



Skills Shortages in Coventry & Warwickshire

November 2017

1. Introduction

There are five key components that are essential for productivity growth; Innovation, Investment, Enterprise, Competition and *Skills*¹. According to official figures, UK productivity, defined simply as the amount a UK worker can produce in a specific timeframe, dropped back to pre-crisis levels in July 2017. This weak and fluctuating growth has been referred to as the “productivity puzzle”.

Coventry & Warwickshire’s productivity has, however, outgrown all but 2 LEP areas across the UK, over the same horizon. Nevertheless, in the first quarter of 2017, 1 in 3 businesses locally believed that a skills shortage was their biggest barrier to growth. A scarcity of workers with the right skills has the potential to reduce workplace efficiency and growth potential, thus negatively impacting productivity.

The aim of asking skills-specific questions 16-20 in the latest Quarterly Economic Survey (QES), is to help inform government about the current skills shortage and whether alternative opportunities are being considered. Targeted policy measures can then minimise the impacts of a shortfall of workers with the appropriate skills. This proactive approach should improve the resilience of Coventry & Warwickshire’s economy and reinforce it as a good place to do business. Responses to survey are, therefore, invaluable and we appreciate your participation.

2. Are those who are looking to recruit in the next 3 months suffering from a skills shortage?

Despite a fall in overall confidence in the last quarter, recruitment expectations remain strong - more than half of business looked to recruit in the last three months, and 1 in 3 expect their workforce to increase in Q3.

Small, medium and large businesses (SML)² make up 54% of the survey responses. While they only make up half of the sample size, they employ approximately 98% of employees in the survey. When analysing the responses on skills shortages, SML businesses will, therefore, have a better representation of skills in the labour market than micro-sized businesses. As a result, analysis of the two groups has been separated.

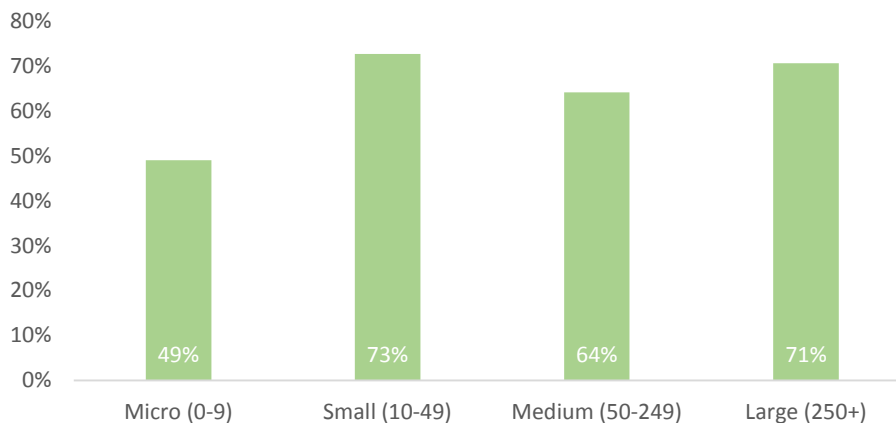
¹ Office of National Statistics *Productivity Handbook*.

² There are four sizes businesses are categorised by – micro, small, medium and large. Each category is defined by the number employed in a business: 0-9 for micro, 10-49 for small, 50-249 for medium and 250+ for large.



Over the last 3 months, more than 3 in 4 SML businesses have looked to recruit. **Of those who are looking to recruit, 70% believe that recruitment difficulties are attributable to a skills shortage.** This is lower than research done by the Open University. Over a similar sample size, they found that 90% faced difficulties recruiting workers with the right skills.

Proportion of businesses facing recruitment difficulties attributable to a skills shortage



Only 1 in 3 micro businesses have been active in the labour market during the last three months. Only half of these believe they have faced recruitment difficulties attributable to a skill shortage. The discrepancy could be due to the relatively fewer job postings they advertise, or the types of positions being offered. Micro business can be reluctant to devolve managerial responsibilities³ and could, therefore, be looking to recruit relatively less skilled individuals, which are typically easier to find.

Businesses in manufacturing sectors are more likely to experience recruitment difficulties attributable to a skills shortage – 73% of businesses in these sectors struggle compared to 63% of businesses in the service sector.

