

**Skill Shortages, Vacancies and Local
Unemployment**
**A Synthesis of the Exploring Local Areas, Skills
and Unemployment Analyses**

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EXECUTIVE SUMMARY

Exploring Local Areas, Skills and Unemployment

This project was designed to examine the apparently paradoxical situation of relatively high levels of recruitment problems co-existing alongside relatively high levels of unemployment in particular local areas. Conventional labour market theory suggests a trade off between vacancies and unemployment, with higher levels of the former being associated with lower levels of unemployment. Analysis of results from the Employer Skills Survey for 1999 suggested that in a number of locations there were high levels of unemployment and yet employers were still having serious recruitment problems.

The study was designed to explore the relationship between recruitment problems and unemployment. It was multi-faceted, based around three main elements:

- i. **spatial analysis** of the characteristics of vacancies, hard-to-fill vacancies (HtFVs), and skill-shortage related hard-to-fill vacancies (SSVs) at the level of Local Learning and Skill Council (LLSC) areas using data from the Employers Skill Survey 2001 (ESS2001);
- ii. multivariate **econometric analysis** of ESS2001, aimed at identifying the factors associated with the incidence and intensity of recruitment problems, including the influence of unemployment rates at the local level;
- iii. qualitative interviews or **case studies** of employers experiencing recruitment problems in three LLSC areas exhibiting relatively high levels of HtFVs and unemployment.

Recruitment problems and unemployment at the local level

The spatial analysis of ESS2001 data identified a number of LLSC areas that, on average, exhibited both relatively high unemployment rates and recruitment problems. The evidence, however, suggests that these were the exception rather than the rule. The most common pattern observed was that areas of high recruitment problems generally had low unemployment rates. This is consistent with labour market theory and other analysis of the relationship between unemployment rates and indicators of recruitment problems. Nevertheless, the attempt to establish the strength of this relationship, using average data for LLSC areas, suggested that it was not statistically significant in most instances.

The multivariate econometric analysis of ESS2001 data, at an establishment level, suggested that this lack of significance was due to the clouding of the underlying relationship at a local level by various other factors (such as industrial structure and labour market composition). Using individual establishment level data, which enabled the characteristics of the establishment itself as well as of the local labour market within which it operates to be considered, a rather different picture emerged. Taking other factors into account, there was an underlying negative relationship between the incidence and intensity of vacancies and unemployment (the trade-off predicted by labour market theory). Nevertheless, there are a number of LLSCs that exhibit both high levels of unemployment and recruitment problems. Whilst this might be explicable with respect to industrial structure and the composition of the

labour market, the problem of relatively high levels of unemployment and vacancies co-existing in some local areas remains.

Explaining the incidence of vacancies and recruitment problems

The econometric analysis also demonstrated that vacancies, HtFVs, and SSVs were exceedingly difficult to predict. There was a considerable level of variation in the incidence and intensity of vacancies across individual establishments. Industry, local area, local labour market conditions, size of establishment, and various other labour market indicators were all found to be related to the incidence of vacancies, with statistically significant effects. These factors, however, accounted for just a small part of the total variance.

The reason for this relates to the level of turnover in the labour market. Each month a huge number of vacancies become open and are subsequently filled in a short space of time. It was largely a matter of chance, therefore, whether or not a particular establishment had unfilled vacancies at the time of the survey. HtFVs and SSVs were also relatively rare occurrences, especially when expressed as a density (vacancies expressed as a percentage of employment): 1.4 and 0.6 per cent respectively.

A similarly large number of people are recorded as unemployed each week or month. Many of these people find jobs quickly, but nevertheless spend a period of time registered as unemployed. Previous evidence indicates that recurrent unemployment may be a significant problem that is often overlooked. People often enter unemployment, exit this state quite quickly, but then re-enter it again within a comparatively short period of time.

Employers' attitudes towards the unemployed

The detailed case study analysis of organisations in local areas with both high levels of unemployment and HtFVs suggests that, generally, employers faced with recruitment problems reported that they did not discriminate against unemployed people, by which they meant long-term unemployed people. But, their recruitment patterns suggested that they would be unlikely to encounter many applications from the long-term unemployed. For example, case study employers tended not to use the Jobcentre to communicate job openings.

The unemployed stock and the long-term unemployed are, implicitly or explicitly, in competition with various other categories of labour. These include: women returners; the early retired or retired; students; and migrant workers of one kind or another. It is clear that the long-term unemployed stock is only a small part of the reserve labour force and it is a heavily disadvantaged part for a host of occupational, social, demographic and psychological reasons. The reality is that there is only a very partial overlap between that part of the labour market where people are becoming unemployed and that part of the market that is generating new employment.

What is to be done?

A large number of occupational skills are organisationally specific. This is the case even for occupational groups with nominally transferable skills. In order effectively to exercise their skill, recruits need to become familiar with the structure, customs and practices, and culture of the organisation they are joining. They need to be fully inducted and not left to sink or swim. Some employers appear to suggest that they expect to find new recruits who will be fully effective from day one. That is wholly unrealistic.

If recruitment from among the unemployed is to play a part in filling skill-related vacancies, this is more likely to come about indirectly than directly. A more effective strategy for employers is likely to be: first, to fill skilled vacancies by upgrading existing semi-skilled or unskilled workers; and then, second, to fill semi-skilled and unskilled vacancies with more widely available recruits, including the unemployed. This is much more realistic than expecting to find ready-made skilled workers from among the unemployed stock. This is an especially important policy consideration with respect to local areas experiencing both high levels of unemployment and recruitment problems.

1. INTRODUCTION

Employers from time-to-time experience recruitment problems due to shortages of suitably skilled, qualified, and experienced people in the labour market. This can prove to be both damaging to an individual organisation's business performance and for the economy as a whole. At the same time there are often significant numbers of unemployed people in the same local area. In an effort to understand more fully how recruitment problems arise and how job seekers might be better matched to available vacancies, the Department for Education and Skills (DfES) commissioned the University of Warwick Institute for Employment Research (IER) and the Policy Research Institute (PRI) at Leeds Metropolitan University to look into this issue.

An 'apparent paradox' in the co-existence of relatively high levels of unemployment and recruitment problems in some localities was observed in *Skills in England 2001* (Campbell *et al*, 2001; Green and Owen, 2001). This is paradoxical since, as labour demand increases, other things being equal, unemployment is expected to fall as employers tap into the reserve labour force that unemployed people represent (Beveridge, 1948). The existence of unsatisfied labour demand alongside relatively high unemployment levels suggests that the labour market is operating inadequately.

The present project was designed to assess the extent to which there was any general evidence of the existence of a paradox of the type described above. More generally, it has explored the extent to which unemployed people and the economically inactive are a potential source of labour to those employers experiencing recruitment problems. There were three major components to the study:

- i. a detailed **spatial analysis** of the characteristics of vacancies, hard-to-fill vacancies (HtFVs), and skill-shortage related hard-to-fill vacancies (SSVs) at the level of local Learning and Skill Council (LLSC) areas. This was based on the Employers Skill Survey 2001 (ESS2001). The results have been published in Green and Owen (2002);
- ii. a multivariate, **econometric analysis** of ESS2001 to identify the factors associated with the incidence and intensity of recruitment problems. This included an assessment of the influence of local unemployment rates on the propensity of the establishment to report vacancies. This analysis is published in Dickerson (2003);
- iii. a series of qualitative interviews or **case studies** of employers experiencing recruitment problems in three LLSC areas. These were Birmingham and Solihull, East London, and Lancashire, all of which exhibited relatively high levels of HTFVs and unemployment. The results of this analysis are published in Hogarth *et al* (2003).

This report provides a summary and synthesis of all three elements. Following this introduction, *Chapter 2* presents a brief overview of the relationship between vacancies (as a measure of recruitment difficulties) and unemployment. *Chapter 3* then presents some summary evidence on the nature of recruitment problems in England and how these compare to unemployment at a national level. This draws on ESS2001 data.

Chapter 4 then considers the extent to which relatively high levels of unemployment and serious recruitment problems co-exist at a local level. It covers the scale of regional variations as well as intra-regional variations in the local distribution of

recruitment problems and unemployment. It provides an initial assessment of the evidence that some locations exhibit a paradoxically high level of both recruitment problems and unemployment. A typology of local areas was developed, which is used to characterise local LSC areas according to the average levels of vacancies and unemployment observed. This typology was used to help choose areas for more detailed cases study analysis, focussing on those LSC areas with both high unemployment and serious recruitment problems. The selected areas for study were Birmingham and Solihull, East London, and Lancashire. The causes and effects of recruitment problems are considered in more detail in the subsequent chapters.

Chapter 5 presents some possible explanations for the incidence and intensity of recruitment problems, based on the econometric analysis of the ESS2001 data at an establishment level. This suggests that, once detailed account is taken of various influences on the incidence and intensity of reporting of vacancies, there may be no paradox to be explained. Although, on average, unemployment and vacancy rates may both be high in some local areas, this reflects their particular characteristics (in terms of industrial structure, *etc.*). The underlying negative relationship between vacancy and unemployment rates is still present.

Chapter 6 focuses on the more qualitative evidence arising from the detailed case studies. It addresses employers' recruitment practices and their attitudes to taking on unemployed people. This analysis highlights the extent of mismatch between skills supply and skill demand in particular local areas and enables a typology of causes to be developed. It also enables an exploration of issues such as: the extent to which problems arise because of lack of skills as opposed to personal attributes; the skills which employers find it most difficult to recruit; the different ways that employers attempt to find skills; and the real impact of recruitment problems on organisational performance.

In *Chapter 7* the reasons that the unemployed are not widely used to fill hard-to-fill vacancies are considered. This includes an analysis based on the case study evidence of the extent to which employers recruit unemployed people, the role of New Deal and the role of the Jobcentre. *Chapter 8* concludes, with some implications for policy.

2. UNEMPLOYMENT AND VACANCIES AT NATIONAL LEVEL

An inverse relationship between unfilled vacancies (V) and the number of unemployed people (U) was first suggested by Beveridge (1948) and is commonly referred to as the Beveridge Curve. The UV relationship has been used as a means to distinguish between different types of unemployment (notably demand deficient, frictional, and structural unemployment).

The theoretical basis for the UV relationship is that the level of both U and V are determined by/are functions of the level of excess demand in the labour market. The labour market can be represented in the following way:

$$\begin{aligned} D &= E + V && \text{(where D is labour demand, S is labour supply,} \\ S &= E + U && \text{E is employment, V is vacancies and U is} \\ &&& \text{unemployment)} \end{aligned}$$

Excess demand is then given as $D - S = V - U$.

