

A photograph of a modern building with a dark, textured facade, possibly wood or stone, under a dramatic sunset sky with orange and blue hues. A street lamp is visible in the foreground, and a car is partially visible on the left. The University of Hertfordshire logo is overlaid on the right side of the image.

University of
Hertfordshire

Hertfordshire Business Skills Gaps Survey 2014-15

Prepared by UH Market Research Services



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Executive Summary

Local Enterprise Partnerships (LEPs) have been formed in England to help local areas determine the type and level of support needed to suit the needs of their local economies. In Hertfordshire LEP's recent report entitled 'Perfectly Placed for Business: Hertfordshire's draft Strategic Economic Plan' they suggested that Hertfordshire has underperformed since the 2000s ^[1]. One element of this under-performance is the productivity of businesses linked to their staff's skills gaps.

The purpose of the Hertfordshire Business Skills Gap Survey (HBSGS) was to explore the understanding of Hertfordshire businesses skills gaps and their perceived causes, the impact these are having on the respective businesses performance, and the actions they have or are taking to address these.

Over 78% of HBSGS respondents acknowledged that one or more of their staff were in need of training in the current year. The most common reason given was staff newness to the role or they had not fully completed their initial job training. Many employees admitted that staff could take up to two years to reach full proficiency. Other reasons given were the introduction of new technology, the launch of new products & services, and/or introduction of new working practices.

The top three skills gap areas common across Managers, Professionals and Associate Professionals, Administrative & Clerical staff were in job related skills (technical and practical), general skills (oral and written communications), and IT related skills (basic and advanced).

Importantly, the reported impact of these skills gaps was the delay in the introduction of new products and services, increased workload to existing proficient staff, and decreased productivity.

The three most common actions taken to address these skills gaps were training, redefinition of staff roles and responsibilities, and/or the recruitment of new staff. Interestingly, over 45% of the HBSGS respondents indicated that they had over qualified staff, whose skills and qualifications were above that required for the current role.

In conclusion, over 77% of HBSGS respondents reported having both a training plan and budget to address staff skills gaps, and were attempting to address these issues, the remaining 23% are of a concern.

1 Introduction

This report summarises the findings of a Hertfordshire Business Skills Gaps Survey (HBSGS) undertaken during the summer of 2014. This research was funded by the European Social Fund (ESF) and the Skills Funding Agency (SFA).

The report identifies the skills gaps of Hertfordshire businesses, the impact these skills gaps have on their respective businesses, and the actions these businesses have taken, and are taking. Importantly, this study highlights Hertfordshire business perceived skills gaps, and therefore the understanding they have of the impact of these on competitiveness, performance and future employment needs.

The report concludes with a summary of the key challenges faced by Hertfordshire businesses in addressing these skills gaps, from their perspectives.

1.1 Context to Hertfordshire Business Skills Gap

The Hertfordshire LEP priorities in business support are:

- Enhance the competitiveness of SMEs;
- to improve the skills of the existing workforce by offering additional support to SMEs within key growth sectors, ensuring that skills training is encouraged to ensure future business growth;
- to drive business employers in the medium- to long-term to engage with learning, skills training and increased employment;
- To also focus on the Hertfordshire working age population who have below NVQ level two qualifications such as the Stevenage, Broxbourne, Hertsmere and Dacorum areas.

Figure 1.1 – Hertfordshire Business Community



SMEs have been particularly hard hit by the 2008-09 international banking and financial crisis and the subsequent long-running economic downturn in the UK. SMEs account for over 59% of employment and over 99% of all registered businesses, compared to large organizations which account for 41% of employment, and less than 1% of businesses^[2]. Simply put, of the 200,000 to 250,000 private sector firms created in the UK every year, over 90% of these have fewer than 5 employees. The statistics also suggest that in more than a decade's time over 70 – 80% of these will no longer be trading. Of those that do survive to the age of 10 years, around 75% of those born with fewer than 5 employees will still have fewer than 5 employees^[3]. Over 50% of SME owner-manager predicted that they would grow moderately, less than 10% growth per annum, over the next three years, with 11% intending to grow significantly, greater than 20% growth per annum, over this same period^[4]. This growth in local economic output is driven by enterprise (the readiness to embark upon new ventures with boldness and enthusiasm), investment, value and new industries^[5], but what underpins all of this are the skills of Hertfordshire's workforce.

The requirements of Hertfordshire LEP's strategy regarding investment priorities are set out in the 'Structural and Investment Fund Investment Strategy' document posted on the LEP website ^[6]. This document is in direct response to the HM Government's request that all LEPs have a strategy relating to how they would deploy their share of the European Structural and Investment Funds for 2014 – 2020 ^[7]. One of four core themes highlighted in the ESIF strategy document is 'Enhancing the Competitiveness of SMEs', and this has been allocated over 40% of the total funding from the Hertfordshire LEP. One of the most significant ways by which SME competitiveness can be increased is in assisting and supporting skills training, which both enhances competitiveness and increases overall business performance (financial and non-financial), which directly leads to increased employment in the Hertfordshire.

Hertfordshire is fortunate in being close to London and having an abundance of highly qualified professionals living and working inside its boundaries. Hertfordshire is not unique in recognizing the importance of key sector development, both in terms of creating economic growth and creating and sustaining employment. The East of England Forecasting Model (EEFM) suggests that over 50% of Hertfordshire's employment is concentrated in six sectors - Retail, Professional and technical services, Health and care, Construction, Education and Wholesale^[1]. However, those sectors that have both economic distinctiveness, and represent the highest growth potential for Hertfordshire, identified in the 'European Structural and Investment Funds – Hertfordshire Investment Strategy' report are^[6]:

- Life sciences, advanced manufacturing and engineering & IT
- Film and media
- Sport, leisure and cultural activities
- Financial and business services
- High-end logistics

A cautionary note, specialisation can be both a measure of resilience, and one of vulnerability, for the local economy. Local economies focus on specialising in strong, internationally-competitive industries and businesses does help to build resilience and opportunity for long-term growth^[5]. In the Experian resilience index published within the "Review of Local Enterprise Partnerships Economies" report^[5], in 2012, Hertfordshire was ranked 4th in overall resilience. Hertfordshire's high resilience reflects well on business ability to meet this challenging economic climate.

Hertfordshire ranked fourth in the LEP Network Report, assessing economic output growth over the period 1998 – 2008, behind London, Thames Valley Berkshire, Enterprise M3^[5]. The analysis from this report highlights that those highest performing and significantly improving LEP areas have the following characteristics:

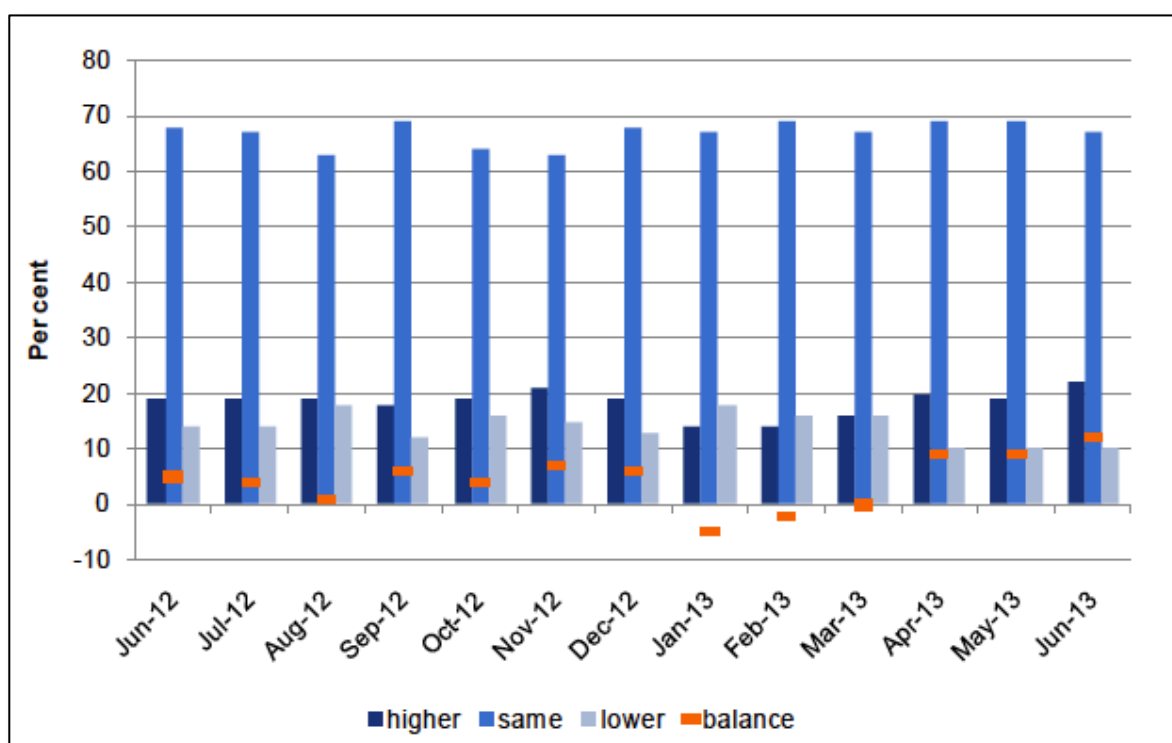
- Growing workforces and high levels of employment;
- A more skilled workforce and employment;
- Higher levels of innovation knowledge and technology based employment;
- And are entrepreneurial.

These characteristics have significantly contributed to these successful local economies, Hertfordshire being one of the Top 4 in England, where they have over time maintained high performance and high levels of employment.

1.2 Hertfordshire Business Employment

A recently commissioned survey for the Hertfordshire LEP noted that “labour demand in Hertfordshire has been increasing markedly in the past 24 months, and that there are further demand pressures ahead (Hertfordshire LEP: 2)”^[8]. The English Business Survey conducted based on 3,000 workplace interviews, interviewed monthly^[9], sees a steady growth in employment across all English regions, see figure 1.2 below.

Figure 1.2 Expected Level of Employment in England, June 2012 to June 2013 (Source: English Business Survey – June 2013, BIS)



Notes: The three columns sum to 100% = (%Higher)+(%Same)+(%Lower) – of workplace employees

The chart above shows that businesses generally have reported an increase in employment (22%) as opposed to a decrease in employment (10%) – 68% of businesses reported no change in employment for June 2013. The Office for National Statistics reports there are 537,300 employee jobs in Hertfordshire, this excludes self-employed, government-supported trainees and HM forces. One of the tools used to estimate future job growth in Hertfordshire is the East of England Forecasting Model (EEFM) which predicted that between 2011-2031 there would be an additional 79,300 jobs generated by Hertfordshire businesses ^[10].

The Regeneris Consulting report for the previous East of England Development Agency (EEDA), Hertfordshire County Council (HCC) and the ten districts in Hertfordshire contains some interesting and relevant facts concerning Hertfordshire businesses and employment ^[10]:

- The top five employment growth sectors for Hertfordshire for the next 20 years are: Software & Digital, Life Sciences, Advanced Manufacturing, Logistics and Professional services;
- Hertfordshire businesses account for nearly 25% of the east of England's employment, and therefore is a significant area of both economic and employment growth for the forthcoming years;

1.3 Method

The principle aim of the HBSGS was to report on the perceived skills gaps of Hertfordshire businesses, those identified and communicated by the business owner-managers/senior managers. The research objectives were to:

- Better understand the skills needs of Hertfordshire businesses, and the skills gaps;
- Understand the potential impact of these skills gaps on business competitiveness, performance and future need to employ further staff;
- Record the actions and training provided.

The research was split into two phases:

Phase 1: Involved creating an online questionnaire using a number of existing national and regional skills surveys most notably the survey conducted by the UK Commission for Employment and Skills (UKCES) published in July 2012. Over 175 employers completed the survey over a six-week period.

The questionnaires were posted on the Bristol On-line Survey (BOS) tool. The outputs from the HBSGS findings were in the form of conventional cross-tabulations, and these are reported on in the remainder of this report.

Phase 2: Involved conducting focus group sessions and a number of in-depth one-to-one telephone semi-structured interviews with senior management in selected Hertfordshire businesses. The interviews/focus groups were used to gain additional detailed perspectives on:

1. The skills shortages of employees;
2. The requirements and experiences of generic vs. specific technical skills of their prospective and current employees;
3. Their future demands for skills and their confidence in gaining appropriately skilled recruits;
4. Employer preferences with regard to addressing these needs e.g. open courses/online learning platforms, in-house training or part-time (evenings or day release);
5. The principal barriers for employers in addressing these 'skills gaps' challenges in the future.

The one-to-one interviews were conducted with employers operating in the following sectors:

- Aerospace and advanced manufacturing
- Financial and professional services
- Public administration
- Food & restaurant
- Health and social care
- Life sciences
- Construction

The 175 Hertfordshire businesses participating in the HBSGS were representative of all business types (micro to large businesses), and sectors in Hertfordshire, see figures 1.3 and 1.4 below.

