

HUMAN CAPITALS: DRIVING UK METRO GROWTH THROUGH WORKFORCE INVESTMENT

JULY 2014



ABOUT THE CITY GROWTH COMMISSION

Chaired by economist Jim O'Neill, the City Growth Commission was established in October 2013 to understand:

- how we can achieve complementary growth between London and our other cities
- what fiscal powers and governance arrangements are needed to deliver this, and
- how public service reform can start to make cities more fiscally sustainable

The ultimate objective of the Commission is to lay the foundations for a stronger UK economy through a significant power shift away from the centre and towards cities, and to show the next government, of whichever party, why this is needed and how it can be achieved. Our recommendations will set out

a road map for change; the Commission will seek to influence all political parties in the run up to the 2015 UK General Election, and make the case for cities to take a new role in our political economy.

The Secretariat is hosted and run by the RSA, an organisation committed to finding innovative and practical solutions to today's social challenges through its ideas, research and 27,000-strong Fellowship.

The City Growth Commission is funded by the Mayor of London, London Councils, the Core Cities Group and the Local Government Association. Our partners include New Economy Manchester, the British Venture Capital Association, Universities UK and the Joseph Rowntree Foundation.

ABOUT THE JOSEPH ROWNTREE FOUNDATION

The Joseph Rowntree Foundation (JRF) is an independent funder of research for social change in the UK. It aims to reduce poverty and strengthen communities for all generations.

The Skills for Growth project sits within JRF's wider Cities, Growth and Poverty¹ programme. This major programme of research, running until 2017, is exploring how economic growth in cities can benefit

people in poverty. It seeks to identify what can be done at a city level to create more and better jobs, and to link these jobs to households in poverty. The JRF is making a practical case for how and why cities should link growth and poverty. Its 'More jobs, better jobs' partnership with Leeds City Council and Leeds City Region is a core component of this practice-focused programme.

1. Joseph Rowntree Foundation, (2013). 'Cities, Growth and Poverty: How can economic growth in cities benefit people in poverty?'. Available at www.jrf.org.uk/sites/files/jrf/Cities_Investigation.pdf

ABOUT THIS REPORT

This report is based on evidence received and research undertaken by the City Growth Commission. This has been informed by interviews with over 30 people with local experience in South Yorkshire and South Hampshire, an expert roundtable at the RSA in London, and an expert roundtable in Southampton drawing on a range of experienced policymakers, employers and educators across South Hampshire.

Acknowledgements

The authors would like to thank City Growth Commissioners Jim O'Neill and Diane Coyle for guidance throughout the project. Josh Stott at JRF and Professor Mike Campbell have provided valuable advice drawing on a wealth of research experience. James Farr and colleagues at New Economy Manchester have also provided research support and reviewed drafts.

The practitioners and policymakers who we have consulted in this project are too extensive to mention here. We are grateful to individuals and organisations in South Hampshire and South Yorkshire for their insight and for being generous with their time in granting interviews. We have been particularly supported with assistance from Southampton Solent University, the University of Sheffield and Sheffield City Council.

Thanks go to those who participated in expert roundtables in Southampton and at the RSA in London, drawing on a range of experienced policymakers, employers and providers. Finally, we have drawn on written evidence submitted to the Commission, which is available to view online at www.citygrowthcommission.com

CONTENTS

FOREWORD	4
EXECUTIVE SUMMARY	5
1. CONTEXT	16
2. METRO LABOUR MARKETS FACE DIFFERENT CHALLENGES	24
3. WIDER LABOUR MARKET TRENDS	36
4. EMPLOYERS AND SKILLS DEVELOPMENT	44
5. PUBLIC INVESTMENT IN SKILLS	52
6. WIDER CHALLENGES TO REDUCING SKILLS MISMATCH	58
7. RECOMMENDATIONS	62
REFERENCES	68

FOREWORD

BY JIM O'NEILL

When we first sat down to discuss how we would come up with recommendations for the Commission to put forward, we concluded there would be some areas of the urban economy for detailed research and input from specialist experts. One of the most crucial of these is skills, and this report is a consequence of the importance we attach to the topic within our broad purpose of identifying key interventions, that if pursued, in our judgement, would raise the economic performance of our major metro areas and, by doing so, boost the country's long term growth potential.

Everywhere we have travelled to seek evidence for the Commission's work has thrown up the skills issue as a major challenge early in our discussions. Our recent hearing in Newcastle provided us with optimism about the cyclical recovery in that region and, compared with many expectations, surprising evidence of rebounding employment including in small companies. However, it was also pointed out that the area's unemployment rates remain high, and to make serious inroads, their workers – especially the young – need to have more suitable training and skills. For example, Nissan, a significant employer in the region, may face a challenge from Hitachi, which is hoping to grow in the region. The available pool of qualified engineers suggests supply is insufficient for both.

Similar stories can be heard from many different regions, and to make better, lasting inroads into the dynamics of the labour market we believe that some devolution of responsibility for skills training to well-run and focussed metro areas is necessary. How can someone in Whitehall have the knowledge as to what is required for one region of the country compared to those locally responsible? We believe they don't, and while we will reserve our major recommendations until our final report in October, this specific report gives a strong flavour of the ideas we have developed from listening to experts in research as well as local businesses and policymakers around the nation.

Before we complete our work as a Commission, we will be publishing other reports on how we achieve more growth from our metro areas. Whatever those forthcoming recommendations, whether they be related to digital or physical infrastructure, or fiscal devolution, none will be sufficient without the skills issue. This report discusses evidence and ideas as to how we can help people, especially the young and disadvantaged, participate in a more rewarding manner in the ongoing challenges and opportunities our changing world of work has to offer.

EXECUTIVE SUMMARY

Cities are increasingly the drivers of global economic growth. They bring together the most productive firms and workers, and are consumption hotspots, where demand for goods and services is most concentrated. They are also where knowledge-intensive industries tend to locate. In the coming decades, these industries will account for a growing proportion of economic growth and value added in advanced economies like the UK.

UK metros are increasingly competing with cities globally to attract and retain both investment and highly skilled talent. If they are to remain competitive, it is key that UK industries adopt new, higher-value ways of working, underwritten by a more highly skilled workforce.

A crucial factor in securing economic advantage for the UK will be the skills and strengths of the workforce available in labour markets, particularly at the metro level which is a critical scale for public policy as outlined in the City Growth Commission's first report, *Metro Growth*.² Investing in workforce development should be seen as a key element of local and national economic growth strategies alongside investment in physical infrastructure, for instance. The potential returns on this investment – greater economic prosperity – will benefit employers, government, the UK's labour force of 33 million people and the wider population.

Skills – defined as capabilities and expertise in a particular occupation or activity – are a key factor in the overall

potential for greater economic output of a firm or nation. Developing the nation's human capital should be the concern of employers and managers as much as it is the responsibility of government and policymakers. Chancellor George Osborne summarised the dimension cities play in this; since investors look to access a “deep pool of human capital”, government should create connectivity improvements and more “powerful city governments” to create a “Northern powerhouse” of nearby cities.³

The skills agenda presents both a key opportunity and a series of long-term challenges. The UK has a relatively large proportion of jobs with low pay, and this creates increasing pressure on public finances through in-work benefits. Many policies which affect the labour market are not labour-market policies per se: workers are constrained by inflexibilities of housing, childcare and transport. These policies have historically been considered at the household scale without effectively connecting them to labour market strategies at the national or local levels.

The nature and scale of skills policy challenges vary considerably across each of the UK's major metro areas. Interventions must be locally responsive in order for investment to be well targeted. The breadth of the skills strategies must therefore extend to raising inclusion and progression of the labour force. Local administrations need power to control government spending on skills, and set local labour market policy, at a scale commensurate with metro labour markets.

2. The first report of the City Growth Commission, *Metro Growth: The UK's Economic Opportunity* outlined the case for metro areas as the most appropriate scale for analysis, for policy-making and for coordinating public and private investment.

3. G. Osborne, “We need a Northern powerhouse”, Museum of Science and Industry, Manchester, 23 June 2014. Available at www.gov.uk/government/speeches/chancellor-we-need-a-northern-powerhouse

This would provide an effective route to address the principal issues faced by metros, outlined below.

- **Create more efficient labour markets at the metro scale.** Most importantly, this means matching the local supply of skills with local demand for skills. Too many employers face skills shortages (unfilled vacancies due to skills among applicants being insufficient), skills gaps

(roles where existing staff lack sufficient skills) or over-skilling (roles where staff have skills they aren't using). Public investment in skills is uncoordinated and often insensitive to local demand for those skills. Furthermore, metros' labour markets are dynamic, as are the challenges they face: workers move through metros via commuting flows as well as domestic and international migration.

THE CASE FOR CHANGE – ADDRESSING THE SKILLS MISMATCH

Among predominantly urban labour markets, those in the South of England have high levels of skills shortages while those in the North have low levels, with shortages highly concentrated by sector.

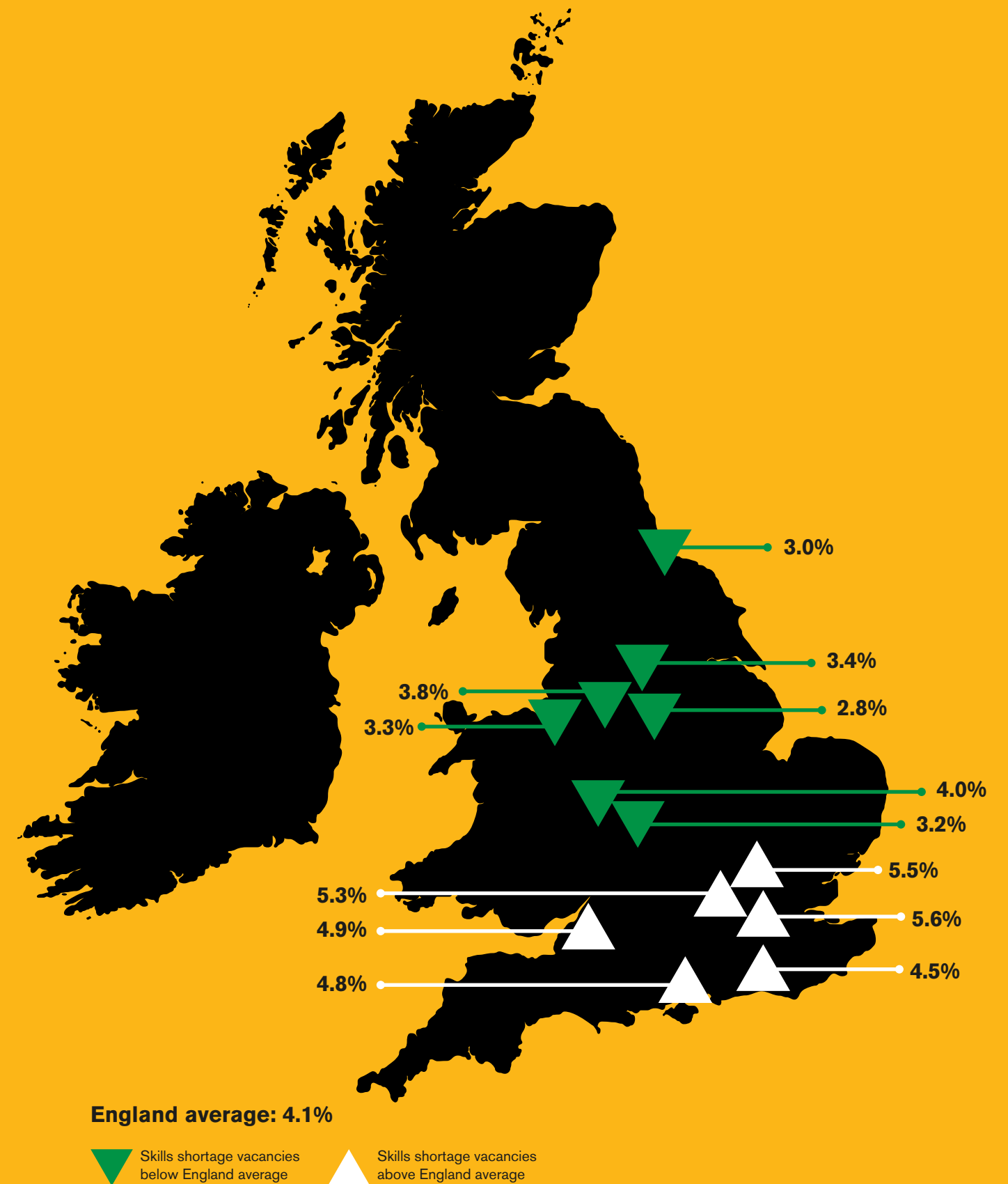
- The highest density of skills shortage vacancies is in the West of England Local Enterprise Partnership (LEP) (1.2 percent of all employment), while the lowest density is in the adjacent Heart of the South West LEP (0.3 percent of all employment).
- Nationally, 50 percent of workers are in a job unrelated to their field of study – the highest proportion in the OECD. For instance, 41 percent of recently graduated engineering students surveyed in 2013 were considering careers outside of

engineering, mainly in finance, business and management.⁴

- Rates of “severe” under-qualification nationally are twice the OECD average.⁵
- 11 percent of employers in Northamptonshire LEP have a skills gap among their staff, while in the adjacent Buckinghamshire and Thames Valley LEP, 20 percent of employers face a skills gap.
- Nearly half of UK employers (48 percent) report skills under-use, and 4.3 million workers (16 percent of the total UK workforce) are reported as being over-skilled and over-qualified for the jobs that they are currently doing.⁶

PROPORTION OF EMPLOYERS WITH SKILLS-SHORTAGE VACANCIES

Figure 1



4. TARGETjobs, (2013). 'Engineering Sector Student and Recent Graduate Survey'. Available at www.theengineer.co.uk/Journals/2013/08/02/k/o/w/Engineering-sector-student-survey-2013.pdf

5. G. Quintini, 'Right for the Job: Over-Qualified or Under-Skilled?', *OECD Social, Employment and Migration Working Papers*, no. 120 (2013)

6. UKCES, *UK Commission's Employers Skills Survey: 2013 UK Results* (2014)

Source: National Employer Skills Survey, UKCES, 2013

- **Boost business growth through a focus on workforce development.** Simply increasing the skill levels of the local labour force will not create economic growth. There needs to be a match between the skills available and the skills needed by local employers. Furthermore, UK firms need to move up the value chain by increasing “high-performance working” (HPW)

practices and drawing on the productivity potential of high-level skills to drive a competitive product market strategy. This will require a more highly skilled workforce. As the Director of Sheffield City Region LEP put it “**developing a business means developing workforce skills**”.

THE CASE FOR CHANGE – INVESTING IN SKILLS FOR PRODUCTIVITY

- There are positive returns to businesses, in terms of profits, productivity and lower labour turnover, from investing in training and improving management practices, as evidenced in a range of international literature.⁷
- UK managers are less likely to have high-level qualifications, and receive less training per year, compared to managers in other advanced economies. Management performance is particularly weak in Small and Medium Enterprises (SMEs) and in family-, founder-, and government-owned companies.
- Workplace-based training with employer involvement outperforms classroom-based training without employer involvement.⁸ Controlling for individual characteristics, training boosts wages by 0.5 percent, increasing to 2 percent when the training is employer-funded or employer-delivered.⁹
- Employers that engage in high-performance working are more likely to have vacancies – a sign of either expansion or progression – but tend to find these vacancies easier to fill.

Skills supply and demand lie at the heart of the problems facing the UK...

This has to change.

The issue is not simply about increasing the supply of skills – a preoccupation of current and past governments. The solution to the challenges we face lies just as much with improving skills utilisation and demand for higher-level skills through increasing the number of higher skilled roles available.

To do this, we need to encourage more employer investment in innovation and growth and the capabilities and skills needed to deliver high- performance workplaces which can better utilise the skills available and generate opportunities, raise productivity and add value, which are vital to our long-term international competitiveness.

– Peter Cheese, Chief Executive, Certified Institute of Personnel and Development

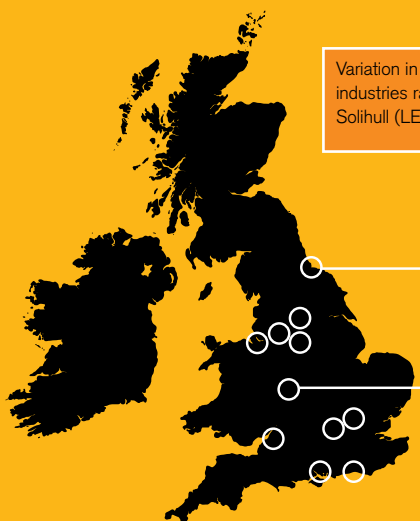
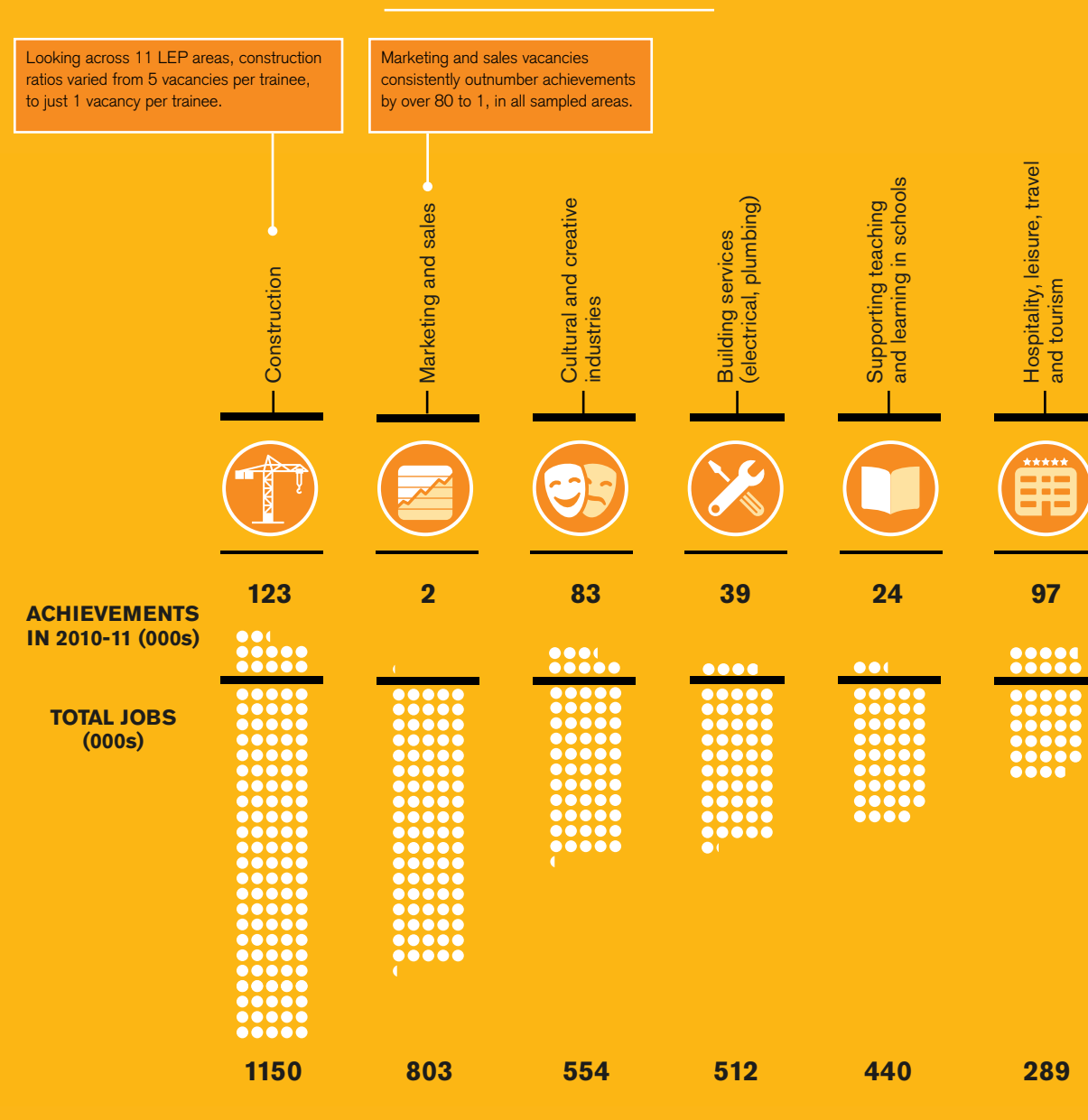
7. M. Spilsbury and M. Campbell, *Ambition 2020: World class skills and jobs for the UK* (London: UKCES, 2009)

8. What Works for Local Economic Growth, *Evidence Review: Employment Training* (2014)

9. S.Y. Cheung and S. McKay, *Training and progression in the labour market* (London: Department for Work and Pensions, 2010)

Figure 2

VACANCIES PER FE AND SKILLS ACHIEVEMENT BY OCCUPATION / SECTOR (ALL AGES), 2010–11

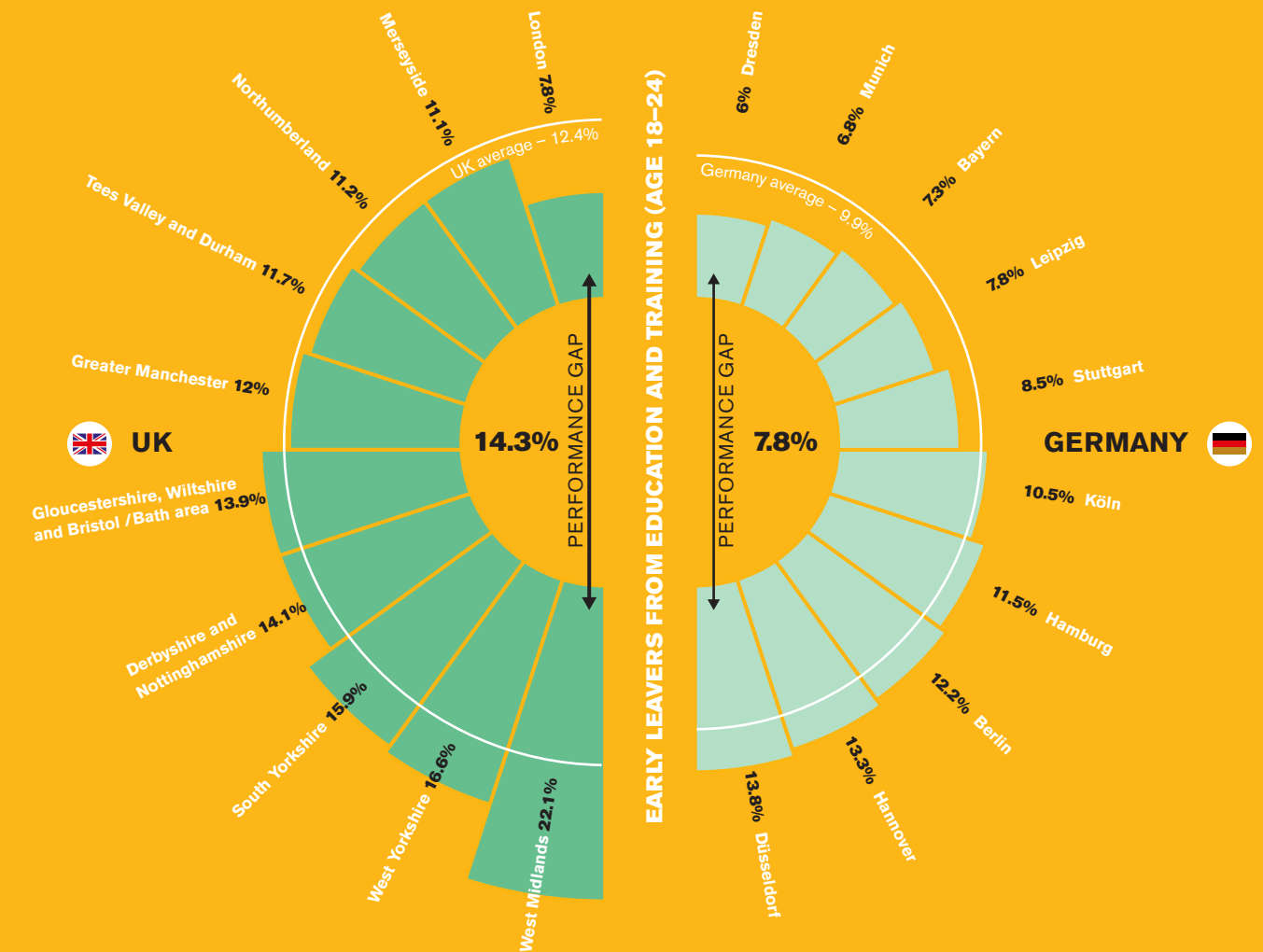


Variation in vacancies per further education achievement for creative and cultural industries ranges from 1 in 5 in Tees Valley (LEP area) to 1 to 1 in Birmingham and Solihull (LEP area) – though reliable monitoring of vacancies in this sector is difficult.

