The Keep London Working Partnership

The Case for Key Worker Housing Solutions: Extent, Patterns and Impacts

February 2003



Llewelyn-Davies

LSE The London School of Economics and Political Science

Contents

EXECUTIVE SUMMARY 2

1. WHY MIGHT KEY WORKER HOUSING BE RELEVANT? 10

1.1 Introduction 10
1.2 Labour markets and housing markets 10
1.3 Housing key workers 11

2. THE ANALYTICAL FRAMEWORK 13

2.1 Introduction 13
2.2 Individual employee decisions 13
2.3 Housing market and supply conditions 14
2.4 The role of the social sector 17
2.5 Labour market factors 19
2.6 Cyclical factors 21
2.7 Other sources of labour 23
2.8 Questions to be answered 23
2.9 Approaches 24

3. WHAT IS THE PROBLEM AND WHAT ARE THE PATTERNS? 26

3.1 Introduction 26
3.2 The extent of the problem 26
3.3 The labour force 27
3.4 Housing 35
3.5 Recruitment and retention 37
3.6 Impacts 41

4. WHY IS IT SO BAD NOW? 53

4.1 Introduction 53
4.2 Cyclical 53
4.3 Structural changes 60

5. THE IMPORTANCE OF HOUSING IN RECRUITMENT, RETENTION AND STANDARDS 67

6. QUANTIFYING THE REQUIREMENT FOR KEY WORKER HOUSING 73

7. CONCLUSIONS AND POLICY RECOMMENDATIONS 79

7.1 Key findings 79
7.2 Types of solution 80
7.3 Conclusion 84

Executive Summary

This section summarises the findings of the research undertaken by Llewelyn-Davies and LSE London into the labour market demand for affordable key worker housing in London. Its purpose is to test the case for housing solutions to what might essentially be viewed as a labour market problem – the shortage of key workers in the capital.

The core research question and method

The research set out to answer the question: *should identified groups of key workers get preferential treatment in the housing market and, if so, why?*

Key workers are defined here in terms of providers of essential local (usually public) services whose pay cannot be flexibly adjusted to meet current variations in the local cost of living, particularly in relation to housing. The research investigated three particular groups of key workers – nurses, teachers and bus drivers, differing from each other in terms of earnings, traditional housing patterns, gender mix and career profiles, but together representative of most of the key workers who earn their living in London. Among nurses and teachers we have looked only at the public sector, since this is where constraints of wage rigidity operate. Bus drivers, who are now employed in the private sector, have been included because regulation of the sector imposes some similar constraints on employers. Combined, these groups make up a sizable chunk of London's overall labour force – more than 120,000 nurses, teachers and bus drivers work in the city. A wide definition of key workers, covering public sector occupations with average salaries below the £30,000 threshold for effective access to the open housing market in London suggests that there around 667,000 such posts in London.

The research methodology had two main strands. The first comprised new analyses of a range of existing, often unpublished, data sources, investigating what additional information and insights could be derived from this in relation to the case for key worker housing solutions.

The second strand involved detailed case study analysis of key workers and managers at 12 workplaces – three hospitals, three primary schools, three secondary schools and three bus garages in 8 London boroughs and 5 of the London Plan sub-regions. The workplaces were chosen to represent a range of housing market and labour market conditions. The case study analysis included structured interviews with managers and workplace surveys of 445 key workers – 149 nurses, 159 teachers and 137 bus drivers.

The extent of the shortage

Current shortages of key workers are very much higher in London than in other parts of the country, as illustrated in table 1.

TABLE 1: LONDON AND UK VACANCY RATES			
	London Vacancy Rate	**UK Vacancy Rate**	**London shortage**
Nurses (2002)	6.1%	3.1%	2,750
Teachers (2001)	3.5%	1.4%	1,788
Bus drivers (2002)	6.1%	-	1,110

These official figures may only be the tip of the iceberg, as there is strong evidence of 'coping strategies' (outlined below) that compromise the quality of service provision by filling or masking vacancies with temporary staff or those of a reduced standard. In particular there is evidence on the extent to which budgets in Health Trusts are being put under strain by the need to use agency staff to maintain services as well as evidence that short term, infill, teaching appointments reduce education quality.

A retention problem

Management within the three occupations are firmly of the belief that the key worker shortage is a problem of retention as much as recruitment. The turnover figures in table 2 support this assertion.

TABLE 2: LONDON AND UK TURNOVER RATES		
	London Turnover Rate	**UK Turnover Rate**
Nurses (1999)	28% (Inner London)	12.9%
Teachers (1998/9)	18.4%	14.3%
Bus drivers (2001/2)	29.5%	-

This would not necessarily be a serious problem if the nurses, teachers and bus drivers were just moving between hospitals, schools and bus companies in London. The case studies reveal that this is not the case. Instead, teachers and nurses are leaving London and bus drivers are leaving the occupation. In particular:

- 37% of nurses and 32% of teachers will be actively looking for a new job in the next year.
- 21% of *all* nurses and 13% of *all* teachers will seek a job in the same profession outside London – the equivalent of around 9,500 nurses and 8,000 teachers moving to hospitals and schools outside the capital in the next year.
- 24% of bus drivers will be actively looking for a new job in the next year. Of these, 39.5% do not know what or where the job will be and 33.5% intend to move to a different profession in London.

Certain types of key worker are being lost

According to the case studies, those key workers that are being lost to the occupation in London have particular common characteristics:

- Nurses leaving London are more likely to:
    - Have a partner whose job affects where they live
    - Have been in nursing for more than 10 years
- Teachers leaving London are more likely to:
    - Not be a home owner
    - Have lived in London for less than 20 years
    - Have no family ties in London
    - Have a partner whose job affects where they live
- Bus drivers leaving the occupation are more likely to:
    - Be low earners within the occupation
    - Be renting from the Council or an RSL

This knowledge will help to plan for efforts to reduce turnover rates.

Housing as a reason for key worker shortages

Evidence from the study's original research and elsewhere indicates that the problem is caused by a combination of both housing and labour market factors, probably in that order, including:

- Shortage of suitable affordable housing
- Pay
- Hours, working conditions and stress

The report estimates that the lack of suitable, affordable housing can be associated with 50% of key worker shortages.

91% of nurses and teachers and 80% of bus drivers agree with the statement that "high housing costs are forcing people to leave London or leave the profession". 62% of key workers who are seeking work outside London state "cheaper accommodation" as a reason, 52% state "better accommodation" and 46% state "ability to buy accommodation". These are the 3 most common reasons.

Cyclical reasons for key worker shortages

Cyclical factors are important in key worker shortages. They are also, to an extent, predictable. Using teachers as an example, turnover is higher when:

- Unemployment is lower
- House prices are high relative to pay
- House prices are rising relative to pay

Structural reasons for key worker shortages

Structural changes in the last 30 years have worsened the problem of key worker shortages. These include *housing market* pressures:

- The construction of homes in London has not kept up with the growth in households
- Partly as a result, rising house prices have made it increasingly difficult to enter the London housing market
- Shortages are meaning that people in employment are finding it increasingly difficult to obtain social housing.

They also include *labour market* pressures. The most important of these is that the relative earning power of key workers has fallen in relation to private sector employment.

Key worker housing 'choices'

In terms of where they live and what they live in, London's key workers are far from homogeneous. Tenure, for example, varies by occupation, as shown in table 3, with nurses typically renting in the private sector, teachers in owner occupation and bus drivers in rented social housing or in owner occupation.

TABLE 3: HOUSING TENURE (%)

	Nurses	**Teachers**	**Bus drivers**
Owner occupation	25	**43**	**32**
Renting from private landlord	**43**	36	20
Renting from Council/RSL	8	13	**32**
Other	25	10	17

The type of area of residence also varies by occupation, with:

- Teachers and nurses biased towards areas of private rental and away from expensive owner occupation

- Bus drivers in areas of cheap owner occupation and away from private rental.

London key workers do tend to live relatively close to their place of work. Of the 3 groups, bus drivers live closest to their work and teachers furthest away. Those who work in more central locations live further from work than those working in more suburban locations.

The impacts of key worker shortages

The impacts of key worker shortages, around 50% of which are associated with housing factors, are felt in three main ways.

Firstly, the quality of staff suffers. For example:

- 4.1% of London teachers are agency staff, compared with 1.6% in England

- 3.3% of London teachers do not have qualified teacher status, compared to 1.3% in England

Secondly, service delivery suffers. For example:

- Nurse managers in 88% of units surveyed reported that patients were put at risk due to staff shortages

- The Schools Inspectorate states that "*the quality of teaching by temporary (supply) teachers continues to be a concern*"

- 39% of lost mileage over the last 3 years in London is due to staffing reasons, accounting for 15,000 kilometres per day

Thirdly, there are high economic costs to employers (and, therefore, the taxpayer). For example:

- In 2000/01, the London NHS bill for agency nurses was over £200 million – 15% of total spend on nurses and half of the England expenditure

- London's 2,250 agency staff are costing the capital's schools £450,000 per day. Replacement with permanent staff would result in a saving of £40 million per year.

- London bus operators are penalised between £7 million and £11 million per year for mileage lost due to staffing reasons

A basis for policy

Not including those solutions that should apply across the country (largely related to working conditions), three complementary lines of action are required to address the shortage of key workers in London:

- Ensuring that the London pay differential for key workers is adequate, in an average year, to cover those higher costs of living affecting the mass of workers within those age/seniority groups where recruitment and turnover are major issues

- Targeted *housing* provision to address particular recruitment and retention problems in periods of peak housing and employment demand, and over the longer term to provide for *particular groups* of key workers facing especial difficulty in competing in the private market

- Stronger (financial or housing) incentives to work in the least popular/most stressful facilities, which currently bear a disproportionate share of staff shortages in periods of pressure

In this way, housing must be one element of a wider recruitment and retention package. For a number of reasons, including the very high cost of addressing pay differentials and the fact that addressing housing problems can also make a contribution to alleviating problems relating to pay and conditions, it must be a core part of the package.

Housing approaches can include a range of initiatives to make housing more affordable. But the need to increase the supply of key worker housing for rent or for sale cannot be ignored.

The requirement for key worker housing needs to be quantified. This is done by estimating the housing requirement that would contribute to returning turnover to levels experienced in the first half of the 1990s. On top of this, allowances need to be made for 'modifiers' such as 'deadweight' (that not all beneficiaries would have otherwise left London or the profession), 'leakage' (key worker housing that, in time, becomes occupied by non-key workers) and expansion of sectors (such as is happening with the London bus sector).

Given the interplay of housing market factors (shortage of affordable housing), labour market factors (related to pay) and working conditions, it is difficult to isolate the requirement for key worker housing that is needed in response to the shortage of key workers.

We estimate, however, that there is an immediate requirement of **1,400** housing units per year to meet the needs of nurses, teachers and bus drivers.

Using a broad definition of key workers, to extend to much of the public and regulated sectors, there could be an immediate requirement for **7,000** housing units per year.

The requirement will be expected to decrease as market conditions change and the requirement backlog is met.

The requirement is London-wide. Given the travel-to-work patterns of key workers and the spread of need across the capital, it would be inappropriate to concentrate the provision within particular areas or sub-regions.

It is important that any housing produced is of a type that meets needs and expectations. This research suggests that key workers would like to move into homes that are: owner-occupied; in 'good' areas; and more permanent than their existing accommodation. If owner occupation is offered, contractual and planning obligations should be used to prevent leakage from the key worker housing pool. In terms of home type and size, a range of alternatives needs to be offered that caters for families as well as single people. There is certainly the need to diversify the current bias towards the provision of small flats for key workers. However, if government policy pressures mean that this type of housing is favoured in the shorter term a trade off between what is desirable and what is achievable may be required.

Specific actions are required from at least five sets of stakeholder, as outlined in the table below.

TABLE 4: RECOMMENDED STAKEHOLDER ACTIONS	
ORGANISATION	**ACTION**
Central government	Provide tax breaks for employers providing housing Review London Allowance Address working conditions for key workers Provide greater incentives to work in the least popular workplaces Realign housing subsidy policy that favours new-build towards innovative approaches to key worker housing
London government	Formulate a London-wide approach to key worker housing that encourages the spread of provision and that can cascade sub-regionally
Local authorities	(see sister KLW research by Ark and ERM) Link housing provision to set income groups Negotiate appropriate S106 Agreements Tie key workers to housing to avoid leakage
Employers	Review London wage differentials Approach housing provision in the context of an understanding of the financial/cost benefits of interventions Provide housing, initially perhaps with short-term leasing Form partnerships with RSLs to provide housing for those looking for more stable accommodation Target assistance at those groups most likely to leave Review efforts to reduce turnover, learning from good practice Assistance with moving and settlement costs
Housing providers	Examine the potential of the existing housing stock for key worker provision Diversify provision for key workers, recognising differing needs

1. Why might key worker housing be relevant?

1.1 Introduction

This report presents the findings of the research undertaken by Llewelyn-Davies and LSE London into the labour market demand for affordable key worker housing in London. Its purpose is to test the case for housing solutions to what can be essentially viewed as a labour market problem – the shortage of key workers in the capital.

1.2 Labour markets and housing markets

Labour market and housing market policy tend to treat housing and employment location as separate from one another. It is assumed that employers will provide accommodation and/or funding where necessary and otherwise individuals can make their own decisions within the separate markets.

This attitude pervades land use planning approaches where housing requirements are based on trend projections and local areas often try to argue that they should not directly provide for immigrants to the locality – which might be expected to be employment based. Requirements for affordable housing are based on local needs surveys, which inherently concentrate on existing indigenous needs. Changes in house prices, which might be regarded as evidence of pressure, are not taken directly into account.

Thirty years ago, about 25% of the private rented sector was employer provided housing, including that for public services. That accounted for some 3% of the total housing stock. In addition, most local authorities provided council housing for some of their own workers – notably teachers, as well as sometimes providing mortgages (GLC). Mostly, these were provided because the employee needed to be located close to their work (e.g. caretakers), because they worked unsocial hours and could not depend upon public transport (police, some nurses), because the risks of private provision were too great as a result of the concentration of particular employment (miners), to provide for new entrants moving in from a distance (teachers) or for students implicitly as part of their 'grant' (nurses, police cadets).

The reasons for this provision related particularly to accessibility, but also attracting workers from further afield; economies of scale in provision of short-term accommodation, especially for students; risk bearing; and as a substitute for pay especially where new entrants faced higher costs than those already in place.

The majority of such housing provision disappeared in the 1970s, largely because of demand reasons. In particular, owner-occupation became more readily available and the mortgage market was deregulated. In some parts of the country, notably in mining areas, industrial restructuring removed the link

between housing and employment. More generally, changes in accessibility – with more general car-ownership – and in working practices in services were important factors. In the 1980s, these trends were reinforced by increased incentives to sell off public sector housing assets, pressures on local budgets and a growing emphasis on housing the most needy. Many local authorities modified their points schemes in a way that excluded key workers, and agencies limited their provision to students and those who had to live on site.

The tax system still enables employers to charge any costs that they incur in assisting employees, but changes in the tax system mean that now employees must pay tax on any imputed income from such schemes. This means that most employees would rather have the salary and choose their own accommodation. However, in the public sector and related agencies, it is often not possible to adjust salaries in a way that addresses the differential housing costs faced by new entrants into the housing market. Nor can they compensate existing employees to stay in the area when their housing requirements increase. As a result, most employers have opted out of housing support, except with respect to the payment of moving costs.

On the other hand, the costs of housing, especially in London, have risen faster than incomes of all types and in particular faster than incomes in public sector services. Holmans[1] shows that over the thirty-year period from 1970 earnings rose by 1.8% per annum across the country as compared to a 2.8% per annum rise in house prices. In London the gap is substantially wider, between 2.2% p.a. earnings growth and 3.7% p.a. house price growth. In fact not all groups in the London labour market have experienced even this rate of earnings growth, and London allowances for public sector workers have generally fallen well behind both changes in the living costs and private sector regional earnings differentials. So key workers are particularly badly off in London.

1.3 Housing key workers

This analysis suggests that there are a number of reasons why housing may be particularly relevant to key workers:

- Incapacity of public authorities to vary salaries between new entrants and those already in the housing system;
- London allowance can only address average costs – not those for people entering the market;
- Need for accessibility in unsocial hours;
- The fact that these jobs are relatively evenly spread across the country, including the suburbs – so households who want to move out for housing

[1] A Holmans (2001) *Past and current trends in house prices and incomes and access to home ownership*, Research report IV, University of Cambridge Housing and Planning Research

reasons find it much easier than most London workers would to shift to a local job outside London at the same time as they move house.

- Need to Compensate for other problems such as difficult working conditions – i.e. to help those where the costs of working are higher than in say a middle class area to compete for high quality employees;
- Economies of scale in provision of particular types of housing;
- Risk bearing, especially for short-term provision.

It also suggests that housing alone cannot be expected to solve the problem of maintaining high quality staff in London's public services and that the evidence on its impact will be complex and perhaps difficult to interpret.

All of these factors need to be taken into account when assessing the evidence on key worker housing and evaluating the most appropriate policies to address the issue.

This report attempts to do this from a labour market perspective, uniting housing and labour market analyses in order to answer the core question: *should particular groups of key workers receive preferential treatment in the housing market, and, if so, why?*

2. The analytical framework

2.1 Introduction

This chapter sets the theoretical context for the study by outlining the analytical framework. It explains the role of a range of housing and labour market factors, which suggest that the issue of housing key workers is growing in importance, and concludes with a brief description of the study team's approach to the research.

2.2 Individual employee decisions

2.2.1 Housing decisions

Households expect choice over where they live and in what type of housing. This choice is constrained by their incomes, the price of housing and by where they work. In making their residential decision they make trade-offs between the costs of getting to work – including time and discomfort as well as financial costs - and the costs and value of the housing they can obtain.

Traditionally, journey to work and the price of housing/rent to be paid were regarded as the two most important factors in that decision. Other things being equal people were expected to want to live close to their work – but would live further away if that enabled them to obtain better housing for their money. Those living close to employment locations could expect to have to pay higher prices and to live in smaller accommodation.

More recently, while the general idea of trade-off remains, many other aspects have been seen to be important in determining residential choice especially for those able to afford reasonable quality housing. These include local services – particularly schools; the quality of the neighbourhood; and safety and security in the locality. The relevant price has also become more complex – in particular decisions are often based on the first years' payments in relation to income because of budget constraints. However it can also include expectations of possible payment changes and future house prices rises.

2.2.2 Employment decisions

Simple job market decision models assume that that the potential employee will assess the salary against other possibilities in order to maximise net payment. Again this is modified to take account of non-pecuniary costs and benefits of the work (including, in particular, security of employment and stresses associated with that employment); the costs of living – notably housing; and expectations about career prospects and future life-style.

In practice the employment decision is often made together with housing location – both in terms of immediate location choices and of expectations about the impact of these choices on future opportunities. In the short-term, people may

well not adjust completely – e.g. they will be prepared to commute for a time or live in shared/inappropriate accommodation. However, in the longer term one would expect the household to adjust to maximise their net benefits from the two decisions taken together.

Of particular importance in the current environment is the number of workers in the household. The residential decision then takes account not only of the primary worker's journey to work but also the ease of access to any other worker's job. However, it is sometimes the case that the primary earner's requirements take precedence perhaps because their potential job locations are more limited. This group is unlikely to be influenced by key worker housing solutions. Equally, one adult may need to work close to home to carry out domestic support services. Many of those involved in teaching, nursing and, to a much lesser extent, bus driving are actually the secondary earner who will aim to work closer to their housing.

More generally people in principle have the choice between living near their work, or instead choosing to commute either in order to save a move or in order to obtain higher quality housing. Some key workers, notably nurses and bus drivers have to work unsocial hours and are therefore dependent upon being able to drive to work and park near their workplace. All of these factors place greater limitations on residential choice with respect to a given workplace – and make it more likely that they may change jobs if accessibility is a problem.

The impact of neighbourhood on residential choice is no different for key workers than for other households, except to the extent that their value in the workplace may benefit from living in the locality –this is often stressed in relation to teachers who can then better understand their students' circumstances. It is however obvious that teachers and nurses in particular may have aspirations with respect to neighbourhood which cannot be satisfied in some localities - and which may well be out of their reach in the wider London context. If this constrains the willingness of the more able key workers to work in these areas, there may of course be knock-on effects on the attractiveness of the areas for other households.

Looking at these factors, it is reasonable to suggest that recruitment questions may be directly related both to immediate affordability and access to acceptable housing; while retention is likely to be more a matter of the longer-term assessment of costs and benefits taking account of future career and housing career patterns. Thus, if people cannot obtain the housing they require in order to allow them to live the family life they aspire to, they may both move and change employment in order to achieve these aspirations.

2.3 Housing market and supply conditions

The pattern of housing supply in London has been fixed for decades. Indeed, in some areas, it has hardly changed in the last century. The amount of additional

housing provided each year is less than one percent of the existing stock and there are also significant losses from demolitions and other transfers of use. Over the last twenty years the net increase in the number of dwellings in London was around 400,000 units, the vast majority of which were in the outer boroughs – this increase was considerably below the increase in the number of households.

The pattern of provision in inner London is affected as much by demolitions, conversions and rehabilitation as by new building. Such investment can change the attributes of a locality and thus modify the attractiveness and price of housing.

Accessibility to work has, however, changed greatly over the last decades for two main reasons. First, manufacturing employment has declined or left London while service jobs notably those related to business services – both directly and through personal service industries – have increased. This change in employment structure changes housing needs and the relative location of jobs and housing. In particular it has brought a professionalisation of the workforce, increased concentration of jobs in inner London and the west, and encouraged more widespread gentrification around these areas. Secondly, transport infrastructure and costs have also been restructured significantly modifying the relationships between job and residential location. Over the decades this has resulted in both jobs and especially households moving further out from the centre. But it has also significantly changed the relative popularity of many districts in both inner and outer London.

