

Youth unemployment

A million reasons to act?

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November 2011

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Executive Summary

There is growing consensus that without further action we risk a “lost generation” of young people – shut out of the labour market and increasingly disconnected from work and learning. Youth unemployment is now above one million, with long-term youth unemployment above 250,000 for the first time since the early 1990s.

More than one in five young people who are in the labour market are unemployed – giving an unemployment rate of 22%. However not all young people are in the labour market. One third are not working and not looking for work, usually because they are students and so are not included in this calculation. Taking account of these people, the percentage of all young people who are unemployed is 14% – or about one in seven. This in some ways gives a more accurate reflection of the likelihood of being unemployed.

Beneath these headline figures, it is now clear that the continuing downturn is having a greater impact on young people than older people and that the impact is significantly worse in this recession than in the last. In the 1990s, youth unemployment fell by 20% in the two years after it peaked. In the two years since the peak after the last recession, by comparison, unemployment has risen – up by 7%. This gap is equivalent to 240,000 more unemployed young people.

So far, for young people this recession has more in common with the 1980s, with a prolonged period of high unemployment and rising long-term unemployment. Worryingly, long-term youth unemployment is now rising at a faster rate than at any point since comparable records began in 1992.

The challenge for policy-makers, then as now is to ensure that high youth unemployment does not lead to permanent impacts for those individuals, where there is compelling evidence that long-term unemployment can lead to lower wages and wellbeing later in life. Long-term unemployment is also bad for the economy – by reducing the number of people ready to work and so storing up inflationary problems for when the recovery comes.

In many cases, young people have responded to this downturn by staying in education. And they have been supported in this by successive governments’ commitment to increasing the supply of learning places. This is most notable at 16 and 17, where the proportion of people not in education or employment has actually fallen since the recession began. However this has only really masked the labour market problem – now fewer than one in four 16-17 year olds do any kind of work;

while unemployment is highest at age 18, as young people leave the education system and find themselves competing for jobs.

Alongside this, successive governments have sought to understand and address – with limited success – an underlying structural issue that has led to youth unemployment never falling below 500,000 in the last twenty years, and at least one in seven young people being out of work and out of full-time learning. Indeed youth unemployment rose by over 100,000 between 2004 and 2008, and was above 1997 levels before the downturn even began.

Preparing young people for the world of work

The Government's focus on raising participation in education and reforming the vocational system is welcome. The recommendations of Alison Wolf's review of vocational education have the potential to transform post-14 learning – with funding following learners, and clearer incentives for young people to take the most valuable qualifications.

However, the effectiveness of skills and education reform critically depends on young people making the right decisions and understanding what employers need, which means that high quality careers services are critical. It is not clear that government plans to localise careers guidance with no measures of success will be sufficient. There is also a well documented gap on employability skills, with the CBI calling for more engagement between schools and businesses.

We therefore recommend:

- **Testing outcome-based payments for careers advice from 2012, alongside clear standards that schools must meet**
- **That Government accepts the CBI recommendations to encourage schools and businesses to work more closely together**
- **Increasing transparency, by exploring the feasibility of publishing destinations data for schools and colleges showing the proportion of learners in work at age 24.**

Educational reform must also be underpinned by a system of support to ensure that for the most disadvantaged young people, education is financially viable and there are incentives to complete study. The abolition of the Education Maintenance Allowance has undermined this, although the Bursary system will provide support to some of the most vulnerable young people.

We therefore recommend that the Government does all that it can to strengthen Bursaries from next year, to reach those low-income learners who are most likely to drop out and to incentivise attainment in schools.

Increasing the recruitment of young people

Better preparing young people for the world of work will increase their employment and reduce unemployment in the long run. However there are other steps that the Government can take to incentivise employers to take on young people – in particular by reducing the costs of training new recruits and/or by reducing the cost of employing them through subsidies.

The government is significantly increasing funding for apprenticeships, some of which will be targeted at those who have been unemployed. However there are ongoing concerns that:

- Very few apprenticeships – perhaps one in eight – are being taken up by people previously unemployed; and
- Places are not growing fast enough to meet growing demand from young people (with three quarters of recent growth going to those over 25).

We therefore recommend:

- **Strengthening incentives for employers who offer apprenticeships to the unemployed**
- **Reducing complexity for employers – for example by rolling out the “payment by results” pilots to more employers**
- **Expanding the Apprenticeship Training Agency model, where apprentice providers can employ directly and place apprentices with host employers.**

Tackling long-term youth unemployment

The Government’s flagship Work Programme gives specialist providers more freedom to do what works to help long-term unemployed young people, with payments made for the results that they achieve. The programme has only been running for a few months so it is far too early to judge its success.

However in light of the continued downward revisions to growth there is an emerging shortfall between the performance expectations that were set a year ago

and what is feasible in the current labour market. With long-term youth unemployment rising faster than at any point in twenty years, there is a compelling case for further action.

There have been increasing calls for a general wage subsidy to incentivise employers to take on more long-term unemployed young people. While this would be a welcome step, the evidence from previous similar schemes has not been persuasive. The most recent subsidy, which paid £1,000 for taking on anyone who had been on Jobseeker's Allowance for more than six months, ran from April 2009 to June 2010. Despite widespread publicity, just 8,400 claims were made for young people. It was ended by the Coalition Government. It is unlikely that a new subsidy scheme along similar lines would have any discernible impact on youth unemployment.

We would therefore recommend introducing a highly targeted wage subsidy that goes with the grain of the Work Programme but also seeks to create new jobs. This could be channelled through social enterprises and voluntary groups, as well as the private sector. The subsidy would cover part of the wage costs for hiring a long-term unemployed young person, with Work Programme providers able to recoup the rest through existing "outcome" payments.

The Government would need to take steps to minimise the risks of "displacing" economic activity or funding jobs that would have been created anyway, but similar programmes in the US and UK have had lasting positive impacts in the long-term and reduced unemployment in the short term. We estimate that an additional job lasting six months could be created at a cost of £2,000 to 3,000 within the Work Programme (once projected outcome payments to providers are taken into account).

We therefore recommend a targeted subsidy to create up to 75,000 new jobs for long-term unemployed young people, at a cost of £150 million.

A longer-term vision

Youth unemployment has not been below 500,000 since the early 1970s. Addressing this structural problem requires fundamental reform. In the longer-term, we would recommend that this reform should be built around two key elements – a unified system across all 16-24 education, learning and employment support, which could be fully localised or commissioned to non-government providers; supported by a new Universal Youth Credit.

A single Youth Employment and Skills service

This would combine all employment and skills provision for 16-24 year olds except for higher education funding, in a single agency. This means:

- Jobcentre Plus support for 18-24 year olds
- The national benefit system for 18-24 year olds
- Funding for 16-19 education
- Funding for adult skills for those under 25
- The large majority of Apprenticeship funding

Its mission would be to maximise educational attainment, employment and opportunity for all young people, with success judged on three key measures:

- **To increase to 90% the proportion of people reaching age 24 with Level 3 skills (with 100% achieving Level 2)**
- **To reduce 5% the proportion of young people not in learning or employment at any one time**
- **To increase to 80% the employment rate of young people not in full-time learning.**

This approach is not as radical as it may sound. All of these functions currently exist – but they are shared across at least five authorities spanning national and local government with often confused, overlapping and duplicated accountabilities.

A Universal Youth Credit

The creation of a Youth Employment and Skills service would also create a unique opportunity to redesign the system of financial support for young people.

One of the primary reasons for the persistence of 16-18 year olds not in education, employment or training is that they were taken out of the “rights and responsibilities” regime when they lost entitlement to benefits. So learning from this, and experience with the EMA, we recommend introducing a Universal Youth Credit for those aged 16-24. This would incorporate the existing Universal Credit and extend to 16-17 year olds, and also be paid to all learners in families with low incomes (with incentives to stay in education).

1 Introduction

- 1.1** Youth unemployment is at a record high. Over one million young people¹ are unemployed, long-term youth unemployment is above 250,000 for the first time since 1994 and the number of young people not in full-time education or employment has passed 1.4 million.
- 1.2** On a straight reading of these figures, the outlook for young people is bleak and may be getting worse – with unemployment up by 67,000 in the last three months (32,000 of this being among those unemployed for more than a year).
- 1.3** There is widespread consensus that youth unemployment, particularly for a prolonged time, is bad for individuals, the economy and society.
- 1.4** For individuals, a prolonged spell of unemployment can lead to prolonged and even permanent “scars” on earnings and well-being, even after accounting for other factors (such as qualifications or personal characteristics). In one study, the impact of six months of youth unemployment was estimated to lead to wages 13-21 per cent lower nearly twenty years later.² A further study finds lower wages and lower happiness over thirty-five years after a prolonged spell of youth unemployment, with greater scars the longer the person was unemployed.³ This has led to fears of a “lost generation” of young people as a result of the downturn and slow recovery.
- 1.5** The Government has recognised this risk – although youth unemployment failed to feature in the Coalition Agreement, they have since delivered earlier access to the Work Programme for young people, an expansion of apprenticeships for the unemployed, and a range of reforms to the system for 14-19 year olds (including raising the participation age⁴, reforming skills funding, reviewing the vocational system and piloting a small “innovation fund”).

¹ Unless otherwise stated, “young people” in this report means those aged between the ages of 16 and 24.

² Paul Gregg and Emma Tominey (2004) *The Wage Scar from Youth Unemployment*, CMPO, The University of Bristol

³ David N.F. Bell and David G. Blanchflower (2011) *Youth Unemployment in Europe and the United States*; IZA Discussion Paper No. 5673 April 2011

⁴ The age to which young people must remain in education or training

- 1.6** But given the scale of the challenge, and what appears to be a deteriorating labour market for young people, is there more that can or should be done to tackle youth unemployment? The Government's forthcoming "Participation Strategy" is due this year and will set out their plans "to maximise the participation of 16-24-year-olds in education, training and work".⁵ This report is therefore intended to inform that strategy.
- 1.7** Chapter 2 examines the data on youth unemployment, compares this with previous recessions and draws out the implications for young people, policy makers and society. Young people move into and out of education and employment more frequently than older people. Half of all lifetime job changes happen in the first ten years of employment⁶ and nearly 40% of young people change occupation within the first few years of entering employment.⁷ For these reasons, very many young people will have times where they are unemployed and the proportion who are unemployed tends to be higher than it is for older people (however this is not inevitable – up until the 1970s, youth unemployment was lower than for others, and a number of European countries including Germany have lower unemployment for young people than for other groups⁸).
- 1.8** It is now clear that younger people have been harder hit since the start of the recession than older people, so minimising the long-term effect of this "cyclical" impact is critical. However, youth unemployment has been on a rising trend for nearly ten years and has not been below 500,000 since consistent records began in 1992. So there also remain structural barriers to the participation of young people.
- 1.9** The remainder of this report focuses on policy responses to raise youth participation – examining the evidence on "what works" and making proposals for further action. These are around three key areas:
- Making the transition from education to employment as smooth as possible
 - Measures to increase the recruitment of young people; and

⁵ (2011) *Participation by 16–19 year olds in education and training: Government Response to the Committee's Fourth Report, Eighth Special Report of Session 2010–12*

⁶ Booth, A, Francesconi, M and Garcia-Serrano, C (1999) "Job Tenure and Job Mobility in Britain", *Industrial Labour Relations Review*

⁷ (2010) *Evidence for Wolf Review*, Centre for Analysis of Youth Transitions

⁸ OECD, 2011. In this case, young people refers to 15-24 year olds.

- Tackling long-term unemployment.
- 1.10** The paper concludes by setting out a framework for longer-term reform – built around a single employment and skills service for all young people, supported by a Universal Youth Credit and a new approach to measuring success.