Sources: CESI Hidden Talents: Skills mismatch analysis 2012, Individualised Learner Record, The Data Service; Labour Force Survey, ONS http://www.cesi.org.uk/sites/default/files/publications/CESI_Hidden_Talents_Skills_Mismatch.pdf

Figure 3

IN GERMANY, FURTHER EDUCATION AND HIGHER EDUCATION ARE FUNDED BY INDIVIDUAL STATES. YET THE GAP BETWEEN THE BEST AND WORST PERFORMING CITIES IN YOUNG ADULTS (18–24) DROPPING OUT OF EDUCATION AND TRAINING IS LOWER THAN IN THE UK



Source: Eurostat data for NUTS2 areas, 2013

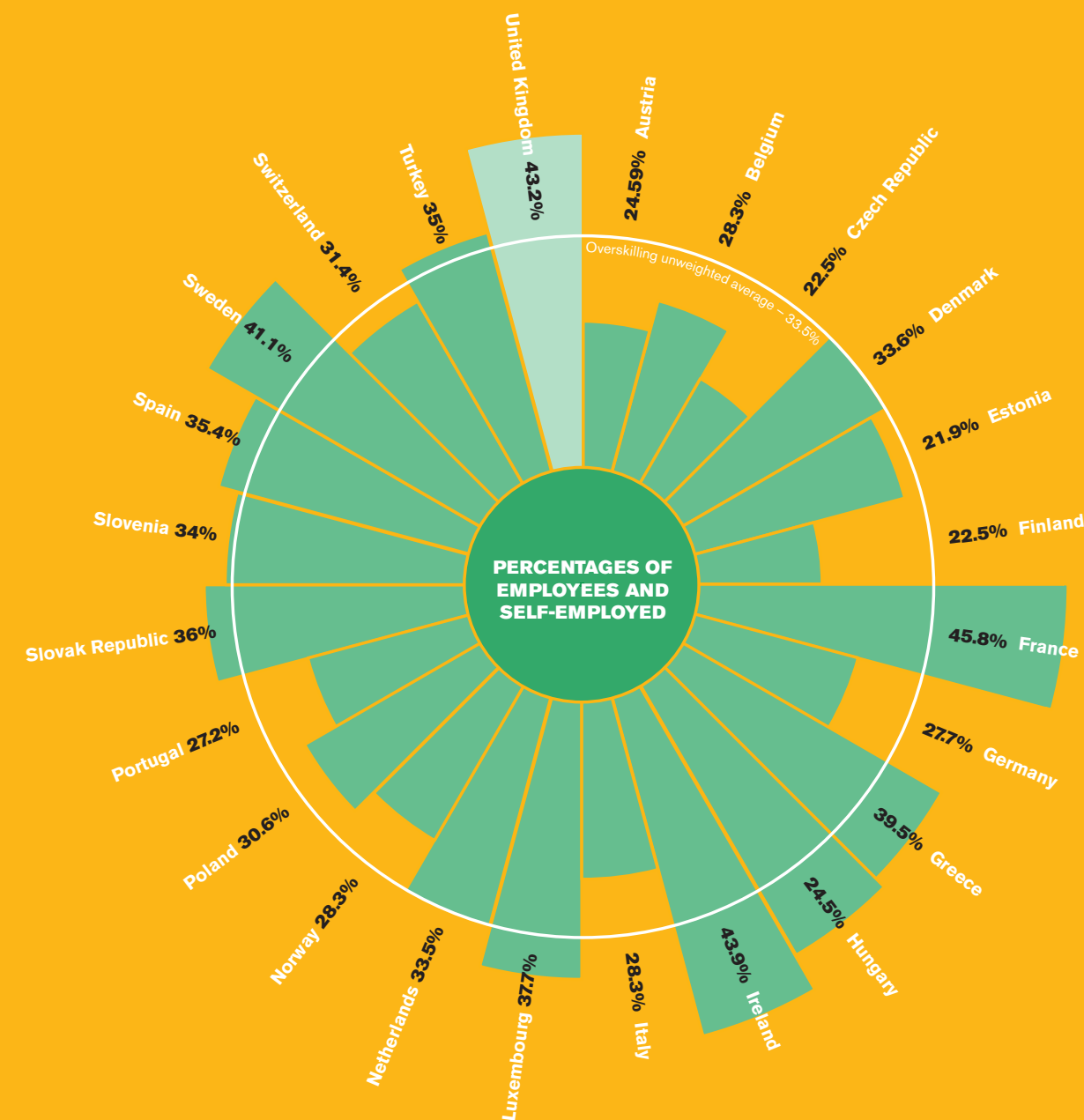
SELF-REPORTED SKILLS MISMATCH IN SELECTED OECD COUNTRIES

- Harness potential of existing workforce.** To foster stronger economic growth, businesses and government will need to realise the skills and productivity potential of the existing workforce. 90 percent of the 2020 workforce is already in work now; and this is where the UK's growth potential predominantly

lies.¹⁰ For some low-skilled workers, training would advance progression. But for many others, including those who are over-qualified for their current role, there are a range of wider barriers to skills-utilisation (eg childcare, English language proficiency).

THE CASE FOR CHANGE – STRENGTHENING IN-WORK PROGRESSION

- Longitudinal data shows that under-qualified workers in the UK have the lowest rates in Europe of progression, year-on-year, in addressing under-qualification in their role (ie achieving qualification or changing role).¹¹
- There is evidence that even as employers cut back on training during the 2008–2010 recession, training for the highly skilled was prioritised over training for the low-skilled.¹² The distribution of training by occupation varies greatly between metros. 1.5 percent of associate professionals in Sheffield City Region have skills gaps, and 73 percent received training in 2013. But while 4.7 percent of associate professionals in Solent had a skills gap, only 53 percent received training.
- 43 percent of UK workers report that they have “the skills to cope with more demanding duties at work”.¹³ This is the third highest proportion in the OECD. Over half of women in part-time work are estimated to have previously worked with higher pay or greater responsibility.¹⁴



10. We define progression as an increase over time in three related areas of work: the value of tasks undertaken to the employer (value added in production), the sophistication of those tasks (the skills and wider competencies required, and associated fulfilment and satisfaction), and the wages and wider working conditions (pay, hours, security and autonomy). Progression can be achieved within roles and employers, as well as by changing jobs, occupations and industries.

11. G. Quintini, 'Right for the Job: Over-Qualified or Under-Skilled?', *OECD Social, Employment and Migration Working Papers*, no. 120 (2013)

12. M. Dieckhoff, 'Continuing training in times of economic crisis', in D. Gallie (ed) *Economic Crisis, Quality of Work, and Social integration: the European experience* (2013)

13. Quintini (2013)

14. L. Grant, S. Yeandle, and L. Buckner, *Working below potential: women and part-time work* (Manchester: Equal Opportunities Commission, 2005)

Note: Data from 2010. Data for Switzerland is from 2005. Trainees and apprentices are excluded.

Source: Secretariat estimates based on the European Survey of Working Conditions (2010) and Quintini, G. (2011a), "Right for the Job: Over-qualified or Under-skilled?", *OECD Social, Employment and Migration Working Papers*, no. 120, OECD Publishing

Recommendations

Our aim is to ensure that all local areas are able to obtain control of government spending on skills and develop localised labour market policy. This requires that administration take place at a scale commensurate with metro labour markets. The role of employers is also crucial (see Chapter 4).

Stronger local powers and national incentives

- 1. Control Adult Skills Budgets locally at the metro level** so that there is greater alignment between decision-making, resourcing and functional labour markets. Combined Authorities¹⁵ would administer these budgets with reference to evidence-based skills strategies and other advice prepared by the Local Enterprise Partnership (LEP), in consultation with a local network of stakeholders, to support commissioning. Data would be used to **trigger reviews of contracts for provision.**
- 2. Pilot Workforce Development Personal Budgets (WDPBs)** for individuals in employment, building on the potential of 24+ Advanced Learning Loans. Rather than borrow money upfront from the government to cover the costs of further study or training, adults would repay WDPBs through an **earnings-linked tax.** Employers should be able to top-up WDPBs based on contributions which are reimbursed by extended Employer Allowances (zero contribution on National Insurance (NI)) in future years (up to a total of £2,000 in foregone NI payments over a 3-year period).
- 3. Create a redundancy retraining voucher scheme.** Government should provide matched training vouchers, time-limited and capped, if employers and employees agree to training vouchers (of an equal amount) being included as a substitute for equivalent cash in the redundancy package (for packages up to the tax threshold of £30,000). Building on demonstrated impact in a similar scheme in Wales, this would ensure workers who are made redundant have enough cash-in-hand from employers, but also enough to embark on meaningful retraining or up-skilling.
- 4. Provide a statutory framework for metro minimum wage.** Local authorities could apply to the Low Pay Commission to review and recommend to Parliament that a Metro Minimum Wage (MMW) be introduced, covering a specific geography. Applications would need to demonstrate the assessed likely impact for overall employment, with particular reference to boundary effects. This provides a strong incentive for MMW applications to be made by Combined Authorities, or several neighbouring authorities, at the scale of the functional local labour market. Once granted, Combined Authorities would have the power to enforce payment of the MMW.

This effectively means that in addition to loans, **government co-funds workforce development up to £2,000 only if and when it results in higher earnings for a worker.**

Smarter approaches to targeted investment

- 5. Fund Information, Advice and Guidance (IAG) through a 1 percent levy, ringfencing all public funding for adult skills provision.** Widen the scope of IAG offered by ringfencing 1 percent budget allocation in all grants for adult skills funding. This would provide £40m across England; the equivalent, on average, of £1m per LEP area in England. This could be allocated on a simple population formula at first, before moving to the composite formula explained in Recommendation 1. Adults claiming in-work benefits under Universal Credit for at least 12 months would have to be offered the opportunity to receive IAG on development and progression.
- 6. Offer a labour market integration programme for international arrivals.** Metro areas with relatively high levels of immigration should support the integration of internationally trained immigrants into the labour market to minimise skills under-utilisation and
- 7. Create sector specialisms among JobCentre Plus branches in large metros.** JobCentres could participate in a pilot to develop centres of excellence within large metros. These centres of excellence would be organised in conjunction with industry bodies and/or Sector Skills Councils. Higher quality advice from JobCentre staff would be expected as they develop more knowledge and stronger relationships with employers in the sector, broadening their scope to include advice to those in work.

maximise tax contributions. Any support on offer should be part of a conditional and reciprocal arrangement. Eligibility should be determined by proof of existing professional qualifications from abroad as a baseline. The costs of English language courses and an additional contribution for other support services accessed are recouped from the migrant when they are successful in becoming professionally certified and/or are hired on by an employer participating in the programme.

“CITY SIZE MATTERS LIKE NEVER BEFORE... CITIES RAISE THEIR RESIDENTS’ PRODUCTIVITY: SPECIALISATION IS GREATER, COMPETITION AND ECONOMIES OF SCALE INCREASE, IDEAS AND INNOVATION SPREAD FASTER... IN THE MODERN KNOWLEDGE ECONOMY BUSINESSES AND ENTREPRENEURIAL TYPES WANT TO FLOCK TOGETHER... TO FORM CLUSTERS WHERE THEY CAN LEARN FROM AND SPARK OFF EACH OTHER.”

– GEORGE OSBORNE, CHANCELLOR,

“WE NEED A NORTHERN POWERHOUSE”, JUNE 23, 2014

15. Other governance arrangements at the metro scale could also provide the coordination for budget management, especially in London and other places where two-tier authority structures are well-established and overlap with LEP coverage.

1. CONTEXT

GLOBALLY, CITIES DRIVE ECONOMIC GROWTH. UK CITIES ARE INCREASINGLY COMPETING WITH CITIES INTERNATIONALLY TO ATTRACT INVESTMENT AND SKILLED WORKERS

Cities are increasingly the drivers of economic growth worldwide. Cities combine high levels of human capital (the local labour supply) with physical capital (infrastructure). They are also consumption hotspots, where demand for goods and services is most concentrated. Businesses that locate in cities enjoy productivity benefits including easy access to customers, suppliers, and a larger and more diverse pool of workers as well as opportunities for investment.

All economic activity relies on people, and people organise their working lives around the opportunities that are concentrated in cities. Many areas of economic activity in which the UK enjoys competitive advantage, notably in knowledge-intensive industries, are particularly subject to agglomeration economies, reinforcing the value of locating in and near firms and workers in major cities. Service sector firms have stronger incentives to locate near their collaborators and competitors, and the presence of talented

and skilled workers becomes a stronger factor.

Indeed, cities attract the more productive workers. The attractiveness of UK cities as places to live and work is increasingly relevant because many of the world's most productive workers can choose to locate in competing cities internationally. Households also now tend to make location decisions based on the availability of jobs for two earning adults, each with advanced skills and qualifications. As work and careers become more specialised, cities that can provide employment for a range of highly skilled workers become increasingly appealing.

Skills – defined as capabilities and expertise in a particular occupation or activity – are a key factor in the overall potential for greater economic output of a firm or nation. The Department for Business, Innovation and Skills (BIS) has estimated that skills and workforce quality improvements account for around a fifth of economic growth.¹⁶

For this reason, **workforce development should be considered alongside other types of investment as a key driver of business growth and economic growth.** Developing and applying human capital should be the concern of employers and managers as much as it is the responsibility of government and policymakers.

This report considers both city centres and their wider metro areas, comprising their suburbs and surrounding rural areas. Indeed, the footprint of UK cities has grown in recent decades, with London drawing commuters in from ever further afield, and thousands of people crossing the Pennines for work every day.¹⁷

Skills development, economic growth and poverty reduction are closely interlinked.

Fundamentally, skills policy is economic growth policy. Labour market conditions determine how much workers get paid and therefore influence the living standards and wider prosperity of a place. Yet simply creating “more skills” in the economy will not in itself promote growth. In order to increase labour productivity – the economic value produced per hour worked – there must be a match between the supply of skills within the workforce and the demand for skilled workers in the same place. Figure 5 shows four scenarios which local labour markets can face in trying to match supply and demand for skills.

Although qualifications and skills levels in the UK workforce are rising overall, there are also growing numbers of workers in low-paid jobs. Welfare payments to those in low-paid work are exerting increasing pressure on public finances, even as unemployment claims decline. This diminishes the potential for other forms of public investment to stimulate economic growth. Many UK cities face an increasing fiscal deficit, despite government efforts to reduce expenditure on local services.

Skills mismatches hold back economic growth.

Skills mismatches hamper economic growth. They represent unused potential for economic value to be created. Across England, over 1.1 million workers have skills gaps. This means that over 5 percent of the workforce lack the skills required for their current role. The inverse problem is skills under-utilisation, that is, workers with skills beyond those applied in their current role (Figure 6).

An indicator of skills under-utilisation is under-employment, which is most commonly measured as those who are in work and would like to work additional hours. Over 594,000 of 1.65 million workers who are in temporary employment could not find permanent employment, and 1.42 million of 8.02 million part-time workers want full-time work but can't find it.¹⁸

We have less reliable measures for people who are capable of higher-value economic activity by employing their skills in a different role. However, several studies have shown that more than half of women in part-time work are working ‘below their potential’, having previously worked in jobs requiring higher qualifications, or more skills or experience, or which involved more management or supervisory responsibility than required for their current job.¹⁹

Part-time work presents a challenge for progression in wages and skills. Many employers are reluctant to structure senior and highly skilled jobs as part-time or job share roles.²⁰ 58 percent of low-paid workers are in part-time work, which tends to offer weaker prospects for progression and be concentrated in sectors with weak progression routes.²¹ Furthermore, vocational education and training is increasingly unsuitable for those with part-time work commitments and other caring responsibilities, according to those interviewed for this project.

16. D. Holland, I. Liadze, C. Rienzo, and D. Wilkinson, *The relationship between graduates and economic growth across countries* (London: Department for Business, Innovation and Skills 2013)

17. Using a measure of self-containment the ONS has defined 243 Travel to Work Areas (TTWAs) across the UK, and each Census has seen more areas merge into one another and consolidate. There were 334 TTWAs in 1981.

18. ONS, *Labour Market Statistics* (May 2014)

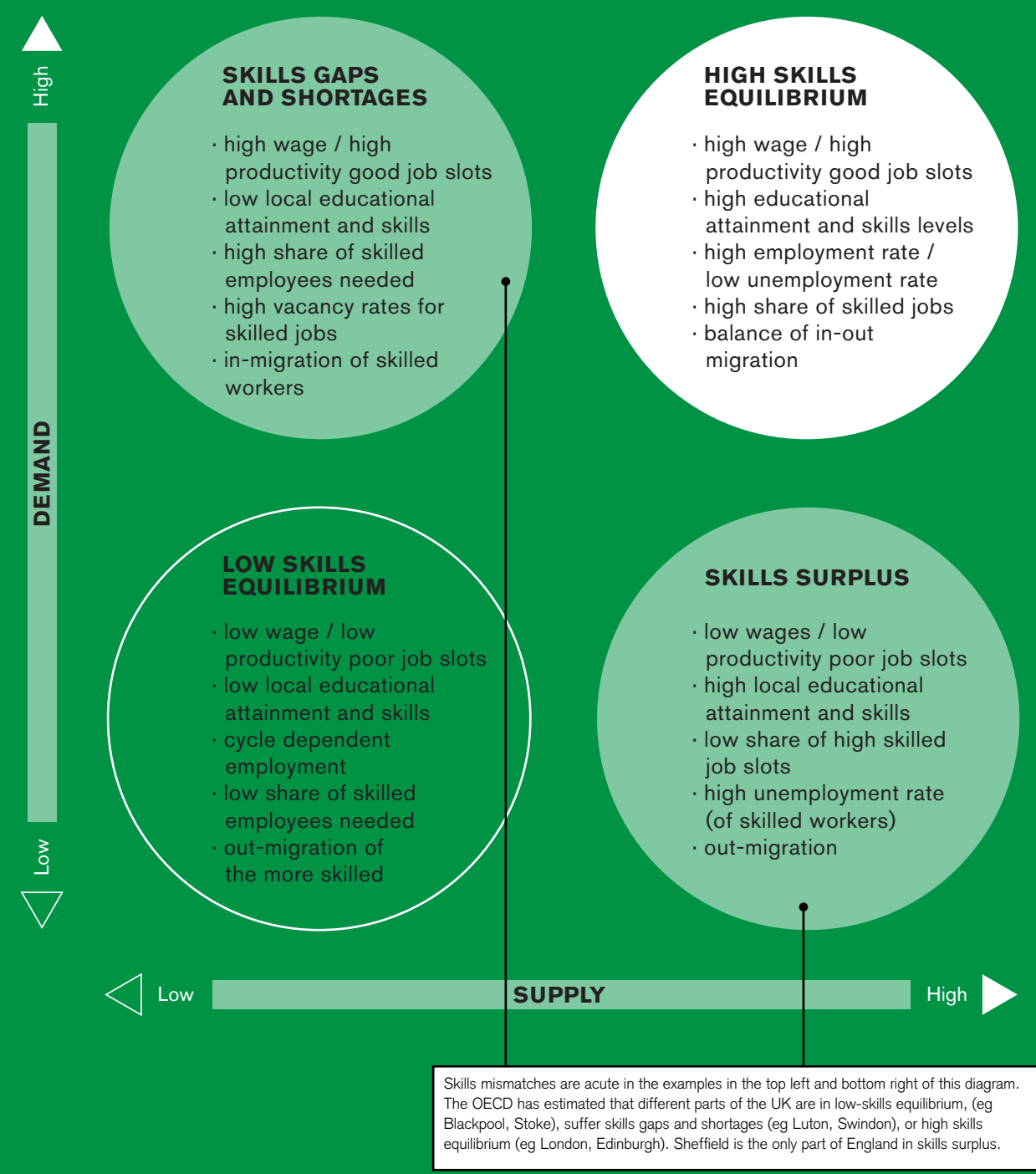
19. Grant et al. (2005)

20. Ibid

21. M. Whittaker and A. Hurrell, *Low Pay Britain 2013* (London: Resolution Foundation, 2013)

Figure 5

INDICATORS OF SKILLS MISMATCH

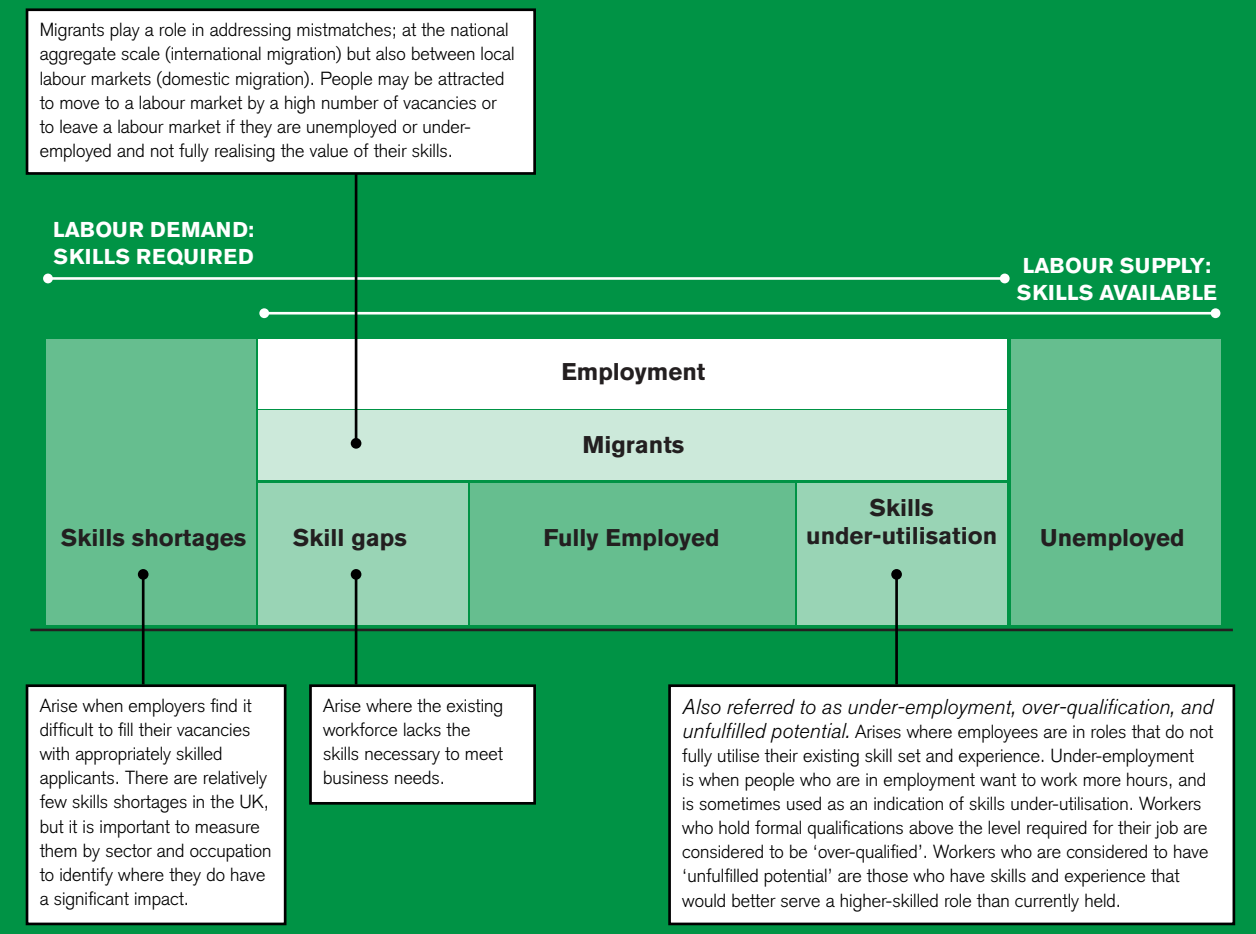


Source: Green, A.E. (2012). 'Skills for competitiveness'

ACROSS ENGLAND, OVER 1.1 MILLION WORKERS HAVE SKILLS GAPS. THIS MEANS THAT OVER 5 PERCENT OF THE WORKFORCE LACKS THE SKILLS REQUIRED FOR THEIR CURRENT ROLE.

