

## **1.0 INTRODUCTION**

- 1.1 A research and development study has been undertaken by BMG Ltd to examine skills issues in priority sectors in the South West Region.
- 1.2 The study has been driven by several considerations:
  - ◆ NTOs have a number of pressures on them. On the one hand, they are required to produce Skills Action Plans which set out priorities and programmes to respond to skill needs in the industries for which they are lead skill development bodies, with a requirement to respond both at national and regional levels. On the other hand, the NTO network is in a process of restructuring as NTOs are replaced by a network of smaller but stronger Sector Skills Councils.
  - ◆ Underlying this change, the idea of 'sector' as a wider focus for support by government agencies has strengthened. Each of the Regional Development Agencies in England has identified what it regards as 'key' or 'priority' sectors in their respective regions; local Learning and Skills Councils are developing approaches to employer engagement based around locally significant sectors; national government competitiveness strategy is frequently focussed on UK sectors which have, or can develop, competitive advantage in globalised production patterns and markets; and local authorities are frequently engaged in attempts to strengthen local 'clusters', often defined in quasi-sectoral ways.
  - ◆ The information base on which skills planning takes place has been strengthened in recent years within NTOs by the introduction of 'skills foresights' as consistent inputs. But the quality of information which underlies these documents is varied (partly dependent, of course, on the size and resource of the NTO which produces them); and, as and when they are brought together (as 'skills dialogues') for a sector rather than for contributory industries, there may not be a neat concordance such that analyses can be added to make a consistent whole. *Particularly, the spatial basis of the data – its ability to allow a valid regional analysis – is far from universally available.*
  - ◆ In this context, a study to reflect on and to inform the skills planning process at regional level was seen as critical to the action planning process which the SW RDA required of NTOs, in its Skills and Learning Framework for Action.
- 1.3 The study has two main strands.
- 1.4 Within the *first* strand, it reviews the information which is available for skills planning purposes at South West regional level. It draws out main points from the available analysis in order to help NTOs in the region to work towards effective Action Plans for the RDA's identified priority sectors. It also identifies deficiencies in available information in order to

point towards new or revised procedures which will help future action planning to be as soundly based as possible on high-quality information.

- 1.5 In order to give focus to this work – and to set it within viable boundaries – it concentrates on a group of *priority sectors* which the South West Regional Development Agency (SWRDA) has identified for special development focus and on the NTOs which have special responsibility for stimulating skills supply into those sectors. The sectors are:
  - ◆ Construction
  - ◆ ICT
  - ◆ Food and drink
  - ◆ Marine industries
  - ◆ Tourism
  - ◆ Advanced Engineering
- 1.6 Two further ‘emerging sectors’, biotechnology and environmental technology, were also recognised as being of special interest but, being the focus of other current major in-depth analyses, were not required to be the subject of substantive analysis within *this* study. The action planning process will follow when the respective studies have reported back to the partners.
- 1.7 The *second* strand of the study concerns the issue of information. Whilst the ‘first strand’ analysis described above can be put into a report (this document) it was also recognised that skills action planning is not and will never be a static process. Not only do absolute levels of need for labour and skills vary with prevailing economic conditions (the ‘cyclical’ effect) but more fundamental changes in processes, markets and technologies (the ‘structural’ effect) influence what skills are required and in what numbers.
- 1.8 In response to recognition of this dynamic dimension to skills issues, a second part of the study comprises R & D work to develop a web-based system to hold, and make readily available to those involved in skills planning, the evolving information resources on which planning depends; and, by building contact networks into the system, to facilitate and enable the building of a ‘skills community’, comprising those active in relevant skills areas and willing to share information and ideas.

- 1.9 The output of this *second strand of the study*, essentially an on-line sector-related information and data exchange system (provisionally titled '*Skills Information Gateway for the South West*') will be a second output of the study in parallel with this document. Whilst here we report and comment on current knowledge, the 'web-based' content will offer a means by which organic growth of skills understanding may be fostered in future.

## **2.0 ISSUES AND CHALLENGES IN REGIONAL AND SECTORAL SKILLS MAPPING**

- 2.1 Before discussing skills issues relating to the South West's priority sectors individually, it is helpful to consider some general points which will condition the analyses.

