

The ACEVO Commission on Youth Unemployment

Youth unemployment: the crisis we cannot afford



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Preface



Rt. Hon. David Miliband MP

When I became MP for South Shields in 2001, it had a history of having one of the highest unemployment rates in the country. So as the hopes for fragile recovery turned into fears about double dip recession in late 2010 and 2011, I became seriously concerned about the impact in my own constituency. Sure enough, registered long term unemployment among young people (those claiming for 6 months or more) rose 210 per cent in the calendar year of 2011 – from 150 people to 465.

I could see the problems, economic and social, personal and communal, with my own eyes. But I didn't know the solution. So when ACEVO proposed in July 2011 that I chair a Commission on Youth Unemployment I was delighted to accept. The national debate was not reflecting the local reality as I saw it, and I saw the chance to try and make a difference both to my own constituency and to the wider national need.

In the event, the fast rises especially in long-term youth unemployment have given national vent to local concern. But the true scale of the costs of youth unemployment is not well known; and the debate about the causes and the solutions has a long way to go before it really speaks to the reality that young people face. So I hope this report will help bridge that gap between political rhetoric and national reality. The report is based on facts not dogma; it has been drawn up on a cross-party and non-party basis; it proposes a number of new ideas but it does not claim to be the last word.

South Tyneside contains some of the neighbourhoods of youth unemployment emergency identified in the report, and I am delighted that the local council have come together with the local private and voluntary sectors, and the local community, to create a South Tyneside Youth Unemployment Commission. As the Borough containing Jarrow, that seems historically appropriate as well as future-oriented. I hope other communities will do the same, using this report and its facts, figures and ideas as a basis, but taking forward the policy debate in a real way.

I am extremely grateful to the Commissioners and our advisors, to the Secretary of the Commission Ralph Michell, and to all those who have helped us with submissions and research, for the constructive and open spirit in which they worked. The biggest test is now to make a difference for large numbers of young people who are currently losing faith in the ability of the political and business establishment to make a real positive difference to their lives.

A handwritten signature in black ink, appearing to read 'David Miliband'.

Rt. Hon. David Miliband MP

Chair, ACEVO Commission on Youth Unemployment

Executive summary

Youth unemployment is now one of the greatest challenges facing the country. Nearly 1½ million young people are currently not in education, employment or training – over 1 in 5 of all young people. A quarter of a million have been unemployed for over a year. The costs of these levels of long-term youth unemployment – now and in the future – are enormous. This is a crisis we cannot afford.

Unemployment hurts at any age; but for young people, long-term unemployment scars for life. It means lower earnings, more unemployment, more ill health later in life. It means more inequality between rich and poor – because the pain hits the most disadvantaged. It poses particular challenges for young women. And it means more division between communities: we have identified youth unemployment ‘hotspots’ in 152 local authority areas around the country, where the proportion of young people claiming unemployment benefit is twice the national average, where we estimate at least 1 in 4 young people are NEET, and where we need emergency action to turn things round.

The human misery of youth unemployment is also a time-bomb under the nation’s finances. We have done new research on the cash costs of youth unemployment. Even we were surprised. At its current rates, in 2012 youth unemployment will cost the exchequer £4.8 billion (more than the budget for further education for 16- to- 19-year-olds in England) and cost the economy £10.7 billion in lost output. But the costs are not just temporary. The scarring effects of youth unemployment at its current levels will ratchet up further future costs of £2.9 billion per year for the exchequer (equivalent to the entire annual budget for Jobcentre Plus) and £6.3 billion p.a. for the economy in lost output. **The net present value of the cost to the Treasury, even looking only a decade ahead, is approximately £28 billion.**

The question we have addressed is simple: can anything be done? The answer is yes, and the proof comes from parts of Britain that are doing good things, and other countries that have much better systems for getting young people ready for and into work. But we need young people, government, communities and employers to up their game.

Behind the headlines there are two challenges. First, we are in the midst of a crisis driven by low levels of demand for young people’s labour, with the numbers of young unemployed – and, of particular importance, the numbers of long-term young unemployed – rising from 2004, jumping upwards with the recession in 2008/9, and now rising again to record levels. Second, Britain also has a structural youth unemployment problem, so that even when the economy was booming approximately 7-9% of all young people were headed for long-term worklessness from the age of 16. Over the course of the Commission’s work, we spoke to hundreds of people from across the private, voluntary and public sectors – and to young people themselves. We found widespread concern at the problem of youth unemployment, and a shared desire to act to address it. But that willingness founders on the lack of vision for the ‘forgotten half’ of young people who are not destined for university or a high quality apprenticeship post-16; and provision in terms of opportunities and support for young people that is too often ad hoc, low quality and sometimes chaotic and wasteful of public money. If the route to university is a well signposted motorway, the route into work for these 16-to-18-year-olds is more like an unmarked field of landmines. Many young people find their way through the field with only minor injuries, but too many do not, and nearly ten per cent of the age group suffer long-term damage.

Our vision is simple: young people themselves and the private, voluntary and public sectors rallying behind a clear national and local goal – the abolition of long-term youth unemployment, with all young people able to follow a journey from education to career, and with long-term exclusion from the labour market simply not an option. The Government have said similar. The Deputy Prime Minister has said the aim is to “get every unemployed young person earning or learning again before long-term damage is done”. But we are a long way from achieving the goal.

To get there, the priority for change is action in four areas.

Young people need more job opportunities to be available in 2012 (chapter 3). The roots of the recent rise in youth unemployment to crisis levels lie in weak labour market demand: first, from 2004, in sectors upon which young people are particularly dependent for work, and then with the 2008 recession across the economy as a whole. The immediate crisis will therefore only be resolved through stronger labour market demand. We do not enter the macroeconomic debate about the speed and scale of the Government's deficit and debt reduction programme. But for any given level of overall demand in the economy, we need to shift the odds for young people. The Government have recognised the principle with a proposal to subsidise employers who take on young people. To make a real dent in unemployment, we need bigger and more incentives sooner. The ‘bazooka’ needs to be big enough for the task. We call for the Youth Contract to be front-loaded, thereby doubling the number of job subsidies available in 2012, and for young people on the Work Programme for a year to be guaranteed a part-time ‘First Step’ job as a stepping stone to unsupported employment.

Young people need better preparation and motivation for work (chapter 4). Too many young people do not have the hard and soft skills they need to progress in education or work. Attainment in English and Maths really matters. Too many have limited access to high-quality work experience and information and advice. The raising of the education participation age from 16 to 18 over the course of 2013-15 is a massive moment for the country. But there will only be benefits if education and training is of the right quality, in the right places, with the right incentives on schools and colleges, employers and young people.

Young people not heading for university need clear high-quality options for progression (chapter 5). For those young people who don't go to university, there are too few high-quality progression routes to follow as they make the transition from being in full-time education to being in full-time work. Again, the raising of the age of compulsory participation in education in England presents us with a huge opportunity to get this right. We call for more incentives on employers to engage with young people during their transition from education into work, and an expansion in the number of high-quality options available to young people (including apprenticeships). We also call for the creation of Job Ready, a locally-tailored, national programme for those most at risk of becoming long-term NEET. The programme would act early to prevent young people becoming NEET in the first place, and get those who do drop out back on track towards work rather than heading for long-term detachment from the labour market. We also propose an innovative mentoring project where young people employed for a year are automatically registered to mentor the disadvantaged to help them towards work.

Young people need reform of the welfare state, including guaranteed back-to-work support (chapter 6). Our analysis concludes that theories about the impact of immigration, work disincentives arising from benefit rates and an overgenerous minimum wage are largely red herrings in the debate about youth unemployment. The cost of transport is an issue for many.

Above all, access to and intervention by the welfare state is too often not having the impact needed. The Government's Work Programme covers only around 1 in 10 of the young unemployed. Some of the remaining 9 in 10 will not need intensive support, but some very much do. We call for eligibility for into-work support to be widened, so that fewer young people fall through the net. More intensive support should then be made available in a three-stage offer. Work experience placements should give young people in their first months of unemployment a better deal. After one year looking for work on the Work Programme, young people should have access to a part-time 'First Step' job guarantee – combined with responsibilities for job search and preparation. And for those who reach the end of two years on the Work Programme and who still have not found a job, we should learn from programmes in countries such as Denmark and introduce an intermediate labour market scheme guaranteeing work plus support to move on to regular employment.

The new vision needs to be put into practice. At the moment, lots of people are concerned about youth unemployment but no one is in charge. We need to put that right – with public money directed towards a single pot, employers confident that there is a local focal point for activity, communities empowered to act, and young people offered clear high quality options. Our idea is that, starting in the youth unemployment 'hotspots' across Britain, the key organisations in any locality, with responsibility, funding or interest in getting young people into work, come together and coordinate their efforts. These Youth Employment Partnerships will be led by different agencies in different parts of the country, depending on local circumstance. Crucially, they would use money from diverse sources to commission the expert help needed to get young people into work. As a first step towards a more coordinated system across the country, we call on Whitehall to strike 'deals' with these local partnerships in the 152 hardest hit areas: offering them freedom, support and targeted investment in return for collaboration, accountability and results. The Youth Employment Zones that would result, in which it would be everybody's business to get young people into work, could also trial many of our other proposals (such as the Job Ready programme or our call for young people with jobs to mentor their peers not yet in work).

The status quo (where it is too easy for young people to follow a pathway to welfare-dependency or a revolving door between benefits and work) is summarised in figure 1. Figure 2 summarises our recommendations, with all roads leading to work.

Our proposals are affordable. We recognise that budgets are tight, and our recommendations are built upon that reality. They can be paid for by making better and more coordinated use of the huge sums already spent on NEETs; investing money that has been announced for dealing with youth unemployment but not yet allocated; stretching resources (such as investment in infrastructure projects) to have an impact on youth employment; leveraging resources from the private sector (including through the potential use of social investment vehicles such as social impact bonds); paying for results; and through careful targeting of resource (both geographic and on those young unemployed people of greatest concern). The context is that Britain currently spends less than the OECD average on getting people into work, and has worse than average youth unemployment rates – a combination which ends up costing us more. So carrying on as we are is not good enough.

Figure 1

The status quo: too many pathways to benefit

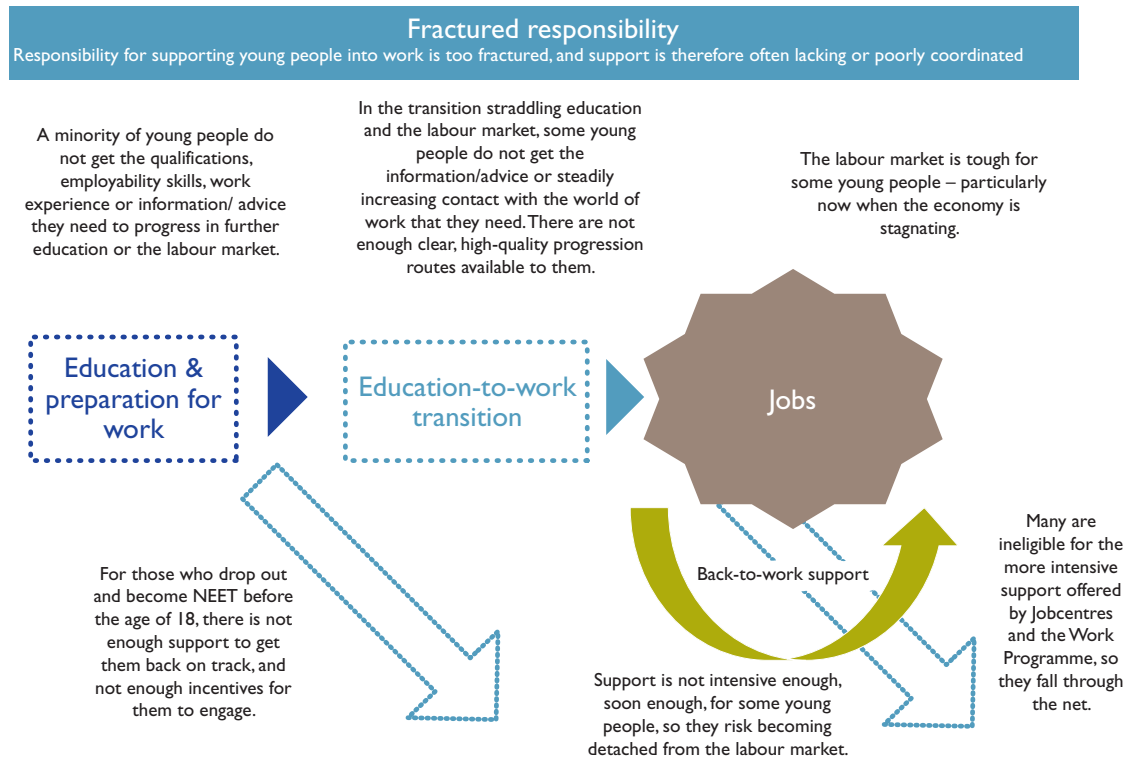
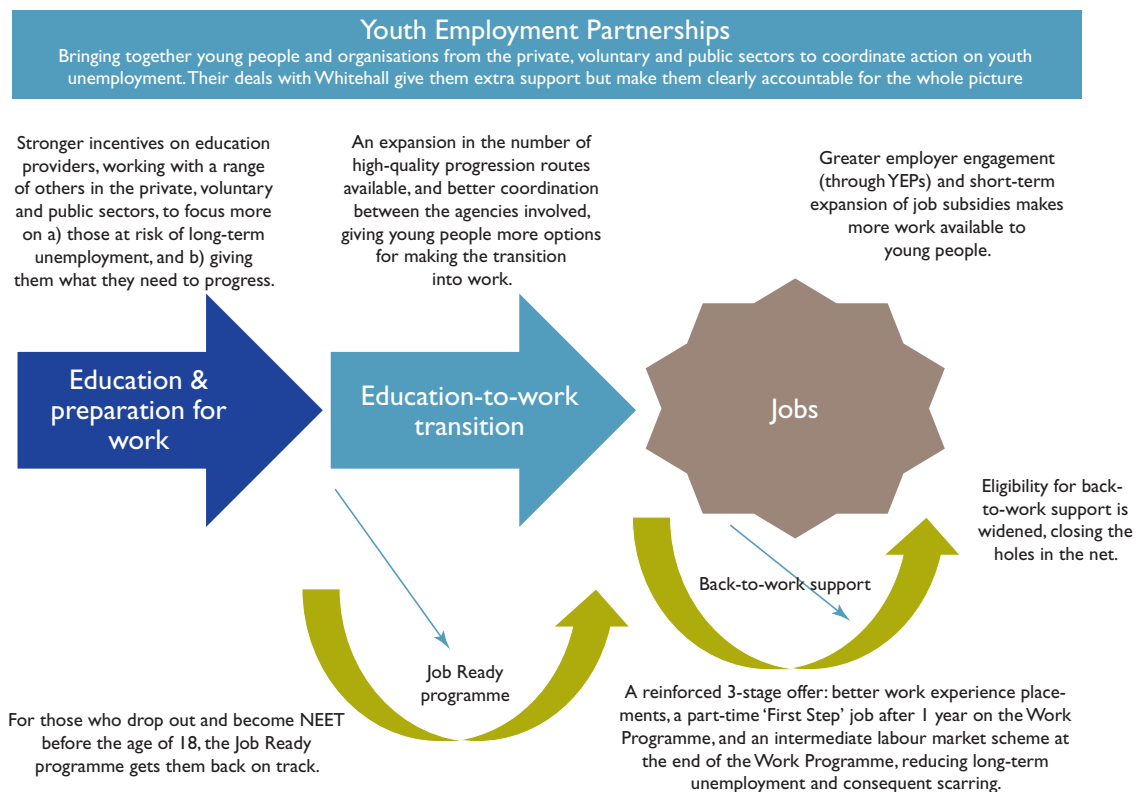


Figure 2

Our proposals: all roads lead to work



About this report

The Commission

The Commission on Youth Unemployment was set up in September 2011 by ACEVO (the Association of Chief Executives of Voluntary Organisations) in response to widespread concern amongst voluntary sector leaders about youth unemployment. It is clear that that concern is shared across society – over the past 6 months, we have spoken to people from across the voluntary, private and public sectors, as well as young people themselves. There is a desire across the country to act on youth unemployment, and the makings of a powerful coalition to do so. This report is as much a call to arms for that coalition of schools, councils, charities, businesses and others as it is a series of recommendations for central Government.

The Commission was chaired by Rt Hon David Miliband MP. The other members of the Commission were: Baroness Stedman-Scott (CEO, Tomorrow's People), Prof. Paul Gregg (University of Bath), Katherine Kerswell (whose career in local government has included chief executive roles in four councils), and Jonathan Portes (Director, National Institute for Economic and Social Research). Wayne Gough (Kent County Council), Dr Peter Kyle (ACEVO), Oliver Money (Office of David Miliband MP), Reza Motazedi (Deloitte) and Steve Swan (Tomorrow's People) acted as advisors who contributed to the extent that they felt like members of the Commission. Ralph Michell (ACEVO) was Secretary to the Commission.

In the annexes to this report, summaries are presented of the original research we commissioned from Lindsey Macmillan (University of Bristol) on the costs of youth unemployment; Eleanor Carter (University of Sheffield) on the spatial distribution of youth unemployment; Jack Britton (University of Bristol) on the NEET population in the UK; and Paolo Lucchino and Richard Dorsett (NIESR) on the labour market trajectories of 16- to 21-year-olds.

Claimants, unemployed or NEETs?

Some of the debate about youth unemployment is clouded by the difference between 'claimants', the young unemployed and 'NEETs':

- The **claimant count** is made up of those claiming Jobseekers Allowance.
- These claimants are part of a larger group of those who are **unemployed**. The International Labour Organisation's definition is that "a person is unemployed if he or she does not have a job, is seeking work, and is available to start work". The 'young unemployed' therefore include students who would like to be in work but cannot find a job (whom we might be less concerned about than others), but it also excludes young people who are not in education or work but not looking for employment either (the 'economically inactive') – some of whom we most definitely should be worried about.
- The term '**NEET**' covers all young people not in employment, education or training. It excludes young people studying but also looking for work, and it includes young people who are economically inactive (those not in work and not looking for work).

In general, this report is primarily about young people who have been long-term unemployed or NEET, the group we believe merits particular attention.

The countries of the United Kingdom

Our focus is primarily on England, though we also make recommendations relating to Scotland and Wales (for instance, on issues relating to the Department for Work and Pensions). We have not specifically sought to address youth unemployment in Northern Ireland, where welfare-to-work policy is devolved – though some of our proposals may be of interest there too.





Chapter One

The imperative to act



The imperative to act

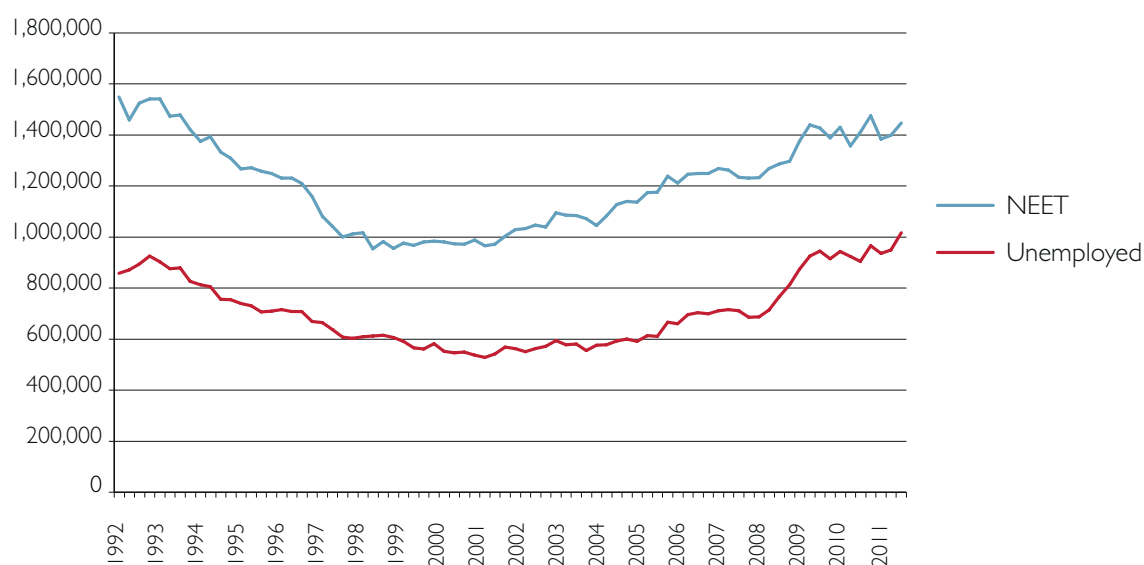
1.1 Youth unemployment is now one of the most serious challenges facing Britain

Work is central to most of our lives, not just as the foundation that enables us to get by in the world, but as key to how we see and define ourselves and to our sense of self-worth. Being unemployed, by contrast, hurts. And most of us will know, either first-hand or through people we know, that being unemployed is particularly painful when you are young.

That is the position that over a million young people now find themselves in. There are almost 1.5 million 16- to- 24-year-olds not in employment, education or training (NEET) – 1 in 5 of all young people. Over a quarter of a million young people have been looking for work for a year or more.¹

The problem did not start under the current Government, but with such large numbers at risk of being permanently scarred by youth unemployment, it is now at crisis levels. Youth unemployment is at its highest level for two decades, and there are now almost twice as many young people out of work as there were a few years ago.²

16-24s NEET and unemployed



Source: Labour Force Survey

1.2 Unemployment will damage young people for life

These numbers matter. Unemployment has a negative impact on people no matter what their age, but it has a particularly negative impact on young people. Furthermore, the damage is not temporary; the evidence suggests it does permanent damage to employment and earnings potential.³ When people are unemployed at a young age:

¹ Labour Force Survey

² Labour Force Survey

³ P. Gregg & E. Tominey, 'The wage scar from male youth unemployment', (Labour Economics 12, 2005)

- **They are more likely to be unemployed and welfare-dependent later in life; with the average young unemployed person spending an extra 2 months per year out of work by their late twenties through the scarring effects of youth unemployment.** The effect is much larger for young people than older people,⁴ and is more pronounced the longer a young person spends out of work.⁵ Research undertaken for the Commission by researchers at the University of Bristol (presented in full in the Appendices) suggests that an individual unemployed for a year between the ages of 16 and 24 is likely to spend just under 9% less time in work between the ages of 26 and 29 than they would have done otherwise. In reality, if young people experience unemployment between the ages of 16 and 24, they will on average spend longer out of work, in single or multiple spells of unemployment. Research for the Commission suggests that individuals unemployed at a young age will on average spend approximately an extra 2 months per year (8.41 weeks for men, 10.70 weeks for women) out of work aged 26 to 29 than they would have done otherwise.⁶
- **They are likely to be paid less in later life; with the average young unemployed person earning £1,800 – £3,300 less per year by their early thirties through the scarring effects of youth unemployment.** People unemployed at a young age are likely to be paid less later on in life than people with similar education, backgrounds and personal characteristics who were not unemployed at a young age.⁷ Again, the longer a young person spends out of work, the more pronounced the effect.⁸ Research for the Commission suggests a man unemployed for a year when young can expect to earn just over 8% less by the age of 30/34 than he would have earned had he not been unemployed at a young age, and that the equivalent figure for women is just under 6%. In reality, if young people experience unemployment between the ages of 16 and 24, they will on average spend longer out of work, in single or multiple spells of unemployment. Research for the Commission suggests that for men unemployed at a young age, the average wage penalty by the age of 30/34 will be just under 16%, with the equivalent figure for women being just over 17%. Given the different average earnings and spells in employment for men and women, that equates to men earning just over £3,300 less per year by their early thirties, and women earning just under £1,800 less per year in the same period. For comparison, estimates of the earnings premium to a university degree in the UK are typically about 20-25%.⁹
- **Their mental and physical health will be negatively affected,** both now and in the future. A range of academic studies have found that unemployment increases susceptibility to illness, mental stress, and helplessness, and loss of self-esteem leading to depression.

There is also evidence that the psychological imprint of unemployment persists into later life, and that unemployment increases the probability of poor physical health outcomes such as heart attacks later in life.¹⁰

4 D. Bell & D. Blanchflower, *Youth Unemployment: Déjà Vu?* (2010)

5 Research for the Commission by Lindsey Macmillan, University of Bristol, presented in Annex A

6 Research for the Commission by Lindsey Macmillan, University of Bristol, presented in Annex A

7 P. Gregg & E. Tominey, *The wage scar from male youth unemployment*, (Labour Economics 12, 2005)

8 Research for the Commission by Lindsey Macmillan, University of Bristol, presented in Annex A

9 Research for the Commission by Lindsey Macmillan, University of Bristol, presented in Annex A

10 Summarised in D. Bell & D. Blanchflower, *Youth Unemployment: Déjà Vu?* (2010)

- **They are more likely to get involved in anti-social activity.** Studies have found that increases in youth unemployment relate to increases in burglaries, thefts and drug offences. A study focusing on England and Wales in 2001 found that youth unemployment was significantly positively related to burglary, theft, fraud, forgery and total crime rates, and another in 2000 found that there is a stronger correlation between youth unemployment and crime rates than there is between crime rates and rates of unemployment amongst older adults.¹¹

1.3 Youth unemployment is a time-bomb under the nation's finances

The costs of youth unemployment for individuals and the communities they live in is enormous. But youth unemployment also results in significant costs to the public purse. For all of the reasons above, youth unemployment translates into higher spending on benefits, lost income to the exchequer through tax receipts forgone, and higher spending on services such as the NHS or the criminal justice system.

Research for the Commission found that in 2012, youth unemployment is likely to cost the Exchequer approximately £4.8 billion (more than the 2011-12 budget for further education for 16- to 19-year-olds in England)¹², and the wider economy £10.7 billion in lost output:

- **In 2012, the total benefit bill for youth unemployment at its current levels is likely to be just under £4.2 billion.** 81% of 16- to 17-year-olds not in education or work, and 35% of 18- to 24-year-olds not in education or work, do not claim any benefits at all, but those 16- to 17-year-old 'NEETs' who do claim benefits cost the exchequer an average £3,559 in benefits p.a. each, and those 18- to 24-year-old NEETs who claim benefits cost the exchequer an average £5,662 in benefits p.a. each.
- **In 2012, the total cost of youth unemployment at its current levels in terms of taxes foregone is likely to be just over £600 million.** These estimates are based on the assumption that young unemployed people would earn less in work than their average currently employed peers, and take into account the extra cost to the exchequer of a minority of these young people claiming working tax credits were they in work. On this basis, 16- to 17-year-olds currently unemployed would cost the public purse £143 more per year, per person, if they moved into work (because their income would fall below tax thresholds and they might be eligible to claim working tax credits), whereas 18- to 24-year-olds would contribute a net extra £582 each per year to the exchequer through taxes.
- **In 2012, the total cost to the economy of youth unemployment at its current levels in terms of lost output is likely to be £10.7 billion.** Again, this is based on the assumption that young unemployed people would earn less in work than their average currently employed peers.¹³

However, because youth unemployment has a negative impact on young people's future prospects, its costs include not just those current costs outlined above, but future costs too. Research for the Commission found that the scarring effects of current levels of youth unemployment will cost the Exchequer approximately

11 Summarised in D. Bell & D. Blanchflower, *Youth Unemployment: Déjà Vu?* (2010)

12 H. Chowdry & L. Sibiet, *Trends in Education and Schools Spending* (IFS, 2011), Table 4

13 Research for the Commission by Lindsey Macmillan, University of Bristol, presented in Annex A

£2.9 billion per year (roughly equivalent to the annual budget of Jobcentre Plus)¹⁴, and cost the wider economy £6.3 billion per year in lost output:

- **The scarring effects of youth unemployment at its current levels will cost us £689 million per year in additional future benefit payments.** The average young man not in employment, education or training now is more likely to experience spells unemployed in future, and as a result will receive an extra £487 in benefits every year in the future as a result of his spells of unemployment at a young age. The equivalent figure for women is £740 p.a.
- **The scarring effects of youth unemployment at its current levels will cost us just under £2.2 billion per year in lost potential tax revenues.** The average young man not in employment, education or training now is more likely to earn less and be in work less often in future, and as a result will pay £2,425 per year less in taxes than we would expect had he not been unemployed at a young age. The equivalent figure for women is £1,530 per year.
- **The scarring effects of youth unemployment at its current levels will cost the economy £6.3 billion per year in lost output.**¹⁵

It cannot be concluded from the research exactly how long these impacts will persist, but the evidence suggests the impacts will persist until those who are unemployed now are well into their thirties. So the cost of today's youth unemployment is billions of pounds not just this year, but next year and the year after, long after the economy has recovered.

Moreover, it is worth noting that these figures are based on conservative assumptions about the cost of youth unemployment, and that they do not take into account those costs of youth unemployment that are harder to monetise (e.g. those resulting from worse health outcomes, or higher levels of crime and anti-social behaviour).

Taking these figures together, current levels of youth unemployment will cost the public purse at least £4.8 billion in 2012 and its scarring effects will cost £2.9 billion p.a. in future. It will cost the wider economy a further £10.7 billion in 2012, and its scarring effects will cost the economy £6.3 billion p.a. in future. The net present value of the costs to the Treasury, even looking only a decade ahead, is approximately £28 billion; that is the true measure of the potential economic damage.

1.4 Youth unemployment exacerbates inequalities and stifles social mobility

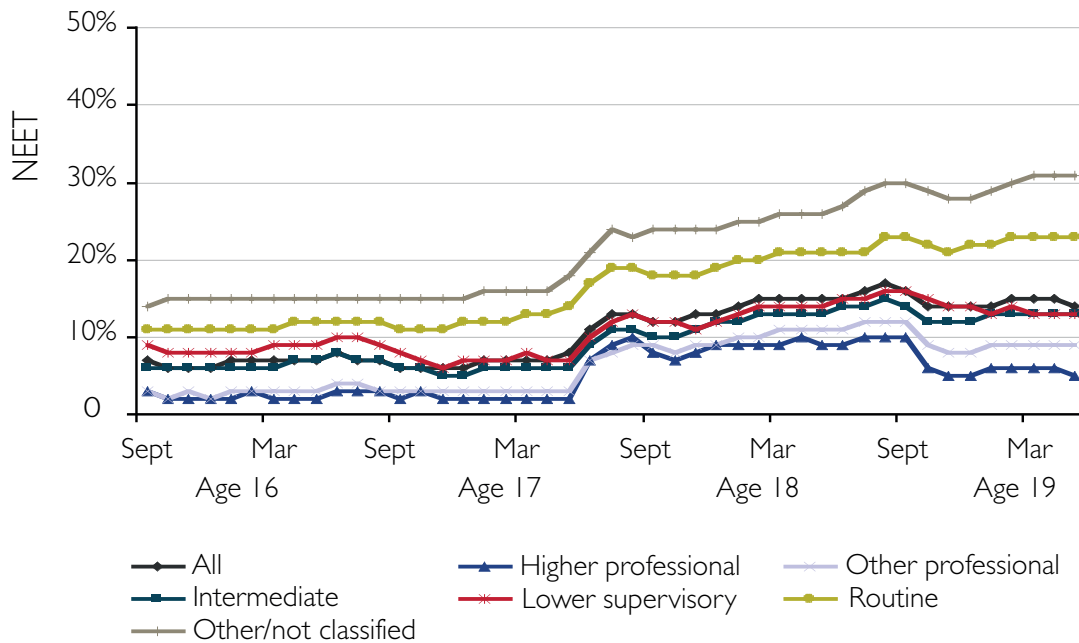
Youth unemployment, and the poorer futures it results in, are not distributed equally across society. Youth unemployment is interlinked with and exacerbates a range of other inequalities that young people face from birth to entering the labour market. For many it will be the final nail in the coffin for their hopes of social mobility.

For instance, the evidence suggests that young people are more likely to spend time out of employment, education or training (and be scarred for life as a result) if they are from a less well-off background, come from particular ethnic groups, are disabled, have learning difficulties or special educational needs, have caring responsibilities or grew up in care. The graphs below illustrate two of these phenomena, which we explore further in chapter 2.

¹⁴ Set out at: <http://www.dwp.gov.uk/docs/jcp-delivery-plan-2011-2012.pdf>

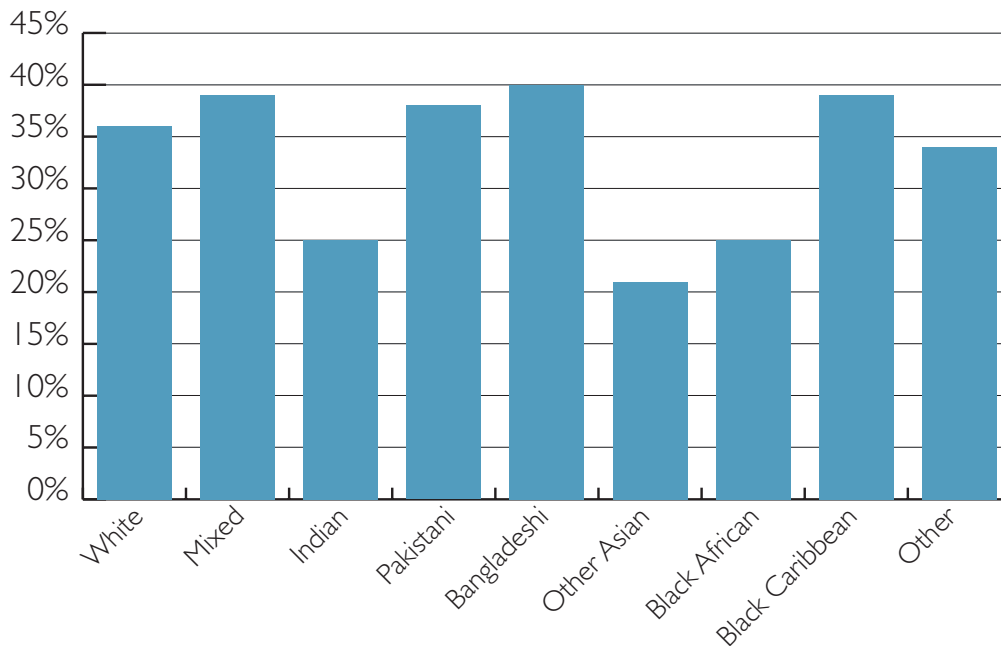
¹⁵ Research for the Commission by Lindsey Macmillan, University of Bristol, presented in Annex A

Proportion of young people stating their main activity as NEET, by parental occupation¹⁶



Source: DfE Statistical Bulletin, *Youth Cohort Study & Longitudinal Study of Young People in England: the activities and experiences of 19 year olds, England 2010 (2011)*

Proportion of young people experiencing some time NEET aged 16-19 by ethnicity



Source: DfE Statistical Bulletin, *Youth Cohort Study & Longitudinal Study of Young People in England: the activities and experiences of 19 year olds, England 2010 (2011)*

¹⁶ DfE Statistical Bulletin, *Youth Cohort Study & Longitudinal Study of Young People in England: the activities and experiences of 19 year olds, England 2010 (2011)*

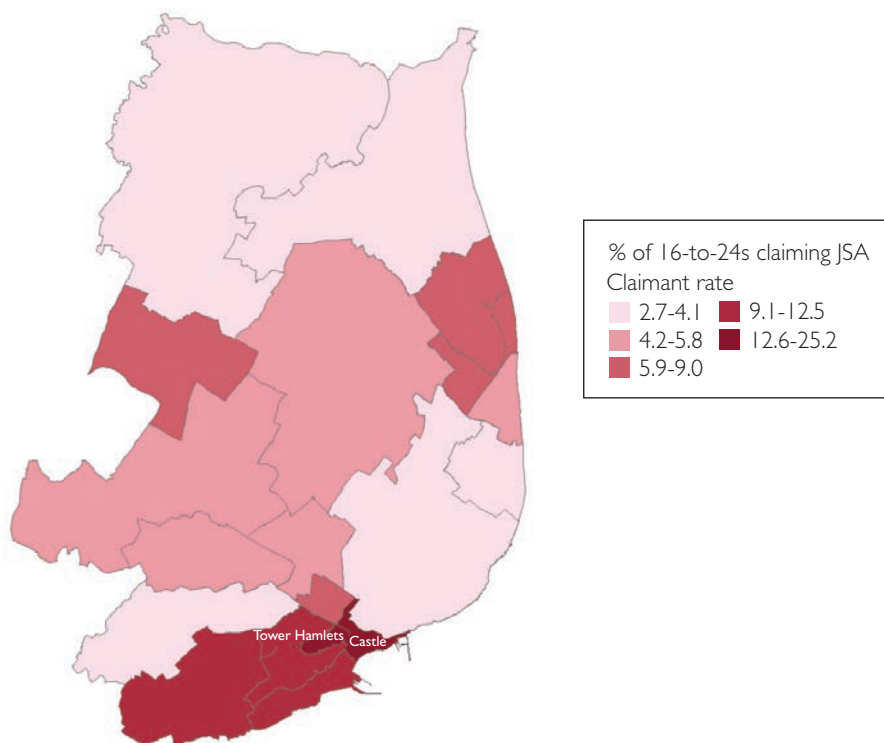
Youth unemployment also hits young men and women in different ways. Over the past decade and more, there have consistently been more young women out of employment, education or training than young men (though the rise in NEET numbers from 2004 was more marked amongst males).¹⁷ Our research suggests that those young people who leave school to become long-term NEET are considerably more likely to be female than male.¹⁸ And whilst the average wage penalty resulting from youth unemployment is lower for women than men (approximately £1,800 per year by their early thirties as opposed to £3,300), that is only because women tend to earn less – they can expect their wages to be 17% lower where for young men the equivalent figure is just under 16%.¹⁹

5. Across the country there are ‘hot spots’ where youth unemployment is particularly concentrated, and where it constitutes a blight on whole communities

Across Britain, there are ‘hot spots’ where youth unemployment is a particularly acute problem. These areas of concentrated joblessness – and too often hopelessness – are smaller than local authority areas. They appear within both richer and poorer parts of the country, and richer and poorer local authorities.

