

CITY SKILLS: STRENGTHENING LONDON'S FURTHER EDUCATION OFFER

*Nicolas Bosetti
and Sara Gariban*

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Further education is crucial to London and Londoners: it provides employers with the skilled workforce they need and helps individuals into better paid and more fulfilling work. It is now more crucial than ever, as Brexit threatens labour shortages, and as automation and new technology changes the nature of work.

In the face of long term social and economic disruption from the coronavirus pandemic, Londoners need a further education system that offers them opportunities for personal and professional development, new routes into the labour market, and training for jobs where employers need more skilled workers.

But London is entering the recession with a weakened further education system. The proportion of working-age Londoners taking part in further education courses has fallen by 40 per cent in the last five years. Despite years of strong employment growth, the city only offered half as many apprenticeship starts per capita as the rest of the UK, while the number of learners and apprentices in areas of persistent skills shortages has not increased in line with employer demand: in some subjects, it has even decreased.

Policymakers looking to widen access to opportunity and prepare for economic change must pay more attention to further education. We recommend more investment, particularly in broadening access and progression routes for Londoners with low or no qualifications, and more control for further education colleges and London government over the way further education is funded and delivered.

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Summary

At a time of intense economic upheaval, further education has a vital role to play in London:

- Creating opportunities for young people: one in six Londoners aged between 20-24 is not in education, employment or training – and this share is as high as in the rest of England.¹
- Tackling low pay: people without qualifications are at a significant disadvantage in the capital. Their pay is only three per cent higher than in the rest of country, compared to 24 per cent for Londoners with level 3 qualifications.
- Responding to the 2020 coronavirus pandemic: unemployment levels have been rising sharply over just a few months, and casual workers and young people looking to enter the labour market for the first time are likely to face higher barriers to employment in times of crisis.
- Adapting to automation: London's economy is likely to be disrupted in coming years, with routine administrative and manual jobs replaced by growth in areas such as health, hospitality and sports, placing a premium on retraining and lifelong learning.

But London's further education provision struggles to meet these challenges:

1. Further education is underfunded, and participation has fallen as a result:

- Overall spending on adult education and apprenticeships and other work-based learning for adults fell by 37 per cent in real terms between 2009/10 and 2018/19.²
- Adult participation in learning is at its lowest in 20 years: 28 per cent of Londoners say they have engaged in some form of learning in the last three years, down from an average of 45 per cent in the 2000s.
- Participation specifically in further education among those of working age (16-64) has fallen from 13.6 per cent to 7.5 per cent since 2014/15.³

2. Opportunities for progression between lower and higher-level learning are relatively rare:

- London's abundant supply of graduates makes the labour market highly competitive, with many graduates occupying 'non-graduate' jobs.
- Meanwhile, most funded learners are in lower level courses, rather than intermediate or higher technical qualifications.
- Apprenticeships can offer pathways for progression, but London's apprenticeship offer has historically been poor, with half as many apprenticeship starts per 1,000 jobs as in the rest of the UK.
- Recent evidence suggests that apprenticeships are increasingly used for career development, rather than for access to employment.

3. The further education sector struggles to respond to current and future skills needs:

- The number of learners and apprentices in sectors with skill shortages has barely grown since 2014/15. And in subject areas for which provision has grown, the increase has been modest in comparison to employer needs.
- Current funding rules for further education create uncertainty for providers, and discourage innovative or strategic approaches to provision.

This neglect of further education means that the system is not well positioned to support Londoners through the coronavirus crisis, or in facing the challenges of economic restructuring in coming decades. From our review, we suggest the following principles for reform:

Principle 1:

Resource London's further education sector

The government should introduce a support package for the further education sector, to level the playing field with higher education. This should include boosting teaching grants for subjects relevant to skills shortages, higher capital funding for further education institutions, free tuition for learners studying for their first level 2 or level 3 qualification, and a lifelong learning loan allowance for higher-level courses, available for adults without a publicly-funded degree.

Principle 2:

Create pathways for progression

- The Mayor of London, with support from the Department for Education and its regulators, should map the routes available for learners' progression, evaluate the effectiveness of different courses, and research the barriers facing young people who are not in education, employment or training in accessing qualification opportunities.
- The government should evaluate whether apprenticeships are succeeding in bringing about genuinely new opportunities for learners.

Principle 3:

Take a strategic approach to London's vocational offer

- The Mayor of London should revise the rules under which the Adult Education Budget is spent, to encourage course innovation and expansion in areas of skills shortages.
- The government should devolve the further education budget in full to London government, including funding for apprenticeships and 16-18 learning.

Introduction

COVID-19 has arrived after a difficult period for London's further education sector. London has more learners and apprentices in further education than students in higher education, and it has more colleges than the UK has universities, yet the contrast between the treatment it has received compared to higher education is startling. Despite repeated government insistence on "parity of esteem", the Augar review of English post-18 education funding talked of contrasting "care and neglect" for these two sectors of adult education.⁴

In some ways this contrast is even more stark in London. The city draws in students from around the world to its universities, and young Londoners attend university in record numbers. But comparatively little attention and investment is devoted to learning outside or after university education.

This contrast raises questions about the capital's ability to foster social inclusion. Since recovering from the 2008 recession, London's global economy has roared ahead, creating clusters of high skilled and well paid jobs. Between 2009 and 2019, 'professional, scientific and technical' jobs grew by 250,000, while 'information and communication' jobs grew by 175,000, respectively increases of 40 and 50 per cent.⁵ But not all Londoners have benefited from that economic growth, or been able to access the opportunities that it offers.

