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Deloitte.

London Employment and Skills Commission

September 2017

REQUEST FOR INPUT



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Foreword

As Paul Krugman wrote in 1994, 'productivity isn't everything, but, in the long run, it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.' This, in turn, relies on its ability to deploy capital, including human capital.

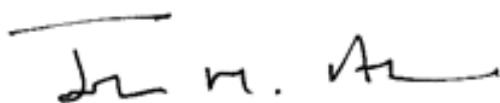
London's productivity performance is strong: indeed, it is the most productive region in Europe with record absolute employment. But this success masks some deep-rooted weaknesses: London also has persistently high unemployment compared with the UK average, skills gaps affecting hundreds of thousands of roles, and high levels of in-work poverty.

Future trends will magnify these challenges. Brexit will affect migration to the UK and potentially those migrants already here. **According to new research by Deloitte¹, whilst London continues to remain an attractive destination for international talent, 64% of London's young, high-skilled EU nationals are considering leaving the UK in the next five years, as are 42% in the rest of the UK.** This is concerning because, as London First's Facing Facts report sets out, EU migrants play a crucial role in London's economy: some 13% of London's workforce were born in EU countries outside the UK.

We also expect roles to be replaced by computers, machines and Artificial Intelligence. Automation will affect different jobs and sectors in different ways, disrupting the demand for skills that may have existed for generations, changing the role human labour plays in London's economy. This is in addition to the shift in the type of skills businesses look for from task-orientated to softer, more transferrable competencies.

Brexit will make it harder for businesses to get the skills they need, while automation will make it harder for Londoners with redundant/no longer needed skills to get jobs. The solution is for the London skills system to become better at giving Londoners the skills business needs, at all levels. Unpacking quite what this means and how it can be done is the aim of our London Employment and Skills Commission. We will do this by analysing the strengths and weaknesses of London's labour market today, assessing trends and making recommendations to create a truly business-led system of skills provision in our capital.

This paper is our first publication. It sets out some preliminary thinking on the issues around Brexit, automation and the shift towards softer skills. It also poses some questions that we would be grateful for your responses to, in order to shape our recommendations.



John Allan
Chair of London Employment and Skills Commission

¹ <https://www2.deloitte.com/uk/en/pages/global-markets/articles/power-up.html>

1 The London Employment and Skills Commission: aim and ambition

Most London businesses see getting talented people as their top challenge. The gaps between workforce skills and the needs of business are acting as a drag on economic growth today. Future trends, such as the impact of Brexit on migration flows, the move towards automation, and the growing importance of softer skills, are likely to make matching Londoners' skills to jobs even more of a challenge in the future.

London First established the London Employment and Skills Commission (the Commission) to identify ways in which business, government and skills providers can work more effectively together to give more Londoners the skills that employers need, now and in the future. The Commission brings together senior business leaders, is working closely with the Mayor, and draws on London's businesses, education and training institutions, boroughs and think tanks to identify ways to improve the skills system.

The scale of London and the complexity of its skills ecosystem increases the challenge. London has a workforce of 5.2 million people, 250,000 employers and around 40 higher education institutions, 50 further education colleges, and some 3,100 schools. There are 33 local authorities – 34 within the GLA.

The Commission's approach is to analyse the strengths and weaknesses of London's labour-market today and assess how both the demand and supply-side trends will affect this market through to 2025. It will then set out proposals on how the London skills system can become business-led, capable of providing the changing skills employers need over time. While the Commission is focused on London, many of its proposals will also be relevant to other UK cities.

Work programme

The Commission's work programme has three stages:

- 1 Understanding London's labour market today and the challenges posed by known trends through a literature review, this call for evidence and interviews with relevant stakeholders including businesses, education and training providers and academics.
- 2 Developing and consulting on options in autumn 2017.
- 3 Publishing final recommendations in spring 2018.

London First will then work with business, national and London government, amongst others, to implement the recommendations.

