

Working Paper

Skills for Londoners: Evidence Base (Executive Summary)

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Mayor's vision

The Mayor is determined that London becomes a city where all residents benefit from the capital's opportunities and success, and where London's employers and businesses can access the skills they need to succeed and compete, nationally and internationally. To achieve this, London must have a system for post-16 adult education and skills that delivers for all Londoners and employers. This system should be the envy of cities around the world for its outcomes and ambitious standards. It must be responsive to the demands of the capital's local labour markets, both now and in the future. The Mayor's vision is for:

'A City for all Londoners – making sure Londoners, employers and business get the skills they need to succeed in a fair, inclusive society, and thriving economy'

Skills Strategy

To deliver on his vision, the Mayor has produced Skills for Londoners – a skills and adult education strategy for London (The strategy) which sets out the priorities and measures to improve education and skills provision for Londoners aged 16+, with a focus on technical (vocational) skills and adult education.

The Skills for Londoners' Strategy Evidence Base ('The evidence base') has been prepared by GLA Economics using desk-based research. The data within the evidence base has been used to inform the three priority areas of the strategy, specifically to:

- 1. Empower all Londoners to access the education and skills to participate in society and progress in education and in work**
- 2. Meet the needs of London's economy and employers, now and in the future**
- 3. Deliver a strategic city-wide technical skills and adult education offer**

While the strategy has a broad focus, with a view to developing a whole system approach to skills, these priorities also inform preparations for devolution of the Adult Education Budget (AEB) (devolved to London from 2019/20). The strategy therefore refers to both the levers that the Mayor has direct control over and those that he would like to control in order to create a more coherent skills system. Further detail on how AEB and other available skills and employment support funding through the GLA will be committed is included within the Skills for Londoners Framework¹.

In addition to the evidence base, the GLA has conducted wider research, the findings of which underpin the strategy. Notably, the GLA has conducted research to explore Londoners' experience of the skills and education system. Furthermore, the GLA has consulted employers, colleges and other skills stakeholders in the policy-making process. Finally, the four borough sub-regional partnerships² in London were invited to contribute their own evidence to help inform the strategy's development.

This executive summary highlights the key findings of the research within the evidence base to allow the reader to readily identify how the research has been used to inform the strategy.

Strategy priority 1 – Empower all Londoners to access the education and skills to participate in society and progress in education and in work

Not all Londoners have the education or skills to access the opportunities that the capital has to offer. Whilst the employment rate in London is only slightly lower than the UK average, (the overall 16-64

¹ The Skills for Londoners Framework is the delivery plan for the Skills for Londoners Strategy.

² London's Sub-Regional Partnerships: Central London Forward, Local London (including south east and north east London), South London Partnership, West London Alliance.

employment rate in London in Jan-Dec 2016 was 73.8 per cent compared to 74 per cent UK wide [See Evidence Base: Chapter 2.1]], there is significant variation in the employment rates amongst different groups of Londoners [See Evidence Base: Chapter 2.3].

Notably, employment rates are lower among women (67 per cent) and people with low qualifications (42 per cent for those with no qualifications, compared to 85 per cent for those qualified to degree level). 'Black', 'Other', 'Mixed' and 'Pakistani / Bangladeshi' ethnic groups all have below average employment rates. The employment rate for disabled Londoners was 52 per cent in 2016, 22 percentage points below the rate for all Londoners (age 16 to 64).

Inequalities also manifest geographically; both unemployment levels and income show similar spatial patterns, with relative disadvantage seen in large parts of East London (including much of Tower Hamlets, Newham and Barking and Dagenham), inner-South-East London, parts of North London (including eastern parts of Enfield and Haringey), and several parts of outer-West and outer-South London.

The high cost of living in the capital means that the proportion of Londoners in poverty is the highest of any UK region, with two million Londoners living below the poverty line³. Fifty-eight per cent of those below the poverty line are in working families. Furthermore; many Londoners are stuck in, or moving in and out of, low-paid, insecure employment with few chances to progress into better-paid and more stable jobs⁴.

The relationship between skills and positive labour market outcomes is well established [see Evidence Base: Introduction]. People with higher skill levels are more likely to be in work, and those in work are more likely to earn higher wages, work in higher level occupations, and enjoy greater job security. For example, in London the employment rate for working age people with degree level qualifications (NVQ 4+) is twice the level for people with no qualifications (85 vs 42 per cent).