Figure 6

SPECTRUM OF LABOUR MARKET MISMATCH



Source: Office for National Statistics (ONS) and UK Commission for Employment and Skills (UKCES)

MORE THAN HALF OF WOMEN IN PART-TIME WORK ARE WORKING 'BELOW THEIR POTENTIAL', HAVING PREVIOUSLY WORKED IN JOBS REQUIRING HIGHER QUALIFICATIONS OR MORE SKILLS AND EXPERIENCE.

The political debate around the skills agenda remains impoverished.

Government interventions frequently focus on public sector provision of further education. Businesses lobby government to take action on skills shortages; government responds by funding new courses, tweaking curriculums, redesigning qualification awarding bodies and adding apprenticeship incentives for businesses. Yet it is unclear how these initiatives add up to an overall strategy that contributes to a broader economic growth agenda. As one analyst remarked to us in our research, “there is an obsession that apprenticeships are the answer, no matter what the question is.”

Furthermore, as the OECD warned in their 2013 competitiveness review of the UK, training and skills initiatives have often become confused with approaches designed to address headline unemployment:

Tackling Worklessness “can be conceived of as an ‘urgent’ issue, whereas ‘raising demand for skills’ is an ‘important’ one. The danger is that in pursuit of the ‘urgent’ issues the ‘important’ ones are neglected.

While a focus on tackling worklessness is important and understandable in the short-term, building prosperity and productivity locally is important in the medium- and longer-term.

It is important also not to overlook the dynamism of the labour market, with flows not only between economic inactivity, unemployment and employment, but also between sectors, occupations and geographical areas (ie to foster mobility).²²

The UK skills system exacerbates skills mismatches.

Taken at its broadest, the skills system is the outcome of all learning and education – formal and informal, public and private. A number of publicly-funded institutions make up the skills system, with the adult skills “delivery chain” being particularly complex (Figure 7).

Public-facing providers of education, both vocational and academic in nature:

- Schools
- Colleges (generally serving 16–24 year olds)
- Adult education providers
- Workplace-based learning providers
- Universities

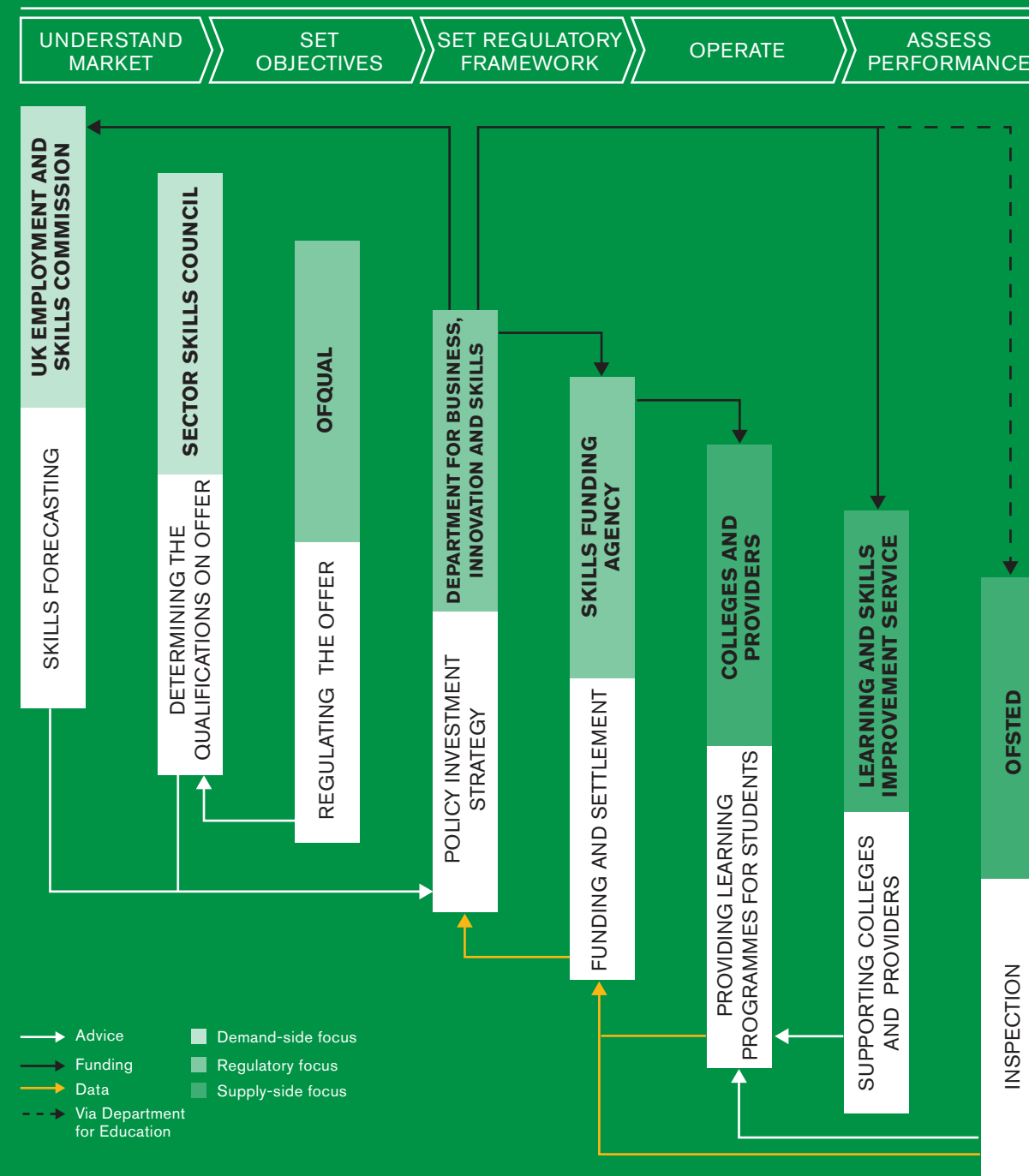
These institutions are accountable to and funded by a variety of different agencies and government departments. Many schools are moving away from local authority control to become academies and free schools, authorised and funded by the Department for Education and the Education Funding Agency.

Adult skills investment is complex. Funding comes from the Skills Funding Agency (SFA). Qualification needs in relation to occupational standards are defined by Sector Skills Councils, which involve employers. The quality of qualifications is regulated by Ofqual, while their provision is assessed by Ofsted.

While attempts have been made by these national agencies to work coherently at a local geographical level, these efforts have been fractured at best and accountability remains with central government departments. SFA regions awkwardly straddle Local Economic Partnership (LEP) boundaries and do not match the boundaries of functional economic areas or local labour markets.

The UK higher education sector is world-leading, but is not a panacea. Participation in university has expanded dramatically in a generation. This has greatly facilitated the growth of advanced high-value aspects of the service sector industries, as more UK residents are degree qualified. The presence of large numbers of highly qualified workers is a major competitive advantage for the UK, and the growth strategies of universities themselves often include attracting international students. Universities are entry-points for 100,000 migrants every year, many of whom remain as graduates in the UK.

THE SKILLS DELIVERY CHAIN IS A COMPLEX SYSTEM OF AGENCIES ACCOUNTABLE TO CENTRAL GOVERNMENT



22. A.E. Green, ‘Skills for competitiveness: country report for United Kingdom’, *OECD Local Economic and Employment Development (LEED) Working Papers* (May 2012)

Source: Department for Innovation, Universities and Skills, Adult Skills Landscape and the Role of the Skills Funding Agency (SFA).

However, while graduates leave university specialised in a subject, they often lack applied practice and skills transferable to a work environment. Putting more young people through university does not guarantee that they will have knowledge and skills relevant for working life. As one employer put it:

You have to accept when you take on a graduate or apprentice, there will be a learning curve. First role, first experience of a workplace. Our graduate is brilliant in working on his own, but not in a team. It's up to us to develop that. Employers are a bit scared of that – they want the finished article. You just hope they'll stay with you as they develop.

– Employer, Sheffield

Skills gaps among graduates tend to be transient however, as evidence shows employers are likely to train their highly-qualified staff.²³ Graduates are also able to progress in the labour market because they tend to be more mobile between places and experience lower unemployment rates than non-graduates. Nevertheless, universities could do more to align their offerings with local economic strategies; be more accessible to those seeking to develop their skills while in work; and support a broader base of the skills that employers value for their graduates (see Chapter 5).²⁴

The Further Education (FE) sector is pulled in several directions. League tables of learner attainment don't reflect the value added of developing those learners who find it most difficult to fulfil their potential in the labour market. In addition to this, funding uncertainties mean colleges have an incentive to enrol learners on long courses delivered using in-house resources and facilities. Yet emerging evidence suggests that the most effective training is short-term, based in the workplace rather than in a classroom, and actively involves employers.²⁵

It is well established that there is a mismatch between the training and education on offer and what businesses need.²⁶ FE providers are not rewarded for adding value to the national economy by offering courses that meet identified skills shortages. Although efforts have been made to push FE provision to be led by employer demand, learners and employers too often lack the information to make informed choices, and providers have been slow to differentiate their offerings to provide real choice.

Data compiled by the Centre for Economic and Social Inclusion (CESI) highlights how far there is to go. The ratio of learners to total jobs available nationwide ranges from 2:1 for hair and beauty, to 400:1 for marketing and sales, with sharp variations between local labour markets (see Chapter 2 for further discussion on local ratios).

Because of these perverse incentives, and because the FE sector provides courses where (central) government funding is available, it is only very loosely responsive to local market signals. As a result, both companies and sector experts rate the UK's quality of vocational education and training as low by international standards; and the UK's attractiveness to international businesses based on its trained and skilled workforce has declined over the last decade.²⁷

As Professor Lorna Unwin summarised in the Wolf Review of Vocational Education: “England always has great examples of good practice. But we don't have a good system.”

“England has a population of well over 50 million people, and a highly complex economy. Given the nature of this country, it is inconceivable that a tiny number of central, government-sponsored organisations can reflect all the concerns and requirements of a fast-changing economy with strong local variations and of young people who will be in the labour market for another 50 years.”²⁸

Poorly matched provision is compounded by the decline in careers advice services in recent years. Services such as Connexions were among the first victims of public sector cuts. A recent Ofsted report exposed the consequences for provision:

“...arrangements for careers guidance in schools are not working well enough. Three quarters of the schools visited for the survey were not implementing their duty to provide impartial careers advice effectively [...] guidance for schools on careers advice is not explicit, the National Careers Service is not promoted well enough and there is a lack of employer engagement in schools.”²⁹

Public and private sector investment in skills development is too narrow.

Employers' investment in training runs at £43bn per year and reaches almost 20 million people. This dwarfs government's provision of FE and training, which reaches 3 million learners annually, at a cost of £4.1bn in 2013/14. The private decisions of employers are far more significant in driving in-work progression than public resources. As Lord Heseltine concluded in his review on economic growth:

Government funding for skills is falling by around 25 percent over the Spending Review period...[but] overall spending on skills needs to increase significantly... The only way of squaring this circle is for government ...to leverage in larger contributions from employers and individuals.³⁰

Yet UK businesses aren't fully utilising the skills of the workers they employ. Data also suggests that workforce investment is not well targeted to where it would address skills gaps and boost progression most effectively (see Chapter 4). By international standards, British businesses invest in few training hours per year, spread thinly among their existing workforce.³¹ Training and qualification rates are especially poor for managers themselves, who have a crucial role in developing and utilising the skills of their colleagues.³²

In particular, Britain's constituency of Small and Medium Enterprises (SMEs) – a relatively large proportion of the economy by international standards – is less likely to invest in skills development.

Alongside investment in people, there is a need for financial investment and the development of physical infrastructure that allows workers to turn experiments into inventions, and innovations into patents and new products. Investment in physical capital in the UK is the lowest among the G7.

Structure of this report

Based on primary and secondary research, this report sets out:

- Measures of the current skills mismatch in UK metros (Chapter 2)
- The key problems, notably:
 - The implications of long-term trends in labour market restructuring, particularly for low-paid, low-skilled workers (Chapter 3)
 - Employer investment in skills (Chapter 4)
 - Public investment in skills (Chapter 5)
 - Other factors that inhibit the success of skills interventions and in-work progression, such as labour market policy and the provision of housing, transport and childcare, as well as the implications for non-skills policy agendas (Chapter 6)

Based on this evidence, we set out recommendations in Chapter 7 which feature shared responsibility between public, private and third sectors as well as workers themselves, in order to:

- Encourage employers to invest more effectively in skills development
- Increase and accelerate in-work progression
- Ensure public and private skills investments maximise productivity
- Secure a proportionate share of the benefits of higher productivity for workers

The report draws in particular on evidence from South Hampshire and South Yorkshire, two metro areas of the UK located in different regions, to explore differing local contexts for how challenges are currently being addressed.

23. UK Commission for Employment and Skills, *The Internal Skills Challenge* (2013)

24. The role of universities in the skills system is not the focus of this report, but a further research output of the City Growth Commission (forthcoming October 2014) will address the role of universities in driving enterprise and graduate retention in metros.

25. What Works for Local Economic Growth (2014)

26. A. Wolf, *Review of vocational education: the Wolf Report* (London: Department for Education, 2011)

27. CBI, *Business Investment in Skills* (2011)

28. Wolf (2011)

29. OFSTED, *Going in the Right Direction: Careers Guidance in Schools from September 2012* (London: Department for Education, 2013)

30. M. Heseltine, *No stone unturned: in pursuit of growth* (London: Department for Business, Innovation and Skills, 2012)

31. BIS, *Continuing Vocational Training Survey – CVTS4* (London: 2013)

32. Spilsbury and Campbell (2009)

2. METRO LABOUR MARKETS

FACE DIFFERENT CHALLENGES

This chapter looks at data from six UK metros to show that the challenges faced by metro labour markets vary greatly.³³

1. Job density

Figure 8 shows that metros have differing densities of jobs per resident of working age: from 66 per 100 in the Liverpool City Region to 88 per 100 in the West of England.

2. Economic activity

Figure 9 shows that rates of economic activity and inactivity vary between metro labour markets.

3. Reasons for inactivity

Figure 10 shows that while underlying reasons for not participating in the labour

market are broadly similar across metro areas, the extent to which people cite specific reasons differs by locality.

4. Qualifications

Figure 11 highlights the difference between metro areas in terms of formal qualifications held.

5. Occupations

Figure 12 highlights that certain occupations are more prevalent in some metro areas than others.

6. Industries

Figure 13 highlights metro-level differences in the proportion of workforce jobs by industry.

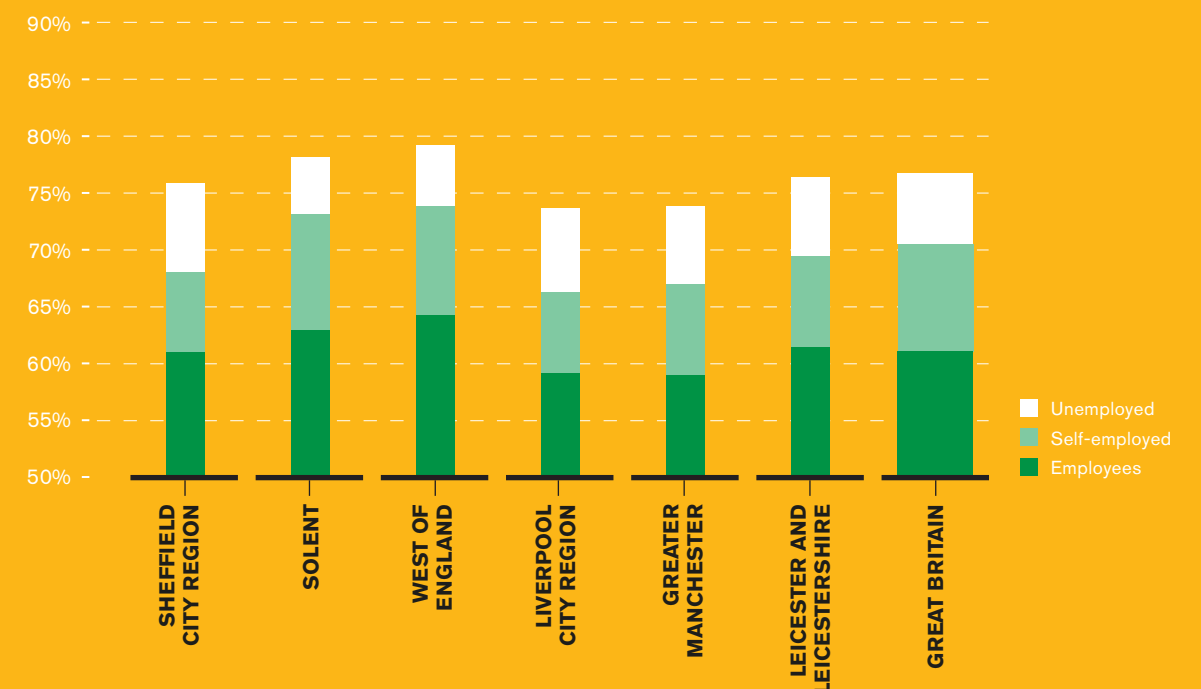
JOB DENSITY: RATIO OF JOBS TO RESIDENTS AGED 16-64, BY LEP AREA

Figure 8



ECONOMIC ACTIVITY BY LEP AREA

Figure 9



33. Data is drawn at LEP level. The six metros range from the second largest (Manchester) to the 15th largest in the UK (Leicester), and in each the LEP administrative boundary is well-matched to empirical measures such as built-up area and travel-to-work area.

