

London's Skills Challenge

Meeting London's Skills Gap



LONDON
COUNCILS

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01

introduction

An effective skills system is critical to generating and maintaining a productive workforce, which is a key driver of economic growth. For a skills system to be effective it must be genuinely demand-led, responding to evolving needs of businesses of all types and sizes, particularly in a dynamic, knowledge-based economy such as that of the UK.

The government spends more than £4 billion a year on adult skills provision in England¹, with £550 million of this in London alone². In this time of squeezed budgets and slow economic growth, it is critical that this investment generates the best possible return.

The UK's adult skills system follows a market-based model. The government subsidises adult learners depending on their age, qualifications and employment status, paying providers to deliver training courses for them. Contracts with providers are negotiated directly with the government via the Skills Funding Agency (SFA) which funds providers primarily according to the number of learners they attract and the qualifications those learners achieve. The assumption is that learners will choose courses that employers value, as these will enhance their employment prospects. The system is, however, not working as effectively as it should. According to employers in England, 16 per cent of vacancies can be attributed to skills shortages. These have a marked impact on performance, with 40 per cent of employers with hard to fill vacancies saying that they have increased operating costs and delayed the development of products and services³.

Debate around how to transform this situation has intensified since the publication of Lord Heseltine's review on stimulating economic growth. The review made a series of recommendations to decentralise funding and economic development powers from Whitehall, including the devolution of skills funding⁴. In its response to the review, the government signalled its intention to devolve skills funding to Local Enterprise Partnerships (LEPs) as part of a single non-ring-fenced spending pot called the Single Local Growth Fund, full details of which will be announced alongside the Spending Round in June 2013⁵.

In this report, we argue that these measures do not go far enough to meet the scale of the skills challenge in London. In order to maximise outcomes for businesses and individuals the government needs to be much more ambitious in implementing structural changes to the system. London's skills needs are too complex and diverse to be addressed just at a pan-London or LEP level. Full devolution of skills responsibility is needed to align provision with the needs of the capital's businesses and communities across functional economic areas. Groups of boroughs - which reflect these functional economic areas and understand business and community needs - are best placed to lead this approach with strategic support from the LEP.

02 overview

This paper argues that:

Given the scale and diversity of London's economy, return on skills investment in London will be maximised by:

- ensuring that skills provision is **genuinely demand-led and aligned with the needs of businesses across functional economic areas**
- **devolving skills responsibility and budgets to groups of boroughs** across these functional economic areas
- offering **clear incentives and levers** for boroughs and other key players to improve outcomes across these areas.

Maximising outcomes for individuals and businesses requires **strategic brokers to bring together businesses and skills providers** across London's functional economic areas so that:

- providers understand and can respond to what businesses need
- businesses understand and can take advantage of what providers can offer them.

Groups of London boroughs are uniquely-placed to play this strategic brokerage role because:

- they have a **comprehensive understanding of the needs** of the communities and functional economic areas that they serve
- they have **strong institutional relationships** with businesses, skills providers and other key players within those areas
- they are **already doing valuable work** with those partners to align skills provision with local economic need to tackle unemployment and stimulate economic growth.

As strategic brokers, groups of boroughs can work with businesses and providers to drive improvements to London's skills system, with **strategic support from London's LEP** (the London Enterprise Panel).

This will require some key policy changes:

- **leadership within London by groups of boroughs:** devolving responsibility and budget holding to groups of boroughs to play a strategic brokerage role, coordinated at the London level by the LEP
- **improvements to information for learners and businesses:** producing more timely, forward-looking and granular labour market information, and publishing better data on providers' success in giving people the right skills to find and progress in work
- **changes to incentives for providers:** linking a greater proportion of providers' funding to learners' progression in work or learning.

03

why is it important to get skills provision right in London?

A skilled workforce is vital for the growth of London's economy, which is critical to the health of the UK economy overall. Employment rates in London lag behind the UK average. Skills deficits mean local residents often lose out to more skilled workers from outside the capital in competition for London's jobs. The skills gaps among Londoners are partly attributable to mismatches in skills provision, with too many in the capital acquiring skills that are not in demand locally, while there is insufficient provision for skills that are in demand by employers.

Boosting growth

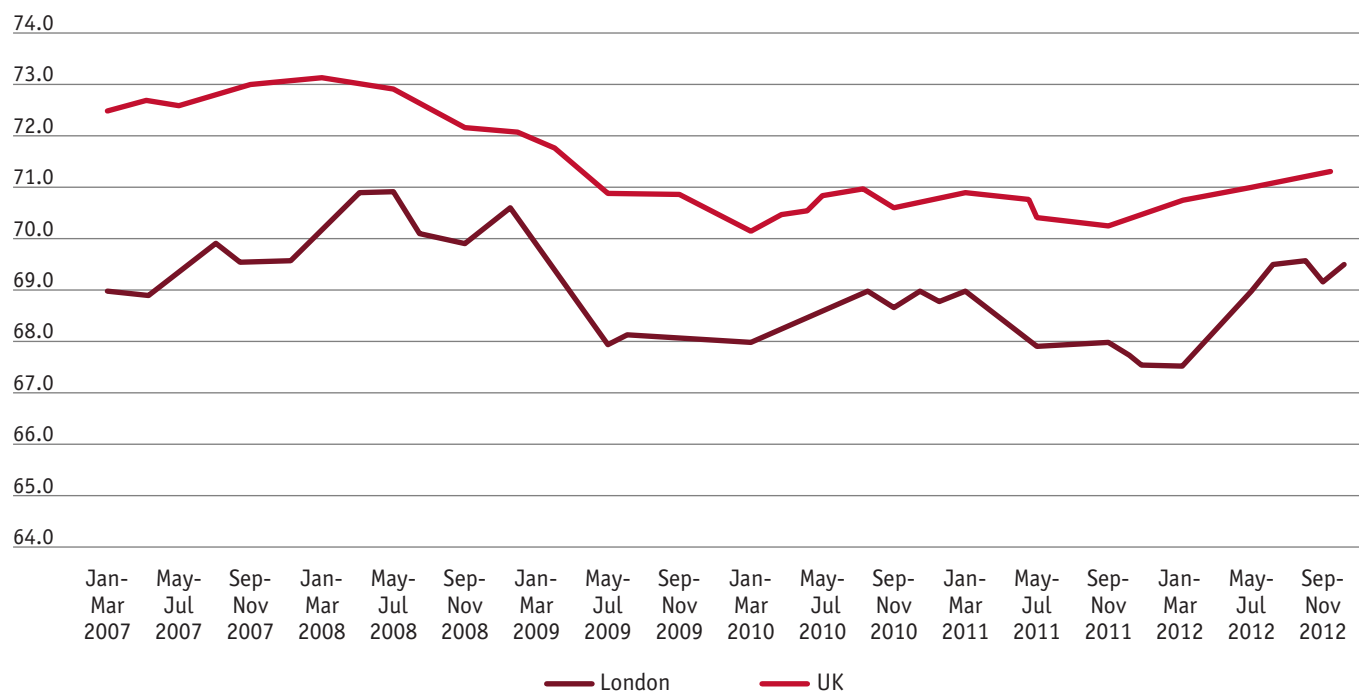
The success of London's economy is critical to the health of the UK economy, with London accounting for around 20 per cent of the UK's gross value added (GVA)⁶. Its success derives in part from high economic productivity, which outstrips the UK average in terms of GVA per hour worked by 32 percentage points⁷. This is partly attributable to the highly skilled nature of London's workforce: 40 per cent of the working age population hold a Level 4 qualification (equivalent to a certificate of higher education) compared to 30 per cent across the UK⁸. London's skilled workforce attracts business and investment, with London ranking as the leading European city for qualified staff - one of the four most important location factors for businesses⁹.

