

# **TACKLING WORKLESSNESS IN BRITAIN'S WEAKER LOCAL ECONOMIES**

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## Key points

- *Across Britain as a whole, nearly 5m men and women of working age are out-of-work on benefits. Around 2.6m of these are on incapacity benefits.*
- *The older industrial areas of the North, the Midlands, Scotland and Wales, and to a lesser extent a number of seaside towns and inner urban areas, have by far the highest claimant rates.*
- *In the worst 100 districts outside London – home to almost a third of the UK population – an average of 18 per cent of all adults of working age are out-of-work on benefits.*
- *Prior to the recession, the numbers out-of-work on benefits were falling, with the biggest reductions in the areas with the highest claimant rates. The recession brought a halt to progress, and hit industrial areas the hardest.*
- *To bring the employment rate in the worst 100 districts outside London up to the rate already found in the best third of the country would require an extra 1.2m residents in work.*
- *Before the recession, employment was growing in Britain's weakest local economies, but nearly 80 per cent of the job growth was in the public sector. This points to the difficulties of relying on a private sector-led revival.*
- *Looking ahead, even on favourable assumptions about a resumption (and acceleration) in the pre-recession decline in benefit numbers, there is little hope that benefit claimant rates in Britain's weaker local economies will be reduced to acceptable levels by 2020 – at least not within the framework of present and planned policies.*
- *The loss of public sector jobs looks likely to exacerbate the situation.*
- *There is also little hope, within the present policy framework, of more than a marginal reduction in the gap in claimant rates between the best and worst parts of the country.*
- *Pessimism about the prospects for a private sector-led revival, and a big fall in benefit numbers, is confirmed by two local case studies in the report (Barnsley and Blackpool).*
- *There is a powerful case for job creation schemes, targeted at Britain's weakest local economies, as an integral part of efforts to bring down benefit numbers.*
- *The up-front annual cost to the Exchequer of creating 100,000 jobs for former incapacity benefit claimants would be around £1.2bn. Allowing for benefit savings and additional tax revenue, the net cost to the Exchequer would be just £440m.*



## Foreword

By Cllr Stephen Houghton CBE, Chair, National Worklessness Learning Forum



Long-term unemployment or worklessness is one of the great evils of modern society. It blights individuals, their families, and communities, and costs the Exchequer significant amounts in benefits and lost revenue. Little wonder the current Government has made tackling the problem a major priority, with almost five million people now reliant on some form of working-age benefit.

However, the solutions to the problem are not always clear.

Worklessness tends to concentrate in places, and the context and causes differ from place to place – indeed from person to person. Previous one-size-fits-all, top-down solutions, whilst well intentioned, only reduced the problem at the margins. Large numbers of workless people have remained reliant on benefits despite one of the longest periods of economic growth the country has seen.

So can the problem be tackled in this new post-recession era, when growth forecasts are at best modest and public expenditure is being reduced on a scale not seen since the 1970s?

The Government certainly thinks so, and has taken two significant and radical steps.

First, the welfare system is to be reformed to make it more difficult for people to remain on long-term benefits and to make work a more attractive proposition. Many will see their benefits reduced but at the same time be given the opportunity to carry them into work if they can find it.

Second, a plethora of schemes and initiatives to help the unemployed will be pulled together in a new simplified Single Work Programme designed to give the unemployed

the personal support they need to find work. Programmes will be designed by providers at the local level rather than at the centre.

The Government believes the combination of these two changes will make significant inroads into the problem.

It is clear that the Government believes that the problem of worklessness is one of labour supply, not labour demand. Indeed, Ministers are convinced that the private sector has the ability not only to provide jobs for the large numbers currently out of work but also for those who are likely to lose their jobs as a result of the fiscal changes now being introduced.

But is this the case?

