

National Employers Skills Survey 2003: Key Findings



Report prepared for the Learning and Skills Council by

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Introduction

1 The National Employers Skills Survey 2003 (NESS) was commissioned by the Learning and Skills Council (LSC), in partnership with the Sector Skills Development Agency (SSDA) and the Department for Education and Skills (DfES). It provides detailed information about the extent, causes, and implications of England's recruitment problems and skill gaps. It also measures employers' training activities.

2 NESS was the largest survey of its kind ever commissioned, involving 72,100 interviews with a representative sample of employers in England. As such, it allows analysis at a level of detail not possible in earlier surveys. In particular, it provides robust estimates of skills deficiencies and workforce development for each of the 47 local LSCs and for 27 industries.

3 NESS forms part of a longer series of surveys starting with *Skill Needs in Britain* (1990–1998) and followed by the *Employers Skill Surveys* (1999, 2001 and 2002). In combination with these, it provides valuable time series data on employers' recruitment problems, and on skill deficiencies and workforce development activities.

Why NESS?

4 The need for a survey of the size and scope of NESS stems from a desire to create a picture of skills demand and supply, and workforce development at the national level, and whose building blocks are robust local data.

5 It is known that mismatches between skills supply and demand in the national economy vary by occupation and industry, and – critically – by *local* labour market. Given that the delivery of skills training is administered through the 47 local LSCs, there is a need for statistically robust estimates to be generated for the areas covered by each local LSC. Within local LSCs too there is a need to be able to estimate with statistical confidence the level of mismatch for different industries and occupations.

6 All this requires a very large sample, hence the decision to bring together local resources in a nationally representative local survey of 72,100 employers.

Management of NESS

7 A large number of people and organisations have been involved in the design and execution of NESS.

8 The overall management of the survey was the responsibility of IFF Research. IFF, in conjunction with the University of Warwick Institute for Employment Research (IER), undertook the national reporting of the survey and together they have produced this summary document.

9 The questionnaire that delivered the data upon which this report is based was drawn up, in collaboration, by the Project Steering Group, Project Technical Group and MORI. Design of the sample was the responsibility of MORI. Fieldwork was conducted between April and June 2003 by IFF Research, BMG, and NOP World. ORC International and IFF weighted the data to ensure that they reflected the known population of establishments and employees in England from the Annual Business Inquiry (ABI) 2001. At the LSC, Joyce Findlater was the project manager, and Marc Bayliss was chair of the steering group.

Headline Findings

10 The key headline findings from NESS are listed below (see Table 1). The findings are discussed in greater detail throughout this summary report. They are presented below without commentary to provide the reader with a snapshot of the main results.

Table 1: NESS headline findings

Vacancies and recruitment problems	
% of establishments with vacancies	17%
% of establishments with hard-to-fill vacancies	8%
% of establishments with skill-shortage vacancies	4%
Number of vacancies	679,000
Number of hard-to-fill vacancies	271,000
Number of skill-shortage vacancies	135,000
Vacancies as % employment	3.1%
Hard-to-fill vacancies as a % of employment	1.2%
Hard-to-fill vacancies as a % of vacancies	39.9%
Skill-shortage vacancies as a % of employment	0.6 %
Skill-shortage vacancies as a % of vacancies	19.9%
Skill-shortage vacancies as a % of hard-to-fill vacancies	49.8%
Skill gaps	
% establishments with skill gaps	22%
Number of skill gaps	2.4 m
Skill gaps as a % of employment	11%
Training	
% of establishments with a training plan	39%
% of establishments providing training	59%
Number of people in receipt of training (trainees)	11.6 m
% of establishments with Investors in People (IiP)	16%

Source: NESS 2003 (IFF/IER).

Base: All establishments/employment.

Recruitment Problems

Incidence and extent of recruitment problems

11 As in previous surveys, respondents were asked to identify occupations in which they currently had vacancies and then to identify those that were proving hard-to-fill. Hard-to-fill vacancies (HtFVs) that were skill related are referred to as skill-shortage vacancies (SSVs). SSVs are HtFVs that arose because of a shortage of applicants with the required experience, qualifications or skills.

12 Around one in six establishments (17 per cent) reported vacancies at the time of the survey. Half of these employers reported that at least one vacancy was hard-to-fill (8 per cent of all establishments). Overall, 4 per cent of establishments reported having SSVs.

13 A standardised means of measuring recruitment problems is to calculate a measure of density: HtFVs and SSVs as a percentage of employment. Overall, in 2003 the number of vacancies represented 3.1 per cent of total employment, HtFVs represented 1.2 per cent of employment and SSVs 0.6 per cent.

14 At first glance the scale of recruitment problems as a proportion of employment might appear small. At the same time, the data show that two in five vacancies were hard-to-fill (40 per cent) and half of HtFVs were caused by skills-related problems (50 per cent of HtFVs, equating to 20 per cent of all vacancies). This suggests that, at any one time, there are over a quarter of a million job vacancies which are hard-to-fill, and 135,000 which cannot be filled because of skill-shortages in the labour market.

15 The importance of recruitment problems – and skill deficiencies more generally – is that they affect and inhibit those organisations that are often striving to improve their performance. Insofar as they prevent or delay organisations' achievement of this end, the impact of recruitment problems on the economy is potentially profound. Therefore even the relatively modest extent of such problems as implied by these estimates may be quite significant.

16 A fuller interpretation of the statistics requires a comparison over time and analysis of their implications and impacts (see Table 2).

17 The results indicate that the level of recruitment problems is both stable and persistent. The proportion of businesses experiencing unfilled vacancies has risen slightly, but the proportions experiencing HtFVs or SSVs remain much the same. The proportion of vacancies that are hard-to-fill is slightly lower than in 2001 (40 per cent compared to 47 per cent) but the proportion of vacancies that are skills-related has changed little (20 per cent compared to 21 per cent). The problem is not getting any worse, but neither is it getting any better.

Table 2: Overall incidence and number of vacancies

	% of all establishments reporting	Number of vacancies 000s	Vacancies as a % of employment	HtFVs and SSVs as a % of vacancies
2003 – All Establishments				
All vacancies	17	679	3.1	n/a
HtFVs	8	271	1.2	40
SSVs *	4	135	0.6	20
2001 – All Establishments				
All vacancies	14	766	3.7	n/a
HtFVs	8	358	1.7	47
SSVs *	4	159	0.8	21

Source: NESS 2003 (IFF/IER).

Base: All establishments/employment.

Notes: The Employers Skill Survey 2001 (ESS 2001) included employers with between one and four employees, whereas that for 2002 did not. Hence ESS 2001 is used for comparison.

* A difference in the way respondents were asked about SSVs means results are not strictly comparable. In 2001 the reasons for having HtFVs were asked for up to six occupations with HtFVs. In NESS, the reasons for HtFVs were asked of a maximum of two occupations where HtFVs existed.

Sector and industry dimensions

18 NESS's large sample size allows robust estimates to be generated by industry and local area. To give a flavour of this detailed information, Tables 3 and 4 show the pattern of vacancies and recruitment problems by industry and region.

19 Health and Social Work is the industry that accounts for the highest share of all vacancies and HtFVs (13.3 per cent and 16.7 per cent respectively). These results are disproportionately high compared to the share of employment in this industry (10.5 per cent). The highest share of SSVs was found in Other Business Services (16.5 per cent of all SSVs). Again, this is disproportionately high compared to its overall share of employment (11.5 per cent).

20 By dividing the number of vacancies, HtFVs, or SSVs by the number of people employed in each industry, a measure of density is derived (vacancies or recruitment problems measured as a proportion of employment). Such measures allow comparisons across sectors of the *intensity* of recruitment problems. Another useful measure of the intensity of recruitment problems is the proportion of HtFVs (or SSVs) expressed as a percentage of all vacancies.

21 Hotels and Catering reported the highest density of vacancies (vacancies as a percentage of employment: 5.7 per cent). However, this reflects relatively high levels of staff turnover in this sector rather than recruitment problems *per se*. Miscellaneous Services recorded a similarly high figure of almost 5 per cent. Within manufacturing, Transport Equipment and Textiles and Clothing recorded the two lowest densities of vacancies overall (1.1 per cent and 1.3 per cent respectively). This may reflect the long-term decline in employment in these industries.

22 The intensity indicators reveal a rather different pattern with more acute problems in manufacturing. The highest proportion of HtFVs was recorded in Wood and Paper etc. (65.1 per cent of vacancies). Textiles and Clothing also recorded a relatively high proportion of HtFVs despite recording relatively few vacancies. The lowest proportion was recorded in Electricity, Gas and Water (11.6 per cent of vacancies).

23 The highest proportion of SSVs (SSVs as a percentage of all vacancies) was recorded in Wood and Paper (46.2 per cent of vacancies) followed by Construction (38.2 per cent). Again, the lowest proportion of SSVs was recorded in Electricity, Gas and Water (6.9 per cent).

