Right Skills, Right Jobs

Final Report

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Executive Summary

Investment in employment and skills provision across London is complex and largely driven by national policy drivers rather than the needs of London or Londoners. This has led to a support system that is partially failing driving perverse incentives in the skills system and leaving some Londoners behind.

Quantifying investment

Total investment in employment and skills support, including private sector investment, is approximately £8.4 billion each year. Private sector investment, in the form of training and foregone wages, accounts for four-fifths of total investment at approximately £6.725 billion. Public sector investment in much smaller but still accounts for 1.66 billion each year. Most of this investment is concentrated on skills for young people and adults.

The scope of this study was to quantify adult investment in employment and skills by the public sector and to assess the extent to which it meets London’s diverse needs. In terms of adults (excluding 16-18 skills funding) estimated total annual spend in London is around £700 million, including:

- £577 million (est) on adults skills via the Skills Funding Agency, with approximately £381 million of London’s Colleges. The majority of this budget is concentrated in the adult skills budget.

- £69 million (est) on employment programmes via the Department for Work and Pensions. This includes investment in the Work Programme, Jobcentre Plus support and ESF funding amongst other support.

- £55 million on locally commissioned programmes via Local Authorities, the Greater London Authority and third sector organisations. However, around half of this investment is provided by DCLG for its families programme.

The European Social Fund monies are contained within the wider spending estimate as they cut across local and departmental budgets. However, if combined
and viewed in isolation they account for approximately £103.5 million per year. The vast majority is spent on provision, circa £67 million, to help people into work or to improve their employability. £22 million is spent on in-work support with almost £9 million on in-work and out-of-work support.

Is investment meeting London’s challenges?

London has a series of complex labour market problems. The most pressing of which are:

- Potential skills mismatches between the skills that London’s business demand in a high value added economy and those that are currently supplied by London residents, although this is often overcome by internal and external migration.

- Historic structural employment challenges and entrenched worklessness, with particular problems for people previously classified as long-term and very long-term inactive and Lone Parents. These problems were observed pre-recession.

- Cyclical challenges associated with the fallout from the global financial crisis and short-term economic uncertainty have resulted in an increase in unemployment and rising long-term unemployment that risks turning into a structural phenomenon.

Moreover, there are further barriers that incentivise work and working more less in London that they do in the rest of the UK driven by high cost associated with living and working in London.

Our assessment

Based on our analysis and interpretation of current provision is only partly meeting London’s challenges. Funders have invested heavily in limiting the impact of the recession for the short-term unemployed and those at risk of redundancy, but much of this has been at the expense of London’s existing structural challenges where success has been difficult to achieve.

- Investment in skills appears to be responding to needs in London’s labour market, however, employers continue to report difficulties with employability skills and transferable skills. More worryingly, much of the more
bespoke skills provision designed using European Social Fund money is poorly designed and performing below expectations. This is particularly the case for in-work support. We are unable to assess the extent to which provision and course completions maps to labour market or economic outcomes as this is not measured. Where jobs are measured for college performance purposes only around 10 per cent of people are in work following course completion (although this data is very limited). Clearly, this area needs major reform in the coming years.

- **In terms of employment provision, there is a mixed picture.** The centralisation of employment provision and the closedown of the London Development Agency resulted in a reduction in flexibility in employment support. On the face of it DWP’s provision covers almost the entire spectrum of unemployed people from the short-term unemployed through Jobcentre Plus, to the long-term unemployed through the Work Programme and Young People through the Youth Contact. *Yet, performance has been below expectations on contracted out provision and there remain clear gaps with the Work Programme yet to be as effective for people on Employment and Support Allowance or volunteers. It is also not clear what happens to those people who fail to find work after two years on the Work Programme, which we have previously estimated to more than one in two participants.*

- **At a local level, provision continues to be patchy in terms of its effectiveness and targeting.** Local interventions tend to be competing with mainstream services for beneficiaries, or suffer from much higher levels of deadweight by targeting the very short-term unemployed (below 6 months), despite more pressing challenges locally.

**Is London investing smartly?**

Our analysis indicated a mixed picture on the extent to which provision is designed and procured according to best practice. The lack of a central strategic overview of provision in London, or a mechanism to encourage SMART investment, hampers funders in designing fit for purpose provision. Outcome definitions vary across provision with skills provision failing to adopt an outcome framework at all, despite sustained work featuring in policy rhetoric, and
employment provision struggles with a vast array of measures, some of which adapt to best practice, such as the Work Programme and GLA provision, but others do not (including Jobcentre Plus’s core success metric for jobs.

**Identified gaps**

Our analysis suggests there are number of “gaps” in provision in London that programme or funding should address, these include:

- **Long-term and very long-term inactive claimants.** Despite the Work Programme being designed to support the long-term ILO unemployed and the long-term inactive, provision to date has struggled to make inroads into the inactive population.

- **Lone Parents not eligible for the Work Programme.** Whilst eligibility for the Work Programme for Lone Parents is restricted to those, whose youngest child is 5 or above, some Lone Parents want to go back to work sooner and can find the transition difficult without more specialised support. Restricting support for those with the appetite to work risks potential long-term scarring and embedding entrenched detachment and welfare dependency.

- **Very Long-term unemployed (2 year plus).** Previous analysis has indicated that more than one-in-two people on the Work Programme will be unsuccessful in finding work. Currently plans for support for these people are incomplete. We would advocate locally designed provision, such as a local job guarantee, to tackle those claimants unsuccessful at finding work via the Work Programme.

- **Low paid (below LLW) and cyclers.** Around 650,000 people are classified as low paid in London, and we know that more than a third of new claims are repeat claims. This suggests a significant number of people are cycling or in-work but likely to be on in-work benefits (still costing the Exchequer).

**Improving employment and skills in London**

**Earned autonomy**

Tackling worklessness and increasing skills in London has been a significant challenge for more than two decades. A series of previous attempts have looked to
shift strategic direction of funding, influence mainstream provision or develop a series of targeted interventions at key local challenges. Largely many of these initiatives have proven unsuccessful, with some exceptions. This suggests a more radical approach that places greater power locally may offer greater returns.

We recommend:

**Recommendation 1:** London makes a case for devolution and an Employment and Skills City Deal based on earned autonomy with ESF monies being under the direction of the Mayor of London.

**Skills devolution?**

The Heseltine Review makes a strong case for the devolution of skills funding to cities. However, we do not think that complete devolution of funding is currently the best approach. Rather, a more nuanced approach is necessary to ensure that further unnecessary reforms can be avoided, yet also enables policy makers to assess the impact of college provision.

We recommend:

**Recommendation 2:** Every London Colleges should produce an annual statement demonstrating how their institutions are meeting London’s key skills needs in response to London’s Employment and Skills Strategy.

**Recommendation 3:** The Mayor and the London Enterprise Panel undertake an independent review on adult skills in London. This review should involve College Leaders and independent experts and explore what devolved adult skills provision should could like by 2020, including making some recommendations on institutional change, provider infrastructure and a shift to an outcome based investment framework.

**Future provision**

Our analysis points to a series of gaps in provision in London. We believe that work needs to be undertaken to meet these challenges and should begin immediately if funding can be identified. Where funding is not immediately available, future devolved ESF funding should be targeted at addressing these gaps.
**Recommendation 4:** Immediate work is undertaken to develop a series of programmes to meet identified gaps in service provision across London, as well as testing new approaches to tackling worklessness and low pay across London. These include:

- **A progression programme** aimed at moving people in low paid work and on in-work benefits out of benefits altogether.

- A sector specific **business focussed skills programme** for SMEs.

- A **jobs guarantee** for the very long-term unemployed (2 years plus) who were unsuccessful in finding work under the Work Programme. This should be operational by 2014.

- A **volunteers programme for long-term inactive claimants** not currently in the Work Programme. This programme should be based on similar principles to the LDA “black box” sustained jobs programme.

- A bespoke **Lone Parent Programme** aimed at helping participants to find and progress in work.
1 Introduction

1.1 Background to this study

This paper has been commissioned by the Greater London Authority on behalf of the Mayor of London and the London Enterprise Panel’s Skills and Employment Working Group. It’s intention is to estimate the current investment in employment and skills provision across London (excluding HE) and determine if this investment is meeting the needs of London’s economy, including employers and individuals.

1.2 Structure of this report

This report is intended to provide a robust estimate on the current investment in employment and skills across London. In addition, it will also provide an overview of London’s labour market challenges including the extent to which adult skills investment is meeting current and future labour demand.

We begin, in section 2, by estimating total investment in employment and skills in London before exploring the expenditure of core supply side funding for employment and skills provision at a further level of granularity. Section 3 revisits London’s labour market challenges by providing a headline supply and demand side analysis of the labour market in London. In section 4 we perform a skills matching exercise and apply this methodology to the “Working Futures” labour market forecasts for London. Finally, in section 5 we bring this analysis together and offer an assessment on the extent to which provision is meeting London’s needs and a series of recommendations on where London should focus its efforts to improve employment and skills in the future.
2 Quantifying employment and skills provision in London

2.1 Introduction

The Mayor of London and the London Enterprise Panel’s Skills and Employment Working Group (SEWG) wishes to develop a more extensive understanding of skills and employment provision in London, including: who is investing; what they are investing in; and how much they are spending.

2.2 Methodology

Our approach builds on previous attempts to quantify the extent and type of provision in London and elsewhere in the country. Our audit strategy includes a mixed methods approach that draws on the intelligence and experience of funding bodies in London as well as a bespoke questionnaire aimed at local authorities. To supplement this analysis we have also undertaken desk based research to estimate annual spend of major national programmes and investment in skills by the Skills Funding Agency and the Education Funding Agency.

Estimating expenditure and investment on this scale is a difficult task. Therefore our estimates are just that, and as close as we can get to quantifying the scale of investment on an annual basis across London. We are hampered by:

- **Inability to access a full set of data across all interventions consistently.** Some of this is due to data and programme confidentiality, data gaps, or funders not full engaging in this process;

- **Different funders use different approaches.** There is currently no consistent approach to planning, commissioning or accounting for spend and provision across London. Annual spend is treated differently including the use of academic year and calendar years, as well as different approaches to managing contracts.
including Payment by Results (see below), defrayed expenditure etc. This makes comparisons across programmes more difficult.

- **Focussing on forecast (planned) spend rather than actual.** Ordinarily, such an exercise would focus on actual spend and be undertaken retrospectively one of two years hence. However, the delay in accessing this data is likely to hamper future planning of employment and skills provision. As part of the purpose of this exercise is to assess whether or not existing interventions are meeting London’s needs it makes more sense to focus on forecast spend. All of our analysis is based on forecast spend.

- **Capturing programme expenditure as part of multi-year programmes.** Where this is the case and annual expenditure is not provided we have estimated annual spend by dividing programme/project budgets by the number of years on the given programme, although we acknowledge that this will not capture the detail of PbR methods (see below);

- **Introduction of Payment by Results methods.** The introduction of Payment by Results (PbR) contracting has made this type of exercise more difficult as project profiles and payment milestones can vary within and between programmes, and expenditure tends to be back loaded varying in line with performance - underperformance is likely to lead to under spend. Where PbR schemes do exist we are treating them as multi-year programmes;

### 2.2.1 Complexity of provision and investment

The employment and skills system is hugely complex and consists of a range of different actors and interventions across the public, voluntary and private sectors, as well as investment made by individuals. Programmes are designed and developed at local, sub-regional, city-wide and national levels.