For the purposes the charts below, and for the rest of the report we defined:

- Micro businesses – as those employing between 1 and 9 employees;
- Small businesses – as those employing between 10 – 49 employees;
- Medium businesses – as those employing between 50 – 249 employees;
- Large businesses – as those employing 250 and over employees.

Figure 1.3 Sample Businesses Surveyed by Size (Source: HBSGS)

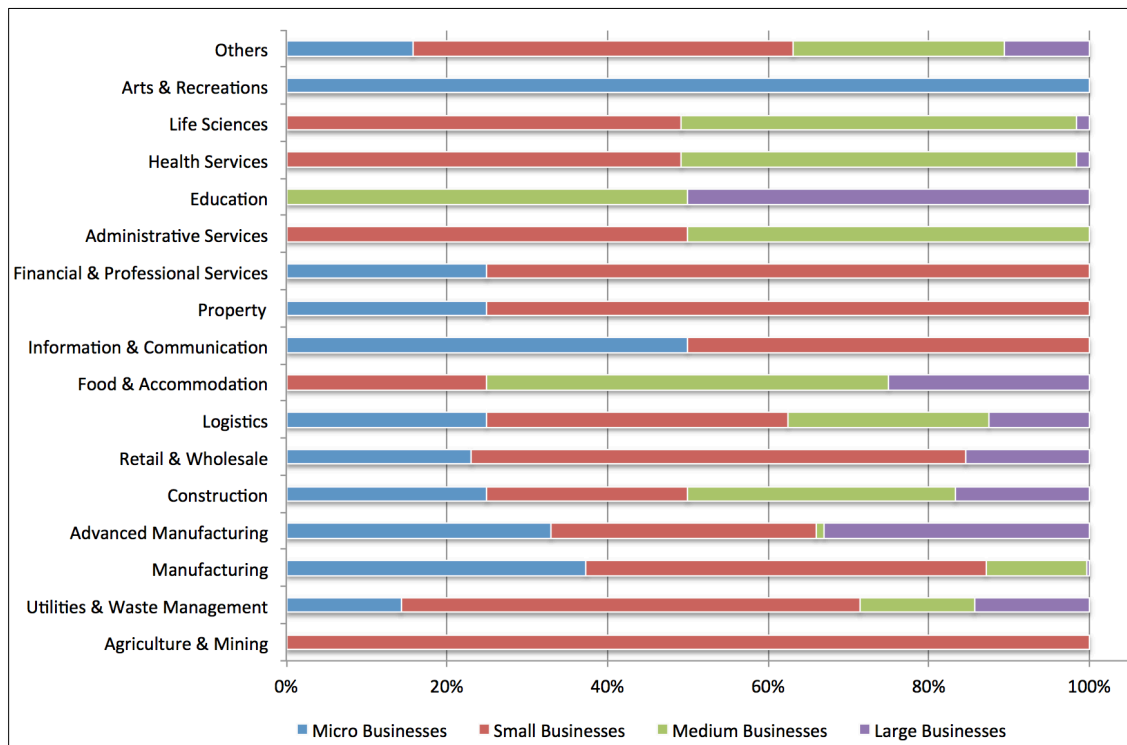
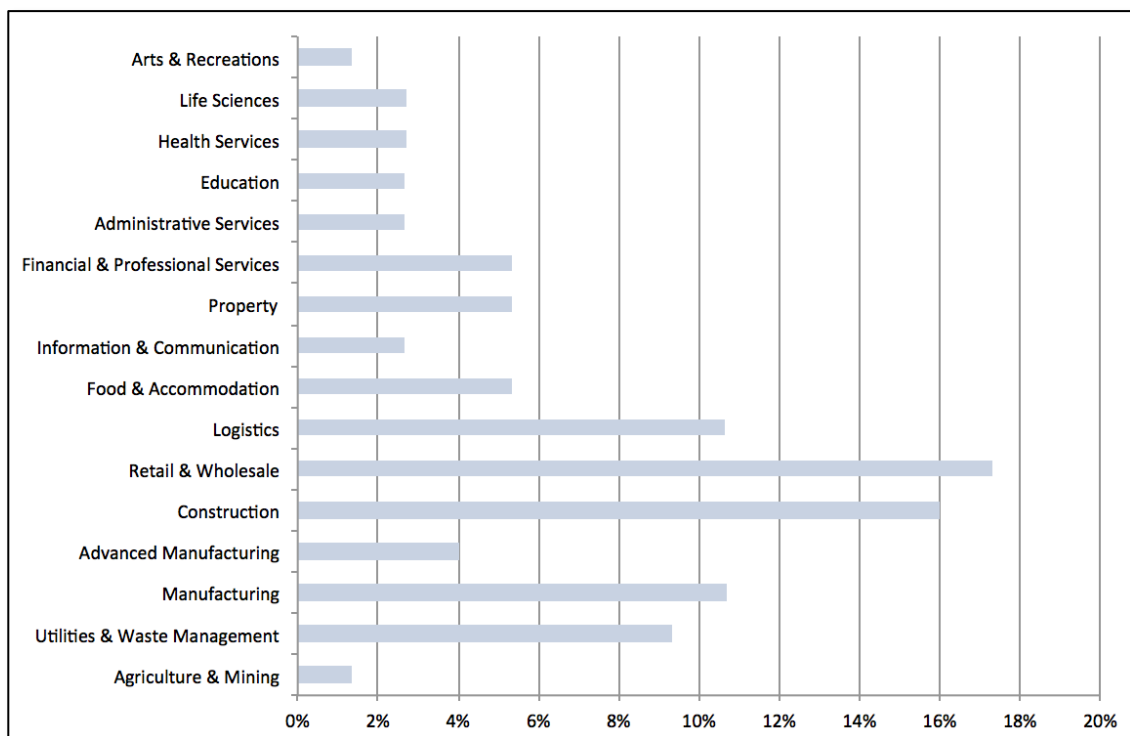


Figure 1.4 Sample Businesses Surveyed by Sector (Source: HBSGS)



1.4 Report Overview

The report is structured as follows:

Section 2	Hertfordshire's business capacity – sectors, business growth and employment
Section 3	Hertfordshire skills gaps – perceived skills gaps, impact and actions taken
Section 4	Summary of principal findings – main findings from the HBSGS

2 Hertfordshire's Business Capacity

Section Summary

Business Growth and Employment

- Over 60% of Hertfordshire small businesses surveyed reported better than 5% growth over the last 12 months. This compares to only 20% of medium-sized and 30% of micro businesses.
- Over 55% of Hertfordshire medium-sized and small businesses reported an increase in recruitment of new staff, with just over 20% of micro businesses reporting an increase in staff.
- Over 52.8% of Hertfordshire business employees are in managerial and professional occupations, a shift away from lower qualified and skilled occupations.

The HBSGS 2014 has been designed and commissioned to explore and measure the skills gaps perceived by Hertfordshire businesses, the impact of these on their performance, and their current commitment to skills development activities. In 2012, the UK Commission for Employment and Skills (UKCES) commissioned their own survey of over 87,500 employers and identified a number of trends within the different sectors that we will be making regular comparisons to in this report^[11].

2.1 Hertfordshire Businesses (Size and Sectors)

Hertfordshire business profile, by size, is roughly in line with the UK's broad split of 88% micro businesses, 10% small businesses, 1.5% medium businesses, and 0.5% large businesses, see Table 2.1 below:

Table 2.1 Hertfordshire Business Profile (Source: <https://www.nomisweb.co.uk>)

2014	Hertfordshire (numbers)	Hertfordshire (%)	East of England (%)	Great Britain (%)
Enterprises				
Micro (0 to 9)	46,510	90.1	88.9	88.3
Small (10 to 49)	4,100	7.9	9.2	9.6
Medium (50 to 249)	785	1.5	1.6	1.7
Large (250 +)	235	0.5	0.4	0.4
Total	51,625	-	-	-

Source: Inter Departmental Business Register (ONS)
% is as a proportion of total enterprises

The Hertfordshire ESIF investment strategy stresses that the top six sectors in Hertfordshire account for over 50% of employment^[6]. These are:

1. Retail (12.1%)
2. Professional and scientific services (9.5%)

3. Health and social care (9.3%)
4. Construction (8.4%)
5. Education (8.0%)
6. Wholesale (7.9%)

These sector figures, and rankings, are very similar to the total UK employment split by sector. Recent data from the Office of National Statistics (ONS), July 2013 to June 2014, suggests there are 613,600 Hertfordshire residents in full-time or part-time employment ^[12].

Previous studies ^[10] looking at the travel flow of workers into and out of Hertfordshire show a net outflow of 36,000 commuters, mainly travelling into Central London and its outer districts (Barnet, Enfield, Camden, etc.). This does have an impact on Hertfordshire businesses in the constant competition for higher skilled professionals and workers, with London employers offering more attractive salaries.

There are over 26,100 unemployed in the county, of these 10,071 are Job Seekers Allowance (JSA) claimants who are registered and actively seeking full-time employment. The ONS also reports on the number of Hertfordshire business employees. Hertfordshire businesses complete the business register and employment survey every year, this cites there are 537,300 employee jobs in Hertfordshire and splits this across the different sectors, see table 2.2 below.

Table 2.2 Hertfordshire Employee Jobs (Source: <https://www.nomisweb.co.uk>)

	Hertfordshire (employee jobs)	Hertfordshire (%)	East of England (%)	Great Britain (%)
Total employee jobs	537,300			
Full-time	351,300	65.4	65.3	67.7
Part-time	186,000	34.6	34.7	32.3
Employee jobs by Industry				
Primary Services (A-B: agriculture and mining)	220	0.1	0.3	0.3
Energy and Water (D-E)	3,000	0.6	0.9	1.1
Manufacturing (C)	35,000	6.5	8.8	8.5
Construction (F)	39,900	5.6	4.8	4.4
Services (G-S)	468,800	87.3	85.2	85.7
Wholesale and retail, including motor trades (G)	104,400	19.4	17.7	15.9
Transport storage (H)	17,300	3.2	4.7	4.5
Accommodation and food services (I)	29,500	5.5	6.3	7.0
Information and communication (J)	26,300	4.9	3.5	4.0
Financial and other business services (K-N)	156,100	29.1	22.2	21.8
Public admin, education and health (O-Q)	112,100	20.9	26.6	28.0
Other services	23,200	4.3	4.2	4.6

Source: ONS business register and employment survey
% is a proportion of total employee jobs

Financial and professional services sector has the highest employment levels, key to the success of this sector is the proximity to London and good transport links.

The **Public Administration, Education and Health sector** is the second largest employment sector in Hertfordshire. Life Sciences is an important element of this sector, having shown 15% growth rates since 2003, with a steady increase in the number of life science businesses ^[10]. In data collected by the ONS over a ten year period from 2002 – 2012, the share of high skilled workers for the UK Health sector increased from 13.3% to 14.9% ^[13], however over the same period the overall high skilled workers in the UK economy increased by 4.3% to 30.8%. This confirms other survey findings that show a steady shift of lower skilled occupations to higher skilled occupations ^[11].

Wholesale and Retail sector is the third largest employer in Hertfordshire. Over 20% of this sector is related to Wholesale/Logistics with employment since 2003 being relatively stable. Hertfordshire with its good transport infrastructure and connections to M1, M25 and A1M remains an attractive location ^[10].

The **Manufacturing sector** is another important area for Hertfordshire, with over 50% of these being advanced manufacturing businesses. Though, since 2003 the number of advanced manufacturing businesses, defined by BIS as having high levels of technology utilization and R&D, has reduced in the UK, the overall employment levels have increased. Key to their continued success is access to quality skilled labour, and continued advances in cost reduction ^[10].

Information and Communication sector is an important sector because of its specific support for the Film and Media sector. The Creative and Media sector is a significant employer, and with Warner Brothers continued investment in Leavesden studios and increasing use of Elstree Studios for TV and film production, employment levels are set to steadily grow. General work practice changes to more staff working from home will impact on their increasing skills needs around IT ^[10].

2.2 Business Employment by Occupation

A business survey conducted for the East of England Development Agency (EEDA), Hertfordshire County Council (HCC) and the ten borough councils by Regeneris Consulting acquired business data from the ONS concerning employment growth from 1998 – 2008 for Hertfordshire, and noted that the +2% change was relatively poor against the UK average for this period of 10% ^[10]. Other counties like Essex and Berkshire achieved 17% and 11% employment growth respectively over the same period.

