

4 THE REVIEW – CLOSER TO POLICY INDICATORS

This chapter focuses on the Closer to Policy indicator labour market themes. These may be distinguished from the Broad Outcome indicators to the extent that the SWESA and its partners are able to influence some aspects of the labour market through policy initiatives and/or interventions.

However, it is important to note that the process of identifying specific policy actions that correspond to each of these themes will be a complex one, and there will often be interactions between specific policies and other closer to policy indicators. In reality such policy initiatives and interventions may have only limited influence over these themes.

4.1 BUSINESS GENERATION, ENTERPRISE AND INNOVATION

4.1.1 Business generation and start-ups

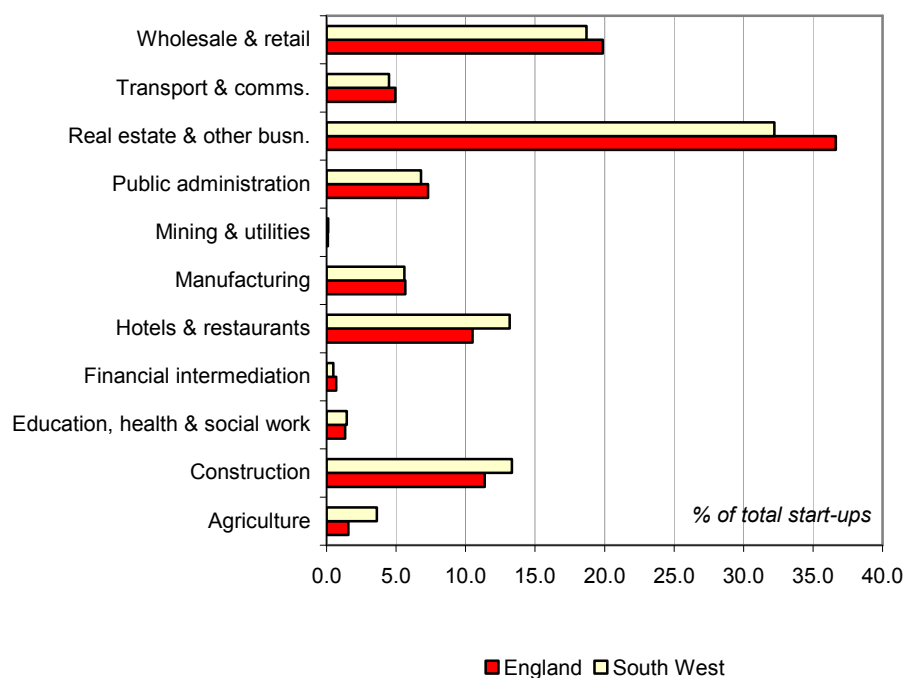
As an indicator of business start-ups, VAT registration counts provide a useful measure although the figures do not include most one-person businesses, which comprise approximately 71 per cent of businesses in the South West.

In 2003, there were 16,175 new VAT registered businesses in the region, the fifth highest number of start-ups of the English regions. Following a period of a slow down in VAT registration during 1997 to 2001, figures have been rising steadily, with 2003 numbers up 880 on 2002. Expressed as a rate, the number of registrations equates to 39.8 per 10,000 people aged 16 and over in the South West, behind only London, the South East, and the East of England.

Within the region, the highest numbers of registrations are seen in Devon and Gloucestershire at over 2,000, and Bristol, Dorset, Wiltshire, Cornwall, and Somerset at over 1,000. The lowest number of registrations are seen in Plymouth, Torbay, and Poole. In terms of the number per 10,000 people, the highest rates are seen in Gloucestershire (43.3 per cent), Bournemouth (42.4 per cent), Poole (41.7 per cent), and Dorset (41.2 per cent). The lowest rates are in Plymouth, Swindon, and Torbay.

