



Key Messages from Skills in England 2002



Learning+Skills Council

The *Skills in England 2002* report has been produced in association with the Department for Employment and Skills (DfES), Sector Skills Development Agency (SSDA), and the Regional Development Agencies ((RDAs) - represented by North West RDA)

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education and skills
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Chairmans foreward

I am very pleased to introduce the *Skills in England 2002* report which represents a central part of the evidence base necessary for the LSC to meet its ambitious mission: to raise levels of skills, knowledge and understanding for all adults and young people, to world class standards.

The *Skills in England 2002* report is the second in what will be a series of annual skills assessments to be undertaken by the Learning and Skills Council, as recommended by the National Skills Taskforce. The report aims to synthesise and review the available evidence on the demand for, and supply of, skills in England. The report identifies the main dimensions of skills deficiencies and imbalances, and presents the key messages that need to be taken into account when developing future strategies to effectively meet the skills agenda. This year's report seeks to build on the findings of the 2001 report, by including more detailed skills evidence at a sectoral and local Learning and Skills Council level.

In addition to informing the LSC's own policies and strategies, we believe that this body of evidence will be of value to many organisations, including: those who plan, fund or deliver education and training provision; those advising individuals (young people and adults) and employers.

The LSC is committed to working with partners to improve the knowledge and evidence base on skills issues, and the collaboration shown in the production of this document graphically demonstrates how valuable partnership working can be.

Finally, I would like to take this opportunity to urge all who have a role to play in England's skills agenda to read and use the information and evidence presented here to help create the world-class skills base that is required in an increasingly competitive global economy.

Bryan K Sanderson, Chairman

Acknowledgements

This summary report has been produced by Warwick University's Institute for Employment Research (IER) on behalf of the Learning and Skills Council (LSC), in association with the Department for Education and Skills (DfES), the Sector Skills Development Agency (SSDA) and the Regional Development Agencies (RDAs). It is part of a suite of reports. This includes the full *Skills in England 2002* report, which is published in two volumes.

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The authors of the report remain solely responsible for the content of the report (including any remaining errors) and the opinions expressed.



Key Messages from Skills in England 2002

1.1 *Key Messages* sets out the main findings and broad policy implications from the Learning and Skills Council's *Skills in England 2002*. At its core is the fundamental idea that **skills matter**, for individuals, organisations and society more generally. While by no means a new message, it is argued that it has still not got through to some groups within society. A number of other challenges and findings are highlighted:

- The **supply of skills is growing** but there are still problems with basic skills, intermediate level skills and some generic skills;
- **Inequalities in access to training** and skills acquisition persist and attitudes to learning remain poor in many areas;
- The **demand for skills is changing dramatically**, often resulting in significant imbalances at local level;
- The **intensity of skill demand is increasing**, both in terms of formal qualifications and key and generic skill requirements;
- Meeting **replacement demands** will be a major challenge for many declining sectors and occupations;
- **Priorities for investment** in skills include the areas of basic skills, intermediate level skills and vocational skills as well as higher level academic qualifications;
- The further development of **managerial skills** is also a high priority;
- **Concerns about over-qualification** and over-supply of graduates are misplaced but continued monitoring is required;
- Many skill issues have important **local dimensions** which require continued research and monitoring;
- Some of these local aspects are related to specific **sectoral skill concerns** which also require further investigation;
- There is a need to improve the **relevance and distribution of training** in the workplace; and
- Finally, there is a strong case that the **demand for skills needs to be increased**, as part of a general policy to improve productivity and performance.

Each of these issues is considered in more detail in this summary report.

*A number of **Key Messages** emerge from *Skills in England 2002*. These are set out in detail in the following pages.*

Key Messages

provides a summary of the main findings from Skills in England 2002 produced for the Learning and Skills Council.

It is based on a new and comprehensive review of sectoral and local evidence, as well as national research.

The two volumes of Skills in England 2002 provide a firm statistical foundation for all those interested in skills issues...

including the many new institutions set up to monitor and deliver education and training programmes.

*Investment in education, training and skills is of vital importance for economic performance and social cohesion: **Skills Matter.***

Introduction and audience

- 1.2 *Key Messages* provides an overview and synthesis of evidence on the demand for and supply of skills in England. It is targeted at senior policy makers and others with responsibilities for education and training programmes. This includes both those within the Learning and Skills Council (LSC) itself, as well as many other agencies of government. It also has important messages for education and training providers, employers, and individuals making career choices. It is based upon *Skills in England 2002*, conducted by the authors on behalf of the LSC. *Key Messages* provides a summary of findings from this report.
- 1.3 *Skills in England 2002* goes well beyond the bounds set by previous assessments. It places much more emphasis on the growing body of evidence available at a detailed sectoral and local level. The full assessment is presented in two separate volumes. *Volume 1* provides a national overview of the key issues and challenges facing those charged with delivering skills. *Volume 2* provides a summary of the more detailed sectoral and local evidence. In both cases, the aim is to identify the main skill trends, including skill deficiencies and imbalances, and to draw together the key research findings in order to develop the future agenda for skills.
- 1.4 Together, the two volumes provide an important framework and evidence base for national, sectoral, regional and local agencies that require an insight into the state of skills in England. They provide a statistical foundation for those involved in the planning of education and training provision. They also provide a valuable resource for both employers and individuals, which can be used to create a stronger and more informed demand for skills acquisition.
- 1.5 The infrastructure set up to deliver education and training has seen dramatic change in recent years. A number of important new institutions have been set up in addition to the LSC with its local arms. These include the Sector Skills Development Agency and the Sector Skills Councils, as well as Regional Development Agencies and various bodies associated with the devolution of power to national Parliaments and Assemblies in Scotland, Wales and Northern Ireland. The *Key Messages from Skills in England 2002* are important for all of them.

Skills matter

- 1.6 Perhaps the most important message is that **Skills Matter**. This message has failed to get through to a significant number of participants in the labour market, including some employers as well as many individual workers. The latest evidence in *Skills in England 2002* confirms that skills are crucial. They can enhance economic performance at an individual, organisational and societal level. They can also play a vital role in the process of achieving social inclusion.
- 1.7 Investment in skills, by individuals, by organisations and by the state can reap substantial rewards. For example, the average additional pay premium associated with acquiring a first degree after A-levels is around 28% for men

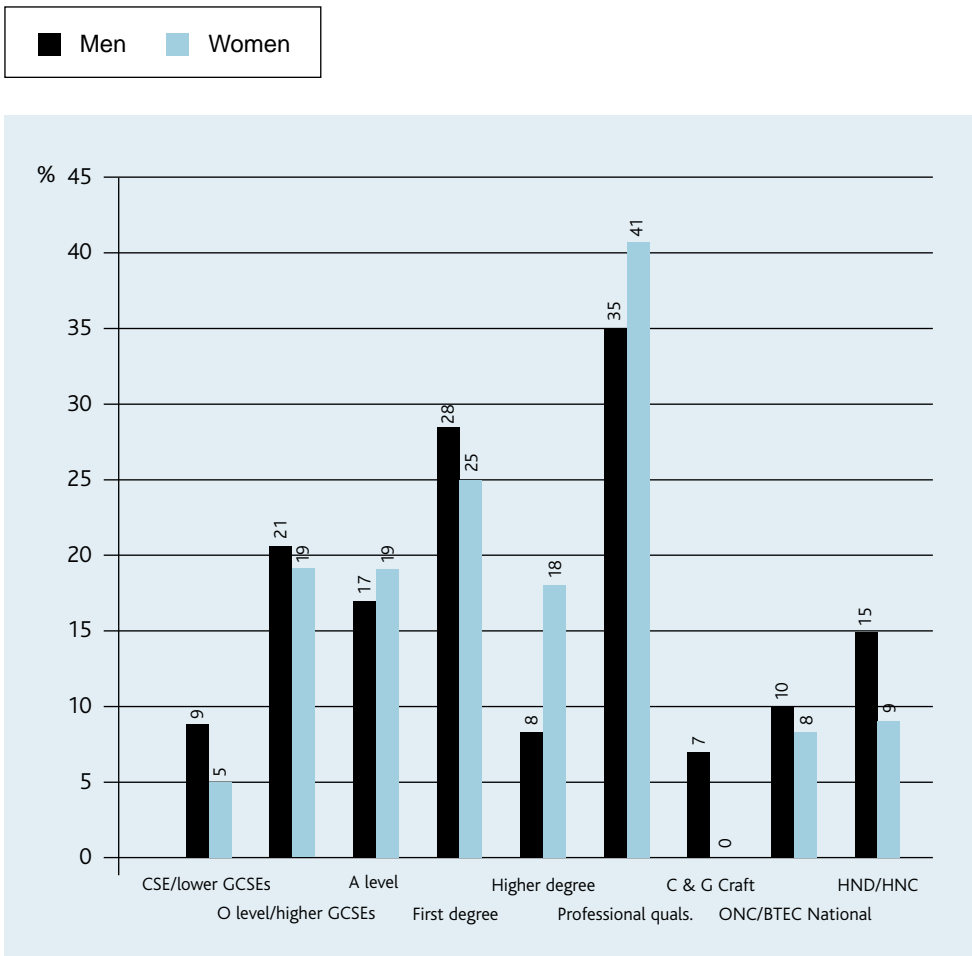


and 25% for women. There are also significant additional benefits for society at large.

- 1.8 For the individual, higher earnings far outweigh any immediate costs (including income foregone during education and training). Investment in human capital gives a rate of return well in excess of the Treasury's normal discount rate. The benefits are not just in terms of improved earnings (and productivity) but also in terms of the probability of obtaining and retaining employment. More emphasis is needed on making people aware of the nature and scale of these benefits.

For the individual the message is unequivocal: Skills Pay.

Figure 1 Acquiring Skills Pays: Additional wage premia associated with different qualifications



Source: Skills in England 2002, Table 5.3, based on estimates by Dearden et al.

There are also significant benefits to the employer, which need to be made much more widely known.

The wider benefits to society in general are also significant, including reduced crime and improved health.