A small business survey conducted in the first quarter of 2013 indicated that UK businesses were active in recruiting staff despite the overall concern on steady growth in the economy^[14]. More than 53% of UK businesses reported the recruitment of at least one additional member of staff over the first quarter of 2013. As one would expect the number of new staff increases based on size of turnover and sector demands. So businesses in hotels & restaurants, Financial & Professional Services and Manufacturing are twice as likely to be taking on more staff than businesses in retail, wholesale and agriculture.

Hertfordshire is one of the top 4 high-performing local economies in England, and as such they have a significant number of high-skilled residents employed in high-level occupations/jobs^[5]. Ultimately these high-skilled jobs are dependent on employer demand, and the success of high-value industries in Hertfordshire.

Table 2.3 Total Hertfordshire Employment by Occupation (source: www.nomisweb.co.uk)

(July 2013 – Jun 2014)	Hertfordshire (level)	Hertfordshire (%)	East of England (%)	Great Britain (%)
Soc 2010 major group 1-3	309,200	52.8	45.2	44.5
1 Managers, directors and senior officials	77,600	13.2	10.6	10.2
2 Professional occupations	130,700	22.2	19.3	19.9
3 Associate professional & technical	101,000	17.2	15.2	14.2
Soc 2010 major group 4-5	124,000	21.2	22.3	21.4
4 Administrative & secretarial	69,800	11.9	11.5	10.6
5 Skilled Trades occupations	54,200	9.2	10.7	10.6
Soc 2010 major group 6-7	83,600	14.3	16.0	17.0
6 Caring, Leisure and Other Service occupations	48,800	8.3	9.1	9.1
7 Sales & Customer Services occs.	34,800	5.9	6.8	7.8
Soc 2010 major group 8-9	69,200	11.8	16.5	17.1
8 Process plant & machine operatives	27,700	4.7	6.5	6.3
9 Elementary occupations	41,600	7.1	10.0	10.7

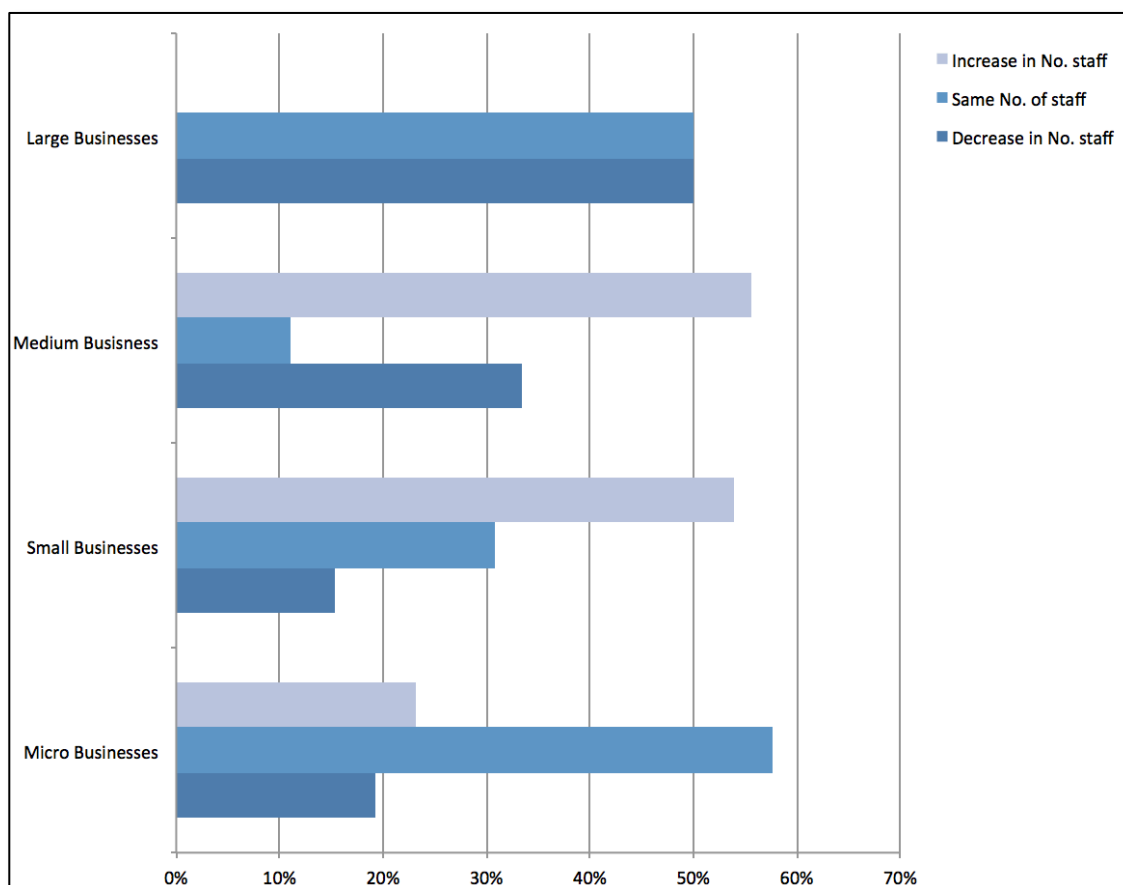
Source: ONS annual population survey

Employment by occupation from the Office of National Statistics (ONS) shows the breakdown by occupation, as per 2.3 above.

Over 52.8% of Hertfordshire's employed population were working in managerial, professional and associate professional roles in 2013. This compares with 44.5% across the United Kingdom as a whole, and some city LEPs^[15]. The share of Hertfordshire residents in administrative and secretarial roles is slightly above the national average. Those in the remaining occupational roles generally require lower skills and qualifications. This portion of Hertfordshire's workforce is smaller than the national average, and likely to continue to decrease^[8].

"In our sector, we mainly recruit professionals with specific skill sets. They are 95% done and dusted. Where we have any skills gaps, they are in the use of our systems and very job-related skills." [MD, professional and scientific services]

Figure 2.1 Business Employment over Last 12 months (source: HBSGS)



HBSGS findings, see figure 2.1 above, indicates that slightly more micro businesses increased their staff levels (23%), compared to decreased their staff levels (19%) over the last 12 months. In small businesses this positive slew towards increasing against decreasing staff employment was (54%) to (15%). In medium businesses the gap between increasing against decreasing staff employment was narrower, (56%) against (33%).

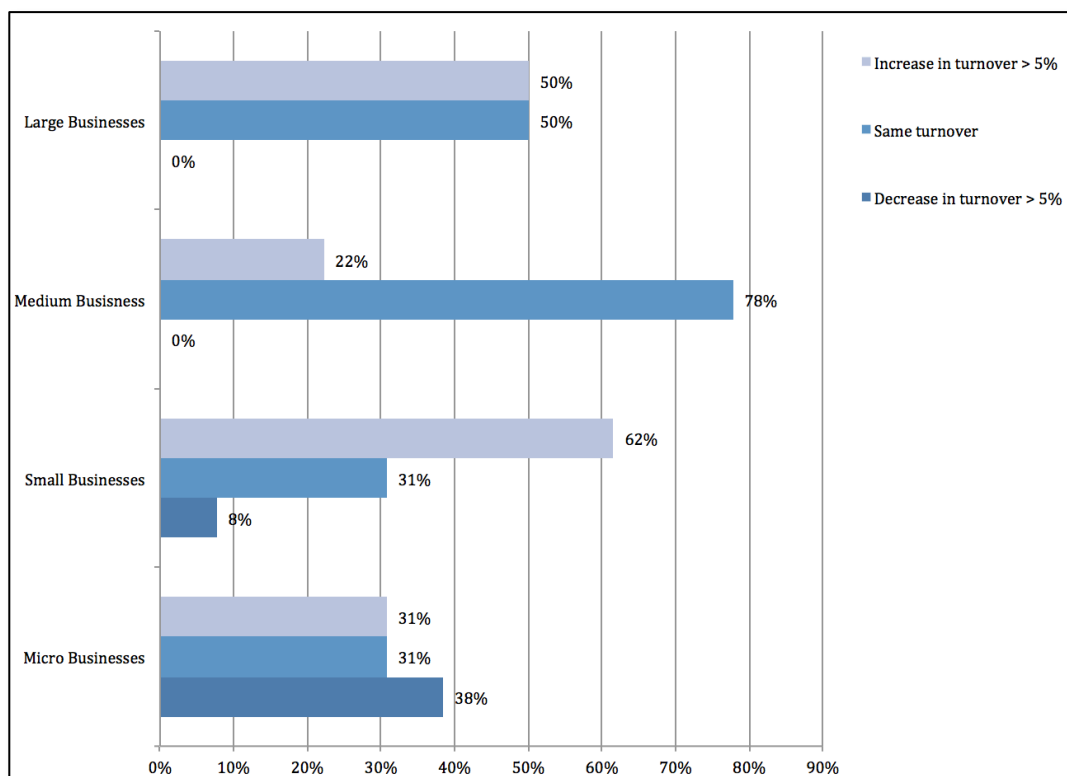
The Barclays Job Creation Survey of 2013, of 700 UK businesses, revealed a surprising confidence of medium businesses with regards to creating new jobs, up from 65% to 71% over the previous year ^[16]. Medium businesses have often been cited as the most resilient to the previous economic storm, and therefore their confidence in taking on new staff is significant. Small businesses are reported as being the least likely to take on new staff at 51%, whilst large businesses are trailing medium businesses (71%) at 65%. Large businesses often cite that they have the most multi-skilled staff, and therefore can move them into other areas, thus not necessarily needing to create new jobs.

2.3 Business Growth

Over the last twelve months 38% of Hertfordshire businesses saw an increase of more than 5% turnover, while 22% saw a decline of more than 5%, with 40% seeing no sizeable change to turnover. Small businesses followed by large businesses experienced the largest growth rates, therefore feeling the most confident in taking on new staff, whilst micro businesses experienced the largest decline in turnover, see figure 2.2 below. This overall business growth, and therefore corresponding increased employment, is roughly inline with that experienced in England, and better than Buckinghamshire Thames Valley LEP and Thames Valley Berkshire LEP, but slightly worse than Greater Cambridgeshire and Greater Peterborough LEP regions ^[8].

Comparing across the HBSGS findings, see figure 2.2 below and 2.1 above, small businesses reported both positive growth and increased employment. Medium businesses were the next confident in reporting same or positive growth linked to increased employment. This was followed by micro businesses, showing just 30% reporting increased business growth and 22% increased employment. Over 50% of large businesses reported business growth, but with little or no net employment gains. This is comparable to other study findings at both the county, and national levels ^[11].

Figure 2.2 Business Growth in the Last 12 months (Source: HBSGS)



Productivity was not a variable looked at in this study, however, recent studies have expressed concern over the performance of Hertfordshire against other comparable counties like Buckinghamshire, Berkshire and Cambridgeshire ^[8].

2.4 Skills/Qualification Level of Current Workforce

HM Government considers qualifications as a key indicator of skills. Hence in most of the UK and Regional Economic Indicator reports, generated by the ONS, the changing map of adult (16 – 64 years) qualifications is carefully monitored and reported on ^[12, 17, 18]. Hertfordshire has an above average individual qualification level record at every NVQ1 to NVQ4 level, benchmarked against the region and national levels, see table 2.4 below:

Table 2.4. Qualifications for Hertfordshire Residents (2013) (source: www.nomisweb.co.uk)

(Jan 2013 – Dec 2013)	Hertfordshire (level)	Hertfordshire (%)	East of England (%)	Great Britain (%)
Individual levels				
NVQ4 and above	300,000	41.7	33.2	35.2
NVQ3 and above	441,600	61.4	53.6	55.8
NVQ2 and above	563,700	78.4	72.7	72.5
NVQ1 and above	637,400	88.6	85.8	84.4
Other qualifications	31,800	4.4	5.8	6.3
No qualifications	50,000	7.0	8.4	9.3

Source: ONS annual population survey

More specific breakdown from the ONS of the Hertfordshire resident population highlights an interesting above average 41.7% having graduate level qualifications (NVQ level 4 and above) ^[12] comparable with London's 40%^[19], and the UK average of just above 35.2% ^[1].