Tackling unemployment

Despite the relative strength of its economy, London has a lower employment rate than the UK average, and has done for the past two decades¹⁰ (see fig. 1). In the three months to December 2012, London's employment rate was 70.3 per cent, compared with a UK average of 71.5 per cent¹¹.



Figure 1: Employment rate (working age) %



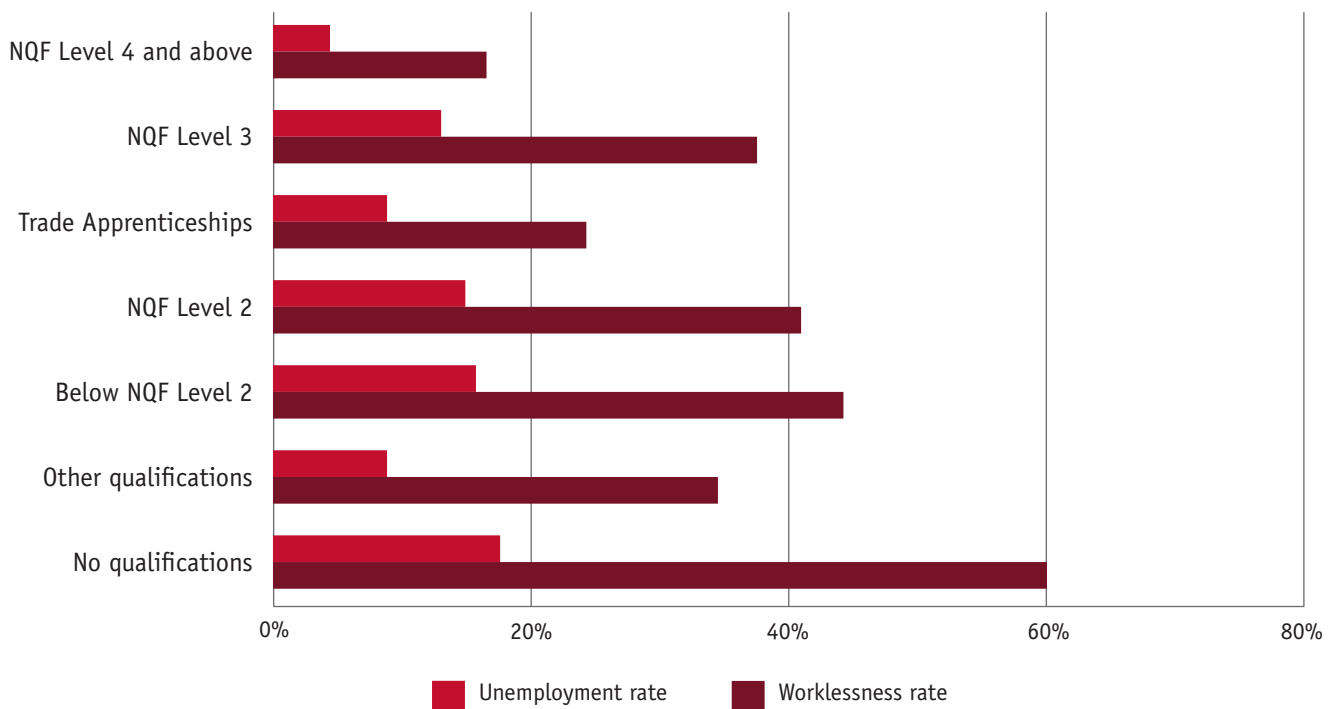
Source: London Data Indicators from LSEO, 2012

Within London, specific groups appear to be particularly disadvantaged, with employment rates below the London average (Black Asian and Minority Ethnic groups) and below both the London and UK average (parents, lone parents and disabled people)¹². The proportion of young people in London aged 16-24 who are unemployed is also greater than the UK average, with worryingly high numbers of people aged 18-24 who have been out of work and claiming benefits for more than six months¹³.

The role of skills

London's lower employment rates have been attributed to a range of factors including the fiercely competitive nature of London's labour market and the high skills requirements of the economy¹⁴. The international nature of London's economy attracts a national and international labour force, meaning Londoners have to compete for jobs with workers from across the UK and abroad. If Londoners are to benefit from the jobs available in the capital, they need to have in-demand skills. These skills are generally of a higher level than the UK average, with 55 per cent of jobs in London requiring Level 4 qualifications or above, compared to less than 40 per cent across the UK¹⁵. Demand for skills is predicted to continue rising and those without the relevant skills will be left behind¹⁶. Unemployment and worklessness rates in London are already generally higher among those with lower levels of qualifications or no qualifications than among those with higher levels of qualifications (see figure 2).

Figure 2: Unemployment & worklessness rates by qualification, London, Jan-Dec 2012



Source: Annual Population Survey, ONS¹⁷

While the greatest growth in job opportunities in London is predicted among higher level occupations, opportunities are also expected to increase in low-skilled occupations¹⁸. In order for Londoners to compete for these jobs, they need strong employability skills, including interpersonal skills, punctuality, drive, teamwork, and basic numeracy and English language skills. Many employers identify such skills as even more important than specific technical knowledge or experience when it comes to entry level positions¹⁹. Individuals who do not have such skills will struggle to find and retain work.

Skills gaps

Skills deficits are not only a problem for individuals seeking employment but also for businesses struggling to fill vacancies with appropriately skilled workers. In 2009, employers reported that 24 per cent of vacancies in London were due to skills shortages²⁰. In the same year, 17 per cent of London employers also identified skills gaps within their workforce, meaning employees were in place who were not fully proficient at their job²¹. Such skills gaps reduce both economic productivity and growth.

Mismatches in provision

Skills gaps across London can be partly explained by mismatches in skills provision. Analysis comparing skills achievements against jobs by sector over a one year period indicated that there had been over provision of training in London in health and safety, automotive industries, and hair and beauty, but significant under provision in marketing and sales, and moderate under provision in fashion, textiles, and the creative and cultural industries²².

04

what is being done to tackle skills needs at a London level?

