Skills Devolution for London: A Proposal to Government
A Devolved and Reformed Skills System for London

Strategic Context

London is a thriving global city with a strong, growing economy, and growing population. The economic success of the capital has been driven by an increasingly connected and global economy specialising in financial, professional and technical services. This in turn has created strong demand for highly skilled, highly productive labour, which is expected to continue to rise at a faster rate than in the rest of the UK. London’s population levels are also rising significantly. The working age population is projected to increase from 5.7 million in 2011 to over 6.6 million by 2036. This includes a growing 16 to 18 year old population, which is set to expand to 323,600 by 2032. In order to meet this demand and with decreasing national funding available for skills, we need to maximise the efficiency and responsiveness of the skills system to enable Londoners to compete successfully for the capital’s jobs.

Despite the capital’s economic success, productivity has remained relatively static since 2008 (as across the UK) and businesses cite skills shortage vacancies as contributing to this issue. At the same time, relatively high proportions of Londoners are unable to access the employment opportunities on their doorsteps, resulting in higher rates of unemployment and economic inactivity. There are also more households in poverty than in the rest of the UK, even among those in work. Indeed, London is the only area of the UK where there are more LHA claimants that are in work than out of work.

Whilst standards of education in London’s schools and universities rank as some of the best in the country (and in the world), the overall success rates of some of London’s further education colleges lag the rest of the country. London has seen a dramatic increase in its Key Stage 4 performance over recent years. The percentage of young people achieving five or more A* to C grades at GCSE is higher than in any other region in the country. The proportion of young people achieving level 3 by 19 has also risen significantly over time and is 6% above the national average. 56% of young Londoners went to a Higher Education Institution (HEI) compared to 48% nationally.

The London FE sector also faces specific pressures in London not felt elsewhere in the country, for example half of the country’s ESOL provision is delivered here and in spite of the capital’s growing demand for higher level skills, around two thirds of provision delivered by further education colleges in the capital is at level two or below. Whilst the majority of London’s colleges are Ofsted rated as ‘good’ or ‘outstanding’, around a third of London’s 39 colleges are rated as ‘requiring improvement’ or ‘inadequate’. With considerable and continuous efforts by the Mayor, London’s boroughs and the LEP to

12 The 2013 UKCES Employer Skills Survey reports 30,000 skill shortage vacancies in London, of which almost half (46%) were in high skilled jobs and 12% in skilled trades jobs, (53% of all vacancies in this group). Around half of affected employers experiencing loss of business to competition and/or delays in developing new products as a result.

13 London’s unemployment rate is 6.7% compared to UK average 5.6% [Source: GLA Labour Market Update, August 2015]. 28% of London households are living in poverty compared to UK average of. 21%. 57% of adults and children in poverty are in working families [Source: London Poverty Profile].
promote apprenticeships, and sustained improvement in apprenticeship starts, London’s apprenticeship performance also lags most of the rest of the country.

At least £1.6bn\(^{14}\) of public sector funding was invested in skills development in London in 2014/15 – including funding from the Skills Funding Agency (SFA), Education Funding Agency (EFA), European Social Fund, DWP and local authorities, to support 16-19 year olds, adult learners and other Londoners in receipt of benefits and employment support including basic and vocational skills development. But this significant investment is not being used as effectively as it could because of system failures including:

- **Information failures:**
  - A lack of timely, accurate, accessible labour market information undermines providers’ ability to tailor their offer to business and learners’ ability to make informed decisions about their learning;
  - Limited destinations and outcomes data undermines learners’ and employers’ ability to see the value of investing in learning including the courses and providers will best meet their needs;

- **Misaligned incentives:**
  - Market regulations and fixed funding models restrict providers’ ability to innovate;
  - Funding structures incentivise delivery of qualifications, not employment or progression;

- **Coordination and Engagement Failures:**
  - Silo funding streams result in fragmentation and potential for duplication of skills provision;
  - A disconnect between employment and skills systems leads to a lack of coherence in progression pathways.

London Government (the Mayor and London’s boroughs) and the London Enterprise Panel (LEP) are ambitious about tackling these problems and reforming London’s post-16 skills and education system in order to drive up quality, responsiveness and efficiency. As budgets reduce and London’s population increases, we believe London Government has a crucial role to play in ensuring that public investment in skills and employment support in the capital is streamlined, prioritised for areas of greatest need, focussed on addressing market failures, and used to further leverage private investment.

To maintain and improve London’s position as a world leading city, we need appropriate levels of funding, drawn from both the public and private sector, and provision to meet economic demand and the necessary powers locally to deliver reform. This is to ensure that Londoners have access to a first-class education system which provides a clear line of sight to employment and that London’s employers have access to a suitable and sustainable pipeline of skilled, productive labour. We aim to ensure that:

- Learners have the information they need to make informed choices about their learning, and have access to coherent skills development pathways that enable them to enter and progress in work;

Employers are able to articulate their needs, and have access to outcomes data that shows that providers are responding to those needs, so that they are incentivised to invest in the skills system;

Providers understand what the labour market needs, and are incentivised and supported to innovate and respond to those needs;

London government has oversight of the skills system and is able to hold providers to account for delivering outcomes for London’s learners and businesses, while driving efficiencies by aligning and pooling budgets and services.

Outline of our aims, objectives and goals

By 2020, London Government’s ambitions for the skills system are to ensure:

• All skills and education provision in London is Ofsted rated ‘good’ or ‘outstanding’;
• All London’s learners and employees understand the skills needed by London’s employers and are supported and motivated to acquire them;
• All low paid, low skilled and workless Londoners have access to targeted learning focused on enabling them to move into or to progress in sustainable employment;
• All Londoners are equipped with basic skills for employment with increases in learners achieving 5 A-C GCSEs (including in English and Maths);
• A significant increase from current levels (71%)\textsuperscript{15} of learners achieving level 3 and above qualifications and progressing into work, apprenticeships and/ or higher education;
• A significant increase in overall success rates for all learners and a significant reduction in the current rate of drop-out\textsuperscript{16} between 16 and 18 for those studying level 3 qualifications;
• A significant reduction in young people aged 16-24 who are not in education, employment or training (NEET), reaching near full participation for 16-18 year olds in all of London’s boroughs;
• A doubling of the number of good quality higher apprenticeships with significant increases in overall success rates.

Our strategic objectives are:

i. To boost economic growth and employment, and reduce welfare dependency, by focusing investment in skills that will increase productivity and progression into and within work. By 2020 we would seek to:

• **Increase productivity** - breaking the static trend since 2008.
• **Boost rates of economic activity** - addressing London’s lower than average position
• **Reach near-full employment** - enabling all Londoners to access our thriving jobs market
• **Continue to boost wages** - to enable Londoners to meet the cost of living in the capital

\textsuperscript{15} London Councils, Young People In London, Evidence Base 2014

\textsuperscript{16} Mayor’s Annual Education Report (2014) reports the 17+ dropout rate from level 3 programmes across London is 39%. This drop out was found to be primarily at the end of Year 12, particularly for vocationally focused courses. In addition, just under a quarter of key stage 5 students drop out of their studies before the age of 18.
ii. To increase the efficiency and effectiveness of declining public sector skills investment by bringing budgets and powers closer to the point of use. We will aim to drive:

- **Better demand information and a clearer articulation of London’s skills needs and priorities** through an intelligence-led strategy for skills drawing on improved borough and regional level timely, accurate LMI. We will champion and improve subject and pedagogical expertise in the vocational education sector, ensuring a self-improving world class system that is better able to anticipate and respond to the long term needs of industry.

- **Greater investment from employers and learners in professional and technical education at level 3 and above** through sharing of better intelligence and improved incentives to invest

- **Greater savings through integration and alignment of funding** to improve and strengthen support for Londoners through a more joined-up approach between employment and skills support.

**London’s Core Skills Devolution Propositions**

The Mayor of London and the Chancellor of the Exchequer, emphasised the importance of skills as a driver for growth when they announced “…a skills deal which would result in the devolution of the Apprenticeship Grant to Employers and a remit to work with government to reshape skills provision in London”. Subsequently, the Chancellor announced that “the government is devolving further powers to the Mayor of London, including over planning and skills” in the 2015 budget. We welcome the government’s productivity plan, which invites strong local areas and employers to take a leading role in establishing a post-16 skills system that is responsive to local economic priorities and to participate in the reshaping and re-commissioning of local provision.

We want to make **significant structural change** to the skills system and funding mechanisms currently in place to ensure alignment to our jobs and growth agenda. Skills will be focused on driving economic growth through increased productivity, sustainable employment outcomes and progression in work. On that basis and in response to this mandate, the Mayor and London’s boroughs working closely with the London Enterprise Panel (LEP) have developed this proposal on how a devolved skills system for London could more effectively meet London’s complex labour market needs.

London Government has established a set of key principles of a reformed and devolved post-16 skills and education landscape on which our proposal should be based. We have consulted widely on these principles with business and provider representatives through the LEP Skills Inquiry, sub-regional LEP engagement events, and other workshops and conferences, and they have received broad support across the spectrum. Further details of the LEP Skills Inquiry are provided in appendix A.

The key principles are:

a) **Labour market-led.** Consumer choice will be shaped by high quality labour market intelligence that triangulates the needs of individuals, employers and local economies including impartial insights on provider performance.
b) **Shared responsibility.** Employers and individuals should invest where they derive the greatest private returns. Government investment will focus on market failures and to champion and improve subject and pedagogical expertise in the vocational education sector, ensuring a self-improving world class system that is better able to anticipate and respond to the long term needs of industry.

c) **Local Accountability.** Decision-making on skills within London will take place at the most appropriate geographical level. A reformed system would provide greater oversight and accountability of providers, with a clear market stewardship role for London Government, but the institutional autonomy of providers would be retained.

d) **Outcome focussed.** Priority will shift to outcome measures that are quantifiable in the labour market such as jobs, earnings and progression to higher skills and better paid work that boosts business growth by improving the bottom line. Funding incentives will be sensitively designed to deliver outcomes without financially destabilising the sector or dis-incentivising innovation.

e) **Agile and integrated system.** New ways of working will mitigate the impact of reductions in public subsidies by promoting alignment and integration with other services.

The key elements of the proposal and the devolved powers and funding sought are:

**Devolved and protected budgets for London:**

- **Devolve adult skills funding from the Skills Funding Agency to London** (approx. £400m p/annum) by 2017, including the Adult Skills Budget (ASB) with protected funds (including ESOL, English, Maths), Adult Community Learning, and 19+ discretionary learner support. This should include devolved administrative resources for a **London Skills Agency** to commission, manage and deliver devolved funds accountable to the Mayor and sub-regional borough groupings, as well as a pump priming fund to support the transformation of skills services. It should also include flexibilities to determine entitlements, pricing and set outcomes.

- Devolve and protect London’s share of **Advanced Learning Loans and Bursary funds** based on need (£76m+) with flexibilities on how this is used locally.

- Ensure a proportionate return from the apprenticeships levy paid for by London’s large businesses so that sufficient funds are available to deliver in-demand industry-led technical and professional courses leading to further growth in apprenticeships (particularly at higher levels).

- **Protect London’s share of 16-19 funding** (approx. £1billion) to meet future economic demand for level 3+ skills and a growing 16-19 population.