This report has three further sections. The first gives a brief overview of the London labour market today. The second sets out a top-line analysis of the principal forces for change in the market, to stimulate thinking for the third section. This sets out the questions that the Commission seeks responses to.

2 The London Labour Market and Skills System Today

Labour Market

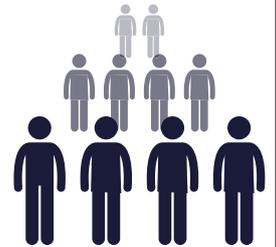
Workforce

London's population and its workforce is growing. Between 2005 and 2015 the total population grew from 7.4million to 8.7million, and at the same time the capital's total workforce (residents and commuters) has shown a steady increase, from 4.3 million in 2005 to just under 5.2 million in 2015 (ONS/ Facing Facts, 2017). To date there have never been more jobs – 5.75 million² (ONS 2017) – nor more people in work in the capital.

London's population and workforce is growing

Between 2005 and 2015 population grew from 7.4 million to 8.7 million

At the same time, the capital's workforce grew from 4.3 million in 2005 to just under 5.2 million in 2015



Source: ONS/Facing Facts

623,000 of this workforce growth was from migrants, while at the same time more British-born residents secured jobs, with economic inactivity amongst this group falling by 70,000 and the overall London unemployment rate remaining roughly static at just under 300,000.

UK-born workers make up the majority of London's workforce at 62% (3.2million); with EU-born workers at 13% (682,300) and non-EU born at 25% (1,292,700).

London's workers tend to be more educated than the UK average – 43% of Londoners of working age have a degree or equivalent, compared to the UK average of 28% (Facing Facts). EU-15 workers in London in particular are very highly educated, with 58% holding a degree (or equivalent qualification), compared to 44% UK-born and 41% non-EU born. Post-2004 accession EU workers frequently hold vocational work-related qualifications, required for specific industries such as construction.

London – a city of paradoxes

Strengths

London is a thriving global city and its success supports growth and jobs in the rest of the UK. With a nominal Gross Value Added (GVA) in 2013 of £338.5 billion (equivalent to 22.2% of UK GVA), London's strong economic performance supports its net contribution to the Exchequer, estimated at £34.2 billion in 2013/14 (London First, 2016).

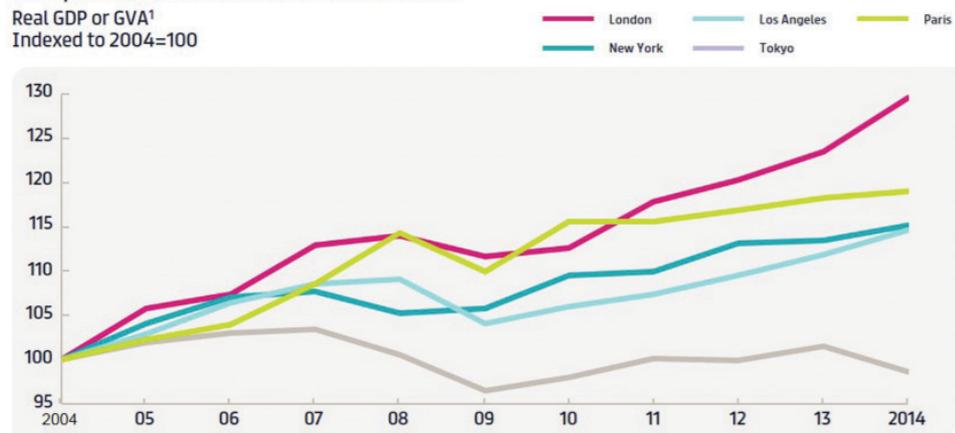
Inner London has the highest productivity level in the UK, with the average worker producing 42% more every hour than the national average (ONS). The economic success of the capital has been driven by a shift to higher-skilled, knowledge-economy employment in financial, professional and technical services. This in turn has created a strong demand for highly skilled, highly productive labour, which is expected to continue to rise at a faster rate than in the rest of the UK.