Defining youth unemployment

The key measure of unemployment used in this report follows the International Labour Organisation (ILO) definition, that “a person is **unemployed** if he or she does not have a job, is seeking work, and is available to start work.” On this measure, there are 1.02 million young people (aged 16-24) unemployed in the UK.⁹

If a person is not working, available to start work and looking for work they are unemployed. So unemployment:

- Includes students who are looking for work – which accounts for about a quarter of youth unemployment; but
- Does not include those who are out of work and not looking for work – which is over a third of young people, predominantly because of studies.

Importantly, the calculation of the unemployment rate also leaves out those who are not looking for work – it only compares the level of unemployment with the total number of people who are either employed or unemployed (the “labour market”). This gives an unemployment rate of 22%. This is not the same as 22% of the whole youth population. In fact the overall proportion of young people that are unemployed is 13.9% - or around one in seven.

The 22% unemployment rate is the best reflection of the state of the labour market for those young people who are in it or are thinking of joining it. However, the same level of youth unemployment can lead to a higher unemployment rate if more people choose to enter education and not look for work.

The 14% unemployment proportion of the population is the more accurate measure of the likelihood of being unemployed – and is arguably a better reflection of the overall challenge in tackling unemployment and increasing participation in education.

Unless otherwise stated, this report therefore uses the unemployment proportion figure.

⁹ Labour Force Survey, ONS; July-September 2011. Unless otherwise stated, all subsequent statistics in this document are derived from the Labour Force Survey, with the most up-to-date statistics referring to July-September 2011.

Not in education, employment or training

Because unemployment does not include those who are not looking for work, and it includes unemployed students, it is not a complete measure of the number of people who are not in education, employment or training.

There are two ways that this figure can be measured:

- First through official “NEET” statistics, where the most recent estimates for England are that 979,000 young people were not in education, employment or training in the second quarter of 2011 (about 16% of the youth population)¹⁰; or
- Secondly through more timely monthly data from the Labour Force Survey, which records the number of young people not in full-time education or employment in the UK – which is estimated to be 1.45 million, or about 20% of the youth population.

As well as covering a different geography, the main difference between these two measures is the treatment of people in part-time education only – who are excluded from the DfE NEET figure but included in the Labour Force Survey estimate.

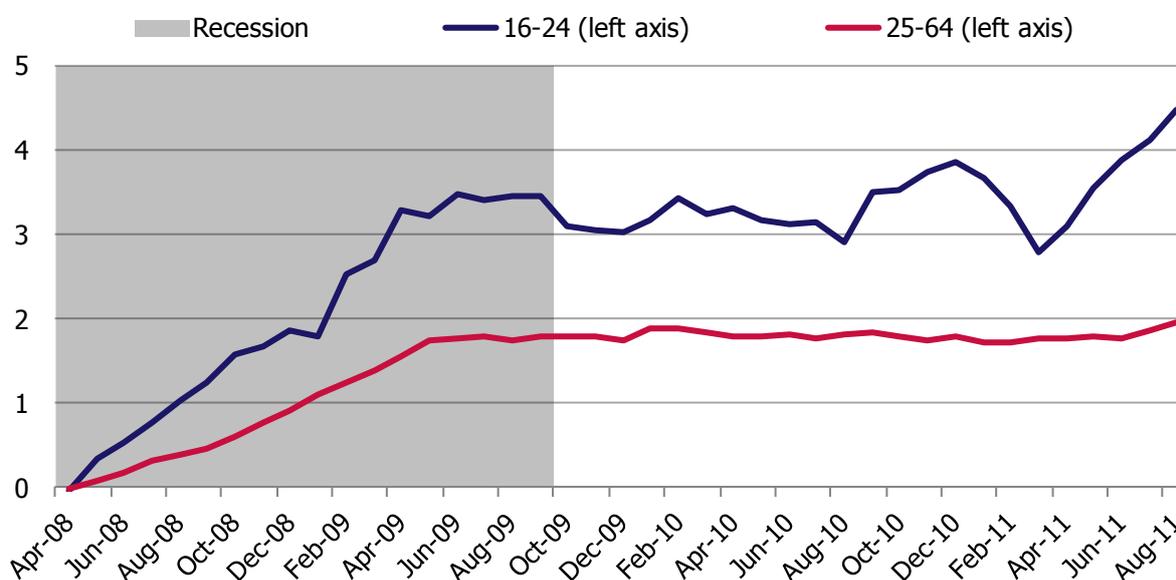
¹⁰ NEET Statistics – Quarterly Brief, Department for Education; Quarter 2 2011.

2 The impact of the recession

2.1 Employment fell and unemployment rose for all ages during the 2008/9 recession, with youth unemployment rising from 685,000 in early 2008 to a peak of 944,000 at the end of the recession in late 2009.

2.2 However, the pace of unemployment growth has been greater for young people than older people, as shown in figure 2.1 below. While the proportion of young people unemployed was 6.6 percentage points higher than the proportion of older people unemployed in April 2008, this gap had risen to 8.3 percentage points a year later. Since then, the proportion of people unemployed remained broadly flat through to spring this year but has since increased significantly for young people – with the gap between young people and older people widening to nearly nine percentage points and the level rising above that seen even during the height of the recession.

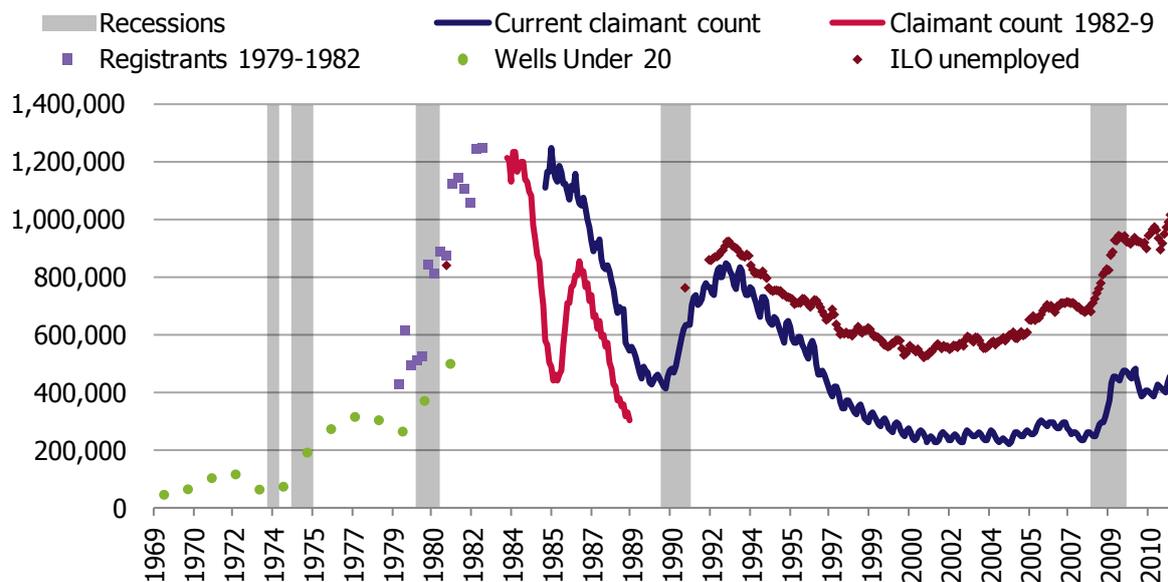
Figure 2.1: Percentage point change in unemployment proportions by age



Source: Labour Force Survey, ONS.

2.3 Previous recessions have also seen large rises in youth unemployment, as figure 2.2 below sets out. Records before 1992 are not consistent with the current ILO measure, so this chart combines information from a number of contemporary measures back to 1969. Recessions are shown in grey.

Figure 2.2: Youth Unemployment since 1969



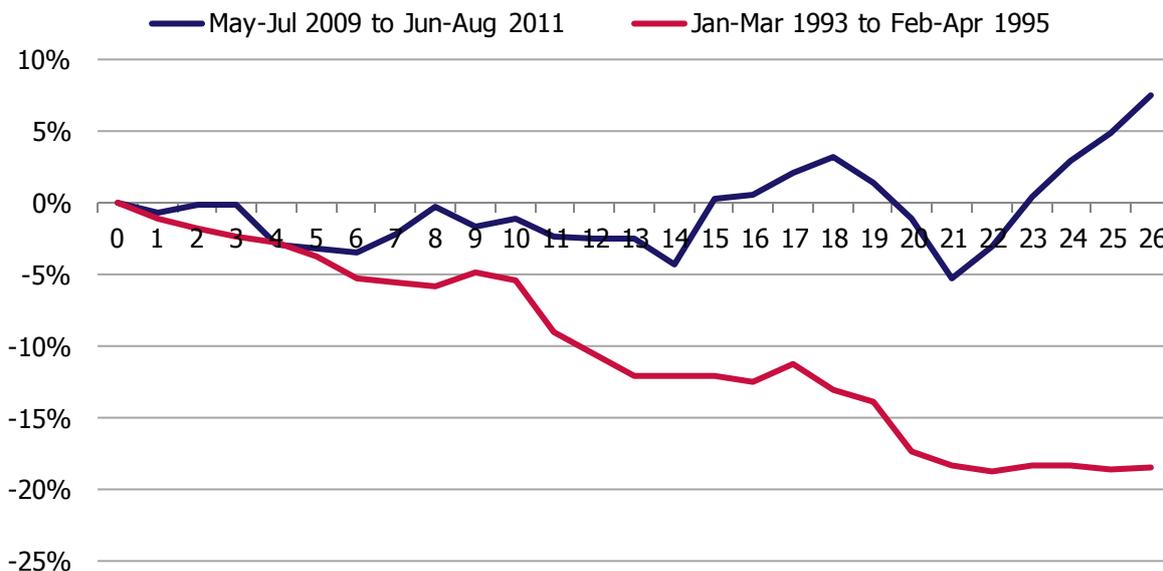
Sources: Claimant Count, Jobcentre Plus Administrative System/ONS; Labour Force Survey, ONS; historical statistics, ONS.

2.4 As the chart sets out, youth unemployment was very low by current standards until the mid 1970s – which saw the start of a rise that was widely commented on at the time. It then peaked at 1.25 million in the early 1980s (on the measures in place at the time) and remained around that level for at least three years. The peak after the 1990s recession was lower, and the recovery for young people much quicker – with youth unemployment falling by 170,000 in two years.

2.5 Figure 2.2 also demonstrates that youth unemployment began rising before the most recent recession began – increasing by 110,000 between early 2004 and early 2008. This is partly explained by a growth in the youth population over that time (of over 500,000) and partly by a rise in the number of unemployed students (around 20,000). But this does not explain all of it – taking account of these two factors, the proportion of young people who were unemployed and not in full-time education increased from 6.0% to 6.7% from early 2004 to early 2008.

2.6 Figure 2.3 below compares youth unemployment in the two years after it peaked in 1993 and youth unemployment in the two years since it peaked in the last recession. While youth unemployment fell by nearly 20% in two years after the 1990s recession, this time round it has remained broadly flat – and indeed is now higher than the 2009 peak. So far, the recovery from recession appears to have more in common with the 1980s downturn than the 1990s.

Figure 2.3: Percentage change in youth unemployment following peak



Source: Labour Force Survey, ONS.

