

Employment, Skills and Economic Growth

Purpose of report

As one of its three priorities, the Board agreed to put forward a model which places city regions at the centre of commissioning future back to work, skills and welfare support. This Board report sets out the work plan to achieve this, and updates Members on progress made since the last meeting in April.

As part of this work, the Board commissioned the Centre for Economic and Social Inclusion (Inclusion) to develop a series of research reports. The first of these focuses on the *employment and skills challenge by place*.

Dave Simmonds, Inclusion's Chief Executive will present the early findings to the Board. Headlines from early research are also included in this summary report. The draft research report will be circulated separately by close of play on Monday.

Recommendation

Members are asked to consider the Inclusion presentation and the issues it raises for the wider context for the work over the next year.

Action

Officers to take forward members' recommendations.

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Employment, Skills and Economic Growth

Summary

1. As one of its three priorities, the Board agreed to put forward a model which places city regions at the centre of commissioning future back to work, skills and welfare support.
2. To take this work forward, the Centre for Economic and Social Inclusion (Inclusion) has been commissioned to develop a series of research reports. These aim to examine the future skills and employment challenges that will be faced by an incoming or returning Government as they re-consider the way in which skills and employment is commissioned and delivered.
3. The first of these reports focuses on the *employment and skills challenge by place*. Dave Simmonds, Inclusion's Chief Executive will present the early findings to the Board.
4. As expected, the first piece of research suggests that, without reform to the current national system, local growth forecasts will not be met. This is because industries which are expected to provide local growth will not be supplied with the skilled workforce they require. The long term unemployed are likely to be the most adversely affected. Importantly, the research suggests more diverse messages regarding "public concern" are required to influence future national policy.
5. Members are asked to consider the early report findings and how we might focus future work in light of this.

Background

6. At the first meeting in April, members agreed that the Board should put forward a model which places city regions at the centre of commissioning future back to work, skills and welfare support. A local offer would enable them to knit services together for residents and link it with regeneration and growth activity, providing a clear line of sight to local jobs for residents.
7. It is the LGA view that the current approach to commissioning and delivering this support is overly centralised, highly complex, fragmented and inefficient, and that councils have limited influence over it. This is confirmed by the findings of an LGA survey (June 2014) which sampled the views of a small group of local authorities (56). See **Appendix A** for headline findings.
8. Our aim is to influence key policy decisions including the re-let of back to work schemes in 2016 (when the current Work Programme contracts come to an end), the future direction of skills policy, and the effective integration of Local Support Services in preparation for Universal Credit roll-out.
9. To influence this, a programme of work was agreed as follows:
 - 9.1. **Setting the context:** we have commissioned the Centre for Economic and Social Inclusion (Inclusion) to develop a series of three research reports. It will analyse to what extent nationally commissioned employment, skills and welfare provision constrains councils' ability to support a growing economy with increasingly diverse sub regional economic and

social characteristics, and mobilise residents to benefit and contribute to local growth. It will set out future employment and skills challenges, and recommendations for devolved employment, skills and welfare provision.

9.1.1. The first report, with early findings presented at the Board meeting, analyses the *employment and skills challenge by place* (see below for early headline summary).

9.1.2. The second report, to be published in the Autumn, will examine the extent to which nationally commissioned employment, skills and welfare provision addresses the needs of individuals, particularly those with complex needs. It will also explore how their needs might be more effectively met by a more locally responsive and integrated service.

9.1.3. A final report will bring the findings together and offer recommendations (due start 2015).

9.2. **To analyse what works:** we are about to commission the National Institute of Economic and Social Research (NIESR) to analyse a small number of devolved / locally-led employment and skills schemes. This is designed to cover the effectiveness of each scheme, based on outcomes and the factors driving it, comparative success rates with national programmes, and projecting the outcomes if the success rates were scaled up across the country. Findings will be available by the end of November.

9.3. **A model for reform:** Building on the work above, and existing work in city regions, we will develop a devolved, place based model. This requires modelling through a deep dive on how a localised employment, skills and welfare approach could operate at the level of city regions and borough groupings and what it would deliver in terms of reducing unemployment. This is the next piece of work to be scoped out following this Board meeting.

10. To develop the above programme, we are working with a number of Chief Executives nominated by the bodies which make up the Board. These include Tom Riordan, Leeds City Council (Core Cities), Lesley Seary, London Borough of Islington (London Councils) and Kersten England, York City Council (Key Cities). Advice has included that any new LGA work should add value to the work already undertaken by city regions, and that the project to analyse what works must follow a methodology which resonates with DWP, BIS and the Treasury.