- Deliver a **coherent and integrated careers offer** for London through London Ambitions – London’s strategy for careers advice and guidance for young people and which moving forward, we aspire to include adults in also. This will require devolving existing centrally managed programmes with the relevant budgets, in particular the Careers and Enterprise Company, the Inspiration Agenda, Jobcentre Plus Advisers in schools and the National Careers Service.

**Devolved powers of authority and accountability:**

- **A transfer of relevant powers from the Secretary of State to the Mayor of London** from the Further and Higher Education Act 1992 to enable removal of all or any of the
members of governing bodies, appoint new members where there are vacancies and give directions to colleges/ institutions where poor performance persists.

- Devolved levers and powers for approval to the Mayor to ensure **new strategic and capital investment decisions for post-16 skills and education provision** in London are made jointly with government at London level to better respond to the capital’s economic and strategic priorities.
- **A Skills Commissioner for London**, subsuming the functions of the FE Commissioner within a broader strategic role.

**Open data:**

- Move to an *open by default* position on all data relating to qualifications, destinations and outcomes from education and training in London, except where there are genuine confidentiality and privacy issues.
- **Better measure the impact of investment** in skills including requiring the gathering and publishing of destinations data (at the London, borough and provider level) enabled by data sharing by HMRC and DWP.

**London’s ‘Offers’**

Through a devolution deal with central government, London Government seeks to deliver:

- Skills strategies for London informed by timely demand-side data to plan for future skills needs;
- A streamlined, resilient and responsive skills sector with greater specialisation;
- Excellence in professional and technical education with a strong Apprenticeships offer;
- A London Entitlement for basic skills equipping Londoners to compete in the labour market;
- A sustainable and coherent careers offer for London.

To achieve this London will continue to work with central government to develop and agree the detail of our proposals for reforming and devolving the skills system over the coming months. Immediate next steps include:

- For London and Central government to agree to **protect SFA and EFA allocations for London for 2016/17** based on an assessment of London’s needs and priorities, including population increases and migration and agree to withhold finalisation of multi-year funding settlements until the outcome of the area based reviews are understood.
- **To begin the process of Area Based Reviews for London.** Central government to commit dedicated resource and access to data to London Government to develop the detailed approach and economic analysis to help inform ABRs.
- **To agree to devolved powers including** (i) a transfer of relevant powers from the Secretary of State to the Mayor of London  
  (ii) Devolved levers and powers for approval to the Mayor to ensure **new capital investment decisions for post-16 skills and education provision in London** are made jointly with government.
- London Government and Central Government to work jointly to develop **the detailed model, business case and transition plan for a devolved skills model for London.** This will include a **comprehensive cost benefit analysis** that establishes a shared baseline of the current investment in skills in London comparing it to an assessment through our proposed model.
Future skills strategies for London

London Government will develop skills strategies at the regional and sub-regional level based on strong intelligence about demand for future skills needs, encompassing both demand for basic and low-level skills, and the higher-level professional and technical skills in demand by London’s employers. Data and intelligence to support decisions for investment in skills is currently limited. With devolved powers and funding to invest in skills, London Government will have greater incentive to gather timely, accurate, granular Labour Market Information and use this to inform our investment strategy. By making this information publicly available in an accessible way, we will also support providers, learners and employers to make informed choices.

- **London government** will invest in developing an on-line data platform that presents ‘real time vacancy data’ by scraping information on online job postings to accurately inform users of the current demand for jobs by occupation.
- **London Councils** will work with London boroughs to develop a standardised approach to draw together local labour market intelligence (e.g. planning data, intelligence from employers) to inform sub-regional and pan-London strategies.
- **The Greater London Authority** will build on the regional labour market information that it currently hosts on the London Datastore as well as Skills Match to present a coherent and accessible picture of current and future labour and skills demands to providers and learners.

London will develop a **London Skills Strategy and Sub-Regional Commissioning Strategies** on the basis of this intelligence as well as data from DfE and DWP on low-level and ESOL skills needs, and analysis by UKCES and sector skills councils on professional and technical skills needs. London government will hold providers to account for delivering the priorities set out in these strategies through:

- **Agreeing collective outcome agreements** with providers at a sub-regional level, and **individual provider outcome agreements** at an institutional level.
- **Working with Ofsted** within the regional inspection framework to ensure that inspection criteria take into account providers’ responsiveness to the local labour market.
- **Working with the Skills Commissioner for London** including **strengthening local authorities’ role** through joint working with the London Skills Agency and sub-regional skills and employment boards to address poor performance against sub-regional skills strategies.

**Delivering a streamlined, resilient and responsive skills sector**

Government has set out its approach to establishing a fit-for-purpose further education sector via Area Based Reviews (ABRs). London’s Mayor and borough leaders will work

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17 Initially individual outcome agreements would be with FE colleges only, to make this system manageable. All providers would be expected to show how they are contributing towards the collective outcome agreements. This includes Adult and Community Learning Services.
collaboratively with Government and the skills sector to use this process to develop and
deliver our vision for a post-16 skills and education landscape in London focused on meeting
business and local economic need as well as to encourage longer term entrepreneurship
and innovation. London Government is committed to leading the review process, if provided
with the tools and levers necessary to ensure the reviews are effective. In London, we
propose that the reviews should:

- Cover the full breadth of public and private providers delivering 16+ skills and education;
- Be undertaken **sub-regionally**, overseen by sub-regional steering boards to support the
  process and facilitate implementation of the recommendations;
- Be overseen by a **London-wide steering group** to ensure the reviews deliver a London-
  wide vision and give consideration to provision in boroughs adjacent to Greater London
  and to provision crossing sub-regional areas;
- Be advised by an **independent Skills Commissioner** for London to help shape the area
  based reviews and to provide strategic expertise for the future skills landscape.

To ensure that London has the levers it needs to re-shape the landscape successfully and
deliver the recommendations of the reviews, leadership of the ABRs should be accompanied
by:

- The sharing of current FE sector financial and performance information;
- Resources to inform and undertake a strategic economic assessment of the current and
  future skills landscape and to undertake reviews;
- Transfer of statutory powers from the Secretary of State to the Mayor to enable the
  removal of members of governing bodies, appoint new members and give directions
  where poor performance persists;
- A pot of development funding to help implement changes including curricula
development.

London government considers ABRs as an important part of the process of necessary
reform to the skills system in London but not as the conclusion. Rather the ABRs can only be
effectively implemented as part of broader devolution to London including the transfer of
both powers and funding from central government, to support an integrated and strategic
approach to investment in post 16 skills provision. The review process should be
complementary to London’s proposals for devolution and reform and should actively facilitate
the implementation of this.

**Excellence in professional and technical education – including a London Apprenticeships Offer**

London is a leading global hub for business, talent and creativity. If the capital is to maintain
its current strong position, we need to ensure that businesses can access the technically
capable workers they need. Jobs growth is expected to focus on higher level occupations.
Professional, associate professional and technical, managerial, director level and senior
official jobs are expected to increase by around one-fifth by 2022. Correspondingly, demand for higher-level qualifications (QCF levels 4+) is expected to increase by about one-third.

Greater employer investment and ownership in developing skills will be key to meeting this demand. While London employers cite skills gaps and skills shortage vacancies as hampering their productivity and growth, evidence from UKCES’ 2013 Employer Skills Survey suggests that their engagement and investment in skills is in decline.

A strong Apprenticeships offer for London

London Government recognises the important role that the introduction of the Apprenticeship Levy will play in encouraging and enabling London businesses to engage in meeting London’s high demand for professional and technical skills. As a high proportion (21%) of UK businesses employing 250 or more employees are based in London – accounting for 30% of total UK turnover - the region is likely to make a significant contribution to the levy. Against this, London has delivered fewer apprenticeships than most other areas in the country. If this trend continues, there is a risk that London will not derive a proportionate benefit (in terms of apprenticeship starts) from its levy contribution.

SMEs in London are responsible for 50% of all London based employees and 43% of London’s turnover and will therefore also play a vital role in delivering London’s contribution to meeting the government’s 3 million Apprenticeships target. Research by Ofsted\(^\text{18}\) found that training providers find it difficult to encourage SMEs to offer apprenticeship and work experience opportunities. SMEs believe that arranging work experience and recruiting apprentices is too bureaucratic, and many also express concern over the employability of learners and their preparedness for the world of work.

Given the challenges outlined, we propose that with a devolved proportionate return in funding of the Apprenticeship levy, we will deliver:

- **Capacity building activity for London’s SMEs** including a London-based Small Business Service to support with recruiting apprentices. This will include creating more higher-level apprenticeships.
- **Interventions focused on pre-apprenticeship support** for prospective apprenticeship candidates furthest from the workplace and who are not eligible for traineeships.
- **Subsidising apprenticeship training** and providing an ‘uplift’ for SMEs taking on apprentices.

In return, London will continue to offer travel-card discounts to apprentices (currently at 30%) and lead campaign activity working with industry, the London Enterprise Panel, schools, post-16 education providers and London’s boroughs to promote and create new opportunities. However, increasing apprenticeships alone will not meet London’s demand for highly skilled employees. London Government proposes to further incentivise employer and learner investment in professional and technical skills development through:

- **Creating a skills innovation fund**, funded by London’s contribution to the apprenticeship levy. Employers and representative employer bodies could directly bid into the fund to create and develop new and innovative solutions to deliver priority skills provision.
- **Incentivised loans** that are part-subsidised for young people aged 19-24 undertaking courses at Level 3 and above for in-demand professional and technical courses in key London sectors.
- **Better data on the impact of learner participation** to help inform prospective learners of the benefits and outcomes of undertaking skills courses. Stronger open data from

\(^{18}\) Engaging small and medium enterprises in apprenticeships, Ofsted Jan 2015
government is needed including destinations data produced by HMRC at the London, borough and provider level.

A London Entitlement for basic skills to ensure Londoners can compete in the labour market

A robust adult skills and employment support offer in London is critical to the capital’s continued success, and to boosting productivity. At present, many low-skilled Londoners experience multiple barriers to getting, keeping and progressing in work. Separate funding streams and agency silos result in high levels of fragmentation between low-level skills provision and other national and local services that support low-skilled residents to move into and progress in employment. This can lead to residents not receiving the most effective support to find and progress in work.

Our solution will see funding devolved to the Mayor and groups of boroughs acting in tandem through sub-regional partnerships to tackle low skills. Aligning skills funding with other resources and services at the local level will help to deliver wrap-around support that successfully removes the complexity of barriers that many unemployed and economically inactive Londoners face. To achieve this London Government:

- Seeks a **devolved and protected budget settlement for adult skills** proportionate to London’s skills needs, including provision for ESOL and community learning. This will be used to deliver a London-led strategy on basic skills, part of our **London Skills Strategy**, including a “London entitlement” to basic skills;
- Will maximise this devolved budget by matching it with elements of London’s European Social Fund (ESF) allocation at the regional level;
- Will allocate a portion of the devolved ASB to **sub-regional employment and skills boards**, to integrate with local budgets to commission skills support that directly helps unemployed and economically inactive residents into work, including joined up commissioning of skills with devolved or co-commissioned DWP employment support programmes.