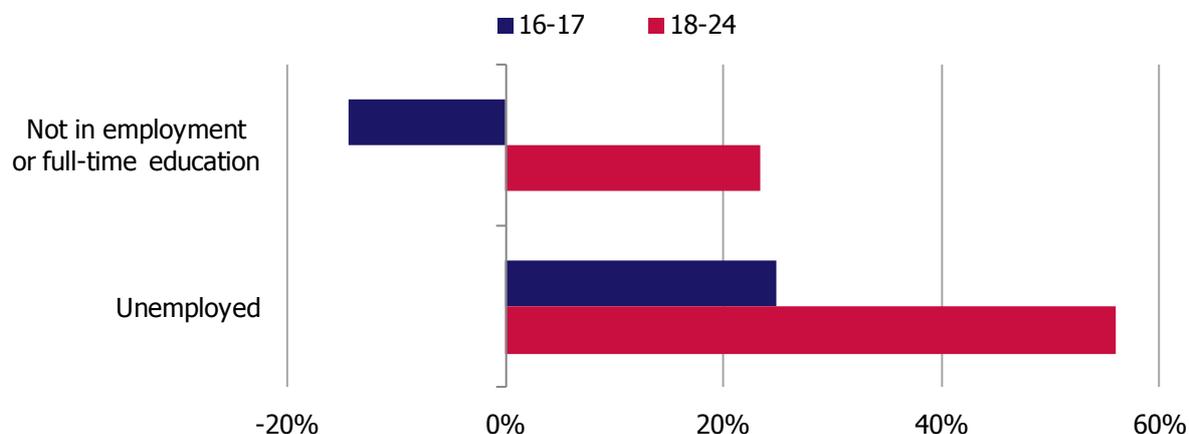
Youth unemployment by age

2.7 There have been different trends for 16-17 year olds compared with 18-24 year olds, as figure 3.4 illustrates. For 16-17 year olds, the fall in the number of people in work since the recession began has been more than offset by an increase in the number of students (in and out of work) and a fall in the size of the population. This means that there is now a slightly smaller proportion of 16-17 year olds not in full time education and not in employment than before the recession began in 2008 (down from 12% to 11%). However, the labour market for 16-17 year olds is substantially worse than it was at the onset of recession – with the number of 16-17 year old unemployed people increasing by over 20% and the employment rate falling by over 10 percentage points– from 34% to 23%.

2.8 Among 18-24s, the percentage increase in full-time student numbers has actually been greater, but this has not been enough to offset the large falls in employment and a growing population. As a result, the proportion of 18-24 year olds not in full time education and not in employment is substantially above pre-recession levels – standing at 22% compared with 18% before the recession began. There has also been a larger increase in unemployment among 18-24 year olds, with the number of

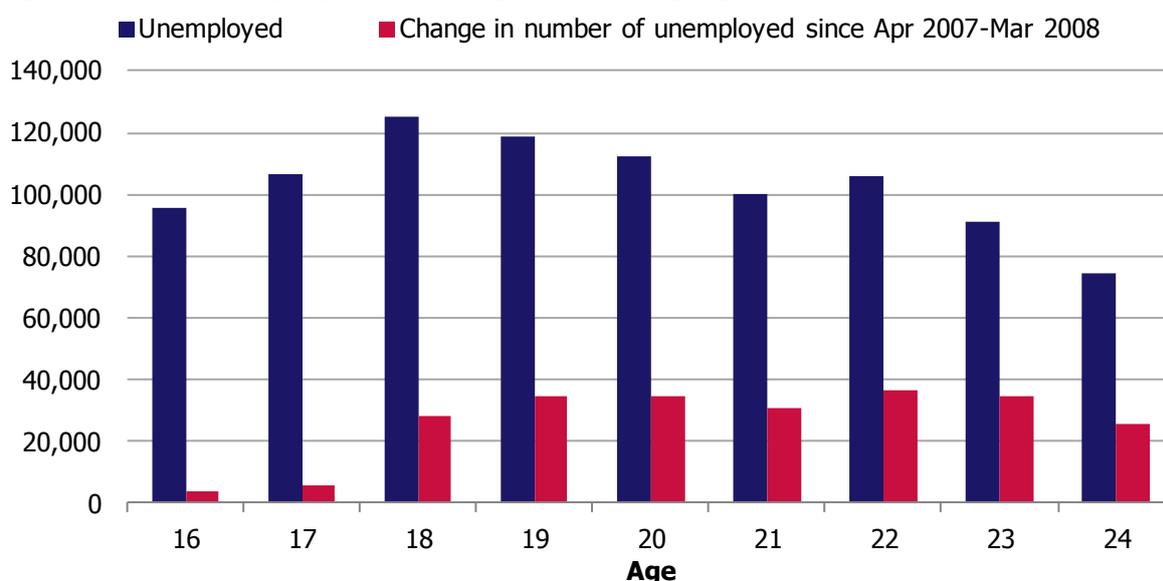
unemployed 18-24 year olds increasing by over 50% and the employment rate falling from 65% to 56%.

Figure 2.4: Change in number not in employment or full-time education and unemployed since Jan-Mar 2008



2.9 Looking at changes for individual ages, the level of unemployment is fairly evenly spread between ages 16 and 23, although with noticeable peaks at ages 18 and 22, as young people leave full time study. Over the recession, the largest increases have been among older ages. This is set out in figure 2.5 below.

Figure 2.5: Unemployed 16-24 year olds by age, Apr 2010-Mar 2011

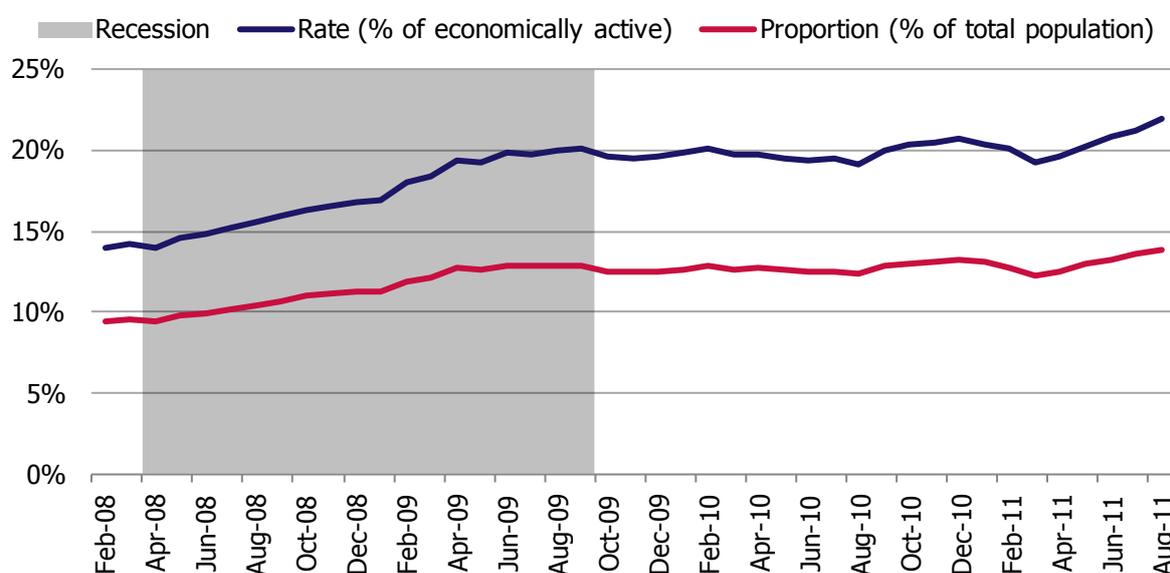


Source: Quarterly Labour Force Survey, ONS.

Youth unemployment and study

2.10 The proportion of young people unemployed and the youth unemployment rate (i.e. the percentage of the active labour market who are unemployed) have diverged somewhat over the course of the last three years, as shown in figure 2.6. Over recent months, the unemployment rate has increased more rapidly than the proportion, with both reaching record levels.

Figure 2.6: Unemployment rate and proportion for 16-24 year olds



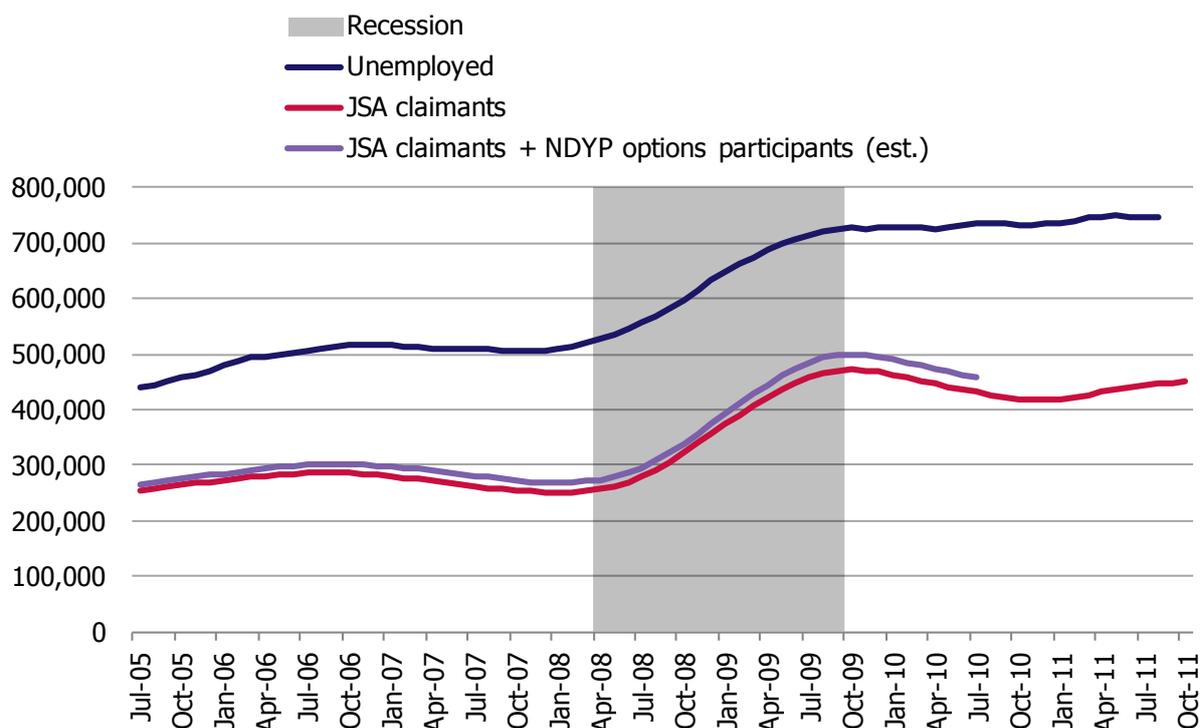
Source: Labour Force Survey, ONS.

2.11 This divergence between the unemployment proportion and unemployment rate is largely explained by the ongoing trend of increasing levels of educational participation among young people leading to a smaller labour market (and therefore higher unemployment rate). Since the beginning of the recession the number of young people in full-time education and economically inactive (therefore not part of the labour market) has increased by almost 20%.

2.12 This partly also explains the continuing divergence between claimant unemployment – that is, the number of 18-24 year olds claiming Jobseeker’s Allowance, and who are therefore not in full-time study – and ILO unemployment. These trends are evident since the mid-1990s in figure 2.2 and more recently in figure 2.7 below. This remains the case when participants in New Deal for Young People (NDYP) Options are included, who were in government funded and mandated employment,

training or volunteering following a long-term JSA claim and therefore not a part of the official claimant numbers. In July 2011 there were 452,500 18-24 year olds claiming JSA, compared to 785,000 unemployed 18-24 year olds overall. Unemployed people not claiming JSA are not eligible for help from Jobcentre Plus or through the Work Programme.

Figure 2.7: Unemployed and Jobseeker’s Allowance claimants aged 18-24



Source: Labour Force Survey, ONS; Claimant Count, ONS; *Inclusion* calculations.