Public sector investments are the easiest to quantify and are most relevant for further exploration given the remit of the London Enterprise Panel’s Skills and Employment Working Group, however, the investment by firms is significantly higher than any public sector investment, albeit more difficult to quantify in a study such as this.
Understanding key funders

At the national level a range of Department’s have responsibility for various policy areas linked to the skills and employment agenda. This is where the majority of spend on employment and skills programmes is derived - as London receives a proportion of national spend based on an array of different methodologies.

Understanding the various remits and roles is important in understanding the choices national actors make in commissioning and delivery of services. They include:

- **The Department for Work and Pensions (DWP).** DWP lead on programmes to tackle unemployment and worklessness (such as the Work Programme) with the aim of increasing the labour supply, as well as administering elements of the current out-of-work benefit system, and from next year the staged introduction of the Universal Credit. DWP also funds Jobcentre Plus, the UK’s public sector employment service, who delivers front-line back-to-work support and applies conditionality to claimants as part of the wider welfare regime. DWP invests the majority of central Government funds aimed at out-of-work claimants.

- **Department for Business, Innovation and Skills (BIS).** BIS lead on investment in adult skills and set the strategic framework in Government for the Skills Funding Agency (SFA). The SFA administer investment in adult skills on behalf of the Department. Expenditure by the SFA includes investment in adult education via colleges and private sector training providers. BIS also manages the Government’s investment in Higher Education via the Higher Education Funding Council for England (HEFCE) although this is out of scope for this work.

- **Department for Education (DfE).** DfE lead on investment in young people, and largely schools. In the context of our scope, we are only capturing spend on young people where they are in either Six Forms or in Further Education. Spend is administered by the Education Funding Agency.

- **Department for Communities and Local Government (DCLG).** DCLG tends to invest in programmes and projects aimed at increasing community cohesion, local growth, regeneration and housing. Historically, the Department tended to fund more local initiatives that gave local authorities funding, such as the Working
Neighbourhoods Fund. More recently DCLG have developed the “problem families” initiative, as well as providing match funding for the Mayor’s Regeneration Fund.

- **The National Offenders Management Service (NOMS)** is an Executive Agency of MoJ bringing together the headquarters of the Probation Service and HM Prison Service to enable more effective delivery of services. In the context of employment and skills provision they work closely with the SFA on up-skillling offenders and using their own PbR model in helping ex-offenders back to work.

This is only part of the picture and **in London there is added local complexity** as a result of London’s size, economic geography and a unique policy landscape with 33 Local Authorities and a City Mayor. Funders in London include:

- **The Mayor of London and the Greater London Authority (GLA).** Since the abolition of the London Development Agency the GLA has taken over responsibility for economic development at the city level. Part of this remit includes investing in schemes to increase employment and skills for adults and young people, as well as administering the European Social Fund on behalf of the Mayor.

- **European Social Fund (ESF) in London.** The ESF programme is a multi-million pound, multi-year programme to increase employment and skills, as well as tackling disadvantage. The Mayor of London and the GLA are currently the Managing Authority for ESF funding in London exercised via the European Programme Management Unit. However, spending decisions and programme design are managed by each Co-financing Organisation, such as national departments, London Councils, NOMS and the GLA.

- **London Boroughs** have historically invested to varying degrees in similar programmes and through **London Councils** they are able to access ESF funding. However, in recent years budgets have become tighter and boroughs are having reduce spending and choose between competing priorities.

- **National and local trusts and charities** have historically invested to varying degrees in similar programmes in London. The current major investor in London is the Big Lottery, although a range of other organisations, such as Trust for London
and the Joseph Rowntree Foundation amongst others have also made investments in recent years.

Employers are the biggest local investors in skills and training and tend to work with colleges and private training providers, as well as designing and funding their own in-house provision linked to business strategies, staff development and job roles.

2.3 Estimating total spend on employment and skills in London

Capturing total expenditure on employment and skills in London in any given year is an inexact science. It is useful insofar as helping policy makers to understand the extent to which the public and private sector invest. We estimate that around £8.4 billion is spent each year on employment and skills in London. Four-fifths of this funding, £6.725 billion, is spent by London employers and includes investment in skills, as well as the cost to employers of training estimated by foregone wages.¹ The public sector investment is around one-fifth of total investment at just over £1.66 billion each year.

¹ For a more detailed description of employer investment in skills see UKCES (2012) UK Employers Skills Survey
2.3.1 Public sector investment

Our estimate for annual public sector investment in employment and skills in London is £1.66 billion. Skills provision makes up the majority of spending and accounts for more than £9 in every £10 spent in London each year. More than half of total spend, approximately £950 million, is spent by the Education Funding Agency on 16-19 year olds as part of the Government’s investment in post 16 education. The majority of this spend is targeted at colleges and schools and that includes six-form provision. A further third of total expenditure, £577 million, is spent on adult skills by the Skills Funding Agency which is largely made up by the adult skills budget.

DWP investment, which includes the Work Programme and Jobcentre Plus programmes, makes up only slightly over 4 per cent of total spend at £68.6 million pounds. If we were to include monies spent on benefits including housing benefit, Jobseeker’s Allowance and Employment and Support Allowance amongst others, this cost would be considerably higher. We estimate that only 3.3 per cent of London’s annual spend is commissioned at a local level via local authorities or the Mayor of London.
London, and even this figure includes £25 million invested by DCLG as part of its families programme, see figure 2.2.

**Figure 2.2: Public sector investment in employment and skills in London**

- **EFA**, £949,384,691
- **CLG**, £25,160,000
- **DWP**, £68,625,858
- **LA's and others**, £19,498,592
- **SFA**, £577,216,035
- **NOMS**, £6,666,667

Source: Inclusion estimates

### 2.3.2 Programme spend (excluding EFA)

For the purposes of this analysis it makes sense to remove Education Funding Agency’s investment in young people’s education. If we remove this funding we estimate that expenditure on employment and skills in London is **approximately £700 million each year**. Approximately 80 per cent of investment in employment and skills using this measure is on adult skills and administered by the Skills Funding Agency. DWP programme spend, including investment in Jobcentre Plus programmes, accounts for almost 10 per cent at approximately £68.6m each year. Locally commissioned provision accounts for approximately 8 per cent of funding at £55 million, see figure 2.3.

**Figure 2.3: Annual estimates for public sector investment in employment and skills in London (excluding EFA)**
2.4 Public sector investment by funder

2.4.1 Department for Work & Pensions

Total estimated expenditure: £68.6 million

The Department for Work and Pensions is the main funder of labour market interventions for the unemployed and long-term unemployed. It funds Jobcentre Plus and has commissioned a series of national programmes where London has a regional allocation as part of the nationally designed programmes, such as the Work Programme or Work Choice, see figure 2.4.
Contracted out provision

- **Work Programme.** DWP’s main programme expenditure in London is the Work Programme, its flagship Welfare to Work programme to tackle long-term unemployment and commissioned nationally. The Work Programme is estimated to spend approximately £24 million each year using our multi-year methodology. However, in reality expenditure on the Work Programme is likely to vary year to year and be back loaded due to the PbR contracting methods. Not included within the Work Programme figures is the additional funding for Incapacity Benefit and Income Support volunteers which is estimated to account for a further £2.7 million a year.

- **Day one support for young people.** This is a pilot project targeted mandatory day one support for young people when they make an initial claim for JSA with expenditure estimated at £12.3 million. This spend is co-financed by ESF and co-designed with Mayor of London and the GLA. This project is a one-off pilot and
likely inflates local levels of expenditure. Depending on the outcomes from the programme it may also be rolled out nationally.

**Other contracted provision**

DWP also funds a range of further nationally developed programmes that include:

- £9.6 million per year on Work Choice to help disabled people find and retain work;
- £4.4 million per year for the Youth Contract as part of a wage subsidy scheme for young unemployed people;
- £8.3 million per year on Families with multiple problems primarily aimed at moving families and households where nobody works closer to the labour market.
- £6.7 million per year on the New Enterprise Allowance scheme for unemployed people starting up businesses;

**Jobcentre plus**

Jobcentre Plus (JCP) programme spend is the next largest investment in programmes by DWP and accounts for approximately £20.2 million per year. Jobcentre Plus programme investment is predominately targeted at tackling short-term unemployment in the first 12 months of an individual’s unemployment spell. In recent years JCP has been given greater freedom and flexibility to spend its local allocations on local need. Unlike DWP’s mainstream nationally commissioned provision this does enable London Districts to determine how and what they intervene on. Anecdotally, the evidence suggests that these freedoms and flexibilities have been relatively effective in managing caseloads and freeing up JCP provision to target local demand. An example of this approach is the work carried out in East London with local boroughs and the GLA on Olympic Jobs and Games Graduates.

Figure 2.5 shows JCP spend and incorporates the various strands of JCP provision. Local flexibility is provided by the Flexible Support Fund, and in London this is targeted on a combination of training provision (work focussed), removing barriers to work and partnership initiatives. In addition, JCP also has access to £620,000 for
Rapid Response, usually in collaboration with SFA support, to help those employees in firms who have been made redundant (firms will need a lower threshold of employees). This funding does not include running costs of offices or staffing which is considerable across London.

**Figure 2.5: Jobcentre Plus annual estimated programme expenditure**

<table>
<thead>
<tr>
<th>Programme</th>
<th>Estimated Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSF - TRAINING</td>
<td>£5,731,934</td>
</tr>
<tr>
<td>FSF - PARTNERSHIP INITIATIVES</td>
<td>£4,731,552</td>
</tr>
<tr>
<td>FSF - REMOVING BARRIERS</td>
<td>£8,682,873</td>
</tr>
<tr>
<td>FSF - WORK TRIALS</td>
<td>£40,949</td>
</tr>
<tr>
<td>NON-FSF PROGRAMMES</td>
<td>£418,673</td>
</tr>
<tr>
<td>RAPID RESPONSE</td>
<td>620,000</td>
</tr>
</tbody>
</table>

Source: JCP London in-year estimates. Programme budget only

### 2.4.2 Skills Funding Agency

**Estimated total: £577 million per year**

The Skills Funding Agency (SFA) is the main funder of adult skills provision in England. It administers the adult skills budget and other funding streams on behalf of the Department for Business Innovation and Skills. Each year the SFA publishes its initial allocations for further education provision. This funding includes College
allocations, but also allocations for private providers, local authorities and other FE institutions.

Expenditure on London providers accounts for approximately 16 per cent of the national total, at **£577 million per academic year.** The majority of this budget is made up from expenditure from the Adult Skills Budget, which accounts for around £448 million, see figure 3.6 for a breakdown of total expenditure for London registered providers.

**Figure 2.6: Estimated London allocation for 2012/13**

Source: Skills Funding Agency Allocations 2012/2013 August 2012, SFA (London breakdown)

Whilst this breakdown is possible at a London level, the figure is slightly misleading, in that it includes total expenditure for providers registered in London, rather than provision delivered in London. It is possible therefore; that it includes funding for provision not delivered in London and should be used with caution.

