

# Bridging the Skills Gap

How skills devolution can secure London's  
future prosperity

A report by the APPG for London

July 2017





# Contents

Foreword – Bob Neill MP and Steve Reed MP	2
Executive Summary	3
1. What is the extent of London's skills challenge?	6
2. How does the skills system work now?	13
3. What can London learn from other approaches?	17
4. What should a new skills system in London try to achieve?	22
5. What does London need to make this happen?	25
6. Conclusions	33
7. Recommendations	34

## Foreword

London, along with all the other cities of the United Kingdom, faces an enormous skills challenge. How do we ensure that our businesses are able to access the skilled people they need in order to grow? How do we ensure that Londoners are equipped with the skills to enable them to access and successfully compete for the jobs created in the capital?

It is an understatement to say that the centralised skills system of the past 30 years is not fit for purpose. Patchy and inconsistent careers information, advice and guidance, and a very poor matchup between skills spending and outcomes, are added to a highly centralised system which leaves London with few tools to address issues specific to the capital, such as a much higher demand for English for Speakers of Other Languages, or tackling historically low levels of apprenticeships.

These long-term structural issues mean that simply tinkering with the existing system will not deliver.

This is not just a problem for London, but for all of the UK's cities. In this report we bring together learning from at home and abroad and highlight successful initiatives in the United States and Canada which point to how we can build a better skills system in London.

We welcome the Government's commitment to devolve the Adult Education Budget (AEB) to London by 2020. But we need a more radical approach delivered with greater urgency. A London skills devolution deal must give London government full policy and commissioning powers over adult skills provision, all 16-18 provision, careers information advice and guidance and the Apprenticeship Levy.

Brexit is both a challenge and an opportunity. If London fails to do more to grow its own talent, any fall in EU immigration will hit the capital's businesses hard with a particularly pronounced impact on some of London's key sectors. There may also be knock-on effects for the rest of the UK, with London sucking up more talent from other regions to fill the gaps. However, it also presents an opportunity which must be seized for a radical redesign of our skills system. A redesigned system with devolution at its heart would enable us to nurture UK born talent and give the capital's businesses the skilled people they need to grow and to ensure that London can continue to contribute the £35bn annually that it presently does to the national exchequer.



**Bob Neill MP and Steve Reed MP**  
Co-Chairs, All Party Parliamentary Group for London

## Executive Summary

This report has been written at a time of significant uncertainty in the further education and skills system. Over the past two years we have seen the introduction of the Apprenticeship Levy, reforms of technical education, proposals for a new Industrial Strategy, city deals and skills devolution packages, area-based reviews of further education institutions, and the return of further education policy to the Department for Education.

Though welcome, these policy changes do not go far enough to address the problems in the skills system, the impact of Brexit or London's specific challenges. This report argues for a more localised approach, with further devolution of powers and funding over skills being the only way to ensure London has the tools it needs to meet the challenges and opportunities it faces.

### Summary

London faces significant skills challenges in the coming years, not least of which are the potential effects of the UK leaving the European Union. Many of the capital's key sectors, from construction and tech to hospitality and healthcare have substantial EU-born workforces. Any drop in EU migration is likely to have a disproportionate effect in London.

But Brexit also represents a significant opportunity to do things differently, re-examine how to improve skills in the capital and do more to nurture UK-born talent.

To do this, London government needs access to the tools to upskill its own population to fill any skills gaps caused by a reduction in EU migration. If this is not addressed, there is a risk to the rest of the UK that London may end up sucking in talent from around the country to compensate – undermining the Industrial Strategy and the aims of the newly elected metro mayors in the process. In some sectors, like construction, there may also be knock-on effects where a huge skills demand in London could drive up costs or cause significant delays on key national projects like HS2 and Hinkley Point.

Brexit is not the only challenge. In the coming years London will also have to cope with increased demand for training driven by a rapidly growing population, significant skills gaps in key sectors (almost a quarter of all vacancies in London are due to a lack of applicants with the right skills for the job), an employment rate that lags behind the rest of the UK, and one in five London families stuck in in-work poverty.

The UK's skills system is not fit for purpose and without significant improvement, we risk falling behind Ireland, Australia, Israel and Belgium for intermediate skills. Skills provision in the UK is also overly centralised and does not have the flexibility to respond to local needs and priorities.

In London, the FE Sector underperforms compared to the capital's schools, but also faces significant pressures not always felt in the rest of the country, such as high demand for the provision of English for Speakers of Other Languages and high demand for basic skills.

Careers information, advice and guidance remains patchy, inconsistent and limits the ability of learners to make informed choices. There is also significant overlap, with some schools receiving access to multiple support streams and some to none at all.

London lags behind the rest of the UK on apprenticeships, consistently generating fewer starts than every other English region bar the North East. The Apprenticeship Levy presents an opportunity to change this, but the lack of flexibility in the system will hamper London's efforts to address this problem.

There are also many systemic problems with skills provision in the UK, including information failures (lack of data on provider performance and learner progression), misaligned incentives (provider funding is driven by qualification delivery not outcomes) and coordination and engagement failures (providers and employers lack incentives to collaborate and there is little coordination on capital investment).

London is not the first major global city to face these problems and several states and provinces in the US and Canada have faced similar challenges. This report examines models in New York, Michigan, Washington and British Columbia exploring the different ways they have tackled these issues, including developing a framework for career pathways, establishing regional skills alliances for growth sectors, attracting more private investment into the system, improving business engagement and making better use of outcome data.

### **Key recommendations**

London needs a skills system that is dynamic, resilient, coherent and efficient. We argue that it should have three central strategic aims: boosting economic growth and employment; increasing social inclusion and wellbeing; and increasing the efficiency and effectiveness of investment in education and skills.

The system should also be underpinned by eight key principles. It must:

- Be labour-market led;
- Have strong employer engagement;
- Have strong local accountability;
- Be outcome focused;
- Include stronger incentives;
- Be flexible;
- Include effective and impartial careers information, advice and guidance;
- Take a whole systems approach.

In order to create such a system, we make the following recommendations to government for what a skills devolution deal with the capital should look like:

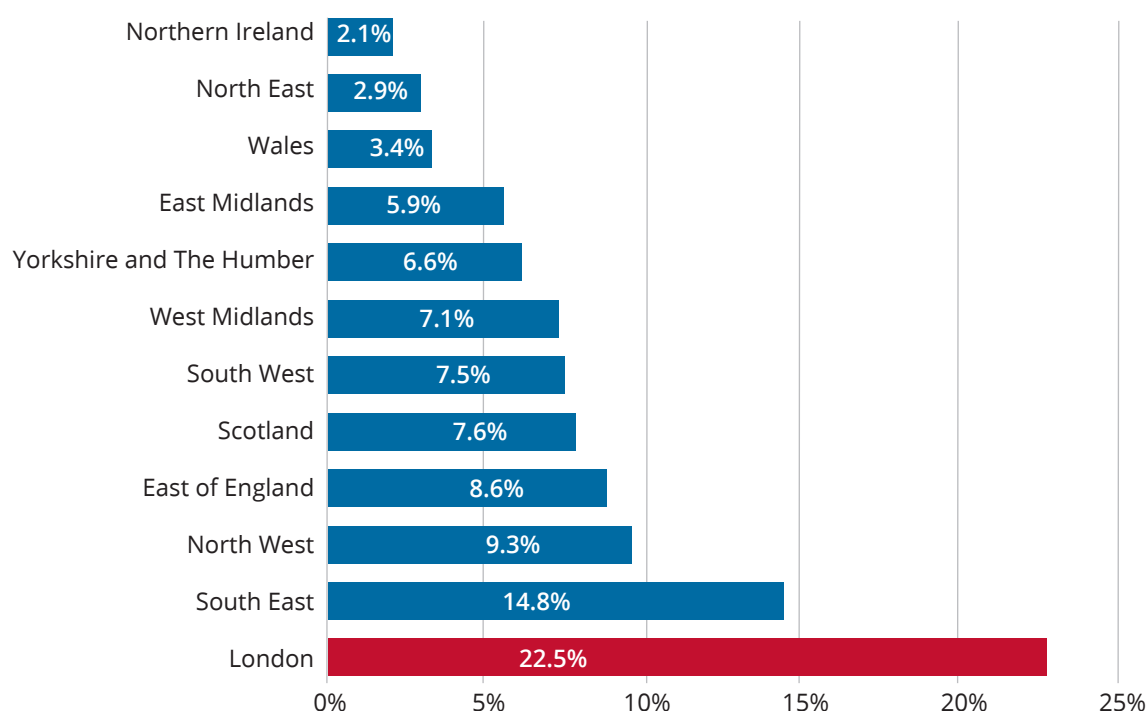
- **Improve data sharing between HMRC, DfE and London government** on learners' job outcomes.

- **Devolve all 16-18 provision to London and give the capital greater control over policy and commissioning** as part of a whole systems approach that can reflect London's progression and economic priorities.
- **Give London government control over all vocational capital investments**, including 14-19 capital provision and Institutes for Technology, alongside existing FE Capital responsibilities.
- **Review the Apprenticeship Levy after 12 months** to assess how it is operating in London.
- **Devolve unspent Apprenticeship Levy funds generated in the capital to London government.** This should be the first step towards London government taking full responsibility over apprenticeships policy like the devolved administrations in Scotland and Wales.
- **Develop an all-age London Careers Service**, accessed through a single portal, offering face-to-face guidance, easily accessible outcomes data and an offer of 100 hours experience in the world of work for all Londoners.
- **Devolve existing careers funding streams to London** to build this single integrated careers service. As a first step, **London government should commission Adult Careers IAG contracts in 2017** and have a formal, strategic coordination role with London providers of careers services.
- **Ensure London does not lose out in any future skills funding settlement.** Any future settlement must take into account London's unique needs.
- **Devolve ESF replacement funding to London government** when Britain leaves the EU.