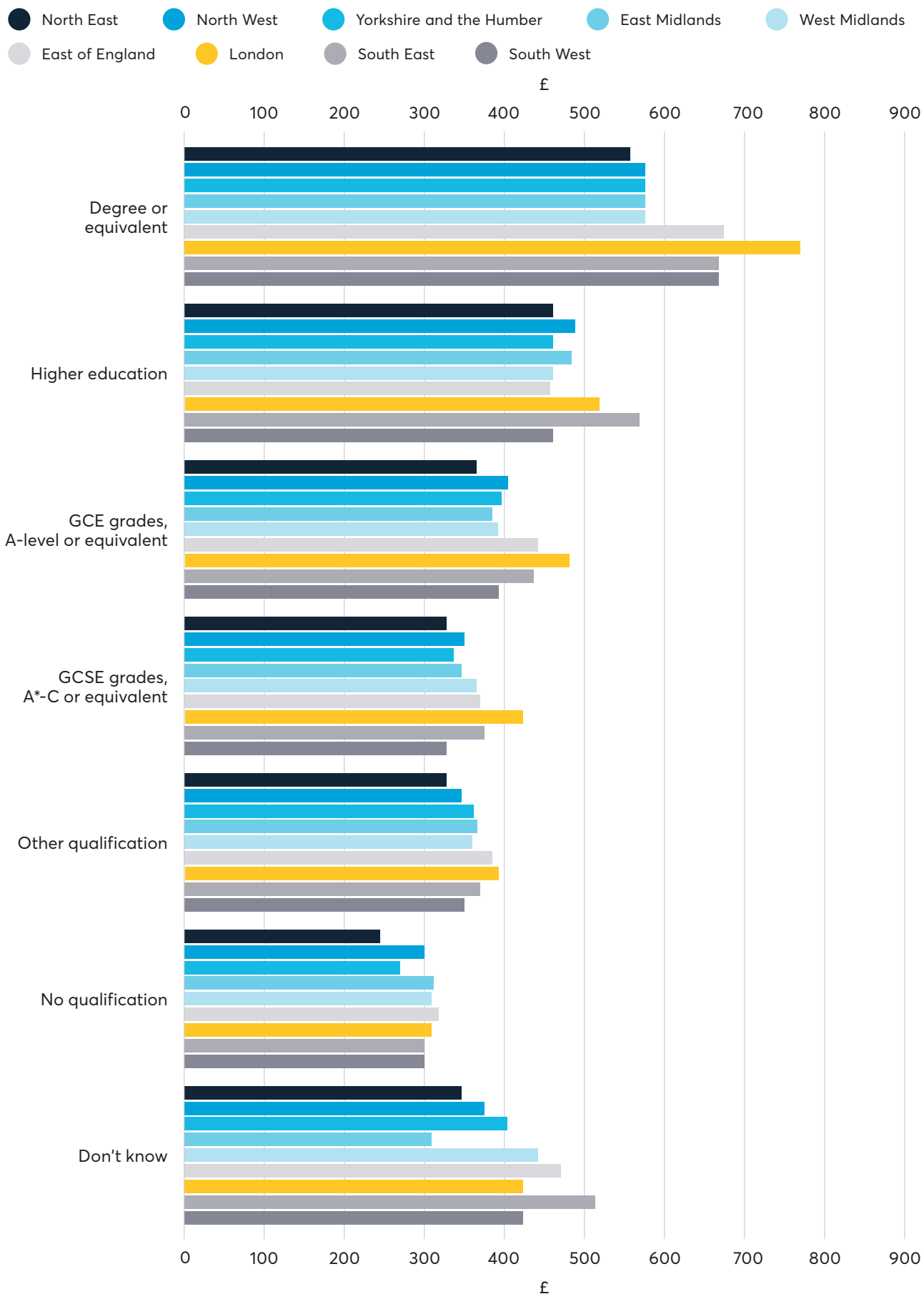
For example, although young Londoners are much more likely to attend university than their peers outside the city, a 2019 study of school leaver outcomes found that one in six Londoners aged between 20 and 24 are not in education, employment nor training – and this share is as high as in the rest of the England.⁶ Half of these young people had only level 1 or level 2 qualifications, (equivalent to GCSEs or below),⁷ leaving them poorly equipped to succeed in the labour market.

Indeed, London's labour market is particularly competitive, and unrewarding for people without qualifications. London is an expensive place to live, but wages in the capital are higher – at least if you have good qualifications. As Figure 1 shows, Londoners with level 3 qualifications or equivalent (A levels on the chart) earn on average 24 per cent more than their peers outside the capital (with a higher premium still for higher qualifications), but the wage premium is only three per cent for those with low or unknown qualifications, making the case for boosting access to intermediate qualifications, and eventually higher qualifications, even more pressing in London.

The COVID-19 pandemic brings new urgency to this agenda. We are currently living through a period of significant distress and disruption. Along with a huge human toll, there have been dramatic costs to businesses and employment, with pubs, restaurants and shops across the country reeling from physical distancing measures.

At the time of writing this report, the government's job retention scheme seems to have limited layoffs, but this may only be postponing job losses in some sectors. Over recent years, the UK's retail industry and high streets have struggled to survive in their traditional form, and this new crisis will inevitably push many to the brink. For employees in these sectors, this may create the need for retraining and upskilling to move into new employment in the post-COVID-19 world. And for young people entering the labour market during the recession, further education could offer opportunities in industries or occupations that are still expanding. However, the potential for increased demands on further education, and the need to futureproof skills for similar disruptions, are likely to be a challenge for a sector that is already stretched.

Figure 1: Median gross weekly pay (main job), 2019



Source: ONS Annual Population Survey. Regional data is based on place of residence.

This won't be the only challenge. With immigration reform approaching, there are likely to be further skills shortages in the capital where, on average, 15 per cent of the workforce is EEA born (significantly higher than in the rest of the country).⁸ Across some sectors such as tech, construction and hospitality, the effect of Brexit will be even more profound.⁹ Any reduction in EU immigration is therefore likely to have a more pronounced impact on the capital than elsewhere in the country.¹⁰ Yet, with the right policies and skills, these changes could also present new opportunities for Londoners. Any tightening of immigration policy will create intense pressure on further education to develop programmes to help fill in the skills gaps.

Ensuring that all Londoners can access high quality further education will be an essential part of tackling some of these issues and providing Londoners with the skills to thrive in the capital's competitive labour market.

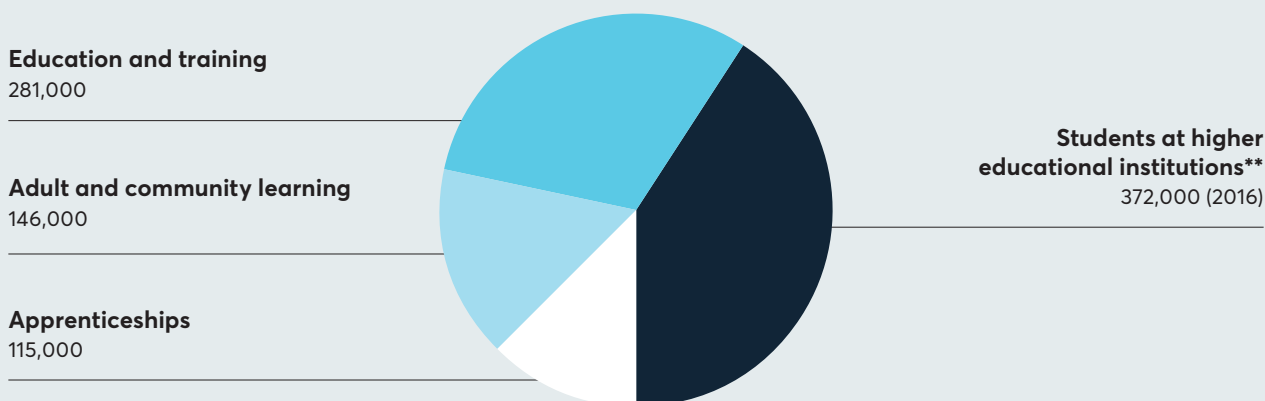
This report explores the extent to which the further education sector is meeting the needs of Londoners, enabling them to access and compete in the labour market, and providing both learners and employers with the skills that the city will need at a time of profound and far reaching change. To do this, we reviewed the growing body of research on further education, and analysed data on course and training provision, and labour market trends. These findings were then tested with sector experts at a private roundtable.

Further education in London

Further education is defined by government as “any study after secondary education that’s not part of higher education (that is, not taken as part of an undergraduate or graduate degree)”. This ranges from basic English or maths to highly selective engineering apprenticeships.

This broad mandate means that further education has a broad reach. As Figure 2 shows, London has more learners in further education than it has students in higher education. Of those in further education, 55 per cent are predominantly “classroom based”, 20 per cent are on an apprenticeship scheme, and 25 per cent are taking a short course that usually does not award a qualification (adult and community learning).

Figure 2: Number of learners in London, 2018/19*



*FE & Skills learner' at 307 London providers

**London Higher

The further education offer is diverse in nature and dispersed across the capital, which won't come as a surprise given its wide remit. There are more publicly-funded further education providers in London (307) than there are universities in the UK (165). Publicly-funded further education providers include colleges, local authorities, and independent organisations, both for profit and not for profit. On top of this, there are entirely privately funded learning providers – though no data is collected on their activity.

