers also required information on capital employed per worker, information on which we do not have at local level. Our alternative method uses the following information:

- Qualifications distribution of the population and of those employed at NUTS3 geographical level.
- Productivity estimates per hour worked and per filled job at NUTS3 geographical level.

The NUTS3 geography is a statistical geography used by the EU to determine eligibility for structural funds. It normally covers historic counties and similar sized portions of cities

We estimate a summary 'average qualifications' measure, treating qualification levels as numbers.

We estimated two models relating the average qualifications level to the productivity per filled job estimates, based on the latest ONS figures. The best fit was a polynomial fit of cubic form. This reflects the same pattern that employment and pay show, with very low levels for low qualifications, a central portion where employment and pay rise slowly with rising intermediate qualifications, and high qualifications have high employment rates and earnings. We also tested a linear relationship, which was not as good a fit.

We applied the models (based on 134 NUTS3 areas) to the 2022 forecast population skills and employment skills patterns for the case study areas to generate a productivity per filled job estimate for each area. These were converted into GVA estimates by using the Working Futures based employment 2022 numbers.

The model used is a relatively simple one and the relationships identified are not perfect. Therefore, the estimates are indicative of the consequences of the skills gaps identified rather than fully verified.

## Annex 2: Changing Composition of Employment by Occupation

Employment Levels (000s)	1992	2012	2022	Net Job Change	Replacement Demand	Total	% share of total jobs	Cumulative total
1. Managers, directors and senior officials	1,882	2,889	3,401	512	1,204	1,716	14%	14%
2. Professional occupations	3,352	5,346	6,340	994	2,157	3,150	26%	40%
3. Associate professional and technical	2,560	3,624	4,130	506	1,339	1,845	15%	55%
4. Administrative and secretarial	3,778	3,163	2,737	-426	1,354	927	8%	62%
5. Skilled trades occupations	3,371	2,917	2,662	-256	985	730	6%	68%
6. Caring, leisure and other service	1,287	2,436	2,990	554	1,129	1,683	14%	82%
7. Sales and customer service	1,871	2,278	2,229	-48	804	756	6%	88%
8. Process, plant and machine operatives	1,999	1,671	1,497	-173	618	445	4%	92%
9. Elementary occupations	2,810	2,790	2,739	-51	1,030	980	8%	100%
<b>Total</b>	<b>22,909</b>	<b>27,113</b>	<b>28,726</b>	<b>1,613</b>	<b>10,620</b>	<b>12,233</b>		

## Annex 3: Qualifications Framework

Low = Entry to Level 1; Intermediate = Level 3; High = 4 and above

Level	QCF Qualifications examples	NQF Qualifications examples	Framework for Higher Education examples
Entry	<ul style="list-style-type: none"> <li>• Entry level VQs:</li> <li>• Entry level awards, certificates and diplomas</li> <li>• Foundation Learning Tier pathways</li> <li>• Functional Skills at Entry level</li> </ul>	<ul style="list-style-type: none"> <li>• Entry level certificates</li> <li>• Skills for Life at Entry level</li> </ul>	
1	<ul style="list-style-type: none"> <li>• Level 1 VQs:</li> <li>• BTEC awards, certificates and diplomas at level 1</li> <li>• Functional Skills level 1</li> <li>• OCR Nationals</li> <li>• Foundation Learning Tier pathways</li> </ul>	<ul style="list-style-type: none"> <li>• GCSEs graded D-G</li> <li>• NVQs at level 1</li> <li>• Key Skills level 1</li> <li>• Skills for Life</li> <li>• Foundation Diploma</li> </ul>	
2	<ul style="list-style-type: none"> <li>• Level 2 VQs:</li> <li>• BTEC awards, certificates and diplomas at level 2</li> <li>• Functional Skills level 2</li> </ul>	<ul style="list-style-type: none"> <li>• GCSEs graded A*-C</li> <li>• NVQs at level 2</li> <li>• Level 2 VQs</li> <li>• Key Skills level 2</li> <li>• Skills for Life</li> <li>• Higher Diploma</li> </ul>	
3	<ul style="list-style-type: none"> <li>• Level 3 VQs:</li> <li>• BTEC awards, certificates and diplomas at level 3</li> <li>• BTEC Nationals</li> <li>• OCR Nationals</li> </ul>	<ul style="list-style-type: none"> <li>• AS/A levels</li> <li>• Advanced Extension Awards</li> <li>• International Baccalaureate</li> <li>• Key Skills level 3</li> <li>• NVQs at level 3</li> <li>• Cambridge International Awards</li> <li>• Advanced and Progression Diploma</li> </ul>	
4	<ul style="list-style-type: none"> <li>• Level 4 VQs:</li> <li>• BTEC Professional Diplomas, Certificates and Awards</li> </ul>	<ul style="list-style-type: none"> <li>• NVQs at level 4</li> <li>• Key Skills level 4</li> <li>• Certificates of higher education</li> </ul>	<ul style="list-style-type: none"> <li>• Certificates of higher education</li> </ul>
5	<ul style="list-style-type: none"> <li>• Original NQF Level 4*</li> <li>• Level 5 VQs:</li> <li>• HNCs and HNDs</li> <li>• BTEC Professional Diplomas, Certificates and Awards</li> </ul>	<ul style="list-style-type: none"> <li>• Higher national diplomas</li> <li>• Other higher diplomas</li> <li>• NVQs at level 4</li> </ul>	<ul style="list-style-type: none"> <li>• Diplomas of higher education and further education, foundation degrees and higher national diplomas</li> </ul>
6	<ul style="list-style-type: none"> <li>• Level 6 VQs:</li> <li>• BTEC Advanced Professional Diplomas, Certificates and Awards</li> </ul>	<ul style="list-style-type: none"> <li>• National Diploma in Professional Production Skills</li> <li>• NVQs at level 4*</li> </ul>	<ul style="list-style-type: none"> <li>• Bachelor degrees, graduate certificates and diplomas</li> </ul>
7	<ul style="list-style-type: none"> <li>• Original NQF Level 5*</li> <li>• Level 7 VQs:</li> <li>• Advanced professional awards, certificates and diplomas</li> </ul>	<ul style="list-style-type: none"> <li>• Postgraduate certificates and diplomas</li> <li>• BTEC advanced professional awards, certificates and diplomas</li> <li>• Fellowships and fellowship diplomas</li> <li>• Diploma in Translation</li> <li>• NVQs at level 5*</li> </ul>	<ul style="list-style-type: none"> <li>• Masters degrees, postgraduate certificates and diplomas</li> </ul>
8	<ul style="list-style-type: none"> <li>• Level 8 VQs:</li> <li>• Award, certificate and diploma in strategic direction</li> </ul>	<ul style="list-style-type: none"> <li>• NVQs at level 5</li> </ul>	<ul style="list-style-type: none"> <li>• Doctorates</li> </ul>

