

**Brief** June 2011

## Mapping the route to growth rebalancing employment

[employment.cbi.org.uk](http://employment.cbi.org.uk)



The coalition government has rightly focused on rebalancing the economy as its economic priority. But successful rebalancing of the economy needs to go hand in hand with rebalancing the UK labour market to avoid perpetuating long-standing problems.

In this report we examine the UK's track record of labour market achievement and highlight the challenges for the future:

- The labour market performed better than expected in the recession – but there are entrenched underlying problems of unemployment that we must tackle
- Good economic performance in the past decade masked structural problems that will not be resolved by a return to growth – namely pockets of high long-term unemployment and inactivity, often in areas which suffer from multiple disadvantages
- Some areas face particular difficulties in the short term because of their dependence on public sector employment
- Economic activity is the key driver of job growth, while degree-level skills and flexibility (eg part-time working) are most effective at reducing unemployment and inactivity
- Future trends in the job market risk exacerbating current divisions, with more higher skill jobs in London and the south east, and a concentration of low skill jobs in the north east and the west midlands

- Some parts of the UK face the challenge of high concentrations of low skilled jobs, large numbers of people with low-level skills and poor school attainment/social deprivation
- We need action to break this low-skills cycle – the CBI will be putting forward proposals on how to achieve this in the autumn.

In this report we set out the strengths and weaknesses in the labour market as we see it today, and the difference in performance across the country. A selection of illustrative maps are included in this report, but all of our work mapping the labour market has been published on the CBI's new employment website and we are keen to hear views on potential policy solutions.

In section 1 we outline the scale and nature of the existing unemployment challenge. In section 2, we go on to review how the labour market is likely to change in the years ahead and the risk that future trends will exacerbate our current problems. Our analysis highlights the need for a fresh approach (Section 3).

### Getting the UK working: our approach

This is the first report of the CBI's *Getting the UK working* project. In it, we examine and map the current state of the labour market across the UK, broken down by locality,<sup>1</sup> exploring the effects on employment of the recent recession. We then set out the challenges that we are likely to face in the future by mapping current skill levels against forecast demand, again by locality.

This report is primarily designed to set out the complexity of the unemployment problem, which is linked to factors such as skills, local economic performance and structure. The aim is to provide an analysis using local and regional data. We then explore what this means for the future, including the kind of jobs we can expect to see, together with the skills people will need if we are to maximise their potential. Related problems of welfare dependency and the challenges of getting back into work will be assessed later in the year.

Based on this analysis, we will seek views on solutions from CBI members, thought leaders and other interested parties over the summer, with a view to setting out potential policy solutions in the project's final report in the autumn.

## Section 1 The unemployment challenge

### Unemployment scars lives...

Unemployment – particularly when it affects young people – scars lives. In a dynamic economy, many people experience occasional short spells of unemployment between jobs. But it is essential that these periods are as short as possible – it is long-term unemployment that causes major, enduring damage.

The consequences of prolonged unemployment and inactivity are well known. Worklessness is associated with poor health and premature death. It is associated with higher levels of crime and disorder. Unemployed people are more likely to suffer from depression than those in work and they are more likely to suffer from both short- and longer-term financial difficulties.<sup>2</sup>

Critically, long-term unemployment erodes skills, particularly the employability skills that are essential to getting and keeping a job. The longer someone is out of the job market, the more likely it is that they will not return as confidence seeps away.

As well as the devastating individual consequences of unemployment, there are broader implications for society as a whole. Someone on Jobseeker's Allowance has been estimated to cost the taxpayer £4,100 a year, with wider costs of £8,100 when direct and indirect taxes and tax credits are taken into account. For those on incapacity benefit, the costs are higher, at £5,900 and £9,000 a year respectively.<sup>3</sup> At a time when the government is seeking to bring down the deficit, returning as many people as possible to being tax payers rather than welfare claimants must be a priority.

### ...and we need to foster employment

Employment, in contrast, has a whole range of positive impacts for individuals and wider society, going far beyond the simple mathematics of higher income tax returns and lower welfare bills. People's health, wealth and general wellbeing are strongly associated with whether or not they have a job.

There is a strong business case too. Firms' ability to access the right people, with the right skills, at the right time will help make the UK an attractive place to do business, bringing investment to key areas of the UK.

With the economy slowly recovering, we can expect to see more people in work and fewer seeking it unsuccessfully in coming years. But even during the long period of good economic performance leading up to the recession, parts of our labour market underperformed. Unemployment – and in some cases long-term economic inactivity – existed among some groups and in some areas at a far higher level than the more benign national picture would suggest. A cyclical recovery will not address this issue.

### The labour market performed relatively well in the recession...

The economy shrank by 6.4% in 2008/09, compared to a decline of 2.5% in the 1990s recession and 4.6% in the 1980s recession. A fall of this scale led many commentators to fear unemployment would rise as sharply as before: it rose by close to two million during the recession of the 1980s and by around one million in the 1990s recession.

But in the recent recession, unemployment rose by around 600,000. While still a significant increase, this was far below anticipated levels, suggesting the labour market had adapted to cope better with troughs in demand. The recession was characterised by co-operative relations between employers and employees in the private sector. They worked together to reduce working hours temporarily in many cases and to constrain pay and hiring in order to preserve jobs and protect skills.

### ...but long-term unemployment remains a serious challenge...

Unemployment is likely to be persistently high, however, throughout 2011 and 2012. There are currently 2.46m unemployed people (7.7%). The CBI expects this number to continue rising until the fourth quarter of 2011, peaking at 2.62 million (8.2%), before edging lower during 2012.<sup>4</sup>

This cyclical rise and decline in unemployment hides a deeper problem of entrenched long-term unemployment and economic inactivity. Five million working age people receive out-of-work benefits, with 1.4m of those receiving them for nine of the last 10 years. Two million children grow up in workless households, and we know that children who grow up in poverty are more likely to fail to achieve in school, perpetuating the cycle.

Some groups are much more likely to enter unemployment than others. Unskilled manual workers are especially prone to unemployment, and are typically out of work for longer than other workers. This is a pattern closely linked to educational attainment. Those with higher qualifications are less likely to be unemployed than their less qualified peers.<sup>5</sup>

### ...and youth unemployment is a major cause for concern

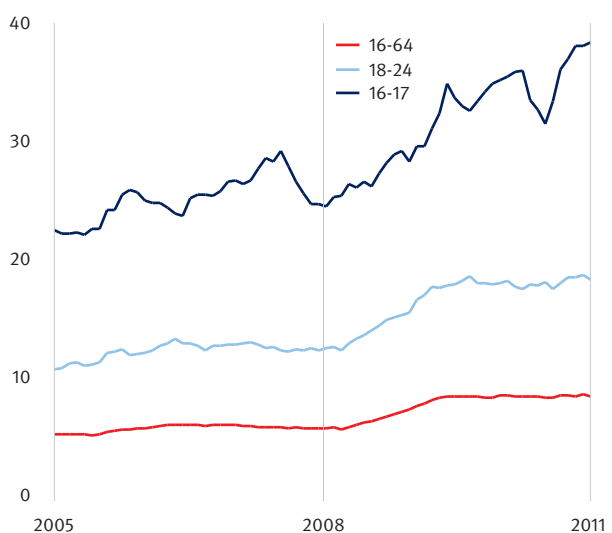
Young people are typically hit particularly hard by unemployment. In the recession, 74% of the decline in employment was among those aged 16 to 24, yet they comprise only 19.5% of the working age population.<sup>6</sup>

Arguably the biggest long-term challenge posed by the post-recession labour market is the significant growth in youth unemployment (Exhibit 1). This is worrying today – as the potential of too many young people goes to waste and they miss out on valuable experience – and troubling for the future, as all the evidence suggests that a failure to engage with the labour market early has a sustained scarring impact on individuals through their lives.

Youth unemployment is not a new challenge – pre-recession, one-in-five 16-17 year olds were neither in education nor work. However, as firms took steps to preserve existing jobs, they stopped generating new entry-level roles for those leaving education. Between the start of the recession and the publication of this report, the unemployment rate for 16/17 year olds rose by 46%. It is a similar story for 18-24 year olds, where over the same period unemployment has risen by nearly one third (32%).

Welcome steps have been taken to begin addressing the problem, with the expansion of apprenticeships, educational reforms, and a focus on delivering work experience to those on the margins of the labour market. But we need to do much more to avoid youth unemployment becoming an entrenched, structural problem in the way that it has in some eurozone countries.

#### Exhibit 1 Unemployment rates by age cohort (%)



### Good economic performance in the last decade hid significant problems

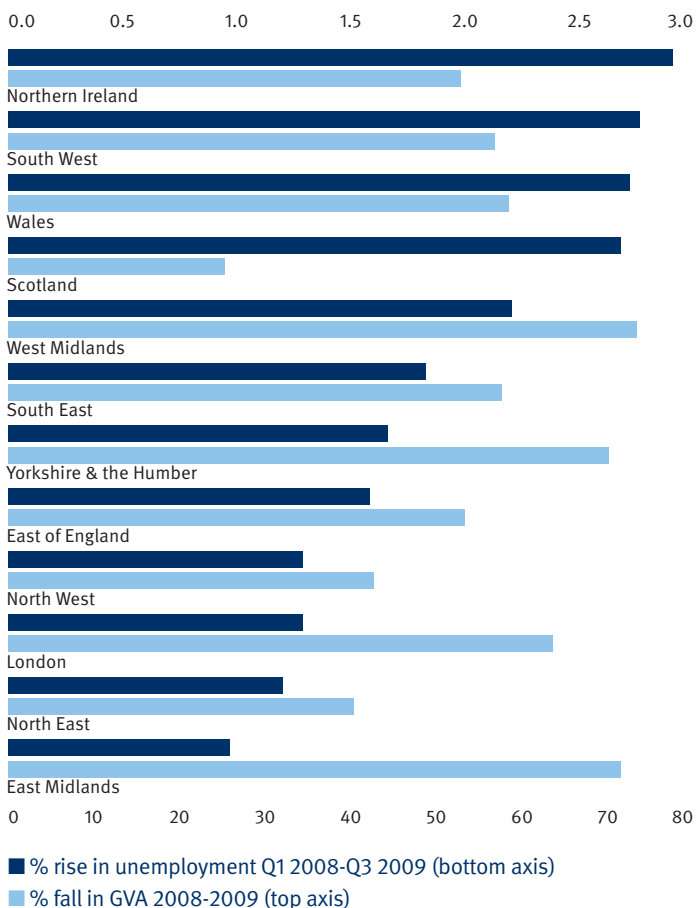
To understand the problems of unemployment in detail, the CBI has mapped data on Great Britain’s labour market down to the local authority level.<sup>7</sup> By comparing labour market performance at this detailed level, we can begin to uncover structural problems that affect the national labour market, as well as locate where they are most acute.

