

Globalisation, Skills
and Employment:

The London Story



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Mayor's Foreword

London's economy is highly successful – and we should continue and increase this success. Key to this is ensuring London and Londoners have the skills needed to compete for business and jobs. This document looks at the London story in terms of globalisation, skills and employment – what the evidence tells us about London's labour market, its skills base and the needs for the future. It is the first publication from the London Skills & Employment Board, which will underpin the production of their strategy. It underlines just how special London's circumstances are.

The document illustrates how the London economy is the driving force behind the UK economy. Globalisation is changing the nature of the city's employment market and the skills needed in the workforce. There is an increasing demand for higher level skills that is more significant in London than elsewhere in the UK. Our population is growing as a result of both in-migration and international migration. There is important evidence of how educational attainment and skills acquisition shape the lives of individuals and their communities.

Above all, the document underlines how, despite the city's dynamism and growth, there are too many Londoners – and too many London children – whose lives are blighted by worklessness and multiple barriers to employment.

I hope the information in The London Story will assist all Londoners – employers, employees and those who want a decent job – to contribute to the crucial debate on setting the strategic direction for meeting London's skills requirements and ensuring all Londoners are equipped to compete for a decent job. I hope this will inform debate when the London Skills & Employment Board consult Londoners on the draft London Employment and Skills Strategy later this year.



Ken Livingstone

Mayor of London
Chair, London Skills & Employment Board

Executive Summary

04 **London is a highly successful economy and likely to remain so.**

- London is a highly successful city region economy. It:
 - is one of the world's leading centres for international business services;
 - clearly ranks as the world's leading centre in a number of areas of international financial intermediation.
- Its success is based on its competitive strengths across a range of factors including availability of qualified staff, but also access to markets and transport infrastructure.
- London has competed successfully in the global economy over the past 15 years and provided it remains a place where businesses wish to locate, it can be expected to remain successful.

Global trends have resulted in a polarised job market with the greatest growth at the higher skill levels...

- London has an increasingly highly skilled workforce. Already 43% of jobs require level 4 or higher qualifications. By 2020, this will increase to around 50%, higher than the expected 42% average across the UK.
- Demand for low skilled service jobs is expected to remain stable with shrinkage occurring in the middle of the pay spectrum.

...but London's businesses do not face major skills gaps due to high levels of inward migration and commuting.

- London's population is extremely dynamic and is more highly skilled than the rest of the UK because it attracts well-qualified inward migrants from the UK and abroad to supplement its own young people entering the labour force (as well as its existing resident population).
- Overall, international and domestic migration as well as commuting play a major role in meeting labour demand in London. London has fewer skill gaps than elsewhere in the UK across all sectors.

London's challenge is therefore to equip more Londoners to compete successfully for jobs alongside workers from across the UK and around the world...

- London's challenge is not that businesses cannot access high quality staff, but rather that many Londoners are not equipped to compete effectively in the job market.
- London's young people need to get better qualifications and better employability skills to enable them to compete in London's economy.
- A majority of employers state that improving school attainment in London would help them recruit the right people more than anything else.
- Low expectations among school children appear to be a factor determining poor performance in some schools.
- Achieving a good education first time around is important because there is evidence that, beyond the age of 19, few adults with low qualifications progress through formal levels of learning to any significant degree.

- Those with work experience have more realistic expectations of workplace requirements – and are therefore more ‘work ready’.
- Although most adults have a work record to draw on – and hence depend less on educational attainment – many face attitudinal, practical and structural barriers to learning.
- People skills and general employability are, and will remain, important in most aspects of economic activity.
- Employers have a key role to play in encouraging learning but many are confused by the public sector offer.
- Employers in London are likely to have lower incentives to train local recruits than employers elsewhere due to the availability within London of good quality recruits at all levels.

...and to tackle worklessness which is a bigger problem in London than the rest of the UK partly because of stiff competition.

- Worklessness is a major problem in London with 30% of working age residents not in employment, more than elsewhere in the UK.
- A key consequence of worklessness is its impact on child poverty and the educational and future work prospects of these young people.
- There are multiple causes of worklessness and research shows that these are best addressed in a holistic manner.
- Lack of skills can be a barrier to work, with high rates of worklessness evident amongst those with no qualifications. The threshold for increased employability is level 1 qualifications, rather than level 2.

Public provision of skills and employment services needs to be better integrated and targeted.

- Public sector provision of employment services (including skills and job brokerage) are not sufficiently integrated either with each other or with other public services such as health and housing. Services aimed at increasing business productivity (including skills, innovation and other business support) also need to be better integrated.
- The targets for delivery agencies set by central government should encourage or support integrated delivery.
- Employers and other service users can find parts of the public sector provision of skills and employment in London cluttered and confusing.
- Public funding for training should be targeted at the needs of the most disadvantaged including the workless, those with no qualifications, those at risk of redundancy, lone parents etc.
- There needs to be increased provision of low cost credit to enable individuals to access training for which full fee remission or other funds are not available.

London Skills & Employment Board

06

The London Skills & Employment Board has been established to provide leadership in improving adult skills and employment in London. The Board is chaired by the Mayor of London and is employer-led to ensure that its work is driven by the needs of employers and that skills provision meets the existing and future needs of the London workforce and the London economy.

The London Skills & Employment Board (the Board) will set the strategic framework for the spending of £560m (pa) through the London Learning and Skills Council's adult skills budget. In addition, it will have the ability to influence the spending and priorities of other key agencies such as Jobcentre Plus (JCP) and the London Development Agency (LDA).

The Board is tasked with developing a strategy for adult skills and employment in London and ensuring its implementation. The Board has determined that the strategy should be based on and follow the development of a robust evidence base. This is consistent with the Government's requirement that the strategy should be evidence-based.

This document sets out that evidence base. It draws on a range of material including a comprehensive economic analysis of London's labour market carried out by GLA Economics, as well as work externally commissioned for the Strategy, notably:

- an analysis of employer views on skills and employment issues in London based on a survey of 2000 London-based employers (the Voice of London Employers (VoLE) survey);
- an analysis of the impact of globalisation on the demand for skills in the London economy;
- a summary of 'what works' in the field of improving the skills of the low skilled, based on a review of the academic literature;
- a distillation of lessons learned from selected skills and employment projects and programmes in London, UK and international experience.

The evidence base has also drawn extensively on data, research and policy documents produced by, among others, government departments such as HM Treasury, the Department for Education and Skills, and the Department for Work and Pensions, as well as material produced and commissioned by bodies including the Confederation of Business & Industry, London First, the London Learning and Skills Council (LSC), JCP, the LDA, the Sector Skills Development Agency (SSDA), London Councils, and many others.

The purpose of the evidence base is to summarise relevant data and information and draw attention to key issues pertinent to skills and employment in London. It is not intended to be a strategy and hence does not seek to make specific proposals or develop solutions to the issues it identifies. It is being published to inform consideration of the draft strategy, to set out for interested parties some of the key information that has informed the Board's deliberations. While it is not a formal consultation document, comments on the contents of the evidence base and suggestions for future areas of research to inform the work of the Board are welcome and can be addressed to the Board Secretariat.

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01 London's Global Economy

London is one of the world's leading international business service centres.¹ It is the headquarters base for more FTSE500 companies than New York, Paris or Hong Kong.² It is the most common destination for foreign direct investment in Europe.³ And with 99% of the earth's business activity located in time zones that overlap with London's working day (more than any other city in the world) it is one of the world's great financial centres.

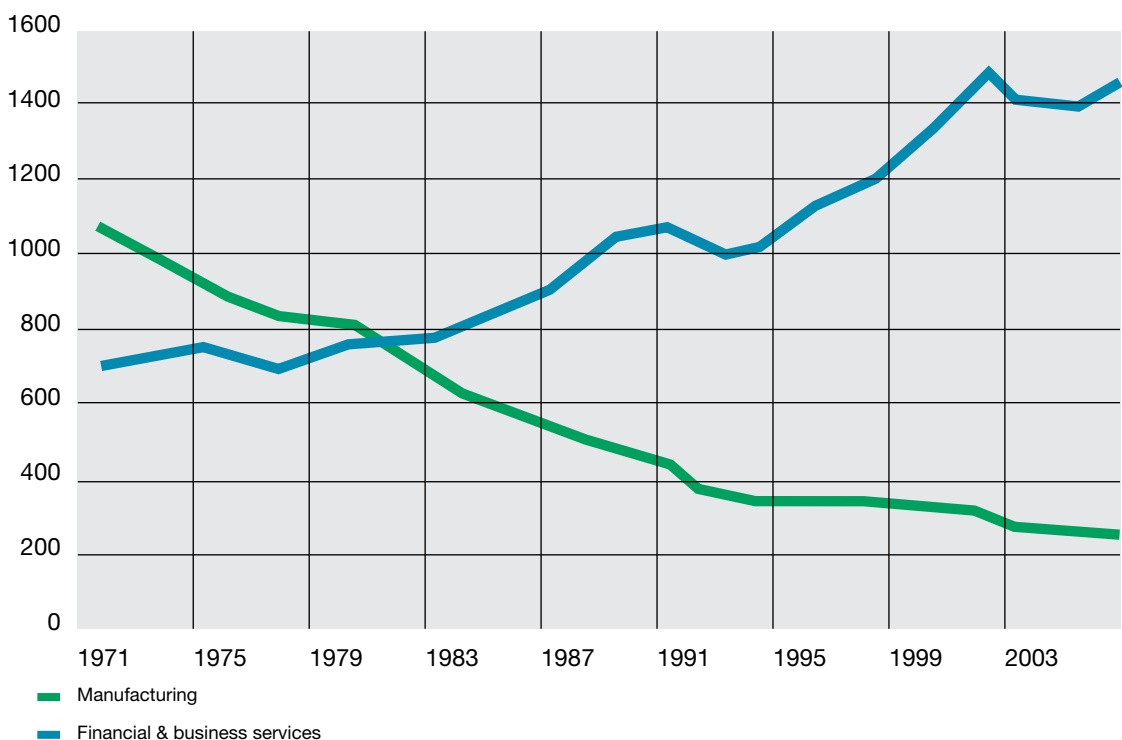
10 40% of London's total employment is in business, financial and other services compared to 5% in each of manufacturing and construction. This reflects a significant shift from manufacturing to service-oriented industries over the past four decades or so: whereas in 1971 there were 1.5 manufacturing jobs for every business/financial sector job, there are now 6 business/financial sector jobs for every 1 manufacturing job (Figure 1). As a result of this structural shift, businesses in London now tend to be less land-intensive and more people-oriented, with the concentration of

many people in rather small geographical areas (such as central London) generating important economic benefits.

The dense concentration of businesses in central London reflects the fact that the costs to businesses of locating in such a relatively small geographic area are outweighed by the benefits. Costs can include congestion in traffic and infrastructure usage as well as high rents and wages, for example; the benefits include access to a large number of potential employees with appropriate skills and qualifications, access to specialised input services (eg the existence of legal

Figure 1. Manufacturing and finance & business services jobs ('000s)

Source: EBS for GLA Economics



LONDON IS ONE OF THE WORLD'S LEADING INTERNATIONAL BUSINESS SERVICE CENTRES

services to support the financial services industry) and knowledge spillovers between businesses. A direct consequence of such agglomeration benefits is that London firms have higher productivity than those in the rest of the UK – as shown in Figure 2 – which makes them highly competitive in global markets. This is the case across all industrial sectors, but especially so for financial and business services.¹

London's favourable geographic location, the sharp increase in global trade activity over the past decade and the high exports of London's financial and business services have given

London particular strength as a global financial centre. The Corporation of London estimates that London accounted for 54% of 'city-type' activity in the European Union in 2003.⁴ And in January 2007, the Mayor of New York, Mayor Bloomberg, published a report by McKinsey that showed London gaining market share over New York in global capital market activity.⁵ Figure 3 shows London's share of international financial markets in 2004.

The European Cities Monitor shows why London is regarded as such an attractive business location,

Figure 2. Productivity by sector 2003 (£'000s, 2000 prices)

Source: EBS for GLA Economics

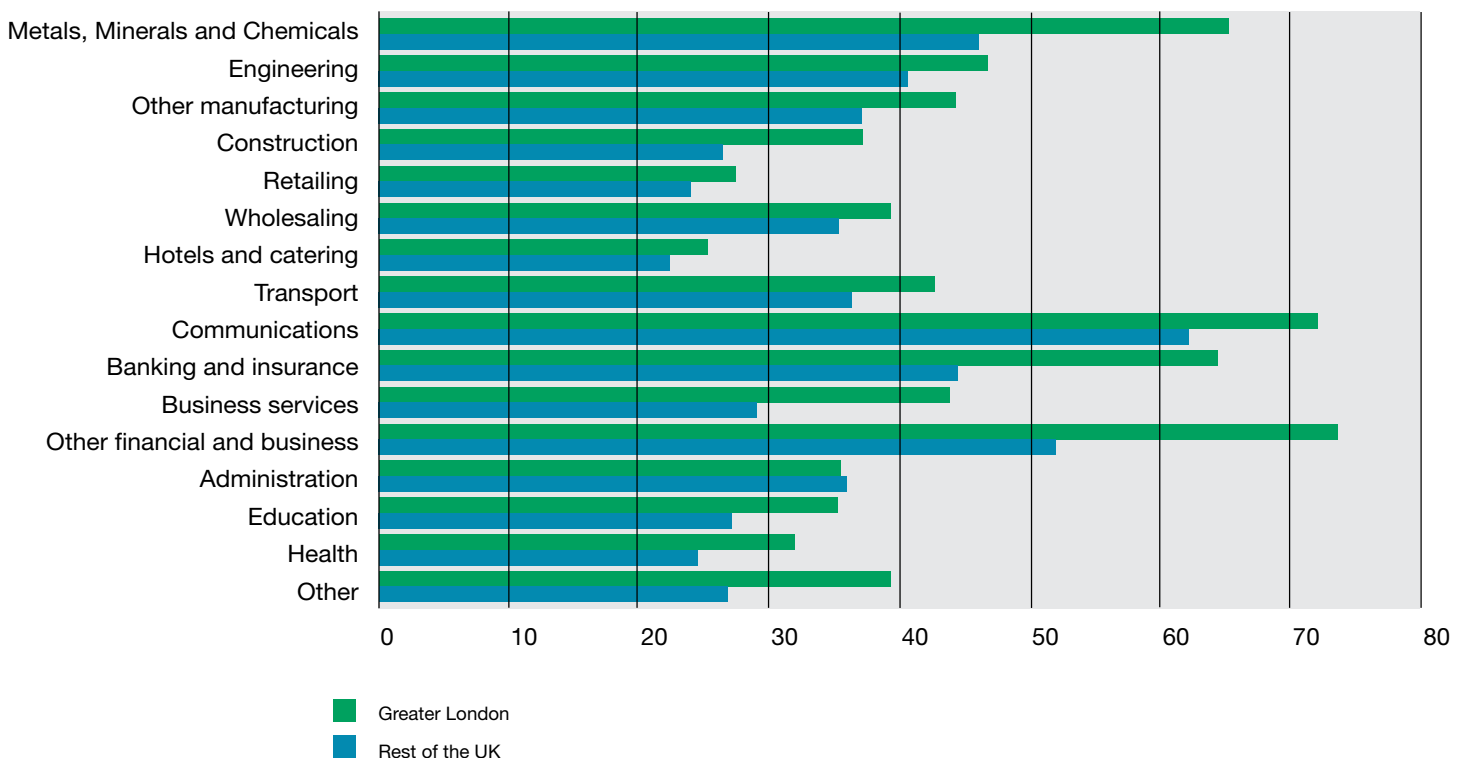


Figure 3. London's share of international financial markets (%)

Source: International Financial Services London

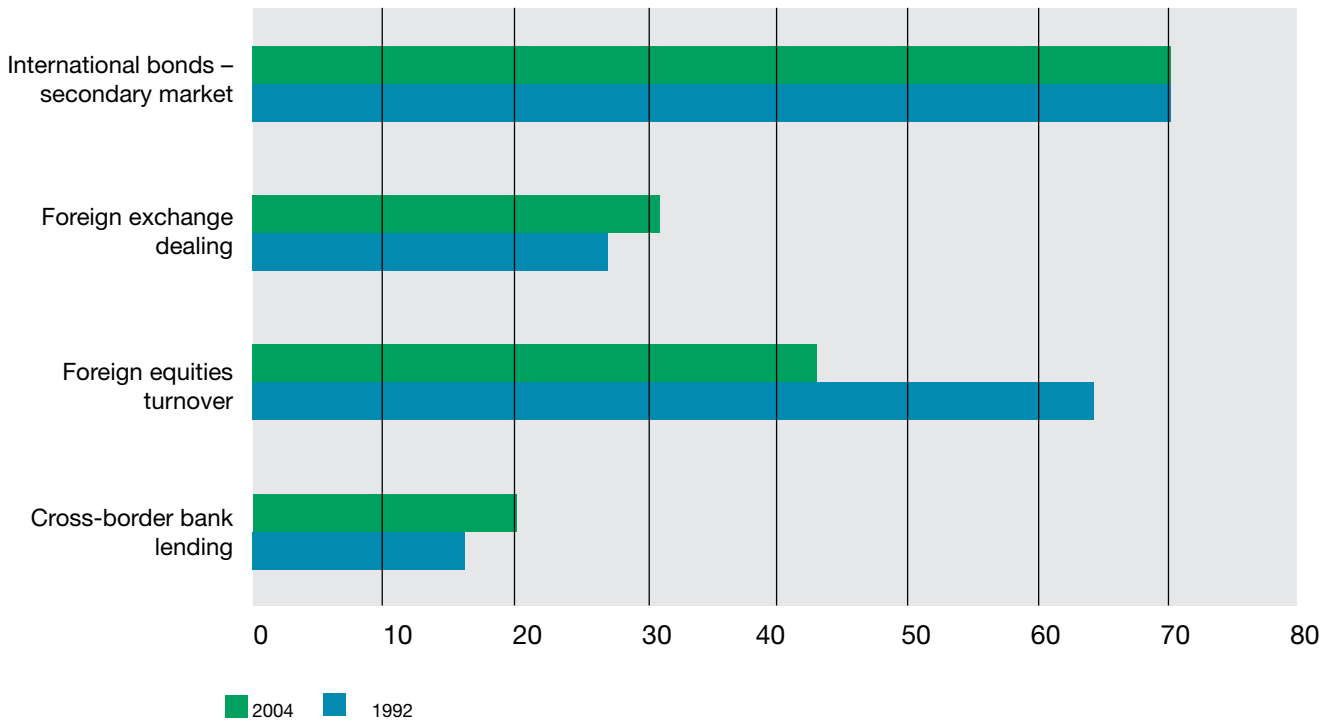


Table 1. City ranking according to various location factors

Source: European Cities Monitor, Cushman & Wakefield

Location factor (in order of importance)	2005	2006	Leader
Easy access to markets	1	1	London
Qualified staff	1	1	London
External transport links	1	1	London
Quality of telecoms	1	1	London
Cost of staff	22	16	Warsaw
Climate created by government	6	5	Dublin
Office space value for money	24	29	Warsaw
Availability of office space	3	1	London
Language spoken	1	1	London
Internal transport	2	1	London
Quality of life	13	7	Barcelona
Freedom from pollution	27	26	Stockholm

ranking London as the number one European city on a wide range of key location factors such as ease of access to markets, qualified staff, external transport links, quality of telecoms, availability of office space and languages spoken (Table 1).⁶ When asked which of a number of different factors were most important for their businesses, respondents to the Voice of Employers (VoLE) Survey ranked the ability to recruit the best staff as top of their priorities.⁷ 71% of respondents stated that the skills of individuals they recruited in the last three years matched their needs perfectly or very well.

Summary and implications

- London is a highly successful city region economy. It is one of the world's leading centres for international business services and ranks as the world's leading centre in a number of areas of international financial intermediation.
- London's success is based on its competitive strengths across a range of factors including qualified staff, but also access to markets and transport infrastructure.
- London has competed successfully in the global economy over the past 15 years and, provided it remains a place where businesses wish to locate, it can be expected to remain successful.

Notes

- ¹ *GLA Economics (November 2005)*, Our London. Our Future. Planning for London's Growth II. *Main report*
- ² *Oxford Economic Forecasting (2006)*, London's Place in the UK Economy 2006-07
- ³ *GLA Economics (2005)* Growing Together: London and the UK Economy
- ⁴ *Corporation of London (2004)* The City's Importance to the EU Economy. *City type activities include financial services such as fund management and corporate finance as well as related activities and professional services such as insurance and legal services.*
- ⁵ *The City of New York Office of the Mayor of New York and the US Senate (2007)*. Sustaining New York's and the US's Global Financial Services Leadership.
- ⁶ *Cushman & Wakefield (2006)* European Cities Monitor
- ⁷ *London First (July 2007)*. The Voice of London Employers (unpublished).

02

Demand for Labour

Global changes in technology, prices and costs experienced over recent decades have driven the structural shift in London's economy from manufacturing to services. As a result of such changes, London's employers now employ a more highly qualified workforce than in the past.⁸ Moreover, whilst there are always uncertainties in making forecasts, the current expectation is for London's employers to employ increasingly well qualified workforces in the future.

16 This section sets out the future forecast workforce requirements from two different perspectives. First, the forecast change in London's sectors and second, the forecast change in occupations. The skills implications of both forecasts are highlighted.

Forecast changes in London's economy – by sector

Analysis by GLA Economics shows that over the past two decades London's employment growth occurred primarily in the business and other services sectors (Figure 4).

As shown in Figure 5, this broad pattern of employment growth is forecast to continue over the next two decades or so.