Table 3: Recruitment problems by industry

Industry*	% share of total employment	% share of all vacancies	Vacancies as a % of employment	HtFVs as a % of vacancies	SSVs as a % of vacancies
Wood and Paper	0.6	0.5	2.2	65.1	46.2
Construction	4.5	5.2	3.6	59.2	38.2
Transport Equipment	1.5	0.5	1.1	48.3	35.0
Agriculture, etc	0.3	0.2	2.5	48.8	31.9
Sale, Repair and Maintenance of Motor Vehicles	2.2	2.3	3.3	54.1	30.9
Metals and Metal Goods	1.8	1.0	1.7	49.2	30.9
Engineering	3.0	1.3	1.4	40.4	30.0
Textiles and Clothing	0.8	0.4	1.3	59.3	28.8
Manufacturing not elsewhere specified (nes) and Recycling	0.8	0.7	2.5	51.2	26.5
Other Business Services	11.5	12.5	3.4	39.7	26.4
Transport	4.1	4.2	3.2	47.0	23.4
Printing and Publishing	1.5	1.0	2.1	38.5	23.4
Chemicals and Non-metallic Minerals	2.4	1.4	1.8	35.8	23.3
Miscellaneous Services	5.2	7.9	4.7	43.4	20.5
Health and Social Work	10.5	13.3	3.9	50.3	19.2
Food, Drink and Tobacco	1.7	1.4	2.5	39.5	18.6
Computing and Related Services	2.2	2.7	3.9	26.1	18.4
Professional Services	2.5	2.6	3.2	32.9	17.2
Wholesale Distribution	4.6	3.1	2.1	34.2	16.9
Communications	2.2	1.4	2.0	27.4	16.3
Education	8.4	6.1	2.2	27.6	16.1
Hotels and Catering	6.4	11.9	5.7	42.4	13.5
Retailing	11.2	10.8	3.0	33.1	12.9
Financial Intermediation	4.2	3.7	2.7	20.7	11.4
Public Administration and Defence	5.0	3.7	2.3	22.9	11.4
Mining and Quarrying	0.2	0.1	2.2	35.2	9.0
Electricity, Gas and Water	0.5	0.4	2.2	11.6	6.9
Total	100.0	100.0	3.1	40.0	19.9

Source: LSC National Employers Skills Survey 2003 (IFF/IER).

Base: Employment weighted.

Notes: *Ranked by SSVs as a % share of all vacancies (column 5). Numbers in bold italic font highlight industries that are well above or below average.

The 27 industries used are as defined by the SSDA for reporting purposes. They are a compromise between the wish to present great detail and the need to provide information that is

statistically robust. The mapping from these categories to the footprints of the newly forming Sector Skills Councils (SSCs) is not straightforward, since many of these have responsibilities which cut across Standard Industrial Classification (SIC) categories. Details of the definitions of the industries in terms of the 1992 SIC are given in Annex A.

24 NESS allows an unprecedented level of sectoral detail to be provided. But interpretation of the data for detailed industries needs care, since the underlying reasons for recruitment problems will vary according to the specific circumstances of that sector. These may include:

- differences in the principal production process used to produce goods and services, and the demand for skills this generates;
- the extent of organisational and technical change within the industry; and
- changes in the level of demand for goods and services, and the consequences of this for employment over the medium- to long-term.

25 What is apparent from the data in Table 3 is the wide degree of variation between industrial sectors indicating that the recruitment problems they face are rooted in the specific conditions confronting those industries.

Regional dimensions

26 Most vacancies, HtFVs and SSVs were concentrated in London and the South East, mirroring patterns of employment. Overall, a third of all vacancies (34 per cent), HtFVs (31 per cent) and SSVs (33 per cent) occurred here. This was similar to the share of employment (35 per cent) in these two regions.

27 Once again, to standardise for the number of people employed in a region, measures of the number of HtFVs and SSVs as a proportion of all vacancies are informative (see Table 4).

28 The density of vacancies (vacancies as a % of total employment) was highest in the South West (3.6 per cent), which also had the highest proportion of vacancies that were HtFVs (46.8 per cent). The proportion of all vacancies that were SSVs in this region was the lowest of all regions suggesting that – relative to other areas – problems relating to the *quantity* of labour supply are more pressing than problems of *quality* of supply. The South East followed a similar pattern, albeit with findings on all measures closer to the average.

29 The lowest density of vacancies to total employment was in London (2.6 per cent), which also had the lowest proportion of vacancies that were HtFVs (28.6 per cent). But where there were labour supply problems in London, they were slightly more likely than average to be skills-related.

30 The West Midlands had a density of vacancies matching the national average, but a higher than average proportion of vacancies were HtFVs and this region had the highest proportion of SSVs of all regions: skills problems in this labour market are relatively more intense in this region.

31 Overall, however, the regional data reveal little variation. In many respects this is not surprising, since the regions are geographically large and the structure of the respective labour markets heterogeneous. Variation is much more likely at a more localised level where labour supply and demand are likely to be determined by particular conditions. In Annex A to this document various measures of skill deficiency are provided for each of the 47 local LSC areas to reveal a number of areas that vary substantially from the national picture (see Table A.1).

Table 4: Density of recruitment problems and skill gaps by region

Region*	% share of all employment	% share of all vacancies	Vacancies as a % of employment	HtFVs as a % of vacancies	SSVs as a % of vacancies
West Midlands	10.5	10.4	3.1	43.1	24.0
East Midlands	8.0	7.8	3.1	42.3	21.6
North East	4.4	3.8	2.7	41.3	21.3
Yorkshire and The Humber	9.5	9.6	3.1	43.2	21.1
London	18.3	15.5	2.6	28.6	20.5
North West	13.1	12.4	2.9	36.9	19.0
South East	16.6	18.5	3.5	42.5	18.7
East	10.3	11.2	3.4	40.4	18.2
South West	9.5	10.9	3.6	46.8	17.3
Total	100.0	100.0	3.1	40.0	19.9

Source: LSC National Employers Skills Survey 2003 (IFF/IER).

Base: Employment weighted.

Notes: * Ranked by SSVs as a % share of all vacancies (column 5).

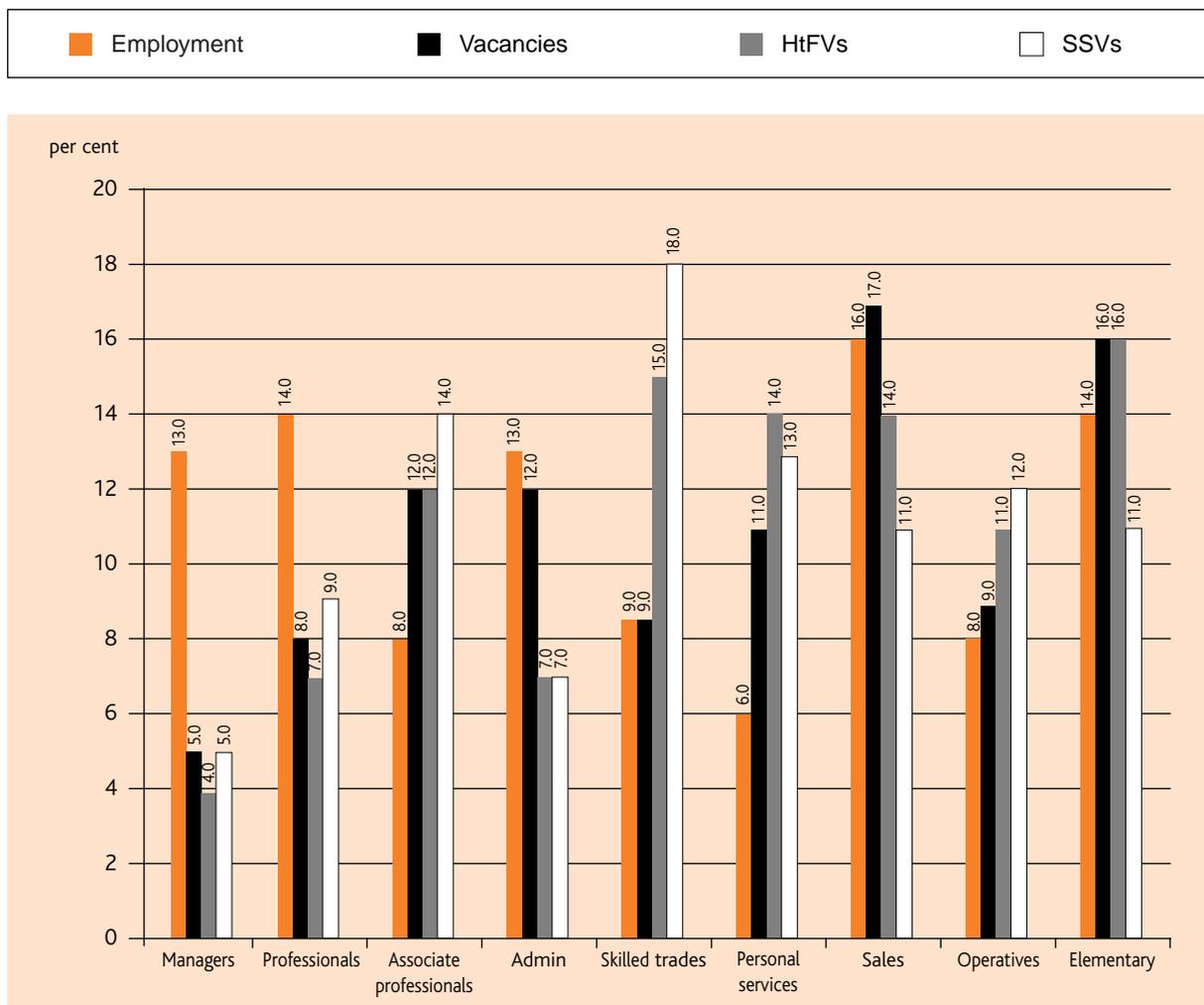
Numbers in bold italic font highlight regions that are well above or below average.

Occupational characteristics

32 Figure 1 outlines the occupations in which recruitment problems were reported. Skilled trades occupations stand out as having the highest share of all recruitment problems (15 per cent of HtFVs and 18 per cent of SSVs). But it is also important to gauge the extent to which recruitment problems are disproportionately high or low relative to the distribution of employment.

33 The data in Figure 1 reveal that recruitment problems were disproportionately high in skilled trades, personal service, transport and machine operatives and among associate professionals, and disproportionately low amongst the remaining occupations.

Figure 1: Distribution of employment, vacancies and recruitment problems by occupation



Source: LSC National Employers Skills Survey 2003 (IFF/IER).