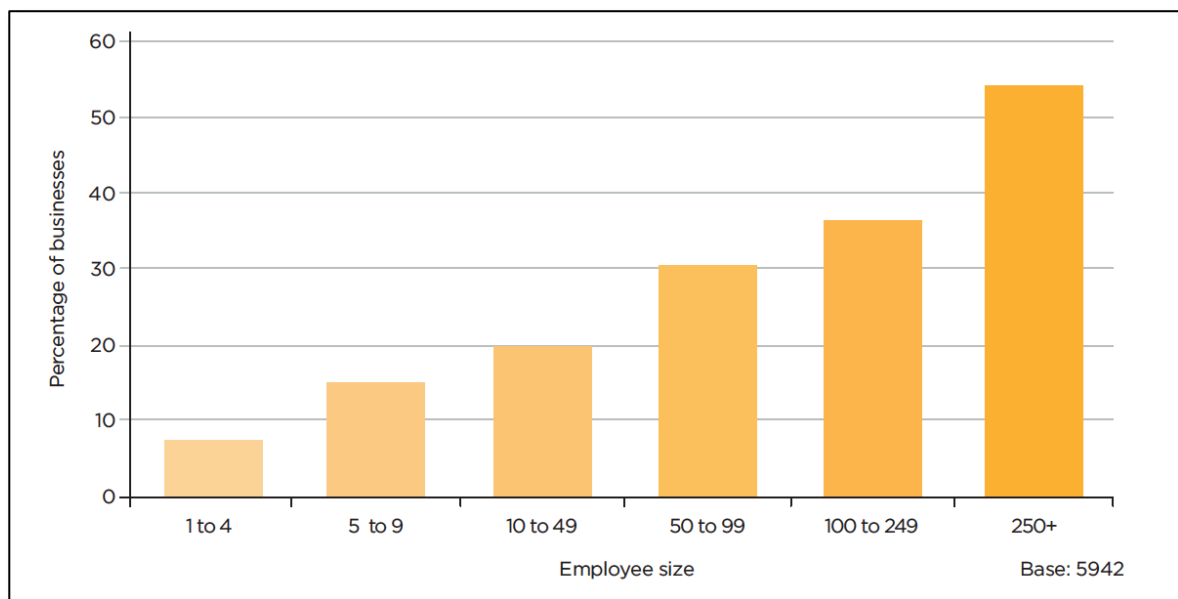
Many HBSGS respondents commented on the employability skills of recent graduate recruits, their experience being that **graduates can still go through a degree without developing transferrable skills, like lateral and critical thinking, and problem solving:**

“We generally take at least one degree student on a placement, normally 12 months. 3 out of 4 times we will offer them a job when they graduate. However, our experience of graduates who have not had a placement year or much in the way of vocational work is that they are weaker and have fewer transferrable skills”. [Senior manager, professional & scientific services]

2.5 Apprenticeship Programmes Started

National statistics on the number of apprenticeship starts during the period 2005 – 2010 shows a 60% increase, with the most significant increase coming in the 25 and over age group ^[18].

Figure 2.3 Businesses Taking on at Least One Apprentice in the Last 12 Months (source: Skills For Business: More to Learn?, BCC October 2011)



The British Chamber of Commerce (BCC) survey in 2011 highlighted that business size was a determinant of businesses taking on apprentices ^[20], see figure 2.3 above. HBSGS findings correlate with national data, where the largest recruitment of apprentices is in large businesses (60%):

“We are very keen on taking on apprentices. If we get any contract that has the opportunity to use apprentices then we try and recruit them to do some or all of the work”. [HR manager, business support services]

“We run two tranches every year for apprentices. We take about 10 – 12 at a go. We recruit at level 2, but we would like to move up to level 3 apprenticeships soon, and eventually level 4.” [HR manager, professional & scientific services]

17% of HBSGS respondents reported on taking on an apprentice in the last 12 months and 78% of these have taken on an advanced or higher apprentice. Of those businesses that have taken on an apprentice in the last 12 months, they have employed on average 3.4 apprentices at level 2, and 1.7 apprentices at level 3 or 4.

3 Hertfordshire Micro, Small, Medium and Large-sized Business Skills Needs

Section Summary

Skills Needs and Gaps

- Over 78% of HBSGS respondents professed to having one or more staff members who had some skills gaps, and more than 80% of those businesses were taking action to address these gaps.
- Nearly 45% of HBSGS respondents reported an inability to recruit new staff with all the necessary skills, and hence one of the main causes of skills gaps in the business.
- The most commonly cited skills gaps were general skills around problem-solving, oral & written communications, and advanced IT skills (expert use of excel and proprietary databases).

Actions and Impact of Skills Gaps

- Over 70% of HBSGS respondents had a training plan and budget to address the identified skills gaps of its staff, and had taken actions to conduct 'on-the-job' and 'off-the-job' training in the past 12 months.
- Of those HBSGS respondents who had not taken direct action to address the skills gaps of their staff, the most common reasons given were financial costs (27%), knowledge of available training provision (19%) and sparing staff time (12%).
- Three of the top five causes of skills gaps were associated with increased skills needs around introduction of new technology, new products and services and completing staff training based on new roles and responsibilities. The implication of this was that existing staff were taking on broader responsibilities, requiring additional skill levels in areas outside their normal professional responsibilities.

Previous UK-based employer skills surveys have identified significant numbers of employees, over 1.5 million in the UKCES survey of 2012 ^[11], who by their employers' own testament are deemed to have skills shortages. These workforce skills gaps impact on overall business performance through, amongst other factors, increasing the workload of other staff, affecting the introduction of new products and services, and increasing overall operating costs.

In the UKCES survey more than 64% businesses who reported skills gaps had no active training policy, deemed to be a regular formal training plan with associated budget ^[11]. Over 55% of HBSGS respondents did not have a regular formal training plan, though 10% of these set aside some budget for training on an annual basis. This suggests that Hertfordshire businesses are more conscious of the need for training, a part of this maybe the higher than average employment of professional staff.

3.1 Skills Gap – Incidence of Skills Gaps

Skills gaps occur in businesses where employees do not have the necessary skills needed to effectively and efficiently undertake the full range of duties expected in their current role. The perceived skills shortages of both the current and prospective employees, is a rising concern for all sectors, and across all qualification levels 3 – 5, and Levels 6 and above, in both Hertfordshire and the rest of the UK^[11].

In the HBSGS 78% of businesses reported at least one member of staff as having a skills gap. These skills gaps occur when members of the staff are not fully proficient at their jobs, this could reflect a judgement made by the line manager, or the staff member. Of those HBSGS respondents that reported at least one member of their staff as being not full proficient over 80% had identified the required skills training need, and had plans to address this in the coming year.

“We are regularly taking on junior product managers to help run our European operations, but we are surprised when even basic excel and word skills sets are missing. We end up by compromising on these just to get them in the office. Then accept we have to train them ‘on-the-job’. We benchmark salaries against our sector, and pay above this but we still find we lose them in a couple of year when they are fully trained as they see us as just a stepping stone to getting a job in London”. [General manager, Food & Wholesale]

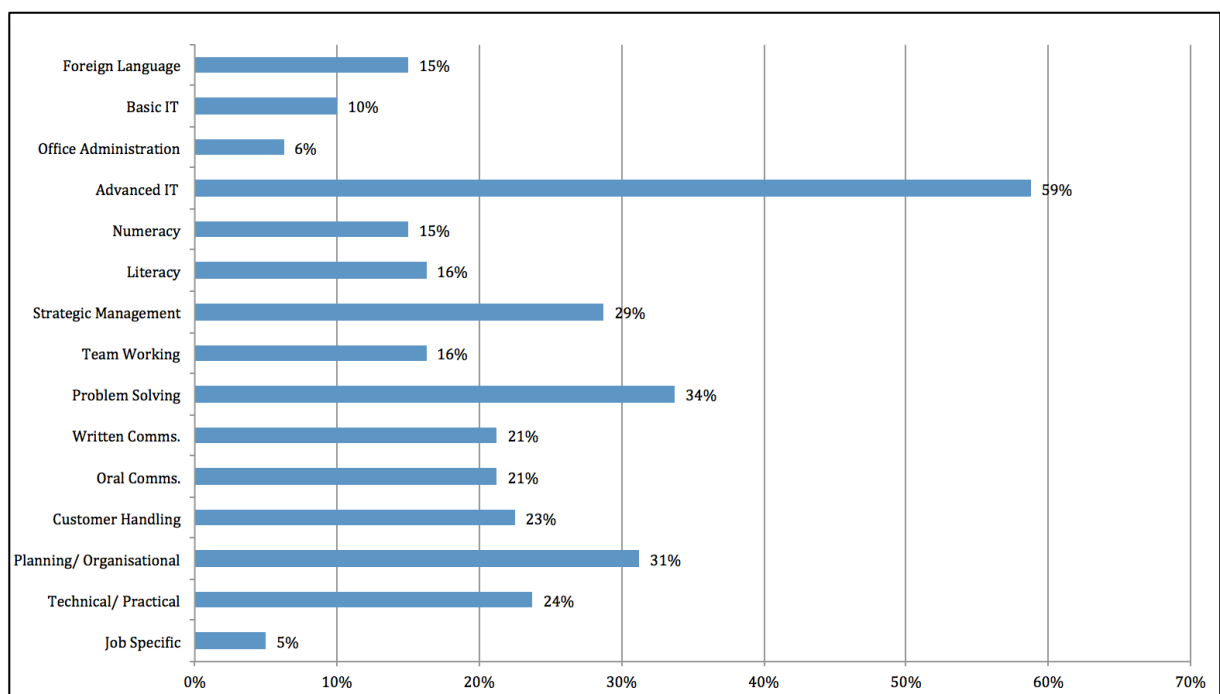
“There are some skills that are essential to our business and as such we don’t risk assuming our scientists have these skills, we just have everyone trained up to our standards. We can expect to be audited by the MHRA at anytime.” [MD, life sciences]

In a 2013 survey conducted by PwC of 1300 chief executives, over 75% of British leaders indicated that they wanted the government to prioritize initiatives on supporting training and learning in the next 12 months ^[21]. This same concern is echoed around the world, over 63% of international CEOs are concerned about their current and future employee’s key skills ^[22].

3.1.1 Specific Skills Gaps

The UKCES UK Employer Skills Survey identified that ‘too many businesses lack the skilled people they need, this poses serious risks to the health and survival of their business and to bottom line performance’ (UKCES 2012: 3)^[11]. Almost 1.5 million employees (5% of the total UK workforce) were deemed not to be fully proficient, in that they exhibited a skills gap, skills gaps not being immediately addressed by their respective employers. Over 60% of those businesses identifying a skills gap reported that this was impacting on performance. The UKCES survey highlights that the predominant reason for these skills gaps were the staff’s newness to the role, and that training often had not been completed ^[11].

Figure 3.1 HBSGS Respondent Skills Gaps (Source: HBSGS)



HBSGS respondents suggested that advanced IT, strategic management, problem solving, planning/organizational, and technical/practical skills as the top five skills gaps, see figure 3.1 above. A common skills gap that appeared across all the occupations was written and oral communications, most noted was the ability to use telephones and construct simple letters. Selected occupations are highlighted below and ranked:

Managers’ skills gaps

1. Strategic management
2. Advanced IT
3. Problem-solving

4. Planning/organisation
5. Job-specific

Professionals' skills gaps

1. Technical and practical
2. Written communications
3. Oral communications
4. Strategic management
5. Job specific

Administrative/Clerical skills gaps

1. Job specific
2. Written communications
3. Technical and practical
4. Advanced IT
5. Oral communications

Skilled Trades' skills gaps

1. Written communications
2. Job specific
3. Technical and practical
4. Oral communications
5. Team working

Sales & Customer Service skills gaps

1. Planning and organization
2. Oral communications
3. Written communications
4. Job specific
5. Technical and practical

The HBSGS findings are very similar to those found in the UKCES survey, where professional and associate professional occupations were the largest employment sector.

HBSGS respondents often mentioned the issues of difficulty of getting recruits who had specific industry experience, and knowledge of the type of systems and processes they run:

“In departments like customer service nearly 50% of our staff have less than 1 years of work experience. Over half of our recruitment is from school or college leavers, unfortunately they just don’t have experience of working in an office culture and general working practices. Things as simple as being on-time and respectful of our staff”. [HR manager, professional & scientific services]

3.1.2 Skills Gap by Sector

The last Annual Business Inquiry conducted by the UK Government (www.nomisweb.co.uk) for 1998 – 2008, and split down to the county level, showed that the top five growth employment sectors, for Hertfordshire, were ^[10]:

- Education (up by 26%)
- Construction (up by 35%)
- Recreation, culture and sport (up by 43%)
- Health and social work (up by 10%)
- Retail trade (up by 5%)

Predicting where the growth will be in the future is difficult, but work around the East of England Forecasting Model (EEFM) suggests that employment in Hertfordshire is likely to increase by an average of 16%, equivalent to 79,000 new jobs, between 2011-2031 ^[10]. Importantly, 55% of this employment growth is forecast to be in the following 7 sectors:

- Software and digital (+4,700)
- Life sciences (+5,000)
- Advanced manufacturing (+1,500)
- Creative and media (+1,200)
- Green industries (?)
- Logistics (+8,300)
- Professional, banking and finance (+22,800)

These sectors are highly competitive, requiring constant business strategy development, introduction of new technologies and working practices, and therefore any skills gaps identified in these industries are likely to impact on their growth potential. UK based surveys of key sector employers report that staff in NVQ Level 3, or below, qualified positions, often have generic skills gaps (oral and written communications, customer service, etc.) rather than specific technical skills ^[23].

