2. CONTEXT

Summary

International economic and employment trends
Major structural and economic changes have impacted on the demand for skills across all the developed economies. These global trends have been matched by global trends in education and training policy and delivery including: more diversified and flexible systems of delivery; and the decentralizing of decision-making.

Skills and productivity
A major driver behind the skills agenda in the UK is the need to improve productivity.

National trends in skills
Despite some recent improvements, the UK as a whole suffers from a relatively poorly skilled workforce, with weak performance in literacy and numeracy and a significant proportion with low or no qualifications. At the same time, the 'skill intensity' of employer demand is increasing [1], there is a shortage of craft and intermediate vocational skills and a mismatch between the demand and supply for skills at relatively low levels. Replacement demand in many occupations and sectors is often more significant than the growth in new jobs.

National policy on skills
The Government's National Skills Strategy clearly links skills with the need to improve the UK's productivity and competitiveness with the focus on a more demand-led approach. This represents a fundamental change in skills policy.

The National target structure
It is now widely acknowledged that many targets are in conflict and present a barrier to coherence and joint working at regional and local level.

Regional and local policy
Government policy on skills has placed an increasing emphasis on the role and importance of the regional and local levels as a locus of decision-making and action.

South West labour market context
The region has high degree of labour demand, a well-qualified workforce, and efficient and overall an equitable functioning between the demand and supply sides. Weaknesses lie in the low demand for high-level skills and the low skills equilibrium.

In this section, we consider the broad international and national economic trends that provide the backdrop for the skills market in the South West. We also examine the

[1] Campbell, M, *Learn to Succeed:The Case for a Skills Revolution*, Bristol:The Policy Press, 2002.

policy drivers at national, regional and local level within which the skills market operates. Finally, we will highlight the labour market context within the region.

2.1 International and national economic trends

2.1.1 International economic and employment trends

A range of recent International Labour Organisation (ILO) economic and employment reviews[2] have emphasised the importance of the rapid pace of globalisation and integration of world markets as a driver for skills. They report that the convergence of these trends is producing a widening gap in terms of countries' participation in the global economy and the benefits that countries, enterprises and individuals gain from this participation. A key conclusion is that the poorly educated and trained are generally the losers in the process of economic change, even in times of economic growth and lesser unemployment.

Within industrialized countries such as the UK, while total employment has increased recently, the patterns of employment have changed with labour markets becoming more segmented. The reviews point to the fact that employers have reorganized their personnel systems into components:

- fixed (primary or core); and
- variable (secondary or peripheral).

Most firms contain both primary (stable, career-oriented, male-dominated) and secondary forms of employment (characterized by high-turnover, little career progression and access to education and training). In the former type of jobs are workers with high skills, in the latter, those who have little or no education or possess only skills that have become obsolete. Labour markets are becoming increasingly 'hostile' for those employees with no or few skills, and increasing non-standard forms of work are making many employees more vulnerable.

The *Working Futures*[3] report sheds further light on the major structural and economic changes that have taken place over the past half a century, which have impacted on the demand for skills across all the developed economies. These changes have taken place as a consequence of a complex mix of interdependent factors, including:

- technological change;
- productivity growth;

[2] The Director General's "Decent Work" report (ILO 1999), recent World Employment Reports, the background report presented at the General Discussion on human resources training and development (ILC 2000).

[3] Wilson R, Homenidou K and Dikerson A, *Working Futures: New Projections of Occupational Employment by Sector and Region, 2002-2012Volume 1, NATIONAL REPORT*. IER, University of Warwick, Jan 2004. These series of reports provide an evidence base for the SSDA and LSC planning.

- international competition;
- globalisation;
- specialisation and sub-contracting;
- economic growth and the large increases in real incomes;
- dramatic shifts in patterns of expenditure.

Technological change	Major implications for industrial employment structure, as well as resulting in increased demands for IT skills across a range of sectors and occupations. As well as the development of new products and services, there has been an impact on ways of producing and delivering the services thereby impacting on employment (e.g. the impact of IT in the insurance and banking sector).
Productivity growth	Productivity is key to maintaining competitiveness and long-term sustainable economic growth, representing, as it does, the growth in the value of the goods and services produced per person employed.
International competition	A key feature of recent structural change, with many industries failing to keep pace with developments in other countries or to combat the cost advantages of low wage producers from overseas. The decline of the UK textile industry is a good example of this phenomenon.
Globalisation	This has become a major factor in recent years with many companies operating across international boundaries. This can both accentuate or moderate the forces of international competition, depending upon the locational choices made by such companies. The decisions of Toyota and Nissan to build factories in the UK (as well as the involvement of other international players such as Ford and BMW) is cited as one of the key factors in stemming the downward trend in the motor vehicles industry, which seemed in imminent danger of complete collapse only a few years ago.
Specialisation and sub-contracting	Including extension of supply chains, is also a key factor with both international and domestic dimensions to it. Many functions such as cleaning and catering, as well as higher-level activities such as research and development and design, have been hived off from the mainstream activities of many producers. This has, at the same time, accelerated the decline of employment in sectors such as manufacturing, while contributing to the growth of many parts of the service sector.
Economic growth	The associated increase in real disposable incomes has had a significant effect on patterns of expenditure. Many basic items now take up only a small part of consumers' budgets whereas there is more scope for spending on the outputs of producers of more luxurious goods and services.
Changing	These have also been influenced by technological changes, for

patterns of consumer demand	example the dramatic growth in air travel. Together, these changes have resulted in the demise of many major areas of employment in the UK. In particular, there have been dramatic job losses in: agriculture, forestry and fishing; coal-mining; and most parts of manufacturing. While these industries remain important in terms of output levels and in providing the foundation upon which much tertiary activity is based, they no longer employ large numbers of people. In contrast, there have been major increases in employment in many other areas. These include, especially, those sectors involved in processing and handling information, and those providing services to both consumers and businesses. Personal services, associated with tourism, leisure and the media, and health and education services have been particularly important for consumers, while for businesses, financial and accountancy services, as well as research design and development activities, have been key areas of growth.

Source: Adapted from *Working Futures: New Projections of Occupational Employment by Sector and Region.* IER 2004.

These global trends described above have been matched by global trends in the education and training policy and delivery as countries respond to these changes.

The ILO report, *Learning and Training for Work in the Knowledge Society*[4], presents a detailed review of the education and training policies in a wide range of developed and developing countries. It concludes that there are five major principles underlying the current laws and practices in the area of education and training:

- Establishing an 'enabling' environment that encourages investment in human resources development and training by all stakeholders;
- Developing an institutional framework for human resources development and training that is relevant to countries' social and economic context and level of development;
- Ensuring equal access to human resources development of training for all, irrespective of socio-economic and income status, ethnic origin, sex, age, income level etc.;
- Developing partnerships between various stakeholders in the delivery of learning, education and training programmes;
- Relying on learner-centred strategies and practices, more and more by harnessing information and communications technologies (ICTs);
- A shift to a more diversified and flexible system of delivery and away from supply driven delivery; and

[4] *Learning and Training for Work in the Knowledge Society,* Report IV, ILC 2003, International Labour Office, Geneva, 2002.

