

EMPLOYMENT
AND SKILLS
IN THE NORTH
OF ENGLAND

NEFC BRIEFING PAPER NO 2

IN PARTNERSHIP WITH



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IDEAS to
CHANGE BRITAIN

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PURPOSE

This paper aims to provide a resource to support the work of the Northern Economic Futures Commission.¹ It offers underpinning evidence and thinking on the sixth of the eight questions which have been set out for the future work programme of the commission (see boxed text below).

It addresses four issues which emerge from question 6 as follows:

1. What should the North aspire to in terms of labour markets and skills?
2. What are the key employment and skills challenges facing the North of England?
3. What does the future look like for employment and skills in the North?
4. What is the current approach to employment and skills policy?

Eight core questions for the Northern Economic Futures Commission

1. What can be learned from the past about the northern economy and the ability of policymaking to shape it?
2. What should a successful northern economy look like?
3. Where will economic growth come from?
4. How will a new phase of economic growth be financed?
5. How do we mobilise assets and skills in innovation and nurture enterprise in the North of England?
6. What are the priorities for employment and skills in northern labour markets?
7. What are the key priorities for transport, housing and other infrastructure challenges?
8. Does the North of England have the structures and powers it needs to drive growth?

¹ For more on the NEFC, see <http://www.ippr.org/research-projects/44/7405/northern-economic-futures-commission?siteid=ipprnorth>

INTRODUCTION

These are difficult times for many parts of the North of England. Over the last quarter, the North East and Yorkshire topped the league table for increases in unemployment, and across the North as a whole the unemployment rate stands at 9.45 per cent, a level not seen since early 1995. This difficult situation is partly as a result of the government's austerity programme, which has resulted in a large reduction in the number of public sector jobs, combined with only a very small increase in the number of private sector jobs to offset this reduction.

For some parts of the North – particularly those that never really recovered from last recession – the picture can seem quite bleak. If jobs growth doesn't recover then the labour market will remain very tough, especially for those who are already disadvantaged in the market, such as the long-term unemployed, young people and those aged over 50.

This paper provides an analysis of some of the key employment and skills challenges facing the economies of the North of England. It begins by briefly considering what an employment and skills focused vision for the North of England might look like, and presents some options for the sorts of goals we might aspire to.

The second section provides an analysis of some key labour market and skills indicators for the North, highlighting key challenges and opportunities. It also looks forward, and draws on some economic forecasts to consider the shape of future labour market challenges for the North, and offer some projections for how long recovery might take.

The final section summarises key element of employment and skills policy, identifies some challenges and issues with current policy that commissioners may wish to consider for making recommendations. It also identifies some questions for the Northern Economic Futures Commission to consider.

1. WHAT SHOULD WE ASPIRE TO?

Increased employment rates matter for many reasons. For the exchequer, higher employment means greater tax revenues and lower benefits payments; while for the individual, in most cases employment results in higher incomes, economic inclusion and increased self-esteem. OECD evidence also suggests that for areas like the northern regions (what they would term ‘quasi lagging regions’²) the level of labour market activity is a key indicator that differentiates a lagging area that is growing from one that is underperforming (Garcilazo 2011).

The positive impact of employment is reflected in the previous government’s aspiration to achieve ‘full employment’. Full employment is defined as 80 per cent of working-age people in employment, which assumes that the other 20 per cent will be in transition between job, engaged in caring activities, studying or unable to work due to sickness or disability. This remains a stretching goal: at its peak in the 1970s, 1980s and 2000s, the national employment rate reached only 73 per cent.

Increasing the skills of the population is also a core policy aim. A higher skilled workforce is associated with increased economic performance and competitiveness, boosting enterprise, innovation and productivity. In this sense, higher skills are good for the economy as a whole. Higher skills also bring benefits for individuals, helping foster social inclusion and assisting progression in the labour market to higher quality or higher paid work (Leitch 2006, Green 2010).

While the employment rate has traditionally been the goal of governments, there are other goals that the northern economies could aspire to in relation to labour markets and skills. Some other issues that NEFC commissioners might want to consider as part of their vision for the future of the northern economies include:

- **Increasing job quality:** The UK has a problem with in-work poverty. In 2008–09, an estimated 61 per cent of poor children lived in a household where at least one parent worked (Gottfried and Lawton 2011). Those working in low-skilled, low-paid, insecure jobs with few opportunities for progression are most at risk of in-work poverty. A goal for the northern labour markets could be to reduce the incidence of in-work poverty and to improve job quality and median earnings in order to combat damaging economic inequality.
- **Increasing demand for skills:** Individuals with low skills (primarily those with no formal qualifications) are among the most vulnerable in the labour market. Only this group experienced a fall in their employment rate during the period of economic growth between 1992 and 2007 (Dolphin et al 2011). Furthermore, recent analysis of the British Household Panel Survey found the risk of getting stuck in low-paid work is particularly high for people with no formal qualifications, suggesting a lack of progression routes out of low-paid employment (Sissons 2011). Employers have a key role to play in up-skilling the workforce, through their demand for and investment in skills. A goal for the northern labour markets could be to reduce the number of people with no formal qualifications, and increase employer demand and investment, in order to provide progression routes for workers.