However, such associations alone may overstate the importance of skills. For example, socio-economic background is likely to affect both educational attainment and employment outcomes. To get a truer picture of the impact of skill level on employment and other outcomes, such factors should be accounted for. Two such studies conducted in 2011, found that there are still positive labour market returns to both degrees and vocational qualifications even when using these controls⁵. For example, degrees have been estimated to increase earnings by a quarter (compared to having A-levels) and vocational qualifications at NVQ Level 3 were estimated to increase earnings by between 10 and 20 per cent (compared to having an NVQ Level 2 qualification).

Skills also have positive social outcomes. There are strong associations with a number of social outcomes, including health, wellbeing, civic engagement, and propensity for crime [see Evidence Base: Chapter 1.2]. Some skills, such as digital skills, can directly contribute to social outcomes by making it easier for people to communicate and access services. However, the evidence on the relationship between skills and social outcomes is relatively weak when it comes to demonstrating a causal relationship, as opposed to merely an association between the two.

One implication of the link between skills and employment and social outcomes is that inequalities in skills are likely to feed through into wider inequalities. Inequalities relating to individuals' backgrounds are evident throughout the education and skills system - from GCSEs, through to access to university, and

³ Trust for London (2017) op.cit. p25.

⁴ Social Mobility Commission (2017) [The Great Escape? Low pay and progression in the UK's labour market](#)

⁵ BIS (2011) '[The returns to higher education qualifications](#)' and, BIS (2011) '[Returns to intermediate and low level vocational qualifications](#)'

employers' investment in their staff [see Evidence Base: Chapter 7]. For example, in 2015/16, 66 per cent of London pupils gained 5 or more A*-C GCSEs (including English and Maths), but attainment was lower among those on free school meals (51 per cent), and among Black pupils (61 per cent). London pupils are more likely to go on to university than elsewhere in the country, but within London, pupils eligible for free school meals are less likely to do so (41 per cent, compared to 52 per cent of non-free school meal students). Employers are more likely to invest in training staff with higher level qualifications.

This results in an adult population where there are significant inequalities in skills and qualifications according to people's background [see Evidence Base: Chapter 6]. For example, the OECD's skills survey suggests that in England, Black and Asian adults have lower proficiency in numeracy, literacy and problem solving. And although Londoners overall are more highly qualified than the rest of the UK, within London adults from 'Mixed', 'Black' and 'Other' ethnic backgrounds, and disabled adults, are less likely to have a degree level qualification than the wider London population.

Skills inequalities are also evident across London boroughs (e.g. in Wandsworth 72 per cent of 25-64-year olds had degree level qualifications at the 2011 census, compared to 22 per cent in Havering).

Strategy priority 2 – Meet the needs of London's economy and employers, now and in the future

The second strategy priority relates to meeting employer demand for skills. The last two decades have been a period of rapid growth for London [see Evidence Base: Chapter 3.1]. There are currently 5.8 million jobs in London, up from 4.1 million 20 years ago, an increase of 84,000 jobs per year on average, although this growth has accelerated in recent years. Recent jobs growth has been dominated by growth in business and professional services. Jobs growth has also been primarily in the 'higher' occupation levels. Between 1994 and 2014, London saw 1.5 million additional jobs in the top three occupation groups (managers, directors and senior officials, and professional and 'associate professional' occupations), compared to 130,000 in all other occupation groups. GLA Economics' employment projections suggest these trends are likely to continue into the future [see Evidence Base: Chapter 3.2].

These trends have implications for skills demand, particularly as higher occupations require staff with higher level skills. Between 2004 and 2014, London saw additional demand for 1.1 million people with degree level qualifications, including 338,000 with higher degrees. By contrast, over this period demand fell for people with qualifications at GCSE level or below [see Evidence Base: Chapter 3.2].

The last 10-20 years have therefore seen significant growth in demand for people with higher level skills in London. Alongside this, the number of people with higher level skills has also increased [see Evidence Base: Chapter 4.2]. Not only has London's population been growing (by 1.2 million between 2007 and 2017), but since 2004 the proportion of London adults age 25 to 64 with degree level qualifications (NVQ 4+) has increased from 36 to 57 per cent.