In order to derive an estimated figure for expenditure by London Colleges it is possible to isolate only those colleges registered as members of the AoC in London. Using this definition we estimate that the **total annual allocation for London Colleges in London in 2012/13 is £381 million**, with approximately £329 million estimated to be spent on the Adult Skills Budget alone.
Figure 2.7: SFA allocated expenditure on London Colleges (AoC registered)

Source: Skills Funding Agency Allocations 2012/2013 (August 2012) / Inclusion (London breakdown). NB Breakdown excludes the Joint Investment Programme which is nominal

2.4.3 Other local spending

Estimated total: £61.4 million

Outside of DWP and SFA expenditure there is a range of employment and skills provision that is more localised in the way it is designed and developed. This includes expenditure by the GLA, DCLG, Local Authorities and London Councils, as well as NOMS, see figure 3.8. This funding includes:

- **£25 million per year on DCLG’s Troubled Families programme** aimed at supporting those families that cause the most disruptions and social cost in local communities to change their lives. This programme is directed centrally but relies heavily on local interventions by London Boroughs.

- **£10 million per year via the Mayor’s own programmes** which include Olympic Legacy programmes, efforts to help young people into sustained work or training.
- **£20 million across London’s Local Authorities, London Councils and the Big Lottery programmes.** This includes LA’s own investment in efforts to tackle worklessness and increasing apprenticeships, as well as the Big Lottery’s grant making schemes in London.

- **£6.6 million per year via the NOMS scheme** to help offenders and ex-offenders reintegrate into society through investment in skills and welfare to work support.

**Figure 2.8: Other more localised spend in London (annual estimate)**

| Source: Inclusion estimates using primary data from funders and National specifications |

**2.4.4 European Social Fund**

The European Social Fund was originally established to provide innovation and added value above and beyond mainstream provision. However, in recent years it has often been used to supplement investment in areas of spending contraction or to respond to unforeseen economic circumstances, such as the fallout from the global financial crisis.

More often than not statutory funding for mainstream programmes has been the priority for National Co-Financing Organisations and innovations seen elsewhere in...
their provision have tended to be absent in ESF provision. For instance, major innovations in contracting out employment services have been made by DWP since the publication of their Commissioning Strategy, such as through the Flexible New Deal and the Work Programme, with a clear focus on outcomes, sustainability and performance, yet many of its ESF commissioned provision tends to focus on shorter success measures, are less outcome focussed and have lower performance expectations.

It should be noted that the majority of these figures do not feature as standalone elements of the total London allocation as they are captured elsewhere in the expenditure.

In terms of annual expenditure using 2011-2013 spending programmes as our baseline, we estimate that annual ESF spend is approximately £103.5 million, see figure 3.9. More than half of this spend is commissioned by the Skills Funding Agency who we estimate spend to be approximately £60 million in London over this period. DWP’s proportion of annual spend is smaller at approximately £23.3 million and half of this is accounted for by the Day One support for Young Unemployed people which is a one off programme.

**Figure 2.9: Forecast annual ESF expenditure in London**

Source: Author’s analysis of European Programme Management Unit London CFO programme 2011-2013
If we analyse these figures against in-work and out-of work provision it is clear that **out-of-work support makes up the vast majority of provision accounting for more than two-thirds of provision under ESF at approximately £67 million per year.** In-work provision accounts for almost one-fifth of all provision at approximately £22 million per year. The remaining £8.7 million straddles both in-work and out-of-work support, see figure 3.10. This support is predominately made up of interventions to help those likely to be made redundant or recently made redundant to help them re-integrate into work quickly.

### Figure 2.10: ESF provision in London by in-work, out of work or both (annual estimate)

- **In-work**
- **Both**
- **Out of work**

Source: Author’s analysis of European Programme Management Unit London CFO programme 2011-2013

#### 2.5 Analysis of existing provision

There is considerable investment in employment and skills provision in London, yet there remain serious questions as to whether this is meeting London’s complex labour market challenges. Chapter three looks at these challenges in detail, however, a rapid review of current interventions offers a series of observations:

- **Confused measures of success for employment provision.** Across London, and the UK, there are a variety of different success measures ranging from
“moving closer to the labour market”, job entry and sustained jobs at 26, 52 weeks and beyond. DWP alone uses all of these across its ESF, contracted-out and mainstream JCP provision suggesting there is a lack of consistency within organisations too. Many of the measures used conform to status quo bias rather than a particular economic or business case for continuation.

- **Skills investment has yet to shift to outcomes.** The dominant success measure for skills remains qualifications that are little more than a proxy for labour market or economic returns. Increasingly, policy is beginning to shift to outcomes and more tangible labour market or economic measures, such as increased productivity, jobs, wage gain or progression. However, we have yet to see any significant changes in provision or how provision is commissioned.

- **Strategic investment decisions are not made locally.** More than £8 in every £10 spent on employment programmes in London is designed according to national guidelines. In this sense, London is not in control of its own destiny. Where limited powers have previously existed, such as the London Skills and Employment Board or under the ESF managing authority status, national priorities which take precedent has often crowded out London’s voice over that of Departments resulting in provision failing to meet local needs.

- **Limited local influence over skills funding.** In the context of skills, local areas and cities have no direct levers to influence the design of provision. Whilst the expectation is that colleges and providers adapt their provision to “fit” local economic demand and align to labour market opportunities, there are no formal mechanisms in place to ensure this happens.

- **National programmes have worked less well.** Historically this has been due to the complexities of London’s labour market and differences between London and the UK. Often nationally designed provision fails to account for the institutional complexities of operating in London, a point noted during a roundtable on families provision earlier in the year.

- **Mixed record on programme and project design, including poor VFM.** The complexity of London’s employment and skills system is often misunderstood and overall understanding of best practice in programme design is wanting. This suggests a clear capability deficit. As a result, programmes that are designed can
often overpay for outcomes, have high levels of deadweight, double funding (paying for the same intervention twice), underperformance and poorly targeted provision with some groups missing out on provision despite need. This has both social and economic costs.
3 London’s labour market: a headline analysis

3.1 Introduction

London is a leading global city and service economy competing internationally in high value added goods and services with international specialism’s in financial and business services, accountancy and law. London consistently outperforms many leading cities on global comparator indices and is a leading destination for international and European firms looking to establish EU and Global Headquarters. As a result, London is the engine of the UK economy accounting for 18 per cent of UK Gross Value Added (GVA) and around one-fifth of all UK tax revenues.

London has benefited greatly from globalisation, but these gains have not been evenly shared across the city or its population. London’s employment rate has consistently lagged the UK for more than two decades despite accounting for a large proportion of total UK job growth in the last decade. Moreover, London is home to the largest levels of income inequality outside of the US (a trend that has continued despite the recession) and inner London has the highest rate of child poverty in Europe.

The following chapter explores the key trends on the supply side of the labour market, such as employment, unemployment, inactivity and skills, before looking at key demand side trends including jobs and vacancies.

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2 GLA Economics, (2009), Economic Evidence Base
3 City of London Corporation, 2011, London’ Place in the UK Economy, Oxford Economics
3.2 Supply side

There are around 5.5 million working age people in London. Almost 3.8 million people are in work and approximately 1.73 million are out of work, see figure 3.1. More than one in two Londoners, 3.12 million people, are in work and being paid the London Living Wage\(^6\) and above, while around one in ten are working but paid below the London Living Wage. Unemployed Londoners make up two in every five out of work Londoners. The remaining out-of work Londoners are classified as inactive and include students, people looking after family/home and the long-term sick.

Figure 3.1: An overview of working age Londoners in the labour market

Source: Labour Force Survey

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\(^6\) Using 2011 London Living Wage definitions
3.2.1 Employment at city level

London’s working age employment rate is amongst the lowest of the UK regions at 68.8 per cent. It rose by 1.5 percentage points in the three months to June 2012 to reach its highest points for 18 months, but remains some way below the pre-recessionary peak of 70.5 per cent despite a recent “Olympic bounce”. London’s employment rate has historically lagged the UK average employment rate for more than two decades, see figure 3.2.

![Figure 3.2: Long run working age employment rates in London and UK](image)

Source: Labour Force Survey

London’s underperformance is driven by a series of complex interdependencies, including:

- **Demographics.** London has a higher proportion of the working age population experiencing labour market disadvantage;

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7 Source: Labour Force Survey, Apr-June 2012, ONS
8 Inclusion/London Skills and Employment Observatory analysis of Labour Force Survey, Apr-June 2012, ONS
Intense competition for jobs. London attracts talent from across the UK and internationally, many of whom who are happy to compete for entry level vacancies. This results in intense competition and some Londoners being crowded out of the entry level labour market; and

weaker work incentives and support programmes. The high cost of living and working in London reduces the gains from working, especially for those working in part-time or low paid jobs. In addition, programmes designed to help people find work have been less effective in London relative to the rest of the UK compounded by costs of delivery and tougher labour market competition.

These experiences are particularly acute for certain disadvantaged groups in London, see figure 3.3. In particular:

- The lone parent employment rate is 21.8 percentage points below the London average employment rate and 11.8 percentage points below the equivalent UK rate (four-quarter average to March 2012).

- The employment rate for disabled people is 23.5 percentage points below the London average employment rate and 3.3 percentage points below the equivalent UK rate (12-month average to March 2012).

- The employment rate of people from Black, Asian or Minority Ethnic (BAME) groups is 8.9 percentage points lower than the London average at 59.1 per cent. This is marginally higher than the equivalent BAME rate for the UK at 58.9 per cent (12-month average to March 2012).
Figure 3.3: Employment rates for disadvantaged groups in London and UK

Source: APS, April 2011-Mar 2012. Four quarter average to LFS July-September 2011 for Lone parents. Gaps relate to percentage points difference to UK average.

3.2.2 Sub-regional and borough level employment

The figures for London as a whole disguise major differences between certain sub-regions and individual boroughs within London.

Sub-regional employment

Inner and Outer London are well established geographical sub areas in London, but in addition the London Skills and Employment Observatory (LSEO) has also analysed other economic and spatial areas aligned to locally led borough groupings, such as:

- **West London**: made up boroughs in the West London Alliance (Barnet, Brent, Ealing, Harrow, Hillingdon and Hounslow) which was established to develop collaborative strategies and initiatives on key issues such as transport and economic development; and to improve the provision of public services.
The Olympic Host Boroughs: Barking and Dagenham, Greenwich, Hackney, Newham, Tower Hamlets and Waltham Forest.

Thames Gateway: This is an area of land stretching east from inner east London on both sides of the River Thames and the Thames Estuary. The area was designated a national priority for urban regeneration and includes the Olympic Host boroughs and Bexley, the City of London, Havering, Lewisham and Redbridge.

Figure 3.4 compares working age employment rates across London’s sub-regions. It shows that all sub regions have an employment rate below the national rate (70.1 per cent). The average rate for the Olympic Host boroughs is the lowest at 63.9 per cent, over six percentage points below the national rate and four percentage points below the London rate of 68 per cent. However, the Olympic Host Boroughs have seen employment levels rise above pre-recessionary rates, suggesting these boroughs may have seen an “Olympic effect”. This is all the more interesting given that the other sub regions in London and the UK and London average employment rate have not seen similar increases or a return to their pre-recessionary peaks.

