



**South West
Observatory
Skills & Learning
Intelligence Module**

Marchmont Observatory, University of Exeter

South West Healthy Labour Market Review 2005 Report

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South West Observatory - Skills and Learning (SLIM)

'the key co-ordinator, assembler, analyser and disseminator of skills and learning information in the South West'

The Skills and Learning Intelligence Module (SLIM) provides a source of robust and accessible evidence on the skills and learning needs of individuals and businesses across the South West. SLIM seeks to inform policy decisions, funding programmes, organisational and partnership strategies and individual projects. The development of SLIM has been driven by the growing emphasis on the region as a focus for promoting sustainable economic and social development and a national emphasis on evidence-based practice.

SLIM offers a range of services to capture, synthesise and disseminate knowledge on skills and learning:

- It develops knowledge management systems, including on-line databases of research and data.
- It drives discussion and analysis of this information through e-newsletters; a quarterly Bulletin; on-line discussions; workshops and thematic reports.
- It offers individual advice and analysis through a help-desk and through direct working with the South West Regional Development Agency and Regional Assembly.
- It undertakes and commissions research to support the work of partner organisations in the region.
- As a module of the South West Regional Observatory, it will increasingly work with the other modules to contribute to an holistic understanding of the region's path to sustainable development.

SLIM also supports the work of the South West Enterprise and Skills Alliance (SWESA), the Regional Skills Partnership in the South West region. It does this in its role as secretariat to the SWESA Research Forum where it works in partnership to support the evidence base for the SWESA. SLIM is responsible for managing the SWESA Research and Knowledge Development Fund.

SLIM is part of the Marchmont Observatory, based at the School of Education Lifelong Learning and Education at the University of Exeter, and is a module of the South West Regional Observatory.

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EXECUTIVE SUMMARY

This South West Healthy Labour Market Review 2005 was commissioned by the South West Enterprise and Skills Alliance (SWESA) and produced by the Skills and Learning Intelligence Module (SLIM). It provides part of the evidence base in support of the work of the SWESA and is one of four elements of the overall 'Balanced Scorecard' for reviewing SWESA progress.

This report presents the findings of the 2005 review on a range of labour market indicators. The indicators are grouped under three broad headings:

- **Broad outcome indicators** – which can be monitored to inform the performance of the regional economy, but over which organisations involved in delivering the SWESA are likely to have little direct influence;
- **Closer to policy indicators** – which can be monitored to inform the performance of the regional strategy, and over which the organisations involved in delivering the SWESA may have some influence;
- **Learning and training indicators** – which may be directly manipulated by organisations involved in delivering the SWESA.

Data were collected from a wide range of nationally available secondary data sources to make comparisons across all of the regions, and also across sub-regions within the South West. Where relevant, time series analysis, international comparisons and information from survey and qualitative sources have been included.

BROAD OUTCOME INDICATORS

Output and productivity

Within the framework of output and productivity indicators measured, the performance of the South West is between average to below average. In terms of output, the South West economy is the sixth largest of the nine English regions. Evidence shows the region has experienced some growth in output between 2000 and 2003. However, output gaps are substantial with London and the South East and relatively large with the North East and the East of England. Under measures of labour productivity, the region shows average performance in terms of GVA per hour worked, ranking it in fifth place amongst the other English regions, whilst performance in GVA per filled job is poor. Significant disparities exist across the region, with the north and east of the region significantly out performing the west of the region. Foreign direct investments and exports appear low although there is evidence that exports are increasing.

Economic activity

The region continues to function both efficiently and effectively with a high employment rate and high and growing levels of employment, low levels of unemployment, and small differentials in employment rates by gender, disability, and ethnicity. However, as with the geographical disparities evident in the indicators of productivity and output, there are significant disparities within the region in terms of employment, unemployment and wage rates.

The industrial profile of employment is broadly similar to the national picture with employment primarily concentrated amongst service-related industries. Employment in this sector is likely to increase, whilst employment decreases are forecast within primary, secondary and manufacturing industries. The agriculture, wholesale and retail, hotels and restaurants, and public service industries in the region employ marginally more people compared to national averages.

The occupational profile of the region also reflects that which is seen nationally although there is more employment in the region amongst skilled trades, and marginally more in elementary occupations and personal services. Employment increases are forecast amongst the higher skilled occupations such as managers and senior officials, professional and associate professional occupational groups, and decreases amongst elementary, administration and secretarial, skilled trade occupations, and process, plant and machine operatives. However, despite these structural changes in employment, replacement demand is of greater significance resulting in net employment requirements across all occupational groups.