We used the proportion of young people claiming benefit as an indicator of the severity of youth unemployment in local areas,²⁰ and found that whereas in some neighbourhoods the proportion of young people claiming benefits is close to zero, there are others (such as Cliftonville West ward in Thanet) where the proportion of young people claiming benefit is over 1 in 4. The map of Dover, below, shows how starkly youth unemployment can vary from neighbourhood to neighbourhood within one local authority area.

Dover: Youth unemployment hotspots within the local authority



¹⁷ Research for the Commission by Jack Britton, University of Bristol, presented in Annex D

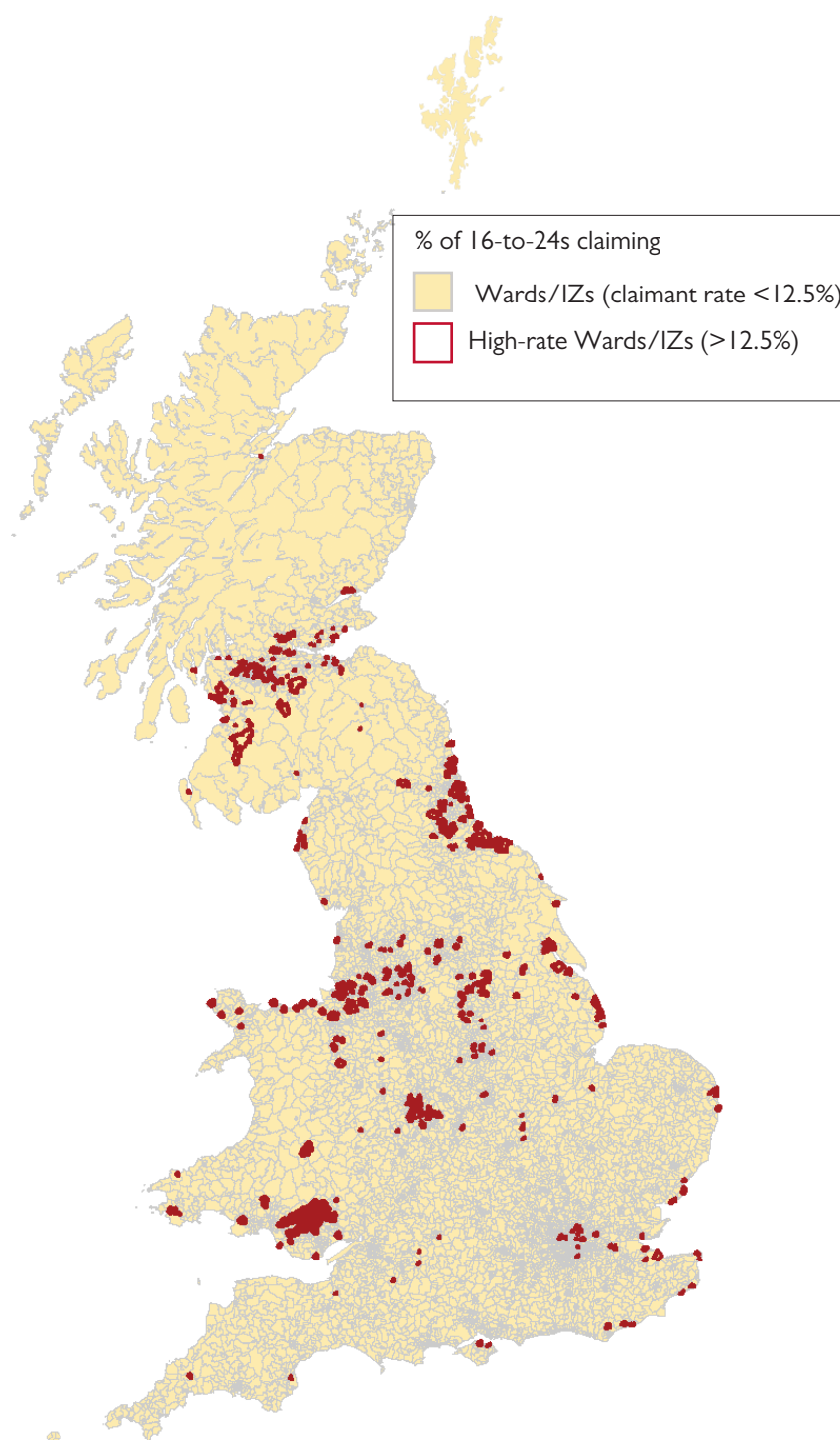
¹⁸ Research for the Commission by Paolo Lucchino & Richard Dorsett, NIESR, presented in Annex C

¹⁹ Research for the Commission by Lindsey Macmillan, University of Bristol, presented in Annex A

²⁰ Data on unemployment and NEET rates amongst 16- to- 24-year-olds at a very local level is problematic (the Labour Force Survey is based on very small samples at a local level, and local authorities do not collect data on older NEETs). For that reason we use the claimant count as an indicator of the severity of the problem.

We mapped out youth unemployment 'hotspots' across Britain, where the proportion of young people claiming benefit is twice the national average, and where we estimate the proportion of young people NEET will be at least 1 in 4. These hotspots, situated in 152 different local authority areas across England, Wales and Scotland, are shown on the map below.

Youth unemployment hotspots in England, Scotland and Wales:
Neighbourhoods where 1 in 8 16 to 24 year olds (or higher) are claiming JSA



More detailed maps of each of England, Scotland and Wales, and a list of the 'hotspots' shown here, are available in Annex B.

6. The Government has set out the right objective (effectively to abolish long-term youth unemployment) and it has begun to act – but more must be done if its ambitions are to be realised

We share the Deputy Prime Minister's aim to "get every unemployed young person earning or learning again before long-term damage is done,"²¹ and aspects of the Government's reform programme and efforts to bring youth unemployment down through the 'Youth Contract' should help. However, as we explain in more detail in subsequent chapters, the evidence suggests that the Government's measures as they currently stand will not be enough to achieve its objectives. The problem of youth unemployment remains, it remains acute, and given the current state of the economy, it could deteriorate further in spite of the Government's latest package of measures. As a country we must do more.

21 Rt Hon Nick Clegg MP, speaking at the launch of the Youth Contract, November 2011





Chapter Two

The current crisis and the structural problem



The current crisis and the structural problem

2.1 Youth unemployment presents two key challenges, short- and long-term

Behind the headline figures, there are two key problems relating to youth unemployment:

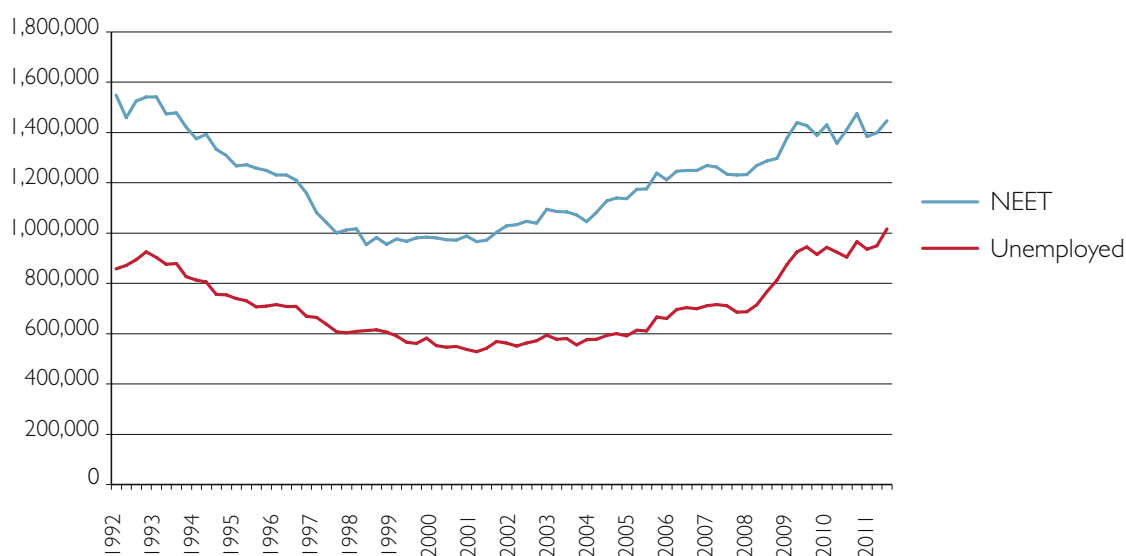
- a recent **rise in youth unemployment to crisis levels**. There are over half a million more NEETs now than there were in 2004, when NEET levels were at their lowest in the recent past.¹ Whilst spells of unemployment at a young age are common, large numbers of young people are experiencing long-term unemployment (over a quarter of a million have now been unemployed for a year or more) and the risk is that they will be scarred for life. It is this danger that constitutes the crisis.
- a **longer-term structural problem**, so that even when the economy was growing strongly over the past decade and more, a minority of young people (roughly 7-9%, disproportionately the most disadvantaged) were reaching the age of 16 and becoming long-term NEET.²

In the current economic context, the clear danger is that the proportion of young people becoming long-term NEET will be substantially higher than the 7-9% we saw in more prosperous times.

2.2 Youth unemployment has recently risen to crisis levels, with 1.4 million NEET

Youth unemployment has been rising, and is currently at crisis levels. At the end of 2011 there were over 1.4 million 16- to- 24-year-olds NEET,³ compared with 870,000 in 2004⁴ – a rise of more than half a million.

16-24s NEET and unemployed



Source: Labour Force Survey

1 Research for the Commission by Jack Britton, University of Bristol, presented in Annex D
 2 Research for the Commission by Jack Britton, University of Bristol, presented in Annex D
 3 Labour Force Survey
 4 Research for the Commission by Jack Britton, University of Bristol, presented in Annex D

2.3 But Britain also has a structural youth unemployment problem affecting 7-9% of young people, and disproportionately hitting the most disadvantaged

Youth unemployment, however, is not just a temporary problem linked to recent economic problems. Even when the economy was booming, large numbers of young people were NEET, often for sustained periods of time. Britain has a structural youth unemployment problem as well as an immediate crisis to face.

Research undertaken for the Commission by the National Institute for Economic and Social Research (NIESR), which looked at the labour market trajectories young people experienced between the ages of 16 and 21 over the period 1991-2008, suggests that even when the labour market was buoyant, around 9% of young people left school and struggled to engage with the labour market over the following five years.⁵

The research (set out in full in Annex C) found that 90.9% of the young people covered had a journey between the ages of 16 and 21 broadly characterised by full-time education throughout, full-time education throughout interrupted by a period in work, or a relatively quick transition from education into work.

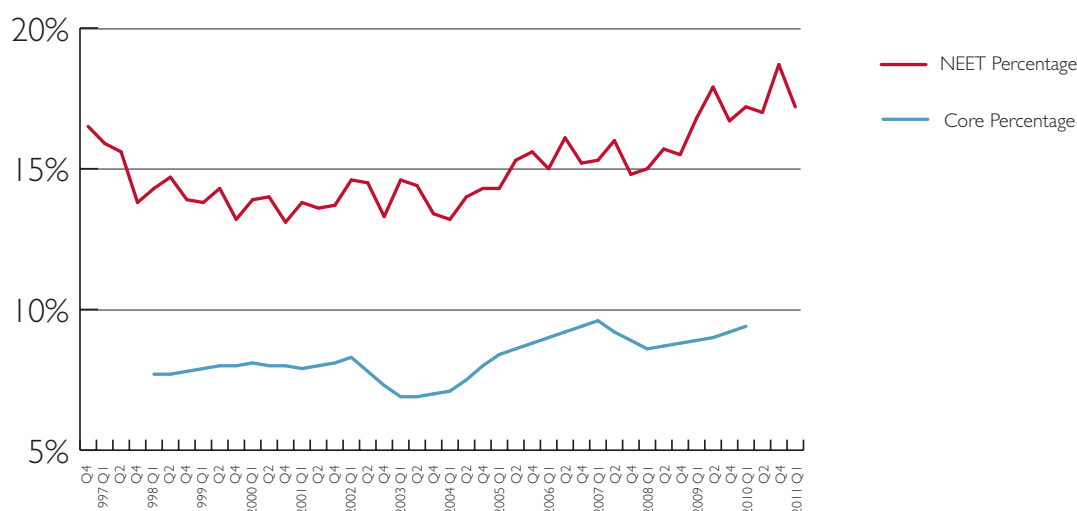
The remaining 9.1% followed labour market journeys more likely to be of concern, with long and/or repeated spells out of education, employment or training (NEET). The research identified five types of trajectory between the ages of 16-21 which are of possible concern:

Type of trajectory	Description	Proportion of young people falling into this category
NEET from 16	Young people experiencing economic inactivity from age 16 onwards	2.1%
NEET from 18	Young people experiencing economic inactivity from age 18 onwards	1.6%
Long-term worklessness	Young people experiencing long-term unemployment and inactivity	2.3%
Withdrawal from the labour market	Young people who appear to withdraw from the labour market following an apparently successful entry into employment	1.2%
Partial recovery	Young people who experience some employment between ages 16 and 21 but who develop only limited labour market attachment	2.0%
Total		9.1%

This picture of a structural youth unemployment problem is reinforced by analysis undertaken by researchers at the University of Bristol of data on 16- to- 24-year-old NEETs over the past decade. Even when NEET levels were at their lowest over this period, there were still nearly 900,000 16- to- 24-year-olds NEET, accounting for more than 13% of the young population – just over half of whom (approximately 7%) had been NEET for a year or more.⁶ The graph below shows how overall NEET levels and this ‘core’ group of NEETs (those out of employment, education or training for a year or more) has remained stubbornly high over the past decade and more.

⁵ Research for the Commission by Paolo Lucchino & Richard Dorsett, NIESR, presented in Annex C

⁶ Research for the Commission by Jack Britton, University of Bristol, presented in Annex D

Overall and Core NEET populations over time⁷

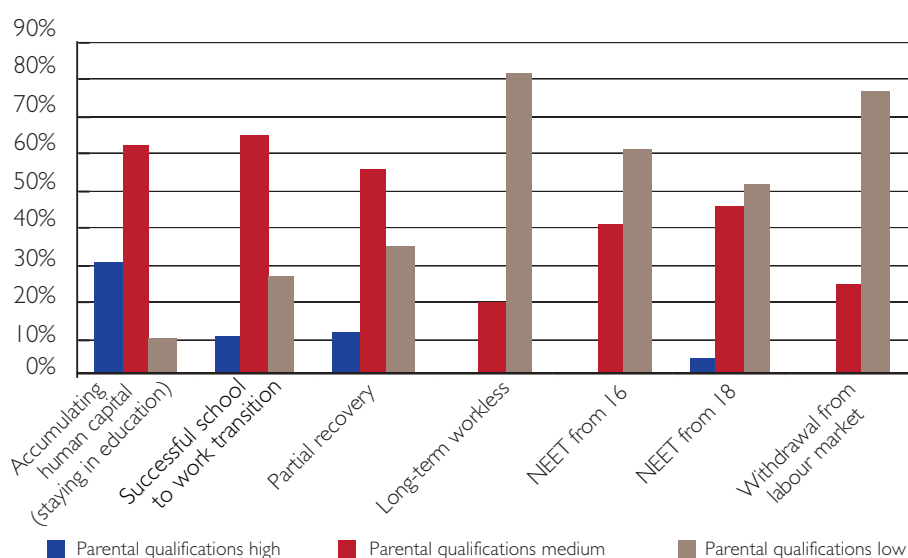
Source: research for the Commission by J. Britton, presented in Annex D

In summary, Britain has a structural youth unemployment problem that sees approximately 7 – 9% of young people struggle to engage with the labour market even when the economy is booming.

The young people on the receiving end of this structural youth unemployment problem suffer from a range of disadvantages.

They are more likely to come from less well-off, less well-educated families. For instance, the graphs below illustrate how the 9% of young people whose labour market trajectories from 16 to 21 are a potential cause for concern are more likely to come from families with lower parental qualifications, and more likely to live in social housing. Whereas 91% of young people who stay in education between the ages of 16 and 21 have parents with medium or high qualifications, 81% of young people who are long-term workless between the ages of 16 and 21 have parents with low qualifications. Whereas only 7% of young people who stay in education between the ages of 16 and 21 live in social rented housing, 77% of young people who are long-term workless between 16 and 21 live in social rented housing.⁸

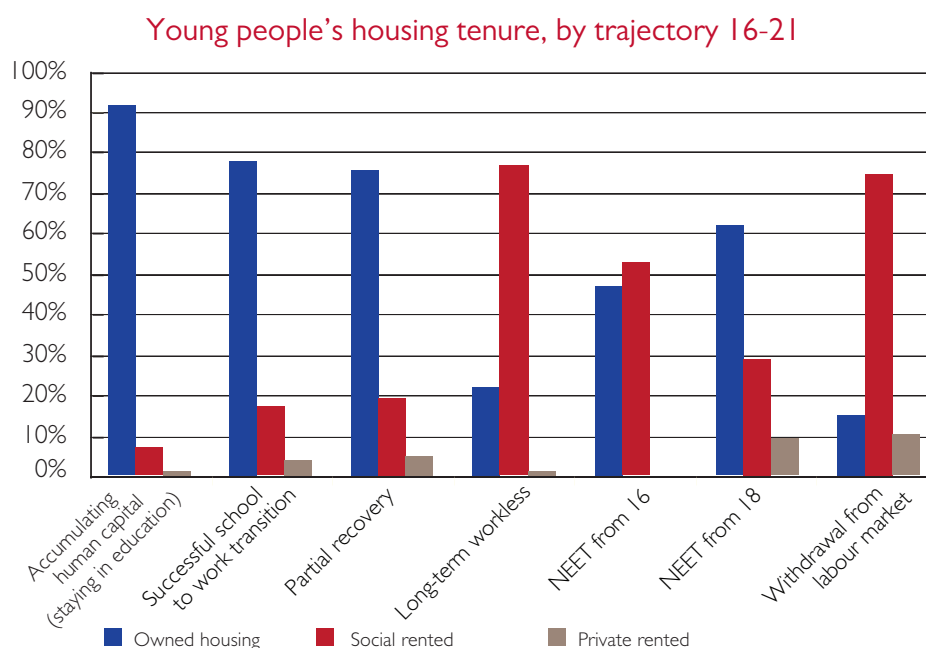
Parental qualifications of young people, by labour market trajectory 16 - 21



Source: NIESR research for the Commission, presented in Annex C

⁷ Research for the Commission by Jack Britton, University of Bristol, presented in Annex D

⁸ Research for the Commission by Paolo Luchino & Richard Dorsett, NIESR, presented in Annex C



Source: NIESR research for the Commission, presented in Annex C

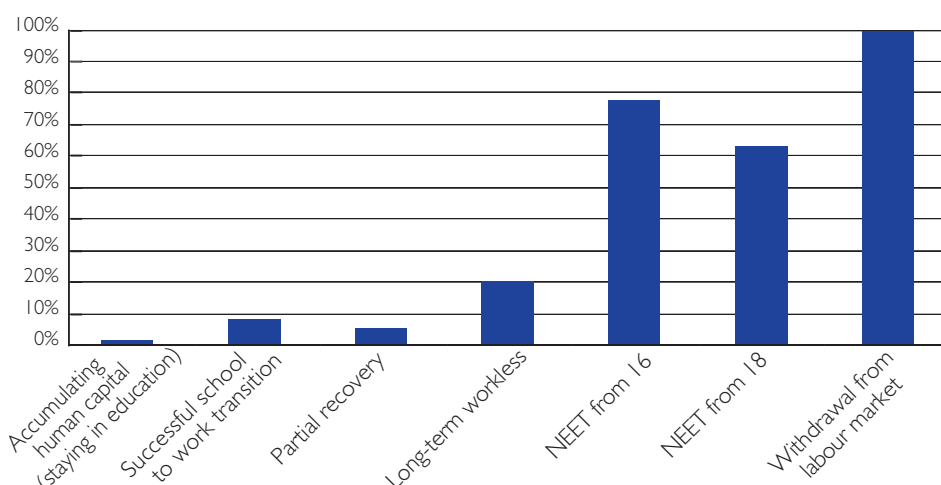
Again, this is mirrored by analysis of the 7% of 16- to- 24-year-olds who experienced a year or more NEET when the economy was booming: 38% came from the bottom 20% of the distribution of a continuous family background index linked to parental occupation, parental economic activity, parental qualifications, lone parenthood and social housing.⁹

There is much public debate about the role of 'workless households'. In fact, research for the Commission found that of all households where two generations are of working age (i.e. where more than one generation could be in work), only 4% are workless, equating to 0.8% of all households in the country – and over the long term, the problem appears to be improving. However, in these workless households unemployment appears to be entrenched, with both generations unemployed for two years or more in over 50% of all cases. There does appear to be a negative impact on the younger generation: sons with workless fathers spend on average 8-11% more time out of work than sons with employed fathers, and they are 15-18% more likely to spend a year or more in concurrent spells out of work. Importantly, the impact varies significantly by local labour markets – in areas of low unemployment, sons with workless fathers have the same chance of employment as sons with employed fathers, whereas in areas of high unemployment they spend up to 30% more time out of work between 16 and 29 as their peers.¹⁰ It is important to be clear that young people in 'workless households' form only a small minority of those who are long-term NEET – it would be misleading to present Britain's structural youth unemployment problem as one of intergenerational worklessness. Nevertheless, we suspect that there is likely to be significant overlap between the small number of NEETs who do come from workless households and the 120,000 'problem families' identified by the Government as a priority for action.

They are more likely to be teenage mothers, or be young carers. It is clear that many of the young people whose labour market trajectories between the ages of 16 and 21 are a potential cause for concern are young mothers, as the graph below illustrates.

⁹ Research for the Commission by Jack Britton, University of Bristol, presented in Annex D
¹⁰ Research for the Commission by Lindsey Macmillan, University of Bristol, presented in Annex A

Proportion of young people with children by age 21, by labour market trajectory

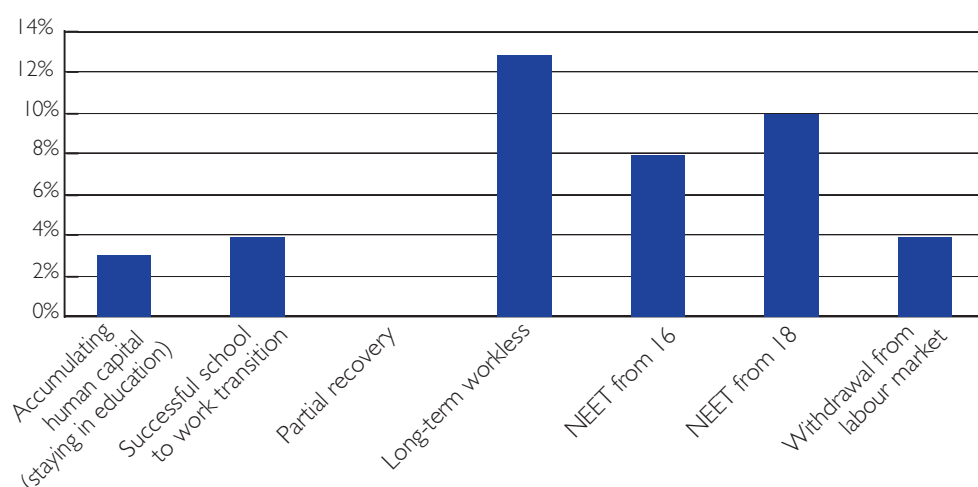


Source: NIESR research for the Commission, set out in Annex C

Here the phrase ‘potential cause for concern’ is key. Clearly, some women form strong families including children at a young age, and that is not our concern. But if staying out of education or work to look after a baby causes a young woman to become completely detached from the labour market (in an age when many might need and be expected to work ten years down the line), or if those young women might have made other choices with better information or advice, then we should indeed be concerned. Similarly, we know from other sources that young people with caring responsibilities are twice as likely as their peers to experience 6 months or more not in employment, education or training.¹¹

They are more likely to be disabled or have learning difficulties. The graph below shows how young people whose health limits their daily activities are disproportionately represented in those groups whose labour market trajectories between the ages of 16 and 21 are a potential cause for concern. We know from other sources that young people with learning difficulties and/or a disability are twice as highly represented amongst young people who have experienced 6 months or more NEET as they are amongst the general population (constituting 7% of all young people, but 16% of those NEET for 6 months or more).¹²

Proportion of young people whose health limits daily activities, by labour market trajectory 16-21



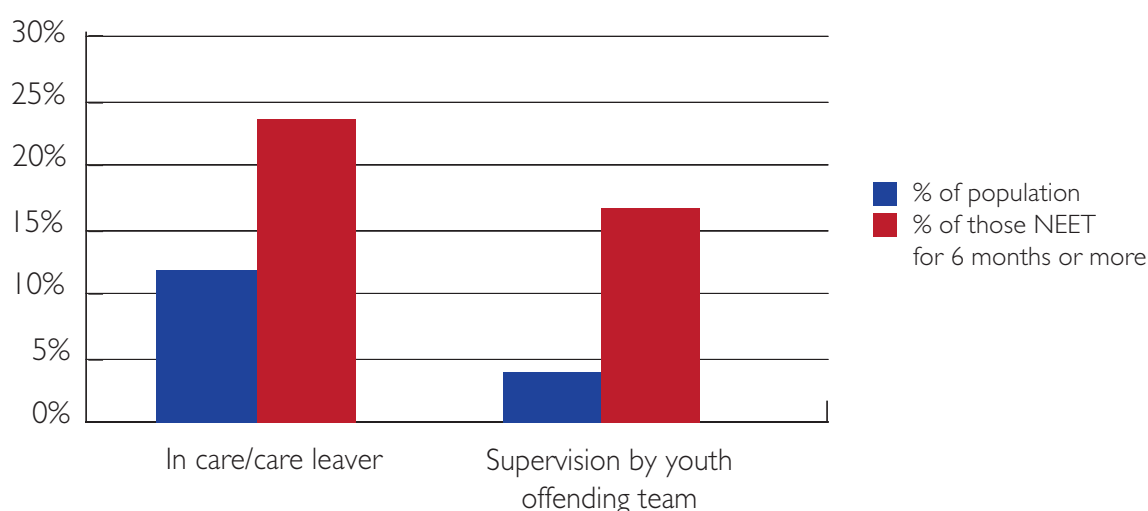
Source: NIESR research for the Commission, presented in Annex C

¹¹ Audit Commission, *Against the odds: re-engaging young people in education, employment and training. Technical paper – creating a predictive model of the characteristics of young people NEET* (2010)

¹² Audit Commission, *Against the odds: re-engaging young people in education, employment and training*. (2010)

They are more likely to be young people in care or young offenders. The Audit Commission found that young people who grew up or are growing in care are twice as highly represented amongst young people who have experienced 6 months or more NEET as they are amongst the general population, and that young people in the supervision of a youth offending team are more than four times as highly represented amongst young people who have experienced 6 months or more NEET as they are amongst the general population.¹³

Young people in care and young offenders disproportionately represented amongst longer-term NEETs



Source: Audit Commission, *Against the odds: re-engaging young people in education, employment and training* (2010)

In summary, the 7-9% of young people on the receiving end of Britain's structural youth unemployment problem are more likely to come from less well-off and less well-educated families, and are more likely to have multiple problems that mean they receive support from a variety of state agencies – and are the subject of significant public investment.

In the following chapters, we explore the causes of these two problems (the immediate crisis and Britain's structural youth unemployment problem), and make recommendations for addressing them.

13 Audit Commission, *Against the odds: re-engaging young people in education, employment and training*. (2010)



Chapter Three

The immediate shortage of jobs

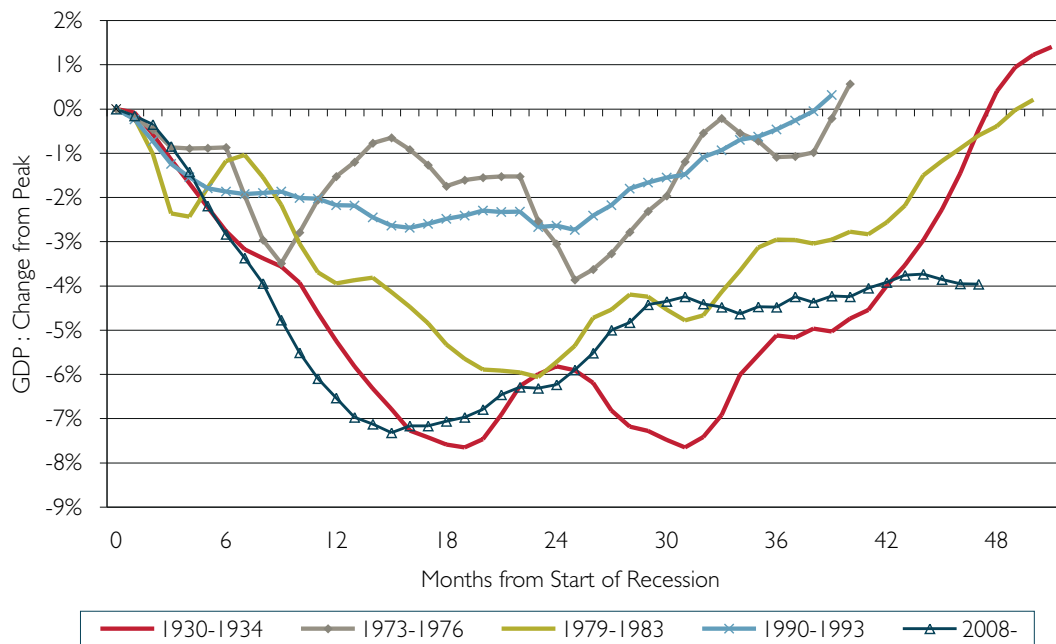
3

The immediate shortage of jobs

3.1 In the short term, lack of labour market demand is the primary cause of the current crisis levels of high youth unemployment

The UK has still not recovered from the 2008 recession – as the graph below shows, the recovery has been slower even than that following the Great Depression.

Recovery from recessions, 1930-2008



Source: NIESR

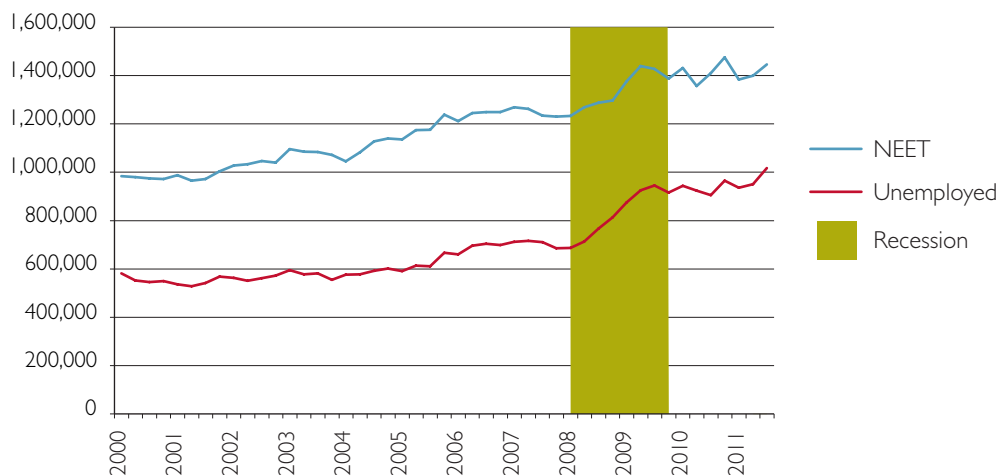
Clearly, the 2008 recession and subsequent low levels of growth have been major contributors to the recent rise in youth unemployment. Recessions tend to impact on youth unemployment more than they do on unemployment amongst older adults,¹ and the 2008 recession in the UK appears to have had a particularly negative impact on young people.² There are currently over 200,000 more young people NEET than there were on the eve of the 2008 recession,³ and the jump in youth unemployment (and long-term youth unemployment) caused by the recession is clearly visible in the graphs overleaf.

