

Economic Development and Transport Committee

Date:	22 September 2004
Time:	9.00 to 12.30
Venue:	National Assembly for Wales, Cardiff Bay
Title:	Review of Economic Inactivity – paper from WAG Strategy and Communications Group.

Purpose of paper

The attached paper is the final report of the examination of economic inactivity undertaken by the Welsh Assembly Government's Strategy and Communications Group. Members are invited to discuss it with officials and to consider it in connection with its own review of economic inactivity in Wales.

John Grimes
Clerk

RAISING ECONOMIC ACTIVITY RATES

TABLE OF CONTENTS

SUMMARY AND RECOMMENDATIONS.....	4
RAISING ECONOMIC ACTIVITY RATES: MAIN REPORT	16
Long term solutions: investing in a child’s early years	17
Action to help those currently inactive	21
Action to strengthen access to jobs	35
ANNEX 1: MEMBERSHIP OF STEERING GROUP.....	41
ANNEX 2: ANALYSIS OF ECONOMIC ACTIVITY.....	42
LIST OF ABBREVIATIONS.....	52

Summary and Recommendations

1. The Welsh Assembly Government set out its commitment to helping more people into jobs in *Wales: A Better Country*. The recent rise in employment rates and the decline in unemployment provide welcome evidence of real improvement in the Welsh labour market. Despite this recent success, we know that, compared to the UK as a whole, Wales has a long-standing problem of relatively low employment rates, and there remains some way to go to match the performance of the better-performing nations and regions of the UK. In Wales, relatively low employment rates are caused by the high proportion of the population who are 'economically inactive'; that is, people of working age who are not working and are not considered to be unemployed because they are not looking for work. The 'Welsh excess' of the economically inactive is disproportionately older, male and unskilled. The most likely reason for being economically inactive in this group is a self-reported health problem.

2. Over the last year, figures from the Labour Force Survey (LFS) suggest a sharp rise in economic activity rates in Wales. This increase is not yet sustained and is not reflected in other sources. The LFS reveals that most of the increase represents older women taking up work. There is no significant sign that economic activity rates for older men are rising (see Annex 2).

3. Raising economic activity rates is one of the four main priorities highlighted in '*Wales: A Better Country*'. It is central to progress on social justice and achieving the targets in '*A Winning Wales*'. It is informed by The Learning Country and the Skills and Employment Action Plan (SEAP) – soon to be followed on with SEAP2. This report has been prepared by Strategy and Communications Directorate, with advice from the Steering Group listed at Annex 1 to the main report and supported by the Department for Training and Education (DfTE) and the Department for Economic Development and Transport (DET).

4. Our analysis of the pattern and the complex nexus of factors behind economic inactivity in Wales is at Annex 2. This summary captures the main conclusions of the work and contains the key recommendations. The main body of the report contains a detailed assessment of each of the main action areas.

5. The Welsh Assembly Government and its partners already have in place a range of policies directed at the underlying causes, and the recent improvements in employment rates in Wales indicate that these are bearing fruit. This report reviews the scope for new action, based on evidence, under three headings:

- Long-term solutions
- Action to help those who are currently inactive
- Action to strengthen access to jobs

6. The fundamental origin of Wales' relatively low rate of economic activity lies in compositional changes in the demand for labour. There has been an overall rise in demand from employers for highly skilled labour and a corresponding fall in relative demand for less skilled labour. Within this overall trend, there has been a 'hollowing-out' of the jobs distribution, with the main losses taking place amongst jobs for the lower skilled that are nevertheless relatively well paid. This phenomenon

is essentially common to the UK and other developed economies but seems to have been exacerbated in Wales for a variety of reasons, including low skills, the particular mix of industries, peripherality, and the absence of a really large city. All of this combined to make the economy and work force slower to respond to sectoral changes and shifts in employer demand in the 1980s and 90s, leaving Wales with a legacy of lower rates of economic activity than other parts of the UK. The trends in demand for skilled and unskilled labour look set to continue. If anything, they are likely to intensify over time.

7. People from deprived backgrounds are at higher risk of developing health problems, and being out of work for a long time is a significant additional risk factor for ill-health. This has exacerbated the problems that people have faced in competing for work. The combined effect of these trends has been to make it progressively more difficult for those who lack skills, or whose skills have degraded, to compete successfully in the labour market, especially when they have health problems. The changes in the labour market mean that wages for unskilled work are, for some, unattractive compared to incapacity benefits and its associated passported benefits. One consequence has been a sustained increase in inactivity amongst those with lower skills, and this has been reflected in the long-run increase in the numbers of incapacity benefit claimants.

Priority action areas

8. The analysis we have undertaken points to two main priority action areas, one which is critical to delivering long term solutions, the other short term:

- Over the short to medium term, the most important action to raise economic activity rates is to encourage and assist those who wish to enter work, and to maximise their chances of remaining in employment after finding a job. A limited number of recommendations are made in respect of new policy proposals, principally for the piloting, by Jobcentre Plus Wales, of a coherent return to work package. This package has as at its centrepiece a £40 per week return-to-work credit for those who move from inactivity into employment;
- The long-term solution is to ensure that all young people leave school with the skills and confidence to succeed. Action at each stage in the learning process is important, and the development of more flexible and coherent education and training pathways for 14-19 year olds is particularly significant. But the review of evidence underlines that early interventions in a child's life are the most effective means of combating subsequent disadvantage and are likely to be the single most effective way of tackling the inactivity problem in the long term. The priority for action for the longer-term is therefore to overcome the cycle of disadvantage perpetuated in deprived families through a coherent programme of early interventions. Childcare is one, but only one, element within this. The Foundation Phase will also have an important role to play. The interventions need to be intensive and targeted if they are to work; see paragraphs 10 to 13 of the summary and 54 to 55 of the main report. If additional funding can be invested to reduce economic inactivity, this is where we think it would bring the biggest long-term benefit.

9. In addition, the report reviews existing interventions, and offers recommendations to fine-tune policies where appropriate.

Recommendations

Long-term solutions

Action area 1: A coherent programme of pre-school early intervention

10. There is strong evidence that early interventions in a child's life are the most effective means of combating subsequent disadvantage and therefore are likely to have a major impact on the inactivity problem in the long term. Investment in carefully targeted early interventions is one of the highest priorities for the future. **Helping children onto the right track from an early age is therefore likely to have the most promising impact on the inactivity problem in the long term.** Focusing these interventions on children from poorer backgrounds tends to reduce inequality between better-off and worse-off families. **There is substantial potential, and a strong case, for increasing funding for a coherent programme of pre-school interventions, including support for parenting skills, play schemes, support for basic skills in early years, action on health issues and quality childcare.**

11. **Investment should be strongly targeted on children from deprived backgrounds.** Since effective early interventions are costly, it is important that they are carefully targeted: while children from the most disadvantaged homes get large and lasting benefits from these interventions, the evidence suggests that less disadvantaged children get little or no benefit. Therefore, a poorly targeted programme is likely to be highly wasteful of resources. Economic studies have tended to find that living in a disadvantaged area has only a limited impact on the economic outcomes of disadvantaged adults¹³, but can have a greater impact on the outcomes of children. Tight geographical targeting could be an effective way of identifying those children who are in greatest need of assistance, and in helping to alleviate the harmful 'area effects' of being brought up in a relatively poor community. Poor communities may be concentrated in very small areas such as estates, although targeting at electoral wards may be more practical. **We would recommend that investment be targeted initially on the most deprived areas within Communities First.**

12. Getting the detail of implementation right is critical to success. **If additional funding is made available for Sure Start, the Welsh Assembly Government's Children and Families Division should devise a way of ensuring that money is spent in ways which apply the lessons already available from evaluation. It is important that a coherent set of indicators at a national level is developed and that there is independent evaluation of the impact of the interventions.**

13. Childcare needs to be seen as one potential element in this coherent and comprehensive programme of early interventions aimed at disadvantaged children, rather than in isolation. **The quality dimension of childcare should therefore be**

¹³ Studies have found that living in a disadvantaged area can have significant negative *social* effects for adults such as poor mental health or fear of crime.

central to the design of any initiatives to expand childcare provision. The provision of childcare is much weaker in deprived areas. **The case for targeting any extra spending initially on the most deprived estates within Communities First therefore applies as with other pre-school interventions.**

Action area 2: Primary schools and foundation phase

14. The policies being pursued to raise attainment through '*The Learning Country*' notably SEAP and Foundation Phase and '*Extending Entitlement*' are extremely important to reduce the risks of people being economically inactive in the future, and in helping them get better jobs. The evidence in favour of the effectiveness of early interventions remains central, however, and in this context, particular significance attaches to the development of the Foundation Phase Curriculum in Primary schools. The introduction of the Foundation Phase Curriculum has the potential to complement pre-school intervention powerfully. Together they should support the acquisition of good basic skills early on in a child's development. This rationale is equally applicable to all children whatever their economic and social background. Nevertheless, in the light of the evidence in paragraph 13, **there is a case for ensuring that the most deprived areas within Communities First feature in priorities and subsequent implementation of the Foundation Phase Curriculum, so that it proceeds hand in hand with coherent complementary pre-school interventions.** Policy and practice under a programme of pre-school interventions, and action in introducing the Foundation Phase, need to complement each other to best effect. The Welsh Assembly Government's **Training and Education, and Health and Social Care Departments will agree working arrangements to support this, reporting to the Cabinet Sub-Committee on Children and Young People.**

Action area 3: Support for 14-19 year olds

15. The evidence is strongly that action to help children from deprived backgrounds get on the right track becomes progressively more difficult as they get older. However, the action being taken by the Welsh Assembly Government's Department for Education and Training to raise attainment remains important at every stage of a child's development. The reforms being made to provision for 14-19 year olds are significant because they have the potential to improve the transition from school to work.

16. In Wales, '*Extending Entitlement*' sets out to ensure that all young people can access a network of services, support and opportunities to enable them to take part in education and training, be ready for employment and to participate effectively in their communities. Innovative plans have also been developed for 14-19 year olds through individually tailored '*Learning Pathways*' which will extend choice and flexibility, provide wider learning experiences for all young people to enable them to develop the essential skills they need for life and work and provide learning and personal support and careers advice.

17. The '*Learning Pathways*' package has been developed in partnership with practitioners based on evidence of what works for this age group. It will have a unique blend of enhanced and appropriate opportunities plus support mechanisms

which should help to prevent early disengagement from 14 onwards and should keep more young people in learning or work-based training past 16. 14-19 'Learning Pathways' when rolled out over the next few years from September 2004 will provide increased support for all young people but should have a disproportionately beneficial effect on the number of those who end up not in education, employment or training between 16 and 18 (see action area 5 below).

18. Youth and Pupil Participation Division are working with partners to develop evaluation mechanisms and performance indicators which will demonstrate the impact of Learning Pathways and Extending Entitlement. The first evaluation to provide a baseline for Extending Entitlement was completed in March 2004.

19. The reform of Learning Pathways for 14-19 year olds to encourage more young people to achieve their potential so that they are better equipped for the world of work and become better informed and more active citizens, remains a high priority. The six key elements should be closely monitored so that longer-term outcomes can be tracked. Youth and Pupil Participation Division will consider methods that evaluate the progress towards achieving Learning Pathways target outcomes developed in the Guidance (July 2004).

Action to help those who are currently inactive

Action area 4: Return to work package

20. Action by Jobcentre Plus is central to helping people who want to work but who are currently inactive economically, to do so. **We recommend support for the development of pilot approaches to test a return to work package.** We believe the model to be the most promising way of helping people into work. Support has already been offered for the Pathways to Work pilot in Bridgend and Rhondda Cynon Taf. In addition, joint working with Jobcentre Plus has led them to apply for similar action in 3 further pilot areas where Jobcentre Plus knows that there are both concentrations of working age people on inactive benefits and enough jobs to give a good chance of getting people into work. This additional action should:

- help some 4,000 economically inactive people more than would otherwise have been possible; and
- offer the chance to work closely with Jobcentre Plus and DWP to ensure that the lessons of work in Wales can be integrated into the planned roll-out of Pathways to Work from 2006.

21. The model being tested with active involvement of DfTE will include: work focused interviews and ongoing support and advice from a trained Personal Adviser; tailor-made support for individuals; and health advice and guidance. Trained nurses will be made available to support Personal Advisers and to offer advice to clients on health and health-related issues. This initiative has been designed with the support of the Office of the Chief Medical Officer. In addition participants would receive a return to work credit. The precise amount and duration of the in-work credit is being investigated but is likely to be in the region of £40 per week for at least a year. Clients will be able to use this cash payment flexibly to overcome whichever barriers

to work they may face. **This element is critical to the overall success of the package.** Agreement from DWP is needed for this to go ahead and the initial approaches have been received positively. Individuals would also receive ongoing advice once in a job to help them overcome any problems after starting work, and to progress. Participants engaging with the range of work-preparation interventions on offer from Jobcentre Plus will not lose their entitlement to claim and receive benefit or to return to benefits upon leaving the programmes. In addition, the value of the return to work credit will be disregarded in respect of calculations for both Housing, and Council Tax Benefit, and also for Income Tax and National Insurance.

22. A project steering group should be established to ensure that its implementation is co-ordinated effectively, with input from the Education and Training, Economic Development and Transport, Health and Social Care and strategy and Communication Departments. At the same time as providing extra help in Wales, The Department for Training and Education's Training, Skills and Careers Policy Division will continue to support the UK government in the planned roll-out of the Pathways to Work pilot, subject to early evaluation results.

Action area 5: Support for 16-18 year olds not in education employment or training.

23. Around 10% of 16-18 year olds are not in any form of employment, education or training (NEET), which accounts for about 12,000 young people in Wales¹⁴. About 3% are persistently NEET. As part of Extending Entitlement Young People's Partnerships (YPPs) in each local authority area are developing Keeping in Touch protocols which will secure a multi-agency approach in each area to ensure that young people, especially those between the ages of 16-18 who are not in education, employment or training are offered a 'helping hand' and are given appropriate support to access the wide range of services and opportunities available through the partners in the YPP. This might include outreach, health advice, substance misuse, counselling, support in finding accommodation, basic skills support, access to learning or training, or careers advice amongst other services. Keeping in touch protocols will be developed and implemented in all YPP areas by the end of March 2005 and should reduce the number of young people who are not persistently not in education, employment or training from 2005 onwards.