The 'business services' and 'other services' sectors that are forecast to provide the vast majority of London's future employment growth are relatively high skilled as are finance, health and education which are also expected to grow. Over 50% of employees in 'finance and business services' and 'public administration, health and education' and 40% of employees in 'other services' are qualified to level 4 or above (Figure 6). In that respect, demand for high skills is expected to grow in the future. However alongside these generally high skill sectors, other sectors are also expected to grow including hotels and restaurants and retail, helping to meet the needs of the city and its visitors. These latter sectors are likely to boost the demand for customer facing skills.

The forecast trends set out in this section are produced by GLA Economics for use by the GLA Group.⁹ Whilst forecasts are best estimates of what might reasonably be expected to happen,

they are by their nature inexact. As a result, some caution is required when using them, but nevertheless, the trends set out above are broadly consistent with those forecast by the individual Sector Skills Councils.

The analysis of forecast changes in London's sectors shown above assumes that the occupational mix within sectors remains constant over time, while this might well be changing. In order to shed more light on future skill requirements as well as testing the findings of the sector analysis, an examination of the changes taking place in occupational categories is considered below.

Forecast changes in London's economy – by occupation

Occupational data also show that employers have increasingly employed high skilled workers over at least the past two decades. This tendency is forecast to continue into the future.¹⁰

Occupational analysis suggests that the growth in London's employment over the past two decades has been in managers, professionals and associate professional occupations. Moreover, Cambridge Econometrics forecasts suggest that this will continue in the future (Figure 7).

As Figure 8 shows, these occupations generally employ high skilled individuals. For example 83% of those employed in professional occupations are educated to at least levels 4 or 5 (degree level). Examples of professional occupations include a number in which London has a strong specialisation such as security broking and fund management, advertising, legal, management consultancy and media and publishing.

Figure 4. Change in London's employment 1984–2005 ('000s workplace jobs)

Source: EBS for GLA Economics

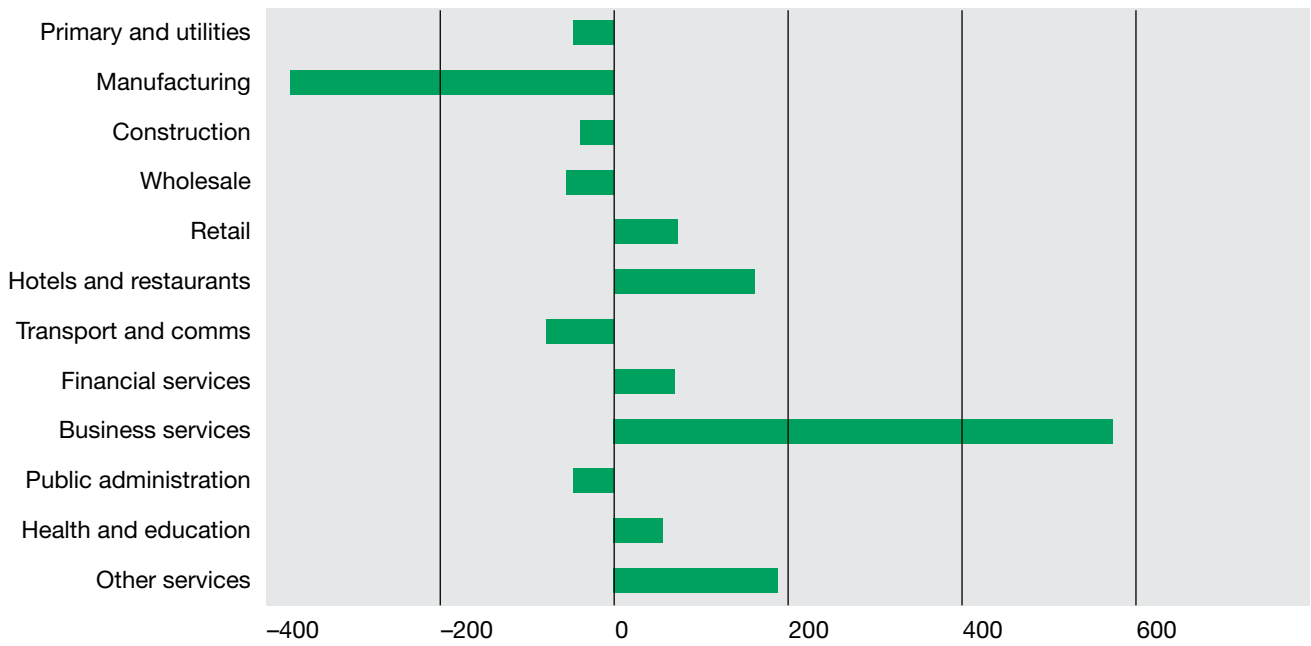


Figure 5. Forecast change in London's employment 2006–2026 ('000s workplace jobs)

Source: Volterra for GLA Economics

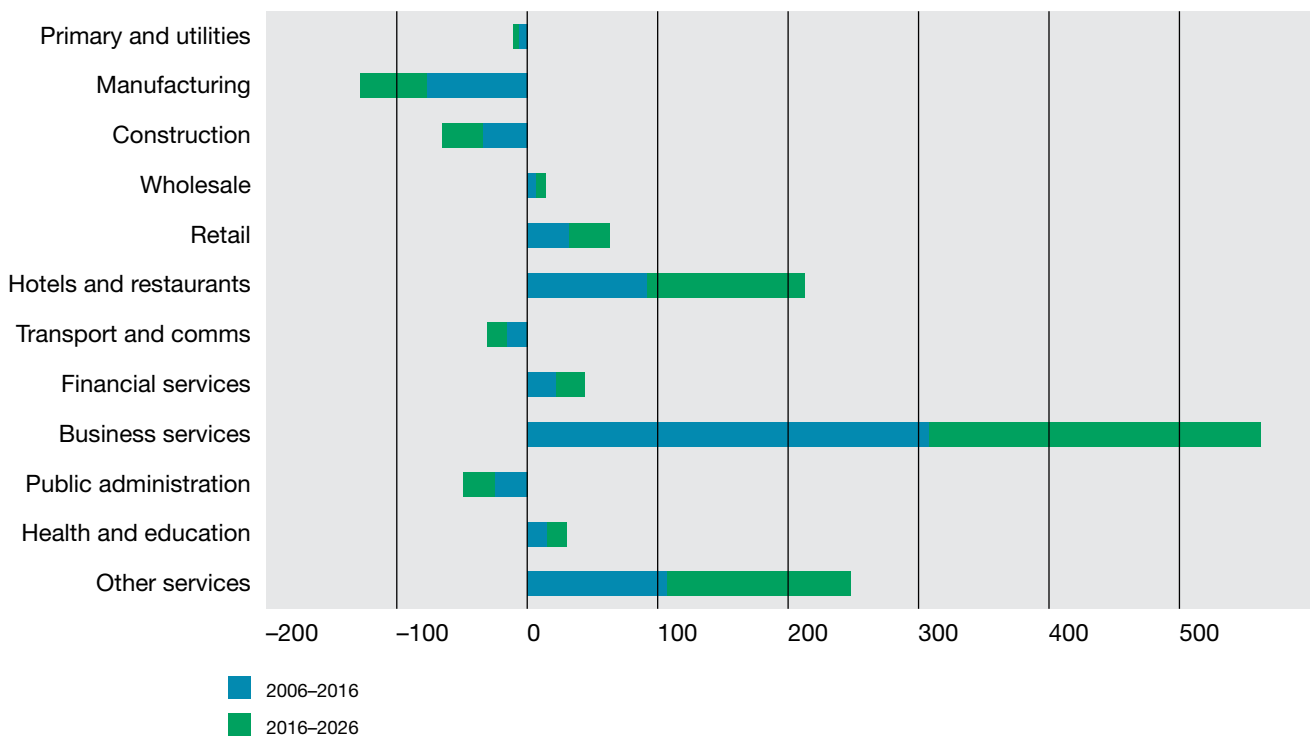


Figure 6. Share of London workforce qualified to level 4/5 by sector (%)

Data: LFS 2006

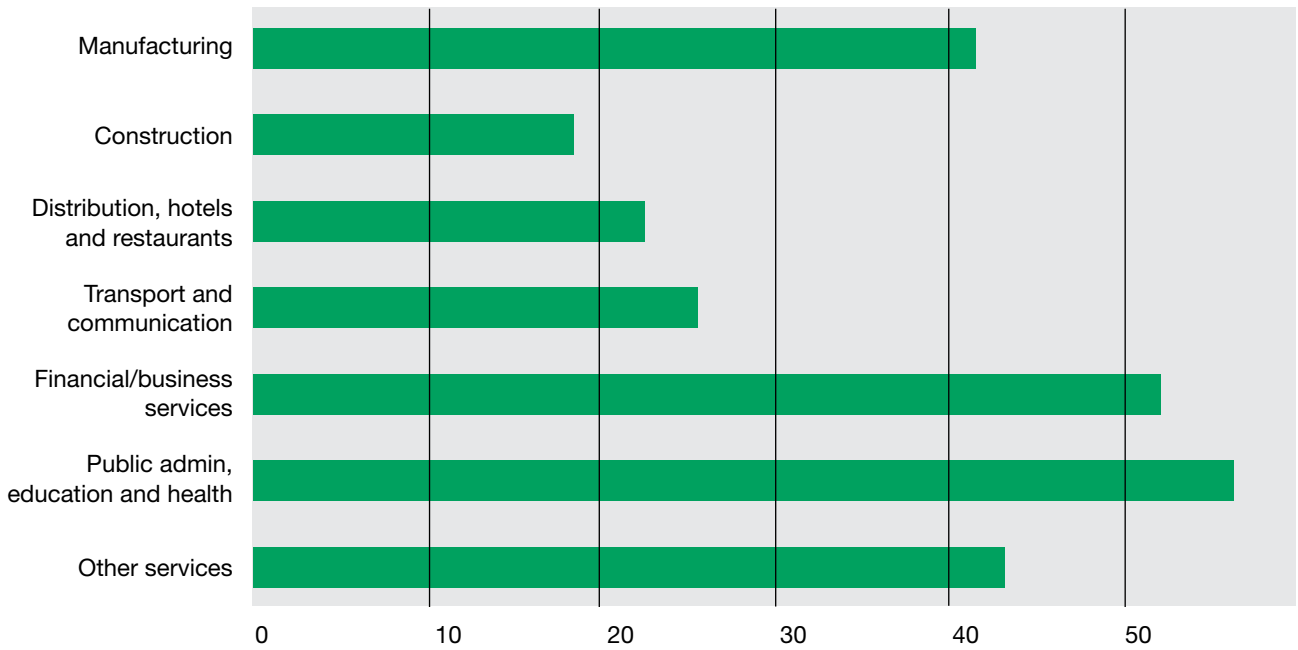
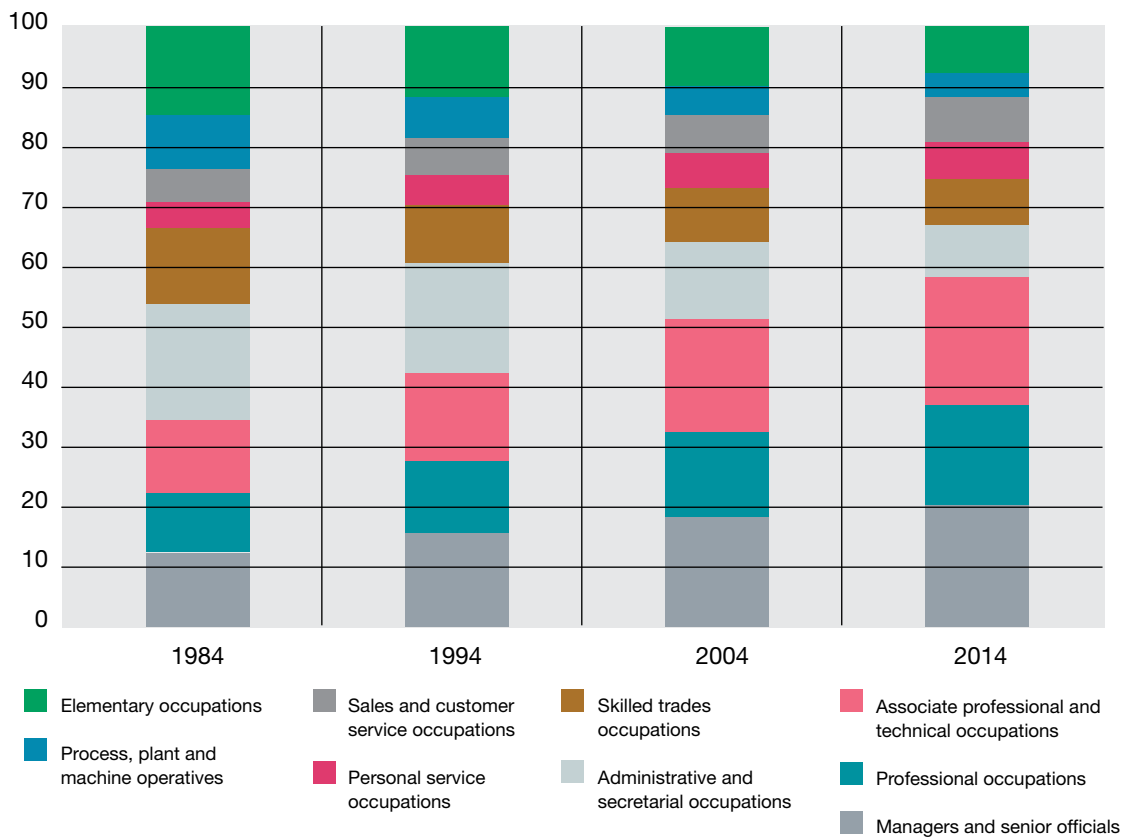


Figure 7. Occupation change in London 1984–2014 (%)

Source: Cambridge Econometrics for Working Futures



In total, around 43% of jobs in London are filled by employees with level 4 and above qualifications compared to just 30% in the rest of England and Wales.¹¹

This occupational analysis suggests demand for high skills has risen and is forecast to continue to do so: GLA Economics forecast that by 2020, 50% of employees in London will be qualified to this degree level standard (level 4 or above).

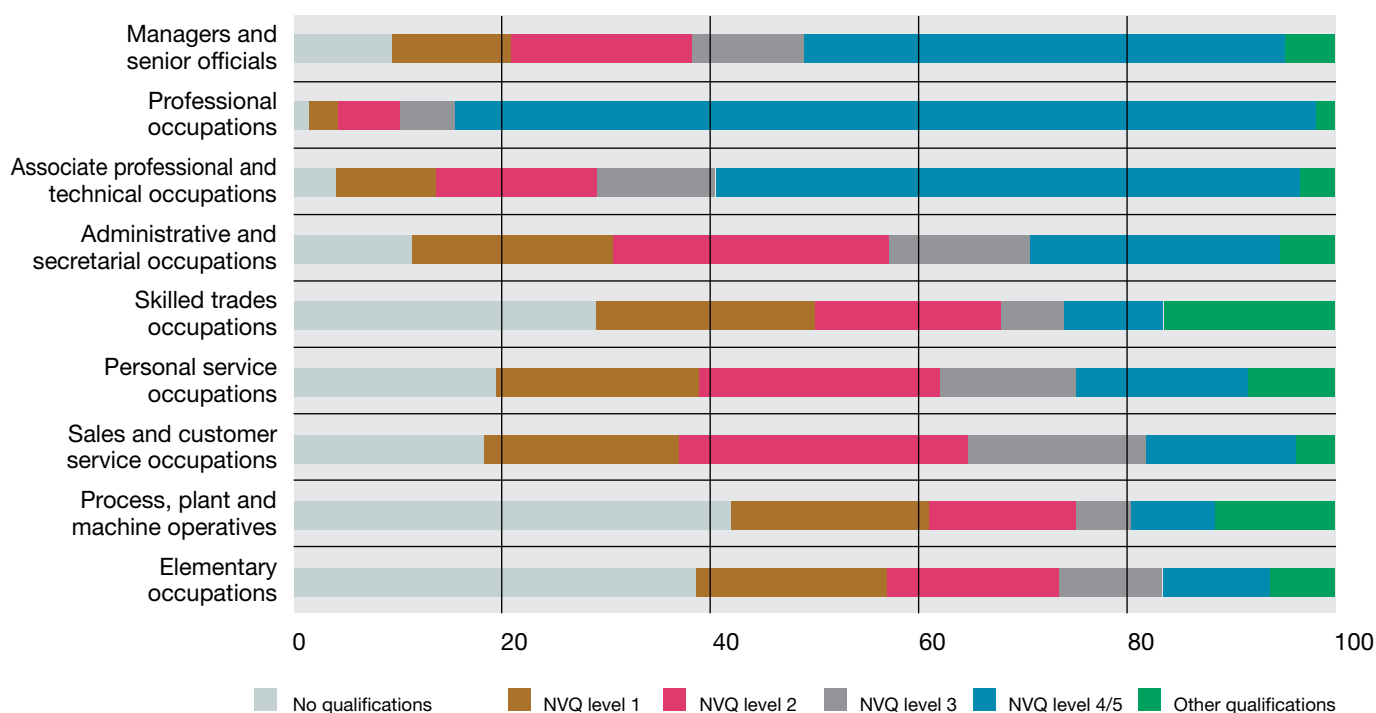
At the lower end of the skills distribution the picture is more complicated. Cambridge

Econometrics project a decline in the number of jobs within London requiring low qualification skill levels due to anticipated declines in employment within ‘elementary’, ‘process, plant and machine operatives’ and ‘skilled trades’.¹⁰

GLA Economics, however, expect that absolute numbers of low-skilled jobs are unlikely to fall.¹² The reason that the forecast decline in employment in elementary occupations (by Cambridge Econometrics) may not occur is that demand for basic service jobs such as cleaning and security will tend to increase as the demand for high

Figure 8. Occupation by qualification levels in London 2001 (%)

Source: Census 2001



43%

OF JOBS IN
LONDON REQUIRE
LEVEL 4 OR HIGHER
QUALIFICATIONS
RISING TO 50%
BY 2020

20 skilled office-based jobs increases. Meanwhile, employment in other relatively low-skilled occupational sectors, such as 'sales and customer services' and 'personal services', is expected to increase.

Even though some sectors and occupation levels are expected to experience net declines, there will still be a need to replace employees in all industries and at all levels who are retiring from the labour force or who leave the workforce for some other reason. London replacement demand is estimated at 1.6 million jobs for the period 2004-2014 which suggests that all occupations will have a requirement for new workers over the next decade.¹⁰

Impact of globalisation on occupational structure

Underlying the structural shift in London's economy from manufacturing to services and from one set of skills to another is the impact of technology, improved communications and globalisation in general. Jobs that provide goods or services to a global market are, by the very nature of the global market, contestable and so at risk of off-shoring or being lost through competition to other countries. Those jobs that are easily capable of being reproduced either via automation or by being codified and carried out by others elsewhere with little or no face-to-face contact are especially at risk (whether they be for the global or local market). By contrast many of the tasks that deliver goods and services to local markets are less at risk.

A recent study conducted for the Corporation of London showed that London is well-placed to take advantage of globalisation.¹³ According to the study, only 10% of the London economy was in the process of moving off-shore; roughly half

the London economy could be classified as in the 'staying' category – ie fundamentally non-tradable and unlikely to move off-shore. Although 40% was classified as 'at risk' (ie tradable and potentially susceptible to movement off-shore) including business and financial services, there is little sign from job growth, or other survey, data that London's advantages as a location for businesses are as yet diminishing. Large scale off-shoring thus remains a risk, but only a risk, and the current expectation is for continued strong net job growth.

Maintaining London's attractiveness as a place in which businesses want to locate is key to ensuring its continued comparative advantage in those high skill sectors that are tradable internationally and hence potentially 'at risk'. To this end infrastructure projects such as Crossrail which will offset congestion and enable the movement of more people into the centre of London, are crucial to the future prosperity of the city.

This analysis of growth in high-skilled jobs and continued existence of low-skill jobs is consistent with recent research that suggests the emergence of job polarisation into low and high paid occupations.¹⁴ The research classifies occupations according to median pay and predicts that the employment shares of both low and high paid occupations will grow alongside a shrinkage of those in between. The empirical evidence shows that polarisation has emerged nationally in the recent decades and when looking at individual regions London appears unique in terms of the magnitude of its employment polarisation over the 1990s.¹⁵

London's high value economy requires higher than average skill levels to support it. This requirement for higher level skills has increased over time and is likely to rise further. At the same time, it is the availability of such skills, as well as other inputs

to business performance, that shapes the sort of businesses that locate and succeed in London. That is, the supply of labour and skills (as well as other business inputs) shapes the type of business that succeeds in London; and these businesses in turn generate a demand for skills as they renew their workforce and respond to competition.

Summary and Implications

- London has an increasingly highly skilled workforce. Already 43% of jobs require level 4 or higher qualifications. By 2020, this will increase to around 50%, significantly higher than the expected 42% in the UK.
- There is evidence of job polarisation occurring in London whereby growth of high-skilled service jobs is accompanied by continued stable demand for low-skill service jobs, with shrinkage occurring for occupations in the middle of the pay-spectrum.
- Although 40% of London's economy is tradable and hence 'at risk' of off-shoring due to globalisation, London's comparative advantage – if sustained – means that it is unlikely to lose market share in these sectors.