Deliver a sustainable and coherent careers offer for London with relevant budgets devolved

The London Ambitions¹⁹ strategy, which has been developed jointly between London Councils, the GLA and LEP sets out London’s position with regards to a careers offer for London and has established a firm footing with education, training and business leaders across the capital. The first phase of London Ambitions is focussed on addressing the well-rehearsed weaknesses in the careers offer for young people. But we will build on this and the GLA, boroughs’ and LEP’s current extensive work and investment in careers support to develop the vision and action plan for a truly world-class all-age careers offer for all Londoners, working with schools, colleges and other stakeholders. We therefore seek the devolution of existing centrally managed programmes with the relevant budgets, so that we can:

- better connect education and training with the workplace, ensuring more employers offer high quality experiences of work and that more recruit apprentices;

• improve access to good quality career development support, particularly personalised guidance for the most vulnerable young people and adults;
• improve the use of labour market intelligence, including better tracking and use of destination measures;
• deliver far less fragmented, more sustainable and more coherent career development support for young people and adults;
• focus on returns on investment to demonstrate impact and show accountability to London's resident and business populations.

Skills Governance

The Mayor has statutory responsibility for economic development and wealth creation in London and London’s boroughs have responsibility for economic well-being locally. The Mayor already has authority and powers over significant aspects of London’s economic development and regeneration. This is in addition to significant powers and capacities relating to housing investment, planning, transport and inward investment. The missing piece in this economic development function is the lack of clear skills funding powers. London’s boroughs also have a strong functional role in economic development, combining their responsibilities for planning and regeneration with a strategic role in brokering responsive local employment and skills systems that enable local residents to take advantage of growth. Boroughs are strongly committed to working in partnership with each other across wider functional economic areas in order to exercise this role more effectively and enable integration of employment and skills activity at scale.

London’s Mayor and borough Leaders have been working closely together for some time to agree the appropriate levels of governance and broad direction of travel for the additional powers and funds sought for skills. This pan-London partnership will be delivered through a governance structure which combines accountability to the London Mayor with leadership from the Mayor and the Boroughs through the Congress, informed by advice from the London LEP. There is also a substantial role for London borough leaders working through London’s sub-regional grouping of boroughs to deliver a reformed skills system. The governance structure will evolve and be further defined following negotiation with the government and as the transfer of powers become clearer.

London Government has agreed on a set of interim arrangements for skills, forming part of an overall package of devolution to London government over which London Congress will have oversight. A skills devolution steering group co-chaired by a Deputy Mayor and a Borough Leader and comprising members from GLA, boroughs and the LEP has been set up to advise on and oversee progress on London’s skills devolution proposal. This will be expanded to include representation from the FE sector and will continue to oversee development of the London Skills Strategy and transition to new arrangements.

To complement this, commencing in the autumn of 2015, the London Mayor will create a London Skills Steering Group to take forward the area based reviews. The group will be led and chaired by the Mayor with a nominated borough leader as Deputy Chair. Other representatives will include the LEP, other borough Leaders, central government, education and independent learning providers, employer representative groups, relevant FE and Regional School Commissioners plus a representative of learners. The area based reviews will be undertaken on a sub-regional basis reporting into and operating within the strategic framework set by the London Skills Steering Group.

In the longer term, London’s governance arrangements will need to respond to powers that are devolved. The administrative function (currently held by the Skills Funding Agency for adult skills funding and apprenticeships) will be accountable to the Mayor and borough
leaders (through sub-regional groupings of boroughs) with devolved resources (a London Skills Agency) to manage the transactional costs of future adult skills. London government will produce a funding statement for adult skills to provide a consistent set of regional priorities for the funding criteria, entitlements and outcomes. Sub-regional groupings of boroughs will be responsible for leading and developing the commissioning priorities for adult skills funding sub-regionally with skills providers accountable to borough leaders to deliver those strategies. The sub-regions will also set the approaches to integrate and pool funds where possible and the appropriate commissioning approach.
Appendix A: - Skills: London’s Economy

London is a thriving global capital city and its success supports growth and jobs in the rest of the UK\textsuperscript{29}. With a nominal gross value added (GVA) in 2013 of £338.5bn (equivalent to 22.2\% of total UK GVA), its economy is comparable to that of Sweden or Poland, and is larger than those of Scotland, Northern Ireland and Wales put together\textsuperscript{30}. London’s strong economic performance supports its net contribution to the Exchequer, estimated at £34.2 billion in 2013/14\textsuperscript{31}. With London’s economy expected to grow faster than the UK as a whole over the next two years (3.3\% in 2015 and 3.1\% in 2016 compared to expected UK GDP growth of 2.4\% in 2015 and 2.2\% in 2016)\textsuperscript{32} it is likely to remain a key contributor to the UK economy in the long term.

In addition to economic growth, in the early part of 2015 London’s population surpassed its 1939 peak of around 8.6 million and the city is set to grow yet further, to 10 million by the early 2030s. This is testimony to London’s success as the city where global business can find talent and where global talent can find opportunity.

A 1.1. Labour and skills demands

The economic success of the capital has been driven by an increasingly connected and global economy that has led to greater specialisation. This has in turn created strong demand for highly skilled, highly productive labour. Figure 1 shows that 54\% of employees in London are managers, professionals or associate professionals compared to 44\% for the UK as a whole\textsuperscript{33}.

Figure 1: Share of occupations in London and the UK, 2014

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\begin{array}{c|c|c}
\hline
& \text{London, 2014} & \text{UK, 2014} \\
\hline
1. Managers, directors and senior officials & 12 & 10 \\
2. Professional occupations & 20 & 20 \\
3. Associate prof & tech occupations & 14 & 11 \\
4. Administrative and secretarial occupations & 11 & 11 \\
5. Skilled trades occupations & 11 & 11 \\
6. Caring, leisure and other service occupations & 9 & 8 \\
7. Sales and customer service occupations & 8 & 6 \\
8. Process, plant and machine operatives & 6 & 11 \\
9. Elementary occupations & 9 & 11 \\
\hline
\end{array}
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Source: ONS annual population survey, January 2014 – December 2014

This specialisation is expected to continue to drive employment growth in high-skilled occupations, and this is further compounded by the requirement to replace those that leave the London workforce

\textsuperscript{29} GLA Economics, ‘Growing together II: London and the UK economy’, September 2014

\textsuperscript{30} London data refers to 2013, and is available from the ONS Regional Accounts. Figures comparing London to other countries/regions are based on GVA data from Eurostat and refer to 2011.

\textsuperscript{31} The net contribution is based on an estimated total tax contribution of £127,2 billion. Source: City of London Corporation, ‘London’s finances and revenues’, 4 November 2014.

\textsuperscript{32} GLA Economics, ‘London’s economic outlook, Autumn 2014’.

\textsuperscript{33} These occupations typically require a degree or equivalent qualification, with some requiring a formal period of experience-related training or further study.
each year. Further, growth in high-skilled jobs is expected to be faster in London than in any other UK region.34

Jobs in the professional, real estate, scientific and technical sector are expected to grow strongly, accounting for nearly two-fifths of the total increase expected in London to 2036. Strong employment growth is also expected in the administrative and support service, accommodation and food service, and information and communication sectors – collectively accounting for just over half the expected total London increase to 2036. On the other hand, employment in primary and utilities, manufacturing, wholesale, and public administration and defence sectors are all expected to decline over the period to 2036 (see figures 2 and 3).

**Figure 2: Historic and projected employment (000s) in London’s largest sectors, 1984-2036**

![Graph showing employment trends](image)


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Despite the capital's economic success, London has a higher proportion of households in poverty than the UK average (28% vs. 21%)\textsuperscript{35} and higher rates of economic inactivity (22.9% vs. 22.1%) and unemployment (6.2% vs. 5.6%)\textsuperscript{36}. Getting a job is one of the best ways of moving out of poverty\textsuperscript{37}. ONS analysis showed that between 2007 and 2012, 70% of those aged 18 to 59 in the UK who was out of work and then moved into employment left poverty. Further, those with no or low skill levels in London\textsuperscript{38} are more likely to be out of work than those with higher level qualifications\textsuperscript{39}.

The employment prospects for low-skilled Londoners are challenged by the ability to adapt to the changing composition of jobs across low-skilled occupations, such as the London-wide decline in clerical and secretarial roles at the same time as growth in other low-skilled occupations such as personal care, security and sales roles\textsuperscript{40}. Responding to this change is likely to require on-going education and training to simultaneously meet replacement demand in declining low-skilled occupations and demand from growing low-skilled occupations.

\textsuperscript{35} Poverty is measured in relative terms, as the percentage of people in households with incomes (after housing costs) below 60 per cent of the national median. These are presented as a three-year rolling average. Source: ONS Family Resources Survey, 2010/11-2012/13.

\textsuperscript{36} The unemployment rate is measured as the percentage of those aged 16 and over that are actively seeking work as the proportion of people in the labour force in London. People who are inactive are those not in work, but are not actively seeking employment, measured as the percentage of those aged 16-64. Source: ONS Labour Force Survey, Dec 2014 – Feb 2015.

\textsuperscript{37} ONS, ‘Poverty and Employment Transitions in the UK and EU, 2007-2012’, 10 March 2015

\textsuperscript{38} In 2013, 15.8% of working age Londoners held low level or no qualifications.

\textsuperscript{39} This is measured by the qualification share as a percentage of the population aged 16-64 in-employment and not-in-employment in London. This pattern is also projected to continue in the future. Source: GLA Economics, ‘London labour market projections’, April 2013, pp. 40-45

\textsuperscript{40} GLA Economics, ‘London labour market projections’, April 2013
For employers in London, a lack of relevant skills, qualifications or experience can lead to delays and difficulties in filling job vacancies. The UKCES 2013 Employers Survey identified 30,000 'skills shortage vacancies' in London in 2013, 46% of which were in high skilled jobs (compared to 40% in England as a whole). A further 16% of these vacancies were in caring and leisure services or skilled trades jobs, with skills shortages reported to account for more than one in three (33%) of all vacancies in these two occupational groups (see Figure 4). As a result of skills shortage vacancies, around half of affected employers cited lost business and delays in developing new products.

Figure 4: Vacancies by occupation and density of skills shortages (i.e. the number of skill-shortage vacancies as a proportion of all vacancies).

According to the 2014 London Business Survey, while the majority of businesses in London (70%) rate the capital highly as a place to do business in terms of the availability of skilled staff, SMEs were much more likely than business units belonging to large firms to rate London as either adequate or poor on this measure (32% vs. 11%).

With London being a global hub for attracting talent and with businesses investing less in training, supporting low skilled Londoners to compete for jobs successfully becomes even more challenging. A higher proportion of employers in the capital (36%) did not fund or arrange any training for staff in the 12 months to mid-2013 compared to the rest of England (34%)\textsuperscript{41}. Evidence from the UKCES also suggests that employer investment in training is in decline and that this is a particular challenge in London, where the labour costs of trainees tend to be higher\textsuperscript{42}. Employers in London invested an estimated £7.1 billion on training in the 12 months to mid-2013, down 30% from £10.1 billion in the 12 months to mid-2011. This compares to an estimated 5% fall in employer investment in training for the UK as a whole (from £45.3 billion to £42.9 billion\textsuperscript{43}). UKCES data also suggests that the downward trend in the amount of fees paid to external providers (which fell by 18% for the UK as a whole) is even more pronounced in London\textsuperscript{44}. There is also a lack of employer engagement to help shape training in response to economic demand. Employers in London are slightly less likely to have had any contact with a training provider, FE college or HE institution in the last 12 months compared to

\textsuperscript{41} Source: UKCES Employer skill survey 2013, table 99.
\textsuperscript{42} The labour costs of trainees accounted for over half (55%) of the total amount that employers in London invested in training in 2012/13, compared to 50% in the UK overall. Source: UKCES Employer Skills Survey 2013.
\textsuperscript{43} UKCES report that this fall in total training expenditure is mainly driven by a fall in expenditure among large employers with 100 or more staff, and employers in public administration and in education. Sources: UK figures are based on UKCES Employer skills survey 2013, tables 4.4, available at: https://www.gov.uk/government/publications/ukces-employer-skills-survey-2013. London figures have been provided by the UKCES.
\textsuperscript{44} UKCES Employer skills survey 2013, January 2014, table 4.5
those in England overall (52% vs. 54%), and much less likely than employers in the South East (57%) and East of England (58%)\textsuperscript{45}.