There is a clear need to improve skills provision in London both in terms of increasing employment rates for Londoners, and in terms of boosting productivity and economic growth for London and the UK economy.

London's LEP²³ has commissioned work to assess the effectiveness of investment in skills provision across London, and analyse the future employment opportunities and skills requirements in the capital. This work identifies future labour market opportunities in growing sectors such as professional scientific and technical activities; administrative and support services; accommodation and food services; and information and communication. It also identifies significant replacement opportunities in sectors such as wholesale and retail; human health and social work; education; and construction²⁴.

Such regional analysis of skills needs provides a useful strategic overview, but the key to improving skills provision in London is to understand and address the needs of London's sub-regional functional economies. This cannot be done purely at a LEP level. London's LEP is significantly larger than any other. It covers a population more than twice the size of the next largest LEP, and has an economic value that is four times greater²⁵.

To put this in perspective, London's population is greater than that of Switzerland²⁶, and its economic output is roughly equivalent to that of Sweden or Belgium. London comprises a vast and varied economic area, consisting of a series of interconnected functional economies across which great diversity occurs. This diversity necessitates a locally responsive approach within a pan-London framework.

05

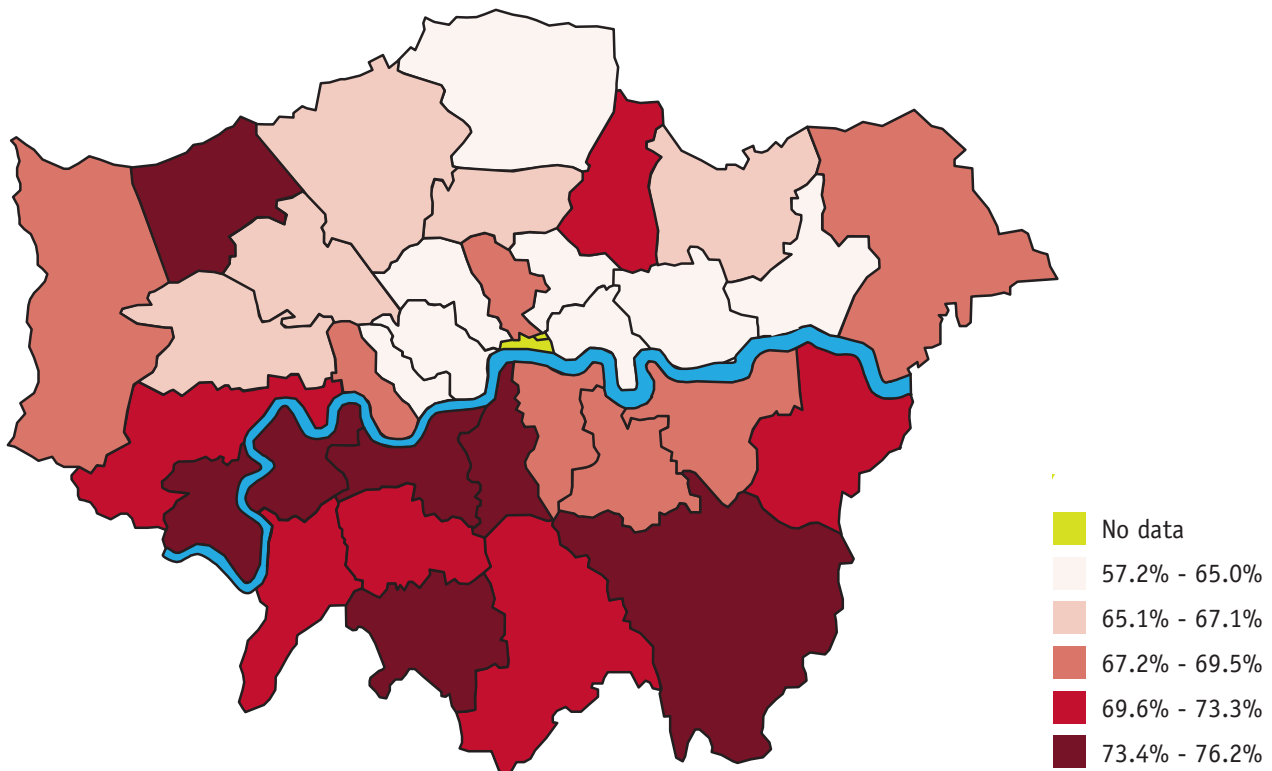
why does London need a more local approach?

London's regional employment figures and skills trends mask considerable differences at the local level including significant variation in employment rates, business characteristics and skills needs between and even within sub-regions and boroughs.

Employment

The employment rate varies by 19 percentage points across London, with the highest rate in Wandsworth at 76.2 per cent, and the lowest in Newham at 57.2 per cent²⁷ (see fig. 3). Some of the boroughs with the lowest employment rates, such as Tower Hamlets, Westminster and Camden, have higher job densities than other boroughs indicating that local people are struggling to compete for local employment opportunities in those boroughs, perhaps due to skills deficits²⁸.