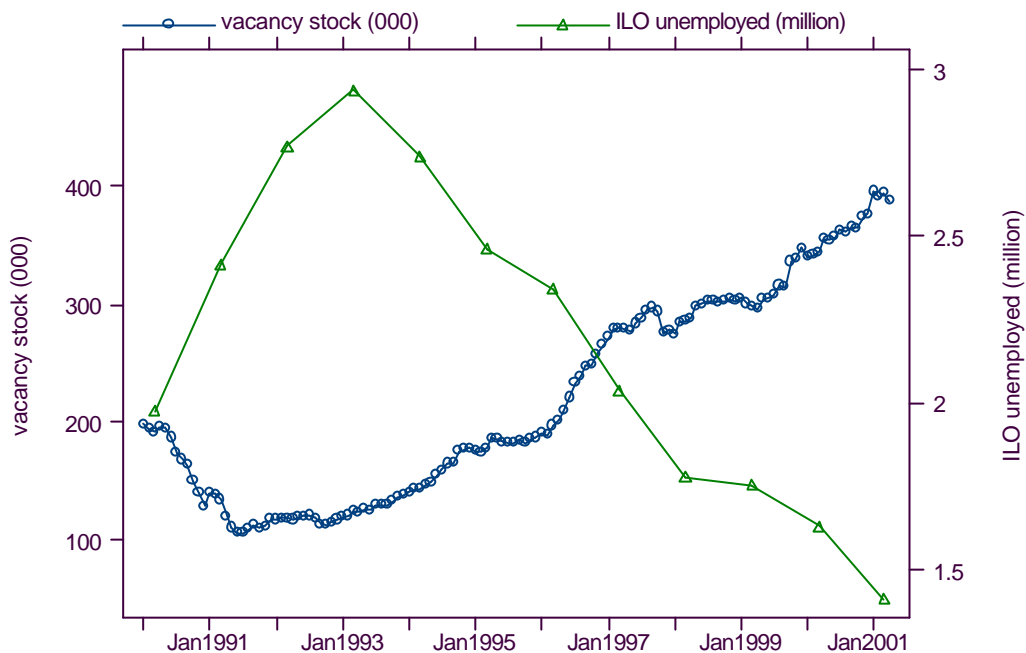
An observable negative relationship between U and V emerges as the result of frictions and imperfections in labour market adjustment. The matching of people and jobs in the market is neither instantaneous nor perfect. Some vacancies remain unfilled during the period that employers search for suitable recruits. Similarly, unemployed people remain jobless while searching for suitable job opportunities. The unemployment and vacancies resulting from this search process is the result of 'frictions' in the job matching process and gives rise to 'frictional unemployment' and frictional vacancies. Such frictional U and V would eventually disappear as adjustment takes place were it not for the fact that there is a continuous turnover in the jobs market as people change or leave jobs and as jobs are lost and new ones created. In this situation there will always be some unfilled job vacancies around and some unemployed people looking for work. Structural unemployment (or vacancies) can also arise if the skills of those available to work do not match the skills required.

According to Beveridge, vacancies should increase as unemployment falls (and conversely). Time series data indicate that this is exactly what has occurred over recent years (see *Figure 1*). The vacancy data presented in the figure underestimate the true level of recruitment problems, since vacancies notified to the Employment Service account for only a share of all vacancies. ESS2001, for example, indicates that in the early part of 2001 the stock of vacancies in England was around 770 thousand compared to the Employment Service figure of around 400 thousand. Despite underestimating the number of vacancies, *Figure 1* shows clearly the relationship between vacancies and unemployment.

Modern theories of the relationship between unemployment and vacancies are mainly derived from the notion of a matching function. Petrongolo and Pissarides (2001) present a recent and comprehensive survey of the theoretical and empirical literature. A matching function, M, is a relationship between the number of job matches or hires (denoted M), the number of vacancies currently available, the number of unemployed workers looking for jobs, and other factors (X), which may impact upon the matching process and influence the degree of 'mismatch' between the unemployed and the stock of vacancies. These additional factors may include

search intensity, geographic mobility, measures of skills and skill requirements, etc. Given certain assumptions, this yields an inverse relationship between the vacancy rate and the unemployment rate. This is usually referred to as the Beveridge or UV curve. The X factors serve to shift the UV curve.

Figure 1
Notified Vacancies and ILO Unemployment in the UK
January 1990-April 2001



Sources: (a) Vacancy stock: Employment Service administrative system, monthly, seasonally adjusted; (b) ILO Unemployment: LFS Spring Quarters, seasonally adjusted.

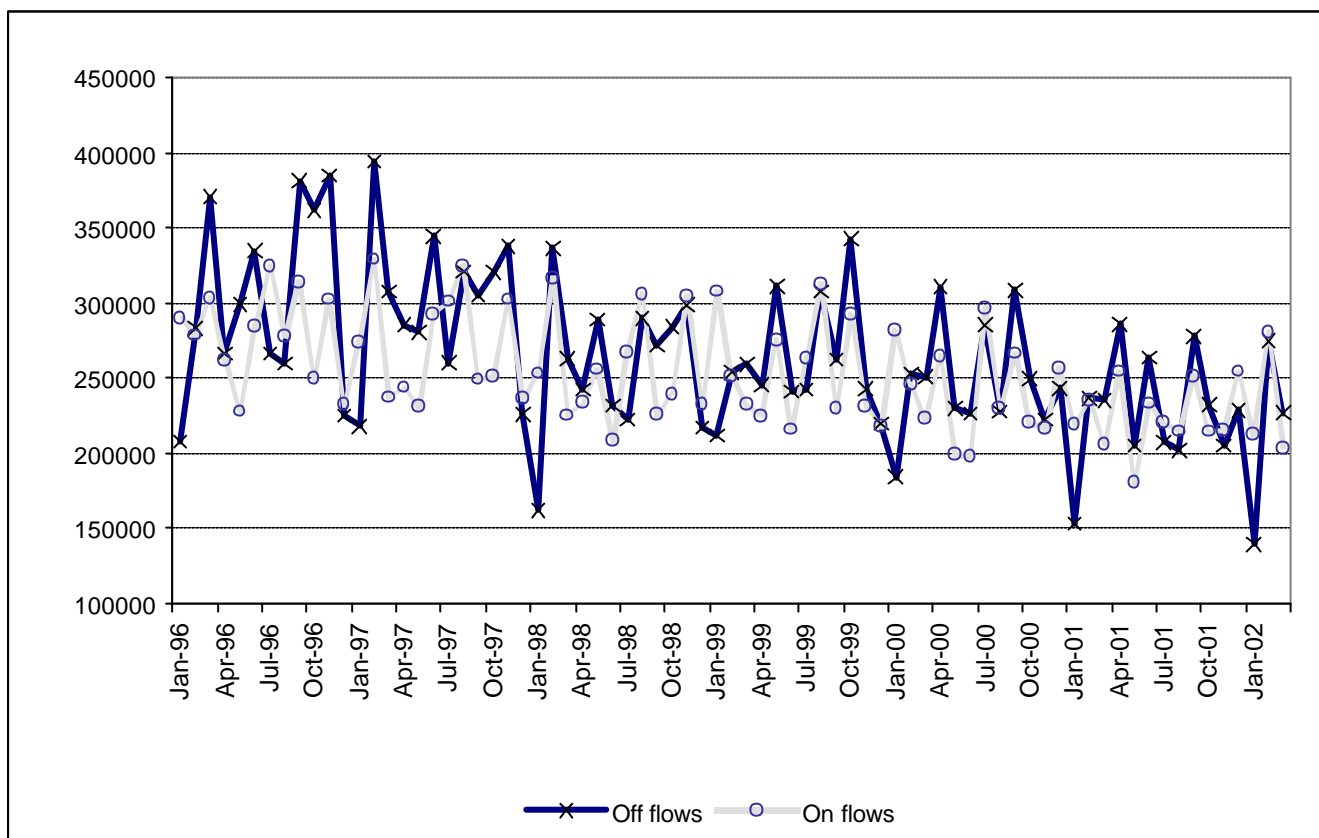
At a national level, previous research confirms that there is a negative relationship between the levels of ‘skill-shortages’ and unemployment over time. For example, analysis of time series data, based on the CBI’s survey of factors inhibiting output in manufacturing, shows that reported ‘skill-shortages’ have increased as unemployment has fallen (Frogner, 2002). Studies that have revealed this relationship at the local level include those by Coles and Smith (1996) and Bennet and Pinto (1994). Other studies have revealed how recruitment problems fall away as the economy goes into decline and, moreover, that the incidence of these recruitment problems may well be related to output falling (Haskel and Martin, 1993; Blake *et al*, 2000; Hogarth and Wilson, 2001).

The present study took place against a background of near full employment nationally. In the Spring quarter of 2001, the ILO unemployment rate stood at just over 5 per cent, which corresponded to around one and a half million people. Most unemployment was of short duration: just under a million had been unemployed for six months or less, although around a quarter of the unemployed had been in that state for 12 months or longer. The claimant count measure of unemployment stood at around 3 per cent in May 2001 comprising just under a million people.

What is most striking about the in-flows and out-flows to unemployment is the volume of turnover, with around 200 to 250 thousand people joining or leaving the

unemployment register each month (see Figure 2). The trend over recent years has been for in-flows and out-flows to be nearly equal, but every year a substantial number of people experience short-spells of unemployment. Over the lifecycle, this may well equate with a substantial cumulative period of unemployment for some individuals.

Figure 2
Unemployment in-flows and out-flows, 1986-2002



Source: Employment Service/Jobcentre Plus

Despite historically low unemployment rates, and monthly in-flows and out-flows tending on average to be equal, certain groups of people appear to be affected by its incidence rather more than others. A cursory glance at the claimant count statistics reveals that it is men more than women who are likely to be employed, and there are some geographical differences with the North East for example experiencing substantially higher levels of male unemployment compared to the South East. Long-term unemployment (six or 12 months or longer), although now being addressed through New Deal, still accounts for a large number of people, approximately one quarter of the unemployed stock. The benefits of full employment would appear to have bypassed some groups in society.

3. WHAT CONTRIBUTION CAN THE UNEMPLOYED MAKE TO SOLVING RECRUITMENT PROBLEMS?

Evidence from the *Work Skills in Britain* survey conducted in 2001 showed that there was an excess number of jobs (around 2.4 million) where no qualification was required to obtain that job (Felstead *et al*, 2002). This may be reflected in a large number of vacancies that are hard-to-fill, despite the fact that unemployed people would appear to be a potential source of recruits given what is known about the educational characteristics of this group. Indeed, evidence from the Employers Skill Surveys (1999-2002) has shown that many vacancies including hard-to-fill ones exist for jobs that require a fairly low level of skill (Hogarth *et al*, 2001; Hillage *et al*, 2002). On the face of it, there would appear to be few directly skill-related entry barriers to unemployed people, who typically have no qualifications or possess only rudimentary skills, obtaining employment where such vacancies exist. Moreover, as employment increases, unemployed people might be expected to be increasingly drawn into employment, simply as a consequence of labour demand beginning to outstrip supply. Nevertheless, high levels of unemployment persist in many areas, despite large numbers of unfilled vacancies.

One potential problem is to do with access. If unemployed people are located some distance away from employment opportunities then this may pose a formidable barrier. Much of the evidence relating to job relocation policy from the 1960s and 1970s reveals that this tended to fail in its objective of moving people to jobs (Beaumont, 1977).