The first conclusion is unsurprising: unemployment is not evenly spread across the UK. Hopes that regional disparities had begun to close since the 1990s recession were undermined by the 2008-09 recession, which had an asymmetric impact across the UK (Exhibit 2). During the recession, the increase in the unemployment rate ranged from 25% in the east midlands to 77% in Northern Ireland.

When analysed alongside data on economic performance, it becomes clear that the reasons for the UK’s geographic disparities in employment and unemployment go well beyond the labour market. They are to a large extent a result of uneven economic growth and structure across the country.

But there are also structural problems in the labour market itself that contribute to the poor employment performance in parts of the UK. Although they existed before the recession, they have been exacerbated by it. Notably, those regions and nations that saw the largest falls in the size of their economies (measured by gross value added (GVA)) did not necessarily see the largest rises in unemployment. Northern Ireland’s GVA fell by a relatively small amount over 2008-09, while the east midlands saw both the smallest rise in unemployment and one of the largest falls in GVA.

### Exhibit 2 Changes in unemployment and GVA during the recession



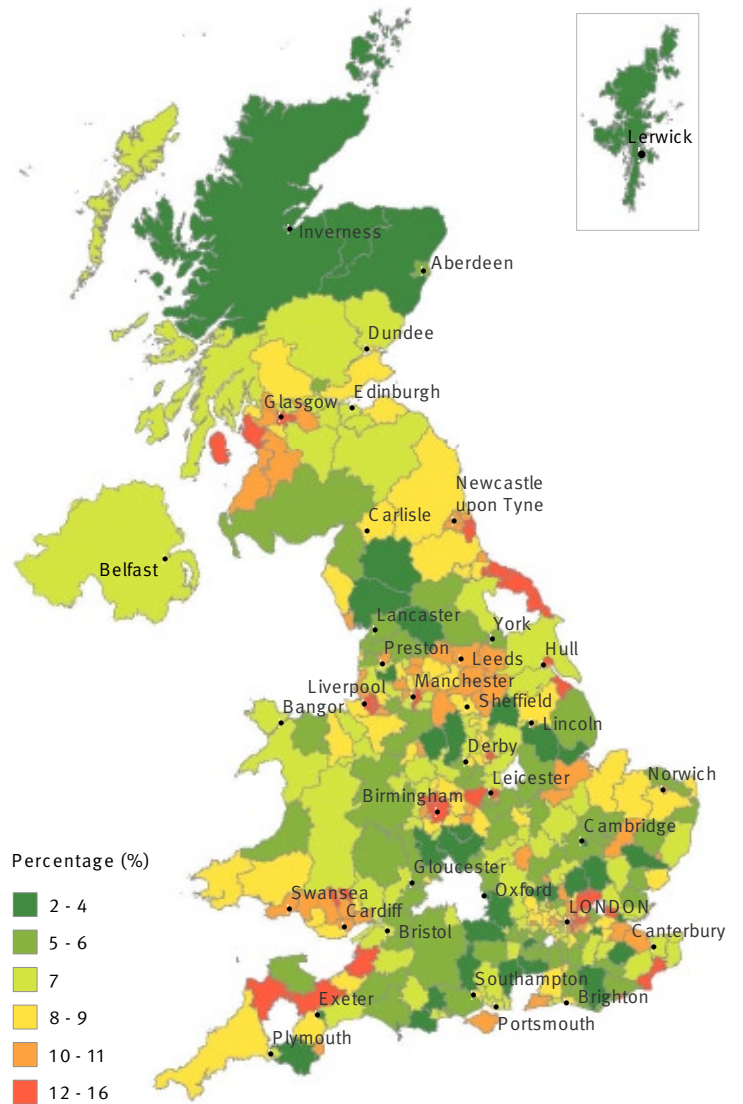
Source: ONS

### Urban areas suffer most from unemployment

There are pockets of high unemployment throughout the UK, generally concentrated around urban areas (Exhibit 3). The urban areas that experience particularly high rates of unemployment are generally those with 'post-industrial' economies,<sup>8</sup> including Tyneside, Teesside, Hull, Liverpool, Leeds & Bradford, the west midlands conurbation and South Wales.

Some urban areas, however, have relatively low unemployment rates. These are mainly associated with a local economy geared to services and high-tech work. The case of Scotland, where unemployment is very high in Glasgow but low in Edinburgh, is striking, as is that of London, where pockets of high unemployment are mostly concentrated in the east of the city. Manchester does well relative to other large 'post-industrial' conurbations, although largely in the more affluent suburbs.

### Exhibit 3 Unemployment rates across the UK



Unemployment rate (proportion of individuals actively seeking work that are not in work), Sept 2009 – Sept 2010. Source: Annual Population Survey 2010.

### Economic inactivity can also be a proxy for unemployment

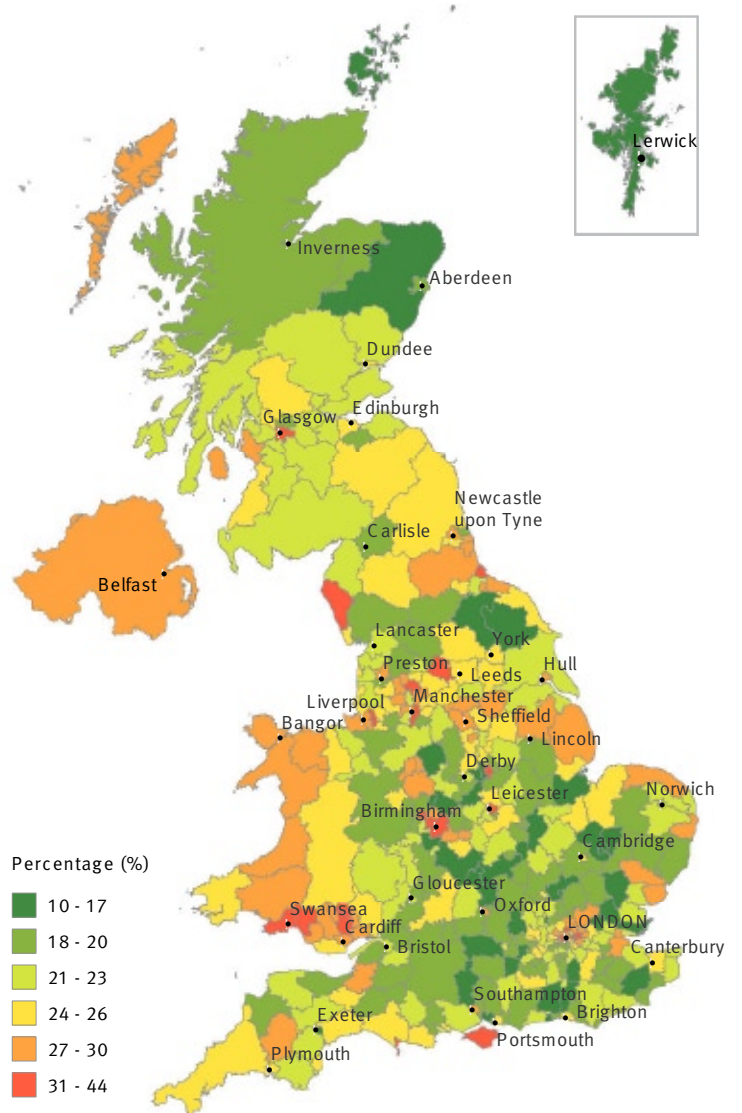
Those who are not in, or actively seeking, work are classed as economically inactive and do not appear in the unemployment statistics (Exhibit 4). High inactivity rates among those of working age do not necessarily point to a problem: they can, for example, be a sign of affluence<sup>9</sup> or of high levels of participation in full-time education.<sup>10</sup>

However, they can be a sign of ‘hidden unemployment’ – particularly in areas of high registered unemployment. People may be sufficiently discouraged by the state of the labour market, or their own poor prospects of finding a job, or perversely incentivised by the welfare system so they give up the search for work altogether.<sup>11</sup>

As with unemployment, there are high inactivity rates in many of the country’s ‘post-industrial’ conurbations. In general, inactivity is more concentrated in inner-urban areas than is unemployment, while rural and suburban areas do rather better. The most noticeable exception is Wales, where inactivity is above average throughout.

Local inactivity rates vary much more<sup>12</sup> around the UK average than unemployment rates do – there are more areas with very high inactivity rates or very low inactivity rates. However, caution is needed in interpreting the inactivity data – the high rates in Oxford and Cambridge, for example, are due to the number of students as a proportion of inhabitants in those cities.

### Exhibit 4 Inactivity rates across the UK



Inactivity rate (proportion of the population aged 16-64 not in work and not seeking work), Sept 2009 – Sept 2010. Source: Annual Population Survey 2010.

### Employment growth before the recession was patchy...

Exhibit 5 shows the percentage rise in the numbers in employment<sup>13</sup> at local authority level over the years 2004-07. This was a time when the overall level of employment rose, but at different paces across the country.