Figure 3.4: Working age employment rates UK, London and London sub-regions, 2006 to 2012

Source: Annual Population Survey (12 month averages). NB We have used the latest borough level data and for consistency and comparison purposes aligned this data with UK and London equivalents.
**Borough level employment**

Employment rates vary significantly across London’s boroughs, with an employment-rate range of almost 20 percentage points. The borough with the lowest employment rate is Newham at 57.1 per cent and the borough with the highest is Wandsworth at 76.9 per cent.

Ten of London’s boroughs have an employment in excess of the UK average employment rate, and a further seven have employment rates at or above the London average. However, some of the boroughs with very low employment rates, including Kensington and Chelsea, Westminster, Tower Hamlets and Camden are centrally located and tend to have higher job densities (as a proportion of working age population) suggesting these areas do have employment opportunities. However, many disadvantaged local people in these boroughs have struggled to compete for these jobs.

**Figure 3.5: Working age employment rate by borough**

3.2.3 Unemployment and inactivity since 2007 to 2012

In the aftermath of the global financial crisis ILO unemployment and inactivity rose, see figure 3.6. ILO unemployment had been on a steady upward trajectory and peaked at almost 420,000 unemployed Londoners and an unemployment rate of 10.3 per cent in the three months to January 2012. The number of inactive Londoners increased by around 100,000 post recession and has fluctuated between 1.3 million and 1.36 million. It reached a five year peak in the three months to March in 2012, before falling back to around 1.32 million on the most recent figures.

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9 ILO unemployment is measured by a quarterly survey and defines the unemployed as those who are out of work, have actively sought employment in the previous four weeks and are available to start a job in the next two weeks. Claimant count unemployment is the number of people who claim Jobseeker’s Allowance (JSA). The ILO measure of unemployment includes people who claim JSA and others who do not. Economic inactivity captures the number of people who are not deemed immediately available for work and includes students, people out of work due to long and short sickness and those looking after their home or family.
Claimant count unemployment, those claiming Jobseeker’s Allowance, tends to be more timely than other measures of unemployment as it relates directly to people claiming benefit. It is lower than the ILO measure of unemployment and relatively more stable. Claimant count unemployment in London (residence-based) tends to be higher than the UK measure and follows a similar pattern to ILO unemployment, that is, when labour demand and employment decrease claimant count unemployment increases. As a result when labour demand fell post recession claimant count unemployment rose (albeit with a 6-9 month lag), see figure 3.7. London’s claimant count began to climb in April 2008 and reached almost 230,000 claimants by October 2009 an increase of 100,000, equivalent to an 80 per cent rise over this period. It reached its five year peak in December 2011 and has begun to fall since the beginning of 2012.

**Figure 3.7: Claimant count unemployment in London**
Economic inactivity often results from a diverse range of reasons including people in full-time education or long-term sickness. In London, the majority of people classified as economically inactive are students and people who have decided to look after their family or home. However, not all of the economically inactive are happy to remain so. Figures for London find that around one in four, or 368,000 people, want to work (a similar number to the ILO unemployed). This suggests that London has a supply of available workers that have yet to be fully utilised.
Worklessness is measured as the total number of out-of-work working age people combining those actively seeking work and those that are economically inactive. On this measure, around one in three working age people are workless, or almost 1.7 million Londoners. A higher proportion than in the UK, where one in four are classified as workless.

### 3.2.4 Recent performance on unemployment

The latest figures show an encouraging fall in both the number and rate of ILO unemployed in London. In the three months to June 2012 the number has fallen sharply by 42,000 to 366,000 ILO unemployed and an the unemployment rate of 8.7 per cent, a drop of 1.1 percentage points and single largest quarterly fall since 1992.

Unemployment data tends to lag the more timely claimant count figures. Over the course of 2010 and 2011 the claimant count remained fairly flat as the number of people who making a new claim for JSA and the number of people leaving the JSA register were broadly the same. However, this year has seen a steady month-on-month decline. In July 2012 around 223,000 people (or 4.1 per cent) were claiming JSA in London, a small decline of 12,500 JSA claimants since January 2012. The
recent small fall in the overall total of JSA claimants resulted from a higher proportion leaving JSA compared to those making new claims. However, recent months have seen a convergence of the numbers of new claimants and leavers. Figures for July 2012 saw 46,000 coming off JSA but also 43,000 new claimants.\textsuperscript{10}

### 3.2.5 Youth Unemployment

Youth unemployment continues to cause serious concern across London as young people tend to feel the brunt of falling demand for labour suggesting much more cyclical volatility.\textsuperscript{11} In the year to March 2012, ILO youth unemployment in London was 25.1 per cent, which is equivalent to 120,000 unemployed young people (aged 16–24). The ILO rate of youth unemployment in the UK was 21.6 per cent. Official youth unemployment figures include those who are studying: if we remove students who are in full-time education, the unemployment rate for London falls to 21.1 per cent and 20.2 per cent in the UK.

Like adults young people who are actively seeking work are much more likely to claim Jobseeker’s Allowance, although only those aged 18 (except in special circumstances) can claim JSA. The number of young people aged 18–24 in London who claimed JSA was 49,885, or 6.8 per cent of the resident population aged 18–24 (July 2012). Whilst the number of new claims has stabilised over recent months but the duration of existing claims has increased alarmingly over the past 12 months, see figure 3.9.

Long-term youth unemployment is typically measured when someone aged 18–24 has been out of work for six months or more, and very long-term unemployment at 9 months or more. Using these definitions London has seen long-term youth unemployment double within the year before falling back over the last quarter to almost 18,000 18-24 year olds claiming JSA for six months or more. More worryingly, the number claiming for 9 months or more is now three times as high as it was a year ago at almost 13,000. These figures are particularly concerning given


\textsuperscript{11} See for instance, OECD Employment Outlook 2009
the impact that extended periods of unemployment have on future earnings and life chances.

**Figure 3.9: JSA claimants aged 18-24 by duration, London**

![Graph showing JSA claimants aged 18-24 by duration, London](image)

Source: Claimant Count, ONS

### 3.2.6 London’s skills profile

As a leading global city London attracts talent from across the globe and its skills profile reflects this. Almost 2.3 million Londoners have high skills, 42 per cent of the working age population. It is with this strong high skilled labour supply that London is able to attract the types of business that contribute to a high value added service economy. At the bottom end, more than half a million people have no accredited qualifications.

The London skills profile has often been characterised as being polarised, but the extent of this polarisation can be misleading. London has a higher number of high skilled residents (NVQ4+) as a proportion of its population at 42 per cent and a high number of its population with low skills (below NVQ2) at 33 per cent with only a smaller intermediate tier (NVQ2, NVQ 3 and trade apprenticeships) at 25 per cent.
However, the low skills profile also includes “other qualifications” which account for 14 per cent of the profile for London’s population. Previous research has suggested that in London these qualifications also consist of a higher proportion of higher qualifications that are not recognised in the UK.

London’s qualification profile is also very different to that of the UK. The UK profile exhibits a more balanced split between low, intermediate and high skills than in London with its polarised profile, see figure 3.10.

**Figure 3.10: Skills profile in London and UK, 2011**

Source: Annual Population Survey

### 3.3 Demand side

#### 3.3.1 Workforce jobs

The number of jobs in the economy is constantly changing. The best measure of the number of jobs at any given time in the UK is the workforce jobs series, which measures the number of filled jobs in the economy on a quarterly basis.
Despite the period of economic uncertainty the **total number of jobs in London reached above 5 million** for the first time and above the pre-recession peak, see figure 3.11. This positive jobs performance appears to bucking the poorer than expected economic trends. The latest figures show an upward trend with almost 100,000 jobs created since Q4 2011.

**Figure 3.11: Workforce jobs in London**

![Graph showing workforce jobs in London from 2007 Q4 to 2011 Q4]

Source: Employer surveys, Labour Force Survey and others, ONS

London is a service sector economy with a total of almost 4.6 million jobs in service industries. The recent reclassification of business service activities across different industrial classifications adds a granularity of detail to the previous figures, although they do not change the major trends, see table 3.1, with wholesale and retail and professional and scientific services accounting for the largest number of jobs with 628,000 and 600,000 jobs respectively.

**Table 3.1: Workforce jobs by industry, Q1 2012**

<table>
<thead>
<tr>
<th>Standard Industrial Classification</th>
<th>Jobs (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale &amp; retail trade; repair of motor vehicles and motorcycles</td>
<td>636</td>
</tr>
<tr>
<td>Professional scientific &amp; technical activities</td>
<td>600</td>
</tr>
<tr>
<td>Human health &amp; social work activities</td>
<td>528</td>
</tr>
<tr>
<td>Administrative &amp; support service activities</td>
<td>478</td>
</tr>
</tbody>
</table>
In terms of medium-term job growth, London created 326,000 net new jobs over the last five years despite the single, largest fall in output in a generation. Three of the top five growth sectors over the last five years saw job contraction in the aftermath of the recession, but all have bounced back since. London’s top five jobs sectors were: Health and social work (+117,000 jobs); Accommodation and food services (+65,000 jobs); professional scientific and technical activities (+47,000); Financial and insurance activities (+38,000); and Education (+36,000). Together they accounted for 303,000 net new jobs, see figure 3.12.
Those sectors that contracted most were: Manufacturing (-35,000), Public Admin (-13,000); Mining & Quarrying (-3,000); Transport and Storage (-3,000); and Construction (-3,000), see figure 3.13.
Figure 3.13: London’s contracting sectors, 2007 to 2012

Despite some sectors contracting it is important to recognise that these sectors still offer job opportunities. For instance, whilst public administration declined by 13,000 jobs since 2007 it still employs almost 480,000 people across London. So future planning needs to recognise job rich sectors in addition to those that are growing and declining.

3.3.2 Vacancies

Vacancies in the economy are a useful indicator on the existence of labour demand and the relative health of the labour market. In its simplest terms, too few vacancies suggests limited or weak labour demand, and too many vacancies suggest a potential mismatch between supply of labour and demand for labour.

Jobcentre Plus vacancies

It is currently not possible to analyse total vacancies in the London economy using official statistics. However, it is possible to analyse entry and intermediate vacancies registered with Jobcentre Plus as a proxy. Jobcentre Plus groups vacancies into
occupations in order to match jobseekers to suitable jobs. Employers mainly use Jobcentre Plus vacancy services for jobs requiring low and intermediate skill levels.

Jobcentre Plus vacancies are both highly seasonal and subject to random shocks, so interpretation requires some care. We have produced a set of seasonally adjusted figures for London, by main occupation group, see figure 3.14.