Table 1: Qualification Levels and Examples: England, 2019

Level examples	
8	Doctorate
7	Master's degree (MA, MSc, MEng, MBA), PGCE
6	Bachelor's degree (BA, BSc), degree apprenticeships
5	Foundation degree, HND, DipHE
4	HNC, full Accounting Technician qualification
3	A-levels, BTEC diplomas, City & Guilds trade Diplomas (e.g. plumbing), Dental Nursing Level 3 Diploma (for dental assistants), Access to HE diplomas A 'full Level 3' must be substantial: 2 A level passes or a BTEC National Diploma count as 'full'
2	GCSEs at grades A-C/9-4; Level 2 occupational qualifications A 'full Level 2' must be substantial (e.g. 5 GCSEs, an occupational qualification requiring a full year to complete)
1	GCSEs at D-G/3-1 Entry level (subdivided into three sublevels) Entry-level certificates in e.g. English for speakers

Source: Independent panel report to the Review of Post-18 Education and Funding (2019).

Chapter 1: Challenges

Because it brings together all “non-university post-16 learning”, further education has several missions:

- Teach essential skills, such as English or maths, to improve access to employment.
- Offer course and apprenticeship opportunities to break into occupations that require technical knowledge, thus establishing a “pipeline” of skills for employers.
- Provide opportunities for learning throughout our lives, for personal and professional development.

This section shows how London’s further education system is currently struggling to fulfil some of these missions. We explore three areas of particular concern – the lack of resources and corresponding fall in participation, the relative rarity of progression opportunities between lower and higher level courses, and the low responsiveness to skills shortages.

1. Resource and participation

Investment in further education has suffered a double hit. Participation in in-work training has gradually fallen, as employers in London have reduced investment in training and development. At the same time, governments have reduced public spending on further education, which has stretched delivery and triggered a plummeting in take up of courses. Because of this neglect, Londoners’ participation in learning after the mandatory school age has dipped to its lowest level in 20 years, despite the urgent need for reskilling and upskilling. This section reviews the financial challenge facing London’s further education sector, and the implications for its offer.

The retreat from further education

Public spending on further education has been dramatically reduced since the last recession, leaving London with a weakened provision as the coronavirus recession hits. This has happened in three ways. Firstly, potential learners have seen a reduction in their eligibility for state support. Since 2013, most people over the age of 24 pay for education to a level 3 qualification entirely from their own pocket; even if it is the first time they have studied at this level.¹¹ Secondly, maintenance grants have been replaced by a loan facility, the Advanced Learner Loan, with bursaries reduced to only cover costs such as books, travel or childcare.¹² And finally, capital grants for college infrastructure have dwindled.¹³

The overall impact of these changes has been a fall in learner numbers, and a corresponding fall in providers’ incomes.¹⁴ The Institute for Fiscal Studies calculated that overall spending on adult education, apprenticeships and other work-based learning for adults fell by 37 per cent in real terms between 2009/10 and 2018/19,¹⁵ and spending on further education for 16-18 year olds decreased by 22 per cent over the same period.¹⁶

The treatment of further education in fiscal policy comes in sharp contrast with that of higher education, which has seen increased levels of public spending in the last decade.¹⁷ This is the subject of the Augar Review commissioned by government in 2019, which highlighted that government funding is heavily weighted in favour of higher education:

"In 2017/18, over £8 billion was committed to support 1.2 million UK undergraduate students in English HE institutions. (...) There are 2.2 million full and part time adult further education students receiving £2.3 billion of public funding, a large under-investment relative to the state support afforded university students."

One example of how this disparity plays out is around maintenance loans: university students are eligible for these, whereas loans for further education qualifications only cover tuition.

To respond to these funding reductions, further education providers say that they have made savings in several ways; closing courses or programmes, increasing class sizes, or reducing staff pay, according to a 2020 report to the Department for Education.¹⁸ Median pay for staff at further education colleges in London fell by eight per cent between 2016/17 and 2017/18,¹⁹ and pay for teachers in further education colleges is now lower than in secondary schools.²⁰ Reflecting these substantial pay cuts in the capital, London has the highest turnover in college staff in England (21 per cent compared to the English average of 17 per cent).²¹ Recruiting and retaining highly skilled staff who can deliver high quality courses is clearly a challenge, and this has an impact on the quality of courses that colleges offer. As of February 2019, 29 per cent of London's colleges were Ofsted rated as requiring improvement or inadequate, compared to just six per cent of London's schools.²²

Employer investment in training

This retreat from government funding for further education has coincided with a decline in employers' training investment. The Continuing Vocational Training Survey (CVTS), an EU-wide survey of employers, found that training investment per employee in the UK fell by over 20 per cent between 2005 and 2015, but had risen in the rest of the EU.²³ This decline had a large impact on adult learning opportunities, especially since employers are the principal funders of adult learning.

To reverse this trend,²⁴ a greater onus has been placed on large employers to fund apprenticeships through the apprenticeship levy. Since 2017, the levy has been paid by the country's largest employers (those with a pay bill of over £3 million), who contribute 0.5 per cent of their total pay bill into the levy.²⁵ While only two per cent of employers pay the levy, this funding supported almost 50 per cent of apprenticeships in 2017/18.²⁶

Some of the implications of this policy for London are discussed later in this chapter, however, we note that the levy has not yet led to an increase in apprenticeship starts in the capital.²⁷ Indeed, there are concerns that apprenticeships may displace current funding or encourage employers to rebrand existing training as apprenticeships, rather than creating genuinely new opportunities. The Chartered Institute of Professional Development's (CIPD) 2019 survey of employers found that 49 per cent of levy-paying employers believe that the levy will have no overall impact on overall training expenditure, while nine per cent report that it will decrease overall levels of spending.²⁸

Falling participation

The fall in public spending in further education has been accompanied by a dramatic drop in course take up. Since 2004/05, participation in further education has fallen by 22 per cent for 16 to 18 year olds, and by 37 per cent for adults. After taking into account the population increase over this period, the proportion of working-age Londoners engaging with the further education system has decreased from 13.6 to 7.5 per cent.²⁹

As mentioned above, employer-led training has decreased too. The proportion of London staff (employer or self-employed) who say they have received on-the-job training in the last quarter has declined from 30 per cent in 2004 to 25 per cent in 2019.³⁰