1 OECD, *Off to a Good Start? Jobs for Youth* (2010)

2 P. Gregg & J. Wadsworth, *The UK Labour Market and the 2008-2009 Recession* (Centre for Economic Performance, Occasional Paper 25, 2010)

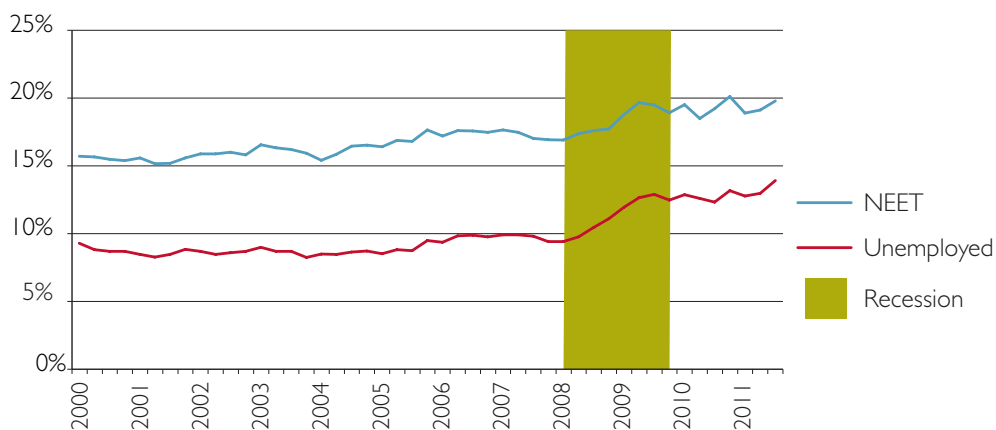
3 Labour Force Survey

16-24s unemployed and NEET



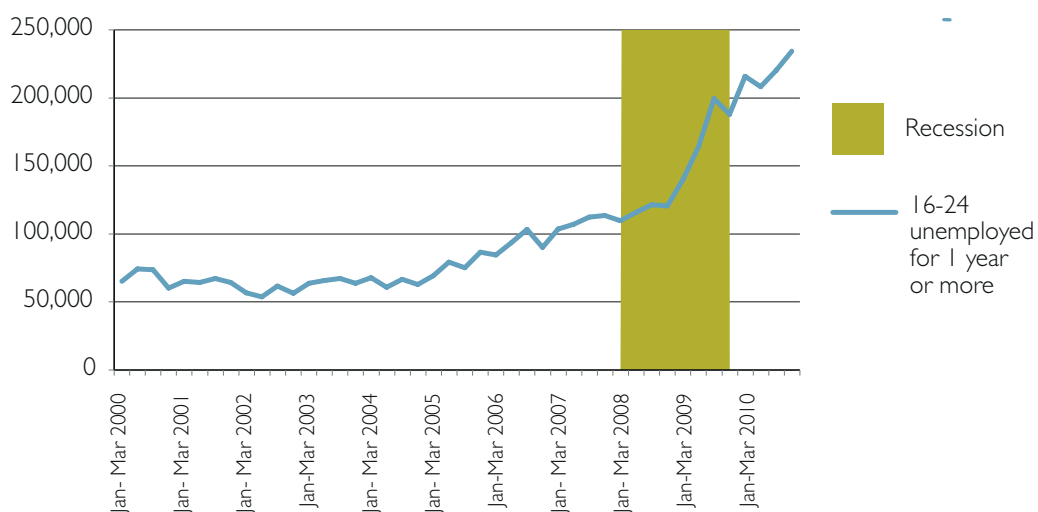
Source: Labour Force Survey

NEETs and unemployed as proportion of all 16-24s



Source: Labour Force Survey

Number of 16-24s unemployed for 1 year or more



Source: Labour Force Survey

However, the graphs above also show a marked rise in youth unemployment from around 2004.

Research undertaken for the Commission by researchers at the University of Bristol (set out in full in the appendices) suggests that once again, the cause appears to be primarily one of low labour market demand, this time in particular sectors of the economy rather than the economy as a whole, at a time when the number of young people aged 16-24 was expanding significantly. 35-40% of young people work in the wholesale, retail, motor trade or hotels and restaurants sectors. Between 2001 and 2004, these sectors grew, employing 330,000 more people by the end of the period than at the start of it; but from 2004 they declined, employing 200,000 fewer people by 2007. At the same time, the size of the youth cohort (the number of people aged 16-24) grew significantly, by over 500,000 between 2004 and 2008.

The impact of these adverse labour market conditions on youth unemployment may have been exacerbated by a shift in focus for Government policy, away from youth unemployment (which had been a key priority for the 1997 administration) to other aspects of welfare reform. But as we set out below in chapter 6, the research could find little to no evidence to support the often posited arguments that the rise in youth unemployment after 2004 was due to rising immigration or excessive rises in the minimum wage.⁴

3.2 It is essential that we prevent this short-term lack of labour market demand from causing lasting damage to the young unemployed

The danger is that the 1.4 million young people currently not in education, employment or training will become long-term NEET, and that as a result they will be scarred for life, diminishing their prospects and costing the country billions. There is a clear imperative for us to reduce the number of young people unemployed fast in order to avoid this outcome; and if the cause of the current high numbers is low labour market demand, the solution in the short term has to be to stimulate demand.

Our job as a Commission was not to weigh into the ongoing major public debate as to whether the Government should adopt a looser fiscal policy to create that labour market demand, but to consider what steps we can take to reduce youth unemployment (and in particular, long-term youth unemployment with all its scarring effects) irrespective of the pace and depth of fiscal tightening. Our conclusion is that even within the Government's fiscal plans, we could do more to support young people to avoid the perils of long-term unemployment.

We have deliberately chosen not to dwell on the debate for or against the Future Jobs Fund in this regard. It did some good; it was markedly popular with young people (and the voluntary sector) who saw it as providing 'real jobs'; but like any such programme it also had its flaws. The important thing now is to learn from what worked well and what did not, and this is what we have sought to do as the basis for some of our recommendations below.

⁴ Research for the Commission by Jack Britton, University of Bristol, presented in Annex D

The Government's current plans to stimulate labour market demand for young people come in the form of the 'Youth Contract', which will provide:

- a subsidy for employers taking on any young person through the Work Programme. The subsidy will be worth up to £2,275 each for private and voluntary sector employers who take on an 18- to- 24-year-old from the Work Programme, and the Government anticipates making 160,000 such subsidies available over the next three years (an average of just over 53,000 per year)
- two- to eight-week Work Experience placements, during which young people continue to claim benefit but are not paid by the employer giving them the placement. The Government plans to make at least 100,000 places available in each of the next three years.⁵

However, whilst there is merit in some of these ideas, the package will only support a minority of those who need help. The Youth Contract will provide on the most optimistic estimates just over 50,000 subsidised jobs and 100,000 work experience placements in 2012 – compared to over 250,000 young people who have already been unemployed for more than a year, and a further 200,000 young people who have been unemployed for 6 to 12 months.⁶ It is also worth noting that some previous wage subsidies have suffered from very low take up amongst employers. For instance, a wage subsidy established in 1995 helped only 2,300 people.⁷ The incentives for Work Programme providers to make the subsidy a success are stronger than anything we had in 1995, but the economy is not growing as it was then, so if take up does not materialise, the subsidy will need to be made substantially bigger to have the desired effect.

The majority of the placements available through the Youth Contract will be work experience opportunities rather than subsidised jobs, but whilst both can be valuable, we heard consistently that 'real work with a real wage' tends to be more beneficial (if more expensive) than short work experience placements. The latter are potentially valuable, but they are no substitute for lagging labour market demand.

Our view is that the scale and urgency of the youth unemployment crisis requires a bigger labour market stimulus in 2012 that is currently on the cards.

The Office for Budget Responsibility (OBR) forecasts unemployment continuing to rise until the end of 2012, whereafter it is expected to fall gradually. From that point, previous experience suggests youth unemployment would fall faster than unemployment amongst older adults, youth unemployment being more sensitive to the economic cycle.

We therefore recommend that the Government should rebalance the Youth Contract, bringing forward the third year of spending into 2012, with a view to doubling the number of subsidised jobs available in 2012.

In addition to this temporary stimulus, in chapter 6 we propose a permanent change to the welfare state, whereby young people who have still not found a job after 1 year on the Work Programme are guaranteed a part-time 'First Step' job, combined with intensive support to find unsupported employment, with providers paid by results. We set out more detail on this proposal in chapter 6.

5 <http://dwp.gov.uk/docs/youth-contract-details.pdf>. The Youth Contract also sets aside extra investment to be spent on the most disadvantaged 16- to- 18-year-old NEETs and additional spending on incentives for employers to take on apprentices.

6 Labour Force Survey

7 P. Bivand, L. Gardiner, D. Whitehurst & T. Wilson, *Youth unemployment: a million reasons to act?* (CESI, 2010)





Chapter Four

Preparation for work



Preparation for work

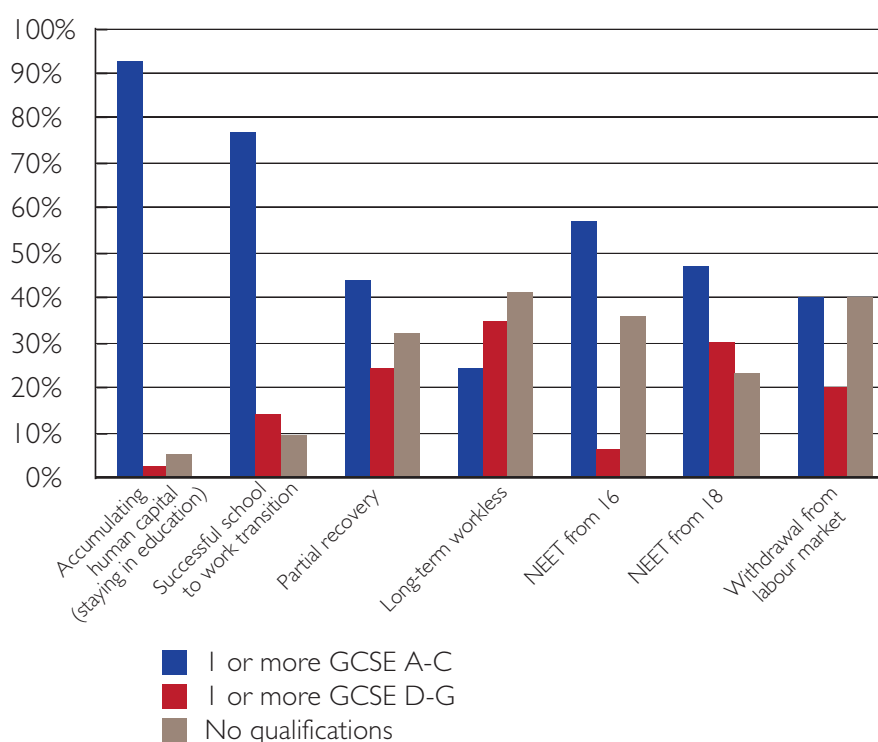
If the cause of the recent rise in youth unemployment to crisis levels has been driven primarily by low labour market demand, that still leaves us with the need to explain Britain's structural youth unemployment problem – in other words, how it is that even when the economy is booming, 7-9% of young people become long-term NEET after 16.

It is clear that many of these young people are not being equipped with the skills and qualifications they need to progress into useful further education or work, and that for the broader half of young people who do not go to university there are serious educational questions to address.

4.1 Too many end up with poor qualifications, or none at all

The table below compares the qualifications of the 5 groups of young people (approximately 9% of the total) whose labour market trajectories from 16 to 21 are a potential cause for concern with the 91% of young people who spent those years either in education or making a successful transition from education to work. It shows, for instance, that young people whose trajectory from 16 to 21 is characterised by long-term worklessness are more than 4 times more likely to have no qualifications than those young people who make a successful transition from education to work over the same period.

Young people's qualifications by labour market trajectory



Source: NIESR research for the Commission, presented in Annex C

Similarly, of the roughly 7% of 16- to 24-year-olds who experienced a year or more NEET even when the economy was booming, 80% had fewer than five good GCSEs (compared to 40% for all young people), and 55% had no GCSEs at all (compared to 20% for all young people).¹

¹ '5 good GCSEs' understood as 5 GCSEs at grade A-C. See Annex D for more detail.

All of this is consistent with a growing body of evidence that employers value qualifications which they see as signals of useful skills, and particularly those relating to numeracy and literacy skills.²

The combination of a disadvantaged background and poor qualifications are a startling predictor of a young person's likelihood of having a labour market trajectory from 16 to 21 likely to cause concern. We estimate that a young man with 1 or more GCSEs at grade A-C, whose parents are employed and have high-level qualifications, faces a 1% probability of ending up in a 16-21 trajectory likely to cause concern. By contrast, a young man with no GCSEs, whose parents are unemployed and have low-level qualifications, faces a 30% probability of ending up in a 16-21 trajectory likely to cause concern.³

4.2 Too many will lack 'soft' or 'employability' skills

We also know from other sources that 'soft' or 'employability' skills (such as self-discipline, the ability to communicate and work confidently with others, the ability to concentrate and motivate oneself to pursue and complete a task, the ability to empathise with others) are valued by many employers. Employers we spoke to were clear on the importance of these skills, and research has shown both that there are wage premiums attached to some of them, and that they may be becoming more important as the service sector grows as an employer.⁴

It appears likely, however, that whilst most young people do acquire these skills, the minority on the receiving end of Britain's structural youth unemployment problem sometimes do not, and this constitutes a barrier to their finding work. For instance, the UK Commission on Employment and Skills (UKCES) found that the minority of employers who recruit young people report them to be well prepared for work, but also found poor employability skills featuring highly on the list of complaints made by those who found young people poorly prepared.⁵ Similarly, the discussions we had with employers suggest that while most young people do acquire the soft skills they need to succeed in work, a small minority do not – and for them, the lack of such skills is a major barrier to employment. Many of the submissions made to the Commission by voluntary organisations and Connexions advisers emphasised the low levels of confidence and soft skills that many of the 'hardest to help' young unemployed suffer from.

Taking part in extra-curricular activities and volunteering opportunities, often run by voluntary organisations, can be an effective way for young people to gain these 'soft' employability skills – particularly those most disengaged from statutory services – and a number of studies have pointed to the value of volunteering in this regard.⁶

Many contributors to the Commission made similar arguments for the value of high-quality youth work. But much of this kind of provision for young people is being discontinued as a result of funding cuts: the Education Select Committee has raised alarm at cuts to youth services in 2011 (which in some local council areas have been up to 70, 80 or even 100%).⁷

2 See e.g. A. Wolf, *Review of Vocational Education – the Wolf Report* (2011)

3 Research for the Commission by Paolo Lucchino & Richard Dorsett, NIESR, presented in Annex C

4 For a summary of some of the evidence, see J. Birdwell, M. Grist & J. Margo, *The Forgotten Half* (Demos, 2011), p.50-51

5 UKCES, *The Youth Inquiry: employers' perspectives on tackling youth unemployment. The evidence base* (2011)

6 E.g. M. Grist & P. Cheetham, *Experience Required* (Demos, 2011); IVR, *Formative evaluation of v, Final Report* (2011)

7 House of Commons Education Select Committee, *Services for Young People* (2011)

We also heard from a range of voluntary organisations that their ability to offer volunteering opportunities is being reduced by reductions in their public sector funding.

4.3 Too few are equipped with a good understanding of the labour market

Submissions to the Commission echoed the recent findings of Ofsted and the Wolf report: that many young people have a poor understanding of jobs available in the labour market or opportunities in further education and what they need to do secure them.⁸ Too many young people are not getting enough access to sources of information, advice and insight.

Some young people can rely on their parents for information and advice about careers, but the most disadvantaged cannot. Parents from more disadvantaged backgrounds are more likely than their peers to feel that they do not know enough to give their children advice about what to do post-16⁹ – and for some young people, such as those who have run away from home or those in the care system, parental advice is simply not an option.

Young people do not get enough contact with employers. Contact with employers during education appears to have positive effects for young people, and to be valued by them, but many are not getting it. A survey of over 300 11- to- 18-year-olds for the Education and Employers Taskforce found that young people who had had careers advice from 4 or more employers were almost twice as likely as those who had had no contact with employers to report having a good idea of the knowledge and skills they needed for the jobs they wanted to do, and were more than twice as likely to feel confident about finding a good job. The same survey found that large numbers of young people want more contact with employers in education.¹⁰ Yet a separate YouGov survey of just under 1,000 19- to- 24-year-olds found that 30% could remember no such employer engagement in their education. This lack of contact with employers appears to be particularly pronounced amongst young people from less privileged backgrounds.¹¹

Young people do not get enough high-quality professional careers advice. Professional careers advice can be beneficial if it is high-quality,¹² but there are widespread fears that schools (who now have the responsibility, formerly residing with the Connexions service, to provide impartial careers advice on stretched budgets) will not be able to provide advice and guidance to the necessary quality or with sufficient impartiality.

Ofsted recently found in a survey of 10 local authorities that “in all the authorities visited, inspectors found examples of carers, residential staff, teachers and tutors who were providing advice and guidance to young people but who had too little knowledge and understanding of the full range of options to do this effectively.”¹³

With pressure on non-ring-fenced resource, many contributors to the Commission expressed the fear that this would become more common, and also argued that the

8 Ofsted, *Reducing the numbers of young people not in education, employment or training: what works and why* (2010); A. Wolf, *Review of Vocational Education – the Wolf Report* (2011)

9 Submission to the Commission by the Education and Employers Taskforce; J. Birdwell, M. Grist & J. Margo, *The Forgotten Half* (Demos, 2011)

10 Education and Employers Taskforce, *Helping young people succeed: how employers can support careers education – increasing and improving employer involvement in providing young people with careers education, information, advice and guidance* (2010)

11 Education and Employers Taskforce, submission to Commission

12 ILO & OECD, ‘Giving youth a better start’ (Policy note for G20 summit, 2011); T. Hooley, J. Marriot & J. Sampson, ‘Fostering college and career readiness: how career development activities in school impact on graduation rates and students’ life success’ (Derby: International Centre for Guidance Studies, 2011)

13 Ofsted, *Moving through the system – information, advice and guidance* (2010)

duty to provide impartial advice would not be strong enough to prevent many education providers from steering young people to stay on with them, given the financial incentives for providers to keep hold of learners post-16. Many were particularly concerned that schools would not promote apprenticeships to young people. Others pointed out that those young people who do not engage with school will not benefit from a school-based service – a particular concern given the criticisms levelled by Ofsted at the provision of information and advice in some other settings.¹⁴

4.4 Too few get access to high-quality work experience

The evidence suggests that work experience during education can be a highly effective way to give young people a taste of the world of work or of particular jobs, and to help them develop employability skills.¹⁵ The CBI have argued that “it is hard to overstate the potential importance” of work experience for young people’s future employability,¹⁶ whilst the Wolf report argued that provision of work experience through the education system is becoming steadily more important as a result of labour market trends (with employers less ready to take on under-18s as employees), and should be given greater priority.¹⁷ Research by Demos suggests that when work experience is of good quality, it is the most disadvantaged young people who benefit the most.¹⁸

However, currently work experience placements are too often short, of poor quality, with young people given little to do and the placement poorly linked to their wider education or the advice and guidance they receive.¹⁹ There is also some evidence of a correlation between work experience placements being at a lower level and low socio-economic status of schools.²⁰

4.5 The partnerships required to support young people with complex needs to succeed in education are too often lacking

Young people with complex needs will need additional support (often from a non-educational provider) if they are to succeed in education. For instance, many young people have caring responsibilities, most often for a mother or sibling. In some cases caring responsibilities require young people to give up significant amounts of time and put considerable emotional strain on them (for instance, if they have to deal with the aftermath of a drinking binge or an overdose attempt).

Research by the Princess Royal Trust for Carers in 2008 found that over a quarter (27%) of young carers aged 11–16 experience educational difficulties or miss school because of their caring responsibilities, and that whilst some teachers are supportive, many schools do not know when a pupil is a carer, or even punish them for caring.²¹ Some young carers drop out of school as a result.²² Better communication and partnership working between schools and voluntary organisations supporting young carers is likely to be key to overcoming these issues.

¹⁴ Ofsted, *Moving through the system – information, advice and guidance* (2010)

¹⁵ UKCES, *The employability challenge: full report* (2009)

¹⁶ CBI, *Action for jobs* (2011)

¹⁷ A. Wolf, *Review of Vocational Education – the Wolf Report* (2011).

¹⁸ J. Margo et al., *Access all areas* (2010)

¹⁹ J. Birdwell, M. Grist & J. Margo, *The Forgotten Half* (Demos, 2011); CBI, *Action for jobs* (2011); submissions to the Commission

²⁰ J. Birdwell, M. Grist & J. Margo, *The Forgotten Half* (Demos, 2011)

²¹ Princess Royal Trust, submission to Commission

²² Suffolk Family Carers, submission to Commission

Similarly, many young disabled people will face additional barriers to success in education. Young disabled people are more likely than their peers to have considered dropping out of learning, and pupils with a long-term limiting health condition or impairment are more likely than those without to say that they have experienced problems with a member of staff, difficulty keeping up with the standard of work required, problems with other students, difficulty maintaining their personal motivation, or extra help they were promised not being provided.²³ Yet we heard that too often disabled young people are not getting the extra support needed to overcome these issues. Some young disabled people also struggle to access extra-curricular activities likely to build up their employability skills because they cannot access suitable transport or, in the case of many deaf young people, communication support.²⁴ Better partnership working between education providers, care services, transport, voluntary organisations and others is likely to be key here.

These examples are far from exhaustive: similar partnerships can help tackle truancy, support young people with special educational needs, and so on – and too often they are lacking. We cannot expect schools to deal with all of these issues themselves. It is right that they focus on the teaching that they do best. But we do need them to be able to bring in others to provide extra support where necessary if all their pupils are to achieve their full potential.

4.6 Solutions

4.6.1 Education providers need stronger incentives to prepare the most disadvantaged young people for progression towards work

It is clear to us that an important cause of our failure to prepare a minority of young people for progression into further education or work is the lack of appropriate incentives in the education system. We heard repeatedly that schools:

- are forced to prioritise other areas over preparing young people for the world of work. The incentives they operate under have pushed them to focus on supporting young people to get qualifications that count in the league tables (which has not always been the same as what counts in the labour market). There are also incentives for schools to retain young people into sixth-form where they have one. Staying on in education and training after 16 is a good thing – after all the alternative, if not work, is what in other countries would be called becoming a ‘drop out’. But the weakness of the offer in some cases means that young people are staying on for inappropriate studies for which they are not well-prepared.
- do not have strong enough incentives to focus on the ‘bottom 10%’ most likely to become long-term NEET. Instead, the incentives they operate under push them to focus on those young people who with further support could achieve the ‘5 good GCSEs’ central to the league tables

In other words, for too many schools there is a gap between what they are judged on, and what makes for the long-term success of some of their most disadvantaged pupils.

²³ Scope, submission to Commission

²⁴ National Deaf Children’s Society, submission to the Commission

Many headteachers want their schools to improve the life-chances of their pupils most likely to become long-term NEET, and many want to prepare all their pupils for the world of work. We heard examples of excellent practice, with some schools forming partnerships with voluntary organisations to reduce absenteeism or exclusions, or to support young people with caring responsibilities. We heard of innovative schemes to give young people more contact with the world of work: schemes such as BITC's growing Business Class initiative, which brings together clusters of schools and businesses to work together (so that in Coventry, for instance, local employers are supporting students with interview skills, mentoring for disaffected students and work inspiration placements); the Education and Employers Taskforce's 'Inspiring the Future' scheme, a free service for schools which gets employees from all sectors and professions to volunteer to give short career insight talks in state schools and colleges (soon to be expanded to include other activities such as mentoring and provision of work experience); or the UK Careers Academy Foundation, which works in 120 schools and brings businesses in to offer mentoring and a six-week paid internship at the end of year 12.

But this kind of support is too often in spite of the incentives placed on schools, not because of them. The result is that the attainment of the lowest-achieving young people, links education providers have with employers and voluntary organisations, their provision of careers advice and work experience placements, and their work on employability skills are too often poor.

We therefore welcome many aspects of the Wolf report, including its recommendations that the Government introduce a performance indicator which focuses on the whole distribution of performance within a school, including those at the bottom end of the distribution, and that funding and performance measures in the education system should promote a focus on English, Maths and work experience. We welcome too the Government's plan to publish 'destination measures' so that education providers can be judged in part on what the young people they have taught go on to do, and the Government's plan to publish measures of the attainment and progress of children in receipt of the pupil premium.

However, schools are also receiving messages that point them away from seeing themselves as the place where young people take their first steps towards work: the Government is removing the statutory right to work-related learning for all 14-16-year-olds in England, and the evidence we heard suggests that Ofsted inspections are not a powerful force for encouraging education providers to improve the degree to which they prepare young people for progression towards the labour market.

We also heard examples of other agencies (e.g. social care services in planning the transition from children's to adult services for young disabled people) having little regard for young people's future employability, even though they have a major impact on it.

We recommend:

- **The Government should retain the statutory right to work-related learning for all 14- to- 16-year-olds** in England, and undertake a drive to improve the quality of it. The Wolf Report's recommendation to increase work experience provision after age 16 should come on top of earlier work experience rather than replacing it.
- **The Government should review the degree to which Ofsted inspections encourage providers to prepare all young people for progression towards work, with a view to making them a far more potent force in this regard.** Any such review should

include the role Ofsted might play in assessing the use of the pupil premium and Bursary Fund,²⁵ assessing links between education providers and businesses, assessing the quality and impartiality of careers advice in schools, and the weight put against any such assessments. Where Ofsted finds that the pupil premium and Bursary Fund are not being used to prepare the most disadvantaged pupils for progression towards work, the Government should make the premium conditional on progress. This focus on preparation for employment should not be restricted to inspections of schools but should cover all agencies inspected by Ofsted and with responsibility for young people (including, for instance, transition processes between children's and adult social care)

- **Schools should see it as central to their job to prepare all their pupils for progression towards work, and should start preparing now for the range of incentives that will come their way to that effect**

4.6.2 Employers need to engage more with young people as they are prepared for progression towards work

It is not just up to the education system to give young people exposure to and understanding of the world of work - there is a responsibility for employers too. As the CBI have said, "as businesses, we should not be complaining from the side-lines – it is our duty to get involved and help in the process."²⁶

We recommend:

- **All employers should challenge themselves to do more to support young people to prepare for the world of work (and build their workforce of the future).** There are a number of schemes which make this easy and not overly time-consuming. For instance, the Education and Employers Taskforce's Inspiring the Future programme arranges for employee volunteers to speak to school pupils about their work – it is free, takes 5 minutes to sign up to online, and then involves a short speaking slot at a school in a location picked by the volunteer. Engaging with young people as they prepare for the world of work brings employers clear business benefits too (for instance, access to a wider talent pool for recruitment, the positive effect on staff morale).
- **Public sector employers should take a lead in engaging with young people in education,** offering more work experience, encouraging employees to mentor disadvantaged young people, and going in to schools to provide inspiration, advice and guidance.
- **The public sector should make more use of its procurement spend,** requiring contractors to provide opportunities for young people or giving them preference over other bidders through 'social clauses' in contracts. These opportunities could include work experience placements, mentoring, or engagement with local schools.
- **In areas where youth unemployment is particularly high, our proposed Youth employment partnerships (see chapter 7) should be allowed to experiment with other incentives for engaging business,** such as lower business rates for companies engaging with young people in education or offering young people work experience opportunities.

²⁵ i.e. the successor to the EMA

²⁶ CBI, *Action for jobs* (2011)

4.6.3 Young people in work should act as mentors to those who are not

We heard from some voluntary organisations that the people best equipped to motivate the young de-motivated are other young people who have successfully found employment – especially those who have had to work their way up. Similarly, young people who have recently got into work will often have a better understanding of the routes into work, a particular job or a particular sector than people who made that transition many years ago.

We recommend that every young person under the age of 25 who has held down a job for a year should be asked to mentor other young people to help them do the same.

The support they give should vary in intensity – from speaking about work in a local school to mentoring someone who has been long-term out of work.

With the minimal investment required to coordinate such an effort, a wide range of voluntary organisations, some already doing similar things, would be well placed to organise this initiative so that the right young people in work gave appropriate support to the right young people not yet in work or not yet in the labour market. The scheme should be opt-out rather than opt-in, so that the presumption is that those who have made their way onto the career-ladder will help those who are yet to do so. We believe there would be strong willingness to participate by young people, and real benefit for all concerned.

Again, our proposed Youth Employment Zones (see chapter 7) would be a good place to start trialling this idea.

4.6.4 There needs to be a vehicle for education providers, businesses and voluntary organisations to work in partnership

We heard that schools and other agencies too often lack the structures to work in partnership with one another, even where the will is there.

For instance, although some national organisations (such as the Education and Employer Taskforce and Business in the Community) provide support for businesses and schools to work together, the demise of funding for local Education Business Partnerships means that in many areas this structured interface will not be there. As the CBI has argued, “there is no clear mechanism for coordinating employer efforts.”²⁷

A similar scenario applies for some of the partnerships between schools and voluntary organisations outlined above to support young people with complex needs.

We recommend that key organisations from the public, private and voluntary sectors in any locality should come together to form Youth Employment Partnerships with a view to providing a locus for that kind of collaboration. Drawing on the experience of ‘community budgets’, Whitehall should strike ‘deals’ with these local partnerships, giving them greater support partly in return for that step change in cross-sector collaboration. We set out how these partnerships could work in chapter 7.

27 CBI, *Action for jobs* (2011)



5



Chapter Five

The transition from education to work

5

The transition from education to work

The support that young people receive as they seek to make the transition from education to work is also key to understanding Britain's structural youth unemployment problem.

5.1 The transition period straddling education and employment is key to young people's future success, but for too many it simply does not work. The Government's plan to raise the age of participation in education in England gives us a once-in-a-generation opportunity to put that right.

The international evidence suggests that the transition from education to work is a crucial one, and that youth unemployment is often low in those countries that get it right.¹

For the most privileged young people in Britain, it is a transition which is clear and well-managed: a clear academic route (GCSEs to A-levels to university to graduate-level job) is accompanied by opportunities to gain experience of work (through work placements or internships) and advice and guidance in school or through informal networks (parents, parents' friends).

By contrast, for the least privileged 10% (those headed for years of unemployment or inactivity by the age of 16, often from disadvantaged backgrounds and/or with multiple problems), this transition lies somewhere between the chaotic and the non-existent, as we outline in more detail below.

The Government's plan to raise the age of compulsory participation in education in England from 16 to 18 is a unique opportunity to put this right, and to improve the education-to-career transition for those most at risk of becoming long-term NEET. But it is an opportunity we are in serious danger of failing to seize.

That is because simply raising the participation age will not deliver the necessary change: as one voluntary sector leader told us, unless it is accompanied by significant reforms elsewhere, raising the participation age is likely to mean simply "two more years of the same thing as we have now" – in other words, two more years of provision from which a minority of young people are already worryingly disengaged, and which clearly does not prepare them for progression into work or further learning. We fear, however, that that is precisely what we are heading towards. This would be not only to squander a once-in-a-generation opportunity for reform, but also to waste vast sums of public money.

Raising the participation age in England needs therefore to be accompanied by far-reaching reform.

¹ OECD, *Off to a good start? Jobs for Youth* (2010); ILO & OECD, 'Giving youth a better start' (Policy note for G20 summit, 2011)

5.2 We do not give young people a sufficient range of clear, high-quality progression routes to follow from education into work.

One of the most striking characteristics of many OECD countries that perform well on youth employment (such as Germany, Austria and Switzerland) is their ability to offer young people unwilling or unable to follow a university route into work a range of high-quality alternatives, often combining a simultaneous combination of education and experience in work – particularly through apprenticeships.

In Britain, this range of options is too often:

- **Limited in supply.** The number of young people taking apprenticeships remains relatively low, and whilst those numbers are growing, they are growing faster amongst older people (over 25s accounted for 75% of the increase in apprenticeships between 2009/10 and 2010/11).² Many companies now put existing, older employees into ‘apprenticeships’ as a way of giving them training whilst on the job. We believe there is significant untapped potential for employers (particularly SMEs) to offer more young people apprenticeships as a high-quality route for their transition from education to a career. Similarly, for some groups of young people with particular needs, vocational provision is simply lacking: Ofsted, for instance, recently reported that there are too often not enough vocational learning and employment opportunities for young people with learning difficulties and/or disabilities after they reach the age of 16.³
- **Poor-quality:** The Wolf Report found that many vocational courses available to young people post-16 are of limited value in the labour market and last very little time, so that young people ‘churn’ in and out of short courses likely to do little for their future progression.⁴ Similarly, we heard that whilst some apprenticeships are of very high quality, there is significant variation; employers also told us of their fears that the apprenticeship ‘brand’ could be damaged by indiscriminate expansion, and particularly by the use of apprenticeships to give older existing staff additional qualifications.
- **Poorly coordinated.** We heard that teachers in many schools do not understand the apprenticeship route, and do not promote it to young people or their parents. There is often a problem of coordination between employers (who may express an interest in having an apprentice at any stage of the year) and schools (whose pupils go through the stages of thinking about and applying for post-school options according to a clear academic calendar). For understandable reasons of capacity, contact between the National Apprenticeship Service and SMEs is limited – and yet SMEs are where as a country we are hoping growth will come from; in many parts of the country where large employers are rare, SMEs are the only game in town; and it seems likely that SMEs would benefit more from support on apprenticeships than large corporates.

² House of Commons Library, ‘Apprenticeship statistics’ (November 2011)

³ Ofsted, *Reducing the numbers of young people not in education, employment or training: what works and why (2010)*; Ofsted, *Progression post-16 for learners with learning difficulties and/or disabilities (2011)*

⁴ A. Wolf, *Review of Vocational Education – the Wolf Report (2011)*

5.3 There is a particular gap in provision for those who are most likely to become long-term NEET

The absence of clear, high-quality progression routes is particularly marked for the most disadvantaged young people, those who are most likely to end up long-term NEET. For them:

- **Apprenticeships are too often out of reach.** We believe that the expansion of apprenticeships is necessary as part of a broad, long-term ambition to offer young people not taking an academic route post-16 (the ‘forgotten half’) a clear range of high-quality options for progression into work. But we need to be clear that for many of the 7-9% of young people who currently become long-term NEET (broadly-speaking a subsection of the so-called ‘forgotten half’), apprenticeships are currently out of reach. Voluntary sector leaders told us that for some of the most disadvantaged young people (such as homeless young people or care leavers) the minimum wage for apprentices (£2.60 per hour) is simply not enough to live from: these young people will often be better off on benefits, not because of the generosity of the benefit system, but because the minimum wage for apprentices is just not financially viable. Even where it is, many of the 7-9% of young people who become long-term NEET are often not ready to undertake apprenticeships which are long-term or which require applicants already to have achieved some qualifications. These young people need pre-apprenticeship training or alternative routes to work, such as the Prince’s Trust’s “Get into” or “Team” programmes, but which are currently in short supply.
- **Many young people in this category will slip off the radar once they reach 16. There are few mechanisms to incentivise them to engage** with education, training or work. Many will have been disengaged from education even when the law compelled them to stay in education; post-16 there is no such compulsion (and will not be when the age of compulsory participation in education rises in England). Young people do not become the responsibility of Jobcentre Plus and DWP-commissioned providers (with their ability to use benefits and benefit conditionality to incentivise engagement) until 18. Many told us that data sharing between organisations working with young people is poor or non-existent, making it hard, for instance, for some learning providers actively to seek out NEETs and engage them in education. Some organisations who work with this group of young people told us they have to engage them on the street.
- **Where provision exists, it is too often low-quality.** The Wolf Report was critical of much 16-18 provision for young people with low-level qualifications (i.e. those not ready to go onto level-2 courses), arguing that “there is a risk that it will simply legitimise failure with a significant proportion of this low-attaining group.”⁵

5.4 Solutions

We recommend a range of measures to increase the range, quality and coordination of the offer available to young people making the transition from education to work. And to fill the particular gap in provision for those most at risk of becoming long-term NEET, we call for the creation of a new programme: Job Ready.

