

## THEMATIC GUIDE 1

# Skills Gap & Labour Market:

*Addressing Workforce Challenges to Unlock Regional Growth*

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### Key words

Midlands, productivity, skills gap, labour market, workforce development, upskilling, reskilling

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# Introduction

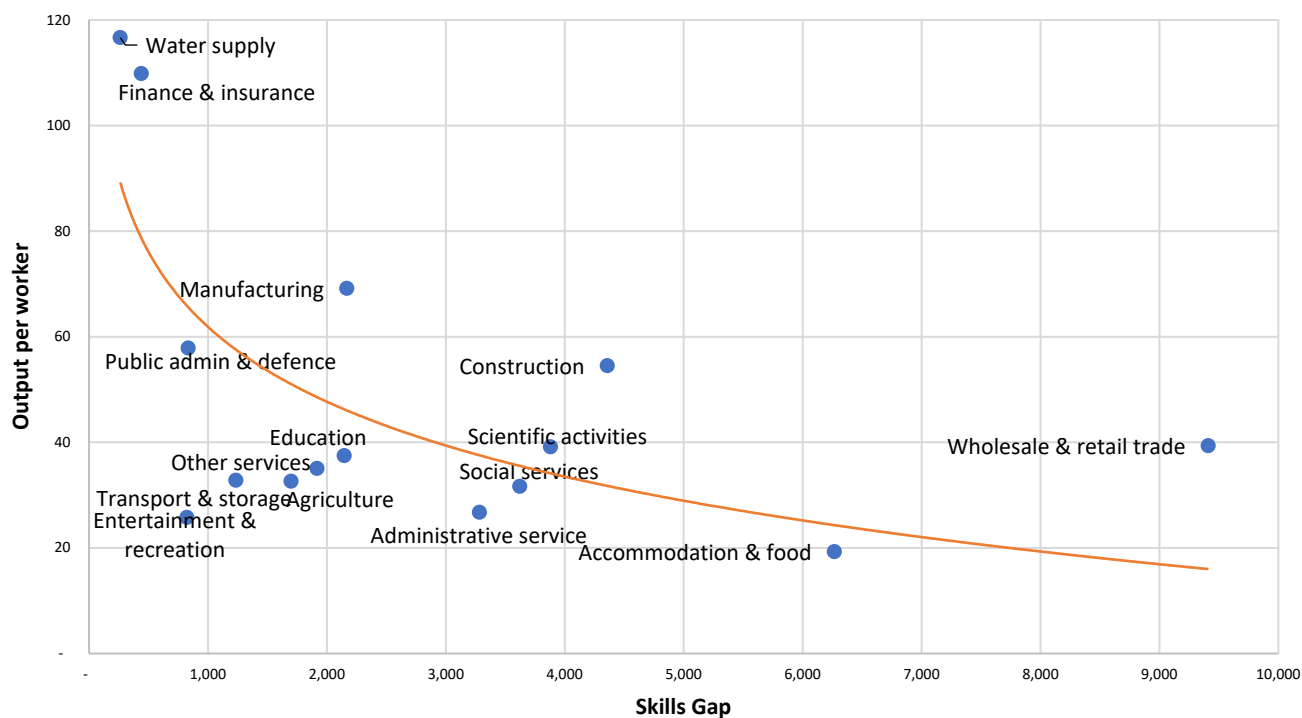
The Midlands region, much like the rest of the UK, faces a persistent and widening skills gap that is impeding productivity growth and economic resilience. While the region has strengths in high-value sectors such as manufacturing, technology, and healthcare, the shortage of appropriately skilled labour has become a critical bottleneck to business growth and regional prosperity.

**Between 2017 and 2022, the Midlands experienced a 78% increase in the number of job vacancies and a 156% rise in skill-shortage vacancies** in the East Midlands alone [1]. These figures point to a sharp mismatch between the skills required by employers and the skills available in the labour market. Alongside this, demographic changes, an ageing workforce, and evolving labour market dynamics have further intensified workforce challenges across the region.

A sectoral level data (Figure 1) shows how **the skills gap is closely correlated with lower productivity** across industries. Sectors experiencing the largest skills shortages, such as wholesale and retail trade, accommodation and food services, and administrative services, tend to have significantly lower output per worker. Conversely, high-productivity sectors like water supply, finance and insurance, and manufacturing report relatively smaller skills gaps. This pattern underscores the urgent need for targeted skills development strategies, particularly in sectors where both the skills gap and low productivity are most pronounced.

If unaddressed, the skills gap will not only constrain the Midlands' ability to attract investment and drive innovation, but also exacerbate regional inequalities in employment and earnings. This thematic guide explores the scale and nature of the skills gap in the Midlands, its impact on businesses and productivity, and highlights promising interventions and strategies to close the gap and build a more resilient and competitive workforce for the future.