What contribution can unemployed people make to filling recruitment problems? Recruitment problems (HtFVs or SSVs) were of modest proportions at the time of the study. In 2001, there were around 360 thousand HtFVs and 160 thousand SSVs (Hogarth *et al*, 2001). The occupational distribution of these vacancies revealed that substantial shares were found in lower level occupations: approximately 46 per cent of HtFVs were for personal service workers, sales/customer service workers, operatives, or elementary occupations. *Table 1* shows the density measure of HtFVs and SSVs between 1999 and 2002. This is defined as the number of SSVs or HtFVs expressed as a percentage of employment, in a given occupation. Over the last 2-3 years the density of recruitment problems by occupation has remained reasonably stable and fairly equally distributed across both high and low level occupations.

The importance of showing the distribution of recruitment problems by occupation is that it indicates the extent to which unemployed people might be recruited to jobs that are proving difficult to fill. A number of studies have revealed that unemployed people, other things being equal, tend to be less well qualified and less skilled than those in work. Higher level occupations are therefore unlikely to be filled by those that have been unemployed for long, but the evidence indicates that many of the jobs that prove hard-to-fill require, at most, a modest level of skill and are probably of a type that can be learnt quite quickly through experience.

Why is it then that in certain local areas employers with recruitment problems are unable to resolve these, despite large numbers of unemployed people being available? While it may be paradoxical at first sight that there are both 'jobs without

workers' and 'workers without jobs' in the same local area, there are number of plausible explanations exist for this phenomenon. These include:

- a mismatch in skills supplied and skills demanded - the stock of unfilled vacancies does not match the stock of unemployed individuals in terms of the skills and competencies required and available;
- problems with the operation of the local labour market in the allocation of workers to jobs and jobs to workers, such as poor individual job search effectiveness, and/or failures in the recruitment strategies of companies;
- temporal misallocations arising through sluggish adjustment and change especially in periods of rapid workplace developments, which may be exacerbated by more macro-based persistence effects in unemployment;
- occupational or geographical immobility at a micro level, perhaps related to local costs, relative wages and rigidities associated with home ownership and housing costs;
- high reservation wages amongst the unemployed relative to the employment opportunities available;
- functional differences in the geographical identification of 'local' labour markets (particularly for vacancies) especially in regions with high levels of commuting.

Perhaps most importantly, consideration needs to be given to the extent an individual's unemployed status signals to the employer that they do not possess the necessary qualities to merit recruitment. This might be more manifest in relation to people who have been long-term unemployed, but consideration also needs to be given to employer attitudes to those who have been unemployed for just a short spell.

Of course, unemployed people are only one source of recruits for employers. Generally speaking, people who are being made redundant tend to be older workers in full-time jobs often with a history of employment in the production sector, whereas new jobs are often part-time, and located in the service sector (Daniel, 1990). Whereas skill *per se* may not be a barrier to those who have recently lost their jobs filling the new jobs being created, they may often lack some of the characteristics necessary to secure employment. Moreover, there may be other groups in the labour market other than those already in employment who possess these characteristics in abundance. These include those looking to return to the labour market (e.g. women returners, or retired workers) as well as new entrants to the labour market (including migrant workers - especially in London - and students).

Before considering these general issues in more detail, it is important to provide a clearer picture of the geographical patterns of unemployment and recruitment problems at a local level. This is the subject of the next chapter.

Table 1
Vacancy, hard-to-fill vacancy and skill-shortage vacancy densities by occupation, 1999-2002

	Vacancies/ employment			Hard-to-fill vacancies/employment			Skill-shortage vacancies/employment		
	ESS 1999	ESS 2001 ^(a) (5+ ABI)	ESS 2002	ESS 1999	ESS 2001 ^(a) (5+ ABI)	ESS 2002	ESS 1999	ESS 2001(a) (5+ ABI)	ESS 2002
	%	%	%	%	%	%	%	%	%
All occupations	3.2	3.0	3.1	1.4	1.3	1.4	0.6	0.5	0.6
Managers/senior officials	1.5	1.2	1.1	0.5	0.4	0.4	0.3	0.2	0.2
Professional	1.3	2.1	2.0	0.5	1.1	1.1	0.3	0.7	0.7
Associate professional	4.4	4.8	5.1	2.3	2.0	2.1	1.4	1.1	1.2
Administrative/secretarial	3.1	2.3	2.3	0.8	0.7	0.6	0.3	0.3	0.3
Skilled trades	2.9	3.2	3.0	2.2	1.8	2.1	1.5	0.9	1.5
Personal service	6.0	3.1	3.6	3.0	1.7	2.0	0.9	0.5	0.8
Sales/customer service	5.7	3.2	3.5	2.2	1.2	1.2	0.7	0.4	0.2
Operatives	3.3	2.4	2.4	1.8	1.3	1.2	0.6	0.4	0.6
Elementary occupations	2.7	6.5	-(^b)	1.2	2.6	-(^b)	0.2	0.5	-(^b)

Base: All establishments

Source: Hillage *et al* (2002); STF Employers' Survey (IER/IFF), ESS 2001 (IER/IFF), ESS 2002 (IES/MORI)

Note: (a) ESS 2001 figures are based on all establishments excluding those with fewer than 5 employees and weighted on the basis of the Annual Business Inquiry (ABI)

(b) Estimates of employment by occupation were generated through the survey and, because occupational mix was not a sampling criterion, may not be accurate. The proportion in elementary occupations for example appears low and therefore the results for this group which are based on overall employment estimates have been omitted from the 2002 results presented here.

4. THE GEOGRAPHY OF RECRUITMENT PROBLEMS

Are people without jobs located in areas with high, unsatisfied labour demand? Recruitment problems will arise as a consequence of changes in the level of labour demand and the nature of that demand (with reference to the types of skill, qualification, and experience required by people to fill jobs).

For much of the late 20th century the debate about such issues in the UK was focused on the issue of a North-South divide. Typically during periods of economic buoyancy the North began to catch up the South, but during the downturn in the economic cycle, the North fell behind once again and unemployment rates rose more rapidly. The underlying causes of the reasons for the North-South divide are complex and relate to the reliance of the North on declining industries, dependence on branch plants (which may have only ephemeral ties to the local area), macroeconomic policy, and the impact of regional economic assistance. Talk of a North-South divide was essentially shorthand for a more geographically heterogeneous distribution of economic advantage. Parts of London, for instance, have endured levels of unemployment in recent years just as high as in the most disadvantaged parts of the North. Nevertheless, analyses have consistently pointed to a broad North-South divide, although there are important intra-regional variations.

The spatial analysis of the Employer Skills Survey 1999 (ESS1999) in Green and Owen (2001) showed a broad North-South divide in the incidence of HtFVs and SSVs and skill gaps. This evidence appeared to reveal that the level of labour demand was not only lower in the North but was also of a lower quality with respect to the level of skill typically required. Higher level occupations or skills were in lower demand in the North, both in terms of requirements from the external labour market and in terms of the skills demanded from an organisation's existing workforce. Inevitably the situation was more complex than this, with much intra-regional variation, but the North – South distinction stood out.

The spatial analysis conducted as part of the present project sought to update this earlier work and to develop a typology of local areas, based on the average levels of vacancies and unemployment in different local areas. This typology was then used to categorise those areas which exhibited paradoxically high levels of both unemployment and vacancies. The typology developed classified LLSCs according to whether they fell into one of four groups (A-D) defined as follows:

Group A

- greater than England average values on HtFV and SSV vacancy measures AND greater than England average values on unemployment/non-employment measures

Group B

- greater than England average values on HtFV and SSV vacancy measures AND lower than England average values on unemployment/non-employment measures

Group C

- lower than England average values on HtFV and SSV vacancy measures AND lower than England average values on unemployment/non-employment measures

Group D

- lower than England average values on HtFV and SSV vacancy measures AND greater than England average values on unemployment/non-employment measures.

Table 2 lists the LLSC areas in each of four categories A-D. As shown in *Figure 3*, LLSC areas in Group B are drawn overwhelmingly from southern regions, while in Group D, LLSC areas from northern regions predominate. The Midlands is well-represented in Group C. The cores of large metropolitan areas are the archetypal 'high unemployment, high vacancy areas' in Group A in this classification. Note that using ESS1999 data Green and Owen (2001) also highlighted that some London LLSC areas were characterised by high levels of unemployment coexisting alongside relatively high levels of HtFVs and SSVs. These areas were characterised by high levels of in-commuting.

**Table 2:
Typology of LLSC areas**

Group	LLSC area
A: greater than average values on vacancy measures and greater than average values on unemployment/ non-employment measures	London Central London East Cumbria Lancashire Birmingham and Solihull Devon and Cornwall
B: greater than average values on vacancy measures and lower than average values on unemployment / non-employment measures	Cambridgeshire Hertfordshire Surrey Sussex Berkshire Gloucestershire Bournemouth, Dorset and Poole Wiltshire and Swindon Staffordshire Bedfordshire and Luton Essex Hampshire and the Isle of Wight Hereford and Worcestershire
C: lower than average values on vacancy measures and lower than average values on unemployment / non-employment measures	Cheshire and Warrington North Yorkshire Shropshire Coventry and Warwickshire Lincolnshire and Rutland Northamptonshire Leicestershire Suffolk London South Kent and Medway Somerset West of England Derbyshire Norfolk
D: lower than average values on vacancy measures and greater than average values on unemployment / non-employment measures	Tees Valley Northumberland South Yorkshire Humberside Black Country London North Greater Merseyside Tyne and Wear Greater Manchester West Yorkshire Nottinghamshire London West County Durham

Source: Green and Owen 2002

The spatial analysis based on ESS2001 data also revealed evidence for the North-South divide in terms of recruitment problems (using both HtFVs and SSVs), but again intra-regional variation was considerable. This can be seen readily from *Figure 4* which shows the density of SSVs, (that is SSVs expressed as a percentage of employment in an LLSC). This map also shows quite clearly a concentration of high density of SSVs in south-central England: the area west of London stretching towards Bristol and extending north towards Oxfordshire and south to the English Channel. This area, of course, includes the Thames Valley, in which much of Britain's ICT and R&D base has been concentrated and which has an exceptionally large share of high value-added, high wage companies. A similar pattern emerges in relation to HtFVs (see *Figure 5*).

Figure 6 - based on the ILO defined measure of unemployment - shows how unemployment rates varied by LLSC area at the time of the study. Overall there was both a broad north-south divide, and an urban-rural one. It was also noticeable that Devon and Cornwall recorded relatively high rates of unemployment compared to the rest of the South West.

In short, despite the existence of some areas with both relatively high levels of unemployment and recruitment problems, the dominant finding from the spatial analysis of ESS2001 was that of the most acute recruitment problems being experienced in areas with relatively low, sometimes negligible, unemployment rates. Nevertheless, the spatial analysis confirmed that the co-existence of high vacancy rates and high levels of unemployment in some LLSC areas was not uncommon. The typology described above identified six out of 47 areas as having relatively high levels of unemployment (or non-employment) together with relatively high levels of HtFVs and SSVs¹. The evidence for the apparent breakdown in the UV curve is not confined to this category. There were also a further 14 LLSCs with both relatively low levels of unemployment and vacancies. These were also paradoxical according to the conventional understanding that there should be an inverse relationship between unemployment and vacancies. From a policy perspective, however, it is the former set of LLSCs with both high vacancies and high unemployment that is of greater interest.