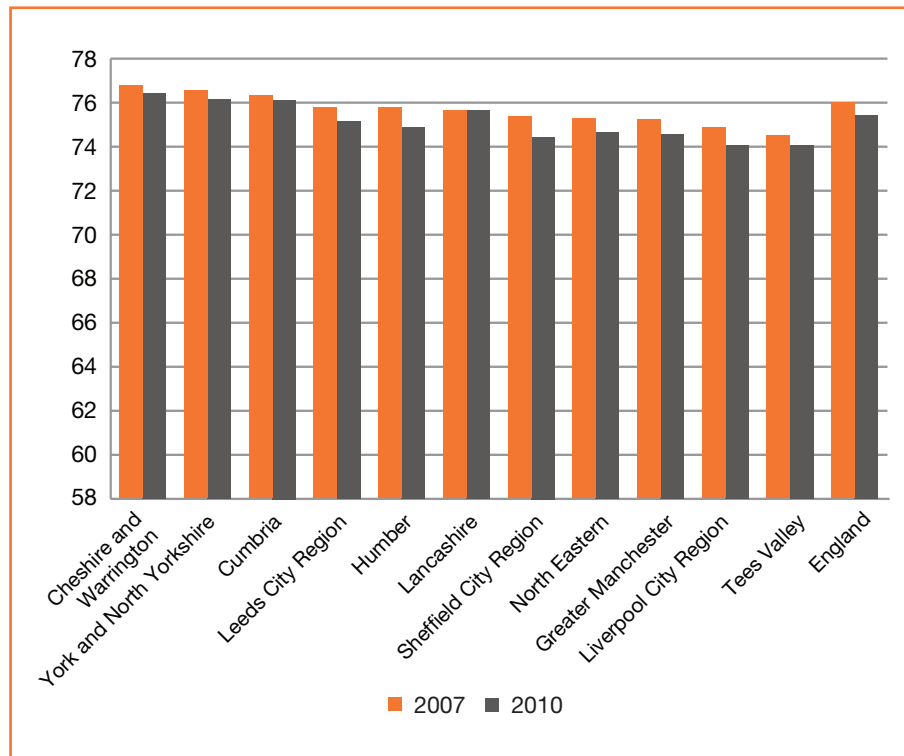
² See Baker and Viitanen 2011: 20

2. SETTING THE BASELINE

Employment

The employment rate among the working age population varies across the North of England. Only three local enterprise partnership areas (LEP areas) in the North have an employment rate that exceeds the England average (Cheshire and Warrington, York and North Yorkshire, and Cumbria³), while the other areas trail the average. Even in 2007, when employment was at its peak, the employment rate failed to exceed 70 per cent in Sheffield city region, Greater Manchester, Tees Valley or Liverpool city region. Following the recession, all areas with the exception of Lancashire LEP have seen their employment rate fall.

Figure 2.1
Employment rate
(working age) by LEP
area, 2007 and 2010



Source: Nomis

As well as variation between areas, there is also variation in employment rates between different groups in the population, with people from BME backgrounds and aged over 50 less likely to be in employment. In recent years, the employment rate of young people has become a particular concern (see following subsection on unemployment).

Those in work in the North are, in general, less likely to be employed in higher occupations, such as managers and senior officials or professional occupations, and more likely to be employed in lower occupations, such as process, plant and machine operatives or elementary occupations. While in the past there was considerable variation in the sector that people were employed in in different parts of the country, over time these variations have reduced, and variation in occupational structure has become more significant (Green 2010). Despite this, the North of England's experience is mirroring to some extent the

³ However it should be noted that these figures are residence-based. As such it does not necessarily mean that people are working in the LEP area where they reside.

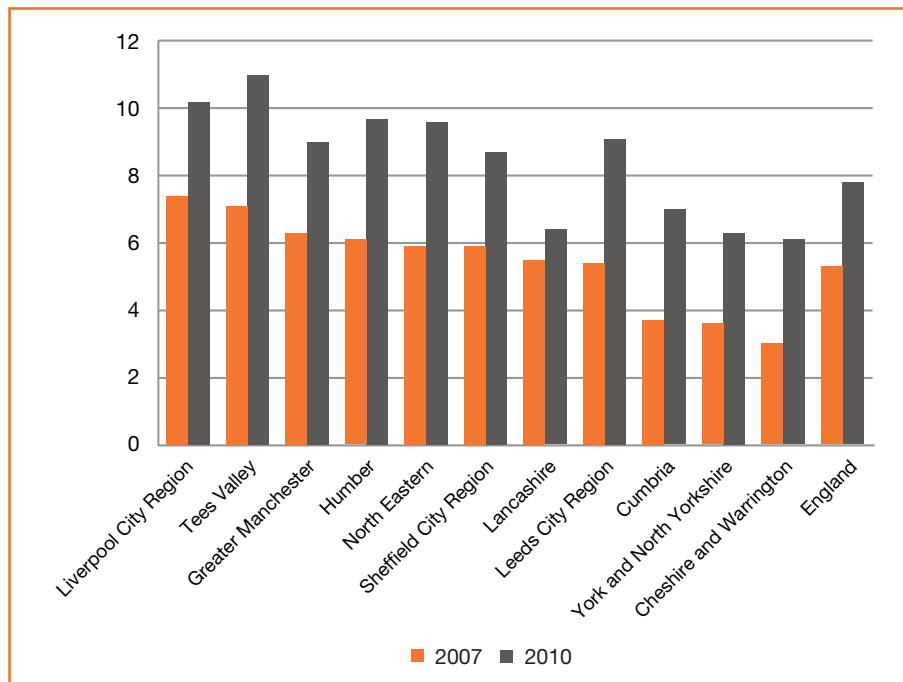
wider experience of the labour market ‘hollowing out’, whereby jobs in the middle of the labour market – semi-skilled and administrative occupations – are declining. The result is a more polarised labour market with jobs clustered at the higher and lower ends of the occupational scale (Goos and Manning 2007, Goos et al 2010, Schmuecker and Viitanen 2011). The recession has accelerated this process of hollowing out.

While difference between regions in the sectoral structure of employment has reduced over time, the northern labour market is still marked out by the size of the public sector and manufacturing as employers, relative to the English average. This high level of employment in the public sector puts the North in a more precarious position, given the public spending cuts being enforced under the government’s austerity programme. Nonetheless, all areas have experienced a reduction in manufacturing employment and an increase in employment in the services sector, in keeping with broader trends (Green 2010).

Unemployment and economic inactivity

Unemployment has been rising in all areas of the North. Again, Cheshire and Warrington, York and North Yorkshire and Cumbria stand out, as all have lower rates of unemployment than the England average. Some of the largest increases in unemployment have been seen in the Tees Valley, North Eastern, Leeds city region and Humber LEP areas.

