

# City-REDI

## Policy Briefing Series

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MIND THE GAP

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### Measuring the qualifications gap: regional analysis and local labour markets

By Dr Deniz Sevinc, Professor John Bryson, Professor Anne Green and Professor Simon Collinson

#### Summary and policy recommendations

- In an attempt to identify employee qualification gaps in West Midlands, we have developed a methodology that can identify skills shortages at a very fine granular scale within a particular geography. We carried out a focused regional analysis on certain key geographic areas and looked at the NVQ qualification ladder of levels 1 through 4, the type of skills firms and employers find missing from the candidates applying, thus making it impossible to recruit the right staff to the vacant roles.
- The deficit in qualifications particularly at NVQ Levels 4 and 2 significantly constrains the region's growth potential. To create a high skills equilibrium and raise productivity levels, a special focus on increasing skills at NVQ Level 2 seems to be crucial.
- The skills do not exist within the existing travel-to-work- area and can only be provided by: (i) developing new houses of particular types in specific connections – slightly different types of housing based on income capability, education etc. (ii) extending the travel-to-work-area and (iii) improving well-being and interconnectivity.
- For people with the right qualifications, either migrant or native workers, to be able to relocate to a job matching their qualification level, housing needs to be in place to accommodate them. This is a stumbling block, as all areas studied have significant housing shortages. Travel to work journeys must be reasonable, or candidates will seek work closer to their current homes.

## Introduction – Why qualifications gap?

Our recent study: ‘Measuring the skills gap: A regional analysis of a local labour market’ is a focused analysis of the NVQ (national vocational qualification) qualification ladder levels 1 through 4, in specific geographic regions of the UK. It examines the types of qualifications that employers find missing from candidates applying for jobs, providing an indicator of the mismatch between demand and supply in the labour market. Given the additional uncertainty around the UK’s migrant worker policy over the coming years alongside BREXIT, it is important to understand how this gap will change, despite the inherent measurement difficulties.

## Policy Context

Over the past ten years, evidence from the UK has shown there are significant and widespread increase in the skills deficiencies across the regions. The implications of this can only be fully understood if we appreciate the importance of skills for economic growth.

The skill composition of a local labour market or the ‘local human resource base’ reflects education, participation rates and the travel to work area. Plummer and Taylor’s (2001) analysis of the six theories of local economic growth notes the local human resource base plays a prominent role in stimulating economic growth in four key ways: driving learning, flexible specialization, product life cycles and competitive advantage. The quality and skills of a labour force within a specific geographical area and their alignment or ‘fit’ with employer demand give rise to specific regional competitive advantages and disadvantages. They also underlie the capacity of a region to ‘learn’, innovate and evolve new advantages.

The UK suffers from a significant gap between the demand for and supply of, specific kinds of skills.

In particular, when we consider vocational qualifications it is clear there is a large and growing disparity between the UK and other countries at Level 2 (Machin and Vignoles, 2006). Differences in the level of this gap between UK regions are also important in the context of UK regional economic policy.

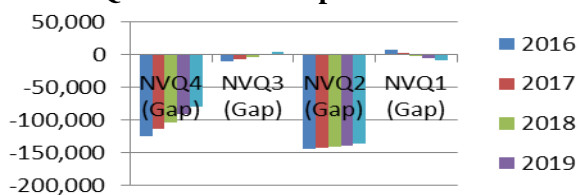
The skills gap issue brings together a complex mix of policy fields, including education, labour regulation (including immigration) and workplace incentives for training. But some of the policy debate is based on weak or misleading data and analysis. In part this is because it is extremely difficult to measure the skills gap. Accreditations, such as the National Vocational Qualifications (NVQs) are the best proxy indicator, but they are not a complete measure of skills and expertise. More robust measures of the relationship between available skills and actual or potential demand are needed.

This is the challenge that was explored in our recent study, ‘Measuring the qualification gap: regional analysis and local labour markets.’ In an attempt to identify employee qualification gaps in the West Midlands, we developed a methodology that can identify the skills shortages on a very fine granular scale within a particular geography.

