

North West Regional Skills and Employment Board

North West Skills and Employment Challenges

December 2008

1. The Critical Skills & Employment Challenges

- 1.1 The critical challenges identified below address both demand and supply issues, across the region, its business and residential locations, and the mix of economic sectors. They reflect on-going review of evidence and discussion amongst partners. An underpinning emphasis is upon ensuring that high quality, flexible provision is available that responds to the needs of employers and workers. A further consideration is that all activity addresses and responds to equality and diversity considerations.

Shorter Term Challenges

(1) Impact of Recession upon Employment and Redundancy

- 1.2 Given the tough economic conditions currently being experienced and the prospect of a recession in 2009 (and possibly lasting into 2010), there will be a range of challenges in the skills and employment arena. One of the key consequences will be a much higher rate of redundancy, probably including large scale redundancies. Job losses are possible across various sectors but those most likely to be hit are: financial services; construction and real estate; professional services (especially those linked to financial services and construction); retail, hospitality and leisure (as total disposable income declines). A related consideration is that the scale of recruitment will decline, providing fewer job opportunities. Whilst these job losses have occurred across the region, there has been a strong concentration in Liverpool and Manchester, as well as some of the region's larger manufacturing areas (parts of Merseyside and Lancashire).
- 1.3 It is vital that partners in the region collectively plan for and manage the impact of these redundancies and change in recruitment patterns on employees, employers and communities across the region. If done effectively, it will mitigate the negative consequences and ensure the region is well placed to respond to the economic upturn in due course. In light of these considerations the critical challenge is:

Respond to the economic recession by tackling the economic and social effects of redundancies and lower levels of recruitment across the region

(2) Impact of Recession upon the Region's Skills Needs

- 1.4 In addition to the impact on employment, the experience of past recessions highlights the potential negative impact upon employers' planning for and investment in workforce development. This is especially the case for what is deemed to be non-essential training provision, especially off the job training which does not have an immediate effect on worker productivity. There is also a tendency to overlook the need for longer term planning of skill and recruitment requirements. Whilst this may be understandable in the face of more immediate priorities, the failure to adequately plan for the future will undermine their longer term productivity and competitiveness.
- 1.5 Another issue is that employers may suspend or cease other discretionary employment practices which are important in the attracting, motivating and retaining staff. Some of

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these practices, such as flexible working practices, can be very important to some groups of workers (such as employees with caring responsibilities). In light of these considerations the critical challenge for the region is:

Responding to the challenges of economic recession by helping employers to plan and provide for their current and future skills needs

Longer Term Challenges

(3) Employment and Worklessness

- 1.6 Whilst the employment rate in has risen (70.5% in 1997 to 72.3% in 2007) and brought many more people into employment (160,000), the decline in the claimants of out of work benefits in this period has been modest in comparison (18,000). The region faces major challenges in tackling workless in general, but especially the spatial concentration in particular urban locations (Salford, Manchester, Liverpool and Knowsley, for example), communities distant from jobs growth (eg Barrow and Furness in Cumbria) and amongst particular groups (certain ethnic groups, older people and those with no qualifications).
- 1.7 The high levels of worklessness imposes a range of costs on the region, including dampening down our economic output but also imposing a range of social and health costs. In responding to this challenge, there is the need to ensure that the support provided to these groups reflect the changing nature of the economy and the available jobs, as well as the need to ensure sustainability of employment which out of work benefit claimants are securing. In light of these considerations the critical challenge is:

Providing the support that the workless need to gain sustainable and rewarding employment, especially those from the groups and communities most adversely affected by unemployment, a lack of work or underemployment

(4) Aspirations and Achievement of Young People

- 1.8 As a consequence of many of the economic and social challenges the North West has faced over the past two decades, the educational underachievement of its young people and preparation for work are major issues for the region and continue to be constraints upon its economic performance. More recently the region has made good progress in terms of the educational achievement of young people at 16 and their subsequent academic and vocational achievement at 17 and 18. But there remain important challenges around level 2 attainment amongst 16-19 year olds and the extent and concentration of young people who are classified as NEET at 16 and 17. These issues are greatest in the region's urban heartlands of Greater Manchester and Merseyside, but also parts of Lancashire. A related issue is the need to stimulate a greater interest amongst young people in progressing to higher education and hence achievement of a Level 4 qualification.
- 1.9 The region is also faced with a demographic challenge with fewer young people entering the labour market at 16-19 (exacerbated by increased entrants to higher education). In light of these considerations the critical challenge is:

Raising the aspirations and attainment amongst young people, especially amongst 16-19 year olds, and stimulate an interest in and progression towards higher skills

Adult Skills

- 1.10 The importance of the skills of the workforce to the performance of the UK and North West economy is well understood, including its vital role in driving productivity and hence regional competitiveness. The North West has faced the challenge of adapting the skills of its adult workforce to the needs of an increasingly knowledge based economy and it has had some success in doing this. But whilst the region is making good progress in uplifting its qualifications profile at all levels, it faces particular challenges in raising the numbers of people qualified at Levels 2, 3 and 4. In achieving this, workers need to take their share of responsibility in investing in these skills, alongside employers and the government.
- 1.11 The evidence suggests the region (especially the major urban centres of Manchester and Liverpool) is now holding its own in attracting and retaining highly skilled graduates. However, it needs to encourage greater levels of achievement of Level 4 amongst the current workforce, through closer coordination between employees, employers and HE providers. In light of these considerations the critical challenge is:

Ensuring a commitment amongst adults to the skills and qualification they need for employment, with a focus on Skills for Life and Level 2 attainment, as well as attainment at Level 3 and higher skills

(5) Employers Investment in Workforce Development and Related Practice

- 1.12 The skill requirements of the North West economy will continue to change at a rapid pace as it shifts towards service sector and knowledge based industries, although this will be at a slower pace than in recent years. Looking across both new jobs and replacement demand for workers, much of this demand will be for workers qualified at Levels 2, 3 and 4. The demand will be heavily concentrated amongst particular sectors (given their expected growth trajectories, but also the age structure of the workforce in more mature sectors). The ability of employers to secure workers with these qualification levels and the appropriate occupational skills impacts critically on both the capacity of existing business to grow and add value and on the ability of the region to attract in high value added industries and employers.
- 1.13 But if the region is to meet the skills challenge it faces, it needs to raise its game in order to secure the aspirations for economic growth and productivity improvements. This includes stimulating higher level of investment in skills, meeting the skills needs of sectors and growth locations (including the North West's city regions and specific locations within the Liverpool-Manchester corridor and places such as Preston and Chester), and improving the region's management and leadership skills profile. There is also evidence of the role of particular attitudes and aptitudes, such as entrepreneurialism, innovativeness and the empowerment of staff, in the performance of businesses.
- 1.14 In light of these considerations the critical challenge is:

Stimulate employers to invest more in workforce development at all levels, including innovation, leadership and management, and entrepreneurial skills

2. Identifying the Regional Challenges

Introduction

- 2.1 This draft note has been prepared by Regeneris Consulting as part of our on-going work on the North West's employment and skills evidence base, including the position, prospects and issues facing the region. The purpose of this note is to set out the key skills and employment challenges for the region and the broad priorities for the partners in the region.
- 2.2 The note builds on the North West Employment and Skills Evidence Base 2008, which has been updated during September and October, as well as the Strategy Workshop at the Regional Skills and Employment Board's (RSEB) Residential Meeting.
- 2.3 As outlined in more detail below, the intention is for the challenges to inform the development of the North West's Integrated Regional Strategy, as well as to secure a partnership approach and hence more coordinated action in tackling the region's key skills and employment challenges.