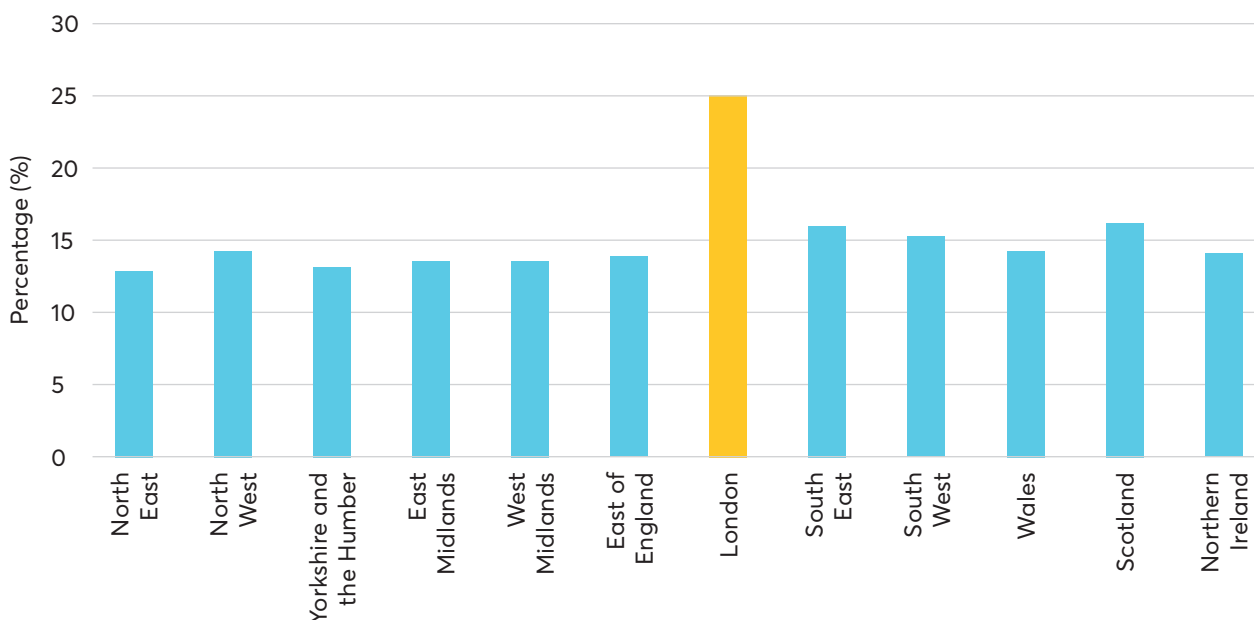
While further education participation has fallen, participation in higher education has risen and is much higher in London than in the rest of country. In 2016/17, 61 per cent of young Londoners chose to study at a higher education institution compared to 52 per cent nationally.³¹

But despite wider access to higher education, adult participation in learning has fallen overall. According to an annual survey by the Learning and Work Institute, only 28 per cent of Londoners said they had engaged in some form of learning in the last three years, down from an average of 45 per cent in the 2000s, and the lowest level since the survey began in 1996.³² This finding is deeply concerning, especially given that Londoners today have longer working lives, shorter job cycles, and that a significant minority of jobs in the capital are at high risk of automation (see a discussion of this at the end of the chapter).

2. Access and progression

London's labour market is a particularly tough one. The city has more graduates than it has graduate-level jobs. And there is evidence of graduates taking 'non-graduate' jobs, an issue much more marked in London, as the chart below shows. Overqualification³³ is not a good situation for graduates, who tend to be unhappy in roles they are overqualified for, and leave. It is also damaging for the large minority of people who face tough competition from graduates "trading down" for jobs that do not require graduate-level skills.

Figure 3: Proportion of graduates who are overqualified for their role, 2019



Source: Office for National Statistics (2019). Over education and hourly wages in the UK labour market, 2006-2017.

The city is also home to many young people failed by the education system. A 2019 study of school leaver outcomes found that one in six Londoners aged between 20 and 24 are neither in education, employment nor training – and this share is as high as in the rest of England.³⁴ Half of these young people had level 1 or level 2 qualifications, (equivalent to GCSEs or below),³⁵ leaving them poorly equipped to succeed in a competitive labour market.

Despite strong evidence that gaining additional qualifications comes with a wage boost, many Londoners fall between the cracks of the city’s polarised tertiary education system.

This section describes the challenges facing London, as a city that is a higher education success story and a magnet for graduates, but where learners can struggle to progress from basic skills to the qualifications that would deliver a wage boost and enable them to prosper in a fast changing and demanding economy.

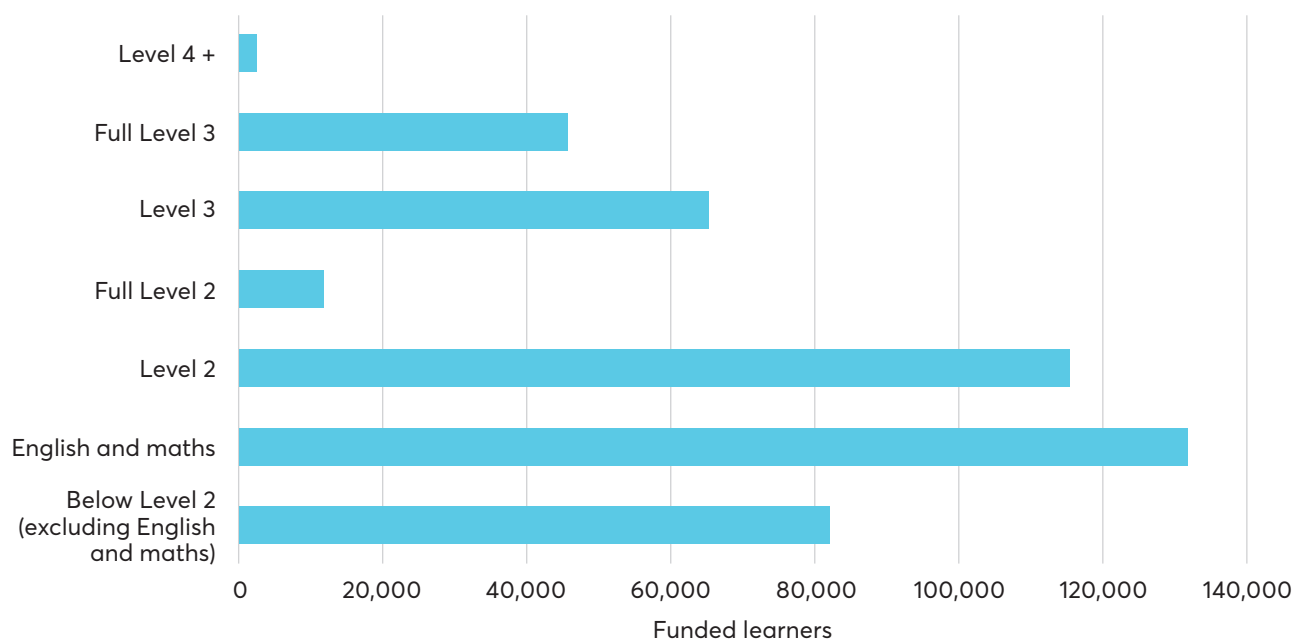
Lack of progression

Further education has a dual mandate to provide both basic and higher level skills,³⁶ but in London (and across the UK), the balance is tipped in favour of lower level qualifications. As Figure 4 shows, three quarters of funded learners take courses at level 2 and below, and only one percent at level four and above.

Lower level qualifications equip learners with essential skills and produce a range of positive health and employment outcomes. They are much needed: the last survey of adult skills found that Londoners were performing at or below the national average, despite a much higher proportion of graduates in the population.³⁷ And their supply has fallen dramatically in recent years, partly as a result of reductions in funding entitlements.

But the longstanding deficit in intermediate qualifications needs addressing. Research on learners’ labour market outcomes found that middle and higher level qualifications offer a greater boost to probability of being employed.³⁸ Londoners with level 4 qualifications will, on average, earn a third more than those with no qualifications,³⁹ and depending on the sector and the learner, more than graduates (Level 6).⁴⁰

Figure 4: Funded learners in Education and Training in 2018/19, London



Source: Department for Education. Age 16+. Excludes apprenticeships and community learning.