This economic growth has been faster than that of its global peers, such as New York and Paris (London First, 2016). Figure 1 shows London's lead over its peers in terms of overall economic growth.

² Some people have more than one job which is why there are more jobs than people

Comparison of London with other cities

Real GDP or GVA¹
Indexed to 2004=100



¹ GVA for London and Paris only; 2014 GDP data for Tokyo is provisional
Note: Paris defined as the Parisian Region/Ile-de-France; Tokyo defined at the 1 precinct level (population ~14m)
Source: ONS; Eurostat; BEA; Moody's; Japan Bureau of General Affairs; World Bank national deflators

Figure 1

Migrants are clearly an important part of London's workforce, across many of London's key industries; for example, 50% of London's construction employees were born outside of the UK and 70% of hospitality workers (Facing Facts). They make a substantial contribution to the UK economy; the total net additional GVA from migrants is £83bn, around 22% of all London's GVA.

And weaknesses

Although in a period of overall high employment, there are pockets of unemployment throughout the country. Youth unemployment, in-work poverty and under-employment levels all remain stubbornly high. London paradoxically suffers more than the country as a whole in these areas: London's unemployment rate has been consistently higher than the UK average for decades (currently 5.4% compared to 4.7%); youth unemployment is higher (12.8% vs 12.3%); and the biggest proportion of the UK's 3.8% workers in poverty live in London (1.2m). Under-employment is 9.4% both in London and nationally.

Skills system

The Mayor has limited powers over skills policy, although these powers are expected to increase as the government proposes to devolve London's adult education budget (currently £400m p.a.) to City Hall in 2019/20. The Mayor has established the Skills for Londoners Taskforce to oversee this process and establish a new skills strategy for London.

This will not give London government powers over schools, 16-18 provision or apprenticeships (including the levy). Adult skills devolution will be against a backdrop of funding cuts.

Presently, the Greater London Authority (GLA) funds and helps to deliver projects and programmes that improve skills and employability. Key vehicles for achieving this include the Further Education Capital Fund and the European Social Fund.

Supporting the Mayor is the London Economic Action Partnership (LEAP), the local enterprise partnership for London. The LEAP brings entrepreneurs and business together with the Mayoralty and London Councils to identify strategic actions to support and lead economic growth and job creation in the capital.

Performance challenges

London's skills system has historically underperformed. For the latest year for which data is available (UKCES, 2014), there were around 240,000 'skills gaps' in London, where employers judged staff not to be fully proficient in their jobs, and around 30,000 skills-shortage vacancies in London, where applicants are available, but the necessary skills are lacking.

The IPPR (2016) found that London has, in some ways, been high performing, accounting for one third of new UK jobs created since 2010. However, participation and progression have been inadequate, with low levels of vocational training and in-work progression.

London requires better market intelligence and information from employers about vocational opportunities. London 2036 made the case for improved near-real-time labour market information and projections, and advocated a process to identify and scale up best practice in employment and skills interventions. The report described how lower-income Londoners are not benefiting significantly from London's growth today and that London's labour market is challenging to navigate. Lower-income Londoners are faced with a shrinking pool of lower- and mid-skilled jobs, as the London economy becomes increasingly driven by high-skilled jobs. Those made redundant by progressive automation or downturns struggle to retrain or access vocational routes into middle-skill jobs; others fail to participate in the labour market due to a lack of basic training. This creates a twin challenge of supporting low-skilled Londoners into work and meeting London's need for higher-level skills. Business and government need to work together to deliver better routes to employment and to boost productivity.

Growing skills challenges but untapped opportunities too

As the UK government seeks to exert more control over immigration following the Brexit vote, it needs to work with business to do two things. First, to shore up access to overseas talent over the short and long term. Second, it needs to support a step change in the performance of education and training. A significant question London employers face is how to continue to compete globally by securing and enhancing the domestic talent pipeline.