Skills shortage surveys in other cities, and regions, in England, have highlighted the business concerns regarding the lack of technical and practical skills at both Level 3 and Level 5+ positions ^[23]. Surveys

by some of the key professional institutes, like Institution of Engineering and Technology (IET), highlighted that 34% of surveyed employers had concerns over the practical/work experience of recent graduates (Level 6).

“Recent recruits from college and university are coming in with issues around written communications and IT skills, even in just the construction of a letter to a client. They need professional training on this, it amazes me that that skill set is not quite there”. [HR manager, business support services]

HBSGS respondents commonly noted IT skills (advanced) as a significant skill gap, with logistics, financial and professional services, and education sectors ranking this as first. In the UKCES survey, only 26% of respondents noted IT skills as a significant issue for them, whereas 59% of HBSGS respondents cited it ^[11]. Other skills gaps are noted below against the sectors, see table 3.1 below.

Table 3.1 Skills Gaps Ranked by Sector (Source: HBSGS)

Ranking	1 st	2 nd	3 rd	4 th	5 th
Utilities & Waste Management	Advanced IT	Oral communications	Planning/Organisation	Problem solving	Strategic Management
Advanced Manufacturing & Manufacturing	Job Specific	Technical/practical	Advanced IT	Strategic Management	Customer handling
Construction	Technical/practical	Advanced IT	Planning/organization	Problem solving	Strategic management
Retail & Wholesale	Planning/organization	Customer handling	Strategic Management	Advanced IT	Technical/practical
Logistics	Advanced IT	Strategic Management	Literacy	Written communication	Oral communications
Food & Accommodation	Customer handling	Office administration	Job specific	Oral communications	Team-working
Property	Customer handling	Strategic management	Technical/practical	Advanced IT	Written communications
Financial & Professional Services	Job specific	Strategic management	Advanced IT	Customer handling	Written communications
Administrative services	Team working	Oral communications	Numeracy	Advanced IT	Basic IT
Education	Advanced IT	Oral communications	Technical/practical	Foreign languages	-
Life Sciences	Team working	Advanced IT	Written communications	Customer handling	Strategic management

“We are increasingly moving into a digital business, one where skills around digital marketing are becoming essential requirements. We find it very difficult to find customer & administrative staff who have even the rudiments of these skills, and more worrying is the lack of basic Excel skills. Apart from populating sheets, recent recruits who have professed to having excel skills struggle with any data manipulation”. [General manager, Food & Wholesale]

“It’s surprising to us that graduates and those who have been in the industry for five to ten years are still lacking customer service skills. We are now having to accept that they don’t have the required skills, and train them. Interestingly, another area is around numeracy of our scientists. They often cannot do simple percentages – essential for completing something as menial as a timesheet, we have to train them in more advanced spreadsheet operations”. [MD, life sciences]

Some sectors like the financial and professional services have skills gaps very specific to the job:

“Our core business is tele-marketing, we therefore have specific needs to integrate with our clients’ databases, and that is where the job specific skills gaps often come in training people in how to use specific client databases, like sales force”. [MD, professional and scientific services]

Others like retail and wholesale have more general skills gaps:

“Just things like letter and e-mail writing skills that they lack. We are talking about jobs in the £20 – 25k range, just below manager level, and applicants lack some of the basic skills”. [General manager, Food & Wholesale]

3.1.3 Cause of Skills Gaps – Associated Reasons

The UKCES survey noted that the most common six causes of skills gaps in UK business employees were:

- New to role (47%)
- Training only partially completed (46%)
- Staff lack motivation to train (32%)
- Staff trained but no significant performance improvement (29%)
- Difficulties in meeting quality standards (25%)
- Difficulties in introducing new working practices (23%)

There are some opinions that some blame for the skills gaps relates to the perceived shortcomings of the UK education system (Schools, Colleges and Universities). The Wolf Report (2011) highlighted

the need for the UK educational system to become more responsive to changing needs in the workplace environment ^[24]. In a FSB survey conducted across its members many reported low confidence in graduates, college and school leavers being ready for the 'world of work' ^[25].

The HBSGS findings largely concur with the UKCES survey results. The three most significant causes of skills gaps in SMEs and large businesses were, see figure 3.2 below:

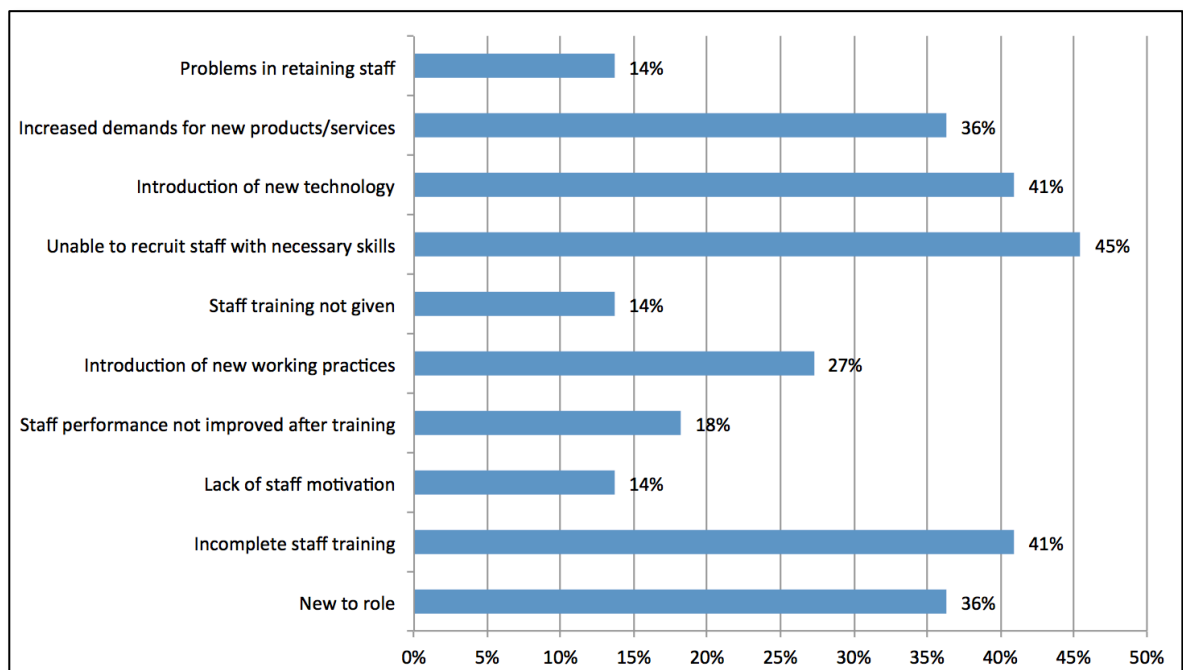
1. Introduction of new technologies or working practices;
2. Inability to recruit staff with necessary skills;
3. Increased demands from new products and services.

HBSGS respondents often mentioned the need to be flexible in the roles and responsibilities they give to new staff:

"We just accept now that if we find someone with the right attitude and behavior we can be more accommodating regards the allocation to specific jobs, choosing those that they are better suited to". [General manager, Food & Accommodation]

"It's simple, they often don't have the basic skills, this is especially true of school/college leavers and graduates. What we do is put these new starters through a 6 week intensive training course and we use our own line trainers for this". [HR manager, Financial & Professional Services]

Figure 3.2 Causes of Skills Gaps (Source: HBSGS)



Many of the medium- to large-sized businesses expressed continued concerns over the writing and communications skills of school, college and university leavers:

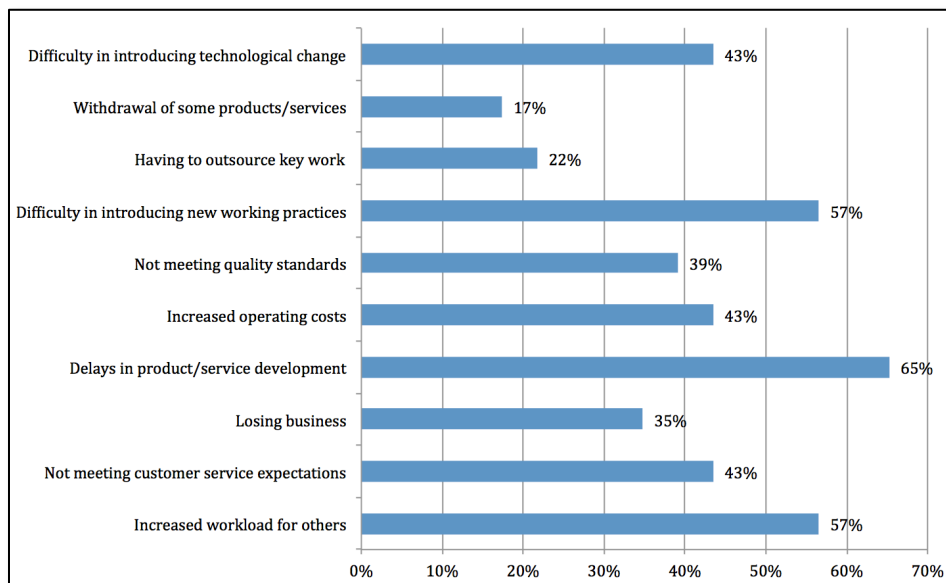
“The problem is that schools, colleges and universities don’t fully address the problem of their students’ written and communication skills. The students often tell us that its never been commented on before by their teachers. We accept it is also the problem of the students themselves admitting it’s a weakness and then doing something about it ”. [General manager, Food & Wholesale]

3.1.4 Impact of Skills Gaps on Employees and the Business

17% of HBSGS respondents considered that these skills gaps had a very significant impact on business performance, financial and non-financial. A further 43% attested to the skills gaps having a significant, or less significant, impact on business performance. The remaining 40% of HBSGS respondents reported no impact on their business. These relative ratios are very similar to those reported in the UKCES survey, where 16% reported a major impact, 48% minor impact, and 36% no impact ^[11]. The top three areas highlighted by HBSGS respondents as having a significant impact on their business performance were: delays in in product/service developments, difficulties in introducing new working practices, and increased workload for other staff, see figure 3.3 below.

“The majority of new staff come in very competent, and we do play to their strengths. Therefore our job descriptions are very adaptable, and every year come the appraisal, we amend their job role and responsibilities to take into account their aspirations, as well as identified skills gaps. This has worked for us, and through this we get the best out of our staff”.
[HR manager, business support services]

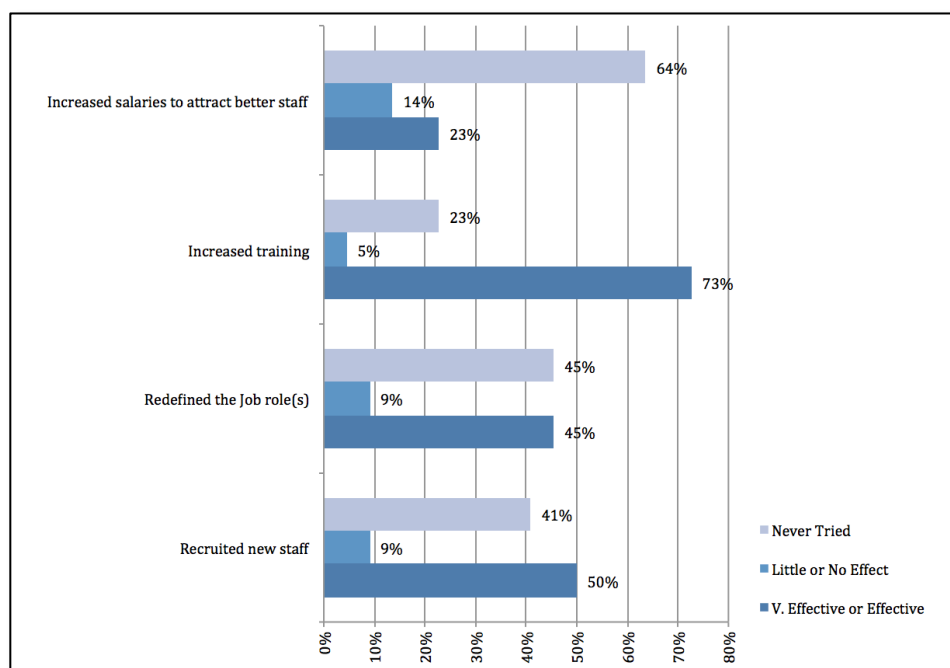
Figure 3.3 Impact of Skills Gap on Business/Workforce (Source: HBSGS)



3.1.5 Actions Taken over Skills Gaps

HBSGS respondents cited three primary actions associated with identifying staff skills gaps: increase training, recruiting new staff, and redefining the job role and responsibilities, see figure 3.4 below. The first of these is discussed in section 3.2 below, the second recruiting new staff links to section 2.2.