Figure 2.2
Unemployment rate
(working age) by LEP
area, 2007 and 2010

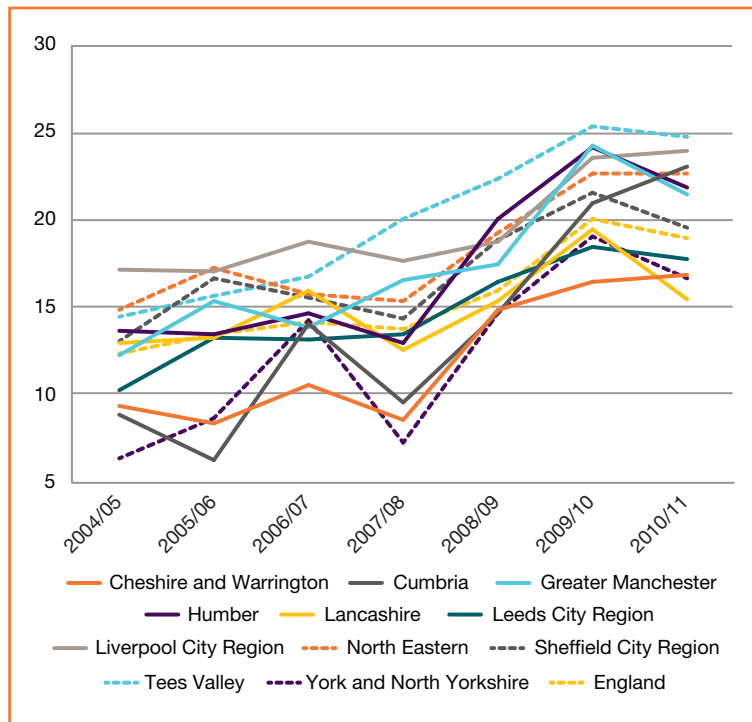


Source: Nomis

IPPR North analysis of the latest workforce jobs figures indicates that over the last year the North has seen a large reduction in the number of public sector jobs, and almost no increase in the number of private sector jobs (Cook 2011). So far, the private sector has not been able to step into the jobs gap being left by the public sector.

These labour market conditions are perhaps most challenging for young people, especially those who are just starting out and seeking to enter the labour market for the first time. There has been much concern in public debate recently about the number of young people who are out of work. Looking at the unemployment rate for people aged 16–24 from 2004/05 to 2010/11 confirms the sharp increase in youth unemployment across northern LEP areas and England as a whole. The problem is particularly acute in the Tees Valley area, where a quarter of young people are unemployed.

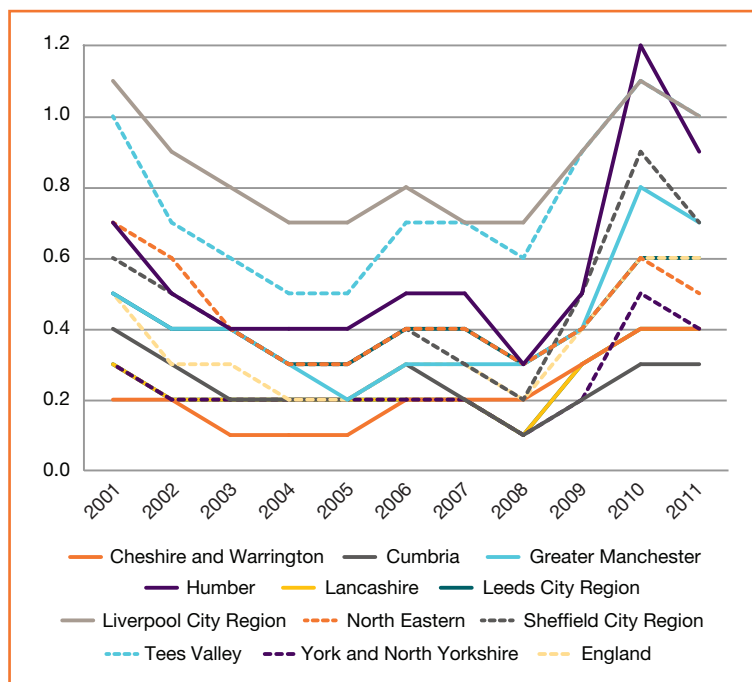
Figure 2.3
Unemployment rate (age 16–24) by LEP area, 2004/05–2010/11



Source: Nomis

Another emerging labour market challenge is the increasing number of people out of work for 12 months or more. This can have a ‘scarring’ effect on future employment and earning prospects (Dolphin et al 2011). Looking at the data on long-term claimants of jobseekers’ allowance (those claiming for a year or more) demonstrates that not only have most northern LEPs had a higher proportion of long-term unemployed people among their populations, but all areas saw an increase in long-term unemployment from 2008. The proportion of long-term claimants exceeded 1 per cent of the resident population of Liverpool city region, Tees Valley and Humber LEP areas in 2011.

Figure 2.4
Proportion of resident population claiming JSA for 12 months or more by LEP area, 2001–2011