Manufacturing businesses looking to recruit, quote a ‘lack of workers’ as the main reason for facing a shortage of skills. In a distant second is the inability to afford workers with the right skills. The former was chosen by 3 in 5, whereas 30% were most affected by the latter. The service sector is less polarised, with approximately a third of recruiting businesses selecting ‘competition for workers’ and ‘unable to afford workers with the right skills’ as the main reason for a skills shortage.

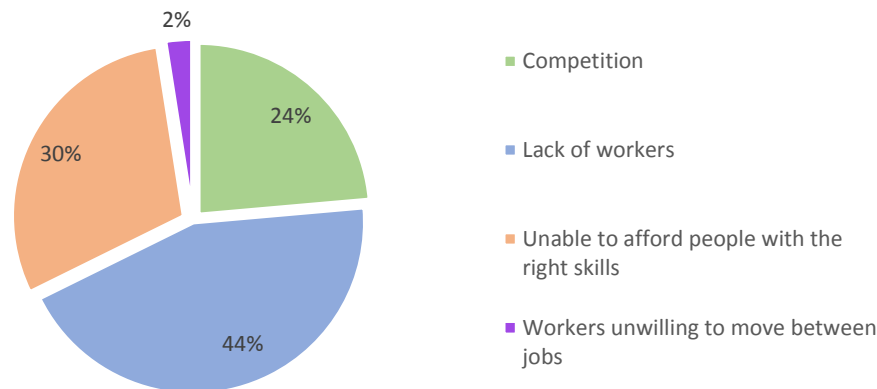
Across both sectors, **44% of all recruiting businesses considered a lack of workers the biggest reason for a skills shortage.** This reinforces recent labour market data covered in the WCC Quarterly Labour Market bulletin. The unemployment rate fell last quarter from 3.4% to 2.9% - the first fall in 2 years in Warwickshire, widening the gap with the West

³ CBI “Unlocking Regional Growth – Understanding the drivers of productivity across the UK’s regions and nations.” December 2016.



Midlands (5.4%) and England (4.5%). The long term unemployment rate is now at 0.1%, suggesting that all of those people in the county who wish to find work, are able to find it within 12 months. This data suggests that there are indeed few job seekers in the labour market.

Recruiting firms and the reason for facing a skills shortage



Although the majority of businesses are concerned about the lack of workers, the relative importance of each reason differs by business size. **Micro businesses place higher-than-average importance on the inability to afford people with the right skills**, whereas large businesses are more concerned about competition for workers.

	Competition	Lack of workers	Unable to afford people with the right skills	Workers unwilling to move between jobs
Micro (0-9)	26%	37%	34%	3%
Small (10-49)	21%	46%	30%	2%
Medium (50-249)	17%	55%	17%	3%
Large (250+)	47%	33%	20%	0%

To conclude, as many as 7 in 10 businesses who are currently looking to recruit are facing a skills shortage. The most cited reason for this skills shortage in Coventry & Warwickshire is a lack of workers, a result that is consistent with current labour market data.

3. Irrespective of business recruitment decisions, are skills shortages still prevalent in Coventry & Warwickshire?

It is important to determine whether skills shortages remain an issue for businesses regardless of their recruitment choices. Each quarter, job vacancies per 1,000 people in Warwickshire, for example, are almost double the number seen across England. On average, as many as 1 in 4 postings are not filled. However, a lower-than-average unemployment