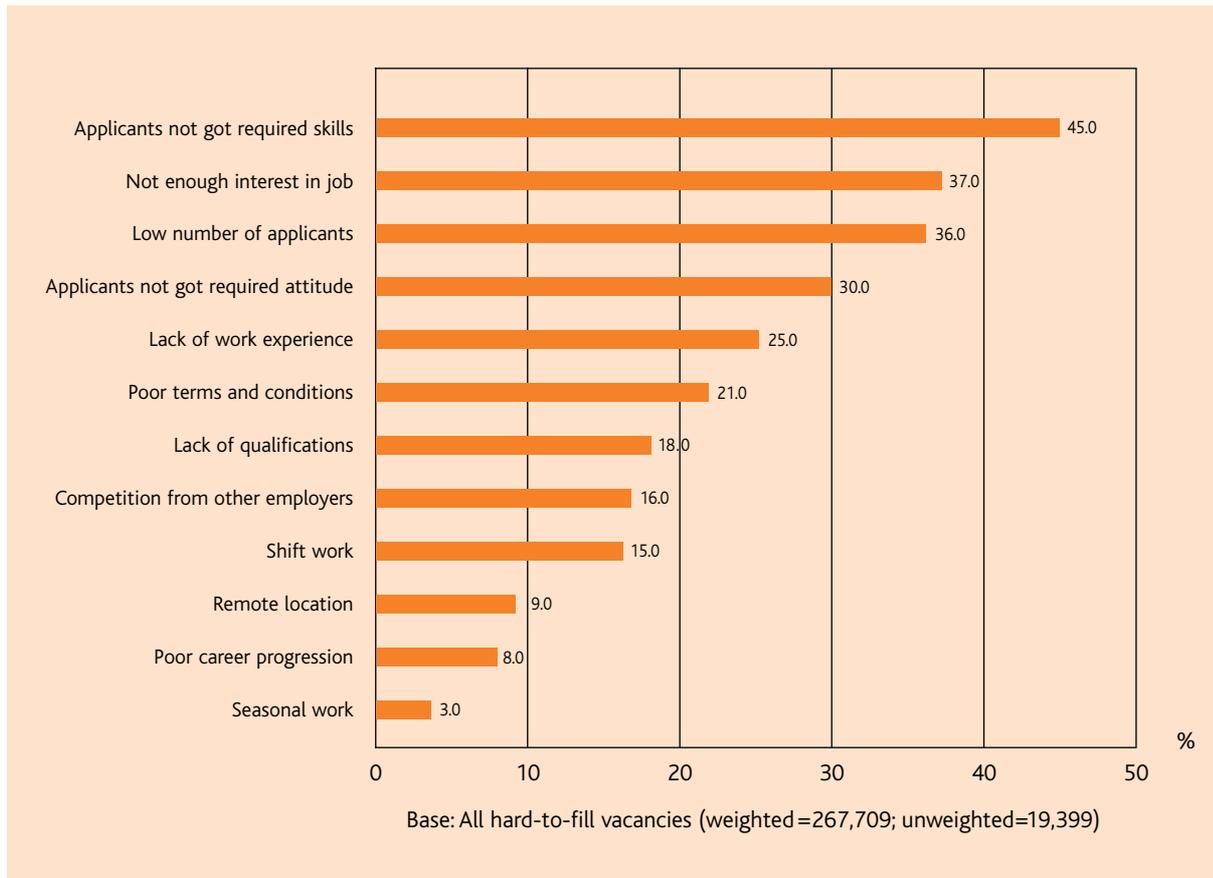
Base: All employees (employment weighted).

34 The data in Figure 1 are revealing insofar as it was not amongst the so-called higher level occupations (managers and professionals – where skill levels are relatively high) where recruitment problems are disproportionately high. Rather, recruitment problems were disproportionately high where skills required of employees were quite modest.

Reasons for recruitment problems

35 If these recruitment problems are to be tackled, then their causes need to be understood. Figure 2 outlines the reasons why employers reported HtFVs arising.

36 A lack of skills is a major determinant of HtFVs. More employers ascribed their HtFVs as owing to a lack of the required skills than to any other reason (42 per cent of HtFVs). Other common reasons were a lack of interest in the job (40 per cent) and, related to this, a low number of applicants (37 per cent of HtFVs).

Figure 2: Reasons for hard-to-fill vacancies

Source: LSC National Employers Skills Survey 2003 (IFF/IER).

Base: All HtFVs for occupations followed up (employment weighted).

37 Figure 2 provides information from employers about their perceptions of why their vacancies were hard-to-fill. In many respects if employers enter the labour market at a time of buoyant demand for labour, such as is currently the case, especially for skilled labour, then it is to be expected that they will be faced with candidates who lack the required skills and aptitude for the job on offer.

Skill Gaps

Incidence and extent of skill gaps

38 Skill gaps are defined as occurring when employers regard some of their staff as not being fully proficient to meet the requirements of their job role. What is required of employees in their job role is partly dependent on what the business is attempting to do. Two establishments with workers with identical skill levels may interpret whether they have skill gaps differently. For example, a company with a commitment to grow and develop new markets may be more demanding of its staff than one that is content with its current position. Nevertheless, the measure of skill gaps gives an indication of the extent to which employees possess the skills required by their current employer.

39 Just over one-fifth of employers (22 per cent) reported skill gaps within their workforce. In total 2.4 million employees were described by their employers as not being fully proficient in their current job. This is equivalent to 11 per cent of total employment in England. The volume of skill gaps, therefore, far exceeds that of recruitment problems.

Regional and sectoral dimensions

40 Tables 5 and 6 provide information about the distribution and density of skill gaps by industrial sector and region.

41 Retailing, Other Business Services, and Health and Social Work were the industries where the greatest number of staff with skill gaps were found. In part this simply reflects the large number of employees in these sectors. Of more interest are the third and fourth columns of Table 5, which show the proportion of establishments reporting skill gaps in each sector, and the number of skill gaps as a percentage of employment. Here much less variation is evident, with most sectors reporting skill gaps at around the level reported nationally. This would suggest that skill gaps, unlike recruitment problems, are a universal problem, common across industries.

Table 5: Skill gaps by industrial sector

Industry*	% share of all employment	% share of all skill gaps	% of employers reporting skill gaps#	Number of skill gaps as % of employment
Communications	2.2	2.9	23	15
Hotels and Catering	6.4	8.2	31	14
Food, Drink and Tobacco	1.7	2.2	46	14
Retailing	11.2	13.0	26	13
Chemicals and Non-metallic Minerals	2.4	2.8	28	13
Transport Equipment	1.5	1.8	25	13
Health and Social Work	10.5	11.1	28	12
Public Administration and Defence	5.0	5.3	35	12
Financial Intermediation	4.2	4.8	27	12
Other Business Services	11.5	11.5	18	11
Engineering	3.0	2.8	30	11
Metals and Metal Goods	1.8	1.8	25	11
Wood and Paper	0.6	0.6	30	11
Mining and Quarrying	0.2	0.2	21	11
Miscellaneous Services	5.2	4.6	18	10
Wholesale Distribution	4.6	4.3	19	10
Transport	4.1	3.9	20	10
Sales, Repair and Maintenance of Motor Vehicles	2.2	2.0	24	10
Other Manufacturing and Recycling	0.8	0.7	21	10
Agriculture, etc	0.3	0.2	24	10
Construction	4.5	3.6	18	9
Professional Services	2.5	2.0	17	9
Textiles and Clothing	0.8	0.7	26	9
Electricity, Gas and Water	0.5	0.4	25	9
Education	8.4	5.8	33	8
Computing and Related Services	2.2	1.6	13	8
Printing and Publishing	1.5	1.1	20	8
Total	100.0	100.0	22	11

Source: LSC National Employers Skills Survey 2003 (IFF/IER).

Base: Employment weighted (all skill gaps), # establishment weighted.

Notes: *Ranked by % share of number of skill gaps as a % of employment (column 5).

Numbers in bold italic font highlight industries that are well above or below average.

42 It was in London (where 17 per cent of all skill gaps occurred), the South East (16 per cent), and the West Midlands (15 per cent) where skill gaps were most likely to be found (see Table 6). These patterns broadly follow the shares of employment. In London and the South East this share was actually lower than the share of total employment in these regions (18 per cent and 17 per cent respectively), but in the West Midlands it was higher (10 per cent of England's workforce is employed in this region).

43 As in the patterns seen by sector, the number of skill gaps as a percentage of employment varied little by region from the overall figure of 11 per cent, with the exception of the West Midlands where a higher proportion (15 per cent of employees) were described as having skill gaps.

44 The percentage of employers reporting skill gaps was lowest in London and highest in Yorkshire and The Humber.

45 Table A.1 in Annex A provides information on the density of skill gaps for each of the 47 local LSC areas. The data reveal little variation between areas on this density measure.

Table 6: Incidence of skill gaps by region

Region*	% share of all employment	% share of all skill gaps	% of employers reporting skill gaps	Number of skill gaps as a % of employment
London	18.3	16.9	16	10
South East	16.6	15.7	22	10
West Midlands	10.5	14.5	24	15
North West	13.1	12.1	22	10
Yorkshire and The Humber	9.5	11.0	29	13
Eastern	10.3	10.0	21	11
South West	9.5	8.3	23	10
East Midlands	8.0	7.7	25	11
North East	4.4	3.9	26	10
Total	100.0	100.0	22	11

Source: LSC National Employers Skills Survey 2003 (IFF/IER).

Base: Employment weighted (all skill gaps).

Notes: *Ranked by % share of all skill gaps (column 2).

Numbers in bold italic font highlight industries that are well above or below average.

Occupational characteristics of skill gaps

46 The occupations affected by skill gaps are outlined in Figure 3. The distribution of skill gaps by occupation is fairly close to the profile of employment as recorded by employers.