Despite some improvement we still lag behind our competitors, especially in vocational skills.

Educational participation and attainment rates have increased significantly...

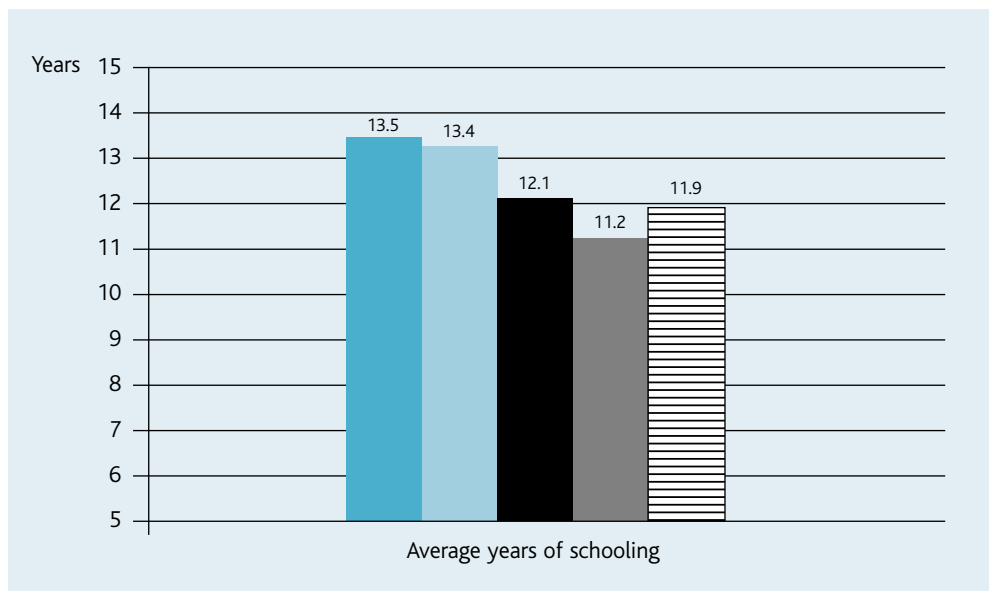
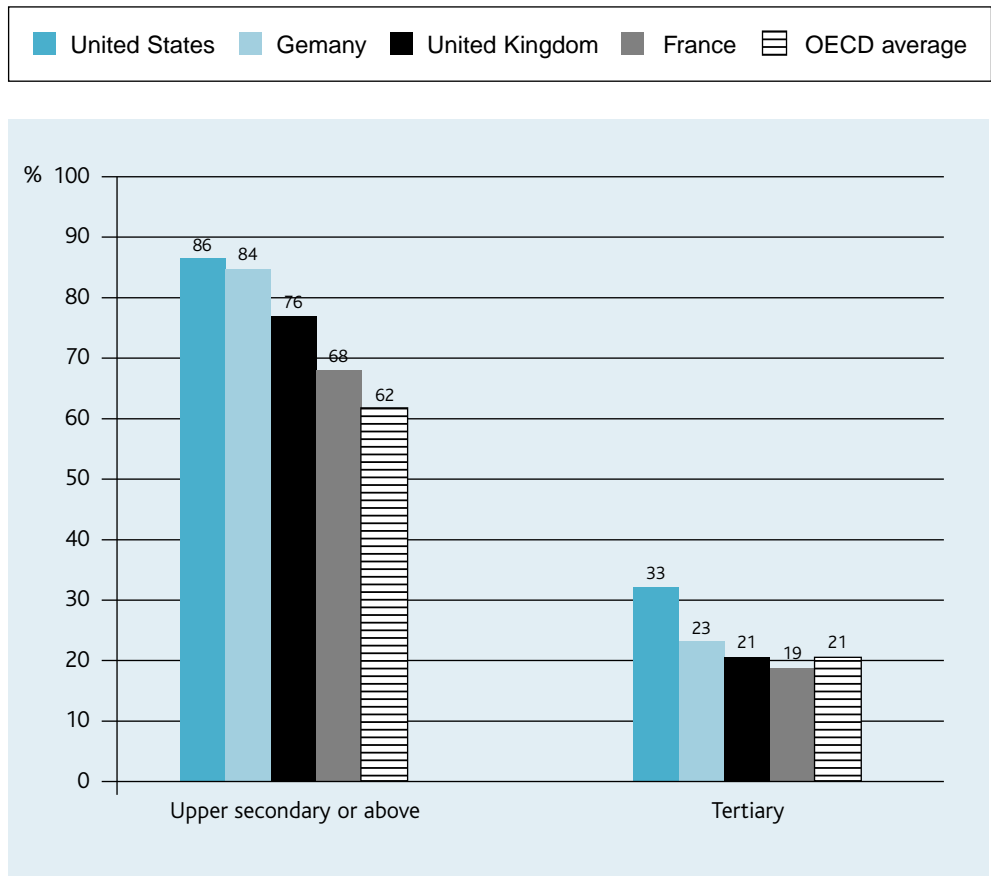
- 1.9 Employers and other organisations also benefit from investment in skills. There are both direct benefits (in terms of increases in productivity) as well as less direct effects linked to innovation, flexibility and long-term business success. Employers need to be made better aware of how their productivity and performance can be enhanced by such investments.
- 1.10 The State and society at large also benefit, over and above the sum of the individual benefits to individuals and organisations making the investments. Not only are there significant external economic benefits arising from the indirect impact of the initial investments on other individuals and organisations, but there are also many non-economic benefits. These include improvements to the social infrastructure, reduced crime, better health, environmental benefits, etc. For example, graduates are more likely to report themselves to be in excellent physical health than non-graduates. Similarly, they are also more likely to participate in community and voluntary associations.

The supply of skills is growing but significant problems remain

- 1.11 Despite improvements in the skills base, Britain still has a relatively poorly skilled workforce when compared with many of its competitors, especially in intermediate level vocational skills. There is strong evidence that the deployment of skills is reflected in economic performance. Thus, further development of the skills base is of vital importance for individuals, for firms, and for the wider economy, both for today, and for future prosperity.
- 1.12 Considerable progress has been made in raising educational participation and attainment in recent years. Participation in post-compulsory education and training amongst young people has increased rapidly over the past two decades, encouraged by Government policy. The supply of skills is increasing, with higher numbers of young people participating in formal education/training schemes. Over a third of our young people now go into higher education and fewer than 10% of individuals under the age of 25 now have no qualifications. The numbers of those in employment in possession of formal qualifications has also risen steadily - just 12% of the total workforce are now without formal qualifications, although a disproportionate number of older workers fall in this category.



Figure 2 Educational Attainment of the Adult Population



Source: Skills in England 2002, Chapter 2, based on estimates by OECD.

Note: Percentage of the population aged 25-64 by the highest completed level of education and estimated average number of years of schooling, 1995.

but are still lower than our major competitors. Various other problems also remain unresolved.

Many employers remain sceptical about whether their needs are being met.

There is an unresolved question about how much learning provision should be driven by market forces.

Both individuals and education and training providers need to be more aware of employers needs.

Recent education and training policy has focused on raising educational participation at higher levels although there are some concerns that this may have been at the expense of high quality vocational training.

On basic numeracy and literacy much still remains to be done.

- 1.13 International comparisons of attainment suggest that England (and the UK more generally) is now above the OECD average in relation to the proportion of the workforce qualified to NVQ level 4+, and the UK now has one of the highest rates of university graduation in the OECD. Despite this improvement, participation in post-compulsory full-time education by young people remains relatively low compared with some countries. In particular, problems still remain at intermediate levels.
- 1.14 Many employers remain sceptical about whether the increase in participation in higher education and, in particular, the growth in numbers with degrees, really meets their needs. There is an apparent contradiction here. There has been an unprecedented increase in the average levels of qualifications held by the workforce. Despite this, employers continue to complain that they are not able to find the skills they require.
- 1.15 Over a third of young people are now being educated to NVQ level 4+, and this proportion is set to increase further. Nevertheless, there are doubts about whether the skills acquired on HE programmes are those that employers require. This skills mismatch is being addressed with key-skill initiatives at every level of the educational process, but it is apparent that students' choices of subject area are not always congruent with employers' requirements. Whether HE provision remains primarily determined by university provision and students' choices (rather than being more market-driven, responding to employer pressures) remains an important question for those concerned with delivering education and training programmes.
- 1.16 In any event, there is clearly a case for both students and providers to be better informed about employers' needs. Both those providing education and training and the individuals taking their courses need to take more note of what employers are looking for, if they hope to achieve the employment outcomes that they aspire to. More emphasis needs to be placed on vocational preparation and providing the requisite generic skills, while maintaining academic standards.
- 1.17 Recent education and training policy has focused, successfully, upon raising participation at post 16 and especially post 18 years of age. The Government still has ambitious targets to raise the initial entry rate into HE from its current level of around 43% to 50% over the present decade. At the same time, there is also a growing recognition of the extent to which HE expansion has drawn 16-19 year olds away from vocational training, although this trend had been evident well before the recent surge in HE participation. In recent policy developments, the Government has recognised the importance of both types of skills. Indeed the establishment of the LSC can be regarded as heralding a rebalancing of the vocational and academic routes to the acquisition of higher level qualifications.
- 1.18 International comparisons of basic literacy and numeracy still indicate a below average performance. There is an especially weak record with regard to the proportion of the adult population of working age who are proficient at only the lowest level (almost a quarter of adults only have the lowest level IALS level 1). In contrast, the proportion proficient at the highest level (IALS



level 5) is much higher than the international average. These results confirm a more general conclusion, that there is a relatively high degree of polarisation of skill levels in this country.

- 1.19 Participation rates in job-related education and training in England are amongst the highest in the OECD. Around a quarter of employees have been in receipt of some form of training over the past 13 weeks. The supply of workplace based training has also been increasing over time. Despite this, the actual amount of time involved in training remains relatively low (typically just 8-10 days per year for those in receipt of training and only around 2 days per year when averaged across all employees). There are other questions about the quality, effectiveness and value of the training delivered. Much of it relates to induction and to health and safety, rather than being directed at improving productivity and efficiency. While the former are important, it is the latter where more emphasis is needed.