Figure 10

REASONS FOR ECONOMIC INACTIVITY VARY BETWEEN METROS

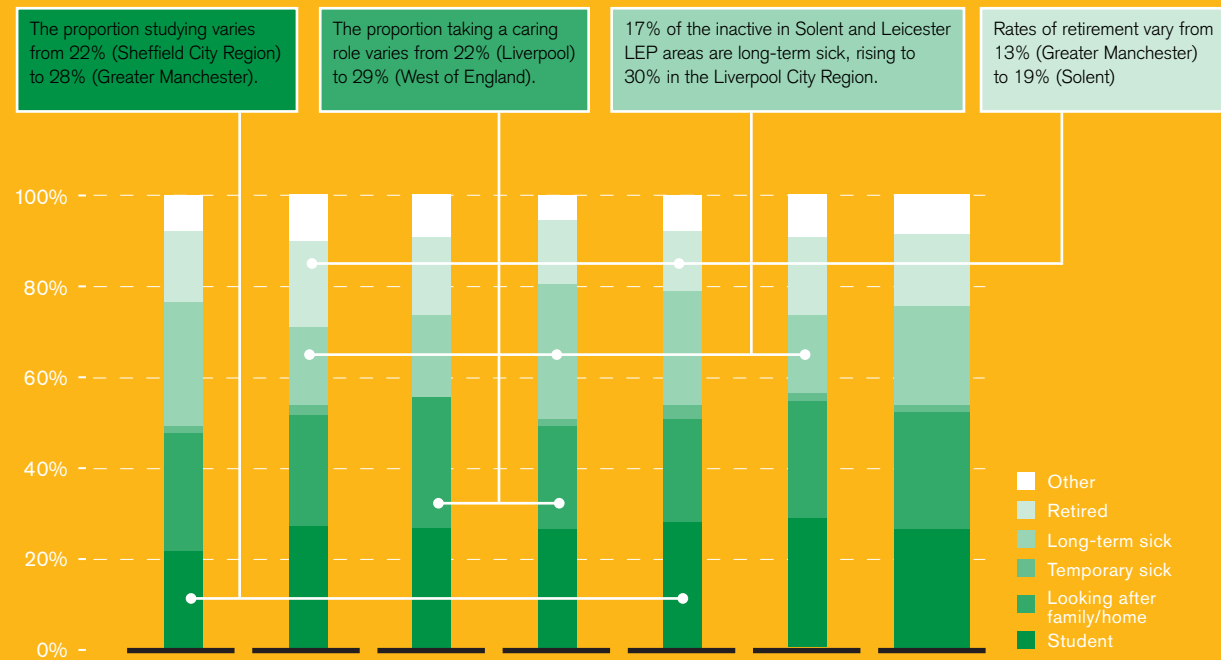
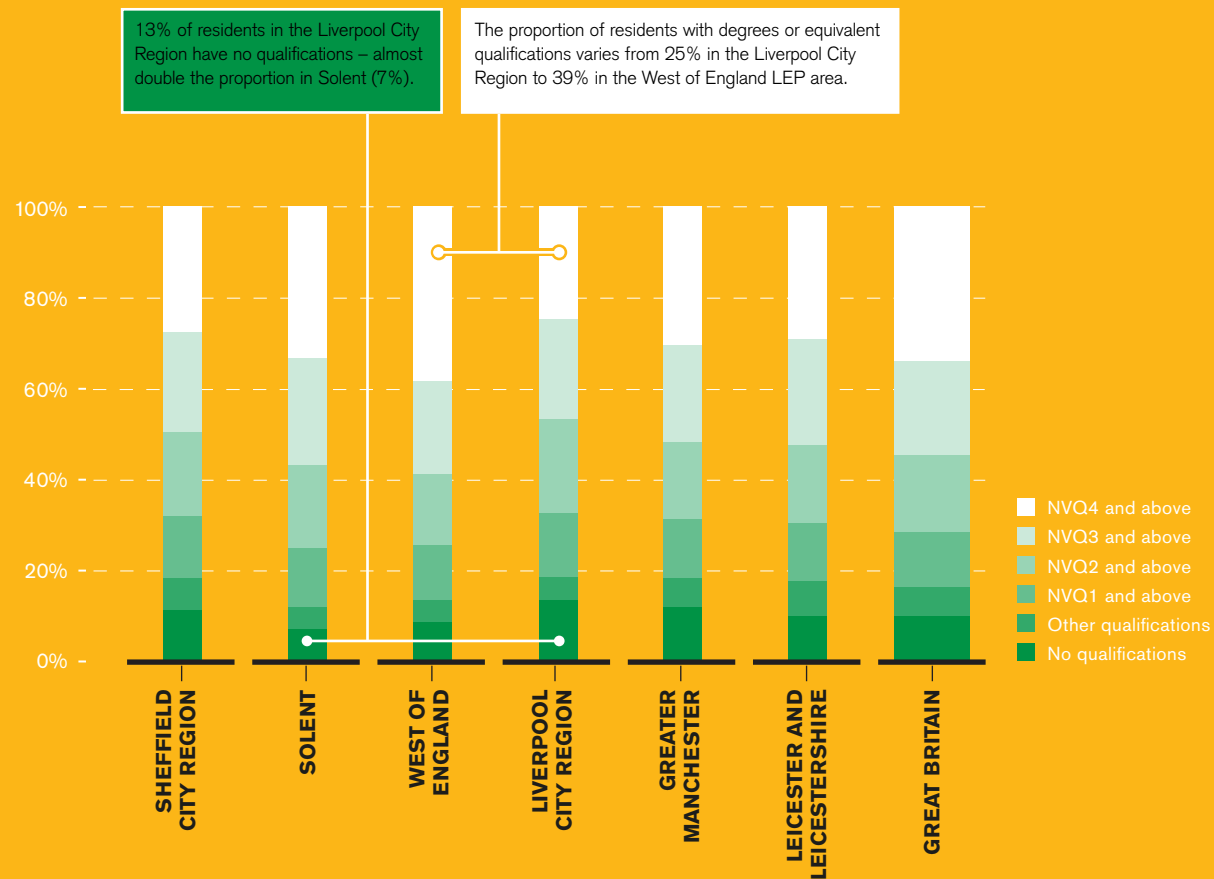


Figure 11

HIGHEST QUALIFICATION HELD BY RESIDENTS



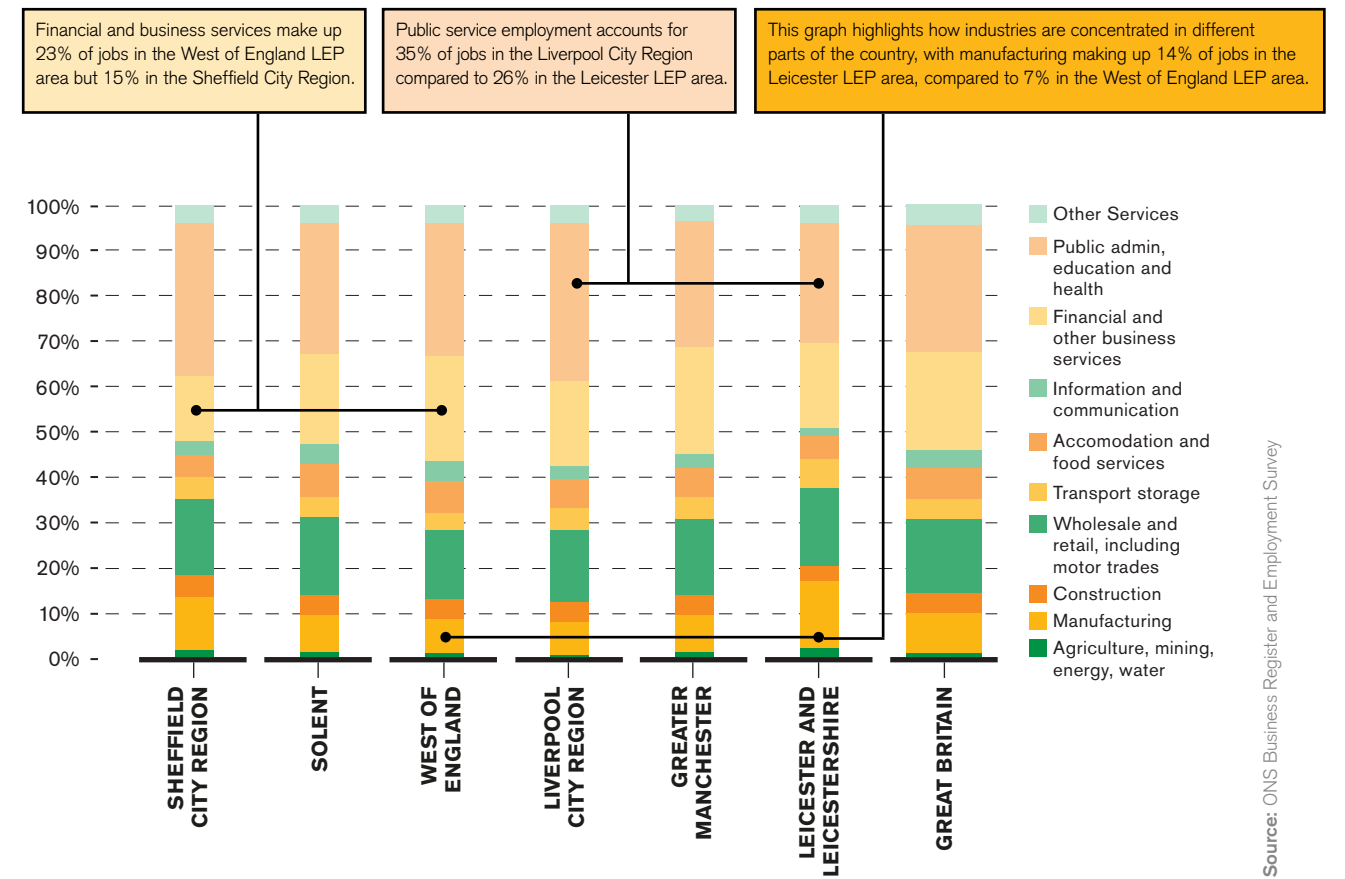
EMPLOYMENT BY OCCUPATION OF RESIDENTS

Figure 12



PROPORTION OF WORKFORCE JOBS BY INDUSTRY

Figure 13



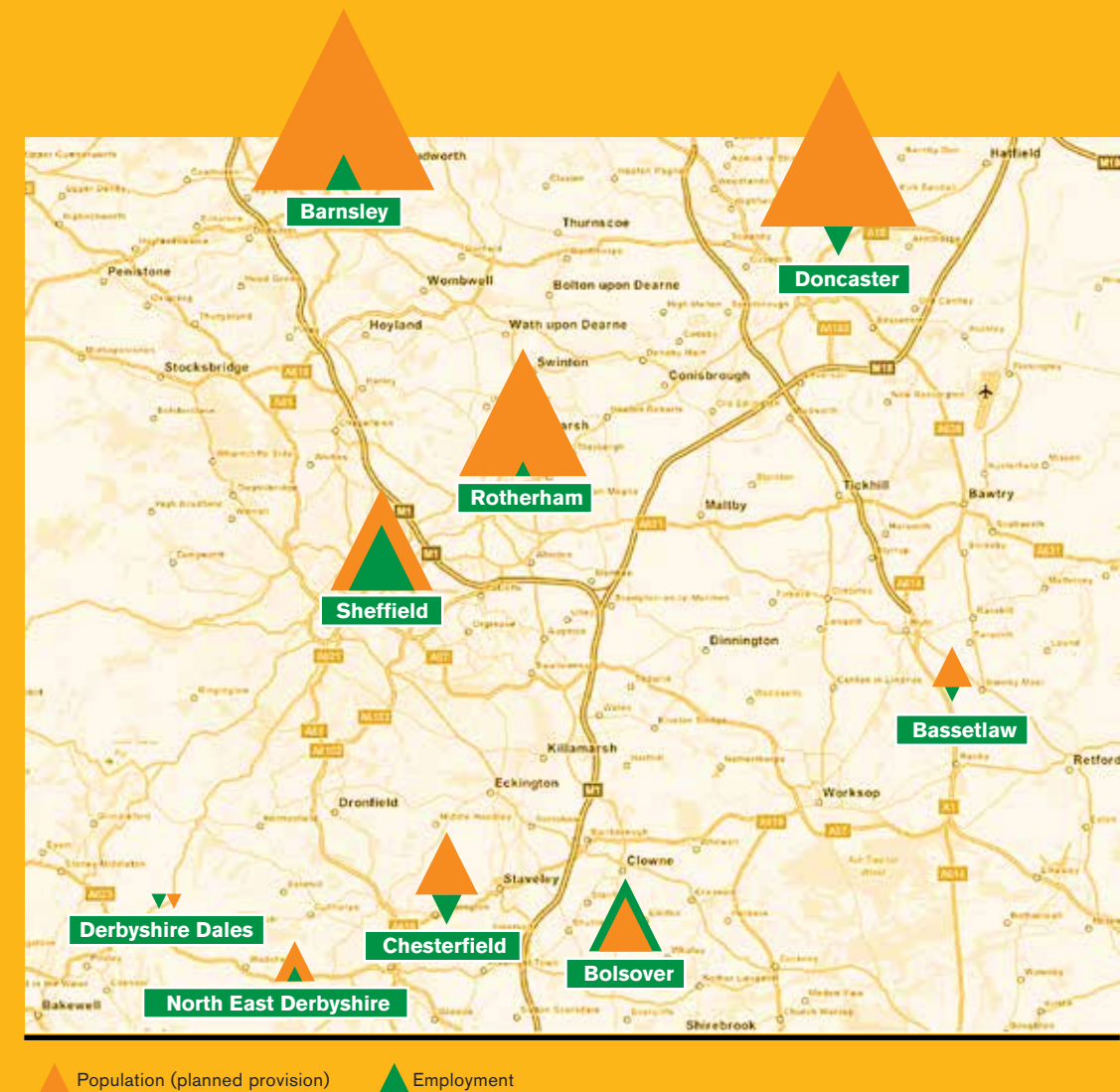
Local labour markets have flows of people within and between them, making up the national labour market.

The UK labour market is a network of interrelated local labour markets, linked by day-to-day flows of commuters and, over the longer term, the movement of people through the housing market. Commuting and migration are key dynamics which account for the movement of people between these labour markets, and also help address skills mismatches in a given locality.

Skills mismatches can exist within a metro labour market if jobs are not accessible to potential workers. Sheffield City Region’s Strategic Economic Plan highlights that jobs growth and population growth are not anticipated to match well over the next 15 years (Figure 14). This means that workers will likely commute around the South Yorkshire metro and neighbouring metros in search of job opportunities.

SHEFFIELD CITY REGION: FORECAST POPULATION AND EMPLOYMENT GROWTH, 2010–2030

Figure 14



“TREND BASED FORECASTS INDICATE THAT EMPLOYMENT IN SHEFFIELD CITY REGION’S ECONOMY WILL GROW BY APPROXIMATELY 27,000 JOBS IN THE NEXT TEN YEARS. THIS MEANS THAT THE CITY REGION NEEDS TO EXCEED THIS FORECAST BY MORE THAN 60% TO ACHIEVE A STEP CHANGE IN ITS ECONOMIC PERFORMANCE.”

– SHEFFIELD CITY REGION GROWTH PLAN, MARCH 2013

Note: Spatial mismatch of jobs exists within functional labour market geography. The planned housing provision to accommodate additional residents across the Sheffield City Region is not correlated to the projected employment growth.
Source: Sheffield City Region Growth Plan, March 2013

Local labour markets differ in the proportion of their workforce which is replaced by newcomers each year. Based on local authority data reflecting domestic and international migration, rates of replacement vary from under 2 percent to over 13 percent annually as shown in Figure 15.

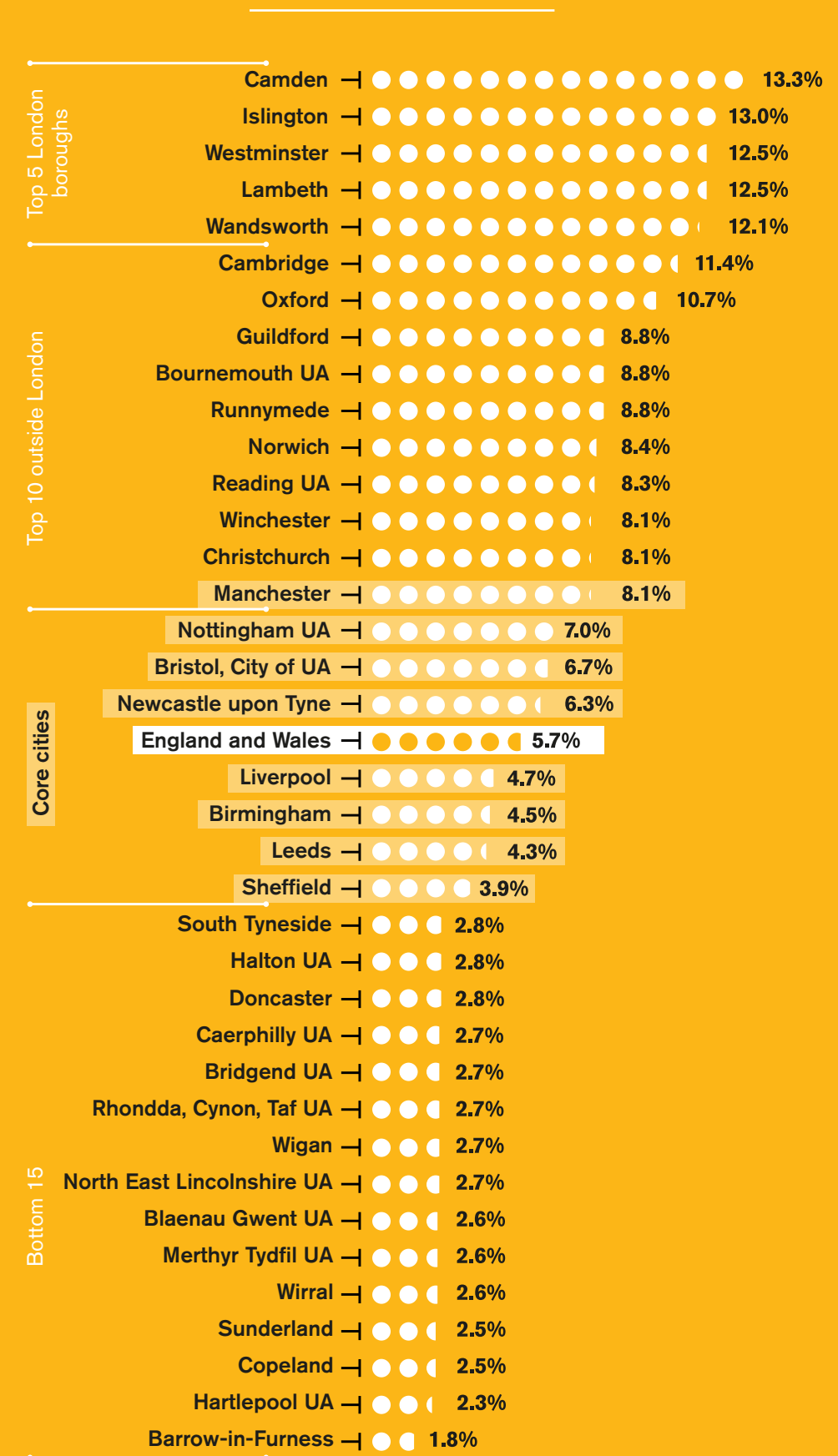
Those aged 16–24 have been excluded from this analysis to remove the effect of large student flows. Twenty-two of the 30 local authorities with the greatest inflow are London boroughs, reflecting high levels of movement between boroughs (and not necessarily migration between different metro labour markets). Outside London, Manchester is the only authority in the top 10, with 8 percent of its 25–64 year olds made up of newly arrived residents each year. Among the core cities, Nottingham, Bristol and Newcastle have inflow rates above the

national average for England and Wales of 6 percent. Liverpool, Birmingham, Leeds and Sheffield have rates between 4 and 5 percent. Notably, Wigan and Sunderland are among the bottom 10 of 350 authorities in England and Wales, despite being part of metros (Greater Manchester and Tyne and Wear, respectively) where the core city is above average.

Migrants tend to have high levels of ability – or inversely put, the more skilled a worker is, the more mobile he or she tends to be. Evidence from Spain³⁴ shows that workers from large cities retain productivity advantages when they move out of urban areas as a result of the experience gained. Longitudinal studies in the UK have found that highly-skilled migrants boost UK-born workers’ productivity and wages.³⁵

ANNUAL MIGRATION INFLOW RATE AS A PROPORTION OF ALL 25–64 YEAR OLDS, BY LOCAL AUTHORITY

Figure 15



“THERE ARE SIGNIFICANT ECONOMIC GAINS FROM MIGRATION, AND CITIES HELP DRIVE THESE GAINS... BRITISH CITIES CONTAIN THE LARGEST MIGRANT VOLUMES AND POPULATION SHARES.”

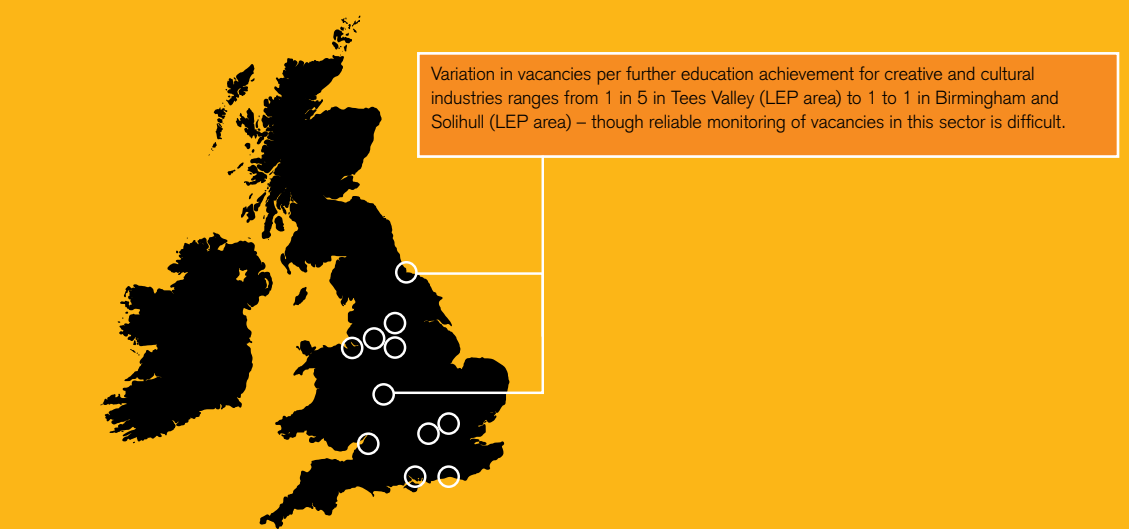
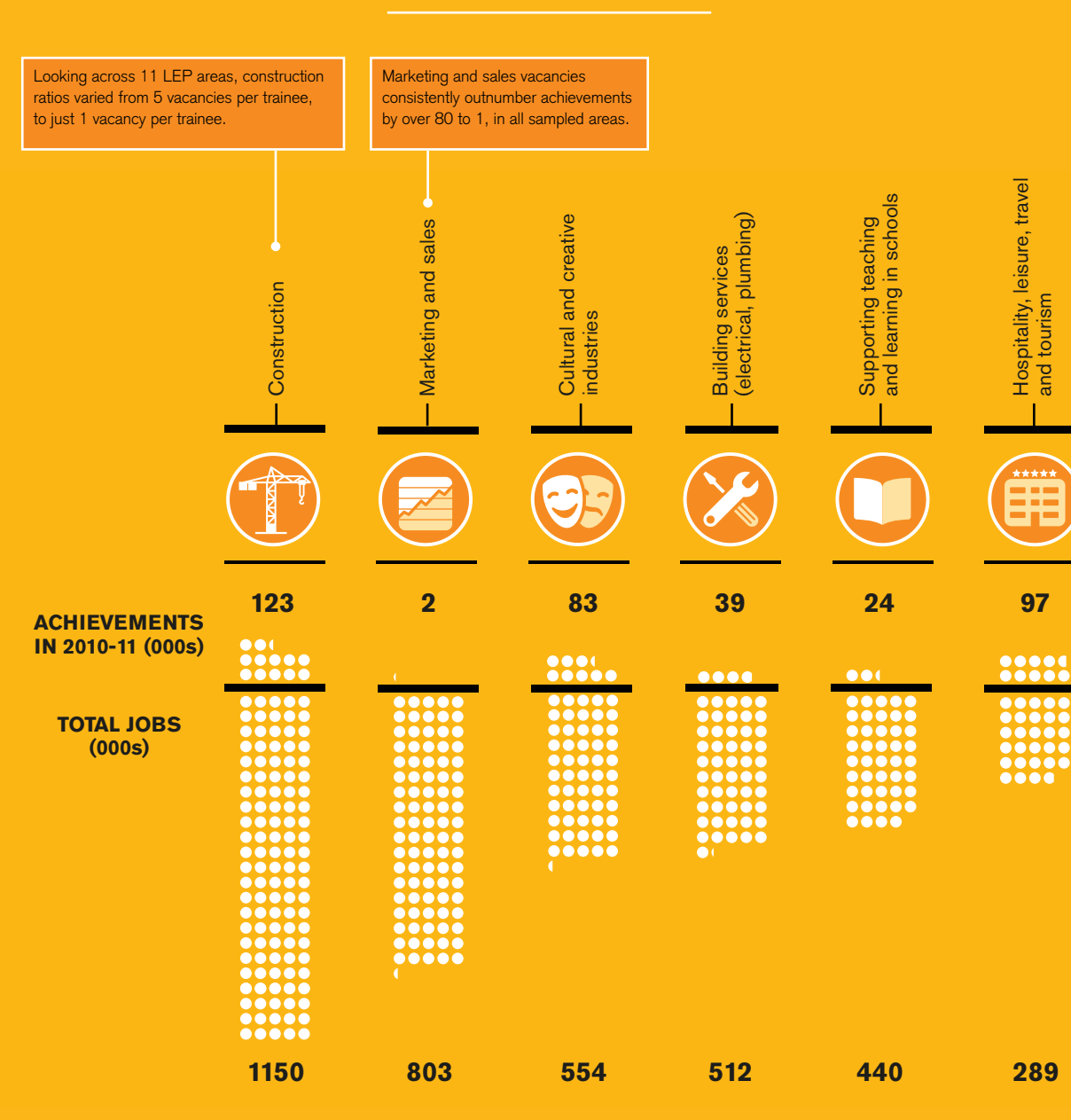
– M. NATHAN, LSE SPATIAL ECONOMIC RESEARCH CENTRE, 2011

34. J. De la Roca, and D. Puga, *Learning by working in big cities* (London: Centre for Economic Policy Research, 2013)

35. M. Nathan, ‘The long term impacts of migration in British cities: diversity, wages, employment and prices’ *Migration Studies Unit Working Papers*, no. 2010/09 (2010)

Note: Domestic migration may be from nearby authorities in the same metro; especially common in London. Twenty-two of top 30 local authorities measured by migration inflow proportion are in London; only the Top 5 are shown. City of London and Isles of Scilly are excluded. **Source:** ONS; data for June 2011 to June 2012

VACANCIES PER FE AND SKILLS ACHIEVEMENT BY OCCUPATION / SECTOR (ALL AGES), 2010–11



Skills mismatches vary by occupation, as well as by metros.