The largest proportion of new business start-ups in the region were in real estate and other business services (32.2 per cent), wholesale and retail (18.7 per cent), construction (13.3 per cent), and hotels and restaurants (13.2 per cent). This closely matches national patterns although there were marginally more start-ups in agriculture, hotels and catering and construction-related businesses in the South West.

FIGURE 27: VAT-registered business start-ups in the South West, 2003



Source: SBS, 2005

The number of de-registrations represents a certain amount of business churn. It is, however, difficult to quantify at what level churn becomes either positive or negative so that it avoids either the presence of too few older businesses or business stagnation. During 2003 there were 14,840 de-registrations in the region leaving a net increase of 1,335 new businesses, and this represents the sixth lowest level of net increase in new businesses of the English regions. However, in terms of net business change per 10,000 people, the South West at 36.5 per cent is again behind only London, the South East, and the East of England.

A report by the OECD⁶⁰ suggests that the UK has the lowest barriers to entrepreneurship of the major world economies. It is ranked third for low levels administrative burdens on start-ups, first on regulatory and administrative opacity, and fifth on low barriers to competition. The Entrepreneurial Framework Index of 60 countries, by the Economic Intelligence Unit of *The Economist*, also places the UK third ahead of the US in terms of countries that are low on red tape and friendly to private enterprise⁶¹.

Information from the Global Entrepreneurship Monitor (GEM) 2004⁶², which assesses attitudes to entrepreneurship and risk-taking, further suggests that total entrepreneurial activity (TEA), whilst not as high as Canada or the US, is higher than Germany, Japan or Italy, and level with France. It also notes that cultural attitudes towards entrepreneurship are strong in the UK although there is an issue around fear of failure. However, for the South West, the fear of failure is the lowest of the regions in England. As a proportion of the adult population, the region has one of the highest levels of TEA in the UK, above the UK average. The South West is also one of the few UK regions where the proportion of female entrepreneurs is higher than the UK

⁶⁰ HM Treasury, *Productivity in the UK: Progress Towards a Productive Economy*, HM Treasury March 2001.

⁶¹ UK Trade & Investment, *Key Facts – November 2004*.

⁶² Harding R, *Global Entrepreneurship Monitor, UK 2004*, London Business School, 2004.

average, and this is supported by LFS data on trends in self-employment. The research shows that the region has the highest number of new technology start-ups, at 29.9 per cent of all start-up activity. The South West and Northern Ireland have the highest numbers of innovative start-ups.

The SBS 2003 *Household Survey of Entrepreneurs*⁶³ shows that, as a proportion of those interviewed, the South West has one of the highest propensities of any region for entrepreneurial activity.

4.1.2 Business survival

Whilst it seems that the UK has an environment that supports business creation, enabling those businesses to survive is another issue and one recognised as a productivity challenge by the Government⁶⁴. A healthy labour market is one that is able to support and sustain newly-generated business over a period of time. On average, in 1999, both nationally and for the UK as a whole, just over 66 per cent of VAT registered businesses were still trading three years on from the date of their initial registration. The South West performs better than this national average and has done so consistently over time, with a figure in 1999 of 68 per cent. This is the third highest of the English regions, behind only the East of England (68.1 per cent) and the South East (69.7 per cent).

TABLE 17: VAT registered businesses still trading three years from first registration