A 1.2. Driving growth and productivity

The recovery in London’s economy since the 2008 financial crisis has given rise to strong employment growth, much stronger than would have been expected given the growth in economic output – but productivity has been sluggish. For the UK as a whole, growth in employment has also been very strong (and similarly much stronger than would have been expected given economic growth). For London this trend is particularly marked, and productivity over the period 2009 to 2013 grew at a slower rate than the UK as a whole with average output per hour worked growing by 1.9 per cent in London compared to 2.1 per cent in the UK as a whole; this reversed the situation seen between 2004 and 2007. Given the role of productivity in supporting long-term growth in output and real pay, concerns have been expressed about the long term prospects for the economy.

Figure 5: Output per worker in selected countries and NUTS1 regions, 200 to 2013 (index 2008=100)

Source: Eurostat and GLA Economics calculations

The overall cause of the productivity slowdown is a debated and as yet unresolved issue with the Treasury\textsuperscript{46} observing that this could be caused by a number of factors. Possible explanations include: impaired resource allocation preventing capital and labour from finding their most productive uses making it more difficult for successful firms to expand; the relatively low cost of labour which may have led to businesses substituting away from investment and reducing the effective amount of capital workers can use\textsuperscript{47}; and the initial ‘hoarding’ of labour as firms sought to hold on to staff despite falling demand for their output.

As set out in the government’s report ‘Fixing the foundations: creating a more prosperous nation’, higher productivity can increase household incomes and support sustainable economic growth for the long term, as well as contribute to fiscal consolidation. Longer term investment in London’s economy and certainty in its funding streams including skills will help to improve the productive potential of

\textsuperscript{45} UKCES Employer perspectives survey 2014, January 2015, table 110
\textsuperscript{46} HM Treasury, July 2015, ‘Fixing the foundations: Creating a more prosperous nation’.
\textsuperscript{47} The Bank of England estimated that the weakness of business investment relative to its pre-crisis trend contributed around 2.5 percentage points to the puzzle by the end of 2013.
Londoners, which in turn can boost their earning power, and increase the productivity of London’s economy overall.

The UK needs to make significant improvements to productivity across the regions. In London, we face missed economic opportunity from both the unemployment and under-employment of lower-skilled Londoners, as well as long-term risks to social cohesion and stability. Much more needs to be done to equip Londoners with the access, ambition and skills they need to compete in tomorrow’s labour market.

As the Government consultation on a Dual Mandate for Adult Vocational Education notes local areas have ‘a better understanding of the needs of the local business population, and are able to drive greater collaboration and specialisms across providers operating in a particular geography’ towards provision and facilities that are more closely aligned with economic demand. Through radical devolution of power to London government (the Mayor and London’s boroughs), we will prioritise spending in areas that will maximise efficiencies and local economic growth by bringing budgets together, integrating public services and improve on economic outcomes.
Appendix B: Skills: The current post-16 skills and education landscape

Almost £536m\textsuperscript{48} has been allocated by the Skills Funding Agency in 2014-15 on skills provision mostly targeted at those aged 19 and over alongside some funding to support 16-18 year olds undertaking apprenticeships. This funding has been delivered through 49 FE institutions and hundreds of training providers. Data from the Skills Funding Agency shows that in the 2013/14 academic year 1,230,300 apprenticeship frameworks and learning aims were started by learners. In the same year, there were 1,231,230 leavers for apprenticeship frameworks and learning aims, and 965,550 achievements recorded. Pressures on departmental budgets has seen this funding reduced in recent years and in the spring/summer of this year government announced a funding reduction of around 28% to the Adult Skills Budget (ASB) nationally for the 2015-16 financial year with a further withdrawal of ESOL Mandation.

Further education and sixth form colleges are also responsible for £350m of non-protected 16-19 funding. This is in addition to £600m funded for this age group to academies, schools and other sixth forms together supporting around 190,000 learners\textsuperscript{49}.

Demographic change is likely to remain the core driver of demand for post-16 provision of education and training. London has a growing 16 to 18 year old population, which is set to expand to 323,600 by 2032. In addition, uncertainty over the levels of net inward migration (both within the UK and beyond UK borders) and its impact on age cohorts are likely to further shape demographic trends, particularly in London where relatively high numbers of people are attracted to come to live, study and work. As London continues to draw in young people and migrants (who perhaps may lack English-language skills), these trends are likely to continue to add to the demand for post-16 skills provision in future.

Our initial analysis, which is supported by expert stakeholder views suggests that skills funding reductions may impact London more substantially than elsewhere in England, particularly given London’s population rises and number of learners expected to rise in accessing this support. The demographic differences in London, including increased population levels, migration, greater need for ESOL reflecting the higher proportion of non-English speakers, greater demand for basic adult skills, higher unemployment than the UK average and the greater need for highly skilled labour exacerbates the challenge these reductions are likely to have requiring a renewed approach to maintaining quality whilst maximising efficiency.

A 2.1. Performance of 16-18 and 19+ skills provision in London

Raising the performance and success rates achieved in post-16 education is at the forefront of London government’s ambitions to ensure that Londoners are better able to realise the economic benefits of high quality education and to reduce pressure on adult skills budgets. A report by the Local Government Association\textsuperscript{50} estimated that the cost to the Exchequer of post-16 learning aims that were started but not successfully completed to be approximately £814 million in 2012/13. This represented around 12% of the funding allocated to provision for 16-18 year olds.

Figures 6 and 7 present the success rates for learners participating in further education in the 2013/14 academic year for 16-18 funded provision and 19+ in London and the rest of the country. Figure 6 shows that London has one of the lowest (78.6%) overall success rates for 16-18 provision compared with the rest of the country (80.17%). The data also highlights that a large proportion of learners are not successfully achieving the courses that they’re undertaking.

\textsuperscript{48} SFA published allocations for 2014/15 - April 15.
\textsuperscript{49} EFA 16-18 education funding in London 2014/15 academic year.
\textsuperscript{50} Achievement and retention in post 16 education. A report for the Local Government Association, February 2015.
Figure 6: 16-18 overall success rates for all further education institutions types\textsuperscript{51} in England in 2013/14.

![16-18 Overall_Success_Rate_%](image)

Source: Education and Training National Success Rate Tables 2013 to 2014, published by the Skills Funding Agency

Figure 7: 19+ overall success rates for all further education institutions types in England in 2013/14

![19+ Overall_Success_Rate_%](image)

Source: Education and Training National Success Rate Tables 2013 to 2014, published by the Skills Funding Agency

The success rates of 19+ provision is around 87.1\% in London, the fourth lowest rate in England (figure 7), though higher than the success rates of 16-18 provision in London.

Whilst performance at GCSE has seen significant improvement in London in recent years, the Mayor’s Annual Education report (2014) shows that in London, just under a quarter of key stage 5 students drop out of their studies before the age of 18. Only 2\% of London’s key stage 5 leavers are

\textsuperscript{51} All institutions include: General FE and Tertiary Colleges, other public funded, private sector public funded, schools, sixth form college and specialist college
accessing apprenticeships, compared with 4% across the rest of the country. Drop-out rates in London universities are higher than those across the rest of the country; an average of 6.3% per cent as opposed to 5.7% across England.

To help drive improvement in the success rates of post-16 education, a number of system and market failures need to be addressed. We need to ensure that funding incentives reward progression and employment as well as qualifications; young people receive quality careers advice on the range of options available to them, including academic, vocational and work-based learning routes; schools’ and colleges’ abilities to respond to employer demand for skills is strengthened, and the quality of teaching and GCSE attainment levels particularly in English and maths is improved.

**A 2.2 English for Speakers of Other Languages (ESOL)**

There were nearly three million foreign-born Londoners according to the 2011 Census (42% of the UKs total). A little over a half of these, 1.6 million people, spoke a language other than English as their first or main language (compared to 7.5million in England and Wales of whom 3.8 million speak a language other than English). 210,000 working age London residents cannot speak English well and 25,000 working age London residents cannot speak English at all.

*Source: 2011 Census safeguarded microdata: regional sample for London*

| All foreign born Residents aged 16-64 | Main Language is English | Main language is not English Speak English: | |
|---|---|---|---|---|---|---|
| All people | 2473 | 1120 | 1353 | 581 | 539 | 209 | 23.4 |
| In employment | 1660 | 805 | 855 | 415 | 335 | 97 | 8.1 |
| Employment rate | 67% | 72% | 63% | 71% | 62% | 47% | 35% |

A lack of English language skills impacts different communities in different ways. Demos highlights that nationally 59 per cent of Bangladeshi and Pakistani women are economically inactive and that English proficiency is also lowest among these groups, with high rates of transnational marriage (with the female spouse coming from abroad)52. IPPR also finds that relatively low employment rates amongst non-EU migrants in the UK can be accounted for by relatively low employment rates amongst migrant women53.

Speaking English well is important in order to get a job. Of the working age population in London in 2011, 46% of those who did not speak English well and only 35% of those who did not speak English at all were in employment, compared to 62% who spoke English well. So there is huge potential to unlock the talents and abilities of Londoners who need to improve their English to get on at work. This can best be achieved through targeted investment by groups of boroughs acting across a sub-region.

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52 http://www.demos.co.uk/blog/english-not-employment
Once in a job English language proficiency is central to sustaining a job and progressing in work. The majority (64%) of those in London who cannot speak English well are employed in low skilled work, compared to 53% of those who speak English well or very well and 43% of those whose main language is English.

Using English proficiently means London can realise the skills of refugees and migrants, often with higher skills developed elsewhere, that are currently under used in low skilled occupations. London also benefits from a more integrated community enabling individuals to achieve their full potential, contribute fully to the community in which they live, access services and feel part of local decision-making.

Demand for ESOL outstrips supply. The National Association for Teaching English and Community Languages to Adults (NATECLA) reports that over 80% of providers nationally in 2014 had significant waiting lists of up to 1,000 students on English for Speakers of Other Language (ESOL) courses. This is equally true in London where there even greater demand for ESOL. The performance of ESOL Plus mandated provision should not be taken as evidence of a lack of demand. Rather this provision suffered from the success of the London labour market, where eligible JSA claimants reduced significantly because they found work. Our proposals will ensure that we continue to help people get, keep and progress in a job where English language skills act as a barrier.

54 As defined by the Home Office
APPENDIX C: Evidence from the LEP Skills Inquiry

As part of London’s Growth Deal proposition, the London Enterprise Panel committed to undertake a Skills Inquiry for London to determine supply in the current skills landscape and to develop the evidence-base, reflecting business and the skills sectors’ views for the future skills system. In London, the LEP recognises the views of many employers that there is disconnect between elements of the skills being delivered and the skills that our economy needs. The system is driven by supply of qualifications when employers need tailored training. Meeting articulated demand from employers needs to be better, but still be balanced with the need for qualifications that give individuals the passport they need to move within the labour market to better paid work.