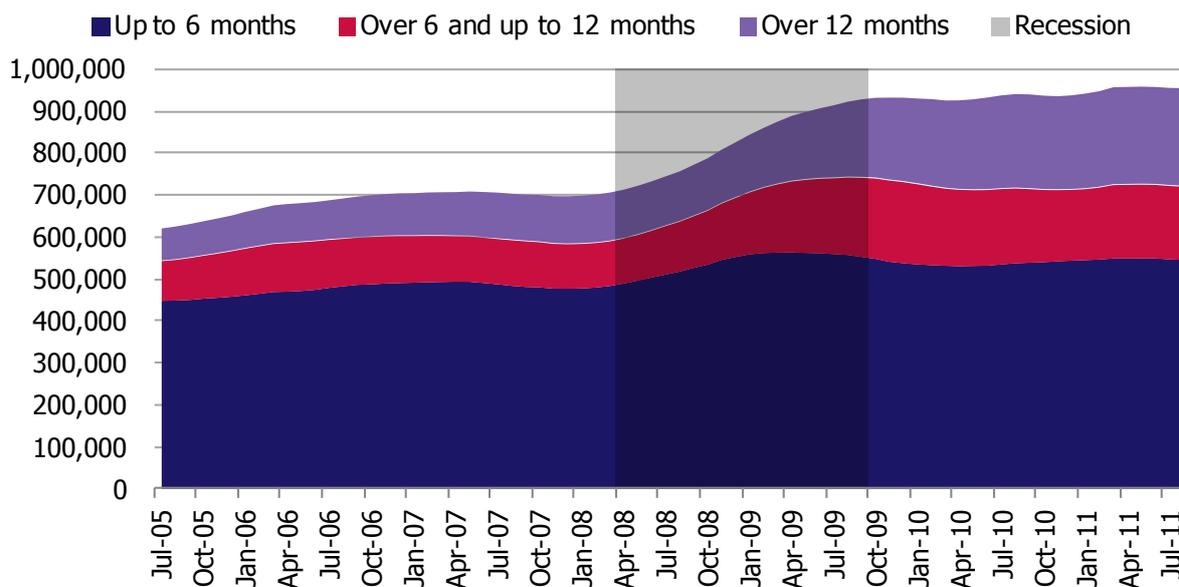
2.13 This strong growth in student numbers does not account for all of the growth in youth unemployment however. The proportion of young people unemployed and not in full time study has also risen strongly, from 6.6% when the recession began to 10% now.

Long-term unemployment

2.14 As set out in Chapter 1, long-term youth unemployment is of particular concern, as it can lead to lasting impacts on those affected. It is also bad for the economy as it reduces the number of people who are ready to work. Reducing long-term youth unemployment through the New Deal for Young People was one of the five “pledge card” priorities for the incoming Labour Government in 1997. At that time (the second quarter of 1997), long-term youth unemployment (those unemployed for more than 12 months) was 125,000, having fallen from a peak of 280,000 in

early 1993. Long-term youth unemployment continued to fall after 1997, reaching as low as 55,000 in 2002. However it then rose between 2002 and the onset of recession – and by the end of 2007 it had doubled, to 110,000. Since then, the long-term unemployed have accounted for an increasingly large proportion of total youth unemployment, as set out in figure 2.8 below.

Figure 2.8: Unemployed 16-24 year olds by duration of unemployment



Source: Labour Force Survey, ONS.

2.15 Long-term youth unemployment now stands at 260,000 – the highest since January 1994. More than one in four young people who are unemployed have been looking for work for more than one year, compared with one in six before the recession began. What is more, long-term youth unemployment has been growing by an average of 6% a month since the early summer – the fastest rate of increase since consistent records began in 1992.

Conclusion

2.16 Clearly, a large part of the rise in the likelihood of being unemployed has been as a result of the recession – and this cyclical impact is most obvious among 18-24 year olds, because of a growing population and a lower likelihood of being in education. However it is also evident among 16-17 year olds, where the employment rate has fallen by more than 10 percentage points in three years and the number of non-working students has increased substantially.

- 2.17** However, in addition to this cyclical impact there is also evidence of underlying structural issues. Despite the guarantee of a suitable education or training place for all school leavers, 11% of 16-17 year olds remain outside full-time education or employment at any one point in time, whilst unemployment is highest at age 18, when the most young people leave full-time learning and enter the labour market.
- 2.18** Total youth unemployment fell by nearly 20% in the two years after its 1993 peak. In the two years since youth unemployment initially peaked after the 2008-9 recession, youth unemployment initially fell but has since risen – now standing 7% higher than two years ago. The indications are that for young people this downturn has more in common with the 1980s than the 1990s. Of most concern, long-term youth unemployment is continuing to rise – with implications for those individuals, the economy and society.

3 Youth unemployment – the policy response

- 3.1** Responsibility for youth learning and employment is at the borderline of three government departments in England – with the Department for Education (DfE) responsible for policy for 14-19 year olds in education and for those not in education or employment; the Department for Business, Innovation and Skills (BIS) responsible for training for those aged 18 and over; and the Department for Work and Pensions (DWP) responsible for those out of work and aged over 18. This is set out in more detail in the box below.
- 3.2** In Scotland and Wales, responsibility for skills and education policy is devolved to the Scottish and Welsh Governments respectively. The following chapters and recommendations on skills and education refer to the English system.
- 3.3** These different Departmental responsibilities in England mean that the system for young people, and accountability for supporting them, can be very confusing.
- 3.4** For example accountability for delivering the best outcome possible for a young person in study would lie with an institution funded either by DfE or BIS, if they then drop out of study the Local Authority could then be accountable if they are under 19, based on performance indicators set by DfE, unless and until they claim benefit if they are over 18 and meet other criteria – when DWP becomes accountable (either on its own or alongside the Local Authority, although with different success measures). If that individual is over 18 and then takes up training, then that provider would be accountable separately to BIS via the Skills Funding Agency.
- 3.5** Unsurprisingly, this picture has led to a focus locally on making sense of this picture – through NEETs strategies, multi-agency working and local information gathering.

Who is responsible for what in England?

Department for Education (DfE)

DfE is responsible for the education and training of 16-18 year olds and some 19 year olds. This includes responsibility for:

- 16-19 year olds in full-time education, at school, sixth form college and other further education
- 16-18 year olds undertaking an apprenticeship
- 16-18 year olds not in full time education, employment or training (NEET)
- Raising the participation age to 17 in 2013 and 18 by 2015.

The **Young People's Learning Agency (YPLA)** is sponsored by DfE and supports the delivery of training and education to all 16-19 year olds in England. They are responsible for:

- Funding learning opportunities for 16-19 year olds
- Providing direct funding and support to Academy Schools; and
- Funding financial support for young learners (i.e. the new £180 million bursary scheme to help the most vulnerable 16-19 year olds to continue in education).

The government has announced that subject to legislation, the Young People's Learning Agency will be replaced by a new **Education Funding Agency (EFA)** as an executive agency of the Department for Education (DfE). The EFA will have responsibility for the direct funding of Academies, Free Schools and all 16-19 provision including further education colleges, sixth form colleges and independent provision.

Department for Business, Innovation and Skills (BIS)

BIS is responsible for the skills, education and training of adults, aged 18 plus (19 if in full-time education). This includes:

- Adult apprenticeships (aged 19+); and
- Training for young adults aged 19-24 to achieve their first full-level 2 or first level 3 qualification when they do not already have one.

The **Skills Funding Agency** is sponsored by BIS and is responsible for funding and regulating adult further education and skills training. Its remit includes allocating public spending to colleges and training organisations, to fund training for adults.

The SFA also houses the **National Apprenticeship Service**, which is responsible for the delivery of apprenticeships for people aged 16 and over.

Department for Work and Pensions

The Department for Work and Pensions is responsible for adults claiming out of work benefits, which includes young people claiming Jobseeker's Allowance, Employment and Support Allowance and Income Support.

DWP are also responsible for employment support for out of work adults. In particular this means:

- **Jobcentre Plus** – which is part of DWP, and administers the benefit system and supports most benefit claimants to look for or prepare for work; and
- The new **Work Programme** – where DWP has commissioned providers in the public, private and voluntary sectors to deliver support to groups that are more disadvantaged (in particular long-term claimants of Jobseeker's Allowance and some claimants of Employment and Support Allowance).

3.6 Chapters 4 to 7 set out the Government's policy response, evidence on the success of previous approaches, and proposals for the future. It has done this around three strands:

- First, preparing young people for the world of work – both through the compulsory and further education systems, and as they make the transition into employment for the first time
- Secondly, increasing the recruitment of young people – in particular through Apprenticeships and measures to reduce hiring costs, which recognise the costs to employers of investing in young employees; and
- Thirdly, measures to tackle long-term unemployment – to boost motivation, improve skills and tackle the negative signal that long-term unemployment sends to employers.

4 Preparing young people for the world of work

The importance of educational attainment

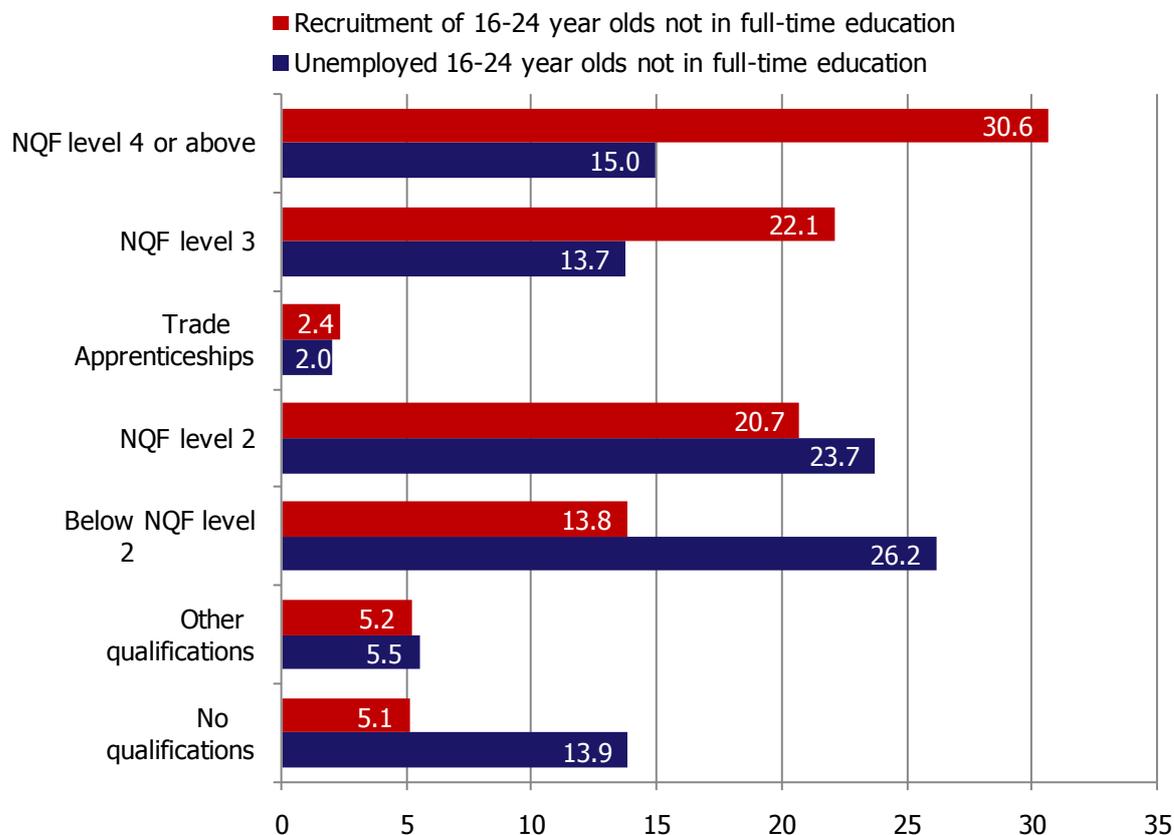
- 4.1** Low qualifications are a significant determinant of unemployment across age groups, and the 'mismatch' between the skills of unemployed people and what employers need is a key cause of persisting unemployment.¹¹ Ensuring that the education and skills system meets employers' needs has therefore moved to the forefront of the Government's strategy for growth.¹²
- 4.2** On most recent data, despite a decade of increasing investment in education and skills, one in five young adults do not have five good GCSEs ("Level 2" qualifications) while two in five do not have A-levels or equivalent ("Level 3").¹³
- 4.3** Looking at the skill levels of the young unemployed, who are not in full time education, 45% have low, no or "other" qualifications while just under 30% have qualifications at Level 3 or higher. By contrast, employers recruit young people who have those higher skills – with over half of young people who enter work having Level 3 or higher qualifications and less than a quarter having qualifications below Level 2.
- 4.4** Figure 4.1 below sets this out clearly – employer recruitment is predominantly among those with higher qualifications, and the unemployed are more likely to have low or no qualifications. So for example in 2010 there were 90,700 unemployed 16-24 year olds not in full-time education and with no qualifications, but only 14,200 jobs went to unqualified 16-24 year olds.