Figure 1: Midlands: Skill-gaps and Output per worker



Sources: ONS chained volume GVA measures, Workforce jobs and the Employer Skills Survey data for 2022 at sectoral level (Midlands only); The skills gap is the number of businesses reported a skill gap issue

# The Situation with Skills and Labour in Midlands

## Skills Shortages in Critical Sectors

A significant portion of the skills gap in the Midlands is concentrated in high-growth, high-productivity sectors such as digital technologies, engineering, healthcare, and advanced manufacturing. The Employer Skills Survey [6] highlighted that skill shortages are particularly pronounced in technical, communication, and digital skills, with both the West and East Midlands experiencing severe difficulties in filling vacancies for these roles.

For instance, **in 2022, the number of hard-to-fill vacancies increased by 180% in the East Midlands and 71% in the West Midlands**, with skill-shortage vacancies following a similar trend. This not only hampers businesses' ability to grow but also has a negative impact on productivity, as critical roles remain vacant for longer periods. The mismatch between the supply of skilled labour and demand from businesses in key sectors limits the region's capacity to innovate and compete in global markets. **The National Skills Fund, formerly the National Retraining Scheme, aimed to address these shortages** by focusing on Level 3 qualifications but often misses the critical needs at Level 2, further highlighting the mismatch between policy initiatives and regional labour demands.

Hard-to-fill vacancies refer to job openings that employers struggle to fill due to a lack of candidates with the required skills, qualifications, or experience. The sharp rise in hard-to-fill vacancies across the Midlands has had a direct impact on regional productivity. Our analysis [7] shows a clear negative correlation between the number of hard-to-fill vacancies and GVA per job. **Areas with higher concentrations of skill shortages, such as the East Midlands, tend to have lower productivity levels**, as businesses are unable to operate at full capacity due to understaffing. In addition, businesses in these areas are often forced to reduce their growth ambitions or outsource critical tasks, further limiting their productivity potential.

Innovative recruitment **solutions, such as Arctic Shores' AI-powered platform (Case Study 1)**, demonstrate how employers are responding to these challenges by **rethinking traditional hiring practices**. By focusing on candidates' potential and transferable skills rather than rigid qualifications, such approaches offer a promising way to widen the talent pool and better match workforce supply with business needs, particularly for hard-to-fill roles. The following case highlights an example from Samsung's experience.

Case study 1: Arctic Shores' AI Platform	
<p><b>Objective:</b> Innovate recruitment by focusing on candidates' potential rather than just qualifications, addressing the skills gap in a rapidly evolving labour market.</p> <p><b>Solution:</b> Samsung adopted Arctic Shores' AI-powered task-based psychometric assessments, which evaluate candidates' cognitive abilities and behaviours through interactive tasks, bypassing traditional CV biases.</p> <p><b>Impact:</b> This approach broadened Samsung's talent pool, improved diversity, reduced hiring times, and enhanced the candidate experience by focusing on potential and transferable skills, proving effective for filling critical, hard-to-fill roles.</p>	<p><b>45%</b> of job seekers have used generative AI to build their job applications, according to a recent survey of <b>5000</b> people</p> <p><b>Forbes, 2024</b></p>

## Demographic Challenges and Labour Force Decline

*“Over the next 20 years, our working age population is going to shrink by on average 25 per cent.”*

Financial Times (2024)

The Midlands faces significant demographic challenges that compound the skills gap. The region is experiencing an aging population, with the proportion of the workforce aged 50 and over steadily increasing, while younger workers are either leaving the region or not entering the labour market at the rates required to replace retirees. **The population aged 16-24 has been declining**, with many young people moving to other parts of the UK, particularly London, in search of better job opportunities. This trend exacerbates the skills shortage in critical sectors, as fewer young workers are available to fill roles in the region's high-value industries.

Compounding the issue, **a quarter of the working-age population in the Midlands is either unemployed, inactive, or long-term sick**. This high level of economic inactivity is a significant drag on regional productivity, as businesses struggle to find the talent they need to grow and innovate. The region's labour market dynamics are further complicated by low participation in education and training programs, which hinders the development of new skills among both unemployed and employed individuals.

Furthermore, **a lack of lifelong learning culture as a major barrier**, with many in sectors like manufacturing expecting to remain in the same job roles throughout their careers, which further hinders the regional capacity for adaptive workforce development.

### Lack of Incentives for Upskilling and Reskilling

Despite the evident need for skills development, many employers in the Midlands are not investing sufficiently in upskilling their workforce. A 2023 report found that **63% of organisations in the Midlands do not provide any training to their employees** [2]. This is particularly concerning given the correlation between training and productivity. In sectors where training is neglected, businesses often report lower levels of productivity and struggle to keep up with technological advancements.