## 1. What is the extent of London's skills challenge?

London is a thriving global city with a dynamic economy that makes a significant contribution to the whole of the UK (Figure 1). The capital has a population larger than that of Austria or Switzerland, and an economic output larger than Belgium, Sweden or Norway. In a UK context, London's economy is twice the size of the Scottish and Welsh economies combined.<sup>1</sup>

**Figure 1: Regional GVA as a proportion on the UK total**



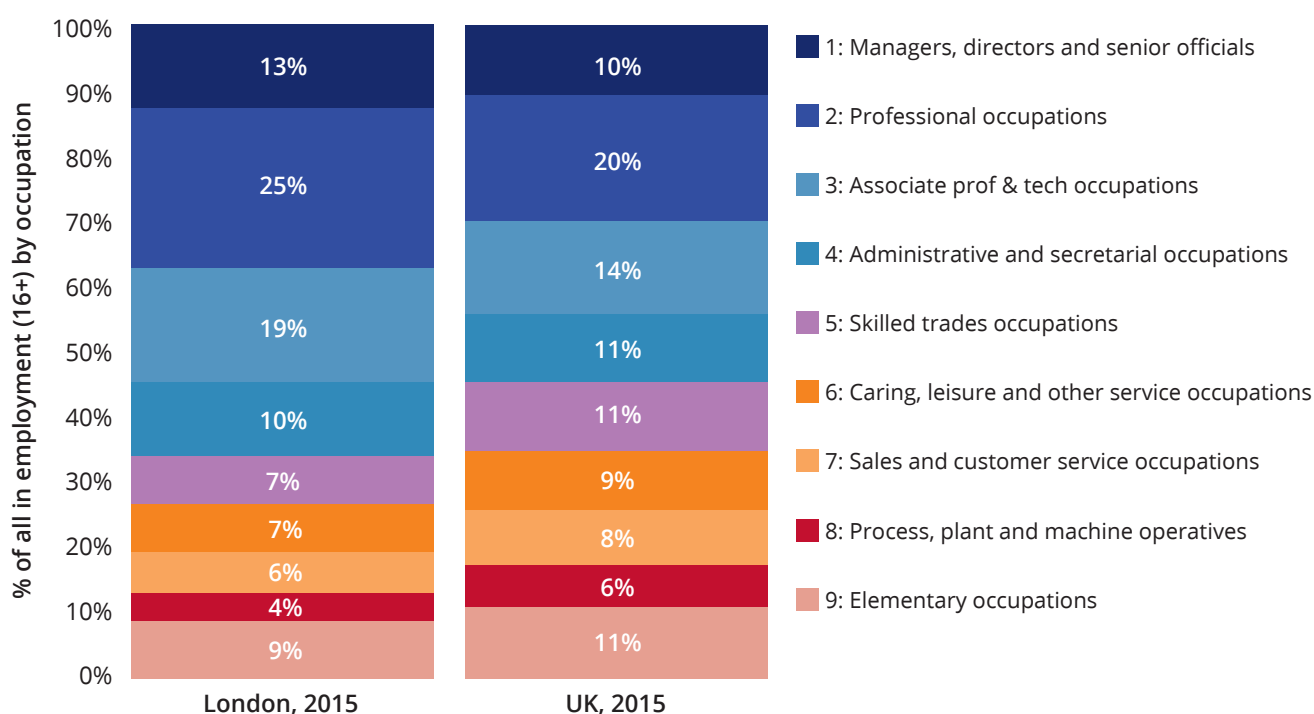
Source: *Regional Gross Value Added (Income Approach)*, Office for National Statistics (ONS).

This economic success has been increasingly driven by London's connected and global economy specialising in financial, professional and technical services. This in turn has created strong demand for highly skilled, highly productive labour (see Figure 2), which is expected to continue to rise at a faster rate than in the rest of the UK. A skilled workforce is vital if London's economy is to continue to grow.

London faces significant challenges in the coming decades, with high levels of youth unemployment, a rapidly growing population and a number of key sectors heavily reliant on migrant labour. To meet these challenges, London needs an efficient skills system that is responsive to business need and supports learner progression.

<sup>1</sup> GLA Economics (2016), 'London's Economy Today.'



**Figure 2: Share of those in employment by occupation**

Source: ONS Annual Population Survey - workplace analysis.

## 1.1 Brexit

With demand for intermediate and higher-level skills rising, London's businesses have increasingly met a large share of their labour needs through immigration. EU nationals play an important role in many of the capital's key sectors, including life sciences, construction, the National Health Service, hospitality, social care and financial services.

Nearly one in three of London's workforce is non-UK born and 90% of London businesses recruit EU citizens (69% also recruit non-EU workers).<sup>2</sup> London employs a higher proportion of EU nationals than the UK as a whole across all sectors. This is particularly acute in some of the sectors that drive London's economy:

- London's construction sector has an ageing workforce that is heavily reliant on migrant labour. EU nationals make up 30% of the 300,000-strong workforce, while just half are UK-born.<sup>3</sup> Of the UK-born workers in the capital, 38,500 (12%) are set to retire in the next 5-10 years.<sup>4</sup> Yet it is estimated that 60,000 more construction workers are needed in London and the South East in 2017 to keep up with demand;

<sup>2</sup> CBI (2016), 'London Business Survey 2016'

<sup>3</sup> Whitebread J and Onslow-Cole J (2017), 'Facing Facts: The impact of migrants on London, its workforce and its economy', London First and PwC

<sup>4</sup> CITB (2013): 'UK construction industry facing skills 'time bomb'.

- In the financial services sector, 15% of the 300,000-strong workforce are EU nationals, a figure that has stayed relatively static over the last decade;<sup>5</sup>
- In the tech sector around a third of those working in London are EU nationals;<sup>6</sup>
- 10% of the total workforce in London's NHS are EU nationals (around 60,000)<sup>7</sup> rising to 13% of doctors;
- In hospitality, which accounts for £11bn of London's GVA, around 75,000 of the 250,000-strong workforce are EU nationals (30%);<sup>8</sup>
- In wholesale and retail, 12% of workers are EU-born and the workforce in this sector is growing by an average of 9,000 workers per year.<sup>9</sup>
- UK-wide, among small businesses, a fifth (21%) have at least one EU-born employee. Almost half (47%) of these small businesses hire EU nationals in mid-skilled roles with almost a third (32%) in high skilled roles. According to a recent FSB report, 'finding individuals with the right skills' is a struggle for one in five (23%) small firms that rely on high-skilled employees from the EU.<sup>10</sup>

London's businesses are apprehensive about the skills challenges they will face when we leave the EU. Three quarters cite uncertainty over the UK's role in the EU as a cause for concern, with almost half worried over whether they will be able to retain the best people for the job and 44% concerned about a lack of appropriately skilled staff.<sup>11</sup> In a survey for the London Chambers of Commerce and Industry, almost a quarter (24%) of business leaders (excluding sole traders) in the capital also said that the current immigration status of their EU employees was causing uncertainty for their business.<sup>12</sup>

London needs a strong local labour base and agile skills system that can adapt to rapidly changing circumstances. If London fails to do more to grow its own talent, any fall in EU immigration following Brexit will hit the capital's businesses – with the effect likely to be most pronounced in key sectors such as hospitality, tech, finance and construction. There is also a significant risk that a drop in EU labour in London could have significant effects on the rest of the UK labour market, with the capital sucking in more highly-skilled graduates from the rest of the UK to plug the gaps. Other regions may not be able to compete with the higher salaries offered by London businesses, undermining both the government's Industrial Strategy and the aims of the newly elected metro mayors.

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5 Whitebread J and Onslow-Cole J (2017), *'Facing Facts: The impact of migrants on London, its workforce and its economy'*, London First and PwC

6 City AM (2016) *'London tech heavyweights call for European talent to remain in the capital following Brexit vote.'*

7 English Health Service's Electronic Staff Record

8 Whitebread J and Onslow-Cole J (2017), *'Facing Facts: The impact of migrants on London, its workforce and its economy'*, London First and PwC

9 Ibid

10 Peate A and Metcalfe A (2017), *'A Skilful Exit: What small firms want from Brexit'*, FSB

11 CBI (2016), *'London Business Survey 2016'*

12 London Chambers of Commerce and Industry (2016), *'London Businesses and Brexit: Reactions, expectations and requirements.'*

There would also be knock-on effects for the rest of the UK in a number of key sectors, such as construction, where a huge skills demand in London – exacerbated by the loss of the capital's large EU workforce – could drive up costs on national projects, such as HS2 and Hinckley Point, or cause significant delays.

But Brexit also presents an opportunity to do things differently. By re-examining how we improve skills across the regions of the UK, identifying and addressing the flaws in the existing approach and creating an agile skills system that does more to nurture UK-born talent, important sectors and regions, like London, would become less reliant on migrant labour and more able to keep up with growing demand. If the government is serious about rebalancing the national economy, then it must ensure that is underpinned by a more ambitious programme of skills devolution.

## 1.2 Population Growth

London's population is rising rapidly. Between 2005 and 2015, London's population grew from 7.4 million to 8.7 million,<sup>13</sup> with growth in the last five years twice the rate of the rest of the UK.<sup>14</sup> The average increase of over 117,000 people per year is the equivalent of adding a city the size of Newcastle to London's population every three years.

This growth was driven by a combination of immigration<sup>15</sup> and a higher birth rate than death rate.<sup>16 17</sup> This puts pressure on school places and also increases the demand for some specific areas of skills provision, such as English for Speakers of Other Languages (ESOL).

London is likely to continue to experience population growth at a similar rate over the next decade. By 2025, London's population is predicted to reach 9.8 million – an increase of 1.1 million on 2015 levels, further increasing the demand for jobs and training.<sup>18</sup>

This population growth will put significant pressure on the Adult Education Budget (AEB) to meet existing statutory entitlements, which have recently expanded with the addition of the new digital skills entitlement. Add in an already high – and growing – demand for ESOL and the AEB will clearly have to stretch to keep up with demand. It is therefore important that skills funding for London is at least maintained at its current level to prevent Londoners from losing out.