The map reveals considerable variability within regions in employment growth. At a time when employment grew in all cases at regional level, it actually fell in numerous local areas across the country. There is no obvious geographic pattern – for example, employment rose in major urban areas such as London and Tyneside, but fell in others such as the west midlands conurbation and Teesside. Liverpool and Manchester, for example, had a mixed employment performance, with growth in the city centre offset by a fall in employment in outlying areas.

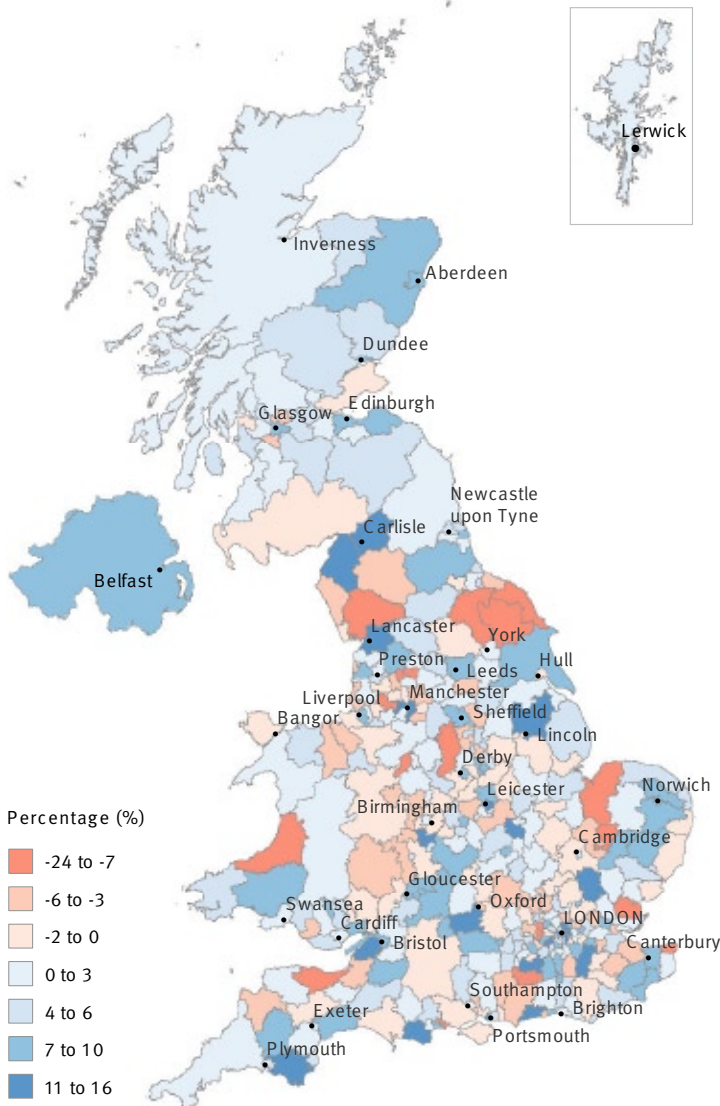
A possible positive interpretation of this uneven pattern of employment growth is that it reflects internal migration, with people moving to where the jobs are. If this were the case, employment growth would be long-standing and come hand-in-hand with a fall in local unemployment.

However, an analysis of employment rates suggests that this was not the case – those areas with poor employment growth also saw rises in inactivity and unemployment. It is more likely then, that what improvement there was in the labour market over 2004-07 was confined to limited areas, while others were left behind – and ill-equipped to deal with the impending economic crisis.

On a cautionary note, analysis of changes in employment over the period is complicated by the scale of immigration, particularly from EU-accession states (see Exhibit 6 on next page).

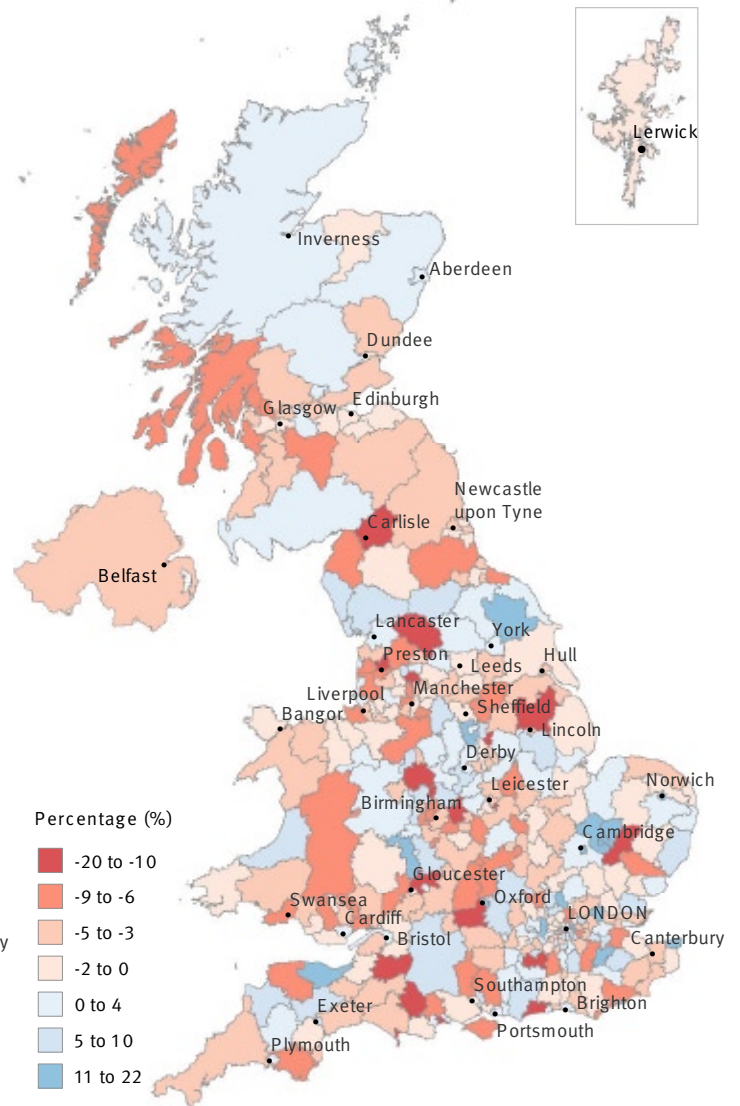
Exhibit 5

#### Change in employment rate (%), 2004 – 2007



Percent rise in the number of individuals aged 16+ in employment between 2004 and 2007. Source: Annual Population Survey 2010.

#### Change in employment rate (%), 2007 – 2009



Percent rise in the number of individuals aged 16+ in employment between 2007 and 2009. Source: Annual Population Survey 2010.

**...and sometimes the jobs weren't sustainable**

Worryingly, there is a link between strong employment over 2004-07 and rapid falls in employment over the 2008-09 recession. This suggests that, in many cases, growth in employment prior to the recession was driven by a cyclical economic boom, rather than reflecting a sustainable structural improvement in the labour market. This points to the need to focus on the structural issues facing our labour market, not short-term schemes designed to tide us over.

**Public sector dependency poses an immediate problem**

One immediate challenge is the reduction in public sector employment associated with the need to cut the deficit. According to the Office of Budget Responsibility 310,000 fewer people are likely to be employed in the public sector in the coming years. The signs are that – at a national level – the private sector can make up that difference: economic growth of 1.3% in 2010 generated 393,000 new jobs, while the public sector shrank by just over 100,000 jobs.

But the ability to create employment to balance public sector job losses varies widely across the country, with some regions facing a more significant challenge than others. Exhibit 7 maps the shares of public sector employment at local authority level. It reveals pockets of high public sector dependency in some parts of the country.

There is a clear regional pattern: the midlands and south of England are not highly dependent on the state sector, while it is a very significant force in Wales and Scotland (with the exception of Aberdeen, where employment is primarily driven by the offshore sector, and some parts of central Scotland which are reliant on farming). There is also high dependence in Northern Ireland as a whole. In the north of England, there are pockets of high public sector dependency in the north east and in and around Merseyside.

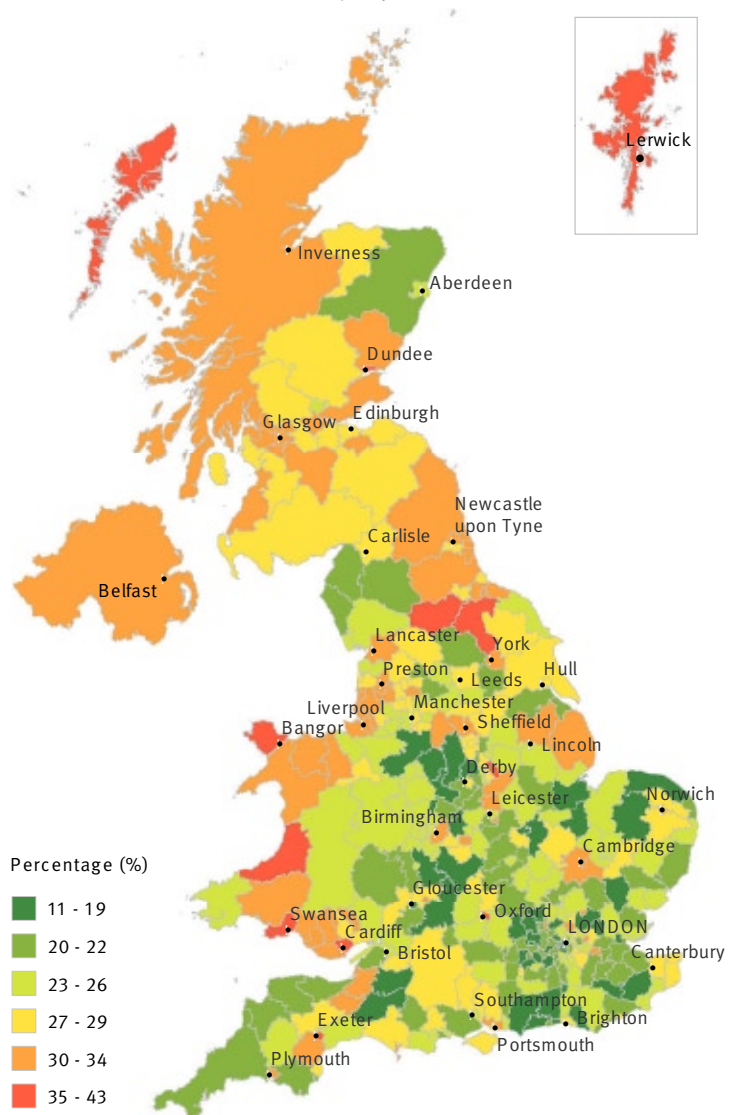
**Exhibit 6 Fluctuations in migrant workers**

Immigration to the UK fluctuated in the early part of the last decade, then steadily increased up to the recession. There was particular growth from 2004 with the accession of eight countries to the EU – causing a rise in long-term immigration and an increasing number of migrants arriving to work for less than 12 months.