¹¹ See for example Bollens (2000) 'Unemployment and Skills from a Dynamic Perspective,' in Descy et al., *Training in Europe*. Cedefop Reference Series.

¹² BIS (2010) *Skills for Sustainable Growth: Strategy Document*. Department for Business, Innovation and Skills, London.

¹³ Source: Annual Population Survey, qualifications of 20-24 year olds, 2010 data

Figure 4.1 – qualification levels of 16-24s entering work or unemployed



Source: Labour Force Survey, ONS.

4.5 These trends may reflect employer demand for higher skills, or a general upskilling of the young population. Either way, the message is clear that good qualifications are essential to succeed in the labour market.

The role of the education and skills system

4.6 Of course, skills and qualifications are not the same – qualifications may show an employer that an individual has the capability to do a given job, but only if:

- The qualification actually leads to the skills that the employer needs, and

- The employer understands that to be the case (indeed research suggests that this “signalling” effect is an important driver of youth unemployment¹⁴).
- 4.7** Therefore raising skills is not just about raising participation and attainment in education. It is also about ensuring that skills are relevant, that individuals make the right choices, and that employers understand the system.
- 4.8** The Government has an ambitious programme of educational and skills reform, but three elements are most relevant to this discussion:
 - Increasing participation in education, in particular by Raising the Participation Age
 - Ensuring that young people have the right skills, in particular through reform of vocational learning; and
 - Ensuring that they have the right information – through careers advice and guidance.

Increasing participation in education and learning

- 4.9** The focus on learning participation for over-16s began in the late 1980s, when under-18s were moved out of eligibility for unemployment-related benefits and provided with a replacement guarantee of a training place (YTS or similar) which paid a training allowance. Up until this point, all young people from aged 16 were within the scope of programmes run by the Department of Employment (under various names) – including Youth Opportunities Programmes and the later Youth Training Scheme. The Connexions service was introduced in 2000 (see below), which coincided with a shift in emphasis from employment and training towards learning participation among 16-17 year olds – with large increases in the supply and funding of post-16 education.

¹⁴ Breen (2005) ‘Explaining Cross-national Variation in Youth Unemployment,’ *European Sociological Review* 21:2.

Connexions

Connexions was the advice and guidance service for young people in England aged 13 to 19, raising to age 25 if the young person suffered from learning difficulties or a disability. Connexions provided support and guidance, and brokered access to learning, employment and more specialist support. The service aimed to be universal and comprehensive for all young people. Evaluations of the service were on the whole positive, with Ofsted rating the quality of service as 'good' – however there was also evidence that Connexions did not always cater for those not at risk of dropping out of education or training.¹⁵ Although there is no longer ring-fenced funding for Connexions, some local authorities are continuing to fund Connexions services.

4.10 Through the Education and Skills Act in 2008, the previous government legislated to increase the minimum age at which young people can leave learning, thus requiring young people to remain in education or learning until age 17 by 2013 and age 18 by 2015 (known as "Raising the Participation Age"). The Coalition Government has committed to delivering this, but will not be taking enforcement powers (i.e. penalties for individuals for not staying in learning). More details on how this will be achieved will be set out in a "Youth Participation Strategy" before the end of this year. In the meantime it has described three "key areas" for action:¹⁶

- Raising attainment — through reforms to secondary and further education
- Early intervention — through the Early Intervention Grant to local authorities and the Pupil Premium which provides schools with additional funding for disadvantaged pupils; and
- Targeted support — with 16-19 Bursaries, reform of the system for those with learning difficulties or disabilities, and a new Innovation Fund focused on the most vulnerable.

¹⁵ Department of Education and Skills and National Audit Office (2004) *Connexions Service for all Young People*

¹⁶ (2011) *Participation by 16–19 year olds in education and training: Government Response to the Committee's Fourth Report, Eighth Special Report of Session 2010–12*

- 4.11** Accountability rests with Local Authorities for ensuring that there is a suitable offer for each young person leaving compulsory education and they are responsible for ensuring that this is taken up. However, they have wide discretion in how they do this – with no compulsion to use their Early Intervention Grant funding and discretion for local partners in how Bursary programmes are designed. Many Local Authorities have published their strategies for raising the participation age – often including their plans for targeting support at the most disadvantaged and where appropriate intervening directly.¹⁷
- 4.12** The focus of successive governments on increasing the supply of places, alongside some targeted support for those at risk of dropping out, has led to a significant fall in the proportion of 16-18 year olds not in education, employment or training. These trends are welcome, but there remain 11% of 16-17 year olds not in full-time education or employment at any one time, and it is uncertain that current plans will be enough to reach 100 per cent participation by 2015.

Ensuring that young people have the right skills

- 4.13** The UK compares relatively well with other countries on degree-level skills, but performance has consistently lagged behind competitors on intermediate skills and in particular vocational skills.¹⁸
- 4.14** As Professor Alison Wolf has set out in her review of vocational education,¹⁹ between a quarter and a third of 16-19 year olds are engaged in low-level vocational qualifications (most of which have little to no labour market value) and at least 350,000 16-19 year olds get little to no benefit from the post-16 education system.
- 4.15** These issues are not new – concerns that the vocational system prioritises classroom learning over workplace learning, and qualifications over skills, have existed since the Youth Training Scheme. The Wolf Review makes a number of recommendations, all of which have been accepted by the Government, including:
- That funding should be on a per student basis post-16 as well as pre-16;

¹⁷ See for example East Sussex County Council (2009) Raising the Participation Age (RPA) Towards Implementation in East Sussex 2009 – 2013 – Draft Strategy

¹⁸ OECD (2007) *Learning for Jobs*

¹⁹ Department for Education (2011) *Review of Vocational Education – The Wolf Report*

- That institutions should offer coherent programmes of study, rather than being funded for individual qualifications;
- That English and Mathematics should be a required component of study programmes for those without good GCSEs in these subjects;
- A new approach to regulation – by giving awarding bodies oversight rather than by accrediting; and
- That vocational qualifications for 16-19 year olds should not be required to be part of the Qualifications and Credit Framework.

4.16 These reforms are welcome and have the potential to transform the system for vocational training in England. However as well as improving the vocational skills system in particular, there is evidence of a need to improve employability skills of young people in general. The 2009 National Employer Skills Survey²⁰ found that young people often lacked an understanding of the workplace, self-management skills and an understanding of customers.

4.17 Two thirds of employers responding to the Confederation of British Industry's Education and Skills Survey this year reported that these sorts of employability skills should be a top priority for the education system. Critically, the same CBI survey also found that nearly half of employers surveyed already provided careers advice and more than half were willing to do more on providing careers advice to young people. Indeed the recent CBI report²¹ on youth unemployment makes a number of welcome recommendations to encourage businesses to go further in their involvement with schools – in particular by putting in place business champions in each area and by encouraging exchange schemes between businesses and schools.

Ensuring that there is the right information and advice

4.18 Careers guidance has undergone a number of changes over recent years. As noted, Connexions had some responsibility for careers advice and guidance but in general focused on the most disadvantaged and on participation in learning. Now, funding for careers advice has been incorporated into the Dedicated Schools Grant with ring-fences removed

²⁰ UKCES (2010) *National Employer Skills Survey for England 2009: Key findings report*

²¹ CBI (2011) *Action for Jobs – How to get the UK working*

and flexibility given to schools in how they provide information, advice and guidance. The Education Bill (currently in Parliament) sets out a statutory duty to provide “independent careers guidance in an impartial manner”, and there is a clear expectation that schools should use external providers or the National Careers Service.

The National Careers Service

The National Careers Service (NCS) will become fully operational by April 2012 and will provide careers advice and guidance to adults, predominantly through an online and telephone helpline service. The NCS is intended to link to services for young people, to ensure that they can also access information, advice and guidance even if it is not provided by the NCS themselves. Local authorities and schools, who have responsibility for careers advice and guidance for young people, therefore need to join up with the NCS to deliver this. Organisations in the NCS will be required to meet a quality standard.²²

- 4.19** However the lack of prescription on how careers guidance is provided, and the lack of success measures or incentives for success, has led to concerns that careers advice will not meet the needs of young people – with the Institute for Careers Guidance stating that funding for face-to-face guidance could “vanish.”²³
- 4.20** Clearly, if the framework for careers advice and guidance does not lead to young people making the right choices at the right times, then there are significant risks that increasing participation and reforming the skills system will not tackle the fundamental issue – that a mismatch between the skills of some young people and the skills that employers need is a significant driver of youth unemployment. High quality, accessible and timely careers advice and guidance is therefore critical to tackling youth unemployment.

Next steps

- 4.21** *Inclusion* supports the proposed vocational reforms and the policy intent to raise the participation age, both of which will support young people in

²² Institute of Careers Guidance press release, 3 November 2011 <http://www.icg-uk.org/article950.html>

²³ Watts (2011) *Careers England Policy Commentary 15: The Coalition's Emerging Policies on Careers Guidance*, Careers England Board of Directors

the transition from education to employment. We also support the CBI's recommendations on employer engagement. However it is less clear that the right systems are in place to support young people to make the right choices.

We therefore recommend action in three areas:

- **Testing outcome-based payments for careers advice from 2012, alongside clear standards that schools must meet** – for example based on pupil destinations data.
- **That Government accepts the CBI recommendations to encourage schools and businesses to work more closely together.**
- **Increasing transparency, by exploring the feasibility of publishing destinations data for schools and colleges showing the proportion of learners in work at age 24.** This could use matching data from HMRC records, and if sufficiently robust be controlled for individual and place effects (such as eligibility for Free School Meals while at school).

Financial support to stay in learning

4.22 Essential to raising participation in learning have been efforts to ensure that young people have the financial security to continue studying. Many young people will be able to support themselves through work or to rely on the support of their parents. However for those from the poorest backgrounds a lack of financial support can act as a major barrier to staying in education (particularly for young men).²⁴ The Education Maintenance Allowance (EMA) was therefore introduced in 2004 following a successful pilot. It paid £30 a week to 16-19 year old learners from households with an income of less than £30,810 per year, with payment conditional on attending classes (and bonuses to incentivise completion).

4.23 EMAs were ended from January 2011 on cost and value grounds, because of concerns that a large proportion of funding was reaching people who would have studied anyway: 67 per cent of learners reported in the

²⁴ Middleton, S et al (2005) *Evaluation of Education Maintenance Allowance Pilots: Young people aged 16 – 19 Years, Final Report of the Quantitative Evaluation*, Department for Education and Skills

2008/09 evaluation that they would have at least undertaken a course in the absence of EMAs.²⁵

4.24 Deadweight costs are common across subsidy programmes, including bursary schemes. But despite this, EMA was successful with particular groups of young people. It appeared to have greatest impact with young people engaged in Entry to Employment (E2E) courses and Programme Led Apprenticeship (PLA) learners, and it appeared to incentivise retention – with 64 per cent of E2E, PLA and FE short course learners stating that the flexible bonuses helped them to stay on their course.