Figure 3: Employment rates across London boroughs, September 2012



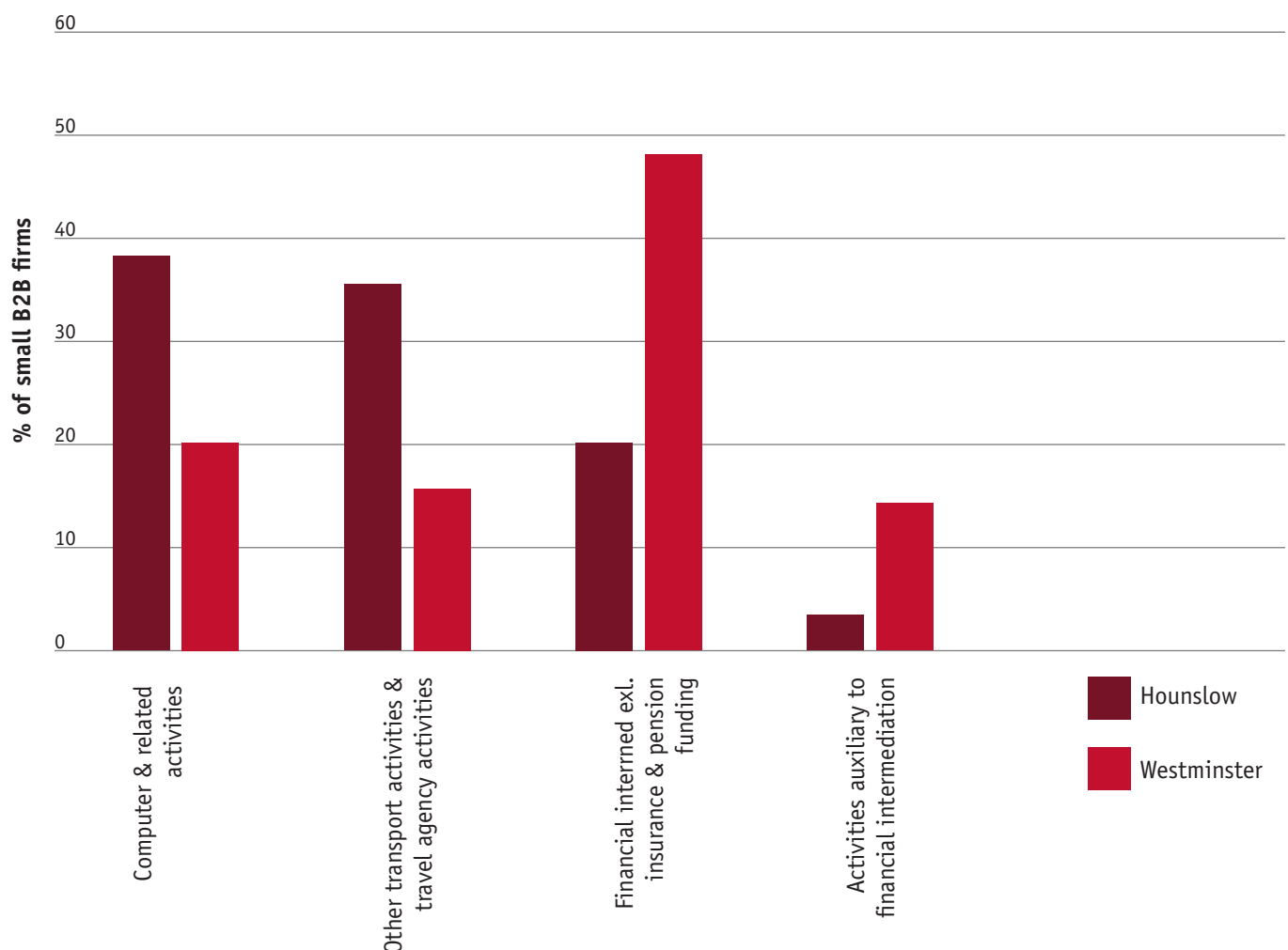
Source: http://stats.cesi.org.uk/statistics/observatory_mapping_tool/atlas.html

Business characteristics

Business characteristics also vary widely across London. Significant concentrations of business activities range from the financial district in the City and Canary Wharf, the jewellery quarter in Hatton Garden, the legal activities in Holborn and Chancery Lane, and the printing and publishing cluster in Clerkenwell, to the cultural, entertainment and retail activities in the West End, the food manufacturing activities in Park Royal, the transport and logistics hub in south Hillingdon and west Hounslow, and the concentration of machinery and equipment manufacturing in east Bexley, to name just a few²⁹.

Many other concentrations of commercial and retail activity exist across the capital, each with their own skills and recruitment needs. Hounslow and Westminster, for example, both have a similarly large share of small Business-to-Business firms (firms trading primarily with other firms) but in Hounslow, many focus on computer, transport and travel activities, while in Westminster, a much greater share focus on financial activities (see fig. 4)³⁰.

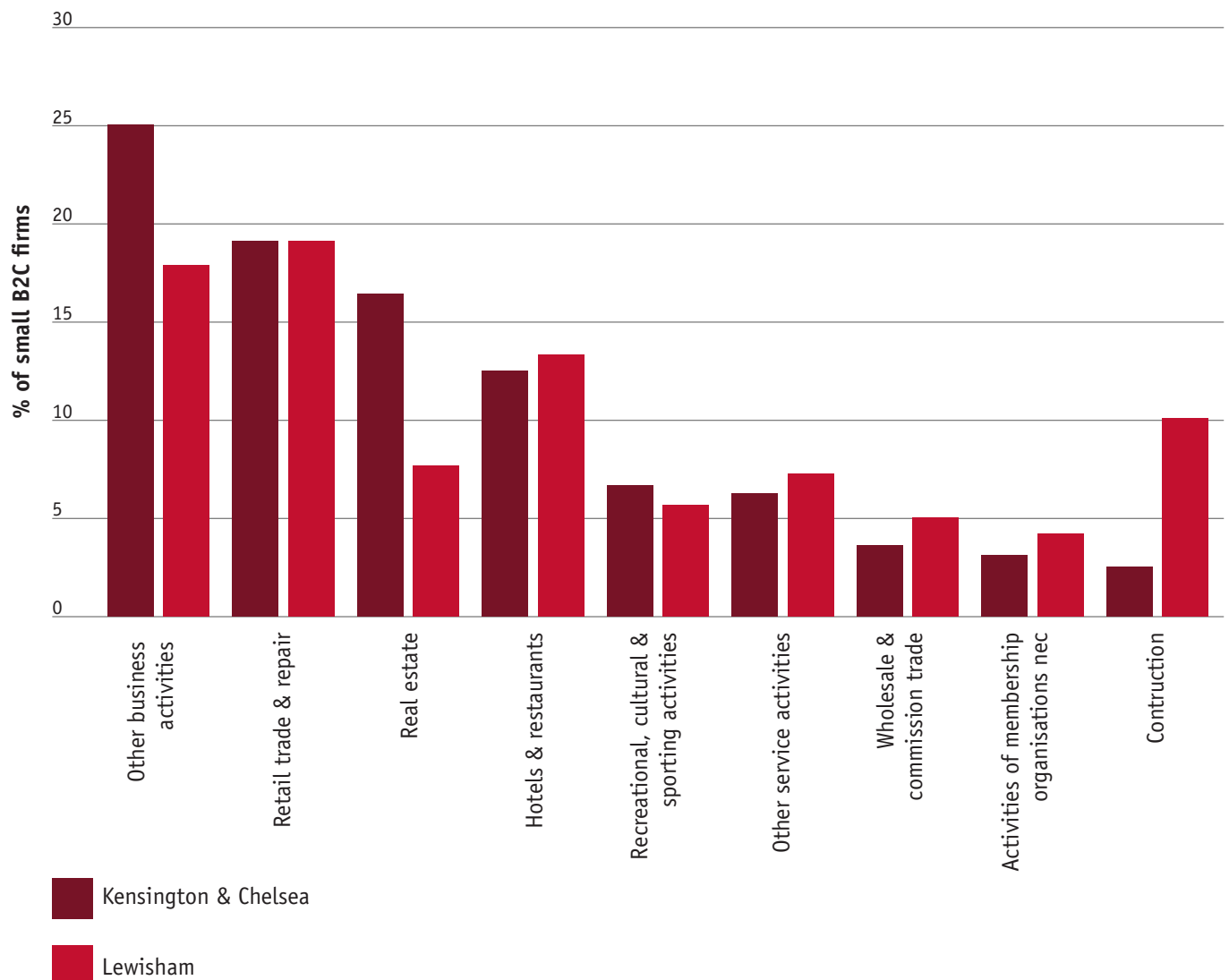
Figure 4: The make-up of the small Business-to-Business (B2B) firm base, 2010



Source: Centre for Cities, *Size Matters*, 2012

In Kensington and Chelsea and Lewisham, small Business-to-Consumer firms (firms relying primarily on local consumers) comprise a major share of the business base but have very different characteristics due to the nature of the markets they serve. Firms in Kensington and Chelsea focus more on high-end retail and high-skilled services such as accountancy and architecture while firms in Lewisham focus more on 'value' retail (see fig. 5).