11. In addition, we are also working with a group of eleven areas – a mix of cities, city regions and counties – to develop the detail of this work. These include

11.1 Cities: Greater Manchester; Newcastle (NE combined authority); Southampton and Portsmouth; South London community budget (Lambeth, Lewisham and Southwark); West Yorkshire combined authority

11.2 Counties: Devon; Essex; Lincolnshire (and the wider LEP); Shropshire; Staffordshire; and Surrey.

THE EMPLOYMENT AND SKILLS CHALLENGE BY PLACE – INCLUSION’S FIRST RESEARCH REPORT

- 12. As set out above, the brief to Inclusion was that we needed to analyse the political and economic context in which future ministers would make decisions about employment, skills and welfare provision and how localised reform proposals could offer solutions to future challenges.
- 13. The first commissioned research explores the barriers presented by the current skills and back-to-work system, which militates against locally tailored and integrated solutions and the impact this on different local places.
- 14. The paragraphs below provide the headline issues from early findings. The final report will be delivered after the Board’s discussion and its consideration of the early findings.

Early research findings

- 15. Inclusion calculates a **significant and widening skills deficit by 2022**. This is based on a comparison of qualification levels of the population (based on population projections) and those required by employers (Working Futures). Table 1 illustrates that taken as an England average, the current population will by 2022 have a qualification level of 2.3 (GCSE or equivalent), but that to achieve growth, qualification level 3 and above is required (A level or equivalent and above). Fewer jobs will require people with low qualifications, potentially displacing 14% of the population from the labour market. Meanwhile demand for high skilled labour will increase, but there is projected to be a 16% deficit in the people qualified to these levels.

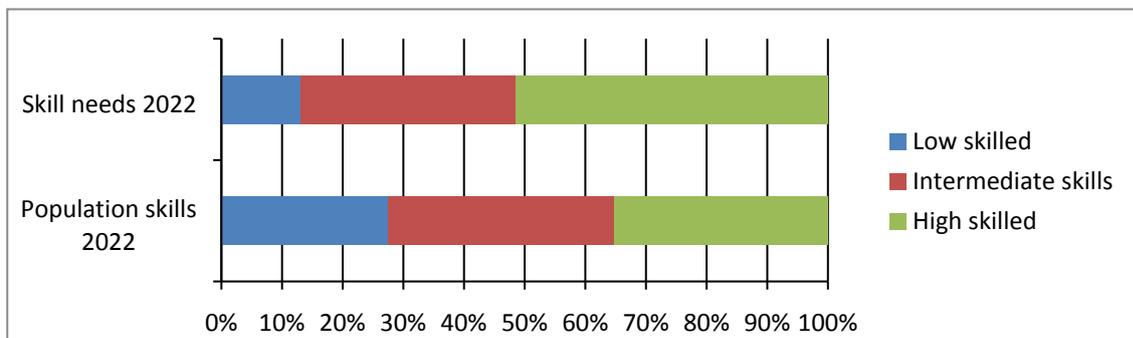


Table 1

- 16. **The skills deficit will constrain economic growth.** This is because employers that are predicted to bring local growth will not be supplied with the skills they require. As a result this means expected productivity levels will not be maximised. Table 2 displays the impact upon GVA in England by the skills gap – a difference of £375 billion. Inclusion estimates that will cause a productivity shortfall of around 16-25% across England.

GVA gap

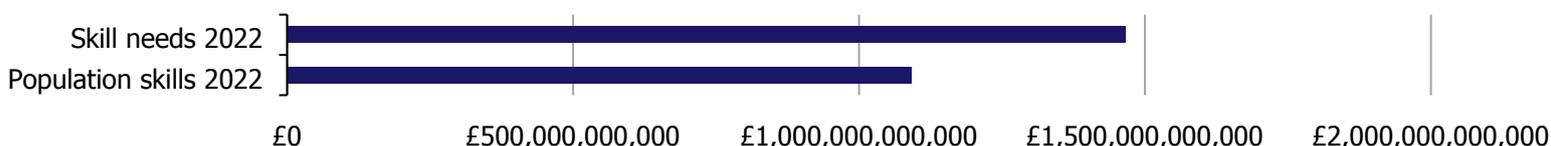


Table 2

17. **As things stand, the benefits of economic growth may not reach everyone or every community.** People most at risk of losing out are the long term unemployed of all ages, those with low qualifications, and those with disabilities and health problems. Even if they do find a job it is increasingly likely to be insecure and low paid. If unemployment remains a problem, so too does the spare capacity in the workforce (people who have a job but need or want more hours). Inclusion has calculated the labour market slack in Table 3 as an England average, suggesting we need 15% more jobs.