My experience from the National Worklessness Review, under the previous Government, is that in many of Britain's weaker economies jobs are much harder to come by than in the economic powerhouse of the South East, and even there, in parts of East London and some coastal towns, employment is not always easily accessed.

These concerns have been echoed in a series of reports from the Centre for Cities, the Work Foundation and the Conservative think tank the Policy Exchange, each of which has suggested that labour demand in weak economies is unlikely to improve and that the unemployed in those areas are unlikely to find work unless they move to more prosperous parts, particularly in the South of England.

However, encouraging large numbers of people to move is not easy, and the health and family circumstances of the most vulnerable mean that significant migration by these men and women is unlikely. In poorer areas this unwillingness to move is likely to be reinforced by proposed changes to the Housing Benefit system. On top of this, the prospect of moving is made more difficult by the large numbers of EU economic migrants now competing for work in the UK's most successful places. Only last year the Prime Minister himself distanced the Conservatives from the comments of the Policy Exchange, who had suggested North-South economic migration was the solution.

Against this background it is clear that if worklessness is to be reduced, and if the Government's new policies are to work, then jobs have to be both available and accessible across a range of places.

As a result of these concerns, the National Worklessness Forum commissioned Sheffield Hallam University to try to establish a picture of demand over the next ten years, particularly in weaker local economies, to see just how the Government's new policies are likely to impact and to propose, if necessary, additional policy changes to ensure neither people nor places get left behind.

As you will see, the findings of the report are stark. In many of Britain's weaker economies, particularly post-industrial towns and cities and some coastal towns, job demand in the private sector is low and unlikely to grow significantly. The bulk of those most distant from work in these places are likely, without extra help, to remain so for the next ten years at least.

If the consequences of welfare reform and the Single Work Programme are not simply to leave many people on less benefit income without the prospect of employment, demand needs stimulating. This can and should come through investment in skills, enterprise and support for businesses. However, whilst these interventions can help to

create employment (as we have seen over the last decade) they are at best long-term measures, so something needs to be done now to ensure large numbers are not left isolated yet again.

My view, and that of the report, is that job creation programmes are needed for the most vulnerable in the most vulnerable places.

Of course, job creation programmes need both funding and the capacity to deliver them.

On the question of capacity, the Future Jobs Fund has shown that local councils, the voluntary sector and many other organisations have both the appetite and the organisational strength to deliver quality employment opportunities for the young and the long-term unemployed alike. Moreover, the development of Local Enterprise Partnerships in England – all of whom have made worklessness a key issue – is another opportunity to deliver, particularly across functional economic areas. So we can be confident capacity on the ground is there.

On funding, however, we are in very different circumstances to those when the Future Jobs Fund was introduced. The Government is reducing spending dramatically as it attempts to shrink the structural deficit. So where would the money come from?

There is no doubt in my mind that there is capacity in the financial sector to pay for such a programme, given the current size of banks' annual bonus pool (around £7bn). Indeed, all the political parties have suggested that the banks need to contribute more to the challenges the country faces. An initial levy of £1.2bn could be used to establish a programme of employment for 100,000 people in the UK's most vulnerable economies. Thereafter, this could be reduced to £400-500m a year to sustain it.

I believe there would be strong public support for an initiative that ensured that those most at risk from the financial and economic problems the country faces were supported by the institutions that were responsible for those problems in the first place.

Our aim in commissioning this report was not to criticise the Government's objectives – which we share – or to dismiss its policy initiatives. But we believe the evidence shows they won't be enough. If many people and places aren't to be left behind, more must be done.

If the Single Work Programme idea of payment by results (i.e. a job) is to succeed, there need to be real outcomes that contractors can achieve if their business models are to be viable. Placing people on training programmes with nowhere to go will benefit neither the contractors nor the unemployed.

It is my sincere hope that all the major political parties will finally accept and understand the nature of worklessness – particularly in those weaker economies – and be prepared to work with us to deliver real solutions.