# Regional Context

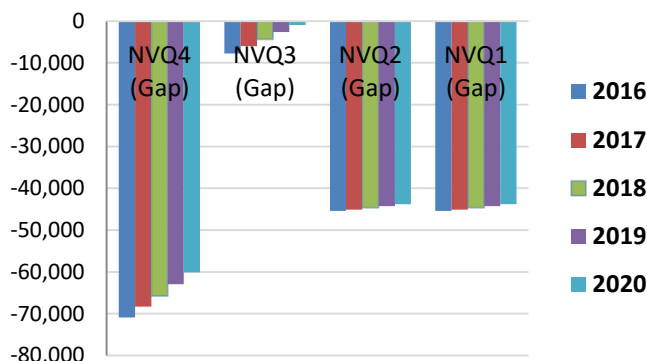
The variables included in each regional specific model are a set of indicators that reflect the economic value of government-funded qualifications, including government training, voluntary sector providers, from colleges and private training providers. They consist of National Vocational Qualifications (NVQ Level (L)1, L2, L3, L4), the economically active working age population and the demand for labour (current and projected). This forms a 3-stage framework. Using ONS data from 2004 to 2014, we have been able to forecast the existing supply in an area by NVQ level, using the Office for National Statistics database (ONS, NOMIS). Then, by drawing on the Oxford Economics (OE) economically active working age population forecasts, we calculated the absolute number of people with specific NVQ levels. Using the OE occupation demand 2016-2020, we assumed the demand for NVQs. This data was then applied to various relatively robust future projections to see where the labour market is likely to be in the future. The final stage of the analysis compares qualification demand with qualification supply projections.

**Qualifications Gap over 3 LEP Areas**



By focusing on NVQ4 qualifications, we can see that in the LEP areas, 23,158 worker shortages have been reported in the Black Country LEP, making this the worst affected area, while Greater Birmingham and Solihull LEP recorded 73,322 shortages, with 170,171 in Coventry and Warwickshire LEP. Even within these geographical areas, it would be logical to expect that other regions of the country suffer from the same labour gap issues. For instance, we have uncovered a significant NVQ4 gap of some 120,000 candidates that are missing from the labour market in the 3 LEP areas, so even though the jobs are potentially there, the people are not.

**Qualifications Gap, Birmingham**



A similar trend is shown at NVQ2, which represents entry level apprentice positions. The findings suggest that Birmingham currently needs 68,331 more residents with NVQ Level 4+ qualifications and 5,988 more residents with NVQ Level 3+ qualifications to fill the current qualifications gaps. In 2016, NVQ4 qualification shortage was 70,938, compared with 7,725 residents with NVQ3 qualifications. This decline over the year indicates there is a relatively positive outlook, since the qualifications gap seems to follow a declining secular trend. The city also has a shortage of residents that are qualified at NVQ 2 and NVQ1 levels. Such a deficit in skills, particularly at NVQ Levels 2 and 1, significantly constrains Birmingham's growth potential.

To create a high skills equilibrium and raise productivity levels, a special focus on increasing skills at NVQ Level 2 appears to be crucial, as residents with qualifications below this level may be considered to be in skills poverty. Combining the qualification level with the geographical area, we can see a differing picture at NVQ1. Here, we see that not all of the locations have a shortfall. In fact, the opposite is true. In 2016, we noted that there was an undersupply of 8400 people and an oversupply of 10,628 people in the Black Country and 4,622 people in Greater Birmingham and Solihull LEP.

The spatial patterns of qualification gaps to some extent reflect the geography of the housing market. Thus, the West Midlands Combined Authority devolution deal requires a special focus on land use planning, as it relates to housing, and this needs to be combined with a skills and employment strategy.

## Seeing the Bigger Picture:

- A significant mismatch between the supply and demand for skills at the regional level needs to be the focus of a coordinated policy on UK skills as proxied here by qualifications.
- There is scope for local skills strategies to help address employers' skills requirements at local level.
- The West Midlands Combined Authority devolution deal requires a special focus on land-use planning as it relates to housing but combined with a skills and employment strategy.
- This amounts to a place-based strategy; developing our local asset base to improve the fit between housing stock, skills and employment opportunities.

## Sources

Machin, S. and Vignoles, A. (2006). Education Policy in the UK. CEE DP 57. Centre for the Economics of Education. London School of Economics and Political Science, Houghton Street, London.

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## Images:

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## About the Authors:

**Professor John Bryson, Professor of Enterprise and Economic Geography, City-REDI, Birmingham Business School.**

**Professor Simon Collinson, Deputy Pro-Vice-Chancellor for Regional Economic Engagement and Director of City-REDI, Birmingham Business School.**

**Professor Anne Green, Professor of Regional Economic Development, City-REDI, Birmingham Business School.**

**Dr. Deniz Sevinc, Research Fellow, City-REDI, Birmingham Business School.**