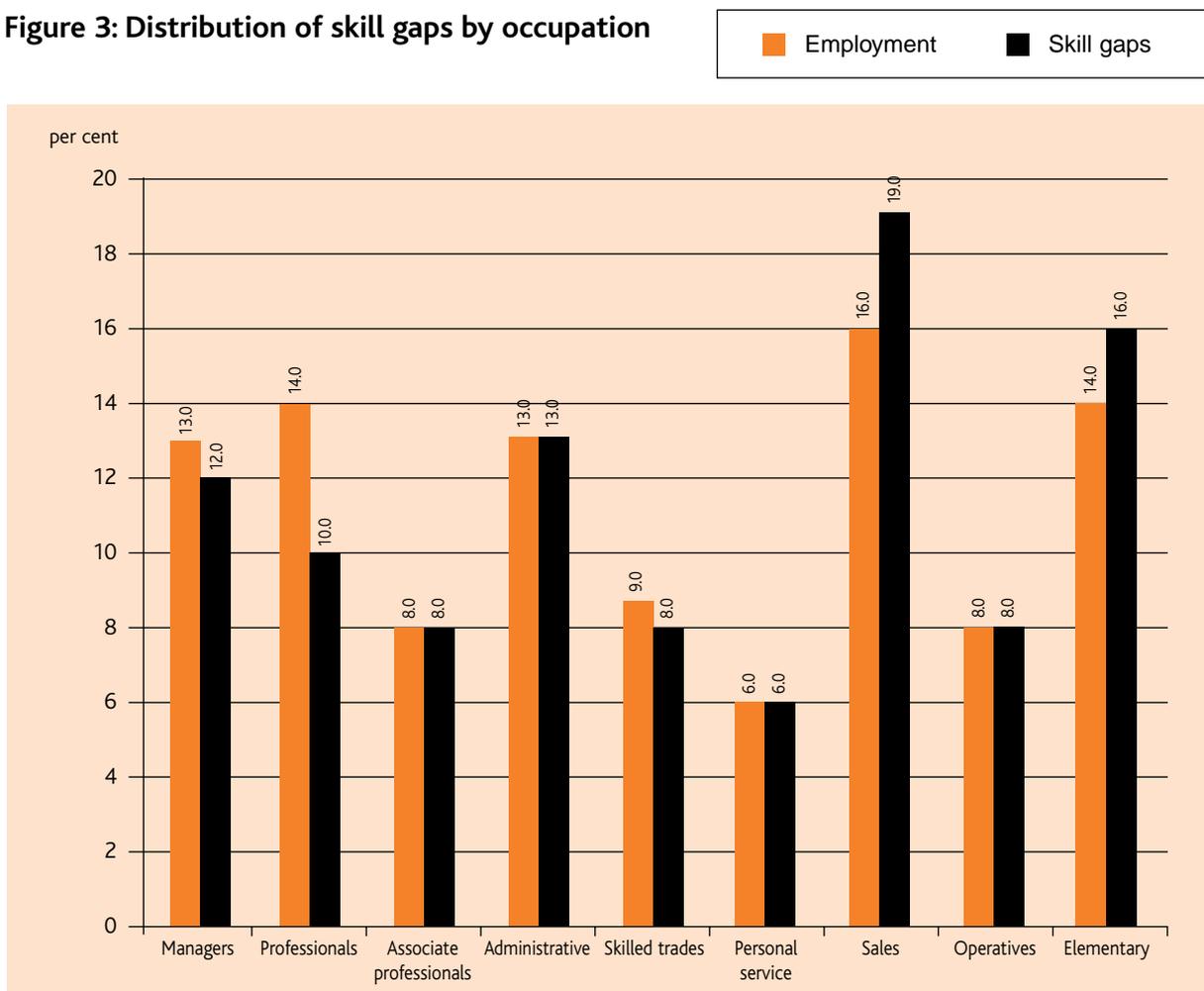
47 Two occupational categories accounted for a larger share of skill gaps than employment:

- sales and customer service occupations (19 per cent of all skill gaps versus 16 per cent of total employment); and
- elementary occupations (16 per cent of all skill gaps versus 14 per cent of total employment).

48 These two occupations also accounted for the largest absolute number of skill gaps relative to other occupations.

49 By comparison, professional occupations stood out as having disproportionately few skill gaps relative to the proportion of people employed in this category (10 per cent versus 14 per cent). The proportion of skill gaps in all other occupational categories only differs slightly from the proportion of people employed in each category.

Figure 3: Distribution of skill gaps by occupation



Source: LSC National Employers Skills Survey 2003 (IFF/IER).

Base: All skill gaps followed up (employment weighted).

Causes of skill gaps

50 Employers who were experiencing skill gaps were asked for the main causes of their staff not being fully proficient.¹ Figure 4 shows the reasons that were given. It should be noted that results are based on skill gaps followed up in detail during the interview rather than all establishments with skill gaps, that is, it uses an employee-based measure with results showing the proportion of skill gaps that are caused by various factors, as opposed to the proportion of establishments that report skill gaps with these causes.

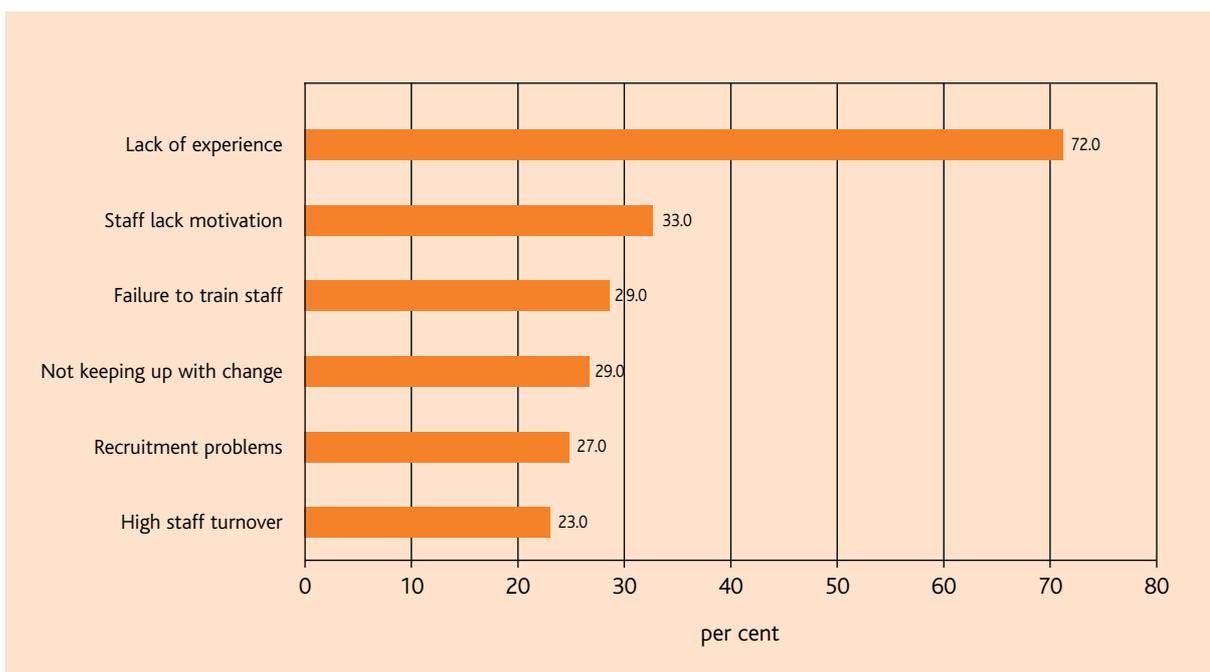
51 By far the greatest proportion of skill gaps were ascribed to employees lacking experience, suggesting that they are potentially temporary skills deficiencies, which may lessen or disappear as the employees gain in experience.

52 However, some of these skill gaps appear more structural in nature, resulting either from the nature of the job role (not keeping up with change, or the failure to train staff) or from the nature of the employees who fill it.

53 A third of gaps resulted from employees' lack of motivation, which could signal the unattractiveness of the job or its terms and conditions, or a fundamental lack of work-readiness on the part of the employees.

54 Figure 4 shows the causes of skill gaps.

Figure 4: Cause of skill gaps



Source: LSC National Employers Skills Survey 2003 (IFF/IER).

Base: All skill gaps followed up (employment weighted).

¹ Employers were asked about the causes of skill gaps for one occupation only, selected randomly where more than one skill gap was reported.

55 Similarly, 27 per cent of skill gaps resulted from the failure of employees to keep up with change and 23 per cent from high turnover in the job. In the first case, there is no further evidence as to whether this signals a failure of employers to provide training in a changing job environment, the failure of employees to make the most of training provided or simply deficiencies in the training provided. In the second case, high staff turnover could derive from shortcomings in the content or terms and conditions of the job, or be a fundamental feature of the job role in a casual job environment.

56 More clearly, around three in 10 skill gaps are recognised as deriving from employers' own failure to provide sufficient training. Where employers are ready to recognise this as a factor, they may be more ready to participate in supported workforce development programmes.

Skills characteristics of skill gaps

57 The key areas in which employees were viewed as lacking skills can be classified as relatively soft skills areas:

- communication (61 per cent);
- customer handling (55 per cent);
- team working (52 per cent); and
- problem-solving (47 per cent).

58 That said, technical and practical skills were lacking from just over two in five (43 per cent) of employees with skill gaps that were followed up.

Internal and external skill deficiencies

59 Skill deficiencies refer to both external recruitment problems and internal skill gaps. If employers report skill deficiencies of one kind or another, this might be expected to have an impact on the performance of the establishment.

60 For some employers, skill deficiencies included both external recruitment problems and internal skill gaps. Overall, around one in 10 employers who experienced internal skills problems also encountered problems in the external labour market. By contrast, around four in 10 of those experiencing problems finding skilled recruits were also lacking skills within their current workforce.