4.25 An enhanced “Bursary Fund” is in place for 2011/12, with a financial value of £180 million – about one third of EMA spend. A relatively small group of very vulnerable young people will be eligible for a £1,200 payment (which is higher than the average under EMA) covering young people in care, care leavers, and certain disabled young people and young parents. In all other cases, Bursaries will be at the discretion of schools, colleges and training providers and can be paid in cash or “in kind” (e.g. equipment). Payments will be conditional on continued attendance.²⁶

Next steps

4.26 We believe that there is a clear case for an Allowance system for low-income young people who are in education or training, as we set out in chapter 7.

We therefore recommend that the Government does all that it can to strengthen Bursaries from next year, to reach those low-income learners who are most likely to drop out and to incentivise attainment in schools. Specifically, we recommend expanding the scope of the guaranteed minimum bursary to include more low income learners, and encouraging providers of Bursaries to pay part as a bonus for successful completion of terms and courses.

Supporting those over 18 and not in work or learning

4.27 Unemployed young people aged 18 or over can usually claim Jobseeker's Allowance and use Jobcentre Plus services. In the year to August 2011

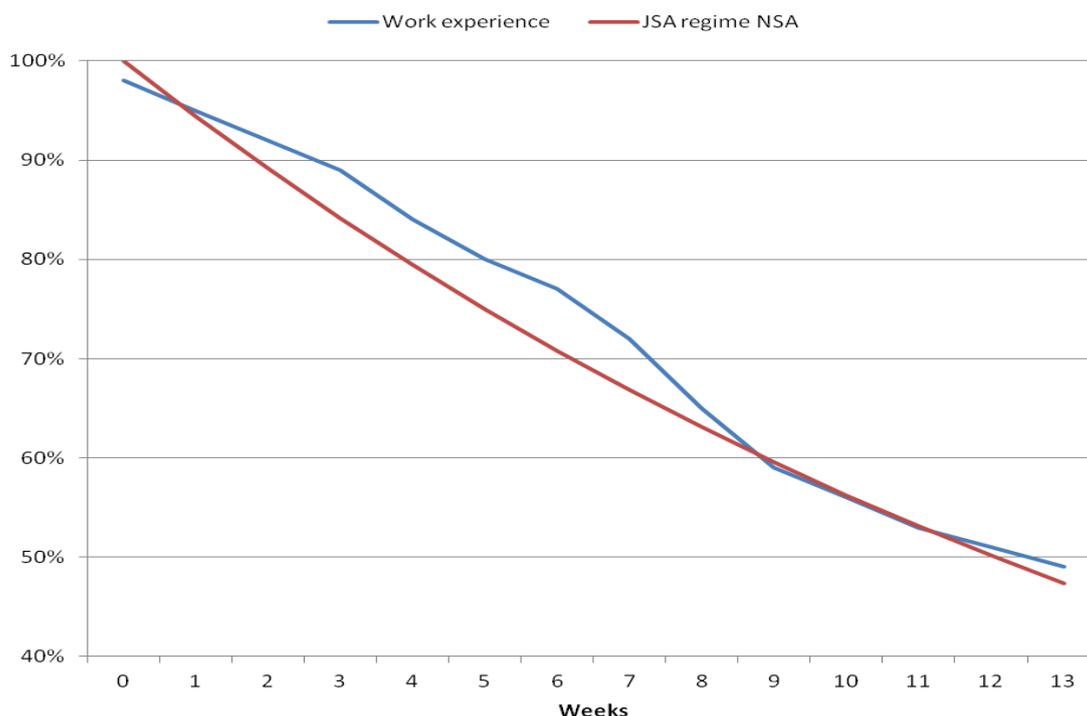
²⁵ Allan, T, Campbell, M. and Latimer, K. (2009) Evaluation of the 2008-09 EMA Policy Changes, Learning and Skills Council

²⁶YPLA (2011) 16-19 Bursary Fund Q&A For Young People and Parents

there were 1.5 million new JSA claims by 18-24 year olds – 39 per cent of the total number of JSA claimants. Most leave benefit very quickly, with an average time spent on JSA of around two months. Because of these high volumes and relatively short durations, there is usually limited additional support available to make the transition to work.

4.28 The main additional support is an unpaid “work experience” scheme where claimants are able to undertake up to eight weeks of work experience without losing their entitlement to benefit. The Government set an aspiration, at Budget 2011, to create 100,000 such places. DWP published on 9 November detailed information on “survival rates” on benefit for the first young people to undertake work experience (that is, the proportion who are still on benefit after a defined number of weeks).²⁷ This has been set out below (figure 4.2), alongside the “survival rates” for all young JSA claimants.

Figure 4.2: Survival rates on JSA for all JSA claimants and work experience participants



Source: Labour Force Survey and DWP statistics

4.29 This appears to show that the youth work experience scheme has had no additional impact on the speed at which young people leave benefit, and may have actually led to them spending longer on benefit than they

²⁷ DWP (2011) *Early Analysis of Work Experience participant outcomes*

would have done. However, these figures require some caution – the stated intent of the Department has been to target work experience at those with the biggest barriers to work, who would likely have had off-flow rates below the average for all claimants.

- 4.30** Almost all further support available through Jobcentre Plus is being funded through a new “Flexible Support Fund” which is devolved to Jobcentre Plus Districts for the purchase of local provision. There is very limited public data on the use of this Fund, but some estimates put the level of investment at around £150 million a year. A number of concerns have been raised about how it will be operated in practice.²⁸
- 4.31** JSA claimants aged 18-24 are also entitled to more support with skills development, with Skills Funding Agency rules allowing fee remission for accredited training. BIS has also set out, in its 2010 funding letter to the Skills Funding Agency, that supporting young people should be a key priority. Prioritising funding to young people may be a positive move – although as OECD evidence makes clear, work-based learning has better returns than classroom based provision.²⁹ This is consistent with UK evidence, that employers place a greater emphasis on soft skills than on formal qualifications when recruiting those who are out of work, particularly for young people.³⁰

Next steps

- 4.32** It is not clear that the Government’s work experience scheme is helping to reduce youth unemployment, and the relative local autonomy around how skills provision and the Flexible Support Fund is targeted means that there are risks that young unemployed people may not get the support that they need to move into work as quickly as possible. Notwithstanding this, given the high volumes of youth JSA claimants and the speed at which they leave unemployment, there are clearly spending risks associated with more targeted or intensive interventions early in the claim.
- 4.33** We would recommend that DWP and BIS keep under review how local funding is being spent, and how much is supporting employability support

²⁸ See for example Steven Kennedy and Daniel Harari (2011) *Jobcentre Plus Flexible Support Fund – House of Commons Standard Note 6079*

²⁹ OECD (2007) *Learning for Jobs*

³⁰ Newton et al. (2005) *What Employers Look for When Recruiting the Unemployed and Inactive: Skills, Characteristics and Qualifications*. Department for Work and Pensions.

for young people. Based on this review, there may be a case for stronger prescription around the level and form of provision available for young people in future years.

5 Increasing the recruitment of young people

5.1 Clearly, measures to improve skills and work readiness, set out in Chapter 4, are central to meeting employer need and so increasing the recruitment of young people. However, government can also take steps to make recruitment of young people relatively more attractive. In particular, in a flexible labour market employers can be reluctant to take on a young person who may be less productive or require more investment (particularly as that investment could then be taken elsewhere). For this reason, policies have also sought to reduce the costs of hiring young people or to subsidise the costs of their training, as set out below.

Subsidising training through apprenticeships

5.2 Apprenticeships combine jobs and training, and so are effectively a tool both to boost youth employment and to raise participation in learning.

5.3 The previous government expanded Apprenticeship funding throughout the downturn, and since taking office the Coalition has gone further still. The 2010 Spending Review announced an additional £250 million per year to fund 75,000 new adult Apprenticeships – bringing total Apprenticeship spending to £1.5 billion in 2011/12. At the 2011 Budget the Chancellor went further and announced a £180 million package to fund a further 50,000 Apprenticeships, 40,000 of which will be specifically targeted at unemployed young people.³¹

³¹ HM Treasury (2011), *The Plan for Growth*

What is an Apprenticeship?

Apprenticeships are paid jobs that incorporate on and off-the-job training, leading to nationally recognised qualifications. Apprentices are employees and are paid a wage (with a lower minimum wage, of £2.60 an hour).

An Apprenticeship may be advertised as a new position or offered to existing staff. The Apprenticeship training provider can be a college or a specialist learning provider. The fees that an employer pays the Apprenticeship provider vary, based on the Apprentice's age, and there can also be some variation between different providers. If an Apprentice is under the age of 19 when they start their Apprenticeship then the government covers the full training costs.

An Apprenticeship typically lasts for one year, although the length can vary. When an Apprentice completes their Apprenticeship they will have gained a nationally recognised qualification, as well as valuable employment experience.

Apprenticeship levels range from Level 2 to Level 5.

5.4 The most recent data, published in October, has reported that there were 440,000 Apprenticeship starts last year – 270,000 of which were aged under 25. Apprenticeship numbers have been growing strongly in recent years, although much of the growth has been in Apprenticeships aged over 25 (accounting for three quarters of the increase in the last year). Apprenticeship figures are broadly flat for 16-17 year olds, but increased by 16% in the last year for 18-24 year olds.³²

5.5 A recent survey of Apprentices (LSC 2009) found benefits to young people of undertaking Apprenticeships – high numbers stayed in employment following their Apprenticeship, individuals had high levels of satisfaction in their work, and participation was associated with increases in wages and further learning. The Wolf Review also highlights the importance of apprenticeships – with higher returns for the same qualifications within an Apprenticeship than outside it (even when, as often happens, people move to an occupation different from the one in which they originally trained).

³² Chris Rhodes (2011) *Apprenticeship Statistics – Commons Library Standard Note EP6113*

5.6 However there are two key concerns with Apprenticeships for young people:

- At present, very few employers offer them. The National Employer Skills Survey in 2009 found that only about 6% of employers offer 16 and 24 years olds an Apprenticeship, and just 11-13% planned to offer one in 2010. A particular reluctance to take on 16 and 17 year old Apprentices was also found by the Wolf Review, which highlighted how it is much easier to find Apprenticeship places for those over 18 than under 18. There is also evidence that employers still perceive the system as too complex – with burdensome monitoring and requirements and unclear accountabilities.³³
- Not all Apprenticeships will be additional recruitment (rather than subsidising training for existing employees). Perhaps one in eight Apprenticeship starts were from people who had previously claimed Jobseeker's Allowance.³⁴

5.7 To address the first of these issues, the Government is piloting a simpler "payment by results" system with twenty large employers – which removes much of the bureaucracy of providing Apprenticeships and instead pays on the basis of the learners reaching an agreed standard. On the second issue, the Government has announced a new Access to Apprenticeships scheme to support young people who are out of work to develop the entry-level skills required to start an Apprenticeship – however this will only support 10,000 young people.³⁵

5.8 One further way to boost apprenticeship employment would be through so-called Apprenticeship Training Associations (ATA). ATAs act as the employer themselves, and place the Apprentice with host organisations who in turn pay the ATA a fee. This model can be particularly attractive for small employers, who may not have the capacity to offer a full Apprenticeship. There are currently four ATAs funded by the National Apprenticeships Service. While there are risks with this approach that ATA participants may not be fully integrated into the workforce, this risk may be justified if the alternative is low take-up by employers and therefore fewer Apprentice opportunities for young people.

³³ Learning and Skills Improvement Service Employer Reference Group (2011), *Simplifying end-to-end apprenticeship processes for employers*

³⁴DWP Presentation to conference on youth unemployment, 3 October 2011

³⁵ Skills Funding Agency (2011) *Apprenticeship Funding Requirements 2011/12*

Next steps

- 5.9** Measures to improve the supply of apprenticeships by simplifying the rules and focusing on outcomes are welcome. However it is not clear that these will be sufficient to meet demand from young people, and to make an impact on unemployment in particular.

