

Higher education, London's workforce and skills provision

Working paper that underpins the
workforce and education sections of
“Getting London back to growth”

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1. Higher Education

As an immediate response to the COVID-19 crisis, universities moved most teaching and exams online, maintaining their commitment to their students at this extremely difficult time. But even in the short-term, they face a significant drop in income that would usually come from student accommodation, hiring out conference space, business consultancy and commercial research. Some of this is manageable, but as the sector looks ahead, it is the impact of COVID-19 on the international student population that is likely to form a much bigger concern.

A third of all overseas students in the UK are studying in London, which is the most popular city in the world for international students, hosting 40,000 students from continental Europe and 70,000 from the rest of the world. It seems almost certain that the numbers coming to study in London in October 2020 will be greatly reduced, which puts the longer-term financial sustainability of our universities at risk. Some universities are planning for a c.50% reduction in the volume of EU and international students, in a sector worth around £7 bn.

This is clearly a major concern. London's universities help create a great deal of soft power for the UK, deliver ground-breaking research, contribute to the city's economic performance and bring in students from a diverse range of backgrounds that builds an important talent pipeline for business, none of which we want to – or can afford to – lose. To maintain their enviable global status, they will need support to survive in the short-term and a government-backed recovery plan in the longer-term.

We welcome the Government's recent conformation that universities are eligible for support to mitigate the impact of COVID-19 on cashflow and income, including the Government's job retention and business interruption schemes. We agree with Universities UK that the Government's package of support for research – bringing forward £100m of funding into this academic year – does not go far enough, not least because COVID-19 has shown how important it is that our universities are firing on all cylinders to support the global effort to tackle the crisis. Furthermore, research is also a likely casualty of fewer international students coming here, given that their fee income goes a long way to subsidising university research. As such Government funding support for research should fully compensate for any loss of funding from lower overseas student numbers to ensure delivery of research is not hampered. The sector also provides a pipeline of skilled employees to the UK labour market. The Government should move now to support growth in courses that meet the national need for key workers, e.g. science, healthcare and teaching, making part time and flexible learning more accessible in order to support reskilling.

Turning to the recovery, competition for international students is likely to become more intense, not least from the US, Canada and New Zealand, as well as the Netherlands and Germany. To make a mark, we need to be more open and more welcoming to international students than anywhere else. Visa turnaround time needs to be faster, the process less intimidating, and the cost lower. The Government has implemented some welcome temporary measures to relax student visa policy, which we'd like to see

remain in place beyond the current deadline of 31 July to the end of the year, at least. These include the:

- Ability to apply for a visa in the UK between foundation and degree courses without returning home; and
- Ability to apply for a visa in the UK to transition from a short-term visa (say at an English language school) to a Tier 4 visa for studying at a university without returning home.

Further means of relaxing visa policy could also include the:

- Removal of the “credibility interview” for all student visa applications to improve turnaround time and make it less subjective;
- Relaxing the requirement to have final degree certificates in order to receive their work or further study extended visa (particularly this year when degree transcripts and certificates may be late); and
- Implementing a secure process for English language testing online.

In addition, the recently reinstated post study work visa will be a major attraction for studying in the UK, so the Government should work to build this explicitly into its promotional messaging and also explore who this visa might be made even more attractive, e.g. increased from two to four years in length.

Beyond these measures, the Government should work with universities to ensure policy supports the development and introduction of more ‘blended learning courses’, where international students can study for part of the time in their home country, and the balance in the UK. These decisions need to be taken quickly so that they can form the backbone of a new international student recruitment campaign, when the time is right. As part of this, the Government should work with key London stakeholders including the Mayor, GLA and London Higher, on a ‘London is Open to Study’ campaign, and this should include support for the Safe Return to Work and Study Charter produced by London Higher.

It is welcome then that the Government has announced a new taskforce to consider who the pandemic will affect its international student strategy. This new group must get going quickly to grip the situation, ahead of the start of the new academic year in the Autumn and should include a London representative.

The COVID-19 crisis is a global tragedy. While it is hard to plan for recovery, we are in the foothills of an economic emergency and plan we must, or we risk losing the huge benefits that international students bring to London and the whole UK. We need to be ready to bring them back, as soon as it is safely possible to do so.

