

## High Level Skills in Yorkshire and Humber: Understanding the Drivers of Change



*Electric Works, Sheffield*

### At a Glance

An improvement in high level skills achievement is often put forward as a key element to boosting economic competitiveness. This study unpicks many of the assumptions made about Yorkshire and Humber's skills

performance, concluding that the complex relationship between supply and demand for skills varies across geographic areas and sectors. A conceptual framework has been developed to capture the interacting

factors influencing high level skills performance. The systems approach adopted by the framework could aid understanding of the skills situation in Yorkshire and Humber more effectively than simplistic market failure explanations.

### Background & Methodology

Increasing the number of people with high level skills (that is, attainment at NVQ level 4 and above) has been identified as a key priority by the Regional Work and Skills Partnership, on the basis that this will boost business competitiveness and achieve greater prosperity in Yorkshire and Humber. In recent years, substantial investment

has been made by the public sector in skills development programmes targeted at both individuals and employers, many of which have had a high level skills element. Whilst progress has been made (25% of the workforce were qualified to NVQ4 or equivalent in 2008 compared to 19% a decade earlier), Yorkshire and Humber faces a major

challenge if it is to achieve the Leitch Review aspirations of 40% of the workforce possessing high level skills by 2020.

This study, carried out by ekosgen and Sheffield Hallam University's Centre for Regional Economic and Social Research,  
*Continued overleaf*

sought to assess the high level skills context in Yorkshire and Humber. A follow-on study (summarised in Insights 18) assessed what interventions

work best. The study examined evidence on the relationship between supply (e.g. participation in higher education) and demand (e.g. levels of innovation) factors

and their influence on high level skills characteristics.

The evidence base included:

- Evaluation reports sourced through the Office of Project and Programme Advice and Training (OffPAT)
- Labour market data from the Office for National Statistics
- Economic and labour market forecasts from the Regional Econometric Model
- Graduate destinations data from the Higher Education Statistics Agency via the University of Strathclyde
- Acxiom lifestyle data held by Yorkshire Futures
- Academic literature including the work of Keep, Arnold and McKenzie Davey, Sung and Ashton, and Drummond and Stone. A bibliography is presented in the full report.



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## Findings

Whilst the supply of high level skills has expanded, Yorkshire and Humber's relative gap with better performing regions has not narrowed. For example, Yorkshire and Humber's ranking dropped from sixth to seventh of the nine English regions on the proportion of the workforce with Level 4 qualifications between 1998 and 2008.

On other measures, such as workforce skills aspirations, Yorkshire and Humber is close to the national average. Retention rates for graduates are, however, at a moderate level with a rate of 57% remaining in the region after six months, ranking it sixth among the nine English

regions (Table 1). This is likely to be due to a combination of factors, including the availability of career opportunities in other regions. Yorkshire and Humber is a more popular place to study than it is to remain in to work and the region loses a large number of graduates who originated from other regions.

Projections for growth in high skilled occupations are modest, suggesting that economic growth across Yorkshire and Humber is, on its own, unlikely to deliver a significant increase in aggregate demand for high level skills.

Currently, demand for high level skills

appears muted, with parts of the Yorkshire and Humber economy locked into a path dependency characterised by high levels of low value-added activity. This appears to be the case in Hull and Humber, and to a lesser extent in the Sheffield City Region.

There is evidence of an association between high level skills and employment in knowledge economy sectors (Chart 1). The large gap between the two in York and North Yorkshire is likely to be the result of commuting patterns, with highly skilled people living in this area but working elsewhere.

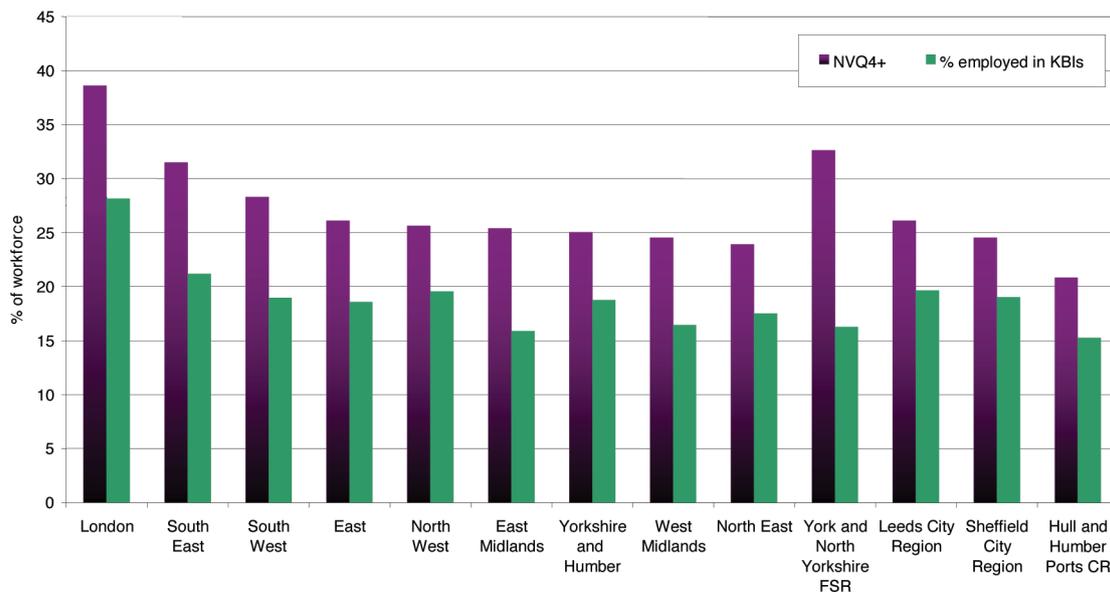
**Table 1. Initial Graduate Labour Flows, 2002/3 to 2006/7, pooled**