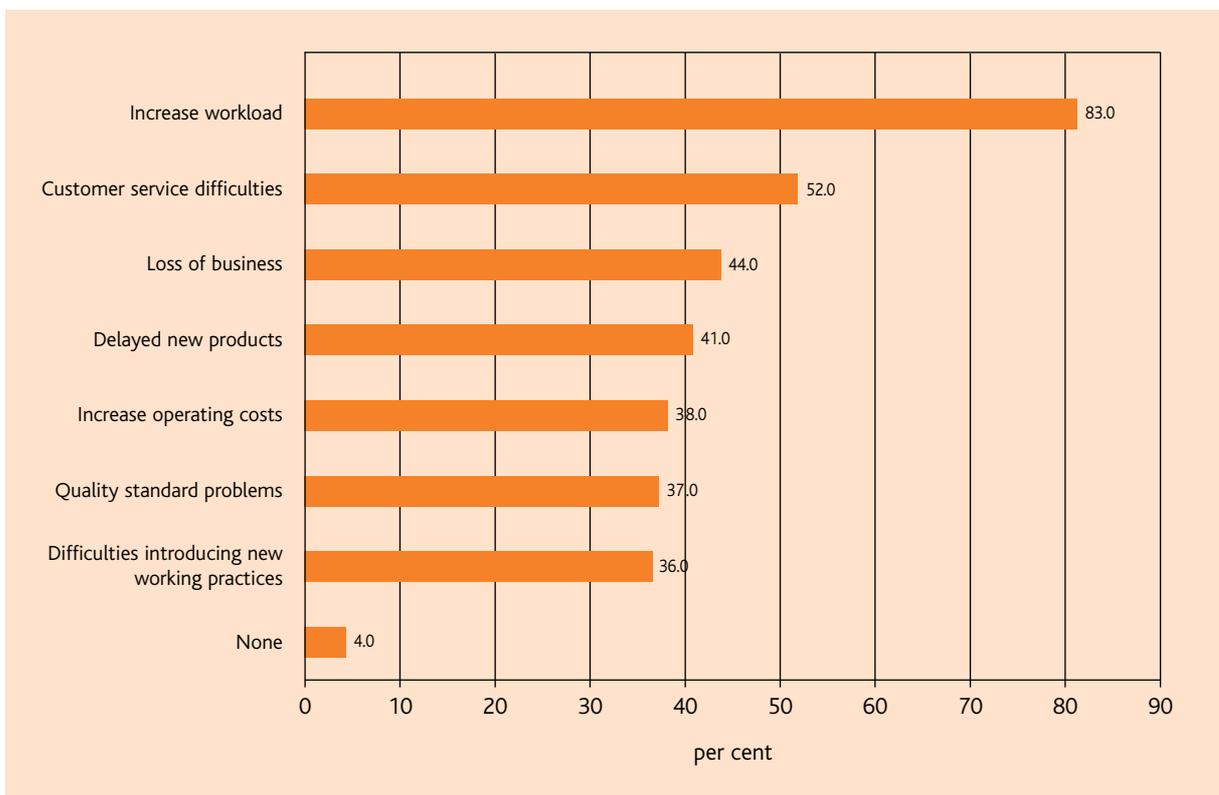
Implications of recruitment problems

61 Figure 5 reveals the impact SSVs had upon the performance of the establishment.

62 The major impact of having SSVs was an increased workload for other (current) employees; this was described as an impact by 83 per cent of all establishments experiencing SSVs. Half of establishments with SSVs (52 per cent) experienced difficulties meeting their customer service aims, with slightly fewer (44 per cent) experiencing loss of business or orders to competitors, and slightly fewer again reporting delays in developing new products (41 per cent). Approaching two-fifths of establishments with SSVs reported increased operating costs (38 per cent), difficulties meeting their own quality standards (37 per cent), and difficulties introducing new working practices (36 per cent).

63 Overall, the impact of SSVs on organisational performance was substantial. The impact was both on short-term aspects which affect immediate profits and success (i.e. increased costs and loss of business), and on the longer-term success of the establishment (i.e. delaying new product launches and failing to meet customer service and quality standards).

Figure 5: Impact of skill-shortage vacancies



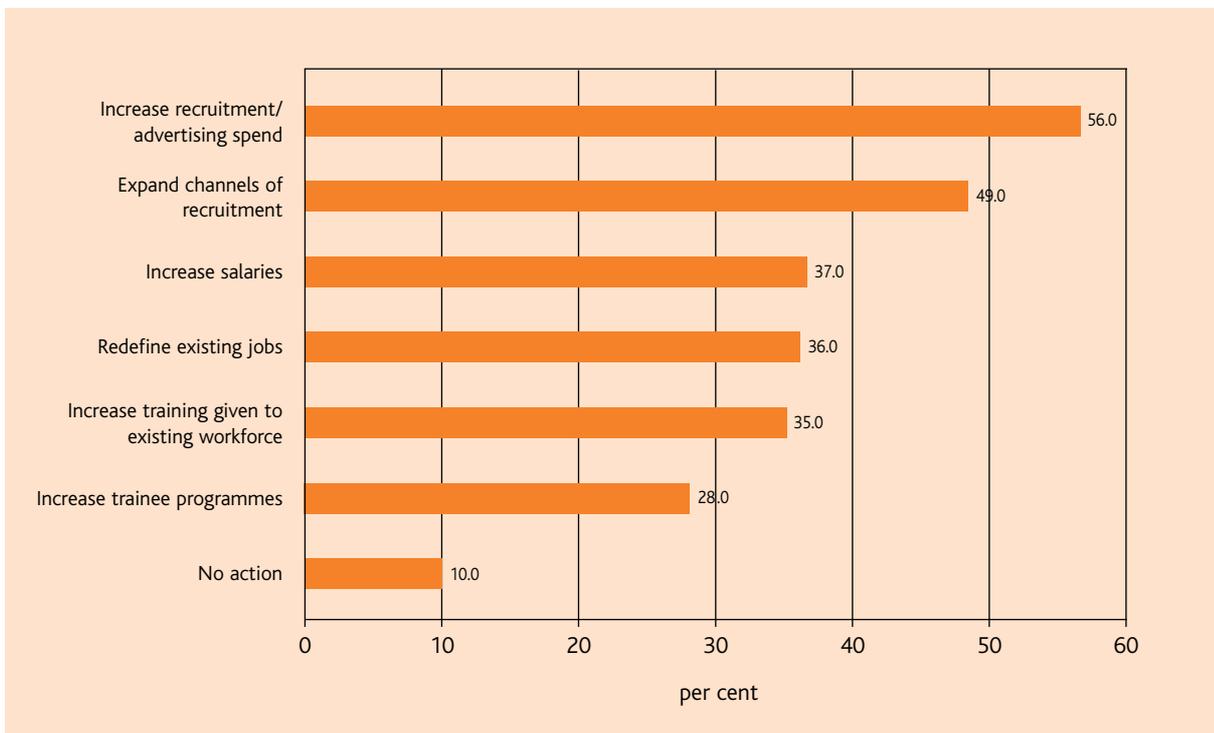
Source: LSC National Employers Skills Survey 2003 (IFF/IER).

Base: Establishment weighted all with SSVs.

64 Actions taken by employers in response to SSVs are outlined in Figure 6. These centred on direct changes to recruitment activity, with the most common responses being to increase expenditure on recruitment and/or advertising (56 per cent of establishments with SSVs), to expand the recruitment channels (49 per cent), or to increase salaries (37 per cent). A second order of response incorporated redefining existing jobs and providing further training opportunities, each of which was undertaken by just over a third of establishments with SSVs. Just over a quarter of employers experiencing SSVs opted to increase trainee programmes.

65 It is worth noting that a greater proportion of employers facing SSVs do nothing about them (10 per cent) than those that experience no impact because of them (4 per cent). This implies that some establishments are left unable to react, or do not know how to react, in the face of external, skill-related recruitment problems.

Figure 6: Responses to skill-shortage vacancies



Source: LSC National Employers Skills Survey 2003 (IFF/IER).

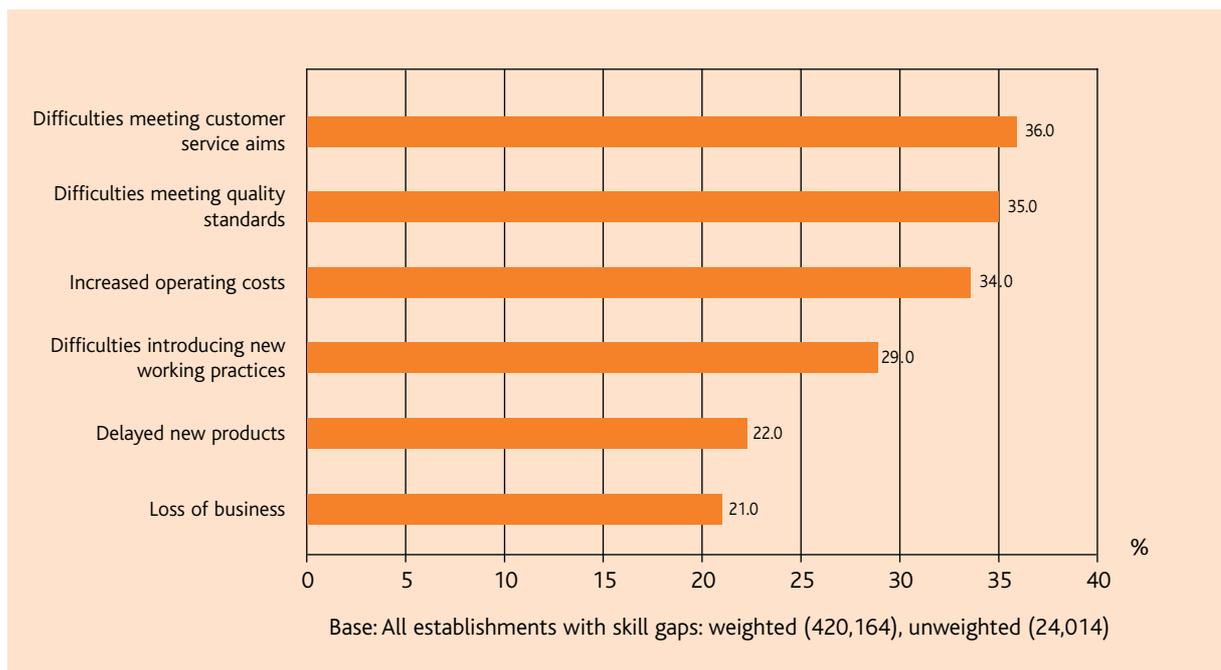
Base: Establishment weighted – all with SSVs.