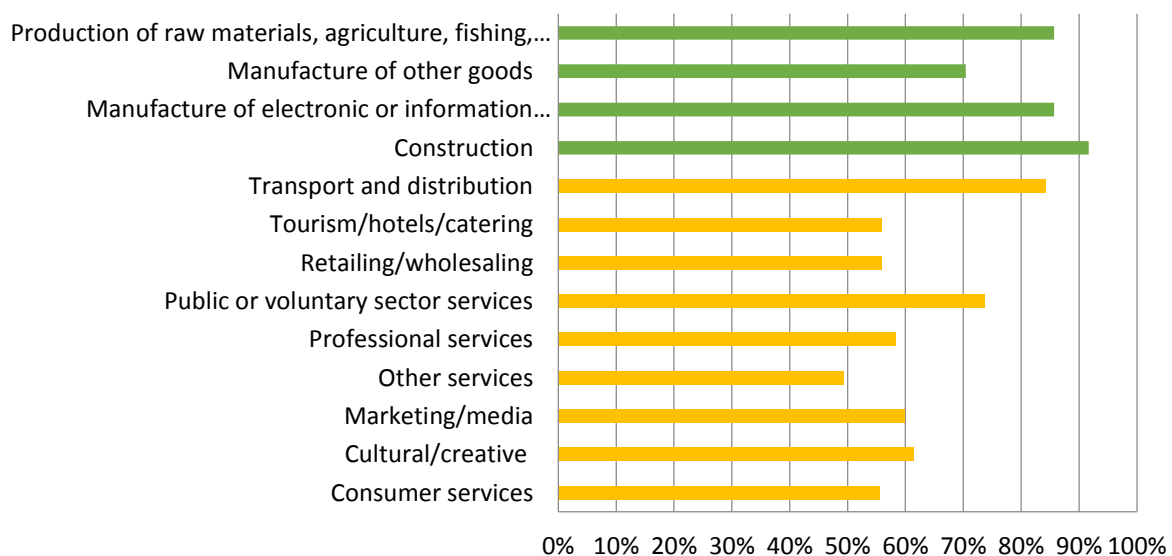


rate in the county could mean that this could be higher. If more vacancies are not filled locally because of low unemployment, businesses may be discouraged from hiring. These are the types of businesses we may encounter in this section.

Results from the survey show that **62% of businesses currently believe their firm is suffering from a skills shortage**. This shortfall of skills within businesses could be an underutilisation of skills or gaps within their existing workforce and do not have to be related to recruitment difficulties.

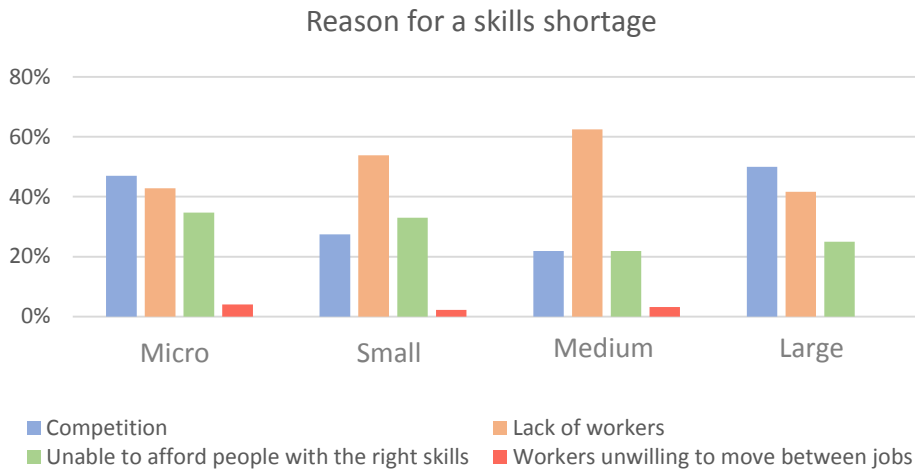
There is a divide between the service and manufacturing sector businesses in the survey - 59% of service sector businesses (yellow) are aware of a skills shortage impacting their business, particularly businesses in the transport and distribution, and public or voluntary sectors. On the other hand, 77% of manufacturing sector (green) businesses faced a skills shortage, with those in the construction sector struggling most.