**The lack of employer investment in training** can be attributed to several factors, including the costs associated with providing training, **a lack of awareness of available funding or support programs**, and uncertainty about the return on investment. However, without significant efforts to address these barriers, the skills gap in the Midlands is likely to worsen, further undermining the region's economic potential.

The fragmented nature of adult education and upskilling reflects a 'piecemeal approach' that lacks coherence and long-term strategy, underscoring the need for more targeted and flexible policy responses that align with employer and regional needs.

Without stronger and more coherent upskilling strategies, the Midlands risks falling further behind in workforce competitiveness. One **national initiative aimed at addressing these challenges is the National Skills Fund (Case Study 2)**, which seeks to expand access to Level 3 qualifications and support

lifelong learning. The following case examines how the NSF has attempted to incentivise upskilling and reskilling, and the lessons emerging from its early implementation.

Case study 2: National Skill Fund (NSF)	
<p><b>Objective:</b> Upskill and retrain the adult workforce with a focus on long-term skill gaps, fostering participation in high-value sectors.</p> <p><b>Implementation:</b> Launched with a £2.5 billion budget, the NSF offers free Level 3 qualifications to adults lacking these credentials, addressing the mid-level skills shortage critical to the labour market.</p> <p><b>Results:</b> Subsidised learning increased enrolment, with the NSF boosting employer engagement in workforce training, particularly in sectors traditionally underrepresented in such initiatives. However, challenges include mismatches in local training needs and concerns about the deadweight effect of funding training that would have occurred without subsidies.</p>	<p>4m or 1/8</p> <p>will need retraining and upskilling in the UK by 2030 to improve worker productivity</p> <p>Bain, 2024</p>

### The Apprenticeship Levy scheme

Introduced as a mechanism to boost vocational training and increase productivity by funding apprenticeships through a tax on large firms, The **Apprenticeship Levy should solve the skill gap and labour shortage problems**. Firms are required to contribute 0.5% of their payroll costs to the levy, with the intent that these funds are used to support apprenticeship training. However, these contributions are channelled into the National Treasury and firms must claim the funds within two years, leading to pressures and inefficiencies. The [CIPD](#) reported that **the number of apprentices starting declined by 49% in small businesses and 14% in large firms** [1].

So, **why the numbers are falling?** Many businesses report **difficulties in utilising their levy funds within the two-year limit**. This deadline (Table 1) often leads to rushed decisions on training, potentially **compromising the quality and relevance of apprenticeships to the firms' needs**. The restrictive nature of what qualifies as an 'apprenticeship' under **the levy guidelines further complicates fund usage**. Companies find themselves constrained to use these funds for traditional apprenticeship routes, which may not align with urgent upskilling needs, especially for key workers in non-traditional roles.

The levy's narrow definition of eligible training has led many firms to channel **funds toward broader apprenticeship programmes—such as business administration or compliance roles—rather than the technical upskilling urgently needed** for shop floor and operational roles. This misalignment suggests a need for broader definitions and flexibility in the apprenticeship standards to encompass a wider array of in-demand skills and emerging roles within industries.

**A further complication is the scarcity of local apprenticeship providers** capable of delivering the specialised training required by businesses. Part of the reason for this “local provider” shortage is the growing skew toward broader apprenticeship programmes where the levy funds end up going. As a result, providers offering technical or operational apprenticeships have struggled to expand or sustain

Table 1: Apprenticeships

Academic year	Apprenticeship starts
2016/17	495,000
2017/18	376,000
2018/19	389,000
2022/23	337,140

Source: [DfE Apprenticeships and traineeships](#)

themselves – or not being able to cover operational expenses to run them – deepening the mismatch between workforce needs and available training. This lack leads to underutilisation of levy funds, as firms cannot find suitable partners within their geographical area to deliver the training their workforce truly needs.

Employment Trends and Economic Activity in Midlands

*“Inactivity rate for people aged 16 to 64 years was estimated at 22.1% in January to March 2024, above estimates of a year ago, and increased in the latest quarter”*

ONS (2024)

The Midlands' labour market is marked by significant regional disparities in employment rates, with some areas experiencing high levels of inactivity. As of 2022, **approximately 22% of the working-age population** in the Midlands was **inactive** [4], with many citing long-term illness or family/home responsibilities as barriers to employment. This is slightly above the national average and represents a key challenge for policymakers seeking to boost productivity and economic output in the region.

Employment in the Midlands has also been hampered by a **lack of alignment between available jobs and the skills of the local workforce**. Many of the job vacancies in the region, particularly in high-growth sectors, remain unfilled due to a shortage of suitably qualified candidates. The Employer

Skills Survey found that sectors such as manufacturing, healthcare, and IT are particularly affected, with hard-to-fill vacancies in these industries contributing to lower productivity.

