



London's skills challenge

Introduction

An effective skills system is critical to developing a productive workforce, which is a key driver of economic growth. For a skills system to be effective it must be genuinely demand-led, responding to the evolving needs of businesses of all types and sizes.

The government spends more than £4 billion a year on adult skills provision in England¹, with £550 million of this in London alone². In this time of squeezed budgets and slow economic growth, it is critical that this investment generates the best possible return. The system is, however, not working as effectively as it should. The employment rate in London lags behind the UK average, and employers attribute 24 per cent of vacancies in the capital to skills shortages, which have a negative impact on performance and growth.

Debate about how to transform this situation has intensified since the publication of Lord Heseltine's review on stimulating economic growth. The review recommended decentralising funding and economic development powers from Whitehall, including devolving skills funding³. In response, the government signalled its intention to devolve skills funding to Local Enterprise Partnerships (LEPs) as part of a single non-ring-fenced spending pot, details of which will be announced in the Spending Round in June 2013⁴.

This paper argues that these measures do not go far enough to meet the scale of London's skills challenge. To maximise outcomes for businesses and individuals the government must be more ambitious in implementing structural changes. London's skills needs are too diverse to be addressed just at a pan-London or LEP level. Full devolution of skills responsibility is needed to align provision with the needs of the capital's businesses and communities across functional economic areas. Groups of boroughs are best placed to lead this approach, with support from London's LEP.

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

A skilled workforce is vital for the growth of London's economy, which is critical to the health of the UK economy overall. London accounts for 20 per cent of the UK's gross value added (GVA)⁵, but its employment rate lags behind the UK average and has done for more than two decades⁶. This is partly due to skills deficits, which mean Londoners often lose out to more skilled workers from outside the capital in competition for London's jobs.

1. Adult skills funding will be £4.1bn in 2013-14, with £3.6bn via the SFA (Skills Funding Statement, 2012-15)

2. £549m current spend and £56m capital spend in 2011-12, according to HM Treasury's 2012 PESA release

3. Lord Heseltine, No Stone Unturned in Pursuit of Growth, 2012 (recommendation 81)

4. BIS, Government's Response to Lord Heseltine's Review, 2013

5. GLA Economics, Regional, Subregional and Local Gross Value Added Estimates for London (1997 - 2011)

6. LSEO, The London Story, 2012, p.18

Skills deficits also have a negative impact on businesses struggling to fill vacancies with appropriately skilled staff. Employers attributed 24 per cent of vacancies in London in 2009 to skills shortages, and 17 per cent also identified skills gaps within their workforce⁶. These gaps are partly attributable to mismatches in skills provision, with too many Londoners acquiring skills that are not in demand locally, while there is insufficient provision of skills that are in demand by employers. Improving skills provision in London is therefore critical to increasing employment rates for Londoners, and to boosting productivity and economic growth.

How can this be achieved?

Improving London's skills system cannot be done purely at a London level. London's population is greater than Switzerland's⁷ and its economic output is roughly equivalent to Sweden's. London is a vast and varied economic area, consisting of diverse functional economies. Significant variation in employment rates, businesses characteristics and skills needs means a more tailored, responsive approach is required.

For the skills system to be effective:

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

The multitude of businesses and providers in any one area means this cannot be achieved without a coordinating mechanism. Boroughs are best-placed to provide this coordinating mechanism by playing a strategic brokerage role bringing businesses and providers together.

What role can boroughs play to enhance local skills provision?

Groups of boroughs are uniquely-placed to act as strategic brokers in London's skills system because of their:

- **role as place-shapers**, leading regeneration projects to stimulate local growth and secure employment, training and other opportunities for residents
- **comprehensive understanding of London's functional economic areas and local communities**, arising from their role as planning authorities and their responsibilities for service delivery
- **links with businesses, skills providers and other key players** including Jobcentre Plus such as via employment and skills partnerships
- **track record in aligning skills provision with economic need**, including working with businesses and skills providers across borough and regional boundaries.

With the right levers and resources, boroughs can align skills provision with need across functional economic areas to secure better outcomes for businesses and individuals by:

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

7. National Employers Skills Survey (NESS), UKCES, 2010

8. Switzerland's population is 8.014m (Switzerland's Federal Statistics Office, 2012).

What policy changes are needed?

1. Leadership within London and devolution of skills budgets

Issue: Skills contracts and funding are largely agreed at a national level leaving local areas with limited levers to influence the provision of skills to meet local needs.

Recommendation: Responsibility and budget holding should be devolved to groups of boroughs to play a strategic brokerage role, coordinated at the London level by the LEP. This could include varying funding rates to incentivise provision of training to meet local priorities, and commissioning provision to meet unmet need due to market failure.

2. Improved labour market and outcomes information

Issues: Learners do not have enough information on which skills are in-demand from businesses to inform their course decisions; providers do not have enough information on employers' requirements to inform the design of their training offer; and businesses and learners do not have enough information on providers' performance to inform their decisions on which courses and providers will best meet their needs.

Recommendations: More timely and forward-looking labour market information and better data on learners' outcomes should be produced locally, regionally and nationally.

3. Changes to incentives for providers

Issues: The skills system does not provide the right incentives for providers to offer training that is most in-demand from employers locally or that will maximise outcomes for learners. Providers are funded primarily according to the number of learners they attract and the number of qualifications those learners achieve (rather than the outcomes they achieve). Course funding rates are also mostly set centrally.

Recommendations: A much greater proportion of providers' funding should be linked to individuals' progression in work or learning, and groups of boroughs should be able to vary funding rates to offer a premium for courses that meet locally-identified needs.

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