

BUSINESS LONDON



TACKLING LABOUR AND SKILLS SHORTAGES POST-PANDEMIC

What matters now

August 2022

FOREWORD

Recent years have brought with them many challenges, not least the impact of the pandemic on the labour market, which was already struggling to match skills to available vacancies.

London's labour market struggles with a set of complex issues. Although it has a higher-than-average skilled workforce, it also has one of the highest unemployment rates in the UK. While it has more roles that were able to pivot to work from home and hybrid working, its rate of in-work poverty remains one of the highest across the country.

At this point we identify four key factors that would help right that situation; a simplified and more easily navigable system; more

effective routes to training to support the unemployed into work and the employed to gain new skills; interventions to support the economically inactive to access employment and skills opportunities; and an immigration system which supports economic growth by bringing in the people business needs to grow, once we have done all that is practicable domestically. All underpinned by better and more accessible data.

We set out the detail of these four priorities here, alongside a number of immediate no-regret actions which should be acted on now, to remove known blockages in the current system.

INTRODUCTION

London is where business comes to find a diverse pool of talented people; and people come to find opportunity. Between them, they create the London labour market – with business representing the demand side and people the supply side.

This paper focuses on the heart of that market: the jobs businesses create in London and the people who live here. In practice the market is more complex -- people travel from outside London to work here – and vice versa; and for many jobs, work is undertaken, at least some of the time, remotely.

This market is characterised by substantial inequalities. For example, Londoners hold higher qualifications than any other UK region or major world city, with 58% of the city's working age population educated to graduate level or higher in 2020¹.

¹ Office for National Statistics, *Qualifications of Working Age Population (NVQ), Borough*



London also has a higher share of its workforce in higher-paying industries, such as Finance, ICT and professional services².

However, unemployment in London has been consistently above the national average over the last decades (with Black and minority ethnic groups, the young, and disabled disproportionately affected)³. In-work poverty rates are among the highest in the country, due to the high cost of living, particularly housing costs⁴.

The relatively high level of unemployment has, in recent times, gone hand in hand with high levels of vacancies, in sectors as diverse as construction, hospitality and social care.

Fundamentally, we need to get more people into employment: this will be a mix of getting Londoners who are unemployed or

economically inactive into jobs⁵; and, where this is insufficient, getting more people from outside London into London based jobs (whether they are living elsewhere in the UK or as overseas migrants to London).

The Government spends a substantial amount of money to support the market directly with over £6bn having been provided nationally for DWP employment support and almost £13bn for skills and training over the 2021 Spending Review period across a range of programmes (see appendix 1 for a list)⁶. A whole host of other spending choices, notably around pensions, tax and benefits, also affect employment decisions.

As we emerge from the pandemic, now is the time to take a fresh look at the way we spend this money and see how we could deliver better. The first step is a better and

more granular understanding of the data in local employment markets: what are the current – and future skills – needed by businesses and what is the gap with the existing labour force? This will create the information foundation for all participants – employers, Londoners, training providers and policymakers – to act more effectively.

The Local Skills Improvement Plan (LSIP) programme, which the Department for Education has put in place on a regional/ sub-regional basis, is an important first step in providing this analysis and deepening understanding of local markets. LSIPs will bring together the private sector, providers and local government to set out a clear articulation of employers' skills needs, based on a data-driven approach, and the priority changes required to help ensure local training provision is more responsive.

² *London Local Skills Report, GLA, February 2022*

³ *London Local Skills Report, GLA, February 2022*

⁴ *Social Market Foundation, Poverty in London, January 2022*

⁵ *Economically inactive people are neither employed nor unemployed; they are not in paid work but are also not looking for a job or available to start work.*

⁶ *HM Treasury, Autumn Budget & Spending Review, October 2021*

While the data will enable a more targeted approach to the identifying the capital's skills needs, the main areas of focus in fixing the skills crisis are clear

