

Written evidence - Social Market Foundation (PTC0044)

About the Social Market Foundation

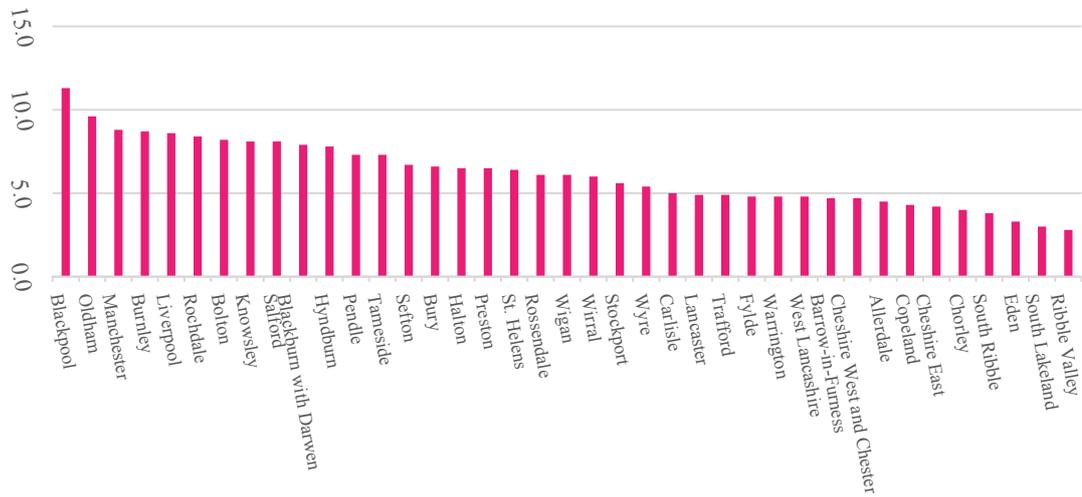
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The changing nature of employment

How will the pandemic change the nature of employment? And what will be the long-term impact of this change on towns and cities?

1. The COVID-19 pandemic and public health restrictions implemented to mitigate its effects has had – and is likely to continue to have – a profound impact on the UK labour market. Whilst early forecasts of unemployment reaching up to 10% have not materialised, the latest labour market data (Feb-April 2021) show the unemployment rate at 4.7%, more than one percentage point higher than pre-pandemic levels. With the Coronavirus Job Retention Scheme set to close at the end of September, further jobs remain at risk; the Bank of England forecastsⁱ that unemployment will peak at 5.5% whilst HMRC data shows the number of employees on company payrolls has fallen by 553,000 since February 2020.ⁱⁱ
2. The COVID-19 labour market shock has been felt unevenly across the UK's towns, cities and regions. London, for example, has seen its claimant count increase by 178% since February 2020, compared with 104% nationally. ⁱⁱⁱ If we focus specifically on the North West, the latest local authority claimant count data show Blackpool to have the highest proportion of working-age residents claiming benefits (principally because they are out of work) at 11.3% compared to 2.8% in the Ribble Valley. Manchester and Liverpool both rank within the top five. This indicates a rural-urban split, with larger towns and cities experiencing larger shocks to their labour markets than rural areas and smaller towns have done.

Figure 1: Claimant count as a proportion of residents aged 16-64 in North West local authorities, May 2021



Source: ONS

- When we compare the intracity labour market experience we see further evidence of discrepancies. Segmenting claimant count data by London borough shows more deprived boroughs have experienced larger increases in the number of claimants, as the figure below indicates.

Figure 2: Change in claimant count and index of multiple deprivation, by London borough



Source: ONS, MHCLG, SMF analysis

4. Explaining the variation in urban labour market experiences during the pandemic – and the impact in the long-term – is dependent on a range of factors. These include:
 - The state of the labour market pre-pandemic
 - Sectoral/ industry make-up
 - Prevalence of jobs which can be done working from home
5. With regards to the long-term impact of the pandemic on employment in towns and cities, there are, broadly, two scenarios.