Notes

⁸ *The definition of qualifications has its limitations since it does not necessarily reflect the skills/competence level of workers in full. However, qualifications are easily measured and so for statistical purposes qualifications are usually used as an approximation for skills. However, it is acknowledged that many skills that are of value to businesses will be acquired through work experience, or other means, not necessarily through qualifications.*

⁹ *GLA Economics (2007) Working Paper 20: Employment Projections for London By Sector and Borough*

¹⁰ *Cambridge Econometrics/Institute for Employment Research (2006). Working Futures 2004-2014: Spatial Report. Sector Skills Development Agency/Institute for Employment Research.*

¹¹ *Labour Force Survey 2006.*

¹² *The continued existence of relatively low-skilled jobs does not however necessarily mean that employees with no qualifications will be able to access them. This is because all occupations to some extent are experiencing educational upgrading over time. This can be due either to a change in the nature of the occupations requiring increasing higher skills or due to credentialism and over-qualification. Goos, M. and Manning, A. (2003) 'Lousy and Lovely Jobs', *CEP Discussion Paper, No.604*; Felstead, A., Gallie, D. and Green, F. (2002) *Work Skills in Britain, London: DfES.**

¹³ *Corporation of London (2005) London's Place in the UK Economy 2005-06.*

¹⁴ *OECD Employment Outlook (2001; 2003); Goos and Manning (2003) op cit for Britain; Kaplanis, I. (2007) The Geography of Employment Polarisation in Britain, *Institute for Public Policy Research, IPPR, London, for regions and London*; Autor, D. H., L. F. Katz, and M. S. Kearney (2006) The Polarization of the U.S. Labor Market, *American Economic Review*, 96(2), 189-94., Ilg, R.E. (1996) The nature of employment growth, 1989-1995, *Monthly Labor Review*, 119(6), p. 29-36, for US.*

¹⁵ *Kaplanis, I. (2007) The Geography of Employment Polarisation in Britain. *Institute for Public Policy Research, London**

03

Supply of Labour

There are now about 7.5 million London residents including approximately 1.5 million aged 15 years old or younger, 5.1 million of working age, and 1 million aged 60/65 years or older.¹⁶ London's population has increased by nearly a million people from its level of 6.7 million in 1988 following a 49 year fall from a peak in 1939 of 8.6 million. This increase has been driven by increased net international migration. The population is projected to increase to 8.2 million by 2016.¹⁷

Londoners are a diverse people with 55% of the population White (born in the UK), 12% White (born outside the UK), 14% Black, Asian or from other minority backgrounds (BAME) (born in the UK) and 19% BAME (born outside the UK). In the rest of England, 90% of the population is White (born in the UK), 3% White (born outside the UK), 3% BAME (born in the UK) and 3% BAME (born outside of the UK).¹⁸

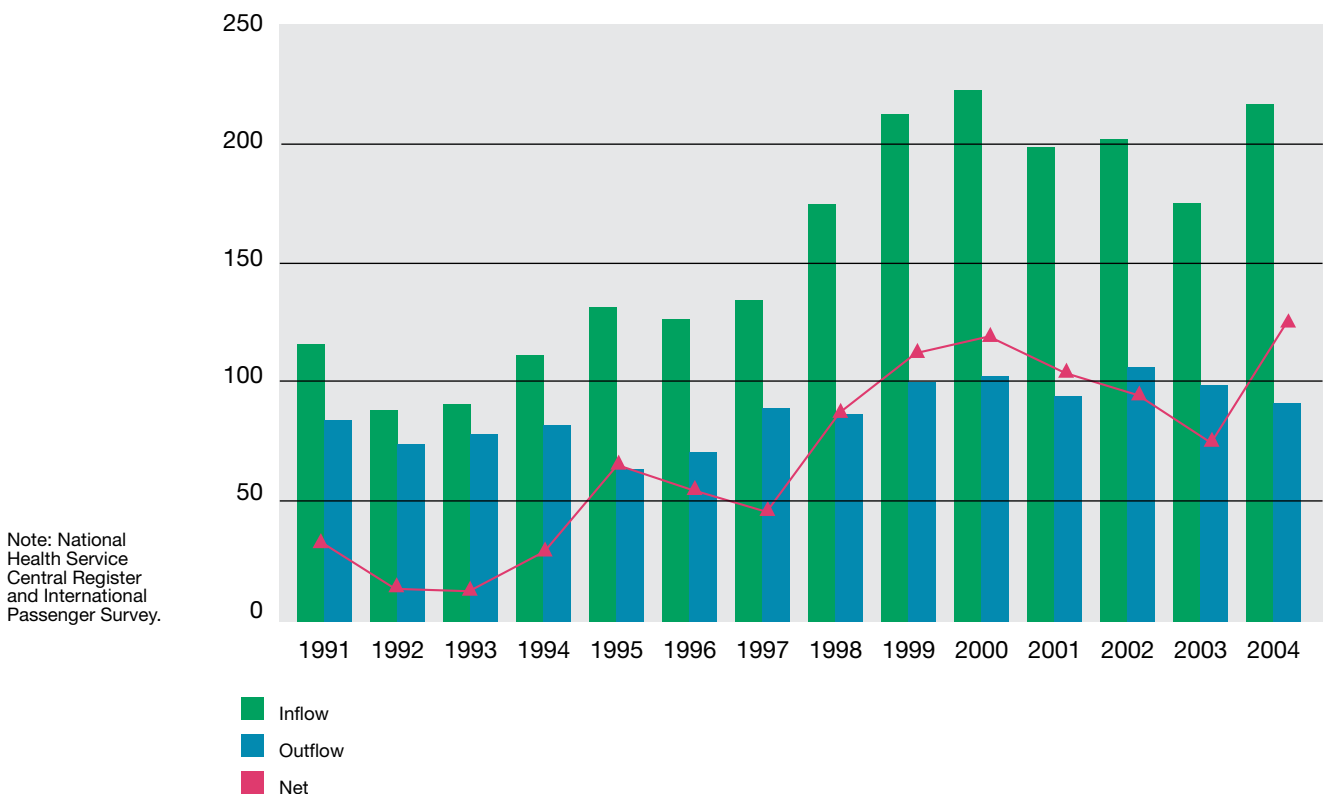
Reflecting these demographics, London's workforce is also highly dynamic. GLA Economics estimates that some 8% of the workforce is renewed annually

with over 75% of new entrants comprising international migrants or domestic migrants from the rest of the UK and just under 25% from London itself. Only half of the respondents to the Voice of London Employers survey indicated that a majority of their recruits come from within London itself.

This dynamism helps meet the labour needs of businesses located in London – with London businesses experiencing fewer significant skills gaps than the rest of the UK. It has also kept down wage inflation and helped the Bank of England in its

Figure 9. International migration into and out of London ('000s)

Source: ONS Regional Trends 39



task of preserving monetary stability in the UK as a whole.¹⁹ London also draws on large numbers of daily commuters living in surrounding regions.

This section looks at the flows of people into London’s labour market. The skills base of Londoners and the extent to which they meet the needs of London’s economy are assessed in the next section.

International migration

The reason London’s working age population is more highly qualified than the rest of the UK is

due to the dynamism of the London labour market and the fact that London’s working age population is in constant flux, with high inflows and outflows of UK and international migrants – many of whom are highly skilled.

As shown in Figure 9, inflows of international migrants into London have consistently exceeded outflows with an average gross inflow of around 180,000 since 1991. From 1998 onwards inflows of international migrants to London started to outstrip the outflows of both international and domestic migrants and began driving the

Figure 10. National Insurance registrations by foreign nationals, London ('000s)

Data: DWP data from the National Insurance Recording System

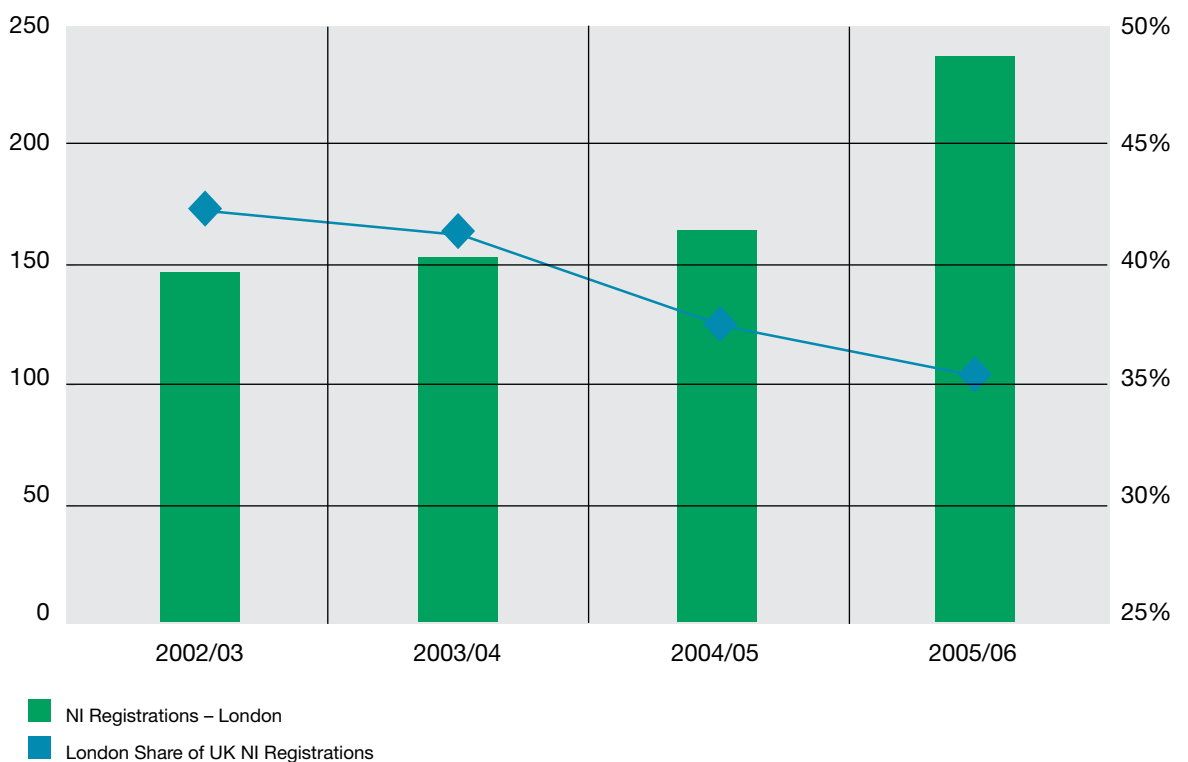


Figure 11. Skill levels of London residents and recent migrants (%)

Source: LFS 2005. Recent migrants are those who came to the UK in 2004 and currently live in London

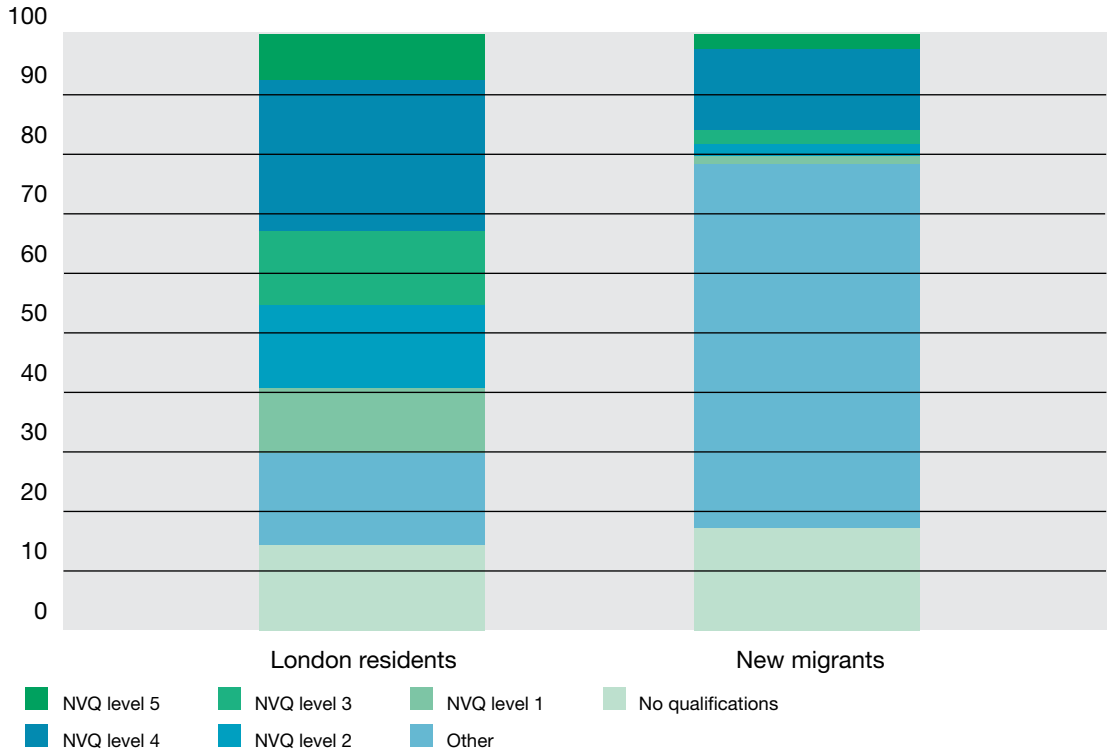
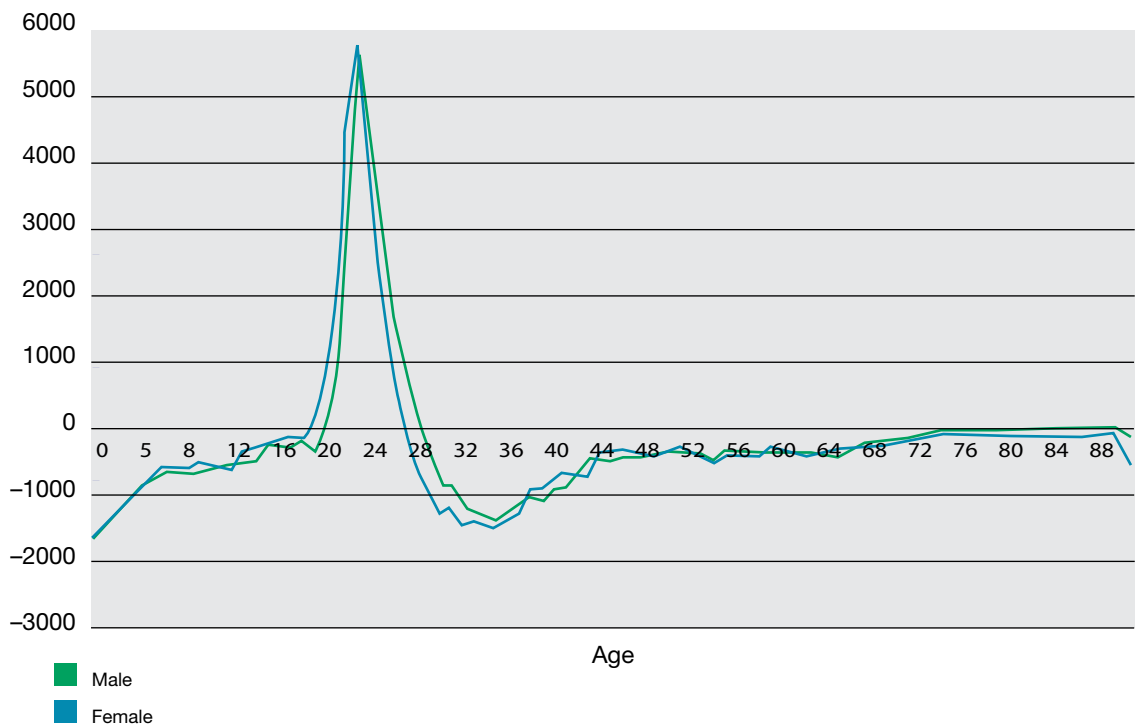


Figure 12. Net domestic migration by age of migrants, 2001

Source: 2001 Census



net increase of London's population from that time. International migration to London has represented a large share of the UK's inward international migration overall, as shown by National Insurance registration data, although that share has decreased in recent years mainly due to the more diversified geographical distribution of the A8 new migrants (Figure 10).²⁰

International migrants are employed in both high and low skill sectors. Many take positions in financial and business services (245,000 individuals employed in London in 2003), wholesale, retail

and motor trade (143,000) and health and social work (114,000). There are also a large number of international migrants employed in the hotels and restaurants sector (96,000), with 60% of the total employment in this sector made up by individuals born outside the UK.

The majority of new international migrants have qualifications that are not officially recognised in the UK (Figure 11). Some of these qualifications will be high level qualifications. Indeed, research from LSE suggests that, when looking at the years of schooling, the average

Figure 13. Domestic migration into and out of London ('000s)

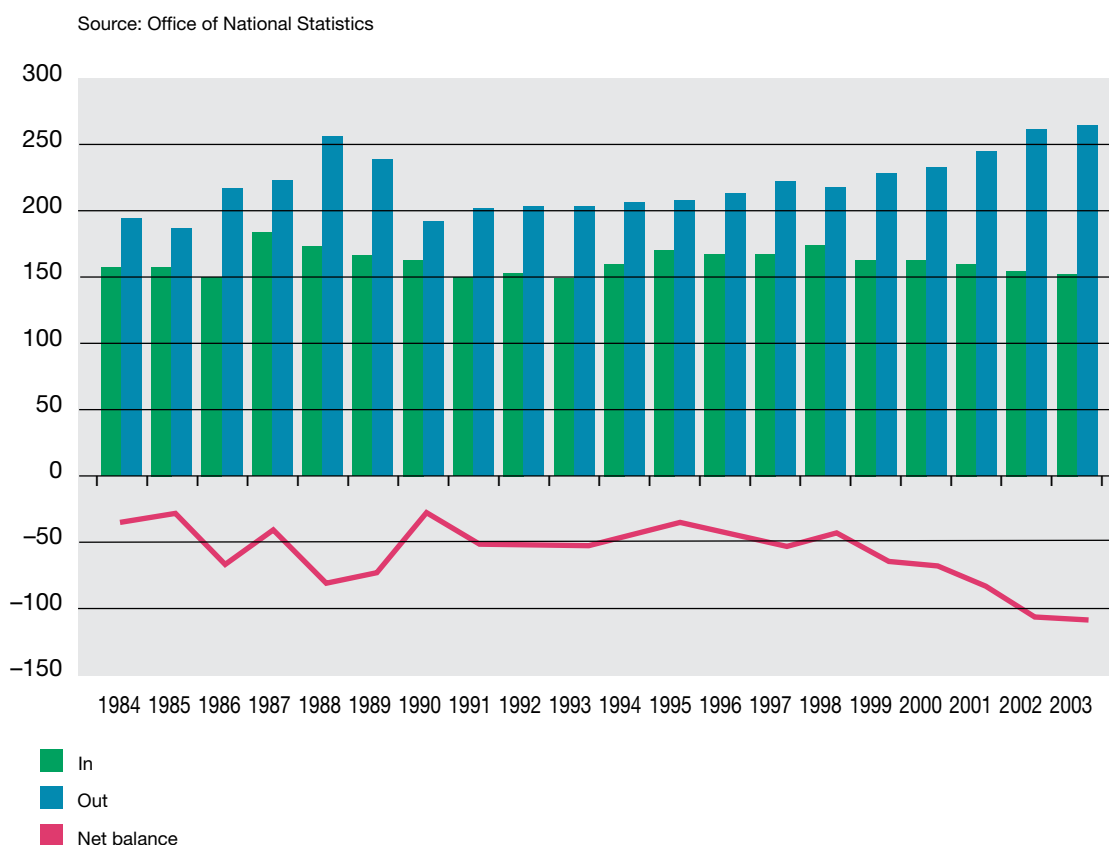


Figure 14. Qualification breakdown of in-commuters and residents who work in London, 2006 (%)

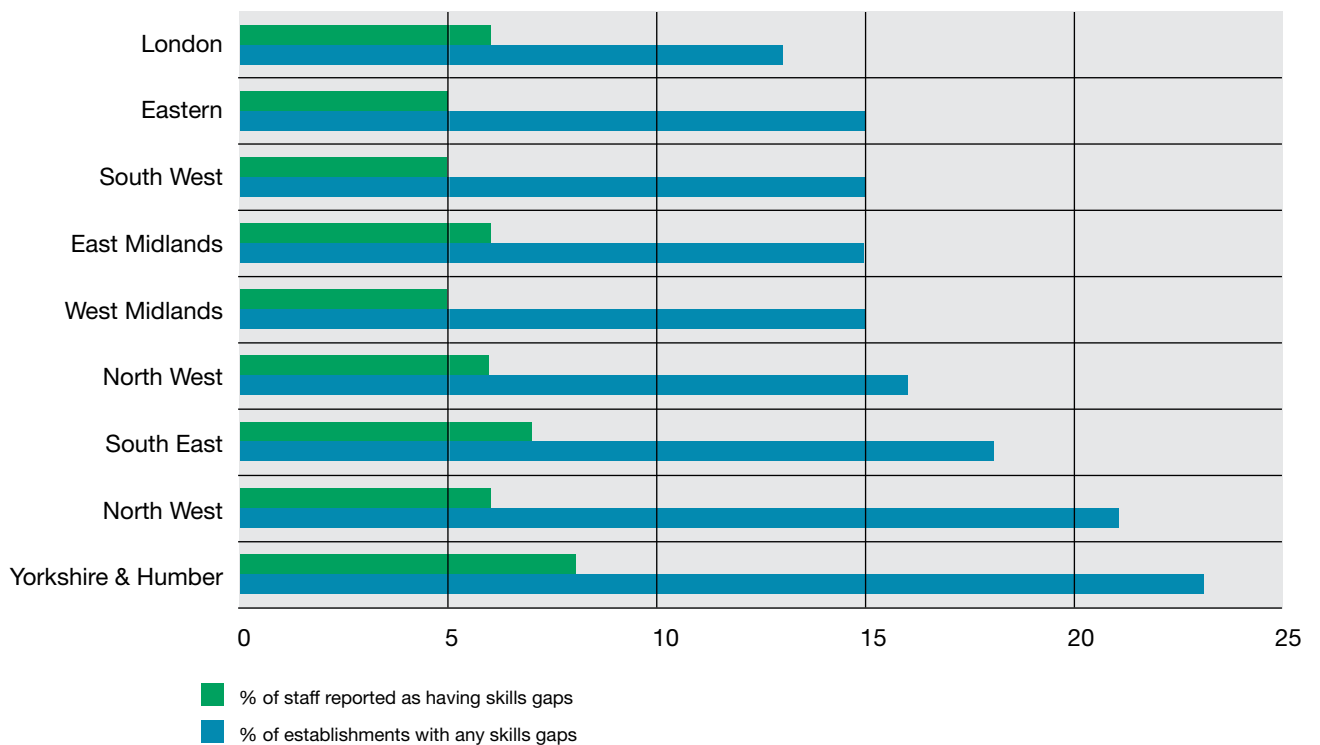
Source: Labour Force Survey, 2006



28

Figure 15. Incidence of skill gaps by region, 2005 (%)

Source: National Employer Skills Survey, 2005



LONDON HAS
A LOWER % OF
ESTABLISHMENTS
WITH ANY SKILL
GAPS THAN
ELSEWHERE IN
THE UK

international migrant in London appears to have qualifications above the average Londoner.²⁴ According to the LSE report, this is particularly the case for migrants from richer countries that tend to work in financial and business services. Those coming from less developed countries tend initially to take up lower skill jobs than their qualifications would warrant. Evidence suggests that the mismatch in skills and employment resulting from the non-recognition of foreign qualifications is relatively short-lived. The macroeconomic consequence has been downward pressure on wages at the bottom end of the market and a subsequent increase in employment in low skill service occupations. Overall international migrants have allowed the UK economy to grow without running into constraints and so helped raise the supply potential of the economy and reduced inflationary pressure.¹⁹

Domestic Migration

London currently attracts approximately 150,000 in-migrants from the rest of the UK per annum of which approximately 130,000 are of working age.