5 A. Wolf, *Review of Vocational Education – the Wolf Report* (2011)

5.4.1 Education providers and businesses need better incentives and support structures to work together to expand the number of progression routes post-16

Just as with the preparation of young people for the world of work, we met head-teachers and employers who were passionate about giving young people (including some of the most disadvantaged) clear, high-quality progression routes from education into work: the Wirebelt Company in Kent, with its long tradition of taking on local young people as apprentices; nearby Sittingbourne Community College, championing apprenticeships to its students and supporting them to find placements; National Grid, offering training to young offenders inside prison and then taking them on after release; Kier Building Maintenance, which runs programmes specifically designed to engage single parents, children leaving care and others in work experience and training.

The challenge is to get more education providers and more employers to engage in this kind of activity. To that end, we recommend:

- **At a local level, responsibility and accountability for ensuring a wide range of progression routes from education to work needs to be clearer. We call for relevant organisations in the public, private and voluntary sectors to come together to form Youth Employment Partnerships to oversee and be responsible for an expansion in the number of high-quality progression routes available to young people.** This local activity should be particularly focused on unlocking the potential that exists within SMEs. We set out how these partnerships would work in more detail in chapter 7
- **Public sector employers should take a lead in providing young people with work-based progression routes such as apprenticeships.** They should see this as their role particularly with regards to young people facing multiple disadvantages: every local authority, for example, acting as a 'corporate parent', should provide children leaving their care with a progression route such as an apprenticeship in-house or elsewhere. Some already do; others have little idea where their care-leavers go on to after 16.
- **The public sector should make more use of its procurement spend,** requiring contractors to provide apprenticeships for young people or giving them preference over other bidders through 'social clauses' in contracts. Some agencies already do this: for instance, Kent County Council will include in contracts worth more than £1 million a requirement that the provider deliver one apprenticeship per £1 million spend on labour.
- **In areas of particularly acute youth unemployment, our proposed Youth employment partnerships should be allowed to experiment with other incentives for engaging business,** such as lower business rates for companies engaging with young people in education or offering young people opportunities. We set out more detail on how Youth Employment Partnerships could work in chapter 7.
- **To make coordination between schools and employers offering apprenticeships easier, the National Apprenticeship Service, working with local partners, should establish a 'UCAS system for apprenticeships',** with a greater number of employers making apprenticeships available for young people to apply for at the same time as their peers apply for college or university. The

aim should be for this to be as near as possible to a universal listing service.

- **The Government should ensure the quality of apprenticeships.** A poor quality apprenticeship is worse than no apprenticeship – for the young person concerned, and for the reputation of the system as a whole. An expansion in apprenticeship numbers without proper safeguards on quality would be to do more harm than good.

In addition to these measures, the incentives on education providers outlined in chapter 4 should help not just with preparing young people for progression towards work, but with the transition period straddling education and the labour market too; encouraging schools to build better links with apprenticeship providers, for instance.

5.4.2 We need a new programme to support the most vulnerable with the education-to-career transition: a Job Ready programme

Even with better incentives on schools and businesses to prepare young people for the labour market and to support them in the transition, some of the 7-9% of young people who currently leave education and become long-term NEET are likely to continue to do so, such is their level of disengagement and the acuteness of the barriers they face to working.

When the age of compulsory participation in education is raised in England, 'more of the same' simply will not help this group. We need to seize the opportunity presented by the rise in the participation age to refashion the education-to-labour market transition of this minority of young people. This needs to go beyond better coordination, targeting, data-sharing and so on, necessary though those are. It needs to strike a new deal with the most disadvantaged and disengaged young people, providing them with a new offer in return for their getting back on track through education and into work.

There are voluntary organisations who provide this kind of 'deal'; intensive programmes such as Tomorrow's People's "Working it Out", or Barnardo's "Step Up" schemes, often involving a mixture of work experience, community work, training and addressing other issues young people face in their lives. But too often we heard that this activity is piecemeal, time-limited, and involves charities scrabbling money together from a variety of statutory and philanthropic funders.

Barnardo's Step Up programme

The Step Up partnership works with a range of agencies (e.g. schools, colleges, pupil referral units, youth offending teams) in each local authority to identify those young people most at risk of being out of education, employment or training. Young people begin a 26-week programme tailored to their individual needs with the goal of sustaining engagement in education, employment or training.

An experienced personal development mentor is assigned to each young person (meeting with them for one hour per week for the first 13 weeks, and for one hour per fortnight thereafter) to provide a range of support, including: information, advice and guidance, one-to-one mentoring and support, and coordination of the young person's personal programme throughout the 26-week engagement.

The programme offers three flexible pathways to sustained education, employment or training. The Fast Trax pathway offers an alternative to mainstream education for 14 to 16-year-olds and vocational training to 16 to 19-year-olds. The Learn 2 Earn pathway focuses on continued and further education for 14 to 19-year-olds through e-learning, signposting, and coaching to prepare young people for further education at school, college or university. The Way to Work pathway is for young people who choose to enter employment with training at age 16, and includes: short-term work experience, work taster courses and employer presentations, providing a window into a wide variety of sectors and roles, employability and work preparation, training focusing on career aspirations, teamwork, conduct at work, dealing with authority, communication and soft skills, pre-apprenticeship support, apprenticeships and ring-fenced paid employment opportunities with Barnardo's partner organisations.

In addition to all three pathways, the programme offers 'Break Out' activities delivered by partners and a diverse range of specialist providers that complement each young person's education, employment or training. These activities ensure sustained engagement by enhancing young people's self-confidence, raising their aspirations, increasing their self-discipline and providing an opportunity for new experiences. Activities are allocated through 'Break Out' credits that can be used at any time over the 26-week engagement. Activities include sports leadership, outward bound events, community projects and volunteering, and enterprise and entrepreneurial training.

We propose making this kind of offer available to all young people through a new programme: Job Ready. This would be designed and delivered locally, and aimed at getting the 7-9% of young people who currently leave education at 16 (often having disengaged before) and become long-term NEET back on track. A Job Ready programme would:

- Aim to reduce the proportion of young people who leave education at 16 (often having disengaged well before then) who go on to become long-term NEET. It would engage with them in education to prevent them dropping out, and after education should they become NEET to get them back on track – on a trajectory towards work rather than long-term detachment from the labour market. Recent research by academics at the University of Bristol⁶ suggests that such would most effectively

6 J. Britton, P. Gregg, L. Macmillan & S. Mitchell, *The Early Bird... Preventing Young People from Becoming a NEET statistic* (2011)

start at around age 14, aiming to prevent young people from dropping out in the first place, and continue up until age 18 (when young unemployed people become the responsibility of Jobcentre Plus).

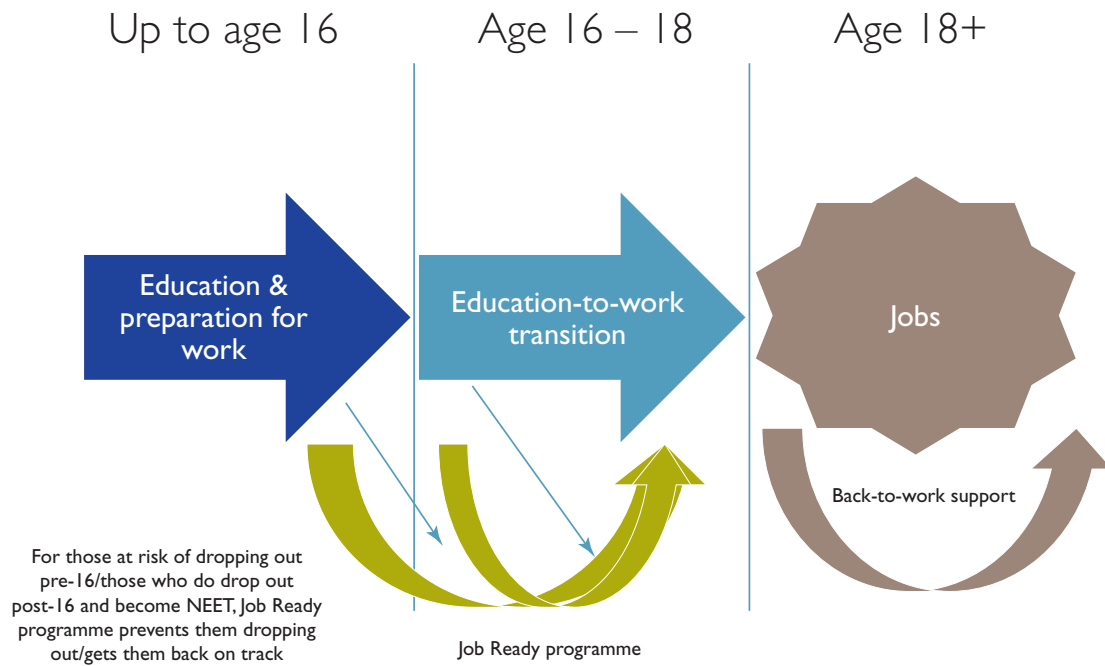
- Be jointly commissioned at a local level by a range of partners dealing with young NEETs/those at risk of being NEET. We would envisage our proposed Youth Employment Partnerships (see chapter 7) undertaking this joint commissioning, allowing targeted amounts of additional investment (such as the £150 million announced in the Youth Contract for 16- to 18-year-old NEETs) to leverage significant local resources.
- Be delivered by one voluntary or private sector organisation, or consortia of organisations, in each locality. This organisation or consortia would have clear accountability for the group involved, and would be commissioned as far as possible on the basis of outcomes (e.g. reducing NEET levels amongst 16- to 18-year-olds), but would have maximum freedom to design schemes based on local circumstances and their own expertise
- Be combined with an element of conditionality as part of the 'deal' with these young people who are currently too often highly disengaged. That 'deal' might consist of a financial allowance (as many voluntary sector schemes such as those highlighted above currently provide) or advantages such as subsidised transport or additional housing support in return for engagement in the programme.
- Potentially make use of social impact bonds, with private sector and philanthropic investors putting in the initial funding, to be repaid by the public sector once reductions in 16- to 18-year-old NEET levels had been achieved (we explore the potential for social impact bonds in more detail in chapter 8)
- Be piloted in our proposed Youth Employment Zones, with a view to a national offer being in place by the time the age of compulsory participation in England is raised to 18.

The figure overleaf illustrates the role that Job Ready would play: giving one organisation (or a consortia of organisations) the clear responsibility for intervening in education and afterwards to ensure that young people do not disengage, but rather are propelled on their way towards work.

The Job Ready programme

Youth Employment Partnerships

Use pooled budgets to commission one organisation (or one consortia of organisations) to provide the Jobs Ready programme, on the basis of results, with potential for use of social impact bonds







Chapter Six

Support in the labour market



Support in the labour market

After a poor preparation for the world of work and a chaotic transition period following education, the 'forgotten half' of young people not going to university (and in particular the 7-9% of young people most likely to become long-term NEET) face a hostile labour market.

Today, in the wake of a recession and continued low growth, that labour market is particularly difficult, but there are longer-term problems too, which contribute to Britain's structural youth unemployment problem and which require permanent changes as opposed to temporary stimuli.

There are also some common myths about the labour market which need busting.

6.1 Immigration and the benefit system are largely red herrings, and the minimum wage has not yet caused youth unemployment to rise

In the main, the benefit system does not disincentivise young people from working. We did hear of cases where inflexibility in the way benefits and other support are provided, or fear surrounding how they might change, made it harder for young people to take on jobs or volunteering opportunities that would make them more employable. For instance, we heard of one case of young people in care receiving poor advice on the impact employment would have on their benefits, making them scared to apply for a job¹; and of another case of young people worried about the impact employment would have on their levels of housing benefit.²

But in the main it is clear that the benefit system does not disincentivise young people from working. Analysis undertaken for the Commission found that 81% of 16- to 17-year-olds not in employment, education or training claim no benefits at all, and the equivalent figure for 18- to 24-year-olds is 35%. Those young people who do claim benefits would be significantly better off in work, on average earning an extra £2,300 - £3,700 per year in employment.³

Equally, immigration does not appear to lead to youth unemployment. Academic research finds either no evidence that immigration results in rises in youth unemployment, or evidence that it causes a rise which could only explain a fraction of the rise in NEET levels in the UK between 2004 and 2008, whilst our examination of the rise in NEET levels after 2004 could find no positive link to immigration (indeed the rise in NEET levels was highest in some of the regions least affected by immigration).⁴ A further recent report by the National Institute for Economic and Social Research (NIESR) found no impact from migration on claimant unemployment.⁵

Similarly, research undertaken for the Commission found that the minimum wage appears not to have been a significant contributor to the rise in youth unemployment before 2008, with a big majority of employers paying young people above the minimum wage, and that majority staying relatively constant over the period in question.

1 Submission to the Commission from a former Connexions personal adviser

2 Focus group with young people, 2011

3 Research for the Commission by Lindsey Macmillan, University of Bristol, presented in Annex A

4 Research for the Commission by Jack Britton, University of Bristol, presented in Annex D

5 P. Lucchino, C. Rosazza-Bondibene & J. Portes, *Examining the relationship between immigration and unemployment using National Insurance number registration data* (NIESR, 2012)

The research (available in full in the appendix) found that the minimum wage could now start to have an influence on young people's employment prospects (which the Low Pay Commission will need to monitor, as they have done successfully so far), but that it cannot be blamed for the rise in youth unemployment to date.⁶

6.2 However, too many young people do not get enough support from the welfare state to find work. The past few years have seen major reforms to the welfare-to-work system supported by all the main parties; now we need to complete the journey

6.2.1 Too many young people fall through the net of our welfare-to-work system

The Government's flagship scheme for getting young people (and older jobseekers) into work is the Work Programme, which sees providers from the private, voluntary and public sectors paid by results for supporting people into employment.

Young people's eligibility for the Work Programme (and the degree to which their referral is mandatory or at the discretion of Jobcentre Plus) depends on their circumstances. For instance:

- some will be referred on a mandatory basis after 9 months of claiming JSA;
- some will be referred on a mandatory basis after 3 months of claiming JSA (if they are 18 and were NEET for 6 months prior to starting to claim JSA, or if they claimed JSA for 22 of the past 24 months, or if they are leaving an offender institution)
- some can be referred at the discretion of Jobcentre Plus after 3 months of claiming if they fall into particular categories (e.g. if they are care-leavers, or homeless)
- some will be referred immediately after their Work Capability Assessment to determine whether or not they should be on ESA as opposed to JSA

The intention is that those with bigger barriers to work get onto the Work Programme faster, given that the Work Programme is supposed to provide more intensive, personalised support than that available through Jobcentre Plus. This, we believe, is the right principle.

However, the result is that in practice only a small minority of young people will get access to support from the Work Programme – indeed, DWP's indicative contract volumes suggested only about 100,000 young people would qualify a year, a small proportion of the 1.4 million NEETs. It is true that many of those 1.4 million will not require intensive support; but there is no doubt that the current system will allow very large numbers of young people who do need support to fall through the net – with the result that they are scarred for life by youth unemployment. For instance:

- a young man who 'churns' in and out of spells of short-term employment, unemployment claiming JSA, and economic inactivity will likely spend significant periods over the course of his youth out of work. As a result, he will earn less, work less, and be more welfare-dependent in later life.

⁶ Research for the Commission by Jack Britton, University of Bristol, presented in Annex D

But unless he spends a spell of 9 months or more continuously claiming JSA, or spends 22 months over the course of 24 months claiming JSA, he will never be referred to the Work Programme and the support it offers; nor will he be eligible for the subsidised jobs to be available through the Government's Youth Contract.

We do not know how many young people fall into this category, but the anecdotal evidence we were presented with suggests it is not uncommon.

- a young woman who leaves school at 16, is NEET until 18, and then has a baby (our research outlined in chapter 2 suggests this is the pattern for 1 – 2% of all young people), will only come into contact with the welfare to work system when her child reaches the age of 5 and she is required to look for work in return for benefit. That means a potential gap of 7 years out of education or work, with a clear risk of significant detachment from the labour market.

Given the scarring effects of youth unemployment, and the costs associated with them, the fact that some young people can fall through the welfare-to-work net in this way represents a significant problem. The Government has moved to change some eligibility criteria already: ex-offenders are now fast-tracked to the Work Programme on release. But there remains further to go.

6.2.2 For some, support is too little, too late

We also have concerns about the intensity of welfare-to-work support available to young unemployed people at various stages of their period out of work.

Young people do not always get a good deal out of the Work Experience programme. After 3 months of claiming JSA, young people become eligible for two- to eight-week Work Experience placements, during which they can continue to claim benefit but are not paid by the employer giving them the placement. The Government announced a significant expansion of this scheme as part of its Youth Contract in late 2011.

We see value in work experience. It gives employers the ability to 'try before you buy', potentially making them more comfortable with taking the risk of hiring a young person, and it gives young people the experience of work which employers value. But work experience schemes must not become a merry go round of long-term placements in which young people are exploited by employers. It is not clear to us that young people are always getting a good deal from Work Experience placements. Once they have agreed to undertake a placement, young people are required to work for up to 30 hours per week for up to two months, or risk losing their benefits. Employers are required to give young people a reference at the end of the placement, but do not have to guarantee even an interview for work at the company. When we spoke to young people, we heard that they were willing to prove themselves to employers through this kind of scheme; but we also heard anger from some young people who had taken part that work experience placements had allowed companies to use them as 'free labour' whilst leading them to believe something would come of it at the end of the placement. We also heard trade union fears that the rapid expansion that the scheme is about to undergo will make this problem more likely rather than less (in the 8 months to August 2011, just over 16,000 work experience placements had been started; this will need to rise to 100,000 per year).⁷

⁷ <http://dwp.gov.uk/docs/youth-contract-details.pdf>

If employers are to get up to 30 hours a week of state-subsidised labour for two months, we believe they need to be asked to give young people a more substantive opportunity in return. And work experience programmes must not become a substitute for paid work.

There is a risk that some young people will be ‘parked’ on the Work Programme.

After varying lengths of time claiming JSA (as described above), the Government’s flagship programme for supporting young people into work is the Work Programme, whereby providers are paid if they get claimants into jobs. Young people on the Work Programme will also shortly be eligible for job subsidies through the Youth Contract.

Work Programme providers are paid different amounts for supporting different groups of people into work – if they get those judged ‘harder to help’ into sustained employment, they will be paid more than they are for helping those closer to the labour market. Young people coming onto the Work Programme are generally associated with lower payments. We heard from some Work Programme providers (prime contractors and subcontractors) that whilst in general this is appropriate (because young people are often easier to place in work than adults who have been long-term unemployed), in a minority of cases young people with significant barriers to work could be disadvantaged: payment could be too low to make it financially viable for the provider to invest the amount it would take to support them into work. That could mean particularly disadvantaged young people being ‘parked’ for two years – which our research suggests would result in their spending 18% less time in work by their late twenties, and earning 12-16% less by their early thirties, with significant costs to the public purse as a result.⁸

After the Work Programme, a return to benefits remains possible. For those young unemployed people who reach the end of their two years on the Work Programme without finding work (likely to be those with particularly significant barriers to employment), the Government is testing a Community Action Programme: compulsory 30-hour-per-week, 6-month-long community work placements (combined with support to look for regular work) with a view to rolling out the scheme nationwide in 2013.

We welcome the principles behind this idea: giving long-term young unemployed people real work alongside support to move on into unsupported employment. However, it still leaves open the possibility of a return to benefits – a path that we believe needs closing.

6.2.3 We therefore need to complete the ‘active labour market’ reforms of the past few years

Over the past few years, there have been significant reforms to the welfare state designed to help jobseekers into work and to prevent people from becoming stuck on benefits. These ‘active labour market’ reforms (greater benefit conditionality; more intensive, personalised support; providers from all sectors increasingly paid on the basis of results) have largely counted on the support of all the major political parties, and are in step with reforms being pursued across much of the developed world. As the sections above make clear, however, there remain issues to resolve. The Government needs now to act to complete the welfare to work reforms of the past few years.

⁸ Research for the Commission by Lindsey Macmillan, University of Bristol, presented in Annex A

The Government should close the holes in the welfare-to-work net by widening eligibility for support. Just as the Government has made offenders eligible for the Work Programme on leaving prison (rather than requiring them to claim JSA for 3 months or to get agreement from a Jobcentre Plus adviser), it should review eligibility criteria and incentives to ensure a) that no young person is able to become detached in the long-term from the labour market, or stuck in a revolving door between benefits and short spells of unsatisfactory employment, as happens to substantial numbers of young people at present, and b) that young people are being referred to more intensive support at a sufficiently early stage in their unemployment. In both cases, it is particularly vital to get this right for young people, given the scarring effects unemployment has when experienced at a young age, and the resultant costs to the Exchequer.

The Government should step up the intensity of welfare-to-work support for young people at each stage of their period of unemployment, to reduce the particular dangers of scarring resulting from long-term youth unemployment. As part of a three-stage offer, it should:

- **Ask employers who offer Work Experience placements to do more for the young people they take on (e.g. by guaranteeing an interview at the end of the placement, or providing a degree of work-based training).** This would strengthen the offer made available to young people in their first few months of unemployment, prior to being referred to more intensive support through the Work Programme.
- **Guarantee a part-time 'First Step' job for young people who get to the end of one year on the Work Programme without finding work, as a stepping stone to finding unsupported employment.** As outlined above, there is a danger that a minority of vulnerable young people could be 'parked' on the Work Programme without sufficient support for two years, because the financial rewards available to providers for getting them into work are not high enough to make it viable for those providers to do much else. Given the scarring effects of youth unemployment, this could be highly damaging, and ultimately costly for the state.

Our proposal is that to prevent such an outcome, young people who reach a year on the Work Programme without finding work should be guaranteed a 6-month part-time job, combined with intensive support from Work Programme providers to find unsupported employment.

Work Programme providers, paid by results, would continue to have a clear incentive to support those young people to move on into sustained, unsupported employment, and the Government should consider the use of 'golden farewells' for organisations hosting the young person on a guaranteed job, to be paid once they moved on into unsupported employment. Young people benefitting from the scheme would need to be clear that they were being given a 'first step' to finding full-time employment elsewhere - in other words that this constituted a stepping stone to something else, not the end of the journey.

The guaranteed jobs should be additional (i.e. not replacing existing workers) and beneficial to the community, provided wherever possible by partnerships of private and voluntary sector organisations. Taken together they should provide a major boost to the Government's big society agenda.

This part-time job guarantee would give young people the benefits of paid work (labour market experience, an employer reference, a way out of damaging long-term youth unemployment), but build on what we have learned from job guarantees in the past (such as the Future Jobs Fund) to overcome their potential problems. Above all, making the jobs only part time, to allow for training and job-search, and giving providers clear incentives to move young people on into unsupported employment, would address the danger of 'lock in' (i.e. of job guarantees keeping young people away from finding work, rather than helping them to do so more quickly). A part-time job guarantee would also naturally be far cheaper to run than a full-time equivalent.

Provide a non-time-limited intermediate labour market scheme for young people who get to the end of two years on the Work Programme without finding work.

Rather than allowing young people to get to the end of a 6-month work placement without finding work to then go back onto benefits or into another part of the welfare-to-work system, the likely very small number of young people who reach the end of the Work Programme without finding work should be put into an intermediate labour market scheme, building on the experience of similar programmes in countries such as Denmark, which provides them with a job plus intensive training and support to move into regular employment. There would need to be detailed scheme design to ensure it really made a difference, but for some young people this would mean committing to helping them for as long as it takes. The providers of any such scheme would need to be given clear and strong incentives to move young people off the scheme and into normal work, to prevent the risk of their being 'locked in' to the programme.

Taken together, the effect of these proposals would be to complete the welfare to work reforms that have been underway over the past few years and are continuing under the current Government: ensuring that there are no holes in the net for young people to slip through into long-term detachment from the labour market, and providing intensive but conditional support, paid on the basis of results, so that all roads lead to employment.

6.3 We could also do more over the long term to make job opportunities available to young people, particularly the most disadvantaged

We spoke to many businesses who saw the business case and the moral argument for giving young people a chance. Some have put significant investment into programmes designed to engage some of the most disadvantaged young people – because they see it as the right thing to do, but also because they see the economic benefits of the diversity or the often fiercely loyal employees they get as a result. But the UK Commission for Employment and Skills found that only 22% of employers take on young people directly from education, and only 5.5% take on 16-year-olds direct from school.⁹ Young people with particular issues (such as young offenders) find employers even more reluctant to give them a chance.

This may be partly the result of what Alison Wolf has described as the “collapse” in the labour market for 16- to 18-year-olds, where “a self-reinforcing dynamic” has seen more and more young people stay in education for longer and employers

9 UKCES, *The Youth Inquiry: employers' perspectives on tackling youth unemployment. The evidence base* (2011)

demand more qualifications (and expect older recruits), with both phenomena reinforcing one another.¹⁰

But the problem is not immutable. The differences in practice between employers in different parts of the country (for instance, the proportion of employers taking on young people is more than twice as high in Swindon as it is in Rutland),¹¹ and between companies investing significantly in innovative schemes and those not, suggest that employer attitudes and priorities can make a big difference. Similarly, the fact that large companies are more likely to take on young people (80% of companies with 500+ employees take on young people, compared to the average for all companies of 22%)¹² suggests that capacity might be a barrier for small businesses, and that with the right support that barrier could be overcome.

A lack of flexible work opportunities is also a problem for some young people. For instance, young people with fluctuating mental health conditions, or young people with caring responsibilities, will often only be able to take up employment if it is flexible.

We recommend that Local Enterprise Partnerships (LEPs), businesses, charities and local councils should work together to promote the benefits of taking on young people to employers, and spread good practice on models for recruiting more disadvantaged young people and offering flexible working. Our proposed Youth Employment Partnerships (outlined in more detail in chapter 7) could provide a focal point for this activity.

6.4 Transport costs prevent some young people from engaging in education or the labour market; we should ensure they do not

Many submissions to the Commission commented on the costs of transport for young people, particularly those in rural areas, which can be a disincentive for them to engage in education or employment. For instance, high transport costs can eat significant chunks out of the earnings of a young person on the minimum wage, and be a major disincentive to staying in training for a prolonged period, or to undertaking unpaid work experience. This has consistently been an issue raised by young people themselves, including through the UK Youth Parliament. Again, the problem is likely to be more acute for some disadvantaged young people (e.g. those with disabilities).

The current arrangements for tackling this problem are unsatisfactory. The Government's Bursary Fund (the replacement for EMA) will help a small number of the most disadvantaged young people to stay in education by helping with costs such as those relating to transport. Some local authorities are also investing in schemes to subsidise transport for young people. But it is clear to us that for a great many young people, the costs of transport remain a major barrier to engaging in education or work.

¹⁰ A. Wolf, *Review of Vocational Education – the Wolf Report* (2011)

¹¹ UKCES, *The Youth Inquiry: employers' perspectives on tackling youth unemployment. The evidence base* (2011)

¹² UKCES, *The Youth Inquiry: employers' perspectives on tackling youth unemployment. The evidence base* (2011)

Local government spends large sums of public money on transport subsidies, and bus companies make significant profits partly based on these subsidies (we estimate that the 'big five' bus companies might expect to make combined profits of hundreds of millions of pounds a year)¹³ but it is not clear to us that councils are getting maximum bang for the public buck.

We recommend:

- **The Department for Transport, local authorities (working together through the LGA), bus companies and community transport organisations should come together to thrash out a national deal (and/or regional or local deals) to enable councils to give young people access to cheaper transport on condition that they engage in education, work or job-search.** The aim should be two-fold. Firstly, to ensure that no young person is deterred from learning or working by the cost of public transport. Secondly, to give local Youth Employment Partnerships (see chapter 7) an additional incentive with which to engage young people in education or the search for work.

¹³ Annual reports show the following for the UK bus divisions of 5 big bus companies : Arriva made earnings before interest, taxation, depreciation and amortisation of €132 million in 2010; the equivalent figure for First Group in the year to March 2011 was £220 million; Go-Ahead Group made an operating profit of £67 million in the year to July 2011; National Express Group made a normalised operating profit of £28 million in 2010; Stagecoach Group made a profit pre- intangibles and exceptional items of £147 million in the year to April 2011.



Chapter Seven

Making it happen: vision and ownership



Making it happen: vision and ownership

The problems set out in the preceding chapters are symptomatic of two more fundamental issues. For large numbers of young people in this country, we have no shared vision for how we will prepare them for a career in work, and an institutional set-up inadequate to the task - characterised as it is by poor coordination between organisations, and no ownership of the problem. To turn our recommendations into reality, that will need to change.

7.1 We lack a shared vision for the ‘forgotten half’ of young people not heading for university; the support they receive is too often absent, disjointed or low-quality as a result

We have in this country a clear vision for how our most successful young people will progress from education to work – high-quality academic education at GCSE, A-level and university leading to graduate employment, or high-quality vocational education, competitive apprenticeships at leading firms, and subsequent employment. This is a vision that the young people benefiting from it can share, one that is made real by institutions that are often the envy of the world, and one in which we have invested massively as a country in response to labour market trends across the globe - between 1997 and 2009, the proportion of over-25s in the UK with tertiary education grew by an average of 4 percentage points a year, from 23% to 37%.¹

But we lack a comparable vision for what has been described as the ‘forgotten half’² of young people who do not take these routes, and this lack of vision is fundamental to Britain’s structural youth unemployment problem.

Rather than clear routes of progression from education into a career, with support built around them as individuals, the ‘forgotten half’ of young people face a confusing and disjointed range of options which are too often of poor quality. Whilst many of them find their way to a job (in spite of the system, rather than because of it), the 7-9% of young people who we described in chapter 2 as being on the receiving end of Britain’s structural youth unemployment problem do not. Instead they become long-term NEET, and are scarred for life as a result.

Many of the young people most at risk of becoming NEET will be dealing with a wide range of public sector agencies as they deal with issues relating to their housing, mental health, drug or alcohol abuse, care packages, carer services, education and so on – and often their progression into further education or work will be dependent on resolving these issues. And yet in too many cases the agencies involved do not coordinate with one another: Worcestershire’s recent ‘Total Place’ pilot found at least 24 different local organisations and agencies which had a meaningful impact on NEETs, many of whom had no contact with one another and were duplicating each other’s activities.³ One contributor to the Commission told us that a recent review found 200 schemes working with young people not in employment, education or training in a single London borough alone.

¹ OECD, *Education at a Glance 2011*, (2011) p.42

² J. Birdwell, M. Grist & J. Margo, *The Forgotten Half* (Demos, 2011)

³ Worcestershire Partnership, *Report of the Worcestershire Total Place Pilot* (2010)

The result is a constant stream of own-goals, with provision that is too often inflexible, poorly-coordinated and characterised by sharp cut-offs in support. For instance:

- an Ofsted report on the transition from education to work suggests that many local authorities have little idea what young people in their care go on to do after they leave them at age 16, and that many councils are not giving sufficient attention to the education plans and pathway plans for children in care – in other words, that support for this vulnerable group drops off sharply after age 16.⁴
- Many young disabled people will find their education disrupted by a transfer from children's to adult social services at age 18 (potentially in the middle of an academic year). Disability charities told us that in very many cases, transition planning for young disabled people to move from children's to adult social services (a process that starts at age 14 and continues to age 18) does not involve any discussion of employment.
- Many young carers find that the years around 16 see their caring responsibilities grow, as their parents' expectations of what they can do increases, but may find themselves struggling with the transition from young carers' services to adult carers' services.⁵
- Voluntary organisations gave us examples of young people on successful training courses being told by Jobcentre Plus that they needed to stop doing the course before they had finished it because they had reached a point in their benefit claiming history where national Jobcentre Plus rules meant they had to start on a different type of provision.
- We heard that coordination between schools and apprenticeship providers is too often poor, so that it is much easier for pupils to move from school to college than from school to apprenticeship.
- Many voluntary organisations offer opportunities to young people at risk of becoming long-term NEET, but find statutory agencies know too little about them to make referrals or suggestions.

This chaos is also costly: the Worcestershire Total Place pilot on NEETs, for instance, found that the 24 organisations dealing with NEETs were spending more than £8 million per year on services (of which approximately £400,000 was spent on administration) and more than £9 million on benefits.⁶

Many of the people we spoke to who want to act on youth unemployment (charities, employers, councils, youth workers) were crying out for better coordination of effort, and ways to work with each other.

But they are not the only ones for whom this disjointedness and poor-quality provision leads to a sense of hopelessness. In addition to fatally weakening the support we make available to the 7-9% of young people on the receiving end of Britain's structural youth unemployment problem, this lack of shared vision and coordination is also contributing to the sense of hopelessness many young people are feeling: as one contributor from the voluntary sector told us, too many young people do not see what the vision for their future is: they "feel that the 'deal' that society has made with them has been broken."⁷

4 Ofsted, *Moving through the system – information, advice and guidance* (2010)

5 Princess Royal Trust submission to Commission

6 Worcestershire Partnership, *Report of the Worcestershire Total Place Pilot* (2010)

7 Foyer Federation, submission to the Commission

7.2 Rallying around a shared vision: ending long-term youth unemployment

We believe we need to resurrect that deal. We believe that together as a country our ambition should be to abolish long-term youth unemployment - to say to all young people that collectively we (schools, employers, national and local Governments, charities and others) will work to ensure that:

- Their education constitutes a first step towards employment (as we set out in chapter 4)
- They are supported to make the transition from education to career (as per chapter 5)
- The labour market is one in which despite the massive long term challenges facing western economies like ours, where competition for jobs and especially good jobs will be real and testing, it is all but impossible to end up in long-term detachment from the labour market (as per chapter 6)

That vision needs to be accompanied by a collective national commitment. We welcome the Deputy Prime Minister's commitment to "get every unemployed young person earning or learning again before long-term damage is done."⁸ But we believe that the Government must go further if it is to realise that ambition, and that it will be down to all of us in society, from employers to teachers to charity leaders, to make it happen. As one voluntary sector leader told us, "it is no good the Government saying that youth unemployment is a priority every second Thursday of the month – it needs to be a priority for all of us, all of the time, otherwise it won't work and young people just won't believe in it." One million unemployed young people, a quarter of them unemployed for a year or more, and decades of seeing a minority of young people slip straight into sustained worklessness should act as a national wake-up call.

7.3 Youth Employment Partnerships

As a first step to realising that national ambition, in those areas where youth unemployment is at crisis levels, we call on public sector bodies, business and voluntary organisations to come together to form Youth Employment Partnerships in a commitment to make a concerted, collaborative push to get young people out of unemployment or inactivity and into education or work, and to prevent young people from becoming unemployed in future.

In chapter 1, we outlined how youth unemployment varies significantly from one local area to another, so that within an individual local authority close to no young people might be NEET in one neighbourhood and a very high proportion NEET in another. We have identified youth unemployment 'hot spots': neighbourhoods situated in 152 different local authority areas across Britain, where the proportion of young people claiming benefit is double the national average, and where we estimate the proportion of young people NEET is at least 1 in 4 (we list these areas in the appendices). In these neighbourhoods youth unemployment is at crisis levels, scarring not just individual young people but whole communities. We believe urgent action is required in these communities, and that all local organisations in the areas concerned should come together to tackle youth unemployment as a top priority.

⁸ Rt Hon Nick Clegg MP, speaking at the launch of the Youth Contract, November 2011

The old model for such a partnership was simple. Local authorities would run it. But there are other public sector players whose involvement will be crucial: Jobcentre Plus, Work Programme providers, schools, and the criminal justice system, for instance. Furthermore, this cannot just be a public sector effort. The jobs will come from the private and voluntary sectors as well as the public, and to engage many of the most disadvantaged young people the involvement of voluntary sector organisations will be crucial – from housing associations to community groups working with disengaged NEETs. The support needed will not come only from within the locality in question: sub-regional Local Enterprise Partnerships (LEPs) will have a role, as might national charities or private sector employers.