Participation in training has also increased but questions remain about its focus and quality.

Inequalities in access to training and skills acquisition persist

- 1.20 Substantial variations in attainment levels across large sections of the workforce remain, with around 30% still having no qualifications or qualifications below NVQ level 2 or equivalent. This has a strong geographical dimension, with those who are poorly qualified being concentrated in particular localities. Those with no or poor qualifications include not just those in lower level occupations. A significant number of managers, as well as many other (especially manual) occupations remain, on average, poorly qualified. A number of other groups can be identified who remain at a disadvantage when it comes to obtaining and retaining employment. These are often poorly endowed with skills. They include the unemployed, the economically inactive, older individuals, and some ethnic minority groups. The lack of basic skills, including literacy and numeracy, remains an important issue for a significant segment of the workforce.
- 1.21 Participation in adult learning has not shown the dramatic growth observed for young people. Such activity remains especially low for older workers, those in unskilled, semi-skilled and skilled manual occupations and those who are poorly qualified. Even amongst the youngest cohorts, there is still a large proportion (almost 10%) leaving education with no qualifications and poor basic skills.
- 1.22 It is these individuals who are most in need of skills enhancement (because of their poor current skill endowments), that are the least likely to be engaged in some form of training or education. Yet, all the evidence suggests that their ability to improve their positions can be enhanced by training and skill acquisition. The outlook for these individuals is especially gloomy, since the low-skill jobs that such individuals traditionally filled in manufacturing industries either no longer exist, or are increasingly being undertaken overseas to take advantage of lower labour costs.

There are substantial variations in attainment, with many missing out altogether.

Those most in need are least willing to take part in education and training.

Attitudes to work and learning remain poor amongst many sections of the community. There is an urgent need to change attitudes to learning.

The demand for skills is expected to continue to change dramatically.

Changing patterns of demand for goods and services have affected the fortunes of many sectors and occupations.

Technological change, in combination with other factors, will continue to impact on the demands for skills.

Sectoral employment changes will continue to favour services at the expense of manufacturing, benefiting some regions much more than others.

1.23 In a number of cases, the problem is as much to do with attitudes to work as with a lack of more conventional types of skills. There is often also a poor attitude to learning. This problem applies not just to individuals but also to some employers. There is an urgent need to change the views of those whose attitudes to skill enhancement and training remain poor. They need to be made more aware of the beneficial effects for individuals and employers, at basic as well as more advanced levels.

The Demand for Skills is changing dramatically because of technological and sectoral changes

1.24 There have been huge changes in the pattern of demand for skills in recent years and this is expected to continue. In particular, the more buoyant sectors of the economy are raising the demand for highly skilled and well qualified people, while the sectors in decline are releasing workers who are ill-equipped to take on such jobs. A crucial issue is whether the evolving pattern of skill acquisition can effectively match the changing requirements of the labour market. This will continue to present major challenges for public agencies, employers, and individuals.

1.25 Changing patterns of demand for goods and services, and the ways in which these are supplied, will continue to result in major shifts in the economic fortunes of individual sectors and organisations. In turn, this will affect the pattern of demand for skills, including occupational employment structure, as well as the qualifications and other aspects of skills required to do these jobs.

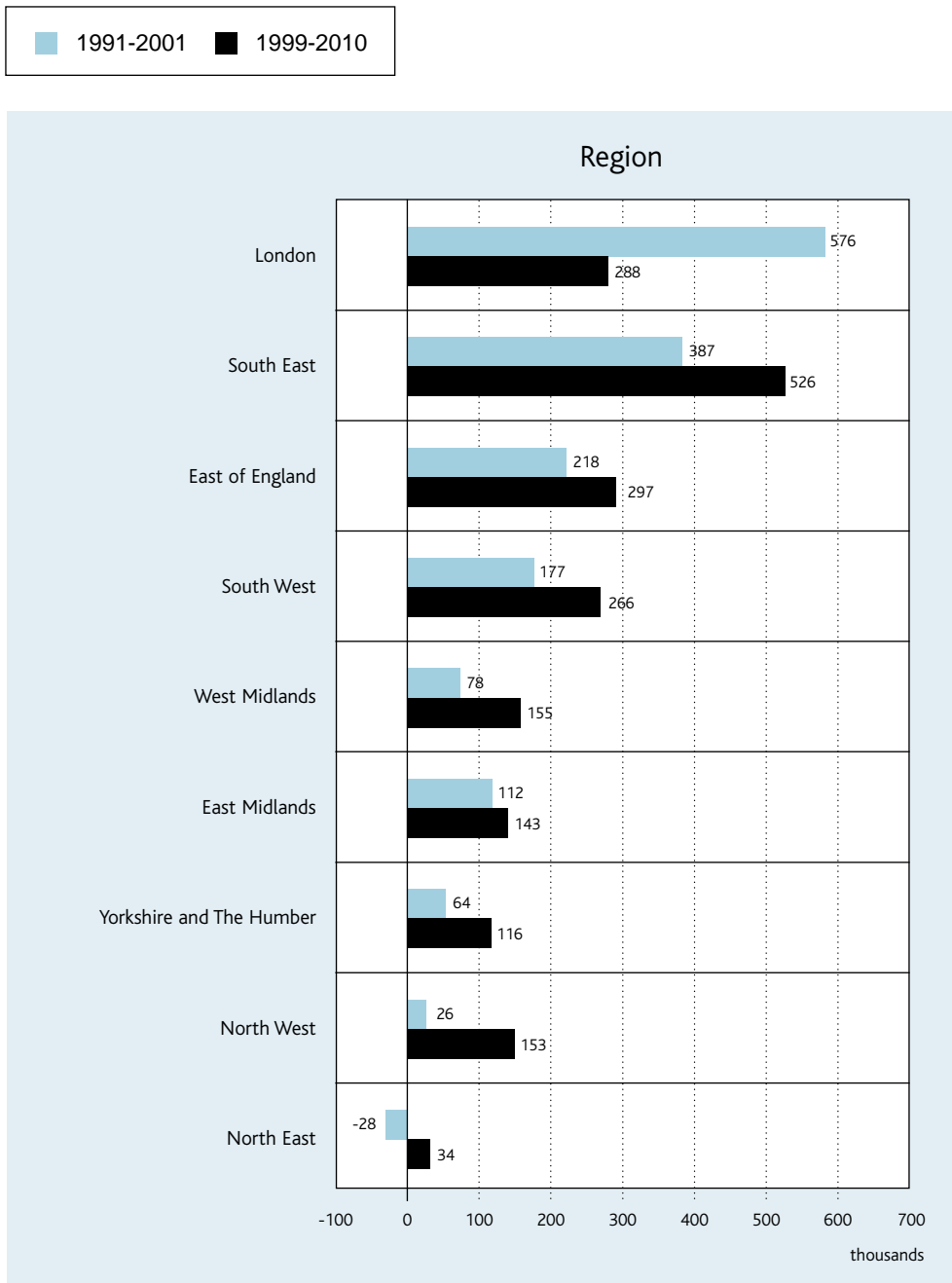
1.26 Technological change, especially information and communications technology (ICT), is a key factor, affecting both the products and services on offer as well as the way they are produced. Competition and changing patterns of consumer demand have increased the emphasis on customer handling skills. Together these are resulting in significant structural change, including globalisation, sub-contracting and extension of supply chains. This is emphasising the need for high quality managerial skills (across a greater range and at a greater depth than hitherto). Working practices, such as the introduction of team- or cell-based production in engineering, and call centres in financial services, are also resulting in increased demand for communication and team working skills. Regulatory changes, as well as increased concern about environmental issues, have also made important new skill demands upon staff for some key sectors, including construction and finance. Regulatory changes are particularly important drivers of change in the public sector.

1.27 The main features of employment changes are well established: job losses over the past decade have been concentrated amongst primary, utilities and manufacturing industries. Growth has been concentrated amongst services, especially business and related services, and in health and education. These trends are expected to continue. They are also common to all regions. However, the different sectoral structures of particular areas mean that there have been marked variations in the economic fortunes in different parts of the country. London, the South and East of England are expected to benefit most from these changing patterns, while the midlands and northern regions,