Figure 2 below demonstrates that if London's unemployment rate was to reduce from 6.2% to the same level as the national average (5%), the UK economy would benefit from an additional £3.7bn in Gross Value Added.

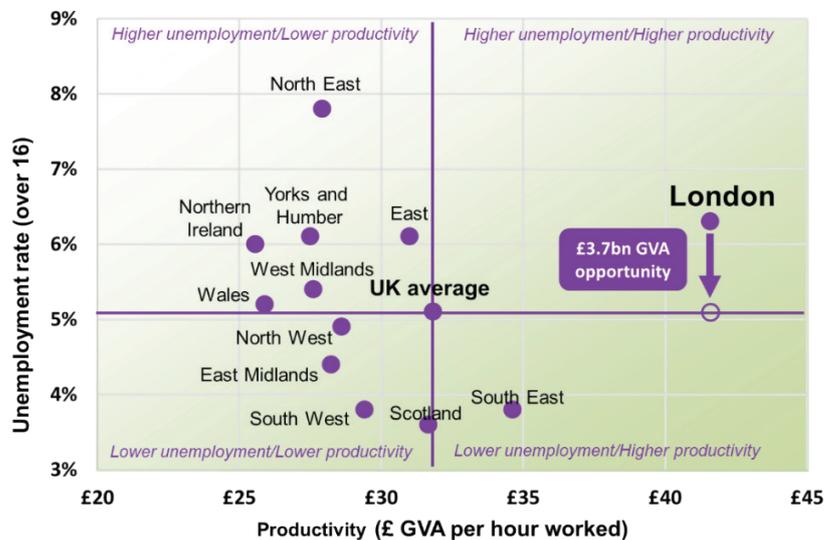


Figure 2 - unemployment rate and productivity by UK region (ONS, 2017)

3 The shifting context: three key challenges

3.1. *The implications of Brexit*

London's strong economic growth in recent decades has, in part, been driven and supported by the people it attracts from abroad, as set out in the previous chapter. Workers from the EU and beyond play an important, often critical, role in the London economy across a range of sectors, including construction, financial services, healthcare and hospitality and retail.

Migrant workers are important for two reasons. First, international companies based in London, or with substantial operations here, are operating in global talent markets and need to be able to recruit highly skilled employees with distinctive, perhaps unique skills and experience from across the globe. In some cases – for example, Japanese speakers with a knowledge of infrastructure projects in Asia – there will inevitably be competencies that cannot be replicated locally.

Second, and more relevant to the Commission, migrants fill labour and skills shortages that the local labour market cannot. As London's economy has grown and employment has reached record levels, there have not been sufficient numbers of suitably skilled British workers to meet job demand. In construction, it is estimated that approximately 60,000 more construction workers are needed in London and the South East as of 2017 (Facing Facts). However, an adequate home-grown talent pipeline is not in place: just under a fifth of current workers are due to retire within the next five years, and there are not enough younger workers coming through channels such as apprenticeships to meet demand. Without migrant workers to make up the shortfall, London would be facing even greater significant skills shortages.

The challenge presented by Brexit is two-fold. First is the prospect of changing migration policy and practice. While the post-Brexit approach to EU migration is unknown, it will certainly be more regulated than the current freedom of movement rules that have enabled UK employers to recruit from the European labour pool. It also remains to be seen whether the government will alter its approach to non-EU migration.

Second is the effect that Brexit will have on the perceived attractiveness and openness of the UK; EU workers, and indeed non-EU workers too, who could and would have come to the UK might decide to go elsewhere. This issue may be most acute for London, since it employs a higher proportion of non-UK EU nationals: 13% compared to 6% for the UK (ONS, 2017).

To understand implications of potential migrants' perceptions, Deloitte (2017) surveyed 2,242 migrant workers to assess their views on what makes the UK attractive and how likely they would be to either come to or leave the country³.