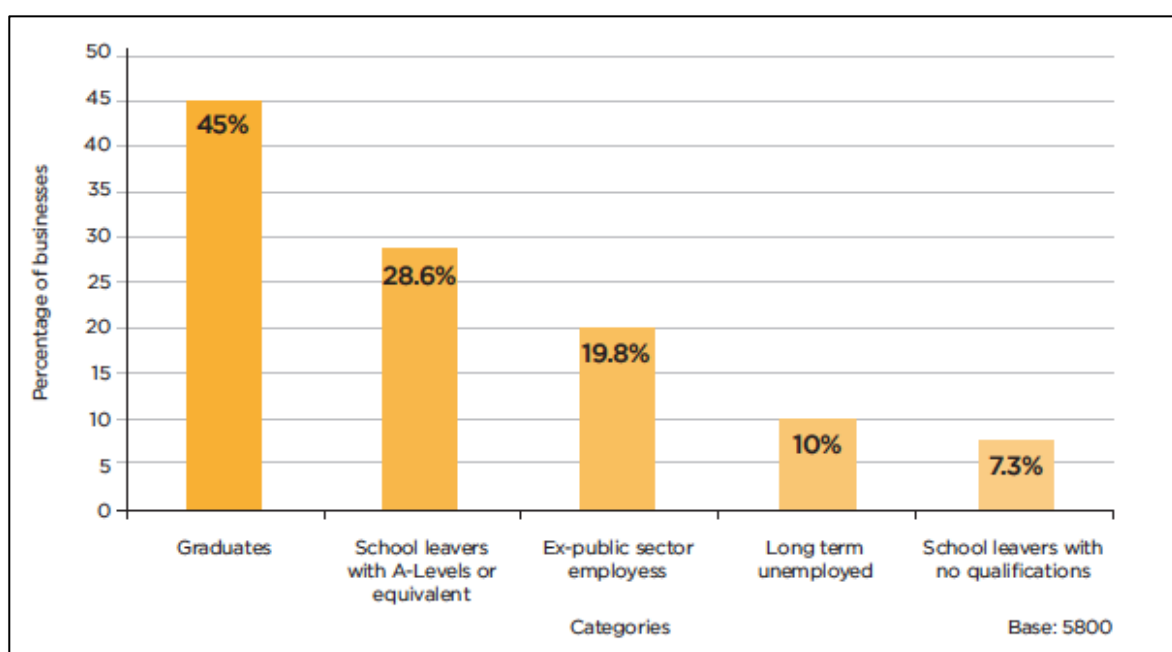
Figure 3.4. Actions Taken to Overcome Skills Gap (Source: HBSGS)



Increased staff training is discussed in section 3.2.

The British Chamber of Commerce (BCC) study, conducted in 2011, revealed that the confidence level of businesses in recruiting staff, based on qualifications, was startlingly low in school leavers with no qualifications and the long term unemployed^[20], see figure 3.5 below. This survey highlighted that 45.4% of businesses found it very or quite difficult to find the right staff with the necessary skills, compared to 27.8 businesses that found it very or quite easy. This difficulty in recruiting staff is connected to their confidence in recruiting individuals with appropriate qualifications and/or previous employment history. 45% of businesses were very or fairly confident in recruiting a graduate, but only 28.6% very or fairly confident in recruiting a school leaver with A-levels or equivalent, see figure 3.5 below. HBSGS respondents were equally concerned about the confidence in employing individuals from school, college or university, commenting on the need to train these individuals in both basic skills and job-specific skills.

Figure 3.5. Proportion of Businesses who were Very or Fairly Confident of Recruiting Individuals from the Following Categories (Source: Skills For Business: More to Learn?, BCC October 2011)



Interestingly, the feedback from the HBSGS respondents suggested that a proactive approach to working with schools, colleges and universities yielded improved candidates. Equally, those businesses who are keen to provide professional and career development opportunities were found to be very supportive of continued skills training:

“We recruit for specific roles, requiring very specific types of engineers and scientists. As long as they have the key skills and competencies in their specific fields, we can deal with both the

general skills gaps around written communications, and those more specific to our systems and processes. On the whole we are happy with school, college and university leavers, but some of that is down to us working with these institutions and telling them what we want and then us cherry picking the best to come and work for us". [HR director, advanced manufacturing]

"We increasingly see the importance of providing leadership and management skills training. The more we can empower our staff the better ownership they have of the need for training, and embracing it with open arms". [Senior manager, health & social services].

Those HBSGS businesses that 'redefined the job role' were mainly the medium and large businesses. They cited a degree of flexibility in moving staff around to help offset short-term skills gaps, and then looked to recruit new staff to fill the vacated role:

"In our business we recognize the importance of forecasting of resources. We can also take advantage of moving our skilled professionals around to alleviate some short-term skills gaps. We are also lucky that we have a good supply of engineers and scientists applying to us and that's probably due to our active campaign in promoting the company at important job fairs too". (HR manager, advanced manufacturer).

3.2 Employer Investment in Training & Skills

The overall UK public expenditure on post-school education and training was over £87 billion in 2010/2011, a doubling in real terms from over twenty years ago ^[18]. At a national level the proportion of the UK population participating in education and training compares very favorably with our European neighbours ^[18]. Out of the 27 EU member states only six (Denmark, Sweden, Finland, UK, Netherlands, Slovenia) have already exceeded the 'strategic framework for European cooperation in education and training' benchmark of having an average of 15% of adults aged 25 – 64 years of age participating in lifelong learning ^[18, 26]. Over 75% of the working age population in the UK, have at least NVQ level 2 qualifications.

The HBSGS findings showed that many businesses invested time/resources into working with schools, colleges and universities to provide working experience for students – on average 5 - 10 days, and running workshops on job interview and CV writing. Many businesses that took graduates from universities also provided work placement opportunities too:

"Generally we are very happy with students coming out of schools, colleges and universities. Of course we acknowledge a responsibility to help provide employability skills through work experience. We are particularly keen to support those early stage years, supporting schools in

promoting STEM subjects. From schools, through colleges and into universities we promote the job opportunities available in advanced manufacturing – we have a number of places for apprenticeships and placement students”. (HR director, advanced manufacturer).

British Chamber of Commerce’s (BCC) study of business investment in staff training suggested that the majority of businesses had a training budget and a training plan ^[20]. Small businesses nationally cite, low awareness and suitability of training providers, and training programmes, as principal reasons for their unwillingness and motivation to train their employees. Communications by national, regional and local public sector agencies and private sector training providers is obviously still an issue for all businesses. HBSGS respondents cited financial cost (27%) and low awareness of local training provision (19%) as two of the top barriers for training.

In other studies associated with the dissemination of information and advice the three most important channels for communication are: Face-to-face (69%), Government websites (55%), and Commercial websites (43%) ^[27].

“We had over 200% staff turnover in the first six months of operations. I guess we suffer like most of the hospitality sector in that we have low wages and most staff see this as a transition to a better paid job. So we have mostly ‘on-the-job’ training, our main training budget goes on our management team”. [General manager, Food & Accommodation]

3.2.1 Incidence of Training in the Last Twelve Months (by occupation)

The Open University Business School Enterprise Research (OUBSER) unit conducts regular quarterly surveys of small businesses in Great Britain. One such recent survey highlighted the disparity between formal training offered by different businesses. This survey cited that 44% of the micro businesses with ‘1 – 4 employees’, did not offer any formal training to staff, this figure dropped dramatically to just 6% for those businesses employing between 50 to 250 employees ^[28]. The UKCES survey in 2012 findings alluded to 53% of businesses with 1 – 4 employees not providing formal training, and 7% of medium businesses not providing formal training over the previous 12 months^[11].

In the HBSGS, over 51% had committed at least one staff member to ‘on-the-job’ or ‘off-the-job’ training, this is comparable to the results from the UKCES of 59% and the OUBSER survey of 56%. Of those, from HBSGS findings, who don’t train, 59% are micro businesses and 17% are small businesses.

“We use the annual appraisals to help identify training needs, and then identify the best training provision. We have tried online training, but our staff prefer the one-to-one training, you know the personal touch”. [HR manager, Financial & Professional Services]

“We do spend a lot of the time with our front of house staff training in oral communications and general customer service skills. Nearly 20% of our staff are graduates or postgraduates, and obviously they are keen to move on to better jobs. A few stay on to try and make the management levels”. [General manager, Food & Accommodation]

HBSGS noted a positive correlation between business size and commitment to staff training with 100% of large businesses (250 or more employees), 71% of medium businesses (50 – 249 employees) and 83% of small businesses (10 – 49 employees), having a commitment to staff training on a yearly basis. Micro businesses (1 – 9 employees) had the lowest commitment to staff training of 44%, see figure 3.2 below. The UKCES study supports these finding, reporting that over 53% of micro businesses surveyed reported staff training over the previous 12 months, 77% of small businesses had a commitment to staff training, and over 90% of medium-sized and large businesses had some staff training too ^[11].

Table 3.2 Training Budgets by Business Size (Source: HBSGS)

Training Budgets	Micro businesses %	Small Businesses %	Medium Businesses %	Large Businesses %
Don't have	56.0	17.0	0.0	0.0
Formal training budget	44.0	83.0	100.0	100.0

74% of Hertfordshire businesses surveyed had a committed yearly training budget, this is comparable to the national average of 66%^[11], and reflects well against Buckinghamshire (64%) and Berkshire (69%).

“A high portion of our training budget goes on our associate professional levels, we take industrial placements and graduates into junior roles. Then we spend 18 – 24 months training them up to be a helping pair of hands to our consultants, this works for us. We like our graduates to be open-minded, I guess that is what we predominantly look for in any new recruit”. [MD, Financial & Professional Services]

3.2.2 Types of Training Provision

Nationally, the small business sector is almost equally split between giving employees time to attend external courses (41%) as it is running internal courses (45%) ^[28]. The use of e-learning provision has

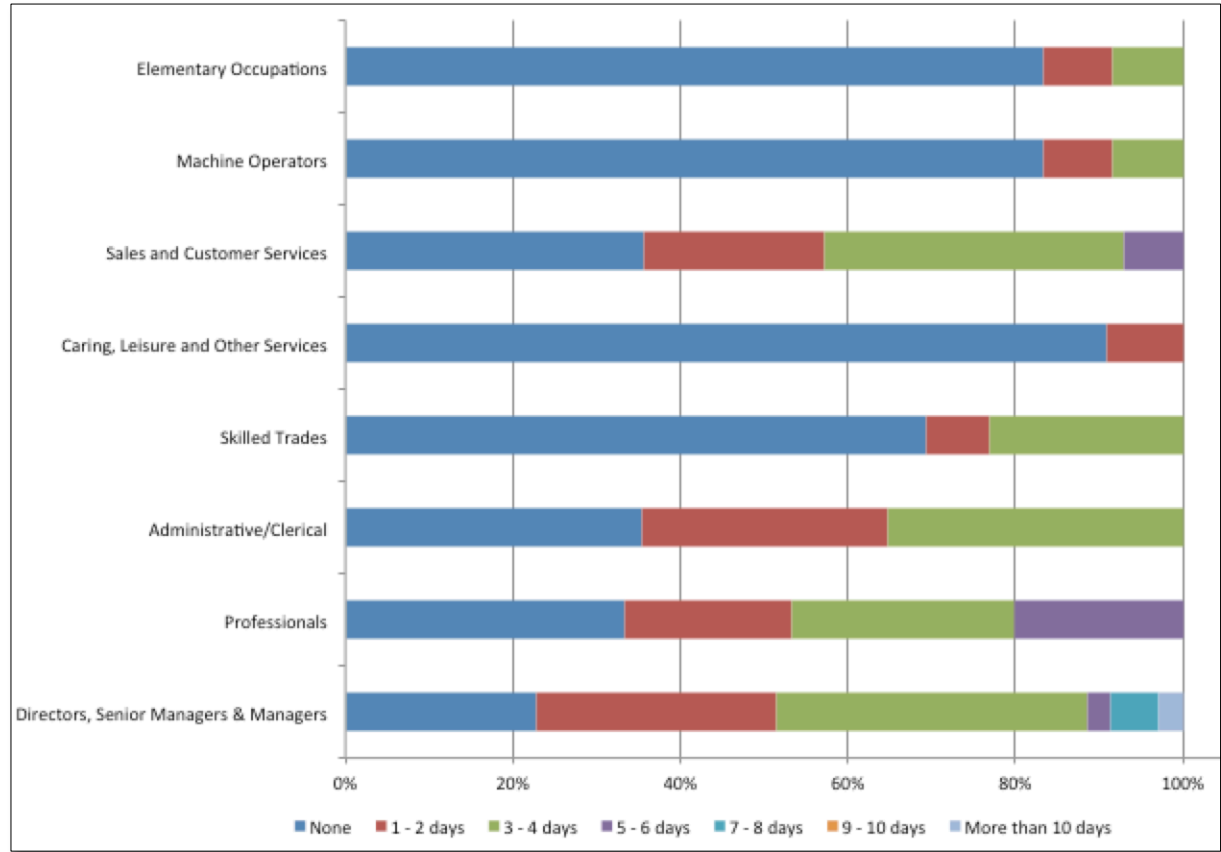
also shown modest increases over the last decade, with micro and small businesses showing nearly 20% usage of this important training tool ^[28].