Proportion of businesses suffering from a skills shortage

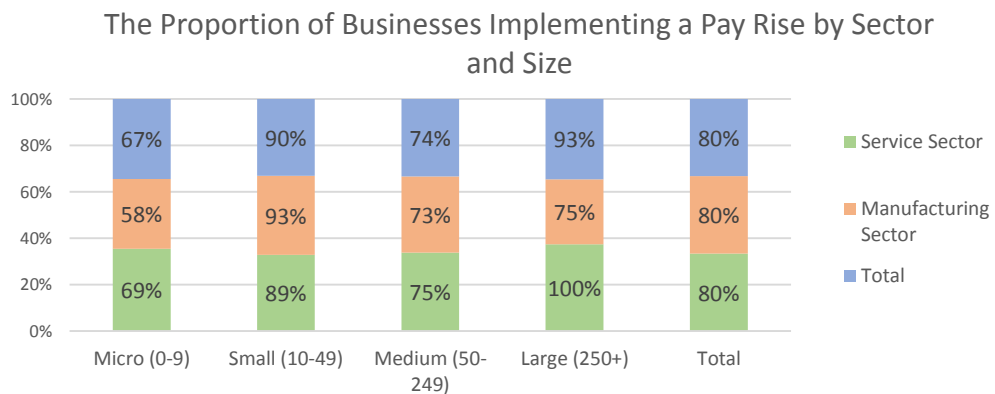


SML businesses are again more likely to experience a skills shortage. Only 1 in 2 micro businesses are affected by a skills shortfall, compared to 4 in 5 small businesses. On aggregate, **3 in 4 SML businesses suffer from a lack of skills**, more than the proportion of those recruiting. This could suggest that several businesses have become discouraged from recruiting as a result of a skills shortage.

Most businesses who are faced with a skills shortage, regardless of their recruitment choices, **believe a lack of workers is the reason**. Broken down by employment size, the graph below is relatively intuitive. Micro businesses, which are the majority of businesses in Coventry & Warwickshire, suffer most from competition and the funds to pay for workers. SML businesses which are, by definition, heavily dependent on the number of workers, suffer from a lack of workers.



Subdued pay growth despite low unemployment has been a conundrum for many economists over the last year. With prices beginning to rise across the UK, we should expect wages to increase as businesses compensate their workers for a higher cost of living. Question 18 in the QES asks *if and why businesses are looking to implement a pay rise in the next 12 months*. This should enable us to gauge if pay is expected to increase and whether it is affected by a skills shortage.



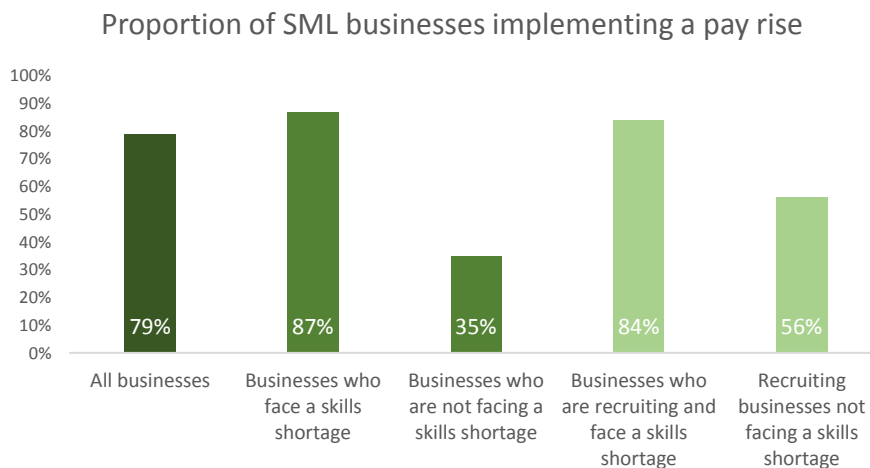
The graph above shows the proportion of business, facing skills shortages, which are planning on implementing a pay rise in the next 12 months, by sector and size. The survey shows that **80% of all businesses facing a skills shortage, in both the manufacturing and service sectors, are implementing a pay rise in the next 12 months**. This proportion increases to 87% if we focus on SML businesses, who employ more than 3 in 4 of Coventry and Warwickshire’s workforce.

There seems to be a clear correlation between a pay rise and a skills shortage. Only 35% of businesses who believe they are not facing a skills shortage are looking to implement a pay rise in the next 12 months. **This means that workers in the retail, public and creative sectors are least likely to see a pay rise over the next 12 months**. This would suggest that workers in lower-paid sectors are less likely to experience a pay increase. With productivity



being strongly linked to wages, the results could represent sluggish productivity growth in these sectors.