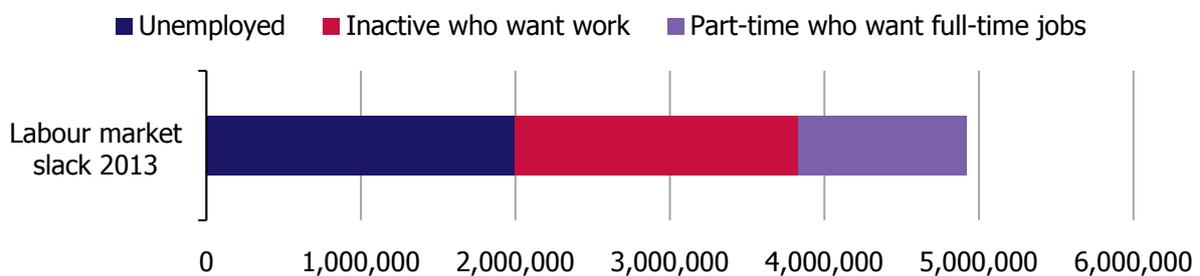


Table 3

18. The findings are also illustrated for the eleven places featured in the report. It shows each area's employment and skills needs and challenges are as unique as their solution.
19. Setting out the future challenge in this way offers a future Government in 2015 local solutions which can be implemented in 2016, enabling councils to play a key role in achieving local and national growth ambitions.
20. Despite limited devolution of skills and employment budgets through City Deals, Local Enterprise Partnerships' role in steering 2014-2020 EU funds to drive growth and jobs, and negotiations on a local Growth Deal, employment and skills provision remains nationally commissioned. This means that their ability to influence the challenges set out above – skills deficit, unemployment, underemployment, and the implications for local growth – is constrained. Councils continue to report they have limited influence over the plethora of national schemes delivered in their area. This is confirmed by a recent LGA survey (see appendix).
21. The detailed findings will to be presented by Dave Simmonds, Chief Executive of Inclusion, at the Board meeting.

ISSUES FOR MEMBERS CONSIDERATION

22. Members are asked to consider the Inclusion presentation and the issues it raises for the wider context for the work over the next year (see paragraph 9).
23. Jobs are now a significant issue of public concern, as highlighted at the May 2014 local election campaign (MORI, 2013). The issue was also core to voting patterns across the EU in the recent European Parliament elections.

24. Our early research findings indicate that the status quo on skills and employment policy as we move towards growth may only exacerbate the public concern about jobs and social disadvantage. These wider economic and social issues are likely to influence the future public debate.
25. A significant concern is the number of people who see little hope of gaining local employment. Much of the cost benefit analysis which underpin the initiatives undertaken by city regions helps to support local communities to benefit from job creation and provides an explicit solution in these broader social issues of local communities' employment prospects.
26. It was noted at the last Board meeting that there is no shortage of evidence about the shortcomings of current national arrangements and the benefit of local initiatives to deliver skills provision and employment support.
27. In order to provide added value to existing work and to ensure that the ambition of councils and their existing initiatives are enhanced, it is suggested that our model for reform is based on a deep dive which could focus on an individual's perspective and build the advantages from this base. The intention would be to shift the debate from a purely economic and managerial argument with Whitehall, to address a wider narrative about the needs to address high levels of public concern (illustrated by the modelling work of city regions).
28. Should members wish to develop the work in this way, a partnership with the Association of Colleges and LEP Networks could be explored.

Appendix A

In June 2014, the LGA sampled a small group of local authorities (56) to gauge their views on the local effectiveness of nationally commissioned employment and skills provision, and its associated supply chain. A few headline messages include:

- Local relationships between councils and commissioners/providers are critical, with 85% (46) preferring face to face discussions
- 88% (46) of councils feel they do not have the sufficient performance oversight and ability to hold providers to account locally
- 83% (40) cite a mismatch between the Skills Funding Agency commissioned provision and local employer demand.
- 67% (33) believe Work Programme providers and sub-contractors do not effectively engage with their authority to ensure provision is effectively linked to local services.
- 57% (28) think the apprenticeship system only helps the over 25s to a small extent
- 84% (41) believe employment and skills services would be more locally effective if funds were devolved to groups of councils / LEPs.