**Figure 3.14: Entry level and intermediate vacancies in London (JCP)**

![Graph showing entry level and intermediate vacancies in London](image)

Source: Nomis (seasonally adjusted by Inclusion)

Post-recession, there had been substantial rises in vacancies for sales and customer services jobs before a sharp fall in early 2011 – this pattern is repeated again in late 2011/early 2012 which saw vacancies for this occupation at the highest level since 2002 before another steep fall. **Latest figures show vacancies rising again.**

Vacancies for administrative and secretarial jobs, a big source of employment for women, hit the lowest point since this series began in 2002 – they have halved since their high point in 2004. However, elementary jobs continue to rise and are now at their highest level since 2002.
3.3.3 Earnings

Earnings by industry

Figure 3.15 shows that average gross weekly wages in London are higher than the UK average for all sectors, but particularly so in financial services, where the City of London has a huge impact on average earnings. Financial services has by far the highest earnings (at an average of £977 per week), a third more than the second highest earning sector (Information and Communication - £728), and almost three times the level of the lowest earning sector (Wholesale and retail trade - £354).

Figure 3.15: Gross Weekly Wages (Median) by Industry, London vs UK, 2012

Source: ASHE, 2012 (Provisional)

Earnings by Occupation

Analysis of jobs growth against pay growth by occupation demonstrates some interesting trends in London’s labour market that suggests the capital’s economy, like the UK’s, is still underperforming post recession. However, rather than seeing unemployment reach the heights many analysts predicted, what we have seen is
wage stagnation as wages have not kept pace with inflation as a result of rising unemployment.\textsuperscript{12}

Figure 3.16\textsuperscript{13} shows what this new economic reality looks like in London with a greater number of occupations sitting on the left of the change in jobs axis and below the change in median pay axis than we would have seen pre-recession. Therefore, we see a large number of occupations falling into the category of ‘increasing numbers of jobs, with low earnings growth’ (bottom right quadrant) suggesting that employers are having little difficulty filling these kinds of jobs. Several occupations fall into ‘increasing jobs and high earnings growth’ (upper right quadrant) that includes a number of higher level (professional) occupations which are predominantly in the public sector, such as health and protective services.

In terms of declining occupations, there are some that have relatively and high earnings growth (declining jobs and high earnings growth, top left quadrant), which may be caused by recruitment difficulties, for instance in science related jobs or by existing workers driving up wages, even where the overall demand for labour is falling. This latter point is more likely to have been driven by relatively low pay levels in certain occupations rather than significant skill shortages, as it includes occupations such as leisure occupations, process, plant and machine operatives and drivers (some of which may have seen growth because of rises in real wage floors or living wages).

Finally, there has been a large increase in the number of occupations that fall into the category of declining jobs and low earnings growth. Many of the lower level public sector occupations are included within these occupations and likely to have been affected by public sector pay cuts and pay freezes. This category also contains lower skilled construction jobs.

\textsuperscript{12} For a summary of this new analysis, see Gregg P and Machin S (2012) \textit{What a drag: the chilling impact of unemployment on real wages}, Resolution Foundation

\textsuperscript{13} The data uses employment numbers by occupation from ASHE, which are the only ONS employer-sourced occupation numbers. ONS publish them with the caveat that they are ‘for indicative purposes only and should not be considered an accurate estimate of employee job counts’. However, the 2 digit SOC estimates for London generally have low coefficients of variation, which indicate reasonably reliable data, which help illustrate general trends at that level of occupational detail.
Figure 3.16: Growth in jobs and pay by occupation (2 digit SOC), London, 2001-2012

Declining Jobs, high earnings growth
Science, research, engineering and technology professionals
Science, engineering and technology associate professionals
Secretarial and related occupations
Leisure, travel and related personal service occupations
Customer service occupations
Process, plant and machine operatives

Increasing Jobs, high earnings growth
Health professionals
Protective service occupations
Skilled metal, electrical and electronic trades
Sales occupations

Declining Jobs, low earnings growth
Other managers and proprietors
Teaching and educational professionals
Health and social care associate professionals
Administrative occupations
Skilled construction and building trades
Caring personal service occupations
Elementary administration and service occupations

Increasing Jobs, low earnings growth
Corporate managers
Business, media and public service professionals
Culture, media and sports occupations
Business and public service associate professionals
Skilled agricultural and related trades
Textiles, printing and other skilled trades

Source: ONS, ASHE / LFS

MAYOR OF LONDON
ENTERPRISE PANEL
3.4 Future labour demand

3.4.1 Sector based analysis

The projections in Working Futures report, concentrate on anticipating changing skill needs, in the context of changes in general economic conditions. The quantitative occupational and sector projections are driven by an underlying view of sectoral prospects (both output and productivity) in London. According to ‘Working Futures’ London is projected to gain employment in all sectors except ‘manufacturing’ and ‘nonmarket services’ between 2010 and 2020. London’s projected rate of employment loss in the former is poorer than average, but far from the worst, while that in the latter sector is equal to the UK average. See Table 3.2.

Table 3.2: Projected Employment Growth by Broad Sector to 2020 in London

<table>
<thead>
<tr>
<th>All</th>
<th>Primary sector and utilities</th>
<th>Manufacturing</th>
<th>Construction</th>
<th>Trade accomod. And transport</th>
<th>Business and other services</th>
<th>Non-market services</th>
<th>All industries</th>
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<td>73</td>
<td>279</td>
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<td>-0.4</td>
<td>11</td>
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<tr>
<td>Per cent per annum change</td>
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<td>0.2</td>
<td>1.2</td>
<td>1.8</td>
<td>-0.1</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Source: ‘Working Futures’ UKCES

14 This analysis draws extensively on the UKCES Working Futures work and has been chosen as it most closely aligns to the work used by Government in its skills planning.


16 Non-market services comprise public administration and defence, as well as health and education services.
According to Working Futures:

- **The Primary & utilities sector** (which includes agriculture, mining & quarrying; electricity, gas & water) is projected to see only modest output growth over the decade. Employment in the ‘primary & utilities’ sector is projected to recover from the rapid decline between 2000-2010 with the fastest rate of employment increase of any region or nation in the UK, but this remains a very small sector in London.

- **Manufacturing** output growth is projected to average around 2½ per cent per annum. There is faster growth in some technology and R&D-related industries, such as parts of chemicals and engineering, with other sub-sectors expected to perform much less strongly, reflecting continuing intense international competition. Long-term decline in employment in manufacturing is expected to continue, with a loss of around 13 thousand jobs over the coming decade in London (a rate of change of around 1.1 per cent per annum).

- **Construction** is projected to exhibit a similar rate of growth to the manufacturing sector in the medium to long-term. This is in spite of the immediate uncertainties in the housing market and likely to be driven by
investment in major infrastructure projects. Output growth is projected to average around 2 per cent per annum for the period 2010-2020. The sector benefits from positive features such as the public expenditure on projects such as the Olympics and Crossrail despite being hard hit by the immediate fallout from the credit crunch. Over the longer term, employment is projected to increase slightly by 21 thousand jobs over the coming decade (just under 1 per cent per annum), more slowly than the UK average. The Working Futures analysis suggests that his modest growth is likely to be in relation to the low carbon agenda.

- **Trade, accommodation & transport** includes a diverse range of industries, including transport and communications, hotels and restaurants and distribution. Prospects in terms of output and employment growth are equally diverse. Telecommunications is the subsector displaying the strongest growth. Output in the sector as a whole is projected to grow by 2.7 cent per annum. Employment is projected to increase by 73 thousand jobs over the decade to 2020 (just over ½ per cent per annum) with most of the growth accounted for by jobs in distribution, retailing and hotels and restaurants. London is projected to experience one of the fastest annual average rates of employment growth in this sector.

- **Business and other services** also incorporates a diverse range of industries, including computing services as well as business and finance. It was initially hard hit by the fallout from the credit crunch and subsequent recession, especially in the areas of banking finance and real estate. Despite this the sector as a whole is expected to stage a significant recovery, being projected to grow in output terms by almost 4 per cent per annum over the longer term. Employment in the whole sector is projected to increase by around 279 thousand by 2020 (a rate of growth of 1.2 per cent per annum). Other business services (which includes computing services) are expected to see the fastest growth. Employment in ‘business services’ is projected to grow slightly slower than for the UK as a whole.

- **Non-market services** comprise public administration and defence, as well as health and education services. Output in the sector as a whole is projected to grow by just 1 per cent per annum over the coming decade, much slower than in the previous decade. This disguises declines in most parts of the sector in the short-term, as public expenditure cuts bite. While the short-term prospects are
bleak for public sector employment, things do pick up over the longer term as the economy recovers from the recession and the effects of the financial crises, especially in areas such as education and health services. Employment in Non-market services as a whole is expected to decline only slightly over the coming decade (by around 7 thousand in total, around -0.1 per cent per annum). Within this broad grouping, most of the projected job losses are accounted for by public administration & defence.

### 3.4.2 Occupation –based analysis

Changing patterns of employment by occupation are largely dominated by longer-term trends rather than the cyclical position of the economy. Structural changes in the sectoral patterns of employment are a key driver (notably the shift towards a service economy). However, this has become less important in recent years than changing patterns of skill demands within each of the sectors. The latter has been driven by a combination of technological change and organisational change. Skill-biased technological change linked to information and communications technology has been a particularly significant factor, although this has been partially offset by factors leading to skill polarisation, with growth in some relatively lousy and lovely jobs.

#### Table 3.3: Projected Change in Total Employment by Occupation to 2020 in London

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<thead>
<tr>
<th></th>
<th>1 Managers, directors and senior officials</th>
<th>2 Professional occupations</th>
<th>3 Associate and technical professional and related occupations</th>
<th>4 Administrative and secretarial occupations</th>
<th>5 Skilled trades occupations</th>
<th>6 Caring, leisure and other service</th>
<th>7 Sales and customer service</th>
<th>8 Process, plant and machine operatives</th>
<th>9 Elementary occupations</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in thousands</strong></td>
<td>92</td>
<td>199</td>
<td>139</td>
<td>-84</td>
<td>-14</td>
<td>43</td>
<td>-10</td>
<td>-18</td>
<td>8</td>
<td>355</td>
</tr>
<tr>
<td><strong>Per cent change</strong></td>
<td>17</td>
<td>17.2</td>
<td>16</td>
<td>-16.8</td>
<td>-3.7</td>
<td>14.1</td>
<td>-2.9</td>
<td>-9.9</td>
<td>1.8</td>
<td>7.6</td>
</tr>
<tr>
<td><strong>Per cent per annum change</strong></td>
<td>1.6</td>
<td>1.6</td>
<td>1.5</td>
<td>-1.8</td>
<td>-0.4</td>
<td>1.3</td>
<td>-0.3</td>
<td>-1</td>
<td>0.2</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Male</strong></td>
<td>37</td>
<td>56</td>
<td>37</td>
<td>-17</td>
<td>-7</td>
<td>15</td>
<td>-5</td>
<td>-17</td>
<td>18</td>
<td>117</td>
</tr>
<tr>
<td><strong>Change in thousands</strong></td>
<td>10.3</td>
<td>9.4</td>
<td>7.3</td>
<td>-17</td>
<td>-2.1</td>
<td>19.4</td>
<td>-3.9</td>
<td>-9.8</td>
<td>7.5</td>
<td>4.7</td>
</tr>
<tr>
<td><strong>Per cent change</strong></td>
<td>1.8</td>
<td>0.9</td>
<td>0.7</td>
<td>-1.8</td>
<td>-0.2</td>
<td>1.8</td>
<td>-0.4</td>
<td>-1</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Female</strong></td>
<td>55</td>
<td>143</td>
<td>102</td>
<td>-66</td>
<td>-7</td>
<td>27</td>
<td>-4</td>
<td>-1</td>
<td>-10</td>
<td>238</td>
</tr>
<tr>
<td><strong>Change in thousands</strong></td>
<td>30</td>
<td>25.4</td>
<td>28.3</td>
<td>-16.8</td>
<td>-14</td>
<td>12.2</td>
<td>-2.3</td>
<td>-11</td>
<td>-5.7</td>
<td>11</td>
</tr>
<tr>
<td><strong>Per cent change</strong></td>
<td>30</td>
<td>25.4</td>
<td>28.3</td>
<td>-16.8</td>
<td>-14</td>
<td>12.2</td>
<td>-2.3</td>
<td>-11</td>
<td>-5.7</td>
<td>11</td>
</tr>
</tbody>
</table>
The occupations that are expected to show the most significant increases in employment over the next decade (2010-2020) in London are higher level occupations (This is reflected in the increased demand for higher level qualifications in 2020 - level 4 and above), namely:

- **managers, directors & senior officials** (+92,000, 17 per cent, slightly lower than the national rate);
- **professional occupations** (+199,000, 17 per cent, higher than the UK rate);
- **associate professional & technical occupations** (+139,000, 16 per cent, higher than the UK rate).