### **THE MEANING OF 'SECTOR'**

- 2.2 Our first point concerns the definition of 'sectors' as a focus for skills development strategies. Clearly, sectors defined as those businesses involved in the production of the same goods or services, are useful as a means of focussing our thinking on the economy. 'Textiles' or 'financial services' or 'hotels and catering', for example, have a coherence of meaning which for many purposes is clear and robust.
- 2.3 When, however, we turn to the use of sectors for some specific purposes – in this case, to analyse issues of skills supply and demand – the occasional imprecision of the concept becomes apparent.
- 2.4 Imprecision arises on two fronts, which can be broadly described as 'external' and 'internal'.
- 2.5 Externally, the boundaries of some sectors may not be very precise in labour market terms.
- 2.6 In the present case, for example, the distinction between the South West's priority sectors 'Advanced engineering' and 'Marine technologies' and the general run of engineering in the South West may be fairly blurred. Though the priority sectors can be defined by the SIC classification of firms within them, it is not evident that the skills of the workforces of the sector are equally clearly differentiated – a skilled engineering craftsman may move readily between them and into and out of other engineering sectors which are not so classified.
- 2.7 Equally, we can readily understand that tourism and leisure is an important industry for the South West in so far as it brings very significant revenues into the region. But the boundary between the focus of the RDA's development interest – the capability to generate regional income from visitors – and the general run of establishments with purely local markets is blurred in the *Standard Industrial Classification* of establishments, in *practice* (with many establishments serving both markets) and in *labour market terms* (with staff moving between establishments in 'tourist' and 'local' markets).

- 2.8 Internally, the issue is a *lack of homogeneity* in skill requirements. Again in the present case we may observe that food and drink manufacture is a fairly obvious 'sector' in general parlance but it is less clear that there is an easily definable set of skill needs which cover the multiplicity of sub-sectors involved in food and drink production, a fact recognised by the current number of NTOs with interests within the sector. In 'tourism' it is fairly obvious that coach companies, restaurants and swimming pools don't have much skills commonality; and in 'ICT' the range of relevant skill sets from the creative end of the spectrum through software development to hardware manufacturing is enormous.
- 2.9 Two messages derive from these fairly obvious points.
- 2.10 *Firstly, it may be difficult to develop skills strategies which are focussed solely on 'sectors' which in many ways blur into wider ranges of activities. Given that staff will move readily and frequently across the boundaries, strategy needs to recognise the wider context.*
- 2.11 *Secondly, as sector skills strategies are developed, they need to recognise the great diversity of skills needs which may, in principle, require their attention. Clearly, this will become even more evident as and when fairly broad Sector Skills Councils replace more specifically-focussed NTOs.*

## **THE GEOGRAPHY OF SKILLS AND LABOUR MARKETS**

- 2.12 Having recognised the challenge of partitioning skills development programmes on sectoral lines, we can now point to a further source of complexity.
- 2.13 Necessarily, public policy in general operates at a hierarchy of spatial levels – national, regional and local. Relevant agencies in the skills arena, NTOs/SSCs, RDAs, LSCs, share this variety, often seeking to deliver national objectives through initiatives which are responsive to regional and local needs and variations.
- 2.14 In the present study, the dominant focus is regional and sub-regional – what actions should be taken to meet current and projected skills shortfalls in sectors which have been singled out as regional and/or sub-regional priorities? This raises two issues.
- 2.15 The first is that labour markets *don't generally operate in concordance with administrative boundaries and least so in respect of regional ones*. Whilst some regions with a very powerful regional centre – London, the North East, the West Midlands – may have labour markets substantially configured around a central conurbation, this is not the case in the South West which has a relatively low population density and a wide geographic area. It may be argued, for example, that Swindon's 'region' is, in fact, the M4 corridor economy and that a Southern Central England 'metropole' pulling Bournemouth and Poole into an economic nexus

including the Southampton/Portsmouth conurbation reflect economic and labour market realities.

- 2.16 Even if we do not accept these particular constructs, it is evident that many skill markets are *locally configured* – within *travel-to-work areas* determined by local wage levels, transport systems, and industrial specialisms at low and intermediate skill levels – or, for highly paid staff, are *nationally* configured with specialist or managerial skills markets extending well beyond individual regions. Essentially, the region's skill needs are met (or not) within a series of micro-labour markets or wider ones extending to national, even international level, but which hardly ever conform to regional boundaries.
- 2.17 It follows, therefore, that if skills strategies are determined at regional level they face a number of *spatial challenges* – not just to deliver a gross total of skills calculated as necessary for the regional economy *but to deliver them in the right sub-regional locations, to develop and retain or to attract sufficient high-level skills in the face of national or international competition, and to determine skills needs in the region in the light of commuting flows across regional boundaries.*
- 2.18 The second issue emanating from a regional level approach to skills issues concerns information resources. *One point that will become evident in later chapters, as we address issues facing the different priority sectors, is that data and analysis is not consistently or comprehensively available at that level. Thus, even if development of skill strategy is valid as a regional concept, the information which would guide that development is often absent or incomplete.*