These trends have culminated in a London population that is overall more highly qualified than the rest of the UK (where 40 per cent of 25 to 64 year olds have degree level qualifications, 17 percentage points lower than London), but also more highly qualified than the rest of Europe [see Evidence Base: Chapter 4.1].

Therefore, London is a place where both the demand for and supply of skills (at least, as measured by qualifications) are 'high'. London has been described as being in a 'high skills equilibrium' [see Evidence Base: Chapter 5.2]. Employer surveys provide estimates of unmet demand, either in the form of 'skills shortage vacancies' (where an employer cannot recruit the right skills) and 'skill gaps' (where a staff member is deemed to lack the right skills). Together these amounted to 238,000 in London in 2015. This implies a significant problem with skill supply. However, this amounts to 5 per cent of total labour demand

in London, implying the vast majority of demand for labour is met by workers with adequate skills [see Evidence Base: Chapter 5.1].

Furthermore, to the extent that there are supply and demand imbalances, in London the greater problem may be a lack of demand (or an 'over' supply). In 2015, 8 per cent of people working in London were considered by their employers to be 'under-utilised' (where an individual's skill is not fully deployed in the workplace), compared to 4 per cent who were considered to lack proficiency [see Evidence Base: Chapter 5.2].

However, these aggregate level statistics hide more troubling data for particular sectors and occupations [see Evidence Base: Chapter 5.3]. These may be compounded if Brexit results in a shortage of available labour. For example, construction and hospitality (hotels and restaurants) have been two of London's fastest growing sectors in the last few years in terms of jobs, but a third of their workers are from outside the UK in the EU. At England level (for which data is available) skill shortages and gaps are most prevalent, as a proportion of employment, in hospitality (hotels and restaurants), public administration, and manufacturing.

There is a question about how employers will respond to skill shortages after Britain leaves the EU. There is little evidence from recent years that employers are willing to increase wages in those sectors and occupations where skill shortages are highest, but this could happen if Brexit caused a more serious supply shock. There is also the possibility that these forces could see an intensification of automation, with employers responding to higher labour costs by substituting in technology.

Another response would be for employers, faced with skill gaps and shortages, to train their staff in the skills they deem lacking. However, the recent record of employer training in London and the UK is poor [see Evidence Base: Chapter 8.1]. Employer training in London is similar to the rest of the UK, both in terms of the proportion of employers that are offering training (two thirds) and in terms of the number of hours of training offered, but by international standards, investment in training by UK employers is low, about half the level per employee as in the EU overall.

As well as being 'low' by international standards, training in London and the rest of the UK has fallen over the last two decades, from 1.36 training hours per person employed per week in 1997 to 0.38 in 2017 [see Evidence Base: Chapter 8.2]. This implies a reduction in training volume of 61 per cent (similar to a 65 per cent reduction in the rest of the UK).

Training levels vary between industries, but the evidence is mixed on which are the best- and worst-performing sectors [see Evidence Base: Chapter 8.3]. In terms of staff receiving training, staff are more likely to receive training in public sectors (public administration, education and health), and less likely in manufacturing, transport and communication and construction. However, at the UK level (for which data is available) the sectors that spend the most on training per employee are the utilities, construction, business services and arts and other services. As outlined above, there is also an inequality dimension to training, because employers are more likely to offer training to people with high qualifications, suggesting that any existing inequalities in skills are likely to be reinforced in work by employers.

The number of apprentices in London age 19+ increased by 19 per cent between 2011/12 and 2015/16 (from 57,000 to 68,000) [see Evidence Base: Chapter 7.5]. However, despite increasing apprenticeships numbers in recent years, London still does less well than the rest of the country. In 2015/16, despite its size, London had the second lowest number of apprenticeship starts across all English regions (44,000, compared to 80,000 in the North West for example). When normalised by population London is firmly in last place, with 7 apprenticeship starts per 1,000 population (compared to 20 in the North East, for example). In 2015/16, in London, apprenticeship starts amounted to 2 per cent for the 19 to 24 age

group, compared to 4 per cent in England as a whole. London's lower apprenticeship numbers are partly explained by its sectoral composition (it has a relatively large share of employment in sectors that employ few apprentices), but even when comparing individual sectors against other parts of the country London offers fewer apprenticeships.