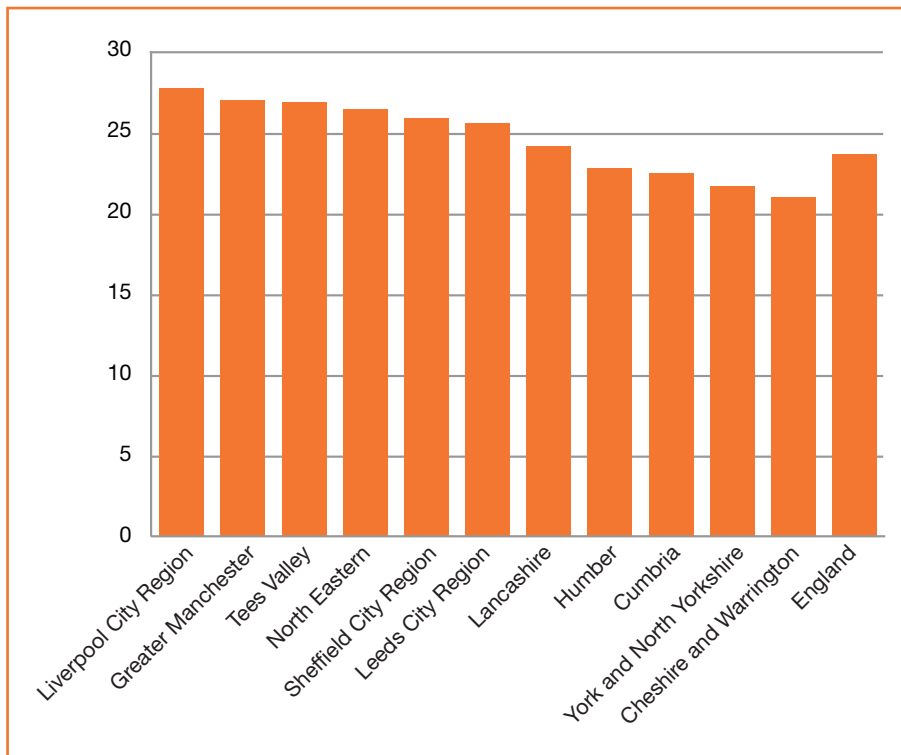


Source: Nomis

Long-term unemployment is a particular problem for older workers, who often find it difficult to re-enter the labour market when the market recovers, as they are more likely to have redundant or outmoded skills. This is a particular issue for most parts of the North of England, where the number of economically inactive people aged 50+ is already higher than the English average (Green 2010).

This leads on to a further considerable labour market challenge for many parts of the North of England: economic inactivity. Half of the North's LEP areas have levels of economic inactivity (those that are neither in work nor looking for work) that are above the England average. In the North Eastern, Tees Valley, Greater Manchester and Liverpool city region LEP areas, over a quarter of the working-age population is economically inactive.

Figure 2.5
Economic inactivity rate
(working age) by LEP
area, 2010/11

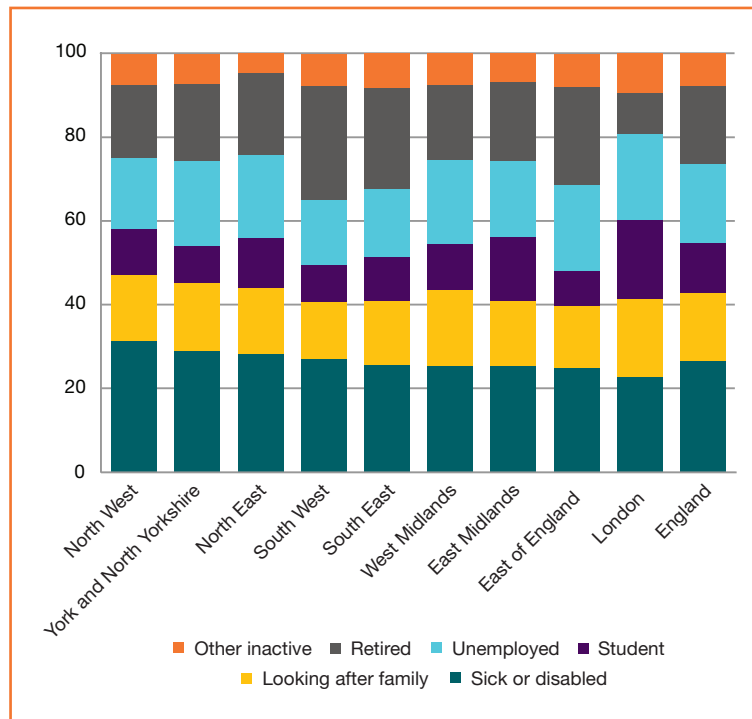


Source: Nomis

In terms of why people are workless, different reasons emerge more prominently in different parts of the UK. For example, in the South West, South East and East of England, a larger-than-average proportion is workless due to early retirement. In the three northern regions, the number of people who are workless due to sickness or disability is higher than the England average, with almost a third of people citing this as their reason for worklessness (see figure 2.6).

However, the government's welfare reforms are expected to see a large number of people who would previously have claimed incapacity benefit actively seeking work, as the shift from incapacity benefit to employment support allowance comes into effect. Under these changes, existing and prospective claimants will undergo a work capability assessment, with those deemed capable of work moving onto jobseekers' allowance (JSA), where they will be expected to actively seek work. The impact of these changes on the numbers of people actively seeking employment is difficult to predict. However, if one-third of those claiming sickness benefits across the North were moved onto the JSA, the effect would be to add 211,000 to the unemployment register.

Figure 2.6
Reasons for
worklessness, by region



Source: Nomis

The weaker labour market performance in parts of the North creates a particularly challenging context for those that are out of work and seeking a job. Table 2.1 shows the ratio of JSA claimants to each job vacancy in the northern LEP areas and across England as a whole. In the Tees Valley city region LEP, the ratio is nearly twice the English average. As the number of jobseekers is expected to increase, as public sector job losses come into effect and benefits changes are implemented, this picture is set to get more difficult in the future (see section 3).

Table 2.1
Ratio of JSA claimants to
vacancies

LEP area	Ratio
Tees Valley	8.3
Humber	7.1
Liverpool City Region	5.7
Sheffield City Region	5.6
North Eastern	5.3
Greater Manchester	4.7
Leeds City Region	4.6
Cumbria	4.1
Lancashire	3.9
York and North Yorkshire	2.8
Cheshire and Warrington	2.2
England	4.3

Source: Nomis plus author's calculations

Note: Vacancies data is the number of vacancies advertised through Jobcentre Plus, however this is thought to be an underestimation of the actual number of jobs available.

Furthermore, looking at the type of jobs that those seeking employment say they would prefer highlights an additional labour market challenge. As table 2.2 shows, one-third of current jobseekers in the North say they are looking for an elementary job (compared to around one-quarter in the Greater South East). Despite the 'knowledge economy' being expected to increase the number of low-skilled jobs (as well as very-high-skilled jobs)

as the labour market hollows out, these jobs are likely to be in the service industries rather than elementary occupations. This mismatch points us towards some of the skill challenges facing the North.