## 1.3 Skills Gaps

Despite the rising population, many employers are facing skills gaps. 28,300 London employers report that not all their employees have the right skills for the job.<sup>19</sup> Almost a quarter (23%) of all vacancies in London are due to a lack of applicants with the right skills, while almost half of firms (42%) are not confident they will be able to recruit people with the higher-level skills their organisation needs over the next five years.<sup>20</sup>

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13 Whitebread J and Onslow-Cole J (2017), *'Facing Facts: The impact of migrants on London, its workforce and its economy'*, London First and PwC

14 ONS: *'Population dynamics of UK city regions since mid-2011'*, October 2016

15 Net international migration to London averaged 97,000 per year.

16 There was an average of over 130,000 births per year compared to just 48,000 deaths.

17 Guardian (12 October 2016): *'London population growth rate twice that of UK, official figures show'*

18 ONS: *'Population dynamics of UK city regions since mid-2011'*, October 2016

19 UKCES (2015) *'Employer Skills Survey 2015'*

20 CBI (2016), *'London Business Survey 2016'*

The number of cases where employers have been unable to fill a vacancy due to skills shortages in the capital has also more than doubled since 2011 – rising from 14,000 to 37,000.<sup>21</sup>

More widely across the UK, skills gaps are felt more acutely in a number of key sectors. In the NHS, 10% of vacancies go unfilled.<sup>22</sup> In the construction industry, more than 80% of employers report skills shortages as a chronic problem<sup>23</sup> and 59% of construction firms believe that the sector's workforce will not have the required skills to cater for the industry's future needs and developments.<sup>24</sup>

### 1.4 Labour Market

Although London accounts for 22.5% of the UK's Gross Value Added (GVA), its employment rate lags behind the UK average and has done so for more than two decades (Figure 3). Londoners' access to the employment opportunities on offer is also sub-optimal, resulting in higher rates of unemployment and economic activity. The employment rate also varies considerably across the capital, ranging from 81% in Lambeth to 67% in Barking and Dagenham and Kensington and Chelsea.<sup>25</sup>

**Figure 3: UK and London Employment Rates 1992-2017**



Source: London Data Store

21 UKCES (2015) 'Employer Skills Survey 2015'

22 Whitebread J and Onslow-Cole J (2017), 'Facing Facts: The impact of migrants on London, its workforce and its economy', London First and PwC

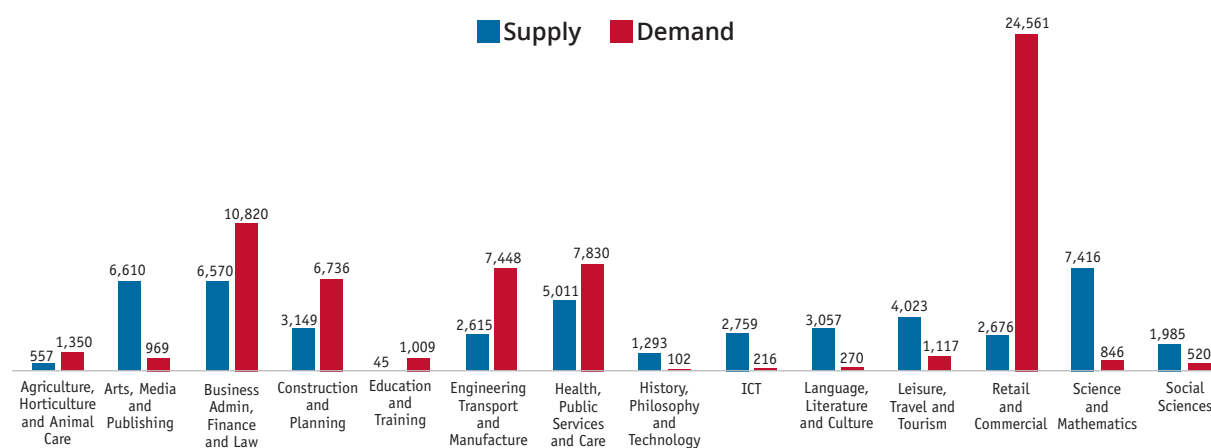
23 Chartered Institute of Building (2013), 'Skills in the UK Construction Industry'

24 Ibid

25 ONS (2017) Local labour market indicators by unitary and local authority (April)

This is partly due to skills deficits, with Londoners losing out to more skilled workers from the rest of the UK or abroad. Employers have reported rising skills shortage vacancies in London and skills gaps in their workforce.<sup>26</sup> This is reflected in a mismatch of skills provision, with too many Londoners acquiring skills that are not in demand locally alongside insufficient provision of skills that are in demand by employers (See Figure 4). There is a more complex picture within each category, with oversupply of learners studying electrical installation in the construction and planning category, for example, despite a significant undersupply in other areas of construction, such as bricklaying, carpentry and joinery, and plastering.<sup>27</sup>

**Figure 4: Forecasts of learners successfully completing courses in different subject areas, compared with the vacancies linked to those subject areas, for courses and jobs at Level 3 and below in London in 2017.**



Source: Skills Match London

Improving skills provision in London is therefore critical to increasing employment rates for Londoners, boosting productivity and economic growth.

Although recent economic growth has led to substantial reductions in the number of people on JSA, with the claimant count back to historically low, pre-recession levels, we estimate that there are around 628,000 Londoners who are not in work but would like to be – enough people to fill the city of Nottingham twice over.<sup>28</sup>

London has a long-term unemployment and structural worklessness problem that needs to be tackled. Though the JSA claimant count has come down, there has been no real progress in reducing the number of people claiming Incapacity Benefit and Employment and Support Allowance in London (Figure 5). Claimant levels have stayed broadly static since 1999 at around 300,000 claims each year.

26 UKCES (2015) 'Employer Skills Survey 2015'

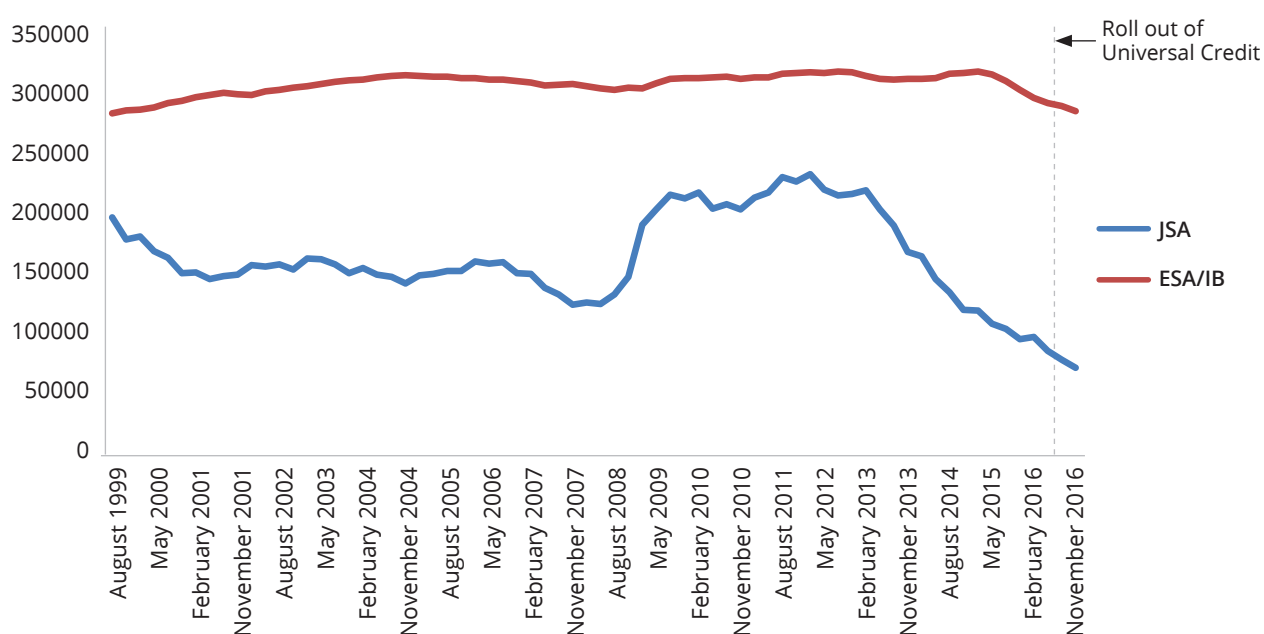
27 Skills Match London: [http://skillsmatch.intelligentlondon.org.uk/skills\\_gaps](http://skillsmatch.intelligentlondon.org.uk/skills_gaps)

28 This figure is comprised of the total number of JSA claimants in London (297,000) and the total number of people who are economically inactive but would like to work (330,600)

The Work and Health Programme has been devolved to London and will provide some opportunity to help Londoners with health conditions gain employment. It will also provide an opportunity to test how devolved skills and employment support can be effectively aligned in London.

A further feature of London's labour market is the number of people who are in-work and in poverty. There has been an increase in the number of low-paid jobs in the capital, with one in five now paid below the London Living Wage, affecting 700,000 Londoners. In addition, just over one in five working families in London are in poverty.<sup>29</sup>

**Figure 5: Comparison of JSA and ESA/IB Claimant Count in London 1999-2016**



Source: Official Labour Market Statistics

N.B. Post 2016 figures should be treated with caution due to the roll out of Universal Credit.

<sup>29</sup> NPI and Trust for London (2015), 'London Poverty Profile'

## 2. How does the skills system work now?

Some of the most significant skills challenges are symptoms of the skills system itself – one that is simply not fit for purpose. From patchy and inconsistent careers information advice and guidance to poor matchup between skills spending and outcomes, there are significant structural issues in the existing system. Its centralised nature also leaves London with few tools at its disposal to cope with London-specific issues, such as the higher demand for ESOL or historically low levels of apprenticeship numbers in the capital, among others. The current system simply does not respond well enough to London's needs and priorities.

