



IN PLACE OF WORK

Influencing local labour markets

Liam Booth-Smith and Joe Fyans

About Localis

Who we are

We are an independent, cross-party, leading not-for-profit think tank that was established in 2001. Our work promotes neo-localist ideas through research, events and commentary, covering a range of local and national domestic policy issues.

Neo-localism

Our research and policy programme is guided by the concept of neo-localism. Neo-localism is about giving places and people more control over the effects of globalisation. It is positive about promoting economic prosperity, but also enhancing other aspects of people's lives such as family and culture. It is not anti-globalisation, but wants to bend the mainstream of social and economic policy so that place is put at the centre of political thinking.

In particular our work is focused on four areas:

- **Reshaping our economy.** How places can take control of their economies and drive local growth.
- **Culture, tradition and beauty.** Crafting policy to help our heritage, physical environment and cultural life continue to enrich our lives.
- **Reforming public services.** Ideas to help save the public services and institutions upon which many in society depend.
- **Improving family life.** Fresh thinking to ensure the UK remains one of the most family-friendly places in the world.

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We publish research throughout the year, from extensive reports to shorter pamphlets, on a diverse range of policy areas.

We run a broad events programme, including roundtable discussions, panel events and an extensive party conference programme.

We also run a membership network of local authorities and corporate fellows.

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Any errors or omissions remain our own.

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Executive Summary

If you type “Labour Market Strategy” into the Gov.uk search function it spits out three results: a biography, a tribunal appeals notice and a press release. In spite of this, there clearly isn’t a lack of thinking about the UK’s labour market. Multiple academic and think-tank reports are dedicated to it every year, policy is regularly formulated which influences it, ministers and their shadows consistently refer to the plight of those in it, and yet, despite this confluence our government doesn’t seem to have a comprehensive ‘Labour Market Strategy’.

There are a number of understandable reasons for this. Firstly, the policies which would constitute a labour market strategy already exist in other fields: skills at the Department for Education or benefits at the Department for Work and Pensions. Secondly, for many decades we have essentially outsourced labour market management to private businesses, encouraging and enabling them to import people in the way we would a commodity. However, UK businesses’ track record in investing in innovation and skills is mixed. The UK compares unfavourably with other OECD nations when it comes to matching its domestic skills base to its growing advanced industry¹. Worse, those industries which would benefit most from additional capital investment in training and new technology, for example low paying employers in tourism or food manufacturing, have historically been the least likely to invest².

If you looked only at the national picture for most of the last three decades you’d be forgiven for thinking this approach has worked without consequence. Growth has been relatively consistent, social cohesion has been high and university participation steadily rising. And yet we know there have been profound consequences, much of the frustration finding voice in the referendum vote in June 2016.

The case for local labour market strategies

Twenty two of England’s forty seven strategic authority areas have an above average level of labour market risk to a post-Brexit migration squeeze. Twenty eight of the forty seven have an above average level of labour market risk to automation. Twenty seven of the forty seven have an above average level of risk to a low skills base. This report shows the disparity in robustness of England’s local labour markets is, quite frankly, staggering. Using the most recently available data we see a country which is moving beyond the ‘north-south divide’ as a means to frame the discussion on our country’s inequity in wealth and outcomes, and towards something which resembles a vortex. Money, both public and private, infrastructure, R&D and foreign investment, is all flowing into London and the space which occupies the golden triangle between it, Oxford and Cambridge. There are of course some geographic outliers performing well, Brighton and Hove for example, but the days in which someone living in Kent or Essex can see connectivity to London as a passport to prosperity are numbered. Our research suggests the labour markets of the South East need support as much as certain parts of the North East.

¹ OECD (2017) – Skills and global value chain outlook – UK comparative analysis

² Resolution Foundation (2017) – Work in Brexit Britain

In the absence of a clear national labour market strategy which factors in the emergent threats laid out in this report, namely Brexit, automation, the country's skills base and demographics, strategic authorities must take the lead on devising local labour market strategies. These should inform local employment and skills provision and be a valuable resource for central government when it comes to understanding the impact of exiting the EU and any subsequent trading agreement.³

What is a strategic authority?

A strategic authority is the recognised body which leads the industrial strategy in a local area. It would most commonly be a formal collaboration of local authorities across a geographic area. This would be different to a (non-mayoral) combined authority because of a) the requirement for an additional level of democratic mandate and b) the new suite of powers it would wield.

To become a strategic authority an area must first have in place;

- A formal collaborative arrangement of local councils across a geography. (Our previous report, *The Making of an Industrial Strategy*, introduced the concept and this report includes a map indicating the breakdown of strategic authorities in England.³)
- Democratic legitimacy in the form of either a) a directly-elected mayor, b) a strategic authority wide elected assembly led by a chair voted for by the assembly or c) in areas where the formal collaborative agreement consists of a county and its districts or a sole unitary county, the county could become the strategic authority (with agreement from partner councils where appropriate).

Following the creation of appropriate governance and collaboration arrangements, a new strategic authority should be entitled to the devolved skills and employment powers we argue for in this report.

Many local areas possess the means to devise a local labour market strategy but there are multiple barriers to acting on it, namely a lack of formal recognition and limited powers. Government should act on the previous calls made by Localis for the creation of an Industrial Compact⁴ and provide formal strategic authority status to the 66% of England which doesn't benefit from the devolution arrangements of places such as Greater Manchester or the West Midlands⁵.

This recognition, and a local approach to labour market influencing, would help government address the following challenges:

- The significant sub-regional variation in the robustness of local labour markets means a blanket national approach is unlikely to work. Strategic authorities must be empowered to influence locally.
- The cohort of long-term unemployed in England is unlikely to be, en masse, a reliable source of labour on which to counteract any shortfall from a stem in migration or for the new higher-skilled jobs we are creating. Instead new activities locally should focus on those low activity groups (eg: the disabled and the over 50s) who are poorly-served by the current policy framework and accessibility⁶.

³ Map can be found in the appendix

⁴ Each strategic authority should receive a suite of powers which will enable them to overcome barriers to growth and compete with global counterparts. Power transfer should be automatic, avoiding the attrition of negotiation that affected the city and devolution deals. The full list of devolved powers can be found in the 2017 Localis report – *The Making of an Industrial Strategy*

⁵ Localis (2017) – *The making of an industrial strategy*

⁶ Localis (2017) - *A sector deal for disability*

- Business investment in high-risk industries (those nominally most exposed to automation and a post-Brexit squeeze on labour supply) is below OECD average for technology and training⁷⁸.
- The UK is below OECD average in its provision of technical education, ranked 16th out of the top 20 OECD countries. By 2020, the UK is set to fall to 28th out of 32 OECD countries for intermediate [upper-secondary] skills. Furthermore, UK apprenticeships do not necessarily meet the standards of what classifies as an apprenticeship in other developed countries. In 2015, only a fifth of starts, or a little over 100,000 starts, were reserved for 16–24-year-olds at the more advanced level that would be recognised as an apprenticeship in other countries.
- Employer-sponsored training is poor and unequally distributed, with a disproportionate amount of training funds being spent on the already highly skilled and paid⁹. Concerns are already being raised at the use of the government apprenticeship levy scheme to fund senior executives attending Masters of Business Administration (MBA) courses as opposed to the training of younger lower-skilled people.
- The UK has an ageing population, with the number of people over 65 increasing year on year. Moreover, there is considerable geographic variation in the old age population.¹⁰

Whilst national government can and should set the policy framework so that it can begin to influence and reshape the labour market to meet the needs of the future economy, it must enable local areas to respond to their different needs too.

Influencing the local labour market

Government must empower England's strategic authorities to act so that they might begin to positively influence their local labour markets. In this report we argue that newly devolved powers should focus on three key areas.

- **Localising the apprenticeship system:** whilst the apprenticeship system has been devolved to business it isn't really linked to place. To that end there should be greater flexibility in how levy accounts are used and a greater convening role for strategic authorities in raising the profile of apprenticeships and in work training opportunities.
- **Targeting low activity groups:** labour market influencing powers should also be seen as an opportunity to tackle long-standing social challenges, in this instance the structural barriers to employment for low activity groups. In this report we argue that disabled people and the over 50s are two cohorts which existing policy serves poorly, and where a more discrete local approach could have benefits.
- **Being a link point between skills provision and utilisation:** too many businesses are separated from the skills provision in their area either because they don't have the capacity to engage or their employees simply aren't originally from the local labour market. Encouraging greater engagement from the business community in shaping the future labour market will benefit them and the wider system of state support, including colleges, councils, training providers, etc... which all have a vested interest in ensuring the local population is highly-skilled and economically active.

⁷ Resolution Foundation (2017) – Work in Brexit Britain

⁸ OECD (2017) – Skills and global value chain outlook – UK comparative analysis

⁹ Resolution Foundation (2017) – Work in Brexit Britain

¹⁰ ONS (2017) - Overview of the UK Population July 2017

Recommendations

1. Government should formally recognise the status of England's remaining strategic authorities without a devolution deal by instituting an Industrial Compact, as recommended in the previous Localis report *The Making of an Industrial Strategy*, thus creating the devolved bases upon which new local labour market strategies and powers can be developed and utilised.
2. As part of every new local industrial strategy, every local area should develop a local labour market influencing strategy which highlights at-risk industries and businesses.
3. As in Greater Manchester, and in London by 2019/2020, government should devolve control of the adult education budget to all remaining strategic authority areas. This would empower them to convene local colleges, training providers and businesses in order to set the priorities for their local labour market strategies.
4. Local public sector organisations, most pressingly it would be sensible for the NHS and local government to collaborate, should explore what options are available to pool their apprenticeship levy within a strategic authority area. In particular this should be seen as a priority in areas where the health and social care workforce is dependent on a significant amount of migrant labour.
5. Government should accelerate the April 2018 deadline for moving funds held in an apprenticeship levy account to another firm, and remove the 10% threshold.
6. Government should create the option to allow employers to passport their apprenticeship levy funds to a strategic authority for local skills development activity. This would need to be ring-fenced and the priorities for development established before a strategic authority could accept the funds.
7. Government should empower and fund strategic authorities to raise the profile of apprenticeships and the wider state support offered for in work training. The most successful and advanced strategic authorities should be legally allowed to set 'start quotas' for apprenticeships in their areas.
8. In local areas where industry collaboration is weak and relationships with the strategic authority need formalising, strategic authorities should establish employer guilds. These guilds would work with the strategic authority to help shape labour market policy, thus ensuring a steady supply of qualified labour for their future business requirements.
9. As in the previous Localis report *A Sector Deal for Disability* we reiterate the recommendation for the Department for Work and Pensions to establish and chair a new working group on skills, access and employability for people with disabilities to support the sharing of best practice amongst councils, CCGs, schools and colleges locally. Preferably this should utilise existing professional networks.
10. Government should take a top slice of 5% from apprenticeship levy accounts nationally in order to create a Local Skills Development Fund which can be devolved and focused on supporting strategic authorities efforts to raise the employment level of key low activity groups, in particular disabled people and the over 50s.

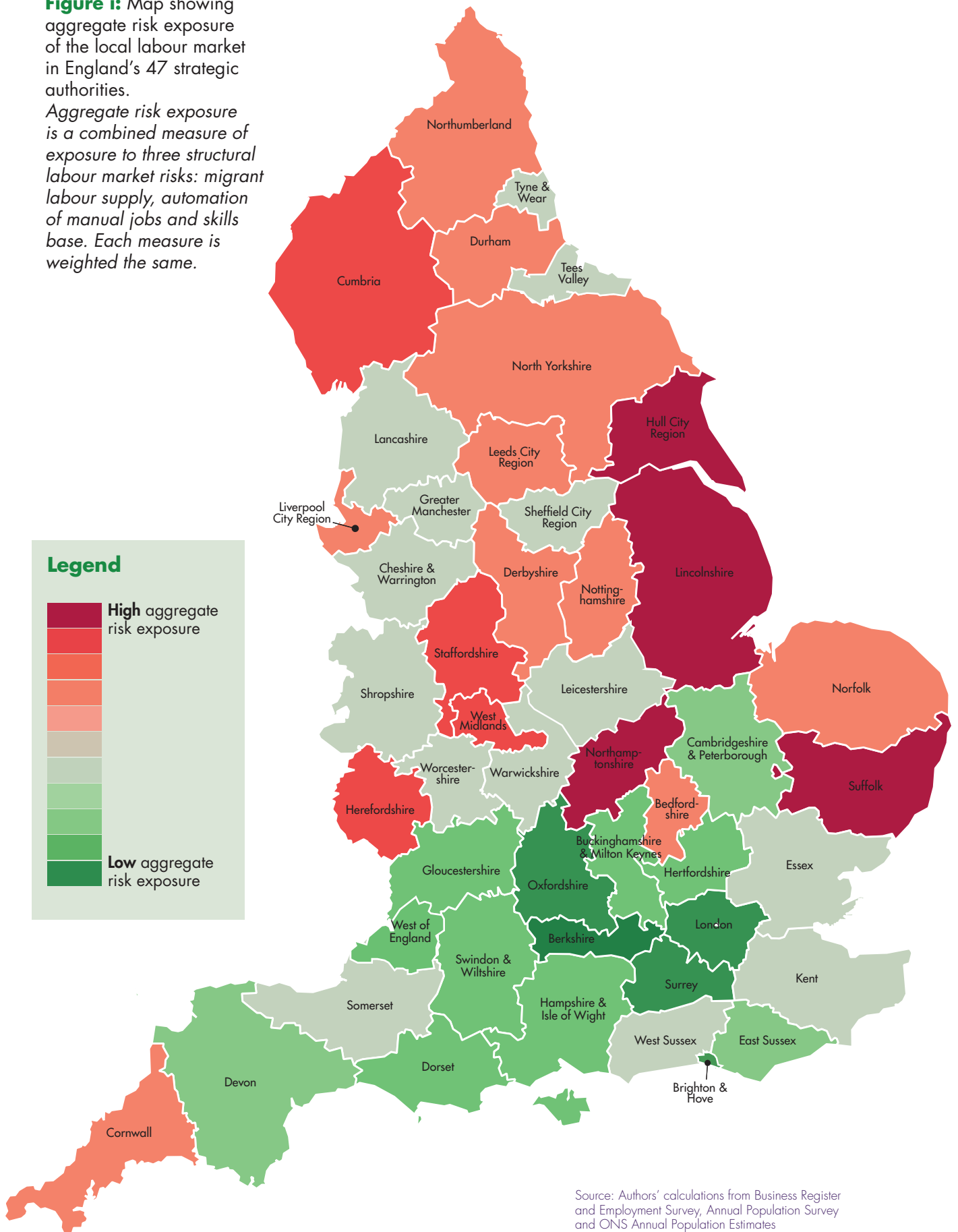
When it comes to the labour market, place matters

We began this executive summary noting the two major structural changes England's labour market is facing: the automation of manual jobs and the changes to migration policy after Brexit. On both counts our political leadership seems confused and ill at ease with the nuance each demands. For automation, it is not clear whether our politicians wish to support or block it. Productivity gains seem appealing, mass unemployment less so. Yet, as this report makes clear an acute sense of 'place' can help our political elite navigate the challenge. Take the West Midlands, where rapid manufacturing automation could leave thousands unemployed, and compare it with Gloucestershire, whose working age population can't keep pace with the jobs it is creating. In short, automation will be a lifeline for one economy and a death sentence for another.

Similarly, our immigration policy must reflect the competing needs of places as different as London and Cumbria or mitigate the difference in reliance so many local public services have on migrant labour. Beyond the technical analysis and policy recommendations of this report sits a singular message to our national political elite; when it comes to the labour market, place matters.