We have therefore deliberately avoided calling for one organisation (such as the local authority) to lead or coordinate these partnerships in every area. Local authorities have a great stake and responsibility in this field, but in some places others will be well positioned to be asked to take the lead. In one area it might be the local authority, in another the Work Programme provider, in another the relevant Local Enterprise Partnership (LEP), in another a major charity.

These partnerships should draw up a collective plan for how they will work to abolish long-term youth unemployment, putting into practice the vision outlined above in a way that fits with local circumstances.

They would be a vehicle for sharing data (which is currently very poor) and coordinating activities to tackle youth unemployment (for instance, by facilitating contact between schools and employers, or between social care services and education providers, or housing services and jobcentres, or transport services and colleges). But we believe this collaboration must also see youth employment partnerships pooling a proportion of their budgets to jointly commission higher-quality, better aligned services and to reduce waste. The results ought to include not just better and more coordinated services for young people, but also significant reductions in bureaucracy and duplicated spending. The Worcestershire Total Place pilot on NEETs already mentioned found at least 24 organisations having a meaningful impact on NEETs, spending more than £8 million per year on services (of which approximately £400,000 was spent on administration) and more than £9 million on benefits.⁹ We believe there is clear scope for greater efficiency, and clear scope for youth employment partnerships to put significant combined resource into tackling the problem.

The idea builds on innovative practice in the UK (for instance, community budgets and City Deals) and best practice abroad (for instance, the approach to NEETs in the Netherlands, where a range of support and guidance is made available in 'one stop shops', combined with an element of benefit conditionality¹⁰ – and where youth unemployment rates are consistently low).

It is important to note that we do not see these youth employment zones as mini enterprise zones, tasked with ensuring that there are jobs in the areas concerned for young people. Rather, we see them as a means of targeting support at high concentrations of young unemployed people at a time when resources are scarce and new models need piloting. The organisations involved should give young people the support to find jobs wherever they can, be that locally or further afield.

⁹ Worcestershire Partnership, *Report of the Worcestershire Total Place Pilot* (2010)

¹⁰ House of Commons Children, Schools and Families Committee, *Young people not in education, employment or training* (2010)

Indeed one of the challenges facing some youth employment zones might be to better coordinate support (e.g. information and advice, housing, care) to enable young people to move elsewhere to find work, where they wish to.

7.4 A compact between Whitehall and local partnerships

We believe that organisations operating in the areas we have identified, where youth unemployment is at crisis levels, can and should come together in this way irrespective of any central Government action.

But we also believe that Government can play a role in incentivising this kind of collaborative priority action, that the Government should seek ultimately to promote this more coordinated approach across the country, and that the youth unemployment hotspots are where limited Whitehall spending should be targeted as a start.

We recommend that the Government pilot a new model for tackling youth unemployment in those neighbourhoods where youth unemployment is at crisis levels, striking ‘deals’ with bottom-up local Youth Employment Partnerships.

Whitehall should offer:

- Greater **flexibility** for statutory agencies to adapt to local circumstances and work in partnership with others. For instance, in areas of acute youth unemployment Jobcentre Plus could be given greater flexibility on benefit rules, such as those surrounding the maximum amount of time young people can spend in training or volunteering whilst remaining eligible for benefits.
- Barrier-busting **support** where national rules and policy get in the way of local collaboration to tackle youth unemployment, and access to a network of regional or national organisations active in this field (e.g. national charities such as Business in the Community, the Education and Employers’ Taskforce, the Prince’s Trust, Groundwork UK).
- Targeted additional **investment**. For instance, the Government should invest the £150 million for disadvantaged 16-18-year-olds announced in the Youth Contract in these areas as a pilot for new ways of working, and make use of funding from the European Union in these hotspots. It should also retain and extend its £37 million p.a. ‘Care to Learn’ scheme, which supports young mothers with child-care costs on condition that they engage in education, so that in youth unemployment hotspots it covers 16- to- 24-year-olds rather than under-20s only).¹¹

In return, Whitehall should:

- **Charge youth employment partnerships with responsibility for achieving a small number of key labour market outcomes for the whole youth cohort.** For instance, the partnerships should have responsibility for reducing the proportion of all 16- to-24-year-olds NEET, and for ensuring progression towards a career for those in education or employment (so that young people are not parked on useless courses to keep NEET numbers low). Youth employment partnerships would need to set out clear governance and accountability mechanisms underneath this overarching framework. The result would be to end the institutional limbo too many NEETs find themselves in currently – the concern of all and the responsibility of none.

¹¹ A government evaluation of Care to Learn found the scheme was successful in reducing NEET levels amongst young parents. The Government is currently consulting on ways to reduce the scope of the scheme to reduce costs. Source: DfE, Consultation on changes to the Care to Learn Childcare Support Scheme (2011)

- **Pay them partly by results**, with a proportion of any additional investment dependent on youth employment partnerships achieving the outcomes above. This would incentivise youth employment partnerships to make progress whilst leaving them flexibility to decide how to achieve those results themselves.
- **Ask them to set out the ‘deal’ they in turn will strike with young people**, including their level of ambition in reducing youth unemployment, the step change in service provision that they will achieve, and the extra incentives they will offer young NEETs in exchange for engagement with education or work (for instance, youth employment partnerships might want to make subsidised transport costs, childcare costs or additional housing support, as has been trialled by Shepherd’s Bush Housing Association, conditional on participation in work or training).
- **Ask them set out plans for greater collaboration**, including a step change in engagement with the private and voluntary sectors (this might include incentives for businesses to engage, as we explore further below), and their plans to pool budgets and commission services jointly, building on existing models for joint commissioning such as Drug and Alcohol Action Teams (DAATs). As the Worcestershire Total Place pilot quoted above suggests, joint commissioning could be backed by significant levels of resource.

In the 152 areas where youth unemployment is at crisis levels, youth employment partnerships should be able to bid to strike such a deal with central government, so that the Government can focus on a manageable number of pilots, and so that there is greater incentive for local partnerships to up the quality of their ‘offer’. Local Enterprise Partnerships (LEPs) could play a role in mediating between what will sometimes be very local hotspots and central government.



Chapter Eight

How do we pay for it?



How do we pay for it?

Our recommendations are based on a recognition that public sector budgets are constrained.

Many of them will require either no extra investment, or minimal funding. For instance, our proposal to double the number of job subsidies available through the Youth Contract in 2012 is cost-neutral, based on spending less in 2014/15 when the labour market demand is expected to grow and instead putting the resource into creating jobs now while unemployment continues to rise. Similarly, better links between businesses and schools should not require enormous investment.

The proposals which we believe would call for significant investment are for a Job Ready programme to keep 16- to 18-year-old NEETs on track towards work and prevent 7-9% of young people becoming long-term NEET as they do currently; widened eligibility for the Work Programme; a part-time job guarantee for all young people reaching 1 year on the Work Programme; and an intermediate labour market scheme for the very small number of young people who reach the end of two years on the Work Programme without finding work.

We believe these proposals can be funded through:

- **Money already in the system.** The Worcestershire Total Place pilot on NEETs cited above (which found 24 agencies spending £8 million in the local area, of which £400,000 was spent on administration) points to the significant level of resource already invested in tackling NEET levels, and to the potential for efficiencies to be made through better coordination and pooling of the sort we envisage happening through Youth Employment Partnerships. Similarly, for every 16- to 17-year-old NEET, the Government would be spending something in the range of £2,000 - £4,000 per head were they engaged in education or training.
- **Resources that have already been announced but not yet allocated.** The Government announced £150 million in its Youth Contract to support 16- to 17-year-old NEETs, money which has not yet been allocated. Similarly, in December 2011 the European Commission announced additional funding to support member states to tackle youth unemployment, urging them to make use of the €30 billion of European Social Fund (ESF) money not yet committed to concrete projects, and suggesting that the next round of ESF funding could be partly focused on reducing youth unemployment.
- **Stretching existing resources to tackle youth unemployment.** Funding for various Government initiatives which either have a clear connection to youth unemployment, or which could have a beneficial impact on the problem, could be stretched so as to get more bang for the public buck by tackling youth unemployment. For instance, the Government recently announced £448 million for local councils and £200 million for welfare-to-work providers to work with England's 120,000 'problem families'. Our research (outlined in chapter 2) suggests a significant link between these problem families and some of the young people on the receiving end of Britain's structural youth unemployment problem, meaning that it would make sense for some of this investment to be targeted at tackling youth unemployment. Similarly, the billions of pounds of investment the Government is making in growth and infrastructure (e.g.

through the Regional Growth Fund, Enterprise Zones, High-Speed Rail) could be tied to specific requirements to create jobs or apprenticeships for young people.

- **Leveraging other resources.** Part of the purpose of our proposed Youth Employment Partnerships is to leverage the expertise, enthusiasm and resources of businesses and voluntary organisations outside the public sector. These organisations are not a free resource for the Government to use in tackling youth unemployment, but with the right support from the public sector they could bring enormous weight to bear on the problem. Similarly, by striking 'deals' with local Youth Employment Partnerships, Whitehall would be leveraging better coordination and use of resources from local partners. We also believe that there is significant scope (as the Government is currently trialling through the Innovation Fund) for the application of social investment bonds to reduce NEET levels, so that private investors put money into addressing the problem, with Government paying by results (see box below).
- **Paying by results.** To reduce wasteful spending, Government could increase the degree to which it pays only for successful results. There may be scope for an element of payment by results at a local level (though this needs to be managed carefully given the limited ability of many voluntary organisations to shoulder financial risk). Our proposals also suggest that any additional investment from Whitehall to Youth Employment Partnerships should be partly on a payment by results basis.
- **Targeting resources.** Our proposals are such that resources would be targeted at where need is greatest: in 2012 whilst unemployment is rising, rather than later when it is expected to fall; on the minority of young people most at risk of becoming long-term unemployed rather than on all those out of work; and, at least for now, on the areas where youth unemployment is particularly acute, rather than across the country.

A social impact bond for youth unemployment

How would a Youth Unemployment social impact bond work?

The government would offer contracts to private or voluntary sector providers. It would promise, in return for demonstrated success in reducing youth unemployment, that it would pay providers not a large upfront fee but a payment stream over a much longer period that reflected the time profile of the savings to government (and the benefits to the economy) which accrue over the longer term as a result of supporting a young person into work. Providers or social investment intermediaries (likely to be key for many voluntary sector providers) could then raise money from the capital markets through issuing bonds, with the payments made from the future revenues from government – if they succeeded.

Would the numbers add up?

If providers believed they could be effective, absolutely. Our analysis suggests that long-term youth unemployment not only costs taxpayers £3,500 - £5,500 per person now, but that the scarring effects will lead to a further cost of £1,500 - £2,500 per year, at least until that person is in their 30s (and quite possibly beyond). So, in return for sustained and demonstrated success, the government could pay a significant ongoing payment for a long period of time. This in turn would mean

that a private or voluntary sector provider could raise large sums up front; enough to make a sustained, long-term investment in making that young person employable.

It is easy to see that this sort of investment would be economic by comparing it to university tuition fees. The government has rightly argued that the economic benefits to most graduates will be well in excess of the £27,000 fee maximum, and that they should be willing to assume commensurate debts; and it has put its money where its mouth is by subsidising most or all debt repayments for those on low incomes. But, as our analysis shows, the earnings and employment penalty resulting from prolonged youth unemployment is comparable to the premium resulting from a degree; it follows that the government should be equally willing to help finance programmes which eliminate that penalty.

But how would providers demonstrate success?

In order to avoid paying for “deadweight”, providers would have to show that they had not just got young people into jobs, but that they had improved their long-term outcomes – avoiding scarring. So the tax and benefit records of those going on the programme would have to be tracked over the long term, and compared with others. But such tracking and comparisons are now well within the capacity of DWP and HMRC.

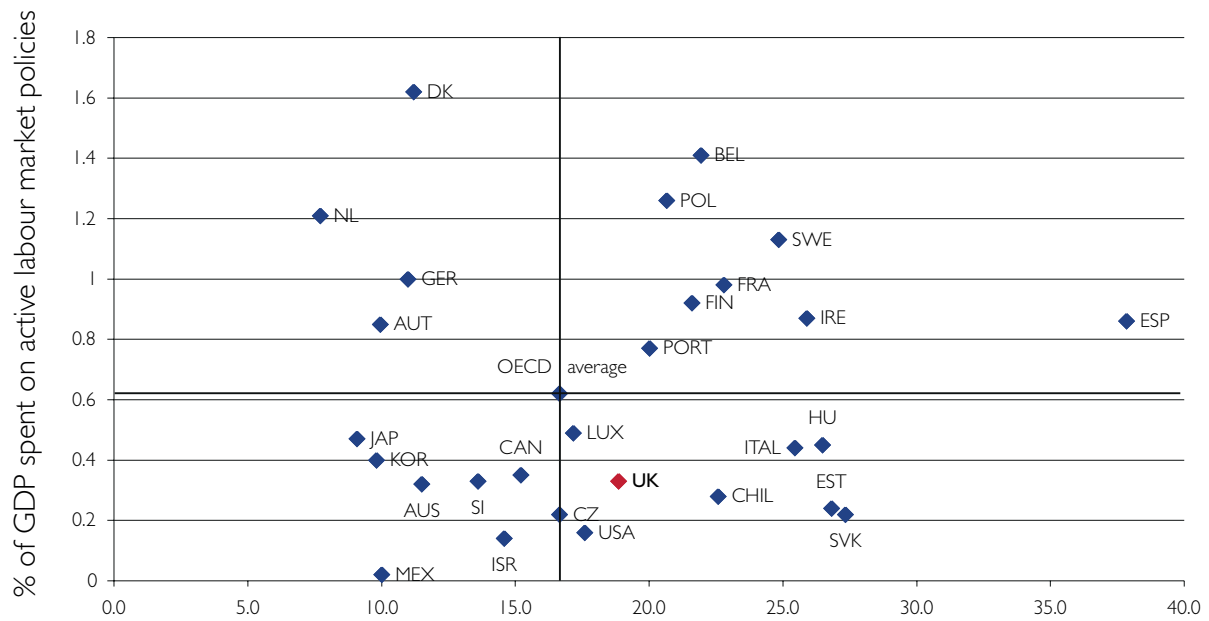
Who takes the risk/what happens if the programmes fail?

The private and voluntary sector providers and those who buy the bonds do. So this is win-win for the government. The only extra cost is that the interest rate on the bonds will be greater than the government’s costs of borrowing, reflecting this risk transfer; but the government will still come out well ahead if the programme succeeds, and will lose nothing if it doesn’t. The Government has already started trialling the idea with NEETs through its ‘Innovation Fund’.

To summarise, there are billions of pounds already available which could be put to use in tackling youth unemployment; and they could be put to use in a far more efficient way than has often been the case to date.

It is important, too, to bear in mind the context of these proposals. The UK is not a big spender when it comes to supporting people to get into work. The graph below shows how much OECD countries spent on welfare to work, and how high their youth unemployment rates were, in 2009 (the latest year for which we have comparable data). Britain was a below-average spender (spending roughly half the OECD average), but also a below-average achiever on youth unemployment.

Youth employment rates vs spend on active labour market policies in OECD countries, 2009



Source: OECD statistics database

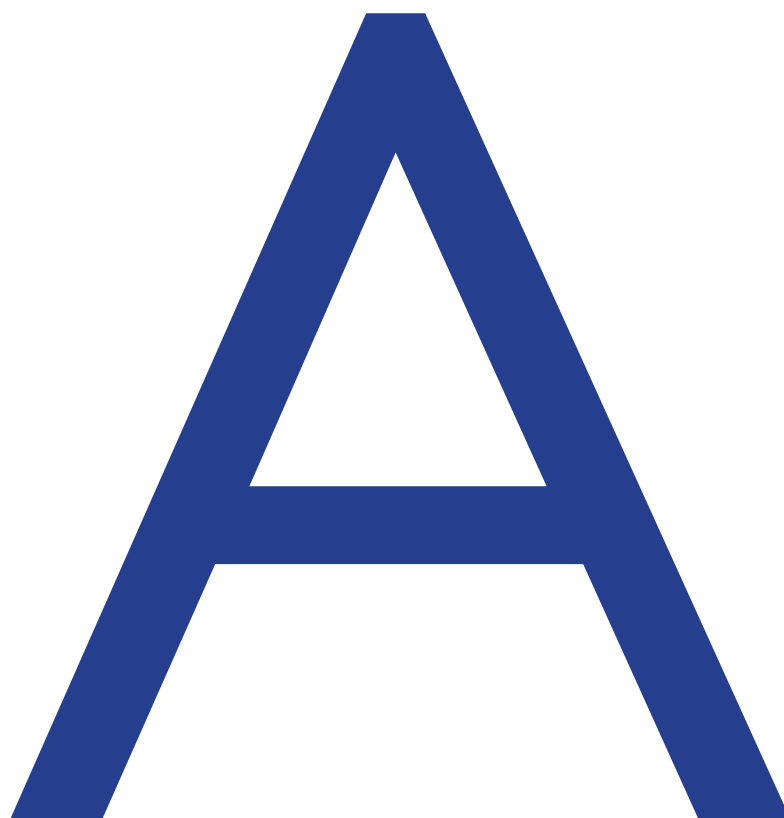
In the end, this combination ends up costing us more, as our research outlined in chapter 1 makes clear. Carrying on as we are on youth unemployment will cost the Exchequer more in 2012 than the budget for further education for 16- to 19-year-olds in England, and its scars will cost the Treasury a sum equivalent to the entire annual budget of Jobcentre Plus every year for years to come, whilst also losing us billions of pounds in lost output. If we fail to up our game on the basis of false economies, we will be damaging the foundations of our future economic success, as well as the futures of hundreds of thousands of young people.

Annex A

The cost of youth unemployment

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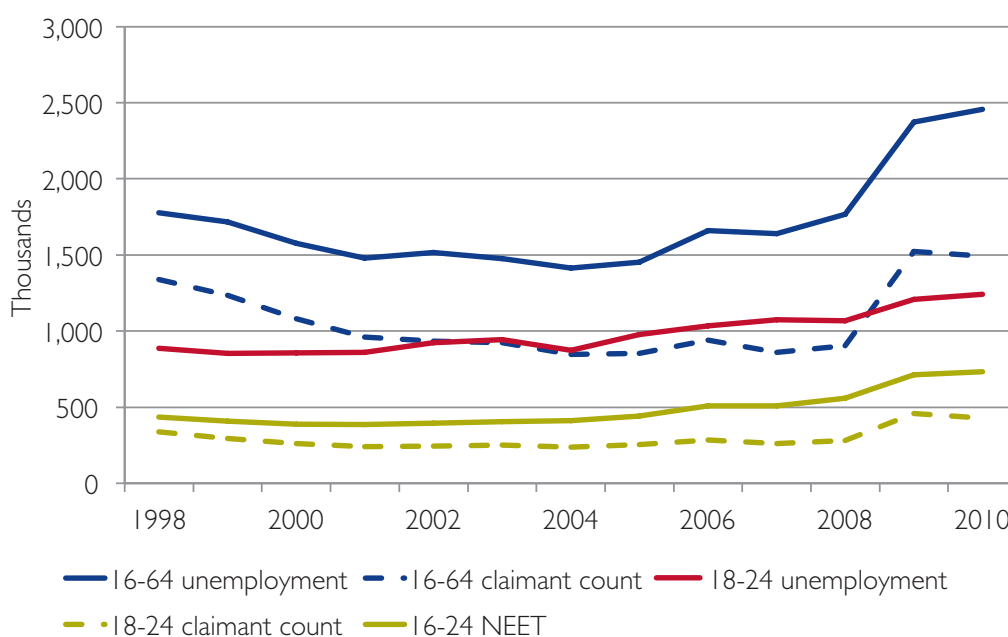


The cost of youth unemployment

Welfare reliance

Welfare reliance has fallen over the past 20 years. Figure 1 illustrates that the claimant count stood at 75% of all ILO unemployed in 1998. This figure fell to 50% before the current recession and is currently around 60%. These proportions are similar for the 18-24 year old age group.

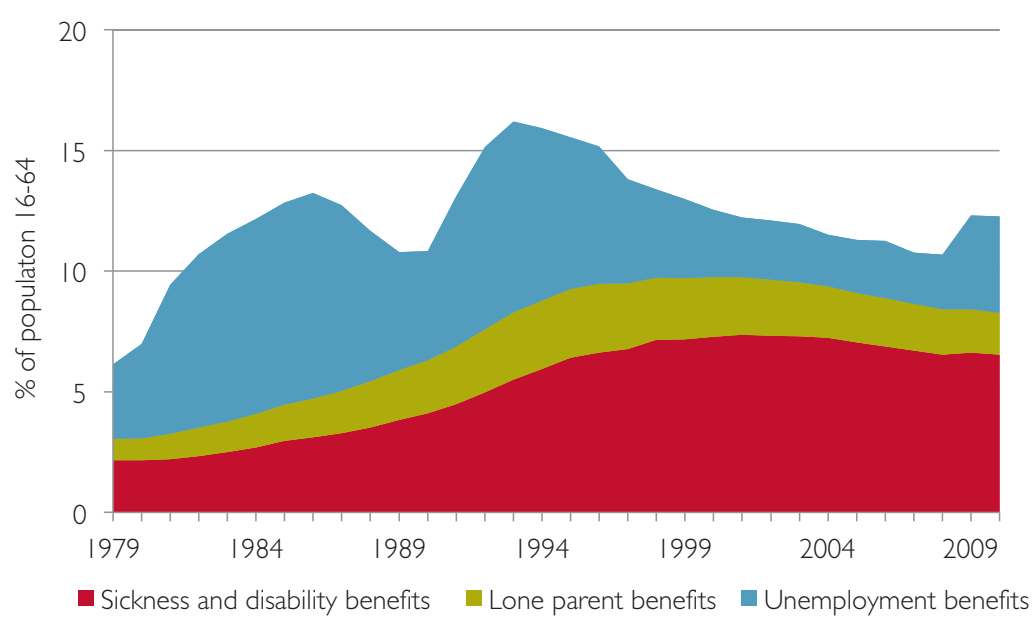
Figure 1: Trends in unemployment and claimant count numbers across time



The total number of NEETs is larger than the total number of unemployed 18-24 year olds for two reasons, i) 16/17 year olds are included and ii) NEET includes those not actively seeking work. Given that the claimant count only takes into account those on job seekers allowance (JSA), figure 2 plots the trend in the proportion of the working age population claiming the three main out of work benefits over the past 30 years. At its peak in 1993, 16.2% of the working age population were claiming one of the three main out of work benefits. From there this proportion has fallen by a quarter and was 34% lower before this current recession. There is an obvious business cycle component to this although the number of claimants on lone parent benefits have fallen since 1998 to 33% below their peak and the number of claimants on incapacity and sickness benefits have also fallen by 11% since 2001.

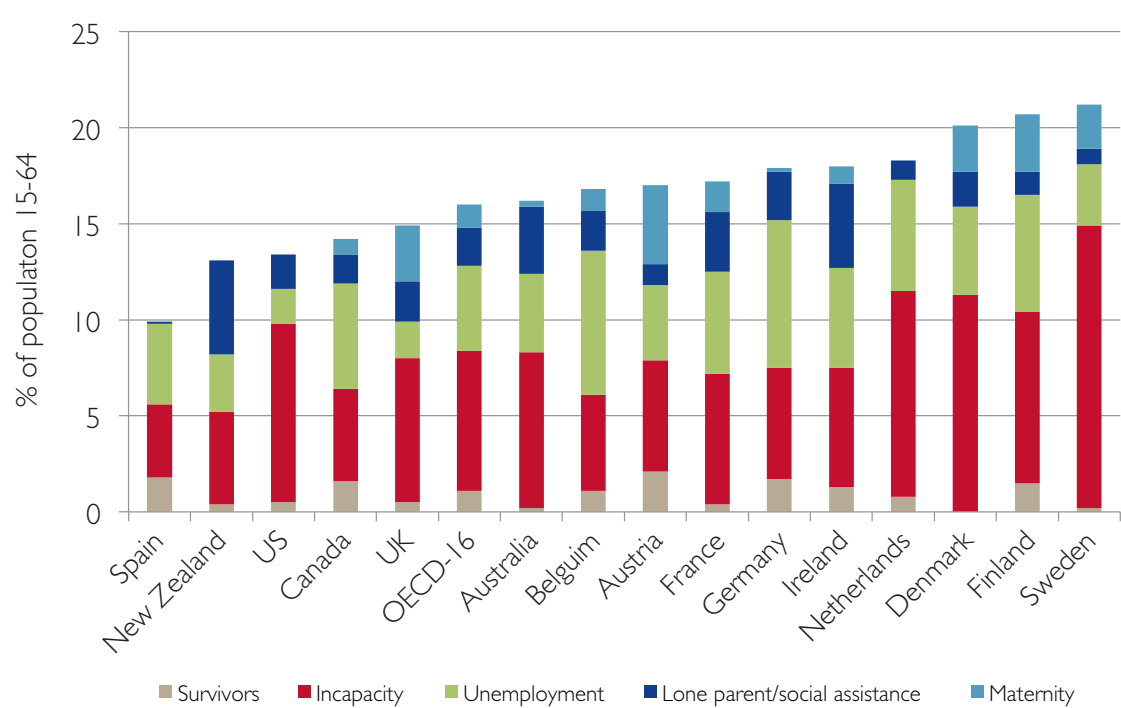
In an international context the UK has one of the lowest levels of welfare reliance in the OECD as illustrated in figure 3. We only fall behind America, commonly seen as a place with low welfare provision, because of the generous maternity leave benefits available here compared to the US.

Figure 2: Trends in the main out of work benefits over time



Source: Gregg Review 2009

Figure 3: The main out of work benefits as a proportion of the population across countries



Source: OECD beneficiary database

Workless households

To check how well worklessness is distributed across households – a measure of how well the welfare system is doing – table 1 illustrates the excess in the number of workless households to give a sense of what proportion of households are workless relative to a benchmark of work being randomly distributed across individuals given the household they live in. As an example, if there was a workless rate of 25% in the economy as a whole, the workless rate for single adult households if work was randomly distributed would be 25%. For coupled households, this would be $.25 \times .25 = 6.3\%$. This measure therefore gives a scale of how many more workless households there are than if it were random to give a sense of the imbalance in the number of households that are 2 earners and 0 earners. An excess in workless households suggests that the incentives are wrong as work is going towards second earners rather than first earners in workless households - might be indicative of welfare providing the wrong incentives.

Table 1: Percentage of excess workless households in the UK across time

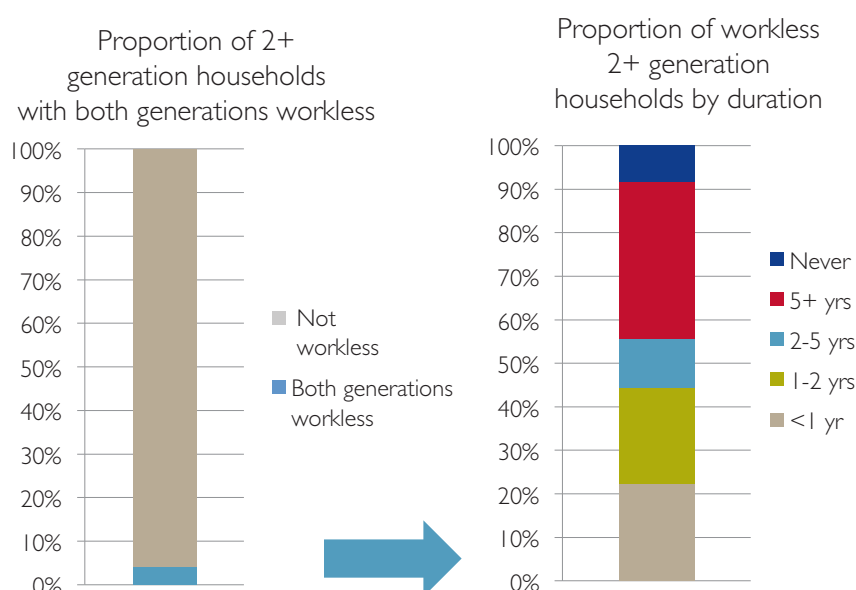
Year	All households	Lone parents
1977	-0.2	
1983		25.8
1986	4.9	
1990	5.0	
1995	6.7	
1996		31.5
1997	6.5	
2006	6.2	21.4
2009	5.0	20.4

As can be seen from the table in 1977 work was evenly distributed across household type in 1977. Across the 1980s there was a polarisation in workless households, particularly for lone parents although this has started to improve since the late 1990s.

Intergenerational worklessness

1 in 5 households in the UK have 2 or more generations of working age co-residing. However, of these, only 4% are in a position where both generations are currently out of work as illustrated by figure 4. This equates to 0.8% of the total population of households in the UK. However of these households, over 50% are in a position where both generations have been out of work for over 2 years with for over 40% both generations out of work for over 5 years. There is therefore less (co-residing) intergenerational worklessness than we might expect but for those in this position there is a problem with long durations spent out of work.

Figure 4: Intergenerational worklessness in co-residing households in the UK



Source: Macmillan 2011

If we expand the analysis to consider the wider impact of intergenerational worklessness for non-residing families, table 2 shows the estimated relationship between fathers' workless experience when the son is a child and the sons' own workless experience from 16-23.

Table 2: Intergenerational workless correlations between fathers' and sons' workless experiences

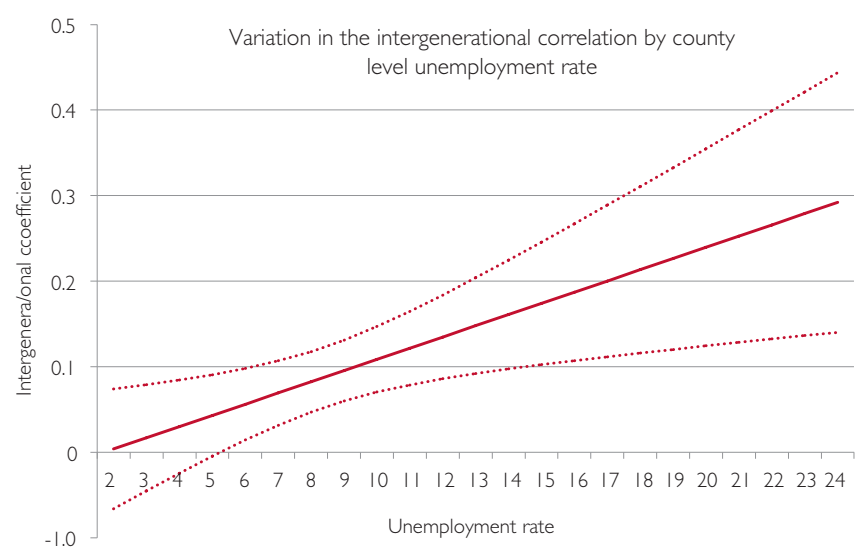
Father-son pairs	1st generation measure		
Cohort (sons' year of birth)	NCDS (1958)	BCS (1970)	BHPS (1977)
	Observed workless at 11/16	Observed workless at 10/16	Observed workless at 12/16
2nd generation measure (NEET) 16-23			
Proportion of time out of work	0.0786 (.010)***	0.1060 (.010)***	0.1057 (.022)***
A year or more workless	0.1498 (.024)***	0.1726 (.019)***	0.1756 (.054)***
Never working	0.0037 (.013)	0.0325 (.009)***	0.0071 (.015)
N	4635	4646	454

Standard errors in parenthesis. * 90% confidence, ** 95% confidence, *** 99% confidence.

Sons with workless fathers spend on average 8-11% more time out of work than sons with employed fathers. They are also 15-18% more likely to spend a year or more in concurrent spells out of work. There is very little evidence of people never working, particularly in the sons generation for the window observed. Only 1% of sons across all three data sources

report to never work across the entire period from 16-23. In the NCDS and BHPS this is not associated with having a workless father but in the BCS sons with workless fathers are 3% more likely to fall into this group.

Figure 5: The intergenerational correlation in workless spells by county level unemployment rates



Source: Macmillan 2011

This relationship varies a lot across different local labour markets. In areas of high unemployment, sons with workless fathers spend up to 30% more time out of work from 16-29 than sons with employed fathers in the same area. In areas of low unemployment there is no intergenerational correlation – that is to say that sons with workless fathers have the same chance of employment or spend the same amount of time in work on average than sons with employed fathers.

NEETs – costing youth unemployment

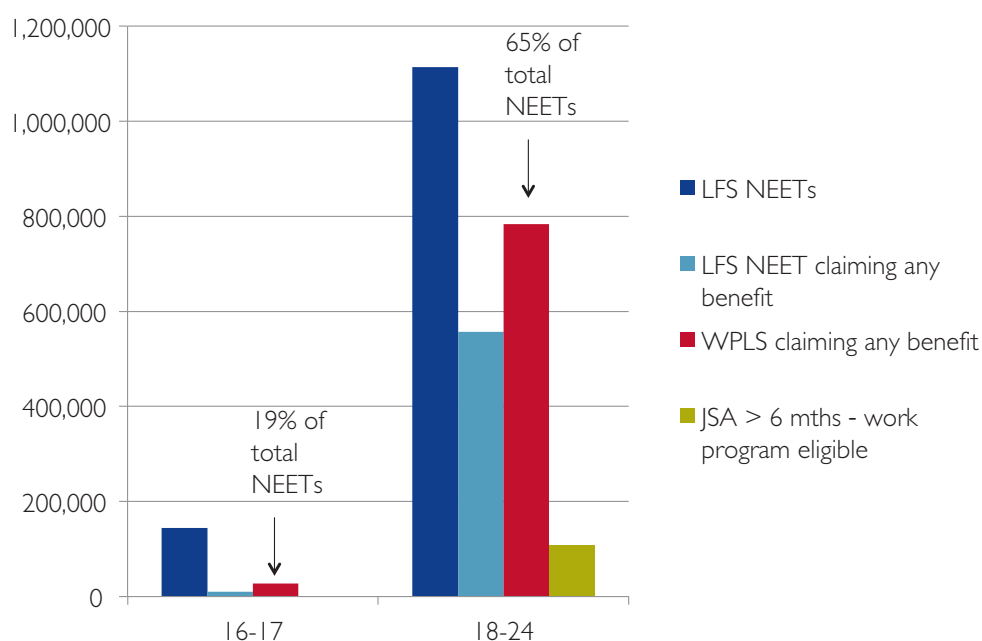
The information on the cost of youth unemployment was collected from two main sources, the Work and Pensions Longitudinal Survey (WPLS) February 2011 release and the Labour Force Survey (LFS) January to March 2011 data.

Table 3: Total number of NEETs

	16-17 year olds		18-24 year olds	
	Total	Frequency	Total	Frequency
NEET	144197	9.65	1114322	19.11
Non-NEET	1350119	90.35	4718010	80.89
Total	1494316	100.00	5832332	100.00

There were 1,258,519 16-24 year old NEETs in the Jan-March 2011 LFS, 17.18% of the total population of 16-24 year olds. NEETs are defined as those who are either unemployed or inactive and not in any form of education including part time education or training schemes. Just under 10% of 16-17 year olds are NEET with 20% NEET at 18-24. Not all NEETs, however, are benefit claimants.

Figure 6: Number of NEETs compared to the number of main out of work benefit claimants by age



Source: WPLS Feb 2011 | LFS Jan-Mar 2011

As can be seen from figure 6 and table 4, the LFS appears to under-report most claimant figures. One exception is ESA for 16-17 year olds although it is likely that this difference arises as in the LFS, incapacity benefit, ESA and disability living allowance cannot be separated whereas in the WPLS disability living allowance is not included. This is because individuals can claim this and not be NEET as seen by the non-NEET claimant figures in table 4.