³ <https://www2.deloitte.com/uk/en/pages/global-markets/articles/power-up.html>

Figure 3 shows that the most likely group to leave the UK are younger, more skilled EU nationals currently working in London: 64% compared to a UK average of 42%. This compares to a UK average of 24% of EU nationals who did emigrate between 2010 and 2015 (ONS 2017).

It is perhaps to be expected that highly skilled people who have moved to a new country for work at least once might well be thinking about moving again, nevertheless the high level of leavers is of concern – not least because they are likely to be harder to replace due to potential migration restrictions.

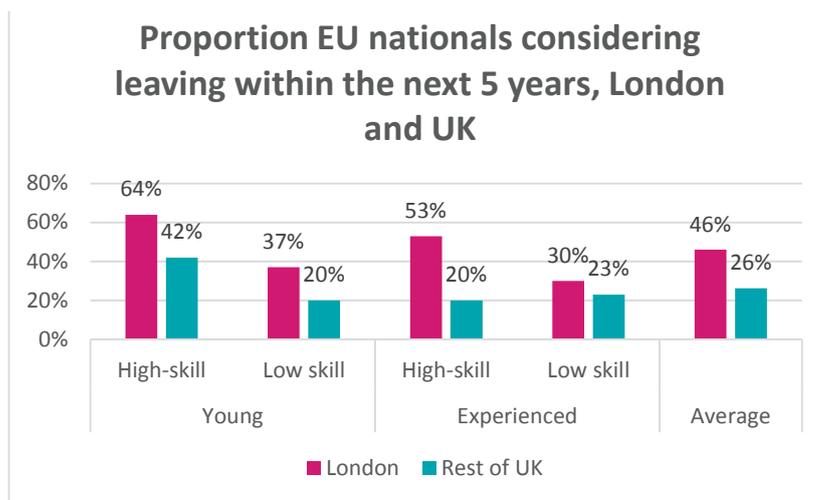


Figure 3 (Deloitte, 2017)