Tackling this disconnect is not an intractable task and some of the solutions will lie at the London level. Indeed the Inquiry has shown that London’s businesses are very ambitious for the capital highlighting to the LEP and London Government the need to go further and faster.

The Inquiry comprised a mixture of quantitative and qualitative work and has helped to inform London government’s devolution proposal, including:

- research on skills supply and specialisation by further education colleges in the capital;
- research on demand-side data sources for skills; and
- stakeholder roundtables.

A3.1 Research on skills supply

In June 2015, the GLA, on behalf of the LEP Skills and Employment Working Group and FE Capital Steering Group, commissioned SQW to investigate specialisation across London’s FE colleges and how this is meeting the skills needs of London’s main employment sectors. The study adopted a mixed methods approach of primary and secondary data analysis as well as qualitative interviews with 37 FE colleges in the capital and sector stakeholders.

To make the analysis of supply-side data more manageable, nine sectors were loosely identified that are likely to have a bearing on future skills demand across London, either through future growth or by creating a large volume of replacement demand. The results of the data analysis were obtained using a ‘best fit’ association of very high-level employment sectors with very high-level (Tier 1) sector subject areas (SSAs), and lack the granularity required to fully understand the strength of particular colleges’ specialised provision in response to the needs of their specific employers. As such the results must be treated with caution particularly as it provides no information on the quality of the training provided, the learning environments in which it is delivered, or the strength of a college’s reputation for this particular area of provision with employers and learners.

<table>
<thead>
<tr>
<th>High growth sectors</th>
<th>Sector Subject Area (SSA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scientific activities</td>
<td>SSA 02 – science and mathematics</td>
</tr>
<tr>
<td>Technology</td>
<td>SSA 06 – Information and communications technology</td>
</tr>
<tr>
<td>Tourism</td>
<td>SSA 08 – Leisure, travel and tourism</td>
</tr>
<tr>
<td>Creative</td>
<td>SSA 09 – Arts, media and publishing, including Media and communication</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>High volume sectors</th>
<th>Sector Subject Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human health and social work</td>
<td>SSA 01 – Health, public services and care</td>
</tr>
<tr>
<td>Transport</td>
<td>SSA 04 – Engineering and manufacturing technologies, including Motor vehicle and Transportation operations and maintenance</td>
</tr>
<tr>
<td>Construction</td>
<td>SSA 05 – Construction, planning and the built environment</td>
</tr>
<tr>
<td>Wholesale and retail trade services, distribution, hospitality, food</td>
<td>SSA 07 - Retail and commercial enterprise, including Retailing and wholesaling, Warehousing and distribution, Hospitality and catering</td>
</tr>
<tr>
<td>Professional, business support, administrative services, finance and insurance</td>
<td>SSA 15 – Business, administration and law</td>
</tr>
</tbody>
</table>
The research found:

- Of all non-apprenticeship starts, 68% (c.810,000) were at level 2 or below, and the number of these has increased by over 20% in the last three years.
- It is estimated that in the region of 43,000 young learner starts do not have level 2 in English and Maths across the FE colleges.
- There were over 161,000 learner starts at level 3+ across London in 2013/14, and of these, three-quarters were in SSAs that are relevant to London’s main sectors.
- FE colleges accounted for the majority (56%) of level 3+ starts, and the four most popular SSA starts at level 3+ at FE colleges were all relevant to London’s main sectors (health, science and maths, arts and media, and business administration and law).
- Apprenticeships are more concentrated in a smaller number of SSAs compared to non-apprenticeship learners, and particularly in three SSAs that are relevant to London’s main sectors (business administration and law, health, and retail).
- Higher Apprenticeships accounted for only 3% of all apprenticeship starts in 2013/14, but the number has increased rapidly over the last three years. The SSAs with the highest number of colleges planning to increase provision in future were Health, Business administration and law, and Retail (building on current high levels of provision) and ICT, Engineering, Construction and Arts (growing currently low levels of provision).

Colleges and sector stakeholders were clear that FE colleges’ ability to respond to the skills needs of London’s main employment sectors and particular employers is constrained by a range of factors. These include regional LMI that lacks sufficient sub-regional granularity to inform colleges’ strategic planning, a funding model based on numbers of learners rather than learner outcomes, a qualifications system that is slow to respond to changing skills needs, and staff who may not have the requisite skills and expertise. Thus investment in industry-standard estate and facilities, important though colleges regard this to be, can only go so far in delivering the higher-level technical and professional skills London needs for jobs and growth.

As well as these areas, other external forces need to be considered. These include the introduction of study programmes for 16-18 year olds, the change from funding qualifications to funding learners, and the requirements for English and mathematics to be retaken by students that fail to achieve a C grade at GCSE, all of which is likely to have impacted on volumes of starts for some providers.

Key recommendations from the research are that:

1. This analysis of the ILR data is treated as a first step in beginning to determine how the supply of L3 skills in London is matching demand;
2. Further refinement and analysis of these findings should now take place by the Mayor and boroughs as part of the proposed area based review process, including an analysis of skills delivery at other levels;
3. The LEP adopts a position on the need to significantly increase the number of Higher Apprenticeships through better engagement with universities and with schools; and
4. An analysis of the quality of provision is undertaken and considered in concert with further analysis of the data.

A 3.2 Research on skills demand

The Centre for Economic and Social Inclusion (CESI) were commissioned by GLA officers on behalf of the LEP to investigate the data required to inform the future planning of skills provision to meet London’s economic demands. CESI’s report identifies data that is already available covering both recent demand:

- Business Register and Employment Survey (BRES) ONS
- Employer Skills Survey, UKCES
- Labour Force Survey, ONS
• Annual Survey of Hours and Earnings, ONS
and future demand:

• GLA Economics Projections
• UKCES Working Futures
• Sector Skills Council reports

The report highlights the strengths of this data whilst identifying gaps in the evidence base with recommendations on how those gaps may be filled. Together the identified sources provide a picture of current skills and jobs and the likely skills and jobs composition in the future.

Key recommendations from the research are that:

1. GLA explores the possibility of providing real time vacancy statistics (to include all vacancies) so that it can accurately inform users of the current demand for jobs by occupation;
2. This data should be complemented by information on the skills (or qualifications) needed to enter these jobs and build on the work led by Young Peoples Education and Skills (YPES) on Intelligence London and Skills Match56;
3. GLA Economics is used as the main source for employment projections; and
4. GLA explores the possibility of enhancing the London Development Database.

A 3.3 Stakeholder roundtables

Stakeholder engagement has been integral to the Skills Inquiry. Three roundtables were held in July 2015 with external stakeholders and included leaders of London colleges, independent providers, the SFA, Jobcentre Plus, GLA, London Councils and business organisations. It was felt by participants that London’s ask for skills devolution from central government should be bold and radical. Skills devolution in London must include:

• 16-18 provision delivered by schools as well as colleges and independent training providers;
• adult further education, skills and employment programmes for the unemployed, and apprenticeships delivered by colleges and independent providers, and
• higher education.

A 3.4 Overview and recommendations

As part of the Inquiry work, the following recommendations have been made by stakeholders to the LEP:

• Devolution of all 16-18 participation funding (excluding apprenticeships) to the London Mayor;
• Area Based Reviews in London to include School Sixth Forms;
• London to have a single Commissioner for post-16 education and training;
• GLA to have powers over new post-16 capital investments;
• An employer Incentive Fund for Post-16 Apprenticeships;
• An adult Incentive Fund for Level 3+ Loans;
• Devolution of funding for adult basic skills & employment programmes;
• A post-14 integrated careers offer.

Whilst these recommendations have supported London’s government’s proposal to develop solutions to the challenges identified, we recognise that these are significant proposals for reform, which will need to be delivered over a longer period of time. Therefore the proposals in the remaining part of this document reflect what collectively the Mayor and London’s borough leaders agree needs to be devolved to London government to achieve change and improvement in meeting the economic needs for the UK’s capital city and to drive up skills, boost employment and productivity by 2020. London government will work with central government and providers to achieve this change progressively over time.

56 Skills Match is an interactive tool which allows the visual exploration of the relationship between skills supply and employer demand in London up to 2020. See more at: http://www.londoncouncils.gov.uk/node/25878#sthash.7QVgSxFF.dpuf
APPENDIX E: Skills- Approach for a devolved Skills system in London

The following sections present more detail on our proposals for the future skills landscape, outlining what London will do at the regional level, what will be delivered at sub-regional level, what additional leverage is needed and what collectively the Mayor and borough leaders aim to achieve through:

1. A clear vision and skills strategy for London informed by timely demand-side data to better plan for current and future skills needs;
2. Delivering a streamlined, resilient and responsive skills sector with greater specialisation, innovation, quality and stability focused on delivering level 3 and above qualifications, outcomes, productivity and economic growth including a London-led strategy for all future new investments in post-16 skills and education provision;
3. Achieving excellence in professional and technical education;
   a. Greater employer investment and ownership in developing skills, with industry working collaboratively with post-16 skills and further education institutions to better prepare Londoners with the skills that the economy needs; and
   b. A strong Apprenticeships offer for London;
4. A London Entitlement for basic skills to ensure all Londoners are equipped to compete in London’s competitive labour market;
5. A sustainable and coherent careers offer for London.

Figure 1 at the end of appendix B summarises the proposed skills landscape.

A 4.1 A vision and skills strategy informed by strong labour market data

Issue

With a decreasing envelope of public funding available for skills development in London, we must be very clear about how best to target this investment to boost employment, economic growth and productivity – and how to leverage investment from other sources to meet these goals.

Better use of data by suppliers, and the development of user-friendly data-based tools for consumers has already transformed many markets for goods and services, and is about to transform how government provides services to citizens. The use of labour market data to guide choices by individuals about education and training options is however so far relatively under-developed. GLA Economics employment projections provide a long-term view on future employment demand in the capital, but there is limited timely, detailed information on the demand for skills, which could help inform provider and learner choices.

The Employer Skills Survey is probably the best source to identify employer skills demand for qualifications and generic skills. Research by the Centre for Economic and Social Inclusion (CESI) carried out on behalf of the LEP for the GLA, has identified the lack of available, timely data on job postings in London as restricting the ability of ‘skills market participants’ (such as the LEP, commissioners, providers, employers and careers services) to provide training, deliver careers guidance, and develop the skills that London’s economy needs.

Action

With devolved powers and funding to invest in skills, London Government will gather timely, accurate, granular Labour Market Information (LMI) which will be used to:

- Inform the London Skills Strategy and sub-regional skills commissioning strategies;
- Inform the pan-London careers offer;

57 London Labour Demand Understanding the demand for skills in London’s labour market, Centre for Economic and Social Inclusion, August 2015.
• Inform providers’ offer and help to develop a shared understanding of skills priorities across the sub-regions;
• Inform London’s Area Based Reviews.

