

# Work and Pensions Committee inquiry into youth unemployment and the Future Jobs Fund

Background briefing note by Dr. Richard Dorsett and Prof. Alan McGregor

## 1 Introduction

This briefing note has been prepared by Dr. Richard Dorsett and Prof. Alan McGregor who are acting as specialist advisors to the Committee for this inquiry. It is in two parts. The first section provides an overview of the youth labour market and assesses the evidence on the effectiveness of attempts to tackle youth unemployment. The second section focuses directly on the Future Jobs Fund (FJF) itself and issues around its design, delivery and future.

## 2 Youth unemployment

### 2.1 Features of the UK youth labour market

**Youth unemployment is higher than unemployment among older people.** This has been common since at least the 1970s in most developed countries, and its level has been increasing. The most recent UK official statistics<sup>1</sup> show an unemployment rate of 5.8% for those aged 25 or more but a rate of 17.4% among 18-24 year olds – 3 times higher. The number of 18-24 year-olds claiming Jobseeker's Allowance (JSA) stood at 413,600 in August 2010.

**Youth unemployment has both short-term and long-term effects.** Findings from the medical and economics literature have confirmed the generally negative effect of unemployment on individuals' health and welfare. Some of these negative effects persist beyond the unemployment spell itself. UK evidence has shown young people to be especially likely to be scarred by unemployment, experiencing reduced employment chances and lower wages in later life. This is particularly the case where the period of unemployment is lengthy.

**The duration of unemployment spells matters.** Numerous UK studies have confirmed that the longer someone is unemployed, the more re-employment chances reduce. This may be because of de-motivation or because employers regard the long-term unemployed as unattractive recruits.

**The duration of employment spells also matters.** UK studies have shown that, once in work, the chances of becoming unemployed again reduce the longer the employee has been in place. This may arise from firms valuing the acquired experience or through policies of organising layoffs on a 'first in, last out' principle.

**The UK youth labour market is particularly sensitive to the business cycle.** In recession, young workers are hit hardest and are most likely to experience unemployment. Entering the labour market for the first time during a recession can impose a lasting penalty on wages. More positively, there is evidence that young people's employment grows faster than older people's during boom years. With regard to the recent recession, the youth labour market was actually in decline since

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<sup>1</sup> ONS statistical bulletin, September 2010 <http://www.statistics.gov.uk/pdffdir/lmsuk0910.pdf>

about 2004 – some time before the economy began to contract or prime age unemployment started its increase. This is not a pattern seen in OECD or EU countries as a whole and the reasons behind it are not yet fully understood.

**The size and composition of the young unemployed changes over time.** Youth unemployment in the UK is highest among men, those with no qualifications and those from a minority ethnic group. The composition of the unemployed population changes with the business cycle – recession means more employable workers become unemployed. It also changes in response to other policy developments. For example, the introduction of stricter assessments for disability benefits has led to more people on JSA with health problems or disabilities (a ‘hard-to-help’ group). Demographic changes also play a role. The 18-24 cohort is currently swollen by the children of the baby-boomers and will soon begin to reduce in size.

## 2.2 Policies to tackle youth unemployment

**Young people have been partly excluded from policies aimed at ‘making work pay’.** Reforms to the Tax Credit system have incentivised work for lone parents, people with a disability and people aged 25 or over. Workers under the age of 25 who are not lone parents and do not have a disability are not eligible for Working Tax Credit and so cannot benefit from wage supplements when in work.

**Active labour market programmes (ALMP) have become the main policy lever to address youth unemployment in the UK.** Such programmes usually offer some combination of assisted job search, training/education, subsidised private sector employment or work placement with a public/third sector organisation.

**International evidence shows that tackling youth unemployment is difficult but some policies work better than others.** Recent studies have reviewed international evaluation evidence for numerous ALMPs and provide several relevant insights:

- ALMPs tend to work less well for young people than for older people
- An emphasis on job search, particularly if combined with monitoring and sanctions can achieve perhaps the largest impacts
- Wage subsidies to private sector employers can help increase employment
- Training programmes can have a modestly positive effect that grows over time
- Work placements in the public/third sector are generally less effective.