From 2007 the number of EU and non-EU workers fell, but EU migration has picked up again more recently. The number of work-related visas had not recovered to pre-recession levels even before the introduction of the interim cap on non-EU nationals.

In all, over the past decade the number of UK-born workers has fallen by 223,000, while non-UK born workers have risen by 1.7 million, including 673,000 from other EU states.<sup>14</sup>

**Exhibit 7 Public sector employment across the UK**



The number of individuals employed in the public sector as a proportion of all in employment, Sept 2009 – Sept 2010. Source: annual Population Survey 2010.

## Section 2

# Likely future trends

### Economic activity alone cannot cure unemployment...

Labour market data at a detailed level presents an opportunity to analyse the factors that support a strong employment performance, such as economic activity,<sup>15</sup> skill levels, the share of public-sector employment, the share of private-sector employment, the share of professional and skilled occupations, and earnings.

Analysis of the period 2004-07 shows the main driver of higher employment levels is economic activity, followed by flexibility. For instance, a higher share of part-time work in a region has a positive effect on employment.

An analysis of employment rates – as distinct from numbers of employed people – suggests that while economic activity is a driver of employment growth, it is a relatively unimportant factor in bringing down unemployment and inactivity during a stable period in the business cycle. Instead, the structural characteristics of the labour market are more important.

In particular, increased degree-level skills have a large and clearly statistically significant positive correlation with employment rates. There is also a significant positive correlation with part-time employment. These factors are more important than, say, the share of public and private-sector employment in a local area.

The challenge for policy-makers is to create a labour market policy framework that maximises flexibility and capitalises on skills if we are to bring down unemployment at the same time as increasing economic – and jobs – growth.

### ...and flexible work arrangements are part of the solution

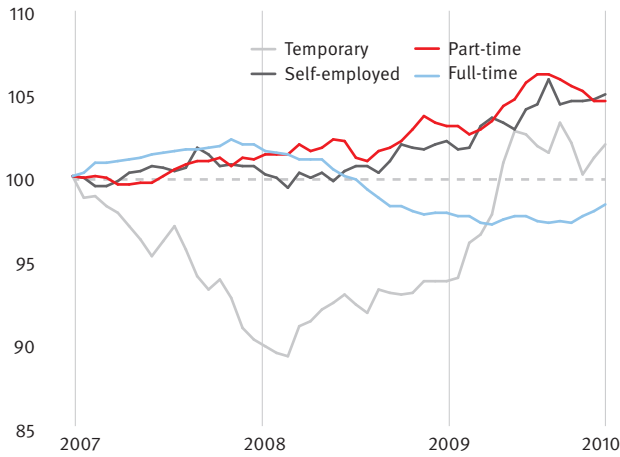
The considerable resilience shown by the UK labour market in the early stages of the recent recession is in part explained by the flexibility provided by temporary workers.<sup>16</sup> As the economy slowed there was a sharp reduction in the number of temps engaged by firms, but as the recession eased firms took on temps to meet growing staffing needs while mindful of the continued economic uncertainty. The number of temps, and their share of the labour force, are both now higher than pre-recession levels (see Exhibit 8 on next page).

Flexible temporary work not only benefits employers, who are able to meet fluctuations in demand and increase capacity with confidence, but also workers and society more widely. Two thirds of agency workers say the decision to work through an agency is a positive one – agency work gives them greater flexibility to match their work to their lifestyle. For the remaining third, it provides vital employability skills and experience that is a route to permanent employment.

At the societal level, while the agency workforce largely mirrors that of the wider economy, young people and workers from ethnic minorities are more represented in this segment, boosting labour market inclusion for groups that are often on the margins of the labour force. Fostering temporary working can therefore be an important means of helping more challenging groups on the road to regular employment.

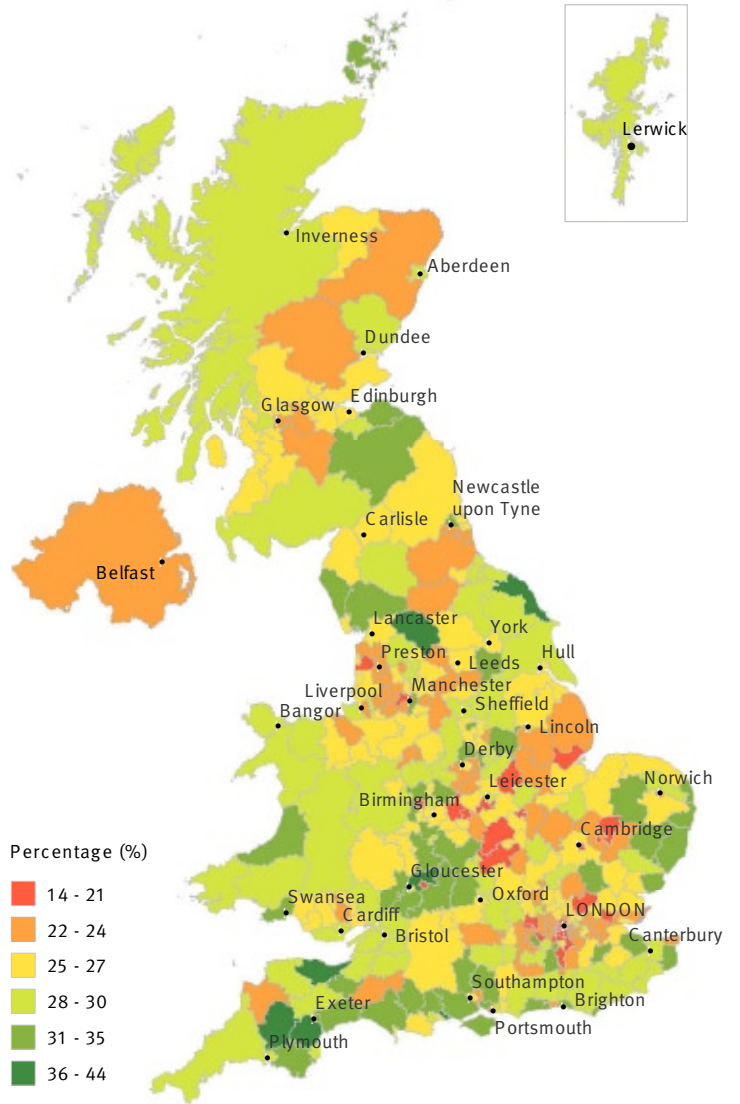
Part-time work has been another success story, but it is a pattern of work that applies unevenly across the country (see Exhibit 9 on next page). Its long-term rise reflects the way it suits many people's lifestyles. And during the recession a move to part-time work has kept workers in employment who might otherwise have lost their jobs, retaining – and developing – their skills and giving firms flexibility. The number of part-time workers is now 5% higher than before the recession.

**Exhibit 8 Change in the make-up of the labour market (January 2007 = 100)**



Source: ONS

**Exhibit 9 Part-time employment across the UK**



The number of individuals in part-time employment as a proportion of all in employment, Sept 2009 – Sept 2010. Source: Annual Population Survey 2010.

## Developing our skills base has a critical role to play

The challenges set out so far are significant and would require a co-ordinated response even if the business world were not changing fast. There is a major skills and competencies problem in our economy, particularly among the unemployed. Basic skill needs among benefit claimants are more than double the national average. Nearly two fifths (38%) of claimants lack functional literacy skills and 45% lack functional numeracy skills. Of those out of work, 29% have no formal qualifications, compared to 8% of those in work. Among people receiving incapacity benefit, 40% of have no recognised qualifications.<sup>17</sup>

Beyond this however, the pace of technological and organisational change in the workplace is relentless. As people spend time away from the workplace, their skills – built up during employment – become less relevant. In effect, people out of work become relatively less skilled by comparison with the employed population.

Yet there are currently over 460,000<sup>18</sup> vacancies in the economy. There will always be a high number in any dynamic economy, but better matching the skills of the labour force with the jobs available today and in the future will help limit unemployment to a process of transition between jobs. The skills people have affect employment in two ways:

- **Skills are a driver of business growth and growing firms create new jobs:** businesses invest £39bn<sup>19</sup> a year in training and developing their own staff but need access to a pool of workers with the right mix of productive skills – if firms experience skill shortages, this hampers business growth
- **Potential mismatches between skills and job vacancies:** do individuals have the skills that employers need in particular sectors or regions?

## Where are the jobs of the future?

The CBI has used the forward-looking projections provided by the Working Futures 2007-17 analysis to map out where employment growth is expected in the medium term and the skills likely to be required. This data provides an initial framework for identifying future labour market trends.

On a national level, the UK labour market is expected to see a continued shift towards higher level occupations – by 2017 almost half (47%) of jobs will be for managerial, professional or associate professional roles (Exhibit 10). The pattern, however, is not simply a linear shift towards higher skilled roles. While the proportion of elementary roles will fall, they will still account for 10% of jobs in the economy. There will also be an increase in personal service occupations, as for example more people are needed to fill health and social care roles to look after an ageing population.