Figure 5: The make-up of the small Business to Consumer (B2C) firm base, 2010

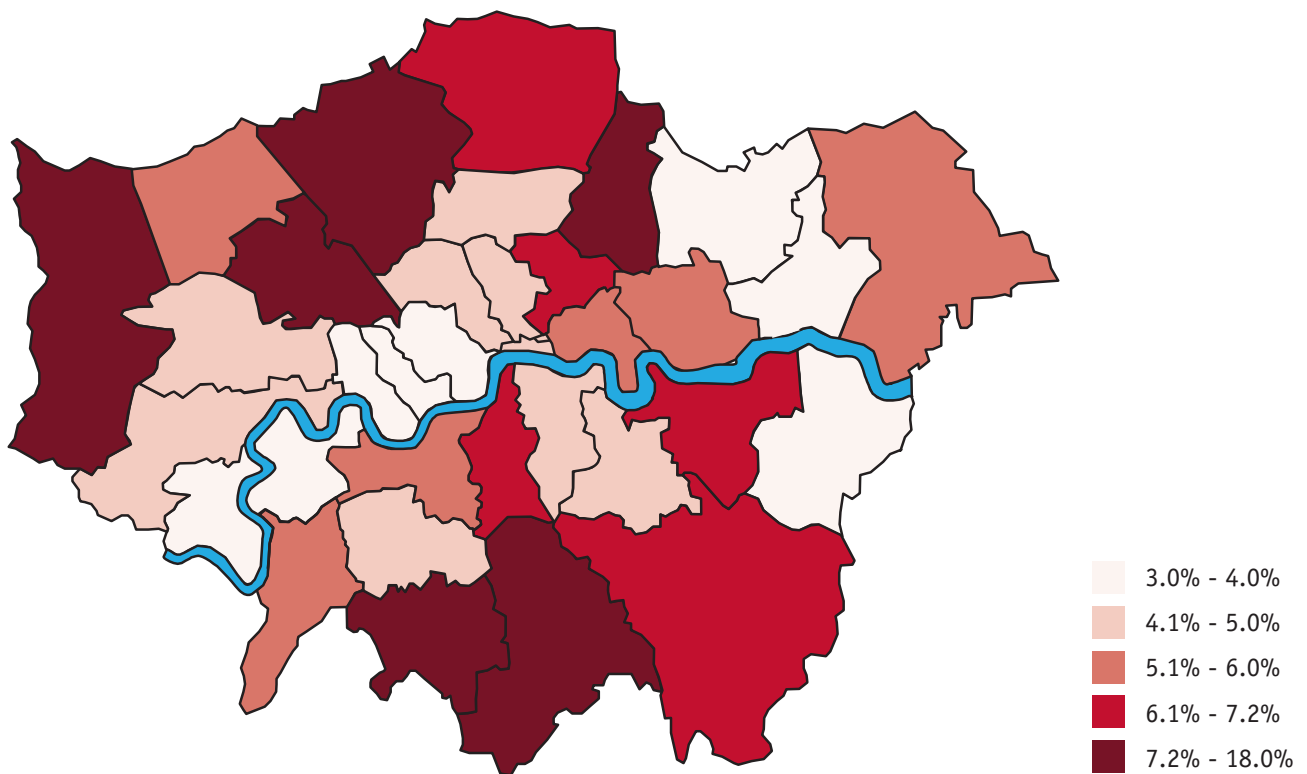


Source: Centre for Cities, *Size Matters*, 2012

Skills gaps

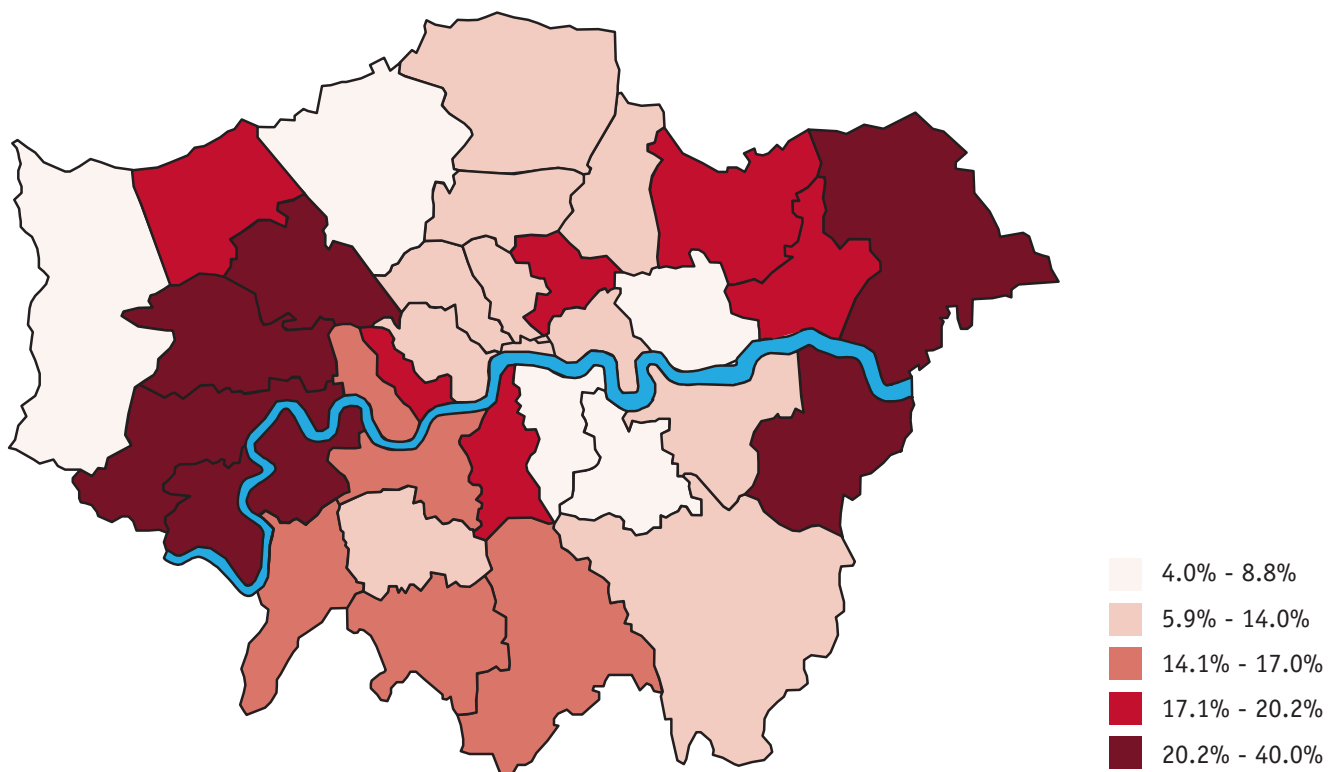
The diversity of businesses across London gives an indication of the variety of skills needs across the capital and the importance of adopting a more localised approach to skills provision in order to respond to those needs. This is reinforced by the variation in identified skills gaps across London's boroughs both in terms of the percentage of the workforce with skills gaps (see fig. 6) and the share of job vacancies identified as resulting from skills shortages (see fig. 7).