- The decentralizing of decisions on training closer to the economic demand and social needs, i.e. the regional, local and sectoral levels.

2.1.2 Skills and productivity

A major driver behind the skills agenda in the UK is the need to improve productivity. Here we look at the link between productivity and skills.

The Government's recent consultation on productivity benchmarking[5] states:

> *The Government's central long-term economic objective is to achieve high and stable rates of economic growth and employment. Increasing productivity is the driving force behind this, and the route to higher prosperity.*

The Government has identified 'five drivers' of productivity[6]:

- Investment
- Innovation
- Skills
- Enterprise
- Competition.

The Government's benchmarking report concludes that in the long term, it is only increases in productivity that can raise wages, profits and, ultimately, overall prosperity. It points to the historically weak performance of the UK in relation to productivity growth. A productivity gap opened up between the UK and the US at the beginning of the 20th Century, and with France and Germany by the 1970s. If the UK is to grow and maintain relative living standards, then it needs to address the long-standing structural problems that stop the UK from effectively utilizing its resources.

The Prime Minster's Strategy Unit Report, *In Demand: Adult skills in the 21st century*[7], also argued that UK skills underperformance makes a substantial contribution to the productivity gap with key competitor countries. It pointed to the "well-established relationship between skills and productivity, supported by both theoretical and empirical research[8]".

This report highlighted evidence which suggests that:

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[5] *Productivity in the UK 5: Benchmarking UK productivity performance*. DTI and HM Treasury, March 2004, p 5.
[6] *Productivity in the UK 1: the evidence and the Government's approach*, HMT, 2000.
[7] Strategy Unit, *In Demand: Adult skills in the 21st century, Part 2.* Nov 2002.
[8] Ibid, p7.

- Skilled workers can improve a firm's ability to update its practices and products at the rate demanded by rapidly changing markets, making the economy more flexible and productive in the long term;
- Having highly skilled workers also enables firms to reap the rewards of new capital investment, thus increasing the likelihood that investment will occur;
- Differing levels of skills play an important role in international productivity performance;
- At the level of the firm and plant, the differences in physical and human capital can explain around 60 per cent of the productivity gap between domestically-owned firms and US-owned firms in the UK, and nearly all of the gap with other foreign-owned firms; and
- Training is associated with productivity gains as well as wage gains, implying a significant return for both employers and individuals.

As the National Skills Task Force[9] report highlights:

> *Higher levels of skill benefit the individual, the firm and the economy. Higher skilled individuals earn more, are less likely to be unemployed and live longer. Higher skills, used effectively, raise productivity in firms. Countries with a preponderance of higher skilled people tend to have higher economic growth.*[10]

The recent Treasury report on benchmarking productivity[11] states that:

> *The link between higher skill levels and higher productivity is firmly established. A wide range of studies has considered the returns to education across many countries. These clearly demonstrate that higher levels of education are associated with higher productivity.*[12]

This finding is supported by research into individual firms which shows that those employing higher-skilled workers tend to be more productive than firms with lower skilled employees. The report also highlights that new developments in economic growth theory also point to the important role human capital can play in the sustainable long-term growth rate of the economy.

Recognising the importance of skills as a contributor to productivity, the Treasury's proposals for benchmarking productivity includes the following 'skills' measures:

- The stock of skills;
- The flow of skills; and
- Management skills.

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[9] National Skills Task Force, *Skills for All: Research Report of the National Skils Task Force*, DfES, 2000.
[10] Ibid. p 11.
[11] *Productivity in the UK 5: Benchmarking UK productivity performance*. HM Treasury, January 2004.
[12] Ibid, p49.

Stock of skills – up to a fifth of the UK's productivity gap with France and Germany is a direct consequence of lower skill levels in the UK[13]. Lower skill levels also play an indirect part in much of the remaining gap;

Flow of skills - research[14] suggests that job-related training can have a significant impact on productivity. Continuing education and training, outside compulsory formal education, also allows individuals to refresh or complement previous education and training;

Management skills – the report points to a number of recent studies which confirm the link between management quality and productivity. In his study of UK competitiveness[15], Professor Michael Porter recently identified management skills as an area for improvement, particularly at lower and middle management level.

This issue of the link between skills and productivity is an important one and one to which we will return in section 2.4 below and in our analysis of the South West skills market.

2.1.3 National trends in skills

Having looked at the international trends, we draw now on the national trends in the demand and supply of skills. The evidence[16] gathered to support the work of the SSDA and the SSCs identifies the trends and critical issues in the demand and supply of skills. These are highlighted below:

2.1.3.1 Skills supply

The critical issues in the supply of skills in the UK can be broadly characterised as follows:

- The UK as a whole suffers from a relatively poorly skilled workforce, although there have been some recent improvements. The proportion of adults qualified to level 2 is only around the OECD average[17], whilst the proportion of the workforce holding level 2 and 3 qualifications in the UK remains below that in France and Germany. The problem is particularly apparent amongst young adults[18] and in respect of vocational qualifications. The 'international skills gap' is at its most acute at level 3;

[13] O'Mahony & De Boer, *OECD Labour Force Statistics 1981 – 2001*, (2002).
[14] Dearden, Lorraine & Reed, Howard & Van Reenen, John, 2000. "*Who Gains when Workers Train? Training and Corporate Productivity in a Panel of British Industries,"* CEPR Discussion Papers 2486, C.E.P.R. Discussion Papers.
[15] M Porter and C Ketels, *UK competitiveness: Moving to the next stage,* Institute of Strategy and Competitiveness, Harvard Business School, Dti Paper #3 (2003).
[16] M Campbell and S Giles, *The Skills and Productivity Challenge: A summary of the evidence base for the SSDAs Strategic Plan 2003 – 2006*, SSDA 2003.
[17] OECD, *Education at a Glance – OECD Indicators 2001*, Paris: OECD, 2001.
[18] 19-21 year olds.

