

The widespread increase in the skills gap across UK regions



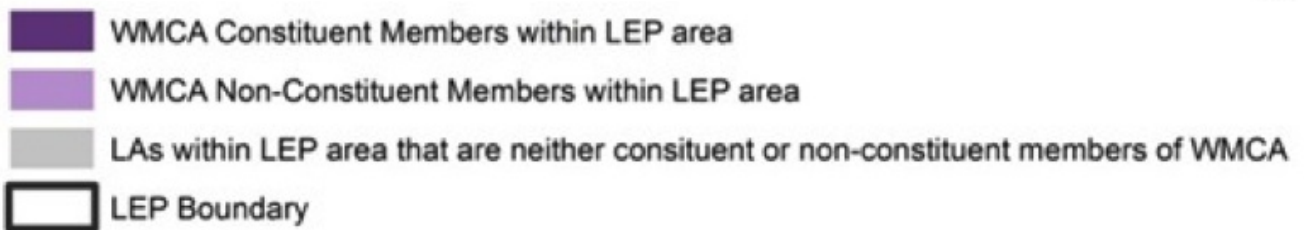
Given that the Brexit negotiations are far from reaching a consensus, the potential implications of any deal for skilled migration continue to attract a great deal of attention. [Recent research](#) has shown that almost a million EU citizens who work in the UK, many of whom are highly qualified, are planning to leave, all while the UK is already suffering from a significant shortage of skilled staff. While this is a shifting market, with gaps being more prominent at certain times, the skills gap remains a critical issue: a scarcity of qualified labour leaves firms which are growing or evolving with the problem of matching their demand with appropriately-qualified employees. In turn, this significantly affects their productivity and ability to innovate and remain competitive.

Added to this problem is the national picture of unequal distribution of qualifications at the regional level. Regional economic growth relies on matching local demand to the local supply of skills; attracting inward investment also depends on the availability of certain skills in a region. Over the past ten years, evidence from the UK has shown there is a significant and widespread increase in the skills gap across regions. Skilled trades comprise nearly half of all occupations reporting skill-shortage vacancies (43 per cent), while the recruitment of machine operators and professionals also poses a challenge for employers. In terms of vocational qualifications, it is also clear there is a [large and growing disparity](#) between the UK and other countries.

A precise measurement of UK skills deficiencies is not straightforward. But despite the inherent measurement difficulties and limited data, it is important to understand the types of skills that employers have difficulty in recruiting and, in particular, the mismatch between demand and supply. Thus, we have developed a methodology that can identify the qualification gaps at a very fine granular scale within a particular geography, using the most available and well-understood proxy indicator of skills and expertise: National Vocational Qualifications (NVQs) in key geographic regions (see [here](#) for an explanation of the various levels).