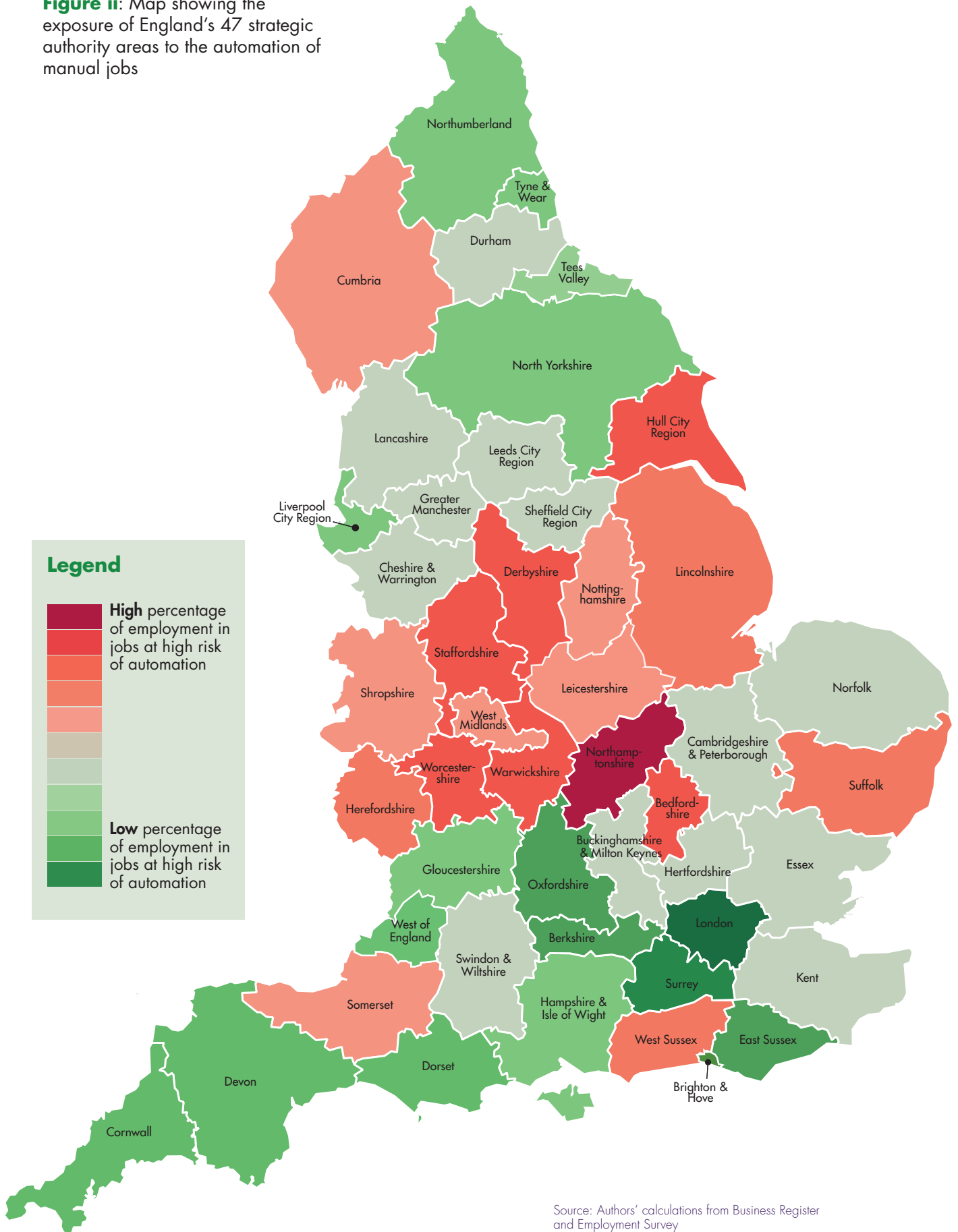
Figure i: Map showing aggregate risk exposure of the local labour market in England's 47 strategic authorities.

Aggregate risk exposure is a combined measure of exposure to three structural labour market risks: migrant labour supply, automation of manual jobs and skills base. Each measure is weighted the same.



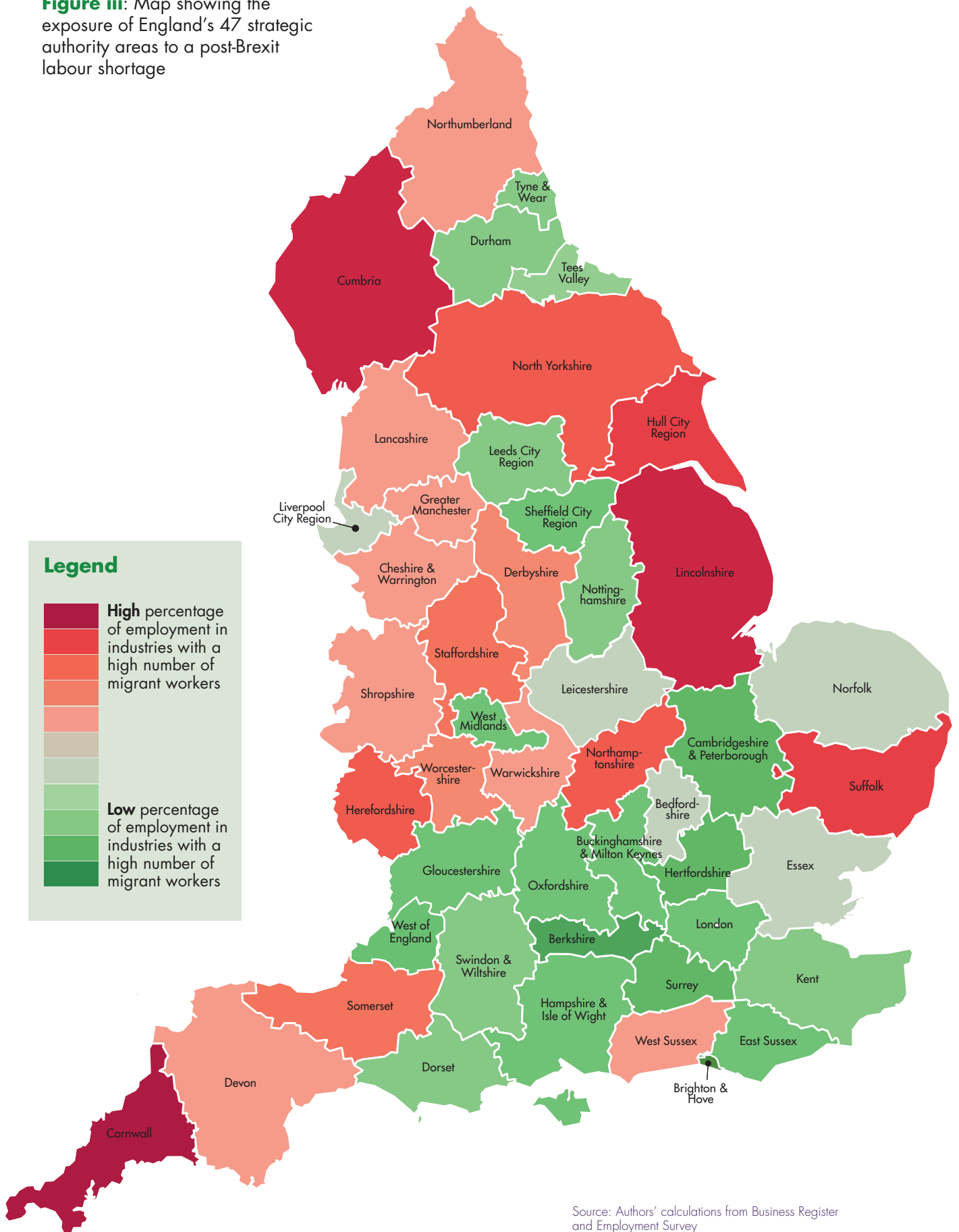
Source: Authors' calculations from Business Register and Employment Survey, Annual Population Survey and ONS Annual Population Estimates

Figure ii: Map showing the exposure of England's 47 strategic authority areas to the automation of manual jobs



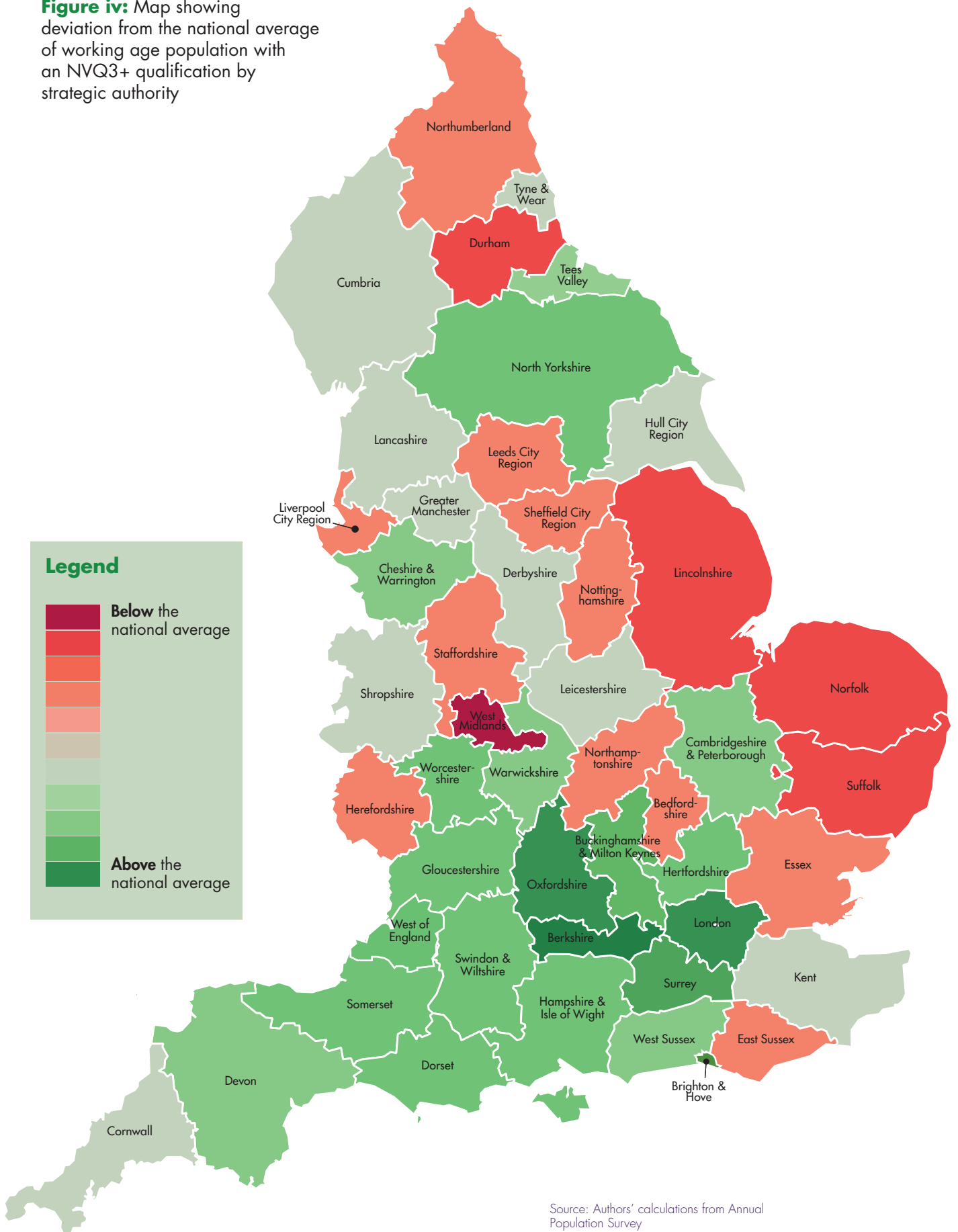
Source: Authors' calculations from Business Register and Employment Survey

Figure iii: Map showing the exposure of England's 47 strategic authority areas to a post-Brexit labour shortage



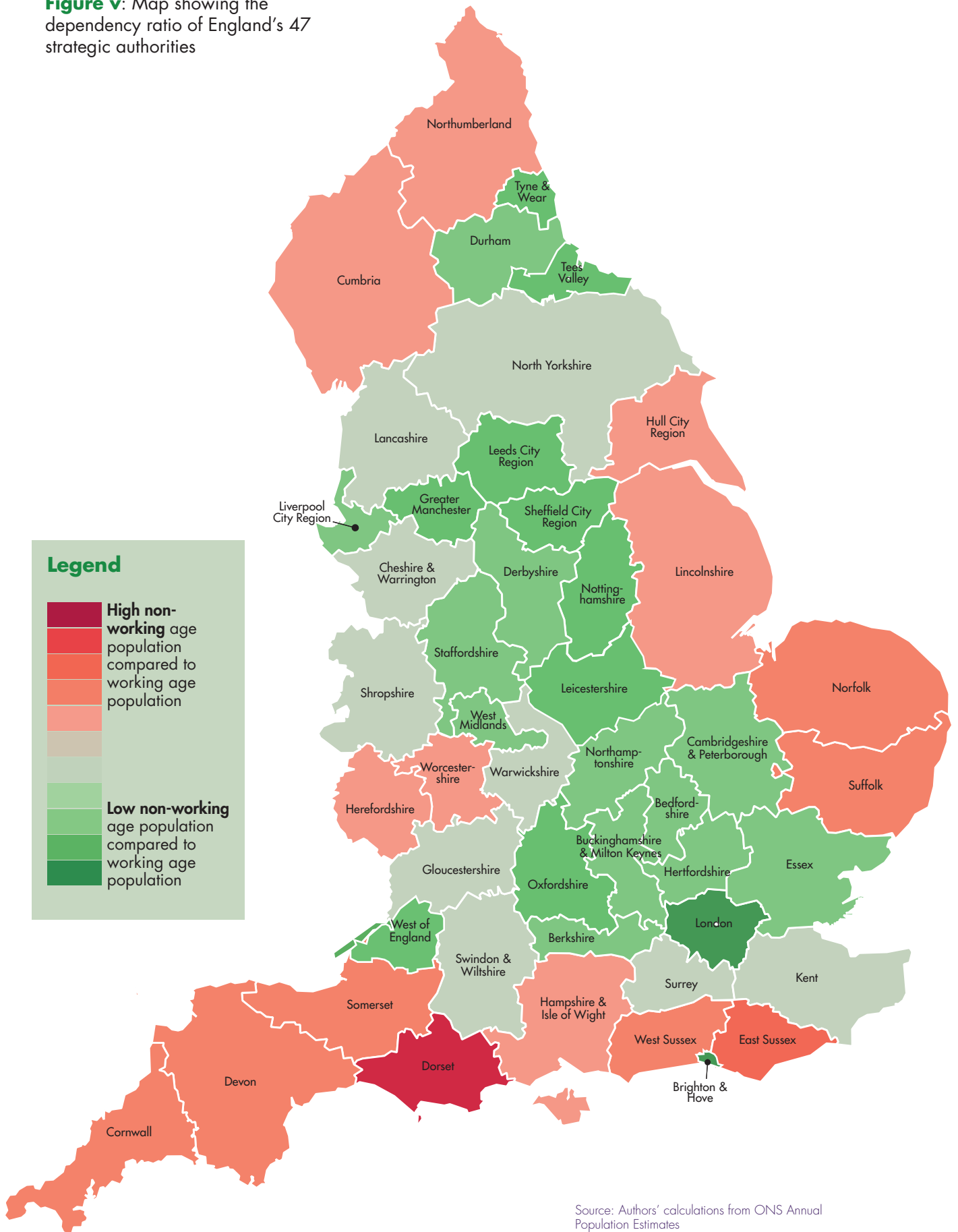
Source: Authors' calculations from Business Register and Employment Survey

Figure iv: Map showing deviation from the national average of working age population with an NVQ3+ qualification by strategic authority



Source: Authors' calculations from Annual Population Survey

Figure v: Map showing the dependency ratio of England's 47 strategic authorities



Source: Authors' calculations from ONS Annual Population Estimates

Chapter One — Introduction

When dealing with something as complex as a labour market it helps to begin small. We start with the individual. As the recently published Taylor Review noted the world of work is changing rapidly. Individuals are increasingly likely to find themselves in less secure, more flexible working environments. They will have to take on a greater level of responsibility for their own professional development, retraining to meet the demands of industry as it evolves and investing in their own reputation. As the nature of labour itself evolves, and reshapes the labour market, it is reasonable to expect the state to have an equal shift in policy to support people in this transition. Unfortunately there remains much for government to do.

On some of the key questions facing the UK economy our politics seems adrift. Only now do our political leaders seem to comprehend the consequences of a structural shift towards automation. Or how the combination of our immigration system and dysfunctional skills supply means foreign graduates regularly compete with low-skilled English people for the same service level jobs, and with predictable outcomes. This report isn't an argument for government simply to 'do more', but rather 'be smarter'. Recognise the threats and their potential impact. See the distribution and regional variation of what is happening and likely to come. And, where appropriate, devise policy which will help our national and local economies compete better in a world where labour supply is tightening and labour costs increasing. There are forces recasting the shape and size of the UK labour market and government urgently needs to understand not just what this will mean, but also who will be affected and where.

1. A labour market miracle?

The UK's unemployment rate is down to its lowest level since 1975 and the employment rate is the highest since 1971¹¹. Under the 2010 - 15 coalition government the number of public sector jobs fell and the number of private sector jobs increased. Ostensibly George Osborne's ambition to create one million new jobs wasn't fantastical¹², the Office for National Statistics show record low levels of economic inactivity¹³. Yet whilst the UK economy has been busily creating new job opportunities there have been serious long-term structural questions raised as to the quality and security of this employment growth.

1.1 Stagnating productivity

Historically UK productivity has grown by approximately 2% per year but since 2007 it has stagnated¹⁴. In the second quarter of 2017 UK labour productivity was still 0.5% below its pre-recession peak reached in the fourth quarter of

11 BBC (2017) - UK unemployment falls to 42 year low

12 The Telegraph (2014) - Osborne pledges to fight for one million new jobs

13 ONS (2017) - September UK labour market statistical bulletin

14 House of Commons Library (2017) - Productivity in the UK briefing paper

2007¹⁵. As of 2016 the UK's productivity was 15.1% below the G7 average¹⁶. In the last decade productivity has grown by just 1.5% and, according to analysis conducted by the Resolution Foundation, this phenomena "was something unseen in previous recessions and something policy makers had made no preparations for."¹⁷



Source: OECD

Experts disagree on the precise cause of this long term productivity stagnation, examples have ranged from "weakness in investment that has reduced the quality of equipment employees are working with; the banking crisis leading to a lack of lending to more productive firms; employees within firms being moved to less productive roles; and slowing rates of innovation and discovery."¹⁸ One of the most compelling influences appears to be the UK's public and private capital investment. With the UK widely noted as being a below average investor in technology and infrastructure compared with fellow OECD countries¹⁹ it seems plausible, when combined with the strong job growth performance, businesses have substituted low-cost labour for investment in capital.