An additional variation is that skills shortages are much more prevalent in some occupations and sectors than others. For example, skilled trades such as plumbing as well as health and social care face a particularly high prevalence of skills shortages in many local labour markets. As the UK Commission on Employment and Skills (UKCES) found in the 2013 National Employer Skills Survey (NESS):

- *Employers tend to be challenged either in terms of having inadequate skills among some of their existing workforce or struggling to find new recruits with the skills that the vacant positions require.*
- *Just 1 percent of all employers experienced both skill-shortage vacancies and skills gaps. It is more commonly the case that employers are not fully utilising their workforces' skills.*
- *Half of UK employers (48 percent) report skills under-use, and 4.3 million workers (16 percent of the total UK workforce) are reported as being over-skilled and over-qualified for the jobs that they are currently doing.*³⁶

Hard-to-fill vacancies are concentrated unequally between occupations and metros.

Evidence from the NESS, highlighted in Figures 17, 18 and 19, shows:

- The extent of the mismatch between the skills available and the skills required is also highly variable. The highest density of skill-shortage vacancies is in the West of England LEP area (1.2 percent of all employment, making up 84 percent of hard-to-fill vacancies), while the lowest density is in the adjacent Heart of the South West LEP area (0.3 percent of all employment).

- Vacancies may be hard to fill for different reasons in different industries, and in different local labour markets, highlighting the importance of localised strategies to better match supply and demand. The reasons for vacancies being hard to fill also vary greatly.
- For example, in South Hampshire, over 2,000 job vacancies in the Solent LEP area are hard to fill because there are a low number of applicants with required skills. This proportion (50 percent) is higher than the national average (41 percent).
- In contrast, in the Sheffield City Region, one in seven hard-to-fill vacancies remains unfilled because applicants are put off by poor progression routes and poor career prospects. Nationally, however, only one in 50 employers offers this as a reason for struggling to fill vacancies.
- Although Liverpool has few hard-to-fill vacancies, as a proportion of overall jobs in its local labour market, employers find persistent and manifold challenges.
- Poor progression, unsociable hours and transport accessibility to the workplace each vary in their salience between metros.

Each city's labour market is also influenced by other issues including the availability and affordability of housing, public and private transport as well as care for children and older people. These issues affect the ability of workers to participate in the labour market, and vary dramatically within and between the UK's metro areas. The skills agenda is therefore strongly influenced by other areas of policy not usually associated with it.

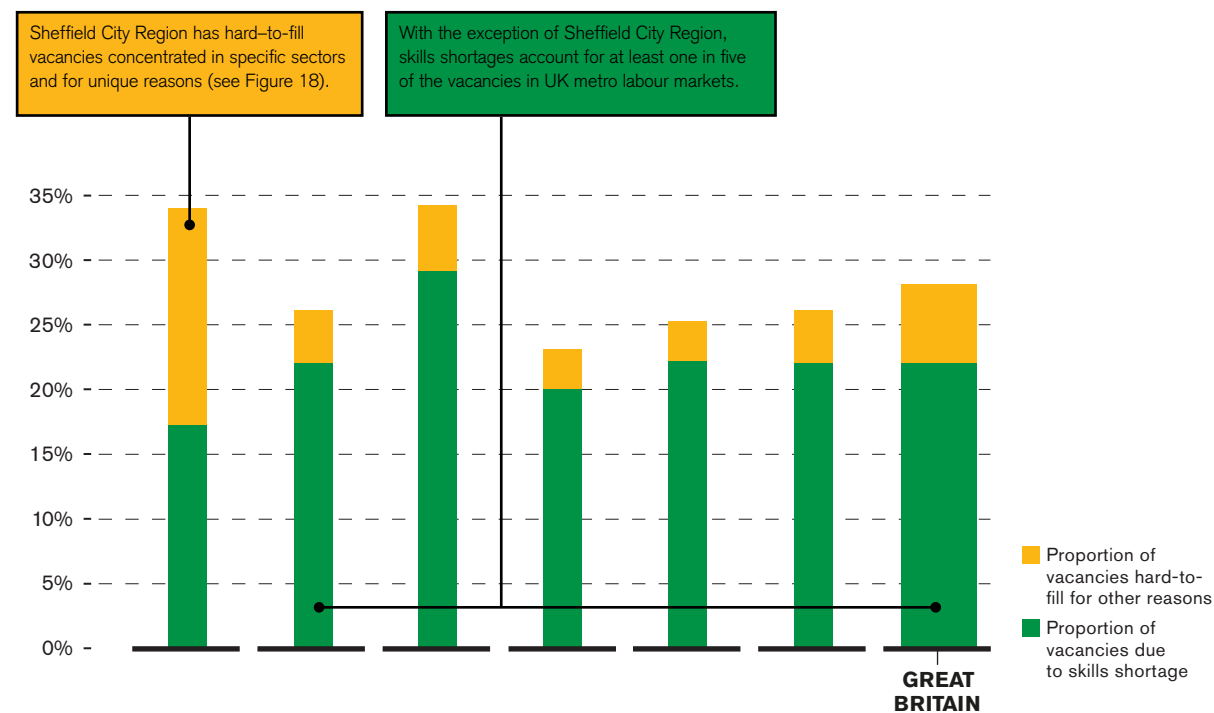
Local analysis shows that shortages and surpluses, when compared to the number of qualifications being attained in these occupations and sectors, are even more acute locally (see Figure 16 on the next page).

36. UKCES (2014)

Sources: CESI Hidden Talents: Skills mismatch analysis 2012, Individualised Learner Record, The Data Service; Labour Force Survey, ONS http://www.cesi.org.uk/sites/default/files/publications/CESI_Hidden_Talents_Skills_Mismatch.pdf

Figure 17

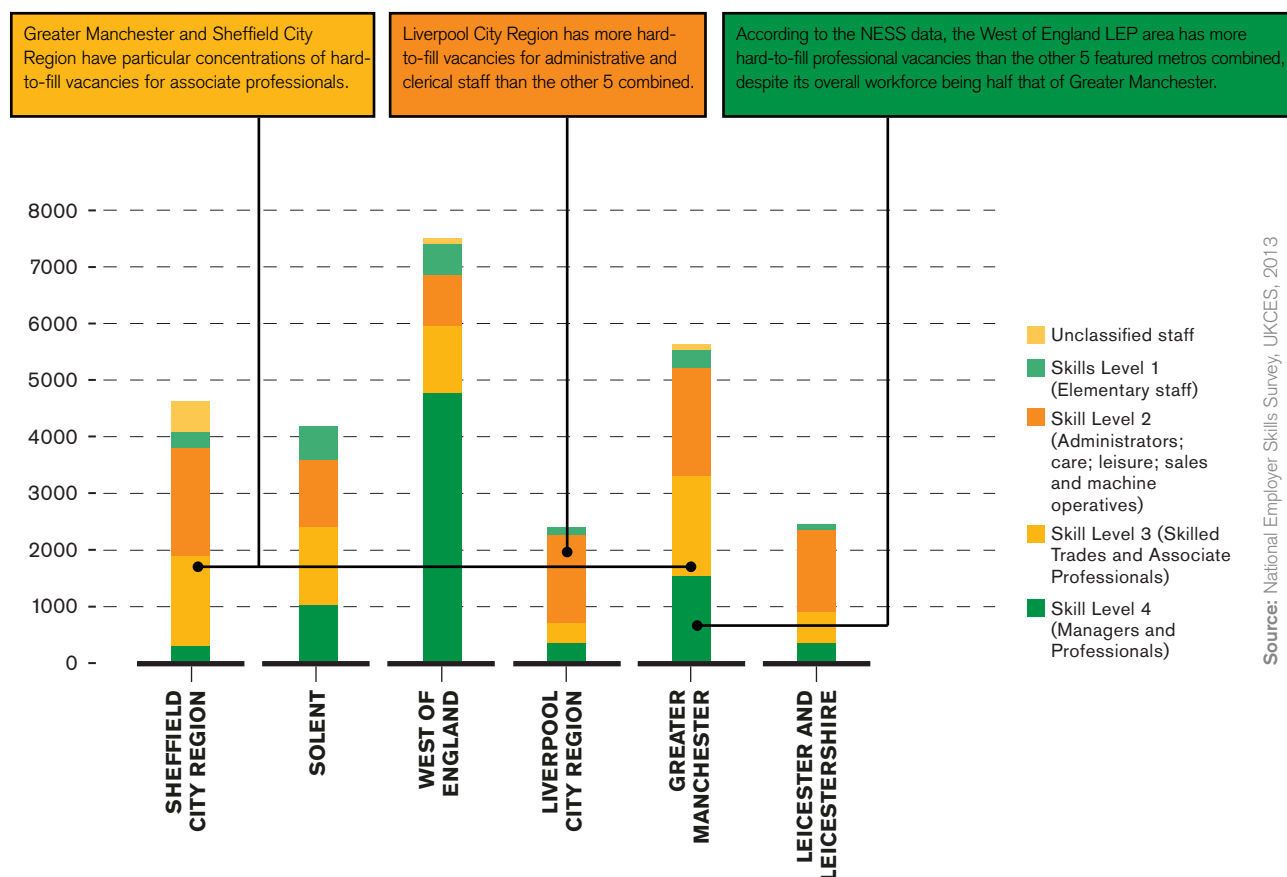
PROPORTION OF VACANCIES HARD-TO-FILL DUE TO SKILLS SHORTAGES OR OTHER REASONS



Source: National Employer Skills Survey, UKCES, 2013

Figure 18

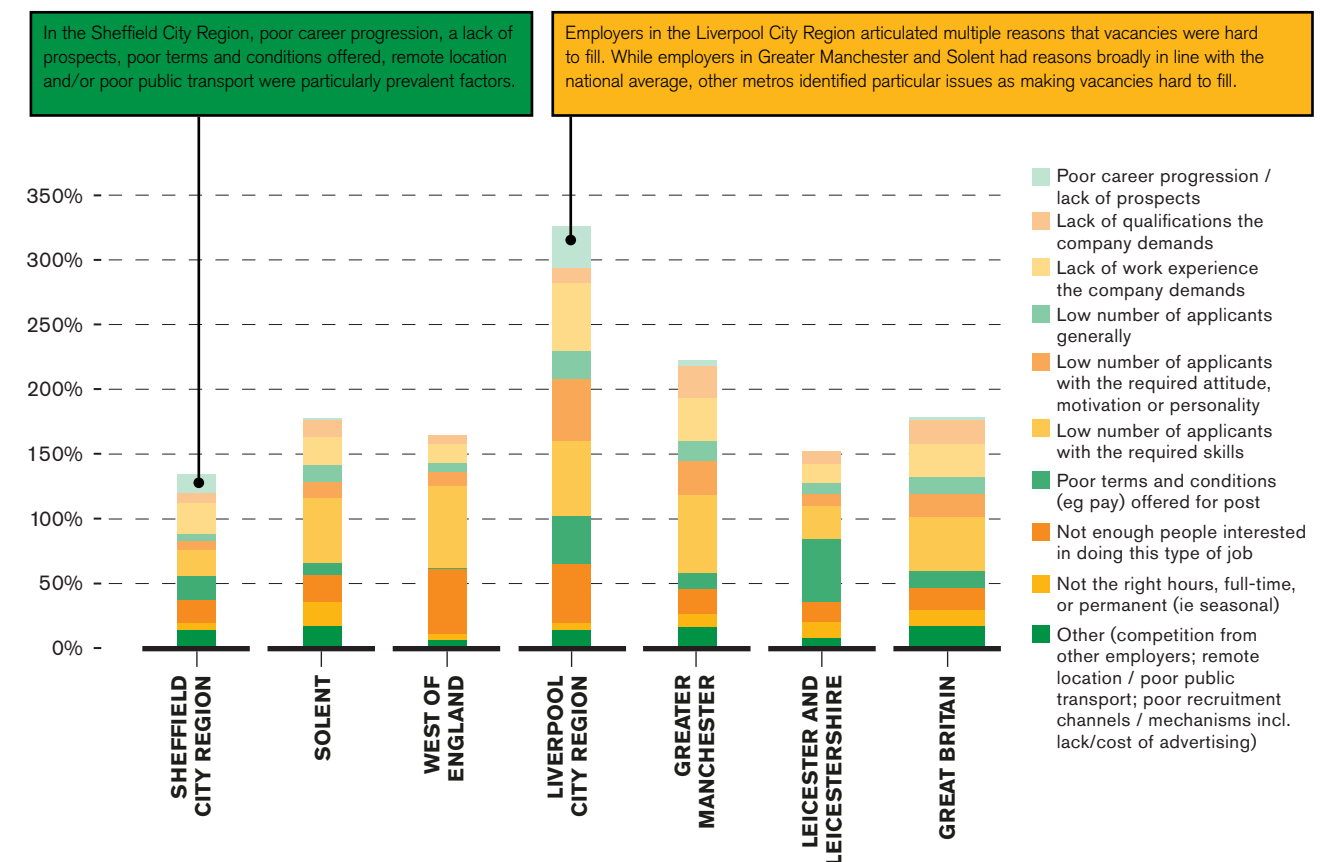
NUMBER OF HARD-TO-FILL VACANCIES BY OCCUPATION



Source: National Employer Skills Survey, UKCES, 2013

Figure 19

EMPLOYER REASONS FOR WHY VACANCIES ARE HARD TO FILL



Source: ONS Annual Population Survey, 2013

Note: This graph shows the reasons given for vacancies being hard to fill. The scale is calibrated against the number of hard-to-fill vacancies in that metro; therefore 200% would indicate that employers gave two reasons per hard-to-fill vacancy.

Conclusions and implications for policy

The same challenges don't exist everywhere. Because the matching of supply and demand for skills in the labour market varies hugely from place to place, skills interventions and investment must be sensitive to local needs.

For these reasons, 'skills' cannot be treated as a standalone policy area. The ability of employers to secure the skills they demand is impeded by labour market conditions such as pay and opportunities for progression. Demand for skills can be influenced by broad economic development forces, demographics and public service

provision; for example in terms of the growing demand for qualified personnel in elderly care. Considering both commuting and migration, it is clear that housing, transport and childcare are closely related policy areas to the UK skills challenge – and these issues are particularly pressing for households located in cities.

The next chapter considers how long-term trends in labour market restructuring play a role in shaping future skills demand and set the context for investment by employers, government, and employees themselves.

3. WIDER LABOUR MARKET TRENDS

Chapter 2 outlined the different skills challenges that UK metros face. But long term trends in labour market restructuring also affect metros' labour markets differently. This chapter provides an overview of these economic trends before exploring how they affect different groups within the labour market. The evidence adds to the case for resources and decision-making to be closer to the metro scale at which labour markets function.

The long-term restructuring of the economy is changing how we work and what skills are needed.

The following outlines some of the long-term trends identified by the UKCES – including technological growth and more flexible, collaborative working – that are changing the nature of work overall.

A recent review of long-term labour market trends by UKCES revealed how continuing and emerging changes will affect how skills are developed and applied:

- Technological growth, and the accompanying changes in business models, makes the continuous adaptation of skill sets absolutely fundamental for successful participation in the labour market. More so than ever before, individuals that are not willing or able to do this will face being left behind. Technology also creates opportunities for augmenting human capabilities and assisting fuller labour market participation.
- Work in the future will be more interconnected and network-oriented. Organisations will need to develop new Human Resources (HR) and contractual mechanisms to manage performance, address issues of trust and transparency, and invest in keeping the skills of a largely virtual workforce up to date. They will also face challenges in managing internal staff while orchestrating relationships with external actors to create the right skill sets.
- Successful solutions may be found through combining established disciplines with novel developments. Stimulating the hybridisation of skills will provide some individuals with a strong position to compete within an increasingly demanding workplace.

- As the world of work becomes more flexible, employees are expected to shoulder more and more responsibility for skills development. Self-management, alongside core business skills such as project management expertise, and the ability to promote your personal brand, will become increasingly vital. Personal agility and resilience, such as the ability to adapt to, or embrace, change is important within this context.
- The shrinking middle will challenge the workforce. The high-skilled minority (characterised by their creativity, analytical and problem solving capabilities and communication skills) will have strong bargaining power in the labour market, whilst the low-skilled will bear the brunt of the drive for flexibility and cost reduction, resulting in growing inequality. There is evidence that new types of jobs are emerging to fill the middle ground but these have markedly different entry routes and skill requirements.
- Traditional notions of hierarchy and seniority will become less important. By 2020, over 50 percent of the workforce are expected to be Generation Y members who have grown up connected, collaborative and mobile.

As the UKCES points out, workers themselves will increasingly need to take responsibility for skills development over their life course. The skills sector will also need to work more closely with employers to provide training and qualifications appropriate to these emerging ways of working.

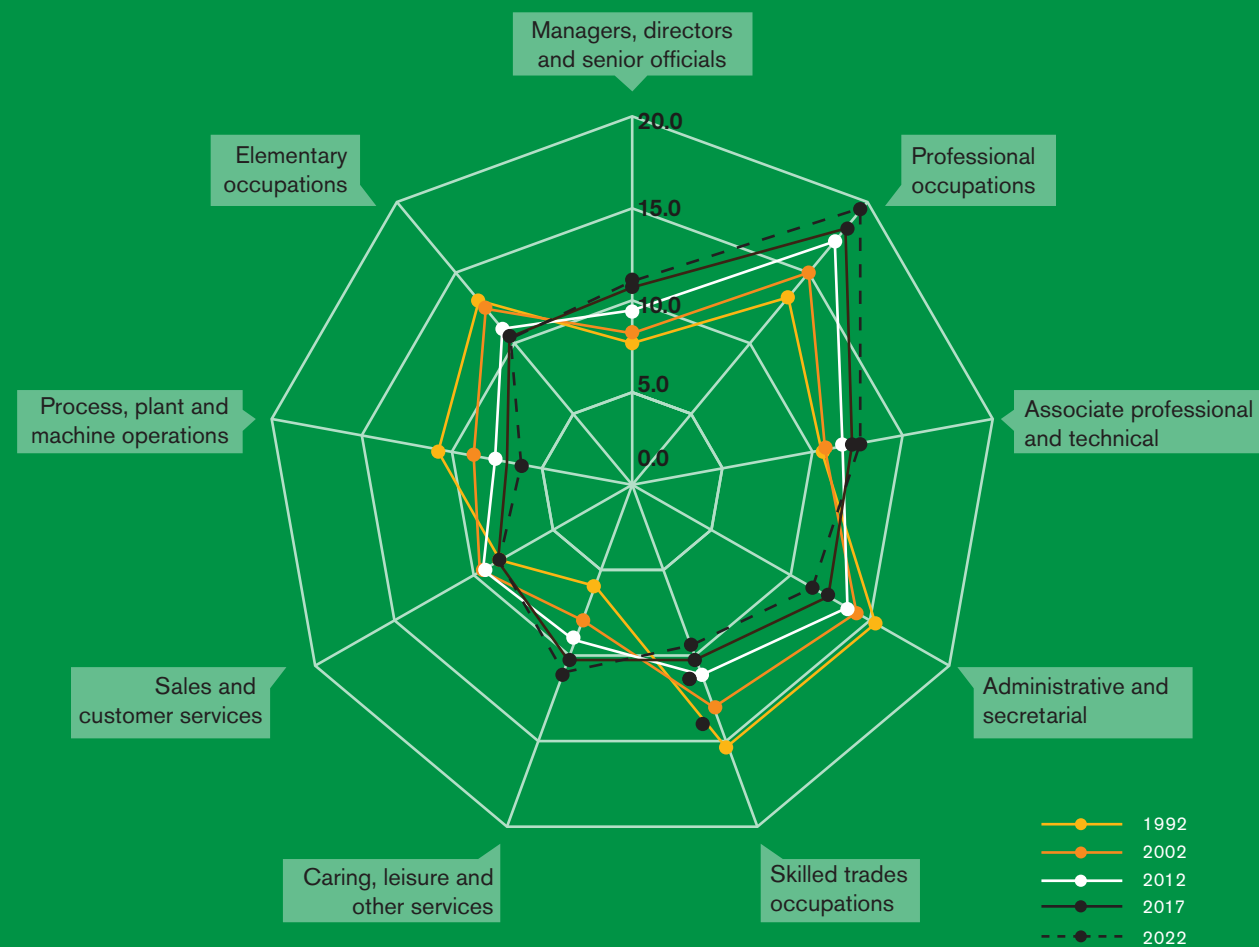
All metros are experiencing growth in service industries and casual work.

The growing prevalence of service industries in the UK economy is creating new demand for high-value skills. Figure 20 shows historical and projected changes to the composition of the UK workforce by occupation between 1992 and 2022. There has been a decline in process, plant and machines operatives, skilled trades, as well as administrative and secretarial roles. Conversely, growth has been strongest in professional occupations, as well as caring, leisure and other service sector roles. It is noteworthy that while many manufacturing jobs have been lost, the economic output from manufacturing has actually grown, with the sector's remaining jobs becoming increasingly specialised and highly skilled.

Conversely, however, high incomes and expanded participation generate demand for low paid jobs such as personal services and care of children and the elderly. There is some evidence that the share of high skill residents in a locality has a strong positive impact on the local employment chances of people with no qualifications.³⁷ Yet there is also a risk that we are moving towards a bifurcation or hollowing-out of the labour market, characterised by a growing gap between

37. I. Kaplanis, 'Local Human Capital and its Impact on Local Employment Chances in Britain', SERC Discussion Papers (2010)

CHANGES IN OCCUPATIONAL COMPOSITION OF THE UK ECONOMY, 1992–2022



Source: UKCES Working Futures

THE GROWING PREVALENCE OF SERVICE INDUSTRIES IN THE UK ECONOMY IS CREATING NEW DEMAND FOR HIGH-VALUE SKILLS. GROWTH HAS BEEN STRONGEST IN PROFESSIONAL OCCUPATIONS, AS WELL AS CARING, LEISURE AND OTHER SERVICE SECTOR ROLES.

high- and low-skilled jobs.³⁸ The growth in low-level service jobs has been larger in the UK than in many other European countries, and the rise of part-time work, temporary contracts and self-employment have been particular features during the recent recession and subsequent recovery.³⁹

However, there is an important distinction between future skills requirements for the labour market overall, and those required for the jobs and sectors that will drive employment growth. 87 percent of future demand for workers will be replacement demand, driven by workers exiting the labour market through retirement or career breaks.⁴⁰

The recession has heightened labour market flexibility and insecurity.