- International comparisons of literacy and numeracy also show a weak UK performance[19];
- Just over a third of the working age population in the UK have no qualifications or qualifications below level 2[20]. Over a third of British non-white economically active adults only hold qualifications below level 2. Given that ethnic minorities are expected to account for more than half of the growth of the working age population in the next 10 years, this factor is of particular concern[21];
- Nearly two fifths of adults in the UK have not participated in learning since they completed their full-time education;
- Unemployment rates are at a record low. However, the UK's unemployed represent a potential source of labour, yet this group suffers from a substantial skills deficit, lowering their employability and providing a potential constraint on economic expansion. Around a quarter of the unemployed in the UK and around a third of the economically inactive have no qualifications;
- Slow workforce growth[22] combined with continuing jobs growth indicates possible future labour and skills shortages. At the same time, the average age of the workforce is increasing and there is a falling proportion of young people coming into the labour market;
- The UK has one of the lowest participation rates in education at age 17 in the OECD with only Greece, Mexico and Turkey below us. Participation rates in higher education have also grown slowly since the late 1990s and still lag behind leading competitors such as the USA;
- Participation in training is a further issue of concern. Whilst the UK performs well in job-related education and training, compared to most OECD countries[23], the actual amount of time spent training is very low at only 2 days per year per workforce mode , the second lowest in the OECD[24];
- These patterns of training across the UK tend to reinforce existing inequalities in skills attainment, varying strongly with previous educational attainment. There is also uneven access to training semi-skilled manual workers and service workers, part-timers and older workers being less likely to train. Smaller employers' establishments are less likely to provide formal training than larger ones, especially off-the-job training. This inequality in training is cumulative – those who do not receive training in one year also tend to be excluded from it in future years.

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[19] OECD, *Literacy in the Information Age: Final Report of the International Adult Literacy*, Survey, Paris: OECD and Statistics Canada.OECD (2000).
[20] NS, 2002.
[21] Owen D, Green A, Pitcher J, Maguire M, *Ethnic Minority Achievements in Education, Training and the Labour Market*, DFES Research Report RR225, 2000.
[22] The workforce is expected to grow much more slowly over the next 20 years than the last 20.
[23] OECD, *Education at a Glance – OECD Indicators 2001*, Paris: OECD, 2001.
[24] Department of Trade and Industry (DTI), *Productivity and Competitiveness Indicators*, 2002, London: DTI.
O'Connell, P. J., *Adults in Training:An International Comparison of Continuing Education and Training*, CERI/WD (99) 1, Centre for Education Research and Innovation, OECD, Paris. 1999.

Moreover, there is a large minority of companies that does not train at all. Indeed, in England this amounts to 12% of employers[25].

2.1.3.2 Demand for Skills

The critical issues in the demand for skills in the UK are that:

- The occupational trends indicate that the majority of new jobs are likely to arise in professional, associate professional and technical and personal service occupations over the next 10 years;
- The 'skill intensity' of employer demand is increasing[26]. It is estimated that almost 80 per cent of the new additional jobs that are likely to be created in the period 2000–2010 in the UK will be at levels 3 and 4. This pattern of growth varies considerably by sector and occupation but overall, the abilities and capacities actually required for jobs are also increasing as is the need for a wide range of generic skills;
- The greatest growth is anticipated in corporate managers, professionals and associate professionals, accounting for around a third of all new job openings. However, a high proportion of managers lack formal qualifications and many undertake limited amounts of training. The International Institute for Management Development puts the efficiency of UK business leaders behind many international competitors (e.g. Germany, USA, Canada and France). Also sectoral expansion is most likely within professional services, distribution, banking and business services and health and education;
- There appears to be a mismatch between the demand and supply for skills at relatively low levels. This is the result of a decline in the numbers of people with low skills, which in some localities is outstripping the scale of loss in low skill jobs and the need to replace an ageing workforce. This is resulting in the underutilization of skills as workers take jobs for which they are formally over-qualified;
- Replacement demand in many occupations and sectors is often more significant than the growth in new jobs. Overall, some 11 million job openings will arise in this way over the next 10 years compared to around 2 million 'new' jobs. This is particularly the case in declining sectors and relatively low skill occupations. Over a quarter of the total future net job requirement will be for workers in skilled trades such as operatives and in elementary jobs[27];
- There is a shortage of craft and intermediate vocational skills with the largest proportions of skill shortage vacancies[28] in intermediate level jobs in skilled trades (e.g. in metals, electrical and construction) and associate professional and

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[25] Hillage, J. et al., Institute for Employment Studies (IES), *Employers Skills Survey 2002*, Department for Education and Skills report.
[26] Campbell, M*, Learn to Succeed:The Case for a Skills Revolution*, Bristol:The Policy Press, 2002.
[27] Wilson, R et al, *Projections of Occupations and Qualifications*, IER. 2001.
[28] Hillage et al. Employers Skills Survey, 2002; Hogarth et al. 2001, *Employers Skills Survey Statistical Report*, DfES.

technical occupations (e.g. in health and social care). In 2002 in England, these accounted for two fifths of all skills shortage vacancies – the highest proportion and substantially higher than their share of employment[29];

- The need for generic skills, such as literacy, numeracy, communication, problem-solving, team working and customer-handling, have been on the increase for some time but current supply is not matching demand. Generic skills are often cited by employers as an area where they experience difficulty in finding the right skill.

2.2 National policy

In the previous section, we highlighted the key skills issues facing the UK. In this section, we look at the national policy framework that has been developed to enable Government and its agencies to address these challenges. In doing so, we take an overview of the key policy drivers underlying the Government's skills agenda.

From the trends highlighted in section 2.1 above and the issues raised in the National Skills Strategy (*21st Century Skills*, DfES, 2003), a number of key external factors can be identified that influence skills policy drivers:

- Changes in global economic conditions;
- International competitiveness;
- Economic growth;
- Social exclusion;
- The knowledge economy.

2.2.1 Policy drivers

In response to these external factors, the Government is pursuing a skills agenda driven by five key themes.

- Increasing productivity and competitiveness;
- Labour market flexibility;
- Social inclusion;
- Modernising Government;
- Economic regeneration.

2.2.1.1 Increased productivity and competitiveness

In terms of the country's international competitive position relative to other countries, the drive is towards closing the gap between the skills level of the UK and its competitors. Most of the jobs lost to other nations have been relatively low-skilled

[29] Wilson, R, *Skills Deficiencies and Economic Performance,* 2001.

and are attracted away because of lower labour costs. If firms are to become more competitive, they need to move towards higher added value, higher skilled and higher paying activities. The knowledge economy, which exploits intellectual rather than manual endeavour to create economic value, will require increased productivity and competitiveness. This is likely to come from increased innovation, which is encapsulated in the drive for productivity and competitiveness.

2.2.1.2 Labour market flexibility

Flexibility within the labour market is required to ensure that the economy can respond to changes in economic conditions. If the labour force is flexible and able to respond to changes and opportunities, then economic growth should be more sustainable as workers redeploy or their jobs change within firms. Opportunities arising from changes in economic conditions can sometimes be missed or slow to emerge because a workforce does not have the appropriate skills required.

All too often, whole communities have been affected when the one major source of employment for which they are skilled disappears as a result of market changes or relocation of an industry to a lower cost labour force. The competitiveness of firms and of individuals in the labour force is enhanced if there is the flexibility to change and adapt quickly as new opportunities arise.