Table 2.2
Jobs sought
by unemployed people,
by occupation
(September 2011)

	Managerial, professional and assoc. professional	Admin, personal services and sales	Skilled trades and machine operative	Elementary
Tees Valley and Durham	15	40	17	28
Northumberland and Tyne & Wear	11	37	21	31
North East	9	36	23	32
Cumbria	11	39	16	34
Cheshire	11	41	15	33
Greater Manchester	12	42	18	29
Lancashire	15	34	17	34
Merseyside	10	39	19	32
North West	9	38	19	34
East Riding and North Lincolnshire	10	36	23	32
North Yorkshire	11	40	16	33
South Yorkshire	10	38	21	32
West Yorkshire	12	40	17	32
Yorkshire and the Humber	10	38	18	33
North	11	39	18	32

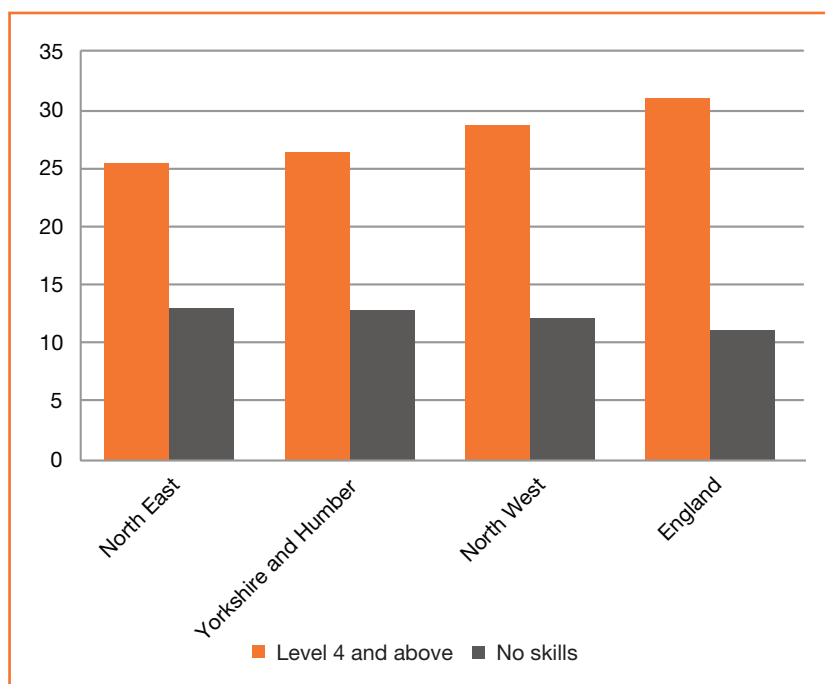
Source: Nomis

Skills

Another notable feature of the northern labour markets is the difference in skill levels among the workforce. In the northern regions, a lower proportion of the population have qualifications at degree level or above (level four), which is a disadvantage given the shift towards a knowledge economy. And while the number of people with no formal qualifications has been falling in recent years, the proportion of the population of the North with no formal qualifications remains higher than the English average (see figure 2.7). This group is at a particular disadvantage in the labour market. This was the only group where unemployment was increasing during the economic boom years, a fact that demonstrates the premium placed on skills in the 21st-century labour market.

In terms of boosting the number of workers with higher skills, the large number of students attending northern universities offers a potential opportunity. Table 2.3 provides figures for the level of graduate retention six months after graduation in 2006/07. The three northern regions have relatively high levels of graduate retention soon after graduation compared to other English regions. This provides a positive base from which to build in terms of increasing the number of graduates in the labour market.

Figure 2.7
Skill levels (working age)
by region



Source: Nomis

Table 2.3
Retention rate of
graduates after six
months, by region

Geographical area	2006/07
London	81.9%
North West	69.2%
Yorkshire and the Humber	67.2%
North East	66.1%
West Midlands	64.1%
South West	57.7%
East Midlands	56.8%
South East	55.1%
East of England	47.6%

Source: Higher Education Statistics Agency

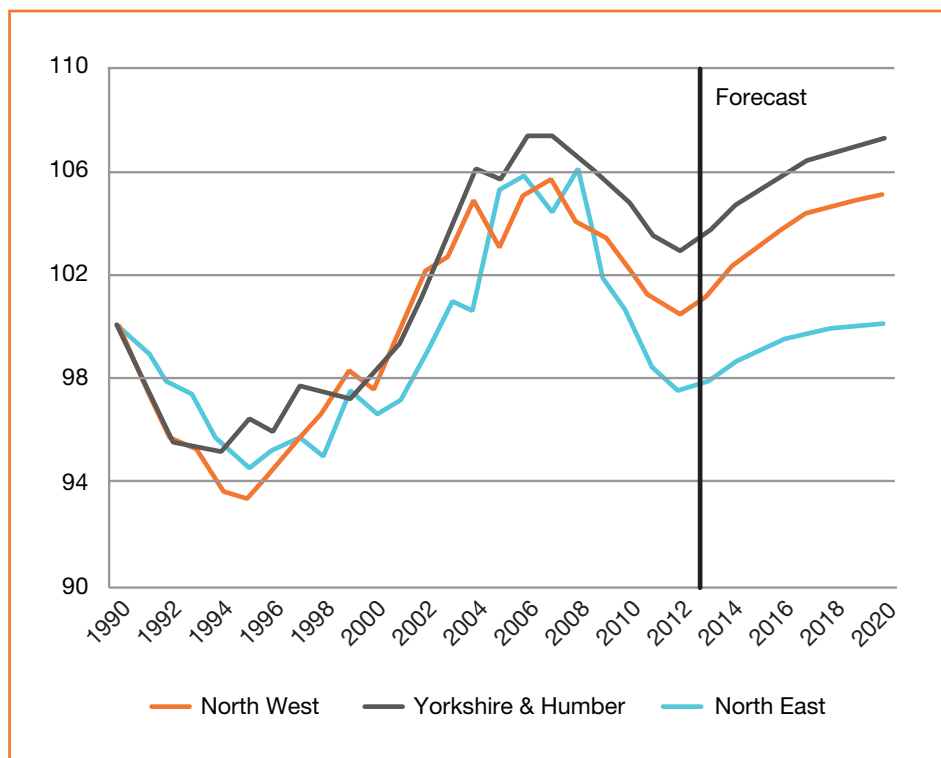
3. FORECASTING FUTURE LABOUR MARKET CHALLENGES

We asked Oxford Economics to produce some economic forecasts for the North of England, and the results paint an extremely difficult picture for the northern labour market.