The graph below shows the proportion of SML businesses implementing a pay rise under different circumstances. Businesses not suffering from a skills shortage are less likely to increase pay in both scenarios.



Marginally fewer than 1 in 2 (45%) businesses in the sample are implementing a pay rise to retain current employees. These types of businesses were also more likely to quote a ‘lack of workers’ as the reason for a skills shortage, suggesting the pay rise could be a direct strategy to tackle skills shortages in the workplace.

On the other hand, only 1 in 5 businesses are increasing pay due to a higher cost of living. It is, therefore, not unreasonable to conclude that **pay increases in Coventry and Warwickshire over the next 12 months will most likely be borne out of a skills shortage, rather than inflation.** This is an important finding coming out of the survey.

4. Pay and non-pay related wage increases in Coventry & Warwickshire

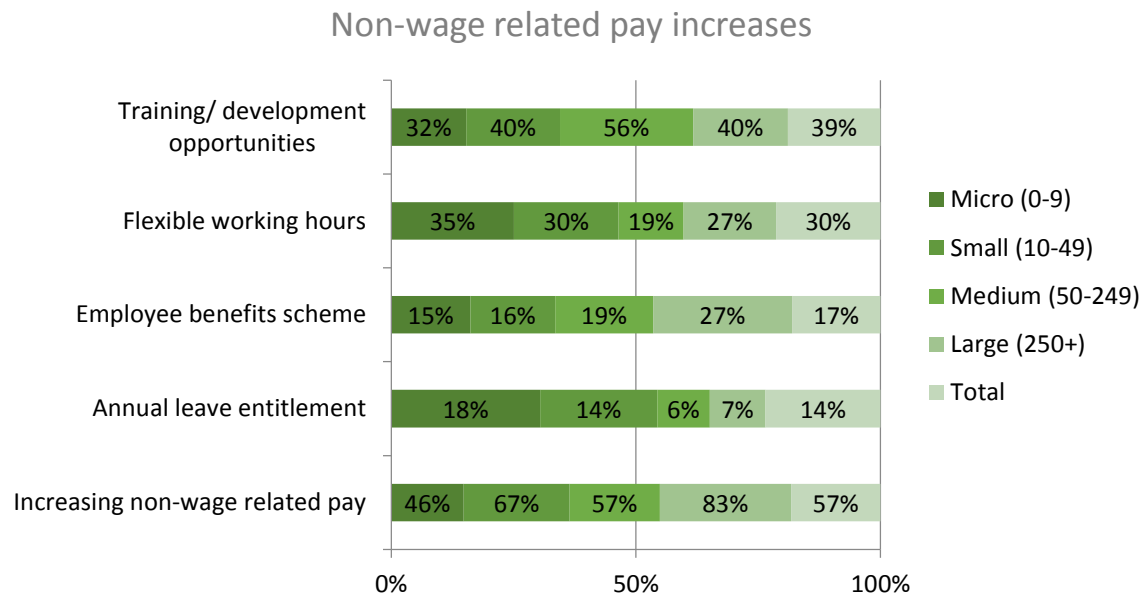
Across the full sample, **79% of SML businesses are looking to implementing a pay rise in the next 12 months**, regardless of whether they are recruiting or face a skills shortage. Manufacturing and service sector businesses are equally as likely to increase pay, however, you are most likely to experience a pay rise in the construction, consumer services and transport & distribution sectors.

Only 47% of micro businesses are considering a pay rise in the 12 months. Although this could be due to a lack of finance, these types of businesses are also the least likely to increase non-wage related pay, such as annual leave, employee benefit schemes, flexible working hours and training/development opportunities. Micro businesses are, however, most likely to implement a pay rise to reward staff for performance.

Overall, responses from the survey would suggest that as many as 315,000 workers in Coventry and Warwickshire are set for a pay rise in the next 12 months. This is in stark contrast to the subdued wage growth experienced over the last eight years and could provide a positive stimulus for the local economy.



On average, **57% of businesses in the sample are looking to increase non-wage related pay over the next 12 months.** The graph below breaks the survey responses down by size of the business and type of non-wage related pay.