Investment in the existing stock similarly changes the pattern of housing supply. The most notable impact has been through the post-war emphasis on slum clearance and replacement in the social sector. However, since the 1970s there has also been large-scale private sector gentrification of localities, involving upgrading property; usually reducing the density of occupation; replacing the lower end of these markets, which traditionally would have been privately rented, with more expensive owner-occupied dwellings in the same units; and improving local services.

Because of the relatively high quality of public transport and the network of roads the whole of London, and indeed its hinterland, can be regarded as a single housing and labour market. The markets *are* segmented - in the case of housing by dwelling attributes; accessibility; neighbourhood; reputation; services; and many other factors. One area and one type of dwelling in that area is only a partial substitute for a similar dwelling in a different area. Differences relate to factors inherent in the locality; others are a result of investment, both public and private; still others are related to who lives in the area. Substantial overlaps between the housing sub-markets mean that effects of shifts in demand and supply (on price and availability in the market) tend to ripple right across the region. But in order to address the needs of particular groups of key workers, housing provision would have to be targeted at the relevant sub-markets.

Patterns of employment and housing location show that people tend to live in the same general area as their work or to live rather further out from the centre of London – in whichever direction their employment is from that centre. This is reflected in the maps in section 3.3. Thus, relatively few people live on one side of London and work on the other – or live very far south and work in the north and visa versa except where there are particularly good transport links. Equally many jobs are located near main stations and people live in places accessible to that station

Even so, what is clear is that there is significant movement between sub-sectors of the market and people are able to make trade-offs in terms of size, quality, neighbourhood and accessibility attributes. Thus, improvements in one location impact on both the total number of people living and working in London but also on the choices made about their residential location across similar areas (and note that similar areas are by no means restricted to ones which are spatially adjacent).

House prices are therefore determined by the capacity and willingness to pay of all those in the housing market. That is determined by the demographics of the local population, the extent of net in-migration, by the income distribution of those in the market as well as the opportunity cost of living elsewhere. Over the last decades, there have been increases in population in London, considerable growth in average incomes, and a worsening in the distribution of that income – so that those further up the scale have greater capacity to outbid those further down the scale. This position is further exacerbated by the extent to which those who entered the housing market earlier have housing equity on which to increase their consumption and the extent to which decreases in money interest rates have lowered costs of mortgages – putting further pressure on house prices. This carries with it however two different types of risk: that difficulties in meeting initial payments do not decline rapidly with time – making it difficult for instance to give up one income in order to have children; and, the concern that although inflation is likely to remain low in the near future, real interest rates may still rise – increasing payments disproportionately to incomes.

Rents in the private sector are also set by demand and supply. In the long-term these rents must be closely related to the appropriate rate of return on house prices – although in the shorter term they may be held down by expectations of capital gains. Evidence over time shows that private renting of equivalent dwellings is almost as costly as owner-occupation - and sometimes even more expensive. Thus, like for like, most people want to buy. Private renting does however provide different types of housing – notably smaller units, multi-occupancy and shared accommodation – all of which may be suited to people just entering the housing and labour markets, and to particular groups of mobile households. At the present time, rents further up the market are out of line with house prices (in part because of the Buy to Let boom) and many potential tenants can find ‘bargains’. However, little of this higher cost supply is within the

reach of key workers. That said, private renting is a common choice amongst groups of key workers.

Sub-sectors of the market which do offer better opportunities at acceptable prices are ex-council homes within larger estates and some areas, such as Lewisham, where transport has improved quite rapidly. More generally, lower priced opportunities tend to be in outer London involving significant transport difficulties to many locations in central/inner London.

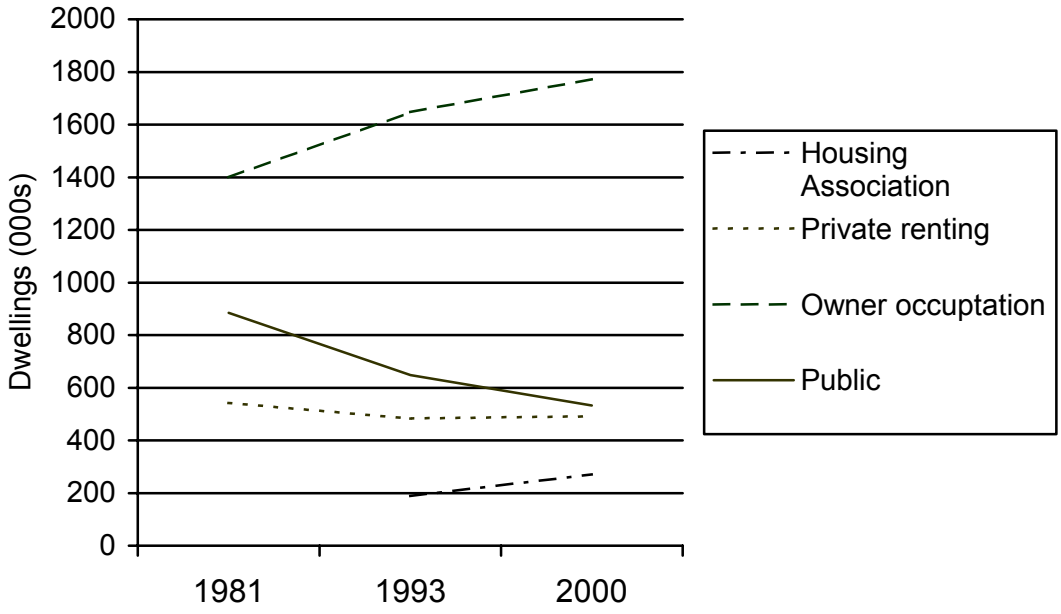
Key workers in London face particular difficulties in competing in the London housing market because their earnings have not in general increased as rapidly as those in the private sector. Nor are their financial expectations as great (at least in a buoyant economy). Equally, new entrants do not have either the local knowledge or access to large down-payments to allow them to compete. These problems are being exacerbated for many graduates – especially those who have undertaken additional training – because they are increasingly indebted as a result of taking out loans for their higher education. This problem does, however, provide an opportunity to offer entry benefits, which are of particular value to newly qualified professionals. In this context the government's Starter Home Initiative offers a small number of such households an entry subsidy to owner-occupation, although even here there is concern about perverse incentives to move out of high cost areas.

2.4 The role of the social sector

As noted in chapter 1, the role of the social sector has changed very considerably over the last twenty years. London, particularly East London, where slum clearance and post-war building programmes were concentrated, traditionally had high proportions of social housing and took a higher proportion of employed households than the rest of the country.

Over the last two decades the proportion of social housing has fallen from 31% to 17% as a result mainly of the Right to Buy. That policy helped many key workers who were enabled to own their own homes and also added to the lower ends of the owner-occupied market for new entrants in the capital. As a result some people have almost certainly remained in London in their existing jobs – probably including bus drivers, many of whom (as we show in chapter 3) own their properties outright.

Chart 2.1: Greater London Housing Stock Change, 1981 – 2000[2]



On the other hand, access to the social sector by those in lower paid employment or through traditional key worker schemes has declined very considerably indeed. Access to social sector housing has become more restricted to households with no worker in the household and particularly to homeless households – to the point where a number of boroughs now have to house more homeless families than the number of lettings in the social sector that they have available. Moreover, movement out of the sector has declined rapidly – in part as a result of rising house prices and therefore more limited opportunities in the capital. The numbers of nurses and teachers obtaining, or indeed requesting, social sector rented housing has declined very considerably, both in terms of current tenure and aspirations - as is reflected in the evidence we present from our surveys in chapter 3 . A higher proportion of bus drivers still live in the social sector but new entrants are finding it extremely hard to gain access.

The government, the Mayor of London and many commentators have recognised the need for a new intermediate tenure, which will provide housing for the lower income employed households and for particular groups of key workers. The Mayor‘s Commission suggested that perhaps 5,000 units per annum should be provided – in the form of cost rented, shared ownership, shared equity and other low cost homeownership schemes. At present, some of these will be provided through section 106 agreements – where there are considerable incentives for developers to meet their commitments through intermediate housing than through traditional social sector rented rather than through traditional social rented housing, because at present intermediate market dwellings require less cross-subsidy and are seen as having fewer adverse impacts on market prices in the

[2] The 1981 private renting figure includes a small number of Housing Association properties.

immediate locality. Many of the initiatives coming forward under the Challenge Fund to produce innovative design solutions also concentrate on intermediate market housing. Even employing the full range of incentives, it is unlikely that the target of 5,000 can be met. Moreover, most commentators would regard the figures well below that required to meet even newly emerging needs.

Overall, therefore, the social sector is unlikely to do more than provide some additional intermediate market housing through the new innovations: Challenge Fund, the Right to Buy and low-cost homeownership and market rent initiatives. Many of these reduce availability elsewhere. Equally many are thought to be out of reach of the majority of younger key workers because the costs are still outside normal price/income and rent/income ratios (as was made clear by, for example, Hammersmith and Fulham at the Select Committee on the ODPM Inquiry on affordable housing[3]).

2.5 Labour market factors

The most fundamental question in looking at the problems faced by key workers is why they face particular problems – why are we not simply assessing the housing difficulties of all lower paid employees and why do not the employers simply raise wages in order to solve that problem?

There are five main reasons for their particular problems – all of which help to define what is meant by a key worker:

- most of the employees involved are dependent on national wage scales and wage bargaining. Their employers are restricted in the additional payments that they can make to attract and retain workers. Even bus operators have implicit wage rates embedded in their regulatory framework;

- employers are normally in the public sector, or regulated by the public sector in such a way that they cannot directly vary their revenues in response to a change in wages. Private sector employers obviously cannot simply pay what the market requires without it impacting on net revenue – but they can vary their methods of production, their prices and indeed their location in response to labour market factors. The options open to a school or hospital – or indeed a London bus company - are far more limited;

- it is not normally possible for these employers to pay different wages to different people in the same job – payments are transparent – therefore their capacity to pay new entrants more than those already there doing the same job is particularly limited;

[3] House of Commons ODPM: Housing, Planning, Local Government and the Regions Committee, *Affordable Housing*, Third Report of Session 2002-3 HC75, Feb 2003

- the wage bill for many of these employers makes up a very high proportion of their costs – so any additional payments impacts on service levels significantly;

- many of the skills involved are almost totally transferable to another location – so it is extremely difficult, for instance, for a less desirable school to compete with another in an easier location. Equally, London employers are competing directly with employers in lower housing cost - and less stressful - areas.

If there were to be equilibrium in the labour market, it would be necessary first to ensure a wage differential between London and the rest of the country which generated the numbers of employees required to fill the positions (i.e. increase recruitment and reduce turnover; and, second, to be able to pay differentials within London which would offset differences in non-pecuniary costs and benefits between employment locations. So, for instance, a school with particularly difficult problems in a poor area would be able to compensate all their employees for the additional stress as well as paying for the higher quality of teaching necessary to achieve equal standards and stability of provision to that of another school where the non-pecuniary costs of working were less and the need for specialist skills perhaps also less. This type of differentiation is not possible.

A particular aspect of this problem facing key worker employers is that in most cases there are employment locations across the capital and indeed the country – which is not the case with many professions. Thus, if someone decides to move out of the capital to achieve better housing, the option is always there to move job as well. The same is true for bus drivers – with the additional, and particularly relevant factor that they can always obtain a driving job in another industry – notably vans, lorries and taxis – so that they are particularly sensitive to their wage structure.

Finally, there are clear differences in the position with respect to recruitment as compared to retention. Clearly housing access costs are particularly problematic for those who have to move into the capital. But there are compensations – notably that working in London is often extremely good for later career prospects. This is especially true for the police, but also impacts on nurses and teachers. Equally London is an attractive location for younger people who benefit from the range of activities available in London and new entrants to the labour market may be happy to live in types of accommodation which are acceptable only for short periods. But, once someone wishes to settle, to become an owner-occupier and perhaps have children, many other factors come into play where London finds it hard to compete effectively. Notably better, larger, cheaper housing is available elsewhere, while local services can be better and levels of stress lower. The level of extra compensation required to retain employees is therefore considerably higher than that required to recruit them initially.

Why is this more of a problem in London than in other major cities? First, the distances involved are far greater – so, for example, teachers can readily move out of the centre of Newcastle and live in a pleasant area and still have a reasonable journey into town. Second, the differential between wages in the key worker sectors and other opportunities are far greater in London. In many other parts of the country, because of national pay scales, people in the public sector who are well down the income ladder in London are relatively well-paid as compared to those in the private sector. Third, the range of other opportunities is greater in London and surrounding areas than elsewhere in the country. Finally, and most important in the context of this project, housing costs take a far higher proportion of incomes in London than elsewhere – and what is obtained is smaller and often of lower quality. An average home in London is a two bed flat; the average across the country is a three bed semi-detached or terraced property with a garden.

These labour market problems also clarify why there are particular benefits to employers of ensuring that employees are well-housed. First, it is one way of helping particular employees (although it must be remembered that it is a taxable benefit). Second, housing can provide a greater proportionate benefit than elsewhere. Third, housing can tie people into the job for a longer period than other types of payment. Fourth, in some cases, it may mean that the employee is more valuable because they are nearer, or more generally, because they have a better chance of being on time and not so stressed.

Finally, many public employers, notably local authorities but also agencies and health trusts have access to housing or land at preferential rates – which can mean that helping with housing is a relatively low cost approach to recruitment and retention problems.

2.6 Cyclical factors

Because house prices, and to a lesser degree private sector rents vary cyclically, whereas public sector wages respond only to changes in the RPI, all these issues of key worker housing access present themselves most strongly in phases of peak demand. At such times the gap between housing cost increases (for those actively engaged in the market, particularly new purchasers) and earnings increases are especially marked in the public sector – and employers' inability to respond flexibly to the problems of those unable to enter the market becomes particularly crucial.

This cyclical aspect - bringing the issue to the fore at times such as the present or the peak of the last boom in the late 1980s – is particularly pressing in London, where house prices are especially volatile. The basic reason for this is that London's housing supply is inevitably less elastic (i.e. less able to respond proportionately to increases in demand) because of constraints on land supply, both in Greater London and in the outer parts of the metropolitan housing market. Increases in demand are consequently reflected more strongly in prices, which

play a role in rationing effective demand levels to the supply which can actually be made available.

This has always been true, but it has also become the case since the early 1980s that employment levels, and hence the underlying level of demand for housing, have become much more cyclically sensitive in London than in other parts of the country. Because the cyclically sensitive sectors are primarily private sector services, this volatility also creates direct problems of labour competition for the public sector in London, including key worker jobs, during periods of peak demand. For all these reasons, the key worker housing problem in London is especially a problem of periods of peak demand – and the national problem of public sector key worker shortages in boom periods is heavily concentrated in London and adjoining parts of the South East.

An implication is that key worker shortages can be expected to ease once the boom has come to an end and the national economy moves into either recession or slower growth. One reason is that many of these jobs are more secure than other options. Second, the national wage structure is sticky downwards – so, when there are cutbacks elsewhere, key worker incomes tend to move up the scale. Third, slowing employment growth in London, reduced immigration, and cuts in bonuses at the top end of the housing market will all be reflected in lower house prices, making entry easier.

However, not all the sources of change underlying current key worker shortages are actually cyclical in character. Some are clearly structural, reflecting factors which will still be significant beyond the present boom, and perhaps grow further in importance. These include increasing differentials, in earnings as between the public and private sectors, and in house prices as between London and other parts of the country. In other cases, a logical corollary of such trends would be that the activities which could no longer afford the going rate to remain in this highly competitive and expensive region should progressively reduce their London labour force, either through pursuing productivity growth by any feasible means or else by moving jobs elsewhere. However, neither of these solutions is really available as far as public sector key worker jobs are concerned. In general they are highly dependent on labour inputs which cannot readily be reduced through enhancement of productivity (though this may raise output quality) as is possible in more capital intensive industries. And the need for such services to be located close to their customers or clients will not generally go away.

As a starting point the analysis shows that, although problems are especially obvious at present and likely to become less so as the economy slows, not only will they return to prominence but may well be more severe and prolonged in the next economic cycle and beyond – given expectations of continuing underlying growth in the economy[4]. Population is likely to continue to rise; housing output is unlikely to meet these growing requirements and even long term income growth

[4] London School of Economics (2002) *London's place in the UK economy: annual report*, Corporation of London

as low as 2% per annum is likely to result in more rather than less in-migration as well as adding consistently to housing demand.

2.7 Other sources of labour

Both the statistical and survey evidence can only provide evidence in relation to those already in the relevant professions and to the overall labour force. An important issue is whether there are groups of potential workers available in London, which could be particularly encouraged by the offer of accommodation. The Great London Assembly report *Key Issues for Key Workers*[5] highlighted the extent to which refugees and asylum seekers – who are almost inherently in need of stable accommodation – often have relevant skills but must overcome entry requirements. Another identified source is single parents as their children reach the age when they can be left to enable the parent to (re)train and enter longer-term employment. Assistance with accommodation in one form or another could be as valuable as childcare in certain circumstances – and could enable people to meet their aspirations to start on the property ladder.

These examples reflect the extent to which London in many ways has greater opportunities because of the large and diverse population. Innovative approaches to housing and training can in principle add significantly to the potential labour force – and with people who already have ties with London and are therefore more likely to remain into the longer term.

2.8 Questions to be answered

The analysis above sets out in some detail the factors that need to be examined in order to answer relevant questions with respect to:

- the need for additional housing for modestly paid employed households and particularly key workers
- the position of key workers in the housing and labour markets;
- the impact of housing costs on employment/recruitment and retention;
- the importance of meeting aspirations as well as ensuring adequate shelter;
- the likely response of key workers if their housing conditions cannot be improved;
- the reasons why employers might find it worthwhile to take an active role in alleviating the situation; and

[5] Greater London Authority (2001) *Key issues for key workers: affordable housing in London*

- the most appropriate policies to providing longer term benefits to employees and employers alike.

The final question is about the impact on key services if the problem is not addressed and thus the effect on service quality. This clearly depends on the extent of the shortfall in the quantity of labour available, the price that employers have to pay to address this shortfall; the changes in services which are made in order to fill gaps; and the impact that this has on budgets and services. There is also a feedback element in that key workers are also consumers – so they may wish to move away from the bad services arising from shortages and the costs of working in overstretched environments – leading to further shortages.

2.9 Approaches

The research investigates three groups of key workers – nurses, teachers and bus drivers. These differ from each other in terms of earnings, traditional housing patterns, gender mix and career profiles, and between them are representative of most of the key workers who earn their living in London. Among nurses and teachers we have looked only at the public sector, since this is where constraints of wage rigidity operate. Bus drivers, who are now employed in the private sector, have been included because regulation of the sector imposes some similar constraints on employers. Combined, these groups make up a sizable chunk of London's overall labour force – more than 120,000 nurses, teachers and bus drivers work in the city.

One way of defining key workers, building on section 2.5, is as all those occupation groups in which at least 30% of employees work in the public/regulated sector. Excluding the one group where all workers earn above the critical level for access to London housing, of £30,000 per annum (Health Professionals), these occupation groups are:

- General Managers – Government
- Protective Services Officers
- Natural Scientists
- Teaching Professionals
- Librarians etc Professionals
- Professional Occupations Not Elsewhere Specified
- Scientific Technicians
- Health Associate Professionals
- Legal Associate Professionals
- Professional, Technical Occupations Not Elsewhere Specified
- Administrative Staff in Government
- Security Service Occupations
- Other Health Related Occupations
- Other Childcare Related Occupations
- Domestic Staff etc
- Social Care Providers

- Road Transport Operatives
- Other Transport Occupations
- Other occupations in public sector

According to the Labour Force Survey, these occupation groups currently contain 667,000 employees in London. Of these, around 500,000 (75%) earn less than £30,000 per annum.

This would be a useful definition for the Keep London Working Partnership to adopt. At the very least, it offers a useful frame in which to set our analysis.

The research methodology had two main strands. The first is original secondary statistical analysis of a range of existing data sources, investigating what additional information and insights could be derived from this in relation to the case for key worker housing solutions.

The second strand involved detailed case study analysis of key workers and managers at 12 workplaces in 8 London boroughs:

- Harefield Hospital in Hillingdon
- St Mary's Hospital in Westminster
- University Hospital Lewisham in Lewisham
- Hurlingham and Chelsea Secondary School in Hammersmith & Fulham
- Fulham Primary School in Hammersmith & Fulham
- Old Oak Primary School in Hammersmith & Fulham
- Brampton Manor Secondary School in Newham
- Essex Primary School in Newham
- Star Primary School in Newham
- Northumberland Park Bus Garage in Haringey
- Putney Bus Garage in Wandsworth
- Sutton Bus Garage in Merton

Within each key worker group, the workplaces were selected to represent a range of housing and labour sub-markets: each of the 5 London Plan sub-regions is represented, as is the complete range of local house price variations.

The case study analysis included structured interviews with managers and workplace surveys of 445 key workers – 149 nurses, 159 teachers and 137 bus drivers.

3. What is the problem and what are the patterns?

3.1 Introduction

This section defines the extent of the problem and explores labour force and housing patterns of London's key workers. It goes on to assess the impact of key worker shortages, in terms of quality of staff, quality of service and the cost to employers.

3.2 The extent of the problem

The most recent data available on recruitment and retention for nurses, teachers and bus drivers tells us that:

- There is a shortage of **2,750** nurses in Greater London. This represents a vacancy rate of 6.1% compared to 3.1% in England[6].
- There are 8,390 nursing vacancies in England, so 33% of all vacancies are in London[7].
- There are 45,082 nurses in London and 270,645 in England, so 17% of all nurses work in London[8].
- The annual turnover rate for nursing staff is 28% in Inner London and 24.5% in Outer London compared to 12.9% in England[9].
- There is a shortage of **1,788** teachers in Greater London. This represents a vacancy rate of 3.5%, compared to 1.4% in England[10].
- There are 4,976 teaching vacancies in England, so 36% of all vacancies are in London.
- There are 58,290 FTE teachers working in London and 410,170 FTE in England, so 14% of all teachers work in London.
- The annual turnover rate for teachers in London is 18.4%, (19.3% in Inner London, 18.1% in Outer London) compared to 14.3% in England.
- The annual wastage rate (those who leave the profession altogether) for teachers is 10.4% in London, compared to 8.2% in England.

