

# The challenge of increasing employment in London\*

**Faiza Shaheen, September 2008**

London has an employment rate of 71.6 per cent: the second lowest of any region in England, and significantly below the national average of 74.8 per cent.<sup>1</sup>

This low employment rate is at odds with London's well-deserved reputation as an economic powerhouse, but in the past decade population growth has outstripped job growth, resulting in a very competitive labour market, especially for the least skilled.<sup>2</sup> Barriers created by low skills, transport, housing and low pay have exacerbated the difficulties that Londoners face in finding jobs.

The current economic climate makes employment prospects yet more difficult, and makes action to address the employment gap more important. There are specific things the Mayor can do, including:

- developing a strategy to target young people which promotes more apprenticeships;
- focusing on the areas and social housing estates with high concentrations of worklessness;
- ensuring more direct bus routes between high workless and job-rich areas;
- maximise the benefits of jobs created by big regeneration projects, such as the Olympics and Thames Gateway, for instance rewarding 2012 volunteers with a formal certificate that is recognised by employers; and
- make a more concerted effort to ensure skills are properly matched to current vacancies, and working with the London Skills and Employment Board (LSEB) to encourage a more sector-specific approach to job training, tied to those sectors that are likely to see growth in the next ten years.

The links between employment and crime, poor health, inequality and poverty make the prioritisation of employment a must if the Mayor is to address the "huge and growing divisions between the rich and poor" he spoke of in his victory speech.<sup>3</sup>

## **Why is the employment rate so low in London?**

A recent paper from GLA Economics finds that the divergence between London's and other regions' employment rates can be attributed to population growth that has outstripped the number of jobs being created in London, as well as to fundamental shifts in the sectoral composition of the London economy. London has a lower percentage of people employed in manufacturing and public services,

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\*The Centre for Cities launched a report on worklessness in cities in June 2008 and has a programme of work on labour markets planned in Hull, Sunderland, Belfast, York, Bristol and Brighton. For information please contact Faiza Shaheen, [f.shaheen@centreforcities.org](mailto:f.shaheen@centreforcities.org), 020 7803 4317.

1 Taken from the ONS released August 2008, based on the Labour Force Survey April 2008- June 2008.

2 Anastassova-Chirmiciu, L. (2008) 'The evolution of UK and London employment rates,' Working Paper 33, GLA Economics

3 Boris Johnson victory speech, May 2nd 2008, [http://news.bbc.co.uk/1/hi/uk\\_politics/7381585.stm](http://news.bbc.co.uk/1/hi/uk_politics/7381585.stm)

but a much larger percentage engaged in financial services compared to the rest of the country.<sup>4</sup> This change has resulted in a gap between the skills employers need and the skills of Londoners. As well as basic literacy and numeric skills, there is a demand for customer service skills known as 'soft' skills. This is why training provision for the low skilled is vital.

Women have a particularly low employment rate in London,<sup>5</sup> especially those with children or who are lone parents. This is argued to be one of the reasons for the higher rate of child poverty in London.<sup>6</sup> Lower female employment in London is due to lower numbers of part time jobs,<sup>7</sup> which is linked to the particular sectoral mix of the city as well as to higher childcare costs.

Transport is one of the other barriers to employment. The new types of lowskilled service sector jobs, such as those in coffee shops, are not located in the traditional central business or manufacturing areas, but instead can be in middle-class residential areas. These areas can have poor transport connections to areas of worklessness.

The high cost of living in London also contributes to lower employment. Housing, transport, childcare and leisure are all more expensive in London than elsewhere in the UK. This lowers the value of wages so that the so-called 'benefits trap', where people are financially better off on benefits than in work, is intensified.

### **The London Skills and Employment Board (LSEB)**

One of the Mayor's key assets is the London Skills and Employment Board (LSEB), a statutory body made up of employers and chaired by the London Mayor. The LSEB launched its strategy, *London's Future: The Skills and Employment Strategy for London 2008-2013* in July. It proposes a two-pronged approach to reaching the Board's 72 per cent employment target by 2013: first to persuade employers to provide more jobs and opportunities for Londoners; and second to support Londoners to improve their skills. Plans include increasing apprenticeships and creating a 'skills observatory' that will be a central source of information for individuals and advisers to make skills and labour market decisions as circumstances in the economy change.