ESS2001 identified not only the number of vacancies, but also the nature of the vacancies on offer. It is possible to distinguish within the total stock of vacancies, the number that the respondents consider are hard-to-fill, and also, the number that are hard-to-fill because of skill shortages². The spatial analysis utilised these distinctions. It found that there were either no statistically significant relationships between HtFVs or SSVs and local unemployment³ at the LLSC level, or where the relationship was significant it was weak. In the case of SSVs the finding is perhaps unsurprising – these are exactly the vacancies that the unemployed are least likely to

¹ Namely: London Central, London East, Cumbria, Lancashire, Birmingham and Solihull, and Devon and Cornwall.

² Skill-shortage vacancies are defined as those that the respondents state are hard-to-fill because of low numbers of applicants with the required skills, work experience or qualifications that the company demands. This is the definition of skill-shortage vacancies used in all previous analyses using the Employers Skills Surveys (see, Hogarth *et al*, 2001, Bosworth *et al*, 2000a, 2000b, *inter alia*).

³ 'Unemployment' is measured in four ways: as the claimant count rate; the long-term count rate (for those with unemployment durations in excess of 6 months); the ILO-defined unemployment rate; and the 'non-employment' rate for persons of working age.

be able to fill given the dominance of unskilled individuals in the unemployed stock. Hence the failure to find an inverse relationship between unemployment and skill-shortage vacancies is perhaps not so problematic for the conventional UV relationship, since this does not preclude the existence of a negative relationship between the remaining vacancies and the local unemployment rate. The econometric analysis and the case study work were designed to explore these issues in greater depth and provide an explanation for the patterns uncovered in the spatial analysis.

5. EXPLAINING VACANCIES AT NATIONAL AND LOCAL LEVELS

The need for a multivariate approach

The detailed bivariate graphical and statistical analyses of the ESS2001 data suggested that there was little relationship between all vacancies reported and unemployment at the LLSC area level. The spatial analysis also failed to find significant relationships between HtFVs or SSVs and local unemployment at the LLSC level. This is contrary to the expected negative relationship predicted by a Beveridge or UV curve. The spatial analysis also confirmed the existence of a small number of LLSC areas with paradoxically high vacancy and high unemployment rates. These give rise to concerns regarding the operation of the labour market in these areas and form the basis for the choice of case study areas.

While the confirmation of the co-existence of high vacancy rates and high levels of unemployment may seem to be paradoxical at first sight, there are numerous explanations of why this may arise. As set out in more detail in *Chapter 3* above, these include: 'mismatch' between the stock of unfilled vacancies and unemployed individuals; problems with the operation of the local labour market; temporal misallocations arising through sluggish adjustment; occupational or geographical immobility; high reservation wages; and problems of functional differences in the geographical identification of 'local' labour markets. Some, but not all of these were explored in the econometric analysis which is summarised in this chapter.

Perhaps the most obvious explanation for the so-called paradox is that it is due to structural and/or frictional differences within local labour markets. In the econometric analysis a detailed examination has been made of the underlying determinants of vacancies at the establishment level. This reveals the extent to which the many other factors which influence vacancies may serve to obscure any underlying UV relationship at the local level. Of course, these various explanations or reasons for what appears to be a breakdown in the local UV or Beveridge curve may be complementary rather than competing. Different policy conclusions and prescriptions also follow according to which, if any, of these explanations is supported by the empirical evidence. The econometric analysis sought to investigate further the nature of any link between vacancies and the local unemployment rate and to distinguish between these different explanations.

Explaining vacancies at the establishment level

Explaining, or predicting, the incidence or intensity of vacancies, HtFVs, or SSVs is difficult to achieve with any degree of precision. A number of observations need to be made about vacancies:

- the number of vacancies at any one time is large; the turnover of vacancies at any one point in time is also large and this introduces a great deal of variance into the analysis;
- for most individuals movement between jobs is accompanied by either no spell of unemployment or just short-spells out of work;

- more than half of all vacancies in England at the time of the survey were deemed not hard-to-fill, and the vast majority - over 80 per cent - of vacancies were unrelated to skill shortages.

There was considerable variance in vacancies between otherwise similar establishments. The multivariate analysis based on ESS2001, and including a wide range of variables known to be related to labour demand (size of establishment, local area, industry, local unemployment rate, and so on), revealed considerable variance in vacancies not accounted for by the observable and measurable differences between establishments. Most of the variance was within rather than between categories. Apparently similar establishments varied considerably in their tendency to report vacancies of any kind and in their vacancy rates (vacancies expressed as a percentage of vacancies plus employment). While a number of establishment and local area characteristics were significantly associated with higher levels of vacancies, much of the variation in vacancies between establishments remains 'unexplained'.

This may be due to unobserved heterogeneity between establishments (not measured by the various indicators used in the analysis). A more likely explanation is to do with heterogeneity in vacancies themselves. Aggregate monthly vacancy inflows and outflows are of the same order of magnitude as the total stock of vacancies. An establishment may have no vacancies to report when it is surveyed, but this reflects 'random' variation in timing which probably accounts for much of the 'unexplained' variation in vacancies. Although while it was possible to identify factors which were correlated with both vacancy incidence and vacancy rates, in general there was considerable intra-establishment variation in vacancies which cannot be accounted for.

Nevertheless, a statistically significant negatively-sloped UV relationship was identified at the establishment level. This relationship was strongest for all vacancies, and for non-skills shortage vacancies and weakest for HtFVs and SSVs (*i.e.* the types of vacancies Green and Owen (2002) focused on in their exploratory analysis). This is in accordance with labour market theory. Vacancies that the unemployed are least likely to be qualified for and thus able to fill are those where there was the weakest relationship. In this sense, there is evidence of skills mismatch or structural imbalance between the skills of the unemployed and the skills required in the vacancies on offer. It is important to remember that SSVs were relatively few in number, comprising just 0.5 per cent of all jobs; and only 1 in 5 of all vacancies. The negatively-sloped UV relationship was statistically strongest and greatest in magnitude for non-skill shortage vacancies. These comprised the majority of vacancies which can be regarded as approximating most closely the frictional vacancies which arise from normal labour turnover. In this sense, the econometric analysis has confirmed that local labour markets operate in the manner predicted by conventional labour market theory.

In other words, all else being held equal, higher levels of unemployment are associated with fewer vacancies. This does not rule out the possibility of the co-existence of exceptionally high levels of vacancies and high levels of unemployment in a particular local area. Other factors can outweigh the impact of high unemployment rates. The trade off envisaged by Beveridge still exists even though the simple pattern may be obscured by other factors.

The major finding from the econometric analysis, therefore, is the existence of a strong, statistically significantly negative relationship between establishment-level vacancies and local LLSC unemployment. The result is consistent with much of the previous time series and cross sectional evidence at both the aggregated and disaggregated levels. It confirms that local labour markets were operating in the manner suggested by conventional UV/Beveridge curve analysis. On average, vacancies were higher where unemployment was lower and *vice versa* once all else was taken into account.

Reconciling the spatial and econometric results

In essence, the econometric analysis was concerned with why the observed patterns observed in the spatial analysis occurred by controlling for some of the factors that might plausibly explain these patterns. Though the spatial and econometric analyses were designed to complement one another there are apparent differences in their conclusions that need reconciling.

Aggregating data to the LLSC area level is useful for many purposes, not least providing key statistics for the main administrative areas charged with responsibility for the delivery of skills development. But averaging out the variation in vacancies within LLSCs areas may serve to obscure some of the underlying UV relationship. Most of the variation in vacancies, as already noted, was within rather than between LLSCs, and thus this averaging process eliminates most of the variation that is of interest. There is a need therefore for a complementary analysis based on establishment level data. Analysing the data at an establishment level in the econometric analysis revealed that establishment, industrial, and local labour market characteristics were all systematically related to the vacancy incidence and the vacancy intensity. Differences in vacancy incidence and vacancy rates by establishment size were particularly notable.

Although the spatial analysis did not find a consistent statistically significant relationship between vacancies and unemployment, the relationship between vacancy incidence and vacancy intensity and the unemployment rate across LLSC areas was generally negatively sloped.⁴ Within LLSC areas high unemployment in one area may sit side by side with many vacancies in the adjacent borough. The lack of statistically significant results may also reflect the fact that in LLSC areas there were a number of significant outliers. These make it difficult to interpret the evidence at the LLSC level and may obscure the underlying relationship between V and U. The multivariate analysis enabled these factors to be explained by particular characteristics of the area or the establishments within it. Using this approach the expected UV relationship was found to be statistically significant.

Taking all of the above into account, the spatial and econometric analyses are broadly consistent with each other. Rather than seeing the econometric and spatial analyses as separate they should be seen as complementary with the spatial analysis - which was exploratory in nature - identifying patterns in the data that the econometric data could investigate using multivariate techniques. Most importantly both analyses show a downward sloping UV relationship consistent with the matching theories of the labour market and all of the previous literature across time and space, which suggests a negative relationship between U and V.

⁴ The results for travel to work areas (TTWAs) were less clear but this may reflect criticisms that some people have levelled off TTWAs as spatial units.

Are there distinct LLSC effects?

The typology developed in the spatial analysis suggested that some LLSC areas may have been atypical in the sense of having high values of both vacancies (V) and unemployment (U). In fact, the identification of LLSCs with 'high vacancies and high unemployment' is to some extent an artefact. The important question is whether they are significantly different given their characteristics. This is a difficult question to answer. With only 47 independent observations (the LLSC areas) there are limits to how far the spatial analysis can address this issue. In practice, it focused on univariate or bivariate analysis (relating V to U) because multivariate approaches, introducing more explanatory variables, are limited by the small number of observations. In order to relax this constraint and allow the use of a wider range of variables the econometric analysis focused on variations across the 27,000 establishments in the ESS2001 dataset. This enabled an assessment of whether the underlying relationship between V and U suggested by labour market theory existed or whether it had broken down in some areas.

The econometric results suggest that, conditional on the characteristics of the establishments and local labour markets, there were really no LLSC effects as far as the relationship between vacancies and unemployment was concerned. This implies that the exceptional character of category A areas - in Table 2 – is the particular characteristics of their labour market and the establishments within it, as measured by the various LLSC area indicators and establishments indicators used in the econometric analysis. There was clear evidence of a downward sloping UV curve across all the LLSCs (and also within each of the four groups of LLSCs developed in the spatial analysis). In effect, all LLSC labour markets were operating in much the same way (and in accordance with the expectations of labour market theory) so there was no paradox to be explained. Once the establishment characteristics, and the characteristics of the local labour market (including labour force characteristics, sectoral differences, *etc.*) were taken into account, an underlying UV curve was identified. Some LLSCs were above the curve and some below, and hence some individual LLSCs had more or less vacancies given their level of unemployment (and the other characteristics of their local labour market), but these off-the-curve observations were not significant or important enough to undermine the general pattern of a downward sloping UV curve.