24. A number of other services have been or are currently available to NEETs, including the targeted outreach programme *Youth Access Initiative* to re-engage young people in learning. The all-age advice and guidance provided by Careers Wales remains a universal service to promote lifelong learning and the Careers Wales' *Youth Gateway*, a short intensive course aimed to get young people to learn new skills, initially targeted at 16 and 17 year olds, now also extends services to 14-16 year olds at risk of becoming NEET.

25. There is no single factor which works in helping NEETS to re-engage with education, training or a job. The six key elements of Learning Pathways enable each young person to have a Learning Pathways which suits their particular needs in terms of provision and support. The *Keeping in Touch* protocols being developed and implemented by YPPs by March 2005 will identify NEETS and help assist them in securing a Learning Pathway to meet their needs. Youth and Pupil Participation Division will include the monitoring

¹⁴ This has risen from about 11,000 16-18 year olds who are NEET in 1997/98. However because of the samples size, small changes may not be statistically significant.

of NEETS as a specific aspect of the evaluation of *Extending Entitlement* and the implementation of Learning Pathways 14-19.

Action area 6: Generic skills

26. Equipping jobseekers in generic skills (such as customer needs, communication, and team working, shown by Future Skills Wales to be valued by employers) should continue to be a key element available in work-based training for people who have been out of work for a long time. Priority should be given to those individuals who are not yet ready to move directly into a job, and success in such provision should be measured by return to and retention in work as well as the acquisition of qualifications and learning. DfTE, LLD will oversee action by ELWa **to ensure that appropriate performance measures are in place when such provision is contracted and should consider what financial incentives providers need for such training to be viable.**

Action area 7: Basic skills

27. More than 25% of the adult population of Wales have poor basic skills, and there is clear evidence of a link between a lack of basic skills and poor labour market outcomes. ELWa has been asked to work with the Basic Skills Agency to improve the effectiveness of Basic Skills provision and to produce targets for an improvement in achievement rates. **However, there remains a dearth of evidence about which interventions are effective in tackling basic skills problems. In particular, there is some evidence that people with the poorest skills are resistant to participating in conventional learning. Moreover, they often face multiple barriers to participation in the labour market. . The priority is to develop new innovative approaches which are cost-effective.**

Action area 8: Training for in-work progression

28. Generally across Wales, there is very limited public expenditure on raising the skills of the existing workforce. A pilot programme is being run between September 2002 and March 2005 to test and evaluate free learning up to a first Level 3 qualification for workers employed in the Llanelli area. The Wales Union Learning Fund provides Assembly Government funds for trades union projects that strengthen learning in the workplace. However, the bulk of ELWa's expenditure on work-based training (around £95m) goes on training young people, the long term unemployed and others disadvantaged in the labour market, with roughly 80% of that expenditure being spent on programmes targeting young people. It should be noted that 16 and 17 year olds not in full time education; training or employment have a guarantee of access to training. There is no such guarantee for adults and relatively little expenditure is available for upskilling the existing adult workforce. Training to help low-skilled workers to climb up from the bottom rungs of the employment ladder in principle appears to be important to reduce the risks that people slip out of employment, and to increase their earning power.

29. **However, the cost effectiveness of training of this sort is uncertain. The key is therefore to devise ways of supporting adult training which are well targeted and cost-effective.** ELWa has been asked to undertake a review of work-based learning by autumn 2004 and to recommend actions that will improve the impact of programmes to help people move from inactivity into jobs and to progress to higher skilled better paid jobs.

Action area 9: Childcare and social care as a barrier to work

30. Child and other care-related problems are unlikely to be a key factor in explaining Wales' relatively weak legacy of under-performing economic activity. This in itself does not mean that additional investment in forms of social care is unwarranted: such investment would be likely to support a continued increase in the economic activity rate of lone parents in particular. **We recommend that policy interventions need to be designed to extend rather than substitute for UK government provision and that continuing to raise quality should be central.** From the perspective of raising economic activity rates, childcare assistance is best focused on parents who are returning to work. A Childcare Working Group has been established under the chairmanship of Dr Brian Gibbons. The terms of reference of the group are to "*provide advice to build on and implement the Childcare Action Plan for Wales, to promote the general provision of childcare for the benefit of children, parents and communities.*" This Group will advise on developing childcare policy in the future.

Action area 10: Transport as a barrier to work

31. The analysis indicates that improvements to public transport could be expected to make only a modest contribution to reducing inactivity. On current trends, unless steps are taken to actively discourage car use, the car will remain by far the most important mode of transport to work, even in the event of a substantial improvement in rail services, for instance in those parts of the Valleys that are currently poorly served. Despite these reservations, much is already planned which will meet more effectively the needs of the inactive without additional budget implications. **We recommend that the Welsh Assembly Government's Economic Development and Transport Department should continue to develop links with local authorities and transport operators to ensure that the needs of jobseekers are being addressed, through for example the provision of adequate public transport services on key commuting corridors.**

Action area 11: Poor health as a barrier to work

32. Delivery of health advice will be piloted through the return to work package. In addition, we have worked closely with the Better Health Task and Finish Group to come up with proposals aimed at improving the health of those people with a work-limiting illness as well as helping those people who are at risk of falling out of employment due to health related problems. These proposals build on the crosscutting approach to health and economic development set out in '*Well Being in*

Wales' and complement the broader proposals for health improvement of the Better Health Task and Finish Group. They are:

- **Research into GP practice** to provide a better understanding of the ways in which GPs and their teams can help people back to work as well as in managing the flow of people onto incapacity benefits.
- **Better information for GPs** on jobs, unpaid activity such as volunteering, or education and training.
- **Outreach in GP surgeries.** Discussion between GP representatives and the Wales New Deal Advisory Group identified the scope for pilot projects that make work or training-related information available to patients in GPs' surgeries. This might include more specific information from Jobcentre Plus on returning to work and on the types of vacancies available in the area.

These proposals should be piloted.

Action area 12: Communities First

33. About one-third of low-income families in Wales live within Communities First areas. The major direct causes of poverty tend to relate to the characteristics of individuals rather than areas, however, in the case of children, there is evidence that neighbourhoods are important in the *acquisition* of characteristics. **There is therefore a strong argument for tight geographical targeting of spending under action areas 1 and the implementation stage for action area 2 to help children in the most deprived Communities First areas, to help to alleviate the harmful effects of being brought up in a relatively poor community.**

34. Jobcentre Plus has already developed strong links with Communities First partnerships. The Jobcentre Plus will need to build upon these links in order to help target the proposed return to work package amongst inactive individuals who have lost contact with the labour market.

Action area 13: Ethnic minorities

35. In broad terms ethnic minorities account for under 3% of the total inactive population in Wales, in absolute numbers around 10,000 people. Although average economic activity rates for men from an ethnic minority background in Wales are similar to those for white men, there are large variations between groups. For example, men of African or Caribbean origin have lower activity rates of 57% and 67% respectively compared to 82% for white men and 91% for Chinese men.

36. There are similar wide variations in activity rates amongst women from ethnic minorities. Indian and Chinese women exhibit higher economic activity rates than white women, while Pakistani and Bangladeshi women have extremely low activity rates (34% and 22% respectively). Some groups, such as people of Bangladeshi origin show extreme variations between the genders (83% of men in this group are in employment compared to only 22% of women).⁹

⁹ All data quoted from Census 2001, ONS Crown copyright

37. We recommend that Jobcentre Plus considers whether their current provision is sufficient to ensure that the particular needs of ethnic minorities and refugees and others who have been granted permission to work by the Home Office, are treated sensitively and appropriately. The Welsh Assembly Government recognises that this is an area which requires further research and development.

Action to strengthen access to jobs

Action area 14: The Wales Spatial Plan

38. The Spatial Plan offers the best opportunity for the Welsh Assembly Government to consider the scope for influencing the availability of jobs geographically. The WDA is working with the Welsh Assembly Government on the development of the Spatial Plan and will take account of the need to combat economic inactivity in its economic development activities.

Action area 15: Improving linkages between employers and the inactive

39. The WDA have agreed that their company account managers will draw employers' attention to the help that Jobcentre Plus can offer them in recruiting staff from economic inactivity. In addition, WDA should be able to provide 'early warning' of the skills needs of new and expanding clients, thereby helping Jobcentre Plus in their targeting of those currently inactive and ELWa in the planning of learning support. **Jobcentre Plus will continue their work in this area and the WDA, ELWa, Careers Wales, public sector employers, as well as other partners, give a high priority to continuing to develop links with Jobcentre Plus.**

Action area 16: Regional Selective Assistance (RSA)

40. **As part of the refocusing of RSA, the programme will include** pilot projects offering incentives to employers for recruiting long term unemployed and the long term inactive for new investment projects **(subject to the confirmation of sufficient enabling legislative provision).**

Action area 17: Housing maintenance and improvement

41. = Investment in housing improvement presents a potential opportunity to raise economic activity levels, if locally unemployed or inactive people can be trained to do much of the work. The Welsh Assembly Government's Departments for Social Justice and Training and Education will continue to work with ELWa, Jobcentre Plus and other key partners to seek to realise this opportunity, using Bridgend as a pilot. ELWa have now agreed to reflect this in their funding priorities for 2004/05

Action area 18: Role of public procurement

42. The public sector has an important role to play in ensuring, wherever possible, that its considerable 'purchasing power' is used to the greatest effect in helping to meet its objectives. However, initiatives in public procurement need to take careful consideration of local labour market conditions and the need to target the economically inactive, thus avoiding displacement (attracting an employee from another firm, creating no net gain). There is considerable potential in requiring public sector contracts to include a training and recruitment component targeted at local unemployed and inactive people, and the evaluation of Construction pilots in this area will help us to assess the benefit of this approach.

Action area 19: Intermediate Labour Markets (ILMs) and Social Enterprises

43. Intermediate Labour Markets (ILMs) are a form of demand intervention that provide a transition from non-employment back into work, usually by providing a period of supported work and training. The ILM is therefore a temporary support which enables (some) participants to move back into unsubsidised work. ILMs have become increasingly popular in recent years as a way of reaching individuals who are furthest removed from the labour market.

44. Studies¹¹ have concluded that there is little robust evaluation evidence on the effectiveness of ILM programmes. Their potential weaknesses are that (i) they may substitute or displace employment from the open labour market, and (ii) they run the risk of providing costly support to those who would have found work without assistance.

45. These problems can be limited if ILMs and Social Enterprises target their recruitment carefully on the hardest to help in the labour market¹², i.e. on those people who have been long-term unemployed or long-term economically inactive, and who will be unable to obtain work more rapidly through the type of assistance available through the model on offer through Pathways to Work. Expansion of such programmes beyond these core groups would be both costly in comparison to other schemes and subject to high levels of substitution, displacement and deadweight. Therefore it is important to be realistic about the scale of potential usage and to target ILMs carefully.

46. WEFO should ensure that:

- The recruitment policies of ILM projects are carefully designed in consultation with the Department for Training and Education so that they target those genuinely in need of the kind of support that they offer; and

¹¹ OECD, 1996, Enhancing the effectiveness of active labour market policies: evidence from programme evaluations in OECD countries, Paris; OECD, 2001a, Labour market policies and the public employment service, Prague conference, Paris; OECD 2001b, Labour market policies that work, Paris; OECD, 2001c, What works among active labour market policies: evidence from OECD countries' experience, Paris.

¹² Intermediate Labour Markets in Britain and an International Review of Transitional Employment Programmes; Professor Dan Finn, University of Portsmouth; Dave Simmonds, Centre for Economic & Social Inclusion November 2003

- ILM projects should be effectively and consistently evaluated to identify their effectiveness in helping people who are economically inactive return to work.

47. Social enterprises are another form of demand side intervention with distinct characteristics; they have a social, community or ethical purpose; they operate using a commercial business model; and have a legal form appropriate to a not-for-profit status and social ownership. Because of their local base and networks, Social Enterprises are well placed to reach people who have lost contact with the labour market.

48. Social Enterprises may be subject to similarly high levels of substitution, displacement and deadweight but have the advantage of having explicit social aims as well some potential to become self-sustaining. In its **Social Enterprise Action Plan** the WDA seeks to set the strategic direction for the development of the sector and the individuals within it.

49. In current labour market conditions, Social Enterprises and ILMs have a limited role to play, in offering bespoke 'transitional' opportunities for the very hardest to help for whom early entry into work is not a practical prospect.

Action area 20: Self employment

50. Self-employment may be a route into activity for some, but there is evidence that successful self-employment depends on the characteristics of the individual (and to some degree the area). There is also evaluation evidence that a period of self-employment may not improve subsequent employment outcomes for younger people. For these reasons, policies are more likely to be effective if they aim to remove artificial impediments to entrepreneurship, rather than aiming to achieve particular outcomes irrespective of the characteristics of the individuals or groups concerned. The fact that certain groups are under-represented in self-employment may reflect the characteristics of the groups; self-employment may not be a viable option for many inactive individuals.

51. Policies to promote entrepreneurship should take full account of the evidence relating to the likelihood of success, which varies widely, and should focus on removing barriers to self-employment.

Raising Economic Activity Rates: Main Report

Introduction

52. Raising economic activity rates is central to progress on social justice and achieving the targets in a “Winning Wales”. It is one of the four main priorities highlighted in “Wales: A Better Country”. It is informed by The Learning Country and the Skills and Employment Action Plan (SEAP) – soon to be followed by SEAP2. This report has been prepared by the Welsh Assembly Government, with advice from the Steering Group listed at Annex 1.

53. Our analysis of the pattern and the complex nexus of factors behind economic inactivity in Wales is at Annex 2. Over the last year, figures from the Labour Force Survey (LFS) suggest a sharp rise in economic activity rates in Wales. The LFS reveals that most of the increase represents older women taking up work. There is no significant sign that economic activity rates for older men are rising.