There is a view that increasing use of technology will drive-up the demand for skilled labour – while making redundant a large number of unskilled jobs. However, there is also a current debate on whether the UK is heading for an ‘hourglass’ economy.<sup>20</sup> This argues that the routine tasks which can be replaced by technology are neither the managerial roles at the top, nor the low-skilled at the bottom such as cleaning or shelf-stacking. The roles which are vulnerable are actually those in the middle range – including administrative, clerical and secretarial jobs as well as manual – and it is these jobs which will thin out over time. As a consequence, there is the risk of basic level jobs being increasingly filled by those with intermediate level skills, reducing the opportunities for those with only basic skills

### Exhibit 10 proportion of employment in different occupations, 2007-17 (%)

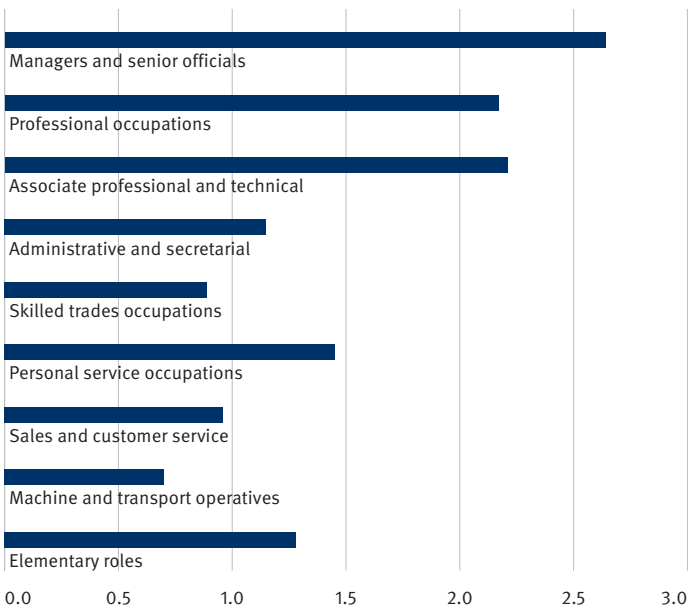
	2007	2017	Change
Managers and Senior Officials	15.5	17.2	▲1.7%
Professional occupations	13.1	14.3	▲1.2%
Associate Professional and Technical	14.3	15.4	▲1.1%
Administrative and Secretarial	11.9	10.0	▼1.9%
Skilled Trades Occupations	10.9	9.6	▼1.3%
Personal Service Occupations	7.9	8.8	▲0.9%
Sales and Customer Service Occupations	7.7	7.6	▼0.1%
Machine and Transport Operatives	7.3	6.5	▼0.8%
Elementary Occupations	11.3	10.6	▼0.7%

Source: Working futures

### Millions of job opportunities will open up

The need to replace those leaving the workforce means that there will be demand for people to fill occupations of all types over the next few years. By 2017, there will be a need to fill 13.5 million jobs, taking into account both job expansion and replacement of those leaving the workforce through retirement and other factors. Again, the largest number of jobs to be filled will be managerial and professional, personal services and elementary roles (Exhibit 11) – although the demand for recruits to elementary roles will largely be to replace those leaving the workforce rather than the creation of extra jobs.

**Exhibit 11 total jobs to be filled by occupation, 2007-17 (millions)**



Source: Working Futures

Looking at employment change by sector, the overall expectation is for a continued shift away from the primary and manufacturing sectors towards service-orientated industries (Exhibit 12), though there must be doubts about the scale of likely change in manufacturing jobs. Breaking the data down further, business services – accountancy, law, advertising, facilities management – is expected to be the sub-sector with the highest employment growth (+883,000), accounting for a third of all employment growth over the decade. This reflects global trends for developed economies – ILO data shows 73% of employment in developed economies is in services, compared a global average of 43%.<sup>21</sup>

**Exhibit 12 changes in overall employment by sector, 2007-17 (000s)**

Broad Sector	Total employment 2007	Change in employment 2007-17
Primary sector & utilities	633	▼130
Manufacturing	3,181	▼432
Construction	2,187	▲175
Distribution & transport	8,881	▲537
Business & other services	8,573	▲1,306
Non-marketed services	7,780	▲494
Total	31,234	▲1,949

Source: Working Futures

### Occupational and sectoral change – the local picture

In order to get a clearer picture of projected changes in employment patterns, the CBI has mapped the localised data on occupational employment (from the Working Futures 2007-17 analysis). The results show a reinforcing of existing patterns of occupational employment.

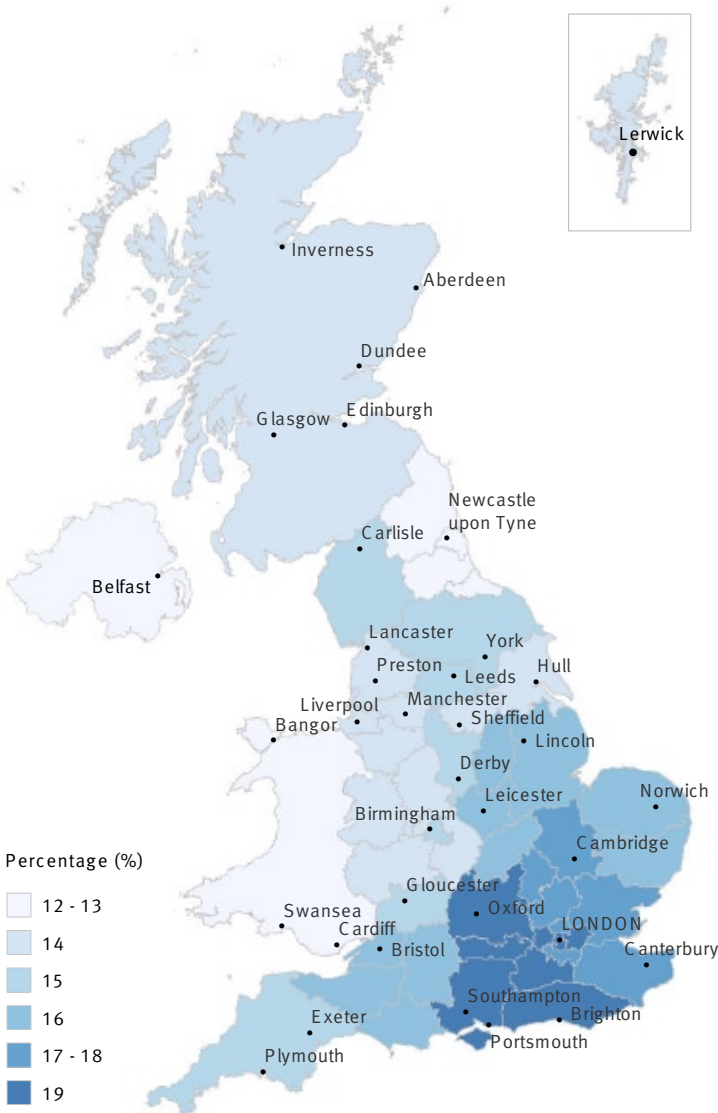
The projections to 2017 show a concentration of managerial, professional and associate professional roles in London, the south east and the east of England, reflecting the strong growth of employment in the business services sector across southern regions. For example, Exhibit 13 shows the local employment of managers and senior officials in 2007, alongside the anticipated change in employment to 2017.

In 2007, managerial employment was highest in London and the south east (Berkshire, Surrey, Oxfordshire), with another cluster around the east of England (Norfolk, Suffolk and Cambridgeshire). More than 19% of employment in central London is for managers, compared to around 12% in Northern Ireland, Tees Valley, Northumberland and Tyne & Wear.

Looking ahead this pattern is not expected to change. Almost a quarter of all jobs that will need to be filled over the period to 2017 in central, east and west London are expected to be for managers and senior officials, with similarly strong growth in Sussex, Berkshire and Kent. The slowest growth is in Wales and areas of the north east.

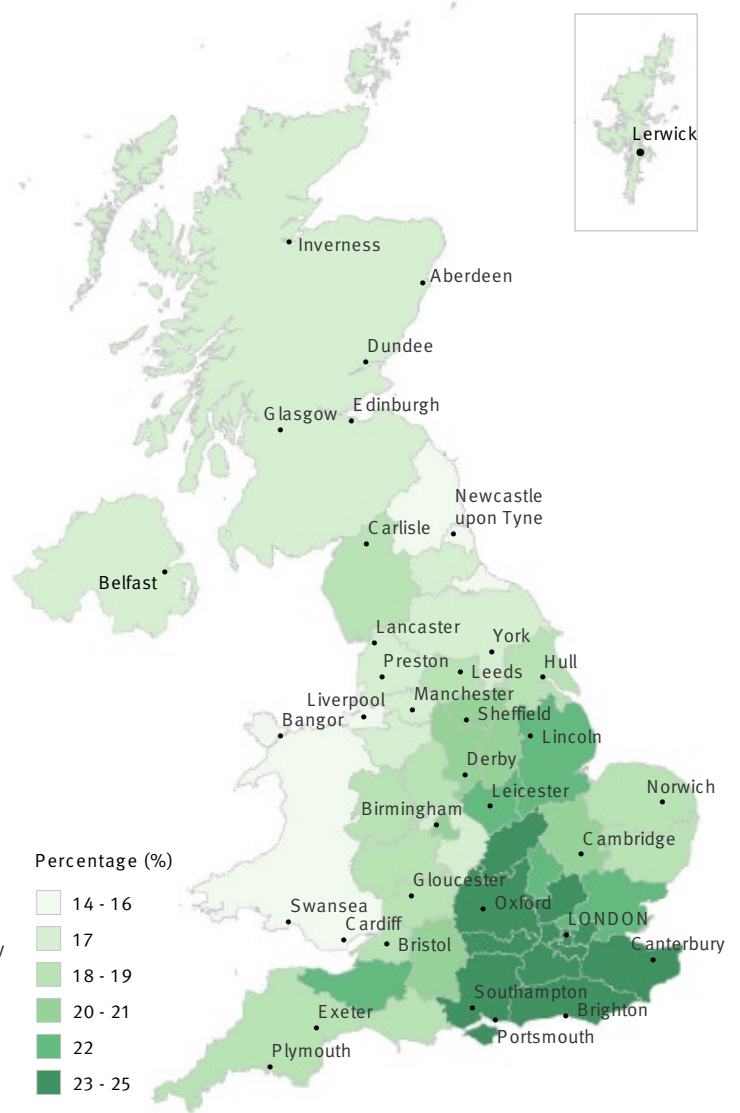
Exhibit 13

#### Employment of Managers and Senior Officials across the UK, 2007



Proportion of employment in each locality for managers and senior officials, 2007. Source: Working Futures 2007 – 2017.