The Oxford Economics forecasts are taken from Oxford's established multiregional model, and are built upon behavioural equations based upon established econometric relationships, recent data trends and established regional specialisms. As the multiregional model sits within Oxford's model hierarchy, it is linked with their highly regarded and unique Global Econometric Model, which in essence means the regional forecasts take account of the UK's trading relationship with other countries.

The graph below shows the total employment forecast for the three northern regions. According to this analysis it will take the best part of 10 years for the North West and Yorkshire and the Humber return to their prerecession levels of employment. It is forecast to take even longer in the North East, with total employment returning only to 1990 levels by 2020.

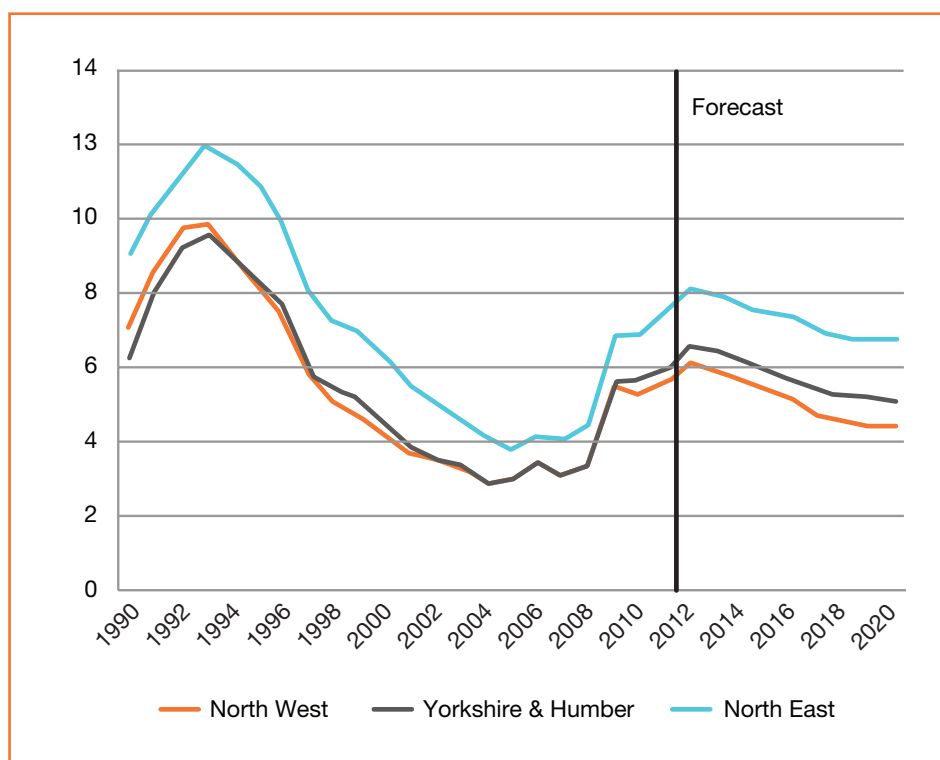
Figure 3.1
Total employment index
in the northern regions,
1990–2020



Source: Oxford Economics

Oxford Economics also forecasts that the population of the North will continue to grow. When combined with the slow recovery to employment rates, this is expected to result in unemployment remaining high in the North, especially in the North East, where it is forecast to remain above 6 per cent in 2020. This slow recovery could result in some groups being effectively locked out of the labour market, including young people, older workers and the long-term unemployed.

Figure 3.2
Unemployment rate in
the northern regions,
1990–2020



Source: Oxford Economics

Worryingly, this unemployment forecast does not factor in the increase to unemployment that will result from welfare reform, as more and more people who would previously have claimed benefits for sickness and disability are deemed capable of work and expected to actively seek a job.

Oxford Economics also expects some other people who are currently economically inactive to begin to actively seek employment. As living standards are squeezed due to flat wages (of other earners in the household) or incomes reduced as a result of low interest rates, some people who are currently inactive because they are students or looking after the home or have taken early retirement may begin to actively seek work. In a worst-case scenario, Oxford Economics estimates that as many as 1,000,000 people could be actively seeking work across the North.

4. POLICY OVERVIEW

This section provides a brief summary of recent and current employment and skills policy, and likely future directions. It covers a number of key policy areas: job creation, welfare to work, talent attraction, adult skills policy and apprenticeships.

Job creation

As section 1 shows, most parts of the North of England experienced jobs growth in the period prior to the 2008–09 recession. However, in some areas, public sector employment constituted a significant proportion of these jobs, particularly in the higher occupations. This ‘filling in’ of the labour market masked weak private sector jobs growth in some areas. As a result the North of England is expected to be disproportionately affected by public sector cuts (Cox and Schmuecker 2010). As outlined above, it is not clear that the private sector is able to fill the gap left by the public sector in the North of England, leaving the area with a major job creation challenge.

In recent decades, policies for job creation have focused on creating the conditions for business growth and supply-side measures. Late in the term of the last Labour government, active job creation measures were introduced through job guarantees for young people and the creation of the Future Jobs Fund, which subsidised employment in community-focused jobs for 18–24-year-olds. However, the Coalition government ended these schemes. Instead, its focus has been on reducing red tape and bureaucracy to enable businesses to grow and the creation of the Regional Growth Fund (RGF), a £1.4 billion fund to 2014 to support jobs growth in the private sector.