54. The report itself sets out the scope for further action to raise economic activity rates under three headings:

- Long-term solutions
- Action to help those who are currently inactive
- Action to strengthen the availability of jobs

55. The growth of inactivity over recent decades has been strongly concentrated among people who have low levels of educational and training achievement and other characteristics of disadvantage. A range of different types of intervention may help to prevent this inactivity, but the evidence for the effectiveness of early interventions in a child’s life in raising attainment and combating subsequent disadvantage is much stronger than for other types of intervention progressively later in life. Taking a strategic overview, **helping children onto the right track from an early age is likely to have the most promising impact on the inactivity problem in the long term.**

Long-term solutions

Action Area 1: A coherent and comprehensive programme of pre-school intervention

56. **A large body of evidence shows that pre-school early interventions bring a persistent pattern of long term benefits.** Several US studies have found that it is possible to dramatically improve the life chances of disadvantaged children through targeted, well-funded and sustained early interventions. Benefits of early interventions come in the form of improved cognitive skills (though the gains are relatively small and not well sustained over time), and improved behaviour (these gains are large and last well into adulthood). Specifically, interventions with disadvantaged pre-school children have been found to impact favourably on achievement tests, academic grades, high school graduation rates (the evidence is mainly US-based), participation in higher education, and earnings, as well as reducing crime rates and welfare use. The rationale behind the effectiveness of early interventions is that learning requires a basic set of non-cognitive skills (paying attention, listening, being patient, not being disruptive in class). The greatest benefit of early interventions is in providing these skills to pre-school children and improving their readiness to learn. Without these skills, the child will struggle to learn throughout his/her life and is likely to suffer both economic and social disadvantage. Plausible estimates of costs and benefits show these programmes to have significant positive net benefits to society. The evidence suggests that in order to be effective these interventions need to be generously funded, well-targeted at children from the most deprived families, and sustained over a reasonably long time period.

57. These interventions tend to be targeted at children under five and include high quality pre-school provision (with low staff: child ratios, well-trained, committed staff, an educationally appropriate provision for the 3-5 year olds), home visits (which might include health, support for child development, parenting skills), action to support basic skills, and parent involvement in school/pre-school.

58. In England, the Sure Start programme is the primary means of delivering early interventions to disadvantaged children. In Wales, Sure Start has been incorporated in the wider *Cymorth* initiative, which is designed to provide assistance to young people from birth to 25 in disadvantaged areas. It covers the following themes: family support; health improvement; play, leisure and enrichment; empowerment, participation and active citizenship; training, mentoring and information; and building childcare provision. Other Assembly provision complements this work, such as the *Learning and Play* programme, and *Books for Babies*, both designed to develop basic skills. Each Unitary Authority has formed a 'Children and Young People's Framework Partnership' to deal with planning all services for the age group, including *Cymorth*. Each partnership, working with a range of funding, will develop an integrated children's centre to act as the focus for services in that area.

59. The following conclusions stand out:

- **There is substantial potential, and a strong case, for increasing funding for a coherent programme of pre-school interventions.** Analysis of local *Cymorth* plans shows that about £14m of the total allocation of £42m will be spent on Sure Start interventions with the 3-4 age group in 2004-5. Divided between 22 local authorities, this means that there is great potential to invest more in this type of

early intervention. The commitment is to bring one Children's Centre on stream in each local authority area in 2004-5, but this is not sufficient to deliver an appropriate level of support. There would be a reasonable case for such a centre or similar provision in each small local community where there is a high concentration of deprivation.

- **Investment should be strongly targeted on children from deprived backgrounds.** Since effective early interventions are costly, it is important that they are carefully targeted: while children from the most disadvantaged homes get large and lasting benefits from these interventions, the evidence suggests that less disadvantaged children get little or no benefit. Therefore, a poorly targeted programme is likely to be highly wasteful of resources. Economic studies have tended to find that living in a disadvantaged area has only a limited impact on the life chances of disadvantaged adults, but can have a greater impact on the life chances of children. Tight geographical targeting could be an effective way of identifying those children who are in greatest need of assistance, and in helping to alleviate the harmful 'area effects' of being brought up in a relatively poor community. Poor communities may be concentrated in very small areas such as estates, although targeting at electoral wards may be more practical. **Investment should be targeted initially on the most deprived areas within Communities First.**
- **Getting the detail of implementation right is critical to success.** This underlines the importance of applying lessons from effective evaluation. The current delivery mechanism of *Cymorth* gives substantial flexibility at local authority level, and there is a strong commitment, at project level, to monitoring and evaluation. However, not all local authorities are currently applying the lessons from existing evaluation. **If additional funding is made available for Sure Start, Children and Families Division should devise a way of ensuring that money is spent in ways which do apply the lessons already available from evaluation.**
- There is also scope to develop the monitoring and evaluation framework for the future, and a working group has been established, led by Children and Families Division, which offers the opportunity to take this forward. **It is important that work on indicators at a national level is developed and that there is independent evaluation of the impact of the interventions.** For the longer term, an evaluative focus should be retained on early interventions in Wales to ensure it is providing effective help to disadvantaged children and families. It is important to benchmark effectiveness with that of schemes in other countries, particularly England.

60. Childcare needs to be seen as one potential element in this coherent and comprehensive programme of early interventions aimed at disadvantaged children, rather than in isolation. There is an ongoing academic debate about the impact of maternal working on a child's life chances. A number of US studies have concluded that maternal employment in the first year of life is associated with poorer outcomes later in childhood and, in particular, poorer cognitive outcomes. The relevance of these studies is disputed, particularly in the UK context where mothers' use of maternity rights legislation means that return occurs later than in the United States, and where far more women return part-time. A recent NAO report concluded that good quality childcare has a positive impact on child development and poor quality can have a negative impact. The NAO identified the important factors as adults who interact in a responsive and affectionate way; well-trained, committed

staff; safe, clean and accessible facilities; a child:staff ratio that allows appropriate interactions; supervision that maintains consistency; staff development for continuity, stability and quality; a developmentally appropriate curriculum with educational content. A major longitudinal study in the UK that forms part of the Sure Start programme has found a significant relationship between the quality of pre-school education for 3-5 year olds and improved outcomes for children. Focusing these interventions on children from poorer backgrounds tends to reduce inequality between better-off and worse-off families. **The quality dimension of childcare should therefore be central to the design of any initiatives to expand childcare provision**, in particular, whether standards could be further improved in relation to children's cognitive and social outcomes. The development of an early years' curriculum supports this.

61. The provision of formal childcare is weak in deprived areas. The case for targeting any extra spending initially on the most deprived estates within Communities First therefore applies as with other pre-school interventions.

Action area 2: Primary schools and foundation phase

62. The policies being pursued to raise educational attainment through '*A Learning Country*' and '*Extending Entitlement*', notably SEAP and Foundation Phase, are extremely important to reduce the risks of people being economically inactive in the future, and in helping them get better jobs. The evidence in favour of the effectiveness of early interventions remains primary, however, and in this context, particular significance attaches to the development of the Foundation Phase. **The introduction of the Foundation Phase Curriculum has the potential to complement pre-school intervention powerfully.** Substantial research evidence suggests that children do not begin to benefit from extensive formal teaching until about the age of 6 or 7 in line with their social and cognitive development. An earlier introduction can result in some children underachieving and attaining lower standards. To combat this, a statutory Foundation Phase will be introduced with a curriculum extending from 3 to 7 years based on the principles and best practice of early years learning and current good practice in Key Stage 1. The Foundation Phase will be piloted and evaluated in a range of schools from September 2004 -- a number of these will be in deprived and Communities First areas. Full implementation is planned for September 2008. A long-term study of the educational, social and cultural impact of the changes will be carried out as part of the overall evaluation framework and it is anticipated that this will help contribute to the research evidence that exists about the way young children develop and learn. The evidence suggests that a high adult to pupil ratio has the most beneficial effect for the youngest children and for those from the most deprived socio-economic backgrounds and is an area where additional funding may prove to be cost-effective. The appropriate ratio of adults to children between 3 and 7 years of age, in all Foundation Phase settings will be considered as part of the pilot work for the Foundation Phase. **This rationale is equally applicable to all children whatever their economic and social background. Nevertheless, it will be important to ensure that the most deprived areas within Communities First feature in pilots and subsequent implementation of the Foundation Phase Curriculum, so that it proceeds hand in hand with coherent complementary pre-school interventions.**

63. Policy and practice under a programme of pre-school interventions, and action in introducing the Foundation Phase, need to complement each other to

best effect. Action under the Basic Skills Strategy which is aimed at helping people in their early years also needs to be part of a coherent pattern of local provision in deprived areas. The Welsh Assembly Government's Training and Education, and Health and Social Care Departments will agree working arrangements to support this, reporting to the Cabinet Sub-Committee on Children and Young People. Developments in the longer term will need to take account of the findings of the current evaluation of the Basic Skills strategy.

Action area 3: Support for 14-19 year olds

64. The evidence is strongly that action to help children from deprived backgrounds get on the right track becomes progressively more difficult as they get older. American evidence of programs aimed at increasing the skills and earnings of disadvantaged youth suggest that sustained interventions targeted at adolescents still enrolled in school can positively affect learning and subsequent employment and earnings. However, interventions for people who dropout are much less successful. It is important to remember, however, that the interventions conducted by such programs only alleviate and do not reverse early damage caused by bad family environments.

65. However, the action being taken by the Welsh Assembly Government's Department for Education and Training to raise attainment remains important at every stage of a child's development. The reforms being made to provision for 14-19 year olds are significant because they have the potential to improve the transition from school to work.

66. In Wales, 'Extending Entitlement' sets out to ensure that all young people can access a network of services, support and opportunities to enable them to take part in education and training, be ready for employment and to participate effectively in their communities. Innovative plans have also been developed for 14-19 year olds through individually tailored 'Learning Pathways' which will extend choice and flexibility, provide wider learning experiences for all young people to enable them to develop the essential skills they need for life and work and provide learning and personal support and careers advice according to need.

67. The 'Learning Pathways' package has been developed in partnership with practitioners based on emerging evidence of what works for this age group. It will have a unique blend of enhanced and appropriate opportunities plus support mechanisms which should help to prevent early disengagement from 14 onwards and should keep more young people in learning or work-based training past 16. The development of the programme has been tied in closely with the results of Future Skills Wales and should help to make sure that the future work force has the skills and qualifications it needs for employment in the 21st century. 14-19 Networks have been established involving all the relevant sectors in each LEA area and work is on-going on development plans for 2004-5. 14-19 'Learning Pathways' when rolled out over the next few years from September 2004 will provide increased support for all young people but should have a disproportionately beneficial effect on the numbers of 16-18 year olds who end up not in education, employment or training (NEET).. Around 10% of 16-18 year olds are not in any form of employment, education or

training (NEET), which accounts for about 12,000 young people in Wales¹⁵. About 3% of this figure are persistently NEET (see action area 5 below). Reviews undertaken by ACCAC and Professor Richard Daugherty during 2003/04 highlighted the need for a move away from a knowledge/content based curriculum and assessment regime to one which is more skills-focused. Such a change of emphasis, which cannot be delivered overnight, would support the learner in developing skills essential for life, for work and for further learning.

68. Youth and Pupil Participation Division are working with partners to develop evaluation mechanisms and performance indicators which will demonstrate the impact of Learning Pathways and Extending Entitlement. The first evaluation to provide a baseline for Extending Entitlement was completed in March 2004.

69. 14-19 'Learning Pathways' will provide increased support for all young people but should have a disproportionately beneficial effect on potential NEETs (see action area 5 below) at an early age and reinvigorate their interest in learning through personal support and appropriate formal and informal programmes. This is an ambitious agenda and careful monitoring and evaluation will be vital.

70. Educational Maintenance Allowances have been piloted in England. These are means tested allowances paid to 16-19 year olds continuing in full time education (contingent on attendance). The pilots have shown an increase in participation, and an increase in retention of students (particularly those who receive the maximum £30 per week). The roll-out of EMAs is expected to include Wales from September 2004 (for 16 year olds), extending to 18-19 year olds by 2006. These complement the Assembly Learning Grants which are available for 18+ year olds.

71. The reform of Learning Pathways for 14-19 year olds to encourage more young people to achieve their potential so that they are better equipped for the world of work and become better informed and more active citizens, remains a high priority. The six key elements should be closely monitored so that longer-term outcomes can be tracked. Youth and Pupil Participation Division will consider methods that evaluate the progress towards achieving Learning Pathways target outcomes developed in the Guidance (July 2004).

Action to help those currently inactive

72. In the light of the analysis of the factors behind economic inactivity at Annex 2 this section focuses on action to help those currently inactive, or at risk of inactivity, find and stay in work.

Action area 4: Return to work package

73. The most important thing that can be done to help people who are currently economically inactive (the current 'stock' of inactive benefit claimants) is to encourage and assist those who wish to enter work and to maximise their chances of remaining in employment after finding a job. The evidence shows that in the current

¹⁵ This has risen from about 11,000 16-18 year olds who are NEET in 1997/98. However because of the sample size, small changes may not be statistically significant.

strong economic climate, those people looking for work generally have a high chance of finding a job, whatever their skill level and personal circumstances. GB evidence suggests that this is true in most geographical areas. However, many people face perceived or real short-term financial disincentives to taking a job.

74. The DWP Pathways to Work pilot, now underway in the Rhondda-Bridgend area, is a very valuable step towards extending the New Deal approach to people on inactive benefits who want to try to return to work. The Assembly Government's Training and Education and Health and Social Care Departments are providing close support for the pilot. The current pilot is set to run until 2006 and, while a commitment exists to roll-out, the final shape and scope of the programme has not yet been decided.