[6] Department of Health (2002) *Vacancy Survey*, *March 2002*. Figures throughout the report relate to qualified nursing, midwifery and health visiting staff and only include posts that have been vacant for at least 3 months.
[7] ibid.
[8] ibid.
[9] Royal College of Nursing (2000) *Making up the difference: a review of the UK nursing labour market in 2000*
[10] All teacher statistics in this section are from Department for Education and Skills (2001) *Statistics of education: teachers in England*.

- There is a shortage of **1,110** bus drivers in Greater London, a vacancy rate of 6.1% (2002). There are 17,070 bus drivers employed[11].
- 5,050 bus drivers have left London's bus operators in the last year – a turnover rate of 29.5%.
- So, in these 3 sectors alone, there is a shortage of **5,648** key workers.

The remainder of this report tells the story behind these figures, considering what they mean, whether they matter and, if so, what can be done.

3.3 The labour force

This section considers who London's nurses, teachers and bus drivers are: where they live, what they earn, where they come from and suchlike.

The table below shows average weekly pay for each type of key worker, by whether they work in London or not. While all three categories of key worker earn more in London than outside, the difference is greatest for bus drivers, who earn 30% more in London. The differential for nurses and teachers, both of whom receive formal London allowances in their pay, is much less.

Table 3.1: Gross weekly pay in main job (Labour Force Survey 2001)

Type of worker	Average pay in London	Average pay outside London	London pay as % of outside London pay
Teacher	£459.30	£441.83	104
Nurse	£344.71	£315.45	109
Bus driver	£319.93	£246.47	130

By way of comparison, overall London earnings among full-time workers in 2000 were about 34% above the overall UK average. This is partly because of a concentration of more highly paid types of work in London. Within particular occupations, London workers received on average about 17% above the national average for people in that occupation, though this varies greatly between types of job.

On average the cost of living in London is estimated to be about 12% above the UK average, reflecting price differences for goods (2.6%), services (7.3%) and particularly housing (63.8%). Average figures do not, however, reflect the difficulties that newly forming or newly arriving households have in paying for adequate housing. Recent entrants to owner-occupation (including key workers with small London allowances) are estimated to face a 16% higher cost of living while low-income earners unable to obtain social housing pay almost 20% more[12].

When calculating demand for and ability to pay for housing, we need to know something about household makeup and income. Table 3.2 below shows that

[11] All of the bus driver statistics in this section have been provided by Transport for London – London Buses

[12] LSE London (2002) *London's Role in the UK Economy*, Corporation of London.

while teachers and particularly nurses everywhere tend not to be heads of household, bus drivers overwhelmingly are. These differences are rather less pronounced in London.

Table 3.2: Key workers as heads of household—London and UK (LFS 2001)		
Type of worker	**% of London workers who are head of household**	**% of workers all UK who are head of household**
Teacher	47	39
Nurse	38	28
Bus driver	81	95

This is because, as one might expect, teachers and nurses are generally women, and most are married or cohabiting (though in London they are about twice as likely to be single as elsewhere). Bus drivers are overwhelmingly men, as table 3.3 illustrates.

Table 3.3: Sex and marital status of key workers: London and UK (%) (LFS 2001)				
Type of worker		**Men**	**Single women**	**Married/cohabiting women**
Teachers	London	31	19	50
	all UK	31	10	60
Nurses	London	12	25	64
	all UK	12	15	74
Bus drivers	London	93	4	4
	all UK	96	2	3

Total household income, as measured by the KLW survey, is shown in table 3.4. It shows that around two-thirds of teachers have a household income of at least £40,000,

Table 3.4: Annual household income (%) (KLW survey 2002)				
Income (£)	**Nurses**	**Teachers**	**Bus drivers**	**All**
<20,000	7	2	14	7
20,000-29,999	20	7	33	19
30,000-39,999	27	13	29	22
40,000-49,999	22	27	11	21
50,000-59,000	14	20	2	13
>60,000	5	20	2	10

For teachers and nurses in particular, these household incomes depend a great deal not only on whether the workers concerned live with partners who bring in a second employment income, but on what those partners earn. This is a major factor influencing their likelihood of being able to purchase a house. Evidence from the 2001 Labour Force Survey indicates that employed partners of nurses in London typically earned some 69% more than the nurses, while employed

partners of teachers typically earned some 53% more – for drivers the average figure was 10% less.

In terms of how long employees stay in their jobs (table 3.5), everybody stays less time with employers in London. Teachers and nurses stay with the same employer longer than most categories of worker, but the differences are bigger for these three key worker groups than for others in London.

Table 3.5: Average years with current employer, in London and all UK (LFS 2001)

Type of worker	Years with current employer – London	Years with current employer – all UK	Difference in years
Teacher	5.4	5.92	.52
Nurse	5.48	5.74	.26
Bus driver	5.04	5.5	.46
All workers	5.1	5.3	.2

The Labour Force Survey can also tell us something about age distribution. Table 3.6 shows that unlike those in other jobs, key workers working in London tend to be significantly younger than those elsewhere – especially in the case of teachers. This reflects both the attractions of London for young entrants to the profession and the effects of a subsequent loss of (slightly more) experienced teachers.

Table 3.6: Average age in years of key workers in London and UK (LFS 2001)

Type of worker	Average age – London	Average age – UK	Average years younger in London
Teacher	40.87	43.14	2.27
Nurse	40.08	41.39	1.31
Bus driver	44.75	46.19	1.44
All workers	38.91	38.2	(.71)

Senior personnel staff at Harefield Hospital accept that there is a general shortage of nurses wanting to work in the NHS. The recruitment situation at the hospital varies according to the grade. At the lower level D Grades (newly qualified nurse), the number of new recruits is satisfactory. At other, more experienced Grades E, F and G, recruitment is a problem. In their experience, past D Grade, nurses choose to leave London as they are highly marketable once they have both qualifications and London experience. Nurses are a transient group and because of the general shortage of qualified, experienced nurses, they can choose where they want to work.

The three sets of key workers live in markedly different types of location in London. Analysis of 1991 census information reveals 'over-representations' (in terms of residents working in an occupation against all residents) of:

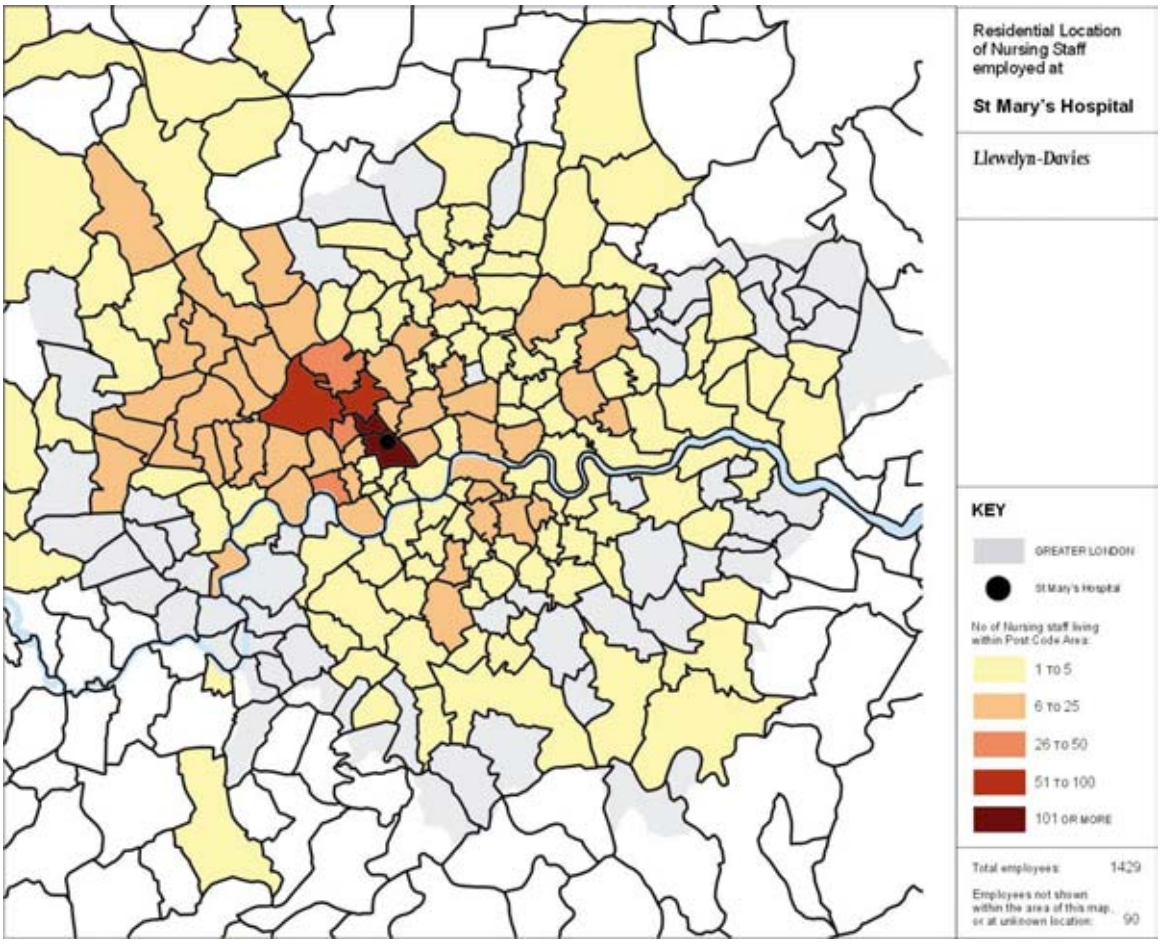
- health associate professionals in the City, Camden, Wandsworth and Tower Hamlets;
- teachers in Haringey, Richmond, Hackney, Barnet and Camden; and

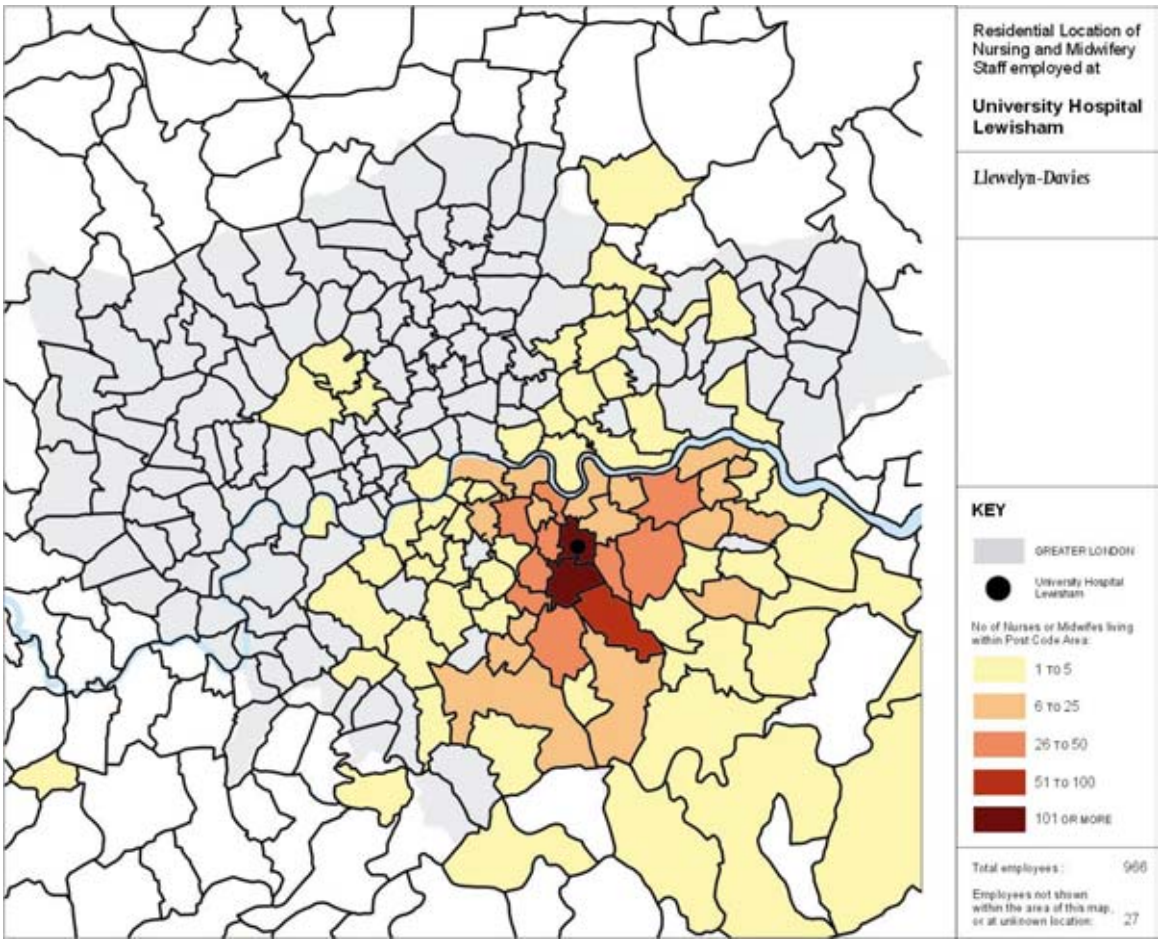
- drivers and mobile machinery operatives working in the transport industry in Barking & Dagenham, Newham, Redbridge, Tower Hamlets and Hillingdon.

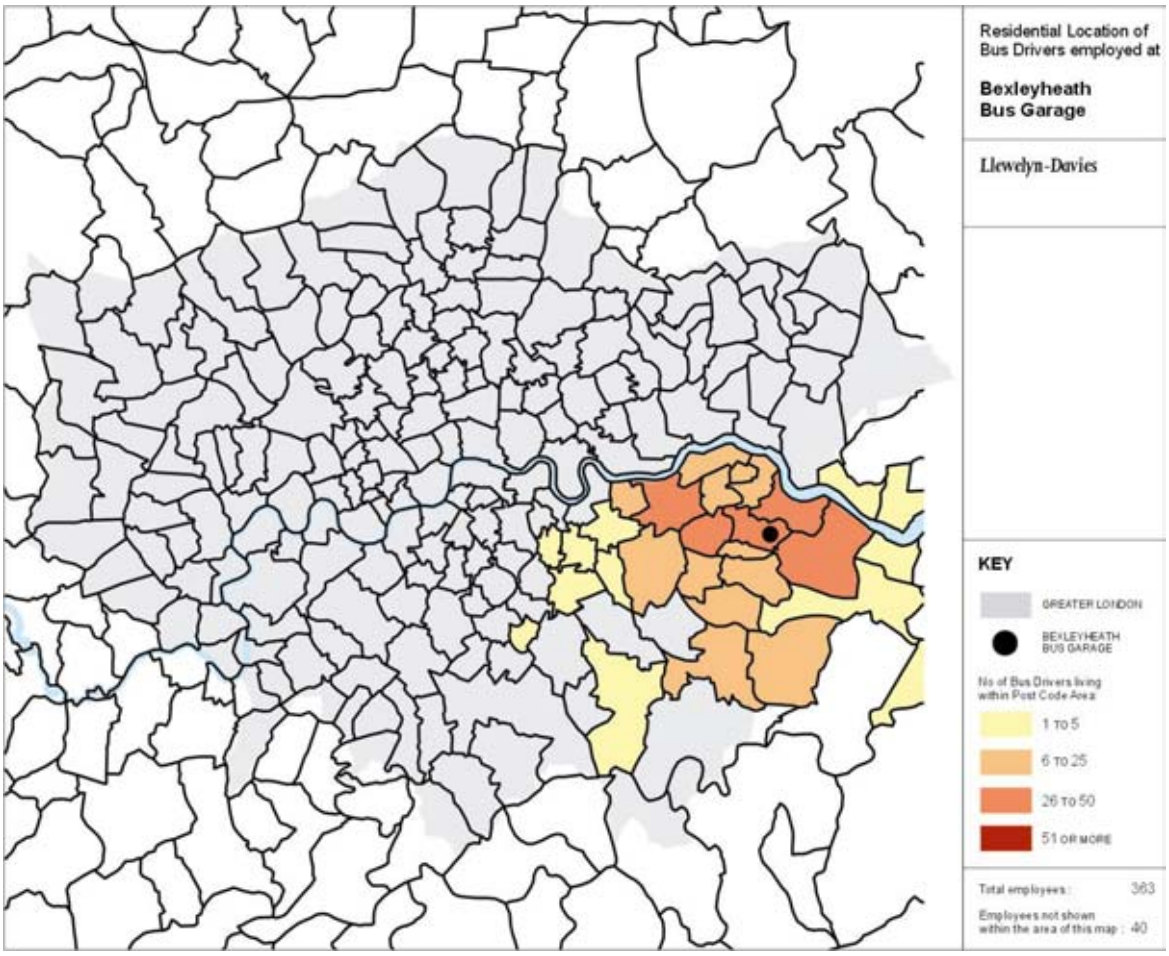
The maps below show the home locations of:

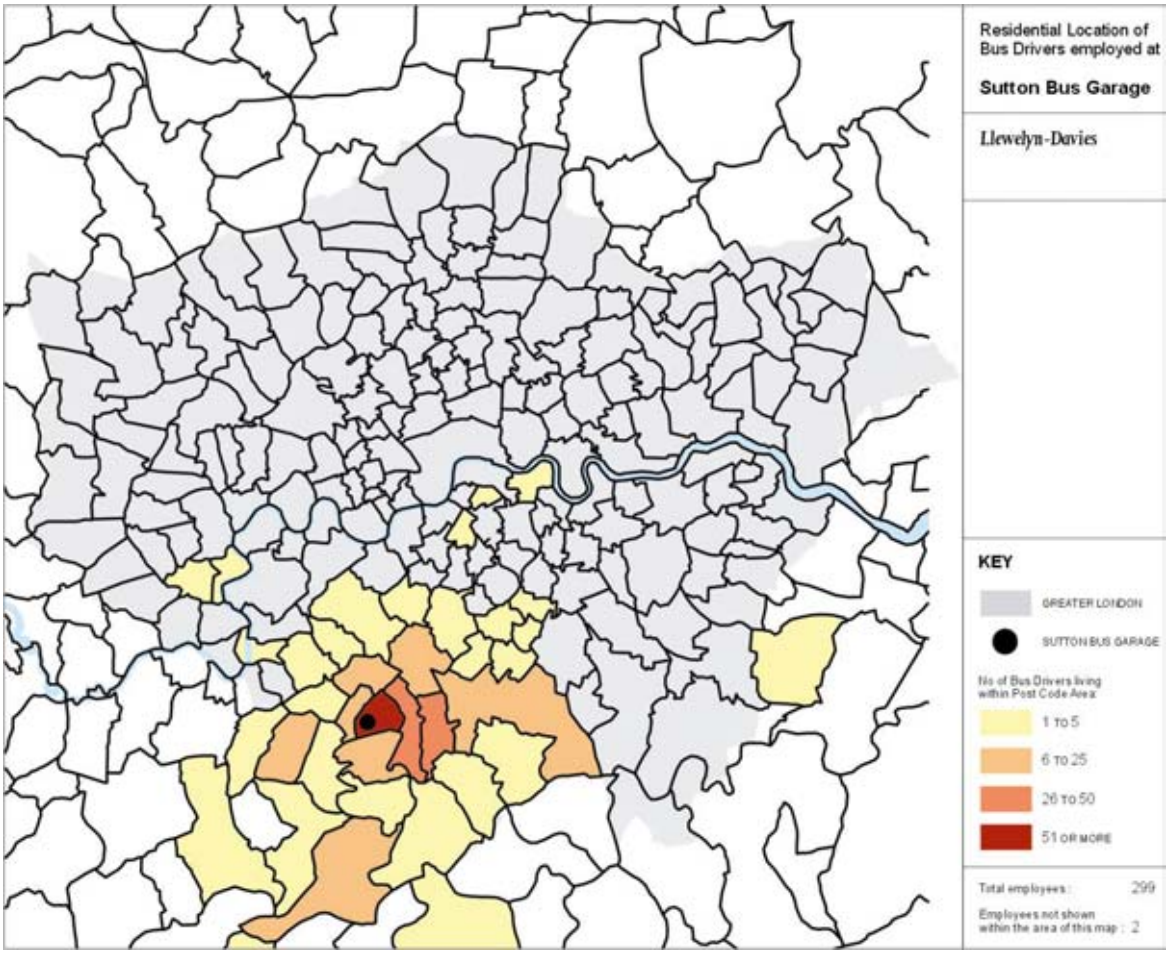
- All nurses working at St Mary's hospital[13]
- All nurses working at University Hospital Lewisham
- All bus drivers working at the Bexleyheath garage
- All bus drivers working at the Sutton garage
- All bus drivers working at the Camberwell garage
- All bus drivers working at the Putney garage

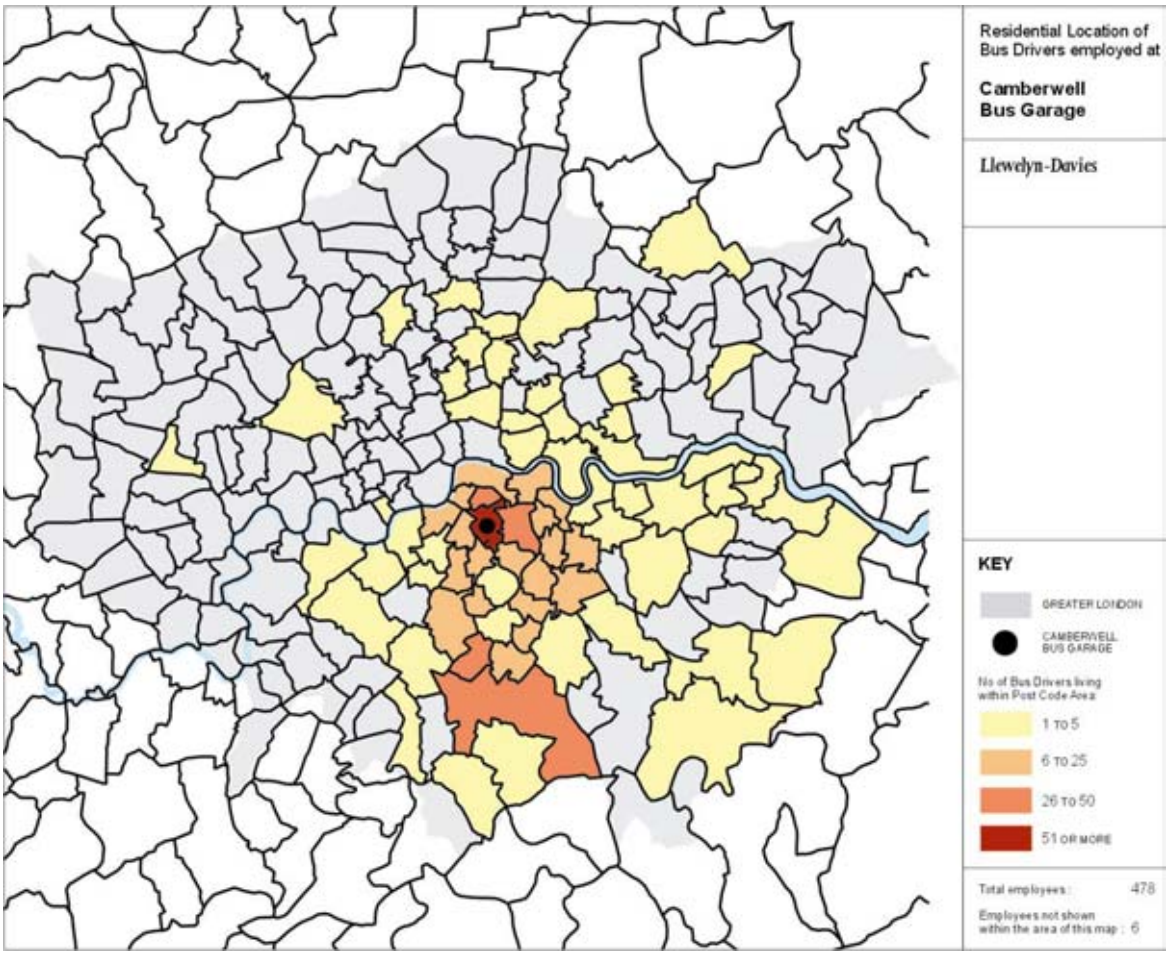
[13] The analysis in this section relates to all nurses, teachers and bus drivers working in the given locations, not just those taking part in the KLW survey, and is based on actual postcodes, as opposed to stated distances from work.