Population and migration

Recent growth in population size in the South West is likely to be as a result of inward migration. In the three months to June 2004, the South West had a net influx from other UK regions of 7,867 people, the highest additive influx of any UK region. The South West is a comparably ageing region with a higher proportion of its residents aged 50 and over than any other region in England. The older population is also increasing at a faster rate in the South West than for England as a whole. This trend, coupled with falling economic activity rates once people reach 50 years, is likely to be a significant issue for the region in terms of both economic functioning and pressure on resources.

CLOSER TO POLICY INDICATORS

Business generation, enterprise and innovation

The review of the closer to policy indicators shows the South West has a relatively healthy level of business functioning. The region has a high level of entrepreneurial activity, a better than average rate of business survival, and a high level of technology and innovation related business start-ups. In general, business start-ups reflect the industrial pattern of employment in the region with marginally more compared to nationally in agriculture, hotels and catering, and construction.

In terms of R&D expenditure, the region performs somewhere between average and poor, although the data available to measure R&D may not reflect all of the activity taking place in the region. R&D expenditure by businesses in the region is below the national average. Activity by government is average and although the lowest of the southern regions, expenditure is higher in the South West than any of the regions towards the northern half of the country. Expenditure by HEIs in the region is the second lowest of the English regions.

Vacancies

The evidence from the 2003 National Employers Skills Survey shows that the South West has, as a proportion of total vacancies, the highest proportion of hard-to-fill vacancies and the lowest proportion of skills shortage vacancies of any English region. This may suggest that there is under-developed demand from employers in the region for the skills that are available. This is also reflected in the greater number of vacancies for elementary than managerial occupations. Skills shortage vacancies for skilled trades are also particular to the South West.

Labour Market Turnover

In terms of labour market churn, the South West labour market has a high unemployment outflow rate, and an unemployment inflow rate somewhat lower than the average. Both of these contribute to the region's low unemployment rate. Recent data on inflows of new vacancies suggests that the region has a high rate of vacancy formation compared to other regions. The analysis suggests that the South West sits slightly above the average of UK regions in terms of the efficiency of the labour market. The South West scores highly in terms of how quickly workers move from one job to another (a high rate of reallocation). This in part is due to high representation of high turnover industries in the region.

LEARNING AND TRAINING INDICATORS

Participation in learning

Under measures of learning and training, the South West is generally performing well. The region has a high level of participation in learning and training amongst both young people and adults.

Workforce qualifications

The working age population is well qualified with the economically active population more so, and the number of people with higher-level skills is growing. However, participation and attainment is not uniform across the region. For example, the far west of the region tends to have lower levels of attainment than those seen towards the north and east of the region.

Skills for Life and low skills

Within the South West, 14 per cent of adults surveyed were classified at Entry level 3 or below and could be described as lacking basic literacy. This is slightly lower than the national average and places the region just behind the East of England and the South East. While figures for the South West are lower than average, they still suggest that there are large numbers of adults for whom basic literacy is problematic.

IN CONCLUSION

This analysis of the health of the South West Labour Market across this range of labour market themes paints a picture of a region which continues to enjoy a high degree of labour demand, a well qualified workforce, and efficient and equitable functioning between the demand and supply sides of the market. On these indicators, this region appears to be more 'healthy' than any other region with the exception of the South East.

Yet despite this relatively rosy picture, a number of indicators point to the fact that the region is operating in a low-skills equilibrium. Productivity is low, and lower than one would expect given the region's highly qualified workforce. Employers report few skills gaps within their workforces, and little difficulty recruiting the skills they need from the external workforce.

A significant problem is presented by the markedly differing fortunes of the region. Low output per head, low earning levels and relatively high unemployment dominate the picture for the west of the region, while the reverse is the case for the north and the east of the region.