The first scenario sees the labour market shock as sharp but ultimately temporary, with employment levels in disrupted sectors, particularly locally consumed services like food service and retail, returning to normal as public health restrictions recede. Office-based roles will also move back into town and city centres and working from home will not become the “new normal”. Some parts cities and towns will recover more slowly, due to pre-pandemic labour market conditions and sectoral composition, but they will, ultimately, recover.

The second scenario sees at least some sustained changes to how urban labour markets function after COVID-19. This may include declining levels of employment in locally consumed services due to behavioural shifts (such as favouring online retail, reduced commuting etc); an acceptance of working from home or hybrid working as the “new normal”, leading to

reduced commuting into urban areas from suburban and rural areas; the creation of entirely new jobs which are fully remote leading to new patterns in homeownership and demographic shifts.

6. Whilst speculating which of these scenarios is more likely to happen is challenging given that the trajectory of the pandemic remains at least somewhat unknown, we take the view that the second is a more likely scenario to materialise. We would highlight:

- Survey data from YouGov (March 2021) show 57% of workers want to do at least some working from home (20% full-time work from home; 37% part-time), whilst a full one in five workers would consider relocating outside of commuting distance.^{iv}
- CIPD research indicates 40% of employers expect to have more than half of their workforce working from home regularly, compared with 15% of employers before pandemic.^v
- SMF analysis of the Understanding Society survey shows that, during the pandemic, Londoners are much more likely to have been always working from home – suggesting the capital is exposed to the implications, both positive and negative, of more remote working. 39% of working Londoners in September 2020 were always working from home, compared with 19% across the UK as a whole.^{vi}
- Shifts in consumer spending habits were already occurring prior to the pandemic; in 2010, 7.3% of all retail sales were made online, compared to 20.6% in Q1 2020 (pre-pandemic) and 34.4% in Q1 2021 (third national lockdown). Whilst the proportion has fallen since coronavirus restrictions have eased, in May 2021 29.4% of total retail sales were made online, a 42.7% increase on pre-pandemic levels.^{vii}
- A study by Retail Economics suggests that around a third of British consumers think that the way they shop will change permanently as a result of the pandemic.^{viii}
- Research from the Tony Blair Institute for Global Change estimates 18% of jobs in the UK (5.9 million) could be fully remote, so-called “Anywhere Jobs”, with these particularly concentrated in white collar occupations like finance and real estate.^{ix}
- A study from De Fraja, Matheson and Rockey which explores the possibility of “Zoomshocks” indicates that remote working practices are “moving workers away from neighbourhoods with a large supply of locally consumed services to neighbourhoods where the supply of these services is relatively scarce... this suggests a possible geographic mismatch of supply and demand that may have consequences for aggregate LCS employment.”^x
- A growing list of anecdotal evidence of high street store closures throughout the UK and large businesses in cities looking to reduce their office footprint and/or introducing flexible working arrangements for staff.

We would caution that the likelihood of all of these trends materialising to full effect is far from guaranteed. There is also evidence that goes against

these trends, like a movement toward shopping locally and some firms mandating a return to pre-pandemic office working patterns.

Nevertheless, even a minor shift in worker and consumer behaviours incubated by the pandemic could lead to non-trivial changes in how local labour markets function and result in inequalities. To illustrate one case, we estimate that there are 800,000 “face-to-face” jobs (such as retail, food and beverage and other ‘high street activities’) in Central London, with a significant proportion of these in Westminster alone. If the Government chooses not to mandate that civil servants return to work in Westminster, this could impact the number of people employed in face-to-face jobs in proximity to government buildings due to reduced demand. Similar trends could occur in urban centres across the country if large employers opt for hybrid or full remote working policies.