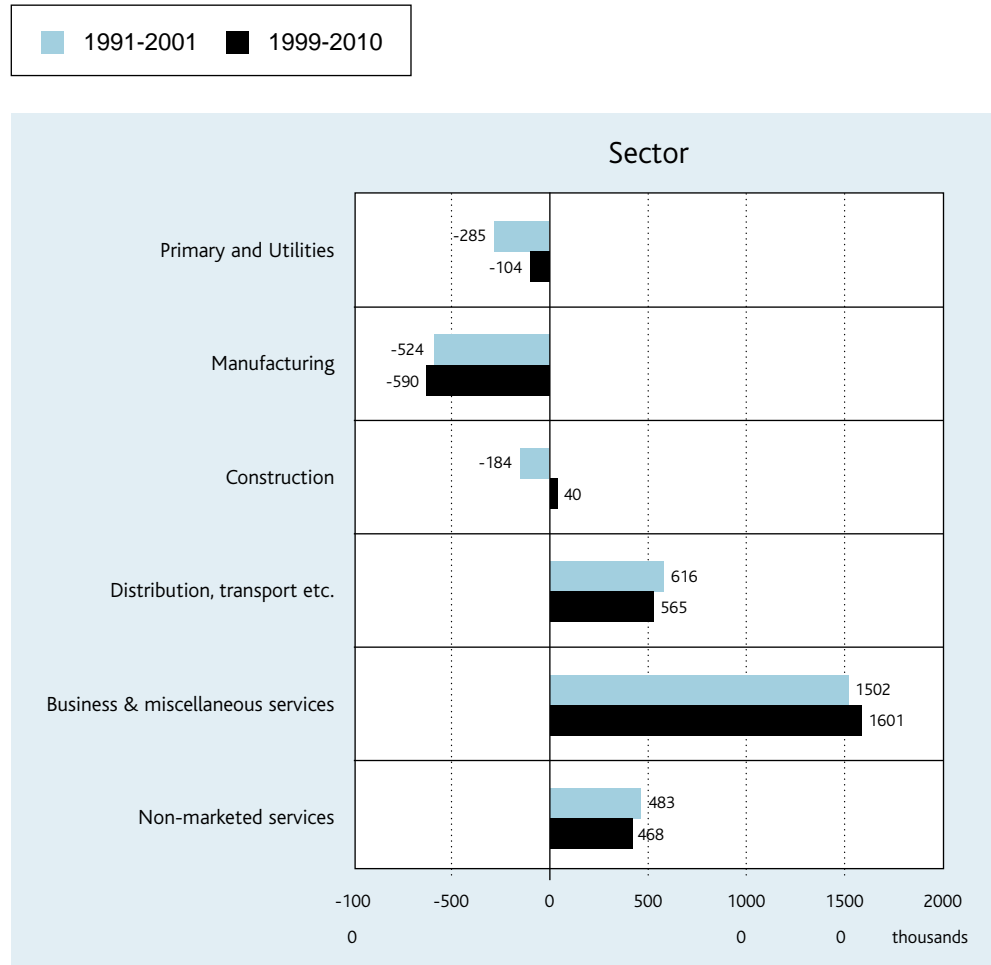


with their greater dependence upon manufacturing and primary industries, will continue to face less buoyant prospects. Areas reliant upon sectors such as coal mining, ship building, textiles and clothing have suffered particularly badly.

Figure 3 Employment Change by Region



Source: Skills in England 2002, Table 3.1, based on estimates by IER.

Figure 3 Employment Change by Sector and Region

Source: *Skills in England 2002, Table 3.1, based on estimates by IER.*

These sectoral changes will favour professional and some other occupations at the expense of many manual occupations.

1.28 By themselves, these sectoral changes will result in significant implications for the pattern of demand for skills. In particular, the growth of employment in services will favour professional and associate professional occupations, as well as caring and personal service occupations and sales and customer care occupations. In contrast, the decline in manufacturing will primarily affect manual occupations, including skilled trades, operatives and unskilled elementary occupations, which will all see further job losses. Due to the gender distribution of employment, these changes will affect male and female workers differently.



The skill intensity of demand is rising

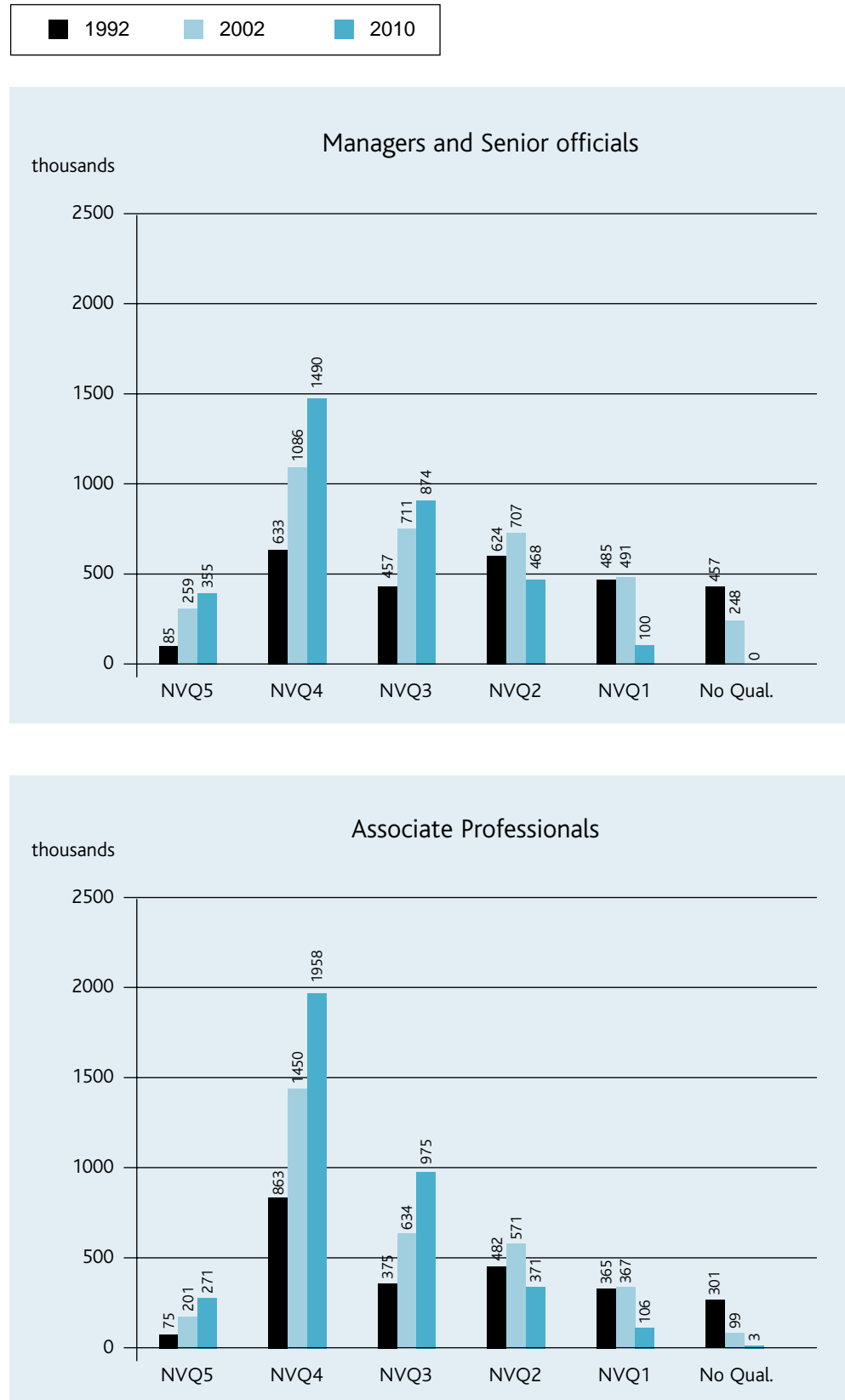
- 1.29 Changes in the demand for skills will also affect the skills required within individual sectors. The overall pattern is for the 'skill intensity' of employment to increase further - including greater utilisation of generic and technical/IT skills. This is expected to influence the occupational employment structure as well as the average level of formal qualifications held by people in such jobs. Most jobs are also expected to require more training in order that they can be undertaken effectively.
- 1.30 Shifting patterns of occupational employment within sectors will reinforce the sectoral changes already highlighted. Occupational employment growth over the next decade is projected to be concentrated in professional, associate professional and personal service and caring occupations. In contrast, job losses are expected for many manual and blue-collar occupations, especially those with lower level skills. These trends are resulting in a polarisation of skills in many localities. On the one hand, there is a significant growth in the demand for many high level skills, in fast growing sectors. On the other hand, there is a growing number of individuals with relatively poor skills. While there will be considerable growth in the demand for some types of job, which do not require significant levels of skills, these will often be of a temporary nature rather than providing good long-term employment prospects.
- 1.31 The demand for formal qualifications is expected to rise although the increase is as much a consequence of increases in the supply of those with such qualifications as changes in demand. However, detailed analysis of changing job requirements suggests that there is a real increase in job requirements. For most occupations there has been a steady increase in the numbers and proportions of those employed holding higher level qualifications and a fall in those with none or few qualifications. Some of the fastest increases have been for managers and associate professionals. Even elementary occupations which require a minimal level of skills have seen a similar pattern.

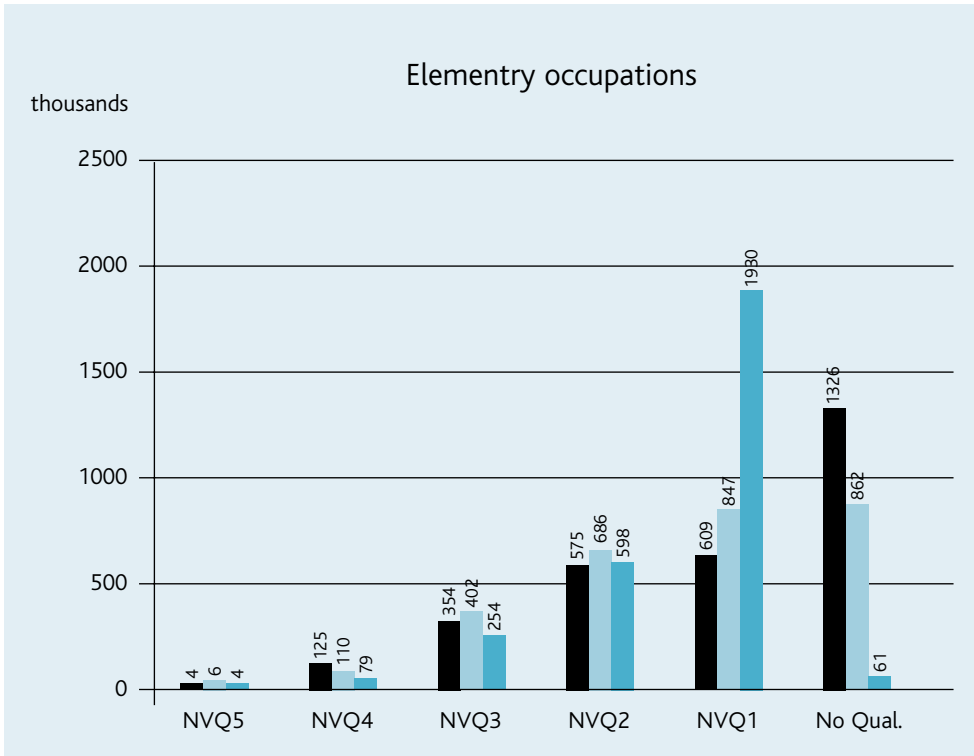
The skill intensity of most jobs is expected to continue to rise.