Table 4: Total number of claimants

	16-17 year olds			18-24 year olds		
	WPLS	LFS neet	LFS non neet	WPLS	LFS neet	LFS non neet
JSA	5060	2250	1021	408420	319360	52503
Income support	16590	1800	1105	202620	143190	24303
ESA / IB	4470	6070	18535	151260	94180	50174
Carers allowance	1380	0	0	21080	599	4685
Total	27500	10120	20661	783380	557329	131665
Percentage of total NEET population (from LFS)	19.07%			70.30%		
Total with children (for CTC and HB calculations)	5310 (19.3%)			202210 (25.8%)		

Disability allowance and child benefit not included in WPLS as possibly still in work or education

With this in mind all benefit calculations are calculated using the WPLS. There remains a small issue for 18-24 year olds in the WPLS as not all claimants are NEET. Looking at non-NEET claimants in the LFS this is not so much of a problem for 16-17 year olds given that the numbers are so small but for 18-24 year olds, around 50,000-70,000 non-NEET

individuals claim some form of out of work benefit. These are driven by three main groups; lone parents, people with disabilities and official 'unemployed' people, all in part-time education or training or some kind of government training scheme. While Britton et. al. (2011) find that these individuals have similar family backgrounds to NEETs, their outcomes one year on tend to be far better than those in the NEET group, with many returning to full time education, and so are considered not the main focus of the issue. Given that the WPLS is likely to contain similar individuals, the total number of claimants in the WPLS is scaled down by 60,000 to account for non-NEET claimants when calculating a cost.

As a side note, the green column in figure 6, for 18-24 year olds indicates the number of individuals reported to be on JSA for over 6 months. The requirement to enter the Work Program varies slightly but ranges from JSA recipients for a spell of 3-9 months. This suggests that as little as 1 in 10 18-24 year old NEETs would have to sign up to the Work Program in its current form.

Costs of each benefit

Focusing primarily on the WPLS data, information is available on the average weekly amount received by benefit type for those with and without children. A weighted average by the fraction of population with and without children is taken to calculate a weekly total per benefit for all individuals within each age group.

Table 5.1: Benefit breakdown (16-17 year olds)

	Cost per annum (A)	% of claimants (B)	Total cost (A)*(B)
JSA	2411.22	18.40	443.66
Income support	3046.82	60.29	1836.93
ESA	3755.44	16.25	610.43
Carers allowance	2809.56	5.02	140.99
Sub-total		100.00	3032.01
+child tax credits	2730.00	19.30	526.89
Total per 16-17 year old			£3558.90

Table 5.1 illustrates the cost per year for each benefit and the proportion on claimants for each of the four main out of work benefits. The high number of IS claimants is slightly surprising given that only 35% have children. Income support can be claimed in a variety of circumstances including those who don't qualify for JSA or ESA for some reason. In some circumstances IS can be claimed when in full time education if living out of the family home or at risk for some reason. It can also be claimed if working less than 16 hours a week. There may therefore be a proportion of IS claimants who are non-NEET in this case. Given the small numbers that we are dealing with this is unlikely to create a large error in the costing process.

As reported in table 4, 19.3% of 16-17 year old claimants have children in the WPLS. These individuals will therefore qualify for the Child Tax Credit (CTC). It is assumed that all individuals only have one child and therefore receive the basic family element plus the child element only once. This may understate the cost for those with more than one child. Summing the components together, the average 16-17 year old claimant costs £3,558.90 per year.

Table 5.2: Benefit breakdown (18-24 year olds)

	Cost per annum (A)	% of claimants (B)	Total cost (A)*(B)
JSA	2746.56	52.14	1432.05
Income support	3295.24	25.86	852.31
ESA / IB	3496.20	19.31	675.12
Carers allowance	2815.80	2.69	75.77
Sub-total		100.00	3035.25
+child tax credits	2730.00	25.80	704.34
+housing benefit (no child)	3120.00	26.00	1216.80
+housing benefit (with child)	4680.00	22.60	705.12
Total per 18-24 year old			£5661.51

Table 5.2 repeats this analysis for the 18-24 year old age group of claimants. The majority of 18-24 year old claimants are claiming Job Seekers Allowance with the rest split fairly equally between IS and ESA/IB. There are a small number of carers. 25.8% of claimants have dependent children for this age group and therefore qualify for CTC. For simplicity, the same assumptions are made for this group only having one child. This may understate the cost to a greater degree than for 16-17 year olds as there is a greater probability of older people having more children.

In addition to tax credits, individuals who are 18 or over qualify for housing benefit. The proportion claiming housing benefit (HB) is taken from the Department for Work and Pensions (DWP) housing benefit recipients data release for data from July 2011. This gives information on the age group and family type of the claimants enabling the calculation of the proportion with and without children claiming housing benefit. As can be seen most people with children claim housing benefit and a further 25% without children also claim taking total HB claimants to just under 50% of all claimants. Data on the costs of housing benefit were taken from a search of the direct.gov webpage on HB entitlement across regions. Those without children are assigned a lower end value on the scale of shared housing benefits¹ whereas those with children as assigned a lower end value on the scale of two bedroom housing benefits². Again the assumption is based on having only one child. Summing these components together gives a cost for an average 18-24 year old claimant of £5,661.51.

Costs of wages foregone

Benefits paid are not the only cost to the exchequer when young people are NEET. There is also a loss in terms of the income foregone from tax and national insurance (NI) receipts if the individuals had been in work. To calculate this cost, the gross weekly wage for individuals of the same age that are in work is taken from the LFS.

¹ £60 per week

² £90 per week

It is possible to be in work and education and so the wage here is restricted to only those in work and either in part-time education, on a training scheme or not in education at all so as to exclude Saturday job wages. Individuals who are out of work are not likely to have the same characteristics, both observable and unobservable, as those in work. Evidence from panel studies suggests that those out of work typically have earnings around the 25th percentile of the wage distribution when they are observed in work ³. As illustrated in table 6, this equates to £88 per week for 16-17 year olds and £173 per week for 18-24 year olds.

Aggregating these weekly earnings to an annual wage gives average earnings of a 16-17 year old NEET of £4,576 a year and for a 18-24 year old NEET of £8,998 a year. 16-17 year olds do not earn enough on average to qualify for either NI or tax payment but 18-24 year old NEETs fall over the threshold. NI contributions are assumed to be 20% on all earnings over £5,000 while tax at 20% is paid on all earnings over £7,000. This sums to a total revenue lost per person from tax and NI receipts of £1,199.20.

Table 6: Wages foregone

	16-17	18-24
Gross weekly wage – in work	131.26	269.51
Gross weekly wage – 25th pctile	88.00	173.00
Gross annual wage	4576.00	8998.00
Taxable earnings	0.00	1998.00
Total tax lost per person	0.00	£399.60
Total NI lost per person (individual + employer contributions)	0.00	£799.60
Total revenue lost in wages foregone per person	£0.00	£1,199.20

Total cost to the Exchequer

There are three components to the cost to the exchequer; the cost from benefits paid, the cost from tax receipts foregone and a third cost, from the working tax credit (WTC), as individuals with children receive benefits as they enter the workforce as illustrated in table 7. The cost of the WTC paid out is negative as it is a cost to Government for moving individuals into work. The figure for the WTC is calculated based on the average wage calculation from wages foregone. Whilst the benefits paid figures are only applicable to claimants, wages foregone and WTC paid out is applied to the entire NEET population as both claimants and non-claimants could be moved into work. The assumption here is that all individuals can work which may overstate the costs if there are young people not able to work. This may be a concern particularly for those on ESA or lone parents on IS.

For 16-17 year olds, their average wage is so low that individuals with children would be entitled to the full WTC of £3875 per year⁴. Whilst 19.3% of claimants have children, this is 3.68% of the entire NEET population. This is based on the assumption that non-claimants do not have children or have a working partner and hence this is why they do not claim out-of-work benefits.

³ Faggio, G, Gregg, P + Wadsworth J. (2011) 'Job Tenure and Job Turnover' in Gregg and Wadsworth (eds) The Labour Market in Winter: The State of Working Britain

⁴ <http://www.hmrc.gov.uk/taxcredits/payments-entitlement/entitlement/how-worked-out.htm>

Therefore the average WTC cost is calculated by taking 3.68% of £3875. Given that these individuals would not pay any tax or NI, this results in a negative cost in terms of a loss of tax receipt.

Table 7: Total costs

	16-17	18-24
Total benefits paid	£3558.90	£5661.51
Total number of claimants	27,500	723,380
Total cost of benefits	£97,869,750	£4,095,423,104
Total tax revenue lost	£0.00	£1199.20
Total paid out in WTC	-£142.70	-£616.98
Total number of NEETs	144,197	1,114,322
Total cost of loss of tax	-£20,769,911	£648,780,942
Total cost	£77,099,839	£4,744,204,046

A similar calculation is applied to the WTC for 18-24 year olds. As the average wages foregone are higher for this group they would be entitled to slightly lower amount of WTC; £3,400 per year. Whilst 25.8% of the claimants have children, these are 18.2% of total NEETs (assuming non-claimants do not have children or have a working partner and hence do not claim out-of-work benefits). Individuals in this age group also earn enough to pay tax and NI contributions and so the WTC contributions are deducted from tax and NI receipts.

Working through the total cost of youth unemployment in terms of what the costs are for benefits paid and how much the state would gain from these individuals being in employment, the total benefits paid cost the exchequer £100m for 16-17 year olds. The state would gain in terms of not having to pay these benefits if individuals were moved into work but would still have to pay in-work-benefits in the form of tax receipts without any tax or NI revenue as wages are so low, which would make the net gain, or total cost of youth unemployment for 16-17 year olds, slightly smaller at a total of £77million.

For 18-24 year olds the calculation is far simpler as tax receipts outweigh in-work benefits and therefore there are two clear costs. The cost of youth unemployment in terms of benefits paid for this group is £4.1 billion. In addition there is a further cost in terms of revenue lost of £650million. This combined gives a total cost of youth unemployment for 18-24 year olds of £4.7billion.

An additional cost in terms of earnings foregone is the productivity loss to the whole economy. This is because earnings are equal to an individuals' marginal revenue product of labour (MRPL) or the value they add to their firm and the economy for working. The loss of productivity through earnings foregone adds £10.7billion⁵ to this figure calculated as the earnings foregone for both age groups multiplied by the total number of NEETs. Again this assumes that all NEETs could work.

5 £8998*1,114,322=£10,026,669,356, £4576*144,197=£659,845,472

Work incentives

Looking at the work incentives that individuals face, we can compare the average benefit received to the average net wages foregone, taking into account tax and national insurance liabilities as well as in-work benefits. The difference between these gives a sense of the cost of not working to the individual to check that incentives are encouraging people to work. Non-claimants (81% of 16-17 year olds and 35% of 18-24 year olds) face perfect work incentives as they receive no benefits and therefore their net wages foregone are a total cost. While 16-17 year old non-claimants do not earn enough on average to face any tax liabilities, 18-24 year old net claimants will pay tax assumed to be 20% on earnings over £7,000 and national insurance contributions assumed to be 10% on earnings over £5000. This deducts £799.40 from their gross wage to give a net total of £8,198.60. As in the total cost calculation, it is assumed that these individuals either do not have children or have a working partner and hence this is why they do not claim out-of-work benefits. They would therefore not qualify for any in-work benefits either.

For 16-17 year old claimants, a move into work would pay the average individual a net wage of £5850.77 taking into account that they would not qualify to pay tax or NI but 19.3% would still receive CTC and further receive WTC. This means that working would earn them £2,291 more than they would be receiving on benefits, or said another way; the cost of not working is around 40% of their potential income. For 18-24 year old claimants, individuals would still qualify for CTC and gain WTC but lose some income through tax and NI contributions.⁶ Their net income from working would therefore be £9380.34. The cost of not working to these individuals, who receive higher benefits than their 16-17 year old counterparts, is £3,718.83 or again 40% of their potential income from working.

Table 8: Work incentives

	16-17		18-24	
	Non-claimants (116,697)	Claimants (27,500)	Non-claimants (390,942)	Claimants (723,380)
Total benefits paid	£0.00	£3,558.90	£0.00	£5,661.51
Gross annual wage foregone	£4,576.00	£4,576.00	£8,998.00	£8,998.00
+WTC & CTC – tax & NI	£0.00	£1,274.77	-£799.40	£382.34
Total cost to individuals of not working	£4,576.00	£2,291.87	£8,198.60	£3,718.83

Future costs of youth unemployment

To estimate the total cost of a month out of work from age 16 to 24 various outcomes later in life, Y_i , from the BCS (British Cohort Study, 1970) were regressed on the total number of months spent out of work or education during this period, MTH_WKLS_i . These outcomes include the log of monthly earnings at 34, an average earnings measure across ages 30 and 34, the proportion of time spent out of work from 26-29, a life satisfaction score at age 34 and a self-reported health measure at age 34. A vector of additional characteristics, X_i , were included consecutively to remove unobservable heterogeneity.

$$Y_i = \alpha + \beta MTH_WKLS_i + X_i\gamma + U_i$$

6 20% tax on earnings over £7,000 plus 10% NI contributions on earnings over £5,000

Table 9.1: Future penalties to youth unemployment (Boys only)

	Earnings at 34	Average earnings 30/34	Later workless spells 26-29	Life satisfaction at 34	Self-reported health at 34
An extra month workless	-0.0099 [.001]***	-0.0099 [.001]***	0.0076 [.000]***	-0.0212 [.001]***	-0.0096 [.001]***
+ prior non-cog, cog + education controls	-0.0073 [.001]***	-0.0076 [.001]***	0.0074 [.000]***	-0.0188 [.001]***	-0.0083 [.001]***
+LEA at age 16 controls	-0.0069 [.001]***	-0.0074 [.001]***	0.0073 [.000]***	-0.0191 [.001]***	-0.0088 [.001]***
+parental education, class and tenure controls	-0.0065 [.001]***	-0.0071 [.001]***	0.0073 [.000]***	-0.0190 [.001]***	-0.0085 [.001]***
+average log monthly net family income 10 & 16	-0.0062 [.001]***	-0.0069 [.001]***	0.0073 [.000]***	-0.0188 [.001]***	-0.0084 [.001]***
+care, deprived, trouble, early mum & remedial	-0.0059 [.001]***	-0.0067 [.001]***	0.0073 [.000]***	-0.0179 [.002]***	-0.0086 [.001]***
N	2929	4191	5260	4062	4075

Table 9.2: Future penalties to youth unemployment (Girls only)

	Earnings at 34	Average earnings 30/34	Later workless spells 26-29	Life satisfaction at 34	Self-reported health at 34
An extra month workless	-0.0058 [.001]***	-0.0047 [.001]***	0.0074 [.000]***	-0.0122 [.001]***	-0.0073 [.001]***
+ prior non-cog, cog + education controls	-0.0032 [.001]***	-0.0047 [.001]***	0.0070 [.000]***	-0.0108 [.001]***	-0.0062 [.001]***
+LEA at age 16 controls	-0.0034 [.001]***	-0.0048 [.001]***	0.0071 [.000]***	-0.0105 [.001]***	-0.0061 [.001]***
+parental education, class and tenure controls	-0.0034 [.001]***	-0.0048 [.001]***	0.0070 [.000]***	-0.0102 [.001]***	-0.0058 [.001]***
+average log monthly net family income 10 & 16	-0.0031 [.001]***	-0.0046 [.001]***	0.0070 [.000]***	-0.0100 [.001]***	-0.0057 [.001]***
+care, deprived, trouble, early mum & remedial	-0.0032 [.001]***	-0.0047 [.001]***	0.0072 [.000]***	-0.0102 [.002]***	-0.0057 [.001]***
N	2773	4143	5585	4589	4609

*Child controls in all regressions

The samples were split by gender to account for the different mechanisms affecting employment and earnings patterns for men and women. For both samples, prior non-cognitive, cognitive and education controls include behavioural measures from when the cohort member is age 10, cognitive test scores from the same age and educational attainment including total number of GCSEs A-C, total number of A-levels, degree attainment and staying on decisions at 16 and 18. Local educational authority information accounts for the type of labour market the individual is exposed to as they enter. Family background controls include the education of the mother and father, the social class of the father when the cohort member is 16 and the housing tenure of the family when the individual is 16. Family income is controlled for as the log of average monthly net family incomes observed at 10 and 16. Additional potential risky characteristics for experiencing more time NEET including early motherhood, spending time in care, living in the most deprived 10% of LEAs⁷, getting into trouble with the law and attending a remedial class at 16 are included in the final specification. For the female sample, child controls are included to account for the cohort member having children and hence any wage penalty or employment penalty from this.

Significant effects remain in all regressions despite a wide variety of controls being included. Previous evidence on the impact of scarring suggests that for future earnings and future employment outcomes at least, these effects are causal. For males, for every extra month spent out of work, there is a 0.67% wage penalty at 30/34. Men that experience any time NEET during youth, spend an average of 23.56 months out of work over the period. This equates to a 15.77% wage penalty at 30/34. Females face a slightly weaker wage penalty, 0.47% for every additional month spent out of work from 16-23 but those who experience any time NEET over the period spend an average of 36.31 months out of work. This equates to a wage penalty of 17.07% as shown in table 10.

Table 10: Future costs in terms of earnings

	Males	Females
Average no. of months out of work if youth unemp.	23.56	36.31
% lower earnings at 30/34 per month of youth unemp.	0.67	0.47
Total % lower earnings at 30/34 for average youth unemployed	15.77%	17.07%
Average gross weekly earnings at 30/34	£432.18	£254.68
Average weekly earnings lost from youth unemployment	£68.22	£43.46
Average number of weeks worked	48.92	40.94
Annual cost of earnings lost	£3,337.08	£1,779.37

To calculate the future cost of these lower earnings an average wage was taken from the BCS at 30/34 controlling for all characteristics discussed above. For males this wage is £432.18 a week in current prices and for females this wage is £254.68. Applying the wage penalty, males who experience the average amount of time NEET earn £68.22 less a week. Men in the sample tend to work 48.92 weeks a year which aggregates up the total earnings lost to £3,337.08 per year. The average NEET female earns £43.46 less a week. Females work an average of 40.94 weeks a year and therefore the cost to women in terms of lower earnings is £1,779.37 per year.

⁷ Calculated from IMD data using LFS information from 20.. Information was matched into LEA codes at 16 in the BCS assuming the same areas were the most deprived in 1986.

In addition to earning lower wages, those experiencing time as NEETs between 16 and 23 also spend more time out of work between age 26 and 29. Assuming that this effect is separate from the wage penalty, NEET males spend 0.73% more time out of work between 26 and 29 than non-NEET males. As shown in table 11, this aggregates up to 17.20% more time out of work for the average male NEET. Across any given year this equates to an average of 8.41 weeks a year more out of work assuming that male's work 48.92 weeks a year. Multiplying this through by the average gross weekly earnings this provides an additional cost of £3,636.21 a year per male NEET in terms of future workless spells. For females again the penalty is slightly smaller at 0.72% more time out of work per month of time NEET. This aggregates up to an average of 26.14% more time out of work from 26 to 29 or 10.70 weeks, assuming females work 40.94 weeks a year on average. Given that females earn less, this gives a total cost of £2,725.85 per year of additional time spent workless due to time spent NEET in youth.

Table 11: Future costs in terms of workless spells

	Males	Females
Average no. of months out of work if youth unemp.	19.25	36.31
% less time spent in work from 26-29 per month of youth unemployment	0.82	0.72
Total % less time spent in employment from 26-29 for av. youth unemployed	17.20%	26.14%
Average number of weeks worked	48.92	40.94
Total number of weeks lost per year through later workless spells	8.41	10.70
Average gross weekly earnings at 30/34	£432.18	£254.68
Annual cost of later workless spells	£3,636.21	£2,725.85

Future cost to the exchequer

To calculate the future costs to the exchequer there are three components considered; the cost in tax and NI revenues lost in terms of lower earnings, the cost in tax and NI revenues lost in terms of less work and the cost in terms of benefits paid for the time spent out of work as a direct result of time spent NEET as shown in table 12. The costs in terms of tax and NI revenue lost from lower wages are calculated at 40% of the total annual lower earnings. This assumes 20% tax and 20% NI (both individual and employer contributions) on all earnings as these individuals are likely to be over the tax threshold at this point.

Table 12: Future costs to the Exchequer

	Males	Females
Earnings lost from lower wages	£1334.83	£711.75
Earnings lost from future workless	£1090.86	£817.75
Benefits paid	£486.60	£739.77
Annual cost per person	£2,912.29	£2,269.27
Total NEETs	533,691	580,631
Total cost per year	£1,554,264,029	£1,317,607,348

To calculate the cost of tax and NI lost from time spent workless a slightly different rate is applied as we are assuming that while this is an average effect, some individuals will spend more time out of work and therefore not hit the income tax or NI threshold. We therefore apply a rate of 30%, discounting the 40% used for earnings slightly to account for this. The benefits paid are calculated assuming a 50% claimant rate on the time spent out of work across the year⁸. We assume that the average individual still only cost the state £5,661 as they did from 18-24⁹. The same calculation is applied for females. Summing across the total number of current NEETs gives a future cost to the exchequer of this cohort of NEETs in current prices, with no discount applied, of £2.9 billion.

The total productivity lost through earnings foregone is calculated using the sum of the earnings lost through lower wages and less time spent in work for males and females and multiplied by the current total number of NEETs. This works out as a total of £3.7billion¹⁰ for males and £2.6billion for females.

⁸ This is lower than commonly observed and hence may understate costs. WTC are ignored for simplicity

⁹ Hence 50% of 8.41 weeks = 4.2 weeks out of 48.92 weeks = 8.5% of £5,661 = £486.60

¹⁰ £3,337.08+£3,636.21=£6973.29*533,691=£3,721,582,113

Annex B

Mapping youth unemployment across Britain

*Eleanor Carter,
University of Sheffield*

B

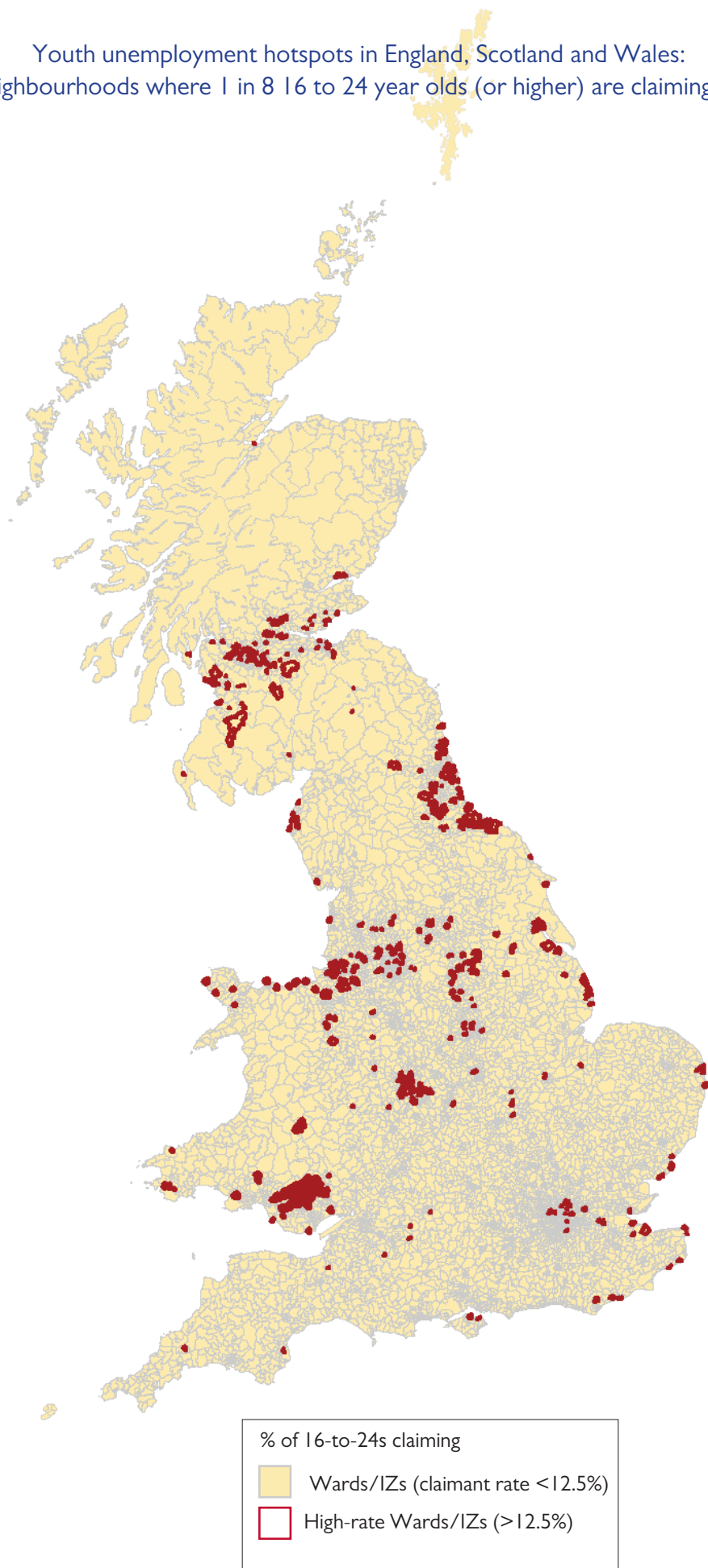
Mapping youth unemployment across Britain

Data on youth unemployment and NEET levels amongst 16- to- 24-year-olds at a local level is problematic: based on very small samples or measuring only a proportion of the 16-24 age-range. We therefore used the claimant count (i.e. those young people claiming Jobseekers Allowance) as of November 2011 as an indicator of youth unemployment levels.

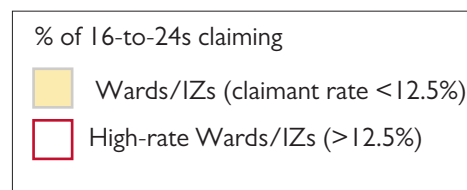
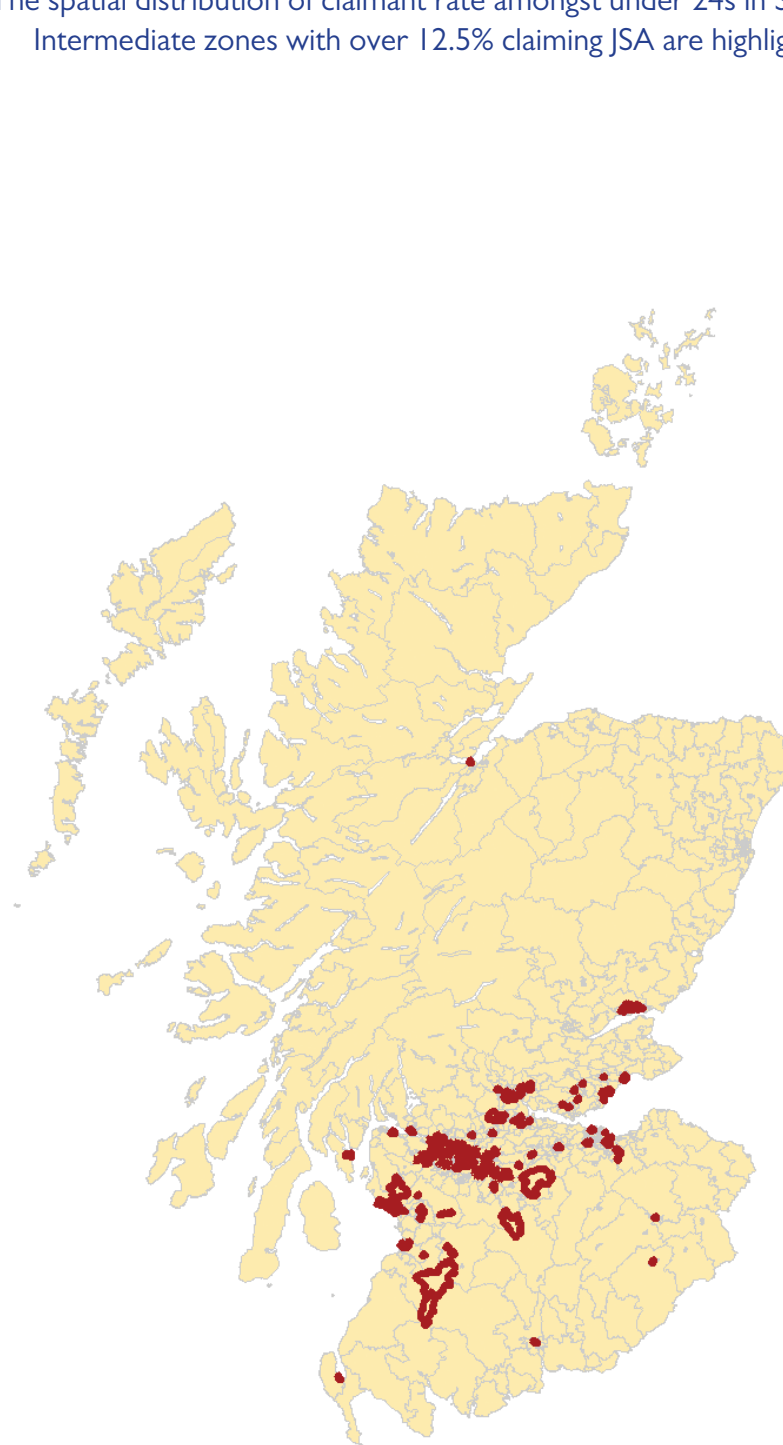
We did so at a very local (sub-local authority area) level, using 2003 CAS wards in England and Wales, and roughly equivalent intermediate zones in Scotland.

The maps below, drawn up by Eleanor Carter at the University of Sheffield, highlight those neighbourhoods where more than 1 in 8 young people are claiming JSA – a rate that is twice the national average. We estimate that that is likely to equate to at least 1 in 4 young people in these areas being NEET. A list of all the 152 local authorities in Britain (district/ borough-level) containing these 'hotspots' is included at the end of this appendix.