	Year of registration							Change 1993-99
	1993	1994	1995	1996	1997	1998	1999	
United Kingdom	62.1	62.5	65.3	66.0	67.4	66.3	66.5	4.4
England	61.9	62.2	65.0	66.0	67.3	66.3	66.4	4.5
East of England	63.6	64.2	67.1	68.5	69.8	68.8	68.1	4.5
East Midlands	62.7	61.9	65.0	65.2	67.1	66.6	67.7	5.0
London	61.4	60.8	62.6	63.3	64.2	62.5	62.8	1.4
North East	58.5	58.6	62.4	64.7	66.4	66.2	65.5	7.0
North West	59.2	59.8	62.7	63.6	64.2	65.1	64.9	5.7
South East	63.5	64.3	68.3	69.5	70.7	69.6	69.7	6.2
South West	63.4	64.6	68.1	68.6	70.2	68.7	68.0	4.6
West Midlands	60.9	61.9	63.1	64.7	65.9	66.4	66.5	5.6
Yorkshire & the Humber	60.6	61.3	64.3	64.3	66.7	65.1	66.1	5.5
Devon & Cornwall	62.5	63.6	67.8	68.2	69.0	69.5	70.3	3.1
Dorset	63.8	66.1	68.6	67.4	70.4	68.6	68.6	7.1
Gloucestershire	66.2	65.5	68.2	69.1	71.1	68.6	67.8	1.6
Somerset	64.4	65.7	67.3	71.8	72.8	71.2	71.5	1.9
West of England	61.7	63.9	68.7	66.8	68.3	65.7	64.8	4.8
Wiltshire & Swindon	63.6	64.8	68.0	71.1	73.2	70.2	65.5	7.7

Source: SBS, 2004

Within the region, the highest three-year survival rates are in the LSC areas of Somerset (71.5 per cent), Devon and Cornwall (70.3 per cent), and Bournemouth, Dorset and Poole (68.6 per cent), which are all above the regional average, and with

⁶³ Shurry J, Lomax S & Vyakarnam S, *2001 Household Survey of Entrepreneurs*, SBS, January 2002.

⁶⁴ HM Treasury, *Productivity in the UK: Progress towards a productive economy*, HM Treasury, 2001.

the inclusion of Gloucestershire (67.8 per cent) above the national average. The lowest survival rates are in the West of England (64.8 per cent), and Wiltshire and Swindon (65.5 per cent).

4.1.3 Research & development (R&D) expenditure

Innovation and technical progress are important factors in economic growth. Productivity growth relies on a continual stream of innovations of both new technologies and improved working practices. Expenditure on R&D by the private and public sectors is one proxy for how much firms invest in the production or adoption of innovation. A healthy labour market is one which is sustained by high levels of research and development activity in different sectors of its economy. However, available data is unable to tell us anything about the effectiveness of innovation spending.

It is estimated that in 2002 the South West had a total expenditure on R&D of £1.693 million and this is broken down into expenditure by businesses, government, and Higher Education Institutions (HEIs). It is estimated that business expenditure on R&D accounts for around two thirds of total UK R&D expenditure⁶⁵. Data available for 2002 shows R&D expenditure by business varies significantly across the English regions. Although, the South West has the fourth highest level of expenditure by businesses, with spending up £252 million on 2001, it is estimated that business spending per head on R&D is only £207, compared with an England average of £242⁶⁶.

FIGURE 28: *Estimated expenditure on R&D in businesses by region, 2002*



Source: ONS, *R&D Statistics 2002*, Economic Trends 610, Sept 2004.

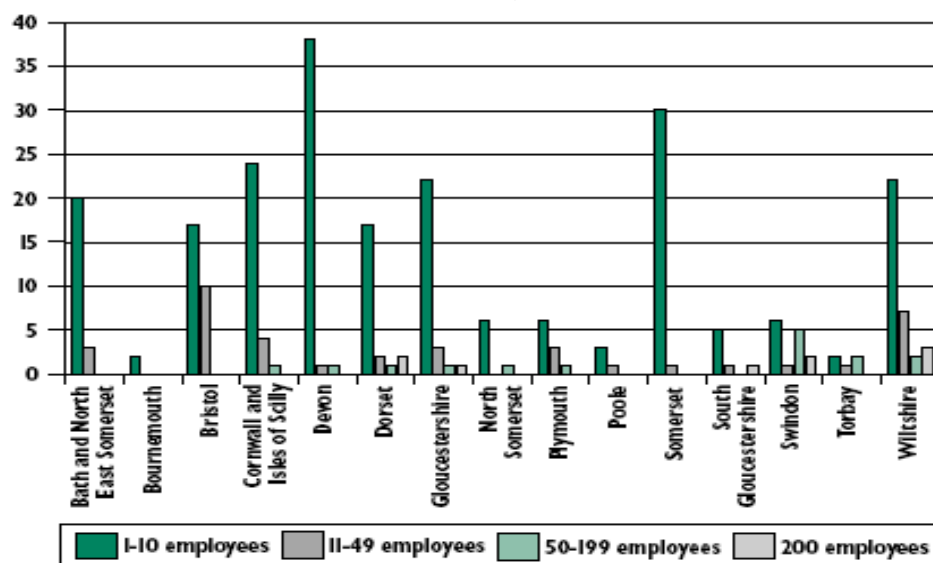
Although comparable sub-regional data is not generally available, the report by HM Treasury, *Productivity in the UK:4 – the local dimension*, does analyse the number of R&D firms sub-regionally⁶⁷. The data is only a partial look at R&D as it may not include all firms are engaged in innovative activity and there are difficulties with classifying firms that have plants in more than one region but whose R&D activity is centred in just one area. It also does not show how well research has been diffused and incorporated into firms' production processes.