The largest increases in employment will be amongst professional and related occupations although there will also be growth in some low skill jobs.

The demand for formal qualifications is also expected to continue to grow.

Figure 4 Qualification Levels are rising for Many Occupations





Source: Skills in England 2002, Table 3.7, based on estimates by IER.

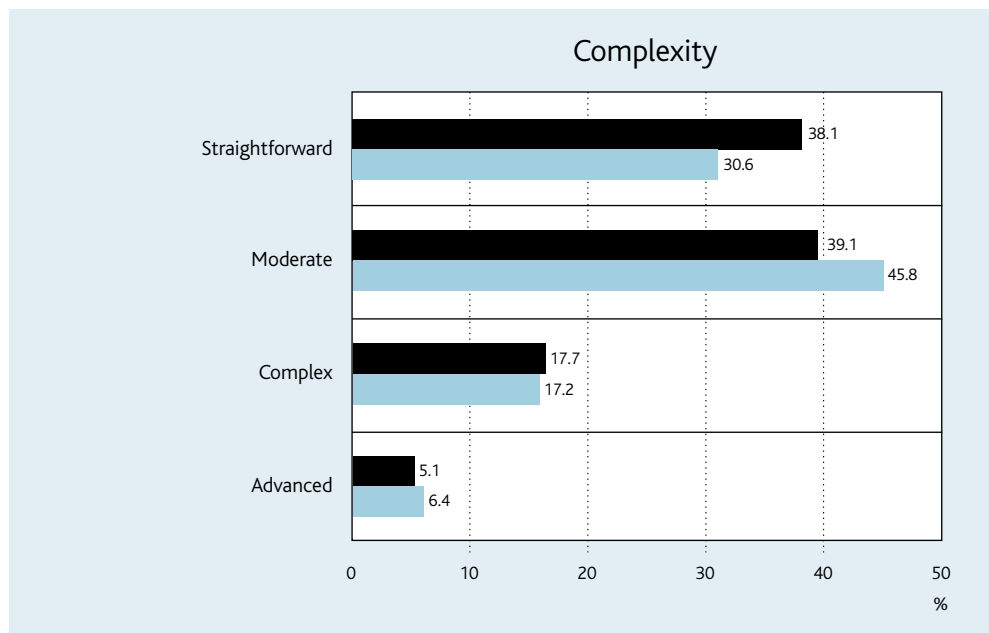
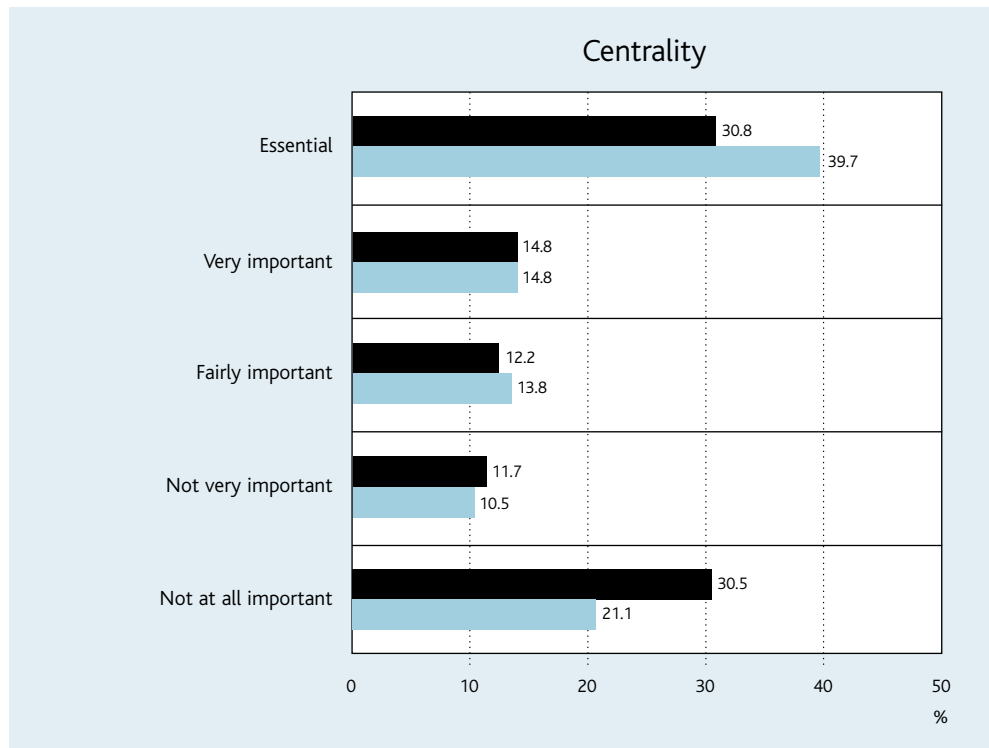
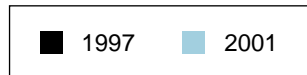
1.32 Changing patterns of demand for occupations and formal qualifications tell only part of the story. Another important aspect is the changing pattern of demand for both job specific and technical skills and more generic skill types. These cut across sectors and occupations. They include both basic skills, such as literacy and numeracy, and other key or core skills such as communication, team working, planning, problem solving, IT and management skills.

1.33 With an increase in the numbers employed in professional and managerial occupations, generic skills such as communication and planning skills have become increasingly important. This trend is expected to continue. Computing and IT skills are also becoming critically important. The centrality and complexity of the use of such equipment has been a key feature of the past decade. The development of these skills amongst the labour force is currently still inadequate to meet the requirements of a 21st Century economy.

Changing patterns of demand for key and generic skills within occupations will also be a key feature...

with particular emphasis on communication, planning and IT skills.

Figure 5 Centrality and Complexity of Computing Usage



Source: Skills in England 2002, Table 3.11, based on estimates by Dickerson and Green.



- 1.34 Despite the evidence that employers set great store on generic skills, many remain unsupportive of qualifications frameworks that have sought to balance generic and technical skills. Further efforts are needed to ensure that the national curriculum and structure of new courses reflect the correct balance of generic and technical elements. This requires closer involvement of employers in the process, which should be facilitated by the setting up of the SSDA and the SSCs.
- 1.35 There is a danger of losing sight of the importance of the underlying technical skills. It is desirable that a surgeon should have a good bedside manner and that the mechanic that services a car is well presented and articulate. Ultimately, what really matters is that they have mastery of the fundamental technical skills of their respective trades. Often this is taken for granted and may therefore not receive as much prominence as it deserves.

Meeting replacement demands is a major challenge

- 1.36 Even in areas where employment levels are projected to fall it will be necessary to replace the skills of existing members of the workforce. These will be lost through the natural process of labour mobility including occupational mobility (turnover) and especially retirement. The scale of this 'replacement demand' for skills is substantial. It easily exceeds the demand created by growth of 'new' jobs in the economy, and generally more than outweighs any negative job losses expected.
- 1.37 Levels of turnover or wastage are also very high in some industries. Simply increasing the supply of skilled people without addressing how organisations or industries might better retain their existing stock of skilled employees may be a wasted effort. As well as looking at employers' skill demands, more attention needs to be paid to staff retention.
- 1.38 In order to recruit and retain workers, it is important for employers to recognise that part of the 'solution' is to 'adapt' jobs to the individuals available. There are two aspects to this: first, a greater emphasis on training and staff development as opposed to reliance on the external labour market; and second, a better recognition of how different 'work-life balance packages' can play a role in attracting and retaining workers from different population sub-groups (such as women returners).

It is also important to get the basic technical skills right and often these are more important than survey responses indicate.

Replacement demands are even more important than projected changes in employment levels in assessing the future demand for skills.

However, retention of existing employees is also an important issue...

and employers need to recognise that part of the solution may be to adapt jobs to people.

Priorities for investment in skills

- 1.39 Changing patterns of occupational wage differentials can provide an insight into where further investment in education or training is justified. The evidence suggests that the fastest increases have been amongst managerial, professional and associate professional occupations, confirming the changing patterns of demand already identified. Those in IT occupations have seen particularly fast rates of increase.
- 1.40 Analysis of rates of return to investment in human capital in the UK indicates where further investment should be focused. High returns are found for many different levels and types of qualifications for both men and women. Returns to vocational qualifications at NVQ level 3 are comparable to academic qualifications, although below NVQ level 3 they are rather low, except for those with limited prior attainment. The highest rates of return are obtained for professional qualifications. There are also good rates of return to the acquisition of basic literacy and numeracy skills.
- 1.41 Unemployment and vacancy statistics can provide further insights into the pattern of the balance between demand for and supply of skills. The evidence on the qualifications and previous occupations of the unemployed indicates that unemployment is heavily concentrated amongst those with no or below NVQ level 3 qualifications, and those who previously worked in craft, plant/machine operative occupations and other less skilled manual jobs.
- 1.42 Vacancy statistics paint a somewhat different picture. Skill shortage vacancies are heavily concentrated in certain sectors, especially amongst smaller firms. The sectors most affected are construction and health & social care. They are also concentrated in particular occupational groups, namely professionals, associate professionals and skilled trades.
- 1.43 Currently, approximately 1 in 5 vacancies exist because of skill shortages or deficiencies amongst applicants (given the wages that are being offered). Although these affect only a relatively small proportion of establishments they can be quite significant. Where they do occur, they often have profound consequences for the businesses concerned.
- 1.44 According to national employer surveys, the most sought after skills are various generic and technical/practical skills as well as IT. Construction trades are a particular problem, especially in certain geographical areas where major works are taking place, boosting demand to exceptional levels.
- 1.45 Surveys at local and sectoral level confirm that the main problems are IT skills, high level managerial skills and certain intermediate level skills, especially for construction trades. Often the problems are heavily concentrated in particular localities, although the southern parts of the country have the most intense problems.

Changing patterns of occupational pay relativities can give pointers about where to focus future investment, however this provides only a general indication.

Rates of return provide a guide to where to invest in skills and training. They show the benefits of investment in vocational training and basic skills as well as higher education.

Unemployment can also provide some indication, highlighting those whose skills are becoming redundant.