Despite the prevalence of lower level qualifications outlined earlier, we have heard from colleges that they face difficulty in attracting students who are not in employment, education or training (NEET).⁴¹ This is explored in a recent study of young people in this position, with a number highlighting that their poor GCSE attainment limits the courses and institutions they could get into, with some suggesting that they could only access relatively low level courses at less favoured academic establishments.⁴² Generally, undertaking these courses failed to improve employability and could lead to a cycle of taking short, low level courses one after another, or a return to NEET status.⁴³ Thus, there are both problems with access and progression for those who are (or were formerly) NEET, which may act as a deterrent from entering the further education system.

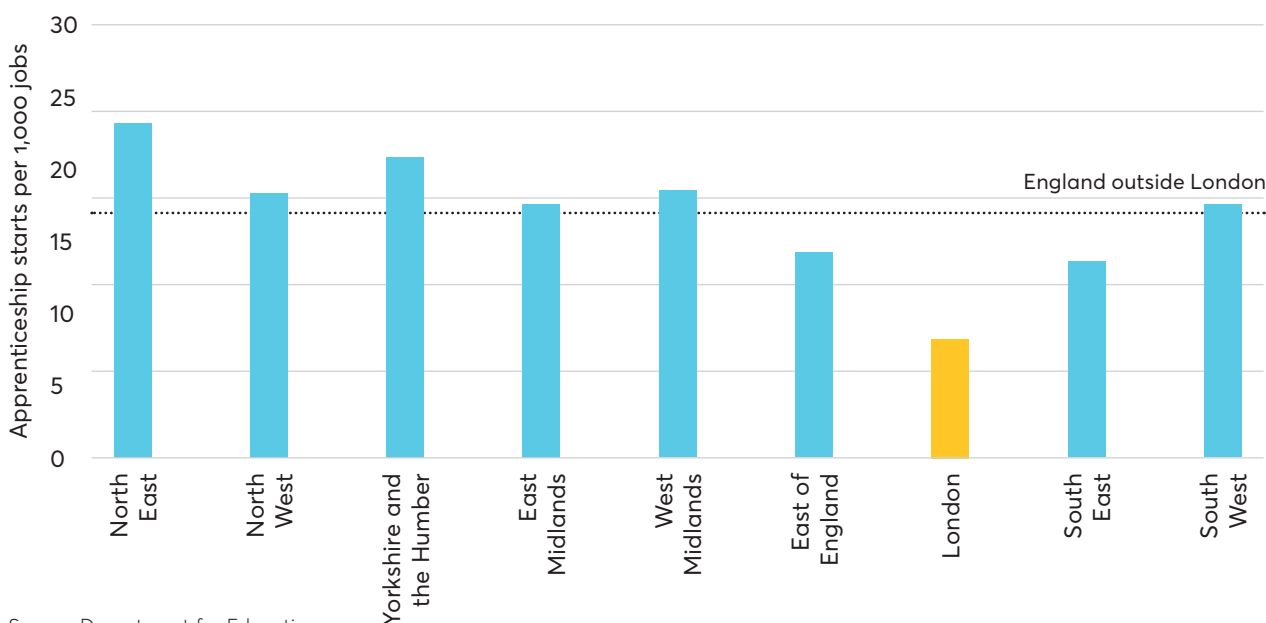
There is more work to be done to understand why young people who are NEET are not benefitting from London's further education opportunities, and what policies and programmes would be most effective to support them. Centre for London is planning further research in this area.

Cold spot for apprenticeships

Apprenticeships have a long history in London, and whilst they went through a decline in popularity alongside the shift away from routine manual occupations, for which they were most used, apprenticeships offer a good deal for young people, allowing them to train while earning a wage, with a good chance of a job offer at the end. Apprenticeships have been reformed and offer standardised qualifications in order to ensure transferability. They are also the only area of further education funding that has seen public spending increases in the last decade.⁴⁴

Despite these benefits, apprenticeship take-up in London is very low by English standards, which are already low in comparison to other OECD countries. Londoners' preference for academic education, and the capital's specialism in the knowledge economy could explain some of this difference, but only up to a point. Apprenticeship reforms have aimed to extend apprenticeships to a broad range of sectors, and London has deep skills shortages in sectors that have traditionally made use of the apprenticeship model, such as construction and hospitality. The reasons behind London's poor record on apprenticeships are still unclear, and should be the subject of an investigation with employers and young people.

Figure 5: Apprenticeship starts per 1,000 jobs in 2018/19

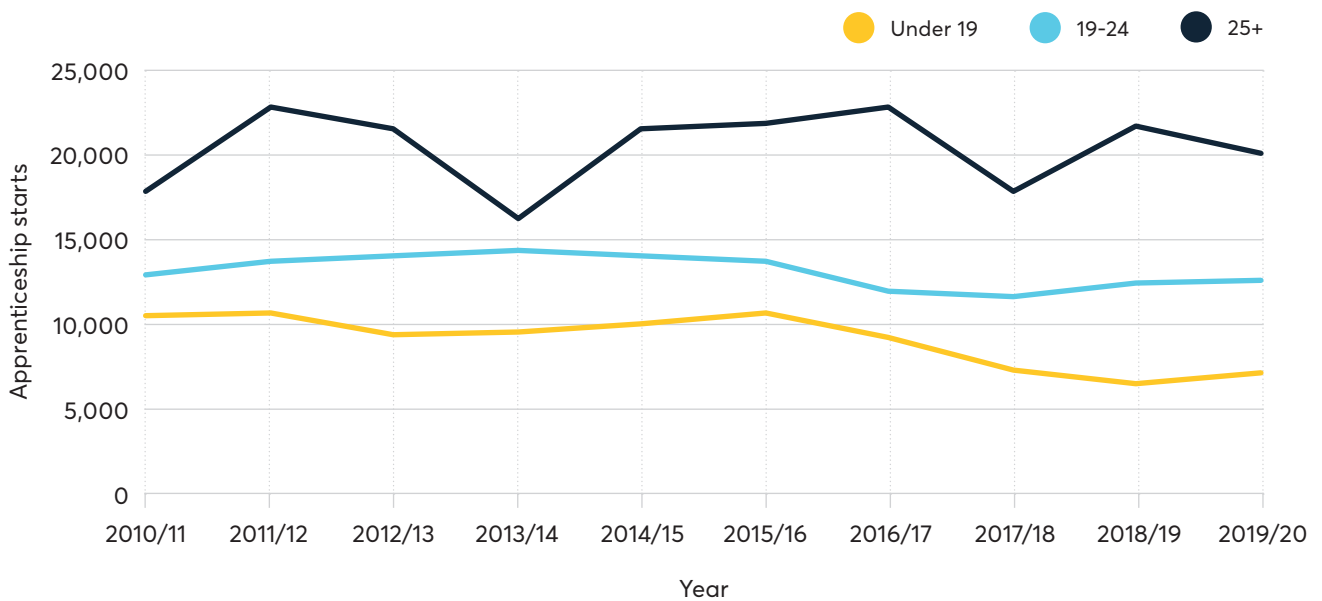


Source: Department for Education.

In response to the low number of apprenticeship starts, in 2017 government introduced the apprenticeship levy, as a payroll tax on large employers which they can claim back to fund the training element of an apprenticeship.