2.2.1.3 Social inclusion

Social exclusion is a key challenge facing society. Those without skills for life will become further excluded from society. The belief that employability is the best way of tackling social exclusion is a key element of the Government's skills agenda. The policy driver of social *inclusion* through employability is in direct response to the potential for social *exclusion* caused by the low-skill, low-pay equilibrium that exists and the divide between the skill-rich and the skill-poor.

2.2.1.4 Modernising Government

This policy drive is seen as an important step in making the public services that support skills development more responsive in the face of changing economic conditions, the desire to lift the competitiveness of the nation and contribute to economic growth, and the move towards a knowledge-based economy. In these respects, the Government, its departments and agencies act as facilitators to enable employers and individuals to develop their skills in the right direction.

Much emphasis to date has been on laying the foundations for improvement; delivering tangible benefits from modernisation has yet to be realised.

2.2.1.5 Economic regeneration

The inequitable distribution of wealth across the country has resulted in significant pockets of deprivation. The drive to regenerate economically deprived areas, often in response to industrial decline bought about by changes in the global economy, has close links with the skills development agenda. Part of the balance of regeneration is to ensure that regional and local labour markets have the range of skills, or abilities to gain those skills, to meet the requirements of new and revitalised sectors. This brings focused resources into these areas, with special funding to help individuals not in work to acquire the skills for employment and to help those with low skills to acquire higher skill levels to improve their economic position.

Regeneration schemes, such as the development of science parks, can lead to new innovative companies and joint projects with the HE sector emerging which help develop the country's international competitiveness. These developments often require the kind of higher level skills and provide high paying jobs that the Government wants to encourage in its drive to respond to international competitiveness and moves towards a knowledge economy.

National policy on skills

These national policy drivers have led to a number of key policies and strategies being developed since 1997.

Recent UK policy on learning and skills is encapsulated in a number of key policy documents and legislative changes. Since 1997, the Government's overall policy framework on learning and skills has been defined by: the Green Paper, *The Learning Age* (DfEE, 1998); the White Paper, *Learning to Succeed* (DfEE, 1999); the reports of the National Skills Task Force*;* the *Learning and Skills Act 2000*; the Government Policy Statement introducing the new arrangements for Sector Skills Councils, *Meeting the Sector Skills and Productivity Challenge* (DfES, 2001); Skills for Life (2002) aimed at improving adult skills for life; and the White Paper, *14-19: extending opportunities, raising standards (DfES, 2002).* Perhaps the most far-reaching change to the existing infrastructure of educational institutions is the commitment of government to increase HE to the point where 50 per cent of the age group participate.

In broad terms, the objective of government policy on learning and skills since 1997 has been to:

- Increase participation and attainment rates among 14-21 years olds in schools, colleges and universities;
- Tackle deficiencies in skills for life within the workforce;
- Use educational opportunities as both an incentive for, and requirement of, moving people 'from welfare to work' via various New Deal initiatives;
- Encourage employer investment in people in order to move a greater proportion of the nation's goods and services into 'high added value' and/or 'quality assured' categories;
- Provide on-line learning 'access points', especially through the University for Industry.

More recently, the Government has published a range of policy documents which has taken forward the proposals and themes of the Strategy Unit's report, *In Demand: Adult skills in the 21st century*[30]*,* the Government's workforce development strategy. This strategy attributes the UK's skills problems to a mix of economic, social, historical and cultural influences. The problems also arise in part from a number of potential skills market failures that have not been adequately addressed by governments or other actors in the past. These include: perceptions of poaching; costs of training; imperfect information and difficulty in predicting skills requirement in a dynamic economy.

It also highlighted the problem of the UK's 'low-skills equilibrium'. Though not typical of all sectors of the economy, the 'low-skills equilibrium' occurs when employers perceive a low supply of skilled workers. This in turn forces employers to opt for low-skilled methods of production, adopting product strategies and market positioning that require low skills. That results in a low demand for skilled workers and workers perceive little benefit in up-skilling. Under these conditions, not only are employers discouraged from innovating but they adopt narrow competitive strategies, lacking flexibility and responsiveness to changes in the market.

In response, the Workforce Development Strategy proposes a "radically different strategy for skills". The core principle underlying the strategy is the need for a more demand-led approach where the demands of employers and employees drive the provision of development for the workforce. The emphasis, though, is on business need and activities which improve the productivity and employability of the individual.

It recommended three approaches:

- *Stimulating demand* – developing a demand-led approach; stimulating employer demand; and stimulating individual demand;
- *Increasing capacity on the supply side and improving quality;*
- *The development of a clear government framework* – improving LMI and joining up at the national, regional and local level.

The Workforce Development Strategy stresses that skills cannot be seen in isolation:

- Raising demand for higher skills rests crucially on the ability to stimulate higher value-added, innovative business and workplace strategies more generally. This cannot be achieved by workforce development alone but needs to run alongside strategies for investment, business development and innovation;
- Workforce development is also part of the wider social agenda to promote the flow of skilled people into the workforce, through young people, labour market returners and immigration.

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[30] Strategy Unit, *In Demand: Adult Skills in the 21*st *Century,* A Strategy Unit Report, 2002.

These approaches are clearly articulated in the most recent government policies described below.

21st Century Skills: Realising Our Potential (2003)[31] is the Government's National Skills Strategy and its lead skills policy. It is its strategic response to global trends, and clearly links skills with the need to improve the UK's productivity and competitiveness. The focus on a more demand-led approach recognises the conclusion of the workforce development strategy and represents a fundamental change in skills policy.

It seeks to:

> *…ensure that employers have the right skills to support the success of their businesses, and individuals have the skills they need to be both employable and personally fulfilled.*

The strategy aims to:

- Improve the UK's productivity and standard of living…to achieve rising prosperity and a better quality of life, with economic and employment opportunities for all;
- Build a better society by helping people gain the skills to work productively in the private, public and voluntary sectors, supplying the goods and services people want;
- Help individuals acquire and keep developing the skills to support sustained employability, more rewarding lives, and a greater contribution to their communities.

Underpinning this are five themes:

- Putting employers' needs centre stage;
- Helping employers use skills to achieve more ambitious longer-term business success;
- Motivating and supporting learners;
- Enabling colleges and training providers to be more responsive to employers' and learners' needs;
- Joint Government action in a new Skills Alliance (see section 2.3 below).

One of the crucial steps in achieving a more demand-led approach is to stimulate employer demand for skills. A range of actions are proposed including:

- Promoting demand for workforce development through SSCs and gathering evidence to bolster the business case;

[31] DfES, *21st Century Skills: Realising our potential, Individuals, employers, Nation*, DfES, 2004.