If all of the local (LLSC) labour market factors measured could be removed and replaced with a set of LLSC dummy variables in order to measure individual LLSC effects, the implication of the econometric results is that some of these effects would be significantly different from zero. The positive and negative effects, however, could be explained by the LLSC-level variables introduced as explanatory variables in the econometric analysis. It is important to note that the factors taken into account included the buoyancy of the local economy and the "quality" of the local labour force. Hence, this conclusion does not imply that there is nothing for LLSCs to do in order to influence recruitment problems faced by establishments in their areas. One of their objectives is to have some influence on those factors that contribute to the efficiency of the matching process between the unemployed and the vacancies available. This includes influencing the local labour market characteristics. At the end of the day there were a number of LLSC areas that, in absolute terms, were faced with high levels of unemployment and a high number of vacancies that were proving difficult to fill. An action point for LLSCs is to solve, as far as is possible, this anomaly.

Effects of the New Deal

Another important issue which the econometric analysis addressed was the possible impact of the New Deal (ND). Two measures of New Deal activity at the LLSC level were included in the analysis. The level of participation in New Deal activities was computed as the number of ND participants in the LLSC area expressed as a fraction of total unemployment as at December 2000. The efficacy of the New Deal activities was captured by the number of unsubsidised jobs gained as a proportion of ND participants at the LLSC level. Clearly, the greater the participation in New Deal activities, and the greater the effectiveness of these activities, the lower should be the rate of unemployment for any given level of vacancies. Hence these two variables were expected to shift the UV curve inwards towards the origin.

In practice, the results indicated that where there are a large number of ND participants as a share of unemployment, vacancy incidence and vacancy rates were significantly higher. This may be a reflection of the characteristics of the stock of unemployed in that the higher the proportion of ND participation, the longer will be the average duration of unemployment due to the eligibility criteria for ND participation. The variables may therefore be picking up the effect of unmeasured characteristics of the local workforce (which make them unsuitable for the vacancies on offer) rather than a negative effect of the policy. Long duration unemployment spells are associated with greater 'scarring' effects whereby the skills of the unemployed depreciate from a lack of use. In addition, employers are increasingly unwilling to employ such individuals perhaps due to the adverse 'signal' that is engendered by a long period without employment⁵. Indeed, in areas of high unemployment employers reported a lack of people with experience as a reason for the occurrence of HtFVs and typically long-term unemployed people often lack work experience. Whatever the explanation, establishments located in areas with more ND participants as a share of unemployment were more likely to have had vacancies.

Conclusion

The spatial analysis demonstrated that there were LLSC areas that were exceptional insofar as they experienced relatively high levels of both unemployment and vacancies (and recruitment problems). In attempting to explain this so-called paradox the econometric evidence has revealed that the level of vacancies recorded in these LLSCs was as expected given the characteristics of establishments and local labour market conditions in these areas, although there was a lot of unexplained variation. The apparent paradox has been explained away by factors such as the labour market structure and labour market composition in each LLSC. Nevertheless, at a time of near full employment there remain a both a large number of vacancies that are proving hard-to-fill alongside a large number of people who are unemployed. Even if this is not a problem peculiar to a limited number of LLSC areas – in fact it is a problem common across most if not all LLSC areas – it remains a problem. The next two chapters explore the recruitment of unemployed people with respect to those employers experiencing recruitment problems.

⁵ Note that the evaluation evidence from New Deal reveals that it has been successful in reconnecting unemployed people with work - see Hasluck, C., *New Deal for the Long-term Unemployed: A Summary of Progress*, Employment Service Research and Development Report, ESR41, Sheffield, 2000

6. EXPLORING AREAS OF HIGH RECRUITMENT PROBLEMS AND UNEMPLOYMENT

The spatial analysis has revealed that there is some limited evidence of relatively high levels of unemployment and recruitment problems co-existing at the local level. Though the econometric evidence, despite the large amount of unexplained variation, suggests that there was no evidence for the so-called paradox once selected relevant variables had been incorporated into the model, there still remains an important question to be addressed about the extent to which employers are willing to recruit unemployed people at a time when the labour market shows signs of demand for labour outstripping supply. The level of vacancies and unemployment at the local level whilst explicable with respect to the industrial and labour market structures of each LLSC, still leaves unanswered an important policy issue. Within a number of LLSCs there were both high levels of unemployment and HtFVs. In other words jobs without workers, and workers without jobs. Given the historically high levels of employment at the time the study was conducted, what does it take to get the unemployed into jobs?

It is clear that at any one point in time there are both a large number of vacancies and unemployed people in the labour market due to the normal operation of the labour market.⁶ The econometric analysis suggested that there may be a number of reasons why vacancy rates may be high in particular localities, depending upon the characteristics of the establishments within the area and the structural characteristics of the area itself. These characteristics resulted in exceptionally high vacancy rates, despite high unemployment rates. They arise despite the fact that the underlying relationship between vacancy rates and unemployment rates remained as suggested by Beveridge. This suggests that these areas may not be exceptional, except in so far as they possess particular structural characteristics.

The more detailed case study analysis makes it possible to explore in more depth the attitudes held by employers to recruiting unemployed people in those areas where serious problems of recruitment co-exist with high unemployment rates. Even if most unemployment spells are of short-duration, it is still important to assess employers' attitudes to recruiting unemployed people, lest recurrent spells of unemployment become associated over time with a more precarious labour market position.

Ideally, for selection as a possible case study area, a LLSC area would display a relatively high level of vacancies in conjunction with a relatively high level of unemployment. With such a conjunction of characteristics, the qualitative case studies were designed to explore the role of:

- skills mismatch,
- shortcomings in job allocation mechanisms,
- motivation of the unemployed,

⁶ It should be noted that by both historical and international comparative standards the rates of unemployment and vacancies were quite low in 2001.

- employers' search strategies, and
- other factors

as possible reasons for the coexistence of relatively high levels of vacancies and a relatively high level of unemployment.

On the basis solely of this empirical analysis (and taking no other considerations into account), the most appropriate candidates for possible case study areas were those identified in Group A of the classification presented in Table 2 included:

- *London East or London Central LLSC areas*⁷ – most LLSCs in the London region were characterised by a relatively high level of vacancies and also relatively high levels of unemployment and non-employment
- *Birmingham and Solihull* – this LLSC area recorded one of the highest percentages of establishments with SSVs and HtFVs of any LLSC area, although on density measures the vacancies represented a slightly lower than average percentage of employment. However, unemployment and non-employment rates were considerably in excess of the England average.
- *Cumbria* – this LLSC area recorded amongst the highest incidence of SSVs and HtFVs of any LLSC area in northern England, coupled with an unemployment rate and non-employment rate slightly in excess of the England.

Another candidate for selection was:

- *Lancashire* – recorded amongst the highest incidence of SSVs and HtFVs of any LLSC area in northern England outside Cumbria. Values on the unemployment and non-employment rate indicators were similar to, or slightly above, the England average.

In selecting candidate LLSC areas for qualitative case studies, it was crucial to consider the number of establishments in terms of operationalising the research. It was important that LLSC areas with small numbers of establishments where SSVs and HtFVs were reported in ESS2001 were excluded⁸. Accordingly, it was decided to drop Cumbria from the selection and concentrate on:

- Birmingham and Solihull;
- East London;
- Lancashire.

The principal characteristics of these areas, compared to those of the average area in England, are outlined in *Table 3*. Whilst all three LLSC areas were characterised by the co-existence of relatively high levels of unemployment alongside a relatively high incidence of recruitment problems, a number of other similarities and contrasts are apparent:

- the claimant count measure of unemployment was historically low across all three areas (as it was nationally);

⁷ These two LLSC areas adjoin each other, with the City of London included in London East, and the City of Westminster included in London Central.

⁸ At least in terms of forming a case study area in their own right. Cumbria, for example, is one such area, since it has a relatively small number of establishments reporting hard-to-fill and skill-shortage vacancies.

- Birmingham and Solihull recorded the highest levels of unemployment and recruitment problems, suggesting that the degree of mismatch was much more pronounced in this LLSC;
- the industrial and occupational structures varied, both in comparison to England and between the three LLSC areas.

Generally, the case studies concentrated on employers' attempted to recruit people to occupations where skill was not a formidable barrier to obtaining the jobs. In relation to these jobs, employers reported that they sometimes received no applicants at all, or that applicants did not possess 'generic skills' which were often more related to personality traits than skills that could be taught and learnt. Nevertheless, employers regarded these traits as 'skills'.

Table 3
Characteristics of the local labour markets in three areas in 2001

	Birmingham and Solihull	East London	Lancashire	England
Vacancies				
% establishments reporting vacancies	33.8	18.5	18.3	14.5
Number of vacancies	21,098	56,901	12,340	768,929
Hard-to-fill vacancies (HtFVs)				
% establishments reporting HtFVs	17.2	10.5	9.2	7.5
HtFVs as a % of employment	1.67	1.70	1.35	1.73
Number of HtFVs	7,940	15,526	6,568	355,943
Skill-shortage related HtFVs (SSVs)				
% establishments reporting SSVs	6.3	7.2	5.8	3.7
SSVs as a % of employment	0.67	1.12	0.90	0.77
Number of SSVs	3,170	10,210	4,371	158,056
Labour market indicators				
Claimant unemployment rate (%)	5.8	4.7	3.4	3.4
Long-term unemployment rate (%)	2.9	2.1	1.0	1.3
ILO unemployment rate (%)	9.3	8.2	5.1	5.1
Non-employment rate (%)	34.4	34.1	26.7	25.2

Source: Green and Owen (2002); ESS2001 (IER/IFF); NOMIS

HtFVs arose in some instances as a consequence of poor pay and conditions, resulting in employers being unable to attract staff of the calibre required. Typically, these were reported by employers with vacancies for unskilled/semi-skilled jobs, where the tasks could be learnt by doing during induction training. HtFVs for higher level occupations were explained more with respect to an absolute shortage of the skills required in the labour markets in which they attempted to recruit.

In all three LLSC areas there was an above average unemployment rate, but the stock of unemployed people were thought to be insufficiently equipped to fill the jobs on offer, even though there was no real, technical skill barrier to them taking these jobs. Language difficulties (especially in East London), general presentation, and

attitudes towards work were said to bar many applicants being appointed. Travel was also cited as a barrier in Lancashire.

Arguably, better pay and conditions would attract applicants of the quality required, but this would tend to stimulate competition between employers for the existing stock of employees. Employers in all three areas reported that there was already strong competition between employers for staff hence the need to pay attention to retention as well as recruitment. Nevertheless, labour turnover was reported as high in some industries such as retailing, where labour demand was such that employees could move quite effortlessly between employers.