Welfare to work

Over recent years, the direction of policy has been towards greater conditionality and personalisation in welfare-to-work services: away from standardised support to jobseekers on the basis of their reason for claiming (single parent, disability, unemployment) and towards tailored support for an individual’s needs. The Labour government’s New Deals moved in this direction and the trend has continued under the Coalition government, with plans to give greater autonomy to Jobcentre Plus managers and advisers and the introduction of the Work Programme for the long-term unemployed, young people and those with complex needs.

There are, however, a number of concerns about the implementation of the work programme. It is being delivered on a payment-by-results basis, with greater reward provided for sustaining people with complex needs in employment. Concerns remain over whether, in practice, the temptation for welfare-to-work providers will be to ‘cream off’ those who are easiest to help, and ‘park’ those who are most difficult.

Furthermore, voluntary and community organisations and social enterprises (VCSEs) have been lauded as a key part of the delivery of the work programme, as subcontractors to private sector prime contractors. These organisations certainly have a substantial contribution to make to helping people into employment (Cook and Schmuecker forthcoming), but there is concern about how the contracts are being implemented: VCSE organisations have accused the prime contractors of using them as ‘bid candy’ in order to win contracts, then failing to deliver on their commitments (NCVO 2011).

There are two issues that are particularly pertinent to northern labour markets. The first pertains to available labour supply. As section 2 demonstrates, many of the northern labour markets already have high unemployment rates and a high ratio of jobseekers to vacancies. But the number of unemployed people actively seeking employment will grow further as the Coalition’s benefit reforms require an estimated 800,000 people to cease

claiming inactive sickness or disability benefits. In some northern labour markets, these people will be joining an already-crowded market. This leads to the second issue: job creation. The work programme will not succeed without an increase in demand for labour. To this end, concern has been expressed that welfare-to-work services are not sufficiently linked into actions to increase demand in the labour market, such as those discussed in the previous subsection.

Adult skills strategy

Adult skills policy undertook a fundamental change in direction following the 2006 Leitch Review of Skills, when a planned approach to skills provision gave way to one led by individual and employer demand. The Sector Skills Councils were established to gather labour market intelligence in their sector and shape the content of qualifications and training, driving improvement and productivity.

In April 2009, the Labour government's *New Industry, New Jobs* policy framework sought to integrate a new active industrial strategy with a skills strategy, to maximise new opportunities in low-carbon sectors, advanced manufacturing and biosciences. This marked a shift to a hybrid system that sought to be both responsive to current demand for skills and anticipate future growth opportunities (Green 2010).

The Coalition government has reverted to a demand-led approach to skills policy, and seeks to encourage training through co-funding arrangements in some priority areas. They have decentralised skills policy by routing funding from the Skills Funding Agency to further education (FE) colleges. Colleges in turn are expected to respond to demand (from individuals and employers) in their local area.

Evidence suggests, however, that there are limitations to a demand-led approach. Individuals and businesses – particularly small businesses – tend to lack accurate labour market intelligence to inform their decisions about how and where to invest in skills. Furthermore, small businesses are more prone to short-termism and risk aversion, with less capacity to scan the horizon to identify their future skills needs (Stone 2010).

The limitations to individual and employer labour market intelligence raise questions about a wholly demand-led approach, and presents a challenge to the strategic oversight of investment in skills. In the context of developing growth strategies for the northern economies, this is particularly challenging.

Why does a strategic approach to skills matter?

To give an example: if a northern LEP identified a significant opportunity in offshore wind power, and sought to build their capacity in this area, the area would not only need investment in the right infrastructure and a developed supply chain, it would also need an appropriately skilled workforce in areas such as fabrication, marinisation and geo-sciences.

Ensuring all these elements are fulfilled requires a clear strategy and a joined-up approach that is able to steer investment.

Something of a fragmentation of skills policy has taken place since the Coalition government took office. The regional development agencies (RDAs), in their later years, were responsible for developing a regional skills strategy as part of their integrated regional strategy. This document brought together evidence on skills gaps in the region, employers' future skills needs and economic development priorities to produce a statement of priorities for investment in skills. These strategies effectively ceased to be part of government policy with the abolition of the RDAs and their integrated regional strategies.

As well as backing away from the regional approach to skills strategies, the Coalition government has also stepped back from the city regional approach that was developing. In 2009, the Greater Manchester city region was awarded statutory city region status,

with the intention that it would take strategic responsibility for adult skills, and jointly commission the Flexible New Deal with the Department for Work and Pensions. But the Coalition has rescinded the 'section four powers' that would have enabled the city region to direct some skills spending, relying instead on partnership working between FE colleges and the city region to shape skills policy (Warwick Local Government Centre 2010).

Employer investment in skills

It is important to note that, despite the limitations to employer analysis of skills needs that are identified here, this is not to argue that employers do not have a central role to play in skills policy. Indeed, their role is extremely important, as the workplace is where most adults will undertake learning. But employers point to a number of market failures that need to be overcome. As discussed above, one is imperfect information; another is the fear of other firms 'freeriding' on a firm that does deliver training by poaching its staff. This fear is particularly acute in the small business sector (Stone 2010). Moreover, in some sectors, low-value, low-skilled, price-based business strategies can be effective and profitable, which gives little incentive for employers to invest in skills.

The Labour government sought to overcome this problem by subsidising training through the £1 billion Train to Gain initiative, which focused particularly on increasing the proportion of the workforce with level 2 qualifications. Qualitative evaluation of the policy found that it had helped many employees to achieve their first formal qualification – employers reported satisfaction with the scheme and increased productivity as a result of training. However, the National Audit Office also found significant deadweight, with around half of employers who benefitted from train to gain stating they would have provided the same or similar training in the absence of the programme (NAO 2009). The scheme also took a very rigid approach, focusing on level 2 NVQ qualifications – some of which have dubious labour market value – rather than responding to business demands.