- Promoting skills through better management and leadership;
- Promoting the role of skills in benchmarking indexes;
- Taking forward the development of Human Capital Accounting;
- Developing the Investors in People (IiP) Standard and other awards;
- Taking a more strategic approach to communications and marketing;
- Developing a clearer Information, Advice and Guidance (IAG) infrastructure, including a look at the feasibility of setting up a helpline for employers; and
- Developing tools for workforce development advisers and other intermediaries.

Other plans for raising individual demand and breaking down the barriers to workforce development are detailed. A key strand is the Employer Training Pilot.

2.2.3 Success for All (2002)

Government has recognised that raising demand for skills must be underpinned by a supply side which can deliver what is needed when it is needed flexibly and to a high standard. This in turn implies a funding system which incentivises the outcomes sought.

This also means building the capacity of the sector – public, private or voluntary – to deliver in future with particular regard to the potential of new technologies.

A key element of this part of the strategy is the *Success for All* strategy for reform of further education. In November 2002, Charles Clarke, Secretary of State for Education and Skills, announced an extra £1.2bn to be invested in further education over the next three years[32]. However, in announcing the funds, he made it clear that this investment would need to be matched by tough reform of the sector to raise standards.

The Government's strategy for the reform of the learning and skills sector (the supply side) has four strategic themes:

- Meeting needs, improving choice;
- Putting teaching, training and learning at the heart of what we do;
- Developing the leaders, teachers, lecturers, trainers and support staff of the future;
- Developing a framework for quality and success.

[32] Total funding for further education is set to rise by 19% in real terms, and total funding per student will rise by 7% in real terms, by 2005-06.

The Secretary of State set out proposals for raising standards, improving outcomes and increasing participation across post-16 learning in a strategy document – *Success for All*[33].

The additional funding signals a number of changes:

- Colleges to have three-year funding deals allowing them to plan on a longer-term basis. Targeted funds for pay and staff training to be consolidated into core funding, boosting it by at least 3.5 per cent - the aim is to reduce bureaucracy and devolve decision-making to the front line;
- Resources to be allocated based on a performance agreement with each college;
- Excellent colleges to receive higher funding while poor performing colleges will get a lower amount but extra support until they improve;
- Capital funding across the further education and training sector, e.g. for buildings and infrastructure, to rise by over 60 per cent in real terms to over £400 million by 2005-06 compared with 2002-03;
- A programme of training and support for teachers and trainers in the sector with funding rising to over £100m a year by 2005-6.

In return for this, Government has made demands including:

- A new approach to funding which rewards colleges that deliver targets for student numbers, improve success rates, meet employers' needs and provide clear incentives for all college staff to improve services;
- Greater specialisation with more distinct provision for 16-19 year olds, and 400 Centres of Vocational Excellence (CoVEs) to meet employers' skill needs;
- Raising the number of fully-qualified teachers, managers and leaders in the sector and ensuring better rewards for high performing staff; and
- A major programme of teacher training starting in 2002/3 covering science, construction and business studies together with the introduction of Curriculum Online across the sector.

2.2.4 The Future of Higher Education (2003)

The Government's Higher Education strategy has the headline aim that:

> *…by the end of the decade, 50% of 18-30 year olds should have the opportunity to benefit from Higher Education.*

All these key policies in one way or another are in response to the national skills policy drivers set out above. Collectively, they articulate the Government's skills

[33] *Success for All*, Department for Education and Skills, November 2002.

agenda and strategies for action, and set the context for regional and local skills policy.

2.2.5 The National target structure

Underpinning Government policy is a range of targets and other external controls aimed at driving up performance. Public Service Agreements (PSAs) have played a key role, alongside increasing investment and independent inspection, in focusing effort on outcomes and raising standards overall.

Yet whilst PSAs and national targets are important in driving up performance, problems occur when the targets of the different departments and agencies are in apparent conflict. Nowhere is this more visible than at the regional and local levels. The recent *Devolving Decision Making Review*[34] has cast important light on this issue.

As part of that review, the Government has invited RDAs to work together to identify the top ten institutional barriers that they believe are hindering effective co-ordination of policy decisions and service delivery in the regions. In doing so, the RDAs were asked to look at the extent to which the current target framework, lines of accountability, number of funding streams and central guidance are restricting the ability of the RDAs and their partner organizations to deliver.

Many of the representations from the regions focused on the need to ensure that the regional and local institutions can work closely together to provide a genuinely joined-up approach to improving economic performance[35]. Taking this on board, the review has identified that changes are required to promote:

- *More flexible institutions* - ensuring the right institutions are in place at the right level with the right powers and accountability to allow them to exploit indigenous strengths and tackle particular weaknesses;
- *Innovative and responsive policy design* - ensuring that policy design is exercised at the level where market failures in product, capital and labour markets are most effectively tackled; and
- *A robust regional evidence base* - policy must be firmly and demonstrably based on evidence and supported by relevant and reliable data.

Two direct consequences of this review were:

- The announcement in the Budget 2004 of Government's intention to devolve regional and local Business Link services to the RDAs, with a framework for

[34] *Devolving decision making: 1- Delivering better public services: refining targets and performance management*. HM Treasury and Cabinet Office, March 2004.
[35] *Devolving decision making: 2 - Meeting the regional economic challenge: Increasing regional and local flexibility*. HM Treasury and Cabinet Office, March 2004.

setting national standards and services to be developed with SBS, the RDAs and other Government departments funding business support; and

- Announcing in Budget 2004 its commitment to address any institutional barriers identified by the Regional Skills Partnerships to creating an effective and integrated approach to regional skills delivery, taking into account the balance with national policy.

One important example of the problems of tensions between national targets was highlighted by the recent National Employment Panel Skills Advisory Board Report, *Welfare to Workforce Development*[36]. It pointed to the policy tensions between the targets of the two leading Government Departments responsible for skills:

- *Department for Work and Pensions' (DWP) principal aim is to maximise the number of people - particularly the disadvantaged - who get work.* Jobcentre Plus's performance, therefore, is measured against job entry numbers. While this is an effective driver for achieving immediate outcomes, it does not reflect the longer-term goal of helping individuals to stay in employment, increase productivity and progress over time.
- *DfES's aim is to help people increase their skills and productivity. A critical measure for the LSC, then, is the number of individuals who gain qualifications.* Qualifications are an essential means of certifying that individuals have certain skills, knowledge and competence, thereby increasing their ability to navigate successfully the labour market. But for job seekers, qualifications do not guarantee that the training is relevant and likely to lead to employment. For employers, the measure may fail to reflect the actual skills that are needed to meet their human resource requirements.