Employers generally provided training to new recruits (induction training) and on-going training to existing employees. With the exception of a few larger establishments, there was only limited evidence to suggest that training behaviour had been altered in response to recruitment problems, although there were examples of where the opposite was true. High labour turnover often acted as a disincentive to employers to train their workforce. Employers tended to 'muddle through' in response to recruitment problems, that is they made the best of available resources but most did not significantly alter their behaviour in response to HtFVs or SSVs. In other words, employers were slow to react to the recruitment problems they faced. Few examples were obtained of human resource planning that sought to bring in people at a low level and develop them to fill skilled jobs. With the exception of a few large establishments, employers appeared to react to skill needs as and when they arose, rather than anticipating them in advance, despite the fact that many of the recruitment problems they experienced had been long-standing.

All case study employers recruited from their local area. The definition of 'local area' adopted by employers was variable and influenced by a variety of factors including rural/urban location of the business (especially in Lancashire), proximity to the Motorway network, reliability and cost of public transport, the type of occupation, and the reputation of the employer (good employers can draw staff from further afield). Employers, however, were also beginning to look further afield for some staff, especially nurses who were being recruited from South Africa. Employers in East London, especially in the hospitality industry, relied upon itinerant, transitory labour to fill vacancies for a variety of jobs requiring low level skills.

Because nearly all of the employers - in a non-representative sample - had experienced recruitment problems they tended to regard this as a failure of the labour market to deliver the people (and skills) they required. This was often presented as a skill problem. In some instances it reflected the absolute shortage of people with certain technical skills in the external labour market, or with the types of inter-personal and generic skills required. In other instances, however, relatively poor terms and conditions of employment or insufficient attention paid to labour retention were also related to the recruitment problems employers faced.

It also needs to be borne in mind that some employers, especially for vacancies requiring sophisticated technical skills, set high standards when recruiting staff. Indeed, some were unwilling to recruit if the standard could not be met. It is possible to infer from this that the persistent recruitment problems encountered by some employers were a consequence of setting unrealistically high recruitment criteria. But it also needs to be remembered that many employers were just looking for a fairly basic set of generic skills related to numeracy, literacy, and time keeping and found these difficult to recruit, especially so in East London. In these cases, where

other terms and conditions of employment were not significantly below the local average, it cannot be concluded that employers' expectations were being set too high.

A number of other supplementary comments were made by employers about local labour markets:

- the impact of the benefit system such that unemployed people did not find it financially worthwhile to take the semi-skilled jobs on offer (especially in East London);
- the role of the informal economy which acted as a disincentive to applicants otherwise suited to lower level, lower paid jobs (especially in East London);
- the competition from the education sector for younger recruits.

Overall there was a commonality of experience reported by employers across all three LLSC areas: simply that the extent of excess labour demand was such that employers were experiencing quite severe recruitment problems with a consequent detrimental impact on their organisational performance. In many respects employers' recruitment problems arose because their preferred stock of people from which they recruited – those already in possession of the skills and experiences required – were already in employment. Employers were therefore engaged in the process of trying to attract staff already in work. This raises questions about the extent to which the stock of unemployed people actually, and potentially, provide a reserve stock of labour. This is addressed in the next chapter.

7. EMPLOYERS' ATTITUDES TOWARDS THE UNEMPLOYED

Employers' attitudes to unemployed people

The case studies suggested that employers were in many instances implicitly looking to recruit people who were already employed. The ideal was to recruit people who were already employed in the same or similar job. In some instances this took the form of providing terms and conditions of employment that were above the industry standard. This, however, might suggest a degree of explicit policy formulation that was not really evident from the case study interviews. Employers tended to believe that they paid, or provided terms and conditions of employment, that were at least as good as the average in their locality for their industry. But an element of uncertainty must be attached to the amount of labour market information possessed by the smaller and medium sized workplaces without human resource or personnel departments.

Unemployed people were considered a potential source of employees by many employers. Employers indicated that they would not discriminate against someone just because they were unemployed. In reality, relatively few employers thought that the unemployed were a realistic source of the type of labour they were looking for. More attention was paid to the economically inactive and the capacity of retired workers, migrant workers, and 'women returners' to fill jobs. It should be noted that in many areas these reserve stocks of labour were becoming highly sought after. Where employers expressed a preference for, say, older workers, there was evidence that they were becoming difficult to recruit.

There is a need to distinguish between short-term and long-term unemployed people. Where employers referred to unemployed people they were mainly talking about the long-term unemployed. Some employers reported that unemployment was an unfortunate fact of life nowadays, and so would not automatically rule out recruitment because of it. But in these instances they were talking about short-term unemployment. In other cases, job history, especially for higher level occupations, was an important means of clearing the first hurdle of the recruitment process: the screening of application forms for selection of candidates for interview. Long breaks in a career history could disadvantage applicants at this stage.

Some employers reported that they had, in the past, recruited unemployed people, but had found the experience unfavourable and were put off recruiting them again. These employers referred to unemployed people's lack of preparedness to take up employment and/or their tendency to quit work with little notice to the employer.

The rest of this chapter looks in more detail at employers' recruitment practices and the extent to which they facilitate or inhibit the recruitment of unemployed people.

Employer recruitment practices

Employers claimed that they used recruitment practices that were efficient. This may or may not be true. What is much more clear is that their recruitment practices were far from open where they rely upon informal networks and where vacancies are never advertised. This is not to suggest that all vacancies should be notified to the Jobcentre, but there is the possibility that if vacancies were more openly

communicated the response might be improved with regard to both the quantity and quality of recruits. This suggests that a policy intervention to persuade employers to use such methods more frequently or intensively might be desirable. This would need to take account of the costs that this might pose on employers.

Employers in general reported that whilst they did not target unemployed people as a source of possible recruits they did not rule out candidates who were unemployed. One employer with HtFVs for associate professional staff said that redundancy was an unfortunate fact of life in the IT industry in which they operated, and for this reason they would certainly not rule out an applicant because they had been made unemployed. That said, the actions of employers – often based on their past experiences – lowered the likelihood of an unemployed person being recruited. In fact, examples of employers actually recruiting an unemployed person were scarce across the case studies. Reasons for unemployed people not being recruited related to:

- not using the Jobcentre (*see below*);
- use of informal mechanisms to recruit people;
- a feeling that unemployed people did not possess the skills they were looking for (*i.e.* ‘skilled people are never unemployed’);
- concerns over why a person had lost their last job;
- a preference for a continuous employment record.

There were some employers who did target unemployed people. This stemmed in part from the political and economic status of an organisation in the local economy. Some of the very largest employers were involved in a number of programmes and networks in their local areas to foster social inclusion. To this end they were sometimes involved in establishing a nearby Jobcentre that would reach out to local areas experienced high levels of unemployment. This was far from typical.

Use of the Jobcentre

Respondents were specifically asked whether they posted their vacancies in Jobcentres. Responses from employers across the three areas tended to report the same experiences:

- where skilled labour was required the Jobcentre was not considered as an appropriate mechanism for recruitment;
- recognition that the Jobcentre was a source of unskilled labour but that the supply was of poor quality for the following reasons:
 - applicants often did not possess the specific characteristics the organisation required (*e.g.* timeliness, good presentational skills, *etc*);
 - applicants appeared to employers to have little interest in the work on offer with some employers reporting that they thought applicants turned up out of duty to the Jobcentre;
 - applicants failed to arrive for interview;
- where Jobcentre supplied applicants had been appointed they tended to part company with the organisation quite soon afterwards.

In some instances, employers reported that their Equal Opportunities policy necessitated them sending all vacancies to the Jobcentre. On the whole, however, Equal Opportunity policies did not mandate that vacancies had to be posted with the Jobcentre.

Occasionally comments about the Jobcentre were severely critical, especially where they thought that applicants obtained *via* the Jobcentre were doing so to maintain their benefit entitlement. A leisure company personnel manager made the following comments on the quality of applicants that came through the Jobcentre:

It's just a waste of time with these people. They go through the motions because they have to, and they put in applications and then usually don't turn up for interview. When they do turn up, they often have absolutely no idea what the job entails

Whilst this view was put somewhat fulsomely in the above example, similar sentiments were expressed by a number of employers, especially in East London. Nevertheless, there were examples of establishments that found the Jobcentre a useful means of recruiting:

The Jobcentre is the most effective way of advertising and the company has taken on many people who have had periods of unemployment. The service has improved over the past 12 months when there have been some reorganisations. One of the benefits is that adverts are placed in a larger area (including Internet) which increases the pool of potential applicants. They have also provided advice on the wording of advertisements and sent useful information. The Business Link has also offered some advice and we have committed to the Investors in People Standard.

Though the above comment was far from typical, it nevertheless revealed that some employers found the Jobcentre as beneficial to recruitment. Without doubt, the Jobcentre will be one of the main sources (if not the main source) of job openings to unemployed, especially long-term unemployed people looking for semi-skilled work.

Informal recruitment problems and equal opportunity of recruitment

Recruitment policies, if they are to satisfy an equality of opportunity criterion, need to make vacancies open to everyone who might be reasonably expected to be able to fill them. This was patently not so with respect to the case study evidence. Informal methods of recruitment have grown in importance (Hasluck and Hogarth, 2001) – and these potentially disadvantage the unemployed, as well as other social and demographic groups. One cannot be certain about the extent to which these informal methods disadvantage the unemployed other than to say that some were based around communicating vacancies through networks that were more accessible to those in employment. The use of informal methods of recruitment unearthed by the case studies was quite striking. Some employers reported that there were so few potential applicants for the jobs they had on offer – including skilled and semi-skilled jobs – that communicating vacancies through the usual channels (*i.e.* newspapers, Jobcentre) was a waste of time and effort. In preference employers relied on encouraging the existing workforce to persuade friends and relatives to apply for jobs (for which there was a reward) or using a range of other social and business networks. These arrangements were often long-standing.

Employers tended to be slow to change their recruitment practices, but what works in a labour market characterised by excess demand will be markedly different to one where there is excess supply. Employers in some instances had not changed their recruitment practices despite rising levels of employment. Except in the larger organisations with formal equal opportunities policies, little consideration was given

to the wider implications of a recruitment policy. Employers were simply interested in obtaining a relatively limited number of applications from people who were all well suited to fill the job on offer. They also tended to regard their current practices as being as efficient as they could be. Recruitment practices in many cases had developed through custom and practice and what worked efficiently possibly relied more on instinct than any formal assessment of what really worked well.

Employer experiences of New Deal

A small number of employers reported that they had taken on staff through the New Deal. This is a non-representative sample and readers are pointed to the detailed reports published by the Employment Service/DWP⁹. In the few examples where employers reported that they had recruited someone through New Deal, the general conclusion was that (a) New Deal participants were not always well suited to the job on offer, and (b) there were problems associated with the administration required to obtain New Deal placements. In some cases, despite contacting respondents *via* the New Deal database, employers were not always aware that they had recruited someone through the New Deal. This is not unusual in cases where the recruit is unsubsidised. In these cases, employers' views of recruitment through New Deal became conflated with those of recruitment of long-term unemployed people.