- creating a simplified, joined-up and more easily navigated overall system – so that people and business both can easily see how, given their own particular circumstances, they have a route to entering their labour market, retrain or recruit. Part of this is getting the balance right between those things best decided/delivered nationally and those which can best be done at a more local level;
- more effective routes to training to give those who are unemployed the skills and confidence to get jobs and those who are in work the opportunity to acquire new skills, either to progress in their existing career or to move into a new job, as demand changes over time;
- a set of well targeted interventions to enable the people who are economically inactive and want to enter the labour market to do so – such as changes to benefits; childcare/caring support – so that they can get a job and/or access training opportunities as above; and
- an immigration system which supports economic growth by bringing in the people business needs to grow once we have done all that is practicable above.

Success is a system that is data-driven, simple and responsive. One where business, providers and policymakers work together at a regional level to meet local needs.

1 LONDON'S LABOUR MARKET TODAY

As of June 2022, using ONS definitions⁷:

74.9% of Londoners aged
16-64 are in work;

21.3% of Londoners aged
16-64 are economically inactive; and

4.6% of Londoners over
16 are unemployed.

This compares with 75.5% in work, 21.4% economically inactive and 3.8% unemployed in the country.⁸

People who are in work are relevant to this discussion as the market will change over time as will people's needs and aspirations; as such, the availability of reskilling routes

is important to ensure that high levels of employment and productivity are maintained over time.

There are many reasons why people are economically inactive. Ill health is the most cited reason, while others include being a student and not wanting to work at the same time, early retirement or just deciding to remain outside of the labour market (a category that includes a range of people, from more affluent older people to carers who cannot balance their responsibilities with paid work).⁹

Unemployment rates are also significantly higher among particular groups in London. For example, 14.2% of adults with no formal qualifications and 8.8% with a disability are unemployed.¹⁰

People, of course, move between these groups: becoming ill and recovering; losing a job and taking a while to find a new one. And the size of the market changes as people join (e.g. becoming old enough to get a job, moving to London) or leave (retiring or moving out). Some of these flows – such as children reaching maturity – are largely organic while others, such as migration and retirement, are heavily affected by policy decisions taken by government.

London saw a material fall in its working population during the pandemic. The Recruitment and Employment Confederation and KPMG's recent report that points to London seeing the sharpest fall in permanent labour supply in the country¹¹.

The UK also left the EU during the pandemic, bringing Freedom of Movement from the EU to an end. This has had a significant impact

⁷ These three figures do not add to 100%, because the headline employment rate and inactivity rate are for those aged 16 to 64, whereas the headline measure of unemployment is the unemployment rate for those aged 16 and over.

⁸ Office for National Statistics, Labour Market in Regions of the UK, June 2022

⁹ Office for National Statistics, Labour Force Survey, July 2022

¹⁰ Office for National Statistics, Annual Population Survey, March 2022, Unemployment rate as % of economically active aged 16-64

¹¹ Recruitment and Employment Confederation (REC) and KPMG, Report on Jobs, May 2022

on labour supply in London. For example, 85,000 EU workers left London between June 2019 and June 2021, representing a decline of 10% from 855,000 to 770,000¹². At the same time, the UK also liberalised access to its labour market for higher-skilled non-EU citizens from January 2021, which has led to a rise in non-EU migration. Between June 2019 and June 2021, payrolled employment held by non-EU nationals in London increased from 842,000 to 857,000¹³. However, there are still significant skills shortages in industries where relatively few jobs now meet the skill and salary criteria for work visas.

Getting the unemployment rate in London down from 4.6% to a level closer to the lowest in the country (currently the East Midlands at 2.4%) and getting more people into the labour force by reducing the inactivity rate substantially below the current 21.3% would make a great difference both to workforce available to employers and the lives of thousands of Londoners.

¹² Migration Observatory, *How is the End of Free Movement Affecting the Low-wage Labour Force in the UK?*, August 2022

¹³ Office for National Statistics, *Changes in payrolled employments held by non-UK nationals during the coronavirus pandemic and EU exit periods, March 2022*



2 A BETTER UNDERSTANDING OF THE DATA

An accessible data-led picture of the London labour market, informed by the LSIP, is the first critical step. This will help to improve decision-making on training design and improve the alignment between what employers need and what training is being provided. Better data will also support the delivery and application of funding and act as a useful guide for policymaking.