7. It is reasonable to suppose that job losses in one area will be made up for elsewhere. For example, a job lost in a city centre retail outlet might be replaced by a job in town outside the city centre servicing (former) commuters or in a warehouse or distribution centre or with a marketing company employed by an online clothing retailer. In this sense, the crisis bares some of the same hallmarks of the debate surrounding job shedding/creation because of automation.

How might this increase, or decrease, inequalities within and between towns and cities?

8. Whilst it remains to be seen whether emerging trends will be a net positive or net negative for employment, we take the view that particular towns and cities, whose labour market composition is vulnerable to the effects of the pandemic, could experience the creation of new (or exacerbation of existing) employment-related inequalities, including loss of income, hours and employment and reduced job creation. For areas with skills deficits or a significant proportion of the workforce with low levels of skills, inequalities could result from workers struggling to move between jobs and sectors.
9. SMF research from July 2020 sought to understand this by looking at how towns and cities could be hit by the pandemic in the medium term (2020-23). Based on a literature review and assessment of how sectors recovered from previous economic downturns, we evaluated which industries would face a low to severe impact from COVID-19 up to 2023. We then analysed the industry make-up of local areas (NUTS3 – which covers areas equal to 2-3 local authorities) to produce a ranking based on the percentage of jobs facing a moderate or severe impact.

10 highest impacted areas

- Camden and City of London (79% of jobs)
- Kingston and Chelsea and Hammersmith and Fulham

10 lowest impacted areas

- Isle of Anglesey (54% of jobs)
- South Ayrshire (57%)
- Conwy and Denbighshire

(79%)	(57%)
<ul style="list-style-type: none"> • Lambeth (78%) • East Lancashire (78%) • Hounslow and Richmond upon Thames (76%) • Ealing (75%) • Tower Hamlets (75%) • Westminster (74%) • Swindon (74%) • West Essex (74%) 	<ul style="list-style-type: none"> • Gwynedd (58%) • Na h-Eileanan Siar (58%) • Aberdeen City and Aberdeenshire (58%) • Powys (58%) • Lochaber, Skye and Lochalsh, Arran and Cumbrae and Argyll and Bute (59%) • West Cumbria (59%) • South West Wales (59%)

A full searchable version of this index is available [here](#).

Under this assessment, it is clear that London and the South East face the longest road to recovery, as well as pockets in the North West and Midlands. However, it is also necessary to account for pre-existing levels of unemployment in a local area, since this provides insight into levels of resilience and ability to recover from an economic shock. Over half (56%) of areas facing moderate or severe negative impacts entered the crisis with an unemployment rate above the national level. The ten areas with the highest pre-crisis unemployment rate are listed below. Going into the coronavirus crisis with such levels of unemployment suggests local economies that were relatively slow to recover from the last shock may well be slow again this time.

10 severely impacted areas with the highest pre-crisis unemployment	
<ul style="list-style-type: none"> • Kingston upon Hull, City of • Bradford • Walsall • Manchester • Peterborough 	<ul style="list-style-type: none"> • Lambeth • Thurrock • Brent • Redbridge and Waltham Forest • Sandwell

What can this evidence tell us about how COVID is likely to impact inequalities within and between towns and cities in the long-term?

10. **Employment** - as our analysis of local-level impact of COVID-19 looks to highlight, inequalities can result from - and be exacerbated by - the sectoral make-up of a local area. If, for example, a town has a diverse industry and employment composition it is likely to be more resilient, as research from academics at the University of Manchester indicates.^{xi} If a town or part of a city has an over-reliance on a sector hard hit by the pandemic and experiencing long-term decline, it is more likely to suffer

from a negative employment shock and resulting inequalities. Most notably this may include city and town centre businesses reliant on office worker footfall. A central consideration of this view is that a towns vs cities, or large towns vs small towns narrative will not sufficiently explain changes in the nature of employment.