The length of each rectangle gives the relative weight different sized businesses place on the different types of non-wage related pay incentives. Take the lowest rectangle, increasing non-wage related pay. Large businesses are most likely to increase non-wage related pay in the next 12 months, whereas micro businesses are least likely. Micro businesses are most inclined to increase annual leave entitlement. Micro and small businesses make up almost half of businesses offering flexible working hours. Medium-sized businesses are most comfortable with increasing training/development opportunities, whereas large businesses are looking to offer more employee benefit schemes incentives.

Non-wage related pay increases seem to be less popular than pay increases in the sample, however, the majority of businesses are implementing at least one form of increase during the next 12 months.

Combined, 7 in 10 businesses will implement either a pay or non-wage related pay increase over the next 12 months. This figure increases to 85% of businesses if we exclude micro-sized businesses, and could cover up to 78% of Coventry and Warwickshire’s workforce.

Recruiting businesses facing a skills shortage are most likely to implement at least one type of pay increase, with just 8% of businesses implementing neither. 88% of businesses who face a skills shortage, regardless of their recruitment choices, implement a pay and/or non-wage related pay increase.



The table below shows the proportion of businesses implementing a wage and/or non-wage related pay rise in the next 12 months by size and sector.

Sector		Service Sector		
Pay Scheme	wage	non-wage	neither	both
Micro (0-9)	5%	8%	47%	39%
Small (10-49)	20%	6%	14%	60%
Medium (50-249)	25%	10%	15%	45%
Large (250+)	7%	7%	7%	86%
Total	13%	8%	31%	49%
Sector		Manufacturing Sector		
Pay Scheme	wage	non-wage	neither	both
Micro (0-9)	29%	12%	29%	29%
Small (10-49)	21%	3%	9%	67%
Medium (50-249)	13%	0%	38%	50%
Large (250+)	25%	25%	0%	50%
Total	21%	6%	20%	53%
Sector		Total		
Pay Scheme	wage	non-wage	neither	both
Micro (0-9)	8%	8%	45%	38%
Small (10-49)	20%	5%	13%	62%
Medium (50-249)	21%	7%	21%	46%
Large (250+)	11%	11%	6%	78%
Total	14%	7%	29%	49%

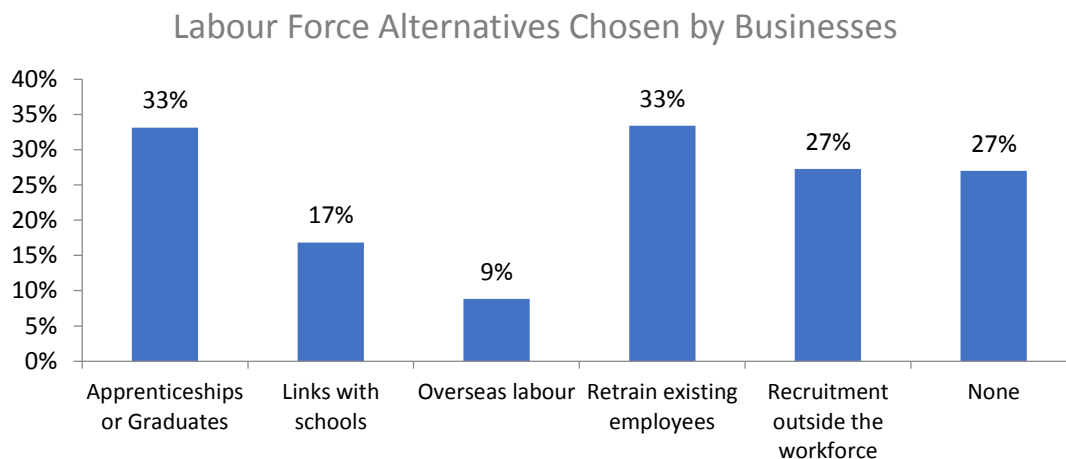
Micro-sized businesses, especially in the service sector, are most likely to not implement either a wage or non-wage related pay rise. Small- to medium-sized businesses are most likely to focus on wage increases rather than non-wage related increases. Finally, large businesses are most likely to increase both a wage and non-wage related pay rise over the next 12 months.