Caring, leisure & other service occupations are the other main beneficiaries of employment growth, with projected increases of around 43,000 jobs (14 per cent). **Administrative & secretarial occupations** are projected to see significant further job losses of around 84,000 jobs (-17 per cent per).

Declining employment levels are also projected for:

- **skilled trades occupations** (-14,000, -4 per cent);
- **process, plant & machine operatives** (some -18,000, -10 per cent).

Elementary occupations are now projected to see a slight increase in employment, as the service sector in particular generates more such jobs. This polarisation of demand for skills, with growth at both top and bottom ends of the skills spectrum, appears to be an increasingly common feature across developed economies. On the other hand, the continued restructuring of the retail and distribution sectors appears to be leading to a much less optimistic picture for many lower level sales occupations, probably due to the growth of internet shopping. Elementary occupations show an increase of 7.5 per cent for male employees but a 5.7 per cent fall for female employees.
3.4.3 Replacement demand

Employers also need to replace many of their workers who leave due to mortality, retirement, career moves, or other reasons. This so called replacement demand can easily outweigh any losses resulting from structural changes. In ‘Working Futures’ replacement demand is almost 5 times larger than the net changes projected over the decade to 2020 for London. The net requirement or total number of job openings, taking replacement demand into account is expected to be more than 2.2 million, compared to net employment growth of 355,000.

Retirements are the principal component in this estimate. It excludes job openings created by people transferring from one occupation to another or other outflows due to migration (some of which will be filled by similar means). It is possible to identify two broad groups of occupations:

- In the first group positive replacement demand outweighs negative expansion demand. This applies, for example, to administrative & secretarial occupations; skilled trades; and process, plant and machine operatives.
In the second group replacement needs simply serve to reinforce positive employment trends to create even higher net requirements for new job entrants. This applies, for example, to managers; professionals; associate professionals; and caring, leisure and other service occupations.

### Table 3.4: Replacement Demand by Occupation in London

<table>
<thead>
<tr>
<th></th>
<th>1 Managers, directors and senior officials</th>
<th>2 Professional occupations</th>
<th>3 Administrative and secretarial and technical occupations</th>
<th>4 Skilled trades occupations</th>
<th>5 Caring, leisure and other service occupations</th>
<th>6 Sales and customer service</th>
<th>7 Skilled and related occupations</th>
<th>8 Process, plant and machine operatives</th>
<th>9 Elementary occupations</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expansion demand (000s)</td>
<td>92</td>
<td>199</td>
<td>139</td>
<td>-84</td>
<td>-14</td>
<td>43</td>
<td>-10</td>
<td>-18</td>
<td>7</td>
<td>355</td>
</tr>
<tr>
<td>Replacement demand (000s)</td>
<td>235</td>
<td>464</td>
<td>324</td>
<td>226</td>
<td>145</td>
<td>126</td>
<td>116</td>
<td>83</td>
<td>162</td>
<td>1882</td>
</tr>
<tr>
<td>Overall requirement (000s)</td>
<td>327</td>
<td>663</td>
<td>464</td>
<td>143</td>
<td>131</td>
<td>169</td>
<td>106</td>
<td>65</td>
<td>170</td>
<td>2237</td>
</tr>
</tbody>
</table>

Source: ‘Working Futures’ UKCES

### 3.4.4 Overall implications for qualifications

Skill supply, as measured by the highest formal qualifications held by those economically active, is rising rapidly. Many more young people in particular have been encouraged to stay on in education longer and to acquire more qualifications at a higher level. The recession reinforced this pattern as job opportunities for young people dried up. The demand for skills as measured by occupation and qualification is also projected to rise. The numbers of jobs in occupations typically requiring a degree continue to grow while the graduate intensity of many other jobs is rising steadily. How much this reflects demand as opposed to supply trends is open to debate (see table 3.5 and 3.6).

### Table 3.5: Projections of Qualifications: Greater London

<table>
<thead>
<tr>
<th></th>
<th>QCF 0</th>
<th>QCF 1</th>
<th>QCF 2</th>
<th>QCF 3</th>
<th>QCF 4-6</th>
<th>QCF 7-8</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workplace jobs (000s)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>392</td>
<td>705</td>
<td>698</td>
<td>755</td>
<td>1,397</td>
<td>729</td>
<td>4,676</td>
</tr>
<tr>
<td>2020</td>
<td>332</td>
<td>773</td>
<td>635</td>
<td>503</td>
<td>1,650</td>
<td>1,139</td>
<td>5,031</td>
</tr>
<tr>
<td>% share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>8.4</td>
<td>15.1</td>
<td>14.9</td>
<td>16.1</td>
<td>29.9</td>
<td>15.6</td>
<td>100</td>
</tr>
<tr>
<td>2020</td>
<td>6.6</td>
<td>15.4</td>
<td>12.6</td>
<td>10</td>
<td>32.8</td>
<td>22.6</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: ‘Working Futures’ UKCES
<table>
<thead>
<tr>
<th>LEVEL</th>
<th>Base year level 2010</th>
<th>Change 2010-2020</th>
<th>Projected level 2020</th>
<th>Replacement demand</th>
<th>Total requirements 2010-2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>7-8</td>
<td>729</td>
<td>410</td>
<td>1,139</td>
<td>293</td>
<td>703</td>
</tr>
<tr>
<td>4-6</td>
<td>1,397</td>
<td>253</td>
<td>1,650</td>
<td>562</td>
<td>815</td>
</tr>
<tr>
<td>3</td>
<td>755</td>
<td>-252</td>
<td>503</td>
<td>304</td>
<td>52</td>
</tr>
<tr>
<td>2</td>
<td>698</td>
<td>-63</td>
<td>635</td>
<td>281</td>
<td>218</td>
</tr>
<tr>
<td>1</td>
<td>705</td>
<td>68</td>
<td>773</td>
<td>284</td>
<td>352</td>
</tr>
<tr>
<td>No Qual</td>
<td>392</td>
<td>-61</td>
<td>332</td>
<td>158</td>
<td>97</td>
</tr>
<tr>
<td>Total</td>
<td>4,676</td>
<td>355</td>
<td>5,031</td>
<td>1,882</td>
<td>2,237</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LEVEL</th>
<th>%</th>
<th></th>
<th>%</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>7-8</td>
<td>15.6</td>
<td>56.3</td>
<td>22.6</td>
<td>15.6</td>
<td>96.5</td>
</tr>
<tr>
<td>4-6</td>
<td>29.9</td>
<td>18.1</td>
<td>32.8</td>
<td>29.9</td>
<td>58.3</td>
</tr>
<tr>
<td>3</td>
<td>16.1</td>
<td>-33.3</td>
<td>10</td>
<td>16.1</td>
<td>6.9</td>
</tr>
<tr>
<td>2</td>
<td>14.9</td>
<td>-9.1</td>
<td>12.6</td>
<td>14.9</td>
<td>31.2</td>
</tr>
<tr>
<td>1</td>
<td>15.1</td>
<td>9.6</td>
<td>15.4</td>
<td>15.1</td>
<td>49.9</td>
</tr>
<tr>
<td>No Qual</td>
<td>8.4</td>
<td>-15.4</td>
<td>6.6</td>
<td>8.4</td>
<td>24.8</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>7.6</td>
<td>100</td>
<td>100</td>
<td>47.8</td>
</tr>
</tbody>
</table>

Source: 'Working Futures' UKCES
4 Skills matching

Aligning skills needs in the economy to further education provision, both today and tomorrow, is not as straightforward as it might initially seem. The data on jobs and vacancies is not immediately comparable to the skills achievements data that is used by colleges and training providers. Few studies have attempted to match the data on jobs and the data on skills achievements directly. This chapter does this and then draws some broad conclusions on what London’s labour market and skills needs are likely to be in 2020.

4.1 “Skills matching” methodology

In order to provide comparable data to ascertain how skills provision is meeting labour demand locally we have had to undertake a number of steps using a series of data sources and data at different spatial levels.

Skills data

In order to match skills achievements to jobs we undertook an extensive matching exercise, assigning occupations to Individual Learner Records (ILR) at tier 2 Sector Subject Area level. We did this by cross-referencing jobs by Standard Occupation Classification to the Labour Force Survey subject area, which asks respondents for the subject of their first level 2 qualification. This then gives a sense of a person’s first qualification to the occupation group they work in now. This cross-tabulation is based on respondents who answered both questions and is likely to underestimate total figures.

To ensure there are limited gaps in the data we up-rated the final figures to the full resident employment figure. The LFS subject areas were assigned to ILR sector subject areas using research conducted by the IFS on behalf of BIS to match
earnings to qualifications. Four quarters of LFS were combined to produce a more reliable sample.

Jobs and vacancies

We use a variety of jobs data sources within this analysis including current data and future forecasts. These include:

- **Labour Force Survey jobs data** for London classified by 4 digit occupation groups.

- **Vacancy estimates**, drawing on our own methodology using JCP data on notified vacancies in the first instance. Certain sectors and occupations are known to be under-represented in JCP vacancies data. For this reason, we have applied a factor to the number of vacancies in certain occupations to correct for this. This adjustment involves applying a percentage increase to the local area data according to the extent to which JCP vacancies fall short of LFS vacancies at the national level. The vacancy estimate from the LFS uses a variable showing those entering jobs within the last three months. Again, 4 quarters were combined to gain a more robust sample.

- **Projections to 2020.** In order to provide estimates for future needs we have used the UKCES commissioned Working Futures projections which concentrate on anticipating changing skill needs, in the context of changes in general economic conditions, see section 4.7. This data forms the basis of national skills planning and therefore is sensible for these purposes.

### 4.1.1 Data limitations

The process of matching and forecasting is hindered by limitations in the data which do not allow a precise indication of supply and demand across the economy. The skills matching process is experimental and forecasting is an inexact science so we are only able to draw broad conclusions.