We therefore recommend:

- **Strengthening incentives for employers who offer Apprenticeships to the unemployed**
- **Reducing complexity for employers – for example by rolling out the “payment by results” pilots to more employers** and particularly to SMEs
- **Expanding the Apprenticeship Training Agency model, where apprentice providers can employ directly and place Apprentices with host employers.**

Reducing hiring costs

- 5.10** In recognition of the generally lower productivity of young people and the need to incentivise employers to take them on, the National Minimum Wage has lower rates for those aged under 21. In fact there are three lower rates:

- A “Youth Development Rate” for 18-21 year olds set at £4.98 an hour;
- A 16-17 year old rate set at £3.68 an hour; and
- An Apprenticeships Rate for Apprentices under 19, set at £2.60 an hour.

- 5.11** The Low Pay Commission advises the government on minimum wage rates. It concluded in its most recent report (April 2011) that there were some indications that “in difficult economic circumstances, the level of the minimum wage may have had an impact on the employment of young people” but that “these effects were mitigated to some extent” for those

aged under 21 who have separate rates. Those aged 21 or over have the same Minimum Wage as all adults (currently £6.08 an hour).³⁶

- 5.12** As a result of these concerns, the Commission recommended a smaller increase in the 16-17 and 18-21 rates – of just over 1% compared with 2.5% for over 21s.
- 5.13** Previous governments have also sought to reduce costs in a more targeted way through the use of wage subsidies for employers – the Adult Employment Subsidy in the late 1970s, the Young Workers Scheme in the 1980s, Workstart pilots in the early 1990s, a targeted NICs holiday in the late 1990s, the New Deal Employment Option from 1998 to 2011 and the “Six Month Offer” subsidy from 2009 to 2010.
- 5.14** All of these were intended specifically to incentivise the recruitment of longer-term unemployed people. The impacts of these programmes is considered in more detail in the following chapter. However it is worth noting here that subsidies have tended to have very low take-up. The National Insurance “holiday” for employers taking on a long-term unemployed person launched in 1995 and was expected to benefit 130,000 people a year, but by January 1996 there had been just 2,300 successful applications. It was closed down in April 1999.³⁷
- 5.15** More recently, DWP put in place a far simpler subsidy programme, the “Six Month Offer” where people who had been on JSA for more than six months were given a “voucher” for £1,000 that could be redeemed with any employer who took them on for a job likely to last more than six months (with £500 paid up front and £500 at six months).
- 5.16** Over the fifteen months of the subsidy being in place (April 2009 to June 2010), it was paid 46,000 times, but there were just 8,400 payments to people aged 18-24.³⁸ The impact on youth unemployment would have been even lower than this figure – as a proportion of these young people would have been employed without a subsidy. The Coalition Government announced the end of this scheme in May 2010.
- 5.17** Research by DWP suggests that take-up of subsidies may be low because of low awareness, but also that the value of previous subsidies may have

³⁶ (April 2011) *National Minimum Wage: Low Pay Commission Report 2011*

³⁷ (1998) *Employment and Training Programmes for the Unemployed*, House of Commons Library Research Paper 98/111

³⁸ Six Month Offer Official Statistics, October 2011

been too low to influence employer behaviour (either because the financial and hiring decisions are made separately, or because employers are more concerned to get the right person for the job).³⁹

5.18 The recent CBI report on youth unemployment⁴⁰ recommends a £1,500 subsidy, payable for taking on a young person who has been on benefit for more than six months or any 16 or 17 year old. They estimate that this will be taken up for 100,000 employees at a cost of £150 million a year. We would welcome this as a first step (although the estimates of impact seem implausibly high). As Chapter 5 sets out, we believe that there is a compelling case to go even further.

³⁹ Dawn Snape (1998) *Recruiting Long-Term Unemployed People*, DWP research report 76

⁴⁰ CBI (2011) *Action for Jobs – How to get the UK working*

6 Tackling long-term youth unemployment

- 6.1** There are now 260,000 young people who have been unemployed for more than twelve months. This is the highest figure since 1994 and it is continuing to rise.
- 6.2** As noted, prolonged periods of unemployment are particularly damaging for young people and can lead to permanent scars. Furthermore, the longer that someone is unemployed the less likely they are to exit unemployment and enter the labour market. There are three reasons for this – as time passes individuals are more likely to become demotivated, they lose skills and their unemployment sends a “signal” to employers that they are not employable.
- 6.3** This means that it is critically important to take steps to tackle long-term unemployment. As this chapter sets out, most labour market policies to address long-term unemployment are designed to address these three factors – by maintaining motivation, improving skills and compensating for unemployment signals.

The Government’s approach

- 6.4** The Government’s key programme to tackle longer-term youth unemployment is the Work Programme – where specialist providers in the public, private and voluntary or social sectors are funded to support long-term and disadvantaged claimants back to work. Most payments are only made after sustained employment (payment by results) and providers have almost total freedom to do what works.
- 6.5** Young people have earlier access to the Work Programme than older claimants – entering it after nine months on Jobseeker’s Allowance rather than twelve months. However because of this earlier entry, and the high movements of young people into work, the financial incentives for providers to help young people are lower than for other groups – at up to £2,200 for one year of sustained employment, compared with (for example) £2,500 for someone aged 25 or over.

- 6.6** This lower funding reflects a higher statistical likelihood that an average young person in the Work Programme will move into work than older or more disadvantaged claimants. However there are no average claimants – some will need more help and some less – and this leads to risks that providers may seek to prioritise support for those who need the least help (and are therefore more likely to generate income quickly). This so-called “creaming and parking” risk is being mitigated through a combination of high performance expectations and minimum service standards (which providers themselves have set out).
- 6.7** In addition, the continued weak performance of the economy means that assumptions on Work Programme performance may be too high – we estimate that, as a result of downward revisions to growth, performance targets may be over-stated by up to 8%. In order to correct for this, the Government would either have to reduce performance expectations – leading to more people staying on benefit for longer – or increase the level of funding in the programme – leading to higher costs to the Exchequer.
- 6.8** The Department has stated that outcome data for the Work Programme will not be published until late 2012, so the performance of the programme may not be clear before then.

Previous programmes

- 6.9** The Work Programme is the latest in a series of so-called “active labour market policies” to support long-term unemployed young people, going back to the New Deal for Young People launched in 1998. Under the old New Deal, every young person reaching six months on Jobseeker’s Allowance would enter a period of intensive support, leading to a guaranteed (and mandatory) ‘Option’ for all of those who had not left benefit within a further four months. The Options were either full-time training and education, employment with a wage subsidy, or a place on a programme doing voluntary or environmental work.

New Deal for Young People

NDYP was the largest labour market programme in Britain. By the end of January 2002, 753,600 young men and women had taken part or were taking part in NDYP.

Early evaluations showed positive results. Riley and Young (2000) estimated that NDYP led to a reduction in “long-term” (of more than six months' duration) youth unemployment of 45,000, stating that long-term unemployment would have been almost twice as high in March 2000 without NDYP.⁴¹ The same study also found an estimated cost per additional job of £7,000 per year.

Although NDYP showed early success and youth unemployment fell strongly to 2001, it began to rise again from the early 2000s. By 2007 youth unemployment was above the level inherited in 1997. Longer term analysis suggested that the programme was often failing to move people into sustained employment, with one in five employment outcomes lasting less than 13 weeks, and by 2007 a third of all participants were young people who had previously been through the programme.

- 6.10** The New Deal began to be replaced by the “Flexible New Deal” from October 2009. Young people would enter the FND after twelve months on Jobseeker’s Allowance, and providers had much more freedom to do what worked to get participants into sustained jobs – with payments partly based on employment outcomes. One of the only requirements on providers was that all participants must have engaged in eight weeks of full-time activity at some point during their maximum twelve months on the programme – this had two purposes:
- To guard against “parking”, as full-time activity is expensive, which creates a strong incentive to move people into work before this kicks in; and
 - To maintain attachment to the labour market for the most disadvantaged, for whom full time activity may be beneficial as an intermediate step to develop work habits and confidence.

⁴¹ Rebecca Riley and Gary Young (2000) *New Deal for Young People: Implications for Employment and the Public Finance*, NIESR

- 6.11** The Work Programme largely builds on the approach in FND, but also incorporates claimants on other benefits, extends the length of time that claimants are referred for (two years), changes the payment structure and removes the mandatory backstop of full-time activity.
- 6.12** In April 2009, the then Government announced further support for long-term unemployed young people as a result of the recession. This “Young Person’s Guarantee” began in January 2010 and guaranteed all young people reaching nine months on Jobseeker’s Allowance either a job, training or a community placement. The guaranteed jobs were mostly delivered through the Future Jobs Fund, which over eighteen months created 105,000 six-month jobs for young people (and some adults who lived in disadvantaged areas).⁴² The training and community placements were delivered in half the country through the still-existing New Deal for Young People, and in the other half through new contracted provision (97,000 places – with young people effectively being taken out of the Flexible New Deal in those areas).
- 6.13** The Coalition Government ended the Young Person’s Guarantee, the Future Jobs Fund and the Flexible New Deal from March 2011, with the black-box Work Programme taking their place. In the case of the Future Jobs Fund, Ministers were particularly concerned that it was more expensive than other elements of the Guarantee, “making it poorer value for money.”⁴³ DWP intends to publish an impact assessment in 2012.
- 6.14** *Inclusion* has produced an independent evaluation of the FJF on behalf of a number of Local Authorities. The findings of this are below.

⁴² (2011) *Young Person’s Guarantee Official Statistics*, DWP

⁴³ Chris Grayling, Hansard Written Answers, 10 June 2010

Future Jobs Fund

The *Inclusion* evaluation found that the Future Jobs Fund had a number of **benefits**. It:

- Provided people with a real job with a real wage
- Engaged employers, many of whom say they are now more likely to employ an unemployed young person
- Moved people off long-term benefits, many of whom had been claiming for long periods or had multiple barriers to employment
- Benefitted the voluntary sector, charities and social enterprises; and
- Raised people's career aspirations, and their levels of relevant training and qualifications.

However, there were a number of **weaknesses**. It:

- Was rushed during the bidding and implementation stages in the eyes of many of those involved
- Suffered from slow and changeable DWP guidance, and onerous or inconsistent DWP monitoring
- Had very limited ability to engage private sectors employers because jobs had to have an element of community benefit
- Did not place enough emphasis on progression into sustained work following FJF; and
- In some cases provided irrelevant or inconsistent training, and did not cover some training that was essential to certain jobs.

The evaluation estimated a net cost to government of £3,946 per participant, or just over **£9,000 per additional job**, when direct tax revenues and benefit savings are taken into account. This equates to 70 days fewer on benefits than if the programme hadn't existed, above and beyond the time spent in FJF jobs.

Both this figure and the estimated cost per job outcome are comparable to evaluations of New Deal for Young People (which ran during a period of much stronger economic performance).

What works in tackling long-term unemployment?