## **REPLACEMENT AND RETENTION**

- 2.19 Our third general point concerns the objective of skills strategy. Broadly, the thrust of skills action planning tends to be towards the identification of a gap between evolving skill demands and actual or forecast levels of supply; and then on means of reducing or avoiding the gap.
- 2.20 These analyses, of course, take into account the replacement need – the necessity for skills supply not just to meet growth in skills demand which arises from a greater number of jobs but to meet the generally greater need to replace skills lost to the industry or sector by people who leave it for another sector or who retire or become temporarily inactive (to have children most typically). These rates vary widely, with professional, technical and skilled craft jobs having lower replacement rates than less specialised or intermediate skilled jobs.
- 2.21 A further point, of course, is that skills strategies must focus not just on replacement – assuming that new entrants must be found and trained to replace leavers – but also on retention – ensuring that skills are not lost in the first place. Though the last issue has gained some recent public attention in the case of nurses and teachers (with up to 40% of new

recruits in these occupations being lost within 3 years of qualification) it is not easily quantifiable in relation to other occupational groups and sectors.

- 2.22 Of course, some loss through retirement cannot be avoided; but other valuable skills, expensively developed and refined by years of experience, *are* lost, often as a result of the uncertainty of employment prospects and frequent redundancy in businesses seeking to survive in competitive markets. A further issue in skills action planning is the degree to which plans should focus on skills development against the degree to which they should seek to improve skills retention.

### **GENERIC (CROSS-SECTORAL) SKILLS**

- 2.23 In our opening section of this chapter we remarked that whilst businesses in certain sectors, such as ‘advanced engineering’, might be identified by the SIC codes for their activities, these boundaries would not be so observable in the eyes of sector labour forces – a skilled engineer or craftsman might move readily from ‘advanced engineering’ into other engineering businesses and back again. This fairly obvious point can, of course, be taken a step further, in that there is a substantial group of workers in each of the priority sectors who, by virtue of the generic nature of their work, are able not to move just into sectors which share a boundary with the priority sector but into virtually *any* part of the regional economy or certainly into much wider segments thereof.
- 2.24 This group will include people in clerical, sales, administrative, IT and in some cases, managerial roles. Drivers, too, may not be sector-specialised and maintenance engineers and technicians may be mobile across a wide range of sectors.
- 2.25 The question, in considering sector skills strategies and action plans, is the extent to which those strategies and plans take such generic skill sets into account. It is easy for the construction sector to recognise the need to plan to stimulate the training of plumbers or joiners but perhaps less easy to believe that it should also put generic IT or clerical skill training into its plan. Similarly, NTOs in the Food and Drink sector may find it easier to focus on different levels of skill concerned with the actual product than to believe that they should take responsibility for the training of the engineers and technicians responsible for plant maintenance. Though some generic skills are currently addressed by ‘generic’ NTOs it is not clear that this coverage is wholly effective. The guidance to aspiring SSCs makes it clear that sectors will need to address generic skills as part of their remit.

## **SECTORAL APPROACHES TO SKILLS PLANNING IN THE WIDER REGIONAL ECONOMY**

- 2.26 Further, the 'generic' skills connection is not the only association between sectors and the wider economy which sector skills planning must take into account.
- 2.27 Evidently, whilst sectors have their own dynamics which, to a degree, give them different prospects and growth trajectories, they are not wholly insulated from general economic and labour market trends.
- 2.28 The South West region, for example, has been one of the strongest growth areas of the UK in the last 25 years, second only to East Anglia and is forecast to be one of the strongest performers amongst UK regions in the *next* decade. In consequence, unemployment rates are low (a regional claimant rate of just 2.1% was recorded at the end of 2001) and the Region has the second highest employment rate (second only to the South East region) – 94% of the labour force are in employment (Labour Market Trends, ONS, February, 2002).
- 2.29 Clearly, therefore, the labour market can be described as 'tight'. In consequence, over half of South West employers reporting vacancies in 2001 reported that those vacancies were hard to fill (with particularly high rates of difficulty in Manufacturing, Construction, Transport and Communications, Financial Services, and Health Services) (Employer Skills Survey 2001, DfES, IFF Research).
- 2.30 Whilst these conditions persist it is evident that 'priority' sectors cannot simply assume that skills action planning ends when the scale of skill needs have been estimated. It is only then that the real challenge begins – how to win for the sector the regular in-flow, particularly of young entrants, graduates, high quality managers, technicians, IT specialists, and so on, against the *competing* attractions of other sectors which appear more attractive (in reality may *be* more attractive) in terms of working conditions, security, wage levels and image.
- 2.31 And there is a converse, negative side to this situation if current reasonably optimistic forecasts of regional growth rates are revised substantially downwards. Then, whilst the problems of competing for labour would diminish, the problems of shake-out which have historically damaged skills supply, will occur again. Young people training to enter particular sectors will be unable to find jobs and their training may go to waste; older people already in the industry may conclude that there is little future in it and turn to other ways of making a living.
- 2.32 Generally, therefore, sectoral skills actions plans do not and cannot operate only in their own space and to the dynamics of their own sector. In prosperous times, as now, each sector has to compete for skills and labour against other sectors. In times of general downturn, forecasts of skill needs for particular sectors may be significantly altered.