Early data shows a welcome increase in apprenticeship starts, including in London, but raises new concerns. The profile of apprentices in England is shifting, with the majority of apprenticeships going to existing employees (62 per cent) rather than new labour market entrants,⁴⁵ and confirming this, the recent growth in apprenticeships was driven by starts for the over-25s (see Figure 6).⁴⁶ Without downplaying the importance of workforce development, a key part of the apprenticeship remit is to create access into work for younger or less experienced individuals. This trend should be monitored, to ensure that those who were set to benefit from higher investment in apprenticeships do not miss out.

Figure 6: Apprenticeship starts by age, London



Source: Department for Education. Data for 2019/20 is a projection based on first six months of the period.

London's further education offer is hollowed out. Colleges have focused their provision on lower level qualifications - which are needed, and their provision has fallen the most. But colleges have been providing very few middle level qualifications. On top of this, London employers offer very few apprenticeship opportunities compared to the rest of the country.

3. Supply and shortages

The underfunding of further education has not just led to falling participation and a hollowing out of provision. The further education sector also faces challenges in meeting current employer demand and in adapting to ensure that learners are equipped for predicted changes to London's labour market.

London has a highly skilled and diverse workforce, but there are gaps, many of them persistent, between employer needs and Londoners' skills. The number of cases where employers have been unable to fill a vacancy due to skills shortages has more than doubled in the capital since 2011 (rising from 14,000 to 37,000),⁴⁷ with 23 per cent of vacancies down to a lack of applicants with the right skills.⁴⁸ The number may seem modest, but there

is little doubt that without immigration, which averaged 80,000 quarterly registrations for National Insurance numbers between 2008 and 2019, skills shortages in the capital would have been of a very different scale.

The technical skills shortage

London is a hub for the knowledge economy, and by extension, a magnet for graduates. But at least 40 per cent of the capital’s jobs are outside the ‘graduate-oriented’ managerial and professional occupations, which are the top three occupational groups in the table below (and even those include many technical jobs).

Table 2: Share of London employment in each occupational group, 2019 and projected

Occupational group	2019 (%)
Managers, Directors and senior officials	14
Professional occupations	27
Associate professional and tech occupations	19
Administrative and secretarial occupations	9
Skilled trades occupations	7
Caring, leisure and other service occupations	7
Sales and customer service occupations	5
Process, plant and machine operatives	4
Elementary occupations	7

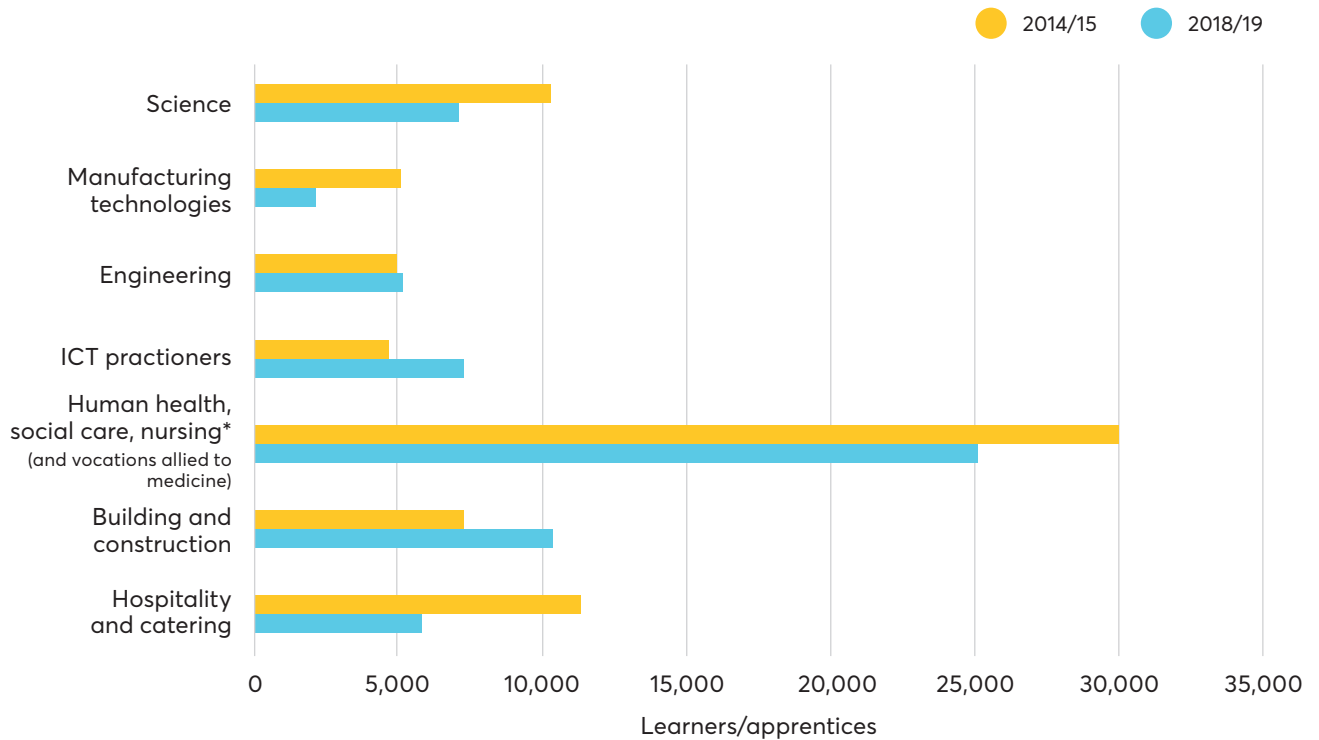
Source: Office for National Statistics (2020). Annual Population Survey.

London’s skills shortages are especially concentrated in occupations that require technical qualifications – such as IT, health and care, hospitality, engineering, and construction. Some of these occupations have been on the UK ‘shortage occupation list’ (which identifies priority occupations for immigration) for over a decade. The tech sector faces particular problems; 58 per cent of London start-ups say that the lack of highly skilled workers is their main challenge.⁴⁹ And, looking to the future, there are several anticipated areas of growth in London’s digital sector that will require a pipeline of digitally skilled talent.⁵⁰ It will be important to nurture this pipeline of talent to ensure that London remains a global leader in this space, and to help Londoners make the most of these new opportunities for high skilled employment.

But despite its best efforts, the further education sector has struggled to respond to changes in employer demand. Figure 7 shows participation in courses and apprenticeships offering skills directly relevant to sectors experiencing technical skills shortages. Given these skills have been in persistent shortage, one could expect to see provision increase over the last five years.

Yet for most of these skills shortage areas, participation in related further education subjects has fallen. Construction and IT are exceptions, probably reflecting a great deal of employer initiative and some public investment. But even in these subjects, increases in learner numbers have been modest (respectively +3,000 and +2,700) compared to employment growth in these sectors over the same period (+47,000 and +60,000).