#### Jobs requiring Managers and Senior Officials across the UK, 2007 – 2017



Proportion of jobs that need to be filled in each locality which will be for managers and senior officials over the period 2007 – 2017. Source: Working Futures 2007 – 2017.

Exhibit 14 shows that employment in lower skilled elementary roles was highest (in 2007) in the north east (Northumberland, County Durham and the Tees Valley), Scotland, Wales and areas of Yorkshire (North Yorkshire and Humberside). Looking ahead, there is again a reinforcement of current patterns, with these areas expecting the highest percentage increases in employment in elementary occupations. By contrast, London is expected to see the smallest increase.

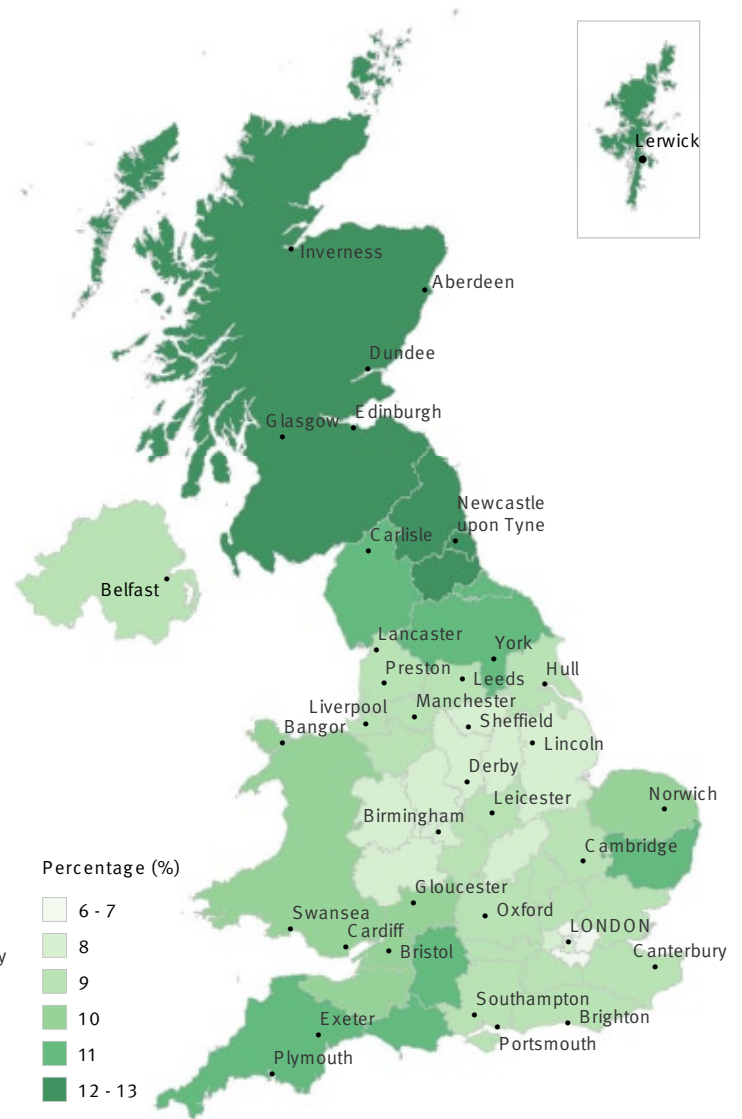
Exhibit 14

**Employment in Elementary occupations across the UK, 2007**



Proportion of employment in each locality for elementary occupations, 2007. Source: Working Futures 2007 – 2017.

**Jobs in Elementary occupations across the UK, 2007 – 2017**



Proportion of jobs that need to be filled in each locality which will be for elementary occupations over the period 2007 – 2017. Source: Working Futures 2007 – 2017.

### What skills are employers going to need?

What do the shifts in occupational employment mean for the skills that people will need to find work in future? Based on qualifications data contained in the Working Futures analysis, the CBI has calculated the qualifications that would be required to fill both new and replacement jobs to 2017.

Of the 13.5m jobs to be filled to 2017, over half (56%) will require people to hold graduate level qualifications, indicating a significant shift towards greater demand for higher level skills. CBI research has found similar trends – with 58% of employers in the CBI/EDI education and skills survey 2011 reporting an increased need for higher level skills over the next three to five years.<sup>22</sup>

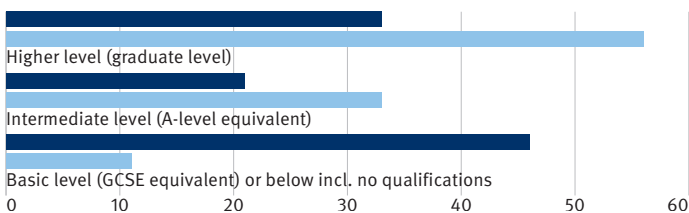
Demand for people to take jobs requiring no qualifications will fall by 12%. Traditionally, lower skilled jobs have served as labour market entry points for those moving out of unemployment, and the decline in their availability emphasises the need for everyone to have a minimum platform of skills. This poses a challenge for the education system.

In particular, all young people should enter the labour market with a strong grasp of literacy and numeracy. The UK continues to have a long tail of underachievement on basic skills – this must be tackled for the benefit of business and individuals. While some progress has been made in improving literacy and numeracy results at age 16 in recent years, far too many young people still fail to make the grade.

Last year, 58% of entrants achieved an A\*-C in GCSE maths and 65% in English. But this meant over 300,000 young people did not achieve the benchmark of a grade C in maths and 250,000 fell below this level in English. Worryingly, almost 100,000 young people received a grade F or below in maths and 50,000 in English. These young people will join the already swelling ranks of those ill-equipped to succeed in a labour market where the baseline of skills required for employment continues to rise.

Exhibit 15 below shows the current levels of qualifications held by the working age population,<sup>23</sup> alongside the qualifications required to meet future employment demand.

### Exhibit 15 changing qualifications profile of the labour market (%)



Source: ONS & CBI analysis of Working Futures data

The increase in demand for higher levels skills is explained by occupational change – more than seven million vacancies for managers, professionals and associate professionals and technical occupations need to be filled over the period. Exhibit 16 shows the breakdown of qualifications required to fill both new and replacement jobs over the next few years.

### Exhibit 16 qualifications required to fill jobs by occupational group, 2007-17 (%)

Occupational Group	Higher Level	Intermediate level	Basic level or no qualifications
Managers and senior officials	74	26	0.5
Professional occupations	93	9	-1.4
Associate Professional and Technical	71	24	5
Administrative and Secretarial	52	44	4
Skilled Trades Occupations	25	67	8
Personal Service Occupations	23	44	33
Sales and Customer Service Occupations	30	54	16
Machine and Transport Operatives	22	32	45
Elementary Occupations	24	44	31

Source: Working Futures

### Vacancies and available skills are too often mismatched

Do people have the right skills to match the vacancies which are available? The question is not simply a matter of quantity – the economy needs a higher base of skills, but securing increased levels of employment it is also about matching skills supply with demand in different parts of the economy. It is about having the right skills, in the right place, at the right time.

The most recent data shows a relatively high prevalence of skills shortage vacancies – where employers have difficulty filling roles due to a lack of relevant skills amongst applicants. One in six vacancies in England is attributable to skills shortages. Exhibit 17 shows the breakdown,<sup>24</sup> based on the main official surveys of employers in the UK.<sup>25</sup>

### Exhibit 17 overall prevalence of skills shortage vacancies

Region/Year	Number of vacancies (000s)	Skills shortage vacancies (000s)	Proportion of vacancies with skills shortage (%)
England (2009)	386	63	16
Scotland (2010)	44	8	18
Northern Ireland (2008)	17	3	18
Wales (2005)	38	5	13

Source: Working Futures

Asked about the type of skills lacking amongst applicants, employer responses underlined the importance of the generic skills – literacy, numeracy, and employability – which are common to all jobs at all levels.

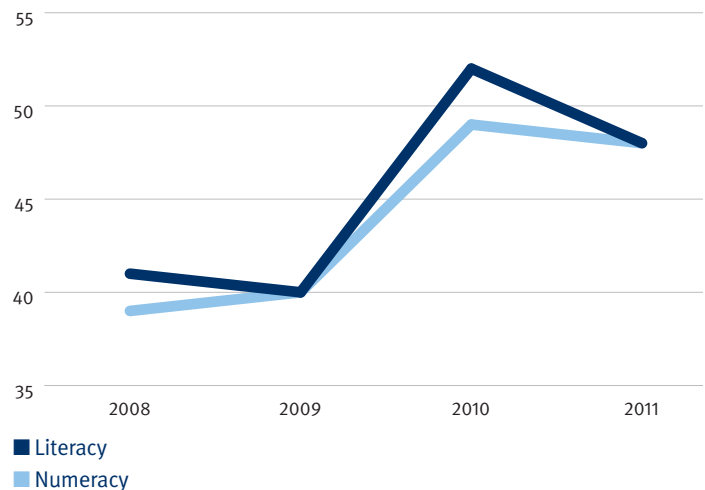
Almost two-thirds (62%) of skills shortage vacancies in England were linked to deficiencies in the technical and practical skills required for a particular role. But employers also identified significant problems in soft employability skills such as customer handling (41%) and problem solving (38%). Almost a third of skills shortage vacancies (30%) were caused in part by poor literacy skills amongst jobseekers.