The OECD predicts that, without significant improvement, the UK will fall to 28th out of 33 OECD countries for intermediate skills by 2020.<sup>30</sup> This would see the UK overtaken by Ireland, Australia, Israel and Belgium. Urgent action is needed.

### 2.1 Pressures on the FE System

London's Further Education sector faces a number of pressures, including some felt more acutely in the capital than in other parts of the country. This includes the provision of English for Speakers of Other Languages (ESOL). Half of the UK's ESOL provision is delivered in London, yet over half of providers (56%) – including two-thirds of colleges – report that they struggle to meet demand.<sup>31</sup> Public spending on ESOL has reduced by 60% in real terms since 2009<sup>32</sup>, meaning that providers have to do more with less. In addition, despite the capital's growing demand for higher level skills, around two thirds of provision delivered by Further Education colleges in the capital is at level two or below.<sup>33</sup>

As of February 2017, the majority of London's colleges (71%) were Ofsted rated as 'good' or 'outstanding', with just under a third (29%) rated as 'requiring improvement' or 'inadequate'<sup>34</sup>. This compares with 94% of London's schools that were judged to be 'good' or 'outstanding' by Ofsted – the highest percentage of any region in England.<sup>35</sup>

London has seen a dramatic increase in its Key Stage 4 performance over recent years, with the percentage of young people achieving five or more A\* to C grades at GCSE higher than in any other region in the country.<sup>36</sup> The proportion of young people achieving level 3 by 19 has also risen significantly over time and is 6% above the national average. 61% of young Londoners went to a Higher Education Institution (HEI) compared to 52% nationally.<sup>37</sup>

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30 Peate A and Metcalfe A (2017), 'A Skilful Exit: What small firms want from Brexit', FSB

31 Learning & Work Institute (2017), 'Mapping ESOL Provision in Greater London'

32 House of Commons Library (2017) 'Adult ESOL in England', Briefing Paper No. 7905

33 London Councils, London Enterprise Panel, Mayor of London (2015), 'Skills Devolution for London: A Proposal to Government'

34 Department for Education (2017), 'London Area Review College Annexes'

35 Source: <http://www.londoncouncils.gov.uk/our-key-themes/children-and-young-people/education-and-school-places/future-school-funding-whats/key> (Updated February 2017)

36 Last year 60.9% of London's pupils achieved five A\* to C GCSEs compared to the national average of 57.3%.

37 London Data Store (2016), 'Further Education and Higher Education destinations of KS5 students, Borough and Institution'



Despite the impressive performances of London's young people at KS4, ensuring that they continue to develop the right skills to enable them to enter the world of work remains a priority. Some young Londoners pursue academic routes or learning in settings that are not appropriate for their needs or those of the labour market. The most recent figures available, from a 2013 Institute for Education report for London Councils on 17+ participation in London, show that 22% of Year 12 L3 starters left education early, with the rate for students on vocational courses in schools even higher at 41%.<sup>38</sup>

## 2.2 Poor Careers Information, Advice and Guidance

Careers information, advice and guidance (IAG) in London, as in the rest of the UK, is patchy, inconsistent and limits the ability of learners to make informed choices. There is significant fragmentation in the system with multiple schemes operating rather than a single unified offer, including (but not limited to):

- The National Careers Service's adult provision (a universal service for adults aged 19+);
- The National Careers Service's Inspiration Agenda (brokerage activity where qualified careers professionals help schools to organise activities);
- The Careers and Enterprise Company's Enterprise Advisers (volunteer business people matched with schools to advise their senior leadership teams on careers);
- Careers Clusters (12 in operation in London sharing and developing good practice);
- Job Centre Plus Schools Advisers (who will go into schools to advise young people on how to access work).

Work by London's Local Enterprise Partnership (LEP), the GLA and London Councils identified more than 240 careers providers in London, demonstrating a congested and confusing market place. There is vastly more activity than any one school can realistically keep track of, let alone a young person or parent.

There is both duplication and inefficient targeting in the system. Some schools that are involved in Careers Clusters also have an Enterprise Adviser, while others receive no additional support whatsoever. Support is being provided to young people who could access it through other means (those with social capital) and not to those who cannot, creating deadweight in the system. There is duplication in approaches to employers, leading to engagement fatigue.

Information sharing has often been poor and information about the support young people receive on careers before they become adults and access support through the National Careers Service is not transferred. The National Careers Service contract could be more flexible and is currently focused on unemployed people, providing limited help for people in low paid, low skilled work looking to progress.

Many of these problems could be solved through greater local control over the provision of careers IAG. London government understands the design issues across the age spectrum and is well-placed to reduce duplication and maximise resources for front-

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<sup>38</sup> Hodgson and Spours (2013), *'What is happening with 17+ participation, attainment and progression in London?'*



line delivery. Locally-led careers provision would enable better targeting of resources, drawing on local knowledge to identify and reach specific cohorts, such as those who are low skilled and low paid. Targeted support could be offered to those who need it most in order to best improve social mobility. London government has very strong relationships with a wide variety of businesses – of all sizes and sectors – and with careers IAG providers. It is impractical to replicate these relationships at a national level. London government would also be able to use the Mayor's profile to market the new service, helping to increase access, and has a track record of working collaboratively in this area, through London Ambitions.

## 2.3 Apprenticeships

The capital lags behind when it comes to creating apprenticeships. London has consistently generated fewer apprenticeship starts than the majority of other regions in England. Despite considerable and continuous efforts by the Mayor, London boroughs and London's Local Enterprise Partnership (LEP) to promote apprenticeships, in 2015/16 only the North East (38,210) had fewer apprenticeship starts than London (46,280).<sup>39</sup>

Success rates for apprenticeships in London are also poor. Despite recent improvements, London remains the lowest performing region for success rates for both level 2 and level 3 apprenticeships. This is true across all ages and when considering 16-18 year olds in isolation.<sup>40</sup>

The introduction of the Apprenticeship Levy – a new charge of 0.5% of an employers' pay bill over £3m to fund apprenticeship training – represents an opportunity to significantly increase apprenticeship starts in the capital. However, the Levy lacks flexibility to respond to local circumstances and is highly proscriptive on what the funds it generates can be spent on. Both the Mayor of London and London Councils have expressed doubts about how effective the Levy will be in addressing the capital's apprenticeship challenges, questioning whether London employers' have the capacity to spend their Levy funds within the two-year limit and expressing concerns that much of this cash will be reabsorbed by government and spent elsewhere.<sup>41</sup>

A more flexible Levy is needed to give employers greater freedom in how they can spend their funds. For the first twelve months of its operation, employers are prohibited from passporting any of their levy funds to their supply chains, or using Levy funds to provide any support to apprentices that goes beyond approved apprenticeship standards and frameworks. The government plans to relax the restrictions on passporting from 2018, but will still cap transfers to other employers at 10%.

These restrictions will be felt particularly acutely in some sectors. In local government, for example, since 2009, London boroughs have recruited just over 4,450 apprentices via their supply chains, 40% of the total number generated by borough activity.<sup>42</sup> Similarly, in industries like construction, where there is a long-standing model of small sub-contractors undertaking work for larger companies, opportunities for new apprenticeship starts, particularly for SMEs, could be severely restricted.

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39 House of Commons Library (2016), *'Apprenticeship statistics for England'*

40 Mayor of London (2017): *'Annual Education Report 2017'*

41 London Councils (2017), *'Doubts over impact of apprenticeship levy'*,

42 London Councils' Apprenticeship Numbers

Employers are also unable to spend Levy funds on pre-apprenticeship programmes, which would target the most disadvantaged young people who require more intensive support to help them get 'apprenticeship ready'. Coupled with the removal of London's Area Cost Adjustment (which reflected the higher cost of providing training in London) and the changes to the disadvantage uplift, this may make it harder for some underrepresented groups to gain access to apprenticeship opportunities.

Devolving unspent Apprenticeship Levy funds generated by employers in the capital to London government and allowing greater flexibility in how this money can be spent would ensure that the Levy can be used to maximise apprenticeship opportunities, support social mobility more effectively and help make greater progress towards the government's target of creating 3 million new apprenticeships by 2020.

## 2.4 System Failures

At least £1.6 billion of public investment went into skills development in London in 2015/16.<sup>43</sup> However, London is not getting bang for its buck due to a series of system failures. There are a number of information failures in the system, with insufficiently granular Labour Market Intelligence and patchy careers information, advice and guidance hampering the ability to assess need and help learners identify suitable opportunities. There is also limited data on provider performance and a lack of progression data to show the benefits of training, which hamper assessments of outcomes and benefits in the system. This limits providers' ability to plan a responsive curriculum, limits business and learner ability to make informed choices and reduces incentives for employer and learner investment in skills.

The system has a number of misaligned incentives, with provider funding driven primarily by the delivery of qualifications rather than outcomes and not linked to learner progression or responding to business demand. This leads to inefficient incentives for providers to tailor courses to employer demand and to innovate. Employers – particularly SMEs – are not well engaged in the market as a result.

A series of co-ordination and engagement failures are also present in the system. Providers lack incentives to collaborate, as do employers, and there is limited coordination between capital investments in the education and skills sectors. Employment and skills provision is funded and delivered separately leading to a lack of coherence in progression pathways. In order to meet the growing demand for skills and training within a constrained financial climate, we need to maximise the efficiency and responsiveness of the skills system to enable Londoners to compete successfully for the capital's jobs.

London's skills system is facing significant challenges and opportunities in the future, but as currently configured, it will struggle to deal with this effectively. The government should consider giving London the tools to change the system, learning from across the UK and abroad, to help the capital remain a competitive, global city.