However, no one theory can definitively capture the UK's lagging productivity performance. What is clear is this period of stagnation has coincided with a decade of sustained 'low-to-no' wage growth. Independent analysis suggests that UK workers will be earning no more in 2021 than they were in 2008²⁰.

1.2 The quality of employment

Government began to respond to concerns over the quality of jobs growth following the 2015 general election with the publication of the UK's Productivity Plan. This prospectus was designed to "fix the foundations" of the economy and form the basis of a "comprehensive plan that sets the agenda for the whole of government over the parliament to reverse the UK's long-term productivity problem and secure rising living standards and a better quality of life for our citizens."²¹

15 Ibid
 16 ONS (2017) - ICP statistical bulletin
 17 Resolution Foundation (2017) – Work in Brexit Britain
 18 House of Commons Library (2017) - Productivity in the UK briefing paper
 19 The Guardian (2016) – UK investment in tech an transport among world's worst
 20 The Financial Times (2016) – British workers face worse decade for pay in 70 years
 21 HMG (2015) - Fixing the foundation: Creating a more prosperous nation

Increases in zero-hour contracts and the transition of many people into self-employment however, coupled with the decline in real-term incomes over the last decade, in particular (given their rising profile in the economy) the 22% decline experienced by those designated as self-employed, suggests greater insecurity will be a feature of the UK's future labour market²². The recently published Taylor review acknowledges such a trend and suggests government will increasingly need to craft policy with such a future in mind²³. Concerns have been raised that British business has simply become used to the idea of labour being cheap and increasingly willing to work outside of traditionally secure contracting arrangements²⁴.

1.3 Business behaviour

When the Secretary of State for International Trade, the Rt Hon Dr Liam Fox MP, called British business "too fat and lazy" to boost the country's prosperity he was heavily criticised. And yet, beneath his stark words sits an uncomfortable truth. Despite being a world leader in science, research and innovation, beyond some notable exceptions, British business is considered a "persistently low" investor in technology and machinery, is under-represented in the key domains of engineering and disruptive invention, and is increasingly reliant on tax incentives, not pro-active business investment, for its R&D financial support²⁵. In short, British business could be doing more to help itself and the UK.

The effect on the labour market of business behaviour could be severe, given firstly "the industries with the most to gain from an increase in investment have traditionally been among the least likely to engage in such activity."²⁶ And secondly many of those industries, for example food production, domestic personnel or food and beverage services, tend also to rely on a significant amount of migrant or seasonal labour²⁷. This means those British businesses with the most pressing need to invest in new technology and the upskilling of their staff, are also some of the least likely.

2. Labour market threats

Allied to persistent structural questions around the productivity and quality of UK employment there are emerging threats to which policy makers must urgently find a response. Brexit, automation and the skills base of the UK are all coalescing into a toxic cocktail which will leave the labour supply squeezed, its costs rising and its capacity to respond to new opportunities restricted. To complicate matters the capacity of national government to address these issues via Whitehall diktat alone appears limited. Our research suggests there is significant local variation in the general strength of labour markets and their exposure to specific threats. If the UK labour market is to develop and strengthen in the years to come then it will need to be influenced from the centre *and* locally.

2.1 Brexit

Whilst we don't adopt a predetermined pessimistic tone about the economic possibilities created by Brexit, we do assume there will be a restriction on labour supply as a result of changes to the immigration system. Many industries reliant on migrant labour are clustered in specific areas. For example, a place like Lincolnshire has one of the largest proportions of jobs in the manufacture of food products in England, this industrial group is considered one of the most

22 London School of Economics (2015) - The coalition's record on employment

23 HMG (2017) - Good Work: The Taylor review of modern working practices

24 Resolution Foundation (2017) – Work in Brexit Britain

25 OECD (2015) – Science, Technology and Industry Scorecard – UK performance

26 Resolution Foundation (2017) – Work in Brexit Britain

27 Ibid

likely to face a post-Brexit labour shortfall. Or Hull City Region which has a high proportion of jobs in the manufacture of rubber and plastic products and non-metallic minerals. These two industrial groups are also at particular risk to a post-Brexit labour shortfall. The impact of Brexit will be geographically unequally distributed. Twenty two of England's forty seven strategic authority areas have above average level of labour market risk to a post-Brexit migration squeeze²⁸²⁹.

2.2 Automation

Similar to the geographically-distributed impact of Brexit, many industries most prone to automation also tend to cluster. Industry groups like warehousing are likely to see significant amounts of automation in coming decades. Multiple industry and sub-industry groups will also experience a similar shift, again with the same unequal geographic distribution. A recently-published Nesta report, using data from the US, highlights the shift in future demand for employment types such as manufacturing, retail and administration³⁰. Twenty eight of England's forty seven strategic authority areas have an above average level of labour market exposure to automation.

High levels of automation can be both positive and negative. For instance Oxford Economics and the County Councils Network forecast job losses of 144,000 in the manufacturing sector between 2017 and 2027 in county economies. Whilst in many cases this will lift the productivity of the businesses concerned, the social impact of increased unemployment could undermine the economic gain.³¹

If these changes are allowed to occur without sensitivity to the intersection between place and industry, the net benefit could be questionable. In an area of labour shortage, automation may be the factor that keeps local growth alive, where the problem is a skills shortage but people are plentiful, the results may be far less positive. This again reinforces the principle that we need to focus on local labour markets.

2.3 Skill level

Arguably the biggest risk from Brexit isn't the EU but our own population's inability to meet the skill demands of a modern labour market. The variation in skill level by sub-region is severe. Twenty seven of England's forty seven strategic authority areas have an above average level of risk to a low skills base³². The OECD notes that the UK is a global leader in a number of technologically advanced industries, such as complex business services, but that "the skills mix of its (the UK) population is not well aligned with the skills requirements of these industries, making it difficult to maintain specialisation in these industries as competition intensifies, or to specialise in similar industries."³³

2.4 Demographics

Local labour markets are not static. Internal migration flows mean the average age of the local population is a constantly-changing figure. Bearing this in mind, we consider what the dependency ratio of an area is likely to be. The variation is significant, illustrating the different demographic challenges faced in England.

28 Analysis of UK sub regional labour markets featured as an England wide scorecard in this report with full data breakdown in the appendix

29 When referring to industry groups we will be using the government Standard Industrial Classification (SIC) codes unless otherwise stated in the body of the text

30 Nesta (2017) – The future of skills: employment in 2030

31 Oxford Economics (2017) - Understanding County Economies: Analysis to inform the industrial strategy and the devolution debate

32 To determine the skills base of an area we have used the proportion of the population of an area with NVQ level 3 or above.

33 OECD (2017) – Skills and global value chain outlook – UK comparative analysis

From the West Midlands, where the over 65s account for 15% of the population, to Dorset where they make up over a quarter, the strategic implications of England's demographics differ from place to place.

Oxford Economics found that despite positive net inward migration, a slower rate of growth for the working-age has sharply increased the dependency rate and forecasts show that the dependency ratio for county areas is likely to worsen. Brexit will lead to fewer inward migrants of working age, but a continuation of migration of people at or approaching retirement, plus the existing population will of course become more mature.³⁴

3. There is a 'national' labour market but many 'local' labour markets

Whilst the threats we discuss in this report have each received a great deal of attention in their own right in other research and commentary, there has been relatively little analysis conducted into the impact they will have on specific places. This report seeks to fill the gap. Our research suggests that places, via their strategic authorities, local education systems and business communities, will need to become more invested and active in influencing the future shape and size of their local labour markets. National government must continue to set a strategic direction for the country as a whole but it must also devolve new powers to local areas. England has a national labour market, but it also has many local labour markets. Some are dysfunctional whilst others thrive. Too many are broken. New power held by England's emerging 'strategic authorities' would enable places to mitigate the emergent threats to local labour markets and position themselves to take advantage of future opportunities³⁵.

4. The 'strategic authority'³⁶

As this report will make clear the variation in local labour markets, both as currently constituted and in their projections, is stark. In the West Midlands rapid automation is likely to mean thousands newly unemployed, but in Gloucestershire it is likely one of the few ways in which its economy will remain vibrant because of an impending labour supply squeeze. A national strategy is needed, but on its own will not be nuanced or flexible enough to account for what are widely differing labour market pressures and needs within England.

To this end the case for greater labour market influencing powers locally is sensible and the strategic authority, by our estimation, is the most appropriate level for those powers to reside.

Earlier this year Localis published a report, entitled *The Making of an Industrial Strategy*, which argued for the acknowledgement of England's 47 strategic authorities³⁷. These are made up of the city-region combined authorities, county councils and county unitary authorities which cover the entirety of England. These bodies already exist, so no new organisations need to be created. They all have existing democratic legitimacy via an elected council or mayor. Nearly all operate at a significant geographic scale, covering multiple towns and cities. For these reasons, and more below, we believe the strategic authority represents the most appropriate spatial level to wield the powers necessary to influence local labour markets.

The strategic authority operates at a geographic and demographic scale large enough to make medium to long-term policy decisions which cut across multiple industries and institutions. Every strategic authority will contain multiple colleges, many will have multiple universities and all will have a wide range of industries

³⁴ Nesta (2017) – *The future of skills: employment in 2030*

³⁵ Localis (2017) – *The Making of an Industrial Strategy*

³⁶ A strategic authority is the recognised body which leads the industrial strategy in a local area.

³⁷ Localis (2017) – *The Making of an Industrial Strategy*

represented. In a number of places these strategic authorities are already wielding significant power, such as London, Greater Manchester and the West Midlands. And as this report demonstrates through the examples presented, in areas where a devolution arrangement is not in place county and county unitary authorities are already taking on the role of a strategic authority in the sphere of skills and employment within the limited scope of their current powers.

Building on the recommendations of this report, a key goal of government should be the extension of this increase in powers to the 66% of England which currently doesn't benefit from a formalised strategic authority. Our approach to strategic authorities is a practical framework at the right scale, supported by the appropriate capacity, to deliver.

5. Establishing an evidence base and the use of data

It is often cited the local state is data rich but insight poor. Whilst a great many councils and strategic authorities will fit this mould, there is a growing list of places better harnessing data to inform strategy. At the heart of local labour market influencing strategies should be robust data analysis. In this report we have decided to take the issue of better data usage as settled and beyond this note in the introduction will not dwell on it further. As this report's scorecard of England's local labour markets makes clear the strategic authority operates at a scale able to process the relevant data and utilise evidence appropriately.

6. A note on the report's structure

Throughout this report it should be assumed that any calls for powers to be devolved, or for a place to plan or intervene, we will be referring to a strategic authority unless otherwise stated in the body of the text³⁸.

In making this case we have structured the report in the following way;

- In chapter one we have set out the broad intellectual argument for why labour market influencing at both a national and local level is necessary.
- In chapter two we highlight the unequal sub-regional impact of labour market threats and score their robustness.
- In chapter three we explore what a local labour market influencing strategy should encompass and could achieve.
- Finally, in chapter four we summarise the core recommendations this report makes to central and local government.

7. A note on the report's scope

This report is focused solely on England and its constituent labour markets. There will, however, be applicable lessons for the devolved administrations. When we refer to the 'country' or 'nation' we will therefore be referring to England unless otherwise stated in the body of the text.

Whilst conducting the literature review for this report it quickly became clear there would be a serious danger of scope creep when researching and writing. Issues such as immigration, international trade, the complexities of Brexit negotiations and in particular the rights of EU nationals residing in the UK, the scope and quality of FE and HE provision and the performance of secondary schools to name but some. We decided to stick diligently to the original brief we established for this report; to evidence and articulate the need for local labour market strategies and to highlight the most appropriate new powers needed at the local level to execute such a strategy. Where appropriate we have expanded a point in order to place it into a wider context or explain the potential benefits of

38 A map of England's strategic authorities has been included in the appendices

a particular action.

Finally, we have deliberately omitted reference to Local Enterprise Partnerships (LEPs). We acknowledge they are important actors locally and government will want to encourage their participation. However, they are not yet statutory bodies, the membership and engagement of their boards is variable, their transparency and governance has been questioned by the Public Accounts Committee. Therefore, it should be taken as read that we believe LEPs should be engaged in the issues we discuss in this report, but as a partner to the lead body, the strategic authority, not its master.

Chapter Two — Why ‘local’ labour markets?

When seen locally a labour market’s vulnerability confounds traditional shortcuts to profiling, be they geographic, in the form of ‘North - South’ or ‘urban - rural’, or based on industrial sectors. Simply put, a national view of the labour market provides a big picture but misses all the detail. So whilst national policy is needed to provide a framework, the influencing needs to happen locally.

In this chapter, we make the argument for considering labour markets at the sub-regional level, by laying out the exposure to different risks across the country and the factors driving them. In doing so, we make the case for an approach to labour market influencing which reflects the differences in place across England’s economy.

1. Local labour market risk profiles

There is significant variation in the risk profiles of England’s local labour markets. This is illustrated by the map across the page and the scorecard at the end of this chapter. Our analysis assesses the threat to England’s forty-seven labour markets – which we define geographically by strategic authority area – looking at threats from automation, migration, skills base and demographics.

Differing industrial makeup, skill levels and demographics produce different markets for labour. The main drive behind the variations observable in our analysis is the degree to which each labour market is under threat from two major upcoming changes; the automation of manual labour and the adoption of a new national migration policy in the aftermath of the decision to leave the European Union. This is compounded by the long-term structural weakness in the country’s skills base and its ageing population. As the OECD notes “in most countries, *but not in England (our italics)*, younger people have stronger basic skills than the generation of people approaching retirement.”³⁹

We measure a local labour market’s risk to these changes by analysing an area’s total share of employment taken up by industries identified as particularly vulnerable; and – in the case of automation – the percentage of jobs at the highest risk. We have also compiled a ‘Skills Score’ measured by an area’s deviation from the national average for the percentage of the population holding a National Vocational Qualification Level 3 or above (NVQ3+).⁴⁰ Our assumption is that exposure to risk is raised by a lower percentage of people in the labour market with an NVQ3+. This is relevant to automation as skilled jobs tend to automate at a slower rate⁴¹. A weak skills level is also relevant to Brexit given some industries have noted concern that a fall in skilled migrant labour will leave vacancies the domestic workforce may not be able to fill.

The scorecard’s final column relates to the age of the population. Like skill level an ageing population is an issue for the whole country, but there are significant variations in how places are likely to be affected. Of the forty-seven strategic authority areas surveyed, only twenty-one have a higher percentage of under-

39 OECD (2016) – Building skills for all – review of England

40 An NVQ3+ is equivalent to a holding at least an A-Level or equivalent qualification

41 IPPR (2016) - Future Proof: Britain in the 2020s

15s than over-65s. Of the remaining twenty-six, the percentage of the population that are over 65 ranges from 18% in Tyne and Wear to just over 28% in Dorset. This variance should be kept in mind when considering the national picture. The ability of an area to respond to structural labour market changes depends not just on the current labour supply but also on future changes. The rate at which people are expected to retire has an important bearing on this.

The map across the page illustrates the importance of viewing the national labour market as being comprised of local labour markets. Divides of north and south, urban and rural or 'South East and the rest' have little utility in explaining the variation observable in our analysis. Focusing on the risk through economic groupings such as 'the manufacturing sector' are also of limited use. In the second and third sections of this chapter, we therefore make the argument that labour market vulnerability challenges traditional ways of describing and understanding England's economy, first geographic and then industrial.

2. The forces behind local labour market risks

2.1 Automation

Impending automation of low-skilled jobs is a well discussed issue in general terms, yet its implications vary from place to place and from sector to sector. Warehousing, for example, is an industrial group which is likely to see a significant percentage of jobs automated in the very near future⁴². PwC estimate up to 30% of UK jobs are at high risk of automation by the early 2030s. Moreover, certain sectors are at more risk than others, with transportation and storage potentially facing the automation of 56% of its manual jobs⁴³. Overall improved efficiency will be accompanied by reduced employment, which could offset the gains if not managed properly. In places like Leicestershire, where the transportation and storage sector is a relatively major employer, there is an imperative to find alternatives for its 14,946 manual jobs at high risk of automation.