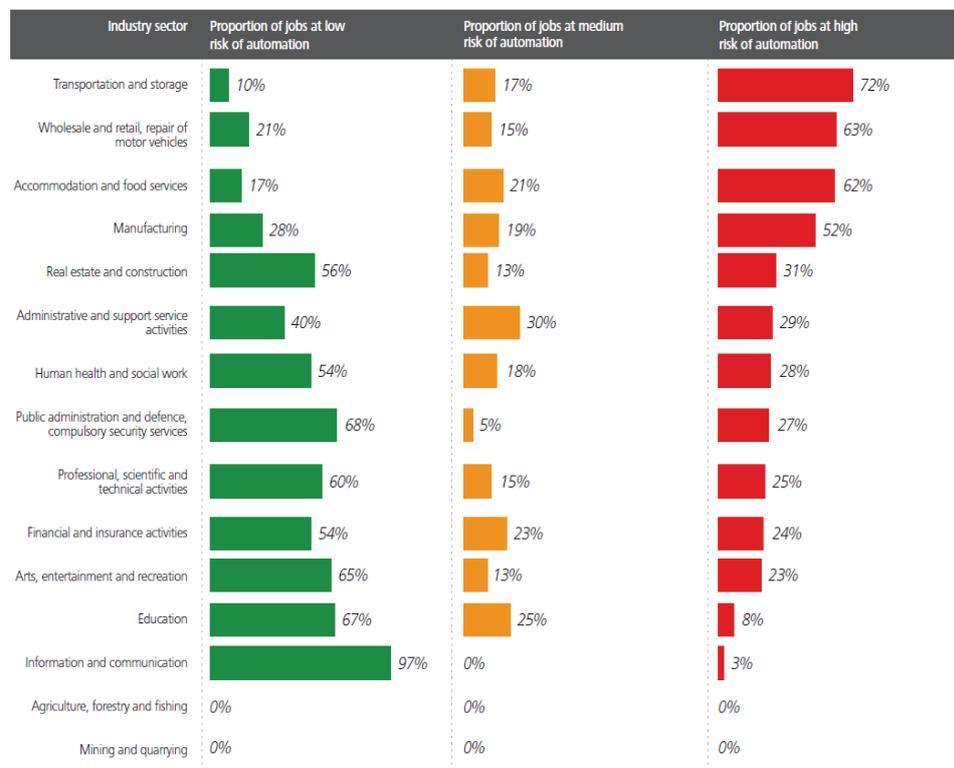
Skills Challenge

While future immigration policy and practice is unknown, it is important to understand the possible implications of a more restrictive environment. An increase in the number of London’s migrant workers leaving the country to work elsewhere, together with tighter regulations on EU nationals allowed to work here, will reduce the size of London’s talent pool and exacerbate the problem that London’s sectors already experience with skills gaps. London First’s Facing Facts report examined the role that migrant workers play in London’s labour market, highlighting sectors with significant numbers, like construction. The challenge now is to understand how business could replace a proportion of these workers, through working with education to boost investment in home-grown skills, through investment in automation technology, or through a change to business models.

3.2. Automation and Employment

Jobs being automated is nothing new. However, consensus is building that both the pace of change and the range of jobs affected is set to grow. 2014 research by Deloitte⁴ suggested that 30% of London jobs have high potential for automation within the next 20 years – this equates to 1.9 million jobs today.

In general, lower-skilled and lower-wage jobs are at greater risk of replacement by technology, and some sectors will be more affected than others. Figure 4⁵ illustrates the breakdown of potential automation by sectors, and shows that sectors with the highest potential for automation include transport, accommodation, wholesale food, retail and repair and manufacturing, with over 50% of roles with high potential for automation. White-collar jobs are not immune from this change either, with a quarter of jobs in the professional, scientific and technical and manufacturing sectors at risk of automation.



Source: Frev and Osborne. ONS. Deloitte analysis.³⁵ Totals for each sector may not equal 100% due to rounding.

Figure 4: Automation potential by sector for London in the next twenty years

⁴ <https://www2.deloitte.com/uk/en/pages/growth/articles/agiletown-the-relentless-march-of-technology-and-londons-response.html>

⁵ <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/Growth/deloitte-uk-global-cities-global-talent-2016.pdf>

Historically the deployment of new technologies and automation has, overall, created more jobs. While some sectors in London have seen employment numbers decline – for example, manufacturing by 53% since 1996 – others have grown, such as professional services, which more than doubled in the same period. (ONS, 2017). Indeed, Figure 5⁶ illustrates that London has seen strong growth in total employment since 2001, a trend driven by higher-wage, higher-skilled roles that are at lower risk of automation. The chart also suggests that between 2001 and 2015, while technology may have displaced 800,000 jobs in the UK, it may also have helped to create 3.5 million jobs over the same period (Deloitte, 2016).