Changes in key indicators between the 2004 and 2005 Reviews

2004 Baseline HLMR Position		Changes in 2005 Review
Broad Outcome Indicators		
<i>Economic Activity</i>	<p>High employment, a high number of jobs per working age resident and relatively self-contained.</p> <p>Low levels of unemployment and long-term unemployment. Small differentials in employment by gender, disability and ethnicity.</p> <p>Over-representation of distribution, hotels and restaurants, and the public sector. Under-representation in financial intermediation and business services. Occupational structure similar to the national picture.</p> <p>Employment in knowledge-intensive sectors is below average.</p> <p>Full-time earnings below average.</p>	<p>Employment rate no change. Slight increase in employment growth.</p> <p>Unemployment rate no change. Rise in numbers of benefit claimants.</p> <p>Above national average declines—agriculture, utilities, transport and communications. Below national average - manufacturing. Declines in line with national average – financial intermediation. Increases above national average – retail, hotels and restaurants, public administration, education.</p>
<i>Output & Productivity</i>	Low productivity and large divide between the north and south of the region.	5.9% growth in total GVA, above average growth. 5.3 % growth in GVA per head. Move from 6 th to 5 th position in GVA per hour.
<i>Population & Migration</i>	One of smallest regions in population terms. Oldest age profile of all regions.	Highest net influx of people of any UK region.
Closer to Policy Indicators		
<i>Businesses Generation, Enterprise & Innovation</i>	<p>High rate of business generation.</p> <p>Above average R&D expenditure. Expenditure by HE is low.</p>	<p>Increase in registrations.</p> <p>Slight increase.</p>
<i>Vacancies</i>	High proportion of hard-to-fill vacancies. Lowest proportion of skills-related hard-to-fill vacancies. Low proportion of employers reporting skills gaps.	No new data to assess change. NESS 2005 will allow review in 2006.
<i>Labour Turnover</i>	High degree of labour market flexibility.	No change.
<i>Redundancies</i>	One of lowest redundancy rates in UK.	No new data to assess change.
Learning and Training Indicators		
<i>Participation</i>	<p>High staying on rates for young people.</p> <p>High adult participation in learning.</p>	<p>No change.</p> <p>Small decline but no real long-term change.</p>
<i>Qualifications</i>	Highly qualified workforce.	Increase in NVQ 4 and 3. Decrease in NVQ 1 and no qualifications. Small increase NVQ 2 but long-term trends suggest figures to be relatively stable.
<i>Skills for Life</i>	Proportion of adults with literacy needs below national average. Those with numeracy problems above nat. average.	No new data to assess change.

1 INTRODUCTION

1.1 PURPOSE OF REVIEW

Welcome to the 'South West Healthy Labour Market Review 2005'. This report was commissioned by the South West Enterprise and Skills Alliance (SWESA) and produced by the Skills and Learning Intelligence Module (SLIM).

Developing a robust evidence base for the policies and actions of the SWESA is of critical importance. It ensures that the skills and enterprise agenda for the region is grounded in an understanding of the operation of the labour market, through a detailed analysis of key labour market indicators.

The analysis presented in this report is largely statistical, and based on robust national data sources. Yet, statistics are open to interpretation: they can provide a useful indication of current and future trends but they cannot accurately predict future needs and directions. Understanding the impact of these trends for policy actions therefore requires ongoing debate and discussion.

This Report is therefore a contribution to an annual review process that engages academic experts, policy makers and SWESA partners in assessing the health of the labour market and the impact of policy activities.

1.2 BACKGROUND

The South West Healthy Labour Market Review (HLMR), first commissioned in 2004 by the Framework for Employment and Skills Action (FRESA)¹ partners, put forward the following definition of a healthy labour market:

A healthy labour market adapts smoothly to change to ensure the most effective balance between jobs and skills needed for the development of a diverse, innovative and productive economy, and the number and skills of people available for work. The most significant features of a healthy labour market are:

- *A market which functions efficiently and equitably to match demand with supply*
- *A strong demand for labour, in terms of the quantity and quality of jobs generated by the labour market*
- *A strong supply of labour, in terms of the numbers and characteristics of people available to take jobs*
- *A market in which there are appropriate supporting conditions for education, training and workforce development, welfare benefits and childcare provision; and adequate provision of housing, employment, land and transport infrastructure.*

¹ In February 2002 DTI, DWP and DfES instructed the English regions to develop FRESAs. Their guidance stated that a FRESA should be 'a single plan based on coherent, valid and accessible labour market and skills information and intelligence. It will give focus to what needs to happen in the region to maintain and grow a healthy labour market'. The South West FRESA was launched in November 2002. It explains how the goals set out in the Regional Economic Strategy will be achieved through coordinated skills and employment related activity. South West FRESA available from: <http://www.southwestrda.org.uk/skills/fresa.shtml>

The Healthy Labour Market Review Group (HLMRG) took forward this definition and developed a framework for analysing the health of the labour market which grouped together indicators. The model distinguished between the broad outcome indicators, which can be monitored to inform the performance of the economy, and the closer to policy indicators, that can inform the performance of the strategy.

The new Regional Skills Partnership, the SWESA has continued this commitment to reviewing the health of the labour market in the region and thereby commissioned this report. The SWESA has also created the South West Impact and Performance Group (SWIP)² to replace the former HLMRG, and it is this group which has overseen the production of the 2005 Review.

1.3 METHODOLOGY

1.3.1 Structure

In approaching this review for 2005, a number of evolutionary changes have been made and as a result several departures are evident from the 2004 report. The structure of the review framework forming the basis of this report is detailed in the table below.