These steps are designed to help the Board to reach its skills target: to decrease the proportion of the London working age population without qualifications from 13 to 10 per cent by 2013. This will mean 94,900 more Londoners will have basic skills (Level 1), and 62,000 more trained to A-Level standard (Level 3) by 2011.

However, the LSEB does not stipulate if and how these initiatives will be targeted at those wards that have highest concentrations of people without skills, such as in Tower Hamlets, where over a quarter of the population has no formal qualifications.<sup>8</sup> There is also the impact of the downturn to consider; how will a 'skills observatory' be useful when jobs are being cut and there are fewer vacancies? In addition, skills are not the only barrier to employment. Research shows that Londoners are more likely to face multiple barriers to work, as noted in the previous section.<sup>9</sup> Unsurprisingly, given its remit, the LSEB strategy focuses on how it will increase skills in London, but what can be done about transport, housing and low pay?

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4 Anastassova-Chirmiciu, L. (2008) 'The evolution of UK and London employment rates,' Working Paper 33, GLA Economics

5 *ibid.*

6 London Child Poverty Commission (2008) *Capital Gains: Final Report*. <http://213.86.122.139/docs/capitalgains.pdf>

7 Harker, A. (2008) 'Why are there so few part time jobs in London?' Current Issues Note 12. GLA Economics.

[http://www.london.gov.uk/mayor/economic\\_unit/docs/current-issues-note-12.pdf](http://www.london.gov.uk/mayor/economic_unit/docs/current-issues-note-12.pdf)

8 London Employment and Skills Taskforce (2006) *Targeting worklessness in London: A socio-economic Analysis, Technical Index*. [http://www.lga.gov.uk/upload/pdf/Tech\\_annex\\_V3.pdf](http://www.lga.gov.uk/upload/pdf/Tech_annex_V3.pdf)

9 HM Treasury (2007) *Employment opportunity for all: tackling worklessness in London*. London: The Stationery Office.

## **What else can the Mayor do?**

Even with the LSEB, the Mayor's direct powers over employment and skills are limited. The Mayor should, however, make a firm public commitment to increasing employment in London and appoint a permanent strategic adviser/expert on employment and skills for London. This would help to raise awareness, build on the momentum generated as a result of London's first employment and skills strategy, and ensure the efforts of the key employment and skills agencies in London are accountable and deliver success. In addition, this would also send a clear signal to Londoners that the Mayor is committed to ensuring London's labour market and economy remain competitive whilst also confronting one of the root causes of child poverty, crime and inequality.

The Mayor needs to use both direct and indirect levers to increase employment in London. Using the LSEB is one direct way; other instruments include housing, transport and the 2012 Olympic Games:

### **1. Housing**

There is now clear evidence that living in social housing acts as an additional barrier to employment.<sup>10</sup> For those living in social housing the fear of losing housing benefits affects their readiness to return to work. This point is linked to affordable housing, a key issue for the Mayor, and one where he has £4 billion at his disposal. The Mayor needs to consider how social housing can be used as the first rung on a 'ladder of opportunity', helping people to move up to shared-equity schemes and the FirstSteps Housing Scheme, or through the private rented sector. Other possible schemes include:

- An awareness campaign to ensure that those living in social housing or on housing benefits are informed about the thresholds beyond which they lose their housing benefits.
- Extending the Government's 'trailblazers' so that all London Housing Associations and Local Authority housing offices have employment and training advice and job vacancy information on site.
- A wider adoption of the Working Futures initiative in the London Boroughs of Waltham Forest and Newham and Redbridge, where the rents of those living in temporary private sector accommodation are subsidised to alleviate the benefits trap and incentivise people to work.
- A pilot to test new approaches to Housing Benefit reform including: reducing the time it takes to make a decision or to recalculate Housing Benefit entitlement; extending Newham's pilot on making work pay by guaranteeing that individuals who start work will be better off, and if not, that there is a commitment to meet the shortfall for one year.