Employers' recruitment demands

It should be noted that some employers want everything and then more. Their recruitment problems stem from wanting a lot of skills *per* pound of wages paid. There is much they can do to solve their own problems, such as raising wage rates, lowering recruitment standards and then using training and development to make up the difference between skills available and those required, or recognising the particular problems and characteristics that exist in their local labour market. For example, employers in larger establishments sometimes recognised that if they wanted people to work in cleaning jobs paying relatively low wages, where the hours of work included late nights or early mornings, then some transport provision was required. It was too much to expect that employees would have access to private transport. Examples such as this, however, were exceptional. Nevertheless, the solution to some recruitment problems does clearly lie in employers' own hands.

It is clear that as employers are pushed increasingly to consider unemployed people for the jobs they have on offer – given the level of labour demand – they will need to change their recruitment practices. There is also a role for labour market intermediaries here. Given employers' comments on the preparedness of unemployed people (that is the long-term unemployed) employers will need assistance in retaining these people in work.

⁹ Hales, J, D. Collins, C. Hasluck, and S. Woodland, *New Deals for Young People and the Long-term Unemployed: Survey of Employers*, Employment Service Research and Development Report, ESR58, Sheffield; 2000; Hasluck, C., *New Deal for the Long-term Unemployed: A Summary of Progress*, Employment Service Research and Development Report, ESR41, Sheffield, 2000; Hasluck, C., 'Lessons from the New Deal: Finding work, improving employability', *New Economy*, Vol.8, Issue 4, pp.230-234

8. CONCLUSION AND POLICY IMPLICATIONS

Geographical patterns of recruitment problems and unemployment

This project began with a question about whether people without jobs were located in areas with high, unsatisfied labour demand. The evidence from the spatial analysis revealed that recruitment problems tend to be concentrated in southern England between west London and Bristol, stretching north into Oxfordshire and south to the English Channel. In general these are areas of low unemployment. However, the spatial analysis indicated that there are a few LLSC areas where high levels of unemployment and serious recruitment problems co-exist.

This appears to be contrary to conventional labour market theory, which suggests that there is an inverse (negative) relationship between vacancies and unemployment (often referred to as the Beveridge curve). Bivariate statistical analysis across LLSC areas suggests that there was either no such relationship or that if it existed it was weak.

Establishment level data confirms that the Beveridge curve still exists

This problem may arise for a number of reasons. Detailed econometric analysis of establishment level data using multivariate methods enabled an assessment of the extent to which other factors confounded the relationship uncovered in the spatial analysis. Although the econometric analysis revealed that it was quite difficult to predict recruitment problems precisely because of the huge variance in the data, there was *prima facie* evidence that recruitment problems were more likely to occur in areas of the highest labour demand. Once account was taken of local labour market and establishment characteristics in a multivariate analysis, the underlying relationship between vacancies and unemployment was revealed. Inevitably, there were some areas where structural characteristics or the particular features of the establishments located there meant that high levels of unemployment coexisted with serious recruitment problems. Even in areas of high labour demand, where unemployment levels were low, unemployment can still affect a great number of people. The question therefore arises as to what contribution can unemployed people make to filling such hard-to fill vacancies?

The unemployed as a source of labour

The unemployed stock is composed of a snap shot of what is, in reality, a constantly moving picture. They are not a clearly identifiable socio-economic group with permanence. The large majority of people who lose their jobs find some kind of new work fairly quickly. Parts of the dynamic processes can be well illustrated by the closure of a major employer in an area of high unemployment. Local unemployment rises but not because the displaced workers become unemployed. They tend to be prime labour, who quickly take up whatever jobs become available, even though that may involve downgrading. The major costs are experienced by the more disadvantaged workers. It is they who tend to become unemployed or are already in the stock. They experience longer durations. In consequence, the composition of the unemployed stock remains remarkably similar at different rates of unemployment.

The above process is partly recognised by at least one of the employers in the case studies. But, generally, the picture stands in marked contrast to the way the unemployed are seen by most employers. Their view of the unemployed is principally shaped by the long-term unemployed who make up such a large part of the stock at any time and whose characteristics are so well known; largely low skilled, older and less healthy workers.

Structural imbalance in the demand for and supply of skills

Why is it that in certain areas employers with recruitment problems are unable to resolve them despite high levels of unemployment in the same area? In part it is a problem of structural mismatch. The trends in the composition of the national labour force compared with that of the registered unemployed stock are well known. There has been a marked decline in traditional male manual jobs, particularly low skilled jobs, especially in manufacturing industry; and a relative increase in non-manual jobs in the service sector. The number and proportion of part-time jobs has increased markedly and female participation rates have also shown a steady and marked increase.

The processes involved are most clearly revealed in the case studies by the extent to which the unemployed stock and the long-term unemployed are, implicitly or explicitly, in competition with other categories; women returners; the early retired or retired; students; and migrant workers (especially in London). It is clear that the unemployed stock is only a small part of the reserve labour force and it is a heavily disadvantaged part for a host of occupational, social, demographic and psychological reasons.

The reality is that the part of the labour market in which most unemployment is occurring only partially overlaps with the segment of the market that is experiencing the generation of most new jobs. This may be most clearly illustrated by the sources of new recruits following an up-turn in the economy.

Impact of the New Deal

Evaluation evidence of New Deal shows that it has been successful in connecting unemployed people with work. In terms of policy, the econometric analysis presented in this report suggests that contrary to prior expectation, the incidence and intensity of New Deal measures in a local area seem to be positively rather than negatively associated with recruitment problems. This may be a spurious result, the New Deal indicators simply picking up some unmeasured characteristics of the local labour force that indicate a mismatch of skills available compared to those required. They do appear to indicate that New Deal participants are not gaining employment despite job opportunities being available. This confirms the conclusion from the case studies report, which finds that, amongst the small number of employers who had employed staff through the New Deal, the general impression was that the New Deal participants were not always well-suited to the jobs on offer. This mismatch was exacerbated by some problems associated with the administration required to obtain New Deal placements.

Lessons for employers and policy makers

Employers who are engaged in the continuous development and training of their staff appeared, from the case studies, to experience fewer recruitment problems. This

was a consequence of having trained people coming through the occupational hierarchy to fill skilled jobs as they arose and lower labour turnover (itself associated with training and development).

A large number of part of occupational skills are organisationally specific. This is the case even for occupational groups with nominally transferable skills. In order to effectively exercise their skill, recruits need to become familiar with the structure, customs and practices, and culture of the organisation they are joining. They need to be fully inducted and not left to sink or swim. This is apparent from the experiences of employers in the case studies who had attached priority to improvement in induction and initial training. However, the interviews with the majority of employers appeared to suggest that they expect to find new recruits who will be fully effective from day one. That is wholly unrealistic.

The early weeks of a period of employment are critical. It is common experience, again apparent in a number of the case studies, that new recruits tend either to leave quickly or to stay for a long time. Investment in induction and initial training can substantially reduce recruitment and retention costs. In addition, it is apparent that the failure of employers to induct new recruits into new jobs satisfactorily can contribute substantially to recurrent unemployment. The recurrently unemployed need a period of stable employment to establish themselves firmly back in work.

The evidence points to a number of LLSCs having high levels of both unemployment and recruitment problems (either HtFVs or SSVs). The evidence indicates that the relationship between unemployment and vacancies is least strong in relation to SSVs as opposed to all vacancies. The implications of this is that if unemployed people are to affect the level of recruitment problems experienced in LLSCs – especially those identified in group A (*see p. 11 and Table 2 p 12*) – attention needs to be focussed on how the stock of unemployed people may acquire the skills to take on these jobs. At one level, this is not to suggest that poorly skilled unemployed people be quickly provided with skills take many years to acquire. Rather it is a call for those skills that will allow them to fill jobs that demand a modest or rudimentary level of skill. Many SSVs are associated with jobs requiring lower level, typically generic skills.

At another high skill level it is unrealistic to expect unemployed people to fill SSVs. If recruitment from among the unemployed is to play a part in filling skill shortages, this is more likely to come about indirectly than directly. That is to say, the more effective strategy for employers is likely to be to fill skilled vacancies by upgrading existing semi-skilled or unskilled workers; and then filling semi-skilled and unskilled vacancies with recruits who are more widely available; rather than expecting to find ready-made skilled workers from among the unemployed stock.

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GLOSSARY

Hard-to-fill vacancies (HtFVs) are those vacancies classified by the respondent as hard-to-fill.

Skill-shortage vacancies (SSVs) were defined as hard-to-fill vacancies which were skill related where at least one of the following causes was cited by the respondent: low number of applicants with the required skills, lack of work experience the company demands, or lack of qualifications the company demands.

Recruitment problems or difficulties refer to either hard-to-fill or skill-shortage vacancies.

Density of vacancies: vacancies expressed as a percentage of employment.

Vacancy rate: vacancies expressed as a percentage of vacancies plus employment.

Skill gaps, or internal skill gaps, is the extent to which employers perceive their employees' current skills as insufficient to meet current business objectives. Respondents in the ESS surveys were asked to comment on an occupation-by-occupation basis about the extent to which employees were 'fully proficient at their current job'. In order to gauge the extent of skill gaps survey respondents were asked:

What proportion of your existing staff at this establishment in [a particular occupation] would you regard as being fully proficient at their current job: all, nearly all, over half, some but under half, very few?

Skill deficiencies refer to the sum of skill gaps and skill shortage vacancies.

Establishment based measures provide an estimate of the total number of establishments reporting a given skill deficiency.

Employee based measures weight establishment data by the total number of employees at the establishment.

Weighting is undertaken to adjust for sample design and non-response to ensure that the survey results are representative of the population of employers. Weighted data are also grossed up to population estimates in the weighted base provided in each table.

Weighted base refers to the base for percentages according to whether it has been weighted according to the employee or employer based measure.