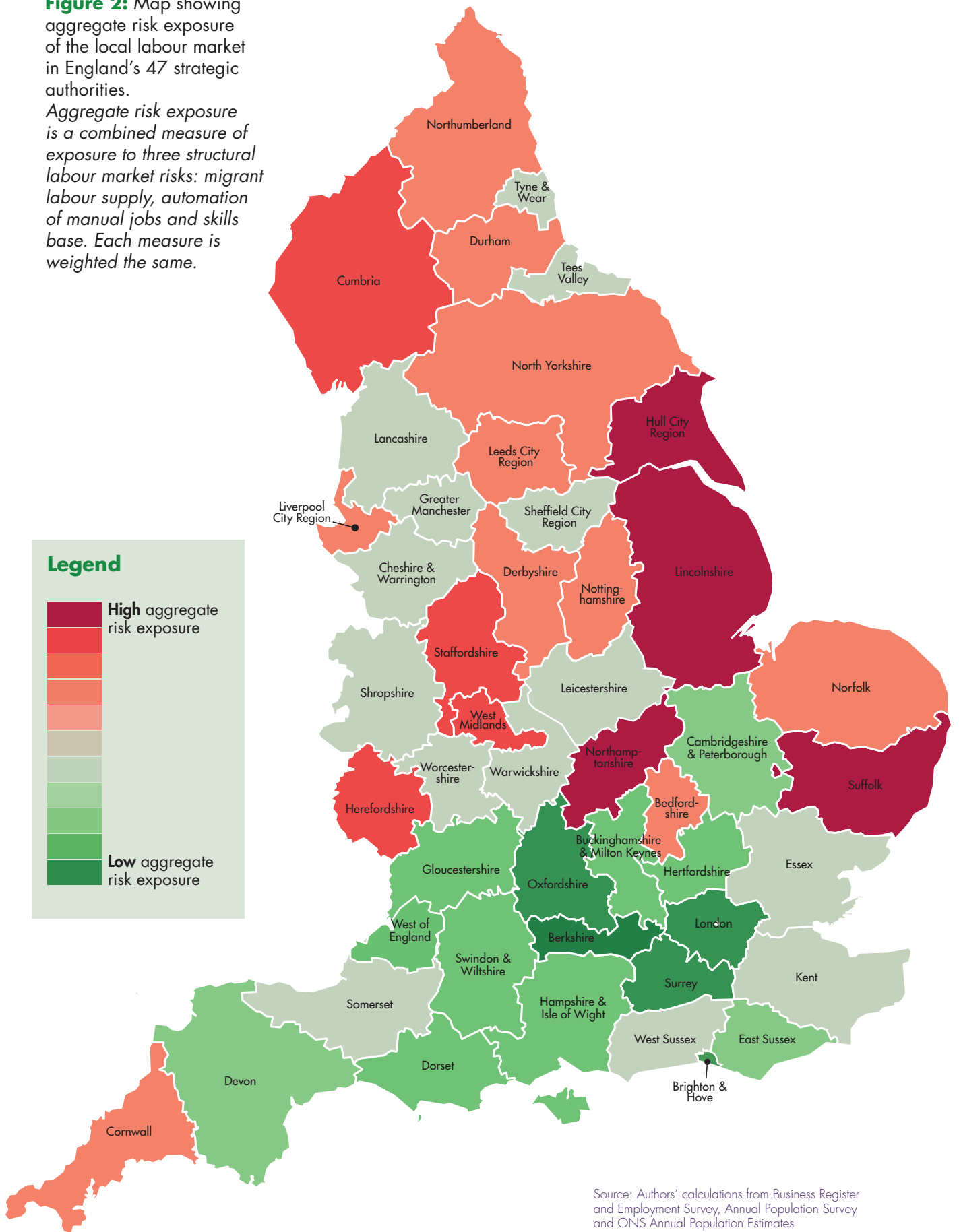
The manufacturing sector, too, has been undergoing a process of automation for some time, with the rate of technological progress showing no sign of slowing. In County Durham, this sector accounts for some 25,000 jobs, placing 11,600 jobs in the high-risk category in an industry which makes up 14.5% of the area's total employment. When more than one in ten local jobs are in the country's fastest-automating industry, there is clearly a greater urgency for planning and action than there is for a place like Surrey, with less than half this number.

42 PwC (2017) – UK Economic Outlook (March 2017)

43 Ibid

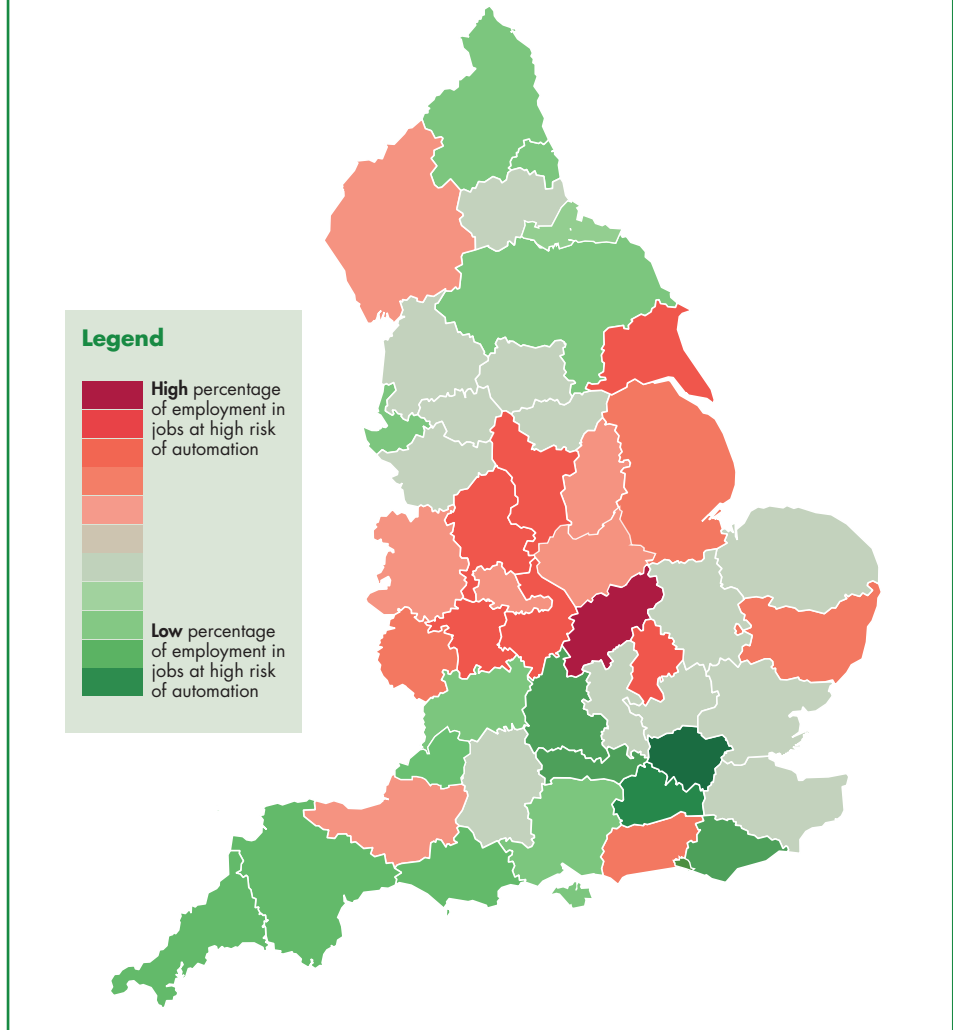
Figure 2: Map showing aggregate risk exposure of the local labour market in England's 47 strategic authorities.

Aggregate risk exposure is a combined measure of exposure to three structural labour market risks: migrant labour supply, automation of manual jobs and skills base. Each measure is weighted the same.



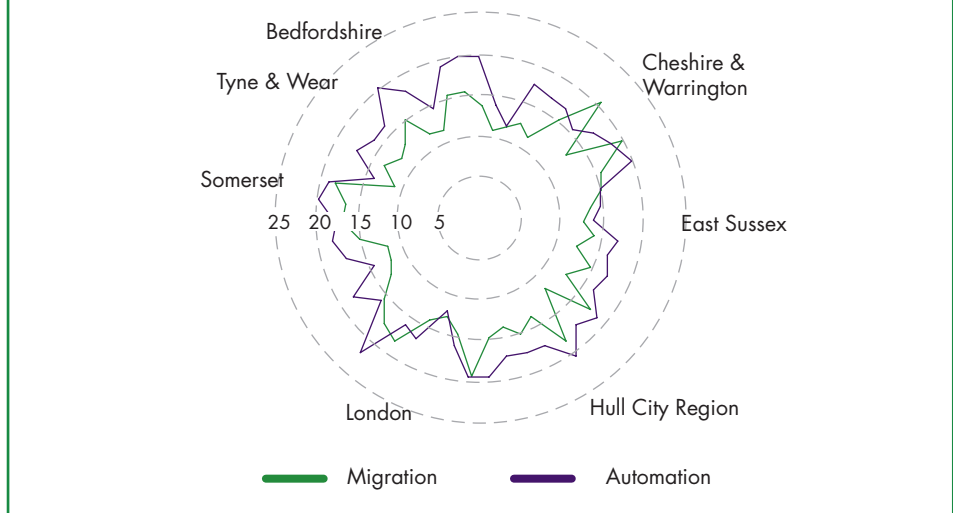
Source: Authors' calculations from Business Register and Employment Survey, Annual Population Survey and ONS Annual Population Estimates

Figure 3: Map showing the exposure of England's 47 strategic authority areas to the automation of manual jobs



Source: Authors' calculations from Business Register and Employment Survey

Figure 4: Percentage of employment in vulnerable industries in England's 47 strategic authorities



Source: Authors' calculations from Business Register and Employment Survey

2.2 Migration and demographics

The impact of Brexit on labour market supply is equally ubiquitous in current discourse. Indeed, a degree more attention has been given to its potentially diverse impacts of a labour shortfall on the country's places and industrial sectors. Although the legal practicalities of a new migration policy are far from clear⁴⁴, in the aftermath of the referendum there has already been a drop in net migration from EU nations⁴⁵. This has immediate and long-term implications for certain sectors of the national economy. As twin qualitative studies by the National Institute of Economic and Social Research before and after the Brexit vote revealed, there is a great deal of concern among employers in certain sectors that they may not be able to fill vacancies following the country's withdrawal from the EU^{46,47}. A nuanced understanding of the risk posed by a post-Brexit migration shortfall, forces us to focus on the intersection of places and sectors.

With a labour turnover of close to 33% in hotels⁴⁸, the national labour market for the tourism industry is at risk of a supply squeeze; yet not all high-tourism places are at equal risk. The diversity of an area's industrial makeup also impacts on its vulnerability. For example, accommodation and food and beverage service activities account for 13.5% of employment in Cornwall; a situation exacerbated by a larger than average food manufacturing sector. Altogether over one in five Cornish jobs are in industries which employ high numbers of migrants. If even half of these employees are migrants, that would still make around 20,000 vacancies which the local labour market may struggle to fill after 2019.

When considering Brexit, one area which is likely to be hit very hard is health and social care. The precise extent of the impact is difficult to measure as reliable data is not currently kept on how many EU nationals are working in the wider care system. We can, however, observe the number of EU nationals that have left NHS employment and expect there will be some reflection of this in the health and social care sectors. NHS Digital reported in September that almost 10,000 EU nationals have left the health service since the EU referendum, over a third of which were working as nurses⁴⁹.

These numbers suggest there is an emerging labour market threat to the country's ability to continue to care for the vulnerable in our society and this carries a significant geographic divergence. London and the South East will feel the pinch far more than the North West⁵⁰. Demography and geography are the obvious drivers behind this variation: simply put, the more elderly people you have, the more people you will need to care for them. And so called 'landing boroughs' will tend to have a higher proportion of migrant workers active in their local labour market⁵¹. In order to make sure Brexit represents a positive change, government strategy will need to be sensitive to the sub-regional variations of the effect of a drop in care workers. The extent of the demographics problem in parts of the country is illustrated in the figure across the page.

44 Centre for European Reform (2016) – Britain Will Struggle to Make EU Migrants 'Go Home'

45 Office for National Statistics (2017) – Migration Statistics Quarterly Report: August 2017

46 NIESR (2016) – The Impact of Free Movement on the Labour Market: Case Studies of Hospitality, Food Processing and Construction

47 NIESR (2016) – Employers' Responses to Brexit: Perspective of Employers in Low Skilled Sectors

48 Wadsworth (2016) – Post-Brexit Work Visa Quotas on EU Nationals are Likely to Favour Graduates

49 The Guardian (2017) – Almost 10,000 EU health workers have quit NHS since Brexit vote

50 The Observer (2017) – Number of EU care works in the UK surges

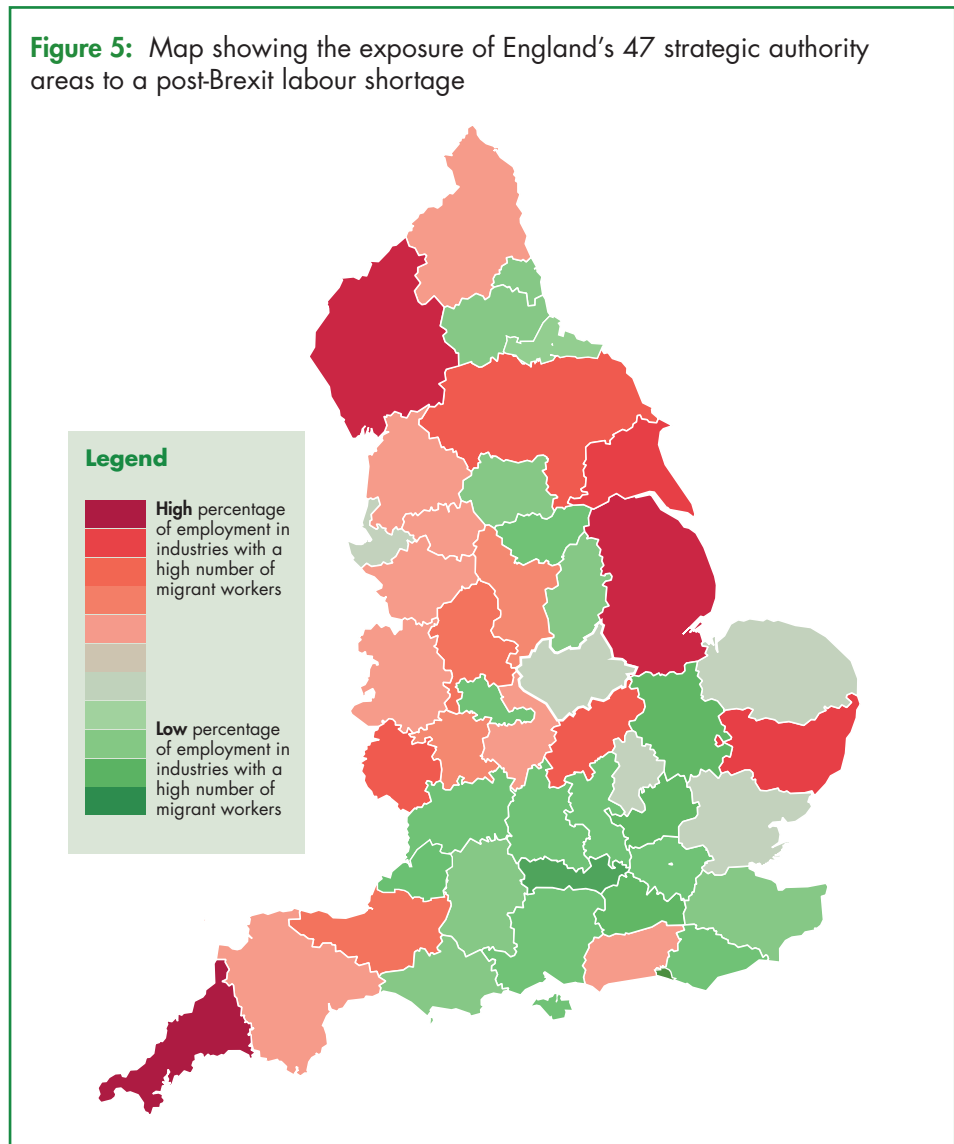
51 'Landing borough' is a term used to describe a place which sees a significant number of newly migrated foreign nationals

Source: ONS Population Projections 2015-2039

Gloucestershire 2039 exemplar

- The working age population will have only increased by 7,000 (the number required for just a **single year** of competitive growth).
- Over 65 population will have increased by 79,000.
- Gloucestershire has the businesses, location, connectivity and skills base for growth, but will it have the people?

Figure 5: Map showing the exposure of England's 47 strategic authority areas to a post-Brexit labour shortage



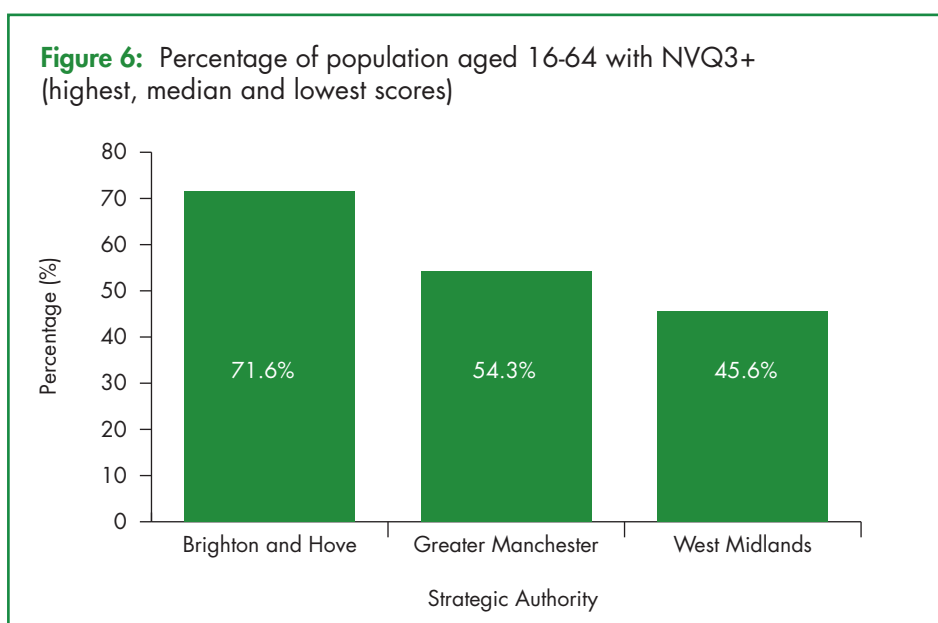
Source: Authors' calculations from Business Register and Employment Survey

2.3 Skills

NVQ Level	Examples
NVQ4	Certificate of Higher Education, Key Skills 4
NVQ3	AS/A Level, Key Skills 3, International Baccalaureate, BTEC National

NVQ2	GCSE (grades A*-C), Key Skills 2, Higher diploma
NVQ1	GCSE (grades D-G), Key Skills 1, Foundation Diploma

Among the 47 areas we survey, the most striking variation is in skill levels, with deviation above and below the national level for NVQ3+ differing significantly across the country. The graph below illustrates the extent of the variation by focusing on the lowest, middle and highest levels of NVQ3+. In the aforementioned PwC analysis, the ‘differentiating factor’ in workplace automation was found to be the education level of workers. Local-level disparities in education are connected with the different local industrial profiles of the country; the amount of gainful employment available to someone at a given qualification level will naturally affect the average exit point from education or training. Ten to twenty years ago, it would have been a perfectly rational decision for someone seeking employment in Somerset’s large manufacturing sector to pursue only the requisite NVQ level for entry into that workforce. As automation changes the employment landscape however, it is important those workers are not left behind with qualification levels that no longer reflect local labour market needs.