2.33 The point is twofold. On the one hand, skills action plans cannot extend merely to saying that a sector will need x or y more staff in particular skill groups over a particular period of time – they must consider how those staff are to be won against competition from other industries and sectors. On the other hand, planning is faced with the dilemma of having to forecast predicted levels of skill needs when the uncertain character of demand even for the sector itself may be made yet more uncertain by general economic change.

### **INTERNAL SKILLS GAPS**

2.34 Finally, we would note that many skills problems are not simply those concerning flows of people and skills in and out of sectoral workforces. Manifestly, there are people employed within the industries concerned whose skills are inadequate for the tasks they are set.

2.35 The causes are several and inter-related:

- ◆ Changing processes or technologies with which individuals or workforces fail to keep pace;
- ◆ Failure to train staff adequately;
- ◆ Acceptance by customers of sub-standard service or quality and of late delivery;
- ◆ Failure of management to recognise skill deficiencies or to persist in 'working round' deficiencies rather than tackling them head-on;
- ◆ Corporate strategies attuned to routes to short term profit (price competition, mergers and acquisition, 'shareholder value') which are inimical to longer term investment in skills and which, consequently, place workforce development as a lower-order strategic priority.

2.36 Over a quarter of employing establishments in the South West and four out of ten of those employing 500 or more people recognised internal skill gaps in 2001 (Employer Skills Survey 2001, DfES, IFF Research Ltd).

2.37 There is a requirement for skills action planning, therefore, not only to connect with the labour market external to the firm but to internal ones as well if improvement to industrial skills bases is to be maximised.

**SUMMARY: THE PARAMETERS OF SKILLS ACTION PLANNING**

2.38 In this contextual chapter, we have tried to recognise some of the challenges which NTOs and sector groups face when they seek to plan for skills supply:

- ◆ Planning for skills in ‘priority sectors’ which do not have labour markets for specialist skills distinct from adjacent sectors; and which have great internal diversity;
- ◆ Planning for skills at a regional level when labour markets seldom configure themselves as regional entities – rather they are much narrower (local travel-to-work areas) or much wider (national labour markets for high level and specialist skills) or cross regional boundaries;
- ◆ Giving proper recognition to retention issues alongside ‘replacement’ and ‘training’ issues – it may be that if retention rates in some industries could be dramatically reduced then skills problems would be much easier to tackle;
- ◆ Addressing the issue of development responsibility for those who have generic rather than sector-specific skills;
- ◆ Recognising that skills action planning goes beyond the identification of needs. A first question is ‘how many people will we need with particular skills?’ but equally pertinent is ‘how will we get them?’ in the face of competition from other, perhaps more attractive industries;
- ◆ Recognising the sheer uncertainty of skills action planning – not just within sectors which themselves may be afflicted by unforeseen events (foot-and-mouth disease affecting tourism, sharp downturns in ICT hardware markets, cutbacks in aviation affecting aerospace sectors, are just some recent examples) but also in national and international economies as a whole;
- ◆ Recognising the ‘internal skills gaps’ which reduce operational effectiveness as well as issues concerning flows of skills into and out of sectors and industries.

2.39 With these general issues in mind we now consider the particular issues facing priority sectors in the South West.

- 2.40 In doing so, we have largely drawn on the information which is available in the public domain – published or unpublished reports. This has been supplemented by a small number of interviews with key employers or with questionnaires completed by them and, in some cases, by access to survey data sets. Our intention has not been to set out all the information or analysis which is available but to make use of it to crystallise the key points. We hope that these concise analyses, considered in the context set by this chapter, will help those responsible for writing industry or sector action plans in the South West, to do so against a clear and simplified statement of skills demand and supply issues.
- 2.41 In the future, the development of the *Information Gateway*, explored in the previous section, will provide a readily accessible, continuously-evolving data resource which will allow plans and strategies to be responsive to new information and analysis as it becomes available.