London gains from an inflow of talented young people and the rest of the UK gains when people migrate out from London later in their careers taking their skills and experience with them. The only ages at which in-migration is greater than out-migration are the ages of 20-27 years, as shown in Figure 12. London attracts a lot of workers from the rest of the UK in this age range.

As shown in Figure 13, over time the outflow of people from London to the UK has continually exceeded the inflow. Most of the net outflow occurs amongst residents aged in their 30's or early 40's as shown in Figure 12. Some of those

who migrate out of London, however, move to the surrounding regions and continue to work in London and commute.

Much of the domestic migration into and out of London is by highly skilled workers. In many respects London acts as a 'gateway' for highly skilled people who come to London early in their careers and having developed their skills later migrate out to other areas.

Commuting

In-commuters to London constitute a substantial share of the labour supply with over 700,000 people coming into London on a daily basis. The majority of commuters into London come from the East or the South East regions, which together account for 91% of all commuters into London. In-commuters account for nearly a third of the workforce in London's financial sector and nearly a quarter of its public administration workers and transport and communication workers.²²

As shown in Figure 14 the qualifications of in-commuters are similar to those of London residents who work in London.

School and University leavers

For many regions school and university leavers are the main entrants to the labour market each year. In London this group is likely to represent an inflow of around 90,000 each year – significantly less than the inflow for each of domestic and international migrants. The qualifications of young Londoners is considered in the next section.

Overall, the flows into London's labour market appear to be successful in matching labour supply to demand in London. London has a lower

30 percentage of establishments with any skill gaps than elsewhere in the UK (Figure 15). Moreover, the vast majority of skill gaps that do exist are classified by employers as having only a minor impact on their businesses. 70% of skills gaps are due to a lack of experience on the part of those recently recruited.²³

Summary and implications

- London's population is extremely dynamic and is more highly skilled than the rest of the UK because it attracts well-qualified inward migrants from the UK and abroad to supplement its own young people entering the labour force (as well as its existing resident population).
- Many international migrants appear to have higher levels of skills and qualifications than are recognised by London employers. This represents a lost opportunity for employers as well as the individuals concerned and increases competition at low skill levels at least in the short term.
- GLA Economics estimate that the flows of working age people into the London labour force each year currently consists of around 180,000 international migrants; 130,000 inward migrants from the rest of the UK; and 90,000 young Londoners entering the labour force (school/university leavers).
- Overall, international and domestic migration as well as commuting appear to be successful in matching labour supply to demand in London. London has a lower percentage of establishments with any skill gaps than elsewhere in the UK.

Notes

¹⁶ Focus on London (2007 Edition) Table 1.12

¹⁷ GLA (2006) Round Demographic Projections – DMAG Briefing 2006/32

¹⁸ Annual Population Survey 2005

¹⁹ Blanchflower, D. (2007) The Impact of the Recent Migration from Eastern Europe on the UK Economy, *Bank of England Quarterly Bulletin Q1*

²⁰ *National Insurance registrations do not cover all in-migrants because not all in-migrants require National Insurance numbers. Nevertheless, the majority of in-migrants do register for a National Insurance number and as such the data are a useful source of understanding changes to absolute levels of in-migration and also of the different countries of origins of international in-migrants. The A8 countries that recently joined the EU are: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia.*

²¹ Gordon, I., Travers, T., Whitehead, C. (2007) The Impact of Recent Immigration on the London Economy. (LSE), *Corporation of London*

²² *GLA Economics analysis based on Census 2001 data*

²³ *National Employers Skills Survey, 2005*

04 Skills Endowment of London Residents

In London, the availability of trained staff from across the UK and around the world means that businesses typically do not have significant problems recruiting qualified staff. Overall, London's resident population is better qualified than the rest of the UK, as shown in Figure 16. LFS data show that London has proportionately more people with high skills than the rest of the UK (34.5% compared to 27.3%), it has fewer people with intermediate level skills (12% compared to 15% for skill level 3) and a similar proportion with no skills/qualifications (14%).

32 As a result, data from the National Employer Skills Survey (2005) show that only a tiny minority of firms in London report hard to fill vacancies and skills gaps among existing employees as ‘major’ problems (less than 3% in each case). The figure is not much larger in other regions of the country.

In London, the problem is not that employers are faced with massive skill gaps, but rather that some Londoners are ill-equipped to compete successfully for jobs in their home market.²⁴ Too many London residents fail to achieve the

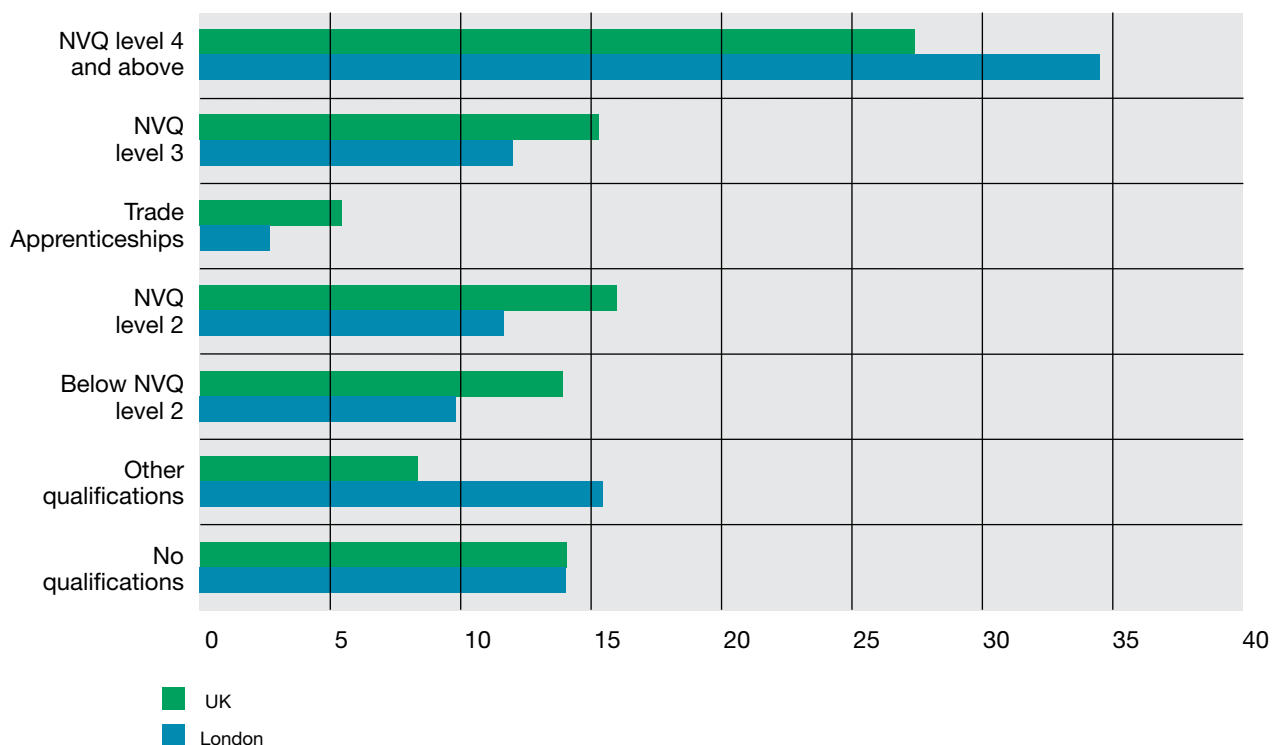
qualifications needed at school to enable them to progress on to higher education. Moreover, there is little evidence to suggest that adults with low level qualifications go on subsequently to gain higher level qualifications to any significant extent. As a result, many people in London’s adult population are not equipped to compete in London’s job market.

School attainment in London

Young Londoners entering the workforce in London are faced with demand that is skewed towards high skill jobs relative to

Figure 16. Working age population by highest level of qualification (%)

Source: Labour Force Survey, 2006



the rest of the country as well as strong competition from regular in-migration (both domestic and international). Forecasts of London's future occupational structure and skill needs suggest that 50% of workers will require level 4 skills by 2020 compared with 42% for the UK. Yet while the educational attainment of 15-year-old Londoners is in line with the average for England as a whole, as shown in Figure 17, it is nowhere near the level needed to compete successfully in large segments of London's job market. Even if all London's 15 year olds with 5 GCSE's

at grades A* to C were to progress through A levels and into higher education it would still not service London's skills needs.²⁵

Moreover, as Figure 18 illustrates, there are significant variations from borough to borough with the share of youngsters achieving 5 'good' GCSE's ranging from 30% to 60%.

The importance of raising attainment levels in London's schools was emphasised by respondents to the VoLE survey where a majority (58%) of employers placed an improvement in the education system

Figure 17. London secondary schools: GCSE or equivalent, age 15 2005/06 (%)

Source: DfES, 2006

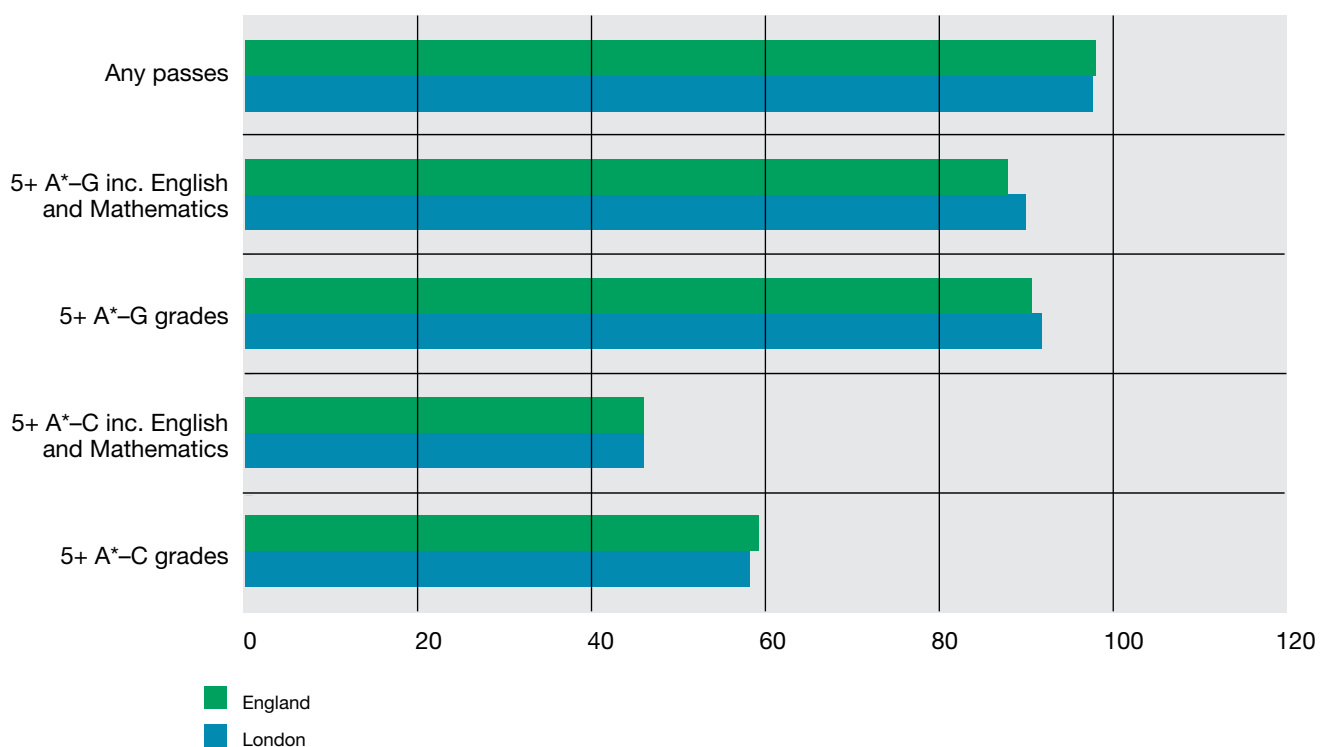
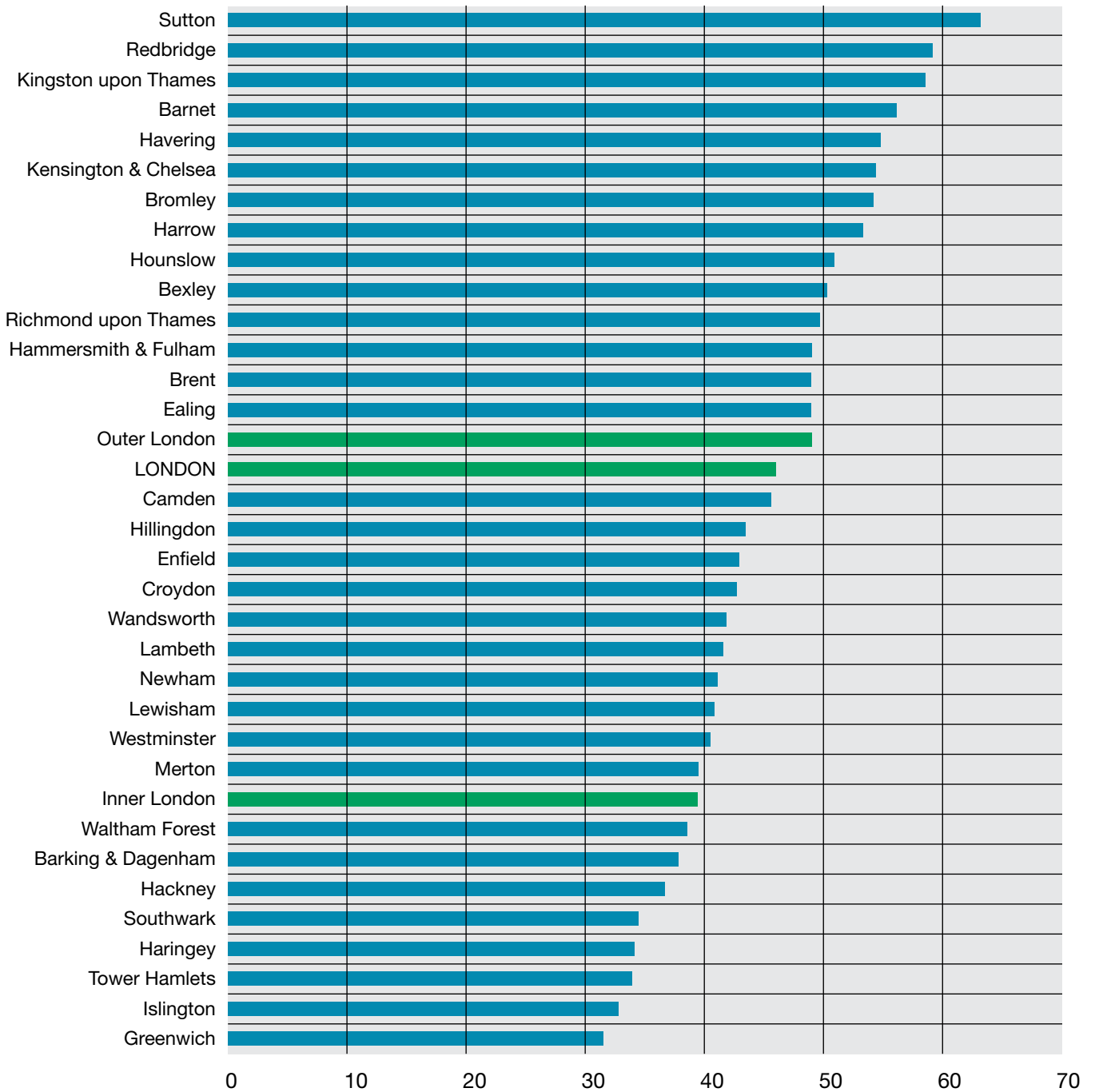


Figure 18. GCSE (5+ A*-C) attainment including English and Maths by London Borough 2005/06 (%)

Source: DfES, 2006



first in a list of priorities aimed at making it easier for them to recruit the right people. Better careers advice for young people was also seen as an important priority by VoLE respondents. Young people without good advice and without sufficient qualifications may become 'NEET' ie 'not in education, employment or training' with longer term consequences for employability.²⁶

Research carried out for the Department for Education and Skills suggests that the educational attainment of students

depends on individual characteristics (eg prior attainment, gender, ethnicity, special educational needs, looked after children), social factors (eg parental education, involvement, expectations, peer effects) and educational factors (eg curriculum, teacher expectations, resources, school type).²⁷ The evidence suggests that the former two groups of factors are the most significant in explaining differences in attainment. Moreover, raising expectations of the students in low performing schools and sharing information with young

Table 2. London residents by qualifications and age

Source: LFS 2005

	Level 4/5	Level 2/3	Level 1	No qualif.	Other qualif.	All people	People with no qualif. as a % of total
50-64	262,000	150,800	87,600	217,400	151,900	928,700	23.41
40-49	382,300	230,000	144,800	161,700	159,400	1,116,800	14.48
30-39	506,200	229,300	119,400	133,100	200,800	1,225,200	10.86
20-29	447,200	322,600	92,200	108,400	201,600	1,192,400	9.09
All 20-64	1,597,700	932,700	444,000	620,600	713,700	4,463,100	14

36 people about the high returns to education – as shown in Table 3 – would seem to be important implications of this research.

Participation in higher education

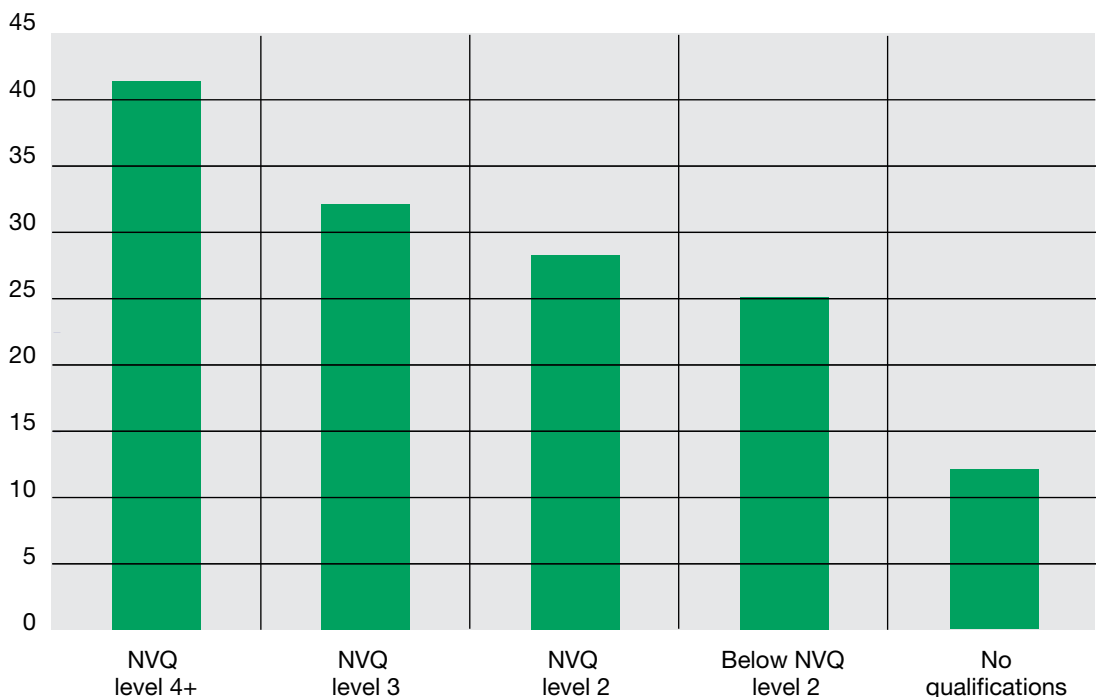
Progression into higher education has grown in London over the past ten years. London now has the highest participation rates amongst all regions in England for 18-19 year olds. Despite this strong position there remain pockets of low participation across London.