**The UK experience is broadly in line with international evidence.** The most thoroughly evaluated UK ALMP is the New Deal for Young People (NDYP). The evidence showed the effectiveness of the job search stage of NDYP (the Gateway) and also the effectiveness of wage subsidies. The least effective element of NDYP was found to be work placement in the voluntary sector or the Environment Task Force. Another programme – StepUP, piloted in 2002 – provided subsidies to private, public or voluntary employers taking on people who were still unemployed six months after completing their New Deal option. There were positive impacts for some people, but no significant benefits for those under the age of 25. It should be borne in mind that young people entering StepUp will have been out of (unsupported) work for close to two years despite previous New Deal attempts to help. Such cases, by definition, constitute a hard-to-help group. Flexibility has been shown to be important in achieving positive impacts. The evaluation of Employment Zones showed improved outcomes where programmes could be tailored more closely to individuals’ needs. This

finding influenced the introduction the Flexible New Deal and is a principle that will be carried forward under the Work Programme.

**There are a number of lessons to be learned from previous evaluations and experiences.**

- An emphasis on assisting and encouraging job search is likely to be effective. Such activities also tend to be low-cost relative to other programmes. This means they avoid excessive deadweight costs and also that it can be economical to combine them with participation in other programmes.
- Programmes that resemble unsupported employment as closely as possible may be more likely to have positive outcomes. Engaging with private sector employers can pose practical difficulties. Experience from NDYP showed that the proportion of participants engaged in the subsidised employment option declined markedly over time. Furthermore, employers may be reluctant to recruit those with the most severe obstacles to employment.
- Work placements in the public or voluntary sector may be a more achievable intervention for those with more fundamental obstacles to employment. However, there is little evidence of such placements improving labour market outcomes. Attempts to make placements resemble unsupported jobs may help but there is a lack of robust evaluation evidence to support this.
- While wage subsidies can be effective for participants, there may be a downside risk of displacement for other workers. Some protection against this can be attempted by requiring jobs receiving a subsidy to be additional i.e. to only exist because of the subsidy. It may also be that displaced workers are better able to find alternative employment without additional assistance.
- For the most disadvantaged individuals, addressing their obstacles to employment directly may be the most fruitful course of action. These obstacles may be diverse and multiple in nature and this points again to the importance of a flexible approach.

### 3 Future Jobs Fund: The Approach

#### 3.1 Antecedents of Future Jobs Fund

**The Future Jobs Fund is essentially the most modern form of Intermediate Labour Market (ILM).**

ILMs were developed in the 1980s to tackle very high levels of persistent long-term unemployment.

The key features of the model were as follows:

- A period of full time, temporary and paid employment sat at the core of the offering.
- Making some allowances for the 'issues' that longer term unemployed people might bring to the workforce there would typically be some initial leeway in term of workplace discipline, etc.
- Alongside the paid employment, investments were also made in the personal development of the unemployed people participating in the programme, such as tackling deficiencies in literacy and numeracy.
- Vocational training to do their job effectively was another key component of the ILM approach.

**Most ILMs were delivered through voluntary organisations or local authorities**, often with funding from the European Social Fund. Indeed, one characteristic of the ILMs developed since the 1980s was that they were developed using a cocktail of funding. This was essential as, on the average, these were expensive interventions, putting to one side their long run cost effectiveness.

**ILMs have been evaluated with mixed results.** A number of evaluations have been carried out of ILMs across Britain, in addition to the evaluation of DWP's pilot StepUp discussed earlier. The key findings can be summarised as follows.

- They appear to work best for older, longer-term unemployed people.
- They are more effective where individuals volunteer to join the ILM rather than being mandated.
- The key design characteristic is to make the jobs as 'real' as possible so that core workplace skills are improved and long-term employability enhanced.

### 3.2 Future Jobs Fund: The Model

**For unemployed people signing up to the Future Jobs Fund, what they get is as follows.**

- A job with a minimum of 25 hours per week, paid at no less than the hourly rate set out in the Minimum Wage.
- A period of up to six months of employment.
- The opportunity to have their skills and qualifications enhanced.
- Support to move on to another job when their spell on FJF is complete.

**FJF is targeted at two principal groups.** Although there is scope for fast tracking some particularly disadvantaged groups, most FJF participants need to meet one of the following criteria.

- 18-24s claiming Jobseekers Allowance (JSA) for between 6 and 12 months.
- Unemployed aged 25 and above who have been out of work typically for a year or more and live in 'hotspot' areas, defined as neighbourhoods with unemployment rates significantly above the average.

The majority of the FJF places are intended for the 18-24s.