75. Staff from the Assembly Government's Department for Training and Education, Strategy and Communications Directorate and the Office of the Chief Medical Officer have worked closely with Jobcentre Plus to design a project designed to complement the Pathways to work pilot, and help more people, using EU structural funds. It is aimed at communities with concentrations of working age people on inactive benefits. The benefits of the project will be both to get more people into work directly, and to influence the scale and nature of future Department for Work and Pensions interventions. It is designed to boost the support that is available in Wales to, initially, three pilot areas where concentrations of economic inactivity exist alongside relatively buoyant labour markets. The interventions will deliver the kind of support that is being tested under the Department for Work and Pension's Pathways to Work pilot. Jobcentre Plus are applying for project support from the European structural funds. It is hoped that the project will be partly funded through Objective 1 and Objective 3 European structural funds. The key elements are:

- **An enhanced package of financial incentives.** The DWP is currently piloting, through its Pathways to Work initiative, an enhanced package of financial incentives¹³ to assist inactive individuals who wish to enter work. The financial benefits of returning to work for sick and disabled clients on IB are often lower than for other out-of-work groups (such as lone parents and the unemployed). There is also an argument that the real value of benefits is higher in Wales because of relatively lower costs of living, therefore there may need to be an additional incentive, above what is available under the UK wide programmes. The precise amount and duration of the in-work credit is being investigated but is likely to be in the region of £40 per week for at least a year. Clients will be able to use this cash payment flexibly to overcome whichever barriers to work they may face. **This element is critical to the overall success of the package.** Agreement from DWP is needed for this to go ahead and the initial approaches have been received positively. Participants engaging with the range of work-preparation interventions on offer from Jobcentre Plus will not lose their entitlement to claim and receive benefit or to return to benefit upon leaving the programmes. In addition, the value of the return to work credit will be disregarded in respect of calculations for both Housing, and Council Tax Benefit, and also for Income Tax and National Insurance.
- **Work focused interviews and ongoing support and advice from a trained Personal Adviser (PA).** An ongoing relationship with a trained Personal Adviser who can work with a client to look for work and advise on solutions to personal barriers such as transport, childcare, training, has proved to be a crucial element of the success of many of the New Deal packages. We propose to enhance this

element by providing, not only initial support, but ongoing advice once a client is in a job to promote retention and in-work progression. The PAs working with this client group will be specially trained to understand and address the issues raised by the sick and disabled client group. In addition, the training will need to address the diverse needs and aspirations of individuals from minority ethnic backgrounds.

- **A 'better off' calculation** to make the benefits of working explicit and to. Experience with Lone Parents has shown that many clients do not realise the extent to which they will be better off in work. Personal Advisers will be able to work with individuals to explain the system of tax credits, benefit guarantees and other financial incentives to working.
- **Tailor-made support for individuals.** Personal Advisers will be able to perform a skills' assessment to review skills' needs in the round. They will also have access to information about training, childcare and transport solutions, will be able to design specific training courses for groups of clients and can offer financial support should this be necessary. Discretionary funding will also be available to support the cost of job-seeking activities.
- **Health advice and guidance.** Trained nurses will be made available to support Personal Advisers and to offer advice to clients on health and health-related issues. This initiative has been designed with the support of the Office of the Chief Medical Officer.
- **Geographical targeting** of areas where Jobcentre Plus knows that there are both concentrations of working age people on inactive benefits and enough jobs to give a good chance of getting people into work. The specific locations are still being finalised.
- **Ongoing support for those in work.** Personal Advisers will continue to work with those clients who return to work, and we anticipate that the return to work credit will taper off gently over more than one year.

76. If the application for EU funding is successful, the project would be piloted for 2 years with consideration of a 2-year extension in the same areas. Further consideration will be given to extending the project either geographically or by expanding the range of eligible clients. The evaluation framework will be designed to assess both the difference the programme makes to individual clients, and the aggregate differences to a target area compared to a non-target area. Any extension of the project will be made easier by the considerable amount of work already done by many Jobcentres and Local Authorities to develop effective working relationships and to gain a better understanding of each other's business (this work has been cemented by an accord signed in April 2004).

77. The return to work pilot would have two main benefits:

- **The additional action by DWP should help some 4,000 economically inactive people more than would otherwise have been possible;** and
- **It offers the chance to work closely with Jobcentre Plus and DWP to ensure that the lessons of work in Wales can be integrated into the planned roll-out of Pathways to Work.**

78. In addition, actions are being developed which would complement and support the implementation of the new project. These include transport, child-care, communities, training and economic development activities and are detailed in the relevant sections below. The support of other partners will be important to the success of the Jobcentre project. And in each of these areas, the £40 return to work credit has the potential to make a real difference.

79. We recommend support for the development of pilot approaches to test this return to work package. We believe the model to be the most promising way of encouraging people into work, with both the return to work credit and the in-work support expected to be central to the success of the pilots. The package will need to be subject to rigorous monitoring and evaluation. If the application for funding is successful, a project steering group should be established to ensure that its implementation is co-ordinated effectively, with input from the Education and Training, Economic Development and Transport, Health and Social Care and strategy and Communication Departments.

80. At the same time as providing extra help in Wales, the Department for Training and Education's Training, Skills and Careers Policy Division will continue to encourage the UK government to roll-out the Pathways to Work programme, subject to early evaluation results.

Action area 5: Support for 16-18 year old NEETS

81. Around 10% of 16-18 year olds are not in employment, education or training (NEET), which accounts for about 12,000 young people in Wales¹⁶. Around half of this group (and more women than men) define themselves as inactive. Although many young people come in and out of this status¹⁷, **there is a core group of perhaps one third of this number – about 3% of 16-18 year olds -- who are persistently NEET** (that is, are NEET at 16, and again at 17 and 18). Although the absolute numbers may be small, this group can expect lower lifetime social and economic outcomes and can be considered as 'lost potential'.

82. Members of this group have left school with few or no qualifications and have very high drop-out rates from further education or work based learning (70% have dropped out of training or a government sponsored course). Children with family disadvantage, including unemployed parent(s), children 'looked after', with special educational needs, or those who have been excluded or are truant from school are more likely to be NEET. Some ethnic minorities (Pakistani, Bangladesh and Africa Caribbean) are over-represented in NEET group in England (while some groups, e.g., Indians are under-represented). NEETs are at higher risk of teenage parenthood, drug abuse and offending. NEET status correlates with lower lifetime earning even when in work, as well as poorer social outcomes (such as health or offending).

83. In Wales, current policy is to work together with young people through the range of projects under the '*Extending Entitlement*' umbrella. Innovative plans have been

¹⁶ This has risen from about 11,000 16-18 year olds who are NEET in 1997/98. However because of the samples size, small changes may not be statistically significant.

¹⁷ Data from the Youth Cohort Study in England suggest that as many as 25% of this age group could spend 6 months or more in NEET status.

developed under 14-19 year old Learning Pathways, extending curriculum options and providing more intensive support for potential low achievers. Although the aims are wider, the plans expect to pick up potential NEETs at an early age and reinvigorate their interest in learning through personal support and appropriate formal and informal programmes (see action area 3 above). This is an ambitious agenda and careful monitoring and evaluation will be vital. One of the main approaches for reaching the NEET group specifically is the new programme *Keeping in Touch*. Arrangements will be put in place in 2004-05 by all Young People's Partnerships. They are designed to ensure that all 11-25 year olds receive whatever multi-agency support they need, and, ultimately, to reduce the current levels of those who are not in employment, education or training. The Young People's Partnerships are in the process of gathering baseline data on NEETs, developing and implementing protocols for working together and for contacting post-16 year olds. National targets have not been set at this stage; the Assembly will keep the question of targets under review. The planned evaluation should improve knowledge about longer-term outcomes of participants in the scheme, an area where there have been limited data from previous initiatives.

84. There is a strong link between low skills, offending and unemployment – around 50% of young people on detention and training orders (a combined custodial and community sentence) have literacy and numeracy levels below that expected at age 11, and around 37% of young offenders are not in employment, education or training. Consideration is being given to what can be done to raise the skills levels of this group and what kind of training programmes are appropriate to meet the needs of employers. This work is being taken forward through the new *Education and Training for Young Offenders* project promoted by DfTE which will be developed through 2004. The project will investigate and make recommendations on the extent to which young offenders and those at risk of offending are currently able to access the universal entitlement for every young person as set out in '*Extending Entitlement*'. Arrangements are also in place to increase the basic skills learning provision for those on probation through a collaboration of the Probation Service, ELWa and the Basic Skills Agency.

85. A number of other services have been or are currently available to NEETs, including the targeted outreach programme *Youth Access Initiative* to re-engage young people in learning. The all-age advice and guidance provided by Careers Wales remains a universal service to promote lifelong learning and the Careers Wales' *Youth Gateway*, a short intensive course aimed to get young people to learn new skills, initially targeted at 16 and 17 year olds, now also extends services to 14-16 year olds at risk of becoming NEET.

86. Educational Maintenance Allowances have been piloted in England. These are means tested allowances paid to 16-19 year olds continuing in full time education (contingent on attendance). The pilots have shown an increase in participation, and an increase in retention of students (particularly those who receive the maximum £30 per week). The roll-out of EMAs is expected to include Wales from September 2004 (for 16 year olds), extending to 18-19 year olds by 2006. These complement the Assembly Learning Grants which are available for 18+ year olds.

87. Many of the initiatives are at an early stage and evaluation evidence is still emerging. Over the coming years, more will be known about what works with this group. However the persistence of a group of young people low skilled and with low expectations reinforces the message of early interventions.

88. There is no single factor which works in helping NEETS to re-engage with education, training or a job. The six key elements of Learning Pathways enable each young person to have a Learning Pathways which suits their particular needs in terms of provision and support. The *Keeping in Touch* protocols being developed and implemented by YPPs by March 2005 will identify NEETS and help assist them in securing a Learning Pathway to meet their needs. Youth and Pupil Participation Division will include the monitoring of NEETS as a specific aspect of the evaluation of *Extending Entitlement* and the implementation of Learning Pathways 14-19.

Action area 6: Generic skills

89. In the current strong labour market, most people who seek work are able to find a job, even if they lack formal qualifications. Nevertheless, some individuals, particularly those who have been out of work for a long time, are badly equipped for work and may lack some of generic skills such as understanding customer needs, communication, ability to follow instructions, showing initiative and team working. The importance that employers attach to such skills is emphasised in the 2003 Future Skills Wales survey of employers. The Assembly Government has recognised this and has put in place a number of measures to raise skills including the Extending Entitlement umbrella for 14-19 year olds. For adult jobseekers, work-based learning programmes are delivered mainly through ELWa (although by Jobcentre Plus in England for work-based learning) and aim to improve the acquisition of these generic skills. It is important that these post-16 programmes remain flexible and that the resource is focused on those who genuinely need such help. The link with work must remain central and this may be best done by closer involvement of Jobcentres or Careers Wales in selecting participants and in maintaining links with such providers to monitor job outcomes. Success should be measured in terms of learning number of participants who enter employment, in addition to current measures of those who complete a course and obtain a qualification. All provision should be carefully piloted and evaluated, to assess the impact on the generic skills of participants.

90. The remit letter for ELWA in 2004-05 asks it to:

- collaborate with Jobcentre Plus to develop an integrated set of measures to help economically inactive people back to work by end March 2005; and
- work closely with Jobcentre Plus, Local Authorities and other partners in order to provide an effective response to those who are economically inactive or otherwise disadvantaged in the labour market.

91. We recommend that equipping jobseekers in generic skills (such as customer needs, communication, and team working) should continue to be a key element available in work-based training for people who have been out of work for a long time. Priority should be given to those individuals who are not yet ready to move directly into a job, and success in such provision should be measured by return to and retention in work as well as the acquisition of qualifications and learning. ELWa should ensure that appropriate performance measures are in place when such provision is contracted, and should consider what financial incentives providers need for such training to be viable.

Action area 7: Basic skills

92. Research by the Basic Skills Agency has found that deficiencies in the level of basic skills are higher in the UK than in most other industrialised countries, and that the deficiency within Wales is above that of the UK as a whole. This is supported by other international comparisons, which highlight the key difference between the UK and other developed economies as being the long tail of low skills¹⁸. Past surveys are sometimes difficult to compare and in England the results of a recent scale of need survey show that 16% of 16-65s were below Level 1 in literacy and 47% in numeracy. Results of a similar survey in Wales to be published in the summer are expected to show a worse position for Wales. There is some limited evidence of improvement. However a large part of this movement is cohort effects and rising school standards - adult basic skills programmes enrol and graduate only a small percentage of people without skills.

93. Within Wales the areas of highest needs are found in the upper Valleys, although the problem is not confined to this area. Aside from the obvious social costs, including an individual's ability to manage ill-health and absorb health information, poor basic skills are generally identified as a major contributor to economic inactivity. This operates both at the level of an individual who is looking for a job and for firms who are making location and investment decisions. The Assembly Government has an extensive all-age National Basic Skills Strategy with a budget of £12.3m in 2003-4. It is delivered through the Basic Skills Agency and concentrates on developing and supporting good practice amongst practitioners in all settings. It is currently being evaluated. ESF Objective 1 is supporting a number of Basic Skills projects, and this is estimated by DfTE to be in the region of £20 million. In the main these projects are concerned with delivering Basic Skills courses through a variety of methods, including classroom provision in FE colleges. The main monitoring targets tend to be process based, i.e., the number of participants on courses or courses delivered, and it is much more difficult to gauge the impact of the basic skills provision in improving job outcomes. There is clear scope to improve monitoring and evaluation and the current lack of data is worrying. The learner database that ELWa is developing will strengthen management and monitoring information in relation to outcomes.

94. It is far from clear that the kind of training that is provided at the moment is the best way to raise the skills of jobseekers. Much of the basic skills provision is classroom based and this may not be the most appropriate or effective way of raising skills. Where monitoring data are available, success rates seem to be poor, both in terms of drop out rates and the impact of learning on subsequent labour market outcomes.

95. ELWa has been asked to work with the Basic Skills Agency to improve the effectiveness of Basic Skills provision and to produce targets for an improvement in achievement rates. **There is clear evidence of a link between poor basic skills and low rates of economic activity. More needs to be done to increase substantially the effectiveness of current basic skills provision for adults. The priority is to develop new innovative approaches which are cost-effective.**

¹⁸ The UK generally does well in international comparisons of high skills.

Action area 8: Training for in-work progression

96. Helping people into jobs is one step. There is also the issue of whether they need help to stay in work, and to progress – the ‘pull-through’ factor. People on the bottom rungs of the employment ladder are at a much higher risk of moving repeatedly in and out of work, making it difficult for families to move out of poverty. Generally across Wales, there is very limited public expenditure on raising the skills of the existing workforce. The bulk of ELWa’s expenditure on work-based training (around £95m) goes on training young people, the long term unemployed and others disadvantaged in the labour market, with roughly 80% of that expenditure being spent on programmes targeting young people. It should be noted that 16 and 17 year olds not in full time education; training or employment have a guarantee of access to training. There is no such guarantee for adults and relatively little expenditure is available for upskilling the existing adult workforce.

97. Future Skills Wales, and other research, has shown that employees with the low or no qualifications in low paid jobs tend to receive little or no in-work training. Training to help low-skilled workers to climb up from the bottom rungs of the employment ladder would in principle appear to be important for the following social and economic reasons:

- To reduce the risks that people move in and out of economic inactivity or unemployment, where qualifications up to NVQ level 2 appear to be important.
- To increase their earning power, where qualifications at NVQ level 3 and above appear to be most significant.
- To continue to release low-skilled jobs for new people to take up.