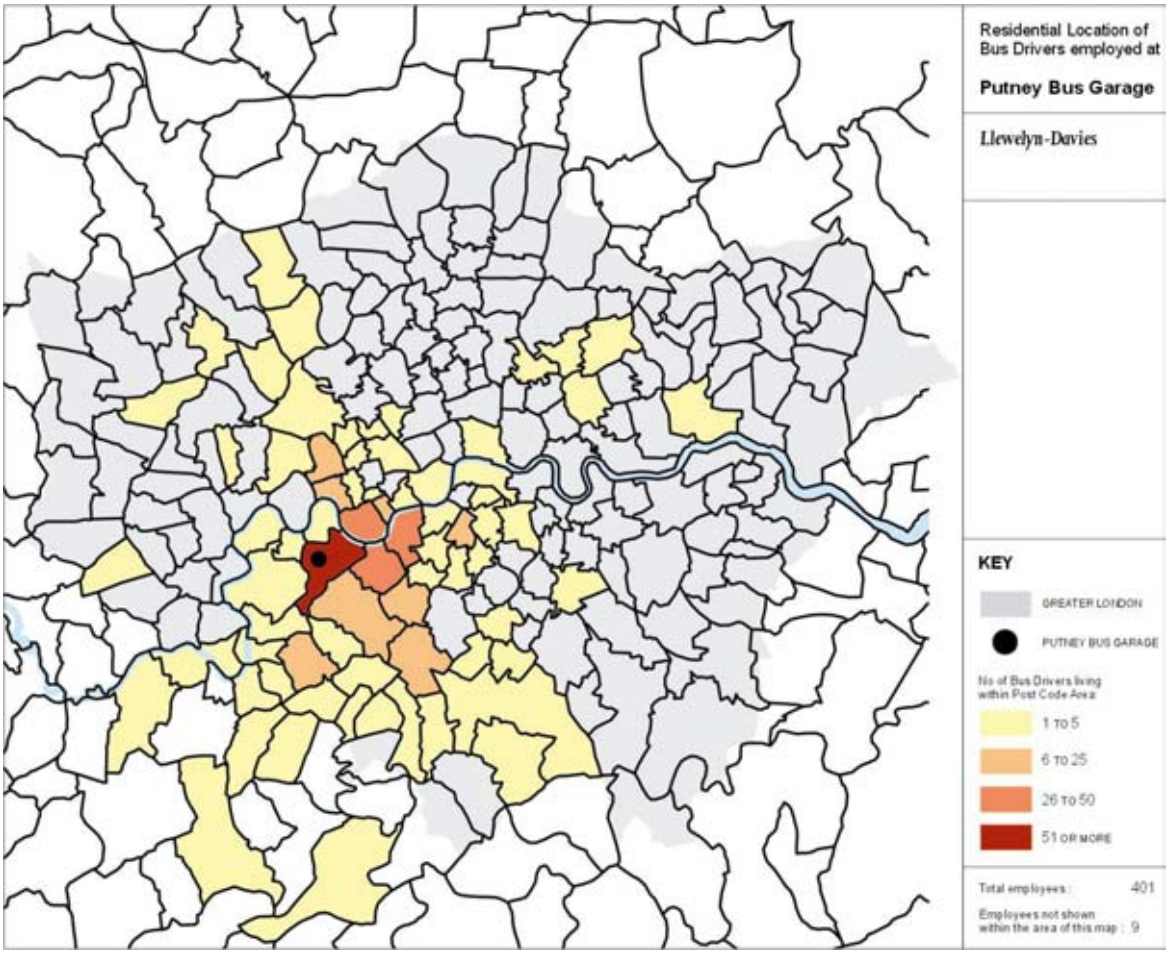

Residential Location of Nursing Staff employed at
St Mary's Hospital
Llewelyn-Davies
KEY
GREATER LONDON
St Mary's Hospital
No of Nursing staff living within Post Code Area:
1 TO 5
6 TO 25
26 TO 50
51 TO 100
101 OR MORE
Total employees: 1429
Employees not shown within the area of this map, or at unknown location: 90


Residential Location of Nursing and Midwifery Staff employed at
University Hospital Lewisham
Llewelyn-Davies
KEY
GREATER LONDON
University Hospital Lewisham
No of Nurses or Midwifes living within Post Code Area:
1 TO 5
6 TO 25
26 TO 50
51 TO 100
101 OR MORE
Total employees: 966
Employees not shown within the area of this map, or at unknown location: 27


Residential Location of
Bus Drivers employed at
Bexleyheath
Bus Garage
Llewelyn-Davies
KEY
GREATER LONDON
BEXLEYHEATH BUS GARAGE
No of Bus Drivers living within Post Code Area
1 TO 5
6 TO 25
26 TO 50
51 OR MORE
Total employees : 383
Employees not shown within the area of this map : 40


Residential Location of
Bus Drivers employed at
Sutton Bus Garage
Llewelyn-Davies
KEY
GREATER LONDON
SUTTON BUS GARAGE
No of Bus Drivers living within Post Code Area
1 TO 5
6 TO 25
26 TO 50
51 OR MORE
Total employees : 299
Employees not shown within the area of this map : 2


Residential Location of Bus Drivers employed at
Camberwell Bus Garage
Llewelyn-Davies
KEY
GREATER LONDON
CAMBERWELL BUS GARAGE
No of Bus Drivers living within Post Code Area
1 TO 5
6 TO 25
26 TO 50
51 OR MORE
Total employees: 478
Employees not shown within the area of this map: 6


Residential Location of Bus Drivers employed at
Putney Bus Garage
Llewelyn-Davies
KEY
GREATER LONDON
PUTNEY BUS GARAGE
No of Bus Drivers living within Post Code Area
1 TO 5
6 TO 25
26 TO 50
51 OR MORE
Total employees: 401
Employees not shown within the area of this map: 9

Clear patterns can be identified in these maps. The residential locations of the key workers working in Central London show firstly a clustering around the place of work, and secondly a radial pattern, with people living in a 'segment' including the closest suburbs - this is most strongly seen with the hospitals and Camberwell garage.

Statistical analyses of the residential distribution of these sets of workers – and of all teachers in Newham[14] – show that they reflect a combination of :

- Proximity effects - with higher probabilities of location close to the workplace, for lower travel effort and costs; and
- Housing factors, in terms of the available tenure mix and house prices in different areas, sometimes leading to longer travel to work.

Table 3.7: Distances travelled to work (kilometres)

	Bus drivers			Nurses		Teachers	
	Camberwell	**Putney**	**Sutton**	**Lewisham**	**St. Mary's**	**Newham Primaries**	**Newham Secondaries**
Lower quartile	1.5	1.1	1.2	1.8	2.7	1.8	1.8
Median	3.3	3.5	2.1	3.8	5.8	4.0	4.6
Upper quartile	6.3	6.4	4.1	7.0	12.1	7.7	9.5

In terms of types of housing area, there are significant differences between each of our key worker groups and the London population as a whole. The main biases for particular groups are:

- Bus drivers: toward areas of cheap owner-occupation (especially for those from Sutton) and away from areas of private rental;
- Nurses: for Lewisham, toward areas of cheap owner-occupation and away from expensive owner-occupation (though biases are actually weakest for this group); for St. Mary's, toward areas of private rental and away from owner-occupation.
- Teachers: toward private rental areas and away from expensive owner-occupation (with stronger biases among primary than secondary teachers).

Overall the results of this analysis show clear contrasts between the locational patterns of bus drivers and those of teachers, with one group of nurses (from St Mary's) being similar to the teachers while the other (from Lewisham) are more or less mid-way between the driver and teacher patterns.

[14] Seven separate analyses were undertaken, relating to: *Bus drivers:* Camberwell, Putney and Sutton garages; *Nurses:* St Mary's and Lewisham Hospitals; and *Teachers*: Newham LEA primary and secondary teachers (with distances based on the centre of Newham).

The two main differences are in:

- the distance-deterrence effect – with proximity being much more important for bus-drivers (especially from Camberwell garage) than for teachers or the St. Mary's nurses, as shown in the table below; and
- areas of private rented accommodation – the least likely areas for bus drivers to live in, and the most likely for teachers or St. Mary's nurses (relative to the population as a whole).

These patterns show that there is a real distance deterrence effect, which has implications for provision and assistance to key workers. If accommodation is not provided in all sub-regions this will impact on both recruitment and retention, particularly because there are job opportunities in all areas. An example of this is the effect of the Starter Home Initiative, which has in some cases been taken up by professionals working in central areas but who then move house to the outer suburbs and later move their job.

3.4 Housing

Building on the analysis of where key workers live, this section looks at the housing tenure and costs of the 445 nurses, teachers and bus drivers participating in the KLW survey. It also draws on the Labour Force Survey.

The KLW key worker survey reveals the following tenure structure:

Table 3.8: Housing tenure (%)

	Nurses	**Teachers**	**Bus drivers**
Owner occupation	25	43	32
Renting from private landlord	43	36	20
Renting from Council/RSL	8	13	32
Other	25	10	17

This shows nurses are most likely to be living in privately rented accommodation, teachers to be owner-occupiers and bus drivers be either owner-occupiers or living in a Council/RSL property. These figures, for workplaces mostly in Inner London, show some significant differences from Labour Force Survey estimates for people with workplaces across Greater London as a whole, in table 3.9 below.

Table 3.9: Percentage distribution of those working in Greater London, 2001/2, by tenure (LFS)

	Nurses	Teachers	Bus drivers	All working in London
Outright owners	12	15	27	15
Mortgage	62	61	44	59
Mortgage/rent		2		
Owner occupation	73	78	70	74
Renting from Council/RSL	7	5	24	12
Employer	3	1		1
Private rent	18	16	*6*	13
Owner-occupier rate outside London	88	93	73	

These show all three groups to be living predominantly in owner-occupied properties, with an overall proportion close to that for Londoners as a whole, and relatively small variations between the three occupations. Council tenancies are still only important among bus drivers, but the proportion in private renting across London as a whole seems to be substantially less in each occupation than in the workplaces in which we undertook case studies. Across the wider area the rate of owner-occupation is still highest among teachers – though at 78% it is still well below the average of 93% outside London - but reaches 70% even among bus drivers. In the latter case, it reflects a particularly high rate of outright ownership, which might be due to the older age profile of bus drivers (meaning they have already paid off their mortgages) and to a greater propensity to purchase ex-council accommodation through right-to-buy (meaning smaller mortgages in the first place). These reasons are supported by the KLW survey, which found that owner-occupiers have been in their home for considerably longer than other bus drivers - 49% for over 10 years and 26% for more than 20 years (compared to 28% and 12% respectively for all bus drivers), and that 51% of owner-occupiers have housing costs of under £600 per month – a lower proportion than those renting from a private landlord. Whatever the precise reason, bus drivers are the one group where rates of owner-occupation in London come close to those in other parts of the country (70% compared with 74%). For both nurses and teachers there is a gap of 15% between owner-occupation rates in London and elsewhere in the country.

The marked contrast in tenure patterns between our survey and the LFS[15], particularly for bus drivers may well reflect a differing balance of coverage as between inner and outer London. About 70% of drivers work in Outer London, where (according to the LFS) the incidence of owner-occupation among them is particularly high: by contrast two of the three depots in the KLW survey were in inner London. For all three groups, but for drivers in particular, different workplace locations are associated with quite different tenure mixes, a fact which probably reflects other significant differences between the position of the workers involved as well as in the tenures to which they have access locally.

Accommodation costs are shown in table 3.10 below, taken from the KLW survey.

Table 3.10: Accommodation costs per month (%)

Cost per month (£)	Nurses	Teachers	Bus drivers	All
<300	23	20	34	25
300-450	36	31	36	34
451-600	17	18	13	16
601-750	10	15	6	11
751-900	7	5	5	6
>900	5	7	3	5

The pattern of relative levels of housing expenditure indicated in this table for the three groups broadly corresponds with that in earnings, with teachers generally paying most and bus drivers least.

3.5 Recruitment and retention

There is little doubt amongst the employers of key workers in all three of the occupations studied that retention is as big a problem as recruitment, and probably a greater one.

In order to underline the scale of the retention problem, it is worth restating the turnover rates in London quoted at the start of this chapter.

- Nurses: 28% in Inner London and 24.5% in Outer London
- Teachers: 18%

[15] A third source, the survey of key workers carried out by LSE for the GLA Affordable Housing Scrutiny Committee (Greater London Authority (2001) *Key issues for key workers: affordable housing in London*,) reports only 12% of bus drivers as being owner-occupiers.

- Bus drivers: 30%

Our surveys revealed that teachers and nurses generally want to stay in the profession, but are looking to leave London:

- 32% of teachers and 37% of nurses will be actively looking for a new job in the next year
- 41% of these teachers – that is around 1 in 8 of *all* teachers surveyed – will seek a teaching job outside London. If this figure is projected to cover all of London, the capital stands to lose over 8,000 teachers to teaching jobs elsewhere in the next year.
- Likewise, one in five of all nurses surveyed will be actively looking for a nursing job outside London in the next year – the equivalent of almost 9,500 nurses London-wide.

On the other hand, our surveys confirmed that bus drivers are more likely to leave the industry than leave London:

- 34% will be actively looking for a new job in the next year. Of these, 40% do not know what or where their next job will be and 34% will move to another job in London.

The intentions of the 37% of nurses, 32% of teachers and 34% of bus drivers who will actively be looking for a new job in the next year are as follows:

Table 3.11: Intended next job of those actively looking for another job in the next year (%)

	Nurses	**Teachers**	**Bus drivers**
Same profession, not in London	58	41	15
Same profession, in London	25	33	2
Different profession, in London	4	8	34
Different profession, not in London	2	2	12
Don't know	5	12	40

In addition to the above facts about the desire of nurses and teachers to leave London, the following points are demonstrated in the table:

- Nurses and teachers are very unlikely to leave the profession altogether, whereas bus drivers have no such ties

- It is very uncommon for bus drivers to move between operators in London, but quite common for them to move to other jobs in the capital

Despite the common policy focus on retention, extensive recruitment difficulties should not be overlooked. There is evidence, for example, that 49% of all teaching vacancies are judged by head teachers to be difficult to fill, the main reasons being 'too few applicants' and 'poor quality of the applicants'[16].

Likewise, the Department of Health recognises that:

"*The biggest constraint the NHS faces today is no longer a shortage of financial resources. It is shortage of human resources – the doctors, nurses, therapists and other health professionals who keep the NHS going day-in and day-out*"[17].

The bus sector, in contrast, does not report major recruitment difficulties, with both Transport for London and the operators agreeing that holding on to staff who are typically attracted to other driving jobs is the key challenge.

As the figures in section 3.1 show, the dual, related problems of recruitment and retention lead to considerably higher vacancy rates in London than in the rest of the country – approximately double for nurses and teachers. Tables 3.12 and 3.13 below demonstrate vacancy rates in these two occupations also differ throughout London.

[16] A. Smithers and P. Robinson (2001) *Coping with Teacher Shortages*, report for National Union of Teachers, Centre for Educational and Employment Research, University of Liverpool
[17] Department of Health (2002) *Delivering the NHS Plan: next steps on investment, next steps on reform*

Table 3.12: Teaching vacancy rates by LEA, 2001 (%)	
City of London	0
Camden	5.2
Greenwich	3.6
Hackney	8.0
Hammersmith & Fulham	5.9
Islington	5.0
Kensington & Chelsea	6.6
Lambeth	3.7
Lewisham	4.2
Southwark	6.0
Tower Hamlets	8.6
Wandsworth	3.7
Westminster	4.8
Barking & Dagenham	1.7
Barnet	4.4
Bexley	4.8
Brent	1.2
Bromley	2.9
Croydon	3.2
Ealing	3.4
Enfield	2.7
Haringey	2.5
Harrow	4.5
Havering	2.2
Hillingdon	2.7
Hounslow	1.0
Kingston upon Thames	2.5
Merton	1.7
Newham	4.6
Redbridge	2.0
Richmond upon Thames	3.5
Sutton	0.7
Waltham Forest	0.4
London	**3.5**

Table 3.13: Nursing vacancy rates by Health Authority, 2002 (%)	
Barking & Havering HA	5.6
Barnet, Enfield & Haringey HA	10
Bexley, Bromley & Greenwich HA	6.8
Brent & Harrow HA	3.8
Camden & Islington HA	6
Croydon HA	3.5
Ealing, Hammersmith & Hounslow HA	3.9
East London & the City HA	4.5
Hillingdon HA	3.4
Kensington, Chelsea & Westminster HA	5.5
Kingston & Richmond HA	6.8
Lambeth, Southwark & Lewisham HA	9.7
Merton, Sutton & Wandsworth HA	3.7
Redbridge & Waltham Forest HA	6
London	**6.1**

These two sets of figures, particularly those for teachers, demonstrate that vacancy and turnover are generally higher in areas of higher deprivation and

unemployment. Put another way, those areas with the greatest need find it harder to recruit and retain staff. Within London, there is no significant spatial relationship between vacancy/turnover rates and house prices.

3.6 Impacts

The shortage of key workers in London has clear, demonstrable impacts on both the quality of staff and the quality on the service delivered to Londoners. It also has economic impacts on both the employers and the wider London economy. Each of these three sets of related impacts, which are considered in turn below, strengthen the case for action.

The findings presented below stem from a mixture of original case study material, published and unpublished research and original analysis of existing datasets.

3.6.1 What are the impacts on quality of staff?

The starting point for the analysis of impacts is that the shortage of the key worker labour pool means that lower quality employees are being recruited.

This trend has been well demonstrated at national level in recent research by Nickell and Quintini[18], who examined three groups of public sector workers – non-manual (such as teachers, nurses, civil servants), security services (police, fire service, prison service, judges) and manual sectors (such as postal and railway workers). The research showed that since the late 1970s, the pay rates of the first and third groups have fallen, sometimes dramatically, in relation to other professions. Nickell and Quintini then compare the results of general and mathematics tests taken at ages 11 and 16 by those entering work in the early 1970s and early 1990s. For men, they find clear evidence that the quality of recruits to non-manual and manual public sector groups has fallen relative to other types of job.

Recently key worker shortages have also led to an increasing reliance on unqualified and temporary agency staff. Whilst these individuals are valued by schools who need to put teachers in front of pupils, there is general agreement, confirmed by a recent survey of London schools by the National Association of Head Teachers[19], that "there is a deep level of dissatisfaction among London head teachers with their agency staff"[20].

This view is endorsed by Smithers and Robinson[21], who have studied how schools cope with teacher shortages. They report that about a half of full time posts nationally were hard to fill, a fifth very hard, primarily because of too few or too poor applicants. Problems of shortage and of reliance on short-term solutions

[18] S. Nickell and G. Quintini (2002) 'The consequences of the decline in public sector pay in Britain: a little bit of evidence', Economic Journal, 112, F107-F118.
[19] Soon to be released, details to follow
[20] Quote from J. Crace, 'High flying from crisis', *Guardian Education*, 29 October 2002, 4-5.
[21] A. Smithers and P. Robinson (2001) *Coping with Teacher Shortages*, report for National Union of Teachers, Centre for Educational and Employment Research, University of Liverpool

to plug the gap were felt most keenly in the least attractive schools which are commonly those with the least advantaged pupils and/or with greater disciplinary problems.

Head teachers in such schools may report themselves as content their recruits, but do so in the context of substantially lowered expectations. Quotes included:

"*sending children home is an option of last resort*";

"[*the problem is] the quality of the small pool we are fishing in*";

"*When push comes to shove you've got to put a body in front of the class. So long as you know they're not going to kill a child or maim them … what choices do we have?*";

"*People who are not up to scratch are gaining employment when they wouldn't if there were a reasonable choice*".