### **2. Transport**

Transport is an instrument over which the Mayor, as Chair of the TfL, has significant control – which he could use to better effect to support employment. TfL, the LDA and the LSEB need to work together, with direction from the Mayor, to improve transport links between areas with demand for low-skilled labour, and areas with low-skilled workers – such as direct bus routes between the IKEA in Edmonton and the surrounding areas of worklessness. CrossRail and the East London Line are designed to help with this aim, but need to be supported by better bus connections. Similarly, he could use transport to link the workless to appropriate training delivery centres. This would require sophisticated mapping, but would deliver considerable benefits in linking people to jobs and training.

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<sup>10</sup> Hills, J. (2007) *The ends and the means: The future role of social housing in England*. London: LSE.

### **3. The 2012 Olympics**

The 2012 Olympic Games are forecast to create thousands of jobs in London including construction, tourism and organising/ management roles, as well as the employment opportunities arising from multiplier effects, such as those in retail.<sup>11</sup> The Mayor needs to ensure that funds invested in community projects, whether through the LDA or a newly created body, will support workless people into these jobs, and provide them with transferable skills so they can find work once the Olympics are over. The ability of the Olympics to deliver skills and training can be improved by:

- Making sure that those involved in any part of the Olympics – from the builders to the 70,000 volunteers are given certificates highlighting the skills they learnt and contribution they made to the games. These certificates should be recognised by employers and provide some real currency in the labour market.
- Providing exit interviews to signpost people into other jobs.
- Helping local SMEs to cope with and cater to increased development and visitors because of the Olympics, and assist them in taking on extra staff as required.

Implementing such plans should help to generate a positive employment legacy from the Olympics.

### **4. Encourage London Boroughs to implement innovative initiatives tailored to local problems, and bring them together to exchange best practice**

The new London administration has signalled that it wants to work more closely with London Boroughs. One way this could be done is through encouraging Boroughs to identify the specific worklessness problems they have, as well as the solutions they feel would best help. These more localised efforts would need to be co-ordinated at the London-wide level, but would give councils more autonomy and space to challenge worklessness on the street-by-street level, for instance through ‘door-knocking,’ where the workless are visited by employment advisors at their homes. Innovative ideas that work in one borough could be fed through to other local authorities, and inform LSEB, GLA and LDA work through an annual ‘Working London’ forum or equivalent.

Such a forum could bring together local employment officers charged with getting people into work from all London Boroughs along with other relevant representatives, such as those from the LSEB and LSC, to exchange ideas and best practice and keep local stakeholders engaged in the London-wide initiatives.

### **5. Target specific worklessness ‘hotspots’**

All of the four instruments above must be especially directed at the areas where employment is lowest, such as in Hackney. Here, low levels of skills need to be addressed hand in hand with housing, transport and local services. Some of these areas may already be in receipt of specific funds, such as the Working Neighbourhoods Fund, and the GLA and LDA should work with these councils to complement what they are doing. For instance, a particular council may be using this money to target lone parents and support them in their job search; the GLA could support this work by thinking of ways to subsidise childcare, perhaps through the extension of the Childcare Affordability Programme (CAP).

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<sup>11</sup> Experian Business Strategies (2006) *Employment and Skills for the 2012 Games: research and evidence*.

Indirect ways the Mayor can lower barriers to employment include:

### **1. Convincing employers to create more part-time jobs and increase minimum wages**

As well as the more direct actions suggested above, the Mayor needs to use his position, the LSEB, and bodies such as London First to make the case to employers for more part-time jobs and options for flexible hours as well as the adoption of a London Living Wage.<sup>12</sup> Currently, low-skilled jobs offer low pay and limited career prospects. Both these problems need to be tackled. The Mayor should work with employers to find the best way to create career structures and to up-skill employees whilst they are in work. He should also commission research to build on the GLA Economics<sup>13</sup> work on setting the London Living Wage, exploring the possible impact of a London Living Wage on the economy, and making the case for its adoption to employers. Attacking the demand-side barriers to worklessness, such as low pay, will also require a review of the process of contracting out basic services, such as cleaning in office buildings, as well as the workforce development practices of contractors.