⁶⁵ DTI Economics Paper No.6, *UK Productivity and Competitiveness Indicators 2003*, DTI, 2003.

⁶⁶ HM Treasury, *Budget 2003 – What Budget 2003 means for the South West*, HM Treasury, April 2002.

⁶⁷ HM Treasury, *Productivity in the UK: 4 – the local dimension*, HM Treasury, 2003.

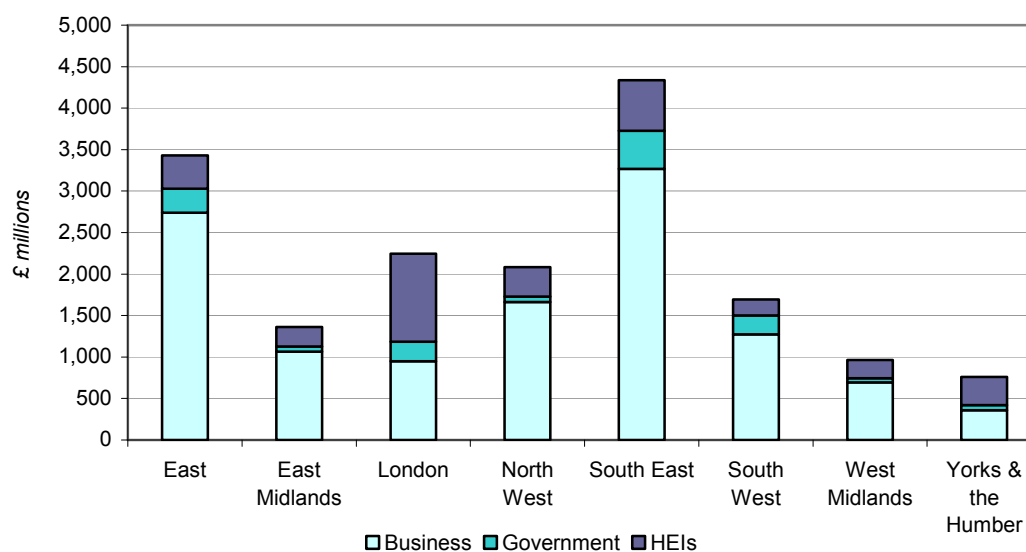
FIGURE 29: R&D firms in the South West, 2001



Source: HM Treasury, *Productivity in the UK: 4 – the local dimension*, HM Treasury, 2003.

Government is a key investor in R&D and has a particularly central role in supporting the UK's science capability. The Government finances R&D carried out by universities, public sector research establishments, the NHS and business⁶⁸. Within the English regions there is a distinctive north-south divide on government R&D expenditure with government establishments in southern regions conduct a significantly greater level of R&D activity than in northern regions. The South West has the smallest amount of government R&D of the southern regions but at £228 million, this is far greater than for any of five remaining regions. Expenditure on R&D by HEIs in the South West is very low in comparison to other regions. At £191 million in 2002, this is the second lowest of the English regions.