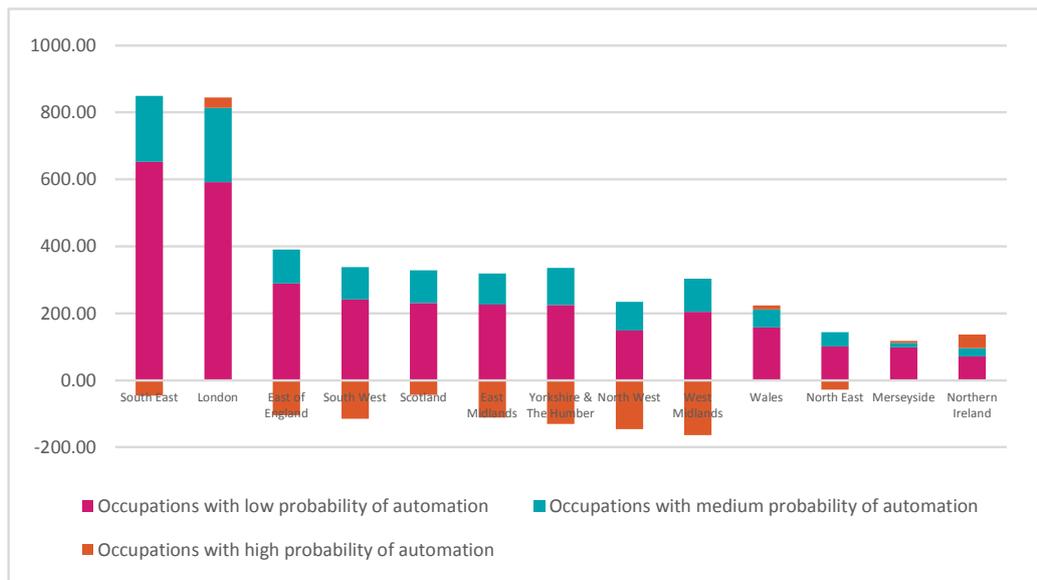


Figure 5: Job growth 2001- 2015 by probability of automation UK regions (thousands)

Skills Challenge

Automation over the coming decade is highly likely to displace a substantial number of London jobs and Londoners from employment, with both low- and high-skilled roles affected.

There are four pressing challenges for the skills system, where action will need to be taken. First, those with redundant skills will need to be re-train and be re-deployed if they are to be employable in the future; second, workers and employers will need to get used to becoming more agile, and to accept the need for more regular retraining throughout their working life as the pace of automation picks up; third, there needs to be an increase in investment in the provision of skills that are harder to automate, such as softer skills including critical thinking; and fourth, there needs to be an increase in investment in the skills that drive automation, such as designing and maintaining artificial intelligence, so that employers can harness the technology available to them.

⁶ <https://www2.deloitte.com/uk/en/pages/growth/articles/from-brawn-to-brains--the-impact-of-technology-on-jobs-in-the-u.html>

3.3 The growing importance of soft skills

A range of factors -- new technologies, more rapid workplace change and increased connectedness to name but three -- is changing the type of skills employers need. Demand is switching away from specific technical skills -- for example equipment maintenance, repairing and manual dexterity -- to cognitive understanding, interpretation of data, and the communication of complex information. As service industries have grown, interpersonal skills have risen in importance in a greater percentage of roles. Employers are placing increasing emphasis on employees being enthusiastic, literate, team-players, problem solvers, good communicators and able to turn up on time (UKCES, 2009).

Again, this trend may be more pronounced in London than the rest of the UK: jobs in London typically place greater emphasis on personal qualities because of London's emphasis on service industries and higher-skilled strategic and managerial roles. A mapping exercise by Deloitte (2016) assessed hundreds of employment characteristics and their application in UK occupations to derive their relative importance to the current workforce. The results for London in Figure 6 show the significance of transferable, softer skills, values and behaviours.

Customer and personal service knowledge	1
Oral comprehension	2
Oral expression	3
English language knowledge	4
Active listening skills	5
Written comprehension	6
Speaking skills	7
Problem sensitivity	8
Reading comprehension	9
Critical thinking skills	10

Figure 6: Top 10 most important attributes 2015 – London. (Deloitte, 2017)

Yet, it seems that the school system is not preparing young people with these soft skills: eight out of 10 British school-leavers lack essential business skills and require significant training before being put to work, according to a survey conducted by the Chartered Institute of Management Accountants (CIMA, 2016).

Figure 7 shows that some of the most commonly lacking skills amongst job applicants are people and personal skills (UKCES, 2016).