Long-term supply cover is used particularly in London and the South East – with many new agencies springing up in London:

"*at best we are talking about one in four being good. I have had some very dangerous people*".

Official government statistics[22] reveal that:

- 4.1% of London teachers in service are agency staff, as opposed to 1.6% in England as a whole;
- 3.3% of London teachers do not have qualified teacher status, compared to 1.3% in England.; this directly reflects the degree of reliance on teachers recruited from overseas, who may not be under-qualified or of poorer ability, but lack familiarity with the English system and curriculum.

The situation varies within London. In terms of the overall proportion of vacancies – to which use of agency and overseas teachers is a response – the variation is between 8% in Sutton and 39% in Hammersmith & Fulham. Generally vacancy rates are higher in boroughs with higher unemployment rates and more residents born outside the UK. In Hammersmith, the 230 agency or other occasional teachers make up 18.7% of the workforce, with an additional 70 (5.7%) who do not have Qualified Teacher Status (QTS). The highest proportions of agency, other occasional teachers and teachers without QTS are shown in the table below:

[22] DfES (2001), *Statistics of Education: Teachers in England*

Table 3.14: Teacher numbers in the maintained school sector: type of contract by LEA (2001)						
	Occasional teachers		occasional teachers as % of total	Teachers without QTS	teachers without QTS as % of total	Total FTE
	Agency	Other				
Camden	60	10	4.7	70	4.6	1,500
City of London	-	-	-	-	-	20
Hackney	210	20	13.5	90	5.2	1,710
Hammersmith and Fulham	200	30	18.7	70	5.7	1,230
Haringey	70	30	5.1	30	1.5	1,950
Islington	110	10	8.5	50	3.5	1,420
Kensington and Chelsea	30	30	8.3	30	4.2	720
Lambeth	50	10	3.7	20	1.2	1,630
Lewisham	90	10	4.8	30	1.4	2,070
Newham	210	20	8.7	80	3	2,650
Southwark	100	20	5.7	110	5.3	2,090
Tower Hamlets	210	20	9.6	150	6.3	2,400
Wandsworth	50	10	3.4	70	3.9	1,790
City of Westminster	60	20	6	120	9	1,330
Barking and Dagenham	90	20	6.9	50	3.1	1,590
Barnet	70	30	3.5	90	3.2	2,840
Bexley	60	50	5.2	40	1.9	2,130
Brent	80	30	5	70	3.2	2,210
Bromley	40	70	4.1	60	2.3	2,660
Croydon	130	70	6.6	40	1.3	3,020
Ealing	80	20	4.3	100	4.3	2,320
Enfield	90	50	5	70	2.5	2,810
Greenwich	60	40	4.7	40	1.9	2,130
Harrow	60	60	7.5	40	2.5	1,610
Havering	40	50	4.4	70	3.4	2,040
Hillingdon	70	20	4	70	3.1	2,270
Hounslow	30	20	2.4	110	5.3	2,070
Kingston upon Thames	30	30	5.3	20	1.8	1,130
Merton	50	-	3.9	50	3.9	1,270
Redbridge	40	30	2.9	120	4.9	2,440
Richmond upon Thames	70	30	8.7	10	0.9	1,140
Sutton	30	10	2.5	20	1.3	1,570
Waltham Forest	-	40	2	70	3.5	1,980
London	**2,550**	**890**	**5.6**	**2,040**	**3.3**	**61,730**

Greater or less use of non-agency supply teachers in particular boroughs does not seem to be related to the degree of overall shortages – whereas proportions of agency, and non-QTS/overseas recruits are clearly correlated with the proportion of unfilled vacancies. Variations in their relative importance reflect the strategic responses of different employing authorities and schools, but there is evidence of more general pattern in that overseas recruits are more likely to be used (and agency staff less likely) in boroughs with more residents born outside the UK.

The table below, using data from Her Majesty's Inspectorate[23], puts these figures in a national context.

Table 3.15: Percentage of temporary (supply) teachers by LEA type (2001)

	Primary Schools	Secondary Schools
Inner London	11	10
Outer London	9	5
Metropolitan	5	4
Unitary	8	4
Shire	6	3

The impact of the use of temporary teachers is discussed below.

The reliance of hospitals on agency nurses is well documented, including by the Audit Commission[24], which reports that "on a typical day, about 20,000 bank and agency staff work in NHS trusts, covering 10% of shifts. The implications of this on cost and quality of service are considered below.

In common with all the case study schools, all the hospitals in this study stated the importance of overseas nurses and teachers. This necessity in influences the ability to deliver services and maintain adequate levels of care and teaching.

St Mary's Hospital personnel staff have sought to reduce vacancies through a national and international recruitment drive. In 2000, this strategy succeeded in decreasing vacancies, when they recruited 200 Filipino nurses and 70 Spanish nurses.

However, in some cases there have been issues with inadequate experience and qualifications leading to poor teaching and nursing practices. These overseas staff have had their contracts terminated. In one case (not a KLW case study trust), highlighted by the Nursing & Midwifery Council[25], an NHS surgeon claimed that he had to stop an operation because the overseas trained nurses working with him could not follow his instructions. According to the article, concerns relating to the language competence of overseas nurses have increased in view of the rising numbers of nurses recruited from abroad. In the year ending March 2002, 15,000 overseas applicants were registered, an increase of 63% on the previous year.

[23] Ofsted (2002) *The Annual Report of Her Majesty's Chief Inspector of Schools, 2000/01*
[24] The Audit Commission (2001) *Brief Encounters: getting the most from temporary nursing staff*
[25] *NMC News*, 24th July 2002

Staff at one of the case study hospitals admitted that as it has become harder to recruit, the quality of newly qualified staff has fallen and they are finding that newly qualified staff are not adequately prepared to work in wards.

The London bus industry does not have the same reliance on agency staff – just one respondent to the KLW survey. The very high turnover rates, however, with most drivers leaving a job being lost to the industry, mean that the workforce is inevitably increasingly inexperienced. In addition, a large number of bus drivers are – over one quarter in our survey - non-British. This is shown in the table below.

Table 3.16: Percentage of Surveyed Key Workers Who Are Non-British

Occupation	**Non-British (%)**
Bus drivers	27
Nurses	32
Teachers	25
All 3 KLW occupations	28

3.6.2 **What are the impacts on service delivery?**

The impacts on the kind of key workers recruited would be unimportant if there was no impact on the quality of the service delivered. And, along with the effects of unfilled posts, the shortage of affordable housing for key workers in London does mean that the a lower quality service is delivered.

The 445 key workers in the KLW survey had little doubt that their workplaces experience staff shortages (87% of nurses, 78% of teachers and 77% of bus drivers) and that, as a result, pupils' education suffers, the standard of patient care suffers and the quality of the bus service suffers.

Table 3.17 below summarises the ways in which London's key workers see staff shortages affecting the service they deliver.

Table 3.17: Service impact of staff shortages according to London key workers		
Occupation	**Service Impact**	**Frequency (%)**
Nurses	Risk to patients due to lower standard/continuity of care	49
	Stressed nurses	17
	Increased workload	14
	Employment of less effective agency staff	11
Teachers	Lack of continuity	24
	More disruptive pupils	18
	Increased workload	18
	Poor quality teaching	12
	Falling educational standards	4
Bus drivers	Less buses/buses run late	53
	Increased workload	30
	Stressed drivers and passengers	24
n.b. Frequency is expressed as a percentage of those who described how staff shortages affect the service that they deliver		

All of these service impacts are directly due to staff shortages. The extent to which the shortages are in turn caused by housing and other factors is discussed elsewhere in this report, notably chapter 5.

We now look at each sector in turn, starting with **lower quality hospital care** caused by the nurse recruitment and retention problem.

There is evidence to suggest that a shortage of nursing staff compromises the quality of care offered to patients, based on the Employment Research/Royal College of Nursing Emergency Pressures Survey[26], which monitored 176 casualty units. When nurse managers were asked how often short staffing compromises care:

- 37% of those responding said care was compromised on most shifts or every shift;

[26] Royal College of Nursing (2000) *Why are we waiting? Snapshot surveys of the impact of emergency pressures on patient care*

- a further 26% said care was compromised once or twice a week;
- in 88% of units, nurse managers reported that patients were put at risk due to short staffing at least occasionally.

The same research revealed that the principal ways in the level of service to patients falls are:

- care needs not being met;
- delays in receiving care;
- inadequate communication between staff and patient.

As discussed in section 3.6.1 above, it is not only the lack of nurses that compromises care. It is also the quality of non-permanent nurses that are used to cover the shortfall. This issue is covered in the Audit Commission's *Brief Encounters* report[27], which states that "*a common view expressed by NHS staff and managers to the Audit Commission is that bank and agency staff provide patient care of a poorer quality, or behave in ways that may be considered less professional, than those in permanent posts*".

The reasons for a lower standard of care from bank and agency staff are centred on unfamiliarity with patient history, procedures and colleagues and inadequate induction or handover. The situation is not helped by the fact that bookings for temporary cover are often made at short notice and are frequently required to cover weekend and night shifts when supervision is less likely to be available.

This analysis is supported in our case study hospitals, which report a work environment where nurses are under constant pressure to deliver services in under-resourced wards where morale is low and finding the time to briefing new or temporary staff is a problem.

Further evidence, in the context of increased violence on psychiatric wards, comes from James et al[28], who, over a 15-month period, identified a positive correlation between the number of violent incidents and the number of shifts worked by temporary staff. They suggested that temporary staff might adopt a less therapeutic role with patients because of the unfamiliarity with ward procedures, inadequate training and limited knowledge of patients' case histories. A noticeable decline was noted in the provision of activities for patients. This was due to the absence of permanent staff to organise such events. The lack of familiarity that temporary staff had with the ward and its procedures, their uncertainty and poor coordination in dealing with patients and other staff were seen to be contributing to increased violent behaviour.

[27] The Audit Commission (2001) *Brief Encounters: getting the most from temporary nursing staff*
[28] D James et al (1990) 'An increase in violence on an acute psychiatric ward: a study of associated factors', *British Journal of Psychiatry*, vol.156, 846-852

Two views, from different perspectives, emerged from discussions one of the case study hospitals. The first, which is a human resources view, is that service delivery is not affected. Instead it is believed that the cost of service delivery is increased, as the hospital becomes increasingly reliant on agency and bank nurses and the ability to deliver services is based upon the "just-in-time" method as the need arises and that this does not necessarily lead to a reduction in quality.

The second view is that the quality of care is affected, with operations being cancelled, beds being "closed", services being delivered by temporary staff (in some cases temporary staff with poor/inadequate experience), a lack of continuity in staff treating patients, some wards operating on "shoestring" staff levels, barely within safe working practices, because of the need to cut costs as agency staff cost more.

Either way, there is a negative impact on the NHS. The first in financial terms, the second in terms of quality.

There are also concerns that the recruitment and retention crisis in teaching, and the associated use of non-permanent, non-qualified and temporary staff to cover the gaps, is resulting in **lower quality teaching**. Due to the multitude of socio-economic and educational factors that affect pupil attainment, it is impossible to systematically use this as a measure of impacts. Instead, we must rely on perceptions and judgements of the quality of teaching being delivered, from our case studies and elsewhere.

It must be remembered that, as discussed by Smithers and Robinson[29] and outlined in the previous section, teacher shortages do not manifest themselves in classes not being taught, but in a variety of coping mechanisms. Chief amongst these is the employment of temporary teachers.

The problem is recognised by Government, as spelled out in the latest Annual Report of the Chief Inspector of Schools[30], which reports that:

"*the quality of teaching by temporary (supply) teachers continues to be a concern…[Upon inspection,] the percentage of unsatisfactory or poor lessons taught by temporary supply teachers is significantly higher than the figure for qualified teachers with one year's teaching experience. The figure is twice as high for primary schools and four times as high for secondary schools".*

Ofsted identifies the four main reasons for unsatisfactory or poor teaching to be:

- insufficient subject knowledge;

[29] A. Smithers and P. Robinson (2001) *Coping with Teacher Shortages*, report for National Union of Teachers, Centre for Educational and Employment Research, University of Liverpool
[30] Ofsted (2002) *The Annual Report of Her Majesty's Chief Inspector of Schools, 2000/01*

- weaknesses in controlling the class and establishing productive classroom relationships;
- poor lesson planning and classroom organisation; and
- inadequate support mechanisms within the school.

A survey carried out by Her Majesty's Inspectorate in 2001[31], assessing the impact of supply teaching on standards and achievement, found the following issues:

- few supply teachers in primary schools had received training in the National Literacy Strategy and National Numeracy Strategy;
- supply teachers' expectations of pupils were often low;
- pupils' behaviour often deteriorated;
- in secondary schools, theoretical work in design and technology, science and PE often replaced practical, investigative working;
- there was a lack of formal procedures for monitoring the impact of supply teachers on the work and progress of pupils.

We have looked to see whether these outcomes could be demonstrated in relation to variations between boroughs in secondary school examination performance or in rates of unauthorised pupil absence from secondary school (as an indicator of the disciplinary order), using published DfES data for 1999. Simple comparisons suggest that there are some relationships between poorer performance and/or poorer discipline and more unfilled vacancies or greater use of agency/overseas staff, or those without QTS. However, these associations might just arise because boroughs with higher levels of deprivation – represented here by the unemployment rate and/or the proportion of lone parents – are liable both to display worse results and to have more difficulty in attracting/retaining staff.

Instrumental variable regression analyses across boroughs suggest that this is the case. Proportions of unfilled vacancies – and thus usage of overseas/agency staff – seem only to be related to the local unemployment rate and the proportion of non-UK born residents. This reflects the point made earlier that, while overall shortages at the London level may be substantially attributable to economic factors, their distribution across schools can reflect quite other factors, including perceived work satisfaction and stress levels. At borough level, GCSE results and secondary school truancy rates also seem only to be related to social factors – principally local unemployment in the first case and lone parenthood in the second. Once these are controlled for, no significant links are evident with vacancy rates or the proportions of teachers from overseas, from agencies or

[31] ibid.

lacking QTS. This does not mean that there are no negative effects, but that they do not show up in this data set.

Interviews with head teachers and staff responsible for recruitment at our case study schools do point to a concern regarding the quality of teaching being delivered, not necessarily because of the poor quality of teachers (although this is a problem in some cases), but due to the lack of a stable, familiar presence in the form of a year teacher.

All pupils suffer from the inevitable destabilising effect of temporary staff, but those with special educational needs – where establishing a strong teacher/pupil relationship and undertaking a needs assessment is crucial – are worse hit.

It is believed that the continuous disruption that results from teacher shortages has immediate and long-term impacts (at later stages in the education system) on students' attainment and performance. At one school, the head teacher noted that pupils in a class that suffered particularly badly from disruption due to staff shortages performed badly in their SAT exams the following year. There had been a noticeable impact on performance. In many cases, parents had complained about the problems of teacher shortages at schools and had voiced their concerns to head teachers.

Finally in this section, we turn to the **lower quality bus service** that is caused by recruitment and retention problems. This comes down to there being fewer buses on the road.

Transport for London/London Buses figures show that 39% of lost mileage over the last 3 years (1999/2000 to 2001/02) in London is due to staffing reasons, with 47% due to traffic reasons and 14% due to other reasons, such as engineering. This 39% accounts for an annual average of 1.6% of **total** scheduled mileage, which is consistently at least twice as high in London as in England as a whole. Total scheduled mileage over the last three years has averaged 357 million kilometres – staff reasons have meant that 5.7 million kilometres have not run. On an average day, 15,664 kilometres are lost due to staff shortages. The case study bus operators report that these staffing reasons are often drivers not turning up for work. London Buses report that unfilled posts are also an important contributor. That said, no correlation can be demonstrated between depots with higher vacancy levels and performance.

3.6.3 What are the economic impacts?

The third type of impact, which again is closely related to the first two, is the economic. This is the financial cost to the employers of high rates of vacancy and turnover. The two greatest costs are on agency staff and recruitment, which are discussed for nurses and teachers in this section.

2000/01 expenditure by hospitals in England on non-NHS nursing staff (almost all of which in on agency nurses) was £432,914,315, accounting for 5.5% of total

NHS spend on nurses. In London, £200,777,274 was spent on non-NHS nursing staff, which was 14.5% of the total nursing bill and 46.5% of the total England spend on non-NHS nursing staff.

Expenditure on agency staff in the case study NHS trusts, which is particularly high at St Mary's, is shown in table 3.18.

Table 3.18: Expenditure on Non-NHS Nursing Staff, 2000/01

NHS Trust	Non-NHS Nursing Staff Expenditure (£)	Total Nursing Staff Expenditure (£)	Non-NHS as a percentage of total
Royal Brompton & Harefield	2,473,955	21,391,729	11.5
St Mary's	8,724,187	29,996,114	29
Lewisham	2,866,339	21,996,114	13
London	200,777,274	1,367,839,286	14.5
England	432,914,315	7,815,526,447	5.5

It should be noted that whilst staff shortages are the largest reason for the use of bank and agency staff in the NHS, there are other reasons. Sick leave, annual leave and peaks in workload are also important.

Recruitment costs are also very high, recently running at around £1 million per year at St Mary's Hospital.

Senior managers at St Mary's Hospital explained how recruitment, retention, service quality and financial impacts are closely linked:

When vacancy rates are high, they find that a lot of existing staff are affected as they are placed under considerable pressure and stress, they are unable to cope and decide to leave the job altogether. This affects the quality of services offered. When staff turnover is high, it places additional pressure on existing staff having to retrain new staff in addition to performing their full-time jobs. There is a lack of continuity/consistency as those with experience and knowledge leave, which in turn affects service delivery. Some wards operate with temporary workers or minimal staff. This undoubtedly affects the users – the patients. The inability to recruit is therefore a cause of high turnover. This in turn leads to an increasing recruitment bill.

There are no national figures on the cost of the recruitment and retention problem within the teaching profession, although figures released by the National Association of Head Teachers[32] reveal that the average London school is

[32] Quoted in J. Crace, 'High flying from crisis', *Guardian Education*, 29 October 2002, 4-5.

spending between £30,000 and £40,000 per year on agencies; it is common to be spending £100,000 to £200,000 and one secondary school is spending in the region of £500,000.

The average agency teacher costs around £175 per day, compared to just under £100 for staff teachers. From this figure, it can be estimated that London's 2,550 agency staff are costing the capital's schools around £450,000 per day, in addition to introduction fees of around £2,500 per agency teacher.

The case study schools back up this assessment. On a single day in January 2002, for example, Hammersmith & Fulham schools spent approximately £12,000 on 68 non-QTS, short-term agency teachers.

All of the case study schools mentioned the increasing time and cost spent on recruiting teachers. In many cases, a dedicated Recruitment and Retention Manager has been employed by the school to devote time solely to this long and difficult process. This could often be a disheartening process for the schools as they discover that once expensive adverts had been placed, they received very few responses and some of these responses were from candidates of a lower calibre. In addition to the schools dedicating resources to recruit and retain teachers, the local authorities are also spending large amounts of their time on this process. They are resorting to increasingly proactive and creative methods of recruiting teachers.

There can be unforeseen costs. One school recruited 12 overseas staff over 2001-2002, all of whom have all been made permanent members of staff, which means that the school is required to help them achieve QTS. Although it depends on the teacher's degree, those who do not have adequate training must attend a 2-year programme of 1 – 1.5 day per weekday release at college on the Registered Teacher Programme. This means that on the 1 – 1.5 days, teaching is covered by an agency teacher, costing the school £175 per day.

In the London bus sector, there are deductions for lost mileage that is within the operators control - generally for staff and engineering reasons, but not traffic reasons. This is based on a formula relating to the contract cost and mileage. This figure, and thus the cost per annum to London's bus operators, is in the region of £10-15 million per year[33]. As 74% of eligible lost mileage in the past three years has been due to staff reasons, a cost of £7.4 million to £11.1 million can be estimated per annum.

The London bus industry's very high turnover rate also leads to increased recruitment costs. The GLA's Affordable Housing Scrutiny Committee was told by one bus operator that it spend £125,000 on recruitment advertising alone in a single year, and was having to spend around £2000 in training costs on each new recruit without the appropriate licence.

[33] These figures have been provided by London Buses on a confidential basis and must not be quoted publicly.

4. Why is it so bad now?

4.1 Introduction

The key worker issue has really come to prominence both in London and various other parts of the Greater South East – including the Thames Valley and Cambridge areas – over the past two to three years. This reflects some real intensification of problems of public service recruitment and retention in these areas over this period, not simply a shift in perceptions (see section 3.2 above).

It is not really a new issue, however, though it has been about ten years since it was last a matter of active concern in the region, around the time of the late 1980s boom. In that case, the problem was relieved for some years by the subsequent downturn in both the housing and labour markets, during the early 1990s recession. For policy purposes, it is clearly important to understand whether it is basically a cyclical problem – which might be managed through a combination of short-term ameliorative action during years of peak demand, and pre-planning in the periods leading up to these – or whether there are also structural factors underlying the current crisis which need to be recognised and dealt with.

In this chapter we look in turn at the evidence for these two sorts of change, and the particular factors contributing to each of these.