---


18 UKCES (2012) Working Futures
4.2 Skills matching today

Our analysis, which matches subject sector areas in the skills data to occupations and jobs in the labour market data on a residency basis, suggests that there are 3.7 million jobs in the Greater London area.\(^\text{19}\)

Of the 3.7 million jobs in the Greater London area, almost 600,000 or 15 per cent are estimated to have studied in the ‘Business management’ subject area. The ‘Business management’ SSA is quite generic, in that a qualification in this area can lead to opportunities in a wide variety of occupations from senior managers to junior administrators and are spread across sectors. Table 5.1 details total jobs by SSA in London, and the proportion of each SSA that make up all jobs in London according to this analysis.

<table>
<thead>
<tr>
<th>Code</th>
<th>2nd Tier Description</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.3</td>
<td>Business Management</td>
<td>572,220</td>
<td>15%</td>
</tr>
<tr>
<td>4.2</td>
<td>Manufacturing Technologies</td>
<td>329,108</td>
<td>9%</td>
</tr>
<tr>
<td>1.5</td>
<td>Child Development and Well Being</td>
<td>294,911</td>
<td>8%</td>
</tr>
<tr>
<td>7.1</td>
<td>Retailing and Wholesaling</td>
<td>206,428</td>
<td>6%</td>
</tr>
<tr>
<td>1.2</td>
<td>Nursing &amp; medical Subjects/Vocations</td>
<td>179,407</td>
<td>5%</td>
</tr>
<tr>
<td>13.1</td>
<td>Teaching and Lecturing</td>
<td>174,248</td>
<td>5%</td>
</tr>
<tr>
<td>15.1</td>
<td>Accounting and Finance</td>
<td>166,698</td>
<td>5%</td>
</tr>
<tr>
<td>9.2</td>
<td>Crafts, Creative Arts, and Design</td>
<td>164,508</td>
<td>4%</td>
</tr>
<tr>
<td>5.2</td>
<td>Building and Construction</td>
<td>159,442</td>
<td>4%</td>
</tr>
<tr>
<td>9.3</td>
<td>Media and Communication</td>
<td>140,353</td>
<td>4%</td>
</tr>
</tbody>
</table>

\(^{19}\) This is different to the jobs data used elsewhere in this report to enable us to conduct the matching exercise.
Those that studied in the ‘Manufacturing Technology’ subject area are mostly in jobs within the energy, electronics, automation and mechanic type occupations. Again, there is a wide range of job levels ranging from managers and directors to manual workers. As London is not renowned as a manufacturing hub many of the Director level jobs maybe those working in company headquarters.

The main occupations within the Child development and Well being tier 2 classification are those working as Care workers and home carers. There are over 100,000 people classified as working within this occupation in the Greater London area, with another 50,000 who are now nurses and the same number again who are Nursery nurses and assistants.

There are over 97,000 employed as Sales and Retail assistants in Greater London and 87,000 classified as Teaching Assistants, some who originally studied in the ‘Child Development and Well Being’ subject area and moved into teaching: there is a natural progression from child development into teaching.

There are 68,000 people classified as working in ‘Other administrative’ occupations, a quarter of these studied ‘Business Management’. Carpenters, plumbers and electricians are also large job groups, most who are self employed.

### 4.2.1 Vacancies to sector subject areas

Our analysis of vacancies is based on a monthly average over a 12 month period to iron out any seasonal factors. The figures are based on JCP vacancies and up-rated to total vacancies using the Labour Force Survey. This analysis is focused largely on entry level and intermediate vacancies, albeit not exclusively.

Our estimates indicate that on average London have approximately 72,000 vacancies in any given month. Table 5.2 shows how these are split using subject sector areas. It suggests that in London:
A quarter of all vacancies in any given month fall within the ‘Marketing and Sales’ subject area. Of these, 14,000 are for sales representatives.

The ‘Preparation for Work’ subject area is the next largest in terms of vacancy numbers and accounts for almost one in five London vacancies.

The Building and Construction subject area continues to offer employment opportunities and accounts for 14 per cent of monthly vacancies, however, given the nature of employment in this sector many will be self-employed contractor opportunities.

Table 4.2: Total estimated vacancies by SSA (all those with over one thousand vacancies in London)

<table>
<thead>
<tr>
<th>Code</th>
<th>2nd Tier Description</th>
<th>2012 Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>15.4</td>
<td>Marketing and Sales</td>
<td>19,369</td>
</tr>
<tr>
<td>14.2</td>
<td>Preparation for Work</td>
<td>13,929</td>
</tr>
<tr>
<td>5.2</td>
<td>Building and Construction</td>
<td>10,611</td>
</tr>
<tr>
<td>4.3</td>
<td>Transportation Operations/Maintenance</td>
<td>9,331</td>
</tr>
<tr>
<td>1.3</td>
<td>Health and Social Care</td>
<td>5,235</td>
</tr>
<tr>
<td>15.1</td>
<td>Accounting and Finance</td>
<td>2,815</td>
</tr>
<tr>
<td>4.2</td>
<td>Manufacturing Technologies</td>
<td>2,718</td>
</tr>
<tr>
<td>7.4</td>
<td>Hospitality and Catering</td>
<td>2,681</td>
</tr>
</tbody>
</table>

Source: Centre for Economic and Social Inclusion, 2012

4.3 Skills matching in 2020

Projecting the job to skill figures forward to 2020 using the estimates from ‘Working Futures’ shows a similar picture in terms of which occupations have the most jobs. However, the actual percentage increases/decreases do not necessarily align with those jobs having the most workers. Business Management – the largest SSA in terms of jobs – only increases by four per cent across London.
Occupations that sit within subjects related to health, such as nursing, social care and child development, see a significant increase, as do those occupations that relate to teaching. Presently, jobs in health account for eight per cent of all jobs (Nursing, health and social care together) and our analysis shows that number of jobs are likely to increase by around 13 per cent. Occupations that relate to the ‘Marketing and Sales’ subject area also show a significant increase, reflecting the number of vacancies presently in this area.

Building and Construction jobs show a fall across all areas – balancing out the high activity presently in the capital. This is due to the predicted declining demand in traditional construction occupations such as electricians, plumbers, carpenters, glaziers and plasterers – which will not be fully offset by new occupations requiring ‘greener’ or updated skills and new working practices.

**Table 4.3: Number and percentage increase in jobs to 2020 (vocational subjects only)**

<table>
<thead>
<tr>
<th>Code</th>
<th>2nd Tier Description</th>
<th>Greater London Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2</td>
<td>Nursing &amp; medical Subjects/Vocations</td>
<td>23,786</td>
<td>13%</td>
</tr>
<tr>
<td>13.1</td>
<td>Teaching and Lecturing</td>
<td>21,481</td>
<td>12%</td>
</tr>
<tr>
<td>15.4</td>
<td>Marketing and Sales</td>
<td>5,247</td>
<td>12%</td>
</tr>
<tr>
<td>1.3</td>
<td>Health and Social Care</td>
<td>11,116</td>
<td>11%</td>
</tr>
<tr>
<td>1.5</td>
<td>Child Development and Well Being</td>
<td>32,098</td>
<td>11%</td>
</tr>
<tr>
<td>5.3</td>
<td>Urban, Rural and Regional Planning</td>
<td>14,959</td>
<td>11%</td>
</tr>
<tr>
<td>11.2</td>
<td>Sociology and Social Policy</td>
<td>4,308</td>
<td>10%</td>
</tr>
<tr>
<td>9.3</td>
<td>Media and Communication</td>
<td>13,556</td>
<td>10%</td>
</tr>
<tr>
<td>1.1</td>
<td>Medicine and Dentistry</td>
<td>5,153</td>
<td>9%</td>
</tr>
<tr>
<td>2.1</td>
<td>Science</td>
<td>5,038</td>
<td>8%</td>
</tr>
<tr>
<td>1.4</td>
<td>Public Services</td>
<td>3,296</td>
<td>8%</td>
</tr>
<tr>
<td>4.1</td>
<td>Engineering</td>
<td>4,699</td>
<td>8%</td>
</tr>
<tr>
<td>14.1</td>
<td>Foundations for Learning and Life</td>
<td>1,006</td>
<td>7%</td>
</tr>
<tr>
<td>15.5</td>
<td>Law and Legal Services</td>
<td>2,182</td>
<td>6%</td>
</tr>
<tr>
<td>8.1</td>
<td>Sport, Leisure and Recreation</td>
<td>2,566</td>
<td>6%</td>
</tr>
<tr>
<td>Subject Area</td>
<td>Vacancies</td>
<td>Change</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------------</td>
<td>-----------</td>
<td>--------</td>
<td></td>
</tr>
<tr>
<td>Preparation for Work</td>
<td>3,691</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Accounting and Finance</td>
<td>9,127</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Performing Arts</td>
<td>2,679</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Crafts, Creative Arts, and Design</td>
<td>8,298</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>ICT Practitioners</td>
<td>5,663</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Business Management</td>
<td>25,161</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Retailing and Wholesaling</td>
<td>9,059</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Other Languages, Literature and Culture</td>
<td>1,831</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Hospitality and Catering</td>
<td>2,377</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Manufacturing Technologies</td>
<td>11,173</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Travel and Tourism</td>
<td>1,914</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Transportation Operations/Maintenance</td>
<td>1,589</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>ICT for Users</td>
<td>1,469</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Horticulture and Forestry</td>
<td>79</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>136</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Building and Construction</td>
<td>-6,469</td>
<td>-4%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Centre for Economic and Social Inclusion, 2012

### 4.3.1 Vacancies by occupation to sector subject areas in 2020

Most increases in vacancies are based on very small numbers and are unreliable; therefore Table 9 only shows those changes for subject areas that originally had 1,000 vacancies. The increases in vacancies are dominated by two subject areas: ‘Marketing and Sales’ and ‘Health and Social Care’. Again, those subject areas that relate to occupations that saw an Olympic related increase are showing a fall in vacancies in 2020, such as occupation relating to construction, transportation and hospitality and catering.
Table 4.4: Number and percentage increase in vacancies to 2020 (for those subjects that originally had more than 1,000 vacancies)

<table>
<thead>
<tr>
<th>Code</th>
<th>2nd Tier Description</th>
<th>Greater London Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>15.4</td>
<td>Marketing and Sales</td>
<td>2,252</td>
</tr>
<tr>
<td>14.2</td>
<td>Preparation for Work</td>
<td>16</td>
</tr>
<tr>
<td>5.2</td>
<td>Building and Construction</td>
<td>-427</td>
</tr>
<tr>
<td>4.3</td>
<td>Transportation Operations/Maintenance</td>
<td>-891</td>
</tr>
<tr>
<td>1.3</td>
<td>Health and Social Care</td>
<td>742</td>
</tr>
<tr>
<td>15.1</td>
<td>Accounting and Finance</td>
<td>-82</td>
</tr>
<tr>
<td>7.4</td>
<td>Hospitality and Catering</td>
<td>-15</td>
</tr>
<tr>
<td>4.2</td>
<td>Manufacturing Technologies</td>
<td>-78</td>
</tr>
</tbody>
</table>

Source: Centre for Economic and Social Inclusion, 2012

4.4 Implications for skills supply and demand

Understanding current and future skills demands is a complex exercise made more difficult by the relative incompatibility of the data used in many of the labour market studies and those used by skills providers for planning. Building on our previous work, Hidden Talents\(^{20}\), we have been able to better match skills and jobs/occupations across the wider economy that can be used to estimate the type of qualifications and courses that are in demand across London. Unfortunately, this type of analysis has its limitations and can only enable broad conclusions to be drawn.