Specialist Skills or Knowledge	64%
Ability to manage own time and prioritise tasks	47%
Customer handling skills	39%
Solving complex problems	39%
Knowledge of products and services offered	37%
Team working	33%
Managing own feelings / handling those of others	32%
Persuading or influencing others	31%
Knowledge of how the organisation works	31%
Managing or motivating other staff	30%

Figure 7: Most commonly lacking skills amongst job applicants (UKCES, 2016)

Skills challenge

A shortage of employability skills among new entrants to the jobs market is nothing new. In 1900 Theodore Roosevelt raised the issue in an article about how well school prepares young people for the world of work:

[...] if, as a result of his high-school, academy, or college experience, he gets to thinking that the only kind of learning is that to be found in books, he will do very little; but if he keeps his mental balance – that is, if he shows character – he will understand both what learning can do and what it cannot, and he will be all the better the more he can get.

In a shifting world that places an increasingly high premium on a range of transferable and softer skills, values and behaviours, Roosevelt's words arguably possess an even greater resonance. The challenge is to see how business and education might work better together to develop these skills early, perhaps through co-design of provision, a more robust approach to work experience, and business playing a greater role in careers advice.

Request for input

The Commission welcomes input from business, skills providers, universities, think tanks amongst others. The Commission's evidence will be based on – but not limited to – the questions below. We welcome ideas, suggestions, data and even short observations in response to these, or any other pertinent areas to help develop a more business- friendly skills system. Assumptions and approximate numbers are acceptable if definitive views or actual data analysis are not readily available. Please respond to questions that are relevant to your expertise; we do not expect respondents to answer every single question or section. We will aggregate the results and will treat your individual response confidentially.

Questions

- Thinking up to the year 2025, what are the (i) key forces for change and, (ii) concerns that affect the skills, employment and recruitment requirements for your organisation and for London?

Brexit

- What is your business doing – or planning to do – to address the potential impact on your workforce of the UK leaving the EU?
- What skills gaps are you most concerned about filling, both now and once the UK leaves the EU?
- What are you doing to develop a pipeline of home-grown talent?

Apprenticeships

- Do you run an apprenticeship programme? If yes, please provide approximate details of numbers, roles, and success measures
- Does your business pay the levy? If yes, have you changed your approach to delivering apprenticeships in your business and, if so, how?
- What impact, if any, is the levy having on your broader business, e.g. other training budgets reduced, reduction in graduate intake?
- If there was an opportunity to improve the apprenticeship levy, how might you change it to make it work better for your business and sector?
- Do you recruit school leavers onto programmes that are not apprenticeships? If yes, why?

Automation

- Do you see job automation as a risk or an opportunity to your business? Please explain.
- To what extent is your workforce going to be affected by automation in the near to medium term?
- If migration from the EU falls, will you accelerate plans to automate?
- What should the following sector be doing in order to prepare for a potential increase in the pace of job automation:
 - a) business
 - b) education and skills system
 - c) government

Changing skill and attribute requirements

- What skills do you find hardest to recruit and why?
- What are the general employability skills you require? Do these vary according to entry-level/ 4-5 years in/ mid-career/ senior level)?
- Do you expect your business to require more technical/STEM or more softer skills in the near to medium term?
- What should the following sectors be doing to boost the soft (or employability) skills of Londoners:
 - a) business
 - b) education and skills providers
 - c) government

**Please email your response by 31 October 2017 to us at
skills@londonfirst.co.uk**



Keeping our capital working for Britain

We were founded by business leaders in the '90s, when London was struggling, with a mission to make London the best city in the world for business. We've galvanised the business community to bring pragmatic solutions to London's challenges over the years.

We have established **Think London**, now part of London & Partners, to promote the capital worldwide and encourage foreign direct investment; been instrumental in creating the **Mayor of London**, pioneered **Teach First**, driven the campaign for **Crossrail** and, most recently, lobbied for government action on airport capacity, which has led to the government's decision to build a new **Heathrow runway**.

Now, we are addressing what business leaders see as the top priorities for our capital: talent, housing and transport.

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