	% of graduates remaining in region after 6 months	% of graduate workers in the region who studied in the region
East	60	35
East Midlands	43	62
London	72	42
North East	62	79
North West	70	60
South West	57	59
West Midlands	53	62
Yorkshire & Humber	57	71

Source: HESA from analysis conducted by the University of Strathclyde.

**Chart 1. High Level Skills and the Knowledge Economy**

Source: ABL and APS, ONS



Although skills gaps are apparent in a number of sectors, the evidence suggests that demand side factors - and in particular the relatively small scale of high value added activities in Yorkshire and Humber's firms (in comparison with other regions) - act as a constraint on achieving a transformation in high level skills.

In combination, the evidence points towards a *low skills equilibrium*<sup>1</sup>, particularly in the Hull and Humber Ports and Sheffield City Regions. Only in the Leeds City Region, and in York and

North Yorkshire, does the evidence suggest that there is a coming together of the characteristics necessary to achieve market driven growth in high level skills, including high rates of employment in knowledge industries, good levels of enterprise potential and accelerated employment growth.

Comparator analysis was undertaken using regions known to share a similar starting point with Yorkshire and Humber in relation to historic employment and sectoral structure<sup>2</sup>. The analysis identified that adjustment and adaptation

to the loss of a region's traditional economic base is a very long-term process, and ensuring that increased proportions of the workforce have high level skills appears to be a necessary, but not a sufficient, element in the response. It is evident that high level skills are a key ingredient in improving regional economic performance but the study found that some caution is required in attempts to 'read-off' policy lessons from other areas. The one area where applicable lessons for Yorkshire and Humber were evident related to policies around skills utilisation.

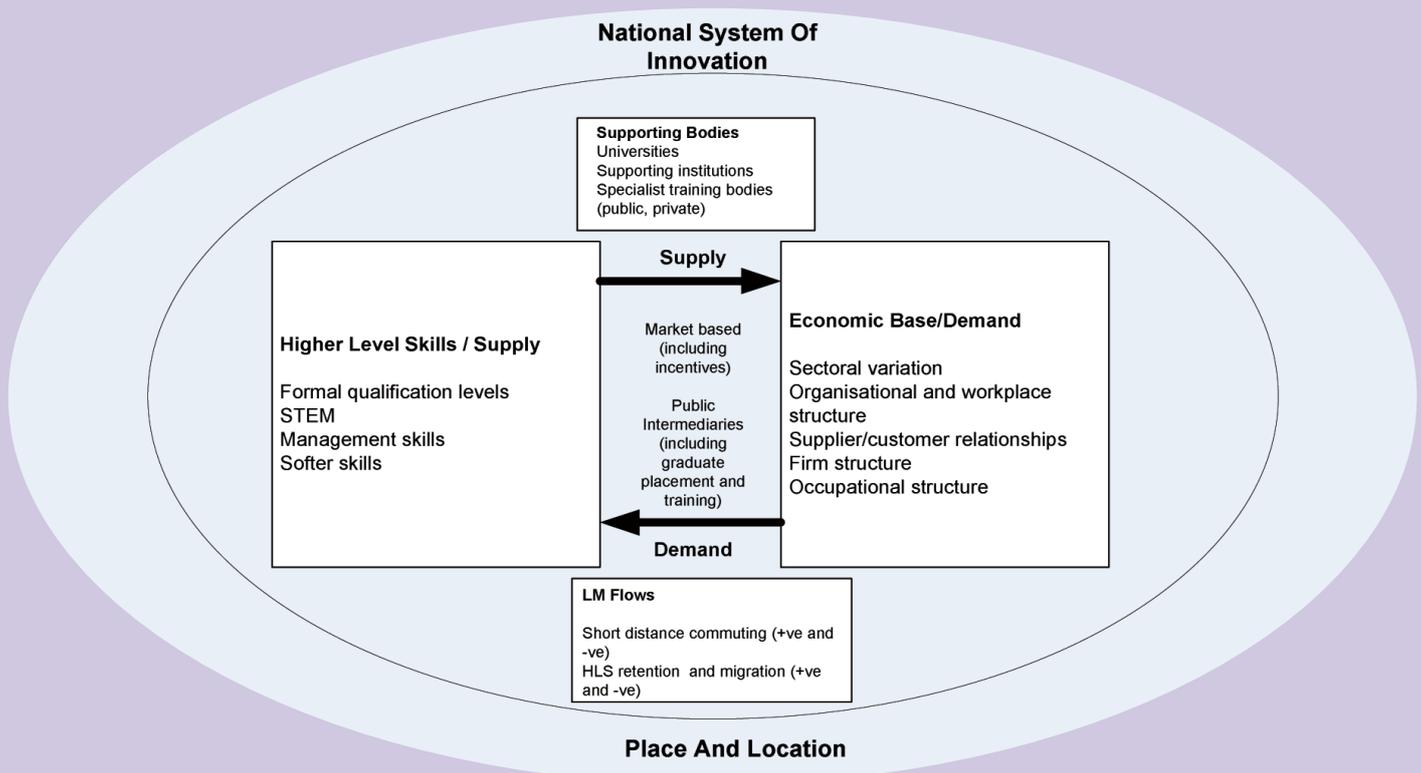
<sup>1</sup> A low skills equilibrium exists where firms use low levels of skill to produce relatively low specification goods or services, which are sold on the basis of low price. Firms do not invest sufficiently in skills development and demand for skills is limited.