Labour force surveys conducted for the Office of National Statistics reveals some interesting differences in the types of employees receiving job-related training ^[18]. The first is that some occupations including Managers, Professionals and Associate Professionals, are more likely to receive training than others. Secondly, that senior staff are proportionally receiving more training than lower management or professionals levels. The HBSGS findings support this with: proportionally more Managers, Professionals and Associate Professionals receive training, than Caring, Leisure and Other Services and Elementary and Machine Operatives occupations, see figure 3.6 below.

From the HBSGS findings, some of the training provided by Hertfordshire businesses includes broader skills and training activities, which often are noted as improving overall staff motivation and engagement:

- Supervision/mentoring of staff by line managers and peers
- Using shadowing or observation methods to help staff learn good practices from others
- Being proactive in supporting staff to extend their role and responsibilities.

Figure 3.6 Training Days by Occupation (Source: HBSGS)



Note: Of the businesses who admitted training their staff, the percentages against each profession.

Managers, Professionals, Administrative/Clerical and Sales & Customer Service occupations are shown to receive proportionally more training than other occupations, see figure 3.6 above. This is not unexpected, as nearly 53% of employment in Hertfordshire is in Manager, Professional and Associate Professional occupations, this is again in-line with the findings from the UKCES survey ^[11].

For most micro and small businesses, practice-based or experiential learning approaches were the most effective for these managers/professionals:

“Our professionals are recruited for the skills they bring into the business, but we have challenges where new technology or working practices are being introduced. In these cases, we identify a mentor with experience of these and they coach the other staff. This has proved to be highly effective and productive” [Owner-Manager, Financial & Professional Services]

Many employers undertake their own ‘off-the-job’ training, where staff attend training sessions away from their workplace on- and off-site:

“50% of our training is carried out in-house, the rest we use an external company. This company is highly specialized in providing customer service and sales training, they help us measure the outcomes and impact of the training. That makes it so much easier to justify the expense against returns”. [HR, Financial & Professional Services]

“Not everyone comes onto the training fully motivated, the need has often been identified based on responsibilities that they don’t like, and they are not great at. So we put on these courses, targeted at beginners, intermediate and advanced needs – the most common courses are on excel and project management”. [HR, Financial & Professional Services]

3.2.3 Accredited Training

Data collected by the Department of Education on the awarding of National Vocational Qualifications (NVQs), in schools and at the workplace, over a twenty year period from 1991 – 2009 highlighted the dramatic increase in NVQ level 2 qualifications awarded from 153,000 in 1991/92, to over 958,000 in 2008/09 ^[18]. This has largely resulted out of government funded initiatives.

Some HBSGS respondents in sectors such as health and social services, manufacturing and advanced manufacturing noted the importance of accredited training in increasing the overall competence of their workforces:

“Government driven regulations associated with the social-care qualified staff are starting to hit our business. It’s becoming increasingly important for 20 – 30% of our staff to attain accredited training, we are talking about NVQ level 2 to 3”. [Senior manager, Health Services]

The Higher Education Institutes (HEIs) are a significant provider of accredited training in the UK, having strong links to the professional institutions and national training bodies. Hertfordshire colleges and the University of Hertfordshire both play an active role in accredited training provision with the county. Income from Continuous Professional Development (CPD) in HEIs for 2011-12 was over £651 million, an 8% rise from the previous year ^[29].

3.2.4 Training Expenditure

The UK employer expenditure on training in 2011 was estimated to be £49 billion, roughly split into £25.8 billion for ‘on the job’ training and £23.2 billion for ‘off the job’ training ^[18]. The training expenditure varies widely across different sectors.

In some sectors where highly skilled professionals are essential to the growth and development of the business, significant activities to encourage new and existing workforce training are taking place:

“Industries like ours, Aerospace, is heavily dependent on professionals with scientific backgrounds. We are obviously vulnerable like many in our sector to the fact that we have an aging workforce. This will bring with it problems, with many leaving or retiring. Some of the vacancies are in those ‘hard-to-fill’ areas, here we have to recruit nationally and internationally. We attribute our success to being proactive in our training, and working with schools, colleges and universities, encouraging them to come for work experience. We keep our eyes on those that ‘shine’ and will offer them jobs when they leave/graduate” (HR manager, Advanced Manufacturing).

“We work on very tight margins. A general criticism of training provision in the social care sector is it becoming increasingly expensive”. [Senior manager, Health Services]

Many HBSGS respondents admitted to focusing their training plans and budgets on core staff, where training directly correlated to an increase in productivity, and/or other measurable financial benefits:

“We have a broad range of occupations in our business, but it’s mainly our recent graduates, intermediate managers and administration staff where we focus the training”. [HR, Financial & Professional Services]

“We are constantly looking for people who have business strategy and planning experience, and particular specialisms in one of the key areas: sales, marketing, logistics and other business system areas. We are constantly amazed at the low-level of strategic management skills, even from recent graduates. We therefore have to use our limited training budget on training them”. [HR manager, Financial & Professional Services]

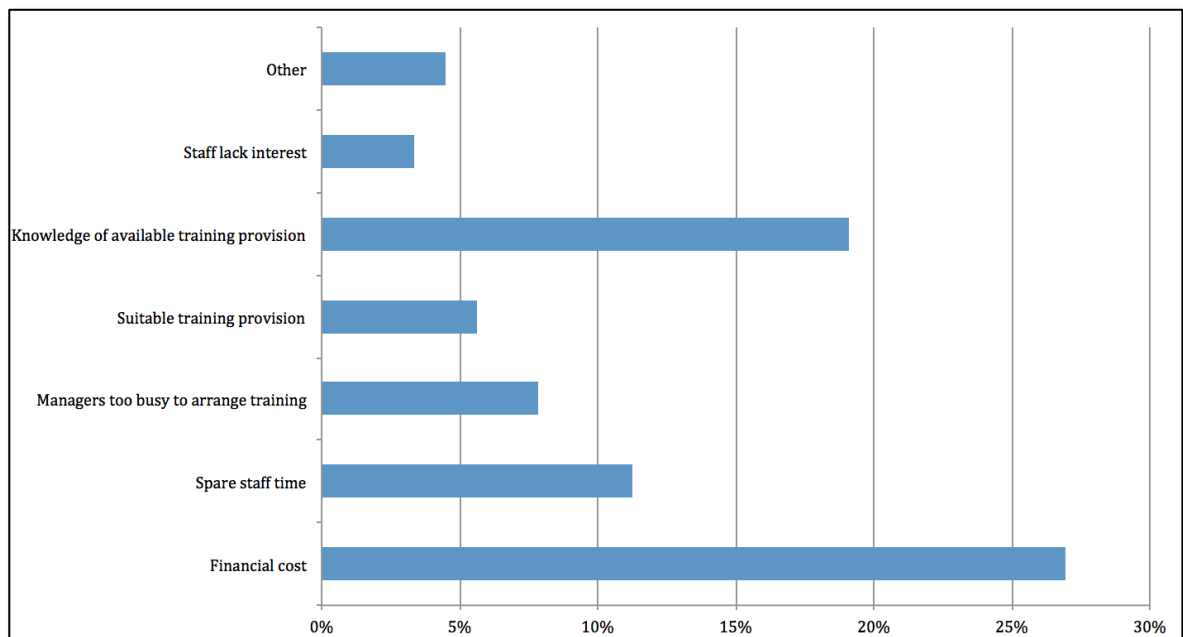
The UKCES survey in 2012 cited that the employer training budget, for 2011, of £49billion was the equivalent of £1,775 per UK employee, or £3,275 per person trained^[11]. The top 3 sectors for staff skills training were Public Administration, Education and Health & Social Work. The bottom 3 sectors for staff training were Manufacturing, Construction and Transport & Communications. The HBSGS findings were slightly different, in that the top 3 sectors for staff training were Professional & Scientific Services, Health & Social Services and Education. The bottom 3 sectors for staff training were Manufacturing, Construction and Transport & Communications.

3.3 Barriers to Staff Training

In the HBSGS findings over 74% of Hertfordshire businesses reported having a training budget, but only 51% acknowledged that they had sent at least one staff member on a formal training course. Since only 21% of businesses suggested that their staff were fully proficient what were the reasons that the remaining businesses were reluctant to send their non-proficient staff on training courses?

The most noted reason was financial costs (27%), also high on the list was the ‘lack of knowledge of available training provision’ (19%), and the ‘availability of staff time to commit to ‘on-the-job’ and ‘off-the-job’ training’ (11%), see figure 3.7 below.

Figure 3.7 Barriers to Training (Source: HBSGS)



Some HBSGS respondents are large enough so that they can fund their own trainers:

“We have seen the benefits of having trainers, they spend 80 – 90% of their time training other staff. Often because of the financial sector regulations we are forced to undertake our own training, being certain that the professionals offering financial advice have a complete knowledge of the financial and pensions regulations and legislation.” [HR manager, Financial & Professional Services]

Some barriers are more significant in sectors like Health Services:

“The biggest barrier to training in our sector is taking people away from their work for several days. This adds additional burdens to the remaining staff workload”. [Senior manager, Health Services]

4 Conclusions

In general the Hertfordshire business profile is similar to both East of England and the United Kingdom:

- Hertfordshire: 89.9% micro businesses, 8.1% small businesses, 1.5% medium businesses and 0.5% large businesses;
- East of England: 88.9% micro businesses, 9.2% small businesses, 1.6% medium businesses and 0.4% large businesses;
- United Kingdom: 88.2% micro businesses, 9.7% small businesses, 1.7% medium businesses and 0.4% large businesses;

The top three sectors accounting for 70% of employment in Hertfordshire are: Financial & Professional services (29.1%), Public Admin, Education and Health (20.9%) and Retail & Wholesale (19.4%). Significantly, Hertfordshire has higher employment levels than the rest of the UK in Retail & Wholesale (19.4% vs. 15.9%), Financial & Professional Services (29.1% vs. 21.8%), Information & Communications (4.9% vs. 4.0%). This supports Hertfordshire's claim to having world-class companies in the areas of Life Sciences, Advanced Manufacturing, Information & Communications, Financial & Professional Services and High-value Logistics. These world-class leading sectors are in highly competitive marketplaces requiring continued support to develop and improve to help retain their competitive advantage. There is significant competition from other Local Enterprise Partnerships economies (EnterpriseM3, Greater Cambridge and Greater Peterborough and London), hence the need to support these key employment sectors, and give a competitive edge to Hertfordshire businesses, thus attract further inward investment and job creation.

Reflecting on the sector employment level differences between Hertfordshire and the rest of the United Kingdom, there are also some significant differences with regards to the occupational employment levels. In the area of Managers, Professional, and Associate Professional occupations Hertfordshire has above the average employment levels (52.8% vs. 44.5%). Hertfordshire is in the Top 3 in England, after London and Thames Valley Berkshire LEPS, regarding the employment of highly skilled professionals. This skilled workforce significantly contributes to the economic output and drive for new enterprise, investment and new industries in the area^[5]. Increasingly Hertfordshire businesses are competing for these highly skilled professionals with London's businesses^[19], and the draw from other LEP areas^[30] (resulting in a net loss of 36,000 commuters, many of whom are highly qualified).

In the area of Administrative & Secretarial and Skilled Trades occupations, Hertfordshire is on a level with the rest of UK (21.2% vs. 21.4%). However, in the area of Caring, Leisure and Other Service and Sales & Customer Services occupations Hertfordshire has lower employment levels than the rest of UK (14.3% vs. 17.0%), and more significantly in the Process Plant & Machine Operatives and Elementary occupations Hertfordshire's employment level is less than the rest of the UK (11.8% vs. 17.1%).