Given the downturn, it may be a difficult time to drive such change but these are fundamental barriers to work and the Mayor must help to make the argument to employers that investing in their workforce will lower costs in the long-run.

### **2. Advocate for changes in education**

To ensure that Londoners can share in London's prosperity, children attending schools in London need to receive education relevant to the jobs that will be available in the future. In addition, it is well known that the children of the long-term unemployed are more likely to become unemployed themselves<sup>14</sup> – education is one way to intervene in this vicious cycle. Basic numeracy and literacy skills are fundamental, and many young Londoners are leaving school without this prerequisite to employment. The Mayor needs to advocate a London-specific approach to education to the DCSF and other bodies to overcome these shortfalls.

### **3. Use LSEB success to demand more power**

To really tackle worklessness the Mayor needs to have more command over the millions of pounds spent in London by the DWP, and greater control over who gets delivery contracts including the Phase One rollout of the Flexible New Deal. If London and the Mayor can effectively integrate the employment and skills agenda, deliver against the objectives set out in the Skills Strategy and the Implementation plans through the work of the London Skills and Employment Board, overcome some of the wider barriers to employment, such as childcare costs, and think innovatively about how to work with employers, the Mayor could legitimately make the case for further devolution and flexibility as set out by James Purnell in his three tier vision of earned flexibility.<sup>15</sup>

By doing so the Mayor could give London more freedom and flexibility to invest in getting people into work as well as leveraging greater public sector resource from other Government Departments for the benefit of more Londoners and London services.

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12 Which is currently £7.20 – see GLA Economics (2007) 'A Fairer London : The Living Wage in London'  
[http://www.london.gov.uk/mayor/economic\\_unit/docs/a\\_fairer\\_london\\_2007apr.pdf](http://www.london.gov.uk/mayor/economic_unit/docs/a_fairer_london_2007apr.pdf)

13. GLA Economics Living Wage Unit (2008) *A Fairer London: The 2008 Living Wage in London*. London: GLA.

14. Duncan, G. & Brooks-Gunn, J. Eds. (1997). *Consequences of Growing up Poor*. New York: Russell Sage.

15. James Purnell, speech given at *The Work Convention, Birmingham, June 25th 2008*. <http://www.dwp.gov.uk/aboutus/2008/25-06-08jp.asp>

## **And on knife crime...**

It is likely that there are associations between a lack of training or employment for young people and the incidence of knife crime. In fact, the Home Office is expecting crime to get worse during the economic downturn.<sup>16</sup> As one of his major concerns, the Mayor should develop a Young People's Strategy for London, in a similar way to how the LSEB has set out a direction for London's adults. This could involve simplifying the infrastructure and myriad of front line duplication, encouraging employers to increase the number of apprenticeships, advocating for the need for change in London schools and creating a work trial programme aimed at vulnerable young people so that they can be engaged in the labour market. This would mean getting employers onboard and willing to give these young people a chance.

The Olympics is another obvious vehicle for engaging vulnerable young people either through sport or volunteer work. Young people not in employment may also need more than just support to find a job or find suitable training – they may require help to find housing, counselling and support once in work. This is the type of work that is best done by the voluntary sector.

## **Summary**

The LSEB strategy represents a big step in the right direction in undertaking the skills challenge in London. However, the Mayor should not stop here: it will take more than just higher levels of skills to increase employment in London, especially during an economic downturn. The Mayor needs to marshal all his resources and powers and use his mandate to make employment a top political and economic priority. By prioritising employment at this troubled time the Mayor will be focusing on the underlying problems of individual discontent, poverty, inequality and crime and will leave London's workforce in a better position to prosper when a better economic climate arises.



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<sup>16</sup> According to a leaked letter from the Home Office, see: <http://www.guardian.co.uk/politics/2008/sep/01/justice.thefarright?gusrc=rss&feed=politics>