Figure 6: Skills gaps reported by employers in London



Source: LSE0, The London Story, 2012 (data from UKCES UK Employer Skills Survey)

Figure 7: Skills-shortage vacancies reported by employers in London



Source: LSE0, The London Story, 2012 (data from UKCES UK Employer Skills Survey)

The variation in employment rates, businesses characteristics and skills needs across London means that a tailored and responsive approach is required.

For the skills system to be effective:

- providers must understand and respond to business and community needs in their respective areas
- businesses must be able to understand and take advantage of what local providers can offer them.

The multitude of providers and businesses in any one area means **this cannot be achieved without a coordinating mechanism**. An actor with meaningful institutional links with businesses and providers, and a thorough understanding of local economic and community needs is needed to provide this mechanism by brokering dialogue between the key players. **Boroughs are uniquely-placed to provide this coordinating mechanism and play this brokerage role.**



06

how can boroughs enhance local skills provision?

Groups of boroughs are uniquely-placed to act as strategic brokers in London's skills system because of their role as place-shapers, their comprehensive understanding of London's local economies, their links with businesses and skills providers, their engagement with potential learners, and their track record in aligning skills provision with economic need.

Boroughs' role as place-shapers

Boroughs have a unique function in promoting the economic, social and environmental well being of their residents and visitors³¹:

- they play a critical place-shaping role, leading regeneration projects to stimulate local growth and secure learning, employment and other opportunities for residents
- they have a comprehensive understanding of their local economies and of impending changes that are likely to affect them, such as infrastructure developments and demographic trends
- their role as planning authorities means they know what commercial and industrial developments are in the pipeline, and can capitalise on these to secure employment and training opportunities for local residents
- their role in delivering services means they understand their local communities, and know what support and training they need to find and sustain employment
- boroughs are also uniquely-placed to provide the integrated or wrap-around services that individuals and families with complex needs require to access available training opportunities and then progress into work.

The Royal Borough of Greenwich has a job brokerage scheme, Greenwich Local Labour and Business (GLLaB), which maximises opportunities for local residents in construction and post-construction stages of developments. Through job brokerage linked to customised skills training, GLLaB and partners, including Jobcentre Plus and Greenwich Community College, recently facilitated the recruitment of over 300 employees for a new Tesco superstore in Woolwich town centre. Early collaboration allowed Tesco to advise on customised vocational training requirements, and enabled GLLaB and its partners to deliver skills training and support mechanisms for long term unemployed residents to compete for jobs. This successful collaboration not only met Tesco's needs, but secured 90 per cent of available jobs for local residents, two thirds of whom were long-term unemployed.

Boroughs are incentivised to use their knowledge of their local communities and economies to stimulate local economic growth and tackle unemployment. Ensuring that local people and businesses succeed matters to boroughs because it enables them to benefit from measures such as increased business rates retention, the Community Infrastructure Levy and higher council tax revenues, while minimising their welfare bill and the pressures associated with providing services such as social housing.

Recognising that economic realities and community needs do not always follow administrative boundaries, boroughs work in partnership across such boundaries to respond to the needs of functional economic areas. Many are already aligning skills provision with employer need on this basis. Seventy five per cent of respondents to a London Councils' survey indicated that they are working with other boroughs to identify local skills needs.

North London Strategic Alliance, a partnership of six north London boroughs, has led the development of an inter-regional consortium, the London Stansted Corridor Consortium (LSCC), to promote economic development. This is an alliance of 11 London, Hertfordshire and Essex local authorities, with a key focus on skills and employment. The LSCC provides a strategic network for collaboration between boroughs, employers and the FE sector, and is supported by 10 FE colleges. The LSCC's work to date includes undertaking a Skills Need Review to map skills need against provision in the area, and developing an Employer Brochure to demonstrate to employers what innovative solutions the participating colleges can offer to meet their requirements.

Lambeth and Wandsworth councils are working together to secure employment and training opportunities for local people through the 'Nine Elms on the Southbank' regeneration scheme, the largest in the UK. Employment Agreements with developers of individual schemes establish benchmark numbers for training, apprenticeships and placements to serve construction, engineering and other jobs being created by the project. The councils are also commissioning a skills forecasting exercise to identify the demand for labour across Nine Elms in future years. This will inform the planning of local employment and training provision so that it meets employer demand. Lambeth College and South Thames Colleges are key members of the partnership that will support local people to become job ready and meet employers' training needs.

Understanding of employability and skills issues

Boroughs have a statutory responsibility to encourage and enable access to education for young people, extending to cover all young people up to the age of 17 in 2013 and up to the age of 18 in 2015. They therefore have to ensure that there is sufficient high quality education and training provision available to meet all young people's needs. As part of this, boroughs are actively engaged in preparing young people for future employment by providing careers information, advice and guidance for specific groups³² and supporting the development of apprenticeships. London boroughs have been particularly successful in this, generating more than 3,500 apprenticeships across London since 2009. Boroughs also deliver adult and community learning provision, reaching learners of all ages and backgrounds. They are therefore able to look holistically at skills provision and progression routes across different age bands. This is a valuable perspective that is lacking elsewhere. Key players in the sector have noted that: "Ideally LEP partners wish to be involved in a single coherent dialogue on skills, covering both young people and adults and embracing all levels of qualification."³³ Boroughs are uniquely placed to drive such a dialogue.

Links with providers

London boroughs already have good links with skills providers and are taking advantage of these to align skills provision with employers' needs locally:

- 24 of London's 33 boroughs have supported their local college in working with local businesses
- 23 have had specific discussions with their local college about working in partnership to identify local skills needs and deliver provision to meet those needs
- 21 boroughs are looking at skills issues on a cross-borough basis engaging businesses and providers on aligning demand-driven skills provision with people's travel to learn and travel to earn preferences across functional economic areas³⁴.