2. London's workforce

Prior to COVID-19, London had a thriving economy and dynamic labour market. A far greater share of employment in London was in high-skilled occupations compared to the rest of the UK, and the London population had higher levels of qualification than any other region; it had more graduates than any other city in the world (London First research, 2015 & 2018). Furthermore, more than any other region of the UK, migrants played a vital role in London's workforce with 38% of workers at all levels from the EU or further afield.

At the same time, however, unemployment, including amongst young, BAME and disabled Londoners, and in-work poverty rates were among the highest anywhere in the country. As well as a large number of high-skill roles in the London labour market there were a significant number of low-skill roles. Businesses also struggled to find people who had the skills they needed; indeed, London faced a greater skills shortage than any other region in the UK. Particularly, business felt that applicants lacked the transferable skills - human skills such as communication and critical thinking – and digital skills that have become more important in the automation age.

Now, we are in a significantly different environment. The COVID-19 crisis has placed unprecedented pressure on the UK labour market, not to mention the global economy. Economic activity (as measured by GDP) dropped by around 30% between February and May 2020 according to McKinsey research. In London, as across the UK, many business sectors have either effectively ceased to operate, like hospitality and non-essential retail, or are operating at reduced capacity, like construction. ONS data reveals that 23% of UK businesses temporarily closed in April, while 60% of those remaining open posted a drop in revenues. This has meant that overall business demand for workers has plummeted at record rates – UK vacancies fell by nearly a quarter to 637,000 in the three months to April (ONS, 2020) and is expected to fall further as the year progresses - although in key sectors like healthcare and food logistics, vacancies have unsurprisingly risen (REC, 2020). Workers have been furloughed or made redundant in large numbers and many others have had to get used to new ways of working remotely. Businesses have paused apprenticeships where they have proved impossible to continue – as at early April an average of just 39% of UK apprenticeships were continuing (Sutton Trust, 2020) – and are considering whether it is viable to take on any new apprentices at all over the next year, and what they can do to support apprentices already in their workforce.

McKinsey estimates that 7.6m UK jobs are at risk because of COVID-19 – either through permanent layoffs, temporary furloughs, or reductions in hours and pay - with those in the lowest paid roles most vulnerable: McKinsey estimate that nearly 50 percent of all the jobs at risk are in occupations earning less than £10 per hour, when the median hourly pay in 2019 was £13.30. Younger workers are being hardest hit: 1/3 of 18-24-year-old employees have lost jobs or been furloughed, compared to 1-in-6 prime-age adults (Resolution Foundation, 2020).

2.1 Return to work challenges

While we cannot underestimate the impact of COVID-19, it is clear that this crisis is temporary. Businesses will get up and running and will start to recruit again as we

move from lockdown to recovery. However, we will face tremendous challenges getting Londoners back to work, given the scale of displacement and the complexities around moving out of lockdown.

To give some sectoral examples: hospitality, retail and tourism will likely see a longer, phased recovery timeline meaning there will be an excess supply of labour and an ongoing and significant cost burden for the Government, either through furlough or an increase in unemployment and benefit take-up. Construction and commercial property are likely to face significant issues meeting social distancing rules as it tries to bring back workers, which could increase costs and reduce productivity. If the recession continues into the mid to long term, construction industry capacity will shrink as workers are laid off in greater number, and as the 2008 recession showed, many of these workers will move into other sectors and few are likely to return once the recovery kicks in, meaning reduced access to workers and increased training costs for new labour entrants. The creative sector will have particular issues related to support for self-employed workers.

2.2 Skills gap

While the size of the available labour pool will be significant, and displaced workers will be eager to return to employment, overall this won't mean it will be easy for businesses to access the talent they need, given the time, cost and resource required. Importantly, the crisis will not have contributed to closing London's skills gap; arguably it might well have worsened: the Institute of Fiscal Studies (May, 2020) refers to the 'destruction of matching capital', where displaced workers who are unable to return to their old job could lack the right skills to move to a new job in the same or a different sector.