98. There are also broader Assembly Government objectives to raise skills more generally in the labour market in order to improve productivity and to continue to attract more high-value added jobs. In terms of skills, Wales lags seriously behind the high growth regions of the UK and elsewhere in Europe. In the longer term, policies should help to develop the kind of high quality labour market that attracts investors and, thus, creates jobs. It is at higher levels that employers or individuals are more likely to fund training, and at this level where the returns to the individual become most apparent (it may be that an information gap, rather than a funding gap, is limiting training at higher levels). At lower levels, lower returns to the employer and to the individual indicate market failure that justifies public sector intervention. **However, the case for additional public funding must be carefully considered to make explicit the broader economic and social benefits. If such programmes are to work, the key will be to ensure that they are well targeted to limit the amount of deadweight carried.**

99. DFES themselves regard the cost-effectiveness of training of this sort as uncertain. One item of recent UK research⁸ into the labour market impact of adult education and training found that although on average work-related training leads to higher wages, this hides the fact that only some workers gain from training. Firms appear to select carefully which workers to train, identifying those most likely to gain from training. Those workers who receive training gain substantially in terms of their wage growth. However, those workers who do not receive training *would not have* gained higher wages from the training had they done so. The policy implication is

⁸ The Labour Market Impact of Adult Education and Training; a cohort analysis. Fernstein, Galindo-Pueda, Vignola. January 2004, LSE.

that blanket training for unskilled workers is unlikely to be effective and that “*low productivity workers with few skills are unlikely to gain from a policy to encourage employers to provide training.*”

100. Education is a form of human capital investment, which takes place throughout a person's life. In general, the older a person is, and the less skilled a person is, the lower is their return to human capital investment. For older, unskilled workers, the costs of investing in human capital are likely to be significantly larger than the benefits either to them or to wider society. Skill-biased technical change means that the returns to working are declining for people with low skills. For this group of people, the optimal policy may be to subsidise their work, rather than investing in training programmes that are likely to be costly and ineffective.

101. The key is therefore to devise ways of supporting adult training which are well targeted and cost-effective. The Assembly and ELWa have established a pilot scheme in Llanelli to encourage greater work-focused training (up to and including NVQ level 3). The initial monitoring data are positive with high take-up of learning, especially by older workers. It indicates that there is considerable hidden demand for learning by employers and individuals. The question of deadweight is being examined and, in the Llanelli case, the learner responses indicate that there is significant additional learning. However, there is evidence that some learners would have undertaken training anyway, and that some employers have re-ordered (rather than expanded) training priorities in response to the financial incentives. Even though the longer-term impact of the training has not yet been evaluated (it is only in the early stages), the prospective results look very positive. Were the Llanelli pilot rolled out across Wales in its current form, it might cost up to £40m per year, although this could be much less if carefully targeted. The challenge will be to design programmes which meet the needs of employers, maximise learning and skills, and increase the earnings of participants, without substituting public for private funding.

102. ELWa has been asked to undertake a review of work-based learning by autumn 2004 and to recommend actions that will improve the impact of programmes to help people move from inactivity into jobs and to progress to higher skilled better paid jobs.

Action area 9: Childcare and social care as a barrier to work

103. Child and other social care-related problems are unlikely to be a key factor in explaining Wales' relative economic performance. This in itself does not mean that additional investment in forms of care is unwarranted; such investment might be beneficial in its own right and would be likely to support a continued increase in the economic activity rate of lone parents in particular.

104. Childcare is often cited as a major barrier to work, which mainly affects parents with pre-school children and parents with children in primary education. Enabling parents to work is important to overcome poverty and particularly child poverty – there are strong links between poverty and worklessness and long periods of unemployment or inactivity within a household can have scarring effects on children. Lone parents are particularly affected by childcare barriers: according to DWP evidence, around 40% of lone parents who work less than 16 hours per week

said that problems of finding and affording childcare were preventing them from working.

105. There has been a sustained rise in the UK employment rate of lone parents over the past decade, from 41% in 1992 to 55% in 2003. Both unemployment and inactivity rates have shown steady and sustained falls for this group. While directly comparable figures for Wales are not available, benefit claimant data suggest that employment rates amongst lone parents in Wales have followed a path that is broadly similar to the UK as a whole.

106. There is evidence that the availability of accessible, affordable and good quality childcare has been a significant factor in raising employment rates amongst lone parents, though it is important to emphasise that childcare in isolation is unlikely to be the only factor behind this rise. In particular, it is thought that the work focus provided through New Deal for Lone Parents, and improved incentives to work offered by the Working Families Tax Credit (WFTC) and the National Minimum Wage have played a significant role.

107. The 'excess' inactive in Wales tends to be disproportionately (i) older (age 50+), (ii) suffering from ill health and (iii) male. Childcare is unlikely to be the major barrier to work for this group of people. This means that **childcare-related problems are unlikely to be the main reason why rates of economic activity in Wales are so low. This in itself does not mean that additional investment in childcare is unwarranted: such investment would be likely to support a continued increase in the economic activity rate of lone parents in particular.**

108. A Childcare Working Group has been established under the chairmanship of Dr Brian Gibbons. The terms of reference of the group are to "*provide advice to build on and implement the Childcare Action Plan for Wales, to promote the general provision of childcare for the benefit of children, parents and communities.*" This Group will clearly have a central role in advising how best to develop childcare policy in the future.

109. The case for childcare needs to be considered both in terms of the potential economic benefits to parents, and any potential effects on children's development. This is especially true given the importance which paragraphs 56 to 60 have attached to helping children from poorer families to develop well in their early years, to help raise their attainment and guard them from being at high risk of economic inactivity in later life.

110. As a rough guide, the total cost of universal childcare provision in Wales is likely to be in the range of £450million-£650million per year, excluding set-up costs in buildings and staff. Research by PWC suggests that universal childcare could have a positive net economic impact over both the short and the long term, but this result is highly sensitive to the estimates underlying the calculation. For instance, for the UK as a whole, a one percentage point reduction in the assumed female employment rate as a result of universal child care provision reduces the long term net benefit from plus £85 billion to minus £6 billion. These large swings in estimates illustrate how much extra work is necessary before such estimates can be considered to be robust.

111. **Given the potential costs in supporting childcare, interventions funded from the National Assembly budget will inevitably have to be targeted carefully, and designed to extend rather than substitute for funding made**

available by the UK Government or parents themselves. The income-related eligibility requirement of the WFTC means that this assistance will be concentrated on people with relatively low incomes and could significantly raise the 'purchasing power' of parents in poorer areas who would like to purchase childcare. In such circumstances, one might expect that the market would respond with additional childcare provision in disadvantaged communities. However, in practice this may not occur, and it may be worth monitoring the availability of childcare places in a systematic way across Wales. There may be institutional considerations as much public support in Wales is currently directed through the voluntary sector, and other delivery models may be more appropriate. There may be particular issues in relation to out-of-school care, which has more marginal profitability. Should there continue to be under-provision of places, direct financial incentives to providers could be increased in order to persuade providers to locate in areas of shortage.

112. The Children and Families Division is working to developing a project that has a good chance of support from European Structural Funds. The scheme will be based on the Genesis Project in Rhondda Cynon Taf, which provides childcare to disadvantaged women who agree to participate in training or work. Those who participate in the project are offered an advance on the childcare element of the WFTC, which is useful because it can take several weeks for WFTC applications to be processed. The advance is repayable once the childcare credit is made available to the mother. In certain circumstances, the Genesis project will also offer to pay the 30% of childcare costs not covered by the WFTC. Children and Families Division hope to develop a modified version of the Genesis project that will have a broader geographical coverage.

113. Childcare has a role to play in helping parents back to work. We recommend that policy interventions need to be designed to be extend rather than substitute for UK government provision and that continuing to raise quality should be central. From the perspective of raising economic activity rates, assistance is best focused on parents who are returning to work.

Action area 10: Transport as a barrier to work

114. Accessibility is a factor in social exclusion, and the Cabinet Sub-Committee for Children and Young People has identified transport as one of its key themes. Car ownership is one factor that is correlated with inactivity: across Wales, around 93% of people in employment have access to a car, while amongst inactive individuals the figure is somewhat lower at 74%. It is difficult to be certain about the direction of causality here: whether people are inactive because they lack access to a car, or whether they lack access to a car because they are inactive. However, the fact that three out of every four inactive individuals **do** have access to a car and yet are not in employment suggests that car ownership is not in itself sufficient to overcome inactivity.

115. Relatively low levels of car ownership mean that public transport is particularly important in poorer areas. Research by the Bevan Foundation has highlighted the limitations of current bus services from more peripheral parts of the Valleys (e.g., Abertysswg, Bedlinog and Blaengarw) into larger centres such as Cardiff and Port Talbot during the early morning peak hour. Improvements to bus and train services for disadvantaged communities may well have a positive impact on social inclusion or offer other wider benefits. However, the persistence of inactivity in deprived inner

city estates that are close to, and have very good bus links with, the centre of Cardiff, suggests that access to good public transport is not sufficient in itself to tackle inactivity.

116. The analysis indicates that improvements to public transport could be expected to make only a modest contribution to reducing inactivity. Analysis of travel to work patterns across Wales from the latest census data suggest that, even in those areas where rail services are relatively good, only a very small proportion of people actually use the train to get to work. As a very rough indication, providing Merthyr with Caerphilly-type rail services might be expected to increase the number of people who get to work by train from around 1% to around 3% of the total. **On current trends, the car will remain by far the most important mode of transport to work, even in the event of a substantial improvement in rail services, for instance in those parts of the Valleys that are currently poorly served;** unless steps are taken to actively discourage car use.

117. Despite these reservations, much is already planned which will meet more effectively the needs of the inactive without additional budget implications:

- Job Centres involved in the comprehensive return to work package will link with the existing Local Authority travel plan co-ordinators to assist with individualised travel plans and to feed any public transport issues through to the local authority. Furthermore, current Jobcentre schemes which help with private transport are available to inactive clients – such as car clubs, car or bike loans, as well as the discretionary fund available to personal advisers.
- An extensive programme of public transport improvements being undertaken by the Welsh Assembly Government and its partners. This includes significant improvements to the services provided along the heavy rail lines into Cardiff from the Valleys, including reopening the line to Ebbw Vale. Bus services are being progressively improved through priority schemes and the provision of better information for customers. Many of the benefits from these schemes will be delivered progressively over the next few years. In addition, concessionary and fares and ‘free’ travel will continue to support bus services that are then also available to other passengers.
- Economic Development and Transport Department will consider whether to build on these improvements by amending the guidance issued to local authorities to encourage public transport interventions targeted at those returning to work.

118. As already noted, the £40 return to work credit that is being piloted as part of the Pathways to Work initiative will provide a flexible cash payment that can be used to help overcome a variety of barriers to work, including those that are transport related.

119. The Welsh Assembly Government’s Economic Development and Transport Department will continue to develop links with local authorities and transport operators to ensure that the needs of jobseekers are being addressed, through for example the provision of adequate services on key commuting corridors.

Action area 11: Poor health as a barrier to work

120. The 2001 Census results show that 23% of the Welsh population and 18% of the working age population reported a limiting long-term illness, which is higher than the figures for England (18% and 13% respectively), and an increase on the figures of the 1991 census. The rate for every Welsh authority was above the English average. In the upper Valleys the problem is at least as bad as anywhere else in the UK.

121. Broadly speaking, people in work are healthier than unemployed people, with causation running both ways. Apart from the well-established link between income and health, there is also evidence of direct benefits from employment on health – both physical and mental. For example, it provides structure to the day, a sense of purpose and, by offering interaction with other people, counters isolation.

122. As the first port of call for the public, GPs and primary care teams play a significant role in negotiating the transition between work and inactivity. The Wanless Review of Health and Social Care in Wales signalled very clearly the need for the greater role that health and care services, including GPs, need to play in preventing ill health and in early identification and intervention in poor health. This should provide an opportunity to help people retain or regain attachment to the labour market.

123. GPs also play a role in early certification of sickness and, thus, as inadvertent 'gatekeeper' for the incapacity benefit system. Recent research on sickness certification in Scotland highlighted the difficulties for GPs in fulfilling sometimes conflicting roles. Under the current arrangements, GPs provide both health advice to the patient and certification of sickness to employers on behalf of the Department for Work and Pensions. For the small minority of patients where difficult decisions need to be made, the researchers found that many GPs prioritise their primary role as patient advocate – and, on occasion, issue sick certificates where they may not always be justified.

124. This report has been drawn up working closely with the Better Health Task and Finish Group to come up with a range of proposals aimed at improving the health of those people with a work-limiting illness as well as helping those people who are at risk of falling out of employment due to health related problems. The following ideas build on the crosscutting approach to health and economic development set out in 'Well Being in Wales' and complement the broader proposals for health improvement of the Better Health Task and Finish Group.

- **Research into GP practice.** GPs and their teams can play a crucial role in helping people back to work as well as in managing the flow of people onto incapacity benefits. A better understanding is needed of ways in which GPs could be supported within the current sickness certification system, as well as new ways in which GP's teams can help their patients find out about employment, unpaid activity such as volunteering, or education and training.
- **Better information for GPs.** There may be scope to give GPs accurate and up to date information on the full range of employment opportunities in the area that could be available for patients who are currently or prospectively inactive.

- **Outreach in GP surgeries.** Discussion between GP representatives and the Wales New Deal Advisory Group identified the scope for pilot projects that make work or training-related information available to patients in GPs' surgeries. This might include more specific information from Jobcentre Plus on returning to work and on the types of vacancies available in the area. **This should be piloted.**

125. In addition to these proposals **delivery of health advice will be piloted through the comprehensive return to work package.** As part of the package, nurses will be attached to the Jobcentre Plus projects to provide continuing professional health support for Personal Advisers and advice and information on health and healthy lifestyles to Jobcentre clients. This new development has the potential to reach people who may not visit GP surgeries regularly or take on board better health and prevention messages. It may help make better connections between Jobcentres and GPs' surgeries.

Action area 12: Communities First

126. About one-third of low-income families in Wales live within Communities First areas. The major direct causes of poverty tend to relate to the characteristics of individuals rather than areas, however, in the case of children, there is evidence that neighbourhoods are important in the *acquisition* of characteristics. As argued in paragraph 8, there is therefore a strong argument for tight geographical targeting (perhaps at estate level) as an effective way of identifying children in greatest need of assistance, and in helping to alleviate the harmful 'area effects' of being brought up in a relatively poor community.