Data from the recent CBI/EDI Education and skills survey<sup>26</sup> reinforces this message:

- Half of employers expressed concern about the basic literacy (48%) and numeracy (48%) of some employees in their current workforce – with problems getting worse over the last few years (See Exhibit 18)
- Employers also reported problems with the employability skills of school leavers –with over two thirds (69%) unhappy about their business/customer awareness and 55% about their self-management skills.

In addition, employers report shortages in specific subject areas, with 43% of firms having difficulty recruiting staff with science, technology, engineering and maths skills (STEM) – those crucial to high growth sectors including low carbon, pharmaceuticals and the creative industries.

**Exhibit 18 employers reporting problems with core skills of current workforce (%)**



Source: CBI/EDI education and skills survey 2011

### Skill levels are likely to polarise in future

Through our mapping analysis, we have looked at the potential for local mismatches between current skills and the skills that will be required to fill expected vacancies across all occupations over the next decade. The pattern that emerges is one entrenching existing patterns – with more higher skill openings in London and the south east and a continued focus on basic skills in the north east and the west midlands.

This reflects the changes in occupational structures outlined above – with the concentration of managerial and professional roles in southern regions of England. Exhibit 19 shows the current distribution of higher level skills (from the Annual Population Survey), alongside a projection of

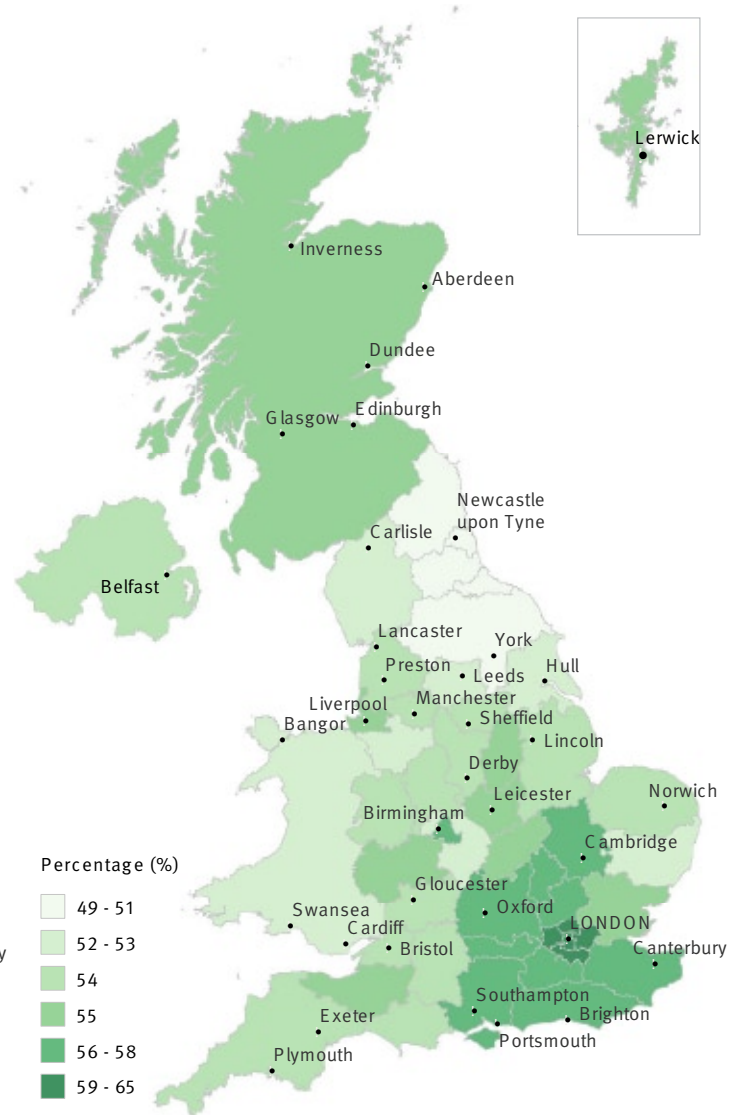
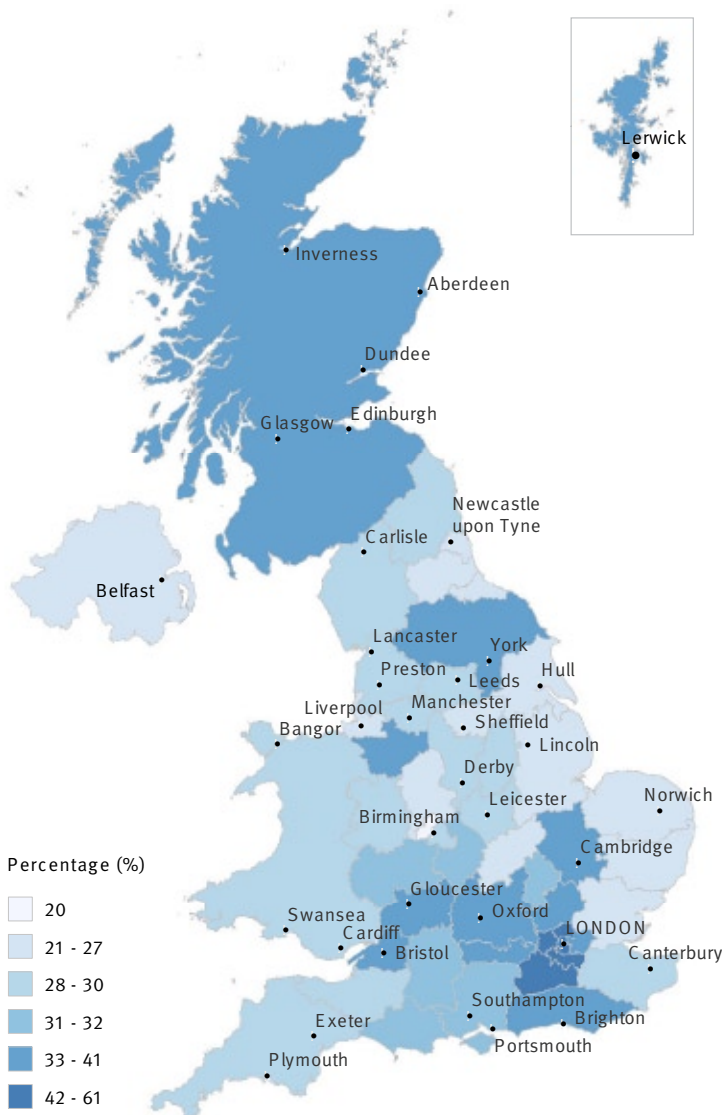
where higher level skills will be required to fill job vacancies.<sup>27</sup> Currently people with these graduate level skills are most concentrated in London, Surrey, Berkshire and Oxfordshire. And looking ahead, employment growth in higher skilled roles will again be concentrated in London and the south east.

Currently, the highest proportions of people with intermediate (A-level equivalent) skills are in the south west (Devon, Dorset and Somerset). While this region will experience an increase in employer demand for intermediate level skills, the biggest rises are expected in the north east around the Tees Valley, Northumberland and Tyne and Wear.

Exhibit 19

#### Current distribution of higher level qualifications

#### Future jobs requiring higher level qualifications



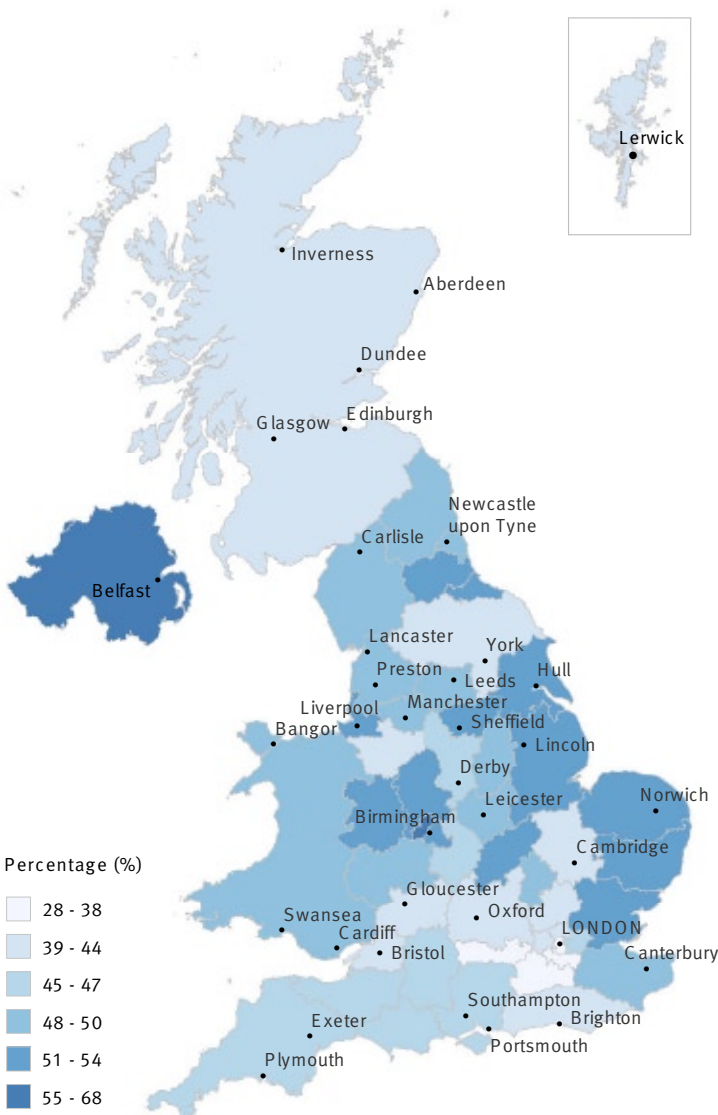
Proportion of working age people in each locality qualified at higher level, 2009. Source: Annual Population Survey 2010.