Under-employment has risen in the UK in the aftermath of the 2008 recession, even as rates of unemployment have fallen overall. Companies have decided against lay-offs in favour of retaining workers part-time and holding pay increases below inflation. While there has been political pushback against the rise of zero-hour contracts, for instance, relatively high rates of under-employment are likely to continue rather than diminish during economic recovery.

Yet labour market conditions for low-skilled, low-waged workers in UK metros were often precarious even before the recession. This section of the labour market is characterised by short-term employment and insecurity. The median length of continuous employment for those working in the bottom decile of the earnings distribution is just over two years, in contrast with eight years for those in the top decile. Furthermore, about 14 percent of employees in the bottom decile of the earnings distribution are in temporary employment, compared to two percent in top decile.⁴¹

A significant proportion of people in low-skilled, low-waged work are underemployed – working fewer hours than they would like.⁴² 58 percent of workers in low-paid employment are also in part-time employment.⁴³ The lack of full-time, permanent work available for those with low-skill levels contributes to a cycle of low-pay/no-pay work, insecurity, and vulnerability.

The Resolution Foundation analysed data, tracking individuals over a ten-year period (2002 to 2012), and found that 27 percent of those who started off on low pay in 2002 stayed on low pay in every year for that decade.⁴⁴ The results of the analysis also indicate that in order to progress out of low pay, it is important to remain in sustained, stable employment. Those who predominantly work part-time are less likely to progress.

This issue has been compounded by the instability of the UK economy in the last five years, which has made staying in work the priority for some workers, rather than progressing in their roles. Research from the Policy Exchange has highlighted that a large proportion of individuals in low-paid or low-hours work do not regard progression as a priority.⁴⁵ A recent study by the Centre for Economic and Social Inclusion (CESI) summarised the situation as follows:⁴⁶

The factors that affect retention and progression are complex and encompass both individual and employer factors. How these interplay is complex – with aspirations and motivations, qualifications, caring responsibilities, networks, job roles and employer quality all seeming to play a part.

38. J. Plunkett and J.P. Pessoa, *A polarising crisis?: the changing shape of the UK and US labour markets from 2008 to 2012* (London: Resolution Foundation, 2013)

39. S. McIntosh, *Hollowing out and the future of the labour market* (London: Department for Business, Innovation and Skills, 2013)

40. R. Wilson, R. Beaven, M. May-Gillings, G. Hay and J. Stevens, *Working futures 2012–2022* (London: UKCES, 2014)

41. P. Garaud and M. Oakley, *Slow Progress: Improving progression in the UK labour market* (London: Policy Exchange, 2013)

42. ONS, *Underemployment up 1 million since 2008* (February 2013)

43. Whittaker and Hurrell (2013)

44. A. Hurrell, *Starting out or getting stuck? An analysis of who gets trapped in low-paid work – and who escapes* (London: Resolution Foundation, 2013)

45. Garaud and Oakley (2013)

46. T. Wilson, L. Gardiner and K. Krasnowski, *Work in Progress: Low pay and progression in London and the UK* (London: Centre for Economic and Social Inclusion, 2013)

Women continue to be disproportionately concentrated in part-time, low-skilled work.

Within the low-skilled, low-waged demographic there are some groups that find it particularly difficult to get ahead. Women, especially mothers, older women, and women from certain ethnic backgrounds; people with work-limiting disabilities; young people; older people; and those previously employed in declining industries (found disproportionately in the north of England and the West Midlands) have all been disadvantaged in getting a foothold in the labour market, let alone a rung up.⁴⁷

Women are disproportionately represented in low-skilled, low-paid part-time work and experience particular difficulties in progressing. A study by Sheffield Hallam University found that as many as 53 percent of the women they surveyed who were working in low-paid, part-time jobs were working ‘below their potential’ (described as not using all of their skills, labour market experience, or qualifications on their current job).⁴⁸

Women who pursue part-time work, because of the need for flexibility once they have children, tend to find that the roles on offer are low-skilled. As a result, many women have to ‘down-skill’ and forego income. According to a poll carried out by the Resolution Foundation and Mumsnet, nearly half (48 percent) of mothers on low- to middle incomes take a lower-skilled part-time job when they return to work after having children. These women were found to be at particularly high risk of getting stuck in low pay.⁴⁹

Furthermore, women are under-represented in high-value, good-quality apprenticeships. This is significant given apprenticeships’ centrality to skills

strategies – as in the case of Sheffield’s City Deal for example – and the decline in public and private investment in other forms of training programmes. Although women predominate in Advanced and Higher Apprenticeships,⁵⁰ this reflects the rate of conversion⁵¹ of existing female employees into apprentices. Conversions are the result of women gaining qualifications for the work they already know how to do and have been doing, rather than for completing training needed to perform their jobs, undermining this statistic as a sign of progress.⁵² The Institute for Employment Studies points out that gender inequities in take-up of good quality apprenticeships mirrors current workforce trends and compounds the predominance of women in sectors where it is difficult to progress and earn higher wages.⁵³

Skills under-utilisation remains high among migrants in low-skilled labour.

There are also high levels of skills under-utilisation in the migrant population, who tend to work in low-paid, low-skilled and often part-time jobs. There is evidence that workers with foreign qualifications are more likely to be in roles with a skills mismatch than those with UK qualifications. Being a male immigrant is associated with a 10.7 percent greater probability of skills under-utilisation than being UK-born.⁵⁴ At a local level, wards with high concentrations of migrants also tend to have higher levels of skills mismatches, although this varies by ethnic group.⁵⁵ However, those working in temporary or part-time jobs and those working in production or private services are more likely to be over-qualified regardless of country of birth.⁵⁶

Lack of English language proficiency is a major reason for migrants’ skills being under-utilised. Migrants from the EU15

countries, and those from English-speaking countries such as Australia or Canada, are no more likely to find themselves working in jobs below their qualification levels than their UK-born counterparts. However, those coming from Central and Eastern Europe, the Baltic states, Africa, the Caribbean, South America, the Middle East and India are more likely to be over-qualified and under-utilised than UK natives.⁵⁷

Integrating internationally trained professionals into local labour markets

In the Canadian province of Ontario, ‘Bridge Training Programmes’ have been set up to help qualified, internationally trained individuals overcome barriers to working within their professions.⁵⁸ These programmes assess existing skills and competencies compared to Ontario employer expectations, and then provide training and Canadian work experience without duplicating what the migrant has already learned. These programmes also include English language training to ease transitions into the migrant’s profession or trade. In addition to this, some programmes offer mentoring opportunities with established professionals to help the migrant become certified or registered under the domestic authority in their field.

The workplace is a powerful learning environment.

Alongside skills, businesses look for certain behaviours, attitudes and values in potential employees. As retailers articulated to us, “we recruit for attitude and we train for skills”; another business echoed this: “we’re not necessarily looking for experience but ability to be able to have a conversation with a customer. Be engaging, be confident. We can develop technical skills”.

On-the-job learning has the potential to address many aspects of skills mismatching. The availability of on-the-job training in a given labour market determines the extent to which in-work progression is possible. However, as CESI has concluded, individual progress is possible even in a weak economy, albeit more probable among those moving between jobs:

Wage progression for those in low pay is possible even when the economy and labour market is relatively weak... low-paid workers that change jobs see far greater wage progression than those that do not, while low-paid staff that received training on the job see significantly higher wage progression than those that did not...

... part of this may be that those low-paid staff that move jobs or receive training are more likely to be in occupations and sectors with better progression prospects.⁵⁹

At the bottom end of the labour market, the boundaries between employment and unemployment are blurring, with self-employment and casualised working arrangements on the rise and a concomitant increase in roles with part-time hours and temporary contracts. Self-employment carries both risks and rewards.⁶⁰ While there is huge on-the-job learning potential from freelance work and entrepreneurial activity, self-employment can also be isolating. The autonomy of a “portfolio career” must also be balanced against the risk of an irregular income and fewer formal development opportunities. There is also some evidence of jobs becoming notionally self-employed as a means for employers to avoid regulation.⁶¹ In such cases, workers are unlikely to get employer-funded development, nor the autonomy or resources to further their own career development.

47. T. Dolphin and K. Lawton, *A Job for Everyone: What should full-employment mean in 21st Century Britain?* (London: IPPR, 2013)

48. Grant et al. (2005)

49. V. Alakeson, *The price of motherhood: women and part-time work* (London: Resolution Foundation, 2012)

50. Intermediate Level apprentices work to a Level 2 qualification; Advanced Level apprentices work to a Level 3 qualification, and Higher Apprentices work to a Level 4 qualification.

51. The practice of conversion is when current employees within an organisation are ‘converted’ into apprentices, which means that rather than undergoing training for new skills employees’ existing skills are accredited.

52. A. Fuller and L. Unwin, *Gender Segregation, Apprenticeship, and the Raising Participation Age in England: Are Young Women at a Disadvantage?* (London: Centre for Learning and Life Chances in Knowledge Economies and Societies, 2013)

53. B. Newton and J. Williams, *Under-representation by gender and race in Apprenticeships: research summary* (London: TUC, 2013)

54. S. Altorjai, ‘Over-qualification of immigrants in the UK’, *IESR Working Paper Series*, 2013–11 (2013)

55. H. Battu and P. Sloane, ‘Over-education and Ethnic Minorities in Britain’, *IZA Discussion Papers* 936 (2002)

56. Altorjai (2013)

57. Ibid

58. Ontario Immigration, (2014). ‘Work in Your Profession: Bridge Training Programs’. Available at http://www.ontarioimmigration.ca/OI/en/working/OI_BRIDGE.html

59. Wilson et al. (2013)

60. B. Delloit, *Salvation in a start-up? The origins and nature of the self-employment boom* (London: RSA, 2014)

61. HM Revenue and Customs, *Onshore Employment Intermediaries: False Self-Employment* (London: 2014)

The RSA has suggested a framework for skills, knowledge and capabilities which builds on the experience of organisations that successfully support their employees' career development.⁶² The components of this framework are set out in the box below.

A whole system framework for skills, knowledge and capabilities

1. Functional and basic skills including language comprehension and communication, numeracy, and digital literacy.
2. Specialist or advanced knowledge (knowing how and knowing that) encompassing practical, technical, craft-based and theoretical/conceptual knowledge.
3. Craftsmanship or professionalism, defined as a set of attitudes and dispositions towards one's work, especially the sense of pride in a job well done and the capacity to exercise informed, expert judgement drawing on relevant experience.
4. Relational and emotional intelligence: relating to and empathising with other people and knowing how to present to and communicate with different audiences.
5. Business and enterprise skills: understanding the economic and social sides of work, for instance being able to identify and take advantage of market opportunities; managing time and resources effectively, etc.
6. Innovative and collaborative capacity: being inspired to collaborate and innovate, enquire and investigate, and adapt and respond to changing circumstances.

This wider set of 'soft' competencies is not often addressed by formal educators. In many cases, universities and other formal learning providers are not best placed to equip workers with the skills that employers require. Many skills, especially those needed for effective teamwork and communication,

are best developed in the workplace, supported by training, mentoring, and a working and learning environment supportive of employee progression.

The UK skills system has been slow to adapt to changes in the UK economy, and to employers' demand for not only new skills, but also new ways of working and communicating. However, some progressive institutions are leading the way. For instance, Sheffield's Advanced Manufacturing Research Centre provides a model for drawing tutors from skilled trades and ensuring learners apply themselves in a group environment, with facilities located in a growing industrial park. One education professional made the important point that the quality of learning environments vary greatly, and different learning environments suit different learning styles.⁶³ The importance of a true diversity of courses and learning opportunities should be recognised by employers and educators, sensitive to the qualities that make learning effective for different people.

Encouraging workers' ambition for progression

Policy efforts to improve the potential for in-work progression ultimately need the buy-in of employees themselves. Interviewees in a CESI study reported increased salary as the most important benefit from progression, with confidence, satisfaction and job security as other key positives. On the other hand, employees identified increased stress as a drawback of progression, resulting from grey areas around increased responsibility, changed relationships and higher expectations. These were perceived as the price to pay for more pay and security.⁶⁴

As a Sheffield employer remarked, when interviewed for this report:

“Because a lot of [promotions involve] coaching and giving feedback, a lot of people don't feel comfortable critically evaluating others. A lot of it is a confidence thing. Where we'd like to be is everybody do the best they can: productive and fulfilled. Our offer

is geared up to achieve this. But not everyone has to progress.”

A key challenge is to create a shared expectation among employees concerning training and development. Much of the support that individuals identified as desirable in the CESI study were basic things that 'good' employers take for granted, such as regular appraisals, opportunities to network, and getting support and encouragement from managers. Internet platforms have the potential to consolidate user-generated content about their experience of employment, led by

pioneers such as Glassdoor; but as one employment support professional put it, “no one is going to manage your career but yourself. There is no knight in shining armour”. UKCES provides some guidance on how this might be accomplished in the box below.⁶⁵

This aspect of skills development is particularly salient with ongoing labour market restructuring. And with varying implications in different metros, it is urgent that both public and private investment in workforce development is targeted in intelligent, locally responsive ways. The following chapters make the case for this.

Actions individuals can take to build future skills

- Change mind-set regarding the nature of work, as it becomes less location-specific, more network oriented, project based and increasingly technology-intensive.
- Take greater personal responsibility for acquiring and continuously updating skills for progression and success in the face of limited investment from employers and government and increasing division between low- and high-skill jobs. Keep in touch with relevant labour market developments and include skills and training opportunities as part of contract negotiations with employers.
- Be open to and take advantage of new and different approaches to learning, for instance self-directed, bite-sized learning, peer-to-peer learning and technology-enabled training opportunities.
- Be willing to jump across specialist knowledge boundaries as technologies and disciplines converge, developing a blend of technical training and 'softer' collaborative skills.
- Focus on development of key skills and attributes that will be at a premium in the future, including resilience, adaptability, resourcefulness, enterprise, cognitive skills (such as problem solving), and the core business skills for project-based employment.

62. L. Bamfield, *Rebalancing the UK's education and skills system* (London: RSA, 2013)

63. G. Huxley and M. W. Peacey, 'An economic model of learning styles', *CMPO Working Paper Series*, Vol. 319, no. 14 (2014)

64. Wilson et al. (2013)

65. E. Störmer, C. Patscha, J. Prendergast, and C. Daheim, *The Future of Jobs and Skills in 2030* (London: UKCES, 2014)

4. EMPLOYERS AND SKILLS DEVELOPMENT

The level of skills investment by employers is valuable across sectors and metros.

The private sector is by far the largest investor in skills in the UK. Employers' investment in training runs at £43bn per year and reaches almost 20 million people. Yet only 10 percent of staff development is through formal structured courses; 20 percent takes place via management, coaching and mentoring, and 70 percent of development comes from on-the-job learning.⁶⁶

Recent trends in employer-provided training present a mixed picture. Between 2011 and 2013, UK employers cut their overall training budgets, especially for training outside the workplace, but extended the coverage of training to a higher proportion of the workforce overall. The Institute for Public Policy Research (IPPR) recently highlighted data from Eurostat (2014) that shows the UK suffered a drop in training four times greater than any other European country during the recession. This suggests that UK businesses have kept people in work – albeit in under-employment, as we have seen – but have not significantly invested in maintaining or advancing their skill levels, particularly for low-skilled, low-wage work.

The extent to which employers provide training varies considerably across sectors and occupations. Generally speaking, lower paid occupations offer training – both on and off the job – at rates lower than professionals and technical workers. Training is often focused on meeting regulations

rather than boosting skills. One employer called this “stand-still training”.

There are lots of modern developments that we're ignoring. Businesses should be thinking about 'blended learning' – mentoring staff and taking people outside of the classroom.

– Member of business growth network, Southampton

Provision of training by employers is also highly variable at the local level. Figures 22 and 23 illustrate the significant discrepancy in provision between South Yorkshire and South Hampshire. Likewise, the distribution of training by occupation varies greatly between metros, and against skills gaps. In the Sheffield City Region, 1.5 percent of associate professionals have skills gaps, and 73 percent received training in 2013. By contrast, 4.7 percent of associate professionals in Solent had a skills gap, but only 53 percent received training.

The rate of uptake among UK employees who have been offered continued vocational training (CVT) is higher than elsewhere in Europe, with the exception of Denmark and Finland.⁶⁷ However, the national data may obscure the fact that offers of CVT are concentrated in London and the South East, and that actual rates of provision differ considerably between cities across the UK. It's also unclear whether these CVT offers were of good quality and whether they were made predominantly to the highly skilled. There is some evidence that as employers

IDENTIFIED SKILLS GAPS BY OCCUPATION COMPARED TO PROPORTION OF WORKERS RECEIVING TRAINING

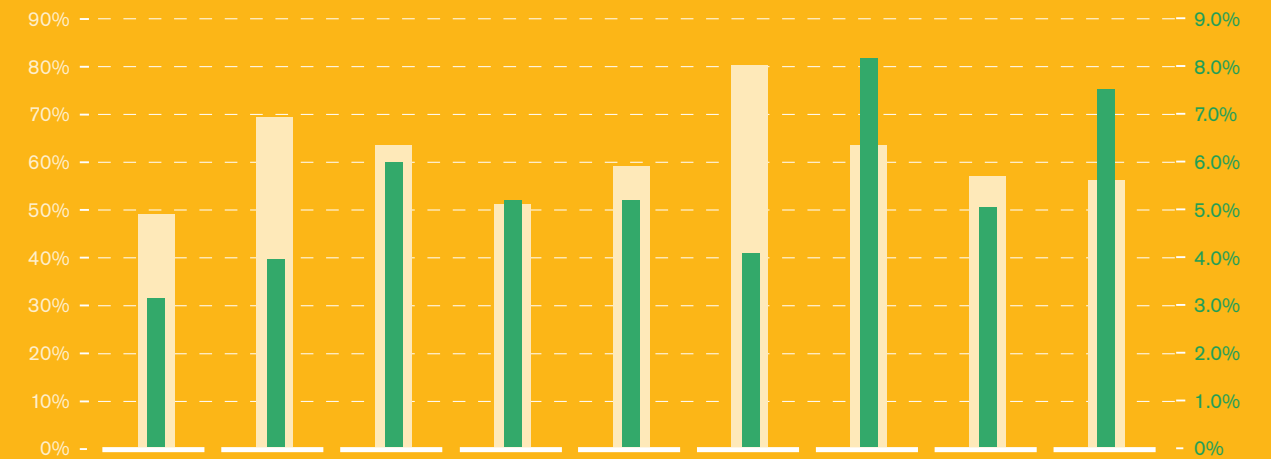


Figure 21

ENGLAND

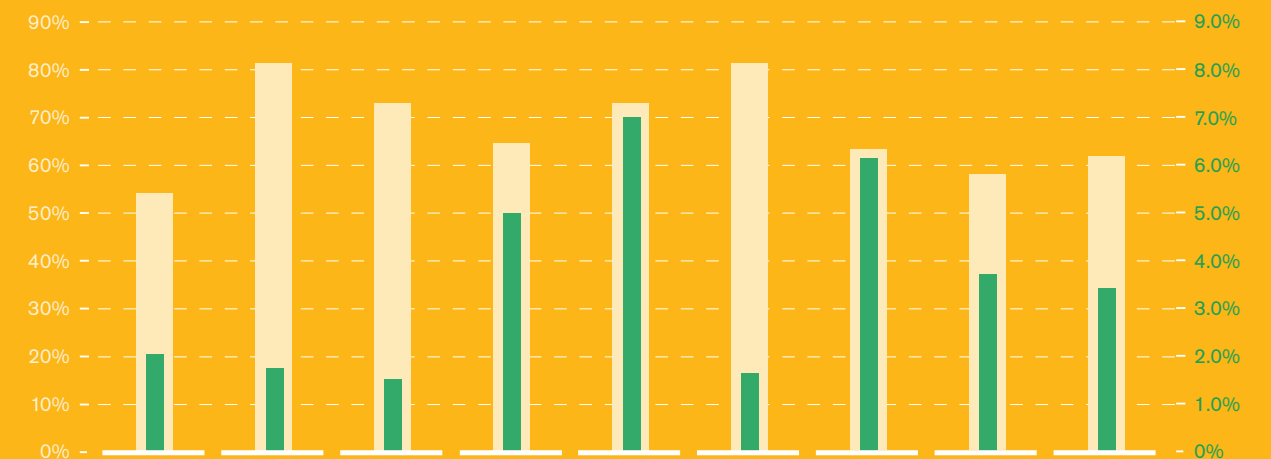


Figure 22

SHEFFIELD LEP

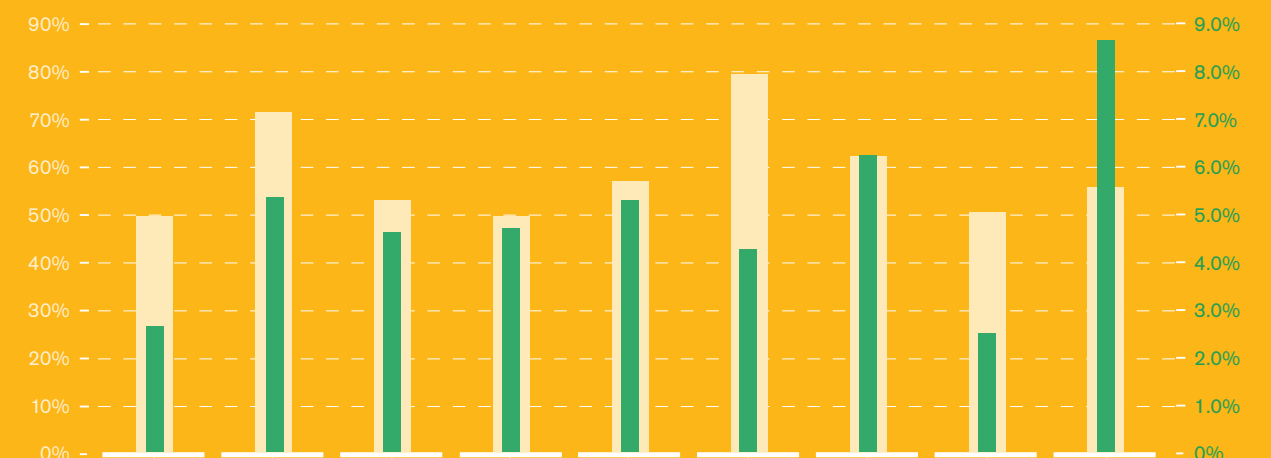


Figure 23

SOLENT LEP

■ Proportion of workers in occupation receiving training (left axis)

■ Proportion of workers in occupation not proficient (right axis)

Source: National Employer Skills Survey, UKCES, 2013

66. CBI (2011)

67. T. Dolphin, G. Gottfried, L. Raikes, A. Sillim, and S. Thompson, *European Jobs and Skills: A Comprehensive Review 2014* (London: IPPR, 2014)

cut back on training during the recession, training for the highly skilled was prioritised over that for the low-skilled.⁶⁸

Low-skilled workers, who need skills investment the most, often have the hardest time obtaining it from employers. In 2013, the OECD launched an adult skills survey of people aged 16–65 years across 24 countries. The survey found that in the UK, lower qualified adults face significant barriers to learning and up-skilling. It was found that 75 percent of adults with Level 4/5 qualifications (equivalent to degrees and above) had participated in adult education and training over the latest 12 month period, compared with only 30 percent of adults with the most basic qualifications (Level 1 and below). The views expressed in the course of our research also suggest that adult learning is not very accessible in the UK, especially in workplaces dominated by low-skilled roles.