<sup>2</sup> Lansi Suomi (West Finland); Limburg (southern Netherlands); Lorraine (eastern France); Nordrhein-Westfalen (North Rhine-Westphalia, western Germany); Pais Vasco (Basque Country, northern Spain); Slaskie (Upper Silesia, Poland); and Scotland (northern UK).

# Conclusions and Recommendations

A conceptual framework was developed that seeks to capture all of the key variables which may be at play in determining the drivers of high level skills and their contribution to economic performance. In particular, it highlights the importance of understanding high level skills within a national system of innovation and the influence that innovation has on the supply and demand of high level skills.

**Figure 1. Conceptual Framework**



Source: High Level Skills in Yorkshire and Humber: Understanding the Drivers of Change Report (ekosgen/CRESR, August 2010).

The framework positions high level skills in Yorkshire and Humber as relating to a set of interacting systems which comprise the following factors:

- Place, demography and migration.
- Institutional support.
- Sector, organisation and workplace.
- Skills, qualifications and occupational structure.

The framework reinforced the conclusion that simple market failure arguments do not adequately explain varying performance and that there is a need to adopt a systems based approach for a sufficiently nuanced understanding of the issues faced in Yorkshire and Humber.

The evidence available on high level skills in Yorkshire and Humber suggests that it makes little sense to attempt to boost aggregate levels of skills if this is not matched by demand. The findings suggest that interventions to meet high level skills objectives should be spatially targeted e.g. in the Leeds City Region, although it is also recognised that there may be equity or social inclusion implications of such a policy.

The literature identifies barriers to addressing demand side constraints. Not least of these barriers is that low value businesses can be operating profitably as individual units. Collectively these businesses may provide a constraint on economic growth but there is little incentive to the business to train staff or introduce new products or processes.

Mechanisms to boost demand by increasing the volume and value of economic activity should be prioritised. The skills utilisation approach bridges supply and demand side measures by promoting better take up of existing skills within the workforce which has the capacity to raise productivity and stimulate demand.

A further key implication stems from the finding that shortages in high level skills can still exist within particular sub-sectors even if overall levels of demand are muted. For example, higher than average skills gaps are evident in the creative industries, transport, financial services and in parts of the manufacturing sector, such as food manufacturing. This highlights the importance of a fine-grained analysis of the demand for skills across and within industries to identify the potential for targeted interventions. It should not be assumed that the position is homogenous across geographies and sectors.

The challenge for Yorkshire and Humber is to identify where policy and interventions will be most effective in an environment of reduced public spending. The study suggests that a largely supply side strategy is not appropriate, with a need to focus more clearly on innovation and skills utilisation as mechanisms to boost high level skills performance, alongside carefully targeted supply side interventions.

## Further Information and Project Details

The full report 'High Level Skills in Yorkshire and Humber: Understanding the Drivers of Change' is available from the Yorkshire Futures website [www.yorkshirefutures.com](http://www.yorkshirefutures.com)

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[www.yorkshirefutures.com](http://www.yorkshirefutures.com)

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