Brent council runs Wembley Works in partnership with the College of North West London (CNWL) as part of the council's employment programme. It was set up in 2008 as a retail and hospitality training hub to prepare local people to take advantage of jobs being created by the Wembley development. Its work has included delivering skills provision, such as customer services training, which has helped local unemployed residents to access opportunities at the new Hilton Hotel and Wembley Stadium. Further training is planned to help unemployed residents secure 1,500 retail and hospitality jobs expected to come online this year. Council officers and college staff are co-located at Wembley Works, which has also hosted voluntary and community sector organisations offering employment and skills support, such as the Prince's Trust. Jobcentre Plus is also a key partner. Representatives from Brent council attend quarterly meetings chaired by CNWL, which bring together college, council and employer representatives to discuss employment and skills gaps in the borough, what is currently being delivered, and what is in the pipeline. The group looks at priorities and prospects across a range of sectors, feeding relevant opportunities into Wembley Works.

Camden council is working with Westminster Kingsway College and Jobcentre Plus on sector based training models that create career pathways for Camden and other London residents with London-based employers. The aim is to support local unemployed people to secure sustainable jobs, as well as helping employers meet their recruitment needs and strengthen their links with the local community. The approach involves work experience placements and pre-employment training co-designed with employers, followed by guaranteed job interviews with businesses such as Compass Group, Whole Foods, the Hilton and Not Just Cleaning. Employers benefit as job candidates acquire relevant skills and experience and an understanding of the company's culture and expectations before they apply for work. Residents benefit from the experience and exposure to employers, as well as the guaranteed job interview after successful completion of their training.

Sutton council's project Matching Skills with Demand is one of a suite of projects within the Opportunity Sutton programme devised to support the borough's economic development. The project includes developing a Skills Demand Plan, which will involve contacting local businesses to ascertain the skills and qualifications they require from their employees, and mapping the current training and skills provision in the borough (from both schools and colleges) to ensure that the skills required by local businesses can be obtained locally. The plan will be developed in partnership with the Sutton Chamber of Commerce, Jobcentre Plus and Carshalton College. The college will seek to address any shortfalls in skills by offering new training provision that reflects identified needs.

Links with employers

London boroughs also have extensive links with local businesses and engage with them on a regular basis, including:

- collaborating at a strategic level on local business boards or forums
- engaging with businesses via local chambers of commerce
- collaborating on jobs fairs and seminars
- developing apprenticeship, internship and corporate volunteering partnerships
- maintaining 1:1 links via phone calls and face-to-face meetings.

Boroughs' links with businesses include relationships with local SMEs. These links are important as small firms represent a significant source of employment for the capital, accounting for half of the 3.4 million jobs across London³⁵. Regional bodies, including LEPs, find it difficult to connect with such firms³⁶, but boroughs are uniquely

placed to engage them in dialogue about skills requirements and to encourage greater interaction between them and local skills providers. Boroughs are already capitalising on their links with both SMEs and larger firms to secure employment opportunities for local people and to assess and address employers' skills needs.

The Royal Borough of Greenwich is implementing an innovative employer-led approach to vocational skills, working with employers, local businesses and sector leading training providers to open specialist skills centres that respond to employer need. The centres are pivotal to the council's anti-poverty and growth strategies, and are strengthening the local economy by creating a skilled workforce to attract and retain businesses in Greenwich, and open up opportunities for local residents in growing and evolving sectors. Three specialist centres have already been established in catering and hospitality, digital, and horticulture and equestrian skills. A construction skills centre will also open next year. The centres overcome the complexity of the skills funding environment by joining up funding streams from a variety of sources. All the centres operate differently, but generally combine job brokerage, work experience and intermediate labour market placements, business support and start-up advice, employer engagement and apprenticeships. Each has major input from businesses in the design and delivery of training. The approach is underpinned by a new skills framework for commissioning adult skills, which enables the council to procure training more flexibly from a range of specialist and sector leading training providers. Some 500 people have achieved vocational qualifications through the skills centres over the past 18 months, with good outcomes in terms of apprenticeships and progression onto higher level skills.

Islington council's Business Employment Support Team (BEST) develops links between the council and local businesses to improve the employment prospects of local residents, and works closely with local services to support residents who face additional barriers to getting employment. BEST engages with local employers to secure offers of jobs, apprenticeships, work experience and mentoring, filling these offers via organisations such as Jobcentre Plus, Islington Learning and Working (the council's community based adult learning service), City and Islington College and the Youth Careers Service. The team achieve an annual target of 600 residents into work across council services. Key to success is the partnership between the business facing team, BEST, and services that support skills development. City and Islington College and Islington Learning and Working have developed a joint prospectus of free courses for unemployed residents with clear progression routes. New entry level vocational courses are providing clear routes to work, with businesses and work experience part of the curriculum.

Links with Jobcentre Plus

Boroughs across London have strong links with Jobcentre Plus (JCP) particularly given recent collaborations on the introduction of the Benefit Cap. Many are sharing information on employment opportunities and related skills needs at a local level, seeking out opportunities to meet these through enhanced skills provision. All boroughs are in the process of developing Service Level Agreements with JCP, which include action plans to reduce Job Seekers Allowance (JSA) claimant rates. These action plans involve a mixture of measures such as securing training, apprenticeship and job opportunities from councils' supply chains, and using labour market information to ensure local skills provision meets the needs of claimants and employers. JCP also now commissions short training courses from local providers targeted at the needs of JSA claimants. Boroughs can support and extend these relationships with JCP to address the skills needs of a broader range of people within their local communities.

Redbridge council is working in partnership with Jobcentre Plus to inform the development of courses at Redbridge Institute in response to existing job vacancies and the needs of Job Seekers Allowance claimants. Using the Skills Funding Agency's Skills Conditionality to commission and request bespoke courses for Jobcentre Plus customers, this work has resulted in basic skills and ESOL courses, as well as a customised course in accounts and bookkeeping. Jobcentre Plus is also undertaking a skills audit of all customers, to be followed by a strategic event with Redbridge Institute and Redbridge College to plan training to respond to identified needs. Analysis of economic and skills needs has already resulted in Sector Based Work Academies, with a new one currently being planned for the care sector.

Enfield council has a Job Brokerage Board, chaired by the Lead Cabinet Member for Business and Regeneration, which brings together local stakeholders including Jobcentre Plus, two local further education colleges, local business support agencies, the Chamber of Commerce, Work Programme Prime Providers, and independent training and other advice agencies. The purpose of the board is to direct action to address local unemployment and promote economic growth by aligning local skills delivery with employers' needs and opening-up routes to employment for both young people and adults. A monthly digest from Jobcentre Plus is shared with members of the board to help analyse trends and consider training and recruitment needs.

Links with learners

In leading job brokerage schemes, delivering frontline services for local people and providing Adult and Community Learning, boroughs already reach many of the people who could benefit from engaging with the skills system. The broad range of services that boroughs provide at a local level means they can reach out to these potential learners and signpost them towards Further Education and employment opportunities.