**The basic funding position for FJF is quite simple.**

- Each FJF job attracts funding of £6,500 from DWP to cover all costs, including the wage and related costs of the FJF employees.
- Organisations engaging FJF employees can, of course, supplement these funds to provide a better deal for their FJF employees.

**The sustainability issue for FJF has changed with the onset of more severe recession.** Originally the hope was that many of the temporary jobs created would become more permanent jobs. However, the issue of sustainability for FJF has become finding sustained employment for the participants rather than the continuation of the FJF jobs.

### **In terms of the volumes:**

- At the outset, FJF was intended to deliver 150,000 jobs between 2009 and 2012.
- However, the coalition Government announced that FJF would not run its full course and that there would be no more entrants to FJF from the end of March 2011.

## **4 Future Jobs Fund: The Practice**

### **4.1 Future Jobs Fund in Practice**

**In relation to volumes, the position appears to be along the following lines.**

- The various organisations bidding to deliver FJF places did well (after a slow start) in relation to trying to meet target numbers.
- For the second tranche of FJF funding it is proving more difficult to stay on track with the targets the bidders set for themselves.
- By end May 2010, there were 40,720 starts – 85% involving young people.

**DWP will have detailed up to date data on both the broad trends and the relative performance of different organisations and localities across the country, and should be asked to supply this information.**

**The organisations employing young people on FJF are predominantly in the public and third sectors.** This includes: local authorities, the NHS and other public sector bodies; national third sector organisations such as Groundworks; consortia of smaller voluntary and community based organisations supported under umbrella organisations such as the NCVO, SCVO and WCVA. Private sector employers can be involved in Future Jobs Fund but only where the jobs involved can demonstrate significant community benefit.

- Restrictions on private sector involvement are to ensure that some are not subsidised at the expense of others to avoid the problem of substitution in the labour market discussed earlier. It appears that relatively few private sector organisations are involved, although there is an interesting example involving LandRover Jaguar working with Knowsley Council.
- Some local authorities favour outsourcing FJF jobs to third sector organisations as they see better prospects for the job being sustained and are trying to link capacity building benefits for the organisation with enhanced employability for local unemployed people.

**There are examples around the country of variations in the minimum FJF conditions.**

- Greater Manchester FJF (covering the territory of 10 local authorities) has a minimum offer of a 35 hour week as opposed to the basic requirement of 25 hours.
- Within Greater Manchester, Bolton Council offer some FJF places that last for 12 months instead of 6, and also offer some wage levels above the minimum wage.

**Where some evaluation work has been carried out, good diversity in terms of types of jobs on offer has been achieved.** Diversity of job offer is a critical factor as individual unemployed people (young and old, male and female) have different aspirations in terms of the labour market. Probably as a result of this, the most valued aspect of FJF as reported by employees is simply the job itself.

**Some of the early evaluation findings are throwing up a number of important issues and challenges.....**

- There are concerns about the quality of application forms coming to employers from individuals applying for FJF positions.
- As with many previous interventions, too many people get 'lost' in the referral process, for example not showing up for interview.
- The early closure of FJF with no new starts after March 2011 impacts negatively on the drive to improve performance.
- The continuing depressed state of the labour market is a major constraint on FJF transforming employability gains for individuals into actual sustained jobs.

**..... but there are also a number of emerging success stories.**

- Evaluations which have involved testing the opinion of FJF employees have generally found very positive feedback on FJF with high percentages believing that their employability has been enhanced.
- Although the quality of applications is reported as poor, the quality of applicants is perceived by employers to be high in terms of employability and motivation.
- FJF employees (particularly those in the public sector) are very positive about the people they have taken on, and also see the advantages in having a more diverse workforce in terms of age and experience of employment.
- Some FJF employers (again particularly in the public sector) are beginning to review and revise their recruitment criteria and processes. There is a major potential positive legacy effect here.
- Some areas are linking FJF into apprenticeship programmes, so enhancing the prospects for achieving well paid sustainable employment, and making good use of two different funding streams.

**On the sustainability of employment post-FJF, it is too early to make a judgement.** Due to the relatively slow build up in numbers, it is only now that more significant numbers are coming to the end of their 6 month FJF job. **Again DWP should be asked to provide the most up to date information for this for Britain as a whole, and for different regions and groups of employees.**

- A key concern is that it is costly and onerous to follow up FJF employees beyond their involvement to find out whether they have found another job, and if so, whether they have sustained this.

**DWP and HMRC data sets could be interrogated to generate proxy measures of sustainability.**