Regional Skills and Employment Board

- 2.4 The RSEB was established in 2008 with the aim of:
 - Agreeing and delivering regional skills and employment priorities that lead to economic growth and increased competitiveness, increased benefits to business through world class effective people, increased benefits to individuals by assisting them to realise their own potential and increased employment in the region.
 - Identifying and addressing systemic and market failures in the areas of skills and employment, including supply and demand issues.
 - Establishing mechanisms for the sign-off and delivery of the regional aspects of Sector Skills Agreements.
 - Providing connectivity and co-ordination of initiatives in an attempt to simplify the landscape at regional, sub-regional and local level.
 - Aligning the skills and employment budgets and actions of partners to ensure greater leverage and traction with the RES priorities, and to increase private sector investment.
 - Providing the strategic framework for ESF.

Purpose of the Paper

- 2.5 The updated Evidence Base report provides a comprehensive evidence base for the region, covering economic performance, employment and skills issues, and examining these from a regional and sub regional perspective. It also identifies fifteen key employment and skills issues for the region.
- 2.6 This note builds on this evidence base and a strategy workshop held with the Regional Skills

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and Employment Board. It sets out the key skills and employment challenges (and opportunities) facing the region. However, this work has identified 17 challenges, which vary in terms of their importance to the achievement of the Integrated Regional Strategy (and the Regional Skills Strategy), the extent to which they are the focus of existing national or regional action, and the scope for partners to make a difference.

2.7 In light of these considerations, it is important for partners to prioritise a smaller number of what are perceived to be the critical challenges for the region, which will inform the IRS and their on-going discussions of the skills strategy for the region over the course of the next 12 months.

2.8 It is also intended that the skills and employment priorities which are agreed with partners in due course should be adopted by and integrated into the strategies and operational planning of these strategies. As such, the challenges and priorities will inform the key regional skills funding programmes, helping to influence the use of resources through programmes such as the European Social Fund 2006-13.

2.9 The former Regional Skills Partnership was a trail blazer in its efforts to prioritise the employment and skills needs of the region and securing coordinated action. The North West Statement of Skills Priorities 2007-10 set out seven priorities – these priorities remain highly relevant and we have drawn on these in considering the current challenges and priorities for the regional partners.

Scope of the Challenges

2.10 There were three main inputs into the development of the challenges and the prioritisation of these. These were:

- The review of the evidence contained in the updated Evidence Base Report
- The context provided by existing regional and national priorities
- The views and priorities of the RSEB and other partners and stakeholders.

2.11 The analysis of the first two is contained in the Evidence Base report. The third has been gauged through consultations with organisations with a remit for or interest in skills and employment issues, as well as the RSEB Strategy Workshop.

2.12 A combination of these was used to determine the critical challenges. All priorities are evidence based, however the evidence has to be interpreted to decide on the relative weight accorded to different challenges and possible actions. Also, as noted earlier, we have also drawn on the region's Statement of Skills Priorities 2007-2010.

2.13 Whilst the note is concerned with identifying the key employment and skills challenges facing the region and its sub-regions and the prioritisation of these challenges by partners, it is not directly concerned with proposing actions or resource allocations.

2.14 The study has a strong focus on the demand and supply of skills and hence the policy interests of the LSC, JCP and NWDA. It covers the skills and learning agenda from sixteen through to the adult workforce and all skill/qualification levels (from basic skills to higher level skills). It does not cover those business development issues which are not directly skills or workforce development related.

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- 2.15 Whilst the critical challenges do not cover the full economic development and regeneration agenda for the region, the note does set employment and skills within the national and regional productivity, the social cohesion, place and sustainability agendas. As such, it is intended to reflect the focus of the new IRS.
- 2.16 It is important to emphasise that these are **regional** challenges. The partnership has identified the challenges which are of regional significance due to their scale, intensity and impact on the region's economy and people. Many of these issues are shared with other regions and so are, unsurprisingly, also national challenges or priorities. The challenges identified at a regional level vary in scale and intensity across the sub-regions (and indeed, in the case of skill supply issues, locally).
- 2.17 Finally, the analysis of the challenges is set in the context of the 10 year vision of the IRS Strategy and skills trends are considered over this period (although the precise time period for the forecasts varies from one source to another). Action clearly needs to be taken here and now - all the critical challenges can be addressed in the short to medium term (i.e. the 3 year planning horizon of most agencies). Indeed, some of the challenges are specifically concerned with tackling short term considerations.

3. The Employment and Skills Challenges

Headline Findings from the Evidence Base

Updating the Evidence Base

3.1 It is unusual to update a regional economic or labour market assessment just six months after completion. However, there was the need to do this in this instance due to the rapidly changing macro-economic circumstances, the emergence of new regional evidence and the desire to explore issues of regional relevance in more detail. The specific focus of the update is set out in the insert box.

3.2 The updated findings are presented below. The fuller discussion is set out in the Evidence Base report.

- i. Updating the evidence base and issues in light of recent research, including current economic circumstances and the impact on short and medium term prospects
- ii. Reviewing the responses to the NWRIU Evidence Papers
- iii. Reviewing the sectoral evidence, including consideration of the implications and requirements of emerging sectors
- iv. Consideration of the impact of Machinery of Government Changes
- v. Re-examination of progress against the PSA and Leitch Targets and the implications for the Region's skills priorities
- vi. Undertaking further analysis of the 14 issues and reviewing the relationships between these Issues and other relevant policy themes

Key Messages

3.3 Following a period of relatively strong growth and a continued shift in sectoral mix towards services, the North West now faces the real prospect of a period of **economic contraction and falling employment in the short term**. While the full effects of the credit crisis are still uncertain, recent data shows that employment is already falling in construction and private sector services, and we may anticipate further sizeable reductions in labour demand in the next 12 months.

3.4 The downturn and possible recession is likely to bring a range of challenges in the skills and employment arena. Some of the key ones include:

- Redundancies and a freeze in recruitment across various sectors but especially in construction, real estate, financial services, hospitality, leisure and retail. There have already large redundancies announced (including developers David Mcleans and Urban Splash, lawyers Hammonds and Halliwells, for example), whilst many others are threatened.
- There has also been a reduction in working hours at a number of major manufacturers in response to falling demand and hence production. This includes Bentley in Crewe and Vauxhall in Ellesmere Port.
- An increase in the on-flows onto Jobseekers Allowance and the need for partners to focus more efforts in the short term on tackling the inflow whilst maintaining activity with the stock of unemployed.