Source: Annual Population Survey

Skill level is also a metric which is useful at both a local and sector-level view of the national labour market. The 2015 UK skills survey found more Skills Shortage Vacancies (SSVs) than the 2013 survey in 7 out of 13 sectors, and saw a reduction in SSVs in only 4⁵². It is in this landscape that British businesses have been functioning, one which may well become all the more hostile as access to migrant labour is restricted. As we head toward 2019 and EU migration falls, the need for investment at the lower-skilled end of the workforce becomes far more urgent. The sudden increase in urgency can be exemplified by the construction industry.

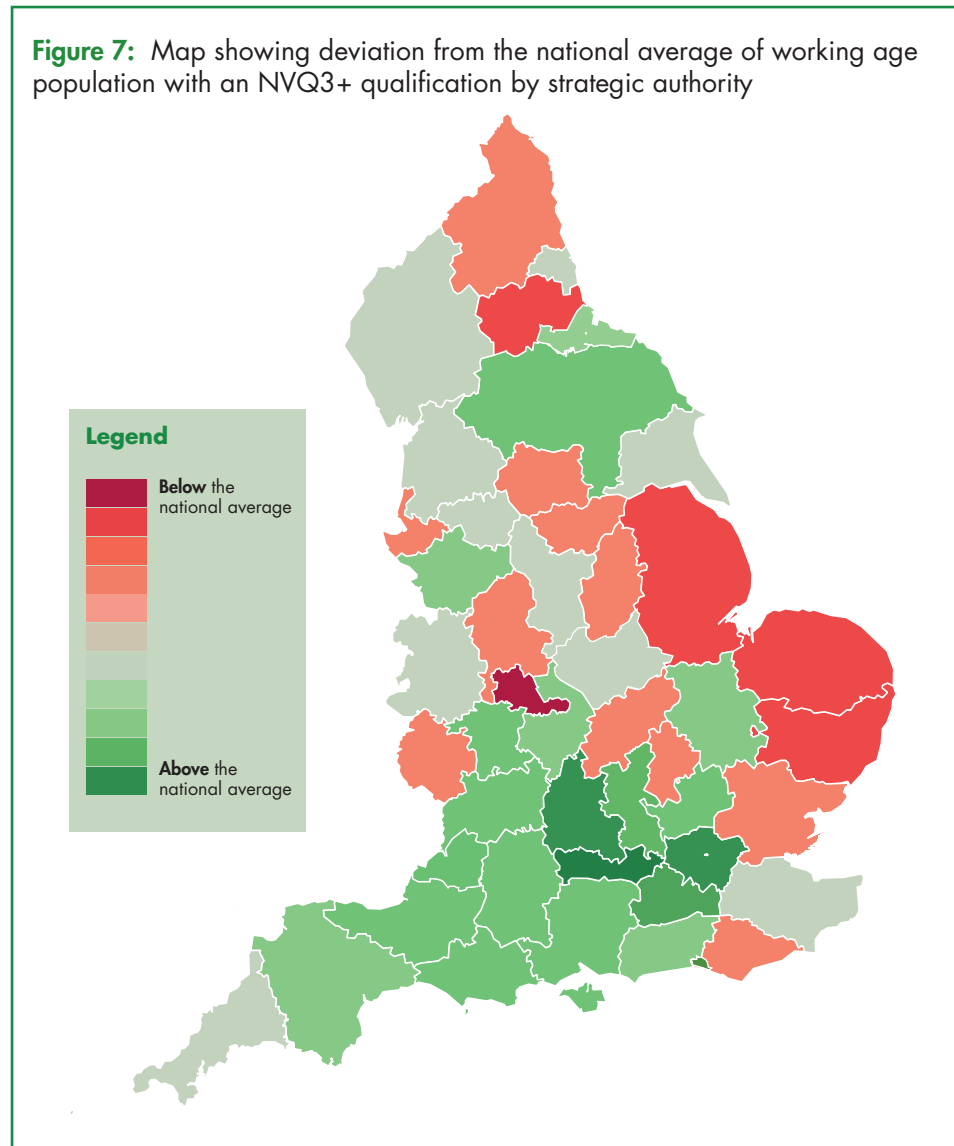
The availability of skilled European labour may have in the past led construction companies to forgo investment in the local workforce. Expert witnesses reporting to the All Party Parliamentary Group for Excellence in the Built Environment, stressed the destabilising risk of any withdrawal of resident rights for existing EU nationals in the UK⁵³. This short-term risk may be compounded by the long-

52 UK Commission for Employment and Skills (2016) – Employer Skills Survey 2015

53 APPG for Excellence in the Built Environment (2017) – Building on Brexit

term problem of workforce investment. As mentioned in previous chapters, the UK does not fare well in comparison with other OECD nations on training in skills, and the picture worsens when considering low-skilled occupations. The so-called ‘skills gap’ is more apparent between places than between social or economic class⁵⁴. The need for intervention on a number of different levels and from a number of different sources, based on local needs, shines through when observing the varying skill levels and risk profiles of England’s local labour markets.

Figure 7: Map showing deviation from the national average of working age population with an NVQ3+ qualification by strategic authority



Source: Authors’ calculations from Annual Population Survey

3. Local labour markets don’t fit traditional political narratives

3.1 Beyond the North–South divide

Traditional ways of understanding regional variation in England lose some of their analytical utility when considering local labour markets. In a recent collection published by the White Rose university consortium, McNory and Jackson argue that inequality in England has ‘matured’ past the north-south

54 The Atlantic (2017) - Education Isn’t the Key to a Good Income

divide. This argument extends to the labour market too⁵⁵. The North-South divide, for example, does not do justice to the considerable variation in the north.

Total	All Tourism	Accommodation
Cumbria	14.7	5.3
Tees Valley	8.3	1.1

Source: Business Register and Employment Survey

The impact of Brexit on local labour markets cuts through the North-South divide. Take for example Cumbria and Tees Valley. Tees Valley’s local labour market is more robust than Cumbria’s. As the table above displays, part of the reason for this can be explained by Cumbria’s larger share of the tourist industry and greater number of jobs in hospitality. Cumbria has a largely rural and ageing population⁵⁶. It also has a significant number of EU migrants employed in hospitality.⁵⁷ There is, therefore, a greater chance of a migrant labour squeeze than there is in Tees Valley, where tourism-associated industry account for around only 8% of employment. Tees Valley’s labour market is balanced by a higher than average percentage of jobs in less vulnerable sectors like education (where, unlike Cumbria, it is above the national average). In fact, the percentage of industry vulnerable to a post-Brexit labour shortfall in Tees Valley is more akin to that of Essex and Kent than to Cumbria.

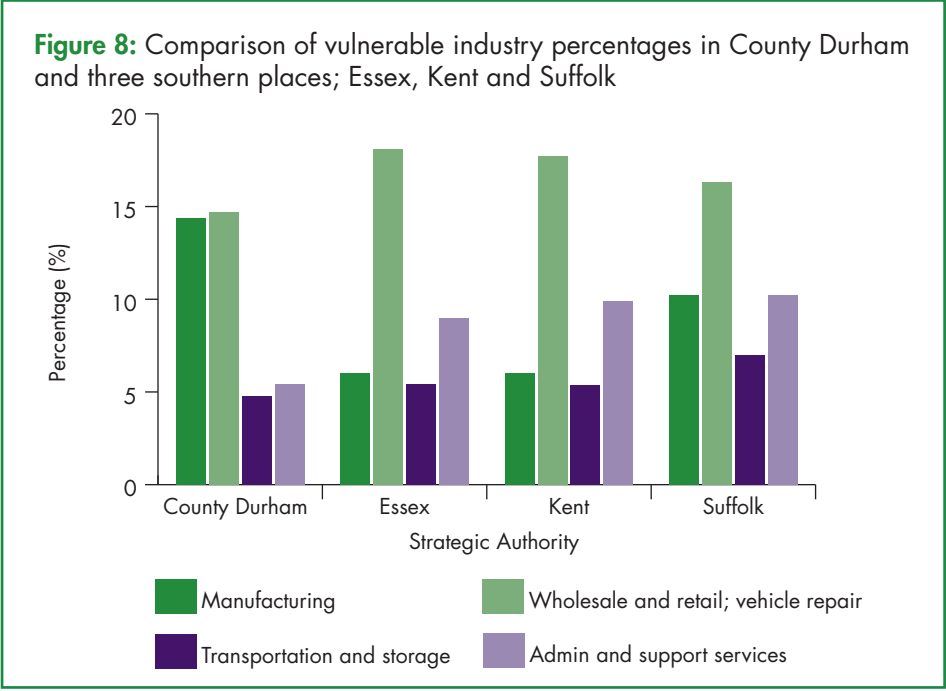
Just as a north-south view misses variation within the north, it also fails to account for the relative strength of some northern labour markets. Take County Durham and Suffolk. Due to the relatively large share of administrative and support service employment, Suffolk’s local labour market is at greater risk of problems arising from automation than County Durham. Durham’s labour market, however, is not without vulnerabilities - it has a large manufacturing sector. Durham’s manufacturing sector is larger than the national average, but it has smaller than average employment shares in three other high-risk industries, bringing its exposure down to a more manageable level than some southern counterparts.

55 McNory and Jackson (2016) – Inequality knows no compass points: questioning the North-South divide

56 Cumbria Aging Well Programme website, Cumbria County Council

57 ITV (2017) – How Cumbria relies on EU migration

Source: Business Register and Employment Survey



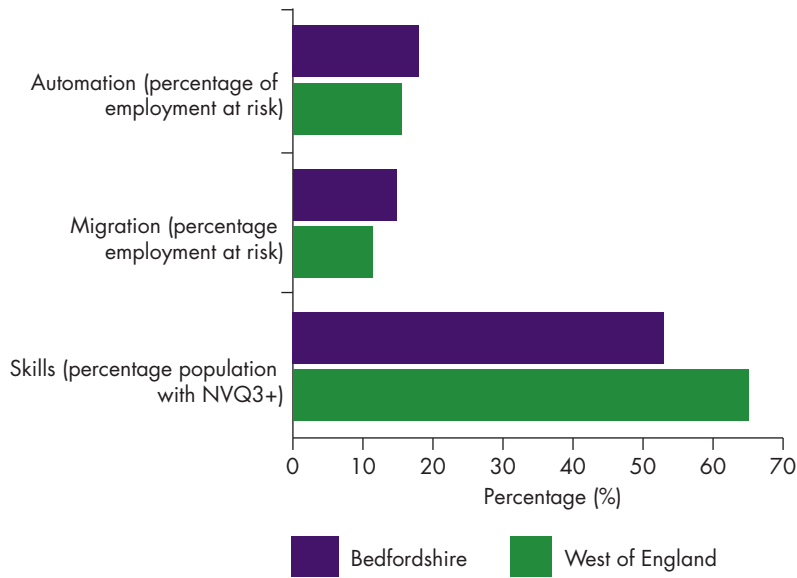
3.2 Connectivity to London isn't necessarily a passport to prosperity

Labour market vulnerability also extends beyond a split between the South East and the rest of the country. For example, Essex and Kent aren't the most fragile labour markets in the country, yet our analysis suggests they are considerably less robust than the West of England. This aligns with the findings of a recently published LSE report, which noted the M4 Corridor performs better than much of the South East on many industrial measures⁵⁸.

The salient point is proximity to London is no guarantee of labour market robustness, even if it is an advantage in terms of overall wealth. Comparing Bedfordshire with the West of England, as in the chart below, provides an illustration of this, with the Bristol-centred area performing better than the London neighbour on all three of our metrics. This is not, however, to suggest that the data tells a story centred on the strength of the cities.

⁵⁸ LSE (2017) - Industry in Britain – An Atlas

Figure 9: Comparison of labour market vulnerability in Bedfordshire and the West of England



Source: Business Register and Employment Survey / Annual Population Survey

3.3 A more nuanced understanding of urban growth engines

To treat cities or counties as homogenous categories because of their demography and skill level would be to skim some major differences within and between them in our analysis. In particular the relatively low level skills base in some cities is a major cause for concern.

City	Population aged 16-64 with NVQ3+
Greater Manchester	54.3%
Leeds City Region	51.9%
Liverpool City Region	50.7%
London	66.3%
Sheffield City Region	52.1%
West Midlands	45.6%
West of England	65.1%

Source: Annual Population Survey

From the West Midlands, where NVQ3+ levels are some of the lowest in the country, to London, where they are among the highest, there is an obvious threat to the countervailing narrative that cities are the country's sole engines of growth. There are some understandable reasons for this. The skill level in the West Midlands corresponds with a manufacturing base some 3% larger than the national average. Bristol, on the other hand, is 3% above the national average in Professional, Scientific and Technical Activities, a figure reflected in its higher skill level. It may be tempting to treat city, town and village as comprehensive categorical distinctions but it betrays the nuanced risks and opportunities each place faces. As we have already noted, what may be economically and socially destructive in one place, could make a positive difference to another.

4. The limits of a strictly sector-focused approach

In the national discussion on a post-Brexit migration policy, the idea of sector deals has been repeatedly cited by government as its attempt to support industry more proactively in advance of and through the Brexit process⁵⁹. Focus on industrial sectors has been used as a method of approximating risk of automation and labour shortfall for the whole country, but has not been considered in the holistic, local-level manner we present in this report. When viewing the country as made up of many local labour markets, it becomes clear that the potential damage to a sector is only part of the picture. The role an industrial sector plays changes from place to place, leaving vast divides in the potential damage a local labour market might experience from structural changes within that industry. For this reason, sector-focused understandings of England's economy are also of limited explanatory power when applied to our analysis.

The effects of automation are also hard to capture precisely through the lens of industrial sectors. Across the country, labour forces will be hit in different ways by the automation of manual labour. A place like Staffordshire, with a large number of jobs in manufacturing and storage, faces the problem of many workers being left without jobs. Its problem is one of too many people for a shrinking employment requirement. Automation, in these places, looks like a threat. In a place like West Sussex, where the manufacturing sector is small but the storage sector quite large, the problem looks very different. Although the storage sector in West Sussex will be hit, it is by no means the main issue. Where the population is ageing and the number of retired people is likely to increase in proportion, the problem is more related to a shrinking number of workers potentially leading to economic stagnation as business goes elsewhere. For these places, automation has a major upside in that it may offset the reduction in the workforce.