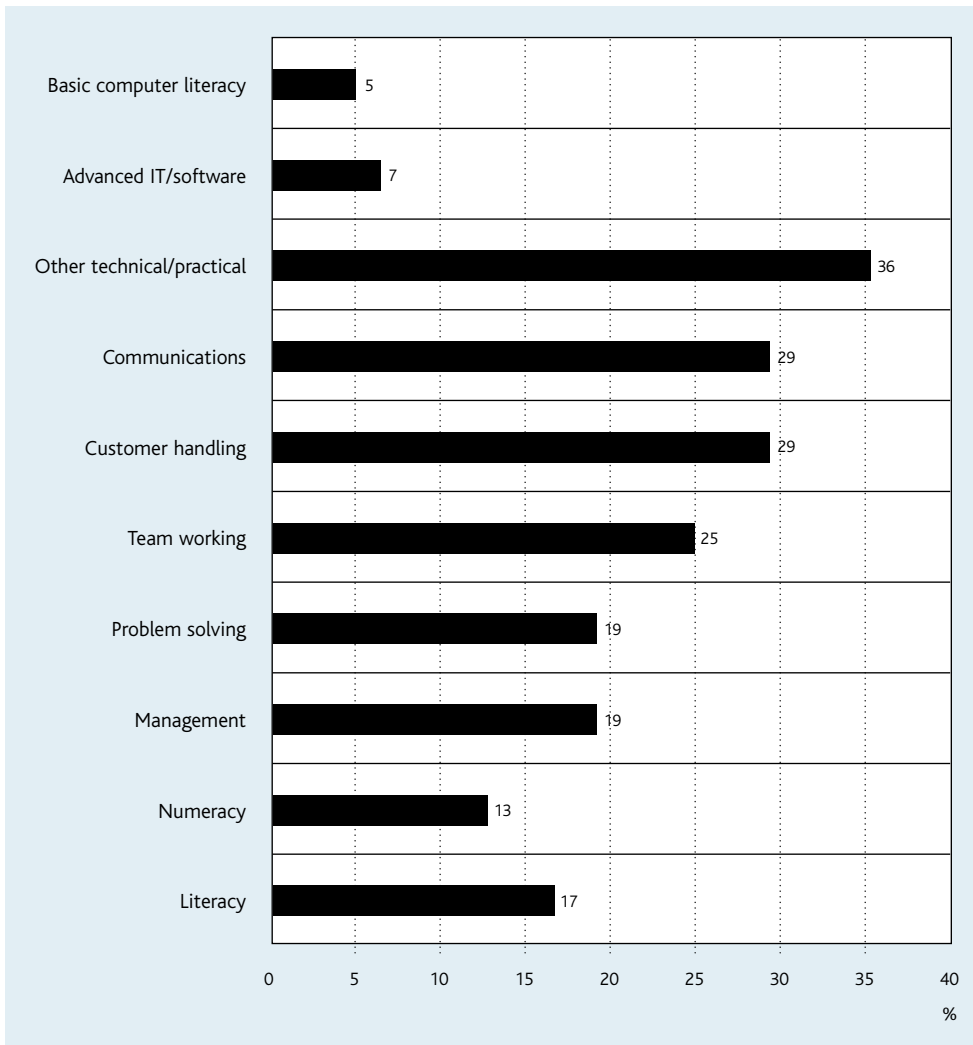
Vacancies statistics suggest a focus on a range of occupations where employers have particular difficulties in finding the skills they need.

However, only one fifth of all vacancies are directly related to skill shortages or deficiencies.

There is evidence of excess demand for a number of skills including IT, managerial and some construction trades.



Figure 6 Skills Sought in Connection with Recruitment Problems



Source: Skills in England 2002, Table 5.6, based on ESS 2002.

- 1.46 Not all skill problems faced by employers relate to the external labour market. For many employers there are significant gaps between the skill levels of existing staff and those required to meet business objectives. Skill gaps are more prevalent than skill shortage vacancies but they still affect fewer than one in ten of all establishments (although a much higher proportion of larger establishments). As with skill shortage vacancies, the impact of such gaps on performance can be quite severe.
- 1.47 The main gaps concern managerial, professional and technical staff, who are increasingly being expected to have skills relating to business planning, people management, creativity and design, and to have the ability to translate ideas into saleable products. At a lower level, skill gaps arise mainly with regard to communication, customer handling, IT at a basic level, problem solving, and understanding of how systems work and fit together.

Skill gaps in the existing workforce are also important and can provide insights into where investment is needed.

- 1.48 The principal cause of these gaps, according to employers, is a failure among firms to train adequately and to develop their workforce. This, despite the fact that another key conclusion identified in virtually all employer surveys across different sectors was that skills gaps result in difficulties in meeting customer service objectives, delays in developing new products, increased operating costs and loss of competitiveness.
- 1.49 Latent skill gaps, that is unrecognised skill gaps which prevent an organisation reaching its full potential, are also important. Indeed, many such gaps arise within the managerial cadre. They are only likely to emerge if the establishment were to attempt to improve its performance relative to its competitors. They constrain the potential for growth in the economy generally. By definition they are difficult to quantify, although there is some evidence that they may be at least as important as observed skill gaps and skill shortage vacancies.

The development of managerial skills

- 1.50 Although the situation has improved in recent years, as an occupational group, managers remain relatively poorly qualified. This is both in comparison with professional occupations in this country and also with corresponding managerial occupations groups in other countries. It is notable that there are still significant numbers of managers who hold no formal qualifications. Over 80% of professionals are educated to NVQ level 4 or above compared with less than 40% of managers. Part of the explanation lies in the number of self-employed in low-skill jobs who fall into the managers and proprietors category, which include owners of small retail businesses, restaurants and pubs. However, setting these individuals aside, there still remains a high proportion of managers who have low qualification levels. There are concerns that this may also be reflected in their having low managerial and leadership skills.
- 1.51 The results from the Skills Surveys also indicate that managerial jobs in this country often require significantly less training and learning time, as well as lower levels of prior qualification, compared to professionals and associate professional and technical workers. Managers are also characterised by lower levels of literacy, planning skills and high-level communication skills than professionals.
- 1.52 The analysis of likely changes in future skill requirements also suggests important changes for those employed in managerial roles. Verbal skills and communication skills are projected to increase in importance. The demands for 'Key' skills, such as problem solving, team working, and computing are also increasing significantly. The management and operation of many new technologies is also expected to make increasing demands on this group. This is especially the case for information and communication technology in the service sector where a myriad of new information-based services are expected to be invented and marketed.
- 1.53 These and other problems in managerial and leadership skills in the UK have been noted by The Council for Excellence in Management and Leadership (CEML) established in April 2000. They have devised a broad range of

Latent skill gaps, especially at managerial level, may be of even greater significance.

Managers are often still rather poorly qualified.

British managers are also often poorly skilled in other respects.

Yet the demand for skills amongst this group is expected to intensify.



initiatives aimed at improving management and leadership development, from education through to lifelong learning opportunities, carefully distinguishing the needs of small enterprises in particular.

- 1.54 Although recruitment problems are not particularly manifest in relation to managerial occupations, their impact can be formidable as evidenced in the ESS1999 case study evidence and analysis of the survey data. Where they exist, their impact on organisational performance can be quite acute, including a loss of business or orders. Such impacts are most pronounced where the problems relate to senior managers (as well as some professional occupations) who are responsible for setting the strategic vision for an organisation.
- 1.55 Such problems are equally significant when it comes to internal skill gaps as opposed to external recruitment problems. All the Employer Skills Surveys reveal that employers are aware of skill gaps amongst existing managers, and also recognise that these can cause significant problems in terms of business performance. The much more detailed analysis of information available from ESS1999 suggests that latent skill gaps that go unrecognised can be an even greater problem. Better performing organisations are more likely to set challenging product market strategies that demand higher skilled people to bring these strategies to realisation. This is intimately tied up with having the requisite managerial skills. Many establishments that are performing less well may simply be unaware of the skills - especially managerial skills - that they require to move into higher value added markets.

Recruitment problems for managers are not widespread but where they arise, they can cause profound problems.

Internal skill gaps amongst managers and unperceived latent skill gaps present even more serious problems.

Concerns about over-qualification

- 1.56 In contrast, there are some areas where there are concerns about an oversupply of skills. There are two main problems: first, there are a large number of displaced manufacturing workers whose skills are ill suited to the alternative jobs on offer; second, there are indications of an increasing number of graduates working in non-graduate jobs.
- 1.57 Changes that have taken place in the occupational and sectoral structure of employment have led to the loss of many jobs that can be undertaken by those with low levels of basic skills. Consequently, the outlook for unskilled workers is generally bleak, with employers warning that people without, at the very least, a basic grasp of IT skills, and communication/customer handling skills, will find it increasingly difficult to find work.
- 1.58 Despite the loss of many low skill jobs, the decline in the number of people with no formal qualifications has been even greater. As a result there is an increasing mismatch between the supply and demand for skills at lower skill levels. In one sense, demand for low skill individuals is now outstripping supply since the number of individuals with no formal qualifications at all is rapidly shrinking. This has resulted in some workers taking jobs for which they are apparently over-qualified.

There are also concerns about oversupply.

In many areas there have been large numbers of low skilled workers displaced.

However, there will be a substantial number of jobs which do not require great levels of skill or high qualifications.