Adults learning in London

It is not only new additions to the labour force from London's schools who lack the skills required to compete in the London labour market. According to the Leitch Review, 70% of the UK workforce in 2020 have already left the compulsory education system.²⁸ In London, over 600,000 of these adults have no qualifications. Table 2 shows that the 50-64 age cohort has the highest proportion of people with no qualifications. However, for many of this age group the lack of a formal qualification is not a problem because

Figure 19. Employees receiving job-related training in last 13 weeks by highest qualification held (%)

Source: Labour Force Survey 2004



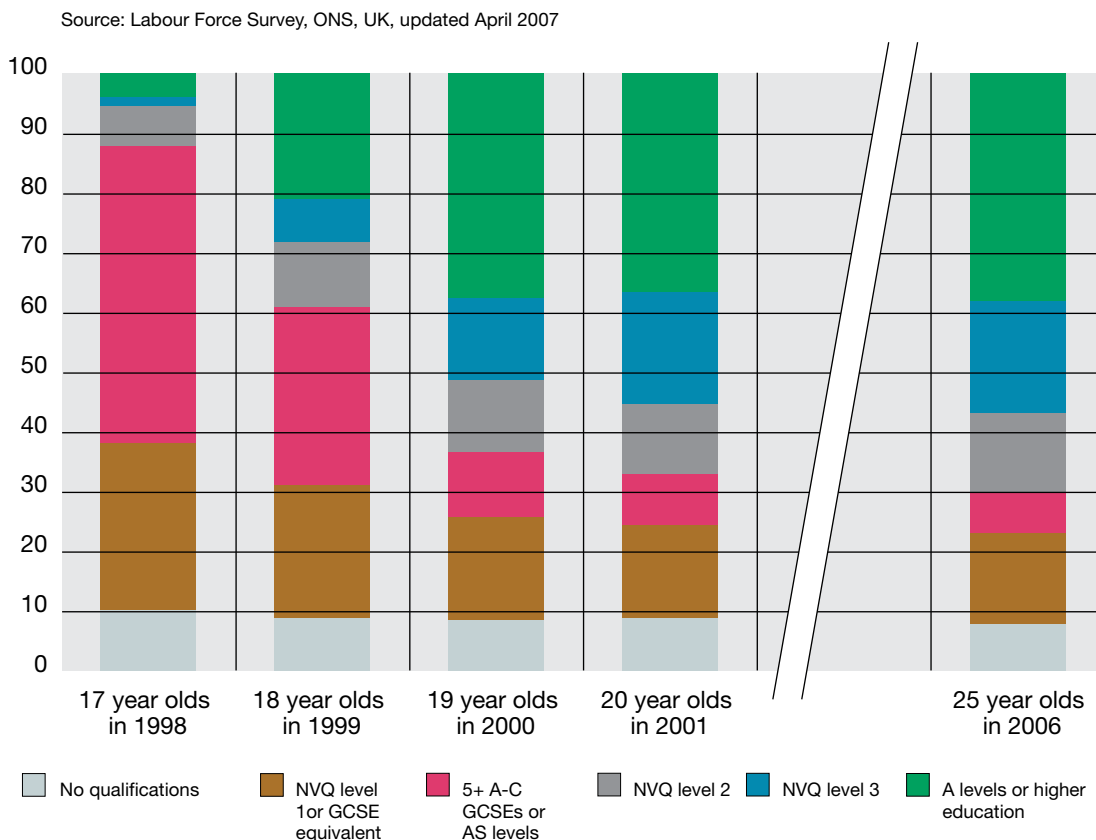
of the extensive work experience they have built up. Indeed, the VoLE survey showed that a large majority of employers felt that general employability was the single most important attribute among staff rather than management or specialist technical skills, although there are significant industry variations.

According to the Annual Population Survey (2005), over 70% of Londoners aged 20-49 are engaged in some form of adult learning each year. However, adult learning activities tend to be undertaken by those who already have

qualifications (Figure 19). Thus people who have no qualifications are much less likely to be receiving any job-related training. The results of this are highlighted in Figure 20 which suggests that adults with lower level qualifications do not over time gain higher level qualifications to any significant extent. People who have literacy or numeracy difficulties or poor health and some BAME groups are also under-represented among learning adults.²⁹

Adults may face a number of barriers to learning including:

Figure 20. Progression of young adults with low skills (%)



- 38
- *psychological* barriers including lack of motivation (and/or a low perceived value of learning relative to actual returns to training: 30% of adults who are not involved in learning state they would prefer to spend time doing things other than learning according to the National Adult Learning Survey,³⁰ lack of confidence, negative attitudes to learning and perceptions of irrelevance;³¹
 - *practical* barriers to learning including financial constraints, time constraints, lack of affordable childcare and lack of information; and

- *structural* barriers including lack of local learning opportunities (perhaps less of an issue in London with its concentrated network of FE colleges), lack of work-related training and benefit disincentives.³²

Psychological barriers represent more of a barrier to learning than practical or structural ones. However they are also more difficult to address in part because they require engagement at the individual level and cannot simply be addressed institutionally.²⁹

Figure 21. Training by employers according to qualification level (%)

Source: National Employer Skills Survey, 2005

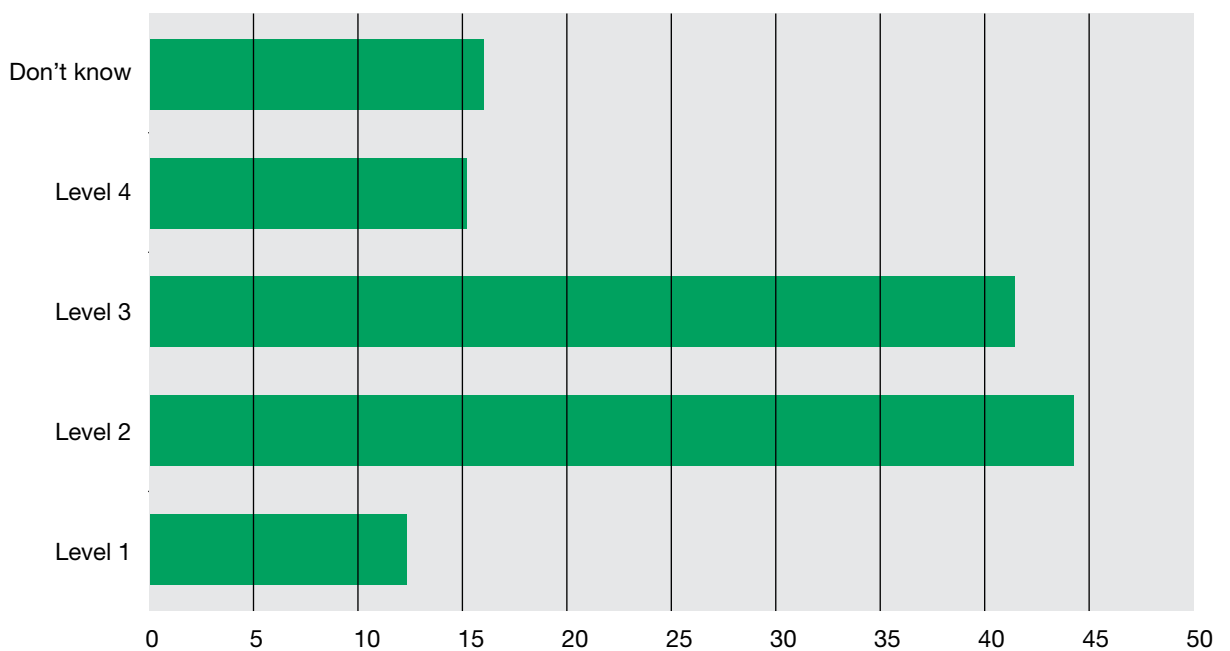


Table 3. Returns to education by qualification level

Source: Returns to Education: A non-technical summary of CEE work and policy discussion

Levels	Type of qualification	Qualification name	Return for males (%)	Return for females (%)	Average return (%)
5	Vocational	Professional qualification	43.0	49.3	46.2
5	Academic	Higher degree	14.3	15.6	15.0
4	Academic	First degree	26.9	27.9	27.4
4	Vocational	Teaching qualification	7.7	29.3	18.5
4	Vocational	HND/HNC	14.0	9.3	11.7
4	Academic	Other HE	7.5	11.2	9.4
4	Academic	HE diploma	0.0	11.7	5.9
4	Vocational	Nursing qualification	8.8	1.8	5.3
3	Academic	2+ A levels	16.6	14.8	15.7
3	Vocational	ONC/OND	10.1	5.4	7.8
2 or 3	Academic	1 A level	5.5	6.8	6.2
3	Vocational	NVQ 3-5	3.1	4.2	3.7
3	Vocational	C&G advanced craft	4.5	0.0	2.3
3	Academic	A/S levels	0.0	0.0	0.0
2, 3, 4	Vocational	RSA higher	0.0	0.0	0.0
2	Academic	5+ GCSE's A*-C	27.5	23.2	25.4
1 or 2	Academic	1-4 GCSE's A*-C	14.8	11.2	13.0
2	Vocational	C&G craft	6.8	0.0	3.4
2	Vocational	BTEC diploma	0.0	0.0	0.0
2	Vocational	NVQ 2	-8.5	-6.4	-7.5
1	Vocational	Other	6.0	6.2	6.1
1	Academic	GCSE's D-F	0.0	0.0	0.0
1	Vocational	RSA lower	-6.8	0.0	-3.4
1	Vocational	C&G other	-3.8	-8.0	-5.9
1	Vocational	NVQ 1	-6.7	-8.3	-7.5

Employers' role in training

70% of working age adults are in employment, the large majority of whom are employed rather than self-employed. Evidence suggests that very few employed learners undertake training without the encouragement of their employer.²⁹ Employers therefore play a central role in overcoming adult barriers to learning.

The vast majority of employer funded training is undertaken in-house with 86% of respondents to the VoLE survey stating that they used in-house training against 30% using an FE college. According to the National Employer Skills Survey, most of this investment in learning is targeted at intermediate levels ie levels 2 and 3. Figure 21 shows the level of training offered by firms who arrange training for their staff. Some companies will offer training at more than one level. This shows employers do get actively involved in training but not usually for the provision of basic or level 1 skills.

The low level of investment by employers in lower level skills is consistent with evidence on the supply of labour at the lower end (Figure 23) and the returns to employers in terms of productivity improvements.³³ Economy wide benefits at this level however are much greater, primarily because of the impact on employment and consequent saving in welfare expenditure. The arguments for public investment in skills below level 2 are therefore strong.

Employers face barriers in helping employees to train

The CBI cites a number of barriers that hinder employer investment in training. These include: lack of sourcing and signposting of good

quality training for employers (12% of CBI members who want to train cannot find suitable provision); barriers facing smaller firms; and a public skills system that is bureaucratic (funding, information and qualifications), hard to navigate (multiplicity of skills bodies) and wasteful of resources (eg duplication of LSC and Sector Skills Council roles).³⁴

Some employers may also have little incentive to train when they can obtain qualified staff as a result of London's dynamic labour market: 83% of respondents to the VoLE survey indicated that their skills needs were very well met by the people they had recently recruited. However London First cites a number of reasons why, despite the high level of satisfaction at the level of the individual employer, skills are or should be a cause for concern for businesses as a whole. These include a potentially high unemployment rate which is socially unacceptable; a high share of residents with either no qualifications or level 1 skills only which imposes inefficient remedial training costs on employers; and the fact that businesses are increasingly reliant on skilled workers from abroad.³⁵

Respondents to the VoLE survey supported changes in government policy or tax regimes to enable them to raise the skill levels of their organisations. However while 35% were in favour of non-prescriptive support, only 17% – the lowest support for any of the options – were in favour of policies aimed specifically at raising skills to a minimum standard of level 2. In addition, the House of Commons Education and Select Committee for Post-16 Skills (Ninth Report for 2006-7)

SOME LONDONERS
ARE NOT EQUIPPED
TO COMPETE
EFFECTIVELY IN THE
JOB MARKET

found that an unintended consequence of targeting level 2 has been the contraction of provision in other key areas such as ESOL (English for Speakers of Other Languages) provision.³⁶

A further key finding of the Select Committee was the need to better integrate the provision of skills into a broader business support strategy that includes capital investment, innovation and workforce development. More broadly there was a need to better integrate skills into a wider framework of economic development.

Although employers surveyed in the VoLE survey do not use the FE sector very much – only 30% of respondents did so – nevertheless 41% of employers felt that an improvement in the quality of the publicly funded offer would be most helpful in enabling them to raise their skill levels. The survey also found that currently, as many as 32% of employer users of the FE system are not satisfied with the quality of the product.

Table 4. Cost-benefit analysis: comparison of scenarios

Source: Calculations based on the Leitch Review

Skills scenario	Cost: Benefit ratio	Details of analysis
Basic skills	1 : 4	Basic skills interventions have by far the biggest impact on employability, health and crime of all the skills interventions evaluated. Basic skills courses are also cheap to provide.
Lower levels skills (level 2)	1 : 1.7	Lower level skills have a greater impact on improving employability of all interventions outside basic skills – the return from productivity however is much smaller.
Intermediate skills (level 3)	1 : 1.7	The benefits from intermediate level skills are more equally distributed between productivity and employment than any other scenario
Higher level skills (level 4+)	1 : 1.7	The high costs of providing higher levels skills courses are offset by the value they create through improved productivity – reflected in the wages of those qualified to degree level.

Sector specific skill priorities

The Skills for Business Network asked the Sector Skills Councils to identify the key skill issues in London facing sectors that they represent, as an input to this evidence base. The majority of issues raised fell into three main areas.

The first area comprised a range of generic skills that the SSCs felt were lacking in their sectors. Most significant by a wide margin were leadership and management skills which were cited by a large majority of SSCs. Literacy, numeracy and English fluency were the next most cited category followed by general employability and customer service skills. Alongside these broadly held views, there were a number of sector-specific issues identified, notably business skills in the creative, cultural and media sectors and the need for sector-specific customer service skills in the tourism, hospitality and leisure sectors.

The second set of comments related to the quality of public sector provision where a large number of SSCs felt that publicly funded training was below par either because trainers' knowledge lagged that required by their sectors or because training was not relevant.

The third main area of concern consisted of the infrastructure and services associated with public training. For example, a significant number of SSCs felt that there was insufficient information to help young people select appropriate careers (including IT and finance). Sector-specific feedback included the transport sector where the non-eligibility of sole traders and the self-employed for Train to Gain funded training is seen as a problem.

In general, the comments made by the Sector Skills Councils corroborate the findings of the VoLE survey. The importance of generic employability skills is emphasised in both sets of evidence as is the need for an improvement in the overall responsiveness of public sector provision and the importance of better careers advice for young people. Greater emphasis is given by the SSCs to the issue of management and leadership than came through in the VoLE survey. The sector skills survey also contains a number of useful, sector-specific insights which reinforce the importance of developing a public training system that is genuinely responsive to the needs of the economy.

Summary and implications

- London's challenge is not that businesses cannot access high quality staff, but rather that some Londoners are not equipped to compete effectively in the job market.
- The qualifications achieved by London's young people need to improve to match the requirements of London's economy.
- A majority of employers state that improving school attainment in London would help them recruit the right people more than anything else.
- Adults with low skills face particular barriers to further learning; there is little evidence that many adults with low qualifications progress through formal levels of learning beyond the age of 19 to any significant extent.
- Low expectations among school children appears to be a key factor determining poor performance in some schools.
- School leavers and FE graduates appear to have the least realistic understanding of work place requirements of all new recruits.
- People skills and general employability are

important in most aspects of economic activity.

- Employers have a key role to play in encouraging learning but many are confused by the public sector offer.
- Many employers may not have an incentive to train Londoners because they can access good quality recruits already.

Notes

- ²⁴ *At national level business organisations and sector representatives do express considerable concerns about the long term consequences for UK productivity if the skills of UK residents are not improved in line with those of competitor economies such as Japan and the US. For example, the CBI in its recent report on skills states that 'Education and skills are at the top of the business and the government's agenda' and 'Employers recognise that we have no alternative but to improve our skills base'.*
- ²⁵ *The increased share of jobs requiring higher level qualifications in London partly reflects the increasingly skilled functions in which London enjoys a comparative advantage, but may also reflect the extent to which degrees are increasingly a signal of general competence rather than elite capability. For a discussion of this see Alison W. (2002) Does Education Matter? Myths About Education and Economic Growth.*
- ²⁶ *Research as Evidence (2007) What Works in Preventing and Reengaging Young People NEET in London, Greater London Authority. NEETs in London number around 10% of the 16-18 year old population or around 15,000 individuals.*
- ²⁷ *Social Mobility: Narrowing Social Class Educational Attainment Gaps, Supporting Materials to a speech by the Rt Hon Ruth Kelly MP Secretary of State for Education and Skills to the Institute for Public Policy Research, 26 April 2006 available on <http://www.dfes.gov.uk/rsgateway/DB/STA/t000657/SocialMobility26Apr06.pdf>*
- ²⁸ *Lord Leitch (2006) Prosperity for all in the Global Economy, Final Report, p 4. In London's case, it is possible that the majority of these adults are not currently living in London such is the dynamic nature of London's labour market.*
- ²⁹ *Meadows, P. (2007) Improving the Skills of Low Skilled Individuals: Literature Review of What Works.*
- ³⁰ *National Adult Learning Survey (2005) Research Report 815, Department for Education and Skills*
- ³¹ *A recurrent theme in studies of non-learners is the issue of perceived irrelevance. Many non-learners believe that they are competent to do their jobs and have no need of further education or training (Hillage and Aston 2001) Attracting New Learners: a Literature Review, Learning and Skills Development Agency. A Chartered Institute of Personnel and Development (CIPD) survey found that 28 per cent of non-learners cited this as their main reason (CIPD 2005). This is particularly an issue for older people (Dench S and Regan J (2000) Learning in Later Life: Motivation and Impact, DfEE Research Report no 183; Hillage and Aston 2001), those in manual jobs (OECD 2003 Beyond Rhetoric: Adult Learning Policies and Practices, OECD Review of Adult Learning, Paris, OECD) and those living in disadvantaged communities (DfEE 1999 PAT Report).*
- ³² *Hillage J. and Aston J. (2001) Attracting New Learners: a literature review, Learning and Skills Development Agency*
- ³³ *This assumes that the wage returns to individuals shown in Table 2 are a reasonable proxy for the productivity returns to businesses.*
- ³⁴ *CBI, Shaping up for the Future, p 34-46. See also Pam Meadows (2007) Improving the Skills of Low-Skilled Individuals: Literature Review of What Works, p 48*
- ³⁵ *London First (December 2006) London's Skills Challenge*
- ³⁶ *Post-16 House of Commons Education and Skills Committee, Ninth Report of Session 2006-07 (2007)*

05

Worklessness

At just under 70%, London's employment rate is five percentage points below the UK average, the lowest employment rate of any region in the UK.

46 In total, 1.5 million out of a total 5.1 million working age adults in London are without work. They comprise 313,000 people who are unemployed (ie actively seeking employment and available to begin work within two weeks) and 1,233,000 economically inactive (ie without work, not seeking it or not available to start work in the next few weeks).³⁷ The latter include students, people who are sick or disabled and people looking after family/home. Although the economically inactive are by definition not seeking work, some 370,000 state that they would like to work.

Figures from the Department for Work and Pensions (DWP) show that about 750,000 London residents claim benefits, the large majority of whom are not working (Table 6). Of these the largest group are those on incapacity benefit representing about 42% of the total. Those on Job Seeker Allowance (ie actively seeking and available to start work) and Income Support (eg lone parents) each comprise about 20% of the total respectively. Other claimant categories make up the remaining 20% of the total.

Table 5. Breakdown of working age (ie 16-59/64) population in London

Source: National Statistics, Labour Force Survey, February 2007

Working age population	5,102,000
of which employed	3,555,000
Unemployed	313,000
Inactive	1,233,000
<i>o/w want to work</i>	<i>370,000</i>
Breakdown of inactive:	1,233,000
of which looking after family/home	415,000
students	331,000
long-term sick	244,000
other	148,000
retired	56,000
temporary sick	39,000
Employment rate *	69.7%
ILO unemployment rate **	8.1%

* Employed as a % of working age population

** Unemployed as % of employed plus unemployed

30%
OF LONDON'S
WORKING AGE
RESIDENTS ARE NOT
IN EMPLOYMENT

Those claiming incapacity benefit and lone parent benefits not only constitute a large share of all benefit recipients, but also tend to remain claimants for long periods of time. By contrast, the majority of Job Seeker Allowance (JSA) claimants, who constitute a relatively small share of overall claimants, have been claiming for less than 6 months. These data suggest that devising strategies to move recipients off incapacity benefits, for example, into work will be more difficult than for recipients of JSA (who tend to return to work quite quickly anyway).