Strategy priority 3 – Deliver a strategic city-wide technical skills and adult education offer

The third priority in the draft strategy is to 'deliver a strategic city-wide technical skills and adult education offer'. There are a number of challenges facing the skill system [see Evidence Base: Chapter 9], in addition to the apprenticeships take up issue in London discussed above. The most significant of these is funding, which is particularly affecting adult further education. The amount of money allocated to adult further education and skills in England fell by 14 per cent in real terms between 2010/11 and 2015/16 (from £3.18 billion to £2.94 billion). This includes funding for apprenticeships, and funding for Advanced Learner Loans, which increased over this period,⁶ meaning that other areas of the budget fell even more steeply. Spending from the non-apprenticeships part of the adult skills budget (which does not include Advanced Learner Loans) fell by 54 per cent between 2010/11 and 2015/16, from £2.50 billion to £1.14 billion.

These reductions in funding have coincided with a fall in participation in adult education, both in London and in the rest of England [see Evidence Base: Chapter 7]. In London, 19+ participation in overall 'Education and Training' (which is the Education and Skills Funding Agency's (ESFA) umbrella term for further education delivered mainly in a classroom – i.e. excludes apprenticeships and community learning) fell by 28 per cent between 2011/12 and 2015/16 (from 309,000 to 224,000).

Within this overall group, the decline in participation in basic skills courses (English, Maths, and ESOL) mirrored the overall decline [see Evidence Base: Chapter 7]. For example, in London 19+ participation in English fell by 32 per cent between 2011/12 and 2016/17 (from 116,000 to 78,000), participation in Maths fell by 28 per cent (from 100,000 to 72,000) and participation in ESOL fell by 17 per cent (from 52,000 to 43,000). Participation in community learning (designed to help people to reconnect with learning, develop a new skill and prepare to progress to formal courses – not necessarily accredited training) – for which age data is unavailable) fell by 10 per cent from 2011/12 to 2015/16.

Alongside the reductions in funding to adult further education, there have also been important policy changes which will also pose challenges in terms of implementation [see Evidence Base: Chapter 9]. The most significant of these is the Apprenticeship Levy, introduced in April 2017. Under this system, large employers pay a levy and may then draw down from a training budget. Small employers must pay 10 per cent of training costs. Initial data suggests the policy may have had a negative impact on apprenticeship numbers. Apprenticeship starts in the first academic quarter of 2017/18 (the three months to October 2017) were 21 per cent lower in London than the same quarter in the previous year (and 27 per cent lower in the rest of England). However, more data is needed before we can confidently assess the impact of the new policy.

Higher education has also been subject to policy changes, but has not seen the same decline in funding. Increases in tuition fees have taken up the slack from a fall in teaching grants, meaning that expenditure in universities has continued to increase while further education spending has fallen, and the proportion of young people going to university has expanded steadily in recent years. London students consistently do well in terms of university participation, with 48 per cent going to university by age 19, compared to 38 per cent in England overall. However, there are still challenges in the HE sector. For London, foremost

⁶ Advanced Learner Loans were introduced in 2013.

among these is the relatively high non-continuation rate at London universities. 10 per cent of London students dropped out in 2016/17, compared to 8 per cent in the UK as a whole.⁷ This is particularly the case for Black students in London, who had a 14 per cent non-continuation rate.

Other challenges in the skills system relate to ‘market failures’ in those parts of the system expected to operate on a competitive basis. A 2016 report for the government noted that, while providers are generally responsive to learners and employers, and learners can exercise choice, there are several barriers to entry and exit in the provider market that prevent effective competition.

Another set of challenges within the skills system can be grouped together as ‘information failures’. Individuals, providers and employers, as well as policy makers, need high quality information on skills demand to make informed decisions about what skills to learn, provide and fund. However, this is often lacking. ‘Patchy’ and ‘inadequate’ careers advice services (in the words of the government in 2014) combined with a huge array of qualifications and learning options mean it is hard for people to make confident learning decisions, particularly those pursuing non-academic pathways. Finally, many potential learners face additional barriers to learning. Surveys suggest that financial and time constraints are foremost among these. In London, the cost and availability of childcare may be a particular barrier for parents, with childcare costing more in Inner and Outer London than in all other parts of the UK [see Evidence Base: Chapter 9].

⁷ HEFCE Teaching Excellence Framework Year 2

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