The tension between these two target regimes - and its impact on customers - was evident throughout the Panel's discussions with the LSC, Jobcentre Plus and provider staff and they concluded that:

> *It is very clear to us that shared objectives between the key departments and the major delivery agencies - the LSC and Jobcentre Plus - are crucial to achieving effective, integrated services, directing resources efficiently and – more fundamentally - securing the promise of the Skills Strategy*[37]*.*

The report also highlights the fact that DfES and DWP have been discussing, with the Department of Trade and Industry (DTI) the possibility of the following shared objective to express their common interests:

> *To achieve a more flexible labour force and a more productive economy by improving the acquisition and effective use of skills at all levels.*

[36], *Welfare to Workforce Development.* National Employment Panel Skills Advisory Board Report, 2004.
[37] Ibid, p1.

But shared objectives need to be underpinned by performance indicators which will drive the behaviour of the key institutional partners: the LSC, Jobcentre Plus and their providers (see section 2.3 below).

The report therefore *recommends:*

that the shared objective should be underpinned by the following key performance indicators for both Jobcentre Plus and the LSC:

- *job entry rates;*
- *skills and qualifications achieved;*
- *retention in work (as distinct from retention in work with an individual employer);*
- *wage at entry (as higher wages are linked to sustainable employment and are the best proxy for the economic value that an employer places on a job).*[38]

2.3 Regional and local policy

In addition to articulating national priorities and targets, Government policy on skills has placed an increasing emphasis on the role and importance of the region and local levels as a locus of decision-making and action. As well as delivering the national policy agenda, some of the key partner organisations, the LSCs and Jobcentre Plus for example, are also required now, through the National Skills Strategy, to feed into and complement the delivery of the overarching economic strategy for the region; the RDA's Regional Economic Strategy (RES)[39].

The RES is very much focused on increasing productivity across the region to feed into the Government's policies to raise the nation's productivity and competitiveness and improve social inclusion.

The RES, published in 2003 and continuing to 2012, has three Strategic Objectives:

- To raise business productivity;
- To increase economic inclusion;
- To improve regional communications and partnership.

The RES identifies skills and learning as one of three key economic drivers within the region, the other two being innovation and enterprise, and the environment. Whilst it suggests the region has a relatively skilled and qualified workforce, there are variations across the region, especially in the west of the region and the inner-city areas, and there is acknowledgement of skills shortages adversely affecting productivity.

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[38] Ibid, p2.
[39] *Regional Economic Strategy for the South West of England*, 2003-2012, South West RDA, 2003.

As such, the strategy deals with skills issues as a priority with a number of actions:

- To raise business productivity is the strategic action to: Develop a skilled and adaptable workforce (Strategic Objective 1). The two priorities for this action are to:
  - Improve skills and learning;
  - Deliver a coherent skills development framework focused on the needs of industry.

- To increase economic inclusion is the strategic action to: Accelerate economic participation by working locally to stimulate employment and business start-ups (Strategic Objective 2). Two priorities for this action pertaining to skills are to:
  - Raise individuals' aspirations and skills for work;
  - Ensure that there is equality of access to work, training and business services.

The action to deliver a coherent skills development framework is being carried out through the FRESA which shares its vision with the RES. The FRESA, which essentially sets out how all the key regional partner organisations will act together to address skills issues, is seen as a key policy tool by the Government in delivering its skills agenda within the regions and locally.

The South West FRESA has a vision that by 2012 the South West will have:

- A high productivity, high wage economy, with high employment sustained over the course of the economic cycle;
- An enterprising and innovative economy where change is welcomed as part of a commitment to continuous improvement;
- A high skills economy, where everyone has opportunities to develop their skills and realise their full potential; and
- An economy where there are equal opportunities for all and all those who want to can find work, free from discrimination.

The FRESA strategic objectives and actions are detailed below:

- *FSO1: Engaging Employers: To increase participation in skills development in the South West*
  - *Develop employers' commitment to skills development;*
  - *Co-ordinate workforce development;*
  - *Promote management skills;*
  - *Integrate* sector skills activities within the region.

- *FSO2: Inspiring Individuals: To raise individuals' aspirations and skills for working in the South West*
  - *Stimulate individuals' commitment to training;*
  - *Raise the standards of skills for life;*
  - *To develop generic skills for employment.*

- *FSO 3: Working for a Natural Balance: To develop the efficient and inclusive working* of the South West Labour Market
  - *Provide a coherent skills development infrastructure;*
  - *Maximise access to jobs and skills development;*
  - *Encourage effective recruitment practices;*
  - *Stimulate and support investment;*
  - *Respond* to labour market emergencies.

(A review of the FRESA Objectives has been undertaken as part of this review and in the context of the analysis of the skills market. This can be found in section 5 below).

The role of the region has been strengthened recently with the introduction of a 'requirement' in the National Skills Strategy for the key skills bodies to co-ordinate their efforts in tackling skills issues on a regional and local basis. This will be further developed with the introduction of the new Regional Skills Partnerships to be known as the South West Enterprise and Skills Alliance (SWESA) in the South West region.

These moves to co-ordinate policy at the regional level combine to highlight the Government's thrust to modernise the public services and deliver joined-up Government.

> *Regional Skills Partnerships (RSPs) will play a vital role in forging stronger partnerships between the organisations responsible for delivering adult education and training, business support, employment and productivity. In particular, they will agree priorities to guide the planning of these organisations in order to meet longer-term skill requirements. They will be central to stimulating collaboration and innovation across institutional boundaries; removing barriers to increased integration of services; and increasing the synergies that may be gained through closer collaboration*[40]*.*

It is this move to create cohesion within the skills sector that can be seen as the main policy thrust on skills in the region and locally. All other strategies, plans and actions are regional or local interpretations of national policy.

The National Skills Strategy, *21st Century Skills*, provides a good overview of how the Government sees the skills agenda being tackled at a regional level. It is clear that RDAs, supported by regional Government Offices, are the lead agencies for co-

[40] *Welfare to Workforce Development*, National Employment Panel, 2004, p6.

ordinating the various partner organisations and activities to meet regional skills issues.

The National Skills Strategy states the aim to:

> *…ensure maximum flexibility and discretion at the regional and local level to innovate, respond to local conditions and meet differing consumer demands.*[41]

Whilst the Government gives a helpful explanation in the National Skills Strategy of the primary roles of each of the main partner organisations, distinguishing between their national, regional and local roles, it does not prescribe how partnerships will be formed and act.

Cohesion and co-ordination of the regional and local delivery of national skills policies is arguably the fundamental regional and local issue to address and get right if the regional skills policy drivers below are to be addressed.

One of the areas which has come under scrutiny in the recent National Employment Panel report is the relationship between the LSCs and Jobcentre Plus. The Employment Panel recognised that, whilst the regional level is important, local markets are essentially local and that at that level, better co-ordination is required between these two principal agencies.