- 6.15** As noted, the key objectives with policies to tackle long-term unemployment are to maintain motivation, to improve skills and to address possible “signals” to employers. Programmes that are successful therefore enable longer-term unemployed people to compete effectively with others (job changers and the shorter term unemployed) for available jobs.
- 6.16** In practice, this means that even in successful programmes there is likely to be quite a lot of “**substitution**” – where the long-term unemployed person takes a job that someone not long-term unemployed would have taken (similarly, to a lesser extent, it can lead to “displacement” – where their employment causes a job to be lost elsewhere in the economy). Substitution is not itself a bad outcome, as the short-term unemployed person should be better equipped to find another job, but it does reduce the overall impact on unemployment and employment.
- 6.17** All programmes also have “**deadweight**”, which refers to participants who have successful outcomes but who would have had those anyway even without the programme. In less successful programmes these deadweight risks can be very high – 70% or more.
- 6.18** Programmes that require participants to undertake full-time activity while on benefit or in a created job can also lead to “**lock in**” risks, where participants could actually be worse off as a result of taking part in the programme – if they would otherwise have moved into work sooner (although in some cases, longer-term benefits may outweigh these short-term costs).
- 6.19** Balancing these different risks can be difficult, and there is extensive literature from the UK and overseas on the effectiveness of different programmes for the long-term unemployed.⁴⁴ But some key themes stand out:
- Measures to support people to look for and move into work tend to have the greatest impact and value for money⁴⁵

⁴⁴ See for example OECD (2010) *Off to a Good Start? Jobs for Youth*

⁴⁵ Hasluck and Green (2007) *What works for whom? A review of evidence and meta-analysis for the Department for Work and Pensions*, Research Report 407

- Full-time training for the unemployed has often had poor and even negative returns, at least in the short run⁴⁶
- However on-the-job training and work experience is considerably more effective than classroom training⁴⁷
- Recruitment subsidies were on the whole more effective than other options in the New Deal – with training and volunteering being less effective due to lock-in risks⁴⁸
- Subsidies can also have very high deadweight risks – as high as 85% under Workstart in the early 1990s⁴⁹ with estimates for the New Deal subsidy varying between 35%⁵⁰ and 70%⁵¹
- For the relatively small number that do benefit from employment subsidies, they can have long-run positive impacts.⁵²

The case for going further

6.20 Taking this together, it is clear that no one measure on its own will be sufficient to meet the scale of the challenge on long-term unemployment.

6.21 The Work Programme and the reforms to the skills funding system mean that professionals will be more able now than ever before to innovate to find the mix of provision that works within their available funding. However while it is far too early to judge the success of these reforms, the deteriorating labour market and static funding over the last year means that they will be highly challenged to make an impact. With long-

⁴⁶ US Department of Health and Human Services (2002) *Moving People from Welfare to Work: Lessons from the evaluation of national welfare to work strategies*; Crepon et al (2007) *Training the unemployed in France: How does it affect unemployment durations and recurrence?*

⁴⁷ Barbara Sianesi (2005) *Differential Effects Of Swedish Active Labour Market Programmes For Unemployed Adults During The 1990s*, Institute of Fiscal Studies

⁴⁸ Rebecca Riley and Gary Young (2000) *New Deal for Young People: Implications for Employment and the Public Finance*, NIESR

⁴⁹ Institute of Employment Research Bulletin (1999) "Young people, employment programmes and the new deal"

⁵⁰ Rebecca Riley and Gary Young (2000) *New Deal for Young People: Implications for Employment and the Public Finance*, NIESR

⁵¹ Hales, J., D. Collins, C. Hasluck and S. Woodland (2000). 'New Deals for Young People and for Long-Term Unemployed: Survey of Employers', Research and Development Report ESR58, Employment Service

⁵² James Richardson (1998) *Do Wage Subsidies Enhance Employability? Evidence from Australian Youth*

term youth unemployment rising faster than at any point in two decades, there is a clear case to go further.

6.22 There have been increasing calls for a general wage subsidy to incentivise employers to take on more long-term unemployed young people. While this would be a welcome step, as chapter 5 sets out the evidence from previous similar schemes has not been persuasive.

6.23 We would therefore recommend introducing a highly targeted wage subsidy that goes with the grain of the Work Programme but also seeks to create new jobs. This would draw on evidence from “transitional jobs” in the US, that are intended to boost employment while supporting those furthest from the labour market. There are specific risks – around lock-in and potentially displacing other work – but evaluations of US programmes have found substantial benefits for individuals in the long-term, and reduced unemployment in the short term:

- A programme in Washington State was found to increase employment probability by 33 percentage points compared with non-participants, and to increase wages⁵³
- Participants in Chicago were 38% more likely to be in work six months after the programme than non-participants, with 32% higher earnings⁵⁴
- In Philadelphia, a recent evaluation found both a higher likelihood of employment and increasing impacts for more disadvantaged participants.⁵⁵

6.24 There is relatively less evidence from the UK, although a comparable approach was tested in the StepUP pilots which ran from 2002 to 2004. The evaluation of StepUP found large positive impacts for those with low “objective employability” (education, qualifications, work history) but with off-setting negative impacts for those closer to work.⁵⁶

6.25 Working with the “Give Us A Chance Consortium” of housing providers, *Inclusion* has developed a workable model for subsidising new jobs

⁵³ Klawitter et al. (2001) *Effects of Work First Activities on Employment and Earnings*

⁵⁴ *Transitional Community Jobs, Chicago Illinois: A summary report on the program and its outcomes* (2002). Heartland Alliance

⁵⁵ Bloom et al. (2009) *Alternative Welfare-to-Work Strategies for the Hard-to-Employ: Testing Transitional Jobs and Pre-Employment Services in Philadelphia*. MDRC

⁵⁶ Paul Bivand, Bee Brooke, Sarah Jenkins and Dave Simmonds (2006) *Evaluation of StepUP Pilot: Final Report*, DWP Research Report 337

through the Work Programme, that could be co-financed by Work Programme providers and new investment.⁵⁷

- 6.26** Based on previous programmes, we estimate that Work Programme providers will on average earn £2,200 as a result of the subsequent employment of a young person completing a six month subsidised, transitional job. The wage and National Insurance costs for that job would be £3,000 to £3,800 – leaving a shortfall of around £1,500.
- 6.27** Allowing for additional costs, margins, training and jobsearch support, it is plausible to create new jobs at a unit cost of £2,000-3,000.

Projected costs and income of temporary jobs through the Work Programme (six month job)

	18-20 year old	Adult
Wage and NI costs	£3,069	£3,822
Supervision, materials, support	£1,000	£1,000
Projected income for Work Programme provider from long-term employment	- £2,239	- £2,239
Minus 20% premium	£448	£448
Funding requirement	£2,278	£3,031

- 6.28** Work Programme providers would have a clear incentive to refer the most disadvantaged, but the Government would still need to take steps to minimise the risks of “displacing” economic activity or funding jobs that would have been created anyway. One way that this could be done would be by channelling the additional funding through social enterprises and voluntary groups who are working with young people, and including a test that jobs must be new vacancies and of wider benefit to society.
- 6.29** Critically, the Government would also want to learn from the mistakes of the Future Jobs Fund – by ensuring that jobs are sustainable, that providers are free to engage the private sector, and by making the rules as simple as possible.

We therefore recommend a targeted subsidy to create up to 75,000 new jobs for long-term unemployed young people, at a cost of £150 million.

⁵⁷ See <http://wkconsulting.org.uk/special-projects/give-us-a-chance.html>

7 A longer-term vision

- 7.1** Youth unemployment has not been below 500,000 since the early 1970s, and since at least 1992 one in seven young people have been outside education or employment at any one time.
- 7.2** There is a strong argument that addressing this structural issue will require fundamental reform to the way that the system is organised to support young people. This system has not kept pace with changes to the needs of young people and the labour market since the 1970s, when the old Department for Employment model began to break down.
- 7.3** We recommend two key, long-term changes – the creation of a single Youth Employment and Skills service, and the introduction of a Universal Youth Credit.

A single Youth Employment and Skills service

- 7.4** This would combine all employment and skills provision for 16-24 year olds except for higher education funding, in a single agency. This means:
- Jobcentre Plus support for 18-24 year olds
 - The national benefit system for 18-24 year olds
 - Funding for 16-19 education
 - Funding for adult skills for those under 25
 - The large majority of Apprenticeship funding

Measuring Success

- 7.5** The Youth Employment and Skills service would be judged on three success measures – level of learning attainment by age 25, sustained employment by age 25, and participation in learning or employment at any one time up to age 25. Currently, the youth “problem” is defined almost solely in terms of this last measure (as a snapshot of the number of “NEETs”). This leads to short-term policy that prioritises participation in learning or work no matter what the intensity, quality or value.

- 7.6** A recent comparative study of the headline measures used in Britain, France and Germany illustrates this.⁵⁸ Both Germany and France focus on the highest level of learning attainment – in Germany the percentage who have completed three years of post-16 education or an apprenticeship (85%), and in France the proportion who complete and pass a two or three year *diplôme* (82%). (Although no one measure is perfect – focusing solely on attainment could equally lead to less focus on transitions post-education, or on those who do not complete level three qualifications.)
- 7.7** The Government's recent Social Mobility Strategy attempts to address the over-reliance on the NEET snapshot measure by giving equal billing to an "impact indicator" on attainment of level 3 qualifications. However the difference in ambition between Germany, France and England is telling – rather than 82-85%, just 60% of 20-24 year olds in England have Level 3 qualifications or above.⁵⁹
- 7.8** Building on the approach in the Social Mobility Strategy then, the Youth Employment and Skills service would have just three impact indicators (or objectives or success measures):
- **To increase to 90% the proportion of people reaching age 24 with Level 3 skills (with 100% achieving Level 2)**
 - **To reduce to 5% the proportion of young people not in learning or employment at any one time** (accepting that there is a "frictional" level of youth unemployment and also that some young people may be outside learning or employment because of incapacity, severe disability or specific caring responsibilities); and
 - **To increase to 80% the employment rate of young people not in full-time learning.**
- 7.9** In short, its mission would be to maximise educational attainment, employment and opportunity for all young people.

⁵⁸ Ekaterina Melnik, Martine Mobus, Noemi Olympio, Hilary Steedman, Remi Trehin-Lalanne and Eric Verdier *Les élèves sans qualification: La France et les pays de l'OCDE*

⁵⁹ Annual Population Survey, January-December 2010

Delivery and accountability

- 7.10** With these three over-arching objectives, the Youth Employment and Skills service could be fully localised, contracted out to the private, voluntary or community sectors or run as an executive agency of central government. But it would have a clear public accountability for achieving these three objectives and it would have the resources to back it up. The statutory authority (whether national or local) could then set its own supplementary objectives – for example to raise participation in Apprenticeships, maximise the flow through to higher education, increase progression in the labour market, and so on.
- 7.11** This approach is not as radical as it sounds. All of these functions currently exist, as do the objectives – but they are shared across at least five authorities spanning national and local government with often confused, overlapping and duplicated accountabilities.

A Youth Allowance

- 7.12** This report has noted the importance of benefit conditionality, both in the old EMA and in the current JSA regime. The creation of a Youth Employment and Skills service would also create a unique opportunity to redesign the system of financial support for young people.
- 7.13** One of the primary reasons for the persistence of NEET 16-18 year olds since the 1980s is that they were taken out of the “rights and responsibilities” regime when they lost entitlement to benefits. So learning from this, and experience with the EMA, we recommend introducing a Universal Youth Credit for those aged 16-24. This would incorporate the planned Universal Credit and extend it to 16-17 year olds, and also be paid to all learners in families with low incomes (with incentives to stay in education).
- 7.14** For those not in education, training or employment, payment would be conditional on entering appropriate learning or taking steps to enter employment. For those in learning, continued payment would be conditional on continued attendance (with bonuses for completion).

8 Conclusion

- 8.1** The evidence is now conclusive that young people have fared worse than older people in this recession, and that long-term youth unemployment is a greater risk than at any time since the 1980s.
- 8.2** The Government is comprehensively reforming the education, skills and employment systems, and many of these reforms – for example expanding apprenticeships for the unemployed, reforming vocational education, introducing the Work Programme – are welcome steps. But on their own they will not be enough.
- 8.3** In the long run, the system for supporting 16-24 year olds needs fundamental reform – to bring accountabilities into a single place, to integrate support to stay in learning and move into work, and to match this with clear responsibilities.
- 8.4** In the immediate term however, there is now a clear case for action in two areas: to tackle long-term youth unemployment, through targeted subsidies; and to improve the transition from learning to work for all young people at risk of unemployment.