Proportion of jobs that need to be filled in locality (including expansion demand and replacement demand) requiring higher level qualifications over the period 2007 – 2017. Source: analysis of Working Futures 2007 – 2017.

In terms of people with basic level or no qualifications, there are a number of hotspots (See Exhibit 20 – data maps for basic level qualifications). At present, almost 60% of people in the Black Country have low qualification levels, followed by Greater Merseyside, Essex and Staffordshire. There are regional clusters of basic level qualifications around the west midlands and the north east. To 2017, the areas which are expected to experience the largest increases in demand for jobs requiring basic or low level qualifications are in the north east and areas of the west midlands (around the Black Country and Coventry & Warwickshire), where there will be openings for machine and transport operatives.

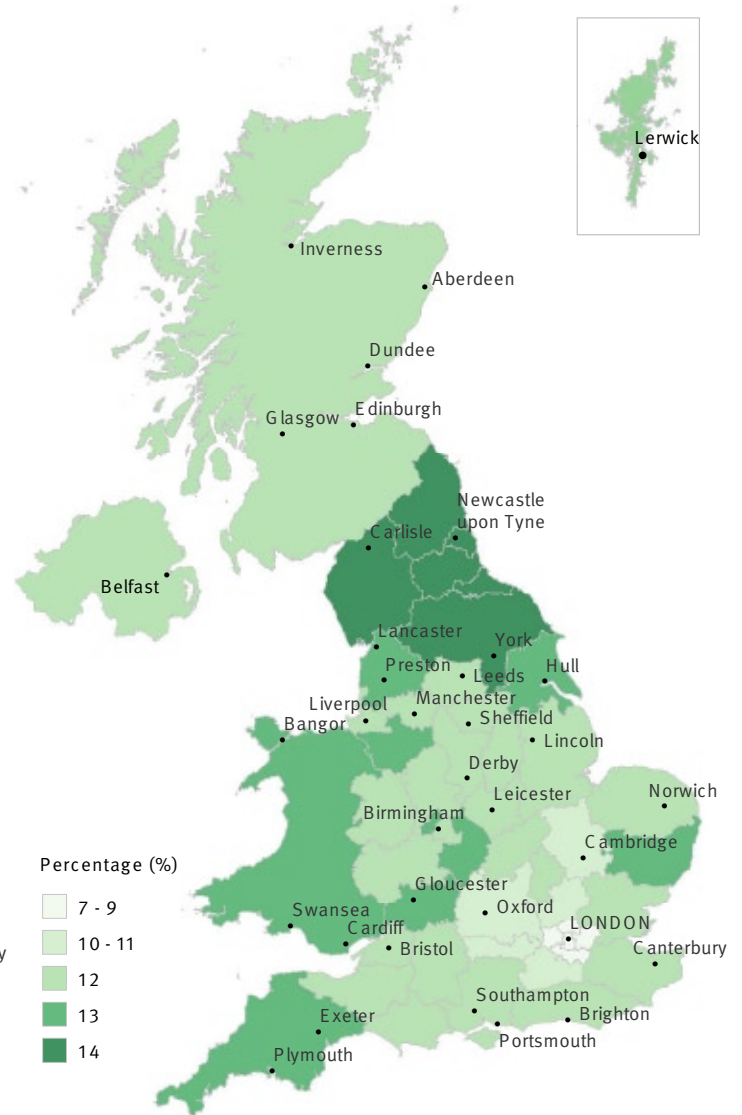
Exhibit 20

Current distribution of basic level qualifications



Proportion of working age people in each locality qualified at basic level, 2009. Source: Annual Population Survey 2010.

Future jobs requiring basic level qualifications



Proportion of jobs that need to be filled in locality (including expansion demand and replacement demand) requiring basic level qualifications over the period 2007 – 2017. Source: analysis of Working Futures 2007 – 2017.

## Section 3

# Time for fresh thinking

### Action is needed to break the low-skills cycle

Policy-makers must look at how to break the triangulation that currently exists in some parts of the UK between high concentrations of low-skilled jobs, large numbers of people with low-level skills and poor school attainment/social deprivation. These areas are scattered across the UK, but for illustration the CBI mapping has highlighted issues with poor skills and low-level jobs around parts of the north east and west midlands.

These areas also have high proportions of secondary school pupils eligible for free school meals (a key deprivation indicator). National GCSE data shows that free school meals (fsm) pupils are less likely to attain the key GCSE benchmark – last year 31% of fsm pupils in England achieved the benchmark of 5 A\*-C GCSEs, including English and maths, compared to 59% of non-fsm pupils.

Currently, 13% of pupils in England are eligible for free school meals, with above average levels in the north east (16%) and the west midlands (16%). The highest proportion is found in inner-London boroughs, where 36% of pupils are fsm eligible – although due to the resources and programmes focused on London schools, 46% of fsm pupils in inner London achieve the main GCSE benchmark, compared to 27% in the north east.

There is a need to break the cycle of low attainment in these areas and raise the aspirations of young people. It is likely that many who do achieve good grades and higher level qualifications will migrate to other parts of the UK where there are greater opportunities, leaving the local cycle unbroken.

The costs of inaction are high. It is a pressing concern that there are currently 925,000 16-24 year olds not in employment, education and training (NEET). While this is not a homogenous group, many suffer from educational under-achievement. The Audit Commission estimates that the current population of 16-18 year old NEETs will cost the taxpayer £13bn over their lifetime (through welfare payments and costs to health and criminal justice services etc), plus a further £22bn in opportunity costs (loss to the economy and welfare loss to individuals and their families).<sup>28</sup>

It is time for some fresh thinking to shape solutions.

## Key conclusions and areas for further debate

The labour market performed relatively well in the recession – but there are entrenched areas of underperformance that we must address

- **Employment fell by around 600,000 in the recent recession, despite a fall in output far greater than in the 1980s, when unemployment increased by two million, and the 1990s, when it shot up by one million people**
- **Our mapping shows, however, that a greater structural issue exists that will not necessarily be resolved by a return to growth – namely pockets of high long-term unemployment and inactivity, often in areas which suffer from multiple disadvantages in terms of infrastructure, skills and sectoral presence. A particular challenge exists in areas with very high public sector presence**
- **Economic activity and skills are the key drivers of employment growth, with degree-level skills the key characteristic of areas that are most effective at recovering from high unemployment.**

The job market will change – and this trend risks embedding current divisions

- **More than half of the jobs that need to be filled by 2017 will be for managerial, professional and associate professional roles**
- **There will remain a persistent number of jobs in elementary occupations – which will still account for over 10% of employment**
- **Managerial and professional employment will remain concentrated in London and the south east. There is a risk of an ‘hourglass’ labour market if we do not help develop better skills levels among those with mid-range skills**
- **The 12% fall anticipated in the number of jobs requiring no qualifications emphasises the challenge we face.**

Educational attainment is key to employment growth – but there is a risk of polarisation

- **One in six vacancies in England are attributable to skills shortages – with problems of both technical skills and wider employability skills**
- **Without change, in future there will be a polarisation of skills levels – with more higher skills required in London and the south east and a continued focus of basic skills in the north east and west midlands**
- **A triangulation exists in some parts of the UK between high concentrations of low-skilled jobs, large numbers of people with low-level skills and poor school attainment/social deprivation.**

## Endnotes

- 1 Working futures data is broken down according to the boundaries of 47 local Learning and Skills Council areas
- 2 M Barnes et al... social impacts of recession: the impact of job loss and job insecurity on social disadvantage, National Centre for social Research on behalf of Social Exclusion Task Force, Cabinet Office, 2009
- 3 D Freud, Reducing dependency, increasing opportunity: options for the future of welfare to work, DWP, 2007
- 4 CBI, Economic forecast, May 2011
- 5 S McIntosh, Skills and Unemployment, Paper presented at workshop on unemployment, welfare and work, Brussels, November 2000
- 6 D Bell & D Blanchflower, UK Unemployment in the Great Recession, Journal of the National Institute of Economic and Social Research, No 214, October 2010
- 7 Labour market data at the local authority level is not available for Northern Ireland, which was therefore included in the analysis and maps as a single block.
- 8 'Post-industrial' in the sense of having lost significant proportions of heavy industry or other major manufacturing/production activities since the 1970s
- 9 For example, in a household with one high-earner, a partner may prefer not to work.
- 10 A mixed blessing – it may indicate that the labour market is weak so people who would rather work have taken up full-time education instead (tellingly, the numbers in education swelled during the recession). In any case, however, education is generally preferable to inactivity
- 11 The correlation coefficient between inactivity rates among 16-64 year-olds in local authorities is 0.45, strong enough to indicate that inactivity is often associated with a weak labour market, although weak enough to suggest that there are differing influences on each
- 12 As measured by the standard deviation
- 13 It therefore reflects demographic trends as well as trends in the labour market – the two, of course, are casually intertwined.
- 14 ONS
- 15 In the absence of gross-value added data for economic activity at the local authority level, we used the stock of VAT-registered businesses in 2004 and 2007 instead
- 16 Agency working in the UK: A review of the evidence, BIS, October 2008
- 17 CBI, Jobs for the future, June 2009
- 18 Vacancies Feb-Apr 2011, Labour Market Statistics, ONS, May 2011
- 19 UK Commission for Employment and Skills, National employer skills survey for England 2009, August 2010
- 20 C Holmes, Implications of polarisation for UK policymakers, Issues paper 26, SKOPE, April 2011
- 21 Global employment trends 2011: The challenge of a jobs recovery, ILO, January 2011
- 22 CBI/EDI, Building for growth, education and skills survey 2011, May 2011
- 23 Annual population survey, ONS
- 24 Data for Wales is out of date and included for illustrative purposes only
- 25 Primarily the National Employer Skills Survey for England published last year and based on a sample of almost 80,000 firms
- 26 CBI/EDI, Building for growth, education and skills survey 2011, May 2011
- 27 This calculation is based on working-out the skills required to fill job vacancies – expansion and replacement demand – through the Working Futures analysis.
- 28 Audit Commission, Against the odds, 2011