The Coalition government has ended Train to Gain. Its *Skills for Sustainable Growth* strategy has created an annual £50 million fund for employer-led initiatives within sectors to support growth and innovation. Businesses will be expected to co-fund training costs. The same strategy also sets out plans for more targeted training support for small businesses to help them train low-skilled staff.⁴

Wales has developed a Workforce Development Programme which focuses on raising demand for skills alongside the supply of skills, linking the approach to the needs of business. The remit is wider than simply skills policy, extending to issues such as work organisation and competitiveness strategies, and links them to a wider business improvement and economic development agenda (Keep 2008). This is an approach that the Scottish government is also experimenting with.

Apprenticeships

There is widespread support for growing the number of apprenticeships and improving the quality of vocational qualifications and their value in the labour market. Both the previous and current governments have invested in creating more apprenticeship places. The Coalition government has a £1.4 billion apprenticeship programme in place, and in the 2011 budget added a further £180 million to fund 50,000 adult apprenticeships. Overall, the government is providing funding for 250,000 apprenticeship places.

But the problem remains finding employers to take on apprentices. While a third of employers in Australia and a quarter in Germany take on apprentices, in 2009 just 8 per cent of English Employers had apprentices (Steedman 2010). Furthermore, the quality of apprenticeships varies widely. This is especially the case in sectors with little tradition of apprenticeships, such as retail (see Lawton and Norris 2009, and for a comprehensive review of apprenticeship policy, Dolphin and Lanning 2011).

Attracting talent

One approach to increasing the number of highly skilled people in the northern workforce is to attract people with high skills to the area. There are two strands to this strategy:

⁴ See <http://www.bis.gov.uk/news/topstories/2010/Nov/skills-for-sustainable-growth>

retaining graduates who study in the North's universities after they have graduated, and attracting high-skilled people to relocate to the region.

The North's universities are a key asset: they attract large numbers of young people to the area, and make a major contribution to developing the high-skilled workers of the future. There are a number of ways that universities can encourage graduate retention, for example:⁵

- Encouraging student entrepreneurship: for example through student, postgraduate and staff spin-outs
- Encouraging students to become more embedded in the area: for example by encouraging students to carry out research projects for local businesses and organisations as part of their studies
- Links to local business: by building relationships with local firms that might be able to offer work experience, internship and employment opportunities to new graduates.

However, while these activities are likely to help at the margins, the key factors that attract graduates to stay in an area are relevant job opportunities and a pleasant living environment. Indeed, analysis by the Institute of Employment Studies (IES) finds graduates tend to be attracted to large cities, particularly those with a large proportion of other graduates, good public services, good housing and cultural amenities (Cowling 2009). A particular concern for the North of England is the extent to which the public sector has been a major employer of graduates. Cuts to public sector jobs are likely to have a detrimental impact on graduate retention in the North (Wright 2011).

Economic opportunities and quality of life are also the issues that will help attract individuals with high-level skills to relocate to the North. There is a growing body of evidence that suggests quality of life, cultural vibrancy, quality of place and amenities attract high skilled individuals (Cowling 2009, Florida 2008). The North's quality of life offer is an asset that can be promoted more effectively; however, it is also an area that requires investment – for example, in some areas of the North it has been highlighted that there are gaps in relation to the sort of housing that would help to attract high-skilled workers (Northern Way 2006). Nonetheless, without economic opportunities to accompany quality of life, any such strategy will have limited impact.

⁵ On all three points, see Cook and Schmuecker (forthcoming).

SUMMARY OF KEY ISSUES AND QUESTIONS FOR NEFC COMMISSIONERS

In summary, the northern labour markets face a number of challenges and opportunities:

- The North of England faces a slow labour market recovery. Projections suggest it will be almost 2020 before the North West and Yorkshire and the Humber regain levels of employment comparable to 2008. In the North East, the situation is even more perilous, with 2020 employment levels projected to have recovered only to 1990 levels.
- Overall, the North has a lower employment rate, with a smaller proportion of the workforce employed in higher occupations, and a larger proportion of the workforce employed in lower occupations, compared to the England average.
- The North currently has higher levels of unemployment and economic inactivity, especially as a result of sickness and disability. As the government's welfare reforms come into force, some people who have previously been economically inactive will be expected to actively seek work. This will add further pressure to already-weak labour markets. If one-third of people currently claiming sickness and disability benefits in the North begin to seek work actively that would add another 211,000 people to the unemployment register. In many areas, they will enter a challenging labour market:
 - Long-term unemployment has risen following the recession, risking a scarring effect on people's longer-term employment and earning prospects
 - Many areas have a high ratio of jobseekers to vacancies, and the number of unemployed people is expected to grow further.
- The North has a lower proportion of people with skills at level 4 and above, and a higher proportion of people with no formal qualifications.
- Rates of graduate retention are relatively high six months after graduation in the three northern regions.

This analysis and commentary raises a number of questions and points to a number of possible recommendations for the NEFC commissioners to consider:

- To what extent should employment and skills be part of the vision for the future of the northern economy?
- If so, what should we aim for in relation to employment and skills? Options could include full employment; higher quality jobs and the eradication of in-work poverty; or an environment of continuous learning and up-skilling, where jobs offer a clear progression route.
- Where will future jobs come from?
- How can employment and skills policy be better integrated? How can people be made aware of future growth areas to inform their job-seeking and skills development decisions?
- Should the work programme be better linked into the work of LEPs? IPPR North has, in the past, recommended moving towards a co-commissioning arrangement where there is demand from LEPs – is this something the NEFC should recommend?
- What are the opportunities to use public sector procurement to provide employment opportunities and apprenticeships in the North?
- How can skills policy better serve the need of the future northern economies? How can the skills budget be better linked into the work of LEPs – should LEPs lead on the investment of skills funding?
- How can the North build on its quality of life assets to attract talent and retain graduates?
- What can be done to encourage employers to value skills and invest in the skills of their workforce?

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