FIGURE 30: Estimated R&D performed in business, government & HEIs by region, 2002



Source: ONS, *R&D Statistics 2002*, Economic Trends 610, Sept 2004.

⁶⁸ DTI Economics Paper No.6, *UK Productivity and Competitiveness Indicators 2003*, DTI, 2003.

There are currently no further updates available from ONS on R&D spend as a proportion of GVA from the information presented in the 2004 Healthy Labour Market Review.

4.2 LABOUR MARKET TURNOVER

As part of the Healthy Labour Market Review process and to examine labour market dynamism within the South West, the report, *The Dynamic Performance of the South West Labour Market*⁶⁹, was commissioned. The Report uses a dynamic approach to address two issues:

- To provide an interpretation of the snap-shot data on unemployment and vacancies, and to compare the South West labour market with appropriate comparator regions of the UK. This is achieved by breaking down the unemployment and vacancy stocks into the component inflows and outflows.
- To provide an analysis of the efficiency with which the South West labour market reallocates workers. This is achieved by focusing on the hiring of workers from unemployment. It compares the capacity of the SW labour market to generate these outflows, accounting for the tightness of the labour market. This approach estimates the structural efficiency of the labour market. The rate at which workers move between jobs is also examined. Controlling for industry and skill level, the SW labour market is compared with other regions.

The results of the analyses show that 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, particularly the former. This pattern is generally repeated across women and men, across different age groups, and across most occupations. The analysis of vacancies is qualified by difficulties with data availability, but recent data on inflows of new vacancies suggests that the SW has a high rate of vacancy formation compared to other regions. Earlier data showed high vacancy duration, a less positive outcome.

These results could be due to a tight labour market or an efficient labour market. To assess this, the efficiency of the labour market is estimated. The analysis suggests that the SW sits slightly above the average of UK regions.

Finally, the Report looks at labour reallocation – how quickly workers move from one job to another. On this basis, the South West scores highly, having a high rate of reallocation. Part but not all of this is due to high representation of high turnover industries in the region.

4.3 REDUNDANCIES

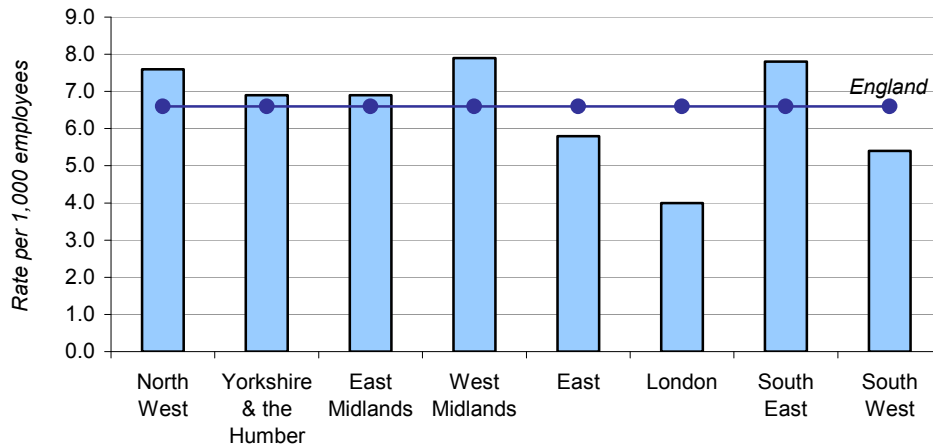
Redundancies occur for a range of reasons. Some of those relate to the internal labour market, such as existing skills becoming obsolete and no longer needed by employers. Another primary reason is where redundancies occur as a result of national economic policy or arise from barriers to business development and growth. A healthy labour market is arguably one that is able to counter such barriers, resulting in low levels of redundancy.