At the regional level, analysis will determine the demand for higher level technical and professional skills to meet London’s labour market needs. The Greater London Authority working with sub-regional groupings of boroughs and Young People’s Education and Skills will build on the regional labour market information that it currently hosts on the London Datastore and Skills Match to bring together a range of existing data sources to present a coherent picture of current and future labour and skills demand. As part of this, London government will commission the development of an on-line data platform that presents ‘real time vacancy data’ by scraping information on online job postings to accurately inform users of the current demand for jobs by occupation. This LMI will need to be supplemented by data sharing between London and national government, specifically BIS and DWP.

At a regional level the data will be used to help:

• **Inform the London Skills Strategy**, identifying the main sectors where there is the greatest demand for jobs and the associated required skills and education at level 3 and above in the capital.
• **Set a London Entitlement** for skills, which may vary from nationally-funded entitlements, and will be informed by sub-regional skills commissioning strategies (see below);
• **Set an outcomes framework** for skills funding;
• **Identify where funding uplifts or flexing of pricing may be required** to stimulate provision in areas of undersupply.

At the sub-regional level, London Councils will work with boroughs to develop a standardised approach to the analysis of local labour market needs to understand sub-regional variances, demand for lower skilled work, and progression pathways. Sub-regions will collect and analyse information on labour market demand to complement regional intelligence by drawing on:

• Primary data gathered through employer engagement, including with SMEs who account for half of all of London’s employment;
• Secondary data, such as job vacancy data, drawing on any of this data at a pan-London and sub-regional level;
• Demand intelligence from local development plans, London’s Infrastructure Programme Tool and boroughs’ own knowledge of local commercial and infrastructure developments;
• Analysis by sector skills councils;
• Additional data analysis supporting an Area Based Review (to be undertaken at a sub-regional level in London).

Many London boroughs are already investing to collect this data individually. A sub-regional approach will improve the co-ordination and efficiency of this. Drawing on this data and the pan-London skills strategy, sub-regional partnerships will develop **multi-year** sub-regional skills commissioning strategies to focus skills investment in their area, incorporating:

• Priorities for curriculum development, capital and skills entitlement investment;
• Outcomes expected from providers in the sub-region to inform collective and individual outcome agreements (details below);
• Priorities for sub-regional commissioning to support unemployed residents into work;

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58 These strategies will be for four years, starting a year after local elections in London. Initial strategies may be shorter to achieve this cycle in the long term.
• Plans for aligning other local budgets and activities with skills investment, including employment services;
• Plans for embedding the offer in industry including attracting additional private sector investment in skills to boost total investment.

The strategies will be developed and agreed with local employers and providers and considered at the pan-London level. London boroughs will continue to bring together and work with providers and employers to implement the strategies.

Skills investment that is more responsive to labour market need requires greater accountability, oversight and stewardship at the London and sub-regional level in order to drive improvements in quality and ensure the delivery of regional and sub-regional strategies. The current system of accountability is insufficient to manage short-term risk or drive economic growth. It lacks a clear focus on labour market outcomes, focusing instead on financial stability and teaching and learning. Interventions are on a college-by-college basis, without clear analysis of educational and skills needs in the area, and the capacity available to meet them.

For skills providers, skills funding in England is currently determined centrally with few devolved flexibilities. The Adult Skills Budget funding model pays providers on the basis of enrolments and achievement of qualifications with little recognition for other positive outcomes achieved by learners gaining jobs or progressing into further or higher education. Levels of funding are driven by a provider’s ability to deliver courses based on the previous year’s delivery, rather than to meet need and economic demand. This approach presents few incentives for skills providers to specifically respond to future demand for skills or opportunities to innovate in new areas of growth. As part of our proposal London Government is seeking devolution of the Adult Skills Budget. To ensure robust accountability for delivery against this budget via London’s commissioning strategies, London Government proposes:

• Working with Ofsted within the regional inspection framework to ensure that inspection criteria take into account providers’ responsiveness to the local labour market (as set out in sub-regional skills strategies). This will include how providers are delivering learning required locally, their success in moving learners into sustained jobs, progressing those in lower paid, low skilled work, using LMI and learner destinations data to inform their offer, how they are contributing to collective outcome agreements (see below), the quality of Careers Information, Advice and Guidance, and demonstrable evidence of effective partnership working with employers, including additional funding leveraged.

• Agreeing collective outcome agreements with providers at a sub-regional level, and individual provider outcome agreements at an institutional level, so that providers are held to account for driving improvement in their offer and strengthening links to the labour market. The agreements will reflect the sub-regional commissioning strategies. Colleges will be accountable for outcomes to a sub-regional skills and employment board with representation from London boroughs, business and providers. Boroughs will provide a ‘support and challenge’ function to providers to ensure that commissioned work is reaching their communities. This approach will be proportional – with less focus on those colleges clearly meeting their outcome agreements. Providers will continue as autonomous incorporated institutions with full responsibility for their own assets, liabilities and business strategies.

• Strengthening local authorities’ role in interventions by the London Skills Commissioner through joint working between the London Skills Agency and sub-regional skills and employment

59 Initially individual outcome agreements would be with FE colleges only, to make this system manageable. All providers would be expected to show how they are contributing towards the collective outcome agreements. This includes Adult and Community Learning Services.
60 Other representatives could include JCP/DWP and learner representatives.
boards to address poor performance against sub-regional skills commissioning strategies by agreeing remedial actions over time.

**Outcomes:**

- A clear strategy and vision for addressing the skills that London needs;
- The provision of real-time vacancy statistics (to include all vacancies) that can accurately inform users of the current demand for jobs by occupation;
- All users are better informed of the likely number of jobs and where the jobs for new developments will be based.
- Skills investment that is responsive to the labour market, is strategic and makes best use of limited public skills investment;
- Increased employer and learner investment in skills development, through greater engagement in and understanding of London’s skills offer;
- Improved Careers Information, Advice and Guidance for learners.
- A streamlined, specialised and responsive skills provider base, with a focus on outcomes, learner destinations, productivity and economic growth;
- Improved, more strategic oversight that drives up quality of skills provision and deals with risk quickly and effectively.

**A 4.2 Delivering a streamlined, resilient and responsive skills sector with greater specialisation**

**Issue**

For employers in London, a lack of relevant skills, qualifications or experience can lead to delays and difficulties in filling job vacancies. The UKCES’ 2013 Employer Skills Survey has identified 30,000 such ‘skills shortage vacancies’ in London in 2013, 46% of which were in high skilled jobs (compared to 40% in England as a whole). A further 12% of these vacancies were in skilled trades jobs, with skills shortages accounting for more than one in two (53%) of all vacancies in this occupational group. As outlined previously, demand for higher-level skills is also expected to increase. Despite this demand for higher level skills, around two thirds of provision delivered by further education colleges in the capital is at level two or below. There is some specialisation but this is currently not necessarily linked to industry or to providing the most effective employment routes.

Whilst standards of education in London’s schools and universities rank as some of the best in the country (and in the world), the overall success rates of London’s further education colleges lag the rest of the country. Whilst many of London’s colleges are Ofsted rated as ‘good’ or ‘outstanding’, around a third of London’s 39 colleges are rated as ‘requiring improvement’ or ‘inadequate’. Action is therefore required to ensure that we have a fit for purpose further education sector in London that delivers quality provision in the areas where training is required.

**Action**

Government has set out its approach to establishing a fit-for-purpose further education sector via Area Based Reviews. London’s Mayor and borough leaders will work collaboratively with government and the skills sector to use this process to develop and deliver our vision for a post-16 skills and education landscape in London focused on meeting business and local economic need. The approach to re-commissioning will address the issues outlined as well as focus on driving up quality to achieve much higher standards of education in London’s further education and sixth form colleges. Key areas to address include responsiveness to business demand, specialisation, achieving a more outcome focussed skills system that maintains stability and a clear route to employment for learners, with open data on destinations to measure impact.

To achieve this approach successfully, London government will require the sharing of relevant financial and performance information from Government and resources to help inform and undertake a strategic economic assessment of the current skills landscape and future needs. This information will be supported by London’s own analysis including on the demand and supply data of skills to determine London’s specialisms, key outcomes for the vision and how collectively key stakeholders can work together to achieve the reform that is needed.
To enable suitable time to undertake this analysis and to set up a robust approach and clear vision for the future, it is proposed that London commences the Area Based Reviews in wave 3 of the government’s timeline with the first of London’s reviews commencing in spring 2016.

To ensure that London has the levers it needs to re-shape the landscape successfully, leadership of the ABRs should be accompanied by the transfer of statutory powers from the Secretary of State to the Mayor from the Further and Higher Education Act 1992 to enable removal of all or any of the members of governing bodies, appoint new members where there are vacancies and give directions to the college/ institutions where poor performance persists to ensure accountability of skills providers to the Mayor on ABR recommendations.

In London, as well as further education colleges and sixth form colleges, the reviews should include major private sector providers, school sixth forms, University Technical Colleges, HEIs and national colleges (where relevant) to provide a strong assessment of the potential impact of demographic changes in an area. The reviews should also include the Adult and Community Learning Services available in the area, given their role in providing basic and employability skills. The reviews should include a clear focus on meeting business and local economic need, informed by an assessment of London’s main sectors. They should also take into account the needs of specific cohorts of learners, such as those with particular learning difficulties or disabilities.

A distinct approach needs to be taken in London, because of the scale and diversity of the city (49 colleges, 380,000 learners) and to reflect the Mayor’s statutory duty to promote economic development and produce and publish an Economic Development Strategy. ABRs in London should be undertaken sub-regionally based on existing groupings of boroughs. These sub-regional partnerships have the political identity and governance to support the process and can act as brokers to facilitate changes based on the final review recommendations. The overall review process will be led and overseen by a London-wide steering group chaired by the Mayor and with a nominated borough Leader as Deputy Chair and representation from the LEP, other borough leaders and key stakeholders to ensure that the outcomes of the reviews provide the city as a whole with the skills base and structures that it needs to compete as a world city. The sub-regions would report into the London-wide steering group.

It is also proposed that the Mayor and the steering group is advised by an independent post-16 Skills Commissioner for London to help shape the area based reviews and provide the necessary expertise on strategic and economic outcomes for the future skills landscape. The process for undertaking the sub-regional Areas Based Reviews will also need to give consideration to the provision available in the outer metropolitan area adjacent to Greater London and will be flexible to evolving alliances between institutions that may cross over the proposed sub-regional grouping areas.

The approach to the ABRs will consider how best to ensure full implementation of the recommendations of the reviews, providing regular and publicly available progress reports, and recognise the Mayor’s statutory responsibility for economic development in London, and boroughs’ responsibilities for economic well-being locally. It is proposed that a development pot is made available from government linked to the work of the Education and Training Foundation to help institutions implement improvements including to curricula development, promoting excellent teaching standards and raising quality of places for all.

To ensure the stability and resilience of London’s further education and sixth form colleges and 16+ skills provision, London government considers area-based reviews as an important part of the process of necessary reform and structural change to the FE system in London but not as the conclusion of this process. Rather the area-based reviews can only be effectively implemented as part of broader devolution to London including the transfer of both powers and funding from central government, and to support an integrated and strategic approach to investment in post 16 skills provision in London. The review process should be complementary to London’s proposals for devolution and reform and should actively facilitate the implementation of this agenda. As part of the re-commissioning process, London requires agreement from government on the devolved funding and powers sought and outlined in the introduction.
Outcomes
London expects to achieve:

- Increased efficiency in the market to deliver the skills that London needs;
- Improved efficiency in the use of resources that minimises duplication of government spend in new and existing investments in post-16 skills and education;
- All skills and education provision in London is Ofsted rated ‘good’ or ‘outstanding’;
- All London’s learners and employees understand the skills needed by London’s employers and are supported and motivated to acquire them;
- Increased investment from learners and business in professional and technical education that has clear economic outcomes;
- All Londoners are equipped with basic skills for employment with increases in learners achieving 5 A-C GCSEs (including in English and Maths);
- A significant increase from current levels (71%) of learners achieving level 3 and above qualifications and progressing into work, apprenticeships and/or higher education;
- A significant increase in overall success rates for all learners and a significant reduction the current rate of drop-out between 16 and 18 for those studying level 3 qualifications;
- A significant reduction in young people aged 16-24 who are not in education, employment or training (NEET), reaching near full participation for 16-18 year olds in all of London’s boroughs.