In summary, boroughs' track record of working on skills and employment projects with businesses, providers, other partners and local residents means they are uniquely placed to play a strategic brokerage role. With the right levers and resources, they can align skills provision with need across functional economic areas to secure better outcomes for businesses and individuals by:

- driving strategic discussions between employers, providers and other partners on how to match skills provision with local needs
- crystallising providers' awareness of the needs of local employers by helping them to forge links with local businesses and by providing them with local labour market information
- enhancing employers' understanding of what local skills providers can offer them by sharing this information across employer networks
- engaging learners in an enhanced local skills offer more closely linked to employment opportunities.

what policy changes are needed to achieve better outcomes?

In order to grow London's economy and support Londoners to secure local jobs, key policy changes are required to enhance the effectiveness of the capital's skills system:

1. **Leadership within London:** devolving responsibility and budget holding to groups of boroughs to play a strategic brokerage role, coordinated at the London level by the LEP.
2. **Improvements to information:** producing more timely, forward-looking and granular labour market information, and publishing better data on providers' success in giving people the skills to find and progress in work.
3. **Changes to incentives:** linking a much greater proportion of providers' funding to individuals' progression in work or learning.

1. Leadership within London and devolution of skills budgets

Skills contracts and funding are currently agreed at a national level, leaving local areas with limited levers to influence the design of skills provision to meet local needs. The government has started to take steps to address this by: committing to giving LEPs a new strategic role over skills³⁷; consulting on whether Chartered Status³⁸ for FE colleges should be dependent on addressing LEP-identified skills priorities³⁹; and supporting providers to meet locally assessed needs via the Innovation Code⁴⁰. Much more needs to be done, however, to ensure that skills provision becomes truly responsive at a local level, particularly for a large and complex city like London.

Skills responsibility and budget holding should therefore be devolved such that groups of boroughs can play a strategic brokerage role, coordinated at the London level by the LEP. This role could include varying funding rates to incentivise the provision of courses that meet locally-identified priorities, and commissioning elements of provision to meet unmet need resulting from market failure.

2. Improved labour market and outcomes information

The current market-based skills system is not truly demand-led because it suffers from two major information failures:

First, Labour Market Information (LMI) is not sufficiently timely, forward-looking or specific to sector or local needs⁴¹. This means learners do not have enough information on which skills are in-demand from businesses to inform their course decisions. Providers also do not have enough information on employers' requirements to inform the design of their training offer. LMI needs to be published more regularly, be more forward-looking, and be more granular, providing information not only on national trends, but also on regional and local needs. In London, more analysis needs to be done to identify the needs across London's functional economic areas.

Second, the lack of information on learner outcomes means prospective learners cannot make informed decisions about which courses to take where, and employers cannot accurately assess the quality of providers' offer. This lack of performance information is frustrating to those seeking to better align skills provision with employers' needs, and also hampers accountability. Job and further training outcomes should be collated for individual providers, and aggregated at a local and regional, as well as a national level. This information should be made publicly available in a consistent and comparable format to improve transparency around provider performance and help inform employers' and potential learners' decisions.

3. Changes to incentives for providers

The skills system does not currently provide the right incentives for providers to offer the training that is most in-demand from employers locally or that will maximise outcomes for learners:

First, skills providers are primarily funded according to the number of learners they attract and the number of qualifications those learners achieve⁴². This incentivises them to get as many people as possible through as many courses as possible regardless of whether they result in better outcomes for individuals or better productivity for businesses. To address this issue, the government is supporting City Region partners to pilot incentives for providers to deliver job outcomes for unemployed learners through City Deals⁴³. It is also piloting Job Outcome Payments to compensate providers who would otherwise miss out on completion funding when previously unemployed learners leave courses before achieving a qualification in order to take up paid employment⁴⁴. No payments are currently made to recognise the success of providers where learners find work after achieving a qualification⁴⁵. More must be done to incentivise providers to focus on all learners' development and outcomes. A payment by results model should be introduced, with a much greater proportion of providers' funding dependent on learners finding a job or progressing in work or learning. This will require more sophisticated outcome tracking systems and the provision of capacity-building support to providers⁴⁶.

Second, funding rates for courses are currently set centrally by the SFA, which means incentives to offer particular courses are the same across the country regardless of local demand⁴⁷. To address this, groups of boroughs should be able to vary funding rates to offer a financial premium for courses that meet locally identified skills needs.

conclusion

The skills system in London is not meeting the scale of the capital's skills challenge, with negative consequences for businesses and for individuals seeking to find and progress in work. Change is needed to ensure that skills provision across London responds to the needs of businesses and tackles individuals' skills gaps.

Strategic brokers are needed to bring together employers and skills providers locally to address the particular needs of London's diverse communities and functional economies. This cannot be done purely at a London level, as the needs are too diverse and the institutional links too fragmented. It must be done at a sub-regional level, in line with London's functional economies, where there are commonalities of need and existing relationships between key actors in the skills system.

Groups of boroughs are uniquely-placed to play this strategic brokerage role, working in partnership with businesses and providers, because of their comprehensive understanding of London's functional economic areas, their strong relationships with key players within those areas, and the valuable work they are already doing with those partners to align provision with need.

The government must be more ambitious in implementing structural changes that will allow groups of boroughs to drive improvements to London's skills system and maximise outcomes for businesses and individuals. This means making changes to providers' incentives, and publishing more timely, forward-looking and granular labour market information along with better outcomes data for learners. It also means devolving skills responsibility and budget holding to groups of boroughs so they can lead a strategic approach to addressing the skills needs of London's functional economic areas, with support from the LEP.

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- 15 Volterra, Right Skills, Right Jobs, 2012, p.6
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- 22 Centre for Economic and Social Inclusion, Gardiner & Wilson, Hidden Talents: Skills Mismatch Analysis, 2012
- 23 The LEP is an employer-led body which includes representatives from local authorities. It was established at the beginning of 2012 as an advisory body to the Mayor on jobs and growth in London. The LEP published its Jobs and Growth Strategy in May 2013, highlighting Skills and Employment as one of its four priority areas. Due to the Mayor's statutory duty to produce a spatial strategy and economic development strategy, London's LEP is the only LEP in the country to be purely advisory.
- 24 Centre for Economic and Social Inclusion, Krasnowski & Vaid, Right Skills Right Jobs, 2012
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- 44 The job outcome payment is equal to half of the achievement element i.e. 10 per cent of the overall course funding for the learner. SFA, A New Streamlined Funding System for Adult Skills, 2013
- 45 BIS, Research to Assess the Impact of Further Education Funding Changes Relating to Incentives for Training Unemployed Learners, 2013
- 46 Such as extending the policy that gave providers flexibility to use 2.5 per cent of their 2011/12 Adult Skills Budget to prepare for working with unemployed people and for the introduction of future job outcome funding, (BIS, Research to Assess the Impact of Further Education Funding Changes Relating to Incentives for Training Unemployed Learners, 2013)
- 47 We acknowledge that variable funding weightings are applied to take into account a range of factors such as deprivation, but the fact that these are set centrally limits the ability to respond quickly and effectively to local demand.

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