Most of the short-term trends do not show any major significant changes, up or down, that deviate from previous studies and trends observed in London’s labour market. We continue to expect growth in the top and bottom end of the labour market and continued contraction in intermediate jobs. However, the extent that this is observed will vary across and within London.

4.4.1 Drivers for skills investment

In terms of curriculum planning and alignment to jobs in the economy, the most appropriate approach should focus on those subject sector areas and sectors that offer access to:

- *existing employment opportunities*, either in terms of high levels of vacancies or existing jobs as a proportion of total jobs in London;
- *future employment opportunities*, either in terms of net jobs growth or via high levels of replacement demand;
- *meet employer articulated skills gaps and needs* across sectors as expressed either locally or regionally; and
- *Develop transferable skills* that can be used in different occupations and sectors that equip people to adapt and manage change.

4.4.2 Priorities sectors and subject sector areas for London

Our analysis and interpretation of the trends suggest that it is *replacement demand that is the major driver of future labour market opportunities*, as opposed to net new job growth. Therefore, even in sectors that are declining opportunities will continue to become available. As a result, we recommend that London’s priority sectors should focus on *job rich and job growth sectors* (net growth), as well as *job rich sectors*.

- **Job rich and growing sectors** should feature prominently as priority sectors, including Professional scientific and technical activities, Administrative & support service activities; Accommodation & food service activities and Information and Communication.

- **Job rich sectors** should continue to feature amongst key sectors in London, including: Wholesale & retail; Human health & social work activities; Education; and Construction.
From a skills matching perspective, we estimate that the following subject sector areas offer significant opportunities and align with demand in London’s economy:

- Marketing and Sales (quantity, transferability and future demand) and Business Management (quantity and transferability);
- Health and Social Care, Nursing & Medical Subjects/Vocations and Child Development and Well Being (quantity, transferability and future demand);
- Preparation for work (transferability);
- Building and Construction and Manufacturing Technologies (quantity).
5 Improving skills and employment in London

The focus of this paper has been to quantify the level of public sector investment in employment and skills in London, and assess whether this investment is meeting the needs of London and Londoners. The following chapter makes this assessment and proposes a series of recommendations for the Mayor of London and the Skills and Employment Working Group to take forward to improve employment and skills in London.

5.1 Does investment meet London’s challenges?

London has a series of complex labour market problems. The most pressing of which are:

- Potential skills mismatches between the skills that London’s business demand in a high value added economy and those that are currently supplied by London residents, although this is often overcome by internal and external migration.

- Historic structural employment challenges and entrenched worklessness, with particular problems for people previously classified as long-term and very long-term inactive and Lone parents. These problems were observed pre-recession.

- Cyclical challenges associated with the fallout from the global financial crisis and short-term economic uncertainty have resulted in an increase in unemployment and rising long-term unemployment that risks turning into a structural phenomenon.

Moreover, there are further barriers that incentivise work and working more less in London that they do in the rest of the UK driven by high cost associated with living and working in London.
5.1.1 Our assessment

Based on our analysis and interpretation of current provision London is only partly meeting London’s challenges. Funders have invested heavily in limiting the impact of the recession for the short-term unemployed and those at risk of redundancy, but much of this has been at the expense of London’s existing structural challenges where success has been difficult to achieve.

Investment in skills appears to be responding to needs in London’s labour market, however, employers continue to report difficulties with employability skills and transferable skills. More worryingly, much of the more bespoke skills provision designed using European Social Fund money is poorly designed and performing below expectations. This is particularly the case for in-work support. We are unable to assess the extent to which provision and course completions maps to labour market or economic outcomes as this is not measured. Where jobs are measured for college performance purposes only around 10 per cent of people are in work following course completion (although this data is very limited). Clearly this area needs major reform in the coming years.

In terms of employment provision, there is a mixed picture. The centralisation of employment provision and the closedown of the London Development Agency resulted in a reduction in flexibility in employment support. On the face of it DWP’s provision covers almost the entire spectrum of unemployed people from the short-term unemployed through Jobcentre Plus, to the long-term unemployed through the Work Programme and Young People through the Youth Contact. Yet, performance has been below expectations on contracted out provision and there remain clear gaps with the Work Programme yet to be as effective for people on Employment and Support Allowance or volunteers. It is also not clear what happens to those people who fail to find work after two year on the Work Programme, which we have previously estimated to more than one in two participants.

At a local level, provision continues to be patchy in terms of its effectiveness and targeting. Local interventions tend to be competing with mainstream services for beneficiaries, or suffer from much higher levels of
deadweight by targeting the very short-term unemployed (below 6 months), despite more pressing challenges locally.

5.1.2 Is London provision smart?

Our analysis indicated a mixed picture on the extent to which provision is designed and procured according to best practice. The lack of a central strategic overview of provision in London, or a mechanism to encourage SMART investment, hampers funders in designing fit for purpose provision. Outcome definitions vary across provision with skills provision failing to adopt an outcome framework at all, despite sustained work featuring in policy rhetoric, and employment provision struggles with a vast array of measures, some of which adapt to best practice, such as the Work Programme and GLA provision, but others do not (including Jobcentre Plus’s core success metric for jobs.

There also remains a diverse picture when quantifying unit costs. The LDA implemented a major reform in this area with a strong focus on driving better value for money and a cost framework drawing on UK evidence. However, this approach has not been replicated across other funders, although the managing authority for ESF funding in London continues to press funders to justify excessive costs above this framework.

5.1.3 Identified gaps

Our analysis in this paper and drawing on previous research suggests there are number of “gaps” in provision in London that programme or funding should address, these include:

- **Long-term and very long-term inactive.** Despite the Work Programme being designed to support the long-term ILO unemployed and the long-term inactive provision to date has struggled to make inroads into the inactive population. In addition, the scale of London’s very long-term inactivity challenges makes a compelling case for more intensive, targeted support.

- **Lone Parents not eligible for the Work Programme.** Whilst eligibility for the Work Programme for Lone Parents is restricted to those whose youngest child is 5 or above, some Lone Parents want to go back to work sooner and can find the
transition difficult without more specialised support. Restricting support for those with the appetite to work risks potential long-term scarring and embedding entrenched detachment.

- **Very Long-term unemployed (2 year plus) and ex-Work Programme.**
  Previous analysis has indicated that more than one-in-two people on the Work Programme will be unsuccessful in finding work. Currently plans for support for these people are incomplete. We would advocate locally designed provision, such as a local job guarantee, to provide recent work history with the view of moving them into unsupported work thereafter.

- **Low paid (below LLW) and cyclers.** Around 650,000 people are classified as low paid in London, and we know that more than a third of new claims are repeat claims. This suggests a significant number of people are cycling or in-work but likely to be on in-work benefits (still costing the Exchequer).

### 5.2 Where next for employment and skills in London?

**Earned autonomy**

Tackling worklessness and increasing skills in London has been a significant challenge for more than two decades. A series of previous attempts have looked to shift strategic direction of funding, influence mainstream provision or develop a series of targeted interventions at key local challenges. Largely many of these initiatives have proven unsuccessful, with some exceptions. This suggests a more radical approach that places greater power locally may offer greater returns.

This is consistent with the current strategic direction of policy following the Heseltine Review and City Deals more generally. In other areas, such as Housing and Transport, London already has significant devolved power, yet on employment and skills its influence is limited and in some cases, such as in Manchester and Liverpool’s city deals, its powers appear to be less than other key city competitors. This is surprising given London is often cited as being the most devolved city in England.
Recommendation 1: London makes a case for devolution and an Employment and Skills City Deal based on earned autonomy with ESF monies being under the direction of the Mayor of London.

The starting point should be full control over European Social Fund monies, as part of a wider deal of European Structural Funds. Part of this commitment should include the development of a strategic investment strategy for this funding to guide investment of key partners with the London Enterprise Panel driving this direction.

London should adopt and update the early work of the London Development Agency in the development of its Investment Strategy that has widely been recognised as best practice in this field. Under this proposal, the GLA and the Mayor would be able to design and develop employment and skills provision, yet it should be designed to complement mainstream support and to meet identified gaps in London (see future provision section).

This work and London’s ability to deliver should be evaluated and used as an evidence base to support further devolution of employment and skills investment to a city level if it proves to be successful.

Skills devolution?

The Heseltine Review makes a strong case for the devolution of skills funding to cities. However, we do not think that complete devolution of funding is currently the best approach. Rather we believe that a more nuanced approach is necessary to ensure that further unnecessary reforms can be avoided. In the first instance, it is important that Colleges can demonstrate how they are meeting the skills needs of London’s economy and Londoners.

Recommendation 2: Every London Colleges should produce an annual statement demonstrating how their institutions are meeting London’s key skills needs in response to London’s Employment and Skills Strategy.

Adult skills provision in the Capital is complex and we are not able to assess whether providers are achieving success measures for individuals via jobs, wages and progression, or for business in terms of productivity gains. Largely the current system is driven by a series of incentives and central guidelines that reward course
completion and not labour market or economic outcomes. Moreover, the London skills provider network, including Colleges and private training providers, is congested and potentially un-strategic. Given the combined complexities we believe that the Mayor and the London Enterprise Panel should undertake a root and branch review of Adult Skills in London to set out clear recommendations on a devolved adult skills system in London.

**Recommendation 3:** The Mayor and the London Enterprise Panel undertake an independent review on adult skills in London. This review should involve College Leaders and independent experts and explore what devolved adult skills provision should could like by 2020, including making some recommendations on institutional change, provider infrastructure and a shift to an outcome based investment framework.

**Future provision**

Our analysis points to a series of gaps in provision in London. We believe that work needs to be undertaken to meet these challenges and should begin immediately if funding can be identified. Where funding is not immediately available, future devolved ESF funding should be targeted at addressing these gaps.

**Recommendation 4:** Immediate work is undertaken to develop a series of programmes to meet indentified gaps in service provision across London, as well as testing new approaches to tackling worklessness and low pay across London. These include:

- A *progression programme* aimed at moving people in low paid work and on in-work benefits out of benefits altogether.
- A sector specific *business focussed skills programme* aimed at equipping SMEs with the skills they need to grow their business using a payment by results mechanism where bottom line gains feature as a payment milestone.
- A *jobs guarantee* for the very long-term unemployed (2 years plus) who were unsuccessful in finding work under the Work Programme. This should be operational by 2014.
- A *volunteers programme for long-term inactive claimants* not currently in the Work Programme. This programme should be
based on similar principles to the LDA “black box” sustained jobs programme.

- A bespoke **Lone Parent Programme** aimed at helping participants to find and progress in work which would integrate back-to-work and in-work support across the employment and skills system.