Data shows that the South West generally has a low redundancy rate. Figures available from the ONS for Spring 2003 from the LFS show a rate of 5.4 per cent for

⁶⁹ Burgess S & Turon H *The Dynamic Performance of the South West Labour Market*, University of Bristol, June 2005.

the region compared to a national average of 6.6 per cent. The rate for the South West is the second lowest of the English regions and is 7.1 per cent lower than the figures for 2001.

FIGURE 31: Redundancies per 1,000 employees by region, Spring 2003



Source: ONS, *Regional Trends 38*, 2004

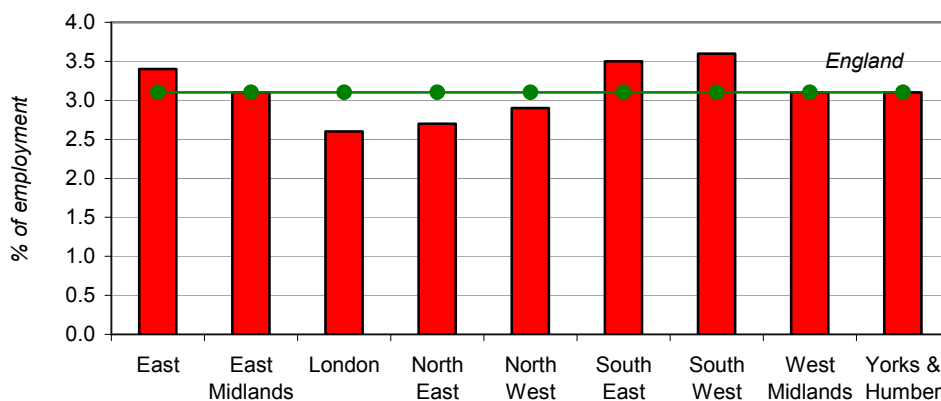
4.4 VACANCIES & SKILLS

The National Employers Skills Surveys (NESS) provide information on the recruitment difficulties reported by employers. As the latest available data set is from the 2003 survey, there are no up-dates to make to the 2004 Healthy Labour Market Report. The following summarises the analyses of the 2003 NESS from the 2004 Report and the key regional 2003 NESS report, *Employment, Learning and Skills in the South West of England*⁷⁰.

4.4.1 Total vacancies

In terms of vacancies as a proportion of total employment, the South West had the highest proportion in England at 3.6 per cent compared to a national average of 3.1 per cent.

FIGURE 32: Vacancies as a percentage of total employment by region, 2003



Source: NESS, 2003

⁷⁰ Spilsbury, M, *Employment, Learning and Skills in the South West of England*, SLIM, 2004.

Within the region, the highest proportion of vacancies were seen in Devon and Cornwall, and Bournemouth, Dorset and Poole. Wiltshire and Swindon had the lowest density of vacancies to employment.

4.4.2 Hard-to-fill & skills shortage vacancies

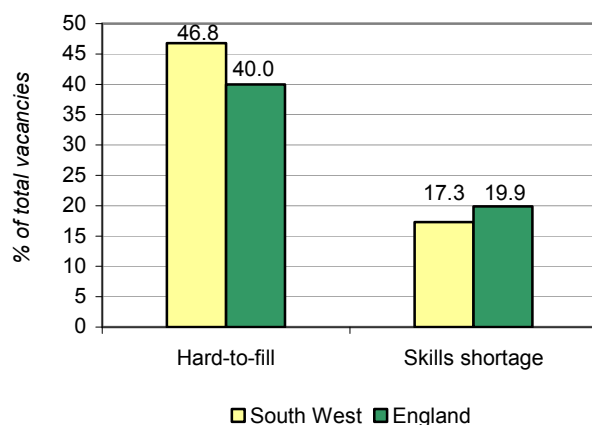
Although analysing vacancies as a percentage of employment does provide a measure of the extent of vacancies, examining the vacancy proportion as a percentage of all vacancies provides a measure of the intensity of the recruitment problems⁷¹.