Impact of skill gaps

66 The impact of skill gaps among existing staff on an establishment is quite different to that of the impact of SSVs. While difficulties meeting customer service aims are high on the list of impacts of each (albeit at lower levels in terms of skill gaps – 36 per cent versus 52 per cent), internal skill problems were considerably more likely to result in loss of business and delays in introducing new products (see Figure 7). While around one in five establishments with skill gaps stated that they had encountered these impacts as a result, almost twice as many reported these impacts where SSVs were concerned (44 per cent and 41 per cent respectively). Increased costs and difficulties meeting quality standards were consequences as likely to result from internal skill gaps as from SSVs.

67 It is notable that a greater proportion of employers with internal skill gaps saw no impacts resulting from them (31 per cent) than those that saw no impacts from SSVs (4 per cent). This may suggest that employers adapt more easily to internal skills deficiencies than to external ones. Another explanation may be that employers tend to recruit in response to demand (new orders or high workloads) and at these times delays recruiting because of skill shortcomings in applicants have a significant and noticeable effect. In contrast, the everyday skill shortcomings of existing staff may be often rationalised as part of working life, especially if the extent to which staff lack full proficiency is small and/or expected to be short term. Alternatively, they may simply be unaware that such internal problems are having an effect that other survey respondents perceive as being quite serious.

Figure 7: Impact of skill gaps



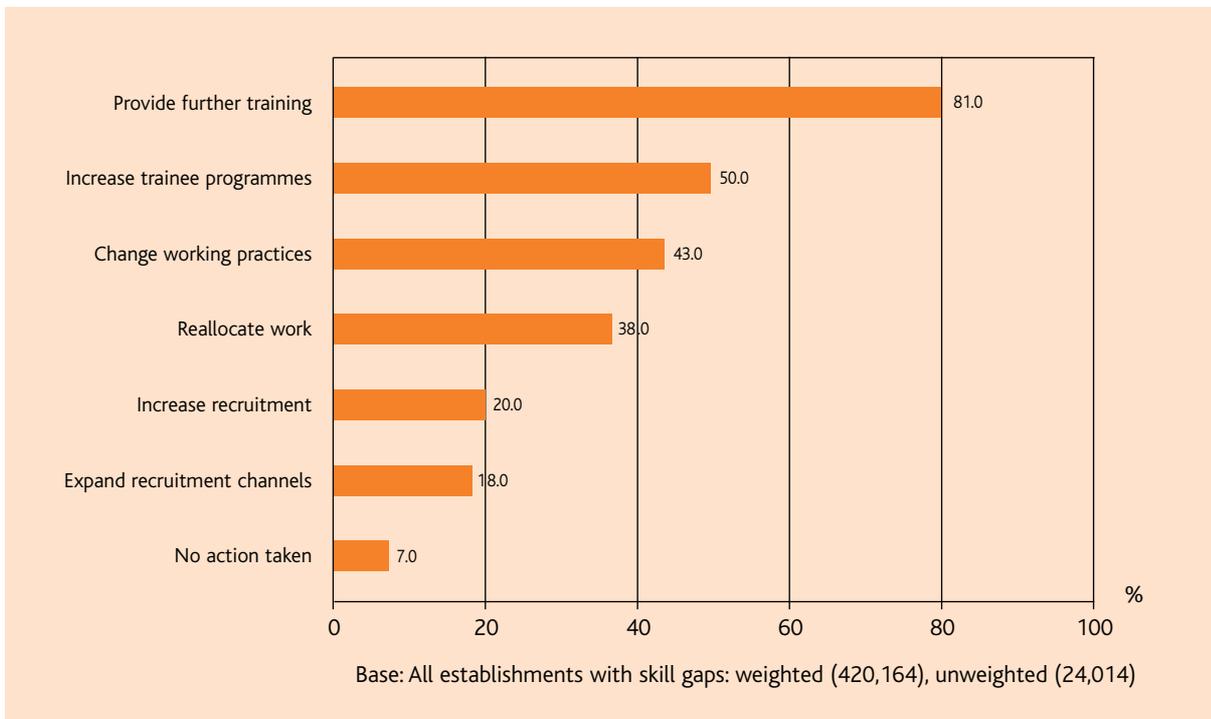
Source: LSC National Employers Skills Survey 2003 (IFF/IER).

Base: Establishment weighted – all with skill gaps.

68 The most common response to internal skills deficiencies is to provide further training, with four in five employers with skill gaps taking this course of action and half increasing their training programmes (see Figure 8). Typically, establishments with internal skill gaps pursued a number of measures to help combat their impact. The main additional action taken – by two in five employers – was to change working practices (43 per cent) and/or reallocate work (38 per cent). Around one in five establishments with skill gaps increased recruitment activity in response.

69 Seven per cent of establishments that experienced a lack of full proficiency among their employees took no remedial action.

Figure 8: Responses to skill gaps



Source: LSC National Employers Skills Survey 2003 (IFF/IER).

Base: Establishment weighted – all with skill gaps.

Training Activity

70 The discussion so far has focused on skill deficiencies. The other side of the coin, so to speak, is what the employer is doing to mitigate recruitment problems and internal skill deficiencies through the provision of training and development to their employees. This is considered in this section.

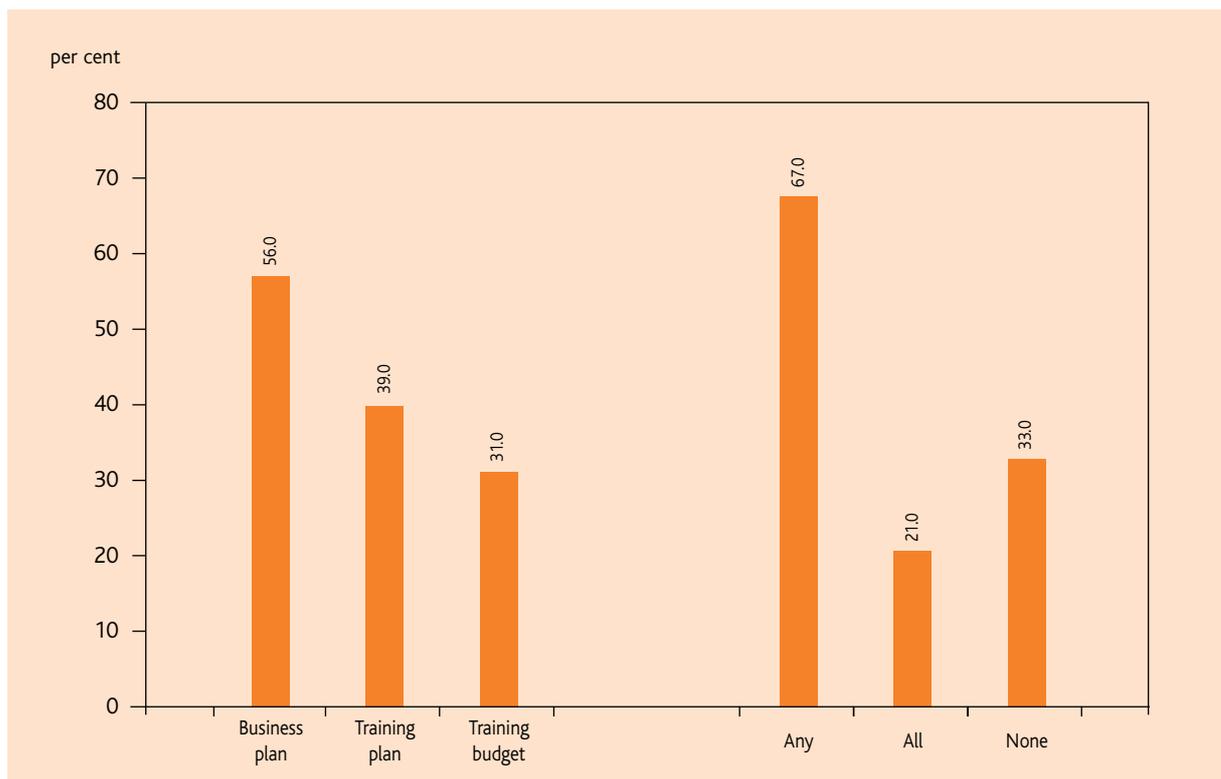
71 Various *Skills in England* reports have pointed to employers' investment in skills training as being a determinant of relatively good organisational performance. While a relationship between the two is evident, this begs the question about what type of training, and how much, is required to improve economic performance. NESS is able to provide robust statistical evidence about the volume, costs and types of training in which employers are engaged.

Formal training procedures

72 Just over half (56 per cent) of establishments reported that they had a formal business plan that specified the objectives for the coming year (see Figure 9).

73 Around two in five (39 per cent) reported a training plan that specified in advance the level of and type of training employees needed over the coming year. Around a third (31 per cent) reported that they had a budget for training expenditure. Two-thirds of establishments (67 per cent) had at least one of the above plans, a fifth (21 per cent) had all of them, and a third (33 per cent) had none.

Figure 9: Business planning and training plans



Source: LSC National Employers Skills Survey 2003 (IFF/IER).

Base: All establishments.

74 The existence of business and training plans indicates a level of formality in the business and human resource process. Two further measures of the extent to which employers engage in a planning process are whether (a) employees have a performance review and (b) the extent to which current employees' skill gaps are assessed. Around 40 per cent of establishments reported that none of their employees had an annual performance review (this figure was much higher among small establishments), and 52 per cent reported that all of them did so. Overall, across all establishments, three-quarters of employees (75 per cent) had an annual performance review. Just over half of establishments (52 per cent) reported that they formally assessed whether individuals had gaps in their skills.

75 Approximately 16 per cent of establishments reported that they had attained the Investors in People (IiP) standard. In keeping with other available evidence of IiP accreditation, larger establishments were more likely to report its attainment.

Extent of training

76 Around three in five establishments (59 per cent) had provided training over the past 12 months. Smaller establishments were less likely to report provision of training: 50 per cent of establishments with between one and four employees provided training compared with almost all (97 per cent) of those with 500 or more employees.