11. **Wealth divides** - if the pandemic does have a long-term impact on employment in towns and cities, it is plausible that this will have a knock-on effect on wealth divides. This could manifest in several ways. One is arguably a positive, with some workers who gain new opportunities to work more flexibly able to move to parts of the country they could not viably live in before. This could ease demographic pressures, housing pressures in urban areas, and bring additional spending in rural or peri-urban parts of the country. On the other hand, this could be a negative, with white collar workers able to relocate and inflate house prices in desirable parts of the country whilst workers reliant on locally consumed service employment struggle for work and to meet the high living costs associated with city living. In short, the pandemic has afforded more long-term opportunities for higher skilled, higher income workers than lower-income, lower-skilled workers.
12. **Urban degradation** - if employment inequalities do manifest as a result of the pandemic in certain towns and cities, there is a risk of particular urban spaces falling into decline, with businesses closing and reduced incentives for investment. The opposite may occur in areas which have benefitted from shifts in worker and consumer behaviour. We outline some considerations for the Committee with regards to how to breathe new life into the high street in our recommendations below.

What action is needed from the UK Government, town and cities leaders, and others to mitigate the risk of any change in the nature of employment?

13. The Government has rightly stepped in through the CJRS to mitigate the initial impact of COVID-19 employment shocks. As more workers return from furlough – and some lose hours or jobs altogether – the medium/long-term intervention from Government is less straightforward.
14. At the end of this evidence we offer some key considerations for the Committee with regards to responding to the changing nature of employment, the future of the high street and the potential inequalities resulting from this. However, it is right to question exactly what role the state has to play in all this, given the potential scale of changes which could occur in towns and city labour markets.
15. We would question whether it is cost effective or even desirable for the Government and local leaders to attempt to *stop* certain structural changes from taking place, given that some of these changes were already underway long before the pandemic struck. The clearest example of this is bricks and mortar retail, a key employer in towns and cities across the country. We would argue that trying to halt the decline of high street retail - a perennial promise of politicians from all parties - does not

offer a positive future for our shared urban spaces. Equally, the same can be said of attempting to resist shifts toward increased remote working.

16. Instead, we would argue that the purpose of the state is to support workers through skills and training provision and consider a potential employment guarantee aligned with pre-existing strategic economic objectives including reaching decarbonisation and infrastructure development.

How could the UK Government, town and cities leaders, and others use their response to the pandemic to reduce inequalities in employment?

17. **Skills and training** - the ability of those who have lost their job to gain employment elsewhere is a key concern. Enabling workers to move from one sector which has experienced job shedding to another where vacancies are more numerous should be a key policy priority both now and beyond the pandemic. A well-developed, sufficiently-funded skills policy can facilitate this.

This challenge becomes more significant when we consider that the sectors worst hit by the pandemic are more likely to employ lower income individuals. Women, ethnic minorities and young people are also all more likely to work in a disrupted sector.^{xii} This raises the prospect of growing inequality and rising levels of poverty as a result of these structural shifts in the labour market.

Beyond the pandemic, a successful post-16 skills and education system will also be crucial if the UK is to face up to long-run challenges, including the transition to Net Zero and demographic pressures. SMF research published in late-2020 highlights the role adult education can play in helping workers – particularly those on lower incomes – acquire new skills in order to change career or find a job.^{xiii} Using data from the Understanding Society survey, we found that 16% of unemployed people who undertook training in 2012/13 were still unemployed five years later, compared to 27% of those did not participate in some form of training.^{xiv} Adult education participation is also linked to wage growth and improved chances of moving jobs.

However, the UK is among a global minority of countries with declining participation in adult education, which has fallen by 49% since 2004. It is likely that cuts to adult education spending have, in part, driven this trend. Analysis by the Institute for Fiscal Studies finds that, excluding apprenticeships, spending on adult education nearly halved (48%) since 2009-10; equating to a fall of around £1.3bn (in 2020-2021 prices). Current spending on classroom-based adult education works out to just £43 per working age person, down from nearly £86 in 2008/9.