Addressing these employment and skills mismatches requires more responsive and regionally targeted interventions. One example of such an initiative is **the Local Skills Improvement Fund (LSIF), which aims to align education and training more closely with the evolving needs of the local labour market (Case study 3)**. The following case highlights how projects supported by the LSIF are helping to improve workforce readiness in critical sectors such as digital technology and green industries.

Case Study 3: Local Skills Improvement Fund (LSIF)	
<p><b>Objective:</b> Tackle regional skills gaps by aligning educational programs with local labour market demands, part of the broader Skills for Jobs White Paper initiative.</p> <p><b>Implementation:</b> With £36.9 million allocated, projects like Nottingham College's Green Skills Centre and Digital Knowledge Exchange Hub were developed, targeting needs in decarbonisation and digital skills.</p> <p><b>Results:</b> Significant advancements in regional technical education infrastructure, improving employability and addressing key skills shortages. This strategic alignment of educational offerings with economic goals has greatly enhanced local workforce capabilities.</p>	<p>191% increase in tech job vacancies due to skill shortages since 2020</p> <p>TechMonitor, 2022</p>



## Policy Recommendations

- 1. Investment in Education and Training:** Policymakers must prioritise investment in education and training programs that align with the needs of the region's economy. This includes expanding vocational training and apprenticeships in high-demand sectors such as engineering, digital technologies, and healthcare. Increasing employer participation in training initiatives is critical to closing the skills gap [2]. The government should consider offering financial incentives for businesses to invest in training and upskilling their workforce. This could include tax breaks for companies that provide in-house training or subsidies for businesses that participate in government-funded apprenticeship schemes. Moreover, local authorities and educational institutions need to collaborate more closely with businesses to ensure that training programs are tailored to the specific needs of local industries.
- 2. Adjusting the National Skills Fund and Apprenticeship Policies:** Local insights suggest that current policies such as the National Skills Fund, which evolved from the National Retraining Scheme, need substantial adjustments to be more effective. It has been pointed out that while the focus has been primarily on Level 3 qualifications, there is an urgent need to support training at Level 2, where significant skills shortages exist. There is a necessity of easing the restrictions on apprenticeship funds, allowing for more flexible, short-term, and modular training options that better meet the immediate needs of employers.
- 3. Tackling Economic Inactivity:** Reducing economic inactivity is another key priority for boosting productivity in the Midlands. Initiatives aimed at supporting long-term sick and inactive individuals back into the workforce should be expanded, with a focus on providing flexible working options and access to retraining opportunities. Health and well-being programs, such as those recommended in the Employee Well-being and Mental Health report [3], can also play a crucial role in improving the productivity of the workforce. The introduction of targeted support for older workers, who make up an increasing proportion of the labour force, would also help address the skills gap. Policies that encourage lifelong learning and the reskilling of older workers can ensure that they remain active contributors to the economy, particularly in sectors where their experience is highly valued.
- 4. Retaining and Attracting Talent:** The Midlands must also focus on retaining young, high-skilled workers who are currently leaving the region for more lucrative opportunities elsewhere. Improving the region's living conditions, infrastructure, and public services can make the Midlands a more attractive place to live and work. Additionally, offering relocation incentives or creating more graduate-level opportunities in key sectors could help retain talent within the region [5]. Moreover, the region needs to attract high-skilled workers from other parts of the UK and abroad. A proactive approach to talent attraction, including the promotion of the Midlands as a hub for innovation and industry, could help to bridge the skills gap and support the region's long-term economic growth.
- 5. Supporting SMEs in Skills Development:** Small and medium-sized enterprises (SMEs) play a critical role in the Midlands' economy, but many lack the resources to invest in training. The government should develop targeted programs that provide SMEs with financial support and advisory services to help them upskill their employees. Encouraging collaboration between SMEs



and larger firms in the region could also foster the sharing of best practices and knowledge, which is essential for boosting productivity. Addressing these challenges requires a coordinated effort from policymakers, businesses, and educational institutions. By investing in education and training, tackling economic inactivity, retaining and attracting talent, and supporting SMEs, the Midlands can close the skills gap and build a more competitive, resilient economy.

6. **Cultural Shift Towards Lifelong Learning:** Further, there is a need for establishment of a lifelong learning culture within the UK, particularly in manufacturing sectors if we aim to progress in line with technological development. Policies that encourage lifelong learning and the reskilling of older workers can ensure that they remain active contributors to the economy, particularly in sectors where their experience is highly valued. Introducing incentives for both employers and employees to engage in continuous learning could shift cultural perceptions towards training and development.

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