Under this measure, hard-to-fill vacancies accounted for nearly 47 per cent of all vacancies in the South West. This is the highest proportion of all regions and is well above the national average of 40 per cent. However, skills shortage vacancies accounted for only 17.3 per cent of all vacancies, the lowest proportion of any region and below the national figure of 19.9 per cent, and the problems identified by employers for vacancies remaining unfilled were in the main unrelated to skills.

Only 34 per cent cited applicants' 'lack of required skills' as a reason for the vacancy being hard-to-fill, compared to 45 per cent nationally. Issues such as: poor terms and conditions; too much competition from other employers; shift work/unsocial hours; remote location/poor public transport; poor career progression; and seasonal work were all reported higher in the South West than the national average.

This may suggest that there is under-developed demand from employers for the skills that are available in the region.

FIGURE 33: *Hard-to-fill and skills shortage vacancies, South West & England, 2003*



Source: NESS, 2003

4.4.3 Occupations and vacancies

Looking at vacancies by occupation shows that demand exists from employers for those occupations with lower levels of skills and there is a comparative under developed demand for higher-level skills. Figures show that, compared to the national picture, as a proportion of all vacancies in the South West, there are greater numbers for lower skilled occupations such as elementary staff than for managers

⁷¹ IER, *National Employers Skills Survey 2003: Key Findings*, LSC, 2004.

and senior officials, professional and associate professionals. 21 per cent of all vacancies are in elementary occupations compared with 16 per cent nationally.

Vacancies for managers and senior officials, professionals and associate professionals, represent 19 per cent regionally compared to 25 per cent of vacancies nationally.

This pattern becomes even more marked when looking solely at skills shortage vacancies, where 16 per cent are within elementary occupations as opposed to only 3 per cent for managers and senior officials.

One of the major differences between England and the South West is the prevalence of skills shortage vacancies related to skilled trades. Figures are 23 per cent for the South West and only 18 per cent for England.

FIGURE 34: Vacancies by occupational group, South West & England, 2003

	Total vacancies		Hard-to-fill vacancies		Skill shortage vacancies	
	Number	%	Number	%	Number	%
England						
Managers & senior officials	35,237	5	12,152	4	6,245	5
Professionals	51,835	8	19,224	7	12,575	9
Associate professionals	81,142	12	31,456	12	19,152	14
Administrative	84,010	12	19,509	7	9,313	7
Skilled trades	63,391	9	39,621	15	24,710	18
Personal service	74,169	11	38,119	14	17,549	13
Sales & customer service	116,662	17	37,365	14	14,451	11
Machine operatives	57,740	9	29,031	11	15,609	12
Elementary	107,393	16	43,323	16	15,071	11
South West						
Managers & senior officials	4,327	6	1,824	5	365	3
Professionals	4,073	6	1,398	4	665	5
Associate professionals	5,494	7	1,871	5	1,034	8
Administrative	9,401	13	3,802	11	1,050	8
Skilled trades	7,724	10	5,743	17	2,943	23
Personal service	8,062	11	4,656	13	1,757	14
Sales & customer service	13,753	19	5,060	15	1,540	12
Machine operatives	5,329	7	2,648	8	1,356	11
Elementary	15,254	21	7,420	21	2,091	16

Source: NESS, Spilsbury, 2004

4.4.4 Internal skills gaps

Internal skills gaps look at skills deficiencies in existing employees within businesses. The 2003 NESS showed that there was very little variation in proportions of internal skills gaps across the regions. The incidence of internal skills gaps in the South West was at 10 per cent of total employment compared to a national average of 11 per cent.

Within the region, internal skills gaps were most prevalent in Bournemouth, Dorset and Poole, at 11.3 per cent of total employment, although this is close to the national average. The lowest levels of skills gaps were seen in the West of England at only 8.2 per cent.

4.5 SUMMARY

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, a low fear of business failure, 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 low, the second lowest of the English regions.

There is a low level of redundancies in the region.

The evidence from the NESS shows that 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.