A 4.3 Achieving excellence in professional and technical education

We have already highlighted as part of the London Enterprise Panel’s London 2036 plan, that if the capital city is to maintain its current strong position, we need to ensure that we are training more technical talent to respond to market shortages of technically capable workers by improving education and training at all levels from school through to adult education. As outlined in previous sections, jobs growth is expected to focus on higher level occupations across London’s economy as a whole, specifically professional, associate professional and technical, managers, directors and senior officials. Jobs in these occupations are expected to increase by around one-fifth by 2022. Correspondingly, demand for higher level qualifications (QCF levels 4+) is expected to increase by about one-third.

As part of an integrated approach to economic development in London, and ensuring economic opportunity for all Londoners, there is a strong case for collective intervention, given that skills pathways are long-term and complex across schools, further and higher education and the private sector. Improving the supply of technically-qualified people will require a range of measures which starts from adjustments to school curricula and careers advice through to changes of emphasis in both further and higher education as well as greater levels of industry co-operation and provision. Some of the levers will be held nationally and some by the private sector, but we need to ensure that the right levers are devolved down to London and its sub-regions to meet its economic needs and to boost productivity. Working with the skills sector and key stakeholder groups in London, the Mayor and London’s borough leaders aim to work collectively to re-shape the skills landscape over the next two years and by the 2017 academic year to deliver a regional skills system with more quality professional and technical education at level 3 and above with appropriate levers devolved to meet the key specialisms of the capital’s economy.

Approach

To achieve a sustainable professional and technical education landscape that produces the skills needed for the city’s specialisations, we will have:
a. Greater employer investment and ownership in developing skills, with industry working collaboratively with post-16 skills and further education institutions to better prepare Londoners with the skills that the economy needs; and

b. A strong Apprenticeship Offer for London.

A4.4 Employer investment in post-16 skills and further education

Issue

Fragmented demand for skills training limits the buying power of individual employers and their ability to shape training to their needs. This is particularly true for smaller businesses in London and the UK as a whole. Evidence suggests that a lack of employer engagement and investment in skills training is a particular challenge in London. For example, a higher proportion of employers in the capital (36%) did not fund or arrange any training for staff in the 12 months to mid-2013 compared to the rest of England (34%). At the same time, among those employers in London providing training to their staff, the majority (54%) responded that they ‘would have provided more training if they could have done’, higher than in the rest of England (45%). One reason for this difference was that the employers in London which would have trained more were much more likely than employers in the rest of England (17% vs. 12%) to report that they found it hard to find time to organise training.

Evidence from the UKCES 2013 Employer Skills Survey suggests that employer investment in training is in decline and that this is a particular challenge in London, where the labour costs of trainees tend to be higher. Employers in London invested an estimated £7.1 billion on training in the 12 months to mid-2013, down 30% from £10.1 billion in the 12 months to mid-2011. This compares to an estimated 5% fall in employer investment in training for the UK as a whole (from £45.3 billion to £42.9 billion). Further, UKCES data suggests that the downward trend in the amount of fees paid to external providers (which fell by 18% for the UK as a whole) is even more pronounced in London. Employers in London are also slightly less likely to have had any contact with a training provider, FE college or HE institution in the last 12 months compared to those in England overall (52% vs. 54%), and much less likely than employers in the South East (57%) and East of England (58%).

Action

As well as employer investment through the apprenticeship levy, proposals for which are described in the next section, London proposes to create a skills innovation funding pot that employers and representative employer bodies can directly bid into. It is proposed that this is funded via a return from London’s contribution to the apprenticeship levy to help support training that progresses prospective learners into apprenticeships. Through this process, we would invite business to work jointly with skills providers to create and develop new and innovative solutions to deliver priority skills provision. The programme budget could be linked to the LEP’s FE capital funding opportunities and would replace the existing innovation code budget that is supported by the Skills Funding Agency.

London Government will also work with central government to provide better data on the impact of learner participation in professional and technical courses to help inform prospective learners and employers of the benefits and outcomes of undertaking and investing in these courses. In order to

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61 In the year to mid-2014, micro-businesses in London were less likely to engage in upskilling, training or development (33%) compared to business units in other SMEs (69%), and large firms (85%). Source: London Business Survey, table TRN1

62 Evidence from the UKCES suggests that the pattern of training spend per person trained is inversely correlated with establishment size; the larger the employer the less is spent. This may reflect economies of scale for larger employers. Source: UKCES, Employer skills survey 2013: UK results, January 2014, table 99.

63 The main barriers to providing more training reported by employers in London and England as a whole were that: a) training was too expensive or that they lacked funds for training (60%), and b) that they could not spare more staff time (47%). Source: UKCES Employer Skills Survey 2013, January 2014, table 128.

64 The labour costs of trainees accounted for over half (55%) of the total amount that employers in London invested in training in 2012/13, compared to 50% in the UK overall. Source: UKCES Employer Skills Survey 2013.

65 UKCES report that this fall in total training expenditure is mainly driven by a fall in expenditure among large employers with 100 or more staff, and employers in public administration and in education. Sources: UK figures are based on UKCES Employer skills survey 2013, tables 4.4, available at: https://www.gov.uk/government/publications/ukces-employer-skills-survey-2013. London figures have been provided by the UKCES.

66 UKCES Employer skills survey 2013, January 2014, table 4.5

67 UKCES Employer perspectives survey 2014, January 2015, table 110
achieve this, London will need better open data to be made available by government including destinations data produced by HMRC at the London, borough and provider level.

Outcomes

Through this we expect to achieve:

- Greater collaboration between industry and skills providers to develop and deliver in-demand skills;
- An increase in the number of learners aged 16 and over with work ready and industry relevant skills;
- A doubling of apprenticeship opportunities, particularly at higher levels created by employers in London by 2020;
- Increased investment from learners and business in professional and technical education that has clear economic outcomes;
- A significant increase from current levels (71%) of learners achieving level 3 and above qualifications and progressing into work, apprenticeships and/ or higher education;
- A significant reduction in young people aged 16-24 who are not in education, employment or training (NEET), reaching near full participation for 16-18 year olds in all of London’s boroughs.

A 4.5 A Strong Apprenticeships Offer for London

The introduction of a levy on large UK employers to support all post-16 apprenticeships will offer the opportunity to engage businesses in work-based-learning and is welcomed by London Government. However, it may also present a number of issues for London whereby the region's businesses pay more into the levy than they receive in return.

Although much of the detail about how the levy will be calculated is yet to announced, the high number of large businesses (defined as a business with 250+ employees) in London (see table 1) means that the region will be making a significant contribution to the levy.

BIS data (see table 1) suggests that there were 6,745 large private sector businesses in the UK at the start of 2014, 1410 of which were based in London, representing 20.9% of all UK large businesses and 30% of total UK turnover.

Table 1 Number of London businesses in the private sector and their associated employment and turnover, by size of enterprise, 2014

<table>
<thead>
<tr>
<th>Size of enterprise</th>
<th>Businesses</th>
<th>Employees</th>
<th>Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Share, %</td>
<td>Number, 000s</td>
</tr>
<tr>
<td>All SMEs (0-249 employees)</td>
<td>933,035</td>
<td>99.8%</td>
<td>2,506</td>
</tr>
<tr>
<td>Large (250+ employees)</td>
<td>1,410</td>
<td>0.2%</td>
<td>2,461</td>
</tr>
<tr>
<td>London business share of UK</td>
<td>6,745</td>
<td>20.9%</td>
<td>10,071</td>
</tr>
<tr>
<td>London total</td>
<td>934,445</td>
<td>100.0%</td>
<td>4,967</td>
</tr>
<tr>
<td>London total share of UK</td>
<td>5,243,135</td>
<td>17.8%</td>
<td>25,229</td>
</tr>
</tbody>
</table>

Source: BIS business population estimates, 2014. Notes: micro-businesses include unregistered businesses in addition to VAT traders and PAYE employers. The number of employees represents those people employed in London, not employed by London-based businesses. Turnover excludes financial and insurance activities.
Against this background of business density, and despite a number of high profile London campaigns which have increased the number of apprenticeships being offered by employers, London has actually underperformed in terms of Apprenticeship formation in recent years. Table 2 shows that the number of apprenticeships created in London between May 2010 and April 2015, is consistently below the England average and below a number of regions with lower business density (for example the east of England). If this trend continues, there is a risk that London will not derive a proportionate benefit (in terms of apprenticeship starts) from its levy contribution and that much of the funding raised by London based businesses will be used to the benefit of other areas across the country. Further analysis will be undertaken by the GLA to measure and report the potential impact of the Levy in response to the Levy Consultation.

**Table 2**

<table>
<thead>
<tr>
<th>Region</th>
<th>2010/11 Full Year</th>
<th>2011/12 Full Year</th>
<th>2012/13 Full Year</th>
<th>2013/14 Full Year</th>
<th>August to April (provisional)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>North East</td>
<td>34,550</td>
<td>38,340</td>
<td>35,870</td>
<td>30,480</td>
<td>28,730</td>
<td>165,970</td>
</tr>
<tr>
<td>North West</td>
<td>78,660</td>
<td>89,310</td>
<td>84,180</td>
<td>71,670</td>
<td>59,330</td>
<td>383,150</td>
</tr>
<tr>
<td>Yorkshire and The Humber</td>
<td>55,800</td>
<td>64,200</td>
<td>59,900</td>
<td>53,120</td>
<td>46,300</td>
<td>279,320</td>
</tr>
<tr>
<td>East Midlands</td>
<td>40,860</td>
<td>46,790</td>
<td>49,010</td>
<td>40,290</td>
<td>30,140</td>
<td>213,080</td>
</tr>
<tr>
<td>West Midlands</td>
<td>54,290</td>
<td>60,470</td>
<td>62,430</td>
<td>52,410</td>
<td>45,940</td>
<td>275,540</td>
</tr>
<tr>
<td>East of England</td>
<td>39,760</td>
<td>45,820</td>
<td>40,220</td>
<td>40,430</td>
<td>34,330</td>
<td>208,560</td>
</tr>
<tr>
<td>South East</td>
<td>58,340</td>
<td>66,850</td>
<td>68,960</td>
<td>60,220</td>
<td>48,960</td>
<td>303,330</td>
</tr>
<tr>
<td>South West</td>
<td>49,330</td>
<td>55,950</td>
<td>52,540</td>
<td>45,960</td>
<td>39,380</td>
<td>243,160</td>
</tr>
<tr>
<td>London</td>
<td>41,400</td>
<td>47,230</td>
<td>45,070</td>
<td>40,050</td>
<td>32,410</td>
<td>206,160</td>
</tr>
<tr>
<td><strong>England Total</strong></td>
<td><strong>453,000</strong></td>
<td><strong>515,000</strong></td>
<td><strong>504,200</strong></td>
<td><strong>434,600</strong></td>
<td><strong>369,600</strong></td>
<td><strong>2,276,280.00</strong></td>
</tr>
<tr>
<td><strong>London as a percentage of Total</strong></td>
<td>9.14</td>
<td>9.17</td>
<td>8.94</td>
<td>9.22</td>
<td>8.77</td>
<td>9.06</td>
</tr>
</tbody>
</table>

There is also a risk that the levy may incentivise large employers to create high volumes of low quality apprenticeships within their existing workforce in order to ‘recoup’ their contribution, which may not be suitable for delivering London’s projected skills requirements, particularly at higher levels.