In essence, those in low-paid, low-skilled work not only face more job insecurity, but are also less likely to receive training, further hampering their potential to progress in their roles.⁶⁹ As an OECD representative commented:

“...low-skilled workers risk being trapped in a situation in which they rarely benefit from adult learning, and their skills remain weak or deteriorate over time, making it even harder for these individuals to participate in learning activities. The key policy challenge is to help low-skilled adults break this cycle.”

There is a strong business case for greater (and smarter) private sector investment.

The extent to which employers take responsibility for workforce development varies considerably. To some extent this is determined by companies’ operating strategies.⁷⁰ Employers that market high-value products – which require higher skilled workers to create – are more likely

to have skills gaps but also more likely to provide training to close these gaps. There is widespread advocacy towards policies that tackle skills mismatches by addressing a range of employer HR practices including hiring, probation and development.⁷¹

However, as one charity supporting young people into employment put it, “a lot of the development opportunities in companies are down to the management and how enlightened they are.” An LEP member told us “management often doesn’t recognise that investing in an individual improves morale, progression of the individual, and evolution of the business.” For businesses to thrive in the coming decades, managers will need to ensure that employees continue to develop their skills. As the Director of the Sheffield City Region LEP commented: “developing a business means developing workforce skills.”

“Skills supply and demand lie at the heart of the problems facing the UK...”

This has to change. The issue is not simply about increasing the supply of skills – a preoccupation of current and past governments. The solution to the challenges we face lies just as much with improving skills utilisation and demand for higher-level skills through increasing the number of higher skilled roles available.

To do this, we need to encourage more employer investment in innovation and growth and the capabilities and skills needed to deliver high-performance workplaces.”

– Peter Cheese, Chief Executive, Certified Institute of Personnel and Development

Part of the problem is that relative to international comparators, UK firms invest little time or money in developing their managers.⁷² Research from the Department for Business, Innovation and Skills (BIS) has found that 43 percent of UK managers rate their own line manager as ineffective,

and only one in five are qualified.⁷³ This is concerning given that qualified managers are more innovative and more likely to introduce new products as well as improve the quality of existing products.⁷⁴ A seminal study by McKinsey also found that after accounting for country and industry sub-sector, 58 percent of the variance in firms’ productivity was determined entirely by the actions of their managers.⁷⁵ It is estimated that ineffective management is costing UK businesses over £19bn per year in lost working hours.⁷⁶

A 2013 survey by the Chartered Institute of Personnel and Development (CIPD) found that only one in five employers regularly evaluated the impact of training on business performance. Human capital investment is not well accounted for on employer balance sheets:

“The conventions of accountancy describe money spent on capital investment as contributing to a company’s assets while money spent on people counts merely as a cost. This way of thinking is a hangover from the era when mass manufacturing was the dominant industrial paradigm. In the modern knowledge economy the majority of the assets of the organisation lie in the knowledge and skills of its workforce, yet these assets are absent from the balance sheet.”⁷⁷

– Matthew Taylor, RSA Chief Executive’s Annual Lecture

Yet providing training makes good business sense. A report from JRF makes the point that because low-wage sectors

are often labour intensive, it is skills, management and working practices that are likely to boost productivity rather than investments in technology.⁷⁸ Workers who receive training have 0.5 percent higher wages on average, rising to 2 percent when the training is employer-funded or employer-delivered.⁷⁹ These wage premiums likely reflect the additional value employees bring to their work as a result of training. This suggests that organisations that take a proactive and positive approach to workforce development as part of a growth strategy are likely to see a financial return on that investment. This is illustrated by a case study on the John Lewis Partnership on the next page.

Public policy around the skills agenda should incentivise employers to invest in training and the development of untapped skills by highlighting the potential returns to their business, as well as the potential for economic growth. Locally accountable bodies should encourage business growth strategies that focus on high-performance working and high-value product market strategies, and encourage businesses to recognise that growth and workforce development strategies go hand in hand.

This report’s recommendations focus on the public sector’s role in encouraging employers to take action on the skills agenda. Ultimately, however, employers will be the strongest influence on each other. Businesses should compete on the quality of their training and their potential for internal progression. This chapter concludes by highlighting some proven policy ideas for employers.

68. Dieckhoff (2013)

69. K. Schmuecker, *Future of the UK Labour Market* (York: Joseph Rowntree Foundation, 2014)

70. Ibid

71. European Centre for the Development of Vocational Training (Cedefop), *Skill mismatch: the role of the enterprise* (Luxembourg, 2012)

72. BIS, *Leadership and Management in the UK – The key to sustainable growth* (London: 2012)

73. Ibid

74. D. Bosworth, R. Davies, and R. Wilson, *The Extent, Causes, and Implications of Skills Deficiencies: Managerial Qualifications and Organisational Performance* (Coventry: Institute for Employment Research, 2002)

75. J. Dowdy, S. Dorgan, T. Rippin, J. Van Reenen, and N. Bloom, *Management Matters* (London: McKinsey & Company, 2005)

76. BIS (2012)

77. The RSA with a consortium of partners is running Valuing Your Talent, its first Premium since 1850, providing prize money to develop nominated ideas on how organisations can best value and invest in talent: <https://rsapremiums.crowdcity.com/>

78. D. Ashton and J. Sung, *Product Market Strategies and Skills Utilisation* (Glasgow: Skills Development Scotland, 2011) in K. Schmuecker (2014)

79. Cheung and McKay (2010)

JOHN LEWIS PARTNERSHIP: CHAMPIONING FLEXIBLE WORKFORCE DEVELOPMENT

John Lewis Partnership has become increasingly successful in moving up the value chain of a highly competitive sector by competing on service, rather than price.

The quality of their service is sustained through the development of their frontline staff. However, a significant proportion of their staff is part-time, which makes it more challenging to support and develop them in their roles. Part-time staff spend comparatively less time with managers and in training offered by the organisation.

John Lewis see the potential in many of their part-time staff and recognises that training and development should become more flexible to meet their needs. For example, in Southampton and Sheffield, many of the part-time staff are students whom John Lewis views as 'leaders of the future', and whom they hope to retain and see evolve with the business. To better integrate part-time staff into training, John Lewis is rolling out self-led e-learning modules that are more convenient for workers balancing other responsibilities, such as study or childcare.

They are also working to cut what is perceived as 'red tape' to internal progression, especially when it comes

to management. They are reforming their 'Aspire' programme, designed to recruit managers internally, so that the pathways to progression are clearer and less bureaucratic. There is also more emphasis on identifying potential internally. Managers use a 9-box talent model to help them spot when a worker should be supported in progressing to the next level within the business. However, John Lewis is also adamant that a collaborative, rather than hierarchical, approach to progression becomes the norm, as befits their wider model of workplace democracy. As one of our interviewees explained:

"People own their own development, ask for training and can feel comfortable bringing this up."

– Personnel Business Partner, John Lewis, Southampton

They are beginning to monitor the impact of training, but expect that assessments will confirm higher rates of retention and staff well-being. As a business, they understand that having knowledgeable staff strengthens customer loyalty and produces returns in terms of consistent profitability and growth.

PATHWAYS TO STRONG EMPLOYER ENGAGEMENT AND INVESTMENT

1. **Changing the culture, and particularly the management culture**, of an organisation can be the key to unlocking internal pathways for progression. A project from the **Northern Ireland 'Skills Hub'** seeks to do this by arranging secondments for highly skilled staff members to other organisations. The project encourages employers to share skills and offer work experience opportunities. This has helped to address capacity issues and improve staff development and retention in participating businesses.
2. As is increasingly common in the United States, further education (FE) **colleges should design and deliver training to paramedics, community support police officers, care workers and many others**, drawing on industry expertise, potentially at a lower cost to the public purse. **Sheffield College** has worked with both the NHS and Royal Veterinary Society to design training for a range of roles, focused on intermediate-skilled roles where there is potential for employees to develop in the long term.
3. **Employers should be held to an industry standard for workforce development, and accredited for creating internal pathways for progression**, in a scheme similar to **Investors in People**. Local authorities,

employers and other organisations could further support those signed up to the scheme by being strategic about their supply chains and procuring from accredited businesses, as Mersey Travel have done. **Indeed, companies that successfully create advancement opportunities for their workforce should be publically recognised for these achievements and awarded preferential status in public and private procurement.**

4. Finally, **business support networks need to use data intelligently to target their outreach**. The **Union Square Partnership**, a Business Improvement District (BID) in downtown New York, supports a network of retailers, creative firms and SMEs located in a dense, bustling urban neighbourhood. The BID receives monthly data from the postal service which includes details of new business registrations. On this basis, it reaches out to start-ups and new business arrivals in the area and provides welcome packages, to which existing businesses donate materials including flyers, product samples and discount vouchers. The packages are delivered face-to-face by the BID, providing the opportunity to engage employers in their support needs.

5. PUBLIC INVESTMENT IN SKILLS

This chapter outlines how public investment in skills can better align with metro-led growth strategies. The Commission's conclusions on the role of LEPs, Combined Authorities or local and central government relations will be explored in a future report,⁸⁰ while this section focuses solely on understanding the current way in which skills strategies are coordinated locally.

Combined Authorities, or equivalent partnerships between neighbouring areas, are best able to coordinate existing resources at scale and take responsibility for the design and implementation of skills strategies. A key concern is that there are clear lines of responsibility between LEPs and authorities. Building on their existing engagement with businesses, LEPs should develop capacity to provide a formal advisory role which includes a comprehensive view of skills, reducing mismatch and driving employers to high performance through workforce development (see Chapter 4). We conclude by highlighting the potential for local skills strategies to achieve greater impact, by leveraging change in the way adult education and welfare interventions are delivered.

The skills system is overly centralised and unresponsive to local needs.

Chapter 1 outlined how the UK government coordinates skills investments. Relevant functions include assessing demand, commissioning and funding provision, data monitoring and quality assured. These are fulfilled by a range of a range of departments and agencies, split between central and local level.

The ability of local government and other public authorities to influence the system is limited because resources and decision-making are at once centralised and fragmented – largely controlled from Whitehall but not coordinated between different national agencies and government departments.

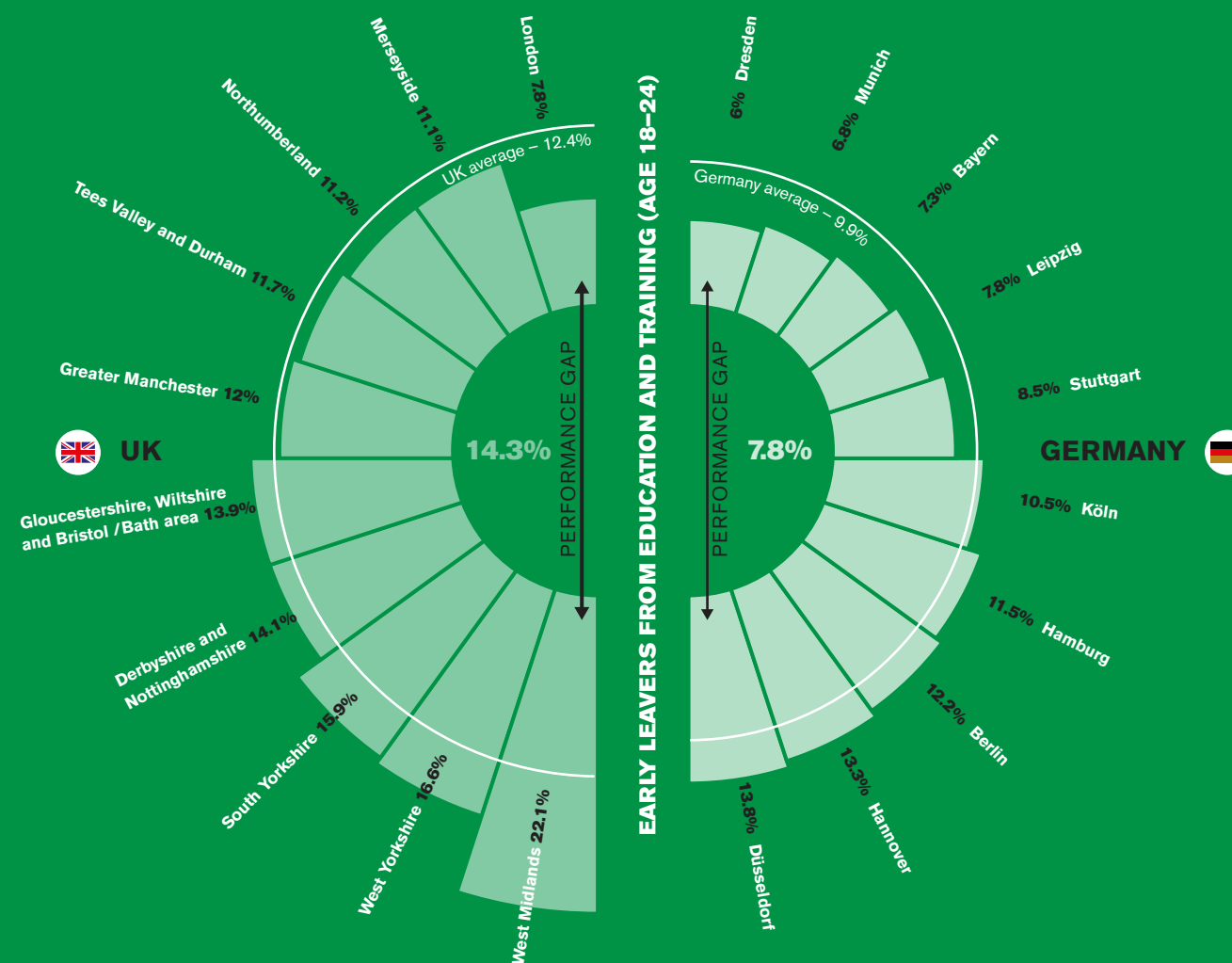
The skills system has been subject to frequent change, but many of its challenges are long-standing. Based on international comparisons, UK public investment in skills is low, producing mixed and mediocre results. The UK government's spending on tertiary education is lower than that of France or Germany, and is half that of Scandinavian countries.⁸¹ In a recent survey of multinationals' impressions of the UK workforce, publicly provided education and training opportunities were perceived as key weaknesses.⁸²

Some defend centralised control of the skills system on the grounds it drives up quality across all parts of the UK. As much as localised control could create the freedom to succeed, the risk of failure points to the need for standardised policies and practices. However, international comparison suggests that, despite the logic of this centralised skills system, variation in UK labour market performance between metros is relatively high (see Figure 24).

Local authorities currently lack influence over how central government resources are deployed in their area. At the same time, they are unable to generate revenue locally to fund skills provision or other supportive interventions to address local

IN GERMANY, FURTHER EDUCATION AND HIGHER EDUCATION ARE FUNDED BY INDIVIDUAL STATES. YET THE GAP BETWEEN THE BEST AND WORST PERFORMING CITIES IN YOUNG ADULTS (18–24) DROPPING OUT OF EDUCATION AND TRAINING IS LOWER THAN IN THE UK

Figure 24



80. The City Growth Commission's final report is released in October 2014

81. OECD (2013), *Education at a Glance 2013: OECD Indicators*, OECD Publishing

82. BIS (2014). 'Multinational employers' perceptions of the UK workforce'

Source: Eurostat data for NUTS2 areas, 2013

labour market issues. The Heseltine Review recommended that all adult skills funding should be devolved, but this has not yet been implemented to any significant degree.

The coalition government has taken steps to respond to concerns of over-centralisation, including the localisation of investment such as European Social Fund (ESF) funding for LEPs and Employer Ownership pilots.

Broader controls over skills funding was among cities' top requests under the City Deals process, and a very few places were granted limited provisos for devolving further education funding. The Growth Deals process offers another opportunity for cities to bid for additional control over skills, but several authorities have noted the asymmetry inherent in both types of Deals. In their experience, the process is tightly controlled by central government, with limited transparency and a preoccupation on the part of Whitehall to dilute the risk of city-based devolution, rather than responding to cities' ambition and capacity to take on greater responsibility.

Government has not yet developed a coherent plan for delivering local skills strategies.

Within months of entering office the government abolished Regional Development Agencies and created LEPs to determine investment priorities at a scale designed to be closer to functional economic geography. This system was established in the hope it would eliminate a tier of bureaucracy while improving collaboration between business and local authorities. As LEPs have matured, their remit has grown, but often without the resources and capacity to match. They are increasingly taking a role in setting strategy and policy, and channelling resources including ESF money.

LEPs submitted Strategic Economic Plans to central government in Spring 2014, many of which feature skills development as critical for local economic growth. However in several cases, the focus of plans has been on high-level skills in the workforce. Efforts to improve in-work progression and address skills mismatch across the rest of the labour market have often been absent.

Piloting skills devolution through City Deals

Sheffield is a city making progress on skills and employment in their metro area because of greater control over funding for this remit. As part of the City Deal scheme they've set up a Sheffield City Region Skills and Employment Partnership to leverage more investment in skills. The investment model entails £23.8m from central government in funding, but also includes £37.5m from local businesses and at least £6.5m from local authorities. At the core of this Deal is a focus on job creation and skills development; 4,000 new apprenticeships are being created across the region and an additional 2,000 adults will be

trained in new skills to help the local economy grow.

Sheffield City Council has brought together youth workers with colleagues from Health and South Yorkshire Police to create multi-agency Community Youth Teams that reach out to school-age students at risk of disengagement and those 16-24 year olds who are not in education, employment or training. The aim is for the Council to fulfil its responsibilities under the Raising the Participation Age legislation and to reduce levels of economic inactivity using a locally tailored approach to better connect young people to further learning and jobs, including the apprenticeships it is generating through its City Deal.

Sustainable, inclusive economic growth demands a local skills strategy that harnesses the growth potential of the full range of local sectors including, for example, "non-tradable" services and retail.⁸³ Furthermore, 87 percent of vacancies in the next decade will be generated by replacement of the existing workforce.⁸⁴ This means that the skills system should focus on ensuring that the future labour force develops and matches their skills to the evolving needs of these roles.

In addition to planning for high-skilled work in growth industries, skills strategies must leverage a broader set of policies to strengthen in-work progression and reduce skills mismatch. In-work progression is important across the board and is associated with alleviating poverty at the low end of the labour market and reducing pressure on public finances.

Part of government's role in promoting economic growth is ensuring the efficiency of labour markets, developing and matching skills in the workforce to the demands from across the range of employers. To create incentives which link the reduction of fiscal deficit to skills investments at the metro scale, accountability for investment needs to sit with elected public authorities. There are promising indications, including from Leeds and Sheffield, of authorities aligning skills investment with metro efforts to reform public services, engage education and training providers, improve transport and tackle worklessness. The function played by New Economy in advising the Greater Manchester Combined Authority is a good example of the value of using evidence strategically to drive decision-making, working across a full range of public policy issues, including skills, at the metro scale.

LEPs should have a formal advisory role in supporting metro growth strategies.

Building on the recommendation to endow local authorities with new powers and resources to invest in skills (see

Recommendations), LEPs are well-placed to leverage their existing engagement with businesses to take on a formal advisory role. In particular, because they are generally constituted at the scale of functional economic geography, they can work concurrently on the demand side (ie drive higher employer performance to move up the value chain) and the supply side of the labour market (advising on how to invest to develop skills in demand). LEPs should assess the effectiveness of skills investments and interventions and experiment with a diverse range of advisory models, from the formal and monetised (for example, following the lead of the health sector's Clinical Commissioning Groups and Commissioning Support Units) to the informal and experience-generated. Examples of the potential to better support skills-system improvements through stronger data sharing are highlighted on the next page.

Smarter public investment in skills locally requires wider changes in national education and welfare systems.

Effective public investment in skills will benefit from coordination at the scale of the local labour market and across the wider remit of social and economic policy, including education, transport, public health and tackling disadvantage.

Public investments to develop workforce skills will need to be locally responsive to changing work patterns and conditions of employment which increasingly characterise the 21st century economy in UK metros. Those working to a zero-hours contract face labour market uncertainties which prevent engagement with traditional forms of educational provision and welfare assistance. Institutions such as FE colleges and national programmes such as welfare-to-work have important impacts locally; but operating models retain outdated concepts of how worker progression is supported by skills development.

83. Those sectors which rely on a domestic local workforce, such as personal services. See E. Moretti 'Local Labour Markets' in *Handbook of Labour Economics* (Elsevier 2013)

84. R. Wilson, R. Beaven, M. May-Gillings, G. Hay and J. Stevens, *Working futures 2012-2022* (London: UKCES, 2014)

STRENGTHENING INFORMATION FLOWS TO INFORM STRATEGY AND DELIVERY

Gathering and using labour market information can support better local skills as well as growth strategies and delivery. At a national level, an under-employment index should become a regular headline economic indicator,⁸⁵ drawing on existing data such as the Labour Force Survey alongside new localised longitudinal survey data on in-work progression rates.

Government should also push for greater coordination of local and national data on employment outcomes. Data from schools, universities and JobCentre Plus on leavers' work destinations should be cross-referenced with data records from other sources including HM Revenue and Customs and the Department for Work and Pensions. This should be anonymised and made publicly available, in open format, for analysis. Similarly, data on learner progression, employment destinations, and learner and employer evaluation (currently syndicated by FE Choices) should be made available as anonymised open data, and should be analysed and disseminated by LEPs as part of a formal advisory role.

Engagement with employers and employees on issues of skills mismatch and in-work progression will be effective if well-targeted at key points in business growth and career trajectory. Better use of data would allow for government investment to be targeted to those at key points in their career trajectory. For example, evidence shows redundancy increases the probability of subsequent over-skilled roles, resulting in long-lasting loss in earnings.⁸⁶ This would be facilitated through a step change in data sharing between government agencies (eg Companies House, Land Registry) and local bodies, and be informed by behavioural insights that take advantage of "moments of change" in employment. In promoting new and existing interventions in skills development, information, advice and guidance (IAG) is crucial in addressing skills mismatches and supporting growth – not just as part of welfare provision or for young people. There is a vast body of evidence on what quality IAG provision should be like, and LEPs could take on a role providing quality assurance or inspection for IAG.

LOCAL AUTHORITIES CURRENTLY LACK INFLUENCE OVER HOW CENTRAL GOVERNMENT RESOURCES ARE DEPLOYED IN THEIR AREA. AT THE SAME TIME, THEY ARE UNABLE TO GENERATE REVENUE LOCALLY TO FUND SKILLS PROVISION OR OTHER SUPPORTIVE INTERVENTIONS TO ADDRESS LOCAL LABOUR MARKET ISSUES.