2.3 Migration

There will be questions around what COVID-19 means for London's reliance on migrant workers to fill labour and skills gaps: while it's clear that many of the essential workers that are helping to keep London and the UK going through this crisis are EU migrants, in health care and food logistics for example, in the future where we can expect there to be fewer vacancies and higher unemployment amongst native workers, will demand for economic migrants be reduced into the mid to long term? As we begin to recover, some question whether native workers will be more prepared than they have been in the past to take the jobs historically held by migrants in so-called low-skilled roles in sectors like hospitality and social care. Could the current crisis precipitate speedier adoption of job automation technology by employers in order to reduce labour costs? In any case, the introduction of the Government's new immigration points based system, planned for 1st January 2021, will reduce business access to 'lower-skilled' migrant workers, and this could pose a problem for sectors like hospitality and construction in the mid to long term if native workers are not available or willing to take up these roles.

2.4 Education leavers

By September, around 450,000 18-24 year olds across the UK will leave full-time further and higher education. A smaller economy and employers in survival mode will make rising youth unemployment inevitable (NCFE, 2020). In a landscape where many employers won't be hiring, some may prefer to stay in the 'safe-haven' of education, while others may need greater support and innovative thinking from policy makers to help them enter the labour market.

2.5 Action plan

As it gains more information about the mid-term impact of COVID-19 on the London and UK Labour market, the Government will need to take further measures to address employment displacement. We believe the following action plan will support the delivery of a skills-led recovery in London/UK:

Skills gaps:

Now is the time to invest in addressing longstanding challenges in the skills system to aid recovery, through supporting London's FE, HE and training provider sectors to deliver the necessary training and reskilling of displaced workers and new entrants to the labour market. The Government should:

- Drive transferable skills through embedding compulsory employability, enterprise and digital skills into core secondary-level education at age 16;
- Introduce incentives e.g. tax credits to support business to deliver training on recognised skills for the future, e.g. data analysis, particularly where the impact of COVID-19, automation and the need for reskilling is significant; and
- Give London and other UK cities the tools to meet their skills challenges through a UK skills devolution programme. This would provide London with a unique opportunity to shape its own skills and jobs agenda, informed by input from London businesses and educators across FE, HE and the training provider sectors. The Mayor should prioritise these powers and funding to establish (i) an 11-18 and adult careers strategy, starting with the relevant share of the National Careers Service budget; and (ii) a London Adult Retraining Scheme, through the relevant share of the National Retraining Scheme and the new National Skills Fund as well as the Immigration Skills Charge, to support sectors which have experienced the greatest level of displacement due to COVID-19, including preparing workers for the broader trends of automation and digitisation. This will be important across sectors, but particularly those where training costs are high, like construction.

Apprenticeships:

Government support now for employers delivering apprenticeships and for apprenticeship training providers (ATPs) is critical for growth later. Skills and apprenticeship training will need to be a significant part of the recovery when it comes, but they may need to be delivered differently. In the short to mid-term we need

to maintain the sustainability of the apprenticeship training provider sector. We call on the Government to:

1. Introduce a long-term 'Back to Work' fund to help businesses take on apprenticeships, and minimising the costs of apprenticeships to firms, guaranteed for a minimum of three years, which would include the removal of the 'co-investment' fee that non-levy paying employers are currently having to find towards the training of their apprentice.
2. Provide funding relief fairly for all apprenticeships, so that Apprenticeship Training Providers (ATPs) can be funded where training has been paused.
3. Support providers and businesses to continue to offer apprenticeships safely, with clear guidance on how to operate safely and suspending face-to-face requirements, so that apprenticeships are not forced to fail through being unable to complete in-person training.
4. Give businesses greater flexibility in how they use Levy funds, by making it easier to transfer funds to other firms via a single digital transaction, pausing payments and extending the date that they can be used where businesses are unable to return to normal activity.
5. Improve communications channels between businesses and the apprenticeship system, with a one-stop-shop for employers to access information and support.
6. Work with SMEs to trial innovative approaches that boost demand, such as shared apprentices.
7. Promote apprenticeships to young people and their families, emphasise the role of them in the economic recovery, and highlight the long-term opportunities they provide.