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- A reduction in entry level and low-skill employment opportunities, making it harder to tackle long term worklessness and the NEET group.
 - Short term contractions in companies' training budgets, affecting workforce development activity and other discretionary employment practices.
 - Possible impacts on labour market decisions of particular groups in response to reductions in employment opportunities, including younger people staying on for longer in education and older workers made redundant taking early retirement.
 - Possible slowing in the rate of international in-migration and an increase in migrants returning to their home countries.
- 3.5 Despite the downturn there are still significant vacancies across the region. For example whilst the number vacancies notified to Jobcentre Plus has fallen (61,000 in October 2007 to 48,000 in October 2008), this still represents a sizeable number of vacancies. Jobcentre Plus have identified call centres, utilities, health and social care, retail and the public sector as areas where significant volumes of vacancies exist.
- 3.6 All forecasters expect that the change in sectoral composition will continue, but at a slower rate than in recent years. The growth in the region will continue to be mainly at intermediate and higher level occupations, with a continuing decline in demand for elementary occupations. This will continue to have major implications for the demand for qualifications - in broad terms **continued growth is expected at L3 and L4+ and a strong decline at L1**. The upshot is that the **nature of labour demand may not in practice be consistent with the achievement of Leitch targets in the region**.
- 3.7 The **effective labour force** in the region has grown steadily and is expected to continue, albeit at a slower rate. A number of demographic trends, including a declining cohort of school-age leavers and a large increase in those at the official retirement age, will have a significant impact on the supply of working-age adults who are active in the labour market.
- 3.8 The region has experienced significant inflows of **international migrants**, especially to the region's urban areas, and the likelihood is that the recent trends in migration will continue though possibly at a slower rate in the short term, due to the downturn. In the longer term the situation is less clear and will in part be influenced by the opening of borders of some EU countries to the 2007 accession countries in 2011, the possible accession of Turkey, wider geopolitical considerations, and the severity of the economic downturn in the UK.
- 3.9 The region is increasing its **qualification profile**, although it is not managing to close the gap with the UK. A recent NWDA study suggests that a 1% increase in L3 and L4 qualifications in the workforce could add £300m to the regional economy. However, the region continues to lag the national average at this level, despite a significant increase since 2001 and the highest number of graduate places of any region outside of London. But the region does better in attracting and retaining highly skilled workers, although this is highly skewed towards the region's major cities with their greater breadth and depth of job opportunities. Although making good progress, the rate at which working age residents are gaining qualifications suggests it will be very difficult to achieve some of the PSA targets for 2011 (which are broadly based on the Leitch targets for 2020).
- 3.10 The extent of **worklessness** is a key constraint upon the economic performance of the North

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West. Despite the steady increase in the region's overall employment rate analysis suggests the region's lower employment rate accounts for £4bn of the region's current £17bn output gap with England. The number of people claiming out of work benefits remains very high and continues to be highly concentrated amongst certain benefits (Incapacity Benefit in particular), in many local neighbourhoods and amongst particular labour market groups (especially older workers, those with no qualifications and some minority ethnic groups).

- 3.11 The challenge of getting claimants into sustainable employment and this will continue to be exacerbated by the shift away from lower skilled jobs, and intensified by the economic downturn. In the longer term, there will continue to be strong demand at Level 2 (though more associated with replacement demand), which will provide opportunities for claimants, provided they are able to gain employability and basic occupational skills.
- 3.12 The region is making positive progress in terms of the **educational achievement of young people at 16** and their subsequent academic and vocational achievement at 17 and 18. This is in part underpinned by fewer 16-18 years who are not in employment, education or training (the so-called NEET group), as well as an improved understanding of the destinations of young people at 16. However, there remains a major challenge around the extent and concentration - geographically and amongst particular groups - of young people in the NEET group. Recently legislation increasing the school leaving age will reduce NEET to an extent, research has shown that only around half of the target group will be unaffected by the raising of the leaving age. Nonetheless, the current evidence suggests that low employment rates among 19-24 year olds is much less of a concern now than previously.
- 3.13 The available evidence suggests that overall there is currently **no major mismatch between the demand and supply of skills within the region**. In general the economy has been able to secure the workers and skills its needs during a period of strong employment growth. However, employers report higher levels of shortages and skills gaps in particular sectors, occupations and geographies. The numbers of Skill Shortage Vacancies (SSVs) in the North West – those vacancies employers report are hard to fill – were significantly lower than for England and have fallen since 2005. However, there appear to be pronounced skill shortages within certain industries (construction, retail, hospitality and catering) and this may be more due to the nature of the sector and staff turnover than an overall mismatch in demand and supply of skills.
- 3.14 Whilst the study has sought to focus on the regional picture, **there are great differences across the region**. Although the picture is complex, some geographical locations have been more severely affected by an imbalance in the demand for, and supply of, skills for certain sectors and occupations.
- 3.15 A high proportion of employers in the region believe that a wide range of **workforce development and human resource practices** are an important influence upon organisational performance. However, there is the likelihood of some of these organisations just paying lip service to the importance of these practices: not all those that have highlighted their importance have adopted systematic approaches to HR practices. The factors which drive more formal and sophisticated systems of HRM are mainly the consequence or aspiration for business growth, addressing poor organisational performance, maintaining standards in the face of change or managing organisational change.
- 3.16 Although sector dependent, the evidence suggests that the social, economic and environmental **benefits of home-working often remain largely untapped**. The public sector

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is much more likely to offer generous leave and working time arrangements to recruit, retain and motivate its staff than is the private sector, which remains keener to use core financial and performance-related incentives.

- 3.17 North West employers appear to be slightly more focused on **training** than the national average. However, this masks large variations in the amount of training undertaken, with lower levels of training in sectors with higher labour turnover and low skill content. The spatial pattern of training tends to be heavily influenced by these factors. Research undertaken by NWDA suggests that besides more proactive approaches to planning skill needs, career development and related training, approaches to encouraging the empowerment of the workforce and more entrepreneurial and innovative attitudes and aptitudes are important contributors to business success.
- 3.18 A research paper for NWDA suggests that if the North West were in the top quartile in terms of its **management and leadership** performance (akin to London and the South East) its output could be up to £1bn higher (although estimates of this nature are inevitably subject to a significant degree of uncertainty). Whilst the region has fewer managers, this appears to be linked to employment and occupational structure and organisation structure and function (i.e. fewer head offices) within the region. The extent to which employers report gaps in management skills is actually limited, although they are significant in terms of the overall reported gaps across all occupations. Proxy indicators of management practice suggest that management practice is comparable to or better than in England as a whole.

Changing Policy and Delivery Context

- 3.19 The skills and employment priorities for the North West are not only influenced by the labour market and economic challenges which the region faces. They must also be informed by and set within the wider national and regional priorities. These are summarised below.

A period of major development in England's employment and skills policy....

- 3.20 The past 5-6 years have been a particularly active period in the area of skills and employment policy. A variety of strategies, policies and programmes have been developed for England and this is now feeding through into strategy and implementation at a regional and local level. Some of the key developments include the Leitch Review of Skills, the Freud Review, the Machinery of Government changes and the Sub-National Review of Economic Development and Regeneration.

Many of the key recommendations of the Leitch Review of Skills are being implemented....

- 3.21 The Leitch Review of Skills was tasked in 2004 with considering the UK's long-term skills needs. This is now being implemented, with the Government's response being published in July 2007. A key theme is the desire to give employers a stronger voice on the content and delivery of skills and employment programmes, as well as encouraging them to take greater responsibility for the planning and funding of their training activity (through the use of appropriate support from the public sector). Key features of the implementation plan include:

- Increased funding for Train to Gain. The Comprehensive Spending Review indicates that around a third of the adult skills and Further Education budget will be routed

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through Train to Gain by July 2011 – over £1billion – increasing as a proportion in the next decade¹. Recent Government announcements herald greater flexibilities in the use of Train to Gain in the face of economic recession.

- The formation of a new adult careers service to provide tailored employment and skills support (the Adult Progression and Careers Service).
- Legislation to raise the participation age to 18 so that young people are required to stay on in some form of education or training.
- New legislation for a funding entitlement for adults to free training in basic literacy and numeracy and a first full Level 2 qualification.
- Giving all suitably qualified young people access to apprenticeships, as well as promoting advanced apprenticeships as the most appropriate route to deliver on the new Level 3 entitlement for young people aged 19-25.
- Encouraging HEIs to focus more on workforce development and collaborate more with employers on training.
- A number of reviews have also been launched into IIP and consideration of a legal entitlement to workplace training from 2010.

3.22 Additional actions are proposed around employers' requirements, including:

- An enhanced 'employer voice' in determining skills provision, including Employment and Skills Boards.
- Reform of vocational qualifications including recognition of employers own training.
- Launch of a New Quality Standard for Employers Responsiveness and Vocational Excellence.