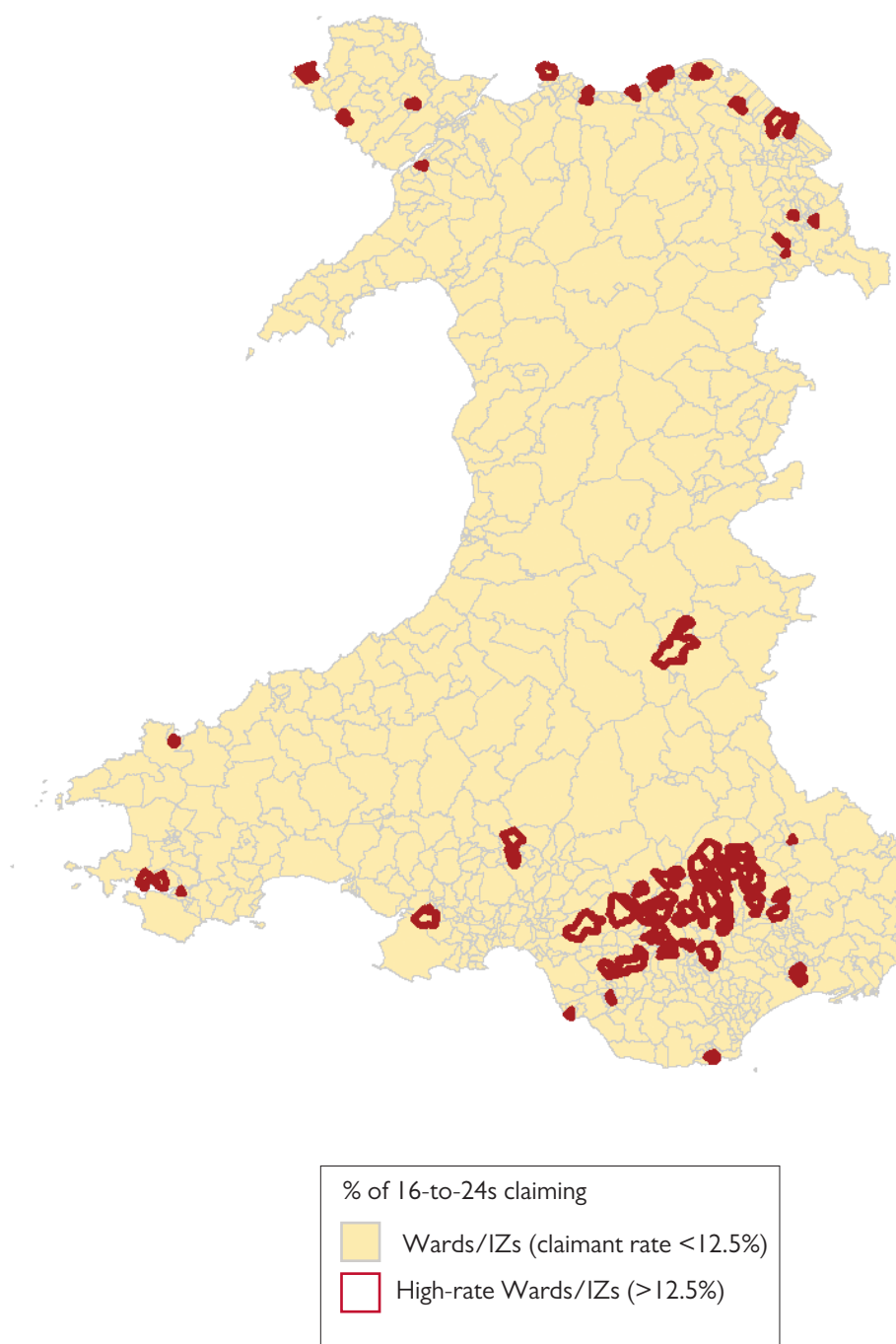
Youth unemployment hotspots in England, Scotland and Wales:
Neighbourhoods where 1 in 8 16 to 24 year olds (or higher) are claiming JSA



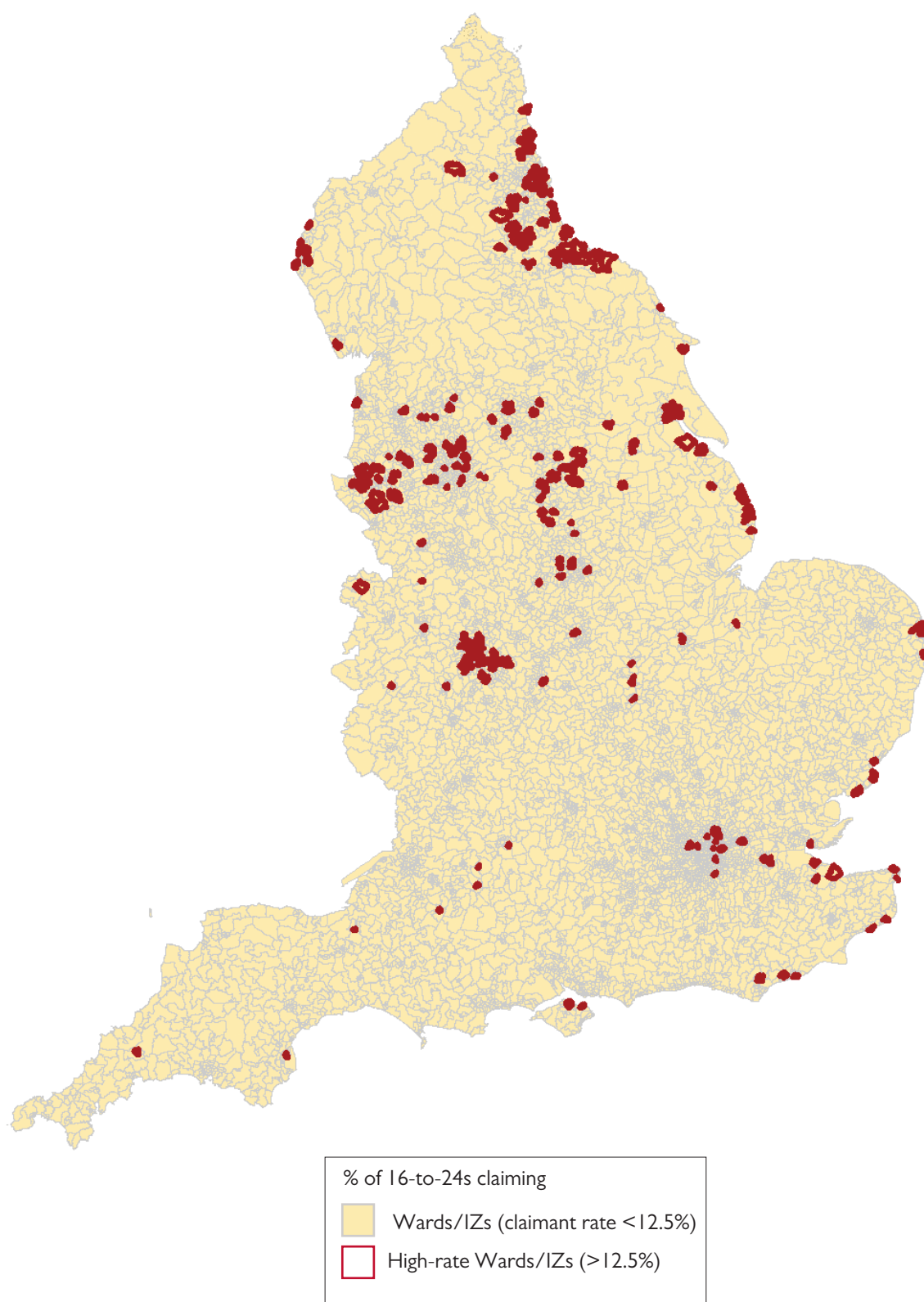
The spatial distribution of claimant rate amongst under 24s in Scotland:
Intermediate zones with over 12.5% claiming JSA are highlighted



The spatial distribution of claimant rate amongst under 24s in Wales:
wards with over 12.5% claiming JSA are highlighted



The spatial distribution of claimant rate amongst under 24s in England:
wards with over 12.5% claiming JSA are highlighted



The 152 local authority areas containing youth unemployment 'hotspots'

Allerdale	Gedling	Rochdale
Argyll & Bute	Glasgow City	Rother
Barking and Dagenham	Gravesham	Rotherham
Barnsley	Great Yarmouth	Salford
Barrow-In-Furness	Gwynedd	Sandwell
Birmingham	Hackney	Scarborough
Blackburn With Darwen	Halton	Scottish Borders
Blackpool	Haringey	Sedgemoor
Blaenau Gwent	Hartlepool	Sefton
Bolsover	Hastings	Sheffield
Bolton	High Peak	Shepway
Bradford	Highland	Shropshire
Brent	Hyndburn	Solihull
Bridgend	Inverclyde	South Ayrshire
Broxtowe	Isle of Anglesey	South Lanarkshire
Burnley	Isle of Wight	South Tyneside
Bury	Kettering	Southend-on-Sea
Caerphilly	Kingston Upon Hull	Southwark
Calderdale	Kirklees	St Helens
Carmarthenshire	Knowsley	Stirling
Cheshire East	Leeds	Stockport
Cheshire West & Chester	Leicester	Stockton-on-Tees
Chesterfield	Liverpool	Sunderland
Clackmannanshire	Manchester	Swale
Conwy	Mansfield	Swindon
Copeland	Mendip	Tameside
Corby	Merthyr Tydfil	Telford and Wrekin
Cornwall	Middlesbrough	Tendring
Coventry	Midlothian	Thanet
Croydon	Monmouthshire	The Vale of Glamorgan
Darlington	Neath Port Talbot	Thurrock
Denbighshire	Newcastle Upon Tyne	Torbay
Derby	Newham	Torfaen
Doncaster	Newport	Tower Hamlets
Dover	Northumberland	Trafford
Dudley	North Ayrshire	Walsall
Dumfries & Galloway	North East Derbyshire	Waltham Forest
Dundee City	North East Lincolnshire	Waveney
Durham	North Lanarkshire	Wealden
East Ayrshire	North Lincolnshire	Wellingborough
East Dunbartonshire	North Tyneside	West Dunbartonshire
East Lindsey	Nottingham	West Lancashire
East Riding of Yorkshire	Oldham	West Lindsey
Edinburgh, City of	Pembrokeshire	West Lothian
Enfield	Pendle	Wigan
Erewash	Peterborough	Wirral
Falkirk	Powys	Wiltshire
Fenland	Preston	Wolverhampton
Fife	Redcar and Cleveland	Wrexham
Flintshire	Renfrewshire	Wyre Forest
Gateshead	Rhondda, Cynon, Taff	

Annex C

Beyond school-leaving age: the first five years

Richard Dorsett and Paolo Lucchino

National Institute of Economic and Social Research (NIESR)



Beyond school leaving age: the first five years

Overview

This annex was commissioned by the ACEVO Commission on Youth Unemployment and presents the latest results from research conducted by the National Institute of Economic and Social Research (NIESR) as part of the project *'Moving from school to work: understanding the role of early outcomes'* funded by the Nuffield Foundation.¹ The two objectives of the research presented here are, firstly, to create a typology of labour market trajectories for young individuals during the five years following the end of compulsory schooling and, subsequently, to explore which characteristics at age 16 can act as early predictors of unsuccessful trajectories in the labour market.

We make use of optimal matching methods to group labour market trajectories into distinct types. Optimal matching is an innovative and holistic statistical technique which compares histories in their full richness. The resulting measure of similarity allows distinct groups to be identified. We can then visualise the type of trajectory that characterises each group through a graphical depiction of the full history of individuals in each group. This approach allows one to go beyond the limitations of other commonly used statistics, which generally summarise outcomes at a point in time (e.g. the unemployment rate) or over a specified period (e.g. time spent unemployed in the previous year). These discard important information on labour market dynamics, for example the order in which events occur. Instead, optimal matching allows one to situate experiences of being, say, Not in Employment Education or Training (NEET) within the individual's wider labour market history, thereby distinguishing, for example, between transitory 'gap years' and deep disconnect from the labour market.

Our results suggest that 9 in 10 young people experience generally successful labour market trajectories between ages 16 and 21. These are predominantly smooth transitions from education to work, or long spells of education, in some cases interrupted by one spell of employment or a formal placement. Instead, the remaining individuals exhibit a variety of histories that might warrant policy attention. We identify five key groups: long-term inactivity from the age of 16 or from the age of 18; long-term worklessness straddling unemployment and inactivity; individuals experiencing some employment but developing only limited labour market attachment; and individuals who appear to withdraw from the labour market following an apparently successful entry into employment.

The second step in the analysis explores the extent to which specific characteristics at age 16 are associated with entering a given labour market trajectory. The ability to identify in advance who is at risk of an unsuccessful transition into the labour market provides important clues as to the type of policy that might be effective and who it should target. The analysis confirms the importance of school attainment (grades), family background (parental qualifications, parental and sibling labour market status), and gender as the strongest predictors of future labour market outcomes.

¹ Foundation grant number EDU/39082. While the Foundation provided financial support for the project, the views expressed are those of the grant holder and do not necessarily represent the views of the Foundation.

Data and methodology

The analysis used data from the British Household Panel Survey (BHPS), a longitudinal survey which followed a nationally representative sample of households at yearly intervals from 1991 to 2008. Over 4,000 children in respondent households turned 16 over this period and therefore became eligible for the adult questionnaire which included detailed questions on employment and education status. Using this information, we constructed a month-by-month history for each individual, building on methodologies by Paull (2002) and Maré (2006).

This history was defined according to the individuals' own identification of their main activity from a list of 10 available choices.² We grouped these responses into four high-level labour market states: 'employment or training', 'full-time education', 'NEET - unemployed' and 'NEET - not active in the labour market'. We split the conventional definition of NEET to better understand whether different reasons for non-employment lead to distinct trajectories. Inevitably, this approach to defining an individual's labour market status has limitations. Firstly, there will be an element of subjectivity in the responses, which may also vary across individuals (Paull, 2002). Secondly, this measure does not allow for the possibility that individuals may be engaged in more than one activity at the same time, such as employment and full-time education. These cases will be described as being in only one of the two, depending on the individual's own view of which best describes their situation. For these reasons, our definitions will not be consistent with official labour market measures such as the ILO unemployment rate. Indeed, the histories tend to overestimate educational participation, underestimate official youth employment rates but track Department for Education NEET rates reasonably closely. Finally, we do not have information on part-time education. Overall, however, the data provides a rich description of the history of youth in the sample and can therefore provide important insights into their labour market experience.

We focus on the just under 1,400 individuals observed for five consecutive years starting from the month they could legally leave school. This yields a 60-element sequence for each of the individuals in our sample, where each element can take only one of the four above-mentioned labour market states.

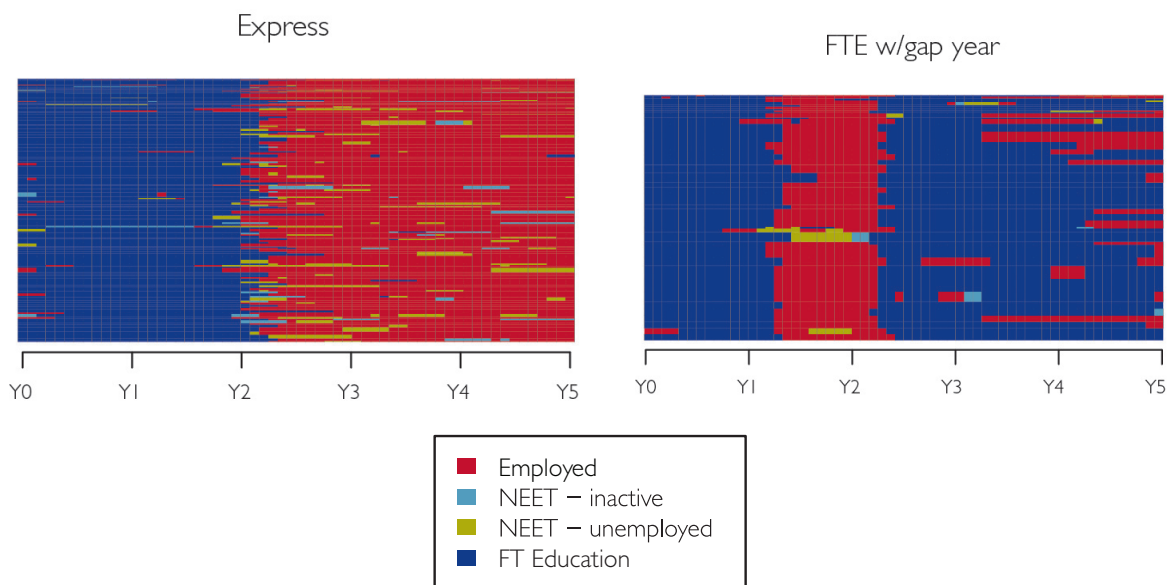
Creating a typology of labour market histories consists of two steps. Firstly, we use optimal matching techniques to construct of a measure of 'dissimilarity' between each pair of sequences (Abbot and Tsay, 2000; Lesnard, 2006). Loosely, the principle behind optimal matching is to measure dissimilarity on the basis of the number of changes needed to turn one sequence into another. The resulting measure of dissimilarity between two sequences therefore reflects the full richness of an individual's labour market trajectory, including the type, length, order and timing of spells. Secondly, we apply cluster analysis techniques to the measures of dissimilarity to group similar sequences together. The application of the above techniques in economics and the social sciences has seen rapid growth in recent years (for a review, see Martin and Wiggins, 2011).

² There were: self-employed; employed; unemployed; retired; maternity leave; family care; full-time student; long-term sick/disabled; Government training scheme; and other.

Describing the groups

The trajectories typifying each of the groups identified through the two-step procedure described above can be visualised through graphs showing the full histories of each group member. Recalling how each sequence consists of 60 elements (one for each month) each taking one of four values (employment; full-time education, NEET-unemployed; and NEET-inactive), individual histories can be represented by a horizontal series of colour-coded dots. Stacking such plots for all individuals in a given group gives an immediate picture of the general labour market dynamics characterising that group. Figure A1.1 below shows examples for two of the groups identified.

Figure A1.1



The left panel displays the trajectories of individuals who stay in education for two additional years following the end of compulsory education and then make a relatively smooth transition into generally stable employment. By contrast, the right panel shows the trajectories of individuals who stay in full-time education throughout, with the exception of the second year after the end of compulsory schooling, which is spent in employment in the vast majority of cases. This could be a formal placement or simply a brief entrance in the labour market between two educational programmes. The graphs highlight the strength of our approach as they allow us to uncover labour market patterns clearly and immediately, whereas it might have been more difficult to do so through standard descriptive statistics.

Overall, we identified 14 groups. Five experienced smooth transitions from education to work and only differed in the number of additional years of education before the transitions occurred. Three groups described predominantly educational trajectories which were interrupted by one (or in fewer cases two) academic year(s) in employment. These two sets of groups were aggregated into what we called 'Express education to work transition' (following Quintini and Manfredi, 2009) and 'Full-time education with gap year' respectively. The latter title is likely to be inadequate for a minority of individuals in these groups who experienced a longer interruption from education and might be best termed 'returners to education'. However, given their relatively small number we decided against splitting this group further.

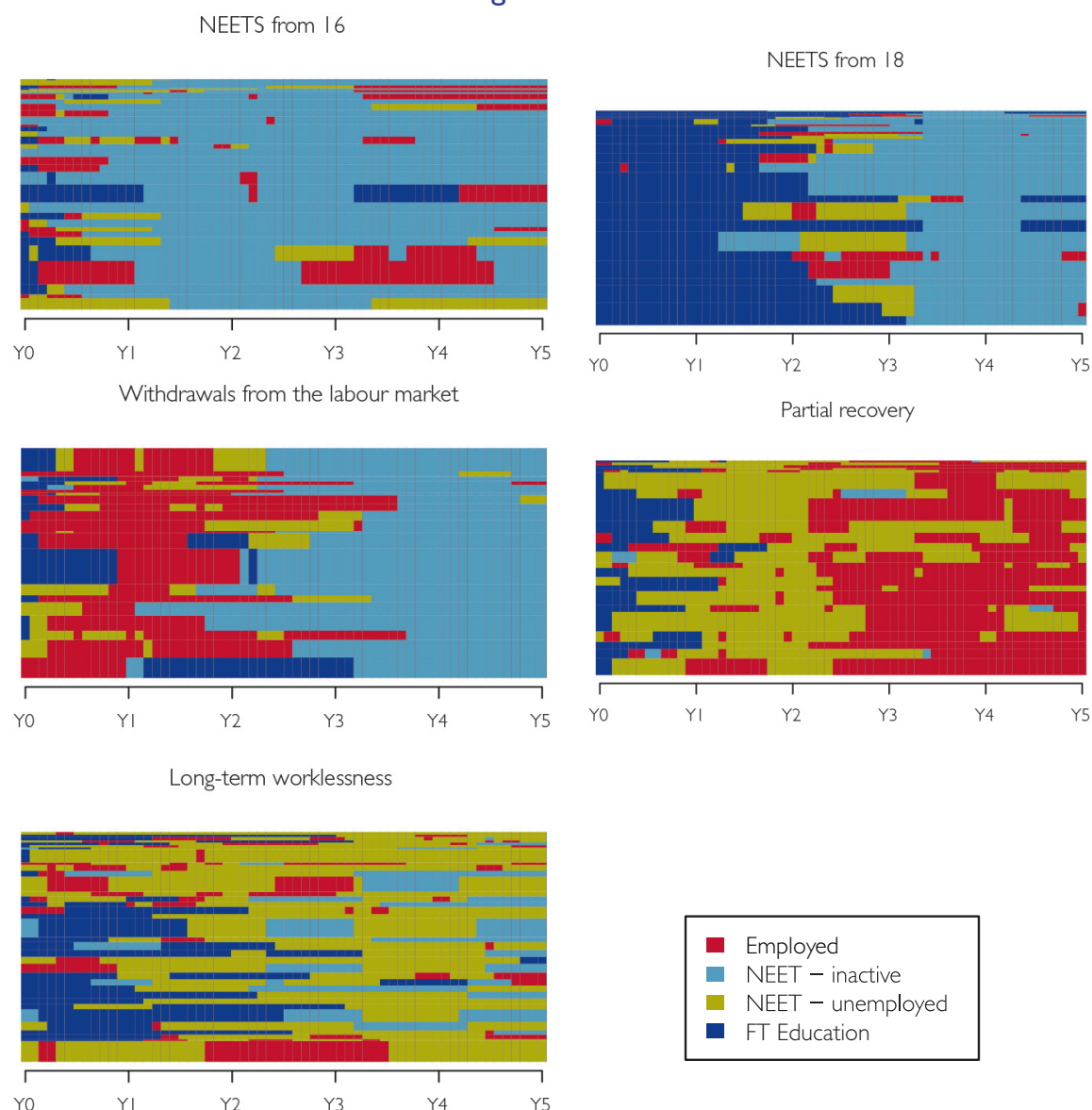
Table A1.1: Size of each trajectory type

Description of trajectory	Accumulating human capital	Successful education to work transition	Possible cause for concern	Estimated number of 16 year olds entering each trajectory each year ('000s)
FTE throughout	25.3%			190
FTE w/ gap year	9.9%			80
Express		55.6%		420
Partial recovery			2.0%	20
Long-term worklessness			2.3%	20
NEETS from 16			2.1%	20
NEETS from 18			1.6%	10
Withdrawals from the labour market			1.2%	10
Total	35.2%	55.6%	9.1%	760

Table A1.1 above presents the final typology we identified and the relative size of each type. The results suggest that 9 in 10 young people experience generally successful labour market trajectories. These are predominantly smooth transitions from education to work, or long spells of education, in some cases interrupted by an employment spell. Instead, as shown in the graphs below, the remaining individuals exhibit a variety of histories that might warrant policy attention. These include long-term inactivity from the age of 16 or from age 18; long-term worklessness straddling unemployment and inactivity; individuals experiencing some employment but developing only limited labour market attachment; and individuals who appear to withdraw from the labour market following an apparently successful entry into employment. The final column above provides an estimate of the number of 16-year-olds in each group.³

³ These are based on Office for National Statistics mid-2010 Population Estimates. Note that while survey attrition does not affect the qualitative findings, all figures in the table should be considered as indicative as attrition may not be random across groups.

Figure A1.2



Understandably, individuals in the five ‘possible cause for concern’ groups will be of greatest interest to policy-makers. Figure A1.2 presents the trajectories within these groups, while Table A1.2 below shows the characteristics of individuals in each.⁴ Relative to those who remain in education or make a successful transition from education to work, those in the ‘possible cause for concern’ groups generally exhibit lower educational attainment at age 16; are more likely to live in social rented accommodation; and have parents with lower educational qualifications. Importantly, there is also a high degree of variation among these groups. In particular, while unsuccessful trajectories predominantly consisting of time in ‘NEET - unemployed’ (groups 3 and 4) show a balanced gender profile overall, the overwhelming majority of those entering predominantly ‘NEET - inactive’ trajectories (groups 5-7) are female and in almost all cases mothers by age 21.

This point reinforces the importance of qualifying the description of these groups as giving rise to a possible cause for concern. In many case, those ‘NEET - inactive’ trajectories will be so through choice, and, while it may be clear that they do not lead progression in the labour market, policy makers will hold different views on whether they should be considered ‘unsuccessful’.

⁴ These should be considered indicative as the sample size for each group is very small. The groups ‘full-time education throughout’ and ‘full-time education with gap year’ have been combined under the broader heading ‘accumulating human capital’.

Table A1.2: Share of individuals in each group exhibiting given characteristics

	1	2	3	4	5	6	7	Total
Ethnic minority	8%	3%	5%	0%	0%	11%	0%	5%
Female	50%	49%	31%	69%	88%	83%	100%	51%
Has children at 21	1%	8%	5%	20%	78%	63%	100%	9%
Health limits daily activities	3%	4%	0%	13%	8%	10%	4%	4%
GCSE A-C	93%	77%	44%	24%	57%	47%	40%	80%
GCSE D-G	2%	14%	24%	35%	6%	30%	20%	11%
No qualifications	5%	9%	32%	41%	36%	23%	40%	10%
Receipt Educational Grant	4%	5%	13%	11%	0%	3%	1%	5%
Parental qualifications high	30%	10%	11%	0%	0%	4%	0%	17%
Parental qualifications medium	61%	64%	55%	19%	40%	45%	24%	60%
Parental qualifications low	9%	26%	34%	81%	60%	51%	76%	23%
Owned housing	92%	78%	76%	22%	47%	62%	15%	81%
Social rented	7%	17%	19%	77%	53%	29%	75%	16%
Private rented	1%	4%	5%	1%	0%	9%	10%	3%
No sibling	64%	56%	37%	71%	50%	57%	57%	59%
Employed sibling	13%	27%	30%	16%	39%	17%	31%	22%
NEET sibling	1%	4%	32%	13%	8%	5%	12%	4%
Sibling FT student	21%	14%	1%	0%	4%	21%	0%	16%
Observations	393	661	21	26	19	25	16	1161

Accumulating human capital (1); Successful school to work transition (2); Partial recovery (3); Long-term worklessness (4); NEETS from 16 (5); NEETS from 18 (6); Withdrawals from the labour market (7).

Predictors at age 16

The final step in this analysis is to use statistical techniques to explore whether there are any distinctive characteristics at age 16 which could help predict an individual's future group membership. The ability to identify in advance who is at risk of an unsuccessful transition into the labour market is clearly important to deciding the type of policy that might be effective and who it should target.

We ran multinomial logit estimations to examine which characteristics influence the likelihood of an individual entering a pathway dominated by full-time education or one of the 'possible concern' pathways, taking those who move quickly from school to work as the base category. Due to the small sample size of those in each of the 'concern' pathways, we had to treat these as a single group rather than analyse each sub-group individually. The results are presented in Table A1.3. The numbers shown indicate the estimated percentage point change in the probability of a given individual entering the named trajectory when possessing a given characteristic as opposed to the reference value. For example, the table indicates that the probability that an individual whose highest educated parent holds a degree enters a 'human capital trajectory' is 34 percentage points higher than for an otherwise identical individual whose parents' highest qualifications are at most GCEs graded D-G. The stars highlight which characteristics emerge as statistically significant - a measure of the confidence with which the data can indicate these are genuine predictors of individuals' labour market pathways. Characteristics which have a favourable impact are highlighted in green while those associated with a detrimental effect are coloured in red.

Table A1.3

Percentage point change in probability of entering the named trajectory (when exhibiting a given characteristic compared to the its reference value)				
	Human capital		Possible cause for concern	
Sex (ref: males)				
Female	-1		6	***
Ethnicity (ref: white)				
Non-white	17	*	-1	
Parental qualifications (ref: Low)				
High (degree)	34	***	-7	*
Medium (>GCSE A-C)	14	***	-5	*
Housing tenure (ref: owned)				
Social rented	-15	***	8	**
Private rented	-26	***	2	
Year of birth	0		1	
Health (ref: no limitations)				
Health limits daily activities	-4		0	
School attainment (ref: GCSE A-C)				
GCSE D-G	-29	***	7	*
No qualifications	-16	***	15	***
Educational grant (ref: none)				
In receipt	-1		1	
Regional unemployment rate (16-24)	0		0	
Parental employment (ref: not employed)				
In employment	-4		-5	*
Sibling labour force status (ref: no siblings)				
Employed	-12	***	2	
NEET	-13		9	*
In FTE	-2		-3	
Self-confidence/motivation problems (1)	3	*	1	
Self-confidence/motivation problems (2)	1		0	
Statistical significance: * p<10%; ** p<1%; *** p<0.1%				

The importance of school attainment (grades), family background (parental qualifications, parental and sibling labour market status, housing tenure) and gender emerge as the strongest predictors of labour market outcomes. These are significant even when one includes other explanatory variables capturing the effect of 'soft' personal characteristics. More specifically, we use factor analysis to construct two variables measuring self-confidence and motivational difficulties by combining responses to the General Health Questionnaire module included in the BHPS.⁵ The inclusion of these variables is intended to capture the impact on labour market choices of personal traits which would otherwise be unaccounted for in the model and could therefore bias the estimated effect of other variables. For example, strong motivation could improve both educational attainment and labour market outcomes. If motivation is unaccounted for in the model, the educational attainment variable would pick up the genuine effect of grades on labour market outcomes as well as the indirect effect of individual determination. It is therefore interesting to see that, even when including a measure of personality traits, family background, grades and gender still remain significant predictors of future labour market trajectories.

Importantly, there will be cases where individuals exhibit more than one of these 'risk factors'. For example, educational achievement is likely to be correlated across generations. Indeed, in our sample, around 90% of youth with highly educated parents will obtain GCSEs at grades A-C at age 16, while this figure is only around 54% for those with parents having only grades D-G at GCSE or equivalent. Similarly, it is well known that qualification levels are closely related to employment stability and labour market attachment. Highly educated parents are therefore also more likely to be employed parents. As a consequence, it is likely that the effects of school attainment and parental education and employment will combine and reinforce each other. Indeed, using the our model results, we estimate that while virtually no young males, with grades A-C at GCSE at age 16 and living with highly educated and employed parents will enter an 'unsuccessful' trajectory, this will be the outcome for almost one in three young males obtaining no GCSEs at 16 and living with unemployed parents holding low qualifications.

Conclusion

This Annex has presented results from research aimed at creating a typology of labour market trajectories for young individuals over the five years following the end of compulsory education and exploring which characteristics can act as early predictors of subsequent unsuccessful trajectories in the labour market. Through the use of innovative optimal matching techniques, we find that while around 9 in 10 young people experience generally successful labour market trajectories, the rest experience a variety of labour market histories including long-term NEETHood or worklessness, withdrawals from the labour market or only partial attachment to the labour market. The second step of the analysis, confirmed the importance of school attainment (grades), family background (parental qualifications, parental and sibling labour market status, housing tenure) and gender as the strongest predictors of subsequent labour market outcomes.

The ability to identify in advance who is at risk of an unsuccessful transition into the labour market provides important clues as to the type of policy that might be effective and who it should target. The results presented here may offer two considerations for policy design.

⁵ The BHPS includes a self-completion questionnaire containing of a reduced version of the General Health Questionnaire and covering questions on attitudes and subjective well-being.

Firstly, it is interesting that characteristics emerging as the strongest labour market predictors at age 16 are both easily observable and potentially available to both schools, parents and policy-makers. This should make effective targeting possible. Secondly, the observed labour market patterns indicate that unsuccessful outcomes often start at key decision points in a young person's educational career (particularly at the end of compulsory schooling and after two further academic years), suggesting this could be because of a poor decision taken at that point. This possibly indicates the importance of effective career advice, and of an education and training system which provides individuals with clear and structured options to choose from when deciding each next step.

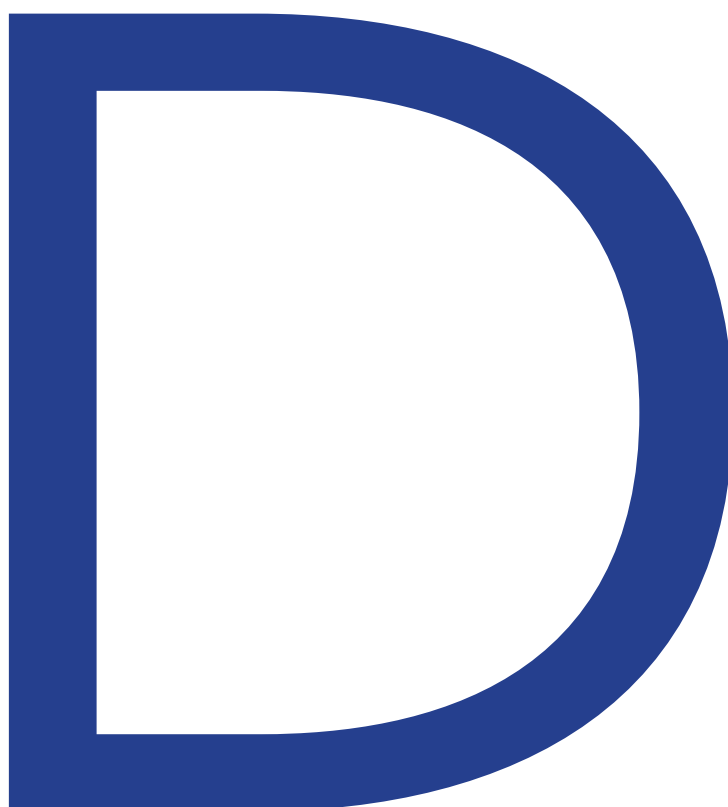
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Annex D

The NEET population in the UK

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Introduction

The population of 16-24 year olds not in any form of Employment, Education or Training in the UK rose to above 17% – 1.3 million – in the second quarter of 2011. Although the increase in the NEET rate in response to the 2008 recession was actually a relatively minor two percentage points, the NEET population has been rising since the mid 2000's. This report discusses the characteristics of individuals accounting for this rise, and the potential causes of the rise. Commonly cited causes such as the extension of the National Minimum Wage in 2004, rises in immigrant populations or worker polarisation are argued to have had limited impact. Instead the majority of the rise is attributed to pre-recessional declines in sectors in which young people typically work, although the lack of focus of the government on young people during the period is also a likely contributor.

Data

All data come from the Labour Force Survey, a representative quarterly sample survey of 60,000 households in the UK. It is a rolling panel, meaning that in each quarter 20% of households drop out of the survey, and 20% enter. Households are thus tracked for five quarters, allowing analysis of what young people are doing one year after their initial survey response. Data from all quarters between October-December 1997 and April-June 2011 are used, with the exception of the summer quarters, which are excluded as summer is the time when most transitions between education phases occur meaning responses are less reliable.

Defining the problem population

Although the term NEET specifically refers to people 'Not in Education, Employment or Training', there are some marginal groups whose categorisation is ambiguous; for example government figures frequently include those in part time education or training but not employment, or people in education but seeking work. Table 1 addresses the question of which groups should be treated as NEET by highlighting outcomes for individuals in different groups one year on after they were initially surveyed as 18 year olds. Each row gives the distribution of individuals amongst six different categories, given the group they were in the first wave of the LFS.

Of interest is the distribution of outcomes for people in different groups, particularly for the marginal groups that are sometimes included in the figures and sometimes not. The fourth and fifth rows in the table show the destinations one year on for individuals in these marginal groups, while the sixth row shows the destinations of the 'unambiguous' NEETs, which includes those who are unemployed or economically inactive and not in any form of education, employment or training.

Table I: Transition Matrix showing outcomes for individuals one year on after initial survey date, by starting group

18 Year Olds		WAVE 5					
		FT Education	Employment with Training	Employment without Training	Training/PT Education	Unemployed	Inactive
WAVE 1	FT Education	71.81	4.85	14.77	2.26	4	2.32
	Employment with Training	10.61	45.14	35.99	1.04	5.14	2.09
	Employment without Training	11.55	11.91	68.43	1.15	5.02	1.93
	Training/PT Education	39.92	6.85	23.86	12.36	8.08	8.93
	Unemployed	8.65	5.04	40.14	1.93	34.79	9.46
	Inactive	25.33	0.7	16.91	4.11	11.06	41.89

Source: Tomorrow's People & LFS. Figures are averaged over a seven year window from 2003-2010. All rows sum to 100, as each row gives the distribution amongst the six possible groups in Wave 5, for each set of individuals in a given group in Wave 1. Figures are for '18 year olds' only which is the cohort who turned 18 on August 31 of the year in which they were first observed. The outcomes for the two marginal groups here appear quite positive, certainly compared to the outcomes of the NEETs. At any time on average around half of the NEET population are 'Core', meaning they remain NEET for at least a year. The NEET group includes both the inactive and the unemployed (outcomes for these two groups when disaggregated are very similar).

The table shows that the destinations of the marginal groups are far better than for the unambiguous NEETs; 17% of those in part time education or training end up in the unambiguous NEET category one year on, whilst almost 50% of the unambiguous NEETs remain so one year on. Outcomes for the other marginal case – those in education but seeking work – are far better. It therefore seems unreasonable to classify these groups together, and for the remainder of this report, all figures are presented using this strict definition of NEET to include only those who are unemployed and economically inactive¹.

From this table a further group of interest – the 'Core NEETs' – are defined. These are people who remain in the unambiguously NEET category for a year or more. As seen, approximately 50% of the NEET population are Core NEET.

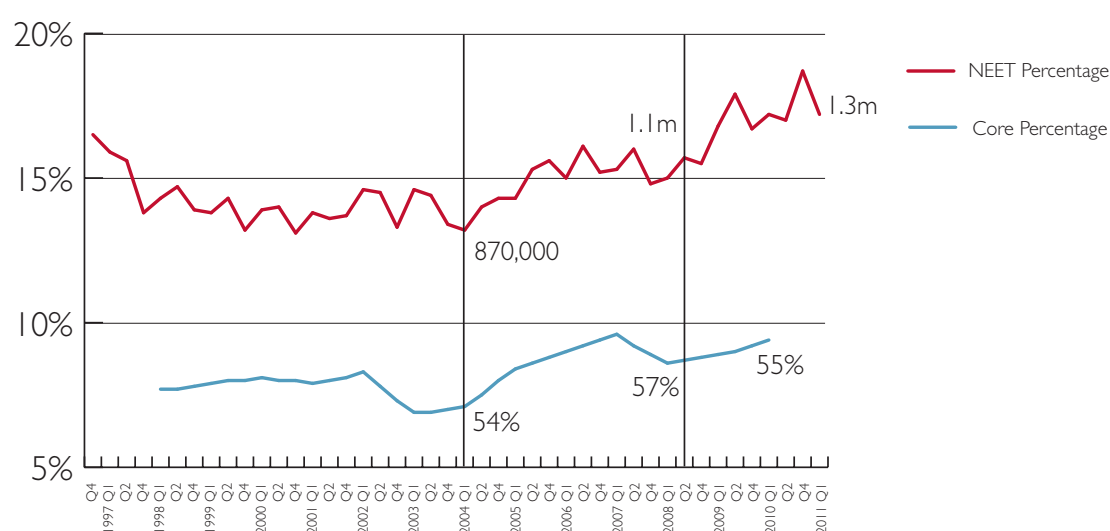
¹ It should be noted, however, that the number of people in Part Time Education or training is small; only around 3% of the population. Their inclusion in the statistics does not therefore make a dramatic difference.

The economics literature suggests that the long term effects for this group are potentially severe (Gregg (2000), Gregg and Tominey (2005)). Of this group, 38% are found to come from the bottom 20% of the distribution of a continuous family background index², 80% have fewer than five good GCSEs and 55% have no GCSEs³. There is a surprisingly even distribution geographically; when Local Authorities are ranked on their overall employment rate (of 18-64 year olds), just 30% of the Core NEETs are found to come from the worst ranked 20%, whilst the distribution by Government Office Region (GOR) is very even. The ratio of Core NEETs to overall NEETs is found to be stable over time (see Figure 1).