127. In addition, the Communities First programme itself offers a range of opportunities. The Communities First vision statement has a wide-ranging and broad set of objectives. Given the strong links between poverty and worklessness it may be appropriate to encourage local Communities First partnerships to consider raising the priority given to the return to work agenda. We know that the best route out of poverty is work, and that both poverty and worklessness have scarring effects on children -- hence anti-poverty interventions that result in work are likely to have better long-term outcomes for children. As part of this, the Communities First programme has the potential to foster informal community learning and education, acting as the first part of a gentle ramp to build people's confidence and encourage them back into more formal engagement with the world of work, or with education. However, it is important to recognise that a bottom-up approach is needed.

128. As part of this bottom-up approach, Communities First partnerships might be encouraged to provide information on the comprehensive return to work package to those inactive individuals in the pilot areas who have lost contact with the labour market. Jobcentre Plus is committed to building strong links with the Communities First programme in order to achieve this aim. Experience has shown that community links are very important in building trust and encouraging take-up of new programmes.

129. Jobcentre Plus is developing strong working links with Communities First partnerships. Jobcentre Plus will need to build upon these links in order to help target the proposed return to work package amongst inactive individuals who have lost contact with the labour market.

Action area 13: Ethnic minorities

130. In broad terms ethnic minorities account for under 3% of the total inactive population in Wales, in absolute numbers around 10,000 people. Although average economic activity rates for men from an ethnic minority background in Wales are similar to those for white men, there are large variations between groups. For example, men of African or Caribbean origin have lower activity rates of 57% and 67% respectively compared to 82% for white men and 91% for Chinese men.

131. There are similar wide variations in activity rates amongst women from ethnic minorities. Indian and Chinese women exhibit higher economic activity rates than white women, while Pakistani and Bangladeshi women have extremely low activity rates (34% and 22% respectively). Some groups, such as people of Bangladeshi origin show extreme variations between the genders (83% of men in this group are in employment compared to only 22% of women).⁹

132. Given these wide variations in activity rates, any help must be carefully tailored and appropriate to the client group. For example, Jobcentre Plus have deployed specialist advisers in wards with a high proportion of BMEs. The advisers' main focus is on facilitating entry to jobs and training. Once an asylum seeker or refugee has been granted the 'right to stay' then they have access to all the services provided by JC+, starting with help in getting a National Insurance number, housing, English language courses, education and training etc. , prior to being helped with finding suitable employment.

133. Already the Assembly is active in allocating resources to LEAs to assist with promoting educational achievement and the development of language skills for those for whom English is their second language. The Assembly also makes available resources specifically targeted at the educational and linguistic needs of Asylum seekers. Both provisions aim to improve educational standards and therefore ensure that they are able to secure the necessary skills and qualifications to make them more employable.

134. We recommend that Jobcentre Plus consider whether their current provision is sufficient to ensure that the particular needs of ethnic minorities and refugees or others who have been granted permission to work by the Home Office, are treated sensitively and appropriately. The Welsh Assembly Government recognises that this is an area that requires further research and development.

Action to strengthen access to jobs

135. Annex 2 shows that although the origin of Wales' high levels of economic inactivity lie in changes in the demand for labour, that no longer provides a good explanation of the level or pattern of inactivity, particularly in the buoyant labour market conditions that now prevail. There are many areas with high inactivity rates, where large numbers of vacancies are notified to Jobcentres. Nevertheless, it is clear that in some places, for instance the upper Valleys, the decline of traditional employment has left people in some communities remote from current labour market

⁹ All data quoted from Census 2001, ONS Crown copyright

opportunities. This next section therefore examines the scope for action to strengthen the availability of jobs in such areas.

Action area 14: Wales Spatial Plan

136. The Wales Spatial Plan is the Assembly Government's overall vehicle for influencing what happens where. For example, it will provide the context within which the Assembly Government and its agencies will work with local authorities and others to target public investment, including regeneration work and attracting employment. The Plan is due to be published by the end of 2004.

137. A key consideration in developing the Plan is the scope for spreading prosperity within Wales. This includes facilitating higher rates of economic activity for those living in the most deprived communities, for instance in the upper Valleys. Policies developed in the context of the Plan must be realistic. The opportunity costs of how and where public investment can be spent to best effect have to be weighed.

138. The Spatial Plan offers the best opportunity for the Welsh Assembly Government to consider the scope for influencing the availability of jobs geographically. The WDA is working with the Assembly Government on the development of the Spatial Plan and will take account of the need to combat economic inactivity in its economic development activities.

Action area 15: Improving linkages between employers and the economically inactive

139. Jobcentre Plus has an active marketing programme to assist in placing clients from the New Deal and other schemes with public and private sector employers. They will use these links to support the proposed comprehensive return to work package, to help find and establish workers in supportive environments. The public sector, in particular, is a large employer in many parts of Wales; for example, health and social care services provide around 15% of employment in some of the south Wales Valleys. *'Well Being in Wales'* commits the NHS to do more to provide employment for inactive workers and there is scope for other parts of the public sector to also do likewise.

140. The WDA have agreed that their company account managers will draw employers' attention to the help that Jobcentre Plus can offer them in recruiting staff from economic inactivity. In addition, WDA should be able to provide 'early warning' of the skills needs of new and expanding clients, thereby helping Jobcentre Plus in their targeting of those currently inactive and ELWa in the planning of learning support.

141. Jobcentre Plus will continue their work in this area and the WDA, ELWa, Careers Wales, public sector employers, as well as other partners will give a high priority to continuing to develop links with Jobcentre Plus.

Action area 16: Regional Selective Assistance (RSA)

142. Regional Selective Assistance is available to improve the efficiency and competitiveness of businesses within Assisted Areas and to support employment. Grants are available to support fixed capital costs of investment projects that create or safeguard jobs. RSA has the potential to promote increased employment opportunities for previously inactive workers to take up jobs and training. Although year to year figures vary, given past activity, Economic Development Department expect around 160 RSA offers to be accepted in 2003/04, with approximately £89 million worth of grant being spent on creating and safeguarding jobs.

143. Various options have been considered for re-focusing RSA, particularly with a view to attracting and supporting more high-value jobs. The re-focusing of RSA will reflect the fact that needs vary across locations in Wales. Changes to the RSA scheme which encourage the employment of previously inactive workers in some areas of Wales will provide one of a range of measures which complement the supply-side actions. Where inactivity is high, there may be scope to recognise the wider benefits that arise someone who was previously inactive is employed as part of a new investment project supported by RSA. In these circumstances, potential options have been considered for additional incentives to employers who are able to recruit from inactive or unemployed workers. Current projections, based on a similar scheme in Scotland, assume this may cost around 1.6% of the RSA budget and apply to approximately 4% of jobs created (although the Scottish scheme is targeted at the unemployed rather than the inactive). In a Welsh context, this could equate to 250-300 jobs per year and a full year budget commitment of no more than £1.25 million from 2005-06 onwards.

144. As part of the refocusing of RSA, the programme will pilot projects offering incentives to employers for recruiting long term unemployed and the long term inactive for new investment projects (subject to the confirmation of sufficient enabling legislative provision).

Action area 17: Housing maintenance and improvement

145. There is a major backlog of maintenance required to bring the stock of social housing up to the required standards. Whether or not funded by Registered Social Landlords (after 'stock transfer'), this offers opportunities for local employment in the construction industry. However there is substantial evidence that there is already a shortage of skills in this field and, without action to expand the labour supply, substantial investment in construction is likely only to displace workers from one firm or area to another. Social Justice Department is therefore exploring the scope to use procurement to encourage the training and employment of local workers in housing refurbishment. There is a major potential opportunity here, but success will depend on many detailed issues, if training is to be designed and successfully delivered to local workers. Such an approach would require piloting and careful evaluation, as there are obvious risks of both deadweight and displacement. The stock transfer scheme currently underway in Bridgend represents an ideal opportunity to develop and test a model.

146. Investment in housing improvement presents a potential opportunity to raise economic activity levels, if locally unemployed or inactive people can

be trained to do much of the work. The Welsh Assembly Government's Departments for Social Justice and Training and Education will continue to work with ELWa, Jobcentre Plus and other key partners to seek to realise this opportunity, using Bridgend as a pilot. ELWa have now agreed to reflect this in their funding priorities for 2004/05

Action area 18: Role of public procurement

147. The public sector has an important role to play in ensuring, wherever possible, that its considerable 'purchasing power' is used to the greatest effect in helping to meet its objectives. However, statistical analysis suggests that even in areas with high inactivity rates, large numbers of vacancies are often notified to Jobcentres. By itself, the simple provision of further jobs in a location is therefore unlikely to be successful in encouraging the inactive to enter employment. Initiatives in public procurement need to take careful consideration of local labour market conditions and the need to target the economically inactive, thus avoiding displacement (attracting an employee from another firm, creating no net gain).

148. There is considerable potential in requiring public sector contracts to include a training and recruitment component targeted at local unemployed and inactive people, and the evaluation of a number of Construction pilots to deliver community benefits co-ordinated by the Wales Procurement Initiative will feed into this knowledge base in this area will help us to assess the benefit of this approach.

149. We recommend that initiatives in public procurement take careful consideration of local labour market conditions and the need to avoid displacement (attracting an employee from another firm, creating no net gain). The potential benefits of requiring public sector contracts to include a training and recruitment component targeted at local unemployed and inactive people requires further exploration.

Action area 19: ILMs and Social Enterprises

150. Intermediate Labour Markets (ILMs) are a form of demand intervention that provide a transition from non-employment back into work, usually by providing a period of supported work and training. The ILM is therefore a temporary support which enables (some) participants to move back into unsubsidised work. ILMs have become increasingly popular in recent years as a way of reaching individuals who are furthest removed from the labour market.

151. Studies¹¹ have concluded that there is little robust evaluation evidence on the effectiveness of ILM programmes. Their potential weaknesses are that (i) they may substitute or displace employment from the open labour market, and (ii) they run the risk of providing costly support to those who would have found work without assistance. The main interest of the project sponsor is normally to get work done effectively for the client group that the project is designed to serve. This means the sponsor has an incentive to recruit people who will rapidly become good workers, and to keep them. In current buoyant labour market conditions, that runs the risk of delaying the return of such workers to jobs on the open labour market, for instance through the provision offered by Jobcentre Plus, which has much lower costs per person helped into work. The cost of ILMs varies considerably depending upon the design and the length of contract. A recent survey for DWP¹² has found that the ILM cost per participant is £8,394. The equivalent New Deal and Voluntary Sector options cost is £5,076.

152. These problems can be limited if ILMs and Social Enterprises target their recruitment carefully on the hardest to help in the labour market¹², i.e. on those people who have been long-term unemployed or long-term economically inactive, and who will be unable to obtain work more rapidly through the type of assistance available through the model on offer through Pathways to Work. Expansion of such programmes beyond these core groups would be both costly in comparison to other schemes and subject to high levels of substitution, displacement and deadweight. Therefore it is important to be realistic about the scale of potential usage and to target ILMs carefully.

153. WEFO should ensure that:

- The appraisal of ILM projects should be done in consultation with the Department for Training and Education to ensure that ILM recruitment policies target those genuinely in need of the kind of support that they offer; and
- ILM projects should be effectively and consistently evaluated to identify their effectiveness in helping people who are economically inactive return to work.

154. Social enterprises are another form of demand side intervention with distinct characteristics; they have a social, community or ethical purpose; they operate using a commercial business model; and have a legal form appropriate to a not-for-profit status and social ownership. The sector includes a range of organisations such as credit unions, housing associations, development trusts, community businesses, co-operatives, employee-owned businesses, social entrepreneurs and social firms. Because of their local base and networks, Social Enterprises are well placed to reach people who have lost contact with the labour market.

155. Social Enterprises may be subject to similarly high levels of substitution, displacement and deadweight but have the advantage of having explicit social aims as well some potential to become self-sustaining. In its **Social Enterprise Action**

¹¹ OECD, 1996, Enhancing the effectiveness of active labour market policies: evidence from programme evaluations in OECD countries, Paris; OECD, 2001a, Labour market policies and the public employment service, Prague conference, Paris; OECD 2001b, Labour market policies that work, Paris; OECD, 2001c, What works among active labour market policies: evidence from OECD countries' experience, Paris.

¹² Intermediate Labour Markets in Britain and an International Review of Transitional Employment Programmes; Professor Dan Finn, University of Portsmouth; Dave Simmonds, Centre for Economic & Social Inclusion November 2003

Plan the WDA seeks to set the strategic direction for the development of the sector and the individuals within it. Social Enterprises may have a limited role to play in helping to provide the more supportive environment often needed by people who have been economically inactive for some time.

156. In current labour market conditions, Social Enterprises and ILMs have a limited role to play, in offering bespoke ‘transitional’ opportunities for the very hardest to help for whom early entry into work is not a practical prospect.

Action area 20: Self-employment

157. Self-employment may be a route into activity for some, but there is evidence that successful self-employment depends on the characteristics of the individual (and to some degree the area). Successful entrepreneurs tend to share certain characteristics: these include previous labour market experience, particularly of self-employment (with more successful entrepreneurs tending to be older), having qualifications, and having access to capital. There is also evaluation evidence that a period of self-employment may not improve subsequent employment outcomes for younger people. For all these reasons, policies are more likely to be effective if they aim to remove artificial impediments to entrepreneurship, rather than aiming to achieve particular outcomes irrespective of the characteristics of the individuals or groups concerned. The fact that certain groups are under-represented in self-employment may reflect the characteristics of the groups; self-employment may not be a viable option for many inactive individuals.

158. We recommend that policies to promote entrepreneurship should take full account of the evidence relating to the likelihood of success, which varies widely, and should focus on removing barriers to self-employment.

Annex 1: Membership of Steering Group

Chair:

Huw Brodie (SCD)

Members:

Richard Keveren (TSCP)

Jonathan Price (EcAD)

Ceri Breeze (PHSD)

Matthew Quinn (SPU)

Denzil Jones (TP)

Chris Burdett (CFD)

Alan Lansdown (PSD)

Emyr Roberts/Bob Macey (EPD)

Gareth Morgan (EcAD)

Roger Dinham (Jobcentre Plus)

Gareth Hall (WDA)

Grenville Jackson (ELWa)

Kevin Bishop (WLGA)

Annex 2: Analysis of Economic Activity

Economic inactivity in Wales

159. Economic inactivity is a term used to describe people of working age who are neither in work nor unemployed. In other words, they are not working, not looking for work and/or not available for work.