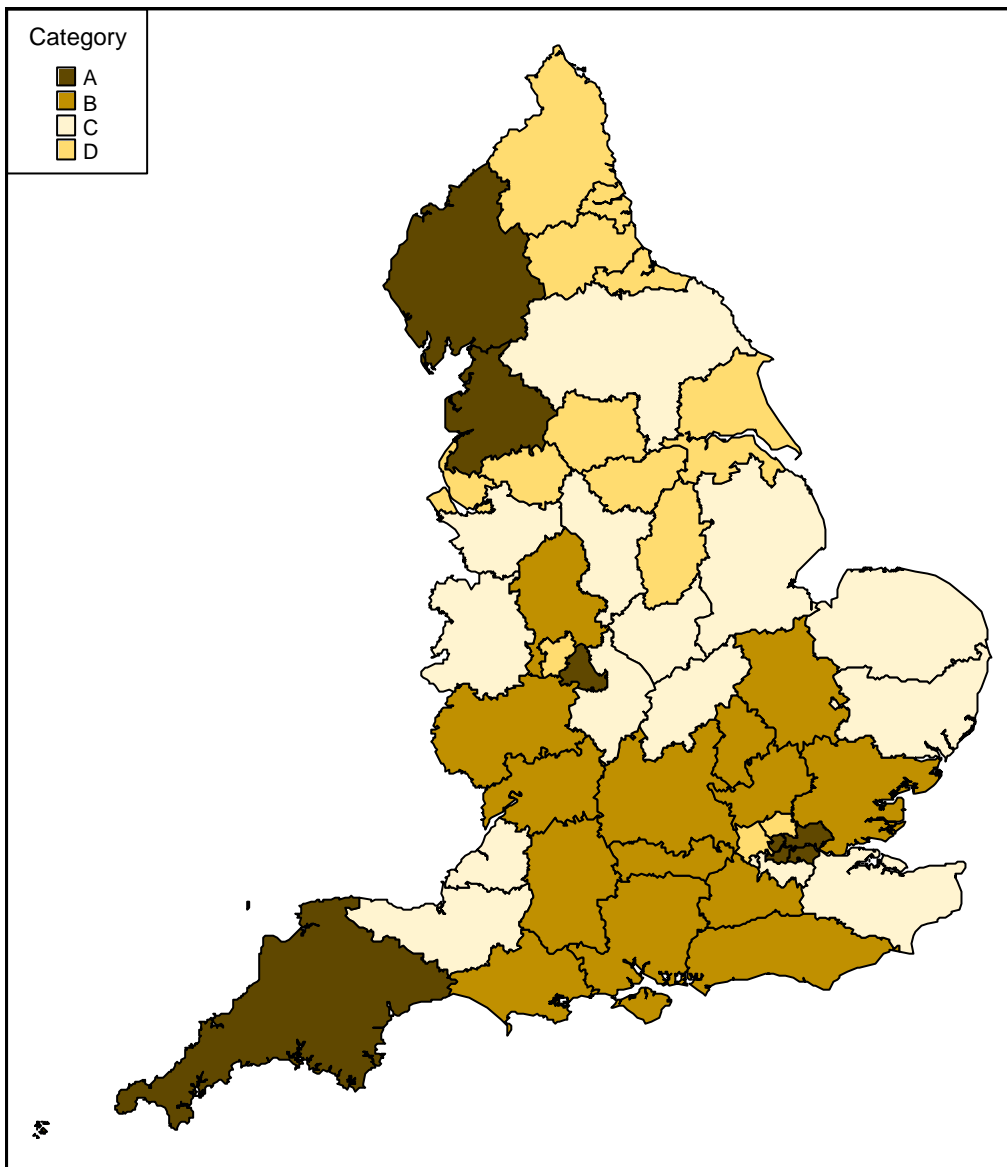
Unweighted base refers to the raw survey data.

Employers Skill Survey 2001 (ESS2001) provides comparative data for England relating to vacancies, HtFVs, and training activity. This was a survey funded by the Department for Education and Skills (DfES), undertaken on their behalf by IFF and IER, and included 27,000 interviews with employers.

Exploring Local Areas, Skills and Unemployment (ELASU) project is concerned with understanding the relationship between the incidence of relatively high unemployment rates and hard-to-fill vacancies at the local level.

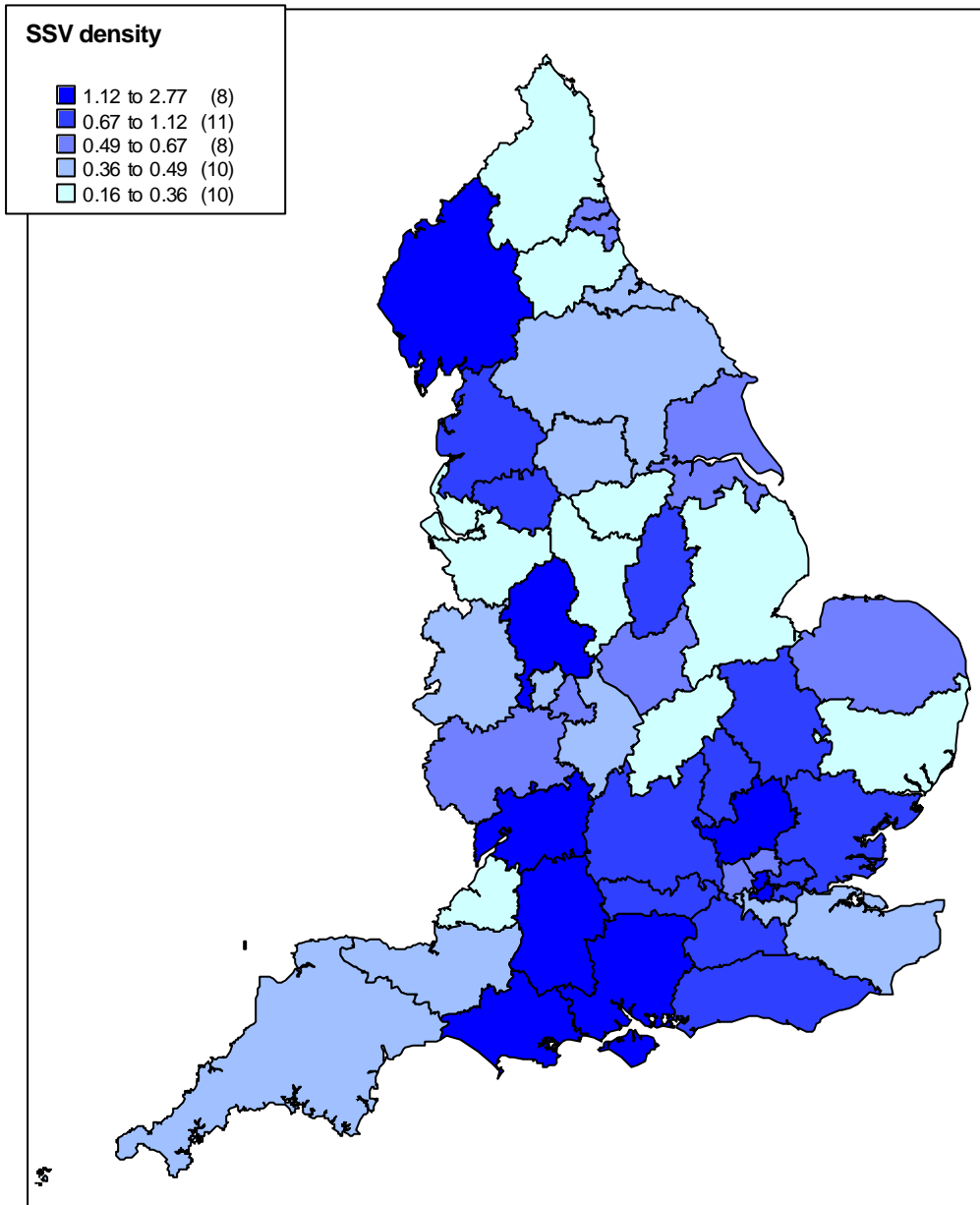
Local Learning and Skill Councils (LLSC): refers to the areas covered by the 47 local arms of the national Learning and Skill Council

**Figure 3:
Classification of LLSC areas**



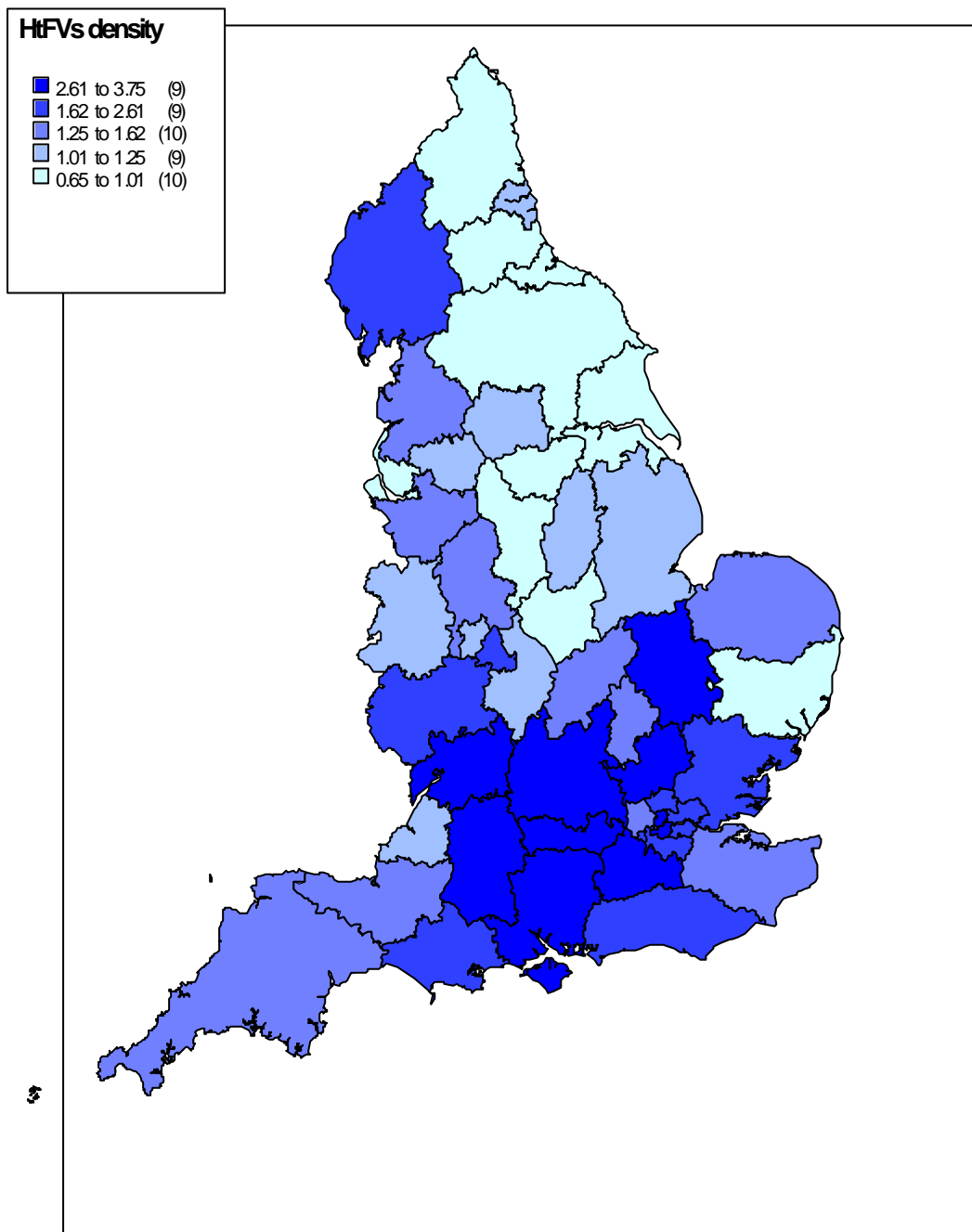
Source: Green and Owen (2002)

Figure 4:
Density of skill-shortage vacancies – LLSC areas



Green and Owen (2002)

Figure 5:
Density hard-to-fill vacancies – LLSC areas



Green and Owen (2002)

**Figure 6:
Unemployment rates by LLSC areas**