3.23 The White Paper, *Raising Expectations: Enabling the System to Deliver*, was published by the Department for Children, Schools and Families and the Department for Innovation, Universities and Skills in March 2008. This has major implications for the organisation and delivery of education and training for both young people and adults – the key points are:

14-19 year olds:

- Local authorities will take responsibility for the delivery of education and training for children and young people aged 0-19, supporting the Government's commitment to raising the participation age to 18 by 2015.
- They will also take responsibility for delivering the full range of 14-19 entitlements including the new Diplomas, Apprenticeships and the Foundation Learning Tier. Local authorities will be able to commission provision to meet demand from young people and employers.

¹ Train to Gain Plan for Growth, November 2007-11, Learning and Skills Council

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- Establishment of a Young People Learning Agency to co-ordinate provision. As part of this arrangement, local authorities will need to work with national agencies and the Regional Development Agencies who will co-chair the regional level, to provide a coherent planning and funding system for FE colleges and providers.

Adult learners:

- The creation of a Skills Funding Agency which will route funding to FE colleges and other providers to meet the demands of employers and learners (this will replace the LSCs).
- The Agency will manage the creation and management of the new England-wide adult advancement and careers service and manage the new National Apprenticeship Service.

Major initiatives in the effort to move towards full employment

- 3.24 The Freud report, an independent review of welfare to work, was published in March 2007. This has helped to shape the delivery of welfare to work provision over the next decade. The review concludes that while there has been good progress on welfare to work, there needs to be more evolution, and the over-arching recommendation is that the Government needs to do more to encourage the least advantaged into work. Resources should be targeted on these individuals, who generally face multiple, complex problems, so that spending can be directed towards these in a more individualised way. The report finds that Jobcentre Plus has been successful in terms of helping those closer to the labour market into work, and that it should focus on these individuals. In particular, Freud recommended:
- Contracting out support for the hardest to help to the private and voluntary sectors, to provide an incentive to improve performance.
 - A greater commitment to rights and responsibilities for those who are receiving employment support, so that there is a greater element of conditionality attached to receiving benefits.
 - Reforming the benefit system, in order to reduce complexity – the report recommends further investigation of options for this.
 - Streamlined, mass market provision based on Jobcentre Plus – in the longer term, Jobcentre Plus should provide a one-stop front-end for all benefits.
- 3.25 Following on from the Freud report, the Green Paper *'In work, better off: next steps to full employment'* published in July 2007 set out how the Government proposed to move towards full employment, giving everyone the chance to work and contribute to society. The Government's response *'Ready for work: full employment in our generation'*, published December 2007, sets out more than 50 changes to the current system of benefits and job-seeking support to be implemented over the next four years.
- 3.26 The greater emphasis on the integration of the employment and skills agenda has been reinforced with the publication of *Work Skills* in June 2008. This outlines what the Government is doing to help people take control of their skills needs and the role of employers in achieving this.

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3.27 The Government published its response to *No One Written Off* as a White Paper December 2008 (*Raising Expectations and Increasing Support: Reforming Welfare for the Future*). This makes a number of important policy initiatives, including:

- People currently claiming Income Support will move to either the Employment and Support Allowance or Jobseeker's Allowance (with the exception of carers for the time being) . The requirements within Jobseeker's Allowance will be modified to suit the broader range of people who will be claiming it.
- Encouraging lone parents and partners with younger children (seven and younger) to engage with the support that is available, to improve skills, prepare for work or address more significant problems such as debt, drugs or mental health. The Government is intending to start by exploring what the regime might look like for parents with three to six year-old children.
- The White Paper confirms the plans set out in the Green Paper for testing a Work for Your Benefit scheme. This will require people who have been on Jobseeker's Allowance for two years to participate in full-time activity, to develop their work habits and employability skills in return for their benefit.

Strengthening of strategic and implementation arrangements necessary to improve economic performance in the regions, cities and localities....

3.28 The Government's Review of Sub National Economic Development and Regeneration (SNR) published in July 2007 made a number of wide ranging recommendations:

- An **Integrated regional strategy** to take the place of the RES and the Regional Spatial Strategy. A key element of this strategy will be the role skills play in delivering the broader economic, social and environmental objectives for the Northwest. The intention is for the IRS to be launched in 2011-12 – in the meantime an updated economic strategy will be prepared by 2009/10.
- Whilst the responsibility for **16-19 education and skills provision** moves from the LSCs to local education authorities, the lead role for adult skills will rest with the Skills Funding Agency. Whilst the lead role for **adult skills** will sit with the new Skills Funding Agency, the SNR recognises the skills objectives of Regional Development Agencies and the role historically taken by Regional Skills Partnerships to ensure coordination.
- The joint responsibility of the LSCs (and again in due course the Skills Funding Agency) and RDAs in ensuring that there is no duplication and overlap in skills provision. In this regard, the North West has established a Regional Skills and Employment Board.
- Empowering all local authorities to promote economic development and neighbourhood renewal, with greater flexibility, stronger partnership working and cooperation from other agencies. This is intended to be achieved through, in part, the use of Multi-Area Agreements (MAAs).

3.29 In July 2008 Government issued **Regional Funding Advice** which provides indicative Regional Funding Allocations for transport, housing and regeneration, and economic development.

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This offers regions the opportunity to provide advice to Government on their investment priorities. The RFA requires the statement to outline the skills and employment implications of their investment priorities.

- 3.30 NWDA is currently working with partners in gathering the **regional evidence base** to support the preparation of the single regional strategy. This report will form part of this evidence base. The agency and its partners have been proactive in undertaking a number of specific studies intended to fill gaps in the intelligence and understanding including research on skills and productivity, workforce development and employment practices, migration, housing and the economy, and worklessness. However, the guidance on the scope and focus of the single strategy documents is not due to be published until later in the year.
- 3.31 In November 2007 the Communities and Local Government announced the 13 sub-regions that are working towards **Multi-Area Agreements**. The Government Office for the North West is currently working with its local authority and other partners to refresh the latest round of LAAs across the region, as well as agreeing the MAAs across the region. Greater Manchester MAA has already been signed, Merseyside and Pennine Lancs will be signed in January 2009 and this will be followed by the Fylde Coast in Spring 2009.
- 3.32 In October 2007 CLG published the new **performance framework for local authorities** and the reduced set of indicators. This is intended to allow key outcomes to be monitored while giving more freedom to exercise local leadership. The indicator set includes a clear focus on economic development and neighbourhood renewal.

4. The Key Issues and Challenges

4.1 The updated Employment and Skills Evidence Base provides a comprehensive analysis of the employment and skills position and prospects of the North West economy, as well as highlighting fifteen key employment and skills *issues*. The issues, which are shown below, vary widely in terms of their focus and relevance to the region's economic performance and prospects.

4.2 These Issues are helpful in thinking about economic and labour market structure and change. However, it is more helpful to express these issues as more action orientated *challenges or opportunities* and which have more relevance in the preparation of the region's IRS. This has helped partners to prioritise between the challenges and will, in due course, assist in the identification of approaches and actions through which to tackle them.

4.2 The challenges have been grouped within four key themes:

- **Competitive workers** – responding to the need for the regional economy to ensure an adequate supply of skilled workers, across the occupational groupings, skill levels and competences
- **Competitive employers** – securing a competitive regional economy by ensuring that employers have access to the skills which they need to grow and add value and that the region can attract in high value added industries and employers
- **Competitive economies** – ensuring that sub-regional and local economies are able to meet their skill requirements and address their specific challenges, thereby making a valuable contribution to the competitiveness of the region as a whole
- **Supporting actions** – these include a variety of actions which cut across the demand and supply sides of the labour market, but which are essential to the competitiveness of the regional and sub-regional economies. The actions are focused on the nature and delivery of learning and training infrastructure and the manner in which partners in the region adjust to the proposed changes in strategy, funding and delivery of this provision.