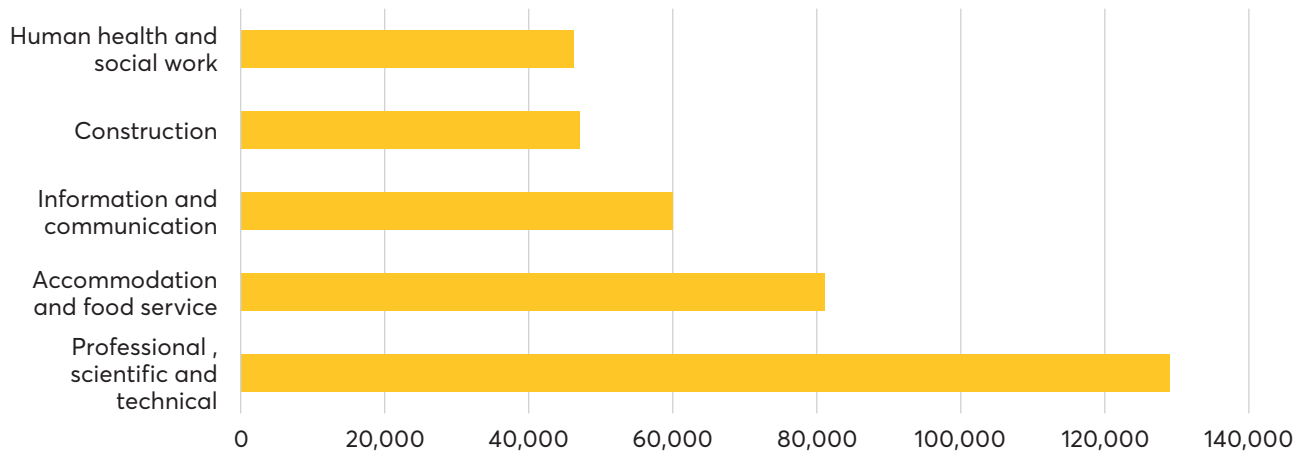
Figure 7: Participation in education and training (level 2 to 7) and apprenticeships (all levels) in selected subject areas relating to skills shortages, London



*Nursing can also be studied at graduate level, and this is the dominant route into the profession.

Source: Department for Education. Further Education library

Figure 8: Job growth, London, 2014-2019



Source: Office for National Statistics. Workforce Jobs series.

How can there be such contrast between employer need and skills supply? The Augar Review suggests that there are systemic issues:

“Funding rules are complex, inflexible and encourage certain types of provision for financial reasons, rather than those in the interests of students or the local economy. They do not allow colleges to respond to local labour market needs. The regulatory regime is also complex and burdensome.”⁵¹

For example, as the Review explains, further education institutions are funded by annual contracts, the value of which is determined by the number of learners in the previous year, thus discouraging any expansion into new areas. On the other hand, if institutions struggle to fill a course, their funding for the course is reduced in the following year. The system incentivises short-term thinking.

With rules and funding limiting both their ability to innovate and invest, London's colleges have faced an uphill struggle in tackling the capital's current skills shortages, let alone preparing for future changes.

Colleges have been encouraged to merge, in order to pool resources and coordinate course provision. The devolution of the Adult Education Budget to the Mayor of London also offers an opportunity to change the incentive structure. The Mayor has signalled this by opening further education funding rules to consultation.⁵² But there is only so much the Mayor can do, given that the regulation of 16-18 education and of apprenticeships remains with the government.

Changes ahead

Beyond plugging present skills needs, colleges and other training providers should also play an important role in supporting the city throughout the immediate challenge of a recession and the longer-term changes entailed by the growth in artificial intelligence and automation. Their ability to do so will bear significant impact on London's future prosperity and social inclusion. But London is entering this period of intense change with its stretched further education system, and it is difficult to see how it can respond without additional support.

Automation

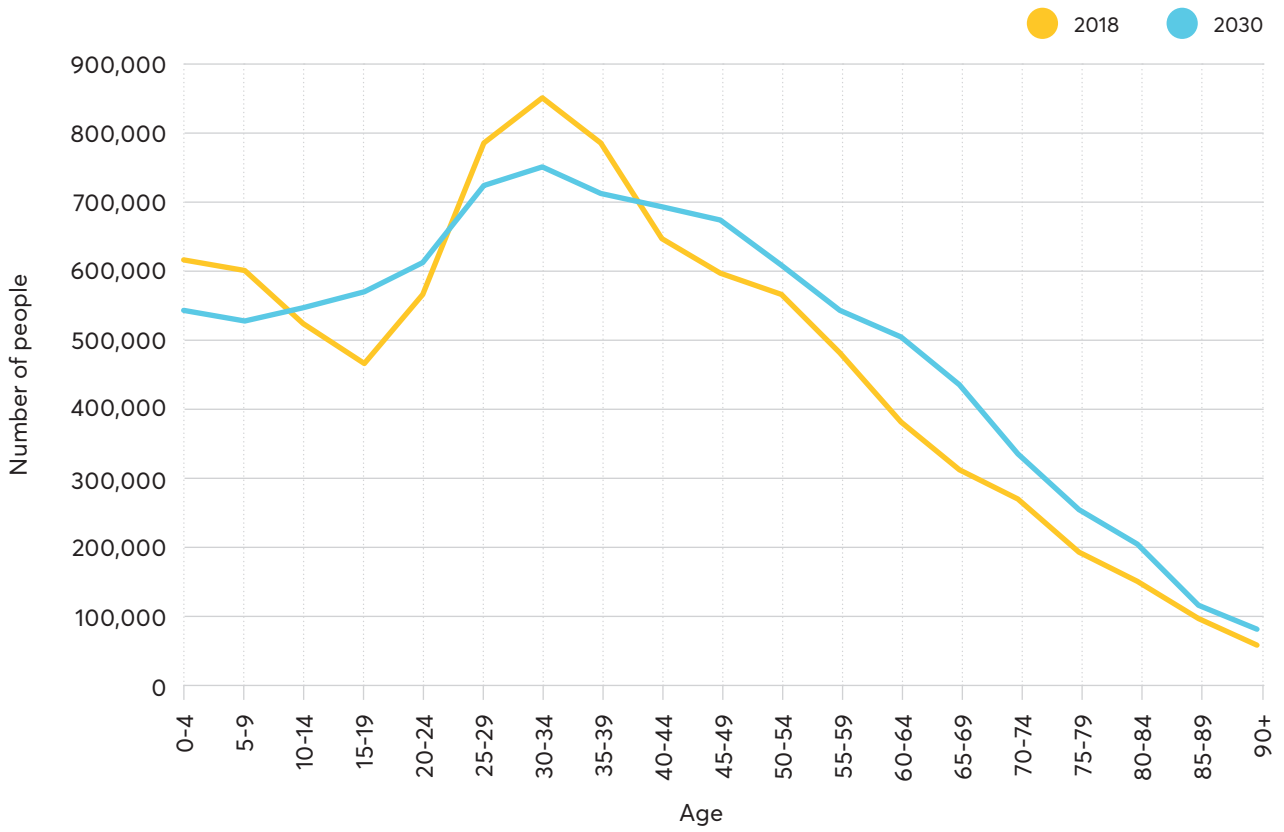
In coming years, the world of work will undergo significant changes, as artificial intelligence and machine learning enable more and more routine tasks to be automated, but potentially boost demand for other roles. And with 80 per cent of the UK's 2030 workforce past school age and already in work, further education will be key to respond to this changing demand.

Modelling suggests that around a third of jobs in the capital have high potential for automation, and another 20 per cent are classed as "medium".⁵³ Losing some low quality jobs from the labour market is not always a bad thing; but there must be opportunities for workers in these jobs to upskill in order to transition into new, and perhaps more fulfilling, work. The scale of change will require London's education system to ensure workers have the skills they need to secure good employment, and to adapt to changing requirements as the economy is transformed.⁵⁴

Ageing

The next decade will also add demographic pressure to London's education system. As Figure 9 shows, the number of Londoners age 15-19 and 40 and above is projected to increase, two age groups more likely to engage with further education to prepare to enter the labour market or for a career change. Alongside this growth, the statutory retirement age is likely to rise further in the future, meaning that there are likely to be more older Londoners in the workforce. This is likely to increase demand for further education, as older workers seek to meet changing skills needs and employment demands.