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<sup>43</sup> This figure includes approximately £983m allocated by the EFA in London for 16-19 funding in 2015/16 and £620m allocated by the SFA across the Adult Skills Budget, the Community Learning Budget, 19+ Discretionary Learner Support, 24+ Advanced Learning Loans Facility and Bursary, OLASS, AGE Facility, 16-18 Apprenticeships and Agency funded 16-18 Traineeships in 2015/16.

### 3. What can London learn from other approaches?

London is not the first major global city to face problems in its skills system. While there is no one-size-fits-all approach that London can replicate, there are aspects of how different cities, at home and abroad, have approached their own skills challenges that London can seek to learn from in tackling its unique circumstances.

#### 3.1 The UK: Building on existing City Deals and working with City Region Mayors

Devolution of some powers over skills has been a recurring theme in the majority of City Deals agreed by the government with city regions around the UK. However, this has varied in type, scope and approach. In Greater Manchester, improved local engagement has seen employers more heavily involved in the design of courses and qualifications through the Greater Manchester Employment and Skills Board. This work has seen the creation of 15 new apprenticeship frameworks across a number of key areas for the local economy, such as the legal sector, catering, hospitality and digital games programming.<sup>44</sup>

In Sheffield, providers receive an incentive of £1,000 for each learner enrolled on key courses identified by the City Region. In Stoke and Staffordshire, the Local Enterprise Partnership can withhold up to 5% of funding from providers if they are not delivering on identified skills priorities.<sup>45</sup>

Other areas have strengthened partnership working between delivery partners, such as in Birmingham, where nine colleges now work together to coordinate careers advice and preparation for work training.<sup>46</sup> London has already made progress on this agenda, through London Ambitions, demonstrating the capital's ability to work collaboratively and deliver a successful framework for careers information, advice and guidance.

These are small but welcome steps in the right direction ahead of fuller devolution deals on skills. However, there is also a clear appetite across a number of core cities to be bolder and go further. As well as London government making the case for greater powers, the newly elected Mayors of the Liverpool City Region, Greater Manchester and West Midlands have all called for more powers on skills. This has included calling for more powers over 16-19 funding (Liverpool)<sup>47</sup>, creating a better all-age careers information and guidance service (Liverpool<sup>48</sup> and West Midlands<sup>49</sup>) and the ring-fencing of any underspend in the Apprenticeship Levy to spend on new skills programmes and creating more apprenticeships locally (all three<sup>50</sup>). Greater Manchester is calling for the

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44 Clayton N and McGough L (2015) *'City deals and Skills'*, Centre for Cities.

45 Thompson S, Colebrook C and Hatfield I (2016), *'Jobs and Skills in London: Building a More Responsive Skills System in the Capital'*, IPPR

46 Ibid

47 Steve Rotheram (2017): *Our Future Together*

48 Ibid

49 Andy Street (2017): *My West Midlands Renewal Plan*

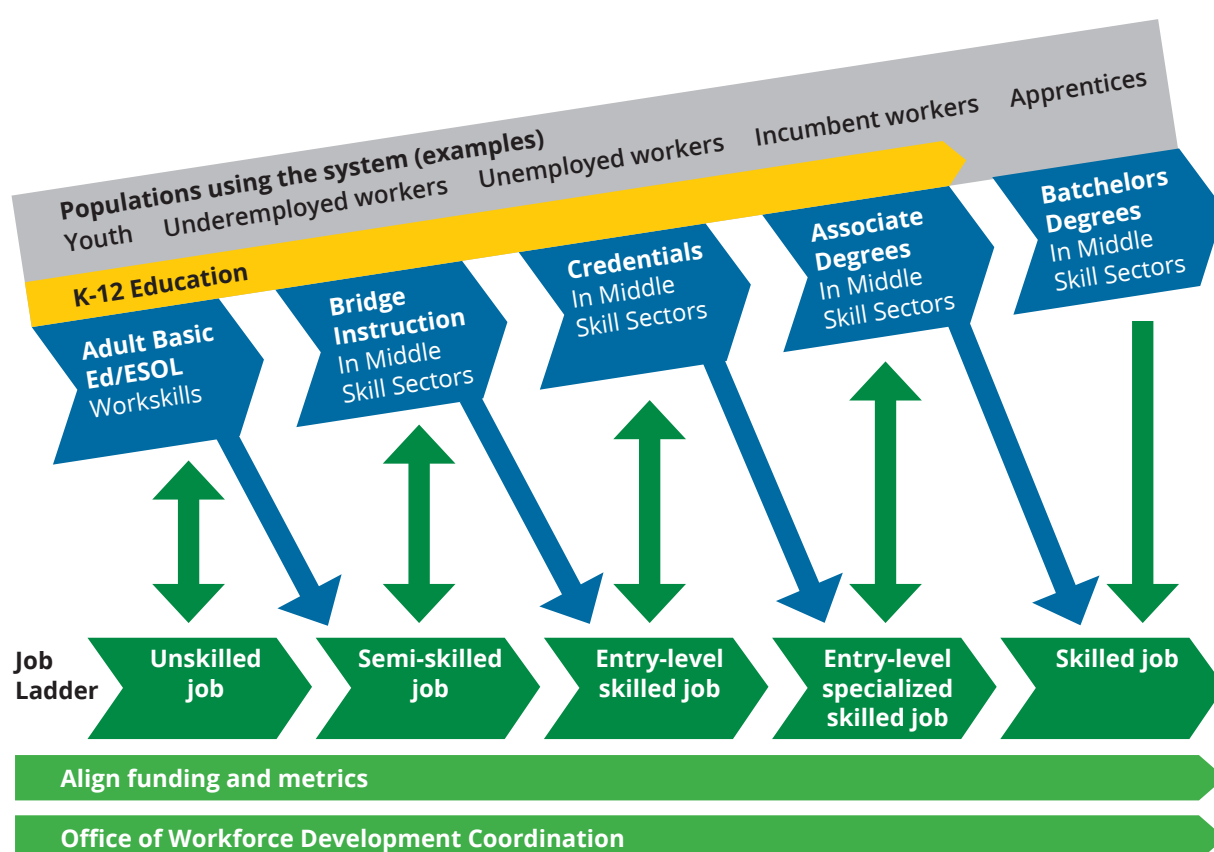
50 Steve Rotheram (2017): *Our Future Together*, Andy Burnham (2017): *Our Manifesto for Greater Manchester*, Andy Street (2017): *My West Midlands Renewal Plan*

Apprenticeship Levy to be completely devolved and transformed into a skills levy.<sup>51</sup> There is clearly an appetite among elected Mayors to have greater control over the skills system.

### 3.2 The United States: Careers Pathways, Data Sharing and Private Investment

A number of US states have faced similar issues to London and introduced new and innovative ways to tackle these problems. New York's Career Pathways system,<sup>52</sup> for example, shares a number of parallels with the situation in London. Indeed, the Jobs for New Yorkers taskforce that developed it served as inspiration for the Mayor of London's own Skills for Londoners taskforce.<sup>53</sup> There are three key approaches in the system, including the development of industry partnerships, a framework for career pathways in a number of sectors, and bridge programmes to prepare those with basic qualifications for more advanced training. Participants are shown to have higher earnings, though the central lesson is around building clear pathways for people.

**Figure 6: Moving through the Career Pathways Framework**



Source: LWI: Delivery models for skills in London: Comparable international models, October 2016

51 Andy Burnham (2017): Our Manifesto for Greater Manchester

52 City of New York (2015), 'Career pathways: One City Working Together' and Learning & Work Institute (2016) 'Delivery models for skills in London: Comparable international models'

53 Mayor of London (2017): Skills for Londoners

Career Pathways has also seen the introduction of system-wide outcome data, focusing on rewarding job quality not just quantity. In London, pathways are unclear in many sectors and don't allow for progression in work or into work. In some sectors, like Health and Social Care, pathways don't exist, leaving many Londoners stuck in low-paid work. The New York model offers a blueprint for changing this and creating coherent career pathways into work that are developed and endorsed by employers. This also has many similarities with the approach the government has adopted with the new Post-16 Skills Plan.

The programme had demonstrable success in building partnerships between organisations and ensuring that employers also had a seat at the table. London has an opportunity to pioneer this approach in the UK. The London Challenge showed, for schools, that a big difference could be made when partnerships were formed between institutions and best practice shared. Developing a variation of the Careers Pathway model that works for London could do likewise in the FE sector.

In Michigan,<sup>54</sup> 40 regional skills alliances were set up as part of the state's response to significant labour market challenges, including the outsourcing of manufacturing jobs to lower-wage economies and an ageing workforce. The skills alliances align training efforts with labour market need in particular growth sectors in the local economy, and include customised training programmes to meet industry-wide skills needs, better use of labour market information and the creation of career ladders to help workers get on.

In the case of both New York and Michigan's Skills Alliances, each model has been successful in attracting private investment into the skills system. New York has had considerable success in attracting philanthropic investment, while Michigan was successful in leveraging funding from private sources. In fact, the Michigan system has been introduced with very little new money invested. While start-up grants were made available to help set up the alliances, the emphasis has been on collaborative working and developing partnerships.

In London, there will be considerable pressure on the Adult Education Budget when it is devolved by government such as funding existing statutory entitlements, the new digital skills entitlement as well as coping with the high demand in the capital for ESOL and basic skills training. London government should examine the success of the New York and Michigan models and consider options for leveraging in private funds, where possible, to allow more flex in the system. This could include more effective employer engagement, delivered at a local level, and exploring ways to boost demand for Advanced Learner Loans, which have historically low take-up, and the promotion of which was a Mayoral manifesto commitment.

Qualifications drive the UK skills system, with macro-level evaluation of the impact they have on learners' employment and earnings, but little institution-level data to guide investment or commissioning decisions. There is also relatively little data on the impact of community learning.