A reliable and sustainable transmission mechanism to support two-way information sharing between businesses and providers will then be needed to get this data into the right hands so it can be acted upon. This will help:

- employers to design and direct their recruitment activity as well as their strategies for developing and reskilling existing staff;

- providers to design of training programmes that can meet evolving employer demand;
- job seekers to gain a line of sight between their skills and experience and jobs vacancies; and
- policy makers to ensure public sector interventions are directed at the right areas.

The first three groups are already operating at a local level. But the fourth – policy makers – are largely national; and they are largely responsible for setting funding priorities for the system as a whole.

In London's case, there is some devolution: principally, the Mayor controls the Adult Education Budget which is just under £340m in 2021/22 and leads on decisions around

London's European Social Funding (ESF), of which around £66m a year is spent on employment and skills programmes. While the ESF is being replaced by the UK Shared Prosperity Fund (UKSPF) between 2022 and 2025, there are concerns that there will be a reduction in funding for people and skills programmes of up to £132m in the first two years of the transition. The Mayor also has a number of smaller scale initiatives around skills, such as through the London Recovery Board's recovery missions (see appendix 2).

Clearly local markets have different strengths, weaknesses and needs. As a better more data-rich understanding of London emerges, the local participants need to be given the tools to leverage those strengths, correct the weaknesses and meet the future needs. This will require substantial devolution of powers and resources to local policy-makers.

Some structures are already in place. A regional vehicle, such the Skills for Londoners Board¹⁴, should be fully restructured as a commissioning board where it can act on the data and implement an effective London Adult Retraining Scheme.

Establishing the right commissioning structures is crucial for this new scheme. One of the benefits of better data and better transmission between businesses, training providers and the London Careers Service (see section three for more detail on the latter) will be a swifter development of the skills required to carry out the new jobs employers are creating, whether in existing sectors with growing demand such as health and social care, or new areas such as the skills required to support decarbonisation.



¹⁴ *The Skills for Londoners Board advises on actions to support the Mayor's Skills for Londoners Strategy and his skills and employment programmes, including the adult education budget in London.*

3 A SIMPLIFIED AND MORE EASILY NAVIGABLE SYSTEM

The sheer range of current government programmes – see appendix 1 – is creating confusion for employers and jobseekers. It is often not clear how the various programmes fit together or what is the best route to access support. This is compounded by a lack of alignment and coordination of labour market policy across government: for example, the benefits system currently disincentivises people to train and work, with Universal Credit¹⁵ recipients typically having to demonstrate they are spending up to 35 per week looking for work, which leaves little time to train. Currently, too much of our national effort is based on a one size fits all approach which – with better local data and market analysis – could be better delivered through local interventions.

One immediate reform we would like to see is the creation of a London Careers Service (LCS). School leavers and adults currently receive patchy information on the breadth of career opportunities available, and often face poor quality careers advice, as highlighted in the Mayor's Careers for Londoners Action Plan¹⁶. London needs a one-stop shop which would allow all Londoners at all stages of their careers to receive high-quality tailored independent advice on careers and training.

For young people there is a lack of a clear line of sight from education to a career which makes it hard to build the right skills for the future. Despite the concentration of businesses in London, the city scores poorly against the national average on school encounters with businesses, as measured against the Gatsby Benchmarks of Good

Career Guidance; 50% of schools and colleges in the capital have fully achieved this benchmark, compared to 63% nationally¹⁷. Part of the role of the role of the LCS would be to coordinate such interventions – and to do this effectively, each secondary school will need central government funding for a trained and dedicated career leader.

The Mayor's No Wrong Door initiative aims to coordinate skills, careers and employment support so there is 'no wrong door' for Londoners; and ensure that employment and enterprise provide a secure route out of poverty. It is a key part of the London Recovery Programme and is being delivered in partnership with London's boroughs and Jobcentre Plus, to help strengthen links between employment and skills services. It should remain a key feature of the LCS.