The National Employment Panel report goes on to recommend that:

- Each LSC Executive Director and Jobcentre Plus District Manager agree an annual delivery plan that sets out the key employment and skills priorities for the two organisations;
- This delivery plan should describe their respective contributions to meeting the shared target for people on benefit achieving Levels 2 and 3;
- The joint delivery plan should be developed in collaboration with the local Business Link organisation and relevant Skills for Business representatives, and should be set within the context of the regional skills framework and the StARs.
- Systems to minimize bureaucracy.

In the light of the national policy context, and the National Skills Strategy in particular, the broad key policy themes that drive skills development activities in the South West can be identified as:

2.3.1 Regional Skills Policy Drivers

- Raising productivity through innovation and business support;

[41] Skills Strategy, p 6.

- Reducing skills gaps in the workforce;
- Raising the skills levels of the working age population;
- Raising the demand for skills from employers;
- Improving the quality of the supply side.

These policy drivers influence the strategies and delivery plans of the various partner organisations involved in the skills sector regionally and locally, and together through the FRESA should compliment the delivery of the RES, and in doing so, contribute to the Government's skills agenda.

But these are things that must be achieved if the regional and local skills development agencies are to play their part in delivering the Government's skills agenda. It is the legislative and resource capabilities available to these agencies that are brought together to provide the policy levers that will facilitate this. These policy levers can be summed up as:

2.3.2 Policy Levers

- Responding to employers' skills needs;
- Encouraging and supporting investment in skills;
- Re-engaging non-learners;
- Reforming the supply side;
- Integration and joint planning.

These policy levers have been identified through the National Skills Strategy and relate to the essential activities for skills development. It is acknowledged that other cross-cutting levers could perhaps be listed here, such as those relating to sustainability, the environment, equality, etc. However, to keep this analysis focused, the list above will be considered as the common theme policy levers the agencies contributing to skills development need to use in order to deliver on the regional skills policy drivers above. As explained later in section 4.2, these levers can be considered as the regional skills remit for all the agencies involved in skills development in the South West.

2.4 South West labour market context

Two important studies conducted alongside this review have provided a strong contextual basis of the review of the skills market. The first: *Employment, Learning and Skill in South West England*[42] (the Spilsbury report); and the second, *South West Healthy Labour Market Review*[43] (HLMR) were also commissioned by the SWREF

[42] Spilsbury, *Employment, Learning and Skills in South West England*, SLIM, May 2004.
[43] IES, *South West Healthy Labour Market Review*, to be published June 2004.

and provide an insight into the operation of the labour and skills market. By way of context for the analysis that follows, we draw out some of the key issues and conclusions of those studies.

The Spilsbury and HLMR reports share a number of conclusions and can broadly be summarised below:

- *Economic growth* - The UK and South West economies continue to do well in terms of GDP and employment growth and it is expected that this will continue at least in the short term. Whilst the relative economic performance of the South West is below that of the UK average, the UK average is heavily distorted by the performance of London and the South East. Within this regional average there are substantial sub-regional variations.

- *Labour market participation* - The South West appears very healthy in terms of the efficient and equitable functioning of the labour market, with a high employment rate. The South West has one of the highest employment rates within the UK, with 80 per cent of people of working age being in employment and small differentials in employment rates by gender, disability and ethnicity. The region also enjoys a low unemployment rate, which is expected to remain stable at relatively low levels when compared with recent historical experience. However, for employers in particular sectors and areas the outlook is more pessimistic.

- *Employment growth* - There is a generally optimistic picture emerging for the labour market in that over the next 12 months, 38 per cent of employers expect to increase employment[44], with 57 per cent expecting no change. Only four per cent of employers expect a decrease; and IER forecasts suggest that over the next 10 years it is expected that an additional 120,000 jobs will be created in the South West.

  At the same time, it is forecasted that by 2021 the population of the South West will have increased by 490,000, (almost entirely due to in-migration into the region). However, the changing age structure of the population is also important. The number of those aged over 60 in the region is forecasted to increase by 444,000 (an increase of 37 per cent) – increasing the extent to which the region is already a relatively 'aged' area. The number aged 20 – 59 is also set to increase by 103,000 (an increase of four per cent), which (given the wide range of error which surrounds these forecasts) is roughly equal to the number of additional jobs forecast (120,000).

  Perhaps more important is that the nature of these jobs is changing rapidly: Over the next 10 years in the South West, there will be an extra 149,000 jobs in the top three occupational groups, which nearly all require degrees for entry. At the

[44] NESS 2003.

same time, there will be a decrease of 63,000 in the bottom two occupational areas – those that require the least levels of qualifications. Although the issue of replacement demand means that the demand for jobs at this lower end of the market will not disappear completely, there is no denying that the labour market will require ever-more supplies of highly qualified people.

The region scores fairly well on the share of high-level occupations, lagging behind London, the South East, and the Eastern region, but considerably ahead of all other regions[45]. The region is also mid-range on indicators of employment in key sectors, average earnings, and with regard to geographical equity. When looking at both average earnings and employment in high technology and knowledge intensive sectors, the South West is behind London, the South East, and the East of England, and is similar to other regions outside of the south and east of the country.

- *Skills of the workforce -* The South West has one of the most highly qualified workforces in the UK, with a quarter having qualifications at Level 4 or above. Those in work are more likely to have high levels of qualifications than the unemployed and inactive. 30 per cent of those not working do not have any qualifications compared to 13 per cent of those working. Amongst those in work, the higher the level of occupation, the higher the level of qualification. As the average age of people increases, it becomes less likely that they will have qualifications. However, despite this ‘cohort effect’, there is a surprisingly high proportion (25 per cent) of the youngest age group who have no or very low levels of qualifications.

- *Skills shortages and gaps* - The region also scores well in terms of the incidence of external skills shortages and internal skills gaps. The South West has the equal lowest incidence of internal skills gaps as a percentage of employment, along with London, the South East, the North East, and the North West. The region also has the lowest incidence of skills shortage vacancies as a percentage of all vacancies, although this needs to be considered alongside a high proportion of hard-to-fill vacancies. It may be that employers in the South West are interpreting the causes and implications of hard-to-fill vacancies in a different way to employers elsewhere in the country. It may also reflect businesses in the region operating in a low-skill equilibrium and having little difficulty meeting their (modest) skill needs from a well-qualified workforce. Employers have locked themselves into a product and services market which requires a lower balance of skills which the South West population is more than able to supply. This argument would suggest that there are not any particular skill-related shortages (either in recruitment or skill gaps) because the level of skills required is low.

[45] The position of London, and to a lesser extent that of the South East, is a long way ahead of the rest of the country and has a distorting affect on the national average.