4.2 Cyclical

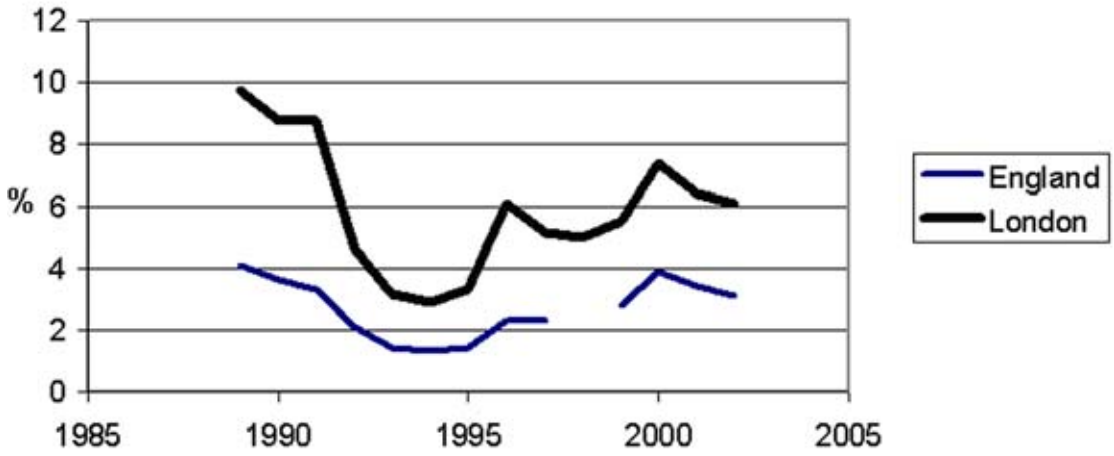
Where time series of data on turnover or shortfalls in recruiting are available for the groups we are considering over more than a few years, they provide rather clear indications of cyclicality. Unfortunately few data series actually stretch back into the last boom period on a consistent basis so that direct comparisons can be made.

For nurses, survey-based data about the proportion of vacancies for qualified staff lasting over 3 months goes back to 1989 (Figure 4.1). This shows similar patterns of fluctuation both nationally and in London. Vacancies were at their highest in 1989, fell sharply during the early 1990s recession and remained low from 1993 to 1995, before starting to move up again (with short term peaks in 1996 and 2000) though not yet back to their late 1980s peak. London vacancy rates were consistently higher and more variable than those for England as a whole, fluctuating between 3% and 10% (as against 1.5% to 4%).

For teachers there is a slightly longer, and more comprehensive series, though on turnover rates rather than vacancies. Regional figures are summarised in Figure 4.2 in terms of three series, for Greater London, for the rest of South East England, and the rest of England & Wales. These show basically similar patterns of fluctuation – but with rates that are consistently lowest in the last of these

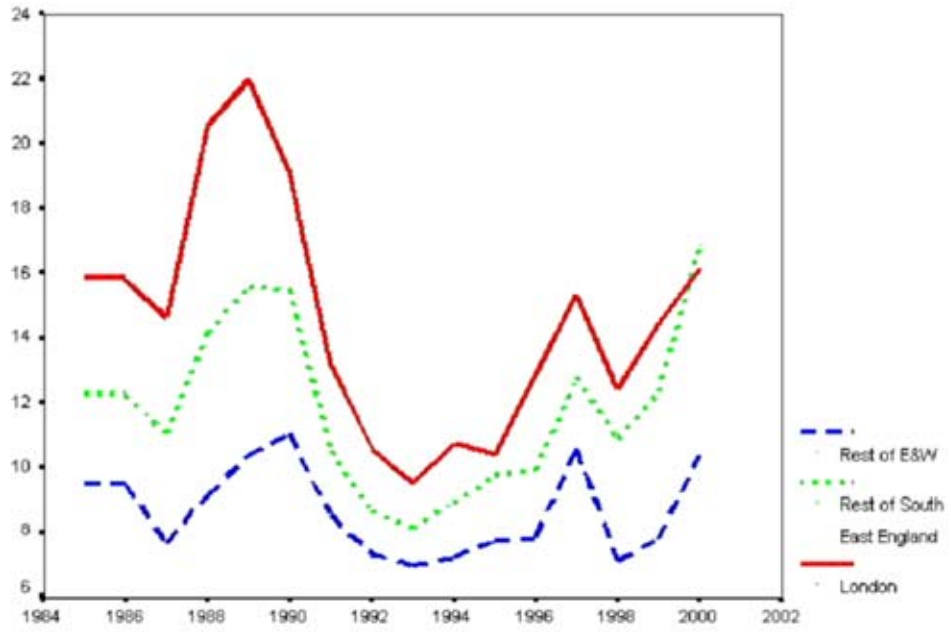
areas, while Greater London has both the highest rates (up until 2000) and the widest fluctuations.

Figure 4.1 Qualified Nursing Staff 3 month Vacancy Rates, 1988-2002



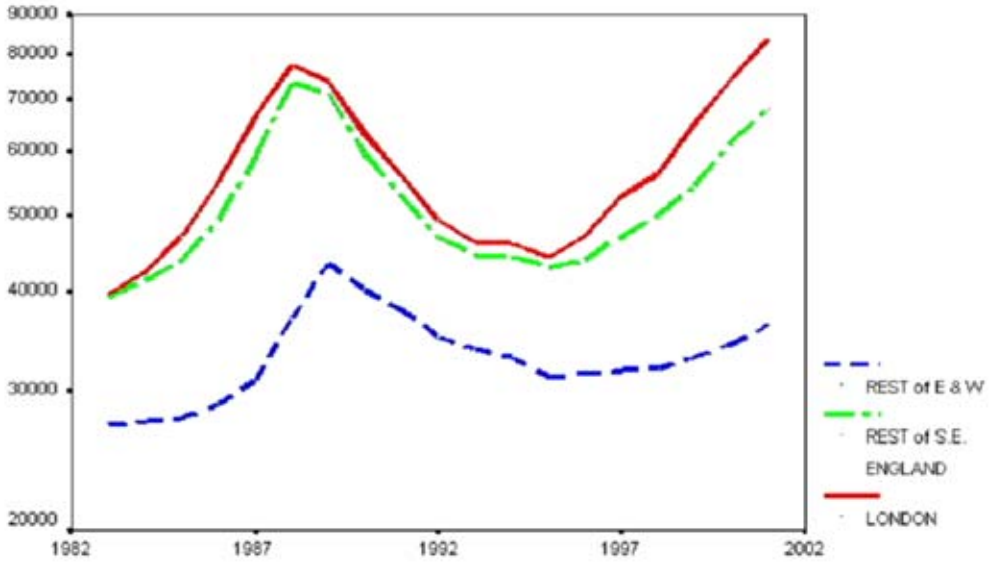
The pattern which they reveal is not straightforwardly cyclical because of some large shifts in rates of premature retirement in 1996-8 as a result of the announced ending of a scheme with favourable terms for such retirements: this first boosted and then depressed overall turnover rates. Making allowances for this, it can be seen that there is a basically pro-cyclical pattern in all regions with a peak turnover rate at the top of the 1980s boom, and another very high rate as the economy again nears its peak in 2000. The fluctuations are clearly greatest in London. But, unlike the other regions, the London turnover rate in 2000 was a long way short of its 1989 peak –and marginally below that in the rest of South East England.

Figure 4.2 Teacher Turnover Rates, 1985-2000[34]



Note: these figures express turnover of LEA during each year as a percentage of numbers employed.

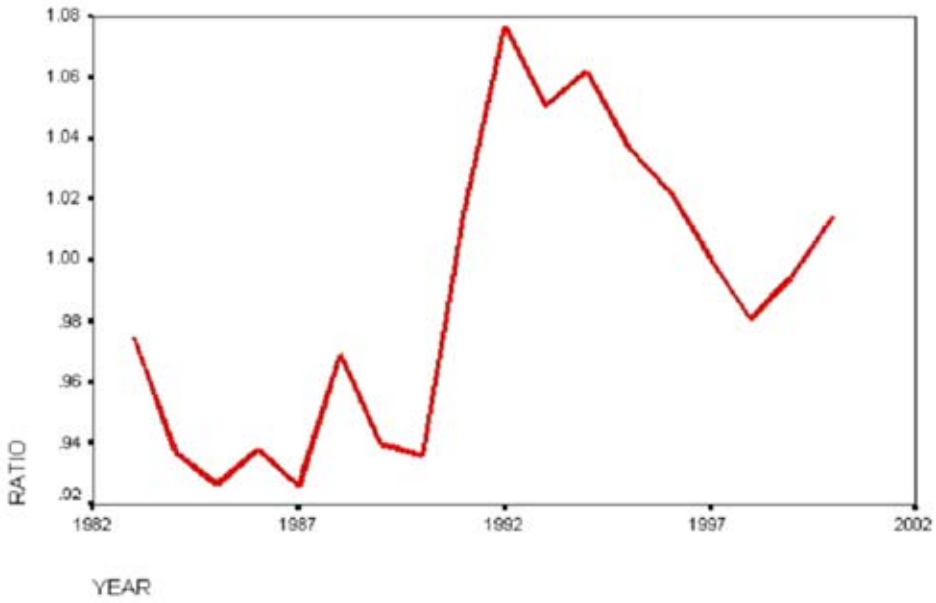
Figure 4.3 Real House Prices, 1983-2001[35]



Note: these data relate to average prices (in £s) of all properties sold to mortgage-holders during the year, re-weighted to represent the standard mix of property types, adjusted for changes in the RPI since 1983.

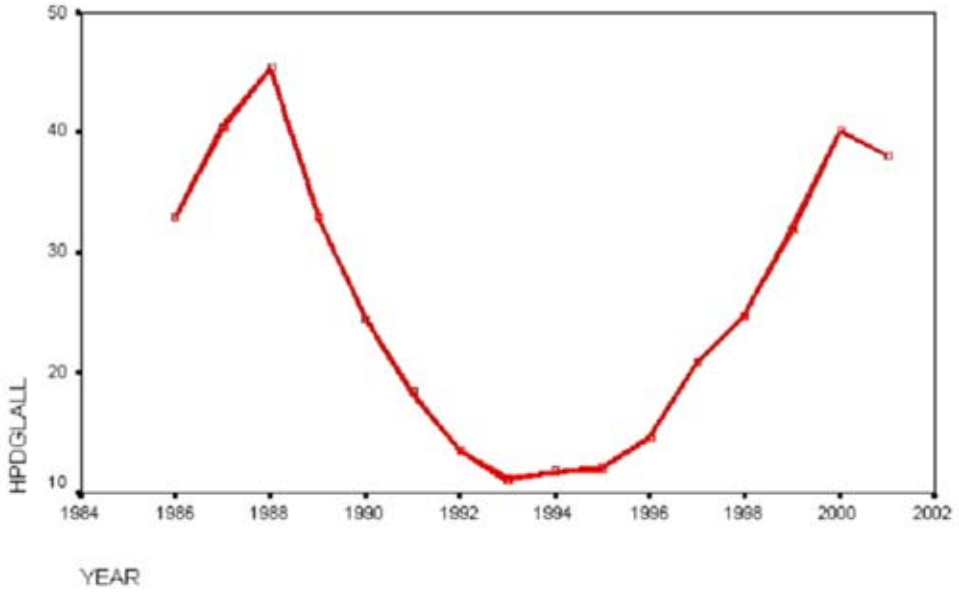
[34] Local Government Employers Annual Survey of Recruitment and Resignations
[35] Halifax Building Society

Figure 4.4 Full Time Teacher Earnings Relative to Non-Manual Average, 1983-2001[36]



Note: this graph expresses average earnings of full-time teachers as a ratio of the average for all non-manual workers.

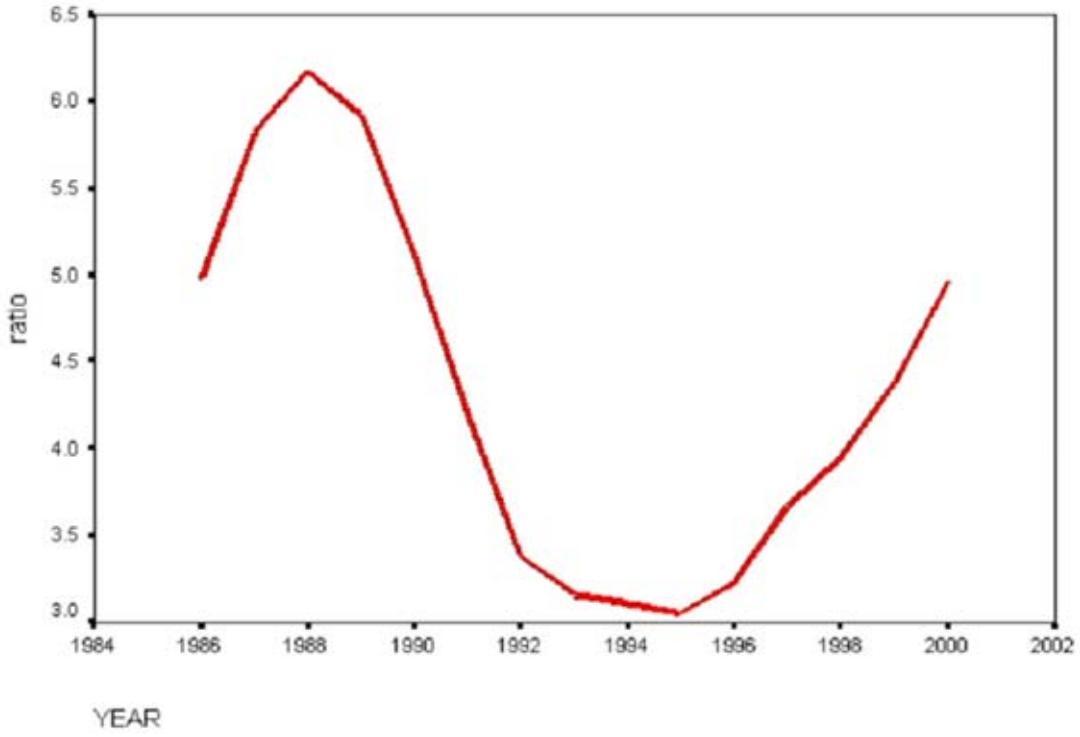
Figure 4.5 House Price Differential as Ratio of Teachers' London Allowance, 1986-2001



Note: this graph expresses the average house price differential between London and the rest of the country as a ratio for the London allowance for teachers (calculated as a weighted average of the inner and outer London rates).

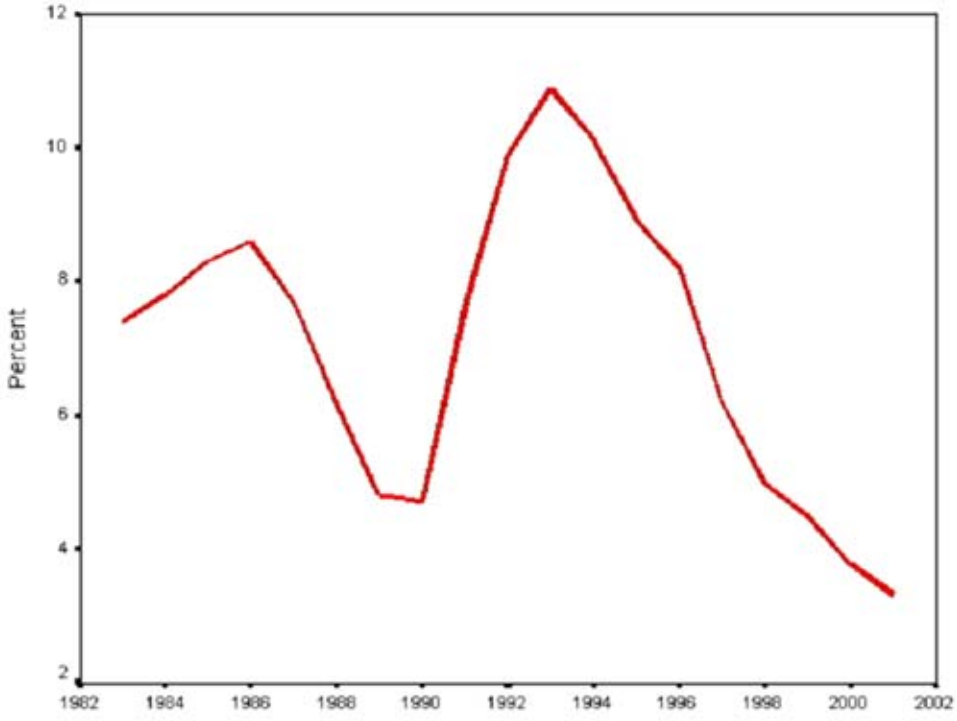
[36] New Earnings Survey

Figure 4.6 London House Prices as Ratio of Teachers' Salaries, 1986-2000



Note: this table expresses average London house prices as a ratio of average full-time teacher earnings in London.

Figure 4.7 Greater London Unemployment Rate, 1983-2001[37]



[37] Claimant count from NOMIS

Figure 4.8 Nurses Salaries as Ratio of Female Non-Manual Average, 1988-2000



As we have seen in chapter 2, there are actually a number of different reasons why the public sector in London might experience particular labour problems in periods of strong demand:

- As in other sectors, strong demand encourages workers to take the risk of quitting a current job – raising turnover rates, if not necessarily producing a net loss of workers;
- Since public sector wages respond more weakly to rising demand for labour, a gap will open between comparable private and public sector jobs, encouraging a net outflow of workers from the public sector;
- House price inflation, stimulated by rising demand and inelastic supply (particularly in London), is also particularly unlikely to be matched by wage increases in the public sector, increasing the attractiveness of moves to other jobs by those having to pay current market prices;
- Differential house price inflation in London will encourage residential shifts out of London, which for population-serving groups can readily be linked with job shifts out of the city, while remaining in the public sector.

In order to assess the relative importance of these different factors, a number of regression analyses were undertaken with the teacher turnover data (for the

years 1985-2000), both for London, and for the 'rest of England and Wales' (outside South East England). The explanatory variables in these analyses included the area unemployment rate, earnings of teachers and all (male) non-manual workers, house prices, and dummy variables for years affected by the change in retirement rules.

Results for the non-South East region showed that the key factors were the unemployment rate (with higher unemployment lowering turnover rates) and the ratio of house prices to teachers' earnings (which had a positive effect, i.e. turnover increased when house prices rose more rapidly than teacher earnings). A rather weaker *negative* association with real house prices on their own indicates, however, that turnover rates were rather more sensitive to rates of change in teacher earnings than to those in house prices. There was a suggestion that the relationship between teacher earnings and those in other non-manual groups might also have affected turnover, but this relationship was not found to be statistically significant (at the 10% level).

For London, basically similar results were found. The conjecture that earnings differentials relative to other non-manual jobs might have an effect was much more decisively rejected in this case. But again higher rates of unemployment were clearly seen to reduce turnover rates. And the ratio of house prices to earnings was also again found to have a strong effect on turnover. Since house prices have tended to go up or down at the same times in London and other parts of the country, this might simply have reflected influences operating at a national scale to produce comparable fluctuations in all regions. However, two sets of analyses controlling in different ways for developments in other parts of the country confirmed that there were specific London effects. One involved splitting the house price:earnings ratio measure into two elements one reflecting developments outside the South East, and the other the ratio of the London house price differential to the London pay allowance (as shown in Figure 4.5). Both were shown to be statistically significant, confirming that London conditions have a distinct effect on turnover rates over and above those of national pay and house price levels. The second analysis simply introduced turnover rates in the 'rest of England and Wales' as an additional explanatory factor. This showed that they did indeed tend to move together, but when this was controlled for it seemed that London turnover rates were significantly affected not only by the house price differential: London allowance ratio, but also by the house price: teacher earnings ratio in the other region. This indicates that not only are turnover rates in London responsive to differential changes in the London housing market, but that they also more sensitive than those in other regions to swings in the national housing market.

For teachers then, a significant part of the story is that a stronger labour market encourages more mobility of all kinds, though this does not necessarily involve more net movement out of the sector. There is no real evidence of the impact of shifts in teachers' earnings relative to those in other non-manual jobs. Rather

what seems to be crucial is the relationship (in London) between house prices and teacher earnings.

Whether seen in terms of a simple ratio of London prices and earnings, or in terms of the ratio of the house price gap to the London allowance, this displays a very straightforward, strong cyclical pattern (see figures 4.5 and 4.6). The swings are most dramatic in terms of the differential measure, where the ratio varies between about 10 and 45 times the value of the London allowance. On this basis, by 2000 the position was as almost as extreme as at the peak of the last boom. In terms of the simple ratio of prices to earnings, however, the position was less bad – in part because of a real improvement in teachers' salaries across the country as a whole. This helps to explain why in 2000 London turnover rates were still well below the previous 1987 peak.

Similar analyses with the shorter time series on nurse vacancy rates lead to much the same conclusion. Both unemployment rates and the ratio of London house prices to average nurses' salaries exert a significant effect on London vacancy rates. On the other hand, there seems to be no evidence that improvements in the relationship of nurses' salaries to those in other non-manual jobs (which were actually substantial during the late 1980s) act to significantly reduce vacancy rates.

4.3 Structural changes

In chapter 2, we identified a combination of long run processes which implied a long run general tendency for key worker shortages in London to grow in importance. Specifically these involved:

- the competitive strength of activities in the market sector of the London economy;
- an inelastic supply of space (for productive and residential uses) in the city-region; and
- constraints on the ability of key public services to adapt characteristic private sector responses to the cost increases resulting from these via:
    - price and pay increases;
    - labour-saving forms of productivity growth; or
    - decentralisation of routinisable activities

Various institutional changes during the last twenty years have intensified the problem:

- labour market deregulation during the 1980s led to a widening of the gap both between London earnings and those in the rest of the country (figure

4.9) and between groups within London, particularly between higher-paid private sector professionals and others;

- constraints on public sector expenditure depressed earnings across the public sector, including for key workers, relative to trends in the private sector market and financial deregulation, together with internationalisation increased the volatility of the London economy (Figure 4.10) and consequently the cyclical variability of London house prices too; and

- a combination of 'right to buy' legislation and radical cut-backs in public sector construction made key workers increasingly dependent on private sector housing.

There is a wide-ranging set of changes with long term implications for the scale of the key worker problem, but in the rest of this section we shall focus on those directly relating to housing demand and availability.