77 Data were captured on the occupational status of employees who received training within an establishment. Generally, where establishments reported providing training over the last 12 months, workers in personal services occupations were the most frequently mentioned (by 68 per cent of establishments that employed people in this occupation and that had provided training). Elementary occupations were least likely (44 per cent).

78 Overall, an average of 53 per cent of employees had received some training over the past 12 months.

79 Employers provided the equivalent of an average of five days training to all employees. This equates to well over 100 million days of training each year.

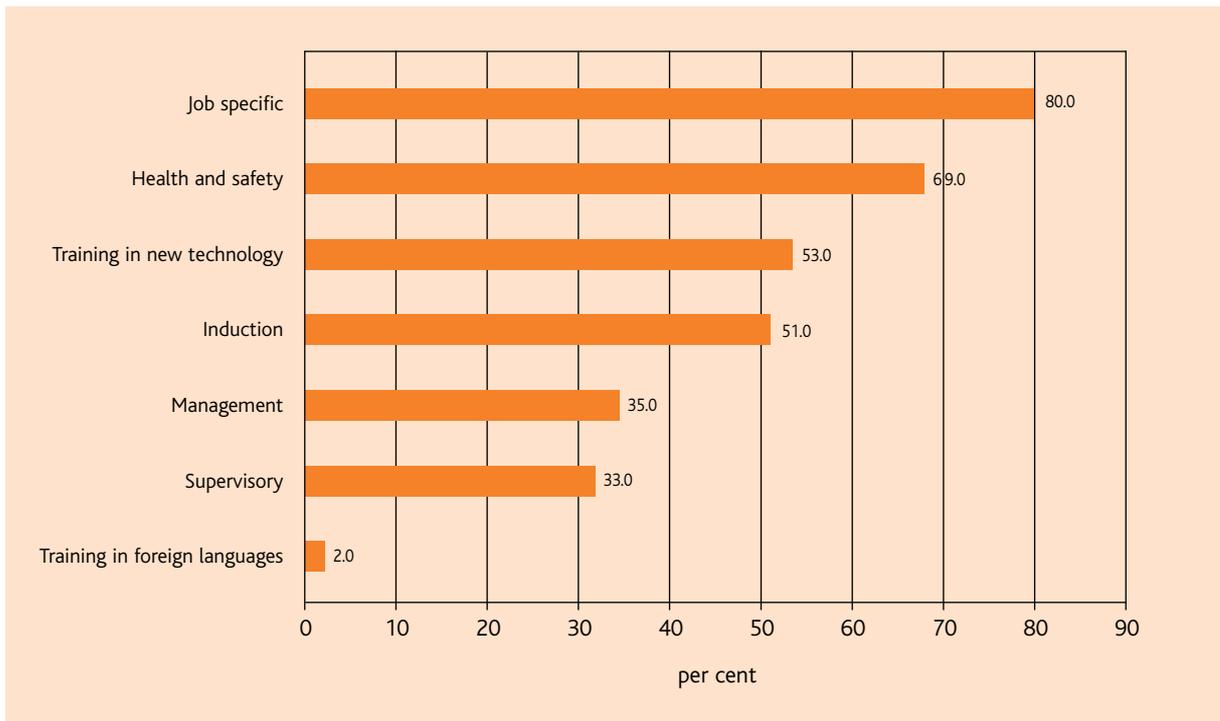
80 On average, employers spent the equivalent of £206 a year per employee on training (in terms of 'out of pocket' expenses). This suggests £4.5 billion a year spent overall by employers on training. This is a measure of direct costs incurred and does not include the opportunity costs of the time spent on the training by trainees. A rough estimate of this, based on the number of training days estimated above, would add a further £10 billion to this figure.

Training content

81 NESS also provides information about the type of training employers undertake. Figure 10 outlines the percentage of establishments providing a range of different types of training (based on those doing some training). Job-specific training was the most commonly mentioned form of training, followed by health and safety, training in new technologies, and then induction.

82 Where training was provided, 51 per cent of establishments reported that at least some of the training they had provided was intended to lead to a formal qualification. In general, the likelihood of training leading to a qualification increased with the size of establishment. Around 43 per cent of establishments with one to four employees that provided training reported that it led to a formal qualification, compared to 83 per cent of establishments where 500 or more employees were employed.

Figure 10: Types of training provided



Source: LSC National Employers Skills Survey 2003 (IFF/IER).

Base: All establishments providing training.

Engagement with local colleges

83 A quarter (26 per cent) of all establishments had been contacted by a local further education (FE) college for their views on courses that they provided. A similar proportion (28 per cent) had been contacted by a private training provider. Approximately 38 per cent of establishments had been contacted by either. Some 16 per cent had been contacted by both, and 62 per cent had been contacted by neither.

84 Around 29 per cent of establishments that provided training had undertaken at least some of their training through an FE college. Generally, the larger the establishment, the more likely it was to have used an FE college. Electricity, Gas and Water, Education, Health, and Public Administration were more likely than other sectors to have used the FE sector for training.

85 Where employers had had contact with FE colleges, they were satisfied with the service provided. A majority of employers were satisfied (33 per cent very satisfied and 48 per cent fairly satisfied) with relatively few dissatisfied (2 per cent very dissatisfied and 5 per cent fairly dissatisfied). Satisfaction ratings were fairly constant across organisations of different sizes, by industrial sector and by region.

Conclusions

86 This short summary has outlined some of the key findings from NESS. It reveals:

- the extent to which employers experienced recruitment problems in 2003, and the extent to which these problems were skills related;
- employers' perceptions about the proficiency of their current staff;
- the impact of internal and external skill deficiencies upon organisational performance; and
- the degree to which employers are investing in training.

87 How should one interpret the findings? Labour market research is all about comparisons: comparisons over time and comparisons between different sections of the labour market.

88 That skill-related recruitment problems affect a relatively low number of workplaces in the economy as a whole should not be taken as an indication that they are unimportant. The evidence suggests that recruitment problems are relatively stable over time and in this sense persistent. Moreover, where they exist, they can have a major impact on organisations, such as delaying the development of new products and services.

89 Skill gaps affect around one in nine (11 per cent) of the workforce. The data do not allow an analysis of the extent to which employees lack proficiency but, given competitive market pressures, it would be surprising if such skill gaps were profound. Nevertheless, the data do indicate that where skill gaps exist, they inhibit organisational performance. Because of changes in the way the question about skill gaps was put, a definitive comparison between the results for 2003 and 2001 is difficult, but the evidence points to skill gaps again being relatively stable over time (9 per cent of the workforce were affected in 2001).

90 Finally, the evidence points to significant investments in training and development being made by employers, with an increasing number reporting that they have training plans (39 per cent in 2003 compared to 24 per cent in 2001).

91 The evidence presented here has only scratched the surface of what NESS is able to offer. As noted above, one of the strengths of the data set is that it allows detailed comparisons to be made between different sections of the economy, in particular between different industrial sectors and between different local LSC areas. These types of comparison will reveal much about the operation of the labour market in England, its demand for skills and the investments being made in training and development.

92 Full details of NESS are available in the *National Employers Skills Survey 2003 Main Report* (Hogarth *et al.* 2004).

93 Copies are available from:

Learning and Skills Council
Cheylesmore House
Quinton Road
Cheylesmore
Coventry
CV1 2WT.

The report is also available on the Internet at www.lsc.gov.uk

Glossary

National Employers Skills Survey 2003 (NESS)	provides comparative data for England relating to vacancies, HtFVs, and training activity. This was a survey funded by the LSC in partnership with the SSDA and DfES. Approximately 72,000 interviews were conducted to provide robust statistical estimates of a variety of skill measures at both a local and sectoral level.
Hard-to-fill vacancies (HtFVs)	are those vacancies classified by the respondent as hard-to-fill.
Skill-shortage vacancies (SSVs)	were defined as HtFVs which were skill related where at least one of the following causes was cited by the respondent: low number of applicants with the required skills, lack of work experience the company demands or lack of qualifications the company demands.
Recruitment problems or recruitment difficulties	refer to either HtFVs or SSVs.
Density of vacancies	vacancies expressed as a percentage of employment.
Skill gaps, or internal skill gaps	the extent to which employers perceive their employees as not being fully proficient at their jobs.
Skill deficiencies	refer to the sum of skill gaps and SSVs.
Establishment-based measures	provide an estimate of the total number of establishments reporting a given skill deficiency.
Employee-based measures	weight establishment data by the total number of employees at the establishment.
Row %	These are percentages calculated using as a denominator the total in that row. If appropriate they sum to 100 per cent across the row. This may not always be the case for multiple response type questions.
Column %	These are percentages calculated using as a denominator the total in that column. If appropriate they sum to 100 per cent across the column. This may not always be the case for multiple response type questions.
Weighting	is undertaken to adjust for sample design and non-response to ensure that the survey results are representative of the population of employers. Weighted data are also grossed up to population estimates in the weighted base provided in each table.
Weighted base	refers to the base for percentages. The estimate may be weighted by number of employees or numbers of establishments, depending upon whether it is an employee- or employer-based measure.

Unweighted base	refers to the raw survey data.
Employers Skill Surveys (ESS)	were conducted in 1999 and 2001 to provide comparative data for England relating to vacancies, HtFVs, and training activity. These surveys were funded by the DfES, undertaken on their behalf by IFF and IER, and included 27,000 interviews with employers in both years. Only 2001 contains information about employers with between one and four employees. A smaller-scale survey with 4,000 employer interviews was conducted in 2002.
Local Learning and Skill Councils (local LSCs)	refers to the local offices that make up the 47 local arms of the LSC.

Annex A: Local LSC Data

There is considerable interest in the extent of skill deficiencies at the local level and, accordingly, Table A.1 below provides summary indicators of skill deficiencies for each of the 47 local LSC areas. Data for local LSC areas are weighted slightly differently than for the national estimates reported in the main body of this report. This results in some minor differences between the figures presented here and those elsewhere in this report.