Annual Population Survey data suggest that of those inactive people who do not claim benefits – ie are not in regular touch with JCP for example – the large majority are either students or have taken early retirement. Figure 22 shows that just over half of all inactive people that don't claim a benefit, according to the Annual Population Survey, are students. The category 'other reasons' comprises those taking early retirement. This suggests that the number of people who are economically inactive and in need of employment support but not in touch with a government agency through receipt of

47

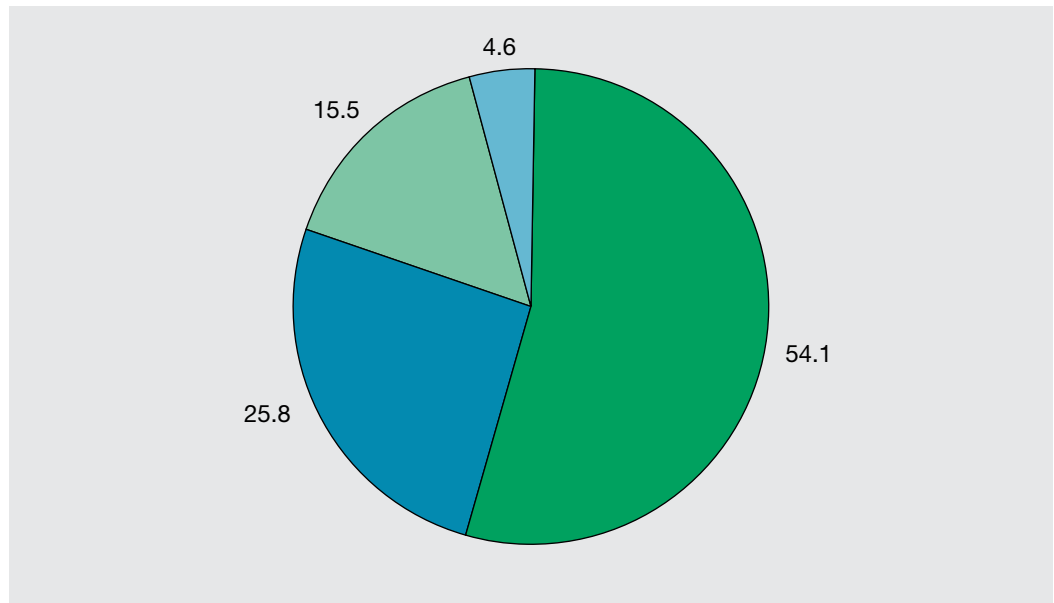
Table 6. Benefit claimants – working age people, London, 2006

Source: DWP, 2006

Benefit claimants³⁸	Total	Up to 6 months	6 months– 1 year	1 year– 2 years	2 years– 5 years	5 years and over
Total	745,270	143,780	66,500	85,080	143,900	306,020
Job seeker	159,380	92,990	28,960	23,130	7,480	6,820
Incapacity benefits	311,440	25,260	15,940	26,690	65,690	177,850
Income benefits-lone parent	163,170	13,250	11,860	20,560	43,760	73,740
Carer	36,480	2,850	3,170	5,350	10,120	14,990
Others on income-related benefit	30,160	6,680	3,960	5,660	7,950	5,920
Disabled	33,260	1,890	1,650	3,040	7,440	19,250
Bereaved	11,390	870	950	650	1,460	7,460

Figure 22. Inactive working age persons who do not claim benefits (%)

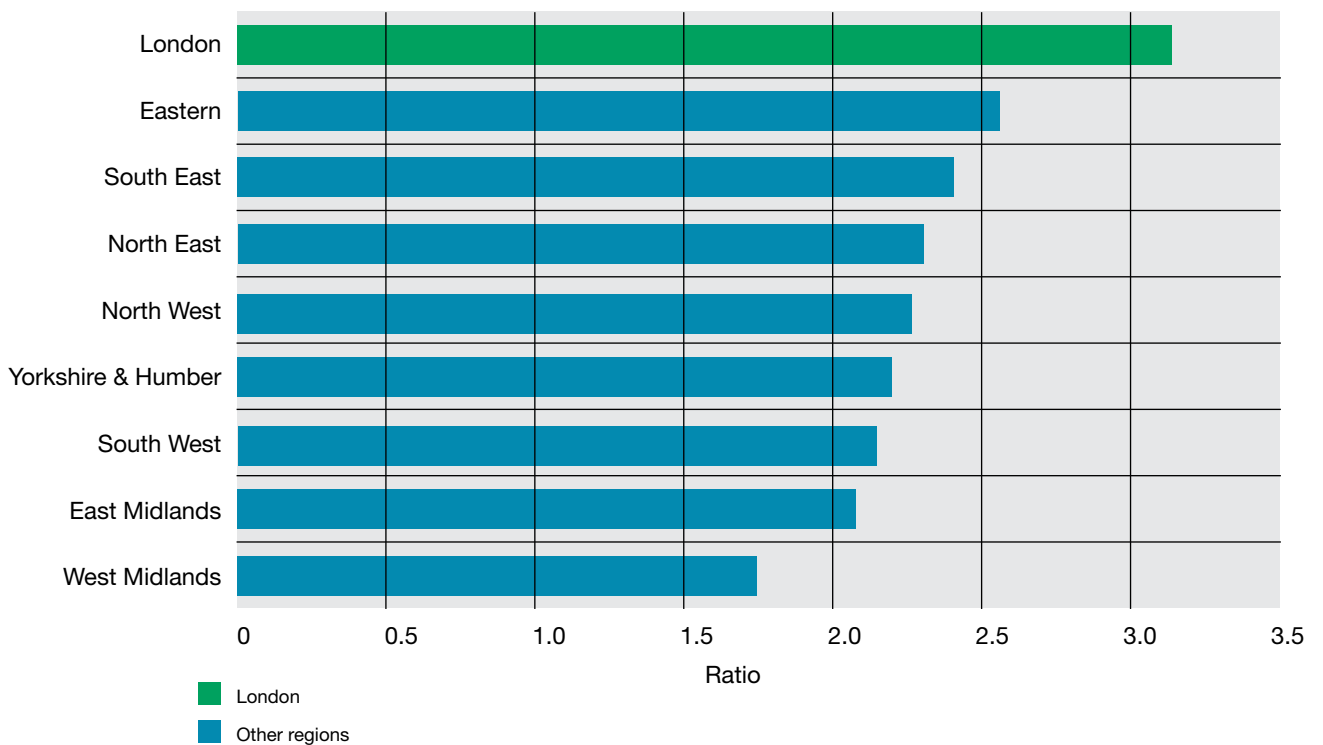
Source: Labour Force Survey, 2006



■ Student ■ Looking after family/home
■ Other reason ■ Sick/Disabled

Figure 23. Ratio of low skilled residents to low skilled jobs

Source: Labour Force Survey, 2006



■ London
■ Other regions

benefits may be relatively small and primarily those looking after family/home.

Explaining London's low employment rate

Until the early 1990s London's employment rate was higher than that for the UK. In the early 1990s London's relative position declined and a persistent gap has emerged between the capital and the UK as a whole.³⁹

Recent analysis by GLA Economics and HM Treasury found that London's low employment rate is a result of a number of

factors including amongst others: the relatively greater concentration of those groups who experience lower employment rates wherever they are located (lone parents, people from Black, Asian and Minority Ethnic (BAME) communities; people with no qualifications; the long term disabled; and being aged 50 or over);⁴⁰ the high cost base in London (with particular consequences for those dependant on child care such as lone parents); and the relatively greater degree of competition for jobs especially at low skills levels: there are over three low skilled residents in London for every low

Table 7. Worklessness by selected characteristics

Source: Labour Force Survey, Spring 2006

Characteristic	Rate of worklessness	
	London	Rest of UK
Working age	31	25
Men	24	21
Women	37	29
Parents (including lone parents)	39	27
Fathers	26	18
Mothers	49	34
Lone parents	55	41
White	25	24
Black or minority ethnic	41	38
Born in the UK	28	25
Born abroad	36	30
16–17	85	63
18–24	48	34
50+	31	29
High skill (NVQ4+)	13	13
Mid skill (NVQ3)	31	22
Low skill (NVQ2 or less)	44	33
Owner occupiers	21	19
Rent	43	44
Social rent	38	30

50 skilled job as compared with an average figure of 2.3 in the rest of England (Figure 23).⁴¹ Lone parents thus face a particular burden in London because of the higher cost base, but also because of a shortage of suitable part-time opportunities. Similarly those with low skills are significantly disadvantaged in London because of the degree of competition for jobs. Table 7 compares rates of worklessness for different groups in London and the rest of the UK.

Figure 24 shows that whilst in the rest of the UK around 23% of individuals face two or

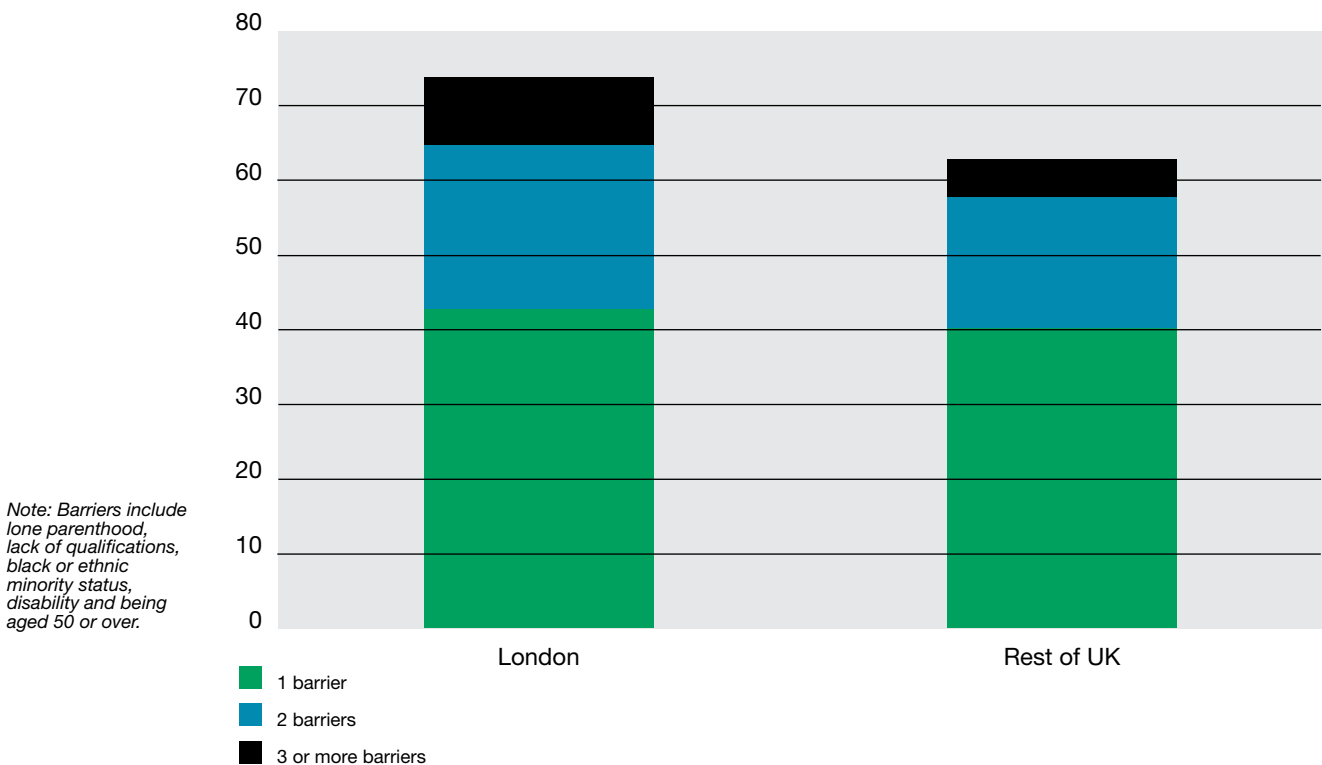
more barriers to work, in London this proportion rises to just over 30%.

Economic and social costs of worklessness

Worklessness has a number of significant economic consequences including a loss of economic output; an increased fiscal burden (in London spending on certain benefits administered by DWP comes to about £2.8 billion) and an impact on the prospects of tomorrow's workforce through its impact on the children of workless adults today.⁴²

Figure 24. Working age population facing multiple barriers to work, London and the rest of the UK, 2005 (%)

Source: Labour Force Survey, Spring 2005, HM Treasury



THERE ARE OVER
3 LOW SKILLED
RESIDENTS IN
LONDON FOR EVERY
LOW SKILLED JOB

Worklessness also has a number of other economic and social implications such as a tendency for worklessness to concentrate within households and particular neighbourhoods with wider implications for community relations and the economic vitality of neighbourhoods; crime, substance abuse, low levels of attainment at school, and family breakdown; ill health and mortality and increased strain on health services; social mobility.

The Hills Review in its discussion of social housing (home to 600,000 workless people in London), highlighted the spatial dimensions of worklessness. The Review noted that "...the likelihood of someone in social housing being employed appears significantly lower than those in other tenure...Potential explanations of this include:...fears about loss of benefits on moving into work within the social sector; the location of social housing and 'neighbourhood' effects from its concentration in deprived areas; possible 'dependency' effects of welfare provision; and the difficulty of moving home to get a job once someone is a social tenant".⁴³

The CIPD sickness absence survey for 2007 recorded average absence rates in London of 7.8 days, the lowest rate of absence in the country (with the North East highest at 11.3 days). Nevertheless, with a workforce as large as London's this still represents a major loss of economic output. After minor illness, stress was the main cause of short term sickness absence among non-manual workers and the main cause of long term absence. Over 40% of Incapacity Benefit claimants in London have mild to moderate mental illness problems. However a number of barriers can prevent sufferers from returning

to work including loss of benefits, low confidence and side effects of medication. In addition, whereas 60% of employers state that they would consider employing someone with a physical disability, this falls to 40% in the case of individuals with mental health problems.⁴⁴

Child poverty is a particularly significant problem in London. 41% of London's children currently live in households earning less than 60% of median income compared to just 28% of children in the rest of the UK (Figure 25). This has potentially severe consequences for London's future: young people in deprived areas are significantly less likely to go into higher education than their peers elsewhere.⁴⁵

Tackling worklessness

Research suggests that the key barriers to work fall into four main groups, notably poor access to job opportunities, employability of individuals, employers' attitudes and practices, and other specific barriers to work. Such barriers include:

Accessing job opportunities

- Lack of information on work and training opportunities
- Lack of motivation
- Poor application, presentation, interview skills

Employability

- Lack of basic skills: language, literacy, numeracy, IT
- Lack of job-specific skills relevant to the available work
- Lack of recent work experience
- Personal and behavioural problems
- Record of offending

Employer attitudes and practices

- Reluctance to recruit unemployed and long-term unemployed people.
- Discrimination on the basis of race, age, disability.
- Requirement for formal qualifications.
- Use of informal recruitment channels.

Overcoming specific barriers to work

- Childcare responsibilities.
- Distance to work opportunities and cost of getting there.
- Cost of work-related training and education.
- Cost of work-related equipment.

- Problems of health or disability.
- Concern over financial benefits or insecurity of work.

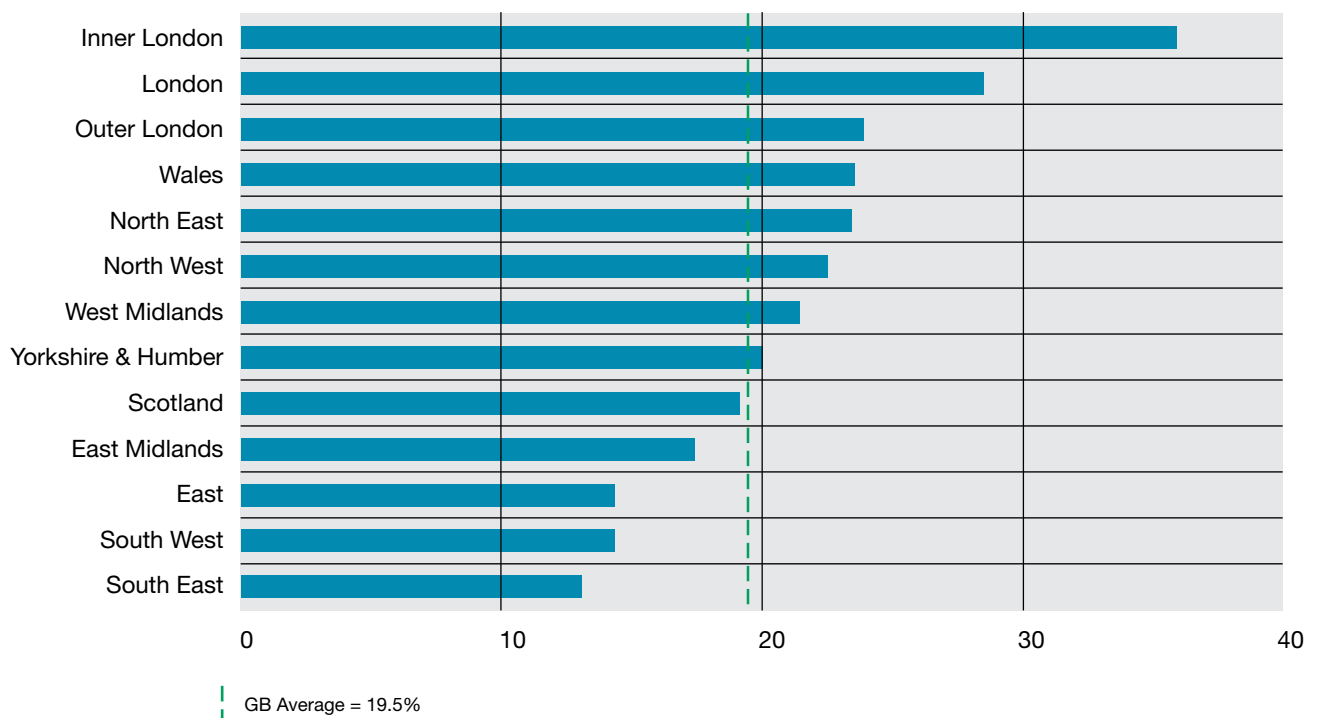
Research also clearly suggests that a holistic, rounded approach to tackling worklessness is needed and that a focus on one factor such as skills in isolation would not be fully effective.²⁹

Skills and worklessness

As noted above, lack of skills and qualifications can be a barrier that prevents some people from working, although it is

Figure 25. Children living in families on key benefits by region, August 2006 (%)

Source: Department for Work and Pensions (5% sample)



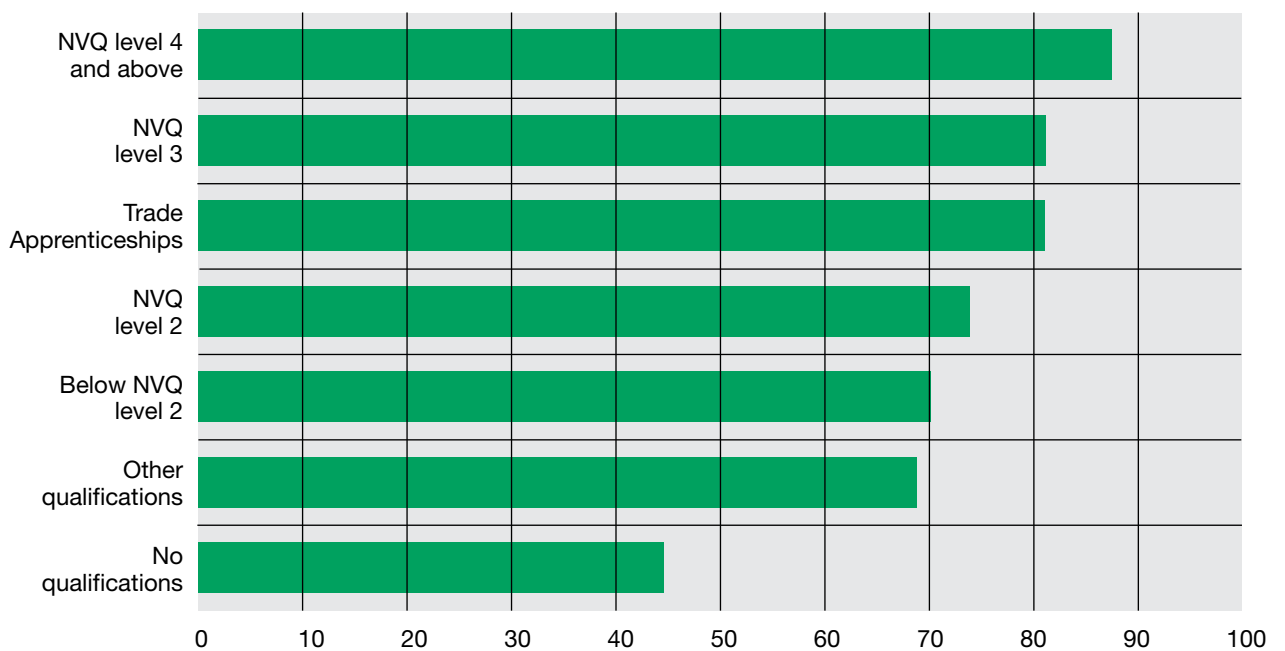
unlikely that a lack of skills on its own is the main cause of worklessness for many people. For example, DWP research shows that 90% of those with no qualifications also experience at least one other barrier.⁴⁶ Figure 26 shows the difference in employment rates that occurs by qualification level.

The largest jump in employment rates occurs between those with no qualifications at all and those with qualifications level 1 or other qualifications. This jump of 20 percentage points far outweighs any other

jump in employment rate experienced with the acquisition of qualifications at higher levels, thus creating an entry ‘employability’ threshold at level 1 skills. However, as there are three low skilled workers for every one low skilled job it is also important to enable people to continue to develop their skills beyond this level so that they can progress. Figure 27 shows the large differences in employment rates associated with English fluency also. These data suggest that a focus on those with no qualifications at all, combined with integrated support to tackle other barriers, is the optimal approach to increasing employability.