The Spilsbury report concludes that expectations of a tight labour market are not borne out by the data and whilst the South West has all the indications of a tightening labour market, it exhibits none of the outcomes of such a tightening that may be expected: hard-to-fill and skill shortage vacancies and skill gaps. For instance, rates of vacancies and skill gaps are low, with considerable slack in the market. Whilst economic activity rates are high, nearly one in four of those who are currently not in paid work would like a job in the next 6 months. The qualifications of the working age population exceed those which are required by the jobs in the region (as estimated by Local Futures). On paper, the analysis suggests there is currently an under-utilised stock of qualifications, with a fifth (19 per cent) of those working in the region believing they are over-skilled for the job that they do, with 17 per cent feeling over-qualified.

- *Regional disparities* - Wide variation in the fortunes of the region is also evident, with a buoyant north and east, and a much less prosperous west of the region. On indicators such as output per head and earnings levels, Bristol and Swindon and their surrounding areas are closer to the averages for the South East than those for the South West. By contrast, the performance of Cornwall, and to a lesser extent Devon, is closer to, or even worse than, the worst performing regions in the country on many of the indicators. While the region does not have excessive inequalities in unemployment and earnings between its local authority districts, there are nevertheless fairly large differences in labour market characteristics between the north and east of the region, and the west. It has low scores with regard to recent job growth, raising questions as to whether the overall high levels of employment experienced in the South West are sustainable, and with regard to labour productivity in terms of gross value added per hour worked, suggesting that many businesses in the region are operating in low value added segments of their markets and in a low-skill equilibrium.

- *R & D and business generation* - The South West's record with regard to expenditure on research and development is fairly good. Expenditure as a proportion of regional GVA is slightly above the national average and similar to the proportions in the East Midlands and the North West, although below those in the East and South East regions. However, there is a higher than average expenditure by government, and a lower than average expenditure by HE in the South West, compared with the national average.

  Its performance in terms of net business generation is less good. Although the region has a high rate of business generation as measured by VAT registrations, behind London, the South East and Eastern region, its rate of de-registrations is higher, resulting in a net loss of businesses. In terms of the numbers of businesses lost, the region is second only to London and Wales. This does not take account of the high number of businesses in the region that are below the VAT threshold.

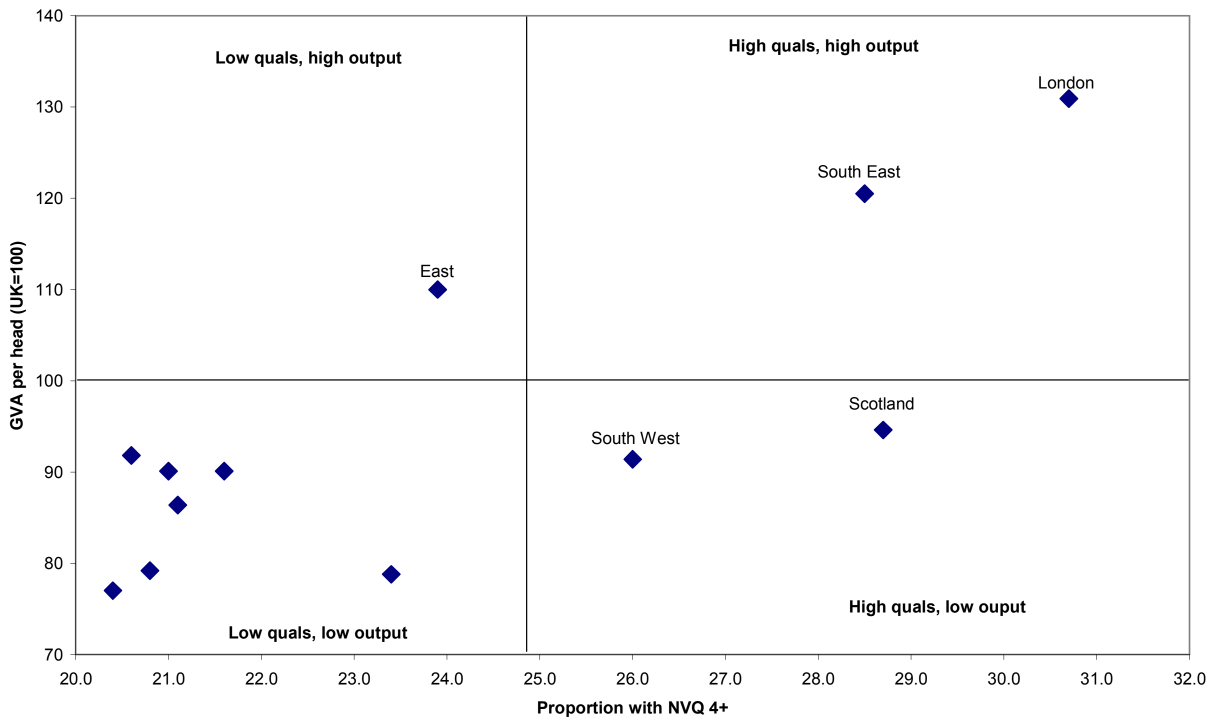
The South West has a diverse economic base and is one of the UK's least specialized regions. It can lack the basis to form clusters which can form higher value-added sectors.

- *Productivity* - The South West has the lowest level of productivity, as measured by both gross value added per filled job and gross value added per hour worked, of all regions in the country except Northern Ireland[46]. This relatively low productivity, coupled with other evidence such as low output per head, employers reporting few skills gaps within their workforces and little difficulty recruiting the skills they need from the external workforce, suggest that businesses in the region are operating in a low-skills equilibrium. This poor performance is worrying given the fact that the region has one of the more highly qualified workforces of the UK regions. One would expect the level of qualifications of the workforce to be related to the skills of the workforce, which in turn would feed into productivity of the workforce and ultimately the output of the economy.

  It would appear that employers in the region are not utilising the good availability of skills in the region to improve their performance, and ultimately the performance of the region.

[46] It should also be noted that the UK performs relatively poorly in comparison with many of its international competitors in terms of productivity.

Figure 1: *Proportion with high level qualifications against GVA per head*



Source: Labour Force Survey from IES*, Healthy Labour Market Review, 2004* HMLR, 2004

- *Conclusions:* The HLMR concludes that the health of the region's labour market across a range of labour market themes shows a picture of a region with a high degree of labour demand, a well-qualified workforce, and efficient and equitable functioning between the demand and supply sides. In terms of these themes, the South West performs better than all other regions in the country with the exception of the South East. The conclusion of most concern in terms of the analysis of the skills market is the issue of the low-skills equilibrium.

The data tells us that the labour market is healthy and in balance but this should not provide grounds for complacency. We need to know more about the nature of the businesses in the region and whether they are at the low value added end of the scale. More detailed regional inter-sectoral comparisons are also needed to highlight where the weaknesses lie.

In the skills market analysis in the following section, we examine in more depth some of the issues around the demand for, and supply of, skills in the region and the issues that they raise for policy and planning.