Figure 4.9: Average Weekly Earnings of Full-time Men and Women Workers: Greater London Relative to Great Britain, 1970-2000

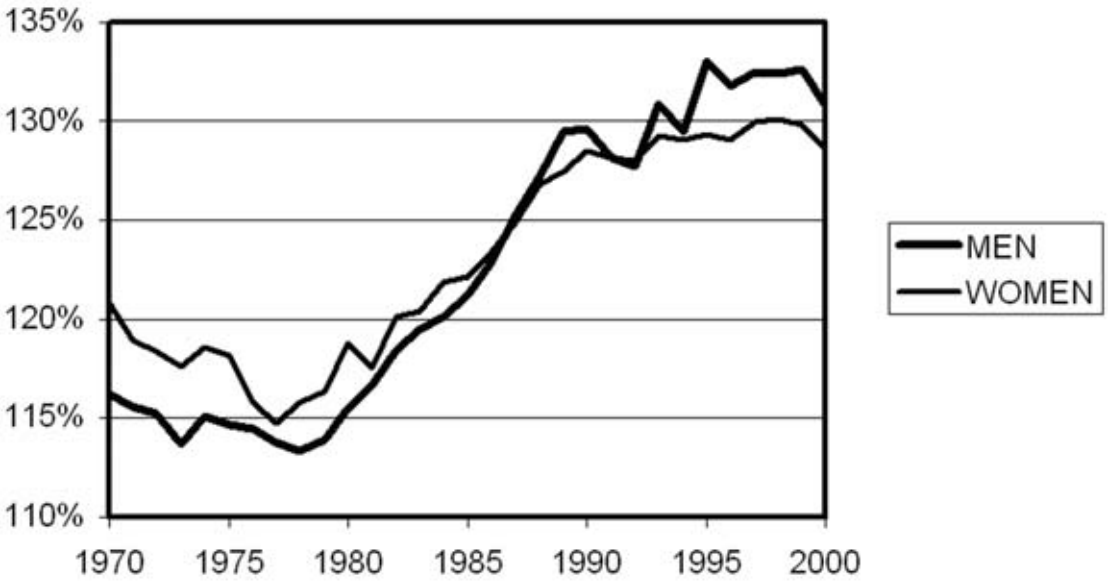
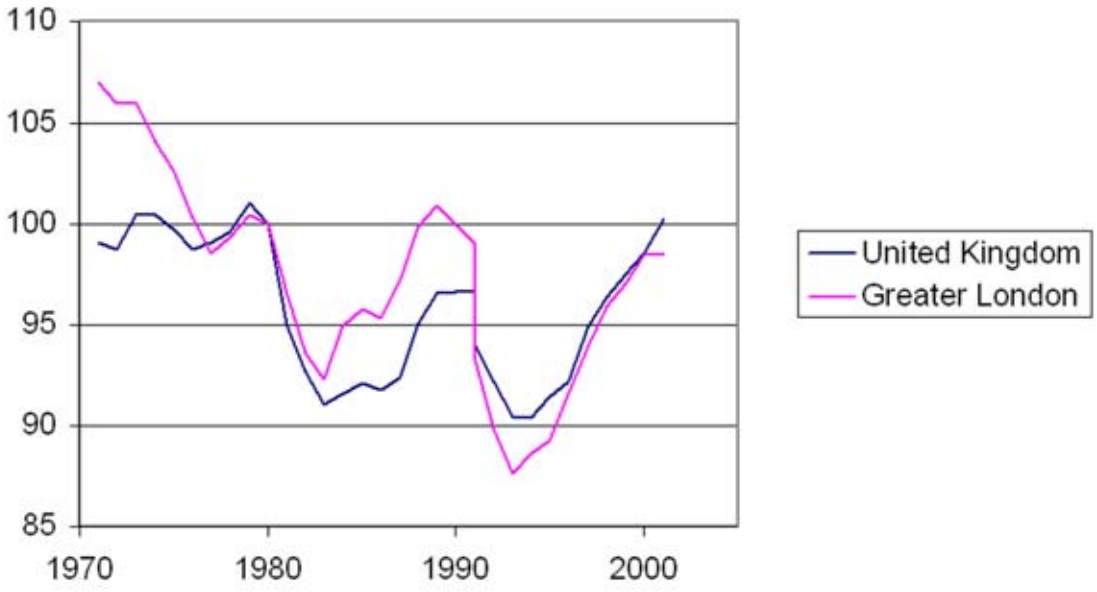


Figure 4.10: Employment Trends Greater London and UK, 1971-2001
Index Numbers 1981=100



4.3.1 **Housing market pressures**

The balance between households and dwellings has always been tighter in London than elsewhere in the country – even when population was falling. In the last twenty years the position has worsened considerably, with the number of households increasing far more rapidly than the number of dwellings available. This has, in part, been alleviated by greater out-migration, mainly to the South East.

Over the last twenty years (to 2000), the statistics suggest that the proportion of the national housing stock in London has declined to 14.5%, while the proportion of households has remained roughly constant. In absolute terms this means that the number of *dwellings* in London has increased by some 398,000, while the number of *households* has gone up by 551,000 (table 4.1). As a result, while in 1981 there was a crude surplus of dwellings over households of 28,000, by the turn of the century there was a 125,000 deficit. This means that in a period when incomes rose by perhaps 25%, housing availability in London has fallen – resulting in increased sharing, more out-migration and significantly greater underlying housing market pressure.

Table 4.1: Changes in Dwellings and Households (1981 – 2000)[38]						
	1981 (000s)	**Increase 1981-2000 (000s)**	**2000 (000s)**	**% of UK total 1981**	**Increase 1981-2000 (%)**	**% of UK total 2000**
London						
Dwellings	2,663	398	3,061	14.8	14.9	14.5
Households	2,635	551	3,186	15.2	20.9	15.2
Crude surplus/deficit	28	-153	-125	1	-5	-4
England						
Dwellings	17,982	3,141	21,123	100	17.5	100
Households	17,306	3,666	20,972	100	21.1	100
Crude surplus/deficit	676	-525	151	3.8	-3.1	0.7

The population projections (pre-census) suggest a rise to around 8.2 million in 2016 if current trends continue. These figures are heavily dependent on the rate of international in-migration – which is itself dependent on both the buoyancy of the economy and on policy with respect to refugees and asylum seekers.

On the other hand, the Mayor's estimate of 3.42 million households by 2016 may be rather conservative if incomes continue to rise in line with long-term trends. Other estimates suggest that 3.6 million may be a more appropriate projection.

The latest official estimates based on 1996 population projections suggest that the population of London could increase by 534,000 during the twenty year period 1996-2016 to 7.6 million. The two main reasons for the increase are:

- Indigenous growth arising from increased longevity (especially among men); and
- Large-scale international in-migration, arising both from an expansion of economic in-migration and from refugees, asylum seekers and over-stayers.

[38] A Holmans (forthcoming) *Households in England in the 1990s*

Both of these pressures are concentrated in London. In particular, London took, on average, 60% of total in-migration during the 1990s and perhaps 85% of the inflow of refugees and asylum seekers.

The associated household projections suggest that there would be some four million more households in England in 2016 than in 1991. The growth in the number of households is outpacing that for population, as the propensity to live separately continues to grow with increased incomes and social change. The result is far more single person households. Based on these trends, the number of households in London is projected to rise from 3.13 million in 2001 to 3.52 million in 2016.

Table 4.2: Projections of Households by Region (in 000s) (1996 – 2016)[39]

	1996	%	2016	%	Increase 1996-2016	%
London	3,002	14.9	3,606	15.4	604	20.1
South East	3,225	16.0	3,849	16.4	624	19.3
Southern	10,403	51.5	12,454	53.2	2,051	63.5
England	20.186	100	23,416	100	3,230	16.0

The most detailed estimates suggest that over 40,000 dwellings per annum are required to meet London's housing needs. Within this total 50% would require additional subsidy in order to make them affordable. Among additional households however the proportion needing additional subsidy would be lower at less than 40%.

The Mayor's Housing Commission[40] identified a need for at least 40,000 homes in London per annum, of which 28,000 should be affordable, including 5,000 for key workers and others in low paid employment and 10,000 to reduce the backlog of unmet need. These figures are based on demographic projections, on evidence on the numbers of households currently inadequately housed and needing additional units, on the capacity of households in London to access market housing and on admitted guesswork about the key worker element.

Table 4.3 sets out the latest estimates of London's requirements in the context of national figures. These are based on very similar assumptions to those used in the Assembly Inquiry.

[39] DETR, 1999
[40] Mayor's Housing Commission (2000) *Homes for a World City: the report of the Mayor's Housing Commission*

Table 4.3: New Building and Conversion Required (000s), 1996-2016[41]						
	Market	**%**	**Affordable**	**%**	**Total**	**%**
London	513	59	361	41	874	19
England	2,883	63	1,669	37	4,552	100

(Source: Joseph Rowntree Foundation, 2002)

The population and housing estimates in the draft London Plan suggest that perhaps only 32,000 additional dwellings per annum will be necessary to meet identified needs – in part because the projected household size is expected to remain constant. The proportion needing additional subsidy is, however, very much higher than in earlier estimates.

The current RPG 9 calls for only 23,000 additional homes to be provided each year – within this total 4,000 per annum are to come from additional sharing and better use of the existing stock.

The draft London Plan takes these figures as the minimum to which London should plan. The Mayor aims to increase the total above the minimum both by bringing more sites forward and by higher density development. However it is very clear that it will be difficult even to meet the RPG figures.

Within the Mayor's minimum target it is suggested that 10,000 homes should be affordable – roughly 50% of the new build element in the additional provision figure. Within this, 3,000 are expected to be provide in the intermediate market (as compared to 5,000 in the Mayor's Commission report). The government's strategy on Sustainable Communities also put considerable emphasis on expanding key worker provision, allocating one fifth of the national housing investment budget over the next three years to key worker housing, as well as some element of the funding for fast-track, modern methods. Even so the funding is unlikely to be enough to support the output levels implied by the draft Plan.

Thus, it can be concluded that, in structural terms:

- House prices and housing costs are out of line with the rest of the country and are not fully compensated for by higher incomes. The cost of living is therefore significantly greater in London than elsewhere in the country, including most parts of the South East. This is in part an outcome of the current stage in the economic cycle, but it also reflects underlying trends. House prices nationally have anyway been rising considerably faster than

[41] J Barlow et al (2002) *Land for housing: current practice and future options*, Joseph Rowntree Foundation

inflation over the last thirty years, to a greater extent than in most other advanced countries, adversely affecting UK competitiveness;

- House prices in London are particularly volatile, reaching nearly twice as high as in the North at the peak of the housing market boom. The housing market recession of the early 1990s certainly slowed down labour market adjustment and increased economic uncertainty. Volatility in the housing market also affected macro-economic management and the turn-around probably took longer because of lack of confidence in the London housing market. A similar situation could develop in the near future if unemployment were to rise at the same time as interest rates increased. On the other hand there are structural reasons why house prices have risen over the last few years, which make the increase observed so far relatively sustainable in a stable macro-economy;

- Affordability measured either in terms of house prices to incomes or weekly housing costs are very much higher in London than elsewhere in the country which makes it difficult for households to enter the London housing market and in particular to achieve their aspirations to become owner-occupiers;

- The evidence from surveys, particularly of key workers, shows that people are being forced to live further away from their work and often in areas where transport is inadequate.

- Increasing problems of recruitment and retention are clearly related to housing costs both directly and because they reduce household's overall standard of living. However housing is not by any means the only cause of current recruitment and retention problems in London - many are simply about relative wages and the greater stresses of working in the London environment;

- The traditional social rented sector predominantly houses non-working households. Even so, it is unable to accommodate all those even in immediate housing need. Homelessness is rising, as is the use of bed and breakfast accommodation. On the other hand there is very little subsidised housing available to those in full time employment – many of whom are unable to afford reasonable accommodation in London.

- Evidence on output levels, either in the 1990s or projected into the next decade suggest that it is highly unlikely that supply can keep pace with demand, let alone that housing can be made more affordable to key workers.

5. The importance of housing in recruitment, retention and standards

So, just what is the relative importance of housing in the shortage of key workers in London?

In the case of teachers we have a number of pieces of evidence. The most direct of these is material from our case study interviews and surveys, much of which has been used to illustrate the previous chapters.

In the KLW survey, 91% of nurses and teachers and 80% of bus drivers agreed that "high housing costs in London are forcing people to leave London or leave the profession".

However, 50% of nurses, 52% of teachers and 80% of bus drivers agree that "recruitment difficulties in the profession in London have other causes that are more important than a lack of affordable housing".

These other reasons are the same in each profession. In order of being stated they are:

- Stress levels in the job
- Earnings levels in alternative jobs
- Other aspects of the cost of living in London

According to the KLW survey, the nurses leaving London for nursing jobs elsewhere are more likely to:

- Have a partner whose job affects where they live
- To have been in nursing for more than 10 years

The teachers leaving London for teaching jobs elsewhere are more likely to:

- Not be a home owner
- Have lived in London for less than 20 years
- Have no family ties in London
- Have a partner whose job affects where they live

The bus drivers who are leaving the profession are more likely to:

- Be the lower earners within the profession
- Be renting from the Council or a Registered Social Landlord

The table below illustrates the reasons given by the 70 key workers who will be actively looking for a job outside London in the next year. As only 6 of these are bus drivers, the figures are broken down for teachers and nurses only:

TABLE 5.1: REASONS FOR SEEKING WORK OUTSIDE LONDON (%)

	Nurses	Teachers	All (including bus drivers)
Cheaper accommodation	61	63	62
Better accommodation	60	46	52
Ability to buy accommodation	60	34	46
Other quality of life (non-work) factors	33	54	39
Reduce travel to work time	33	29	30
Reduce money spent travelling to work	30	21	26
Other factors internal to the job	28	9	19
Better working conditions/hours	15	25	19
To be closer to family	18	21	19
Better schools	13	34	19
Better job opportunities	10	13	10

In terms of housing, satisfaction rates with existing accommodation differ by occupation and tenure. 69% of nurses, 72% of teachers and 60% of bus drivers are satisfied with their accommodation. In all cases, satisfaction rates are markedly higher amongst owner-occupiers.

67% of all key workers in the KLW survey would like to change where they live. The sector breakdown is 73% of nurses, 64% of teachers and 63% of bus drivers.

Amongst nurses and teachers, the desire to change home varies by place of work. 81% of nurses working at both Lewisham and St Mary's would like to change home, compared to 53% at Harefield. Teachers working in Newham (who also pay less for their accommodation and are less satisfied with it) are more likely to want to move than those working in Hammersmith & Fulham.

The reasons given for wanting to move home are shown in the table below.

TABLE 5.2: REASONS FOR WANTING TO CHANGE HOME (% OF THOSE WANTING TO MOVE)

	Nurses	Teachers	Bus drivers	All
Become an owner-occupier	42	39	35	39
Move to a better area	31	38	32	34
Move to a more permanent home	36	26	15	27
Move to a larger home for non-family size reasons	27	25	18	23
Move to a more affordable home	27	22	20	23
Larger home due to growing family	22	15	20	19
Get a space of one's own (not shared)	21	16	17	18
Move closer to work	24	15	8	16
Obtain a council/RSL home	15	8	20	14

Evidence from Newham and Hammersmith Leaver Surveys

Housing factors show up as important factors in teacher exit interviews carried out in both of the case study areas:

Who is leaving teaching in Newham?
Staff turnover in schools is high. 22% of the workforce left in the 2000-2001 period.

In 2001, nearly half of those leaving teaching in Newham were aged 25-34, with a further 11% aged under 25. 75% of all Primary leavers in Newham were aged below 34.

Many of the teachers leaving in Newham were at a basic grade with over half at the lowest points in the pay scale. The most common time frame for leavers is 1-3 years after qualifying – among Primary leavers nearly half leave during the first three years of teaching, whereas the spread is more even over Secondary schools with 22% in both the 1-3 and 20+ periods.

Why are Newham teachers leaving teaching?
The most commonly given reason for moving was management style – 43% of respondents gave this as their primary reason for leaving. Housing was sited as a reason for leaving for 31% of respondents, 42% of all Primary leavers. Workload (26%) and working environment (26%) were also significant reasons for leaving.

Half of all leavers were moving home, rising to 72% among Primary leavers.

Why are Hammersmith & Fulham teachers leaving teaching?
Of the 52 surveys completed teachers gave the following reasons for leaving:

- 14% said they left because of the inconvenience of their journey to work (link with housing)
- 11% found the cost of buying property prohibitive
- 9% left because of the cost of renting property in the area

The experience of the case study hospitals and schools suggests that housing as a factor in influencing retention is particularly significant for both teachers and nurses who have approximately 2-4 years experience and who are at a point in their lives when they wish to place roots in an area, commit to a relationship or start a family. Life events and the timing of these events play an important role in the decisions made by staff to consider leaving their jobs, moving to a more affordable part of London, or leaving London altogether to move to parts of the country where homes are affordable. This combined with the fact that having gained valuable experience in inner city hospitals and schools makes these nurses and teachers highly marketable and they are able to find other posts with relative ease.

A hospital Personnel Director believes that the hardest hit as being staff with children. The view expressed was that this group is particularly vulnerable as families outgrow their existing accommodation and parents discover that larger accommodation is not within their budget. This leads to families deciding to move out of London altogether, which in turn means that the NHS is losing professionals with valuable experience and with continuity of service.

The research team has been given access to previously unanalysed and unpublished survey data from the London Teacher Supply and Retention Project[42]. It provides less direct evidence than the KLW research, since teachers were not asked any direct questions about housing issues, but does have the advantage of providing information about a cohort of teachers who had actually left their jobs.

Of 957 leavers surveyed:

- 155 are likely to leave teaching (now/after break)
- 649 are likely to stay (now/after break)
- 121 are uncertain

[42] Earlier findings of the research are written up in I Menster, M Hutchings and A Ross (eds.) (2001) *The crisis in teacher supply: research and strategies for retention*, London: University of North London

- 32 are retiring

Among 545 going straight to teaching jobs:

- 195 are moving house (350 are not)
- 145 of those moving house are going to jobs outside London
- 85 of those not moving house are going to jobs outside London

Of the 416 teachers who are being lost to London teaching (excluding the uncertain):

- 32 are retiring
- 155 are leaving teaching
- 229 are leaving London

Of the leavers who were taking or looking for a job outside teaching, pay was cited as one of the more important factors – well ahead of qualitative aspects of the job – but well behind dissatisfaction with working hours as a concern. However, in terms of the valued characteristics of actual jobs they had taken up, or were seeking, it came well behind greater scope for exercising initiative. And only a minority report significant gains in pay. Those with jobs already arranged outside teaching were also predominantly remaining in London so they are unlikely to have made significant savings in housing costs either.

There is stronger evidence of housing costs as a factor among those staying in teaching, almost half of whom (46%) were taking jobs outside Greater London. The principal factor associated with these outward moves were firstly the desire to have a mortgage (or rental payment) which was no larger than at present - which could well mean an area of cheaper housing if the person concerned was looking for a better property. The second was convenience for travelling to work. Such outward moves were less likely than those within London to be associated with promotion or significant pay increase. The evidence points to a substantial loss to the London teaching workforce through decentralising moves associated with a combination of housing and transport factors.

The time series evidence on cyclical fluctuations in teacher turnover rates (discussed in chapter 4) also points to the cost of housing exerting a strong role, both in relation to the level and the volatility of London turnover rates. General labour demand pressure is one factor encouraging faster job turnover in boom periods and in London generally. Such moves are not necessarily out of teaching but this factor is clearly more relevant to people taking the risk of moving out of the profession, or of opting for a career break (with the possibility of return) as many leavers from teaching jobs do: and a quarter of leavers in the London Teacher Supply and Retention Project survey were either going to look for a job

or taking a career break. Apart from this factor, cyclical fluctuations in teacher turnover do seem basically to reflect the relation between teacher earnings and house prices – with comparisons to earnings in other occupations not apparently playing a significant role. In periods of strong demand such as the late 1980s or the last few years problems of access to housing in the private market (for those not already occupiers of adequate-sized properties) do seem to be a major explanation of high teacher turnover rates in London.

However, it is clearly true that there are other important motives and causes of concern underlying moves of ex-teachers right out of the profession – of which the two most important revealed by the London Teacher Supply and Retention Project leaver survey are concern over long hours (which leavers do not necessarily solve in the jobs they go to) and a desire for more scope to use their initiative (which leavers are more successful in satisfying outside teaching).

6. Quantifying the requirement for key worker housing

This section attempts to build on the analysis presented in the report to arrive at an identifiable requirement for key worker housing that can be justified in a reasoned way.

Attempts to produce a robust quantification of the demand for affordable housing arising from labour market shortages in the three defined occupations and isolating the impact of the lack of key worker housing are problematic due to the fact that other factors (notably pay and working conditions) are intertwined.

The factors interacting to produce the current problems are, then:

- Labour market factors – especially the rigidity of response of public sector wages in comparison with private sector;
- Housing market factors – especially the interaction between house prices and salaries, especially for new entrants; and
- Difficult working conditions in at least some London schools, hospitals and bus operations.

The first two fluctuate a lot over time, the third less so: that fluctuation, and the current/recent acute conditions, can help us to distinguish between what might need providing in an "average" year, and what needs providing now.

Three complementary lines of action are required to deal with the situation:

- Ensuring that the London *pay* differential for groups of key workers is adequate, in an average year, to cover those higher costs of living affecting the mass of workers within those age/seniority groups where recruitment and turnover are major issues;
- Targeted *housing* provision to address particular retention problems in periods of peak housing and employment demand, and, over the longer term, to provide for particular groups of individuals who inherently face especial difficulty in competing in the private market (e.g. because of the need to live near their work or to move to take up employment);
- Stronger (financial or housing) *incentives* to work in the least popular/most stressful facilities (notably schools), which currently bear a disproportionate share of teacher shortages in periods of pressure, despite being more vulnerable to the effects of shortages.

If London pay differentials were generally adequate, the potential scale of key worker housing need could be assessed in terms of the current "excess" of market conditions and vacancy/turnover rates against those prevailing in a "normal" set of conditions. This condition does not currently hold for many groups of key workers, and hence it is appropriate to assess current needs

against a benchmark of conditions in 'good' situations, with acceptable and manageable turnover/vacancy rates.

"Excess" conditions

It is neither necessary nor desirable to completely eliminate turnover or vacancies in key worker jobs. A more reasonable aim would be to bring these down to the levels experienced in the first half of the 1990s, in the context of wage: house price relativities for key worker groups in London which were much more favourable. Vacancies in the mid-1990s were approximately half current rates for both nurses and teachers. Another aim would be to reduce London vacancy rates to something like the national average. Again, this would involve a halving of the London vacancy rate; so both aims would require the same reduction.