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54 Thompson S, Colebrook C and Hatfield I (2016), *Jobs and Skills in London: Building a More Responsive Skills System in the Capital*, IPPR

The Washington dashboard model,<sup>55</sup> by contrast, has a clear focus on outcome data. The dashboard reports key performance outcomes for 20 workforce development programmes, including data on the employment and earnings of learners in particular programmes and institutions, compared to a control group of similar people. It is publicly available and is used by individuals and employers to inform their decisions on where to learn.

Similar data exists in England, by linking HMRC data on employment and earnings with Individual Learner Record data. However, it is currently not being used as an active marketing tool for individuals and employers or to inform commissioners' decisions, as it is not being shared between HMRC, the Department for Work and Pensions and local government. With improved data sharing, better outcomes data could be published to ensure learners have the best information possible when making their choices

The Washington model shows the difference having this data can have in managing programmes and institutions. When it showed that apprenticeships were successful in boosting people's pay and job prospects, that programme was expanded. When it showed that basic skills provision was not having the desired impact, a special focus was put on developing a new way to deliver this.

In developing a new skills system in London, commissioning decisions will need to be based on evidence of performance against agreed outcome measures. The Washington model shows this can help maximise the impact of public investment and flag up problems. There is also a clear focus on the financial benefits for individuals, which makes the value of studying clear. In a London context, this approach could help with increasing the low take-up of Advanced Learner Loans, a key priority for the Mayor of London.

### **3.3 Canada: Strategic influence, Collaborative Working and Targeted Capital Spending**

The Skills for Jobs blueprint was developed in 2014 in British Columbia, a Canadian province, and covers both Further and Higher Education. It included measures to reduce waiting lists for training places in critical occupations through a targeted fund to scale-up provision, more information available about waiting lists and vacancies, targeted capital spending to pay for infrastructure and equipment linked to the most in-demand occupations and a more collaborative approach between FE and HE providers.<sup>56</sup>

'Skills for Jobs' highlights the importance of not just developing collaborative relationships between local government, providers and employers, but also between different parts of the education system.

While circumstances are different in London, there is a clear need not only for HE and FE to link up more consistently, but also for there to be a more coherent approach to 16-19 vocational education between schools, FE and sixth form colleges, something the Skills for Londoners Taskforce aspires to support. For a new skills system to be effective

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<sup>55</sup> Learning & Work Institute (2016) *'Delivery models for skills in London: Comparable international models'*

<sup>56</sup> Thompson S, Colebrook C and Hatfield I (2016), *'Jobs and Skills in London: Building a More Responsive Skills System in the Capital'*, IPPR



in the capital, it is important that London government has strategic coordination across all aspects of post-16 professional and technical education to drive better outcomes. Outcomes and incentives could then be set for the whole system to reflect London's progression and economic priorities.

Similarly, the Skills for Jobs blueprint also demonstrates the importance of targeted capital spending to help support the development of infrastructure and purchasing of equipment for target sectors. London would benefit from a similar approach, but to date only has control of capital funding for Further Education but not 16-19 capital investment.

Much like the early examples of influence exerted by UK city regions on provider incentives, the Skills for Jobs Blueprint demonstrates the importance of having control over financial levers to enable appropriate incentives to be introduced to encourage providers to offer the courses that are most needed by the local economy.

## 4. What should a new skills system in London try to achieve?

For London to be a successful global city in the 21st century, it needs a dynamic, resilient, coherent and efficient skills system that responds to labour market need, and prepares Londoners for life and work in the capital. As has been outlined earlier, London's current skills system is not set up to deliver this. London government lacks many of the tools it needs to tackle these problems head on and there is a clear imperative for government to go faster and further with skills devolution.

### 4.1 Strategic Aims and Objectives

Any new skills system in London should be underpinned by three strategic aims: boosting economic growth and employment, increasing social inclusion and wellbeing and increasing the efficiency and effectiveness of investment in education and skills.

The first aim – boosting economic growth – can be achieved by focusing investment in education, skills and careers information to increase productivity and progression into and within work. This will include self-employment and entrepreneurship. Social inclusion and wellbeing can be improved by promoting the ambition to learn and ensuring Londoners have access to broad and engaging lifelong learning within their communities, supporting them to live, work and prosper in the capital. The final aim – increasing the efficiency and effectiveness of investment in education and skills – is key to delivering the other two and can most effectively be achieved through the devolution of budgets and responsibilities to London. This will allow greater alignment with other funding streams and services and greater investment in skills by businesses and individuals.

In the first two chapters of this report, we made the case for why a different approach is needed in London, highlighting the range of challenges the capital faces and the flaws in the current skills system. To be successful, any reformed system will need to tackle these challenges head on. To summarise, these key challenges include:

- Adapting to Brexit and ensuring in a post-Brexit landscape, London's employers are still able to access the skilled labour they need.
- Meeting the needs of a diverse and rapidly growing population.
- Supporting progression and lifelong learning to help tackle in-work poverty and welfare dependency.
- Increasing the volume of quality apprenticeships and ensuring that all Londoners have the ability to access these opportunities.
- Ensuring that the system adapts to meet London's need for higher level skills provision without losing focus on providing critical basic skills, including English, maths and digital skills.
- Meeting the high need for ESOL provision in the capital.
- Raising the level of employer engagement and investment in skills, as well as individual investment.



- Tackling skills gaps in key high demand sectors, such as construction, health and social care, and tourism and hospitality.
- Improving the link between skills spending and outcomes.
- Delivering a more coherent and integrated careers information, advice and guidance offer for London.
- Ensuring young Londoners access the right learning pathways to improve retention rates at age 17.
- Developing a more stable, resilient, responsive and high quality FE sector.

#### 4.2 Principles for the London Skills System

So what should a new system look like? London needs the ability to take a strategic, all-age, whole-systems approach. There should be greater engagement with employers and better access to and use of data. The system should allow a more localised approach that works at two levels – tackling pan-London issues and allowing more targeted activity at a sub-regional level to take into account the variations across the capital. In our view, there are eight key principles that should underpin London's future skills system:

1. It must be **labour-market led**, and include high quality labour market intelligence that captures the needs of individuals, employers and local economies informing learner choice and the provider offer.
2. It must have **strong employer engagement** in order to identify skills needs and sector priorities.
3. It must have **strong local accountability**, with joint governance agreed between the GLA and London boroughs via sub-regional partnerships. Decision-making on skills in the capital should take place at the most appropriate geographic level, informed by transparent data on provider performance and quality.
4. It must be **outcome-focused**, with strategic coordination across all aspects of post-16 professional and technical education to drive better outcomes. The system should focus on and reward delivery of positive outcomes covering jobs, earnings, progression, personal development and wellbeing outcomes.
5. It must include **stronger incentives** to encourage provision that meets London's economic needs and supports progression.
6. It must be **flexible** to enable London government to have the ability to commission provision based on analysis of need.
7. It must include **effective, impartial information and advice** to ensure learners can make informed choices that will lead to future employment opportunities.
8. It must take a **whole systems approach** to ensure that skills policy and commissioning are effectively aligned.

A system based on these principles and with policy and commissioning freedom, would enable London government to work collaboratively across the capital to improve the strategic planning of provision, based on local intelligence of demand. Entitlements could be set that focus on the needs of priority cohorts in London, with outcomes set to

reflect the progression and economic priorities in the city. Both the GLA and sub-regional partnerships would play a role in monitoring provider performance. Incentives to reward providers for responsive provision that supports learners to progress in work and training could also be considered.

This approach would allow for direct engagement on employer demand. The GLA and the sub-regional partnerships would ensure that employers are engaged at all levels across London enabling a granular understanding of their needs and ensuring the new system is responsive to those needs. It would also enable the skills system to be aligned with local services and funding to support the most vulnerable to progress.

## 5. What does London need to make this happen?

London is facing some unique problems in its current skills system and needs the flexibility and freedom to make significant, radical reforms. The UK's decision to leave the EU, London's heavy reliance on EU labour, its growing population and the projected increase in demand for higher-level skills mean that the pace, scale and ambition of skills devolution to London and its sub-regions should be reviewed and accelerated.

In this chapter we examine the steps already being taken to improve skills provision and make recommendations for further skills devolution to London government where we believe this to be the most appropriate and effective way of tackling the capital's key challenges and meeting the government's own targets.

### 5.1 Skills devolution shouldn't end with the Adult Education Budget

It was encouraging to see the government reaffirm its commitment to devolve the Adult Education Budget to the Mayor of London in the 2016 Autumn Statement.<sup>57</sup> The AEB was worth an estimated £400m to London in 2015/16 and subject to a series of readiness conditions, it will be devolved from 2019/20. However, discussions are still ongoing with government so it is not yet clear what the extent of London's influence will be over policy and commissioning. In any case, this is just one part of the skills system in London, and without strategic influence over other aspects of the system the opportunity for radical change is more limited.

London government is taking steps to lay the groundwork for a new system, putting in place some of the structures that will be necessary in developing a strategic vision and nurturing local employer and provider engagement.

In April 2017, the Mayor of London launched the 'Skills for Londoners' taskforce,<sup>58</sup> which has a twin focus of ensuring that London's skills system meets the needs of London's businesses while supporting all Londoners to access the skills they need to find and progress in learning and work. The taskforce brings together experts and key stakeholders to advise the Mayor on skills and the role of skills in London's economic development.

At the same time, London local government, supported by the Mayor, has committed to creating Sub-Regional Skills and Employment Boards (SEBs). These boards will provide an informed direction to local skills providers on the demand for skills locally and develop and oversee a sub-regional Skills Strategy. SEBs will ensure that boroughs and employers in each sub-region are able to develop a much clearer mechanism for articulating local skills demands to providers and holding them to account. The SEBs will also be well placed to strongly engage with the GLA, the Skills for Londoners taskforce and emerging proposals for devolved funding in London.