A high amount of employment in certain at-risk sectors does not guarantee a labour market which is especially vulnerable overall. Take Brighton, for example. Brighton performs extremely well on our scorecard, being in the top five places on all three metrics. In light of this, it is worth looking at the industrial groupings in which Brighton differs most from the UK at large:

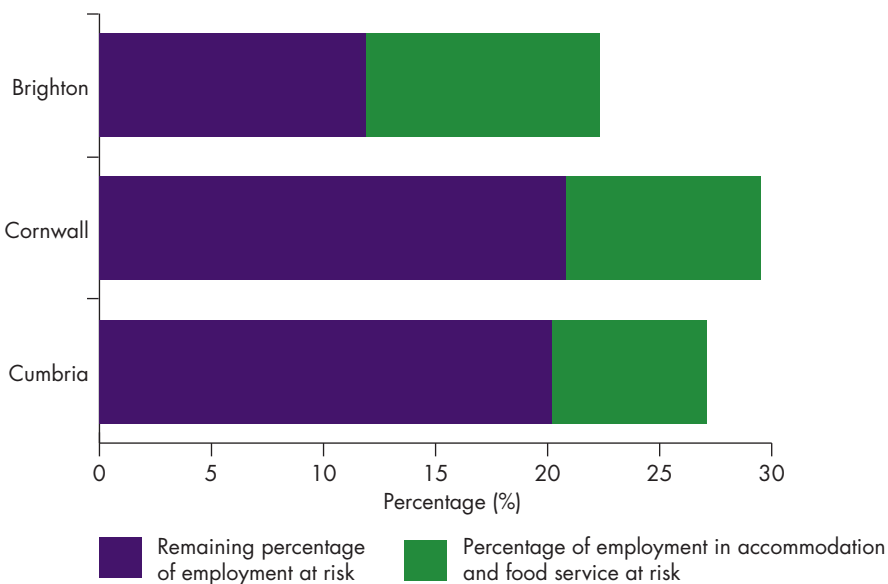
Sector	Brighton	UK	Difference
C: Manufacturing	1.9	8.3	-6.4
I: Accommodation and Food Service Activities	10.4	7.2	3.2
P: Education	12.7	9.2	3.5
Q: Human Health and Social Work Activities	17.2	13.3	3.9

Source: Business Register and Employment Survey

As the table shows, Brighton has a much smaller manufacturing base than most places in the UK. The most interesting point, however, is the high amount of employment in accommodation and food service, which as mentioned above is at significant risk of a labour shortage after Brexit. The small manufacturing base goes some way to explaining its resilience to the loss of manual jobs to automation, as its large education sector (centred on Sussex University) is a partial explanation for its high average skill level. The large accommodation and food service sector, however, shows that a high-risk sector can be mitigated by an area's industrial balance. The important lesson from Brighton in this instance is that a high amount of employment in one at-risk industry is not as damaging as an above-average amount in a few. Figure 10 demonstrates this:

⁵⁹ Financial Times (2016) - May puts UK on course for sector-by-sector deals on EU trade access

Figure 10: Comparison of the contribution of accommodation and food services activities to a post-Brexit labour shortfall risk in the tourist hotspots of Cumbria, Cornwall and Brighton



Source: Business Register and Employment Survey

Despite having accommodation and food service activities employment well above the national level, the sector actually only accounts for around a quarter of at-risk employment in Cumbria and Cornwall – where the addition of food manufacturing pushes the overall percentage into the upper quartile of places. This is important to bear in mind when considering potential sector-level deals on migration after Brexit, as it illustrates how the particular industrial balance of a place is more important in determining labour market risk than the amount of jobs in any one given industry.

Reporting on labour immigration after Brexit, the Migration Observatory stress that ‘which jobs are eligible?’ will become a key question in determining a national policy⁶⁰. Beyond this, we would add that which *places* are eligible (and to what extent) is an equally important issue. A policy approach based on sectoral differences which does not give equal emphasis to local differences would also be inadequate in the case of automation, where the challenges of upskilling differ from place to place. There is not only the average skill level of a place to consider, but also the level and quality of Further Education (FE) provision to consider. As this report will subsequently argue, a coordinated effort from FE providers and local authorities is required, at a strategic authority level, in order to meet the needs of changing local labour markets. Centralised initiatives based on the needs of industrial sectors would be much harder to tailor to local needs than a devolution of powers to the people in the area best served to raise skill levels.

5. Unconventional understanding

The failure of conventional understandings in application to our map and scorecard may well be related to the labour market being considered in isolation. For instance, the damage automation is likely to cause in the manufacturing and warehousing heartland of the Midlands does not necessarily translate to a drop in Gross Value Added (GVA). The advantage of focusing solely on labour is that it illustrates potential rises in economic inactivity, which may have social and

⁶⁰ Migration Observatory (2017) - Labour Immigration after Brexit: Trade-offs and Questions about Policy Design

political ramifications before it is reflected in strictly economic metrics. There is time for this potential problem to be cut off by a policy solution which addresses the disparate needs of the nation's labour markets. Looking at the country from a perspective combining a focus on labour markets with a neo-localist emphasis on place, it is clear that any policy which seeks to mitigate risk, in the face of impending automation and a potential labour shortfall in the aftermath of Brexit, must be considerate of the wide local variations observable in our analysis.

6. Supporting a better Brexit

The early combined calls of the LGA and Business Secretary suggested there would be a "seat at the Brexit table" for local government. Recent developments have seen the Metro-Mayors meet with the Brexit Secretary⁶¹, but as yet a formal role has not materialised, particularly for areas outside of the big cities^{62,63}. In part this reflects Whitehall's own time and resource pressures, but it also suggests that since the UK voted to leave the European Union local government has struggled to articulate the value adding role it can play in supporting central government through Brexit. Throughout this report we have explained how greater local labour market intelligence is invaluable locally but also how it could better inform and nuance national strategy. As central government works its way through negotiations with Brussels there is a clear labour market intelligence and influencing role England's strategic authorities can play.

⁶¹ Financial Times (2017) - UK's northern cities lobby Brexit minister over EU funding

⁶² The Guardian (2016) - Local government needs a seat round the table

⁶³ Public Finance (2016) - Local government has a seat at the Brexit table

SCORECARDS

Below are more detailed explanations of the calculations made for scoreboard indicators.

- **Automation score** is taken from the total percentage of employment in an area in the following industrial sectors (UK SIC 2007) and the percentage of jobs in that industry which are considered highly likely to be automated by 2030, as identified by PwC in the UK Economic Outlook from March 2017. Data is collected from the Business Register and Employment Survey 2016, via Nomis UK.
 - C: Manufacturing - 46.4%
 - G: Wholesale and Retail Trade; Repair of Motor Vehicles and Motor Cycles - 44%
 - H: Transportation and Storage - 56.4%
 - N: Administrative and Support Service Activities - 37.4%
- **Migration score** is taken from the total percentage of employment in an area in the following industry divisions, as identified by the Resolution Foundation in Work in Brexit Britain as employing a significant number of EU migrants (activities of domestic households as employers and agricultural labour are not included due to the scarcity of reliable data). Data is collected from the Business Register and Employment Survey 2016, via Nomis UK:
 - 10: Manufacture of Food Products
 - 15: Manufacture of Leather and Related Products
 - 22: Manufacture of Rubber and Plastic Products
 - 23: Manufacture of Other Non-Metallic Mineral Products
 - 38: Warehousing and Support Activities for Transportation
 - 55: Accommodation
 - 56: Food and Beverage Service Activities
 - 81: Services to Buildings and Landscape Activities
- **Skills score** is based on deviation from the national average of the percentage of the population aged 16-64 with an NVQ3+ qualification. This data is collected from the UK Annual Population Survey, via Nomis UK.

Also included in the table, but excluded from the average rank, is a measure of a place's demographics base:

- **Demographics score** is based on the dependency ratio in that area. The dependency ratio is calculated by adding the number of those aged 15 and under and over 65s in an area, dividing that number by the working age population and multiplying the result by 100. This data is collected from the ONS UK Population Projections.

For each of the metrics detailed above, we have produced a 'score' in order to rank places side by side. The scores are created by indexing the national average at 100. The higher the score, the lower the exposure:

- For automation and migration, the score increases by 1 for every 0.1% below the average percentage of employment in vulnerable industries across England's strategic authorities.
- For skills, the score increases by 1 for every 0.1% above the UK average for NVQ3+.
- For demographics score, the score increases by 1 as the dependency ratio, rounded to the nearest whole number, decreases.

	Strategic Authority	Av. Rank*	Automation Score	Rank	Migration Score	Rank	Skills Score	Rank	Demographics Score	Total
1	Brighton and Hove	2	157	1	129	5	257	1	121	543
1	Berkshire	2	134	4	136	1	228	2	103	498
3	Surrey	4	136	3	134	2	188	6	100	458
4	West of England	5	126	7	130	4	192	5	110	448
5	Oxfordshire	6	131	6	124	8	213	3	105	468
6	London	7	151	2	118	14	204	4	115	473
7	Gloucestershire	12	110	15	123	11	130	11	99	363
8	Hampshire & Isle of Wight	13	107	17	119	13	138	8	96	364
9	Cambridgeshire and Peterborough	14	102	19	131	3	103	20	104	336
10	Dorset	14	124	8	110	21	127	14	83	361
11	Hertfordshire	15	97	26	128	6	129	12	103	354
12	Swindon and Wiltshire	16	100	20	111	19	137	9	99	348
13	East Sussex	16	133	5	120	12	70	32	89	323
14	Buckinghamshire & Milton Keynes	17	95	30	118	14	156	7	101	369
15	Tees Valley	18	114	12	124	8	66	34	101	304
16	Devon	19	119	9	91	32	116	17	92	326
17	Tyne and Wear	20	111	14	117	16	74	29	107	302
18	Sheffield City Region	22	99	24	126	7	62	35	105	287
19	North Yorkshire	22	110	15	61	42	136	10	98	307
20	Greater Manchester	23	100	20	97	28	84	22	106	281
21	Kent	24	97	26	111	19	79	26	99	287
22	Cheshire & Warrington	24	100	20	89	34	105	19	99	294
23	Cornwall	26	116	10	40	47	84	22	92	240
24	Liverpool City Region	27	112	13	99	26	48	41	104	259
25	Essex	27	100	20	105	24	59	37	102	264
25	Lancashire	27	98	25	96	29	78	27	99	272
27	Nottinghamshire	27	87	33	117	16	68	33	106	272
27	Somerset	27	94	31	75	39	129	12	91	298
29	Leeds City Region	28	97	26	110	21	60	36	104	267
29	Northumberland	28	115	11	90	33	53	39	95	258
31	Leicestershire	28	80	38	99	26	89	21	105	268
32	Norfolk	29	103	18	103	25	46	43	93	252
32	West Sussex	29	82	36	89	34	118	16	93	289

Strategic Authority	Av. Rank*	Automation Score	Rank	Migration Score	Rank	Skills Score	Rank	Demographics Score	Total
34 West Midlands	29	90	32	124	8	-3	47	104	211
34 County Durham	29	97	26	114	18	46	43	103	257
36 Shropshire	30	87	33	95	30	77	28	98	259
37 Warwickshire	31	68	45	92	31	108	18	99	268
37 Worcestershire	31	70	43	86	36	123	15	96	279
39 Bedfordshire	32	72	42	107	23	71	31	104	250
40 Derbyshire	34	74	41	86	36	83	25	101	243
41 Cumbria	34	86	35	46	46	84	22	95	216
42 Herefordshire, County of	38	82	36	69	41	56	38	94	207
43 Hull City Region	40	64	46	60	43	72	30	95	196
44 Staffordshire	41	70	43	77	38	48	41	101	195
45 Northamptonshire	42	49	47	70	40	53	39	101	172
46 Suffolk	42	80	38	58	44	40	45	93	178
47 Lincolnshire	44	77	40	49	45	30	46	95	156

*Average rank does not include the demographics score ranking. The average rank is designed to provide a measure of current labour market robustness. The dependency ratio is more a measure of a labour market's long-term sustainability.

Chapter Three — Reforming skills, regulation and governance to support local labour markets

1. The case for skills reform from the local level

The potential problems our analysis presents take two forms: those which concern the skills gap in the next and current generation of workers in England, and those which concern an immediate shortfall in labour. The former operates on a medium and long-term timeframe, as it deals with raising the skill levels of the current workforce and improving the pathways to skills employment for the next generation. These are not goals which can be achieved overnight and our recommendations reflect this. The problem of an immediate shortfall is one facing the hospitality, construction and (perhaps most acutely) health and social care sectors. This problem arises in the short-term, and requires swift action on the part of government. Our recommendations concerning this problem are accordingly based on what strategic authorities could be empowered to do in a short timeframe to prevent major gaps opening up in the workforce.

Where the skills gap is concerned, strategic authorities across the country are already engaged in efforts to influence their local labour market. In Suffolk, the 'Raising the Bar' strategy is targeted to increase skill levels and educational attainment across the county. In Kent, the County Council hosts a website for apprenticeships which acts as a single point of access where employers and prospective employees can learn about their options in the area. In Essex, the ACL service provides apprenticeships and pre-apprenticeship courses for individuals of 16 and over, among many other adult learning and career development options. The Tees Valley combined authority runs an 'Apprenticeship Hub', again providing a single point of access for information. These are just a few examples of strategic authorities using their convening power to pull together educational institutions, businesses and individuals to the benefit of the local labour market. In order for these kinds of initiatives to be achieved across the country, there must be a clear programme outlining and consolidating the strategic authority's role in labour market influencing.

1.1 Establishing the labour market influencing role of strategic authorities

As the examples above show, there is both capacity and will among strategic authorities to play a role in local labour market influencing. National policy can enable them to do this by devolving a greater range of powers and formalising their status. In our previous report *The Making of an Industrial Strategy*, we made the case for an Industrial Compact between the national government and strategic authorities. An important element within this arrangement would be the outlining of the role of the strategic authority in influencing the labour market in their area. Ensuring skills provision matches local need, as well as taking a proactive role in optimising labour supply.

For example, regarding the likely drop in care workers, strategic authorities must be fully empowered to take action in their retention and recruitment, both domestically and internationally. In researching this report, we learned of a speculative trip taken by Hillingdon council to South Africa, where they felt the

similar pay levels and language would allow them to make an attractive offer to care workers. This is the kind of action which strategic authorities should be engaged in: identifying the short-term risks in their area and taking direct action to counter them. This kind of proactive behaviour may well be required in many areas, the largest drop in immigration to the UK since the referendum has been in people looking for work, with a less severe drop in people who have job offers⁶⁴. This can also be done domestically, given the variations in employment needs across the country. Where there is a surplus of migrant construction workers in London, they may be greatly appreciated in Herefordshire. Strategic authorities are best placed to identify the broader sub regional needs and how these connect in with a national labour market.

There is also a role to be played by strategic authorities in retaining the current workforce. If the EU referendum discourages migrant workers from our health and social care sector, strategic authorities are well placed to launch campaigns to dissuade the fears of these potential workers. In West Sussex, the policy unit are working towards a campaign to raise the esteem and general public awareness of migrant care workers. This is not about changing attitudes to Brexit or future migration policy, simply making the general public aware of the contribution made to health and social care by the current workforce and letting the people doing that work know that they are supported by their local area.

Recommendation 1

Government should formally recognise the status of England's remaining strategic authorities without a devolution deal by instituting an Industrial Compact, as recommended in the previous Localis report *The Making of an Industrial Strategy*, thus formalising governance upon which new local labour market strategies and powers can be developed and utilised.

Recommendation 2

As part of every new local industrial strategy, every local area, convened by the strategic authority, should develop a local labour market influencing strategy which highlights at risk industries and businesses.

1.2 Localising the skills system

We recommend strategic authorities be more active in convening the education and training system alongside business to meet local needs, and to be given a greater role in the allocation of the apprenticeship levy and the coordination of levy payers.

The recent establishment of the apprenticeship levy was a step in the right direction for raising the profile and esteem of apprenticeships in this country. Nevertheless, there remains a measure of confusion reported by both employers and councils on how to best use and publicise apprenticeship funds⁶⁵. There is also evidence that employers are tending to use the levy for development of their existing workforce rather than for taking on new apprentices⁶⁶. There is nothing wrong with this *per se*, however a more holistic vision of local labour market influencing would encompass the need to take on and train a new generation of workers.

64 ONS - Migration Statistics Quarterly Report August 2017

65 ICAEW (2017) - Companies Still Confused by Apprenticeship Levy

66 Financial Times (2017) MBA students become unlikely beneficiaries of UK apprenticeship levy

Explaining the apprenticeship levy

- All employers with an annual wage bill over £3 million pay into the levy (via their PAYE)
- These funds go into an account manageable on the government apprenticeship service website, on a monthly basis
- The government automatically adds 10% to the funds on a monthly basis
- Funds in this account can be spent on apprenticeship training and assessment (with 'funding bands' for different apprenticeships), providing the apprentices work at least 50% of the time in England
- From April 2018, employers will be able to transfer funds to other organisations, initially at 10% of the annual value of their account
- Unused funds expire after 24 months
- Employers who don't pay the levy pay 10% of the cost of apprenticeship training and the government pays the additional 90%

A lack of strategic direction at the local level also means there is no clear incentive for FE providers or employers to work together to fill current and future labour market needs, meaning the levy is not necessarily being optimally utilised. Strategic authorities are well placed to adopt a more prominent role in the promotion of apprenticeships, given their unique vantage point with regard to identifying local industrial needs and ability to carve out pathways to employment from pre-school to the labour market. Strategic authorities have the ability to engage businesses across an area, as well as to coordinate local authorities and FE providers on issues of education and in-school publicity of opportunities.

Recommendation 3

As in Greater Manchester, and in London by 2019/2020, government should devolve control of the adult education budget to all remaining strategic authority areas. This would empower them to convene local colleges, training providers and businesses in order to set the priorities for their local labour market strategies.

1.3 Creativity and flexibility in apprenticeship funding

There is potential for the apprenticeship levy to be used more flexibly and creatively in local labour market influencing, if the regulatory framework is adjusted to allow it. The measures we propose are all to do with how an apprenticeship levy account can be used, shared or delegated by an organisation. Local public sector organisations who pay the apprenticeship levy should be allowed to pool their accounts to create a consolidated local fund for training in health and social care. Given the particular risk of a post-Brexit labour shortfall in certain health and social care roles⁶⁷, there is a real urgency for such coordinated action. Able to take a holistic view of public service demands, FE provision levels and local migration demographics; the strategic

⁶⁷ The Guardian (2017) – Almost 10,000 EU health workers have quit NHS since Brexit vote

authority is the body best placed to identify and mitigate labour shortages in public organisations. It therefore seems reasonable that they would have a more prominent role in the oversight and allocation of the funds available for training in the areas where the need is most pressing.