4.3 In addition, a number of **short term** challenges are identified, which reflect the immediate and shorter term challenges arising from the current economic recession. The key challenges are presented in summary format in Table 3.1 below.

Key Issues:

- Economic and employment prospects
- Employment and skills implications of the downturn in the North West
- Employment change and demand for skills
- Changing demand for qualifications
- Changes in the supply of workers
- Use of migrant workers
- Qualifications of the workforce
- Inter-relationship between employment and skills issues and non-skills issues in the regional strategy
- Economic inactivity and worklessness
- Progression and achievement of young people
- Skill shortages and gaps
- Spatial variations in economic performance and the demand and supply of skills
- Employer training activity
- Leadership and management

• The North West Skills and Employment Challenges •

Table 4.1 Key Skills and Employment Challenges and Opportunities for the North West		
Challenge – Opportunity	Rationale	Key Statistics
Competitive Workers		
1. Encouraging participation & addressing the demographic challenge	<ul style="list-style-type: none"> • Raising participation, and hence pool of skilled workers, desirable in general labour market & economic terms • Whilst slight growth in participation forecast, key compositional challenges: <ul style="list-style-type: none"> ○ Aging of workforce is accelerating and implications more acute in some sectors (and especially in Cheshire and Warrington and Lancashire) ○ Decline in young people aged 16 <u>plus</u> increased staying-on rates • Pool of migrant labour may decline but subject to uncertainty: <ul style="list-style-type: none"> ○ Decline in local demand ○ Economic development & ↑ in labour demand source countries ○ Potential to undermine flexibility of UK labour market • Challenge of retention & recruitment for employers, though mitigated by downturn 	<ul style="list-style-type: none"> • Employment rate 72.3% (UK = 74.3%) • Working age population growth expected to slow: 1.4% growth 2006-16 • no. of 65+ year olds projected to rise by 217k (20%) between 2006 and 2016 • no. of 15-19 year olds projected to fall by 74k (12%) between 2006 and 2016
2. Securing a larger pool of highly skilled workers	<ul style="list-style-type: none"> • Economic importance of more highly skilled workers <ul style="list-style-type: none"> ○ Higher direct productivity <u>but also</u> drive enterprise, innovation & agglomeration benefits ○ An estimated 1% ↑ in L3 & L4 could increase NW GVA by £290m (NWDA) • NW performed well last 5-6 years <ul style="list-style-type: none"> ○ ...combination of strong demand and success in competing for higher skilled • Continued shift in demand to higher skills expected to continue. Especially important in growth areas (Liverpool-Manchester Corridor, Preston etc.) • But Leitch L4 target is unlikely to be met: <ul style="list-style-type: none"> ○ Sectoral & occupational change unlikely to be sufficient driver in own right ○ Current progression rates fall well short 	<ul style="list-style-type: none"> • An additional 334,000 jobs forecast at L4 and 260,000 at Level 3 (Working Futures, 2004 and 2014) • Progression rates at level 4 would have to increase by multiple of 10 to reach Leitch target by 2020
3. Ensuring a commitment to continual skills development amongst adults, esp. attainment at L2-L3	<ul style="list-style-type: none"> • Vast majority of net demand for labour is expected to be at level 3 and above • But currently only 46% of the adult population are qualified to this level • The majority of people in the UK gain their Level 3 qualifications by the time they are 19 with very little achievement beyond that age. 	<ul style="list-style-type: none"> • Taking replacement demand in to account, almost 80% of the net requirement for new labour in the North West between 2004 and 2014 will be for workers trained to level 3 and above (Working Futures Study) • 46% of adults in North West qualified to level 3 and above (UK = 47%)
4. Enabling informed decisions, raising aspirations and attainment amongst young	<ul style="list-style-type: none"> • Educational attainment improving at 16, increased staying on rates and progression to HE studies <ul style="list-style-type: none"> ○ ...in part reflected in improved employment rates amongst 19-24 year olds 	<ul style="list-style-type: none"> • 44.5% of 15 year olds achieve 5+ A*-C GCSEs inc, maths and English (UK 45.7%) • 45% of 19 year olds attain level 3 (UK 48%)

• The North West Skills and Employment Challenges •

<p>people, especially at L2 and 3 and tackling NEET.</p>	<ul style="list-style-type: none"> • Whilst an overall reduction in the NEET group, incidence of NEET above the national average • But persistence of large concentrations esp in the larger urban areas – most concentrated in Greater Merseyside and Greater Manchester. • Increase in school leaving age will reduce the incidence of 16-18 year old NEETs to some extent • But fewer opportunities at entry level in the short term 	<ul style="list-style-type: none"> • 7.9% of 16-18 year olds are NEET (England 6.7%) • Fall of 2,900 (0.5% points) between 2005 and 2007 • Concentrations in Greater Merseyside (10.1%) and Greater Manchester (8.4%)
<p>5. Helping the workless gain sustainable & rewarding employment</p>	<ul style="list-style-type: none"> • Increase in employment rate (c72.3%) & notable progress with some groups • But persistence in concentrations amongst particular groups, irrespective of geography: <ul style="list-style-type: none"> ○ Older workers, disabled, ethnic minorities, those with no qualifications • Despite shift in demand to higher skills, still strong replacement demand at L2 (lesser extent L1) <ul style="list-style-type: none"> ○ ...but economic downturn will reduce entry level opportunities in short run • Still the need for tailored on-going support, linked to major job creating sectors and developments 	<ul style="list-style-type: none"> • 737,000 claimants of out-of-work benefits (16.3% of working age population, GB 13.2%) <ul style="list-style-type: none"> ○ Majority on incapacity benefit (8.8%, GB 6.7%) • Good progress with Lone parents <ul style="list-style-type: none"> ○ 18% fall 2003-2008, compared to 8% fall in total claimants • Variation in ER: <ul style="list-style-type: none"> ○ Older workers: 67% (UK = 71%); Ethnic Minorities: 54% ; Disabled: 40%; No quals: 43%
<p>6. Encouraging innovative and enterprising behaviours</p>	<p>It is widely recognised that Skills for Life are vital to the employability of workers but also vital skills for employers. The importance of enterprising, innovative and creative attitudes and aptitudes to workers and employers are less commonly recognised.</p>	
<p>Competitive Employers</p>		
<p>7. Ensuring employers have access to workers and skills they need (a) Meeting the skill needs of key growth and priority sectors</p>	<ul style="list-style-type: none"> • Important sectors contributing to future economic prospects, <ul style="list-style-type: none"> ○ ...but challenges differ & require tailored solutions <p>Established growth sectors with high GVA & knowledge content</p> <ul style="list-style-type: none"> • Business services, professional services, ICT • Strong net demand (c90k, 2004-14), with high L3 & L4 requirement • Gaps as much business/entrepreneurial as technical skills • Attracting/retaining highly skilled workers to the region and managing recessionary impact <p>Smaller sectors with strong growth potential</p> <ul style="list-style-type: none"> • Creative & Media, Ports • Meeting skill needs given prospects for strong growth over next decade • Strong L3 requirement, some L4 (also some at L2) • Gaps in NW training provision serving some sectors 	