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<sup>57</sup> HM Treasury (2016), 'Autumn Statement 2016', p33

<sup>58</sup> Mayor of London (2017): 'Mayor launches Skills for Londoners to boost training in the capital'

To make a real difference on skills, London needs a devolution settlement that includes the necessary powers to determine the capital's own policy and investment framework, building on government policy and London's interpretation of the evidence base. In the first instance this should be agreed with government as part of the transfer of powers, but longer-term London should determine its own priorities and accept full accountability for investment and implementation.

London government must be able to set outcomes and incentives that reflect London's progression and economic priorities. This would help to address skills gaps, boost productivity and ensure London maintains its role as an economic powerhouse. London government should also set the strategic policy direction and entitlements for post-16 skills through a London Skills Strategy, commission 16-18 provision and negotiate outcome agreements with post-16 providers. With this whole systems influence, financial risk will be minimised and provider performance can be managed more effectively, ensuring the system delivers better value for money.

Another failing in the current system, is the lack of coordination between capital investments in the education and skills sectors. The Mayor of London is responsible for FE capital funding, but does not have strategic influence over other capital investment decisions for post-16 skills and education provision. This must change. London government should be part of the decision-making process for the number and location of university technical colleges (UTCs), technical free schools and Institutes of Technology, which the government has committed to expand as part of its post-16 Skills Plan.

While a devolved AEB will present many opportunities for London government, it also represents an additional administrative burden on already stretched resources. It is important that central government provides an appropriate administration budget alongside AEB. Any outcome that sees London having to absorb administration costs within existing budgets or leads to a top-slicing of the AEB to fund this work – taking away vital support from learners in the process – should be avoided.

#### **Recommendation 1: Devolve all 16-18 provision to London as part of a wider package of policy and commissioning freedom**

A London skills devolution deal should give London government policy and commissioning freedom over adult provision and the ability to set outcomes and incentives for the whole skills system that reflect London's progression and economic priorities. This should include setting the strategic policy direction and entitlements for post-16 skills through a London Skills Strategy, commissioning all 16-18 provision and negotiating outcome agreements with post-16 providers. An administration budget should also be devolved to cover the costs of taking on the management of these functions.

#### **Recommendation 2: Give London control over all vocational capital investments**

London government should have control over all vocational capital investments, including 14-19 capital provision and Institutes for Technology, alongside existing FE capital responsibilities.

## 5.2 Apprenticeships and Technical Education

### 5.2.1 Post-16 Skills Plan

In April 2016, the government published a report from the Independent Panel on Technical Education,<sup>59</sup> chaired by Lord Sainsbury, which had been tasked with advising ministers on actions to improve the quality of technical education in England. The panel found that the current technical education system – in which young people must choose from over 20,000 courses from 160 providers – was confusing, with no clear indicators as to which courses would provide the best chance of gaining employment.

The panel recommended simplifying the current system so technical education is provided through 15 high-quality routes, with standards being set by employers. Alongside the publication of the Sainsbury Report, the government published its “Post-16 Skills Plan”<sup>60</sup> accepting every one of the Sainsbury recommendations. The key recommendation is the introduction of new “T Levels”, a common framework of 15 routes across all technical education at levels 2 to 5, encompassing both college-based and employment-based learning.

### 5.2.2 Industrial Strategy

Following the EU referendum, the Prime Minister established a new government department – the Department for Business, Energy and Industrial Strategy (BEIS) - which was given the task of producing a “modern industrial strategy”. This is designed to build on the UK's strengths and tackle its weaknesses. Proposals were launched in a Green Paper in January 2017.<sup>61</sup>

The Green Paper highlighted ongoing problems in the UK with basic skills, a shortage of high-skilled technicians below graduate level, skills shortages in STEM and other particular sectors and the need to do more to empower students, parents and employers to make confident and informed choices about their education and career options. Solutions put forward included a commitment to put in place a transition year at age 16 for students who have substantial basic skills gaps and are not ready for more advanced study or employment; a new entitlement for basic digital skills training; £170m of capital funding to aid the creation of new Institutes for Technology; steps to identify STEM shortages; address sector specific skills gaps and a commitment to explore how to give technical education learners clear information about learning opportunities, which may include a way of searching and applying for courses, similar to the UCAS process.

### 5.2.3 Apprenticeship Reforms

In order to meet their manifesto commitment of delivering three million new apprenticeship starts by 2020, the government introduced a range of reforms to apprenticeships, including the Apprenticeship Levy, a public sector apprenticeship target and the introduction of the Institute of Apprenticeships and Technical Education, a new independent body that will regulate the quality and funding of apprenticeships, and be responsible for the government's technical education reforms from 2018.

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59 HM Government (2016): *Report of the Independent Panel on Technical Education*

60 Department for Business, Energy and the Industrial Strategy and Department for Education (2016): *Post-16 Skills Plan*

61 Department for Business, Energy and the Industrial Strategy (2017): *Building Our Industrial Strategy*

The Apprenticeship Levy provides an important opportunity to tackle the historically low levels of starts in London and stimulate demand. However, given the likelihood that there will be a significant underspend in the capital, it is critical that London government is given greater influence over this funding to prevent the opportunity being missed. In the short-term, London government should be allocated a share of any unspent Apprenticeship Levy generated by London employers. This should serve as a precursor to full devolution of the Levy to London government, in line with the recommendations of the London Finance Commission (LFC).

As the LFC argues, in light of the referendum result, London's economy needs the ability to target resources at sectors with the potential for shortfalls in labour once the UK has left the EU.<sup>62</sup> London government has a direct relationship with employers in the capital in a way that cannot be replicated at a national level and is able to be more responsive to local business needs. Access to Apprenticeship Levy underspends would give London government the ability to develop a comprehensive support package for employers to help them create more apprenticeship opportunities. Programmes this funding could be used for include:

- Capacity building activity for London SMEs, including a London-based Small Business Service to support apprenticeship recruitment. This could be delivered on a sub-regional or local basis in London to capitalise on local links with SMEs. It would ensure that London SMEs take full advantage of the government's apprenticeship offer;
- Support for employers to develop apprenticeships standards where there are gaps, potentially via the new sub-regional Skills and Employment Boards;
- Grant funding incentives to offset the impact of the government's abolition of the Area Cost Adjustment for London and changes to the disadvantage uplift to encourage employers to recruit young people and groups who typically need additional support;
- Creating a skills innovation fund, with employers and representative employer bodies able to directly bid into the fund to create and develop new and innovative solutions to deliver priority skills provision;
- Promotional campaigns to raise awareness of the benefits of apprenticeships. The campaigns could be aimed at key influencers, including parents and teachers in order to create a parity of esteem with academic career pathways, specifically through the promotion of higher- and degree-level apprenticeships;
- Pre-apprenticeship support, which would be distinct from traineeships, to target the most disengaged young people who require very intensive support before they are 'apprenticeship ready';
- Providing apprenticeship information, advice and guidance to supplement central government initiatives, ensuring that London employers and learners can make informed choices about apprenticeship training.

There would be clear added value to this approach, with London government able to capitalise on local links with SMEs to drive demand and meet the capital's skills needs.

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62 London Finance Commission (2017): *'Devolution: a capital idea - The report of the London Finance Commission'*, pp58-59



It would enable a strategic approach to recruiting high-level apprenticeships and maximise London's contribution to the government's three million apprenticeships target.

The Apprenticeship Levy should also be subject to a full evidence-based review after its first year of operation. This review should be carried out jointly between central and London government and should consider whether employers should be given more flexibility on how they can spend their Levy funds, including whether the ability to pool funds for collaborative projects or passing larger sums onto their supply chains would increase the number of apprenticeships created.

### **Recommendation 3: Review the Apprenticeship Levy after 12 months**

Central and London government should conduct a joint review of the Apprenticeship Levy after 12 months to assess whether it is operating effectively in the capital.

### **Recommendation 4: Devolve unspent Apprenticeship Levy funds to London**

Central government should ring-fence unspent Apprenticeship Levy funds generated in the capital and devolve it to London government in order to increase access to opportunities by underrepresented groups, build capacity with SMEs and identify gaps in apprenticeship standards. In the longer term, London government should have full responsibility for apprenticeships policy in the same way the devolved administrations in Scotland and Wales do now.

## **5.3 Careers Information, Advice and Guidance**

Good, impartial careers information, advice and guidance is crucial to allow Londoners to make informed choices about whether and where they should invest in their skills development.

The government has recognised that more needs to be done to improve careers education, and through the Industrial Strategy Green Paper has committed to publishing a comprehensive careers strategy later in 2017,<sup>63</sup> intended to radically improve the quality and coverage of careers advice in schools and colleges. The government is engaging in a dialogue with London government over the development of this strategy.

In the capital, London Councils, the GLA and London's LEP have jointly developed London Ambitions,<sup>64</sup> which sets out London's position on a careers offer for the city and has established a firm footing with education, training and business leaders across the capital. Launched in June 2015, it offers a pragmatic way to tackle some of the challenges that young people face when trying to make the right career choices, and aims to modernise and transform careers and employment support for young people across the city, regardless of the school or college they attend.

However, there is too much duplication in the system and misalignment of national and local initiatives. Some existing initiatives are also providing mixed success. A recent

<sup>63</sup> Department for Business, Energy and the Industrial Strategy (2017): 'Building Our Industrial Strategy'

<sup>64</sup> London Enterprise Panel (2015), 'London Ambitions: Shaping a successful careers offer for all young Londoners'

economic evaluation of the National Careers Service found that although it was possible to identify a relatively strong positive effect in relation to education and training for National Careers Service customers, it was not possible to identify a positive impact on employment or benefit dependency outcomes.<sup>65</sup>

In our view, there is clearly a case for a more localised and targeted approach to be taken. London should have the scope to be able to develop its own coherent all-age careers information advice and guidance service for Londoners. This could ensure that face-to-face and telephone advice is targeted at the right people and integrated properly with other regional and local activities that reflect a common understanding of London's skills priorities. Such a service should be accessed initially through a single portal providing:

- Impartial, independent and personalised careers education, information and face-to-face guidance in the local community;
- Readily accessible up-to-date, user-friendly LMI based on a common understanding of London's economy;
- All young Londoners with at least 100 hours experience of the world of work and access to a Careers Curriculum;
- Flexibility to provide more intensive support for Londoners with more complex needs;
- Local political and senior institutional leadership on careers information and guidance.