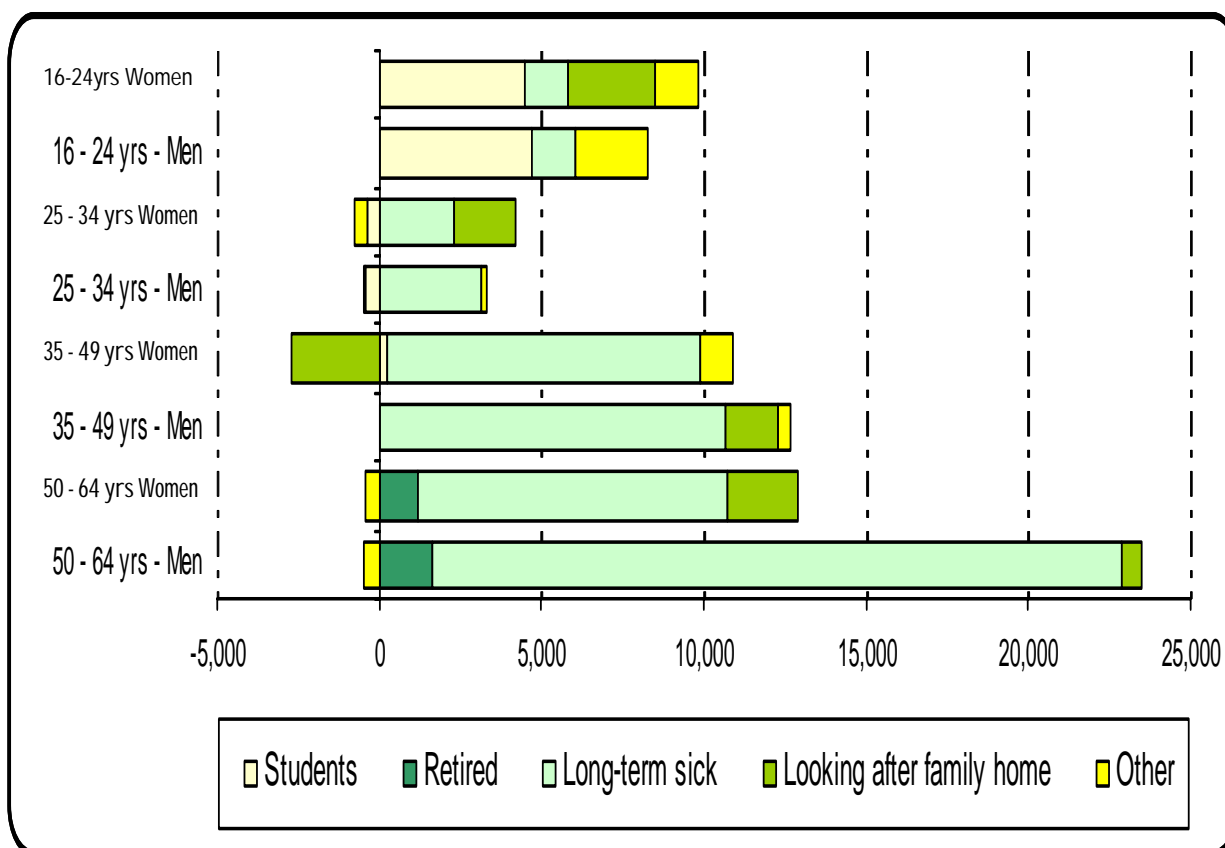
160. Around one in four people of working age in Wales is economically inactive: this equates to 470,000 people of working age in 2001. The distribution of inactivity across genders and age groups is shown in table 1. As in other countries, in Wales more women than men are inactive. Inactivity follows a U-shaped pattern across age groups. Amongst younger people, inactivity is overwhelmingly caused by participation in higher education, while for older people self-reported long-term sickness is the most likely cause.

Table 1: Economic inactivity by age and gender, 2001

	Thousands			Percentage of population		
	Men	Women	Total	Men	Women	Total
16-19	33	34	66	42.2	44.7	43.4
20-24	20	30	50	22.2	35.6	28.7
25-29	8	22	30	9.1	27.1	17.8
30-39	19	55	75	9.0	26.6	17.7
40-49	27	49	77	14.2	25.2	19.7
50+	95	78	172	35.7	40.0	37.5
Working age	202	268	470	21.8	32.0	26.6

161. Graph 1 shows the 'excess' inactivity in Wales, relative to the UK. Amongst older age groups, the striking feature of graph 1 is the large excess of long-term sick inactive individuals. In particular, older men account for a large proportion of the excess inactive in Wales. For the 16-24 age group the main reason for inactivity is being a student. A large part of the higher inactivity rate in Wales for this age group is due to a larger proportion of students reported as inactive. The reasons for this are not clear, but the absolute numbers are small.

Graph 1: Inactivity: The 'excess' over UK average, by gender and reason



162. Non-white ethnic minorities have lower rates of economic activity than whites, and the differences appear to be particularly acute for certain populations, although not large in absolute terms.

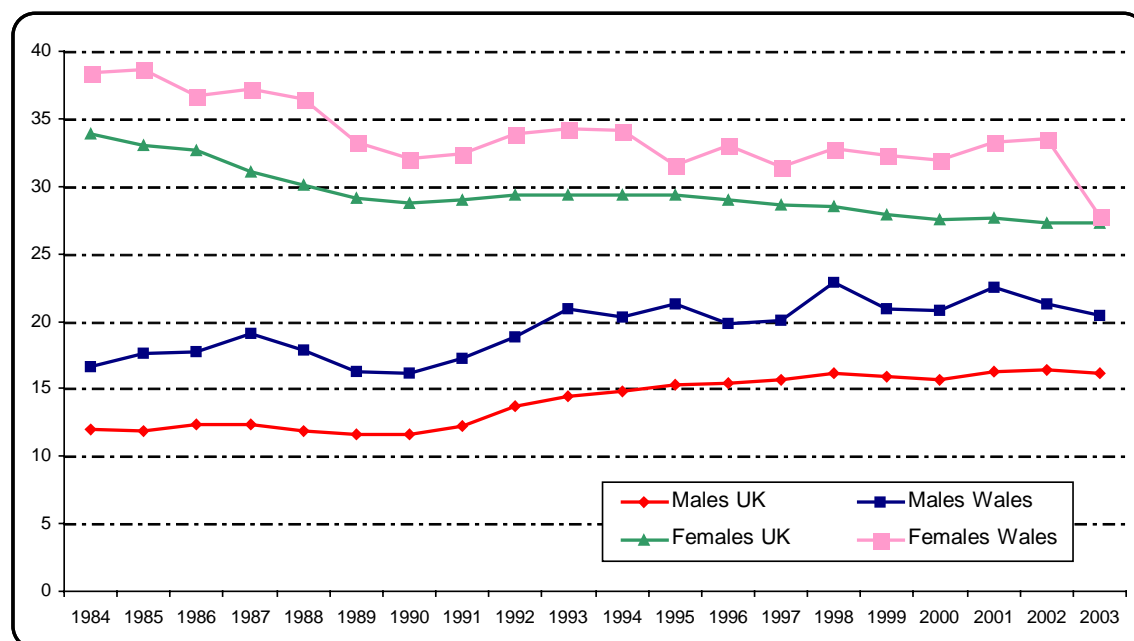
163. Inactivity is much more prevalent than unemployment: across Wales, the number of unemployed people of working age in 2001 was 72,000.

Trends

164. Graph 2 shows the changes in inactivity rates for men and women over the past 20 years.

165. Over the past 20 years, inactivity rates have risen amongst men, older men in particular, but have fallen amongst women. However, inactivity rates remain higher for women than for men both in Wales and across GB (except for Wales in the most recent period – but see below).

Graph 2: Economic inactivity rates for people of working age by gender, Wales and UK 1984-2002



166. GB figures show that the inactivity rate for people without qualifications has risen. This pattern is also true in Wales.

167. Over the last year, figures from the Labour Force Survey suggest a sharp rise in economic activity rates in Wales. This increase is not yet sustained¹⁹ and is not reflected in other sources, such as the employers' survey. The LFS reveals that most of this increase represents older women taking up work. The absolute numbers of inactive people remain large and rest of this analysis, although mainly based on 2001 data, still holds.

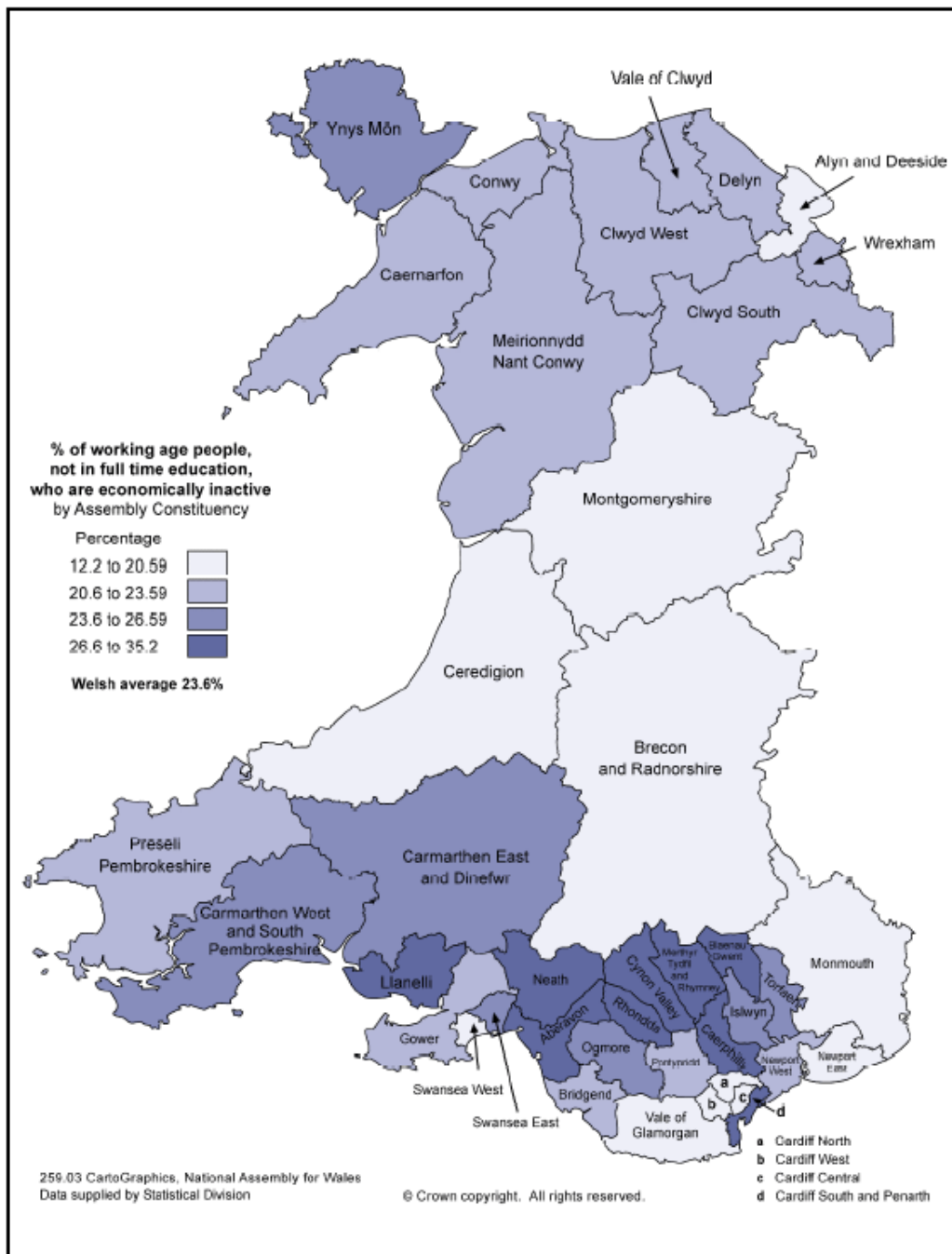
Geographical distribution

168. In general, East Wales has lower inactivity rates than does West Wales and the Valleys. Powys has the lowest inactivity rate in Wales (17.4%). Excluding students, the highest inactivity rate in Wales is found in Merthyr Tydfil, where around one in three people of working age is economically inactive. As Map 1 shows, economic inactivity is concentrated in the more disadvantaged parts of Wales.

169. Overall, economic inactivity is concentrated on unskilled and older workers, and especially prevalent in the upper Valleys. The gap is greater for men than for women, and is disproportionately found amongst those who report a health problem.

¹⁹ The employment series for Wales shows more variation over time than the UK series because of sample size.

Map 1: Economic activity rates excluding those in FT education by Assembly constituency, 2001



170. In most authorities, the main reasons given for economic inactivity are long-term sickness and looking after the family home. A higher incidence of long-term sickness is the main difference between authorities with a high overall inactivity rate than those with the lower rates.

Why does this matter?

171. Low employment rates, which (as noted above) are in Wales primarily caused by low rates of economic activity rather than unemployment, are associated with relatively low GDP per head, concentrations of households where nobody works, and poverty. Raising activity rates is therefore central to poverty reduction and social inclusion, as well as to the economic development targets in 'A Winning Wales'.