¹⁵ Universal Credit – a social security payment for working-age people who have a low household income

¹⁶ Careers for Londoners Action Plan, Mayor of London, November 2018

¹⁷ GLA, London Enterprise Adviser Network: Impact Report, November 2020

4. MORE EFFECTIVE ROUTES TO TRAINING

The two key questions around training are who provides it and who pays for it. We need to understand the data before we can fully determine the best ways to structure payment and provision in London: form must follow function. However, there are some very immediate reforms which would improve performance now, notably around the Apprenticeship Levy, which we have set out previously¹⁸.

And there are some directions of travel for central government which are almost certain to be needed for London to deliver better training.

Across the UK, employer investment in training has decreased in the last decade. This trend needs to be reversed. Accordingly,

the government should explore shifting some of the current funding for skills provision to incentivise employers to invest in training. Again, the data including from the LSIP will be useful here, in establishing where such funding should be targeted as current performance varies dramatically by sector.

And we would also like to see a fresh approach to Individual Learning Accounts to boost adult retraining and education outside of employer funded schemes. Building on the Government's proposals for a Lifelong Loan Entitlement¹⁹ from 2025 (equivalent to four years of post-18 education over a lifetime) and the Lifetime Skills Guarantee (free level 3 training, A-level equivalent) it should look to learn both from best-in-class international programmes (such as

Singapore's SkillsFuture Credit²⁰, which provides funding for retraining in high demand areas) as well as from the UK's previous experience.

For these measures to work, the Government will also need to review the alignment of the welfare benefits system with the skills system and remove any unintended disincentives that are holding back job seekers from accessing reskilling provision, for example the requirement that Universal Credit recipients must look for work up to 35 hours per week leaves little time to undertake training.

¹⁸ *Business LDN / North West Business Leadership Team, Getting Apprentices back to work: Apprentices and Economic Recovery, June 2020*

¹⁹ *Department for Education, Lifelong Loan Entitlement, 2022.*

²⁰ *SkillsFuture Credit*

5 SUPPORTING THE ECONOMICALLY INACTIVE INTO THE LABOUR MARKET

The Government should develop a plan to boost participation in the labour market and attract the economically inactive back into work, where appropriate. This should include putting particular focus on engaging harder-to-reach people who leave the labour market and do not claim unemployment support.

The Government should create programmes and promotional campaigns targeting older workers, returning parents or disabled workers that prepare them to get into and support them to stay in work, working with employers who can offer flexible and part time work opportunities, and sharing best practice across business.

Parents and carers in London also face the highest childcare costs in the UK, which is compounded by a lack of availability. Tackling this would support wider labour market inclusion. Now is the time for government to review how a shift in policies



can enable more parents and carers to join the workforce, and for businesses to continue to expand supporting, such as flexible contracts.

6 AN IMMIGRATION SYSTEM WHICH SUPPORTS GROWTH

Where measures to improve skills and to get more Londoners into work are unable to fill labour and skills shortages, we need immigration to support economic growth.

Key reforms that should be made here include:

- introducing a temporary recovery visa for industries where there is clear evidence of labour and skills shortages. The visa should be in place until the process for reviewing and updating the ‘Shortage Occupation List’ better meets the needs of the economy in a timely way;
- regularly reviewing the ‘Shortage Occupation List’ (SOL) by removing the skills threshold which would ensure that the immigration system could flexibly increase and decrease controls, depending on the economy’s and labour market’s needs; and



- expanding appropriate existing routes, for example the Youth Mobility Scheme through agreeing more partnerships with EU and non-EU countries and increasing the number of time-limited visas available.