Figure 9: London population projection, (2018-based)



Source: Office for National Statistics. 2018-based subnational population projections.

Chapter 2: Lessons for the future

We have focused on three key challenges facing further education in London: firstly, low funding and investment; secondly, whether further education provision enables access and progression; and thirdly, whether the sector is able to address current and future skills gaps, and changing labour market needs.

We found that, although further education still plays an essential role in London, its relative decline is a weakness at a time of significant economic turmoil. Participation in adult learning is lower than it has been in 20 years, as both the government and employers have reduced their investment. There are fewer pathways for progression within the vocational education system, and the system is not geared to respond to present or future skills shortages.

We propose three principles for reform.

Principle 1:

Resource London's further education sector

Public sector funding has fallen sharply in recent years, putting a strain on staffing, course quality and the sector's ability to respond to the demands of a changing labour market. At the same time, the onus is being placed on large employers to deliver investment in training. However, this is mainly benefitting those who are currently employed, rather than new labour market entrants, and is failing to provide broader opportunities for continuous training.

We therefore recommend that the government should introduce a comprehensive support package for the further education sector and for learners, in line with the recommendations of the Augar Review.

This should include:

- **Increased teaching grants, with a particular focus on subject areas linked to the greatest skills shortages or labour market needs, to ensure that schools and colleges have appropriate funding to deliver high quality education and training.**
- **Increased capital grants for investment in college infrastructure.**
- **Free tuition for learners studying for their first level 2 or level 3 qualification, and a lifelong learning loan allowance for higher level courses, available for adults without a publicly funded degree.**

These recommendations have been costed in the Augar Review, and we support their application in London, where increased funding for colleges should be devolved to the Mayor.

Under the most conservative assumptions, the government estimates that each pound invested in the further education system as a whole generates nine pounds of net present value.⁵⁵ With productivity growth a central objective of government policy,⁵⁶ greater investments in further education could be a cost-effective way to boost stalled productivity.

We also think it is unreasonable to expect that learners without level 2 or 3 should self-fund their first qualification, for three reasons. Firstly, low-skilled Londoners are more likely to miss out on education and training opportunities in adult life than their highly-qualified counterparts.⁵⁷ Secondly, further education students do not benefit from the same advantageous loan offer that helps higher education students to pay their fees and maintenance costs. Thirdly, recent survey data suggest that 33 per cent of Londoners do not have financial savings above £1,500, and this figure rises to 43 per cent among those without a university degree.⁵⁸ Without more generous entitlements, it is hard to see how the capital's further education offer can support Londoners who are most exposed to the job losses in times of economic turmoil.

Principle 2:

Create pathways for progression

There are many basic skill courses being delivered at colleges, and current data is inconclusive about the opportunities for progression that these courses provide (especially for people with limited employment or training history). At the other end of the scale, London's apprenticeship offer has been very limited and increasingly aimed at career development.

The Mayor of London has already taken important steps to increase course accessibility for low-income earners since taking control of the Adult Education Budget in 2019. The current Mayor extended eligibility for fully funded adult education courses to all Londoners earning below the London Living Wage (£10.75 per hour in 2020), instead of the national minimum wage (£8.72 per hour) in other regions, to reflect the higher cost of living in London and ensure a broader access to adult learning.⁵⁹ This is a welcome move, showing how devolution can make the system more responsive to local needs.

But specific work will be required to support people who are less likely to access or remain in adult learning, for example, young people who are not in education, employment and training. This will be particularly important at a time of economic crisis, when competition to enter the labour market is even tougher and employers have lower training budgets. We therefore recommend that:

- **The Mayor of London, with support from the Department for Education and its regulators, should map the routes available for learners' progression, evaluate the effectiveness of different courses, and research the barriers facing young people who are not in education, employment or training in accessing qualification opportunities. This would inform a greater outcome focus in commissioning courses, and ways to support them into education or training.**
- **Further research must be conducted to evaluate whether apprenticeships are succeeding in bringing about genuinely new opportunities for learners, rather than replacing existing training opportunities. Over time, rules around levy spending may need to be reviewed to ensure that apprenticeships are delivering opportunities to help young people break into London's competitive labour market.**

Principle 3:

Take a strategic approach to London's vocational offer

Currently, there are substantial skills gaps in some sectors, and it is likely that these gaps will grow as employment needs change, and workers will need to upskill and reskill to adapt to disruption in the market.

- **The Mayor of London should revise the rules under which the Adult Education Budget is spent, to encourage course innovation and expansion in areas of skills shortages, and to support colleges to work with employers to plug skills gaps. This should increase the responsiveness of London's further education to future skills needs.**

There have already been some significant steps in this space, such as the Mayor's Construction Academies, which are designed to connect employers, providers and learners and facilitate the creation of employer-led curriculums, the communication of employer skills needs and the delivery of support to learners looking to enter employment. Initial reports are positive,⁶⁰ and the potential to expand this model should be explored. We also welcome the Mayor's upcoming Skills and Employment knowledge hub, which should help further education providers coordinate their offer, and should highlight strategic gaps.

While the devolution of the Adult Education Budget is a good start for the capital, the Mayor should continue to lobby for further skills devolution. This would allow a better strategic overview of skills policy and would allow London government to set priorities that match up to London's economic needs. Indeed, we have seen how skills policy influences the behaviour of training providers, learners and employers – incentivising one type or one level of provision over another.

Recovering from the coronavirus crisis and addressing the long-term inequalities specific to London's labour market will require strategic oversight of the city's skills provision. We therefore recommend that:

- **The government should devolve the further education budget in full to London government, including 16-18 study, and apprenticeships funding for small businesses.**

The Learning and Work institute has offered a framework for how devolution of skills policy to local government could be implemented across the UK.⁶¹ They recommend that agreements covering several years could be drawn up between central and local government. These agreements would be based on jointly defined outcomes and would enable to monitor the effectiveness of changes to provision locally. This type of solution would meet several of the challenges highlighted in this report, from the lack of ability to think strategically, to the need for local variation.

The city's future prosperity will require a further education system that is as strong as its schools and universities. London's further education offer will be essential to respond to the deepest challenges facing the capital, notably economic restructuring, and social inclusion. It will also be part of the response to the threats arising from the coronavirus crisis and Brexit. London can no longer afford to neglect it.

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Authors

Nicolas Bosetti

Nico is a Research Manager at Centre for London. He is chiefly interested in cities, governance and regional economic development, and at Centre for London he has co-authored reports on inequality and social mobility, city planning, and London after Brexit. Nico has an MSc in Urban Policy from the London School of Economics and Sciences Po Paris.

Sara Gariban

Sara Gariban is a Senior Researcher at Centre for London. Before joining the Centre in January 2019, Sara worked as a Policy and Projects Officer at the think tank ResPublica, and as a Researcher at Ipsos MORI. Sara is also a member of the Market Research Association and holds the Market Research Society's Advanced Certificate.

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Unit 1, 32-33 Hatton Garden
London, EC1N 8DL
T: 020 3102 3767
hello@centreforlondon.org
centreforlondon.org
Company Number: 8414909
Charity Number: 1151435

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