- 1.59 The use of the term demand for those with *no qualifications* in this context requires careful interpretation. It is a demand for people *regardless of skill or qualification* (not necessarily for those with no skill or qualification *per se*); a demand for people to do basic jobs, mainly in the service sector and usually at low rates of pay (on or close to the minimum wage). Such jobs attract a large number of people looking for temporary employment, rather than job applicants who see these posts as long-term employment prospects. Such people are often in possession of much higher qualifications than those necessary for the job. It is likely that there will always be significant numbers of jobs of this kind, especially in the service sector. It is important to recognise that there may still be workforce development issues for these workers.
- 1.60 At the higher level, rate of return evidence suggests that the overall demand for the highly skilled/qualified has at least kept pace with the rapid increase in supply over the past two decades. The rates of return to higher level qualifications and to degrees have remained high (and well in excess of returns on most other forms of capital), but this requires continued monitoring since such estimates are retrospective.
- 1.61 However, some employers and employer organisations argue that there is now too much emphasis on higher education and insufficient emphasis on the acquisition of intermediate level, vocational skills. Getting the right balance between academic and vocational qualifications remains an important issue. The demise of the traditional apprenticeship and the increase in staying on rates beyond the minimum school leaving age has only been partially offset by initiatives such as the Modern Apprenticeship.
- 1.62 The low esteem with which some intermediate, technical and vocational skills are regarded is at variance with the value of these skills in the labour market. Greater standing needs to be given to technical and vocational skills in order to increase their attractiveness to young people. Anecdotal examples can help to deliver an important message here: some plumbers earn more than some solicitors, engineers may receive better pay than some accountants, while some midlands bricklayers are now reported as earning £60K a year! Young people need to be made better aware of the alternatives they face.
- 1.63 There are also concerns that the balance of subjects studied (and the levels at which they have been studied) does not seem to match the changing skill needs of the economy. While the demand from employers places great stress on literacy, numeracy and in some cases specific technical/scientific knowledge, the trends in supply have been away from more technical subjects.

Rate of return evidence confirms that the demand for well qualified people has been rising rapidly...

but some think that there has been too much emphasis on increasing participation in Higher Education.

There is evidence of a lack of esteem for vocational and intermediate skills.

The curriculum and mix of subjects studied does not match well with employers' needs.



Local dimensions of skills

- 1.64 Although the general skills trends identified are common across all regions and localities, there are substantial regional variations in the pattern of recent, current and expected future skill needs. These reflect the economic and labour market structures of individual areas, including their dependence upon particular sectors, population densities etc.
- 1.65 The volume and structure of skills supply in each locality needs to be appropriate to the changing labour market requirements in that area. Policy makers in the various different locations need to design policies to meet these specific requirements. It is important to recognise that, although each locality is in some sense unique, many share common problems and can often learn lessons from others in a similar position.
- 1.66 Technological and structural change is resulting in a polarisation of skill requirements in many parts of the country. In particular, there are large groups of mainly older, male workers, who have few skills, including basic skills such as literacy and numeracy, to offer in the modern workplace, and for whom employers have little incentive to provide training. This group is increasingly marginalised and excluded - being disproportionately unemployed or economically inactive.
- 1.67 These problems are often focused in urban areas, where they can initiate a vicious circle of decline, lack of opportunity, poverty and deprivation. In such circumstances, a range of policy interventions is needed to break into such vicious circles and to encourage renewal and redevelopment. Boosting the supply of skills in the local workforce may be necessary but it is probably not sufficient to generate a prosperous, high value added, high wage local economy. Measures to influence demand are also required, as discussed below.
- 1.68 A key challenge that emerges from the local (and sectoral) evidence is the problem of recruiting and retaining skilled staff to work in particular locations (especially for the public sector). This primarily relates to London, although some other metropolitan areas face similar, albeit more modest, difficulties. Although those charged with providing education and training may be able to do something to moderate these problems, they are primarily issues related to low pay rather than resulting from an inadequate supply of suitably qualified people.
- 1.69 Some rural and peripheral areas face a similar problem but in reverse. The peripherality of some localities and regions means that it is difficult for them to retain some of the more able and best skilled members of their workforces. This also applies to newly qualifying entrants to the workforce. While they may be quite successful in encouraging students to come to their universities and colleges to study, such regions find it much more difficult to persuade them to stay after graduation.

Many trends are common to all localities...

but the specific economic structures of each area will determine the particular problems it will need to face.

The polarisation of skill demands will result in continuing problems of structural unemployment for many workers.

In many cases supply led policies will not be enough on their own.

Public sector recruitment and retention will continue to be a problem, especially for London.

Peripheral and rural areas face their own difficulties.

Problems often have a very precise geographical focus, highlighting the need for detailed monitoring at a local level.

Skill deficiencies are concentrated in the southern parts of England.

Recruitment problems are generally less in the north of England.

Dependence upon particular sectors makes many local areas vulnerable.

In some primary and manufacturing industries problems in obtaining specialist technical and supervisory skills are acute.

- 1.70 Problems with skill shortage vacancies, as well as more general difficulties associated with supply and demand imbalances, are often concentrated in particular localities. The case of construction trades has already been highlighted. Skills shortages can arise quite quickly as major building works get underway but then disappear equally quickly once they are completed. In other sectors, the problems may be rather longer term in nature, reflecting the development and expansion of sectors in a particular geographical location. The growth of ICT related employment in the M4 corridor provides a good example. These examples illustrate the importance of detailed monitoring at a local level.
- 1.71 The pattern of skill deficiencies varies considerably across the country, reflecting sectoral structures as well as differences in the states of the regional economies. Skill shortage vacancies are concentrated in London, the South East, South West and East regions. The scale of variation across LSC areas is greater than across regions, and there is even greater variation within LLSC areas. There is a relationship between the geographic concentration of skill shortage vacancies and general labour market indicators, such as unemployment, and rapid employment growth. The pattern of skill gaps also varies across localities, with the most intense problems being found in the South and East of England.
- 1.72 Recruitment difficulties are less of a problem in the North of England. Some employer surveys reveal that employers in the north were happy with the level of their employees' skills and qualifications even though the general level was lower than in the south. This may reflect the realities of operating in particular (less demanding) markets. However, there are concerns that it may also suggest a certain element of complacency, and that such organisations have slipped into a low skill low wage trap that may not be sustainable over the long-term.

Sectoral skills issues

- 1.73 Sectoral skills issues are inextricably linked to local issues. A major concern is the dependence of particular localities on sectors which continue to experience sharp job losses. These are especially concentrated in some midland and northern regions of England, where the primary and manufacturing sectors remain important sources of employment. These areas may see some offsetting increases in service sector employment, but those being displaced from manufacturing jobs are often ill equipped for the new jobs which are emerging.
- 1.74 In manufacturing, and other sectors with a strong demand for manual labourers, although employment is declining overall, the demand for specialist skills is often increasing, especially for managerial, technical and skilled craftsmen. A chronic lack of supervisory skills is a common complaint across many manufacturers. Failure to recruit is the key issue, resulting in ageing workforces. The inability of these sectors to attract new recruits stems, to a large degree, from widespread image problems regarding the nature and conditions of employment. These include low wages and unattractive working conditions. This applies to sectors such as agriculture, food and drink manufacturing and textiles and clothing.



- 1.75 However, recruitment and retention problems are not unique to manufacturing. Retailing and some other personal services, such as hotels and catering, are finding it difficult to recruit workers with sufficient generic, technical, sales and customer service skills. The financial and business services sector has experienced relatively few skill problems due to its ability to pay relatively high salaries, although computing services is suffering from an acute skills shortage, particularly where people have to marry IT skills with knowledge and experience in the business activities that IT is meant to serve.
- 1.76 Many sectoral studies highlight spatial problems. Some of these are supply side driven, as certain industries tend to be concentrated in particular regions. For example, electronics assembly is concentrated in Scotland and Wales and steel production in Yorkshire & the Humber and Wales. This can give rise to very specific problems in these localities. Other industries are represented in virtually every region. Even these industries can experience significant regional variations in skills shortages and recruitment problems. For example, construction training tends to be determined more by where new entrants live, rather than where workers are required. As a result, the industry tends to be characterised by large skills deficiencies in some regions and a surplus of labour in others. Strong demand for retailing and leisure services can arise in regions where incomes are rising rapidly. This can become a problem as, for example, is often perceived to be the case in London and some parts of the South East. Here, there are many signs of overheating, and related skill problems. Such problems appear to be most acute in the public sector in southern England, where employers are finding it difficult to meet their skill needs. Such local labour market *hot spots* are often associated with particularly rapid rises in house prices.

Recruitment difficulties in other sectors highlight the need for both generic and technical skills, including IT.

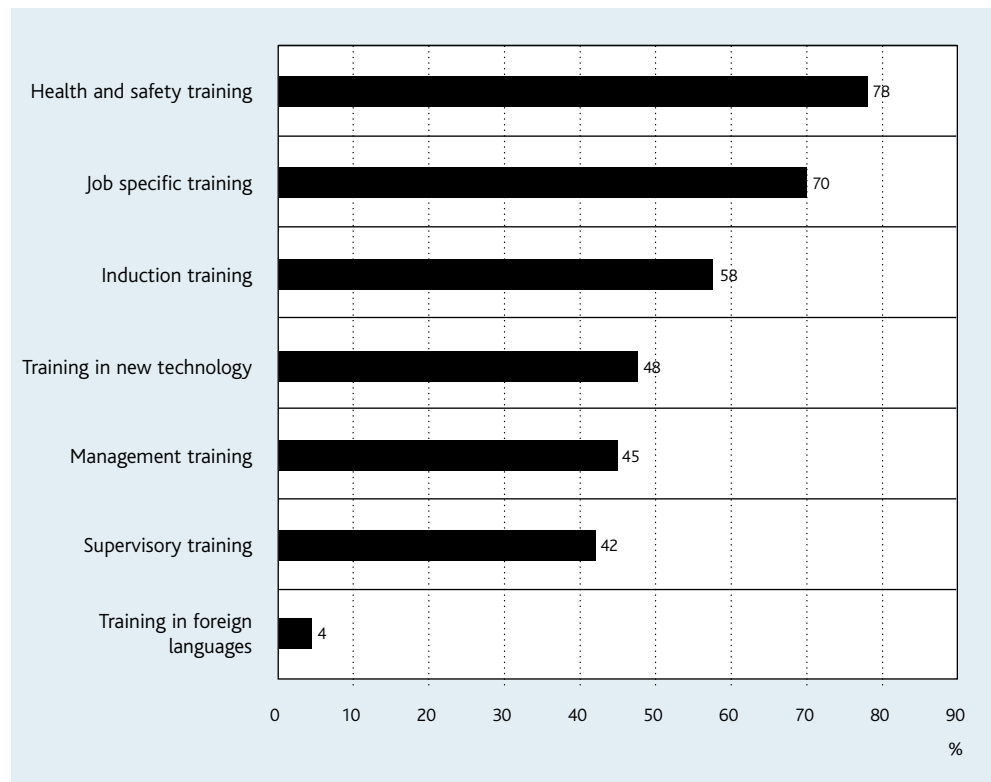
Many sectoral problems are concentrated in particular geographical areas, resulting in the need for policies to be tailored to local requirements.