To make this happen, London should commission any future regional contract for adult careers information advice and guidance in London. London government should have a formal, strategic coordination role with providers of careers IAG within the capital to reduce duplication. In the longer term, central government and London government should explore opportunities for co-investment in careers IAG in London in order to build a seamless, single integrated careers service.

#### **Recommendation 5: Develop an all-age London Careers Service**

Central and London government should work together to create a coherent all-age careers information, advice and guidance service for London, accessed through a single portal. This should include providing impartial, independent and personalised careers education, information and face-to-face guidance in the local community; accessible and up-to-date labour market data; and 100 hours experience of the world of work for all young Londoners.

#### **Recommendation 6: Devolve existing careers funding streams to London government**

Government should devolve all current investment for careers IAG to London government in order to build a seamless, single integrated careers service. As an immediate step, London government should commission any future regional contract for adult careers information, advice and guidance in London in 2017 and have a formal, strategic coordination role with London providers of careers IAG.

<sup>65</sup> Lane M, Conlon G, Peycheva V, Mantovani I and Chan S (2017), 'An Economic Evaluation of the National Careers Service



## 5.4 Collaborative working and data sharing

### 5.4.1 The London Area Review: collaborative working

In 2015, the government announced a programme of Area Reviews of post-16 education and training provision to deliver a rationalised FE sector, comprised of fewer, financially sustainable institutions that are more responsive to local economic need. London's Area Review process ran from March to December 2016 and included a strategic review of adult community learning – the only one in the country.

Rather than approach the Area Review solely as a time-limited exercise to address financial stability in the FE sector, London government saw it as the first phase of a wider process to revamp London's skills system. One of the more effective outcomes of the Area Review process was bringing local government, the GLA, employers, colleges and other providers together, helping to develop some of the collaborative relationships that will be needed to effect real change. The process was also helpful in instigating some of the preliminary work needed to develop a more strategic approach to skills provision, such as sub-regional skills needs analysis and whether the curriculum offer meets the needs of employers.<sup>66</sup>

### 5.4.2 The need to improve data sharing

In their submission to the Parliamentary inquiry on the Area Review process, London Councils' highlighted data sharing between central and local government as a particular problem throughout the process. Due to constraints on data sharing with central government, local government lacked the necessary information on outcomes, quality and effectiveness to enable it to develop sufficiently well-informed views on the options being presented.<sup>67</sup>

The Washington model referenced in Chapter Three demonstrated the difference access to up-to-date LMI data can have in helping localities manage skills programmes and institutions to ensure their effectiveness.

It is essential that data sharing between London government, HMRC and DfE is in place to allow better outcomes data to be published. Learners must be given the best information possible when making their choices about what to study. There is also a strong case for London government to have control over the frequency of provider returns to ensure that they have the best and most up-to-date information available to inform their policy decisions.

#### Recommendation 7: Improve data sharing

HMRC and DfE should put in place formal arrangements for data sharing with London government on learners' job outcomes. This will enable London government to better monitor, for example, whether an individual completing a qualification gets a decently paid job and publish this information to improve learners' choices.

<sup>66</sup> London Councils (2016) 'Written submission to Sub Committee on Education, Skills and the Economy Inquiry on Post-16 Area Reviews'

<sup>67</sup> Ibid

## 5.5 Future Funding of Skills Provision

London needs the resources to cope with the skills challenges it faces, including the need to cater for a rapidly growing population. It is vital that London has the resources to be able to cope with these challenges. It is important that government takes this into account and ensures that London does not lose out in any future skills funding settlements.

### **Recommendation 8: Ensure London does not lose out in any future skills funding settlement**

Any future skills funding settlements must take into account London's unique needs. This should include recognition of the higher costs of delivering training, the high demand for ESOL and basic skills and the capital's rapidly growing population.

European Social Fund (ESF) has been an important source of funding for skills development<sup>68</sup> among economically inactive young people and adults in the capital. It is flexible and allows for a focus on skills that will improve employability for disadvantaged Londoners.

It is important that the UK's withdrawal from the EU does not significantly and adversely affect the level of resources available for skills development in London in the future. Any replacement funding for skills and employment should be devolved and commissioned by London and its sub-regions, as part of a single devolved skills budget. This needs to be in place by a time that ensures continuity of skills provision in London (subject to when ESF funding ends within the UK).

### **Recommendation 9: Devolve ESF replacement funding to London**

Central government should devolve the capital's share of replacement funding for the European Social Fund when Britain leaves the EU to London government. This is a particularly important source of investment in employment and skills in London.

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<sup>68</sup> London has been allocated £420m of European Social Fund (ESF) for the 2014-2020 programme, although not all of this funding has been allocated for skills development.

## 6. Conclusion

It is clear from the available evidence that the skills system in London is not meeting the scale of the skills challenge in the capital. London is facing a myriad of different challenges: a rapidly rising population, an overreliance on migrant labour, skills gaps in many key sectors, low numbers of apprenticeships and an inflexible apprenticeship system, patchy careers guidance and poor matchup between skills spending and outcomes. London's youth unemployment rate is also three and a half times higher than the overall unemployment rate in the capital, resulting in a generation of young Londoners being failed by the system.

London is not alone in facing these challenges, with examples from around the world of other major population centres grappling with many of the same problems. There is no silver bullet, but London can learn much from the approaches taken in New York, Michigan, Washington and Canada as it looks to design a skills system fit for the 21st Century – one that should encourage and promote career progression, upskilling and a more outcome-led approach.

The forthcoming devolution of the Adult Education Budget represents an important first step in creating an efficient skills system, but government must be bolder and go further and faster on skills devolution to have the big impact needed.

Devolving greater powers on skills to London would enable the capital to create a system that meets employer need, not just learner demand, and capitalises on local labour market intelligence. It would enable stronger employer engagement to identify skills needs and sector priorities, which can only be done effectively at a local level. It would drive up the provision of higher level professional and technical education that London's economy needs and create clear progression pathways for learners aligned with the technical routes in the Post-16 Skills Plan. Learners would be supported with tailored careers information, advice and guidance to make informed choices about how to access those pathways and progress in learning and work. The ability to drive out the inefficiencies that result from poor learner choices and ineffective provision would alleviate budgetary pressures, while a devolved system would also be much better placed to align local services and funding with skills provision to help the most vulnerable to progress.

Devolution would encourage changes that would help central government meet many of its goals too. Not only would it ensure that London remains economically strong, continuing to grow and contributing substantially to UK GDP, but it would help the government deliver on many of its other policy goals, from supporting the aims of the Industrial Strategy to meeting the target of three million new apprenticeships by 2020.

It is therefore vital that government is more ambitious in its plans for skills devolution to ensure that London has the tools to create the responsive skills system it needs to continue to be a globally competitive city that works for all Londoners.

## 7. Recommendations

### **Recommendation 1: Devolve all 16-18 provision to London as part of a wider package of policy and commissioning freedom**

A London skills devolution deal should give London government policy and commissioning freedom over adult provision and the ability to set outcomes and incentives for the whole skills system that reflect London's progression and economic priorities. This should include setting the strategic policy direction and entitlements for post-16 skills through a London Skills Strategy, commissioning all 16-18 provision and negotiating outcome agreements with post-16 providers. An administration budget should also be devolved to cover the costs of taking on the management of these functions.

### **Recommendation 2: Give London control over all vocational capital investments**

London government should have control over all vocational capital investments, including 14-19 capital provision and Institutes for Technology, alongside existing FE capital responsibilities.

### **Recommendation 3: Review the Apprenticeship Levy after 12 months**

Central and London government should conduct a joint review of the Apprenticeship Levy after 12 months to assess whether it is operating effectively in the capital.

### **Recommendation 4: Devolve unspent Apprenticeship Levy funds to London**

Central government should ring-fence unspent Apprenticeship Levy funds generated in the capital and devolve it to London government in order to increase access to opportunities by underrepresented groups, build capacity with SMEs and identify gaps in apprenticeship standards. In the longer term, London government should have full responsibility for apprenticeships policy in the same way the devolved administrations in Scotland and Wales do now.

### **Recommendation 5: Develop an all-age London Careers Service**

Central and London government should work together to create a coherent all-age careers information, advice and guidance service for London, accessed through a single portal. This should include providing impartial, independent and personalised careers education, information and face-to-face guidance in the local community; accessible and up-to-date labour market data; and 100 hours experience of the world of work for all young Londoners.

### **Recommendation 6: Devolve existing careers funding streams to London government**

Government should devolve all current investment for career IAG to London government in order to build a seamless, single integrated careers service. As an immediate step, London government should commission any future regional contract for adult careers information, advice and guidance in London in 2017 and have a formal, strategic coordination role with London providers of careers IAG.

**Recommendation 7: Improve data sharing**

HMRC and DfE should put in place formal arrangements for data sharing with London government on learners' job outcomes. This will enable London government to better monitor, for example, whether an individual completing a qualification gets a decently paid job and publish this information to improve learners' choices.

**Recommendation 8: Ensure London does not lose out in any future skills funding settlement**

Any future skills funding settlements must take into account London's unique needs. This should include recognition of the higher costs of delivering training, the high demand for ESOL and basic skills and the capital's rapidly growing population.

**Recommendation 9: Devolve ESF replacement funding to London**

Central government should devolve the capital's share of replacement funding for the European Social Fund when Britain leaves the EU to London government. This is a particularly important source of investment in employment and skills in London.

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