Evidently, pay and non-wage related pay is set to increase for most businesses across Coventry and Warwickshire in the next 12 months. As many as 315,000 workers in the local labour force could be set for a pay rise, although those that do not, are likely to receive increased training/development opportunities and flexible working hours. There is also evidence to suggest that the pay rises are related to labour market slackness, which is low due to low unemployment levels and is resulting in skills shortages.

5. Labour force alternatives

There are a number of solutions that can minimise the impacts of a skills shortage on businesses. The last question is aimed at identifying whether and what type of labour force alternatives businesses are exploiting. They can look for close substitutes; *Apprentices and graduates* are often skilled but relatively inexpensive employees, *workers currently outside of the workforce* can also be invaluable and *overseas workers* offer relief for those who are eligible and can afford it. In the short- to medium-term, businesses can also look to retrain existing worker to fill recruitment gaps, or they can improve links with schools to minimise longer term problems.

The graph highlights the decisions made by businesses with regards to labour force alternatives.

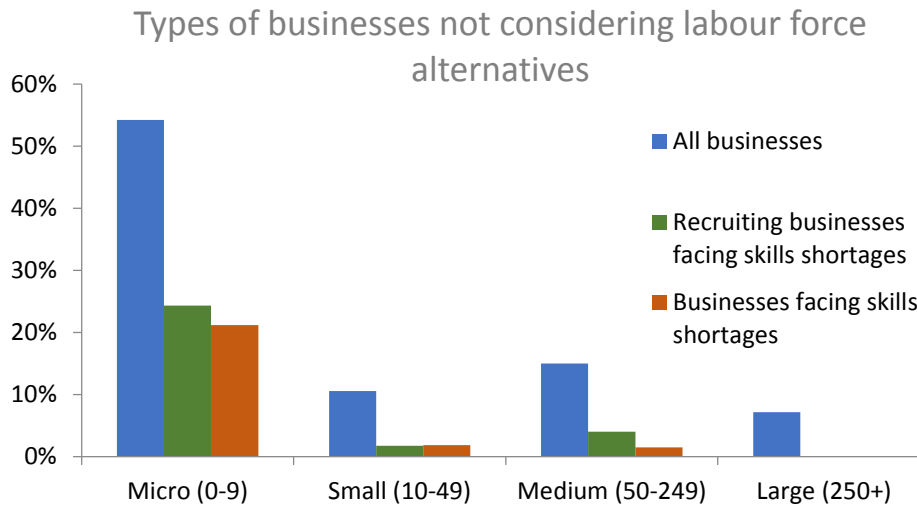


A third of businesses have considered both employing apprentices and graduates, and retraining existing employees. These options are particularly popular for large- and medium-sized firms, with 86% of large firms using apprenticeships and graduates, and 68% of medium-sized firms retraining existing employees. Overseas labour is the least popular selection, although 1 in 5 large businesses still find this an important option. Recruitment outside of the workforce, which includes those with physical and learning disabilities, is more popular in the manufacturing service – 46% compared to 23% of services sector businesses.

There seems to be a good mix between short term labour force alternatives and longer term retraining strategies. There does, however, still seem to be a number of businesses that are not considering labour force alternatives. At closer inspection these tend to be micro-sized businesses.



The graph below shows the proportion of businesses that are not considering labour force alternatives, by size. **More than 1 in 2 micro-sized businesses are not considering labour force alternatives.** These businesses account for 75% of total businesses in Coventry and Warwickshire and gives a clear direction for the types of businesses that need skills support.



Although a number of micro-sized businesses may feel as if they do not need to consider alternatives if they are not facing a skills shortage, there is still a much larger-than-average proportion who are not considering alternatives despite facing a skills shortage. That would suggest that the reason for not looking towards alternative labour force options is capacity.

Finally it would be worth considering the alternatives businesses are choosing based on the reasons for their skills shortage. The following table matches the reasons for a skills shortage on the left with the types of labour force alternatives along the top.

	Apprenticeships or Graduates	Links with schools	Overseas labour	Retrain existing employees	Recruitment outside the workforce	None
Competition	20%	15%	9%	28%	18%	9%
Lack of workers	29%	11%	10%	22%	24%	4%
Unable to afford people with the right skills	27%	11%	5%	29%	18%	10%
Workers unwilling to move between jobs	22%	11%	0%	22%	44%	0%

Those who believe they are facing a skills shortage as a result of competition for workers are most likely to retrain existing employees. Businesses suffering from a lack of workers are most inclined to look for skilled labour alternatives, such as apprenticeships or graduates.