Figure 26. Employment rates in London by qualification level, 2005 (%)

Source: Annual Population Survey, 2005

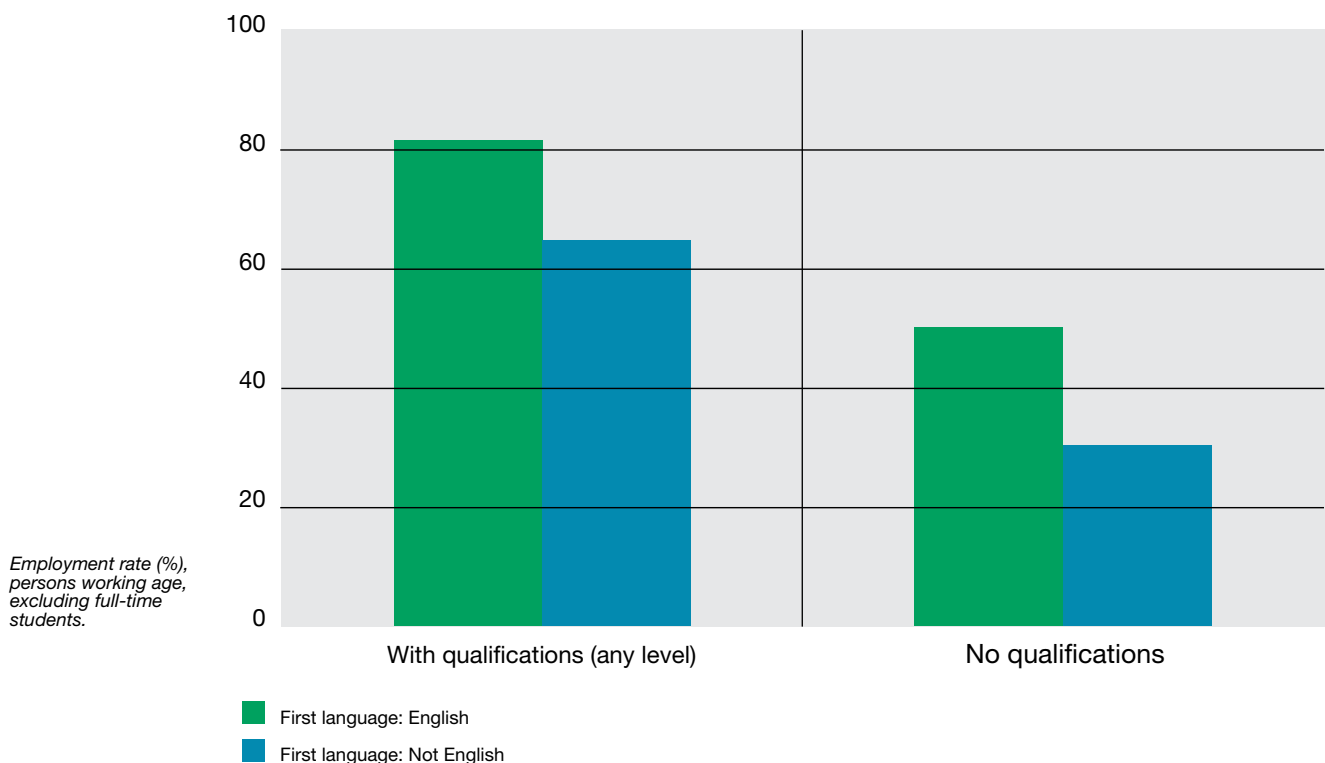


Summary and implications

- Worklessness is a major problem in London with 30% of working age residents not in employment, more than elsewhere in the UK.
- The majority of the workless who might be in a position to work are already drawing benefits. Public agencies such as Jobcentre Plus are therefore already in touch with the core client group.
- The largest group of benefit recipients in London are those in receipt of incapacity benefit.
- A key consequence of worklessness is its impact on children, not least because of the effect this has on educational and future work prospects of these young people.
- When combined with the existence of low social mobility in the UK, this high level of child poverty does not fit well with the forecasts of a growing demand for high skill workers within London.
- There are multiple causes of worklessness and research shows that these are best addressed in a holistic and personalised manner.

Figure 27. Employment rates by qualifications level and first language, Greater London, 2003 (%)

Source: Labour Force Survey, June-August 2003



- Lack of skills can be a barrier to work but the threshold for employability is level 1 not level 2. However better progression opportunities also need to be available, particularly for low skilled workers.
- A number of groups are statistically more likely to be workless in the UK, and London has a higher share of people belonging to one or more of these groups.

Notes

- ³⁷ *The term unemployed refers to the International Labour Organization (ILO) definition (ie jobless people who want to work, are available to work, and are actively seeking employment). A separate definition – the claimant count – measures how many unemployed people are claiming unemployment-related benefits.*
- ³⁸ *Benefits are arranged hierarchically and claimants are assigned to the top most benefit which they receive. Thus a person who is a lone parent and receives Incapacity Benefit would be classified as incapacity benefits, whereas someone receiving both Bereavement Benefit and Disability Living Allowance would be classified as disabled. For this reason the group lone parent, for example, will not contain all lone parents claiming Income Support. Some will be included in the incapacity benefits group instead. As no data are held for Disability Living Allowance and Bereavement Benefit before May 2002, there is a discontinuity in the series at that point. This will affect figures for the disabled and bereaved statistical groups.*
- ³⁹ *LFS Historical Supplement (1997)*
- ⁴⁰ *Meadows, P. (2006) Worklessness in London, GLA Economics Working Paper no 15, Report to: Greater London Authority and HM Treasury evidence based on LFS data*
- ⁴¹ *HMT (2007) Employment Opportunity for All: Tackling Worklessness in London, p 52*
- ⁴² *Figures provided by JobCentre Plus, London office*
- ⁴³ *Hills, J. (2007) Ends and Means: the Future Roles of Social Housing in England, ESRC Research Centre for Analysis of Social Exclusion, p 111*
- ⁴⁴ *Information provided by the Department of Health, Government Office for London*
- ⁴⁵ *Harker, L. Delivering on Child Poverty: what would it take? A report to the Department of Work and Pensions (November 2006)*
- ⁴⁶ *DfES and DWP (2007) A Shared Evidence Base – The Role of Skills in the Labour Market*

06 Public Sector Provision

Achieving an efficient and effective public sector is a crucial part of a skills and employment offer that really meets the needs of London's businesses and its people. This section summarises a number of key issues related to public sector provision in London. It is not intended to be a comprehensive summary of all public sector issues, let alone a digest of all issues pertinent to the strategy as a whole.

58 Employers clearly stated in the VoLE survey that a better public sector training offer would help them raise skill levels in their organisations more than improving private sector training. And the Treasury in its report on worklessness in London drew attention to the institutional requirements of a more coordinated response to London's employment challenges in light of the well-established need for holistic responses to London's needs.

More generally there is a wide body of commentary along similar lines which focuses on three core requirements:

- the need for a skills offer that is better integrated with other public services aimed at improving employment and productivity;
- a less cluttered and confusing institutional landscape;
- a more flexible offer that better focuses public spending on the specific needs of London's economic and social priorities.

A better integrated, more holistic offer

(a) Employment. As already noted, research clearly suggests that a holistic approach to worklessness is most likely to succeed, that is an approach that tackles all the key barriers to work in an integrated manner. Although there are many individual examples of integrated working across London, these tend to occur through the efforts of exceptional leaders and individuals, rather than because they are encouraged by institutional incentives and targets.

For example, the East London City Strategy Pilot in its review of employment services in the 5 Olympic boroughs found that: "...service outlets, which we estimate to number more than 300 in

total,⁴⁷ cover just about every aspect of delivery in the employment service 'supply chain'... The problem is that very little of this provision is 'joined up', either in terms of planning, funding or delivery".⁴⁸ The Business Plan went on to state: "It is clear...that traditional top-down commissioning has led to a plethora of fragmented services which does not assist the needs of those most requiring help."⁴⁹

The Leitch Review noted that "the focus on helping people get into work and stay there for 13 weeks means that the Welfare to Work system has no incentive to focus on the interventions and links with in-work support, including skills, that would improve job retention or progression. The focus of the skills system on qualification attainment has led to too little focus on the employment outcomes of those improving their skills and little focus on those with the greatest labour market disadvantage. The focus of each system on different, but closely related, goals has worked against the integrated approach advocated above."⁵⁰

There are similar discontinuities as regards social housing services and employment. A report published by the DWP noted that "Customers not in work and claiming [Housing Benefit (HB) and Council Tax Benefit (CTB)] generally had little knowledge of being able to receive HB/CTB in work. Their understanding of it was essentially very limited... Jobcentre Plus staff generally described having little knowledge about HB/CTB... Customers were generally of the impression that Jobcentre Plus staff were not able to advise them regarding HB/CTB as they lacked sufficient understanding of the system."⁵¹

Health provides another example where joint working between medical professionals and

employment services leaves much to be desired. In London, over 300,000 people are on incapacity benefit, many because of stress and work-related illness. Yet work commissioned by Tower Hamlets Primary Care Trust suggests that there are structural barriers that prevent effective joint working between the health and employment services. These include: the six months of statutory sick pay before an individual is eligible for benefits through JCP and hence begins to engage with monthly work focused interviews; the narrow, clinical remit of the GP who may not have an interest in seeing their client return to work especially if the patient's condition was precipitated by work; and lack of resources and guidance for those GPs that do see a return to employment as in the best interests of their patients.⁵²

A recent report on Community Regeneration Funding by London Councils confirms this picture, finding a lack of coordination among funding bodies and that it is hard to work with mainstream funders in local areas.⁵³

In light of these findings, the Treasury has called for “better coordination at the city level to improve the connections between the low-skilled labour markets in Inner London, Outer London and the surrounding region... better coordination between employment and other services across boroughs, districts and at the city level... improving the links between employment, social housing and transport... a more strategic, London-wide approach... in identifying the most effective delivery solutions to the capital's problems”.⁴¹

(b) Productivity. It is not just in the area of employment where there is a need for better integration of services. In a recent report, the House of Commons Select Committee on

Education and Skills stated ‘What is urgently needed is support for employers to develop their businesses as a whole, addressing skills needs alongside wider sustainability issues such as capital investment, innovation and workforce planning.’³⁶

The recent bringing together of skills, innovation and universities into one department is welcome in this respect. But examples of continued fragmentation of services at the London level includes the existence of two ‘one stop shops’ for business advice, namely Train to Gain brokers and Business Link, and the separation between these services and the information services provided to individuals including LearnDirect advice and Connexions.

*Train to Gain is a service that aims to offer free and independent advice to businesses; match any training needs identified with training providers; and ensure that training is delivered to meet business needs. The service, which was rolled out nationally in 2006, aims to be impartial, flexible, responsive and offered at a time and place to suit businesses. As such the programme aims to be much more responsive to the needs of businesses than previous government programmes.*⁵⁴

Public funding through Train to Gain provides;

- *free training that leads ‘towards 5 GCSEs at grade C or above, NVQ level 2 or equivalent... and a wide range of other training for low-skilled staff’;*
- *‘wage compensation for companies with less than 50 employees’;*
- *other funded programmes, including for Apprenticeships and Advanced Apprenticeships, NVQ level 3 and above, such as higher education.*⁵⁴

60 *Current projections show the share of total adult skills spending that will be disbursed through Train to Gain rising from the current share in 2007/8 of less than 10% to an anticipated share of 40% by 2010 and 60% by 2013. One consequence of this shift in funding is that colleges that have previously been able to rely on government grants will have to compete against other providers in a market place where businesses are empowered – through funding and the Train to Gain brokerage service – to exercise choice. The principle of a more responsive, choice based approach to publicly funded training has received broad support. However a number of concerns have also been raised, notably a) the extent to which Train to Gain funding is paying for training that businesses would pay for anyway, ie 'deadweight' cost; b) the lack of flexibility in funding through Train to Gain, because of restrictions on what is eligible for public funds; c) the quality of service provided by Train to Gain brokers.⁵⁵*

Greater flexibility and better targeting of London's specific needs

The economic and social evidence compiled in the body of this report provide a basis for selecting those priorities that should be the focus of public training spend in London. Key findings include:

- London's economy is highly successful and employers meet most of their training needs in-house
- London's key challenges are to increase school age attainment; and to support the workless and those with no qualifications to obtain and progress in employment, and improve progression to higher levels
- Employers prioritise general employability, basic skills and English fluency in their recruitment of promotion strategies

- There is little evidence that adults progress through 'academic' levels of training in the same way as school children
- Level 1 is the employability threshold in London, not level 2.

The Institute for Public Policy Research (IPPR) in their recent report on adult education found that a positive result of PSA targets for adult education is that they have helped focus attention on those with low educational attainment. A similar point has been made by the Economic Competitiveness Group. As shown in Appendix 2 in more detail, these targets centre on a) the acquisition of basic skills through the Skills for Life initiative; and b) the achievement of first, full level 2 qualifications.

Nevertheless many commentators have noted a number of problems associated with the design of the existing entitlement to subsidised training and its emphasis, in particular, on first, full level 2 qualifications.⁵⁶ Some of these were evidenced in the recent report of the House of Commons Select Committee on Skills and Education. They were also extensively documented in research carried out by the National Skills Forum.⁵⁷ The IPPR have summarised some of these considerations.⁵⁸

First, the emphasis on achieving qualifications as a condition of public funding may not always be appropriate either because some employers may not value qualifications (see below); or because unconfident learners may be discouraged by the prospect of qualifications; or because it encourages a focus on testing rather than imparting skills.

THE EMPHASIS
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The importance of qualifications to employers

The VoLE report provides evidence on employers views on qualifications. Employers were first asked about what they viewed to be important when deciding who to interview for jobs. 53% of employers stated that the level of qualifications of the applicant was important and 51% that the subject of qualification was important. Work experience and the quality of the written application were factors considered more important than qualifications, whilst the reputation of the previous employer, life experience of the applicant and educational institution attended were seen as less important factors than qualifications.

Employers were then asked what was key in determining who they would employ after the interview. 48% rated the level of qualifications important for this decision and 45% rated the subject of qualifications important. Performance at the interview, however, is a much more important factor in the final recruitment decision with attitude and motivation at the interview, communication skills at the interview, and general interview performance all considered important by over 90% of employers.

Employers were also asked about the key factors in deciding if an employee has progressed in their role and should be considered for further responsibility or promotion. 49% said that recently acquired industry/professional body qualifications were important for further responsibility and promotion and 34% said that recently acquired government approved qualifications were important. The key factors in terms of consideration for further responsibility and promotion were evidence of improvement in their performance on the job (92%) and evidence of improvement in their skills on the job (90%).

Second, the focus on targets in the form of skill levels tends to encourage providers to help those who can quickly reach that level through training and skills development.

Third, the emphasis on a full level 2 achievement does not correspond to the way in which most adults learn, which is typically through short courses, alongside jobs and often part-time. Whereas young people at school and college accumulate qualifications over time, and this requires completing full qualifications, there is little evidence that adults progress in large numbers from low level skills through a full level 2 qualification and on to level 3 and beyond (Figure 20). However recent research of 1,400 learners studying level 2 or 3 by the London LSC shows improvements in the numbers staying on in learning. It found that 86% of level 2 learners are now engaged in further study, and two in five level 3 learners progressed to higher level learning. The study also found that over one third of those who were employed prior to undertaking their first full level 2 are in a higher-level job role⁵⁹

Fourth, the full level 2 fee remission does not apply to those who need to start at a lower level than level 2, eg level 1. And yet in London the overall employability threshold is clearly situated at level 1 rather than level 2 (albeit this level may vary by sector). The introduction of a new 'Foundation Learning Tier' may help to address these limitations.

Impact of national targets on regional needs – ESOL in London

Demand for learning at ESOL entry level 2 and below overwhelmingly dominates publicly funded provision in London. In 2005/6 there were over 115,000 enrolments at entry level 2 and below

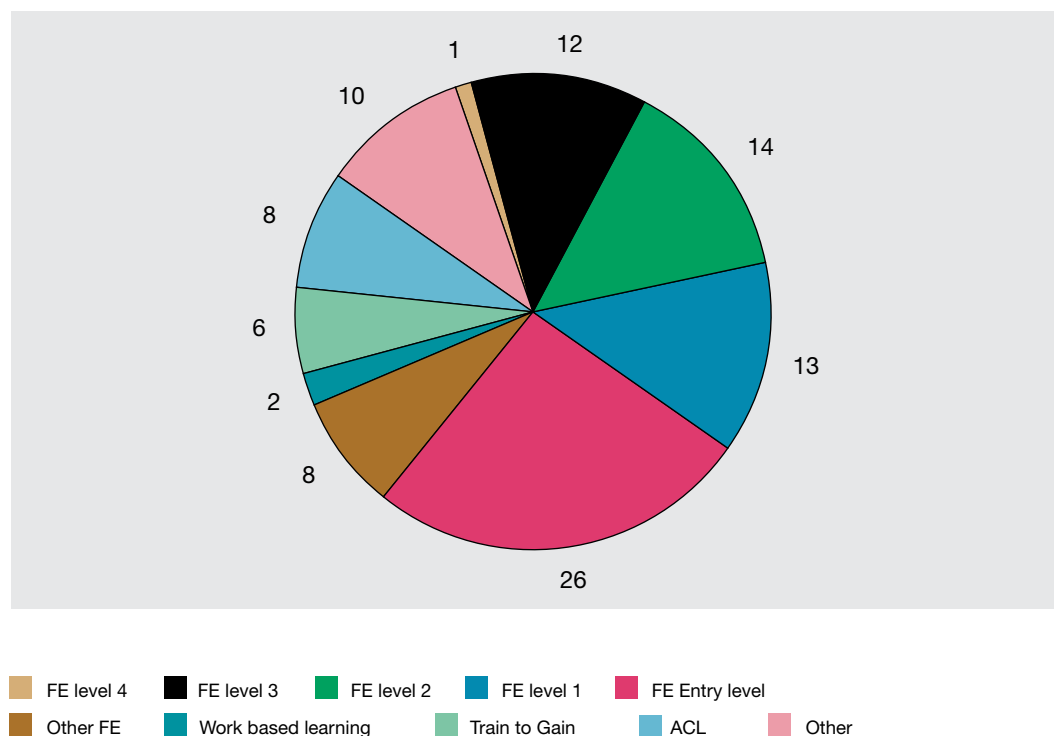
62 compared with about 34,000 at all higher levels.⁶⁰ National budgetary reallocations during 2007/8 have aimed to move resources into programmes such as Train to Gain from the Further Education Adult budget and to ensure that a greater share of residual adult funding is assigned to target-bearing provision (ie entry level 3 and above in the case of ESOL).⁶¹ One effect in London, however, has been an estimated projected fall in funding for entry level ESOL training of between £15 and £20 million, ie provision that disproportionately affects low income learners, often women from BAME backgrounds.⁶² On 2 May 2007, therefore, the London Skills &

Employment Board approved an emergency package of LSC and LDA funding to stabilise the provision of ESOL during 2007/8 and to assist providers in becoming more responsive, pending completion of the skills strategy.

LSC adult spending in London is summarised in Figure 28. This shows a breakdown of spending by level and programmes. Because the data is a mix of levels and programmes, it is not easy to obtain a precise breakdown of spend by level alone. It is also currently difficult to gather data that show the share of learners that are in work or workless,

Figure 28. LSC London adult skills budget 2006/07 (%)
Total £558m

Source: Learning and Skills Council



or precisely what skills and qualifications learners possess prior to embarking on a course.

Without this information, it is hard to assess whether or not the current allocation of spend by level is appropriate, given London's needs. The 'London Story', however, suggests that the clear priority in London is to help those individuals who are workless and/or without qualifications. A key issue for the strategy, therefore, is whether targets would be more effective if focused on individuals and incentivising providers to improve individuals' economic status (worklessness into work or effectiveness in work), rather than targeting specific skill levels.

Finally, with respect to individuals who might be prevented from undertaking training because of financial constraints, IPPR finds that the loan scheme currently available to students in higher education – zero interest, income contingent loans (ie repayable once income has reached a certain level) – should be available to FE students instead of the current market interest based scheme which is repayable on graduation. IPPR further finds however that the scheme should be adjusted to reduce what is currently a significant element of deadweight in the higher education scheme – ie subsidisation of all students irrespective of ability to pay.⁶³

A less cluttered, less confusing offer

Even if services are better integrated, e.g. along the lines suggested by the Treasury, there still remains significant evidence that the institutional landscape is overly cluttered. The House of Commons Select Committee on Education and Skills accepted that "...a degree of complexity in the skills system is unavoidable, but there is still work to be done to reduce overlaps between different bodies, and

tackling the resulting inefficiency and duplication of effort." The Committee called for a review of functions and funding flows with a view to making "incremental, evidence-based improvements."

A report on RDAs by the Engineering Employers Federation states that the terrain is overly cluttered.⁶⁴ Providers frequently note the complexity of disparate reporting and accounting regimes associated with multiple funding streams. Funding agencies themselves acknowledge that the system is sub-optimal.

Summary and implications

- Public sector provision of employment services (including health, housing, skills and job brokerage) or business productivity (including skills, innovation and other business support) needs to be better joined up.
- The targets for delivery agencies should encourage or support integrated delivery.
- Employers and other service users can find parts of the public sector provision of skills and employment in London confusing; there needs to be better integration and signposting.
- Public funding for training should be targeted at the needs of the most disadvantaged including the workless, those with no qualifications, those at risk of redundancy, lone parents etc.
- There needs to be increased provision of low cost credit to enable individuals to access training for which full fee remission or other funds are not available.