• The North West Skills and Employment Challenges •

	<p>Niche high value science & technology sectors</p> <ul style="list-style-type: none"> • Life Science, Biomedical, Advanced Engineering, Nuclear • Education system not delivering quantity & quality of graduates needed • Attracting and retaining the talented 	
7. Ensuring employers have access to workers and skills they need (b) Meeting the skill needs of other major employing sectors	<ul style="list-style-type: none"> • Major sectors with large scale labour and skill requirements • ...with some significant challenges & a need for tailored solutions <p>Static or declining high volume employment sectors</p> <ul style="list-style-type: none"> • Some very important employing sectors e.g. chemicals, engineering, food/drink manufacture, construction • Net loss of jobs (-20k, 2004-14) but substantial replacement demand • Other challenges – recruitment of younger people, some skill shortages <p>Large volume private service sectors, growing steadily</p> <ul style="list-style-type: none"> • Includes retail, tourism, leisure & personal services • Large volume of L2 and L3 demand and customer service issues • Issues include staff retention, securing staff in rural areas & dependence on migrant workers <p>Large volume public service sectors</p> <ul style="list-style-type: none"> • Includes health, care, education and administration • Whilst no or slower expansion demand, high replacement demand • Jobs growth were driven by demographic changes (ageing population) • Issues of skills and training necessary to meet service improvements 	
8. Developing a positive culture of training, human resource management and employment practice	<ul style="list-style-type: none"> • Allowing for sectoral mix, North West performs well on strategic approaches to HRM, volume of training & certain employment practices • Danger of generalising, but key challenges include: <ul style="list-style-type: none"> ○ Persistence of ‘high volume-low value’ business strategies – HRM not a priority ○ Large ‘tail’ who don’t plan, invest adequately in skills or adopt ‘modern’ employment practices ○ Encouraging the more proactive firms of the need to link more closely to skills to business strategy • Employer led training likely to be cut in downturn (with implications for T2G volumes) 	<ul style="list-style-type: none"> • Over half of employers in NW (52%) don’t have a HR/training plan or training budget (58%) • Two out of five (4%) don’t use personal development plans for staff • A third have not provided training for staff in last 12 months • Reliance on recruitment to meet skill needs with little attention to internal solutions
9. Developing the capability of SMEs through their leadership & management	<ul style="list-style-type: none"> • Whilst evidence is limited, appears to be one of the NW’s key skill gaps • Significant economic gains from enhancing leadership and management skills <ul style="list-style-type: none"> ○ £1 billion could be added to economy if NW matched London/SE performance in this area (NWDA) • Cross-sectoral and complex, but some themes: 	<ul style="list-style-type: none"> • Managers and senior officials - 13.9% of all employees in NW compared to 15.5% in England • 23% of all NW skill gaps are wholly or partly due to inadequate management skills (NESS)

• The North West Skills and Employment Challenges •

	<ul style="list-style-type: none"> ○ Sectors coupling high technical expertise with management skills ○ Management skills of entrepreneurs ○ Attracting and retaining top management talent, etc 	<ul style="list-style-type: none"> • 2007) • 42% of employers have undertaken management training for its managers in last 12 months
Competitive Economies		
10. Meeting the skill needs of areas with prospects for strong economic & population growth	<ul style="list-style-type: none"> • Some areas with potential to be focus of population and economic growth over next decade • To varying degrees, they combine the capacity for growth, large catchments of skilled workers and assets sought by the KBIs • Areas include: <ul style="list-style-type: none"> ○ Liverpool-Warrington-Manchester Corridor including existing and emerging growth points ○ Also Preston, Chester,... • Challenge include: <ul style="list-style-type: none"> ○ Matching skills demand with supply, often with a strong sector focus ○ Linking jobs with workless communities/groups • Possible requirement for new learning or training infrastructure 	<ul style="list-style-type: none"> • Greater Manchester South's GVA has grown by 5.3% p.a. between 2000 and 2005, and Liverpool's GVA grew by 5% p.a. • Warrington and Halton – second highest GVA growth in region in this period (5.7% p.a.) • Significant increase in population projected, e.g. Manchester set to grow by 74k (17%) • Largest population increases expected in Greater Manchester (165k), Lancashire (81k) and C & W (48k)
11. Tackling worklessness concentrated in communities	<ul style="list-style-type: none"> • Strong spatial dimension to worklessness in NW and persistence in communities despite targeted response • Growth in IB claiming (sick and disabled) and by far the largest benefit group in these communities • Proximity to strong jobs growth has benefited individuals but not the communities (due to churn) • Complex mix of barriers: <ul style="list-style-type: none"> ○ Individual - skills, confidence & motivation, flexibility • Communities – retention of residents 	<ul style="list-style-type: none"> • Greater Merseyside: 210k claimants, 21% of w.a. Population • Greater Manchester: 294k claimants, 17.3% of w.a. population • Eight districts (Liverpool, Knowsley, Blackpool, Blackburn with Darwen, Manchester, Salford, Halton and Barrow-in-Furness) all have >20% working age adults claiming out-of-work benefits
12. Ensuring local partners research, plan & respond to their particular labour market needs	<ul style="list-style-type: none"> • The spatial level at which most sensible to plan and respond to skills needs varies • Many issues are regional but there are also distinct D&S issues at or below sub-regional level • SNR and MOG places greater emphasis on LA responsibility for economic development, 16-18 education and localised response to worklessness <ul style="list-style-type: none"> ○ ...hence need to research, plan and respond to local labour market requirements • ...but gaps in key analytical and planning skills at a local level 	
Other Supporting Actions		
13. Developing the skills escalator to adequately up skill the workforce	<ul style="list-style-type: none"> • Current progress insufficient to meet Leitch L3 & L4 targets – analysis suggest action needed on both the demand and supply sides of the labour market to stimulate • Scope to secure improvement varies: 	<ul style="list-style-type: none"> • L4+ – 36% by 2014 & 40% by 2020; 29% in 2006 • L3 @ 19 – 54% by 2011; 47% in 2006

• The North West Skills and Employment Challenges •

	<ul style="list-style-type: none"> ○ Attracting & retaining graduates – some contribution at L4 but limited overall impact ○ International migration – very limited given current recording of qualifications & transitory nature ○ Young people entering labour market – main source of increase at L2 & L3, but need major uplift ○ Adults in the workplace – scope to substantially increase volume at L2, L3 and L4 • The concept of the skills escalator <ul style="list-style-type: none"> ○ Raising aspirations for continual learning ○ Stimulating employer demand & critically much greater role for workplace training ○ Integrating provision between school, college & workplace, academic and vocational • Scope to extend the role of FE/HEIs in training of employees 	<ul style="list-style-type: none"> • L3 adults – 56% by 2011; 49% in 2006
14. Ensuring the responsiveness of provision to the needs of employers	<ul style="list-style-type: none"> • Leitch review recommended delivering a more demand led system by only allowing public funding for vocational qualifications approved by Sector Skills Councils and a new ‘Pledge’ for employers to train all eligible employees up to Level 2 in the workplace. 	
15. Adjusting effectively to political, organisational & delivery changes	<ul style="list-style-type: none"> • Changes in Machinery of Government announced in the White Paper <i>Raising Expectations: Enabling the System to Deliver</i> have important implications for the way in which skills policy is delivered. <ul style="list-style-type: none"> ○ Local authorities to deliver education and training for children and young people aged 0-19, along with full range of 14-19 entitlements including the new Diplomas, Apprenticeships and the Foundation Learning Tier. Local authorities will be able to commission provision to meet demand from young people and employers. ○ Establishment of a Young People Learning Agency (YPLA) to co-ordinate provision of FE ○ Creation of a Skills Funding Agency (SFA) which routes funding to FE colleges and other providers to meet the demands of employers and learners (this will replace the LSCs). The Agency will manage the creation and management of the new England-wide adult advancement and careers service and manage the new National Apprenticeship Service. 	
Short Term Actions		
16. Responding to the economic downturn - tackling redundancy	<ul style="list-style-type: none"> • Effects of downturn being felt in key sectors: <ul style="list-style-type: none"> ○ Financial services, Construction & real estate, Professional services, Retail, hospitality 	<ul style="list-style-type: none"> • Unemployment in NW increased by 20,000 over last 12 months