As part of this Back to Work Fund, we propose that the Government permits SMEs to use a portion of the levy funding transferred to them by large employers to cover the salary costs of apprentices. This would help minimise costs for both SME employers and Government and it could be achieved via a simple – maybe short term – rule change. We suggest piloting this proposal in Manchester and London. For example, through utilising Manchester Combined Authority's levy transfer fund of around £4m that is currently not being drawn down due to uncertainty and lack of apprentice starts.

Labour costs:

- Start work now with business and unions to agree a plan for the future of the furlough scheme beyond October 2020, that means keeping displaced workers as close to the labour market as possible, while seeking to control increasing costs for both the Government and employers. For example, this might include a tapered approach to continuing the furlough scheme for specific sectors like hospitality, retail and leisure where recovery and re-opening is likely to be over a longer period, and extending funding support to provide access to training for those on furlough. Looking beyond furlough, other options for temporarily reducing labour costs for employers should be explored, such as temporarily freezing any planned increases to national

minimum wage rates from April 2021, as well as national insurance payment holidays, or training subsidies as mentioned above.

Education leavers:

- Government should support colleges and universities to accommodate a potentially larger than usual student intake in the Autumn. In addition, government should work with business to develop an innovative plan for helping new entrants access the labour market and find meaningful work this Autumn. For example, options to flex rules around placements and internships should be explored, as should ways to keep labour and training costs low, through subsidies and incentives. Lessons should be taken from the 2008 Future Jobs Fund set up by the then Government to address employment issues caused by the financial crash. For example, this might include establishing sector-based jobs portals for education leavers and displaced workers.

Immigration

- The priority is to support displaced workers back into work, whether that is the role they recently left or into a new job, through a combination of support levers including the furlough scheme, retraining or short-term employment programmes. However, where labour and skills gaps remain, the Government's new points-based immigration system should not act as a barrier and it should provide access to essential, so-called 'low-skilled' workers via a 2-year temporary work visa to not leave the country short staffed. A resident labour market test should be applied to check that the skills and labour required are not available locally, before employers are permitted to recruit overseas.

With London's relatively high international workforce, this will be an important safety net for the many London businesses that depend on a workforce sourced from all skills levels. For example, approximately 250,000 people (typically lower-skilled) are employed in the Hospitality Sector in London, 70% of whom are born overseas (London First Facing Facts, 2017).

3. Schooling

An important part of recovery is re-opening schools, from the perspective of getting young Londoners learning again in a formal setting, but also critically for business in freeing working parents from the balancing act they have been performing between home schooling, child-care and work. This will aid both productivity and well-being.

The data reveals that re-opening schools is particularly important for London: it contains the highest proportion of families with dependent children of any UK region; accounting for half of all families in London, compared with the UK average of 42.0% (ONS, 2019). Between 2014 and 2019, the number of families with dependent children

in London increased by 9.5% to 1.2 million. London contains the largest proportion of lone parent families compared with the other regions in the UK in 2019 (19.1%). And to get a sense of what childcare commitment looks like in London, according to the last census in 2011, almost half of London families (47%) with dependent children had just one child. Two-children families accounted for 38% of London's dependent children families and those with three or more 16%.

The following three points are important to consider as schools reopen:

- As schools expand the number of year groups returning, every effort must be taken to get this plan right, and to keep it under close review;
- Schools must be supported to deliver well the national curriculum as far as is possible during this period of upheaval and adaptation to a new normal. This is important in addressing the impact that school closures will have had on learning; McKinsey points to recent analysis that projects that students could return in the Autumn having progressed only 70% of a grade in reading and less than 50% of a grade in math during the 2019–20 school year; and
- For those school children who continue to learn at home, either because their school remains closed or as part of a phased or rota 'ed reintroduction of year groups, or due to parental choice, there needs to be a consistent, robust and directional approach to online learning to better support school children and to free up parents to work more productively. COVID-19 has forced teaching into a home setting and the expectation has been that much of it will be done online. However, this has 'exposed a widening gap between digital 'haves' and 'have-nots'', according to recent research from the University of Oxford, with an estimated 5m Britons that do not use the internet at all (ONS, 2019). As a result, home schooling has created a very real risk of long-term damage to the attainment levels of school children from disadvantaged homes. Urgent remedial work is required, including ensuring that these homes have access to the internet and appropriate devices. This will surely need to be part of the UK's future long-term education strategy which could include more online learning as standard.