Notes

- ⁴⁷ *It should be noted that the number of service types and outlets listed here exceeds the number of providers by about 200 because so many providers offer more than one service (eg employability training and job preparation).*
- ⁴⁸ LDA (2002) Neighbourhood Learning Centres Feasibility Study
- ⁴⁹ Five Borough Partnership (2007) *East and South East London City Strategy Pathfinder, Business Plan*, p 29
- ⁵⁰ Lord Leitch (2006) Prosperity for all in the Global Economy, *Final Report. Among those who are not working, the share of those in learning falls to around 47% for JSA claimants and to 30% for those who are not JSA claimants, i.e. the economically inactive. Full time education is available under the New Deal programmes after 6 months (in the case of 18-24 year olds) and 18 months (in the case of those over 25 years old). See Delorenzi S. (2007) Learning for Life, A New Framework of Skills, IPPR.*
- ⁵¹ Turley C. and Thomas A. (2006) Housing Benefit and Council Tax Benefit In-Work Benefits; Claimants' and Advisors' Knowledge, Attitudes and Experiences
- ⁵² *Background paper for the strategy prepared by Department of Health team in Government Office for London*
- ⁵³ *London Councils, The Future of Community Regeneration*, p 6
- ⁵⁴ www.traintogain.gov.uk
- ⁵⁵ *See for example NIACE response to DfES consultation document (2007) Delivering world-class skills in a Demand Led System; Delorenzi S. (2007) Learning for Life, A New Framework of Skills, IPPR.*
- ⁵⁶ *Conditionality attached to public funding for skills is not consistent across departments and funding agencies with RDAs, for example, significantly less circumscribed than the LSCs.*
- ⁵⁷ *National Skills Forum (2006), Adult Training: Focus and Funding in the Context of Changing UK Demographics.*
- ⁵⁸ *Delorenzi S. (2007) Learning for Life, A New Framework of Skills, IPPR, p 27. 28-31. Also see Economic Competitiveness Group, Skills Training for a More Competitive Economy, Submission to the Shadow Cabinet.*
- ⁵⁹ *Tracking London's Learners, a research report – LSC March 2007*
- ⁶⁰ *Learning and Skills Council*
- ⁶¹ *This reflected a reduction in funding for Adult Learning in Further Education of 3.1 %; the establishment of a regional reserve to support full level 2 places which brought the funding reduction to 4.3%; and inflation of 2.5%.) This is within an overall London Region budget for Adult Learning which has increased by 2.5% in 2007/8.*

- ⁶² *In Oral Evidence to the House of Commons Education and Skills Committee on 26 March 2007, the Principal of Croydon College, speaking on behalf of the Association of Colleges (AOC), estimated that London FE Colleges needed to remove £15m of Entry level 1 and Entry level 2 ESOL in 2007/8. See also Review of ESOL undertaken by Ealing, Hammersmith and West London College, February 2007.*
- ⁶³ *Introduction of such a scheme would have to be assessed carefully to minimise the risks of default. See further discussion in National Skills Forum (2006) Focus and Funding in the Context of Changing UK Demographics.*
- ⁶⁴ *Engineering Employers Federation (2007) Improving Performance? A Review of Regional Development Agencies.*

Appendix

01

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Appendix

02

Comparison of original and revised National Qualifications Framework levels with broad indications of Framework for Higher Education Qualification levels

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Source: Qualifications and Curriculum Authority

National Qualifications Framework (NQF)		Framework for Higher Education Qualification levels (FHEQ)
Original levels	Revised levels	
5	8	D (doctoral)
Level 5 NVQ in Construction Project Management*	Specialist awards	doctorates
Level 5 Diploma in Translation	7	M (masters)
	Level 7 Diploma in Translation	Masters degrees, postgraduate certificates and diplomas
4	6	H (honours)
Level 4 NVQ in Advice and Guidance*	Level 6 Diploma in Management	Bachelors degrees, graduate certificates and diplomas
Level 4 Diploma in Management	5	I (Intermediate)
Level 4 BTEC Higher National Diploma in 3D Design	Level 5 BTEC Higher National diploma in 3D Design	Diplomas of higher education and further education, foundation degrees, higher national diplomas
Level 4 Certificate in Early Years	4	C (certificate)
	Level 4 Certificate in Early Years Practice	Certificates of higher education
3 (there is no change to level 3 in the revised NQF)		
Level 3 Certificate in Small Animal Care		
Level 3 NVQ in Aeronautical Engineering		
A levels		
2 (there is no change to level 2 in the revised NQF)		
Level 2 Diploma for Beauty Specialists		
Level 2 NVQ in Agricultural Crop Production		
GCSEs Grades A*–C		
1 (there is no change to level 1 in the revised NQF)		
Level 1 Certificate in Motor Vehicle Studies		
Level 1 NVQ in Bakery		
GCSEs Grade D-G		
Entry (there is no change to Entry Level in the revised NQF)		
Entry Level Certificate in Adult Literacy		

*Revised levels are not currently being implemented for NVQs at level 4 and 5

For up to date information please visit openQUALS, www.qca.org.uk/openquals

Appendix

03

68 What works in skills and employment

1. What works in tackling worklessness:

In 2005, GLA Economics and the London Development Agency published a report entitled *What Works with Tackling Worklessness?* by Pam Meadows.⁷⁵ The report reviewed and assessed the evidence on what interventions work in reducing worklessness. Some of the findings of that report are summarised below.

- Help in presentation and job search is very effective and the most cost-effective option for people who already have recent work experience or some skills or qualifications. Typically benefits to the Exchequer exceed cost with the first year. Its main impact comes through speeding up the process of finding work for those who would have found it anyway.
- People who lack job-related skills or qualifications, or who have poor basic skills (including English language skills) benefit most from basic skills and training that is directly relevant to employers' needs in the local labour market.⁷⁶
- The most effective training programmes retain a work focus, have links with employers, and are tailored to suit individual needs. Provision also needs to address basic workplace needs eg language training and familiarity with British recruitment methods. Basic skills including numeracy, literacy, language, communication and team working are necessary to function and progress at work even if low skilled vacancies do not state the need for formal qualifications.
- Basic employability training (BET) is pivotal to London's needs – it develops positive work-related behaviour and attitudes ie the qualities, attitudes and behaviours employers look for in

potential recruits; helps participants gain the generic work related and occupational skills needed to get a job; helps participants improve their basic skills of literacy, numeracy and oral communication.

- Earnings supplements such as tax credits and in-work benefits have an important role to play both in encouraging people to take paid work, and in helping them to retain their jobs. The purpose of these supplements is to ensure that people are better off in paid work than they would be by remaining workless.
- Job subsidies encourage recruitment of people who lack immediate skills to justify normal wages or appear to be risky in other ways and employers would not normally consider. They are only effective in the private sector and have low short-term employment additionality. Nevertheless, people from disadvantaged backgrounds and those who face barriers to employment are successfully placed into paid work and given the opportunity to acquire important work experience and skills. In that respect, job subsidies are not only contributing to poverty and social exclusion objectives but also increase the long-run supply of labour in the economy with positive macroeconomic benefits.

2. What works in upskilling low-skilled adults

This section summarises some of the findings of a technical paper commissioned as background for the LSEB strategy: 'Improving the Skills of Low-skilled Individuals, Literature Review of What Works' by Pam Meadows, 2007. The paper reviews the literature across a number of areas identified as of potential significance by the Board as part of the strategy-development process.

Engaging small and medium sized enterprises

- SMEs are more likely than larger firms to lose staff who gain NVQ qualifications, because they are less able to offer career progression opportunities. SME costs of bespoke training are also higher because of the lack of economies of scale.
- in some areas skills brokers have been able to combine the needs of groups of small companies and helped providers to develop training that addresses those needs. But even so the overall impact may be relatively small as practical barriers typically account for only around one in ten non-trainers.

Engaging individuals

- Employers can play a crucial role in overcoming psychological barriers. They can do this both by encouraging people to train, and by establishing systems of peer support or mentors for those who are undertaking training. Trade union learning representatives can also play an important role.
- Outreach to hard-to-reach groups can include provision in community settings such as libraries, football clubs and pubs. Delivery in partnership with community organisations can harness wider social capital. Influential role models (eg football coaches) can act as ambassadors for learning. Hiding learning within non-threatening frameworks (“take a better photo”, “family history”, “healthy lifestyles”) can also help.

Basic skills (literacy and numeracy)

- Poor basic skills are often associated with other disadvantages such as learning difficulties and poor health. A large proportion (probably a majority) of those with basic skills problems are

workless. Where they are in paid employment this tends to be in roles where lack of basic skills does not present a problem.

- The observed differences in employment rates between those with and without basic skills are not just derived from the lack of basic skills. The lack of basic skills is often just one presenting symptom of a group of overlapping labour market disadvantages. Basic skills training may be an essential building block to helping people into work (or helping those in work to move into more skilled and better paid jobs), but it needs to be accompanied by other forms of assistance.

English for speakers of other languages (ESOL)

- There is a strong case for fast-track and slow-track courses even for beginners. Those who are literate in their own language and have completed secondary or tertiary education are likely to have the skills to progress more quickly than those who have limited experience of education.
- There is an issue of tutor capacity, but ESOL tutors are generally on hourly paid contracts. One way to increase capacity would be to have a pool of peripatetic tutors on full-time contracts.

Information, advice and guidance

- Awareness of adult guidance services is relatively low. The issue appears not to be one about the quality of what is available (which is generally regarded as good). Rather, it is that those who might benefit from the service, including those who want to change their jobs as well as those who are looking for work, do not know that help is available. Many think LearnDirect is only about courses, not about career opportunities more generally. Those who use the service

- generally find it helpful.
- Employers would like more information from other employers about the quality and appropriateness of individual courses (as consumers on travel or shopping websites often provide their views about hotels or other facilities or the quality of the shopping experience).

Soft skills

- There is very little evidence about the role that soft skills play either in recruitment or in terms of workplace skill development. Employers stress the importance of soft skills in surveys. Soft skill areas such as team working and communication skills are the most common types of training provided by employers of all sizes. But how far a lack of soft skills acts as a barrier to employment is not well researched.
- As with ESOL learners, there may be a role for workplace placements for labour market entrants or other workless groups to familiarise people with the norms of behaviour in the workplace.

3. Case Studies of what works

This section summarises the findings of a review of 20 case studies of what works (and doesn't work) in skills and employment, commissioned by the LSEB, and taken from London, the UK and around the world. The report, *Case Studies of What Works*, was produced by Experian on behalf of the LSEB.

Individuals and learners

- Offer skills and employment opportunities in safe, local, accessible environments:
 - people's homes through technology and media (US Literacy Link);
 - local community centres (East Leeds Family Learning Centre);

- local shopping centres (Sunderland Job Linkage; The Newcastle JET Project; Sheffield Jobnet).
- Establish a universal skills, employment and careers information service (US Career Voyages Website).

Employers and networks

- Develop a pan-city work placement scheme, supplemented by employability training (ELBA Job-Link on an ongoing basis; Hire LA's Youth on a summer-season basis).
- Seek corporate sponsorship to secure employer involvement and promote public schemes (Young Achievement Australia).
- Develop best practice "blueprints" with large and/or friendly employers, and disseminate to employers, particularly SMEs, through industry bodies and/or employer representatives such as Sector Skills Councils (Singapore clusters).
- Support emerging/growing sectors by working with employers to generate talent pools, and by providing up-to-date skills, employment and careers information (Singapore clusters; US Career Voyages Website).
- Host or seek involvement in regular employer networking events, using these as opportunities to broker relationships between employers and training providers (London HLT Skills and Employment; Brentin2Work).
- Scale-up initiatives quicker by utilising existing employer networks and supply-chains (ELBA Job-Link; London HLT Skills and Employment; Brentin2Work).
- Embed publicly-funded individuals in large employers to create a trusted, culture of learning from the inside (Building London, Creating Futures).
- Actively encourage employers to employ locally, particularly workless and/or hard-to reach

individuals who face competition from non-locals, by undertaking time-intensive tasks such as outreach on their behalf (East Leeds Family Learning Centre; Sheffield Jobnet).

Training providers and products

- Place employability at the centre of all training products, embedding other types of skills such as ESOL within these products rather than as stand-alone (London HLTT Skills and Employment; The Newcastle JET Project).
- Tailor training products to the needs of employers, with an emphasis on employability skills, sector-specific needs, modules and onsite delivery (Thames Gateway: The Creative Way; London HLTT Skills and Employment; ELBA Job-Link).
- Tailor training products to the needs of individuals, with an emphasis on modules and short-courses (London HLTT Skills and Employment; The Newcastle JET Project; Sheffield Jobnet).
- Support providers to tailor training products to the needs of employers (FE College Employability Demonstration Pilots).
- Invest in FE capacity to ensure that factors such as a lack of supply in trainers are not an obstacle to scaling-up schemes (ELBA Job-Link).
- Establish clear, locally accessible progression routes for learners (Thames Gateway: The Creative Way).
- Allocate public/private funding responsibilities for training costs, seeking contributions from employers in the short-term (which can significantly increase training takeup/ completion – London HLTT Skills and Employment) and moving towards a more sustainable financial solution in the long-term.

Public agencies and delivery

- Establish schemes operating at two distinct geographies:
 - pan-city – stand-alone, universal services such as websites, databases and skills-matching information (US Career Voyages Website; Sheffield Jobnet);
 - hub-and-spoke – strategic schemes with local delivery staff/partners (ELBA Job-Link; Brentin2Work; Manchester 2002 Games).
- Establish strategic frameworks/objectives, such as “employer led”/“long-term financial sustainability”, with sufficient flexibility at the project/local level (London HLTT Skills and Employment).
- Establish pan-London, pan-Agency strategic objectives, investment plans and funding regimes (ELBA Job-Link – DWP/JCP funding; London HLTT Skills and Employment – DfES/LSC funding; FE College Employability Demonstration Pilot – DfES/LSC funding; TIFWorks: Chicago’s Workforce – strategic funding opportunities, eg Section106).
- Establish clear objectives, monitor and invest in quality labour market and management information to be able to evaluate the outputs, outcomes, value for money and overall effectiveness of schemes (Manchester 2002 Games; Edinburgh Joined Up for Jobs).
- Establish a pan-London strategy monitoring system (US National Reporting System) to enable agencies to:
 - have an holistic view of all initiatives taking place;
 - carry out a like-for-like comparison;
 - identify disadvantaged groups not being helped;
 - identify any duplication of services;
 - identify examples of best practice; and
 - undertake ongoing, consistent evaluations.

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- Provide a single contact-point for each scheme (ELBA Job-Link for employers; Brentin2Work for employers; Singapore clusters for employers; Sunderland Job Linkage for individuals; East Leeds Family Learning Centre for individuals).
 - Provide contact points and centres for schemes (Sunderland Job Linkage – local centres/shops; The Newcastle JET Project – local shopping centre; East Leeds Family Learning Centre – local community centres; Sheffield Jobnet – local shops).
 - Secure full involvement of the Voluntary and Community Sector in areas where they have the greatest expertise, such as outreach and engaging hard-to-reach groups (Manchester 2002 Games; Homelessness: Crisis Educational Support Programmes).
 - Set realistic timescales to develop, implement and scale-up schemes (ELBA Job-Link; Manchester 2002 Games)

Notes

⁷⁵ *Meadows, P (2006): What works with tackling worklessness. GLA Economics*

⁷⁶ *According to the Leitch Review's cost-benefit analysis basic skills have the highest benefit to cost ratios compared to any other training initiatives.*

Appendix

04

Key targets relevant to adult skills and employment in London

The following summarises the key higher level and operational targets for each of the LSC, JCP and LDA. In each case there are of course a range of additional objectives and challenges (eg quality improvement, introduction of new programmes etc) that are driving the agencies and not all of these are captured here. The targets summarised here are primarily quantitative, core targets.

Learning and Skills and Council

Higher level Public Service Agreement (PSA) targets (as set out in the 2007/8 grant letter from Alan Johnson to Christopher Banks, chair of the Learning and Skills Council).

LSC to lead on the following:

Increase the number of adults with the skills required for employability and progression to higher levels of training through:

- improving the basic skill levels of 2.25 million adults between the launch of skills for Life in 2001 and 2010, with a milestone of 1.5 million in 2007; and
- reducing by at least 40% the number of adults in the workforce who lack NVQ 2 or equivalent qualifications by 2010. Working towards this, one million adults in the workforce to achieve level 2 between 2003 and 2006.

Additional PSA-related output targets are included in the grant letter namely:

- first full level 2 achievements for adults – (Further Education, Work Based Learning, Train to Gain, Adult and Community Learning)

- total full level 2 achievements in FE
- Skills for Life achievements (all streams)

LSC to support the HE sector to achieve its HE PSA participation target by:

- encouraging many more young people from all backgrounds to gain the qualifications and aspiration for higher education

LSC to support delivery of the following key indicators:

- an apprenticeships completions success rate target for 2007/8 of 59%
- an FE Learner Success Rate for 2007/8 of 76% [subject to review]

National LSC priorities are set out in 'Raising our Game: Our Annual Statement of Priorities'.

This emphasizes the importance of (a) fixing the long tail of low skills; (b) strengthening level 2 as the 'platform for employability'; and (c) delivering higher level skills. Specific priorities include:

- putting employers centre stage eg by increasing investment in level 2 and 3 through additional funding for employer skills delivery and continual re-prioritisation of FE funds
- increasing choice for adults as individuals by increasing the number of opportunities for Skills for Life, level 2 and level 3; and continuing to prioritise level 2 learning and progression routes to level 2 for those who have not already achieved this
- directing a further £29 million of provision, nationally, toward level 2 provision.

Operational measures of success in London (as set out in the London LSC regional commissioning plan for 2007/8):

- number of people completing apprenticeships (including advanced)
- number of public sector apprenticeships
- number of learners gaining a first skills for life qualification (cumulative)
- number of adult full level 2 places in FE
- number of full level 3 places in FE
- FE success rate
- work-based learning success rates
- entry to employment (E2E) positive progression rate
- employment rate.

Jobcentre Plus

Key PSA targets of relevance to Jobcentre Plus are highlighted in the 2007/8 Business Plan. They comprise:

- halve the number of children in relatively low-income households between 1998 – 1999 and 2010 – 2011, on the way to eradicating child poverty by 2020, including:
 - reducing the proportion of children in workless households by 5% between Spring 2005 and Spring 2008, and
 - increasing the proportion of parents with care on Income Support and income-based Jobseeker's Allowance who receive maintenance for their children to 65% by March 2008.
- as a contribution to reducing the proportion of children living in households where no one is working, by 2008:
 - increase the number of children in lower-income working families using formal childcare by 120,000
- as part of the wider objective of full employment in every region, over the 3 years to Spring 2008, and taking account of the economic cycle:
 - demonstrate progress on increasing the employment rate
 - increase the employment rates of disadvantaged groups (lone parents, ethnic minorities, people aged 50 and over, those with the lowest qualifications and those living in local authority wards with the poorest initial labour market position), and
 - significantly reduce the difference between the employment rate of disadvantaged groups and the overall rate.
- in the three years to March 2008:
 - further improve the rights of disabled people and remove barriers to their participation in society, working with other government departments, including through increasing awareness of the rights of disabled people;
 - increase the employment rate of disabled people, taking account of the economic cycle, and
 - significantly reduce the difference between their employment rate and the overall rate, taking account of the economic cycle.
- reduce overpayments from fraud and error in Income Support and Jobseeker's Allowance and in Housing Benefit:
 - by 2010, reduce overpayments from fraud and error in Income Support and Jobseeker's Allowance by 15%, and
 - by 2008, reduce overpayments from fraud and error in Housing Benefit by 25%.

Key operational targets at the national level are also set out in the 2007/8 JCP business plan (and are mirrored at the regional level) and comprise the following:

Job outcome target

The target measures the outcomes of JCP help and support to customers to find work. The job outcome target uses HM Revenue and Customs employment data to identify when customers start work.

JCP target for 2007-2008 is to achieve a total points score of 11,200,000 based on the job outcomes Jobcentre Plus achieves.

Monetary value of fraud and error target

JCP aim is to reduce losses from fraud and error in working age Income Support and Jobseeker's Allowance by 15% by March 2010.

JCP target is by March 2008 to continue to ensure that losses from fraud and error in working age Income Support and Jobseeker's Allowance amount to less than current levels of loss, as expressed in the new 2005-2006 baseline.

Employer outcome target

The employer outcome target measures JCP performance in meeting a high standard of service to our employer customers.

JCP Employer Outcome target for 2007-2008 is to ensure that at least 84% of employers placing their vacancies with Jobcentre Plus will have a positive outcome.

Customer service target

The customer service target measures how well JCP delivers its services to customers against a set of standards, including those for employers.

In 2007-2008 JCP aims to achieve an 84% customer service level in the delivery of

the standard set out in the Customers and Employers Charters.

Interventions delivery target

It helps JCP focus on helping its customers, by carrying out interventions promptly. It will measure if specific, key work focused interviews, are being done within set timescales for customers receiving Incapacity Benefit, Jobseeker's Allowance and Lone Parents receiving Income Support.

The target for 2007-2008 is to ensure that the following specified Jobcentre Plus Labour Market interventions take place within set timescales in 85% of cases checked:

- 80% of Initial Incapacity Benefit Work Focused Interviews are conducted after the end of the 8th week and before the end of the 13th week stage of the claim;
- 85% of Income Support Lone Parent Work Focused Interview reviews that become due are conducted within a period of up to 3 months;
- 13 and 26-week Jobseeker's Allowance advisory interviews that become due are conducted within 6 weeks in 85% of cases checked; and
- Jobseeker's Allowance labour market Interventions and follow up activity are conducted in 90% of cases checked.

Average actual clearance time target

The purpose of this target is to drive improvements in the speed with which JCP deals with benefit claims from its customers.

The levels set for the three benefits are to process claims, within specified Average Actual Clearance Times, for Incapacity Benefit (18 days), Income Support (11 days), and Jobseeker's Allowance (12 days).

London Development Agency

The LDA's higher level vision and objectives are contained in the London Economic Development Strategy (EDS). Indicators are provided by government departments as well as the Mayor and are organised by EDS theme. They are listed in the Corporate Plan 2006-9 and include the following:

Measurable output		Target	Equalities targets (%)		
		2007/8	BAME	Disabled	Women
Business Support	Number of businesses	35,000	35	5	20
of which Collaborations	#	500	35	5	20
of which PQQ's	#	2,400	35	5	20
of which Business Link London 'intensive' support	#	5,000	30	5	28
Business Creation	Number of businesses	3,600	35	5	20
Childcare places take-up rate	Places taken up	55%			
Jobs created	No of jobs created	17,500			
Employment Support	Number of people assisted to gain a job	30,000	50	5	50
Skills	Number of people	39,500	50	10	50
of which Basic skills	#	7,600	50	10	50
of which level 2 skills	#	7,100	50	10	50

For information on this document or on accessing it in different formats please contact the Board Secretariat

Much of the analysis in this document was provided by GLA Economics.

GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics form a basis for the policy and investment decisions facing the Mayor of London and the GLA group. The unit is funded by the Greater London Authority, Transport for London and the London Development Agency.

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