The Government has promised an overhaul of adult education through its Skills and Post-16 Education Bill. The Lifetime Skills Guarantee (LSG) and £2.5 billion National Skills Fund are the headline measures to “reverse”

the decline in adult education participation. £95 million has already been made available as of April 2021 from the LSG for learners who do not possess a Level 3 qualification. Following the Augar Review of post-18 education, the Government has also indicated it will simplify and boost the funding landscape for adult education, whilst also making it more flexible.

We welcome the Government's legislative intent here after a decade of neglecting adult and further education. However, the new Lifelong Loan Entitlement will not be fully introduced until 2025, whilst the level of spending currently promised (around £625 million extra per year until 2025) committed to adult education fails to reverse the £1.3 billion fall in spending (excluding apprenticeships) between 2009-10 to 2019-20.

We make five recommendations to boost participation in adult education and help people reskill and move between occupations and sectors:

- a. A substantial increase in adult education funding of at least £1.3bn per annum to offset the decline in funding seen in recent years, and a three year commitment to support long-term planning in the next Comprehensive Spending Review. This is vital for helping local colleges plan
- b. Funding should be simplified and should largely follow the learner.
- c. A large scale outreach campaign is needed to demonstrate the benefits of adult education.
- d. Responsibility for coordinating adult education should be clearer. One proposal in this direction would be to make it a statutory duty of local authorities (or, where they exist, devolved regional authorities) to provide a certain range of adult education courses, as indeed it was in the past.
- e. The Government should make a concerted effort to increase awareness and take-up of employee training rights.

18. Reimagining high streets - When discussing the future of the high street, politicians and policymakers tend to frame urban centres as something to be "saved" or "protected". As this evidence has made clear, trying to revert to business as usual in urban areas after the pandemic is likely to be like trying to stop the tide from coming in. We believe that the pandemic offers fresh opportunities to create a high street better suited to life in a post COVID-Britain. These include:

- a. **Converting commercial property into residential** - On the conservative assumption of 5% of commercial land being converted, and residential developments on this land being twice as dense as the England average (a reasonable assumption for town and city centres) – our calculations indicate that 800,000 homes could be developed in urban areas. This could ease housing pressures, create new jobs and breathe new life into urban communities.

- b. **Writing off local government debt to facilitate investment in urban communities** – alongside day-to-day funding pressures, which are well documented, £80bn in local government debt sits on the Public Work Loan Board’s books. Whilst the 2020 Finance Bill allows the cap on PWLB borrowing to grow from £95bn to £135bn (through secondary legislation), local authorities may be unlikely to borrow if loans need to be repaid, especially at a time of local government revenue shortfalls. In an extraordinary measure, therefore, we believe that after a decade of cuts to central government grants, the Government could step in and write-off at least some of this £80bn PWLB debt. Any debt write-offs could be made contingent on local government committing to specific investments in local communities, or new measures to help the unemployed, such as investment in adult education provision.
- c. **Local green bonds to finance green towns and cities** – based on the success of Swedish municipal bonds, local government should explore the potential of green bonds to finance investment in sustainable energy, transportation and building solutions. This would channel investor appetite for supporting ESG investments onto the local level where at present, financing vital net zero infrastructure is a significant challenge for under-resourced councils.^{xv}
- d. **Bringing public service hubs to the high street** – as part of reforms to the “town centre first” policy, public bodies should follow examples in Wakefield and Wolverhampton and consider locating health and other public services in town and city centres.^{xvi}

19. **A universal jobs and training guarantee** - the Government’s furlough scheme has acted as a form of income support but does not *guarantee* employment since workers must remain inactive to be eligible for furlough, and their post-furlough employment status is unknown. Therefore the Government has largely decided to encourage employment as set out in its “Plan for Jobs”. Initiatives designed to support the return to work include the Restart Scheme, Kickstart Scheme, additional financial support for businesses hiring apprentices, and increased numbers of Work Coaches and specialised Work Coaches for young people.