Recommendation 4

Local public sector organisations, most pressingly it would be sensible for the NHS and local government to collaborate, should explore what options are available to pool their apprenticeship levy within a strategic authority area. In particular this should be seen as a priority in areas where the health and social care workforce is dependent on a significant amount of migrant labour.

Government should reduce the restrictions on large private sector organisations moving the funds in their account down the supply chain. Currently set at a maximum 10%, and only from April 2018, there is room for this time limit to be decreased or abolished altogether. This would allow small and medium-sized enterprises, who unlike many of the large employers may not have dedicated budgets for training and development, to both take on and develop new starters and to invest in the improvement of their own workforce. Beyond this, it should also be possible for large businesses to pass their funds onto the strategic authority, where they would be ring-fenced for skills development in the area.

Businesses like Tesco and Sainsbury's have consistently shown a commitment to raising the quality of education in the communities they operate in⁶⁸. If there was a clear mechanism for transferring the account to the strategic authority and appropriate guarantees that this money would be spent on local skills development, paying the apprenticeship levy could become another way for them to do this. In an extension of this logic, it should also be possible for strategic authorities to access funds for skills development from an apprenticeship levy account if they go unused. The apprenticeship levy is not optional, but there is no guarantee that the money accrued in a business's account is actually going to be drawn from to take on new staff. Rather than these funds reverting to Treasury, they should be reallocated to strategic authorities, once again ring-fenced for the development of the local skills base.

Recommendation 5

Government should accelerate the April 2018 deadline for moving funds held in an apprenticeship levy account to another firm, and remove the 10% threshold.

Recommendation 6

Government should create the option to allow employers to passport their apprenticeship levy funds to a strategic authority for local skills development activity. This would need to be ring-fenced and the priorities for development established before a strategic authority could accept the funds.

As schemes like the aforementioned apprenticeship information points demonstrate, strategic authorities can have real success in the promotion of apprenticeships to both employers and potential apprentices. Currently, it is up to the authority to take the initiative and piece together the requisite information. We recommend that such policies be made central to the strategic authority role, so that individuals in any part of the country can know where to find out about

⁶⁸ Tesco community champions programme and Sainsbury's community literacy programme

the options for career training in their area. Enabling strategic authorities to be the single point of access would greatly aid efforts to remove the fragmentation in the education pathways of potential apprentices and make a clear route: from primary school to entering the labour market with skills that are locally valuable. Strategic authorities are well placed to determine the present and future industrial needs of their area, as such they should be empowered to set 'start quotas' for apprenticeships. These quotas would allow strategic authorities to use apprenticeship funds to instruct and motivate FE providers and employers in order to get the most value for money in the local labour market.

Recommendation 7

Government should empower and fund strategic authorities to raise the profile of apprenticeships and the wider state support offered for in work training. The most successful and advanced strategic authorities should be legally allowed to set 'start quotas' for apprenticeships in their areas.

1.4 Coordinating Further Education at the local level

One element which would be essential to ensuring the success of a strategic authority led apprenticeship system is coordination of the local education system. The main points of delivery, where apprenticeships are concerned, are FE colleges, which therefore require special attention in designing an effective system.

As a County Council told us during our research for this report: "The FE colleges should be going for bespoke courses that are accredited to help support the local economy." Such accreditation, we believe, would be a crucial part of a strategy to influence the local labour market. Strategic authorities should have the ability to prioritise technical education around the types of industry with the greatest need and relevance to the area, in order to make sure that local graduates are equipped to find and keep work in the area.

Furthermore, following the example set by Kent County Council, we recommend funds be made available to strategic authorities for the establishment of employer guilds. These guilds would bring together employers within a sector to better facilitate coordination of business and education. This recommendation fits in well with the government's involvement of key industry leaders in the qualification panels for the new T-Levels.

Recommendation 8

In local areas where industry collaboration is weak and relationships with the strategic authority need formalising, strategic authorities should establish employer guilds. These guilds would work with the strategic authority to help shape labour market policy, thus ensuring a steady supply of qualified labour for their future business requirements.

2. Local strategies to increase participation of low-activity groups

This section focuses on two groups defined as 'low activity' – that is to say, they are less active in the labour market than others and below government's own participation targets. These groups are disabled people⁶⁹ and the over 50s, both of whom who are poorly served by existing policy and face significant barriers to accessing the labour market. As Britain's labour market goes through

⁶⁹ 'Disabled' defined here in accordance with the Equality Act 2010

the structural changes outlined in this report, the need for a new and improved skills base should incentivise local and national authorities to take action towards removing the barriers to sustained employment faced by disabled people and the over 50s.

We do not suggest these are the only two groups who face sustained barriers to employment, simply that for a strategic authority, given the service cost pressures associated with disability and older age, there are strong organisational incentives to work towards enhancing the working lives of these cohorts.

There are over thirteen million disabled people in the UK⁷⁰, for whom the chance of being unemployed is more than double⁷¹. Furthermore, it is far less likely that they will sustain employment. Getting disabled people into the labour market in a lasting and valuable way is referred to as ‘labour market activation’ In 2014, the charity PRIME estimated that around one million people aged 50-64 are made “involuntarily jobless” every year⁷². When an individual is forced out of the labour market due to their age it is referred to as ‘complete labour market exit’. The goal for government at all levels should be to help provide lasting labour market activation and prevent early complete labour market exits. These two issues are not unrelated, health problems are one of the main reasons for people over 50 leaving the labour market⁷³. In this section we outline the factors which cause failures in labour market activation and trigger early labour market exit and make the argument that regulation can help mitigate against them. We outline, for each group, the type of regulation that would help to achieve this goal.

2.1 Opening up the labour market to disabled people and the over 50s

The idea of an ‘inclusive workplace’ has gained a lot of traction in recent years, spawning national policy in some places and being codified by charitable institutions and major employers in others. In the case of the UK it is the latter, with employers like PwC and organisations like Inclusive Employers working towards the goal of making inclusivity the norm in workplaces⁷⁴. While these schemes are undoubtedly valuable, we would argue that in the case of two low-activity groups in our society, more targeted and specific initiatives are required, backed by legislation. Equality and inclusivity are goals which of course benefit disabled people and the over 50s in the labour market, both being groups placed at a disadvantage by circumstance. Nevertheless, there are particular barriers to sustained employment to both groups which a dedicated programme could target faster and more effectively than a more general approach. Similarly, a number of strategic authorities already have schemes in place to monitor the quality of service provided to disabled people, for example the Hampshire County Council operates a card scheme⁷⁵. Regarding the labour market, what these authorities need are powers necessary to take these services to the next level.

2.2 A better deal for disabled people

There is a real opportunity to reform pathways to work for the disabled. The first step in doing this is accepting that centralised, uniform solutions do not fit this problem.

70 Family Resources Survey 2015/2016

71 Scope (2017) - Disability Facts and Figures

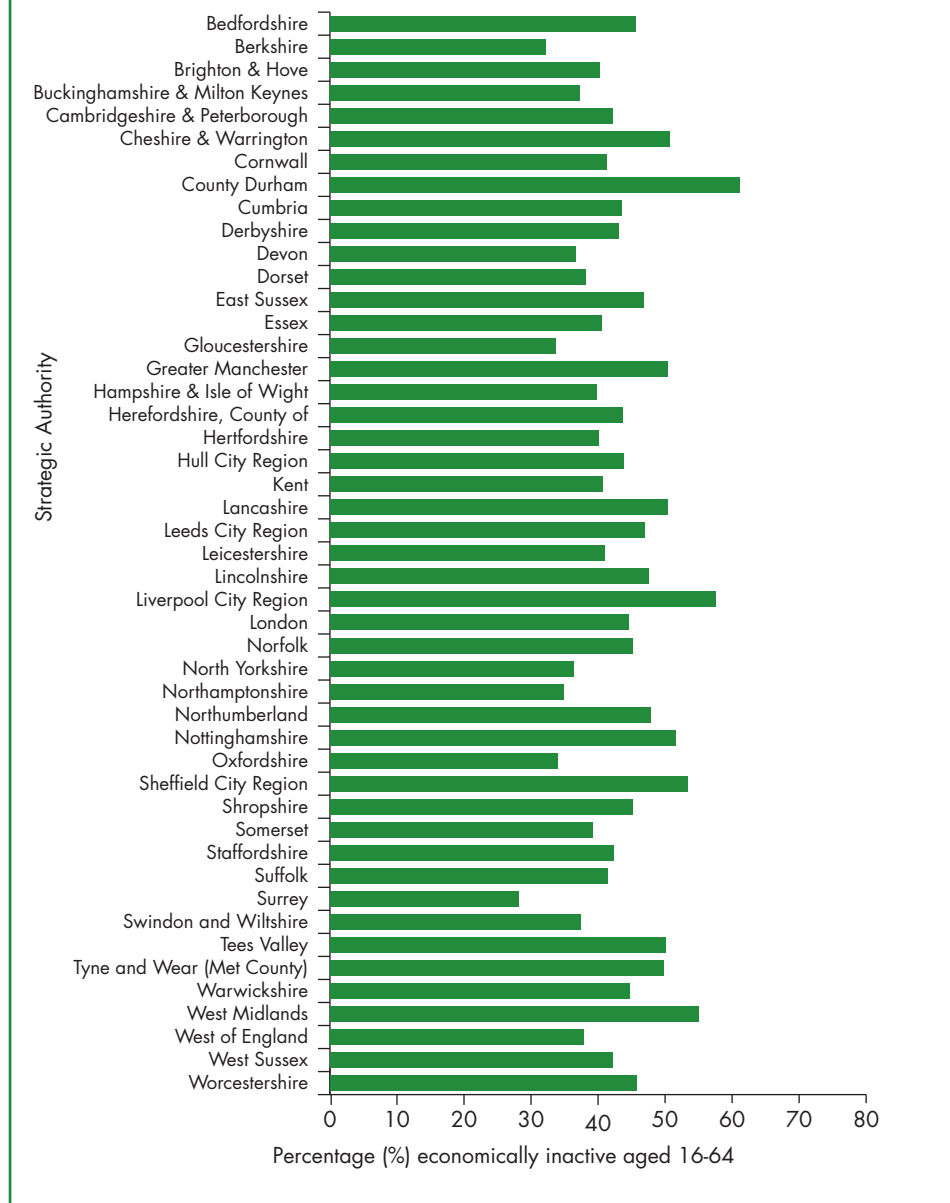
72 PRIME (2014) - The Missing Million

73 The Parliamentary Office of Science and Technology (2011) - An Ageing Workforce

74 PwC (2017) - An Inclusive Workplace

75 The card scheme affords disabled people concessions in public utilities like libraries and education providers. <https://www.hants.gov.uk/socialcareandhealth/adultsocialcare/registerasdisabled>

Figure 11: Economic inactivity rates of the disabled population aged 16-64 in England's 47 strategic authorities



Authors' calculations from Annual Population Survey. Disabled defined as per Equality Act 2010.

People with disabilities are not evenly distributed across the UK, as the chart above makes clear, and disability itself takes many different forms⁷⁶. Strategic authorities have the ability to identify and respond to the particular employment barriers of their own disabled populations. Furthermore, as has been the case in Greater Manchester with regards to autism, strategic authorities have the ability to identify and connect local organisations and individuals with the ability and passion to drive real change. Centralised solutions to this particular labour market issue have proven ineffective, be they demand-side focused as has been the case in the UK or supply-side focused as they are in places like Denmark⁷⁷. We believe these are best handled at the local level, through cooperative

⁷⁶ Lindsay et al (2015) - Assessing the Evidence Base on Health, Employability and the Labour Market – Lessons for Activation in the UK

⁷⁷ Baumberg (2015) - From Impairment to Incapacity – Educational Inequalities in Disabled People's Ability to Work

relationships between employers, educational institutions and local authorities. The role of the strategic authority is crucial here, as they are well placed to identify the overarching local labour market needs and the particular disability needs of their area.

The major barriers to employment faced by disabled people

The first is shared by the other low-activity group addressed in this report, the over-50s: rigidity of contracts. Many disabled people would like to work, but cannot work a standard full-time contract and are thus restricted to working part-time or not at all. More flexible contracting could resolve this issue to some extent, affording people more control over when they work their contracted hours could allow them to reach their full potential in the labour market. The flexibility of contracts is currently decided purely between the employer and the employee, the flaw for disabled people in this is that requesting flexible hours may put them at a disadvantage in the jobs market.

A second barrier is accessibility. Making not just the workplace itself but the place at large more accessible to disabled people is still a clear goal for government. Despite great progress in the past few decades, in the workplace itself and in the commute to and from work, accessibility remains a problem for many disabled people across the country.

Thirdly skills provision is relevant to the labour market activation of disabled people. Research shows disabled people with higher skill levels are more likely to be successful in the labour market, this connects to the first barrier as better educated people are more likely to have access to flexibility⁷⁸. The imperative for policy is, therefore, to bring the skill level up while at the same time making flexibility more widely available. As referenced throughout this report, the skills gap is a national issue with differing levels of severity depending on locality.

Finally, there is the issue of transitioning from a period of disability-related unemployment into work. Employment outcomes for disabled people on disability benefits are often poor in the long-term, as employment is reached but not sustained. There is a role for the state in ensuring the transition from unemployment is handled in such a way that employment is sustained. As the government acknowledge in the *Improving Lives* green paper, part of what characterises the disability employment gap is the issue of keeping connected with work in order to sustain employment. The Equality Act 2010 includes a provision for 'reasonable adjustments' to be made in order to accommodate disabled employees, however there is room for a more proactive approach. In order to overcome the obstacles to flexibility, accessibility and training currently faced by disabled people, a bespoke approach is needed.

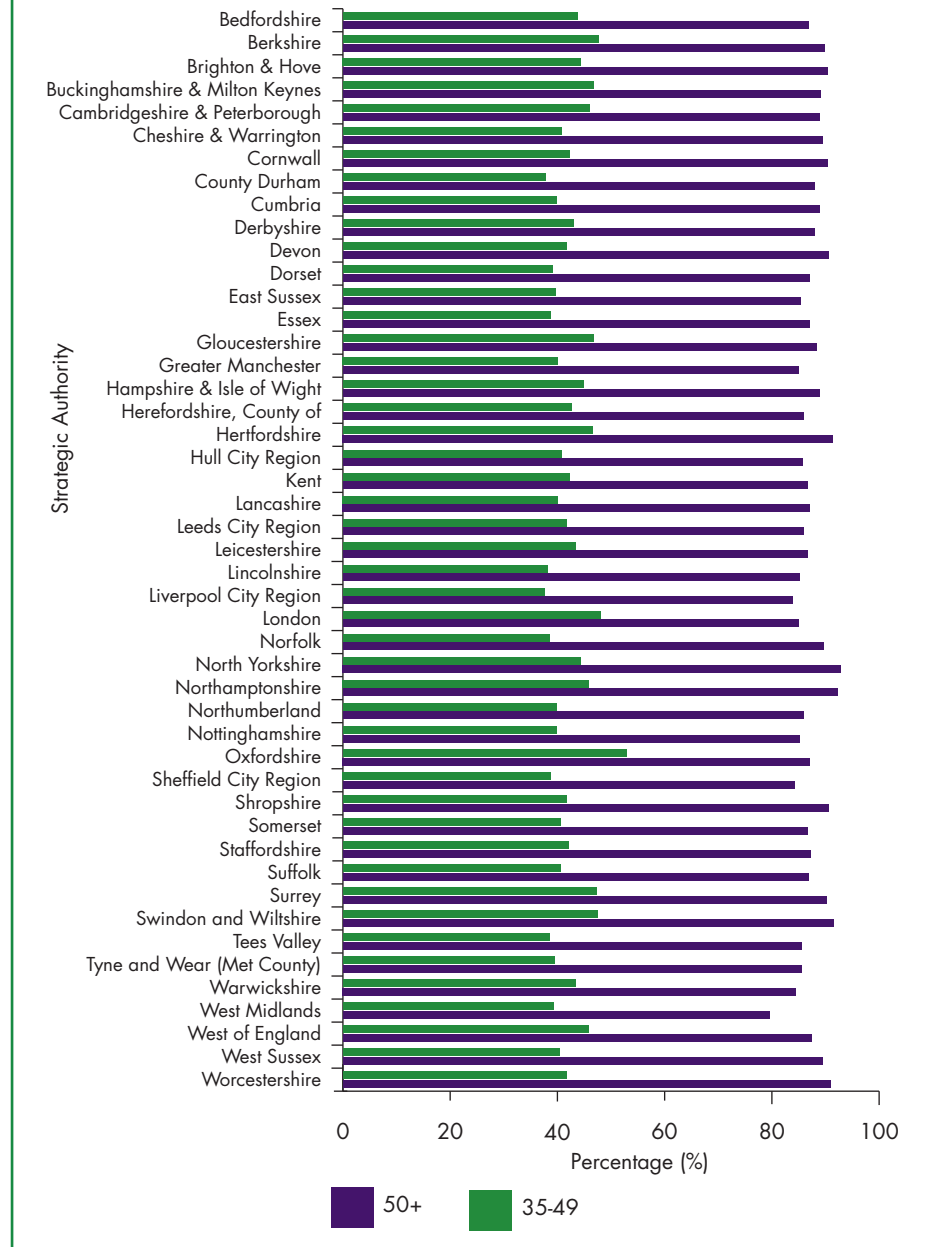
Recommendation 9

As in the previous Localis report *A Sector Deal for Disability* we reiterate the recommendation for the Department for Work and Pensions to establish and chair a new working group on skills, access and employability for people with disabilities to support the sharing of best practice amongst councils, CCGs, schools and colleges locally. Preferably this should utilise existing professional networks.