Those who are unable to afford the right workers look for cheaper alternatives, such as apprenticeships or graduate, or look to retrain existing employees.

6. Policy implications

There are some clear channels policy responses can focus on. Micro-sized businesses were most likely to be unable to afford people with the right skills. The survey analysis showed that apprenticeships and retraining are the most effective alternatives for these types of businesses. Therefore, support could be offered to micro-sized businesses focus on improving training and development opportunities to incentivise existing employees, and attracting skilled apprentices and graduates. With smaller companies being exempt from the UK's new apprenticeship levy, these are a good and relatively inexpensive labour force alternative for those who are unable to afford people with the right skills. Micro businesses also often lack the time and capacity to look at this, or to be able to support a full apprentice themselves. Therefore, policy responses should include; helping them identify suitable frameworks and providers, navigating their way through the system, and looking at shared apprenticeships across a number of small businesses.

Recruiting those outside of the labour market, such as those with disabilities, or encouraging mature workers to remain in/return to the labour force is an appropriate alternative in areas that are struggling with a lack of workers. In Coventry & Warwickshire, an ageing population has meant participation in over 65's has increased 36% since 2008, highlighting the willingness of older workers to remain in the labour force. In general, activity rates locally are below those across England, in particular activity rates of females. According to official figures, approximately 16,000 females are currently inactive but want a job. Business support that encourages businesses to establish links with those outside of the workforce could be beneficial for those looking towards part-time employment, such as the hospitality and tourism sector.

Fay Winterburn, Warwickshire County Council's Business Skills Advisor, is working closely with employment support providers and businesses to give those who are looking to recruit outside of the workforce, the opportunity to. By developing channels of communication, firms can maximise their recruitment chances. Fay is also working with businesses to develop development and training pathways in-house to retain and retrain existing employees.

'Growing your own' is a longer term aim that businesses should be considering. Currently, Germany produces the same output as the UK does in 5 days, in four. Training and apprenticeships are well advertised and regarded options for school leavers on the continent. In the UK, establishing better connections between schools and businesses will be important for maximising the potential of the younger generation and reducing skills shortages going forward. Raising awareness of the opportunities locally, highlighting the



career development opportunities and emphasising the unique selling points of a business, will attract young workers and increase the likelihood of retaining them within the workforce for many years. The Skills for Employment programme gives businesses better opportunities to interact with schools for just this reason.

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7. Summary

The survey suggests that there is indeed a skills issue in Coventry and Warwickshire. SML businesses, which employ the majority of workers locally, are most likely to be facing recruitment difficulties associated with a skills shortage. More generally, 3 in 5 businesses are finding that skills are a problem within their firm, with the majority putting this down to a lack of workers with the right skills. Businesses experiencing a skills shortage for this reason are most likely to be looking outside the workforce and at graduates/apprentices to plug skills gaps.

We have found evidence in the sample that pay increases are correlated to skills shortages and that this is the main reason for potential pay and non-wage related pay increases in the next 12 months. Alongside an increasing cost of living, up to 78% of Coventry and Warwickshire's workforce could be set for an increase to their pay package in the next year. Those in the construction, consumer services and transport & distribution sectors are most likely to receive a pay rise over the next 12 months, whereas those in the retail, public and creative sectors are least likely.

On 8th November, data on pay in Coventry and Warwickshire will be released by the Office of National Statistics. We anticipate that pay will be increasing at a relatively faster rate in this area. Please keep an eye out for our next Quarterly Labour Market Bulletin, released in January that will have a special section on workplace wages.

This report was written by Sam van de Schootbrugge, Economist in Warwickshire County Council's Economy & Skills Team. Natalie Maposa and I regularly publish reports on the local economy, which can be viewed on our webpage (www.warwickshire.gov.uk/economicassessment). We also provide external services for those interested in bespoke pieces of economic research. Please contact us on 01926 412949 for further details.