The challenge with programmes aimed at helping people into work is a reliance on the private sector to provide jobs at a time of economic uncertainty. Restart, Kickstart and other interventions will support some back into employment, and there is evidence – for example from the Work Programme^{xvii} – that return to work initiatives can be successful. However, they are not universal, leaving many groups of workers exposed to the scarring effects of unemployment, and insufficient for aiding those furthest from the labour market, including some disabled people or those with low skills living in areas of structural unemployment, for whom the crisis has only worsened prospects. These programmes may struggle to be

flexible enough to reflect the diverse employment challenges facing towns and cities across the country.

The Social Market Foundation has therefore proposed a set of principles which could guide the creation of a new Jobs and Training Guarantee:

- a) **Training must be a central element**, to ensure that once the period of state-backed employment ends, individuals are well placed to take advantage of new opportunities. We recommend participants should be given 20% of their working week for training and education. Workplace training should be the priority, but the Guarantee could also be an opportunity for increased collaboration between the Further and Higher Education sectors.
- b) **Private sector placements should be the priority.** Employers benefiting from what amounts to free state-funded labour should be obliged to provide or source training for participants. Evidence also suggests that job guarantee programmes that engage the private sector, or even just subsidise employment in the private, can be the most effective in delivering sustainable employment to people who would otherwise not have work.^{xviii}
- c) **Fill the low-carbon skills gap.** The scheme should prioritise the roles and skills needed to deliver the UK's Net Zero goals.
- d) **The scheme should be managed at a regional level.** Local decision-makers, including local authorities, mayors and Local Enterprise Partnerships, should be centrally involved in management and oversight. This would allow those with 'boots on the ground' in towns and cities to ensure public money is spent as effectively as possible.

Similar proposals have been made by the Trade Union Congress, Learning and Work Institute and House of Lords Economic Affairs Committee. Whilst specifics of each Jobs Guarantee varies, they all bear the commonalities with the principles outlined above. We also point to the Future Jobs Fund – scrapped by the Coalition Government – as evidence that guaranteeing employment is a cost-effective measure.

Social Market Foundation reports cited in this evidence or relevant to the Inquiry's terms of reference

- *A new life for the high street* - <https://www.smf.co.uk/publications/new-life-for-the-high-street/>
- *Health on the high street* - <https://www.smf.co.uk/publications/health-on-the-high-street/>
- London coronavirus economy tracker (April 2021 update) - <https://www.smf.co.uk/publications/london-coronavirus-economy-tracker-april-2021/>
- (Adult) education, education, education - <https://www.smf.co.uk/publications/adult-education-2020/>

- Levelling down: the medium term local economic impact of coronavirus - <https://www.smf.co.uk/publications/levelling-down/>
- A new safety net: guaranteeing jobs and training after the crisis - <https://www.smf.co.uk/publications/a-new-safety-net/>

9 July 2021

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<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/latest>

ⁱⁱⁱ <https://www.smf.co.uk/publications/london-coronavirus-economy-tracker-april-2021/>

^{iv} <https://yougov.co.uk/topics/economy/articles-reports/2021/04/13/one-five-want-work-home-full-time-after-pandemic>

^v <https://www.cipd.co.uk/knowledge/work/trends/working-post-pandemic>

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^x https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3752977

^{xi} <http://hummedia.manchester.ac.uk/schools/soss/economics/discussionpapers/EDP-2008.pdf>

^{xii} <http://researchbriefings.files.parliament.uk/documents/CBP-8898/CBP-8898.pdf>

^{xiii} <https://www.smf.co.uk/publications/adult-education-2020/>

^{xiv} <https://www.smf.co.uk/wp-content/uploads/2020/11/Adult-education-education-education-Nov-2020.pdf>

^{xv} <https://www.smf.co.uk/publications/getting-the-green-light/>

^{xvi} <https://www.smf.co.uk/publications/health-on-the-high-street/>

^{xvii} <https://www.gov.uk/government/publications/the-work-programme-impact-assessment>

^{xviii} Ibid.