The Government should also review the UK’s asylum system to streamline and speed up decision making, without compromising security, so as to support legal refugees getting into work sooner. Our work with

business groups UK-wide to work with government and charities to support refugees into the workplace has highlighted the need for a specific sponsorship route to be created that can be deployed rapidly in a crisis. This would have created a smoother way for Ukrainians, Afghans and Syrians, among others, to come to the UK to work.²¹

²¹ *Business support for Ukraine | BusinessLDN (previously London First)*

CONCLUSION

As we said at the outset, now is the time for action. The issues with London's labour market are well rehearsed – what is needed now is a plan to tackle them.

This paper sets out the four key things that need to be in place: a simplified and more easily navigable system; more effective routes to training to support the unemployed into work and the employed to gain new skills; interventions to support the economically inactive to access employment and skills opportunities; and an immigration system which supports economic growth by bringing in the people business needs to grow once we have done all that is practicable domestically.

Taken together, the immediate actions and moving towards a more employer-led, data driven approach to skills would dramatically change the picture in the capital. Now is the time for all involved to make that happen.



APPENDIX ONE

Major National Government programmes for employers and job seekers²²

Programme Name	Programme Description	Lifespan	Cost (where known)	Numbers of people through the programme
Employment Programmes – Job Seeker Facing				
Expanding Sector-Based Work Academy Programme	The government provided funds to expand the number of Sector-Based Work Academy Programme (SWAP) placements for unemployed benefit claimants in England and Scotland	Ongoing		Almost 65,000 enrolled in 2020
Job Entry Targeted Support (JETs)	An employment programme for people who have been out of work and claiming either Universal Credit or New Style Jobseeker's Allowance for at least 13 weeks	October 2020 - ongoing	£238m	Over 138,000

Programme Name	Programme Description	Lifespan	Cost (where known)	Numbers of people through the programme
Job Finding Support (JFS)	A scheme to provide help and support for newly unemployed people, within their first 13 weeks of unemployment.	January 2021 – January 2022	£40m	Over 30,000 (August 2021)

Employment Programmes – Employer Facing

Apprenticeship hiring incentives	The government encouraged employers to hire new apprentices in England by giving them £3,000 for every apprentice of any age they hire	Ends September 2021		
Coronavirus Job Retention Scheme (CJRS)	A scheme introduced to help employers retain their employees through the pandemic aiding businesses and protecting livelihoods.	March 2020 – September 2021	£68.5bn in claims	11.6m
Kickstart	An employer initiative aimed at creating six-month paid work placements for young people who are at risk of long-term unemployment	September 2020 – March 2022	£2bn	Over 63,000
Restart	A scheme working with employers to give Universal Credit claimants who have been out of work for at least 9 months enhanced support to find local jobs	July 2021 – July 2024	£2.9bn	Aims to support over one million people across three years

Programme Name	Programme Description	Lifespan	Cost (where known)	Numbers of people through the programme
Self-Employment Income Support Scheme (SEISS)	The scheme paid taxable grants to support the self-employed, worth 80% of someone's average monthly trading profit, for a three-month period. Claimants could receive a grant up to £7,500 in total.	August 2020 – 30th September 2021	£28bn	Almost 10m claims over five grants
Traineeship Incentives	The government provided funding of £1,000 to each employer to triple the number of traineeships in England, which consist of work experience placements, training and work preparation over a period lasting up to a year.	Ends July 2022		
Way To Work	Way to Work is a new partnership between government and employers to get 500,000 jobseekers into work.	Ends 30th June 2022		Aiming for 500,00

Skills Programmes – Employer Facing

Local Skills Improvement Plans (LSIPs)	LSIPs are intended to strengthen the role of employers in shaping local technical skills training. They also make recommendations to improve the responsiveness of local skills provision to the needs of employers.	April 2022 onwards		
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Programme Name	Programme Description	Lifespan	Cost (where known)	Numbers of people through the programme
Skills Bootcamp	Skills Bootcamps are short courses of up to 16 weeks designed to give people Higher Level (Level 3 to 5) skills to address skills gaps and support employers to recruit to hard-to-fill vacancies. They are available for adults (19+) who are either in work or recently unemployed.	September 2020 onwards		