**Issue**

In achieving its 3 million Apprenticeships manifesto target, the Government will need to improve on the current level of market penetration. This requires better engagement of smaller and medium sized firms to create the opportunities to take on apprentices. London has a large concentration of small and medium sized businesses and offers great untapped potential to contribute to the Government’s target through joined up and innovative approaches to enable the apprenticeship system to better meet the needs of the market.

The data in Table 1 underlines the importance of SMEs to London’s economy, showing that 99.8% of London’s businesses are SMEs which account for 50% of all London based employees and 43% of London’s turnover. Therefore, if the Government’s ambitious target of achieving 3m apprenticeship starts by 2020 is to be met, it is vital that London’s SMEs are supported to engage with the Apprenticeship programme.

Research undertaken by Ofsted\(^{70}\) found that training providers find it difficult to encourage SMEs to offer apprenticeship and work experience opportunities. SMEs cite barriers such as the cost of taking on new staff, not only in terms of pay and conditions but also the additional resources required in terms of management and human resources requirements. SMEs believe the work experience and apprenticeship recruiting processes are too “bureaucratic” with many smaller employers expressing concern over the employability of learners and their preparedness for the world of work.

**Action**

\(^{70}\) Engaging small and medium enterprises in apprenticeships, Ofsted Jan 2015
Given the challenges outlined, we propose that London’s levy contribution is top-sliced and devolved to the Mayor, with a view to employing this funding in the following ways:

- Capacity building activity for London’s SMEs including development and delivery of a London-based Small Business Service, to include the provision of additional support for the recruitment of apprenticeships. This will include a focus on creating more higher level apprenticeship opportunities to meet London’s future skills requirements.

- Interventions focused on pre-apprenticeship support of prospective apprenticeship candidates furthest from the workplace and not eligible for traineeships.

- To subsidise apprenticeship training and ‘uplift’ funding for SMEs taking on apprentices.

- To part-subsidise funding of other professional and technical education courses demanded by employers in key London sectors that supports progression into apprenticeships particularly higher apprenticeships.

In return, London will continue to offer travel-card discounts to apprentices (currently at 30%) and lead campaign activity working with industry, the London Enterprise Panel, schools, post-16 education providers and London’s boroughs to promote apprenticeships and create new opportunities.

**Outcomes**

Through these actions, it is expected that we will achieve:

- A doubling of good quality apprenticeship opportunities, particularly higher apprenticeships created in London by 2020;

- An increase in the number of small and medium sized businesses creating new apprenticeship opportunities in the capital by 2020;

- A significant increase from current levels (71%) of learners achieving level 3 and above qualifications and progressing into work, apprenticeships and/or higher education.

**A 4.6 A London Entitlement for adult basic skills to ensure all Londoners are equipped to compete in London’s competitive labour market**

**Issue**

A robust adult skills and employment services solution in London is critical to the capital’s continued success, through the continuing flexibility of its labour market and utilisation of its talent. Key to our devolution proposition is connecting more Londoners to work and to better-paid jobs on their doorstep. We want to move more people into work and off Universal Credit. At present 800,000 Londoners (20% of the work force) are in low paid and low skilled work. With the population set to rise by another 2 million by 2030 this could rise to 1 million.

Many low-skilled Londoners experience multiple barriers to getting, keeping and, most importantly, progressing in work. Our solution will see funding devolved to the Mayor and groups of boroughs acting in tandem through sub regional partnerships to tackle low skills. Aligning skills funding with other local resources at the sub-regional level will deliver wrap-around support that successfully removes complex barriers.

Separate funding streams and agency silos currently result in high levels of fragmentation between low-level skills provision and other national and local services that support low-skilled residents to move into and progress in employment. This fragmentation leads to areas of duplication and oversupply, resulting in inefficiencies in the system, and meaning that residents do not receive the most effective support to find and progress in work.
**Action**

London seeks a devolved settlement for the adult skills budget, and with this will take a new approach to commissioning support to deliver a London Entitlement for adult skills in the capital to be delivered via a London Skills Agency.

Sub-regional employment and skills boards will commission skills support that directly helps unemployed and economically inactive residents to access, sustain and progress in work. Groups of boroughs are uniquely placed to ensure provision responds to the needs of London’s diverse communities, aligning local services and budgets with skills funding to create tailored wrap-around support that cannot be achieved at a national or in some cases regional level. Aligning and integrating budgets and services will increase the efficiency and effectiveness of skills and employment investment and move more Londoners off benefits/Universal Credit.

Sub-regional employment and skills boards will:

- **Commission services focused on supporting unemployed and economically inactive residents into work** including English, maths and ESOL provision. Funding will be flexible (i.e. not limited to full qualifications) and linked to activities that directly improve residents’ employment prospects or help them to progress onto higher level skills training. Sub-regions will pool or align Section 106 funding, adult community learning, Flexible Support Fund (working with DWP) and other borough discretionary funds and services to develop an integrated service offer. This devolved funding will include element of London’s European Social Fund (ESF) allocation;

- **Provide skills funding for Londoners on mainstream employment support programmes** (Work Programme Plus), linked to London’s devolution proposals around Work Programme Plus (WP Plus). This will be a ring-fenced element of London’s skills entitlement funding that would directly support those Londoners on WP Plus and needing skills investment in order to get a job.

**Outcomes:**

- An integrated employment and skills service in London, with clear pathways into work and progression within work, moving Londoners off Universal Credit;
- All Londoners are equipped with basic skills for employment.

**Deliver a sustainable and coherent careers offer for London with relevant budgets devolved**

**Issue**

Information for learners on employer demand is not sufficiently met by statutory careers guidance delivered in schools, or available to adults through the National Careers Service. London Ambitions states London’s position with regard to a careers offer for London. The first phase of London Ambitions focussed on addressing the well-rehearsed weaknesses in the careers offer for young people. We will build on London Ambitions to develop the vision and action plan for a truly world-class all-age careers offer for all Londoners.

**Action**

With London Ambitions establishing a firm footing with education, training and business leaders across the capital, we aim to build on its success through the devolution and alignment of existing centrally managed programmes and relevant budgets, in particular:

- The Careers and Enterprise Company;
- The Inspiration Agenda;
- Jobcentre Plus Advisers in schools;
- The National Careers Service.

**Outcomes**

This will enable:

- better connected education and training with the workplace, ensuring that more employers offer young people and adults high quality experiences of the world of work and that more recruit apprentices to strengthen long-term productivity;

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• improved access to good quality career development support, particularly personalised guidance for the most vulnerable young people and adults;
• improved the use of labour market intelligence, including better tracking and use of destination measures;
• less fragmented, more sustainable and more coherent career development support for young people and adults;
• a focus on return on investment to demonstrate impact and show accountability to London’s resident and business populations.

A 4.8 Next steps and timeline

Central government will need to provide dedicated resource and data working with London, to facilitate the following analysis.

1. Full spectrum analysis of current skills delivery – looking at both numbers of students and funds allocated and spent on learners and learning aims by sector subject area, levels for both academic and vocational courses, age of learners - by post 16 education providers in London including by in-London provision to non-London residents in:
   • Schools providing post 16 education including University Technical Colleges and Studio Schools;
   • FE colleges and sixth form colleges – including an analysis of SFA spend against allocation by entitlement;
   • Independent (private) learning providers; and
   • Higher education institutions.

2. An assessment of quality and stability of current delivery including:
   • outcomes of publicly funded skills provision in London including success rates for specific subject courses by age, level and type of course (academic and vocational) by provider as well as an analysis of destinations data, where available;
   • A review of Ofsted findings on providers in London;
   • An assessment of further education and sixth form colleges’ financial health including full disclosure by BIS of colleges’ financial liabilities.

3. Detailed projected skills needs analysis in London including basic skills such as ESOL, level 2 and 3, 4 and above for the next 5 years building on the initial analysis undertaken by the Skills Inquiry.

4. A review of Colleges’ current plans to meet these needs including plans for collaboration, mergers, specialisation, capital investment (including bids for FE capital funding) and other plans to develop provision to meet future skills demands.

5. An exploration of where efficiencies could be achieved through:
   • Aligning and integrating skills provision with other funding and services that supports Londoner’s into work;
   • Minimising duplication of spend on skills development for identified cohorts of learners in London between national agencies, government and local programmes;
   • Streamlining administrative functions and standardising approaches for collating and disseminating labour market intelligence.

An indicative timeline of key milestones for developing and implementing the skills devolution proposition, including conducting Area Based Reviews is outlined below.
<table>
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| 2015 | • Develop and agree the approach to Area Based Reviews (ABRs) in London  
      • Establish an interim London Skills Steering Group  
      • Appoint a London Skills Commissioner  
      • Conduct further analysis on current delivery and future needs to inform ABRs  
      • Develop a full business case and transition plan for skills devolution |
| 2016 | • Establish sub-regional skills and employment boards  
      • Begin first London Area Based Reviews  
      • London Skills Steering Group begins to develop London Skills Strategy  
      • Sub-regional boards begin collating and sharing labour market intelligence  
      • Sub-regional boards develop sub-regional commissioning strategies  
      • Establish London Skills commissioning function to commission delivery of ASB for 17/18 |
| 2017 | • Complete London Area Based Reviews  
      • SFA budgets and administration devolved to London  
      • London labour market intelligence published in accessible format |

A diagram showing the devolved Skills system in London is set out on the following page /...
Understand local labour market need:
- Collect and analyse information on labour market demand. This includes:
  - Secondary data (e.g. job vacancy data)
  - Primary data gathered through employer engagement
  - Demand intelligence from local development plans
- Feed this information through to the pan-London level to inform a London skills strategy and careers offer
- Share information with local providers to inform their offer

Developing a commissioning strategy:
- Use LMI and pan-London skills strategy to develop multi-year sub-regional skills strategies agreed at pan-London level
- Strategies incorporate priorities for curriculum development, capital investment, and specialisation
- Strategies also set out any specific outcomes for providers to deliver at the sub-regional level
- These are agreed with local providers and with local employers

Commissioning skills provision:
- Align and integrate appropriate budgets (ASB, ACL, ESF, FSF, S106, council core funding) to commission local provision to support low/no-qualified Londoners to progress in learning and work
- Outcome based commissioning
- Aligned with any devolved employment support programmes
- Aligned with other local authority services
- Includes integrating apprenticeship support for employers with local apprenticeship activity and brokerage services

Reviewing outcomes of skills provision:
- Review provider performance against sub-regionally agreed strategies
- This informs oversight and accountability and future commissioning strategy.

Deliver skills provision that is responsive to the local labour market and