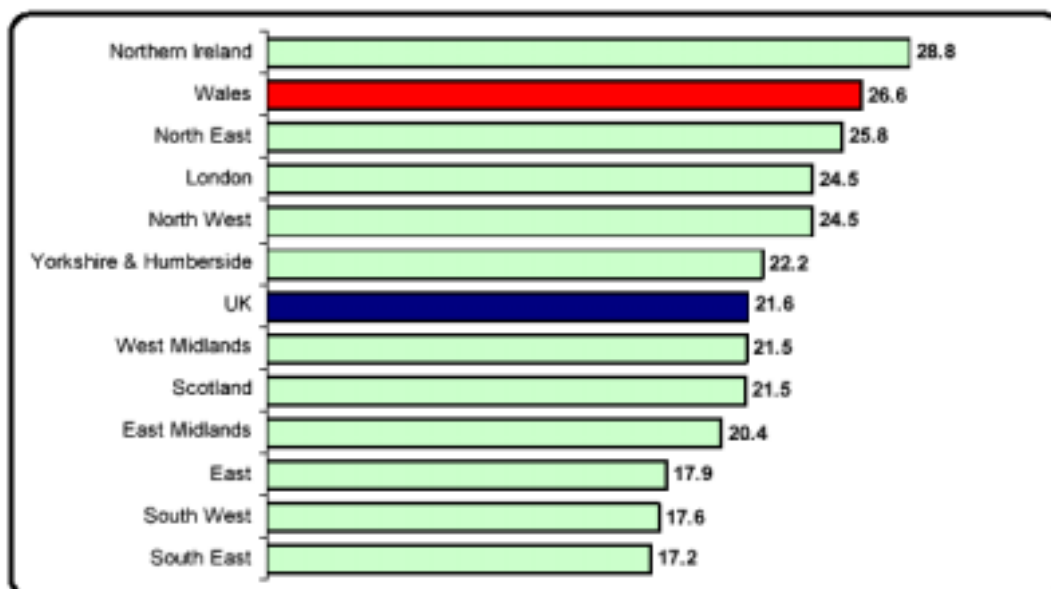
172. International comparisons show that Wales has a very high proportion of children growing up in workless households and the evidence suggests that this may have damaging long run consequences (including lower educational attainment, worse health and social problems).

173. The evidence suggests that getting a job is the best way out of poverty for individuals and their families. There is also substantial evidence that getting a job improves people's mental and physical health.

Comparison with rest of UK

174. Within the UK, only Northern Ireland has a lower rate of economic activity than Wales (see graph 3).

Graph 3. Economic activity rates for people of working age by region, 2001



Source: Annual Local Labour Force Survey

European comparisons

175. Aggregate inactivity rates in Wales are not high in comparison with the 'big four' European economies of France, Germany, Italy and Spain, and are about the middle of pack for the EU-15 as a whole. But the composition of Welsh inactivity is worrying. Comparing with other EU members, Wales has:

- amongst the highest inactivity rates for prime-aged men and younger women (and in West Wales and the Valleys this holds even more strongly);
- amongst the highest rates of workless working-age households;
- probably the worst record for children growing up in households where no adult works.

176. In other words, in France, Germany, Italy and Spain, economic inactivity is not associated in the same way with poverty, and is for example more associated with middle-aged women working as housewives. The Welsh rate of economic inactivity does look high compared both with a number of the more successful European states (including the Scandinavian states and the Netherlands) and with other developed countries.

Isn't the problem simply a legacy of heavy industry?

177. The age profile does not suggest that the high male inactivity rate is simply the product of a cohort of people leaving heavy industry at the time of major closures in the 1980s. There is excess inactivity in all age groups and the bulk of the excess (in the 40-50 age group) would have been in their twenties at the time of the major shedding of labour in the early 80s. Women make up one third of the inactivity gap and did not work in these industries.

178. A survey of the inactive carried out in Wales in 1993/94 found that the distribution of industries in which the inactive were previously employed was very similar to that for the population as a whole. The majority reported having previously worked in service industries.

So is the problem primarily one of ill health?

179. Ill health is a problem in Wales, and particularly so in the Valleys, where inactivity rates are at their highest. This is confirmed by objective measures of illness such as life expectancy and morbidity rates. Many of the inactive in Wales report that they have health problems. Many are undoubtedly unable to work, and there is some evidence that there has been a fall in demand for workers who have health problems. However, there is evidence that the high rates of Welsh inactivity are not primarily caused by ill health:

180. Male inactivity rates have been rising at a time when objective measures of ill health have been improving.

181. On many measures of ill health, Wales appears broadly similar to other regions of GB, yet has significantly higher rates of inactivity.

182. It is accepted that the increase in incapacity benefit claimants during the late 80s and early 90s was driven partly by a desire to reduce headline unemployment figures (DWP). Across Britain, the number of people claiming IB has trebled since 1979 to 2.7 million, with the majority of this increase occurring before the mid 90s. Over the same period, there has been only a modest increase in the number of people who say they have a limiting longstanding illness from 15% to 19% of the working age population. This reflects the greater social acceptability of acknowledging a health problem, and is not enough to explain the large increase in numbers on benefit.

183. Around a quarter of the inactive in Wales say that they would like a job, and some of these are actively looking for work. They are almost as likely to get work as people who are registered unemployed. For these people at least, their health problems do not seem to be a barrier to getting work.

184. The inactivity problem is therefore unlikely to be successfully addressed solely through measures aimed at improving health, even though such measures have a part to play.

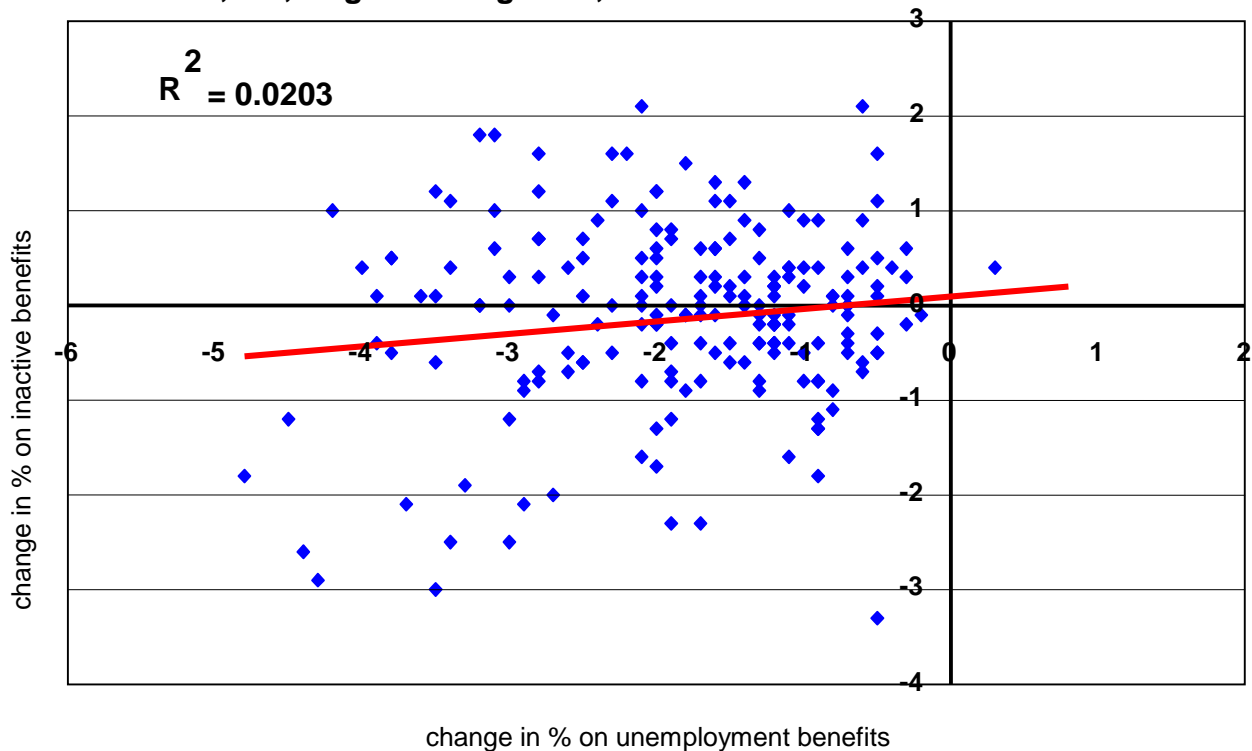
Simply not enough jobs?

185. Across the UK, there does not seem to be a strong association between changes in unemployment, and changes in inactivity. Graph 4 shows that, there is almost no correlation between changes in unemployment and changes in economic inactivity. If inactivity were mainly a form of 'hidden unemployment', then a fall (rise) in unemployment would be likely to occur alongside a fall (rise) in inactivity. However, there is almost no sign of such a relationship in graph 4.

186. Within Wales:

- There are areas in Wales where very high levels of inactivity coexist alongside a relatively buoyant local labour market. For instance, when all wards across England and Wales are ranked by their incapacity benefit claimant rates, Swansea, Cardiff, Newport and Wrexham all contain at least one ward which falls in the highest 1% of the distribution.
- Recent data suggest that vacancies are notified to Job Centres in Wales at a higher rate than for the UK as a whole, and that on this basis Wales has one of the highest vacancy rates in the UK. Furthermore, vacancy rates observed at a number of Job Centres in the Valleys are at least as high as those for Wales as a whole. (This evidence is suggestive rather than conclusive because it is well known that the propensity to notify Job Centres varies across sectors, and therefore across geographical areas.)
- Merthyr is the local authority with the highest working-age (non-student) inactivity rate in Wales, yet has the LFS indicates that it experiences net in-commuting (i.e. people from outside Merthyr are taking jobs in Merthyr), and it has relatively good accessibility by road and rail.

Graph 4: Rates of change in unemployment and inactive benefit claimants, UK, Aug 1997-Aug 2002, benefits admin data



187. This is not to say that action is not needed to help bring more jobs to communities with low levels of economic activity; it is, and some communities are genuinely short of jobs. Rather, action on the demand and supply sides needs to go hand in hand; availability of jobs does not automatically make concentrations of inactivity disappear; and improving skill levels makes it easier to attract employment to an area.

So what IS the main cause of inactivity?

188. There is good economic evidence that the fundamental economic change underlying the growth in inactivity has been the weakening of the demand for unskilled labour across the developed world. This has occurred both as a result of a combination of technological change and increased competition from countries with a plentiful supply of unskilled labour²⁰.

189. It is likely that people who were both low skilled **and** faced the additional disadvantage of a work-limiting illness were particularly badly hit by this shift in demand.

190. There is a general consensus that the consequences of the fall in demand for unskilled workers have been particularly severe in the UK because of the existence

²⁰ Note that there is in fact evidence of a rather more complex pattern than this summary account may suggest. Increases in the number of highly skilled jobs have been combined with a growth in the number of low skilled jobs in the service sector. But the net effect has been a reduction in the overall demand for low –skill and no-skill workers.

of a long tail of very low-skill individuals compared to other advanced economies (even including the US).

191. The collapse in demand for unskilled labour initially resulted in a sharp rise in unemployment, particularly concentrated in areas where unskilled workers were concentrated. However, the operation of the benefit system in the late 1980s and early 1990s provided incentives both to the state (which was keen to reduce headline unemployment figures) and to benefit claimants (who would receive higher benefits and minimal pressure to take up work) to move from unemployment and onto health-related benefits.

192. Under this analysis, the driving force behind the increase in male inactivity has been the substantial shift in labour demand away from low-skill workers which has outrun the shift in labour supply in the same direction. This particularly disadvantaged those low-skilled workers who were suffering from an actual or potential limiting illness or disability. When combined with the operation of the invalidity benefit system, the outcome was a dramatic rise in inactivity for this group. Despite recent falls in unemployment, this group has not been able to re-engage with the labour market; being out of work a long time is likely to damage a person's mental and physical health.

And why is the problem so severe in Wales?

193. A major part of the explanation of the inactivity problem is the skill profile of the Welsh population²¹. The available evidence suggests that the skills position in Wales is worse than in the UK as a whole, and that the position in the Valleys is worse than in the rest of Wales. The distribution of low skills therefore closely fits the distribution of inactivity across Wales, which is consistent with there being a strong skills-related cause to inactivity.

194. While low skills are an important cause of the Welsh inactivity problem, differences in skill levels are unable to explain the whole 'inactivity gap' between Wales and the rest of Britain. In broad terms, economic models suggest that around half of the higher inactivity rate in Wales compared to the rest of GB can be explained by characteristics of the Welsh population such as age, skill levels, gender, self-reported ill health and so on. The corollary of this is that around half of the excess inactivity **can't** be explained by these characteristics. A person in Wales with a particular set of characteristics is significantly more likely to be economically inactive than an identical person living elsewhere in GB. For instance, diabetes makes a man in Wales 23% more likely to be inactive, while in England excluding the SE it only makes a man 9% more likely to be inactive. A similar pattern is found for a wide range of illnesses and for both men and women.

195. Wales has a fairly small excess of inactive individuals who say they want work (1.2% excess compared to GB) but a large excess of inactive who do **not** want to work (5.6% above GB). This may be because of cultural or motivational factors, or it may be a reflection of a relatively low cost of living and a consequently high real value of benefits in deprived areas.

²¹ although the situation is improving, 39% of working age adults in Wales do not have level 2 NVQ (equivalent to 5 GCSE A*-C); the proportion for 19 year olds is 25%.

Does it pay people to get a job?

196. The evaluation of New Deal for Lone parents shows that 70% of clients will be better-off in work²². A small proportion of this 70% will be only marginally better-off and may still make the decision not to work – but the vast majority of lone parents are better off in work. However for sick and disabled clients on higher rate benefits such as Incapacity Benefit, the decision is more marginal and will vary according to precise individual circumstances. The evidence suggests that fewer of them will be better off and that even when they are better off the amount of extra income (above benefit levels) may be less than for lone parents. Although in the longer-term there are increasing returns to work, the decision is often made on the immediate short-term return. Notwithstanding the assumptions in the calculations, it would appear that for many people in this group there are genuine short-term financial disincentives to look for work.

²² The calculations assume wage rates at NMW, and assume that lone parents will work part-time.

List of Abbreviations

BMEs	Black and Minority Ethnic Groups
CF	Communities First (Programme)
DfES	Department for Education and Skills
DfTE	National Assembly Department for Training and Education
DWP	Department for Work and Pensions
ELWa	Education and Learning in Wales
EMA	Education Maintenance Allowance
ESF	European Social Fund
EU	European Union
FE	Further Education
HPD	Health Promotion Division
IB	Incapacity Benefit
ILM	Intermediate Labour Market
JC+	Job Centre Plus
NEET	Not in Employment, Education, or Training
NVQ	National Vocational Qualification
PWC	Price Waterhouse Coopers
RCT	Rhondda Cynon Taf
RSA	Regional Selective Assistance
RTWC	Return to Work Credit
SCD	National Assembly Strategy and Communications Directorate
SSP	Statutory Sick Pay
UA	Unitary Authority
WDA	Welsh Development Agency
WFTC	Working Families Tax Credit