78 Localis (2017) – A sector deal for disability

2.3 Focusing the national conversation on extending working lives

Figure 12: Comparison of the economic activity rates of the population aged 50+ and the population aged 35-49 in England's 47 strategic authorities



Source: Authors' calculations from Annual Population Survey

Earlier this year Department for Work and Pensions' officials implied the issue of extending working lives may play a part in the government's industrial strategy⁷⁹, due to inequalities in labour market outcomes for older people being partly based on occupation and region. As we have argued throughout this report, occupation and region are hard to separate in practise, with both issues better addressed at the local level. As we have argued, skills can be effectively managed by strategic authorities as they are highly attuned to current local needs and the gaps which need to be filled. With the over 50s, this problem takes on a unique dimension as

⁷⁹ International Longevity Centre (2017) - Extending working lives: Overcoming inequalities conference report

certain types of occupation (even within the same industry) are far more likely to lead to an early and complete exit from the labour market. This situation calls for targeted and locally-specific programmes of career development.

The barriers to staying in the labour market for the over 50s

Although economic activity rates for people over 50 have been increasing over time, they are still far lower than those of the preceding age brackets. As people live longer, and the state pension age rises, the age of 50 being the start of a slide in economic activity is becoming more and more nonsensical. The Prince's Responsible Business Network noted in 2016 that by 2020 people over the age of 50 will comprise almost one third of the working-age population⁸⁰. Given the general consensus in the literature that, for a number of reasons, it is difficult for older people to ask for the kind of flexibility that may extend their working life, it seems sensible for local authorities to play a role in ensuring their freedom to ask. If the state is not doing enough to guard against unnecessary early labour market exits for the over-50s, organisations must also be doing less than is required. Some kind of accountability mechanism is needed to ensure businesses are making the most of their workforce and not contributing to the problem of early exits. Since its publication, the urgency of this warning has increased, with the Brexit vote leaving the UK's demographic and skills problem laid bare. The need to help people not just stay in work for longer but continue to develop their careers longer is pressing.

In keeping with our previous recommendations on the devolution of the apprenticeship levy and subsequent strategic authority led oversight committees, we recommend that the national government mandate the devolution of the Adult Education Budget to strategic authorities. Alongside this, following the Adult Education Budget funding formula, a top slice of 5% of the national apprenticeship levy funds (estimated at £140m)⁸¹ should be allocated for raising the employment level of low activity groups. The strategic authority, in consultation with local colleges, training providers and businesses, would then set a joint workforce strategy and fund the necessary skills provision. This would enable local areas to target specific cohorts, in the case of this report we believe the over 50s cohort to be of particular importance.

Recommendation 10

Government should take a top slice of 5% from apprenticeship levy accounts nationally in order to create a Local Skills Development Fund which can be devolved and focused on supporting strategic authorities efforts to raise the employment level of key low activity groups, in particular disabled people and the over 50s.

⁸⁰ Business in the Community (2016) - Government Business Champion for Older Workers Target: What is it and what does it mean for your organisation?

⁸¹ Based on the value of the apprenticeship levy estimated by the Institute for Fiscal Studies (2017) - Reforms to apprentice funding in England

Chapter Four – Recommendations

In the report's final chapter we summarise below our recommendations to central and local government.

Recommendations

1. Government should formally recognise the status of England's remaining strategic authorities without a devolution deal by instituting an Industrial Compact, as recommended in the previous Localis report *The Making of an Industrial Strategy*, thus creating the devolved bases upon which new local labour market strategies and powers can be developed and utilised.
2. As part of every new local industrial strategy, every local area should develop a local labour market influencing strategy which highlights at risk industries and businesses.
3. As in Greater Manchester, and in London by 2019/2020, government should devolve control of the adult education budget to all remaining strategic authority areas. This would empower them to convene local colleges, training providers and businesses in order to set the priorities for their local labour market strategies.
4. Local public sector organisations, most pressingly it would be sensible for the NHS and local government to collaborate, should explore what options are available to pool their apprenticeship levy within a strategic authority area. In particular this should be seen as a priority in areas where the health and social care workforce is dependent on a significant amount of migrant labour.
5. Government should accelerate the April 2018 deadline for moving funds held in an apprenticeship levy account to another firm, and remove the 10% threshold.
6. Government should create the option to allow employers to passport their apprenticeship levy funds to a strategic authority for local skills development activity. This would need to be ring-fenced and the priorities for development established before a strategic authority could accept the funds.
7. Government should empower and fund strategic authorities to raise the profile of apprenticeships and the wider state support offered for in work training. The most successful and advanced strategic authorities should be legally allowed to set 'start quotas' for apprenticeships in their areas.

8. In local areas where industry collaboration is weak and relationships with the strategic authority need formalising, strategic authorities should establish employer guilds. These guilds would work with the strategic authority to help shape labour market policy, thus ensuring a steady supply of qualified labour for their future business requirements.
9. As in the previous Localis report *A Sector Deal for Disability* we reiterate the recommendation for the Department for Work and Pensions to establish and chair a new working group on skills, access and employability for people with disabilities to support the sharing of best practice amongst councils, CCGs, schools and colleges locally. Preferably this should utilise existing professional networks.
10. Government should take a top slice of 5% from apprenticeship levy accounts nationally in order to create a Local Skills Development Fund which can be devolved and focused on supporting strategic authorities efforts to raise the employment level of key low activity groups, in particular disabled people and the over 50's.

Chapter Five — Conclusion

In the shadow of this report's prose sits a creature born of political failure. Its tin ear barely registering the frustration of the British people, the advance of technology or the creaking of age. Shackled by innumerate policy problems, each a Gordian knot and holding no knife with which to cut. This creature is an absence of leadership. Our political elite too often seem absent from important debates or unwilling to speak plainly. In the context of this report, automation and immigration are particularly telling for the lack of sophistication shown by our political masters.

It is understandable politicians wish to reduce complex issues down to binary questions, it is an effective way of communicating. Is automation good or bad? Is immigration right or wrong? However, it is a poor way to lead and an even worse way to comprehend. As Paul Collier notes in his book *Exodus*, asking such a question is like asking if eating is good or bad for you. Too much, and of the wrong thing, is bad for you. But the right amount, of the right stuff, is very good for you. More so, it is fundamental to your continued existence. The country needs automation, immigration and better skills, just the right sort in the right amount. More so, in the right places.

As politicians and policy makers consider the trends, threats and opportunities affecting the labour market they should remember the importance of 'place'. What works in one area could damage another. This report makes clear that a lifeline and a death sentence can look the same depending on your vantage point. It is in this gap government must place itself, between the right place and the wrong place. What's good for Gloucestershire won't necessarily be good for the West Midlands. This means helping businesses to make the right investment decisions and giving places the opportunity to help themselves. In short, government needs to see local labour markets can be supported more effectively by City or County Hall than Whitehall.

The recommendations we outline in this report give policy makers a programme to support more robust labour markets and give places the tools with which to make that a reality. The difference between a better way and the status quo is political leadership.

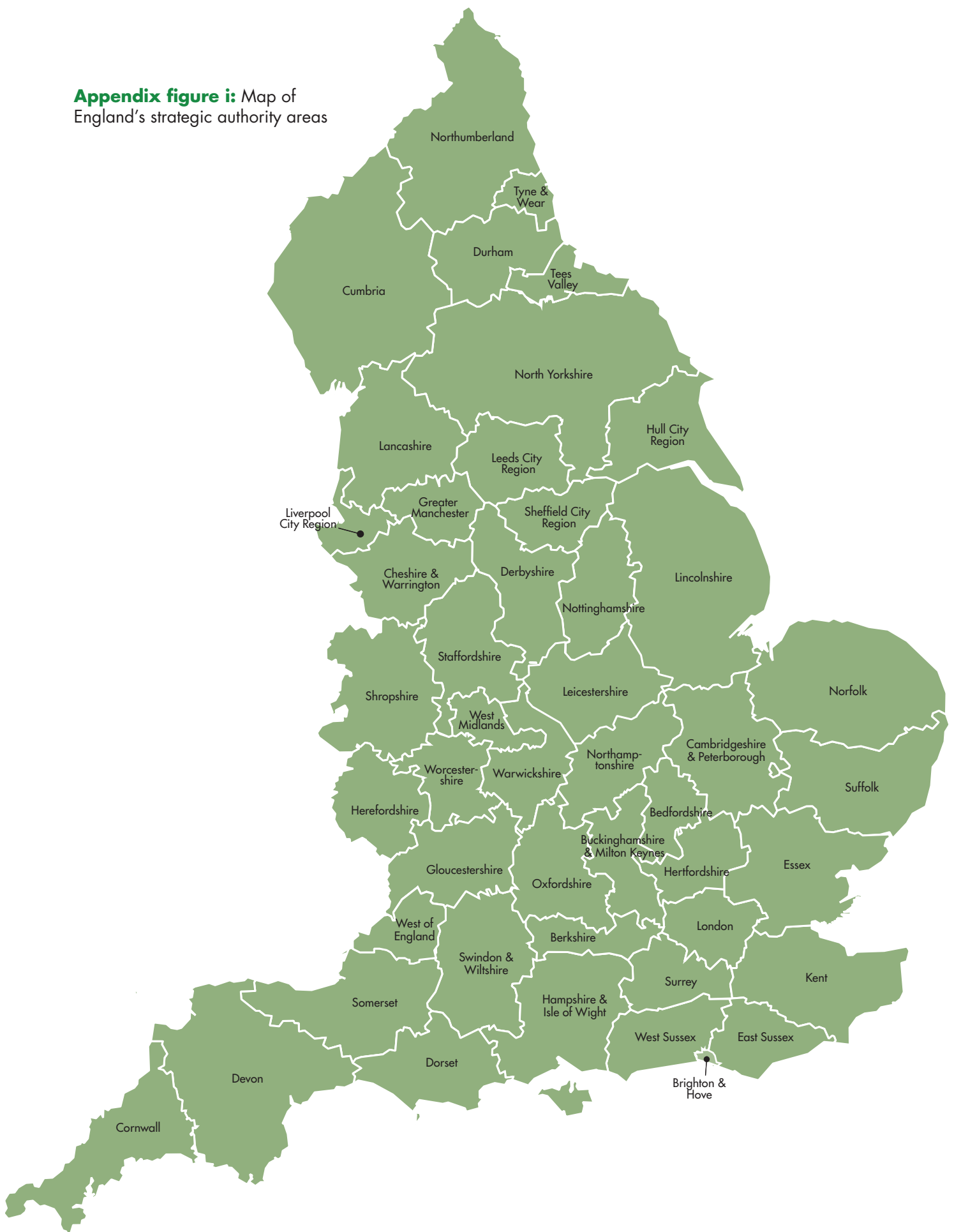
Appendices

Appendix one: strategic authority areas

In areas where the local authority make-up of a suggested strategic authority area is ambiguous, we have listed clarifications below.

- Hull City Region includes East Riding of Yorkshire, North Lincolnshire and North East Lincolnshire
- Leicestershire includes Rutland
- North Yorkshire includes York
- Shropshire includes Telford and Wrekin

Appendix figure i: Map of England's strategic authority areas



Appendix two: data explanations

Below are more detailed explanations of the calculations made for scoreboard indicators and graphs in the report.

- **Automation score** is taken from the total percentage of employment in an area in the following industrial sectors (UK SIC 2007) and the percentage of jobs in that industry which are considered highly likely to be automated by 2030, as identified by PwC in the UK Economic Outlook from March 2017. Data is collected from the Business Register and Employment Survey 2016, via Nomis UK.
 - C: Manufacturing - 46.4%
 - G: Wholesale and Retail Trade; Repair of Motor Vehicles and Motor Cycles - 44%
 - H: Transportation and Storage - 56.4%
 - N: Administrative and Support Service Activities - 37.4%
- **Migration score** is taken from the total percentage of employment in an area in the following industry divisions, as identified by the Resolution Foundation in Work in Brexit Britain as employing a significant number of EU migrants (activities of domestic households as employers and agricultural labour are not included due to the scarcity of reliable data). Data is collected from the Business Register and Employment Survey 2016, via Nomis UK:
 - 10: Manufacture of Food Products
 - 15: Manufacture of Leather and Related Products
 - 22: Manufacture of Rubber and Plastic Products
 - 23: Manufacture of Other Non-Metallic Mineral Products
 - 38: Warehousing and Support Activities for Transportation
 - 55: Accommodation
 - 56: Food and Beverage Service Activities
 - 81: Services to Buildings and Landscape Activities
- **Skills score** is based on deviation from the national average of the percentage of the population aged 16-64 with an NVQ3+ qualification. This data is collected from the UK Annual Population Survey, via Nomis UK.
- **Demographics score** is based on the dependency ratio in that area. The dependency ratio is calculated by adding the combined number of under 15s and over 65s in an area, dividing that number by the working age population and multiplying the result by 100. This data is collected from the ONS UK Population Projections.

Appendix three: Ranking process

For each of the metrics detailed above, we have produced a 'score' in order to rank places side by side. The scores are created by indexing the national average at 100. The higher the score, the lower the exposure:

- For automation and migration, the score increases by 1 for every 0.1% below the average percentage of employment in vulnerable industries.
- For skills, the score increases by 1 for every 0.1% above the UK average for NVQ3+.
- For demographics score, the score increases by 1 as the dependency ratio, rounded the nearest whole number, decreases. The demographics score is not included in the average ranking because the measures above are designed to provide a measure of current labour market robustness. The dependency ratio is more a measure of a labour market's long-term sustainability.

	Strategic Authority	Av. Rank*	Automation Score	Rank	Migration Score	Rank	Skills Score	Rank	Demographics Score	Total
1	Brighton and Hove	2	157	1	129	5	257	1	121	543
1	Berkshire	2	134	4	136	1	228	2	103	498
3	Surrey	4	136	3	134	2	188	6	100	458
4	West of England	5	126	7	130	4	192	5	110	448
5	Oxfordshire	6	131	6	124	8	213	3	105	468
6	London	7	151	2	118	14	204	4	115	473
7	Gloucestershire	12	110	15	123	11	130	11	99	363
8	Hampshire & Isle of Wight	13	107	17	119	13	138	8	96	364
9	Cambridgeshire and Peterborough	14	102	19	131	3	103	20	104	336
10	Dorset	14	124	8	110	21	127	14	83	361
11	Hertfordshire	15	97	26	128	6	129	12	103	354
12	Swindon and Wiltshire	16	100	20	111	19	137	9	99	348
13	East Sussex	16	133	5	120	12	70	32	89	323
14	Buckinghamshire & Milton Keynes	17	95	30	118	14	156	7	101	369
15	Tees Valley	18	114	12	124	8	66	34	101	304
16	Devon	19	119	9	91	32	116	17	92	326
17	Tyne and Wear	20	111	14	117	16	74	29	107	302
18	Sheffield City Region	22	99	24	126	7	62	35	105	287
19	North Yorkshire	22	110	15	61	42	136	10	98	307
20	Greater Manchester	23	100	20	97	28	84	22	106	281
21	Kent	24	97	26	111	19	79	26	99	287
22	Cheshire & Warrington	24	100	20	89	34	105	19	99	294
23	Cornwall	26	116	10	40	47	84	22	92	240
24	Liverpool City Region	27	112	13	99	26	48	41	104	259
25	Essex	27	100	20	105	24	59	37	102	264
25	Lancashire	27	98	25	96	29	78	27	99	272
27	Nottinghamshire	27	87	33	117	16	68	33	106	272
27	Somerset	27	94	31	75	39	129	12	91	298
29	Leeds City Region	28	97	26	110	21	60	36	104	267
29	Northumberland	28	115	11	90	33	53	39	95	258
31	Leicestershire	28	80	38	99	26	89	21	105	268
32	Norfolk	29	103	18	103	25	46	43	93	252
32	West Sussex	29	82	36	89	34	118	16	93	289

Strategic Authority	Av. Rank*	Automation Score	Rank	Migration Score	Rank	Skills Score	Rank	Demographics Score	Total
34 West Midlands	29	90	32	124	8	-3	47	104	211
34 County Durham	29	97	26	114	18	46	43	103	257
36 Shropshire	30	87	33	95	30	77	28	98	259
37 Warwickshire	31	68	45	92	31	108	18	99	268
37 Worcestershire	31	70	43	86	36	123	15	96	279
39 Bedfordshire	32	72	42	107	23	71	31	104	250
40 Derbyshire	34	74	41	86	36	83	25	101	243
41 Cumbria	34	86	35	46	46	84	22	95	216
42 Herefordshire, County of	38	82	36	69	41	56	38	94	207
43 Hull City Region	40	64	46	60	43	72	30	95	196
44 Staffordshire	41	70	43	77	38	48	41	101	195
45 Northamptonshire	42	49	47	70	40	53	39	101	172
46 Suffolk	42	80	38	58	44	40	45	93	178
47 Lincolnshire	44	77	40	49	45	30	46	95	156

*Average rank does not include the demographics score ranking. The average rank is designed to provide a measure of current labour market robustness. The dependency ratio is more a measure of a labour market's long-term sustainability.



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