Training in the workplace has risen but its focus and its quality still need to be improved. Much of it is not of the quality or quantity to deliver the skills required.

Improving the relevance and distribution of training

1.77 Workplace training has increased in recent years. However, it is often focused on induction and health and safety rather than being directed at increasing productivity or efficiency. Employer provided training continues to place insufficient emphasis on high quality, productivity-enhancing, certificated programmes. More employers need to appreciate that, in a flexible, rapidly changing technological age, continuous retraining is needed if they are to compete successfully. Training needs to be targeted more at enhancing the work skills of those who receive it if a real difference is to be achieved with regard to economic performance.

Figure 7 Training is not sufficiently focused on Enhancing Productivity



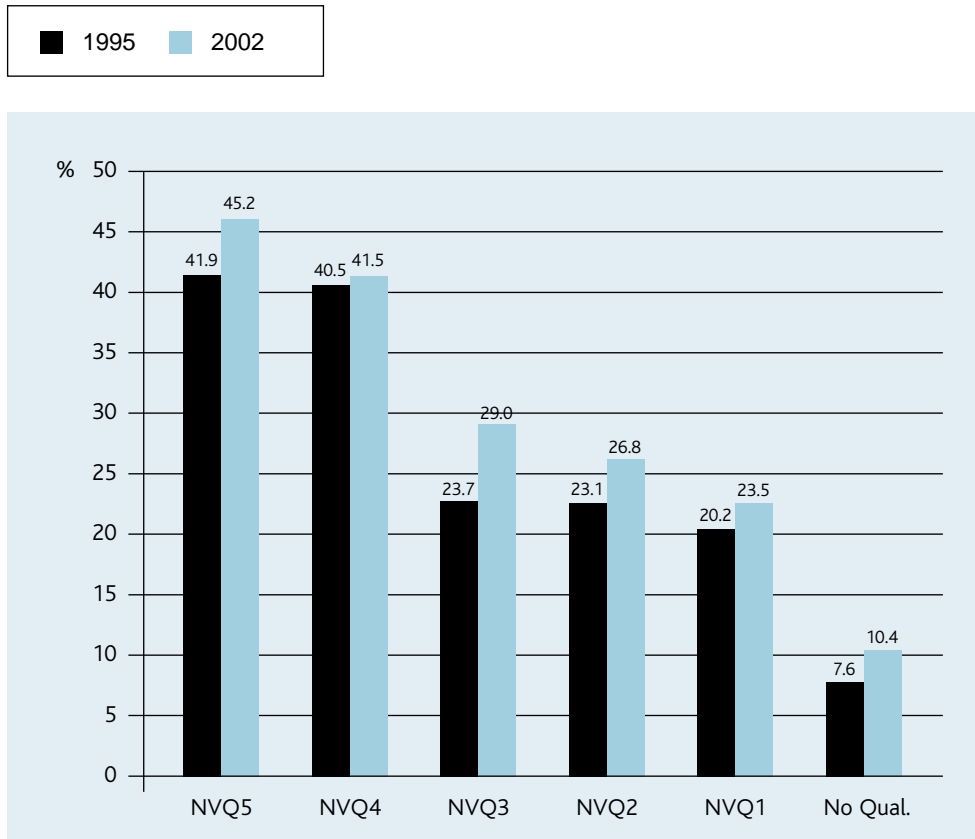
Source: *Skills in England 2002, Figure 4.4, based on estimates by Spilsbury.*

Access to training is also uneven.

1.78 Access to training remains unevenly distributed across the workforce. Semi and unskilled manual and service workers, part-time workers and older workers are least likely to receive training. Most training is received by those who are already quite well qualified and endowed with skills.



Figure 8 The Best Qualified get the Most Training



Source: Labour Force Survey 1995 and 2002.

Note: Percentage of Individuals in Receipt of Training in the Last 13 Weeks.

- 1.79 The great majority of people who will make up the workforce in 2010 are already in employment. If the needs for improved skills identified by many employers are to be met, it is clear that this will have to be achieved by reskilling and training the existing workforce rather than relying on new entrants. This places a key responsibility upon employers themselves.
- 1.80 For many large organisations, where there is already recognition of the importance of training and skills, this is probably not a major problem. However, size matters, and smaller organisations train least frequently and least intensively. They are less likely to provide off-the-job training or training that leads to a qualification. Special attention needs to be paid to the problems faced by smaller organisations if they are to contribute effectively to meeting their own needs. Numerically these are very important – over 80% of all establishments employ fewer than 10 people.
- 1.81 Policy makers need to develop a larger range of workforce development opportunities to offer employers, especially the smaller organisations and establishments, options appropriate to their circumstances. The one-size-fits-all approach that has characterised many existing qualifications frameworks and the Modern Apprenticeships may need to be changed to achieve this.

The need to boost the skills of the existing workforce places a key responsibility on employers.

This poses particular difficulties for smaller organisations.

Policy makers need to develop more customised initiatives.

Employers need to take their share of the responsibility for such training...

but the question of who should provide and fund training remains open for debate.

In many locations a low skill equilibrium has evolved. Labour demand has grown but for low and unskilled work. This is often associated with a vicious circle of deprivation and economic decline.

Latent skill gaps are widespread. Many employers are unaware of the skills needed to improve their performance.

- 1.82 Where employers are unwilling or unable to provide training, then the state may need to intervene, possibly with a training levy, to force all employers to contribute to training costs for their sector. The present voluntarist system of training provision allows too many to opt out and to rely on others to bear the burden of training costs from which they benefit. Concerns about 'poaching' continue to be a disincentive to train for many employers.
- 1.83 The question of who should fund post 16 training is not a new one. Evidence of market failure and that investment in such training would bear a good return justifies state intervention. Employers, while keen to highlight the inadequacies of the existing systems, are often shy of taking up the challenge themselves. Some commentators have argued that vocational training should be treated on a par with academic education which has been made freely available. More recently, efforts to widen access have come up against the problem of paying for this expansion and individuals have been forced to bear an increasing part of the costs (including fees as well as loans). It seems likely that this three way split will continue to be the norm, with the state and the individual bearing the most significant part of the costs. However, if employers want to change the focus of post-16 education and training then they should be prepared to play a more active role and to take up a larger share of the costs. Thus, there needs to be greater incentivisation for employers to invest in training and the SSCs have an important role to play in this regard.

Stimulating the demand for skills

- 1.84 Many organisations in England (and the UK) have settled into a low-skill equilibrium, in which they concentrate on cost and price rather than quality. There is a substantial, and in some regions, growing demand for low and unskilled work. A low skills equilibrium may be commonplace in many areas outside the South East and London, especially where there has been dramatic structural change in recent years. In such areas, there are high concentrations of low wage, low skill jobs and higher than average proportions of the workforce have low or no qualifications.
- 1.85 The Treasury has recently focused attention on the link between productivity and skills and the need to create a high wage, high skill economy. This was the focus of much of the work of the National Skills Task Force (NSTF). This suggested that employers are often not aware of the skills that they need to raise the performance of their organisations to best practice levels. Skill gaps are therefore latent rather than recognised. This may well lie behind the poor productivity record of the UK economy compared to some of its main competitors. Decisions on skill investment and usage that are both rational and optimal from the perspective of the individual organisation in the short-term, can prove sub-optimal for the economy as a whole in the long-term.



- 1.86 A vicious circle of deprivation, lack of investment in skills and other capital and declining economic performance is the result. A key challenge is to identify the conditions necessary to convert this into a virtuous circle: one in which investment in education, skills and other forms of human and physical capital results in competitive success and economic growth. Unfortunately, these links are very complex and there is no panacea which guarantees success. A complex and subtle mix of policies is needed. However, key skills, especially at management level, can be a crucial factor determining business strategy and commercial success.
- 1.87 Supply side initiatives aimed at raising the number and quality of skills available, thereby relaxing any constraints that may be holding employers back, can be seen as part of a solution.
- 1.88 This poses a dilemma. It is a moot point whether skills supplied at a local level can act as an agent of change, propelling a locality to higher levels of prosperity. Any additional supply of higher level skills may simply relocate (typically to the South East). Yet, if areas want to develop high value-added, high wage local economies, they will be unlikely to achieve this aim without investing in a suitably qualified workforce, capable of meeting the demands of the knowledge economy.
- 1.89 However, results from the ESS research initiated by the NSTF do not support the notion that lack of supply of skills is the key issue. Although there are important skill deficiencies in the existing workforce, these affect only a relatively small proportion of jobs. If the skills base is to be used as an agent of change in promoting a high wage, high value added economy, then it is probably inevitable that in the short to medium term there may be evidence of imbalances and people appearing to be overqualified for the jobs they fill.
- 1.90 The key issue is lack of demand by employers. Many are not sufficiently ambitious in terms of target and goal setting. The key skill deficiencies are therefore latent rather than observed. Latent skill gaps are of critical importance. They demonstrate why the skills supply revolution has not touched some employers and sectors of the economy. Their existence and prevalence poses, quite possibly, the most daunting and formidable problem policy makers face: how to persuade employers and individuals to invest in skills and hence take part in the skills revolution.

A key challenge is to identify the conditions required to break into these vicious circles but there are no simple panaceas.

Supply side initiatives can help...

but the evidence suggests that the supply of skills is not the key issue.

Rather it is necessary to stimulate demand. The prevalence of latent skills gaps poses a formidable policy problem – how to persuade employers and individuals to invest in skills.



Notes





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