Skills Programmes – Job Seeker Facing

Additional Funding for the National Careers Service	The service provides information, advice, and guidance to help make decisions on learning, training and work to people living in England aged over 13	Ongoing service	Additional funding of £21m in 2021/22	The National Careers Service supported around 160,000 people into new employment or training in 2019-20.
Lifetime Skills Guarantee	Any adult in England without A Levels or equivalent qualifications received a fully funded access free to Level 3 courses, from the Government	September 2020 – onwards	£51m	20,000 (April 2021)

Programme Name	Programme Description	Lifespan	Cost (where known)	Numbers of people through the programme
Multiply	Multiple is a numeracy programme that seeks to give people who don't have at least a GCSE grade C/4 or equivalent in maths, access to free new flexible courses. It will also target employers who could benefit from boosting their workforce's skills, at no cost to their business.	Spring 2022	£560m	
T Level²³ Industry Placement Incentive	The T Level Industry Placement Incentive ensures that £1000 is in place for any placements that start between 27 May 2021 and 31st July 2022 and is arranged through the T Level provider.	27th May 2021 – 31st July 2022	£135m	

²³ T Levels were introduced in September 2020, which follow on from GCSEs and will be equivalent to three A Levels

APPENDIX TWO

Major London government support programmes for employers and job seekers²⁴

Overview of the Mayor's Skills and Employment Programmes

Programme Name	Programme Description	Lifespan	Cost
London Anchor Institutions' Network	The network is focused on three of London's recovery missions - helping Londoners into good work, a new deal for young people, and a green new deal	March 2021 onwards	
Jobs and Skills Campaign	The Jobs and Skills campaign helps Londoners get into learning and promote training opportunities within priority sectors such as creative, digital and green	January 2021 onwards	
London's Adult Education Budget (AEB)	The AEB delivers the vast majority of adult (19+) skills provision and is the key financial lever available to the GLA in shaping skills and employment support in London.	Annual	c.£320m per year

²⁴ [London.gov.uk](https://www.london.gov.uk)

London's Recovery Plan	The London Recovery Programme and its missions-based approach will support London's economic and social recovery, by driving new and innovative collaboration between strategic partners to address joint challenges. The programme looks to restore confidence in the city, minimise the impact on communities and build back better the city's economy and society.	October 2020 onwards	
Mayor's Academy Programme (MAP)	The MAP aims to help Londoners gain skills and progress into good jobs in priority sectors, (digital, creative, green, hospitality, health and social care)	January 2022 onwards	£44m
No Wrong Door (NWD)	The NWD initiative is a key recovery programme, that aims to help Londoners improve their chance of gaining employment. The initiative is being delivered in partnership with London's boroughs and Jobcentre Plus	July 2021 - 2023	£500,000 for 2021-22 financial year, and £220,000 for 2022-23 financial year
Skills Bootcamp for Londoners	Skills Bootcamps are short courses of up to 16 weeks designed to give people Higher Level (Level 3 to 5) skills to address skills gaps and support employers to recruit to hard-to-fill vacancies. They are available for adults (19+) who are either in work or recently unemployed.	September 2020 onwards	£18.9m
Skills Roadmap for London	The Skills Roadmap for London sets the direction of travel for adult education and skills in London over the Mayoral term and beyond, including future plans for the approximately £320 million per year Adult Education Budget	January 2021 onwards	

OUR MISSION

OUR MISSION IS TO MAKE LONDON THE BEST CITY IN THE WORLD IN WHICH TO DO BUSINESS, WORKING WITH AND FOR THE WHOLE UK.

At BusinessLDN we work to deliver the bigger picture, campaigning to tackle today's challenges and secure the future promise of London.

We harness the power of our members, from sectors that span the economy, to shape the future of the capital so Londoners thrive and businesses prosper.

Becoming a member of BusinessLDN helps to keep London and the UK working— for business, for Londoners, for the whole country. We create opportunities for our members, from sharing insights to providing platforms, from making introductions to finding new talent.

We facilitate collective, organisational, and individual ambition.

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