This provides a target for reduction of vacancies, some or all of which will be achievable through provision of key worker housing. One relevant piece of evidence in this regard is the part of current turnover that seems to be linked to non-affordability of housing within London for the groups concerned. The two teacher surveys (KLW and UNL) give broadly similar outputs: that between 50% and 60% of the recent outflow from London teaching jobs can be associated with this factor. To stay on the conservative side, we will work with a figure of 50%.

In principle, therefore, one might think that suitable housing provision could reduce vacancies by this margin – which would still leave them well above the early 1990s 'floor' – and that this also provided one indicator of the scale of need. However, this leaves aside a number of questions about the likely impact of provision on staffing:

- whether or not people would actually respond to the particular housing responses introduced (the take-up or mismatch issue);
- how far the take-up of key-worker housing was actually among people who would otherwise not have moved out of public service jobs in London (the deadweight issue); and
- the rate at which the housing concerned passes to individuals outside the key-worker category (the displacement issue).

Below, we first attempt to scale the need, and then we discuss these there issues.

Estimating the requirement

Applying the simple form of this logic to the figures given – we have, for nurses, 2750 vacancies reported. It can be argued that this is only the tip of the iceberg, because coping strategies (e.g. appointing lower-quality staff) mean that a quality problem exists "below the line" indicated by this measure, so it is not the limit of the requirement. But any other figure is going to be highly arbitrary.

2750 nurses multiplied by the one-half proportion allocable to the housing reason gives a figure of 1375: the part of the "requirement" which can be justified by reference to the housing reasons given by respondents. The same logic applied to teachers gives a figure of 894; for bus-drivers, 555. This gives a total of 2824.

As nurses, teachers and bus drivers account for around 20% of all London key workers (according to the broad definition in section 2.8 above), the total requirement to eliminate all those vacancies that are associated with housing could be estimated at 14,000 units.

As stated above, this is neither necessary nor desirable. Two reasonable aims would be to reduce vacancy rates to i. the early/mid-1990s level and ii. the national level. Both of these require the total figures to be halved. It could be estimated, therefore, that there is an immediate requirement of **1,400** units for nurses, teachers and bus drivers and, by extension, **7,000** for all of London's key workers.

But note that either scenario is only in relation to the current position. In historical terms, the current position is anomalous, in that the problem is unusually acute, and "excess" conditions apply in both markets. This means two things:

1. In other market conditions - which might reasonably be expected in future - the analysis needs modifying to allow for the fact (observable in the early 90s, for example) that public-sector workers may have relatively much better salaries, and buying-power in the housing market, than they do at present; and

2. The current situation contains shortages that are not just analysable as a year-by-year relationship, but contain a substantial "backlog" element, which needs meeting before any annualised analysis is applied. The extent of the difference between a "normal/good" year and the current situation is indicated by Figure 4.1, which shows that the most recent available vacancy rates are double those of the best year (1994). This implies that even if an annual requirement might settle down to (say) half the figure estimated above, there needs to be continued provision at the initial high rate to catch up with some three years' acute conditions.

The matching issue

The issue here involves the types of housing which would actually be required to achieve retention (or additional recruitment), and how far each of these can realistically be provided within the framework of 'affordable housing'. Clearly many of those moving out of London are actually looking for locations in which they can afford to meet their long term housing needs/aspirations within the owner-occupied sector, such as in the form of 3 bed terraced housing. Within the framework of a retention policy, even if feasible it is not necessarily appropriate to provide such accommodation, since the lucky beneficiaries are likely to stay there, requiring fresh properties to be supplied for the next cohort of potential

leavers. It is too expensive and the numbers that could be helped would be very limited. It is only likely to be appropriate for a small number of cases where the individual is particularly key to the organisation.

Rather, the objective must be to use housing as *one element in the retention package* - which would include golden handcuffs and other incentive payments - but would still enable people to see that they were being helped towards their aspirations.

For these reasons, there are clear benefits in providing suitable accommodation for recruitment (across a range of people - but mainly in the form of one and two bed flats). Their existence will increase the range of applicants - and allow those in the properties to save effectively for their next move. This should have the effect of proving a better pool of labour and maintaining a sub-group longer in their initial jobs.

The deadweight issue

Even among key workers, problems in coping with housing costs in London are not confined to those who choose to leave either London or public service. These leavers may include some of those who feel they have the most acute problems, but are also likely to be those for whom such moves are particularly easy or attractive – including those who can afford owner-occupation in outer parts of the London region. Even if key worker housing provision can be targeted at those with the greatest needs, it follows that not all beneficiaries will be people who would otherwise have left key worker jobs in London. There will always be an element of deadweight in the form of people who take up key worker housing who were not imminently likely to leave in any case – though they may be offset by others who do not actually get key-worker housing but are retained because of the prospect of doing so. We have no empirical basis for estimating the likely extent of deadweight (which would vary according to how well provision can be matched to the requirements of genuinely marginal groups – as well as with the basic adequacy of London pay levels). A reasonable guess might be that it added half as many again to the amount of provision required - but with monitoring and follow-up studies as a priority to produce a realistic figure.

The leakage issue

This issue relates to the risk that properties provided to retain a key worker may remain in their hands after they leave public service, or pass to another non-key worker when the original occupier moves on (perhaps to long-term housing outside London). The extent to which this is a problem, multiplying the long term requirement for housing provision, depends both on the contractual conditions which can be imposed on occupiers under different sorts of key worker scheme, and how far these are consistent with the aspirations of the occupiers (who might prefer less constrained occupancy conditions outside London). Where it is necessary to provide owner-occupied housing one would expect to sell the

properties on a form of shared equity. This would entail a contractual arrangement - maybe as a planning obligation - by which a proportion could be sold either on the open market or back to the employer/original owner at market value. This gives the key worker a share in price increases (and falls) and allows them to transfer to other cheaper markets where appropriate.

Rented housing would include a contractual clause to ensure that if the person left their industry, they would have to vacate their property. The landlord might not always wish to activate this – for example, where the move was to another London public sector employer.

"Normal" and "excess" years

For future "non-backlog" years, the calculation – of how many units required per year – would take *shortage x 50% x an "excess factor"*, which would be lower or higher than at present depending on observed market conditions in relation to a benchmark year. Given that housing production needs to be planned, not done ex-post(!), this would have to be done on the basis of current economic forecasting. There would also need to be an allowance (based on observed data, say from housing providers) for the annual "leakage" from this targeted provision into the general housing market, which would bring up the requirement each year.

The output would then be a "requirement" figure based on the shortages in the three sectors, with high initial figures for the first few years to deal with the backlog, and then settling down to a (presumably lower, since market conditions are exceptional) planning figure for future years which would need to be regularly reviewed and updated.

And of course, this analysis has to hold as *"ceteris paribus"* action on the other two aspects lying behind the problems (pay and conditions): not because they would not affect the demand/need/requirement if they changed - they would - but because (a) it is the only way of analysing the housing element of the case and (b) it reflects the underlying truth that even if they changed a lot there would still remain housing reasons for retention and recruitment problems.

TABLE 6.1: ILLUSTRATIVE PROJECTED REQUIREMENT FOR KEY WORKER HOUSING IN LONDON		
Year	**Requirement**	**Notes**
2003-4	7,000	(all London key workers; requirement for nurses, teachers and bus drivers is 1400)
2004-5	7,000	
2005-6	7,000	Last "backlog" year
2006-7	3,500	Assumes slack labour and housing market ("1993 conditions")
2007-8	3,500	

Dividing the requirement between London's sub-regions

The five planning sub-regions do not particularly reflect useful areas of analysis for the labour and housing markets with which we are concerned (these are a mixture of all-London and more localised). However, allocating the requirement at any lower level of analysis (e.g. Borough) would require enormous amounts of analysis, which would not be reflected in the meaningfulness of the results.

The requirement – when expressed for example, as teacher vacancies by sub-region is London-wide but not uniform. This is illustrated in table 5.4.

TABLE 6.2: TEACHER VACANCY BY LONDON SUB-REGION		
Sub-Region	**Total Teachers**	**Proportion of London Vacancies**
Central	10,500	20.8
East	18,470	18.8
West	11,230	28.3
North	9,400	19.8
South	10,460	12.4

Especially given the distribution of vacancies, it is important to make the point that it will not be enough to simply take advantage of large new housing schemes in Thames Gateway and provide all key-worker housing within that part of London: the demands are very widely spread. So the requirement ought to be a London-wide one, but monitored to ensure that a reasonable proportion of each year's production comes about in each sub-region – particularly important for Inner London where the pressures are greatest but there are also some key employers, especially in the health sector.

7. Conclusions and policy recommendations

7.1 Key findings

This report has compiled a strong argument for nurses, teachers and, to a lesser extent, bus drivers being given preferential treatment in the housing market. It has done this by providing robust evidence to show that, in summary:

- The shortages of key workers are considerably higher in London than in other parts of the country;
- The shortages have marked negative impacts on the quality of the service delivered to Londoners;
- The shortages are costing London employers millions of pounds every year. This impacts particularly adversely on the management and capacity of public organisations with fixed budgets and large proportions of those budgets spent on labour;
- The shortages are caused by a mixture of recruitment and retention difficulties arising from relevant skills shortages across the country and London's lack of capacity to compete for the limited supply;
- London is losing nurses and teachers to other parts of the country and bus drivers to other industries. Also, poorer and more deprived areas within London lose out to more comfortable employment areas;
- The recruitment and retention difficulties are the result of a number of factors, amongst which the shortage of suitable affordable housing, low pay, inadequate pay differentials and difficult working conditions are the most important, probably in that order;
- Within these factors, the relationship between earnings and house prices is crucial;
- The strength of the labour market at a given time is also a fundamental factor - a stronger labour market means more mobility in general and greater key worker shortages in particular.

Survey evidence suggests that the costs and suitability of housing are seen as directly relevant to perhaps one half of individual decisions with respect to recruitment or remaining in their current employment. Because housing costs are a large proportion of household expenditure they also affect decisions based on low pay, insecurity and working environment.

We estimate that 1,400 additional homes per year are needed to address the problems identified in the three key worker categories analysed in this report.

Grossed up across other key sectors suggests the need for perhaps 7,000 additional units.

7.2 Types of solution

The previous chapter introduced the three complementary lines of action that are required to deal with the situation:

- Ensuring that the London *pay* differential for groups of key workers is adequate, in an average year, to cover those higher costs of living affecting the mass of workers within those age/seniority groups where recruitment and turnover are major issues;

- Targeted *housing* provision to address particular recruitment and retention problems in periods of peak housing and employment demand, and over the longer term to provide for *particular groups* of key workers facing especial difficulty in competing in the private market;

- Stronger (financial and/or housing) *incentives* to work in the least popular/most stressful facilities (notably schools and hospitals), which currently bear a disproportionate share of shortages in periods of pressure, despite being more vulnerable to the effects of shortages.

There are a number of reasons to emphasise housing policies: it is extremely expensive within public pay structures to adjust problems of low pay and particularly to address differentials effectively - so targeting housing on particular groups can be cost-effective; reducing an individual's housing costs impacts particularly significantly on their overall purchasing power; there are reasons associated with training, mobility and restrictions on the relationship between housing and job location which differentially increase housing costs for particular groups of key workers; housing approaches can be customised more readily to individual requirements; and, because of political interest, there is some capacity to address housing issues and to implement housing based policies at the present time.

From the employer point of view housing assistance can be cost effective because it is directed at a particularly obvious problem for key workers; it can be integrated into a package of assistance which provides immediate help but can still provide incentives to remain longer; it can be carefully targeted; and it can increase productivity.

This is not to reject directly addressing issues of low pay, differentials and working conditions. It is simply to say that housing solutions do not just address housing problems but also can make a contribution to alleviating problems directly related to pay and conditions. This may be a second-best solution - but it is undoubtedly more practical than waiting for change in labour market conditions - which often tend (as is obvious from current experience in the police service) simply to move the problem around within the relevant service. What is required

are sophisticated packages bringing together assistance with access, pay and conditions as well as addressing housing aspirations.

It is clear, from experience in our case study hospitals (see box) and at workplaces such as Addenbrooke's hospital in Cambridge[43], that a great deal can be done to reduce turnover by work related changes, which do not necessarily involve direct increases in pay. Equally, better targeting of assistance/retention packages can help address particular areas of concern. Individual organisations however cannot significantly change underlying structural pressures. Even so, these are where the immediate win-win approaches are likely to be concentrated.

According to the case studies, those key workers that are being lost to the occupation in London have particular common characteristics:

- Nurses leaving London are more likely to:
    - Have a partner whose job affects where they live
    - Have been in nursing for more than 10 years
- Teachers leaving London are more likely to:
    - Not be a home owner
    - Have lived in London for less than 20 years
    - Have no family ties in London
    - Have a partner whose job affects where they live
- Bus drivers leaving the occupation are more likely to:
    - Be low earners within the occupation
    - Be renting from the Council or an RSL

This knowledge will help to plan for efforts to reduce turnover rates. Likewise, the results from London-wide surveys and the 2001 census will be useful planning tools. One of the most important lessons from these findings is the need for flexible packages that are in response to the needs of the particular group. Within this context, housing can both provide direct benefits from better cheaper accommodation but also broader assistance in improving employees' standard of living and quality of life. These provide a strong incentive to employers to commit resources to housing options.

[43] House of Commons ODPM: Housing, Planning, Local Government and the Regions Committee, *Affordable Housing*, Third Report of Session 2002-3 HC75, Feb 2003

ACTION AT THE EMPLOYER LEVEL: HOW ST MARY'S HOSPITAL HAS IMPROVED RECRUITMENT AND RETENTION

St Mary's Hospital has a history of difficulties of recruiting and retaining staff. During the 1990s, hospital wide vacancies peaked at 20% with a 23% rate for nursing staff. A turnover rate peak of 31% was recorded for the year 1998-9. Hospital management were concerned not only at the immediate financial impact of a £12-15 million annual spend on agency staff to cover vacancies but also at the stress that the instability in staffing was causing to remaining staff. It was believed that this increased staff turnover.

In 2000, a multi-pronged strategy was implemented to address these problems. The first action was to stabilise staff turnover. An in-house staff bank to cover vacancies was agreed to provide greater continuity in staffing. Secondly, recruitment initiatives were undertaken. For the longer term, greater support was given to training new nurses and to upgrade the skills of existing staff. Recruitment was accompanied by a strategy to improve the induction process for new recruits. In the short term, overseas nurses were recruited.

Accommodation availability represented a potential restriction on the number of foreign nurses who could be recruited and successfully integrated into the staff body. St Mary's worked with the NHS housing co-ordinator to manage the strategy and increased their existing pool of housing from 600 to 750 units with the support of local housing associations. The majority of this housing is for single persons. The combined strategy has reduced turnover to 16% for 2002/3.

Analysis of the initiative combined with quantitative research through the annual Staff Attitude survey have helped illustrate some of the key considerations which must govern the provision of housing if it is to ensure the retention of staff.

Firstly, distance to travel to the place of work is seen as important. A journey time of 60 minutes was one of the factors that made some provided housing unattractive to nursing staff. The survey suggested that tolerance for journey times varies between the role, grade and shift pattern of staff.

Secondly, a review of staff turnover by age group illustrated that most turnover occurs within the 30-39 age group and that the level of turnover is in excess of the percentage of the total staff that this age group represents. St Mary's management hopes to conduct further research to establish whether this disparity represents a lack of provision for accommodation suitable for families or couples.

Finally, it is clear that it is not only additional recruitment of nursing that is dependent on accommodation. The Staff Attitude survey showed that a lack of affordable and suitable accommodation available at an acceptable distance from the hospital applied across the functional roles. Key shortages remain in medical technical roles (laboratory, radiography technicians) and administrative staff (medical secretaries). Eligibility for housing provision amongst current and future workers is thus an important consideration.

Overseas recruitment has provided a temporary respite to nursing shortages. As this pool of additional staff becomes exhausted, the role of key worker housing provision may become less focused on facilitating recruitment and more important in stabilising the existing workforce.

Housing approaches can include assistance with moving and settlement costs; assistance with housing costs - either through a capital grant or through regular assistance; differential access to subsidised housing; provision of additional earmarked housing; the development of more affordable tenures such as shared equity; and loans and other financial instruments to help manage outgoings. In other words, assistance can range from the equivalent of additional pay (which would be taxed as such - except for National Insurance contributions - so can be poor value for money) to providing differential access to additional housing.

On the supply side, provision can come from the existing stock - which implies purchase at market value - or from purpose built accommodation. Government subsidy includes a growing emphasis on key worker housing but this is concentrated on new provision, especially in growth areas. Section 106 land-use policy also emphasises new provision including that for the intermediate market in the form of shared ownership and equity as well as cost rent accommodation. There is also a growing understanding that public employers can use land and other assets to lever in additional private funding and develop housing appropriate to their own workers.

The draft London Plan calls for 10,000 affordable homes per annum, of which 3,000 will be in the intermediate market including in particular key worker housing. It is unlikely that even these levels can be achieved, given projected output of market provision, the emphasis on mixed tenure sites, and the current availability of government subsidy. Clearly there are incentives to provide smaller units and dwellings, which require as little subsidy as possible. Both of these incentives favour key worker housing, but for recruitment and trainee purposes rather than retention.

The numbers specified in this report are far outwith the expected capacity to provide. However the research does make it clear that all possible opportunities should be utilised as quickly and effectively as possible. This may well mean concentrating specifically on areas where the greatest funding is available - new methods of provision, homes for particular groups of key workers, recruitment rather than retention - even though these may not be the highest priority in principle. What is still important however is to remember that these dwellings will be long lasting and must have the potential to meet longer-term aspirations and to adjust tenure and client group as appropriate.

As in the context of the labour market there are many other approaches to addressing the identified problems than new provision. In particular, in their Sustainable Communities statement, the government has pointed the way to a number of means of improving the management and accessibility of the private rented stock. Employer and RSL leasing opportunities could do far more than new building to meet the needs of key workers in the shorter term. They cannot however address the aspirations to home ownership. This calls for far more initiative in developing shared equity and shared ownership schemes involving employer commitment and s106 agreements.

Given the limited capacity to add to the intermediate stock, either by new build or by transfers from the market and traditional social sectors it is of particular importance that output is concentrated in housing types and locations which directly address identified problems. One of these is clearly to provide for trainees and those who have to re-locate to London. Such accommodation may be for a relatively short term and can be addressed by leasing as well as new provision. A second is to enable those who are past this stage, but not yet able to find longer-term accommodation to access stable rented or shared-ownership homes. This type of housing has the potential to keep people in their jobs for longer, even though it does not necessarily address longer-term aspirations especially for larger family homes.

The third type would be longer-term family homes to help retain people throughout their working lives. This has major problems relating to targeting and ensuring long-term value to the employer. For this reason, even though retaining experienced people is a high priority housing may not be the most appropriate instrument, except in unusual circumstances.

Most key workers are looking to achieve owner-occupation. Shared ownership and shared equity arrangements can operate to help ensure that they are not disadvantaged when moving to lower cost areas later in their careers. Equally, reasonable rents, by allowing people to save more effectively, can help make owner-occupation possible as long as house prices are not rising too far out of line with incomes.

Finally, there is the question of location. It might be thought that housing should be provided in the cheaper areas in order to maximise the numbers provided – but there must be real concerns about ensuring relative proximity to areas of shortage simply because of the possibility of workers moving job to be near home.

Overall, housing can only be one element in addressing the key worker problem in London – but to the extent that it can offer better, more stable housing at lower costs, such assistance will improve the pool from which key workers can be drawn and help to reduce the rate of turn-over – even if in the longer term most family households will continue to move out to easier housing and labour markets.

7.3 Conclusion

Housing approaches to lessen the shortage of key workers would ideally place an emphasis on:

i. short term assistance with housing at the top of the economic cycle;

ii. assistance concentrating on the retention of core key workers - those who help to keep other employees to remain in place – and, more generally, those with some relevant work experience;

iii. assistance for those who face differential costs – e.g. because of location specific workplace difficulties or restrictions on residential location because, for example, of unsocial hours; and

iv. assistance to trainees and others who need to move to take up work and/or to live at the workplace

v. a mix of leasing to help people enter the market, sub-market rental to stabilise their position and shared ownership and shared equity to help meet aspirations.

The practicality is that a mix of measures which help to reduce constraints as well as to increase pay, to reduce costs and difficulties of journey to work and to expand housing opportunities can all have a valuable impact. Within housing many of the opportunities will be government led and not necessarily directed at the ideal targets. In particular it is clear that a range of sizes and locations would better achieve longer-term objectives. However in practice, trade-offs must be made and good management of the available opportunities remains fundamental to achieving the best possible outcomes.

Specific actions are required from at least four sets of stakeholder – national government, local authorities (principally planning departments), employers and housing providers. To conclude, table 7.1 outlines a range of such actions.

TABLE 7.1: RECOMMENDED STAKEHOLDER ACTIONS	
ORGANISATION	**ACTION**
Central government	Provide tax breaks for employers providing housing Review London Allowance Address working conditions for key workers Provide greater incentives to work in the least popular workplaces Realign housing subsidy policy that favours new-build towards innovative approaches to key worker housing
London government	Formulate a London-wide approach to key worker housing that encourages the spread of provision and that can cascade sub-regionally
Local authorities	(see sister KLW research by Ark and ERM) Link housing provision to set income groups Negotiate appropriate S106 Agreements Tie key workers to housing to avoid leakage
Employers	Review London wage differentials Approach housing provision in the context of an understanding of the financial/cost benefits of interventions Provide housing, initially perhaps with short-term leasing Form partnerships with RSLs to provide housing for those looking for more stable accommodation Target assistance at those groups most likely to leave Review efforts to reduce turnover, learning from good practice Assistance with moving and settlement costs
Housing providers	Examine the potential of the existing housing stock for key worker provision Diversify provision for key workers, recognising differing needs