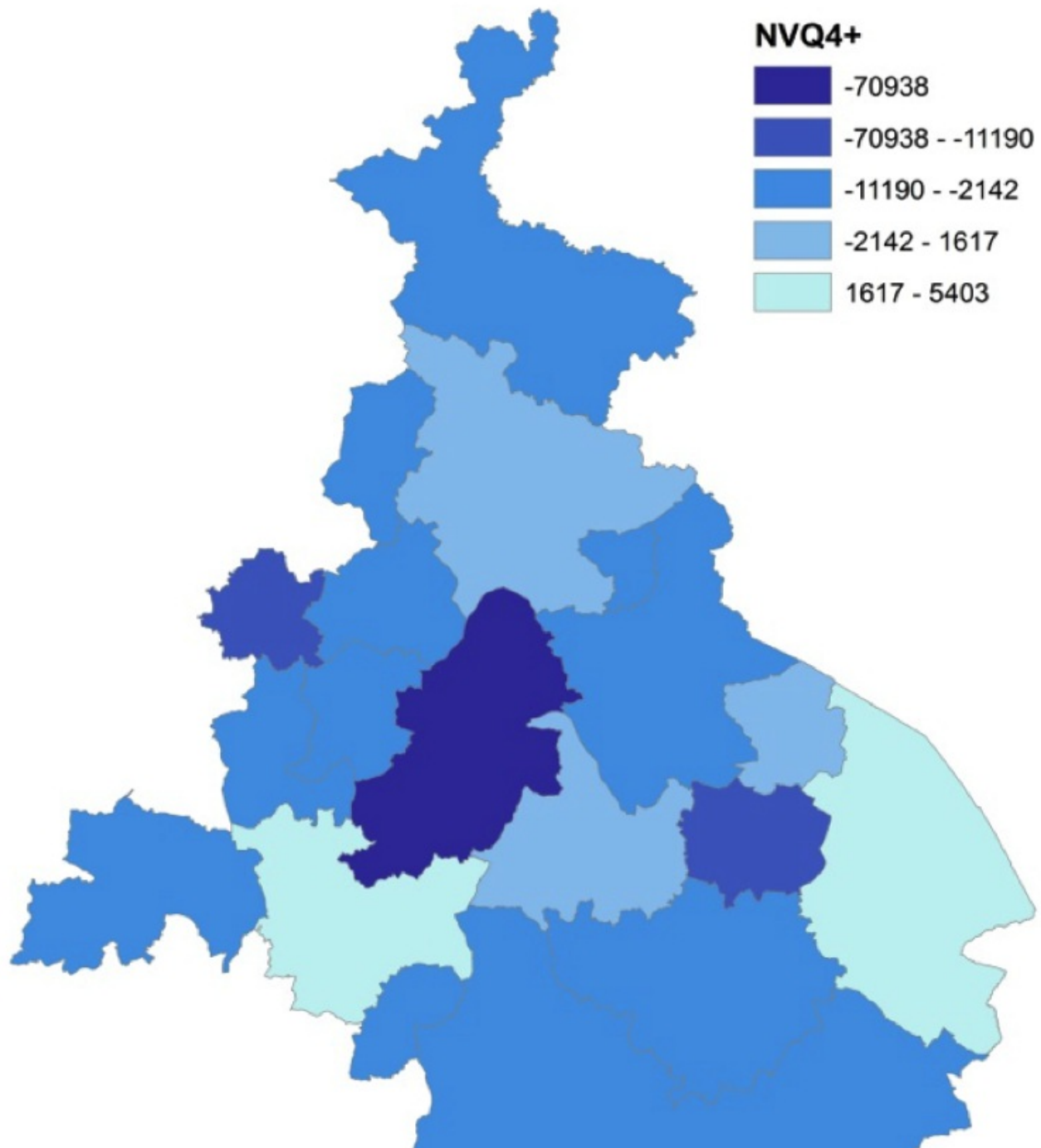
Figure 1: West Midlands region





Using the ONS's official labour market statistics from 2004 to 2015, we have been able to forecast the existing supply of qualifications in a defined area. This data is then applied to various future projections to see where the labour market is going to be in two or five years, or even further ahead. The variables included in each region-specific model are a set of indicators reflecting the economic value of government-funded qualifications and consist of NVQ levels L1, L3, L4 – the economically active working age population and labour demand (current and projected). This creates a three-stage framework: (i) forecasting qualifications supply; (ii) forecasting qualifications demand; (iii) comparative analysis of supply and demand.

Figure 2: NVQ4+ shortages in the West Midlands





Focusing on NVQ4 skills – equivalent to a First or other degree, Higher National Diploma or Higher National Certificate – in 2017, we can see that in the travel-to-work areas, 23,160 worker shortages have been identified in the Black Country Local Enterprise Partnership (LEP), making this the worst affected area. The Greater Birmingham and Solihull LEP recorded 73,320 shortages, with 170,170 in the Coventry and Warwickshire LEP.

We have also uncovered a significant NVQ4 gap of some 120,000 candidates *absent* from the labour market in the three LEP areas – this means that even though the jobs are potentially there, new recruits with appropriate qualifications are not. Despite the focus on this specific geographical area, it would be logical to predict that other regions suffer from similar qualification gap issues.

Based on our analysis, Birmingham currently needs an additional 68,330 residents with NVQ Level4+ qualifications and 5,980 more residents with NVQ Level3+ to fill the current skills gaps. But in 2016, NVQ4 skills shortage was 70,930, compared with 7,720 residents with NVQ3 qualifications – this decline over the past year indicates that there is a relatively positive outlook, since the gap seems to follow a declining secular trend. The city also has a shortage of residents that are qualified at NVQ2 and NVQ1 levels. Such a deficit in skills at these levels 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. 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, with both the Black Country and the Greater Birmingham and Solihull LEPS having had an oversupply at this level in 2016.

Seeing the bigger picture

The implications of the additional uncertainty around the UK's migrant worker policy over the coming years can only be fully understood if we appreciate the importance of skills for inclusive economic growth, as well as the importance of the right skills in enhancing productivity at a firm and sector level. A significant mismatch between the supply and demand at the regional level needs to be the focus of a coordinated policy and, ideally, this needs to be a policy developed and delivered locally. It is here that the Mayor and the West Midlands Combined Authority are playing leading roles in supporting a range of training and education initiatives and trying to negotiate a devolution deal that includes skills funding.

Our analysis shows that upskilling is necessary across all qualification levels from NVQ2 upwards. However, ensuring skills are available in the right locations is dependent, in turn, on the local housing stock, with shortfalls in particular types of housing constraining labour mobility. More affordable housing for the various socioeconomic groups that tend to hold NVQ1 to NVQ4 qualifications needs to be developed in the key journey-to-work areas where we know there is demand for such workers. Housing needs to be developed so that it also meets the socioeconomic differences in the skills gaps from NVQ1 to NVQ4. This means matching equivalent income levels commensurate with each qualification level, in order to make real progress in closing the labour gaps. So, the solution to the skills problem is innately related to the development of a solution to localized housing shortages.

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 new integrated place-based strategy to improve the fit between housing stock, skills, and employment opportunities. The future prosperity of the West Midlands depends on the development of such an integrated strategy and it is only such a strategy that will transform local lives and produce better outcomes for all living in the West Midlands.



Notes:

- This blog post appeared first on [LSE British Politics and Policy](#). It draws on research for the West Midlands Dynamic Impact Economic Modelling project, funded by West Midlands Combined Authority. The authors thank Dr Charlotte Hoole for creating the maps of NVQ shortages.
- The post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.
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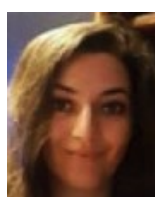
John R. Bryson is [professor](#) in the department of strategy and international business at the University of Birmingham. His current research focus is on innovations in urban diagnostics as part of a new approach to reading city-regions.



Anne Green is [professor](#) in the department of strategy and international business at the University of Birmingham. Her research interests span employment, non-employment, regional and local labour market issues, skills strategies, urban and rural development, migration and commuting, associated policy issues and evaluation. ([@Anne_E_Green](#)),



Simon Collinson is [professor](#) and deputy pro-vice-chancellor for regional economic engagement at the University of Birmingham, as well as director of City-REDI. His current research is in the areas of firm-level innovation and productivity and the interrelationships with regional economic growth.



Deniz Sevinc is a [research fellow](#) in the Birmingham Business School, City-REDI. She is a development economist and her main areas of research are income inequality, population and development economics. ([@drdenizsevinc](#))