• The North West Skills and Employment Challenges •

<p>17. Responding to the economic downturn – maintaining workplace training for current & future skill needs</p>	<p>& leisure</p> <ul style="list-style-type: none"> • Impact across NW, but may be strong spatial concentration: <ul style="list-style-type: none"> ○ Manchester/Liverpool – financial, professional services, construction ○ Chester – financial • Impact of credit crunch on SMEs • Job losses across all skill levels <ul style="list-style-type: none"> ○ White collar unemployment ○ Fall in entry level opportunities for workless ○ Need to target in-flow rather stock • Potential for large scale redundancies 	<ul style="list-style-type: none"> • In Jan 08 OEF forecasted a fall of 12,000 jobs in NW as result of credit crunch, including: <ul style="list-style-type: none"> ○ Retail – 8k jobs ○ Finance – 4k jobs
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5. The Critical Regional Challenges

Identifying the Critical Challenges

5.1 The challenges outlined in Section Four were the focus of a workshop held with the RSEB in October, being discussed and further refined. The criteria that were used to prioritise between the challenges were also discussed, agreed and subsequently used in the process. The criteria were:

- (i) A significant potential to impact significantly on the Integrated Regional Strategy, including its productivity, social cohesion, place and sustainability dimensions
- (ii) The scope for the regional partnership to make a difference (including the availability of resources)
- (iii) A focus on medium or longer term priorities, but selecting shorter term priorities where they are particularly important to current and future skills issue.

5.2 The outcome of the discussion – in terms of the critical challenges for the region where the regional partnership to make a difference – are outlined below.

5.3 The critical challenges address both demand and supply issues, across the region, its business and residential locations, and the mix of economic sectors. An underpinning emphasis is upon ensuring that high quality, flexible provision is available that responds to the needs of employers and workers. A further consideration is that all activity addresses and responds to equality and diversity considerations.

Short Term Critical Challenges

(1) Responding to the challenges of economic recession by tackling the economic and social effects of redundancies and lower levels of recruitment

Rationale

Given the tough economic conditions currently being experienced and the prospect of a recession in 2009 (and possibly lasting into 2010), there will be a range of challenges in the skills and employment arena. One of the key consequences will be a much higher rate of redundancy, possibly including large scale redundancies. Although there have not been any major redundancies to date in the region (unlike many other regions including London, South East and North East), the number of JSA claimants has gradually increased over the past 6 months (+14,500 or 14% between January and August 2008).

Job losses are possible across various sectors but those most likely to be hit are: financial services; construction and real estate; professional services (especially those linked to financial services and construction); retail, hospitality and leisure (as total disposable income declines). A related consideration is that the scale of recruitment will decline, providing fewer job opportunities. Whilst these job losses have occurred across the region, there has been a strong concentration in Liverpool and Manchester, as well as some of the region's larger manufacturing areas (parts of Merseyside and Lancashire).

Whilst these redundancies will affect workers at all skill levels, it will certainly reduce the scale of entry level and lower skill employment opportunities making it harder to tackle long term worklessness (including the NEET issue amongst young people).

Whilst it is unclear how long the recession will last, it is important that the region is not deflected from its longer term skills and employment priorities. For this reason, it is critical that the region addresses the short term consequences of recession, so it is in a strong position to respond to the economic upturn when it occurs.

Key Considerations:

- The preparation of a regional blueprint for tackling higher volumes of redundancies by NWDA, JCP and LSC.
- Use of the increased flexibilities in Train to Gain (and ESF resources) to encourage SMEs to provide training of the workforce during the downturn.
- Review the range of issues surrounding labour market vacancies (Job Centre Plus and LSC), including the need to maximise the number of vacancies filled by unemployed rather than those in employment and scope to use public sector interventions to maximise take up from this group.
- Review whether the current offer to individuals is appropriate particularly in light of the likely inflow of higher skilled claimants.
- Consider contingencies given potential Apprentice redundancies (e.g. construction) and reduced take up of these apprenticeships
- Ensure that 'real time' intelligence from the labour market is coordinated, shared and disseminated quickly to enable immediate responses to be made.

(2) Responding to the challenges of economic recession by helping employers to plan and provide for their current and future skills needs

Rationale

In addition to the discussion above, the experience of past recessions highlights the potential negative impact upon employers' planning for and investment in workforce development. This is especially the case for what is deemed to be non-essential training provision, especially off the job training which does not have an immediate effect on worker productivity. There is also a tendency to overlook the need for longer term planning of skill and recruitment requirements. Whilst this may be understandable in the face of more immediate priorities, the failure to adequately plan for the future will undermine their longer term productivity and competitiveness.

Another issue is that employers may suspend or cease other discretionary employment practices which are important in the attracting, motivating and retaining staff. Some of these practices, such as flexible working practices, can be very important to some groups of workers (such as employees with caring responsibilities).

Key Considerations:

- There is the need for partners in the region to work with national agencies to ensure that employers in the region continue to plan for their future skill needs and invest in the training of their workforce.
- Also, continuing to promote the business benefits of certain employment practices to employers.
- Consider the skills offer for inward investors and the potential impact of the downturn on the availability of skills in the region.
- Exploiting workforce development opportunities from reduced working hours being adopted by some firms (mainly in the manufacturing sectors).
- Exploiting opportunities offered by the new flexibilities introduced for Train to Gain.

Longer Term Critical Challenges

(3) Providing the support that the workless need to gain sustainable and rewarding employment, especially those from the groups and communities most adversely affected by unemployment, a lack of work or underemployment

Rationale

The employment rate of working-age people in the North West has risen from 70.5% in 1997 to 72.3% in 2007 (a rate much faster than the UK). Whilst there are an extra 160,000 people in employment, the decline in claimants of out of work benefits in this period has only been 18,000. Consequently, the region continues to have well above average proportions of claimants of most out of work benefits, especially Incapacity Benefits (currently around 400,000, 100,000 more than if the region were to match the UK average).

Despite this jobs growth, worklessness remains heavily concentrated amongst particular groups (e.g. older workers with poor skills) and in particular districts and specific communities. Although some of these communities are distant from the centres of jobs growth, many others are actually in close proximity to areas where a large number of jobs have been created. Whilst the residents in these latter communities may have gained work, they have not necessarily remained in these local communities. This has been the case, for example, in East Manchester.

Although the available evidence is limited, there is concern about the sustainability of employment which out of work benefit claimants are securing. The evidence suggests that these people have significant barriers to accessing sustained employment, including a lack of skills but also their motivation to take and hold the available jobs.

In the longer term, the forecasts on the scale and composition of employment change over the next 5-6 years suggests that there will be fewer job opportunities at a lower level and in low skilled occupations. The current recession will reduce the entry level opportunities for the workless who lack skills and experience.