Further Education

Across several metro areas, such as Greater Manchester, coordination efforts are already being made to realise economies in further education provision. In recent years there has been significant upheaval and insecurity for providers such as FE colleges. The pressures to improve quality and cost-effectiveness are prompting a reconsideration of how provision is distributed across metros. However, across the UK, learners face remaining barriers to balancing work and study. To respond to labour market demand, people need to be mobile, without paying a skills-development penalty. According to the Greater Manchester Colleges Group's submission to the Commission, "education and training opportunities should recognise the importance of learner choice, in terms of the curriculum offered, its location, and modes of delivery." Several suggestions below could be prioritised by metro authorities in addressing these challenges:

- Part-time education could be made more flexible through efforts to make courses modular, with credits transferable between institutions nationwide, and between colleges and universities.
- In particular, provision should fit around part-time work, for example by allowing students to split course participation between several facilities across a city-region, with greater provision at evenings and weekends.
- Funding for all full-time Higher Education (HE) and Further Education (FE) courses could also be made more flexible to allow, by default, for a "year in industry" as part of study.
- Local commissioning bodies seeking to foster in-work progression should assess the feasibility of supporting massive open online courses (MOOCs) which offer development opportunities at very low marginal costs.

Welfare-to-work

As work at the lower end of the labour market becomes more casualised, provision of in-work benefits is adapting under Universal Credit. Although Universal Credit

has the potential to ensure individuals and households are better off financially as a result of in-work progression, there is concern that little has been done to clarify the implications of Universal Credit among employers. Local authorities should have discretion to design incentives specifically for in-work claimants to invest in their own career progression and take steps to obtain higher-skilled, higher-paid work.

Another significant development in the national welfare system has been the Work Programme. Introduced in 2011 as a payment-by-results scheme, it seeks to get jobseekers job-ready and into work, but does not include incentives for providers to ensure in-work progression over the long term. We heard evidence from several cities that employment programmes commissioned and delivered locally are generating better results, because they are "closer to our communities and employers in understanding what they need". Given the poor track record of the Work Programme in meeting its targets thus far, DWP should assess the potential for local authorities to commission the Work Programme at the metro scale.

Conclusion

There are clear opportunities for national welfare programmes and the adult education system to support local economic growth objectives by being more flexible, supporting in-work progression at a time when work is becoming more flexible. As others have argued, skills development must be considered as part of local economic development strategies,⁸⁷ alongside local employment policy and national programmes to address worklessness.⁸⁸ The following chapter outlines the policy coordination that is needed to create an effective, locally responsive skills strategy. The shift in power necessary to achieve better alignment across public policy at the metro scale will be discussed further in the Commission's final report. Coordinating at scale and acting with clear lines of responsibility between emerging and existing institutions remain the most important challenges with regards to skills.

85. As argued by D. Bell, D. Blanchflower 'Underemployment in the UK'. National Institute Economic Review, no. 224, May 2013

86. Wiederhold et al. 'The Impact of Skill Mismatch on Earnings Losses after Job Displacement' (2013)

87. K. Krasnowski and L. Vaid 'Right Skills, Right Jobs' (2012)

88. For example, see Ed Miliband's proposal on Youth Allowance.

6. WIDER CHALLENGES

TO REDUCING SKILLS MISMATCH

The previous chapter looked at government policies aimed at improving training provision and minimising skills mismatches in the UK labour market. But skills interventions need to be designed with an eye to other issues that make it challenging for people to progress and participate in work. For this reason, addressing skills mismatches means tackling policy areas beyond the skills agenda itself.

In this chapter, we provide an overview of barriers to progression for individuals and households in low-skilled, low-paid work. The focus is on those whose skills are under-utilised and could meet their potential with support in other areas of their lives; and on those who experience multiple disadvantage and would benefit from a more holistic approach to helping them progress in the labour market.

The location of jobs, and the availability of transport and housing, is a key barrier to entry for those in low-skilled and low-paid work.

Government's design of policy interventions around skills is hampered by a lack of understanding of the factors that influence the labour market and workers' choices of where to locate. Household economics, support networks and welfare system incentives all have a bearing on whether workers take on a new role or additional responsibilities at work, for example. Differences in the economic performance of different localities are largely attributable

to their distinctive labour market dynamics; as we have seen, the most skilled workers are more likely to locate in strong labour markets.

Geography also matters for those with low skills. Those with lower skills have fewer opportunities and face more constraints in the labour market – in terms of skills as well as and geographically – than the highly skilled.⁸⁹ There are particular dynamics at play with households close to, or under, the poverty threshold. For these households, relative to other socioeconomic groups, the uptake of employment opportunities is more likely to be affected by the price and availability of transport and housing.

This affects employers in some metros more than others. The Sheffield City Region identified 440 vacancies that were hard to fill because they were in a remote location or poorly served by public transport. This represents 10 percent of all hard-to-fill vacancies, a higher proportion than the national average.

Many local politicians have an incentive to create economic opportunities, such as jobs and training, in their constituencies. Yet this may be unhelpful in the medium term. Providing training opportunities and jobs close to where socially disadvantaged people live does not encourage residents to raise their aspirations or travel further afield to seek out job opportunities. In practice, trainees tend to choose providers that are close to home, and are often unwilling to take placements in unfamiliar

areas. Policies that enhance the mobility of disadvantaged people in the labour market, so that they become more experienced and confident in using available public transport and venturing into new areas, are under-developed and under-performing.⁹⁰

Lack of English for Speakers of Other Languages (ESOL) provision is another key impediment.

Chapter 3 of this report sets out the high degree of skills under-utilisation in the UK's migrant workforce. In order for migrants to achieve their full potential, their English-language proficiency must be improved. Research shows that the ability to speak English is strongly related to migrants' performance in the labour market.⁹¹ However, the Migration Observatory has pointed out that in contrast to some other European countries, there is no targeted introductory language and orientation programme for new arrivals to the UK.⁹²

Since 2011, newcomers have found it increasingly difficult to access affordable ESOL provision because of cuts to funding made by the coalition government. With the introduction of the single Adult Skills Budget separate allocations for ESOL were cut, so that delivery was only maintained if providers allocated discretionary funding to it. As a result, only active claimants of Jobseekers Allowance and Employment Support Allowance receive full funding for ESOL to help them obtain work. Funding has stopped for those who are in work, including funding for provision delivered in workplaces. Overall, funding rates were reduced by 4.3 percent. The National Institute of Adult Continuing Education (NIACE) anticipated that cuts to provision would most affect women, refugees and migrants on very low wages.⁹³

Childcare costs are often prohibitive. Research undertaken by the Resolution

Foundation determined that one in five working mothers would prefer to work, on average, 10 more hours per week. Of those who do not work, nearly two out of five mothers would like to be working an average 23 hours per week.⁹⁴ However, childcare costs are prohibitively high, particularly for low-earners. Part-time working therefore enables women to circumvent some of the costs of childcare. It also enables some women to remain in work while shouldering more familial responsibilities.

However, while the flexibility offered by part-time work is welcome, it also poses some problems. New mothers who take on low-paid, part-time jobs tend to sacrifice pay and career standing in doing so. In a study conducted by Sheffield Hallam University, it was found that some women had 'demoted' themselves to low-grade part-time jobs because of the intensity of work in senior-level, full-time jobs, as well as the absence of effective work-life balance policies and practices within workplaces.

Furthermore, once in low-grade, part-time employment, women who wanted to progress often found there was a lack of opportunity, particularly if they hoped to continue on in part-time employment. Managers block progression, sometimes inadvertently. For example, many were found to be unaware of the skills, talents and aspirations of the women working for them in these low-paid, part-time jobs. At other times, there is explicit resistance, for instance, to creating senior-level part-time positions or adopting models which allow job sharing.

Over time, women in this type of work tend to lose confidence in their abilities and skills, and become 'stuck' or 'trapped' at the lower level. For those who hope to re-establish their former position in the labour market through education or training, there is a lack of financial and public policy support to do so. In part, a key area of

89. A. Green and D. Owen, *The geography of poor skills and access to work* (York: Joseph Rowntree Foundation, 2006)

90. A. Green, I. Shuttleworth and S. Lavery, 'Young people, job search and local labour markets: the example of Belfast'. *Urban Studies*, 42(2): 301–324 (2005)

91. C. Dustmann, F. Fabbri, I. Preston, and J. Wadsworth, *Labour Market Performance of Immigrants in the UK Labour Market* (London: Home Office, 2003)

92. S. Spencer, *Integration* (Oxford: Migration Observatory, 2011)

93. S. Hubble and S. Kennedy, *Changes to funding for English for Speakers of Other Languages (ESOL) courses* (London: House of Commons Library, 2011)

94. V. Alakeson and G. Cory, *Careers and Carers: Childcare and maternal labour supply* (London: Resolution Foundation, 2014)

support is around the provision of childcare, especially for those who are in low-paid work. Resolution Foundation has suggested that the balance of new public funding for childcare favours those who are better off, rather than the lowest earners on Universal Credit. As many as 900,000 working families are ineligible for additional childcare support because they do not earn enough to reach the income tax threshold.⁹⁵

Growing job insecurity makes it difficult to plan for progression.

Not all organisations can afford to develop employees or provide tasks that strengthen their skills and deepen competencies over time. In the absence of development opportunities, government is exploring how to provide security and encourage people to invest in their own progression. Minimum standards of pay, appropriate working arrangements and suitable hours

are all crucial in supporting people to pursue personal and professional development independent of their employer.

The National Minimum Wage (NMW) has been instrumental in boosting pay at the bottom of the labour market. It is set at a rate so as to minimise the risk of overall job loss in the economy. However, it is questionable whether NMW has risen enough relative to inflation to sustain living standards over time. Furthermore, poor enforcement in some sectors has meant that more than a quarter of a million people are still estimated to earn less than the legal minimum. Consequently, the government now spends more on benefits and tax credits (£3.23bn) for families in work than it does on unemployed families.⁹⁶ Many households have very little income at their disposal to spend on up-skilling and training outside of employment.

AN EXAMPLE OF AN HOLISTIC APPROACH TO ADDRESSING MULTIPLE DISADVANTAGE

There are many people whose progress in the labour market is affected by the inter-connected needs of family members. The government has noted that the issues affecting one person are likely to affect, or be caused by, other householders, and can rarely be solved in isolation. To this end, they have launched the 'Troubled Families' initiative, devolving funding to local authorities in order to provide wrap-around support to families identified as 'troubled'.

The government has identified 'troubled families' as households who:

- Are involved in crime and anti-social behaviour

- Have children not in school
- Have an adult on out-of-work benefits
- Cause high costs to the public purse

The criteria used both to determine eligibility and to evaluate whether implementation is successful is centralised rather than devolved to local authorities. However, in recognition of the fact that local authorities should have more flexibility to support other families they are concerned about, allowances have been made to use additional filters as long as the families, in part, meet the broader criteria outlined by the government.

IN 2011/2012 MORE THAN HALF OF THE 13 MILLION PEOPLE IN POVERTY IN THE UK WERE IN A WORKING FAMILY. MORE THAN 90 PERCENT OF NEW HOUSING BENEFIT CLAIMS IN THE PAST TWO YEARS HAVE BEEN MADE BY EMPLOYED PEOPLE.

⁹⁵. Ibid
⁹⁶. A. Buckle, *Low Pay: The nation's challenge* (London: 2014)

7. RECOMMENDATIONS

DEVELOPING A LOCALISED SKILLS ECOSYSTEM

The UK's economic growth will increasingly be driven by its cities, and the people who work within them. Urban density produces agglomeration effects, which encourage innovation and increased competitiveness – magnets for highly skilled talent. Cities also allow growth of low-skilled, typically service-sector jobs, supporting a diverse range of economic activity. The challenge for policymakers is to enable businesses and workers in low-value sectors to progress up the value chain, boosting productivity, profit and wage rates.

We argue that economic growth is best supported by focusing on addressing skills mismatches in the labour market at a local level. The breadth of the skills strategies must therefore extend to raising inclusion and progression of the labour force. Smarter investment in workforce development and utilisation won't be a cheap or quick endeavour, but the returns from long-term economic growth will benefit employers, employees and public finances.

While not the only factor at play, limited development of skills leads to economic underperformance and structural wage disparities. We have persistently failed to shape the labour market and skills system so that life-long learning in work, and progression in employment, is the norm. As a result, workers stuck in low-skilled, low-wage jobs are a source of untapped potential and could be better supported to progress. Access to more skilled labour can also help to motivate firms to pursue a higher-value growth strategy.

For some individuals and households there are wider challenges limiting their uptake of opportunities for up-skilling and retraining. For example, difficulties in accessing childcare and ESOL provisions have been identified as barriers for women and migrants who are disproportionately under-employed and whose skills are routinely under-utilised in the low-paid work where they are concentrated.

Addressing the twin challenges of skills mismatch and strengthening in-work progression requires wider vision from policymakers. Traditionally seen as social policy issues, housing and welfare also have important interactions with the labour market. An increasing proportion of government benefits go to those in work on low pay, subsidising incomes and costs of living. In short, the growth and skills agenda closely relates to objectives to address poverty, reduce worklessness and raise living standards.

Management and workplace practices also have a role here in ensuring the development of the workforce. Employers already invest ten times what government does in training adults, but few have adopted high-performance working practices which are shown to be key to realising potential for growth as a business. The role of employers is crucial too; Chapter 4 contains examples of strengthening employer engagement.

In recognition that the challenges to skills development are complex, differing from place to place and from person to person, it seems that the scale at which we currently

confront these problems is inappropriate. The City Growth Commission argues that the scale of the metro area or city-region should form the basis of much economic development and public service policy reform. Working across large labour markets and functioning economic geographies enables more strategically coherent decision-making for cities and their wider regions, improving efficiency and outcomes. At the same time, the metro scale is sufficiently localised to inform and direct investment where it is needed most, responding to the needs and shaping opportunities of places over time.

Metro areas are well positioned to drive forward the skills agenda, and Combined Authorities could be held to account for its delivery if they were allowed greater influence over the direction and nature of funding. This would encourage the development of a local ecosystem of skills provision, innovation and growth.

We propose four recommendations which strengthen local powers and national incentives for workforce development investment – both public and private. These are complemented by four ways of making investments smarter through targeting resources where they can be most effective. **Our aim is to ensure that all local areas are able to obtain control of government spending on skills and develop localised labour market policy. Over time, this requires that administration takes place at a scale commensurate with metro labour markets.**

Stronger local powers and national incentives

1. **Local control of Adult Skills Budgets at the metro scale** so that there is greater alignment between decision-making, resourcing, and functional labour markets. Combined Authorities⁹⁷ would administer these budgets with reference to evidence-based skills strategies and other advice prepared by the LEP to support commissioning.

Devolving power over funding would allow city-regions the freedom to:

- Commission training and vocational education provision from outside

their jurisdiction, allowing successful providers to expand (eg license their curriculum, franchise courses, or open a network of campuses).

- Vary course reimbursement rates to create incentives for provision within the local labour market.
- Commission interventions and services to complement provision to support skills development, especially among those in work; for example childcare provision, secondment schemes such as Northern Ireland's Skills Hub, graduate placement schemes such as Sheffield's RISE, or interventions to improve management capacity to develop and use skills in the workplace.
- Evaluate the impact on the skills agenda of policies related to affordability of childcare, transport and housing.

Priorities for funding would be determined through consultation with the local network of stakeholders, coordinated by the LEP. The LEP's formal advisory role would include **supporting the Combined Authority to commission effectively** and evaluate performance of providers over time. LEPs would review evidence and data from multiple local and national sources, including Ofsted, Sector Skills Councils and What Works Centres, as well as employment destination and progression data from providers, feedback from employers, UKCES and metro-scale data from ONS.

Data could be used to **trigger contract reviews for provision**. For example, providers in the lower quartile on "value added" measures could be asked to demonstrate improvement plans and deliver against these – or risk losing their contract. Similarly, evidence gathered will enable LEPs to advise Combined Authorities on which interventions are most effective, helping to spread best practice and leverage the success of innovative organisations. For example, many charities and social enterprises have shown success in raising ambition for workplace achievement through encouraging alternative mindsets, personal career planning, coaching and mentoring.

2. **Pilot Workforce Development Personal Budgets (WDPBs)** for individuals in employment, building on the potential of 24+ Advanced Learning Loans. All adults should have the ability to borrow from the government and repay WDPBs through an earnings-linked tax – extending the privileges enjoyed by university learners. Employers should be able to top up WDPBs based on contributions which are reimbursed by extended Employer Allowances (zero contribution on National Insurance) in future years (up to a total of £2,000 in foregone NI payments over a 3-year period).

This effectively means that in addition to loans, **government co-funds workforce development up to £2,000 only if and when it results in higher earnings for a worker.** Higher earnings will raise employee NI and tax contributions and reduce recourse to in-work benefits. To complement labour market flexibility created by government for employers (in hiring and firing), incentives are best placed in the hands of firms willing to make medium- and long-term investment in up-skilling, alongside incentives for learners to invest themselves.

WDPBs would be nationally administered, extending the existing partnership with the Student Loans Company. The employer contribution component of WDPBs could be used to pay for childcare related to the study pursued. If Combined Authorities with skills budget discretion could elect to supplement WDPBs themselves – for example to boost uptake among groups which face additional barriers to learning while working. Additional incentives could be created by the Combined Authority, or employers, related to the employment destination and location of workers with outstanding loans.

Pilots should be run across a range of different metro labour markets where the LEP indicates a willingness and capacity to provide support and promotion; designing related incentives and coordinating information advice and guidance through a network of local partners.

Earnings uplift calculation

In 2013, in 90 percent of travel-to-work areas, the difference between lower quartile earnings and median earnings was between £5,000 and £10,000 for full-time workers. Across England, the gap was £8,000. A three-year £2,000 NIC allowance would cover an employer for an employee making this progression in salary. A £2,000 NIC allowance for employers, connected to WDPBs, mirrors the recent introduction of the Employment Allowance, covering the first £2,000 of employer contributions across its workforce.

3. **Create redundancy retraining voucher scheme.** Nationally, 500,000 people are made redundant each year. Re-employment rates have fallen from over 40 percent in 2005–08 to under 30 percent in 2010–13. While the average redundancy payment is £12,000, redundancy and unemployment are proven risk factors for poor health and mental health, with implications for public expenditure. **Government should match the value of training vouchers – time-limited and capped – if employers and employees agree to training vouchers as a substitute for equivalent cash in the redundancy package (for packages up to the tax threshold of £30,000).** This will allow workers who are made redundant to have enough cash-in-hand from employers, but also enough to embark on meaningful retraining or up-skilling.

LEPs should advise Combined Authorities and training providers on effective administration of training vouchers, including incentives and restrictions on eligibility and redemption, based on assessed occupational demand and supply. The upper limit liability for central government would be capped at £200m annually, but the scheme has the potential to create value through additional tax revenue, prolonged economic activity over the life cycle (as many older workers made redundant enter retirement), and reduced associated

health and social care costs. Raising re-employment rates back above 40 percent would boost employment tax contributions made by post-redundancy individuals and could be worth £200m, based on 50,000 additional people participating in the workforce at median annual salary rates.

Is there precedent for this?

Wales has already set a precedent in this field through the Redundancy Action Scheme (ReAct II)⁹⁸ aim is two-fold: to help people affected by redundancy gain new skills and to encourage recruiting employers to hire a redundant worker. Under this scheme, those at notified risk or recently redundant are eligible for up to £1,500 of training costs, and a contribution to transport and childcare costs while training. Employers can receive up to £1,000 to contribute to job-related training for a new (recently redundant) recruit, and up to £3,000 towards wage costs. Impact evaluation has shown that employment rates are boosted 5 percentage points, with participants three times as likely to undertake training and low levels of deadweight (estimated at 20 percent).

4. Provide a statutory framework for metro minimum wage. Metro areas should have the autonomy to use funding devolved for employment and skills to create Living Wage Zones at a level appropriate for the city-region.

Using new powers, authorities could apply to the Low Pay Commission to review and recommend to Parliament that a Metro Minimum Wage (MMW) be introduced, covering a specific geography. Applications would need to demonstrate the assessed likely impact on overall employment, with particular reference to boundary effects, which negate MMW by displacing low paid work to neighbouring authorities. This provides a strong

incentive for MMW applications to be made by Combined Authorities, or several neighbouring authorities, at the scale of the functional local labour market.

Once granted, Combined Authorities would have the power to enforce payment of the MMW. MMW applications would need to be higher than the national minimum wage, but not exceeding the recommended national living wage.

In addition, at the discretion of Combined Authorities, a Living Wage Zone⁹⁹ could be created in cities where public sector employers pay the living wage. A proportion of the resulting savings that accrue to the Treasury would be returned to those local authorities to be further invested in efforts to spread the uptake of the living wage in the private sector.

Smarter approaches to targeted investment

5. **Fund Information, Advice and Guidance (IAG) through a one percent levy, ringfenced on all public funding for adult skills provision.** Widen the scope of IAG offered by ringfencing one percent budget allocation in all grants for adult skills funding. This would provide £40m across England; the equivalent, on average, of £1m per LEP area. This could be allocated on a simple population formula at first, before moving to the composite formula explained in Recommendation 1.

LEPs should commission IAG from agencies independent of providers to ensure impartiality. IAG commissioning should ensure a single IAG brand with broad coverage, which will likely often involve delivery by a consortium of existing providers. The Government Digital Service could provide a single open-source template for LEPs to channel IAG requests, allowing for local customisation. This means the majority of the IAG levy locally should be used for face-to-face IAG and capacity-building.

98. Welsh Government Social Research, *Interim evaluation of ReAct* (Cardiff: 2011)

99. K. Lawton and M. Pennycook, *Beyond the Bottom Line: The challenges and opportunities of a living wage* (London: IPPR and Resolution Foundation, 2013)

High quality IAG would:

- Cover adults who are claiming in-work benefits; those claiming for at least 12 months must be offered the opportunity to receive IAG on development and progression.
- Be subject to external independent auditing and quality assessment, and following the guidance on good quality provided by the Gatsby Review by Sir John Holman.
- Draw on “data exhausts” to target outreach: for example, promoting IAG to people who have applied for in-work benefits under Universal Credit, or who are seeking information on study loans.

6. Labour market integration programme for international arrivals. Metro areas with relatively high levels of immigration should support the integration of internationally trained immigrants into the labour market. The skill level of the jobs that migrants hold is one of the main determinants of their fiscal impacts in the short-run.¹⁰⁰ Highly-skilled migrants must work in jobs commensurate with their qualifications and experience, as well as pay, to make a positive contribution through higher taxes than those paid by low-skilled, low-waged earners. The evidence also demonstrates that

participation in welfare programmes tends to decrease with skill level, so highly skilled migrants matched to high-level employment are unlikely to be in receipt of means-tested welfare.¹⁰¹

However, any support on offer should be part of a conditional and reciprocal arrangement. Eligibility should be determined by proof of existing professional qualifications from abroad as a baseline. The costs of English language courses and an additional contribution for other support services accessed would be recouped from the migrant if they are successful in becoming professionally certified and/or are hired on by an employer participating in the programme (for example, as a mentor).

7. In large metros, create sector specialisms among JobCentre Plus branches.

JobCentres could participate in a pilot to develop centres of excellence within large cities. These centres of excellence would be organised in conjunction with industry and/or Sector Skills Councils. We would expect to see higher quality advice from JobCentre staff, who would develop more knowledge and stronger relationships with employers in the sector, broadening their scope to include advice to those in work.

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