Table A.1: Density of recruitment problems and skill gaps by local LSC area

	% share of all vacancies	Vacancies as a % of employment	HtFVs as a % of vacancies	SSVs as a % of vacancies	% share of all skill gaps	Skill gaps as a % of employment
West Midlands						
Shropshire	1.0	3.7	55.4	36.0	1.0	13.4
Staffordshire	1.3	2.1	36.0	21.0	2.1	12.1
The Black Country	2.0	3.0	56.0	36.2	3.6	18.7
Birmingham and Solihull	2.5	3.0	43.5	20.3	4.2	17.5
Herefordshire and Worcestershire	1.5	3.5	43.9	19.9	1.4	11.2
Coventry and Warwickshire	1.9	3.5	34.5	15.8	2.0	12.8
East Midlands						
Derbyshire	1.6	2.8	43.5	21.5	1.9	11.7
Nottinghamshire	1.9	3.1	43.0	18.2	2.0	11.0
Lincolnshire and Rutland	1.4	3.8	49.6	16.9	0.9	8.8
Leicestershire	1.8	3.1	42.1	28.5	1.5	9.3
Northamptonshire	1.2	2.9	42.3	21.5	1.4	11.9
East of England						
Norfolk	1.4	3.2	38.9	15.2	1.1	8.9
Cambridgeshire	2.2	4.4	48.0	18.6	1.6	11.2
Suffolk	1.2	2.8	34.2	16.9	1.1	9.1
Bedfordshire and Luton	1.0	3.1	32.4	19.6	1.0	10.7
Hertfordshire	2.7	3.7	36.2	19.9	2.3	10.7
Essex	2.9	3.4	47.1	20.0	2.1	8.5
London						
London North	1.4	3.0	30.1	15.9	1.1	8.4
London West	2.5	2.4	34.2	26.1	2.7	9.0
London Central	5.6	2.5	21.8	15.9	6.3	10.2
London East	4.1	2.8	22.3	15.8	5.5	13.3
London South	2.0	2.7	40.7	30.2	2.0	9.4

	% share of all vacancies	Vacancies as a % of employment	HtFVs as a % of vacancies	SSVs as a % of vacancies	% share of all skill gaps	Skill gaps as a % of employment
North East						
Northumberland	0.4	2.9	38.9	18.8	0.5	13.8
Tyne and Wear	1.9	2.8	30.9	19.2	1.5	7.9
County Durham	0.8	3.4	46.5	15.2	0.8	11.0
Tees Valley	0.6	1.7	41.7	28.2	1.2	11.7
North West						
Cumbria	0.9	3.4	43.9	19.8	0.8	10.8
Lancashire	2.7	3.2	32.9	14.8	2.2	9.0
Greater Merseyside	2.2	2.6	31.0	17.0	2.4	10.0
Greater Manchester	4.9	3.0	40.1	22.9	4.9	10.5
Cheshire and Warrington	1.7	2.8	40.7	14.9	1.5	8.8
South East						
Milton Keynes, Oxfordshire and Buckinghamshire	3.1	3.2	33.2	16.3	2.9	10.7
Berkshire	2.5	3.7	37.9	16.6	1.8	9.4
Hampshire and the Isle of Wight	4.2	3.7	47.6	22.4	3.4	10.5
Surrey	2.6	3.6	46.1	19.3	2.5	11.7
Sussex	3.1	3.4	44.2	16.8	2.9	11.1
Kent and Medway	2.8	3.1	46.7	20.5	2.7	10.4
South West						
Devon and Cornwall	3.4	3.9	50.5	22.4	2.4	9.5
Somerset	1.0	3.6	49.7	16.9	0.7	9.1
Bournemouth, Dorset and Poole	1.5	3.8	47.7	14.1	1.3	11.3
West of England	2.4	3.3	37.7	16.3	1.7	8.2
Wiltshire and Swindon	1.4	3.2	45.6	17.5	1.1	8.9
Gloucestershire	1.2	3.5	44.8	19.9	0.9	8.6
Yorkshire and The Humber						
North Yorkshire	1.7	3.6	46.8	21.3	1.6	11.7
West Yorkshire	4.4	3.3	45.3	20.2	5.6	14.4
South Yorkshire	1.9	2.7	36.2	19.8	2.3	11.4
Humberside	1.4	2.9	44.6	24.1	1.6	11.6

Source: LSC National Employers Skills Survey 2003 (IFF/IER).

Base: All vacancies, HtFVs, SSVs and skill gaps weighted according to 14-sector local weight.

Annex B: Definition of Industries and Occupations

Table B.1: Classification of industries

Industries	SIC92
1. Agriculture, etc	01-02, 05
2. Mining and Quarrying	10-14
3. Food, Drink and Tobacco	15-16
4. Textiles and Clothing	17-19
5. Wood and Paper	20-21
6. Printing and Publishing	22
7. Chemicals, and Non-metallic Mineral Products	23-26
8. Metals and Metal Goods	27-28
9. Engineering	29-33
10. Transport Equipment	34-35
11. Manufacturing not elsewhere specified (nes) and Recycling	36-37
12. Electricity, Gas and Water	40-41
13. Construction	45
14. Sale and Maintenance of Motor Vehicles	50
15. Wholesale Distribution	51
16. Retailing	52
17. Hotels and Catering	55
18. Transport	60-63
19. Communications	64
20. Financial Intermediation	65-67
21. Professional Services	70, 71, 73
22. Computing and Related Services	72
23. Other Business Services	74
24. Public Administration and Defence	75
25. Education	80
26. Health and Social Work	85
27. Miscellaneous Services	90-99

Table B.2: Sectors as used for local LSC reporting

	SIC 1992	
1. Agriculture, etc	(AB)	01-05
2. Mining and Quarrying	(C)	10-14
3. Manufacturing	(D)	15-37
4. Electricity, Gas and Water	(E)	40,41
5. Construction	(F)	45
6. Retail and Wholesale	(G)	50-52
7. Hotels and Catering	(H)	55
8. Transport, Storage and Communication	(I)	60-64
9. Financial Intermediation	(J)	65-67
10. Business Services	(K)	70-74
11. Public Administration and Defence	(L)	75
12. Education	(M)	80
13. Health and Social Work	(N)	85
14. Miscellaneous Services	(O,P,Q)	90-99

Table B.3: SOC 2000–Classification of occupational categories (sub-major groups)

Sub-major groups	Occupations	Occupation minor group number ^a
11. Corporate managers	Corporate managers and senior officials; production managers; functional managers; quality and customer care managers; financial institution and office managers; managers in distribution and storage; protective service officers; health and social services managers	111, 112, 113, 114, 115, 116, 117, 118
12. Managers/proprietors in agriculture and services	Managers in farming, horticulture, forestry and fishing; managers and proprietors in hospitality and leisure services; managers and proprietors in other service industries	121, 122, 123
21. Science and technology professionals	Engineering professionals; information and communication technology professionals	211, 212, 213
22. Health professionals	Health professionals, including medical and dental practitioners and veterinarians	221
23. Teaching and research professionals	Teaching professionals, including primary and secondary school teachers and higher and further education lecturers; research professionals (scientific)	231, 232
24. Business and public service professionals	Legal professionals; business and statistical professionals; architects, town planners, and surveyors; public service professionals; librarians and related professionals	241, 242, 243, 244, 245
31. Science and technology associate professionals	Science and engineering technicians; draughtspersons and building inspectors; IT service delivery occupations	311, 312, 313
32. Health and social welfare associate professionals	Health associate professionals, including nurses and other paramedics; therapists; social welfare associate professionals	321, 322, 323
33. Protective service occupations	Protective service occupations	331
34. Culture, media and sports occupations	Artistic and literary occupations; design associate professionals; media associate professionals; sports and fitness occupations	341, 342, 343, 344
35. Business and public service associate professionals	Transport associate professionals; legal associate professionals; financial associate professionals; business and related associate professionals; conservation associate professionals; public service and other associate professionals	351, 352, 353, 354, 355, 356
41. Administrative and clerical occupations	Administrative/clerical occupations: government and related organisations; finance; records; communications; general	411, 412, 413, 414, 415
42. Secretarial and related occupations	Secretarial and related occupations	421

Sub-major groups	Occupations	Occupation minor group number ^a
51. Skilled agricultural trades	Agricultural trades	511
52. Skilled metal and electrical trades	Metal forming, welding and related trades; metal machining, fitting and instrument making trades; vehicle trades; electrical trades	521, 522, 523, 524
53. Skilled construction and building trades	Construction trades; building trades	531, 532
54. Other skilled trades	Textiles and garment trades; printing trades; food preparation trades; skilled trades nes	541, 542, 543, 549
61. Caring personal service occupations	Healthcare and related personal services; childcare and related personal services; animal care services	611, 612, 613
62. Leisure and other personal service occupations	Leisure and other personal service occupations; hairdressers and related occupations; housekeeping occupations; personal service occupations nes	621, 622, 623, 629
71. Sales occupations	Sales assistants and retail cashiers; sales-related occupations	711, 712
72. Customer service occupations	Customer service occupations	721
81. Process plant and machine operatives	Process operatives; plant and machine operatives; assemblers and routine operatives	811, 812, 813
82. Transport and mobile machine drivers and operatives	Transport drivers and operatives; mobile machine drivers and operatives	821, 822
91. Elementary occupations: trades, plant and machine related	Elementary occupations: agricultural trades related; process and plant related; mobile machine related	911, 912, 913, 914
92. Elementary occupations: clerical and services related	Elementary occupations: clerical related; personal services related; cleansing services; security and safety services; sales related	921, 922, 923, 924, 925

Note:(a) *Standard Occupational Classification. SOC Revision Team, 10th edition, August 1999.*

Table B.4: SOC 2000–Major groups

Major group	Title	Abbreviation
1.	Managers and senior officials	Managers
2.	Professional occupations	Professionals
3.	Associate professional and technical occupations	Associate prof.
4.	Administrative, clerical and secretarial occupations	Administrative
5.	Skilled trades occupations	Skilled trades
6.	Personal service occupations	Personal service
7.	Sales and customer service occupations	Sales
8.	Transport and machine operatives	Operatives
9.	Elementary occupations	Elementary

Notes

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