The trend in NEET Populations

The trends of 16-24 year old overall and Core NEET rates between 1997 and 2011 are given in Figure 1. As discussed above, the fraction of the overall NEET population that are Core NEETs has remained stable, particularly since 2004 at around 55%.

Figure 1: Overall and Core NEET populations over time



The overall NEET population is the proportion of the population that are unemployed or economically inactive and not in any form of employment or training.

Source: Labour Force Survey

With regard to the overall NEET population, there are three key observations to take from this chart. The first is that although major media interest in this group has reignited only relatively recently, even in the good economic times the NEET population is large; at its trough in 2004, there were still nearly 900,000 16-24 year olds NEETs, accounting for more than 13% of the young population. This is indicative of structural rather than a cyclical problem. The second is that the rise in the NEET population predates the recession, originating in 2004. In terms of raw numbers the rise in the NEET population between 2004 and 2008 is very similar to the post recessional rise.

- 2 We use factor analysis to generate one continuous index that is a linear combination of six variables a set of background characteristics, including Parent's Occupational Class, Parent's Economic Activity, Parent's Highest Qualification, a Lone Parent indicator, and a Social Housing indicator.
- 3 Approximately 40% of the overall population get fewer than 5 good GCSEs and 20% get none.

The third is that the rise after the 2008 recession is surprisingly small relative to the size of the employment shock, at approximately 2 percentage points. Britton (2011) argues that this is attributable to young people substituting back in to full time education. This third point is depicted in Table 2, which shows estimated employment shocks, the changes in education participation and the changes in NEET populations in response to the recession by age, relative to fitted trends. This shows that at each age the employment shock was much larger than the shock to the NEET population, and that education participation increased for all age cohorts from 16-24.

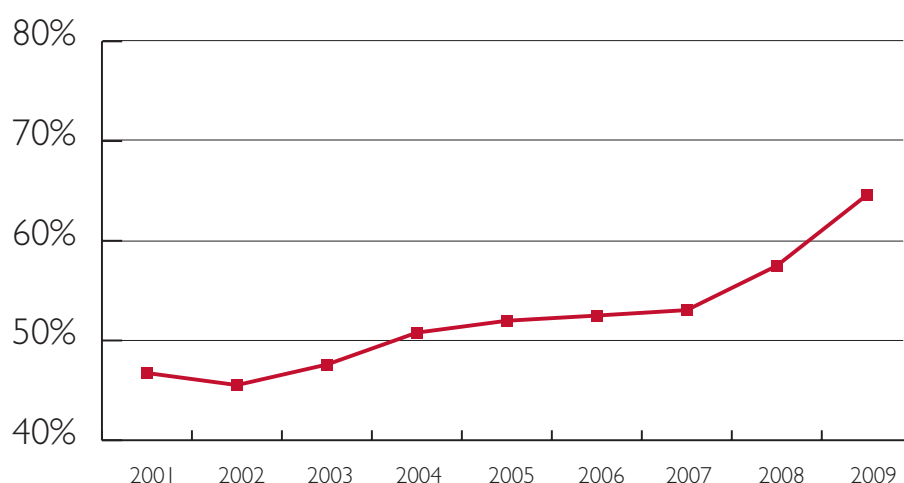
Table 2: Estimated Percentage Point Change in 16-24 Year Old Education, Employment and NEET Populations as a Consequence of the 2008 Recession

Age	16	17	18	19	20	21	22	23	24
PP Change in Education Participation	+3.7	+4.2	+5.2	+2.3	+2.4	+4.3	+1.2	+0.2	+1.7
PP Change in Employment	-2.2	-3.9	-8.1	-6.5	-7.5	-8.6	-4.8	-5.9	-5.2
PP Change in NEET Population	-1.2	+0.2	+3.7	+3.9	+4.1	+3.1	+3.0	+3.2	+1.8

Source: Authors calculations based on the LFS [Britton (forthcoming) 'School Leaving Decisions in the 2008 Recession' – available on request]. Figures include England and Wales only. Substitution into education appears to have prevented the employment shock of the recession being converted into huge increases in the NEET population.

Table 2 shows that for 16 and 17 year olds, almost all of employment shock was absorbed by people selecting into education, and there was a very limited impact on the NEET populations. Two factors that were potentially important in this were the Education Maintenance Allowance (or 'EMA' – a cash transfer scheme for the disadvantaged that is conditional on attendance) and the Education Guarantee (a guarantee to provide education for all 16 and 17 year olds if they wanted it, regardless of prior qualifications). This is supported by Figure 2, which shows that the proportion of 16 and 17 year olds with fewer than 5 GCSEs participating in full time education rose by more than 10 percentage points between 2007 and 2009.

Figure 2: Proportion of 16 and 17 year olds with low GCSE attainment participating in full time education



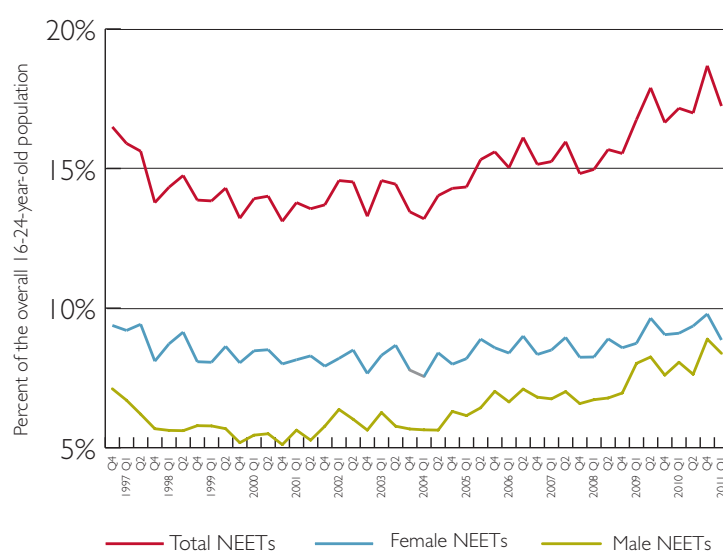
Source: LFS. 'Low' GCSE attainment is fewer than five A*-C GCSE grades (not necessarily including English and Mathematics).

The EMA has now been severely scaled back and the Education Guarantee rescinded, which could have serious consequences for the young population as the economy looks destined to struggle for a sustained period, and it is possible that large employment shocks could start translating into much larger increases in the NEET population.

What are the characteristics of the individuals accounting for the rise in NEETs?

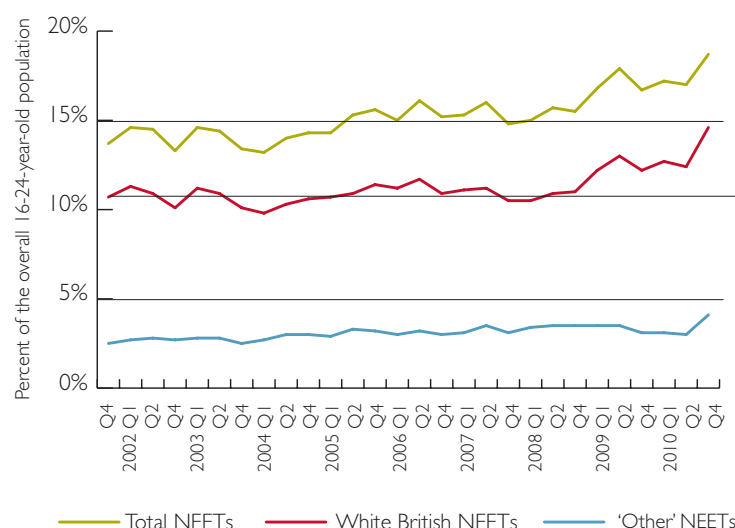
Figure 3 shows the NEET population split by gender, Figure 4 by ethnicity and Figure 5 shows the proportion of NEETs coming from deprived Local Authorities (with deprived Local Authorities defined as previously). The figures show that increase appears to have been more marked in males and in the white British ethnic group, but was unrelated to the relative deprivation of Local Authorities.

Figure 3: NEET Populations split by Gender



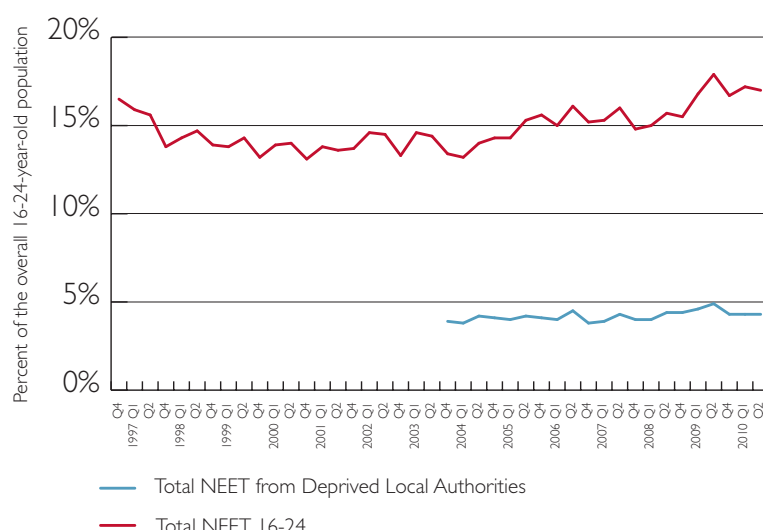
Source: LFS.

Figure 4: NEET Population split by Ethnicity



Source: LFS.

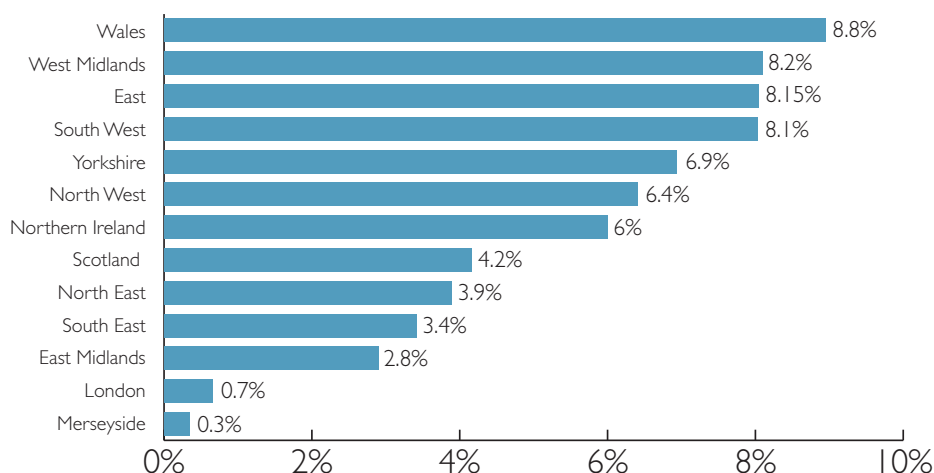
Figure 5: NEET Population from deprived Local Authorities



Source: LFS. Data restrictions prevent the tracking of NEETs from deprived Local Authorities further back in time. However based on the available data it seems unlikely that there was an unusual pattern in the previous data.

Despite the lack of an interesting pattern by deprived Local Authorities, there marked differences in the NEET population by Government Office Region (GOR). Figure 6 shows the percentage point change in NEET populations between 2003 and 2010 by GOR. The Figure shows that Yorkshire, the South West, the East, the West Midlands and Wales all experienced very large rises in youth unemployment in the given period. It should also be noted that the North East, Northern Ireland, Yorkshire, the West Midlands and Wales all had NEET population percentages above 20% in 2010.

Figure 6: Percentage Point Change in NEET Population between 2003 and 2010 by GOR (brackets give the final NEET percentage in 2010)



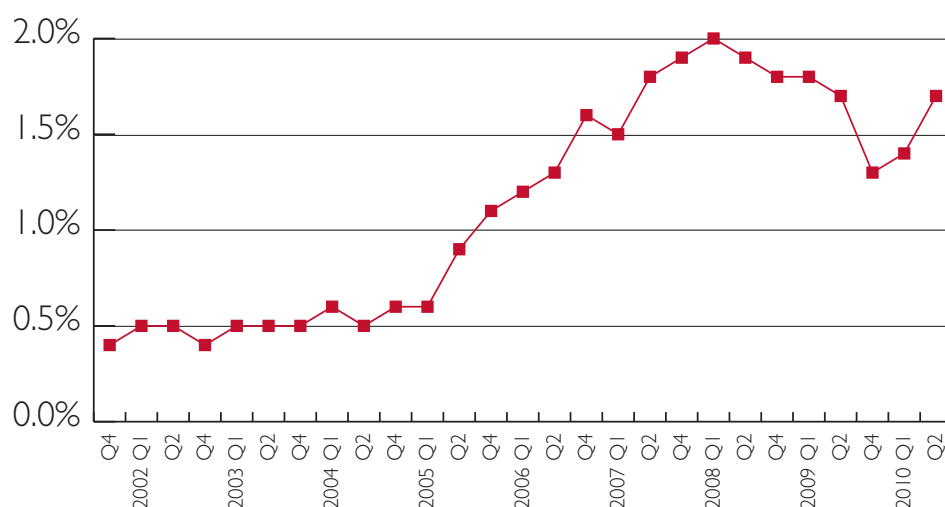
Source: LFS. The A8 countries include Czech Republic Estonia Hungary Latvia Lithuania Poland Slovakia Slovenia. The figures are based on the Country of Origin variable in the LFS. Classifications changed in 2007 – for example prior to 2007 the 'former USSR' is an option. Figures are made as comparable as possible based on the responses [enquire for more details]. Cyprus and Malta are also included.

Causes of the rise in the NEET population since 2004

A8 Immigration

The accession to the European Union of eight Eastern European Countries (known as the 'A8' countries) in 2004 led to a significant increase in EU migrant flows. Figure 7 shows Labour Force Survey estimates of the proportion of the overall working age population coming from the A8 countries. Although this is likely to be an underestimate of the true number due to sampling issues associated with migrant populations, the post-2004 rise is clear; these figures suggest that the proportion of A8 migrants of the total working age population in Britain rose by almost 2 percentage points between 2004 and 2008. This figure is consistent with the Blanchflower et al (2007) estimate of 500,000 A8 migrants working in the EU between 2004 and 2006.

Figure 7: immigrant population as a percentage of the working age population



Source: LFS. The A8 countries include Czech Republic Estonia Hungary Latvia Lithuania Poland Slovakia Slovenia. The figures are based on the Country of Origin variable in the LFS. Classifications changed in 2007 – for example prior to 2007 the 'former USSR' is an option. Figures are made as comparable as possible based on the responses [enquire for more details]. Cyprus and Malta are also included.

A8 immigration could affect the 16-24 year old NEET rate through one of two mechanisms; firstly through A8-born 16-24 year olds moving to the UK and becoming NEET themselves, and secondly through direct competition for jobs between A8 born workers and young natives.

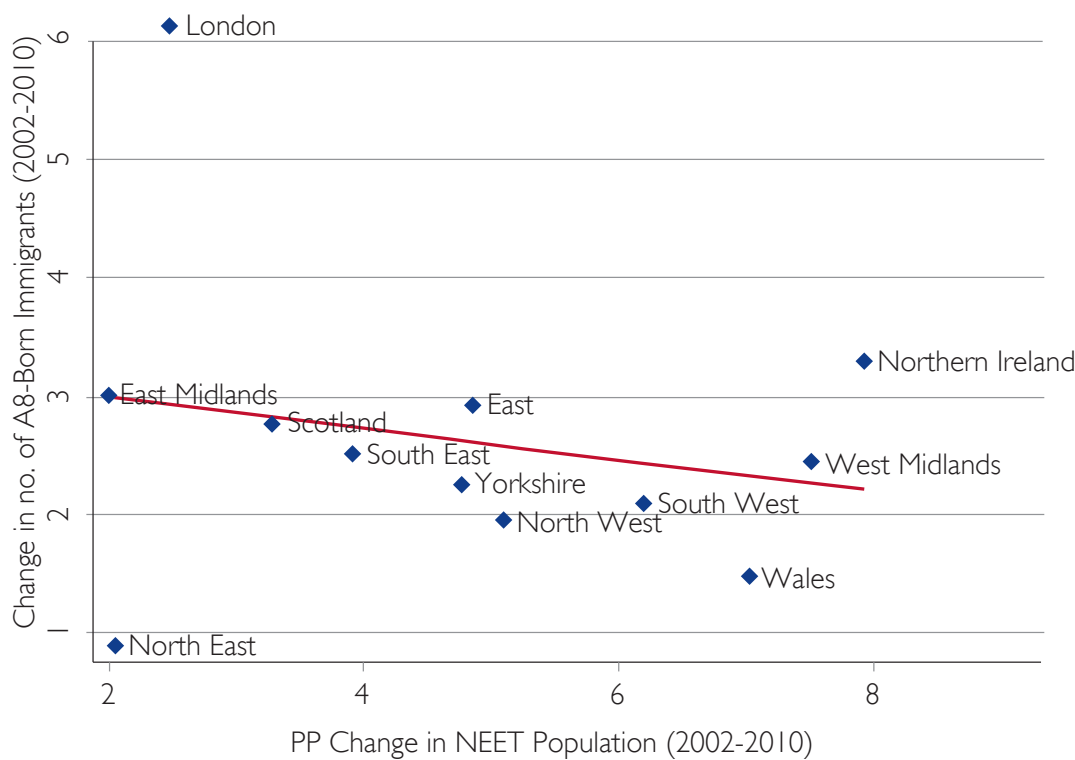
The first of these two mechanisms is clearly not important, however. As seen previously in Figure 1, the number of NEETs in the UK rose by about 400,000 young people between 2004 and 2010. Meanwhile according to the LFS, the number of A8 born 16-24 year olds rose from approximately 35,000 in 2003 to 200,000 in 2008 at its peak. So even if all of the A8 born 16-24 year olds were NEET, that would account for less than half of the rise. However, that is not the case: the NEET rate amongst A8 born 16-24 year olds is below the population average, consistently lying between 10 and 14%. So at most, this explanation could account for between 3 and 5% of the overall rise.

The second mechanism is more controversial. There is a large quantity of literature which finds immigration to have very limited employment effects on the native population as a whole (for example Friedberg and Hunt (1995), Altonji and Card (1991), Card (2005)). Studies looking directly at A8 migrant flows have also found little effect; the European Commission Report in 2006 found migrants to play a complementary role in labour markets, alleviating skill bottlenecks and contributing to long term growth, whilst the International Organisation for Migration (IOM) concluded that 'in a wide variety of western Europe, there is hardly any direct competition between immigrants and local workers'. Gilpin et al (2006) find that 'despite anecdotal evidence,

there is little statistical evidence supporting the view that the inflow of A8 migrants contributed to a rise in claimant unemployment in the UK’.

In Figure 8, the growth rate of A8 migrants at GOR level between 2002 and 2010 against the growth rate in the NEET population for the same period, showing a relationship that is insignificantly different to zero (the negative slope is large driven by the London observation).

Figure 8: Growth in GOR level A8-Immigrant levels against growth in GOR level NEET rates



The number of NINO registrations is the number of National Insurance Number Allocations to Adult Overseas Nationalsentering the UK. This is still potentially an underestimate of the true number of A8 migrants, but is likely to be more reliable than GOR level LFS estimates, which are sensitive to small sample sizes. The number of registrations is normalised by population size, so therefore approximates a growth rate as a proportion of the overall population (the units have no practical interpretation, and are instead relative).

While this graph does not confirm the lack of a positive relationship between changes in immigration and NEET populations as various observable and unobservable factors that may mitigate the relationship are not controlled for, it certainly does not favour the argument that the increase in the NEET population from 2004 in Britain can be attributed to A8 immigration.

This finding is consistent with most (for example Blanchflower et al (2007) find a very similar insignificant relationship between changes in youth unemployment and changes in the migrant share to the that given in Figure 8) – but not all – of the evidence on the subject. Smith (2011), for example, finds a negative correlation between youth employment and the immigrant share in the US, while Goujard, Petrongolo and van Reenen (2011) estimate a significant positive relationship between immigrant populations and youth unemployment. They find a 1 percentage point increase in the immigrant proportion of the working age population to be associated with a 0.4 percentage point increase in youth unemployment. Given we have seen a 2 percentage point rise in the immigrant proportion and an approximate 4 percentage point rise in the NEET rate, this would suggest A8 immigration would account for one fifth of the overall observed rise. However, Petrolongo et al find that excluding London from the analysis lowers the coefficient to ‘basically zero’. That combined with the result given in figure 8 suggests that this estimate of one fifth is very much a top estimate.

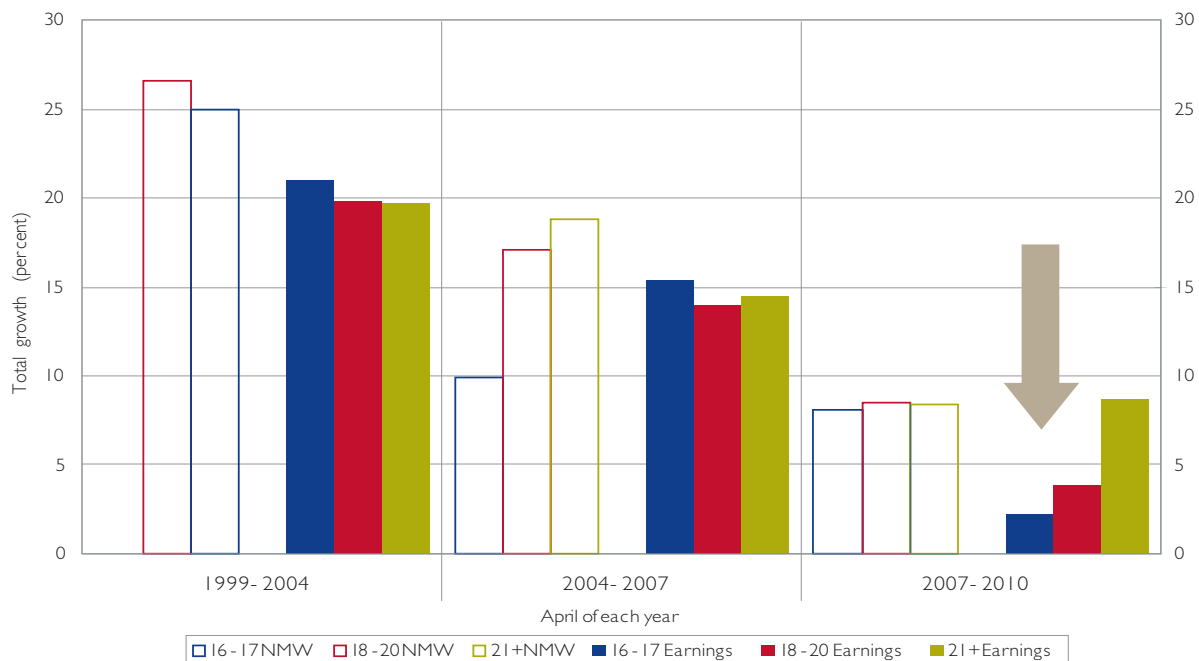
The National Minimum Wage

The National Minimum Wage (NMW) was introduced in 1999 after the abolition of Wage Councils in Britain in the early 1990's. The minimum wage was initially set at £3.60 for those aged 21 and over and at £3.00 for 18-20 year olds. There was initially no minimum for under 18's, but in 2004, a NMW of £3.00 was introduced for 16-17 year olds. By this time the minimum wage had risen in each of the other age-bands to £4.85 for over 21's and £4.10 for 18-20 year olds. Minimum wages for all three groups have grown since then at a rate regulated by the Low Pay Commission.

Economic theory predicts that a minimum wage will increase structural unemployment if set at a level that is above the market clearing equilibrium wage, as labour supply will exceed labour demand. It also predicts that the average earnings of those who remain in work will rise, since those earning below the minimum either lose their jobs and stop being included in average wage calculations, or receive higher wages. If it is set below equilibrium, theory predicts it will have no effect. The NMW could explain the rise in the NEET rate amongst 16-24 year olds either through the introduction of the 16-17 year old NMW in 2004, or through the minimum wages within the older age groups beginning to 'bite' (i.e. moving above the market clearing equilibrium wage).

The growth rates of the NMW are shown alongside the growth rates in overall earnings for each of the three age bands in Figure 11. The figure shows that wage growth for the three groups was very similar in both the 2004-2007 period and in the 1999-2004 period, despite the introduction of the minimum for 16-17 year olds in 2004. Because there is no unusual upward shift in wages of 16 and 17 year olds after the introduction of the NMW, it seems unlikely that the wage was set at a level that would significantly affect employment. The same is true for 18-20 year olds; it seems unlikely that between 2004 and 2007 the minimum wage began to bite, as there is no unusual pattern in average wage growth.

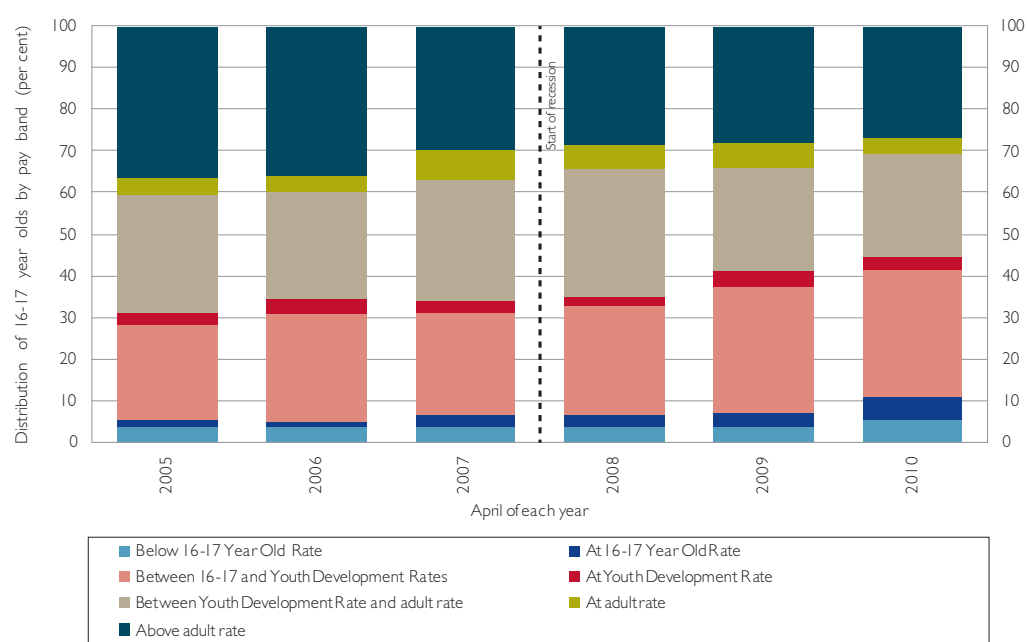
Figure 9: National Minimum Wage Growth Rates by Age Group



Source: LPC estimates based on ASHE without supplementary information, April 1999–2004; ASHE with supplementary information, April 2004–2006; and ASHE 2007 methodology, April 2006–2010, standard weights, UK

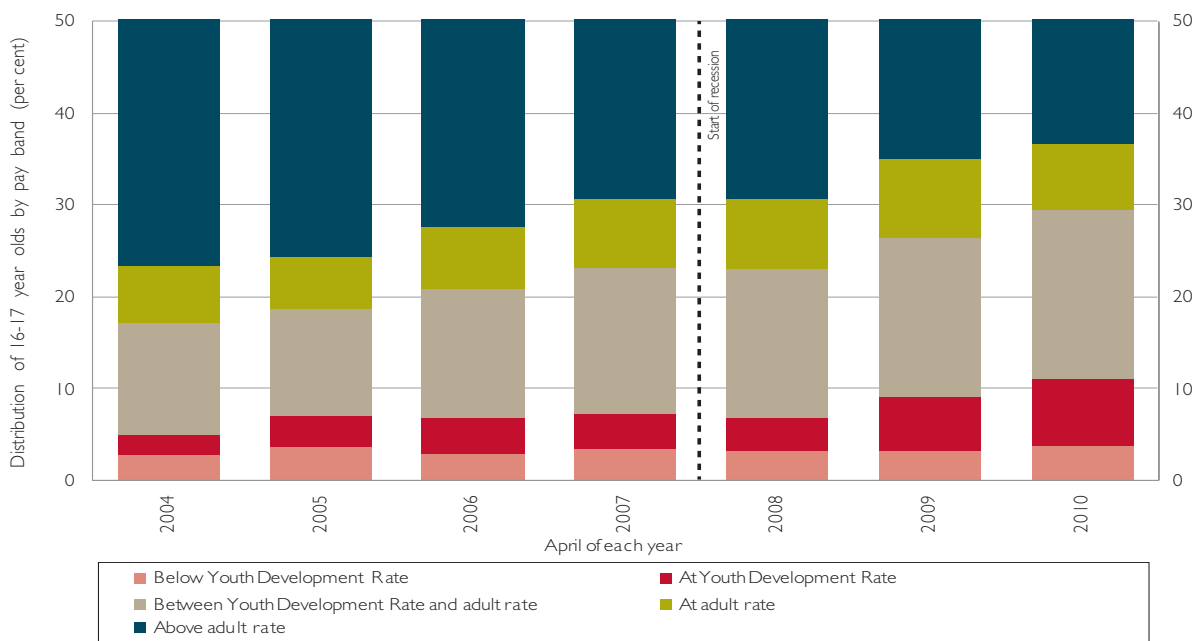
However in the 2007-2010 period, the growth rates of average wages do begin to differ by age group; growth in wages amongst those aged over 21 is far higher than amongst the other two age groups. This is also reflected in Figures 10 and 11, which show respectively the proportion of 16-17 year olds and the proportion of 18-20 year olds in work being paid within various pay ranges. It is clear from both figures that the proportion of young people being paid the minimum wage for their respective age groups increased significantly between 2007 and 2010. (This is shown by the increase in the size of the thick blue area in Figure 10 and the thick red area in Figure 11).

Figure 10: distribution of 16-17 year olds by pay band



Source: LPC estimates based on ASHE with supplementary information, April 2005; and ASHE 2007 methodology, April 2006–2010, low pay weights, UK

Figure 11: Distribution of 18-20 Year Olds by Pay Band



Source: LPC estimates based on ASHE with supplementary information, April 2005; and ASHE 2007 methodology, April 2006–2010, low pay weights, UK

The evidence therefore suggests that companies made limited use of the NMW upon its introduction, but have started to in the wake of the 2008 recession. In other words, prior to the recession it seems the NMW was non-binding, but that it now is, or is starting to. This suggests that the NMW had a limited role in the pre-recessional rise in the NEET rate, but that it now might start to have an important influence.

Sectoral shifts

The UK officially entered recession after experiencing a second consecutive quarter of negative growth in the third quarter of 2008. This is an average across all sectors however; it may be the case that sectors in which young people typically work were already declining before 2008, which could explain some of the rise that began in 2004.

Table 3 shows the overall sizes of the largest employment sectors in the UK for 2001, 2004 and 2007 (in millions) with the proportion of employed 16-24 year olds working within each of the sectors. According to the LFS, 'wholesale, retail, the motor trade or hotels and restaurants' is the sector which is by far the largest employer of young people; it accounts for the employment of almost 40% of 16-24 year olds and approximately 50% of 16-21 year olds. As shown in Table 3, there was an overall increase of around 300,000 jobs in this sector between 2001 and 2004, but a decline of around 200,000 jobs between 2004 and 2007. While the economy as a whole was growing, the sector in which the majority of young people typically work was declining.

Table 3: number of 16-64 year olds employed in different sectors in the uk

Sector	Proportion of employed 16-24 year olds	Total number of jobs (all ages – in millions)		
		2001	2004	2007
Manufacturing	9.84%	4.4	3.76	3.68
Construction	7.67%	1.97	2.18	2.34
Distribution, Hotels and Restaurants*	37.54%	5.24	5.53	5.33
Transport & Communication	4.74%	1.94	1.87	1.91
Banking, Finance, Insurance etc.	13.85%	4.28	4.32	4.65
Public Admin, Education & Health	16.62%	7.07	7.81	8.01

*This is as labelled in the LFS: the longer definition is 'Wholesale, Retail, the motor trade or hotels and restaurants'. All figures are weighted estimates from the LFS. Only the largest sectors are given. The proportion of 16-24 year olds working within each sector column is based on 2004 figures, although they vary relatively little over time.

The table shows that the two sectors where the most jobs were created between 2004 and 2007 were the Public and the Financial Sectors. Although these sectors employ around 30% of 16-24 year olds between them, these people are typically less vulnerable to unemployment, as they are older (they employ 30% of 16-24 year olds, but only 20% of 16-21 year olds) and better qualified (the LFS data suggest 60% of people employed in these sectors have five or more GCSEs, compared to the sample average of 51%). The depression of jobs in sectors in which vulnerable young people typically work is likely to be more important; although it is difficult to precisely estimate the proportion of the rise in the NEET rate since 2004, it seems that this sectoral shift is quite important; potentially contributing more than 30% of the overall rise.

Other Causes

There are a number of other factors – including changes in education policy, the welfare system, or population demographics – that have been discussed as potential causes of the rising NEET population, but as discussed in Goujard et al (2011), there is very little compelling evidence for any of them. Another possibility is ‘skill polarisation’, which White (2011) finds to have been a potentially important influence in the US. This is the argument that competition for low skilled jobs has increased due to a ‘hollowing out’ of demand for medium skilled labour. However, again the argument that this has been a cause of the pre-recessional rise in Britain is weak. The NEET began rising in 2004 after it had been falling for several years, during a period when – according to theory – skill polarisation should have been occurring. There is little that changed in 2004 in the growth of the macro-economy to suggest that this is the source of the increasing NEET population.

Conclusion

The number of NEETs in the UK is alarmingly high; even at its lowest point in 2004, approximately 13% of 16-24 year olds were unemployed or economically inactive and not in any form of education, employment or training. The number has been consistently rising since 2004, and although the effect of the 2008 recession was relatively muted, is now above 17%. The rise appears to have been predominantly amongst white, British males, and a number of Government Office Regions – notably Wales, the West Midlands, the East, the South West and Yorkshire – appear to have contributed more significantly more than others. The ratio of ‘Core NEETs’ – those who remain NEET for a year or more – to the overall number of NEETs appears to have remained relatively constant over time (at about 50% of overall NEETs), and there does not appear to be a particularly interesting pattern when looking at the most deprived Local Authorities.

There are a number of potential causes of the rise in the NEET population from 2004, but here is little evidence that it can be attributed to A8 immigration, the introduction of the NMW, or to skill polarisation. It is instead suggested that a decline in the sectors in which young people typically work has been an important contributor. However, as discussed in Goujard et al (2011), it is also possible that the rise from 2004 can be explained by a shift in government policy away from this problem group; when Labour came to power in 1997 they had a strong focus on reducing the NEET rate, and were successful in reducing it by the mid 2000’s. This focus appeared to decline from then, instead moving towards lone mothers and early intervention policies.

The success in the early period of the previous government, combined with the relatively minor effect of the 2008 recession on NEET populations – in which the EMA and the education guarantee were surely important factors – implies that the government is able to influence youth unemployment. It should also serve as a warning moving forward into a potential further period of recession, that with the EMA severely scaled down and the retraction of the Education Guarantee, the NEET population could potentially vastly increase.

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