A previous study, Regeneris Consulting, conducted on Hertfordshire business employment predicted for the period of 2011-2030 a 16% employment growth rate^[10]. However, over the same period Cambridgeshire and Berkshire have predicted employment growth rates of 25% and 23% respectively^[10]. These employment growth rates for these two counties are in high value sectors like: advanced manufacturing, financial and business services and life sciences. Hertfordshire's predicted employment growth rates are in low value sectors like: wholesale and retail. There are some high-value sectors in Hertfordshire that are predicted to have strong employment growth like high-end logistics, communications and IT, and financial and business sectors. These sectors are also noted for their high levels of innovation and knowledge-based employment. Previous studies on successful local economies have highlighted the resilience of these particular high innovation performers. Those LEPs that had the greatest success in these innovation and knowledge-based sectors are: London, Thames Valley Berkshire, Enterprise M3, Greater Cambridge and Greater Peterborough and Oxfordshire^[5]. To increase productivity and growth in these high-value sectors, then more investment is needed in skills and employment support, and a general focus on promoting innovation and attracting start-ups and re-location of new businesses in these high-value industries. Increases in skills gaps or deficiencies reported by Hertfordshire businesses may also indicate that with growing local economic improvements and more businesses switching from a survival to a business development strategy that skill demand is out pacing skill supply^[31]. This should be a short to medium-term issue as more businesses address these skills gaps by increasing training spend, certainly when more see a stronger link between these skill deficiencies and business performance.

4.1 Skills Needs and Impact of Skills Gaps

Ernst & Young's annual report on Foreign Direct Investment (FDI) into the UK highlights the significant benefits that accrue from foreign investments in projects and foreign companies setting up operations in this country^[32]. Four highly important drivers for these FDI's that directly relate to where these go within the UK are:

- Technology, telecommunications infrastructure
- Transport and logistics infrastructure

- Local labour skill levels
- Entrepreneurial culture and entrepreneurship

It is not therefore surprising that London attracts the largest FDI with over 45% of all UK projects, East of England attracts 3%. Interestingly, the 2011 European Cities Monitor survey cited: easy access to markets, customer or clients; availability of qualified staff and cost of staff; as three out of the top six reasons for locating a business^[33]. These factors are all key strengths of Hertfordshire's local economy, and one area that the Hertfordshire LEP can more actively promote to foreign companies. FDI's are attracted to local economies that have specialists tacit knowledge, market knowledge, ideas, creativity, innovation and networks^[5]. The question that needs asking is what kind of FDI best fits with Hertfordshire LEP's investment strategies, the assets – skills and sectors strengths, and current and future market conditions?

SME employers, from national/regional surveys and HBSGS, have highlighted the difficulties in recruiting employees with both the specific skills requirement for the advertised job, but also applicants often lacked the general skills requirements to be effective in the workplace. Some employers blame this on the education system, college and university graduates lacking basic employability skills (oral & written communications, basic & advanced IT, strategic management and planning/organization)^[28]. Many of the HBSGS respondents, who demand more technical or specific job skills, have changed their recruitment strategy from skill-oriented to attitude-oriented, believing that an applicant that has the basic skills and a positive attitude, behavior and personality is more trainable long term. This shift in employers focusing on a positive work ethic and motivation to work harder has been reported in other regional skills studies^[30, 31].

Hertfordshire LEP is an attractive location for enterprises to set-up businesses because of its proximity to London and its excellent transport and logistics infrastructure. Hertfordshire also has a high level of skilled residents (41.7%), with excellent quality of life standards of schools, housing and health provision. However, there are some challenges to Hertfordshire's future growth:

- The ONS annual population survey suggests that Hertfordshire residents are better qualified than their peers in both East of England and the rest of Great Britain:
 - NVQ level 4 and above (degree level) – 41.7% - 33.2% - 35.2%
 - NVQ level 3 and above (A or BTEC levels) – 61.4% - 53.6% - 55.8%
 - NVQ level 2 and above (O levels) – 78.4% - 72.7% - 72.5%

Hertfordshire working age population with degree-level qualifications, rank 8th in England behind London, Oxfordshire, Buckinghamshire Thames Valley, Gloucestershire, Coast to Capital, Enterprise M3 LEPs^[5]. This correlates with the number of local residents employed within Hertfordshire in professional and managerial occupations. Slightly more concerning is

that of Hertfordshire resident graduates who graduate, only 39.2% opt to work in the LEP area immediately after completing their course of study, compared to 76.9% in London. The presence of London does obviously play a role of these recent resident graduates choices^[5].

- HBSGS findings highlight that 23% of micro businesses, 54% of small businesses and 56% of medium businesses reported an overall increase in staff employment over the previous 12 months. The top five sectors' reporting an overall increase in staff employment were: Financial & Professional Services, Education, Health Services, Life sciences, Information & Communications, Construction. Notably, Retail & Wholesale and Utilities & Waste Management sectors reported decreases in staff employment. The majority of the new staff employed were Managers or Professionals, supporting the data from ONS, that the largest share (52.8%) of employer workforces are now in these higher level skilled professions. Future increases employment are likely to continue to favour these professions. Highest employment levels for the skilled professions are likely to be in the high-value growth sectors, Pharmaceutical, High-value Logistics, Advanced Manufacturing in Hertfordshire. This is comparable with other LEP areas like Enterprise M3, London and Greater Cambridge and Greater Peterborough^[5, 30, 31].
- HBSGS respondents reported that nearly 17% had taken on an apprentice at level 2 in the last 12 months, and 77% of these employers had taken on at least one apprentice at levels 3 or 4. Of those businesses taking on an apprentice, they (on average) employed 3.4 level 2 apprentices, and 1.7 level 3 or 4 apprentices. The uptake of apprenticeships in Hertfordshire is dominated by large and medium businesses. This avenue by which school and college leavers can gain valuable workplace learning is steadily growing, but understanding why more small businesses are ambivalent about apprenticeships would be useful. Other LEPs have reported the same findings^[31]. Some initial findings from interviewed small business owner-managers highlighted their lack of awareness of the cost-benefits of taking on apprenticeships. This should be an avenue to pursue.
- HBSGS respondents reported that the top five identified skills gaps were: advanced IT, planning and organizational, strategic management, problem solving and technical/practical skills. These skills gaps are comparable to nationwide surveys conducted by UKCES and some professional institutions like IET. Encouragement of all businesses, but especially those in sectors like software and business services, in training employees in these skills would increase their attractiveness to FDI's^[5].
- HBSGS findings identified that the most common causes of these skills gaps were: introduction of new technologies and working practices, inability to recruit staff with initial necessary skills, and increased demand to launch new products and services. Of those Hertfordshire businesses that had identified skills gaps in their staff, over 80% of them had

addressed or planned to address these through additional staff training in the current financial year. This compares favourably with other LEP areas – Buckinghamshire (78%)^[31].

- 17% of HBSGS respondents suggested that these skills gaps had a very significant impact on overall business performance, against 43% suggesting that the skills gap had a less significant impact on business performance. Other LEP areas, Buckinghamshire and Enterprise M3, have also reported that less than 20% of their businesses suggested that skills are constraining their business development strategies^[30, 31]. This is in-line with the UKCES findings of 16% reporting a major impact, 48% minor impact and 36% reporting no impact. The top four areas where skills gaps impact on the business are: delay in new product/service development and launch, difficulty in introducing new working practices, increased workload for other staff, and difficulty in introducing technological change. It has been suggested in other studies that the relatively low impact reported by businesses as a consequence of skills gaps maybe be related to the ambition of these businesses to grow^[31]. This is likely to change as more and more businesses view the improving UK economic as an opportunity to grow.

Future local economic success will increasingly be dependent on human talent, talented individuals who have specific skills needed for those high-growth sectors, and at the same time those disadvantaged individuals who need the opportunity to engage or re-engage with the labour market.

4.2 Actions and Barriers to Addressing Skills Gaps

In the introduction section to this report it was noted that skills contribute significantly to local economic output, by influencing productivity and employability. Alongside these basic economic roles of skills, there is another more influential one that directly impacts on those important antecedents of increasing economic output: enterprises, investment, value and new industries; that is its dynamic role^[5]. The dynamic role of individual skills is critical for enterprises and industries in:

- Developing enterprising behaviour likely to lead to new venture creation;
- Creating a high quality and valuable workforce, facilitating the attraction of FDI's and other local enterprises, and at the same time retaining existing employers in the local economy;
- Helping to develop leadership and management skills in the Managers, Professionals and Associate Professionals that understand and support further skills development in the workplace, on the one hand increasing productivity, but also helping develop new product/service market strategies that lead to high-value activities in the local economy;
- Providing a pool of highly skilled individuals who will be the foundation of new developing industries, and help develop these throughout their initial growth development cycle.

Local economies whose key strengths are a high-level of skilled residents, capacity for creativity and innovation and excellent transport and logistics infrastructures are best served by having a diverse economy around key high-growth sectors. This provides a greater variety of employment opportunities for workers and entrepreneurs with varying levels of skills, education and work experience. Hertfordshire has historic strengths in creating knowledge and transforming that into economic growth, the aerospace sector.

Repeated research demonstrates the critical value of innovation in driving economic growth and development^[34]. One of the fundamental values of innovation is in driving competitive advantage by creating new and more efficient methods of generating products and services^[5]. The net benefits of these innovation drivers is that they ultimately gain more market share and grow their businesses, and recruit more employees.

The HBSGS highlights a number of areas where Hertfordshire employers have identified potential barriers to addressing their workforces' skills gaps:

- 73% of HBSGS respondents committed to 'increased training' as the primary tool by which they address skills gaps in their staff, 50% resorted to recruiting new staff, whilst 45% redefined the job role and responsibilities to help their staff. HBSGS findings show that Hertfordshire business investment in training is high, and is comparable overall with other leading LEPs in England. Overall investment in supporting businesses to prioritise and allocate resources to training is beneficial. However, public sector resources to invest in the different skills training both in the businesses, and at our local further education colleges and universities is very challenging^[5]. This workforce development by enterprises has a very positive effect on the local economy, by effectively up skilling the current local workforce and generally improving their productivity. This has the additional benefit of enhancing the competitiveness of Hertfordshire businesses, and increasing the likelihood of employees remaining in the business. Another reason for Hertfordshire businesses favouring an increased training strategy is the difficulty these businesses face in recruiting new staff with the required skills and experience, a factor picked up in other LEP skill studies^[31], and at a national level by the UKCES study in 2012^[11].
- National studies by the British Chamber of Commerce (2011) identified that only 45% of employers surveyed were very, or fairly, confident of recruiting graduates. Most accepted that graduates were not fully prepared for the work place. Many identified that they lacked basic skills and competencies (30%), had a poor attitude or motivation in the workplace (20%), and had limited work experience (40%). This links with the HBSGS findings and analysis of where Hertfordshire's workforce structure is changing as Managers and

Professional occupational roles are increasingly, calling with higher skilled employees, most of whom will be graduates, with their inherent skills gaps. These Managers and Professional occupations encompass a broader range of tasks, outside of those normally associated with these roles 10 – 20 years ago, stretching those incumbents' current skills and demanding higher skills levels. Hence these employers are more demanding of their graduate entrants, looking beyond basic skills and for signs of agility and flexibility in their thinking and approach.

- 51% of HBSGS respondents committed at least one staff member to 'on-the-job' or 'off-the-job' training in the previous 12 months. The UKCES survey recorded that 59% of businesses had committed at least one staff member to training in the previous 12 months. Nearly 56% of micro businesses and 17% of small businesses admitted to no formal staff training. Of those businesses that did not engage in skills training over 50% cited the principal reason being that their staff were full proficient, the next most cited reason was financial cost (27%). These are very similar to other LEP areas^[31] and the national picture^[11].
- HBSGS findings revealed that 70% of businesses had either/both a training plan and budget for the current year, this is comparable with adjacent counties like Buckinghamshire (64%) and Berkshire (69%)^[31]. Almost all of businesses that take action over identified skills gaps undertake skills training, with some complementing this with the recruitment of additional staff with the required skills, and redefining staff roles^[11]. Over 90% of Hertfordshire businesses that use external training companies are very satisfied with all forms of provision, this is comparable with other adjacent LEP areas^[19, 30, 31, 35].
- HBSGS highlighted that apart from very job specific skills training, many businesses provided broader training on: supervision/mentoring skills for line managers, leadership training and business management. This perhaps reflects that over 52.8% of Hertfordshire employment is in professional and management occupations, these staff do receive more training compared to any other business occupations. Hertfordshire is ranked fifth in LEP areas regarding having a high-technology, knowledge intensive economy and having relatively high levels of employment in scientific Research and Development (R&D) activities^[5]. The knowledge-intensive sectors depend on a high-level of 'tacit' knowledge, they utilise the expertise and experience of high-skilled people - people who require on-going training to remain productive, creative and innovative.

Hertfordshire businesses are well placed, through access to skilled and qualified workforce, to take the opportunities presented by an improving local economy. But more businesses will need to be persuaded to invest in recruitment, training and development of their existing and new staff. These new recruits will become the backbone of their future workforce as existing workers grow old and

retire, and as such will need continued access to training to help develop and react to changing skills needs. The business case for Hertfordshire business investment in this is a mix of short-term (lower employee churn, cost effectiveness, flexibility and willingness to learn) and longer-term benefits (creative and innovative culture, openness to marketplace insights and networks and future-proofing).

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