Key Considerations

- There is a need for tailored support, mixing employability and skills development, linked to labour market needs and an emphasis on the sustainability of the job outcomes.
- Linking actions to tackle worklessness in deprived communities to other forms of support to tackle poverty and quality of place issues.
- Although there is expected to be a decline in entry level jobs, in the long term there is likely to be large and growing numbers of opportunities at Level 2 (driven by the replacement requirement rather than growth in new employment). The available skill development and employability support needs to reflect to this pattern of employment demand.
- Targeting concentrations of worklessness, both in terms of particular groups (eg people with no or low skills, Incapacity Benefit claimants) and communities.
- Developing clear linkages between the spatial concentrations of worklessness, the provision of tailored support and locations of jobs growth.
- Support for the low skilled in work who are vulnerable to the process of economic restructuring and the shift in demand to higher level skills.
- Ongoing in-work support for those assisted to secure employment.

(4) Raising the aspirations and attainment amongst young people, especially amongst 16-19 year olds, and stimulate an interest in and progression towards higher skills

Rationale

The region has historically experienced a very high incidence of young people who do not progress into or have sustainable progression routes in employment, education and training. This is strongly correlated with low levels of educational achievement at 16, poor socio-economic background and low aspirations. More recently the region has made good progress in terms of the educational achievement of young people at 16 and their subsequent academic and vocational achievement at 17 and 18. Apprenticeships are a particularly important route into employment and training for many young people, as well as offering businesses benefits through improved productivity and filling skills shortages.

The region lags the national average for level 2 attainment at 16, and although the gap closes somewhat in the intervening years, there remains a gap at the age of 19. Consequently, despite recent improvements, there remains a significant proportion of young people (16-19) who do not have a Level 2 qualification (41% compared to 38% for the UK as a whole). Attainment of Level 2 amongst young people varies markedly across the North West, with some of the lowest rates in the country in the region's urban heartlands of Greater Manchester and Merseyside, but also parts of Lancashire. There is a gap in achievement compared to national average in terms of young people achieving Level 3 by 19 in the North West.

The proportion of 16-18 year olds in the NEET group has fallen by 0.5% points between 2005 and 2007 and now stands at 7.9% (compared to 6.7% for England). However, there remains a major challenge around the extent and concentration - geographically and amongst particular groups - of young people who do not continue in some form of education, employment or work-based training at 16 and 17. This is a key fundamental determinant of their future labour market prospects.

Key Considerations

- Addressing the persistence and concentration of young people who are not in employment, education or training, including addressing skills for life and employability issues; there is a very significant spatial dimension to NEET which needs to be addressed (especially in parts of Greater Manchester and Greater Merseyside).
- The need to increase the numbers of young people gaining a Level 2 qualification and tackling the persistent of low levels of achievement in some parts of the North West.
- Increasing the numbers progressing to and attaining a Level 3 qualification, closely linked to the needs of the region's employers.
- Stimulating an interest amongst young people in progressing to higher education and hence achievement of a Level 4 qualification.
- There continues to be a priority to develop the coherent vocational pathways across the 14-19 continuum, ensuring young people can access vocational learning that is relevant to the needs of the North West economy.
- Encouraging the continued take up of apprenticeships by young people as a route into employment and training.

(5) Ensure a commitment amongst adults to the skills and qualification they need for employment, with a focus on Skills for Life and Level 2 attainment, as well as attainment of Level 3 and higher level skills

Rationale

The region is making good progress in uplifting its qualifications profile at all levels, although it still lags the UK average in terms of those without a Level 2 and at Level 4. The discussion above highlights the importance of raising participation and attainment amongst the adult workforce at all levels from Skills for Life through to postgraduate level and as such raising the proportion of the workforce qualified at these levels is a priority.

However, the rate at which working age residents are gaining qualifications suggests it will be very difficult to achieve some of the PSA targets for 2011 (which are broadly based on the Leitch targets for 2020). A recent study for NWDA found that current progression rates at level 4 would have to increase by a multiple of more than ten if the region is to meet the Leitch target for level 4 by 2020.²

Again, the ability of employers to secure workers with these qualification levels and the appropriate occupational skills impacts critically on the productivity and growth of businesses and the regional economy. But it will also have a wider benefit in terms of the flexibility and mobility of the workforce.

Workers have the potential to secure significant benefits from improving their skills and qualification, in terms of financial rewards and longer term career development benefits. As such, workers need to take their share of responsibility in investing in these skills, alongside employers and the government.

Key issues

- There is a critical need to increase the attainment of Level 3 qualifications amongst adults in light of the strong replacement demand at this level, but also the ability to secure the progression of adults qualified at this level to Level 4.
- Linked to this, there is a significant task within the region to stimulate demand for up-skilling amongst adults in the workplace, linked to the proposals for provision of high quality advice on career and learning opportunities (the Adult Progression and Careers Service).
- Linked to the first priority, it will be important to provide coherent vocational pathways for adults which are geared to the individuals and employers requirements. Also, individuals need to be equipped with skills that have currency with potential future employers.
- There is the need to encourage the providers of HE (both HEIs and FECs) to focus more on workforce development and collaborate more with employers on training to Level 4 in the workplace.

² Pion Economics NW Skills and Productivity Report for NWDA, March 2008, p37

(6) Stimulate employers to invest more in workforce development at all levels, including innovation, leadership and management, and entrepreneurial skills

Rationale

Whilst this covers all sectors, there is a strong emphasis upon the high growth and emerging sectors (many of which are regional priority sectors) and other major employing sectors. There will be a need to more clearly prioritise these sectors.

Although subject to a degree of uncertainty, the available evidence suggests that whilst sector change will slow somewhat there will continue to be major changes in demand for labour for different occupations. Looking across both new jobs and replacement demand for workers, much of this demand will be for workers qualified at Levels 2, 3 and 4. The demand will be heavily concentrated amongst particular sectors (given their expected growth trajectories, but also the age structure of the workforce in more mature sectors).

The predicted rate of change does not appear sufficient to meet the Leitch targets at L3 and L4. These targets are judged to be important in terms of the ability to secure a globally competitive economy. But on a more practical level, the ability of employers to secure workers with these qualification levels and the appropriate occupational skills impacts critically on both the capacity of existing business to grow and add value and on the ability of the region to attract in high value added industries and employers. This will be particularly important in high employment growth areas including the North West's city regions and specific locations within the Liverpool-Manchester corridor and places such as Preston and Chester.

There is evidence to suggest that there are significant economic gains for the region if it could shift towards a stronger management and leadership profile. Whilst in practice this is a longer term shift and it is difficult to achieve this in the absence of more fundamental economic change (in terms of a shift to higher value added activity, higher levels of entrepreneurialism, a greater supply of workers qualified to Level 4, etc), it is an important challenge for the region. There is also evidence of the role of particular attitudes and aptitudes, such as entrepreneurialism, innovativeness and the empowerment of staff, in the performance of businesses.

Key Considerations

- The need to inform employers of the qualifications framework and value to their business
- Stimulate the demand amongst employers for skills and a willingness to plan for and invest in training and development of their workforce (alongside the public sector and individuals) and organisation of work
- Working through the Employment and Skills Boards, helping employers to articulate their skill needs so that providers and funders can make informed decisions labour provision
- Ensuring that there is an adequate supply of workers skilled at Level 3 and 4 in particular and that the provision and qualifications are relevant (especially at L4) to employers needs – this will require investment on the part of employers, the state and the individuals
- Ensuring that the FE/HE sector is geared up to work alongside employers in delivering L 4 qualifications.
- The region needs to ensure it can compete for well qualified and talents workers - this is can be achieved through having a large job pool and offering good opportunities for occupational mobility (lined to quality of place issues).
- Linking actions into the Business Support Simplification Process and the products and services which have recently been launched.

Next Steps

- 5.4 Priorities have little value unless they are accompanied by action. Action will need to be taken forward at two main levels:
- First, in some instances there is need for collective action across partners at a regional level.
 - Second, and increasingly, the critical challenges will need to be taken up in the range of sub-regional and local action plans.