TABLE 1: Review Structure

Closer to Policy Indicators		Broad Outcome Indicators	
<i>Business Generation, Enterprise & Innovation</i>	Business generation & start ups	<i>Output & Productivity</i>	Output
	Business survival		Labour productivity
	R&D expenditure		Capital productivity
<i>Labour market turnover</i>		<i>Economic activity</i>	Economically active population
<i>Redundancies</i>			Employment status
<i>Vacancies</i>	Hard-to-fill & skills shortage vacancies		Employment structure
	Occupations & vacancies	Unemployment	
	Internal skills gaps		
Learning and Training Indicators		<i>Population & migration</i>	Population
<i>Participation in learning & training</i>	16-18 participation rate		Migration
	Apprenticeships		
	Adult participation		
	Participation in HE		
	Destinations of graduates		
	Graduate labour market		
<i>Workforce qualifications</i>	Qualification of working population		
	Qualifications of economically active		
	Knowledge intensity		
<i>Skills for Life & low skills</i>	Skills for Life		
	NEET		

²The South West Impact and Performance Group (SWIP) is a sub group of the SWESA Research Forum, which is responsible for providing the evidence base in support of the work of the SWESA. The SWIP Group was formerly the HLMRG.

These changes and developments from the 2004 Report³ are as follows:

Broad Outcome Indicators

- The 'Productivity' section of the 2004 report has been expanded to include 'Output and Productivity in the Region'. Productivity measures are also discussed in the form of both labour and capital productivity.
- The 'Output and Productivity' section, includes a new indicator of *foreign direct investment*, as this forms part of the productivity discussion.
- The 'Structure' and 'Employment' sections of the 2004 indicator framework have been amalgamated to form an 'Economic Activity in the Region' section. This new section has been divided into:
 - the economically active population
 - the employment structure
 - unemployment

Closer to Policy and Learning Targets

- The 'Rapid Functioning' section of the 2004 report has been divided into: 'Business Generation, Enterprise and Innovation'; 'Labour Market Turnover' and 'Redundancies'.
- The 'Skills' section has been re-titled 'Vacancies and Skills'.
- The 'Learning Targets' section has been re-titled 'Learning and Training Indicators'. It encompasses the employer training indicators previously located in the 'Skills' section. This section also contains additional information on HE in the region, qualifications of the economically active population, Apprenticeships, and the NEET group.

1.3.2 Data sources and issues

This report uses national data sources that enable the key labour market indicators to be updated and reviewed annually. The majority of data used within this report are sourced from national data monitoring bodies such as the Office for National Statistics (ONS) and the NOMIS data service and are referenced accordingly. The main data sources are as follows:

- i. Annual local area Labour Force Survey (LFS) via the NOMIS data service
- ii. Annual Businesses Inquiry (ABI) via the NOMIS data service
- iii. ONS annual Statistical First Releases
- iv. HM Treasury
- v. South West Regional Development Agency (SWRDA)
- vi. Small Business Service (SBS)
- vii. South West Business and Economy Module
- viii. Institute for Employment Research (IER)
- ix. New Earnings Survey (NES) via the NOMIS data service
- x. Unemployment benefit claimants via the NOMIS data service
- xi. Incapacity benefit claimants via the NOMIS data service
- xii. NHSCR via the NOMIS data service
- xiii. National Employers Skills Survey (NESS)
- xiv. Learning and Skills Council (LSC)
- xv. Department for Education and Skills (DfES)
- xvi. Connexions Service
- xvii. Higher Education Funding Council for England (HEFCE)

³ For a table with the 2004 structure see Annex 1.

- xviii. Higher Education Statistics Agency (HESA)
- xix. Institute for Employment Studies (IES)
- xx. South West Skills for Life Unit
- xxi. Organisation for Economic Cooperation and Development (OECD)

It is in the nature of much of the available data that analysis is invariably historic and therefore not necessarily an accurate predictor of the current or future position. And, whilst some employment forecasts are used in this report, data confidence issues necessarily restrict the accuracy of the forecasting. Those data sets used in the employment forecasting and those used as stand-alone data sets are subject to statistical error. As a result, any small changes in data year on year are likely to be insignificant. Forecasts are based upon the assumption that historic economic trends will continue. As such they should be construed as benchmarks from which alternative scenarios may be approached.

It should also be noted that there are significant issues surrounding the limitations of both the availability and accuracy of output and productivity-related data. This has been documented in the recent publication of the *Allsopp Review*⁴.

The information is presented throughout the report in narrative and graphical format. The data tables upon which the figures are based will be available online at <http://www.swslim.org.uk/labourmarket/data/index.asp> from mid July 2005.

⁴ Allsopp C, *Review of Statistics for Economic Policy Making – Final Report*, HM Treasury, March 2004.