Finally, I would like to thank Professor Steve Fothergill and his team, and the Borough Councils of Blackpool and Barnsley who helped fund the project and provided the evidence for the case studies.



## 1. THE SCALE OF THE PROBLEM

### The national picture

Worklessness is one of Britain's major social and economic problems. In the years of economic growth prior to 2008 the extremely large numbers of men and women still out-of-work on benefits tended to be overlooked, not least because the trend was in the right direction. But in reality the long economic boom never did come near to creating 'full employment' and the subsequent recession ratcheted up the jobless numbers once again.

Worklessness on benefits is a lot wider than just 'unemployment'. Table 1 shows the number of men and women of working age<sup>1</sup> in receipt of out-of-work benefits across Great Britain as a whole. The figures here are four-quarter averages for 2009<sup>2</sup>. The table shows that even in the wake of recession the 1.45m out-of-work on Jobseeker's Allowance (JSA) – the main benefit for the unemployed – are far exceeded by the 2.6m on incapacity benefits (principally Incapacity Benefit (IB) itself but also Income Support (IS) paid on grounds of incapacity and the new Employment and Support Allowance (ESA)). A further 0.7m claimed Income Support as lone parents. In total, just under 5m adults of working age are out-of-work on benefits. This represents more than 13 per cent of the entire working age population.

**Table 1: Non-employed working age benefit claimants, GB, 2009**

	<b>Number</b>
Jobseeker's Allowance	1,450,000
Incapacity benefits	2,610,000
Income Support as lone parent	720,000
Other income-based benefits	180,000
<b>TOTAL</b>	<b>4,960,000</b>

Figures are four-quarter averages  
Source: DWP

<sup>1</sup> 16-64 for men, 16-59 for women. The difference reflects the ages at which men and women are presently entitled to state pension, but from 2010 onwards the pension age for women is gradually being raised to the same age as for men.

<sup>2</sup> Since the figures presented in this report were compiled, new data for February 2010 has become available for IB/ESA and for IS. JSA data is published monthly. The more recent data differs only very marginally. Four-quarter data is used here to avoid distortions arising from seasonal fluctuations, especially in some local areas such as seaside towns.

## The differences between places

The continuing scale of worklessness on benefits is, in fairness, gradually seeping into political debate and wider public consciousness. What still tends to get overlooked, however, is the extent to which the problem is unevenly spread around the country.

Figures 1 and 2 show the share of adults out-of-work on benefits (the 'working age benefit claimant rate') by district<sup>3</sup>. The benefits included here are JSA for the unemployed, IB/IS/ESA for the sick and disabled, and IS for lone parents and others<sup>4</sup>. These figures are new: previous studies have tended to concentrate on component parts of the jigsaw rather than the overall picture.

What is immediately apparent is that there are enormous differences in the working age benefit claimant rate between different parts of the country. What's more, these differences follow a clear pattern. Anyone with a reasonable knowledge of the geography of Britain will recognise that the places with the highest claimant rates are predominantly the older industrial areas of the North, Scotland and Wales. To a lesser extent a number of seaside towns and inner urban areas also have high claimant rates. In contrast, there is a large part of southern England outside London where the working age benefit claimant rate is much lower.

To underline this point, Table 2 shows the top 20 and bottom 10 GB districts in terms of their working age benefit claimant rate<sup>5</sup>. At the extremes, in Blaenau Gwent and in Merthyr Tydfil in the South Wales Valleys the claimant rate exceeds 26 per cent of all adults of working age. In Hart district in Hampshire the rate is below 5 per cent.

The list of the top 20 districts is dominated by older industrial areas. The South Wales Valleys are particularly strongly represented, but the list also includes substantial cities such as Liverpool, Glasgow, Stoke on Trent and Hull. Two seaside towns (Blackpool and Hastings) feature on the list, and a single London borough (Hackney) creeps in at number 20. In contrast, all the ten districts with the lowest claimant rates are in the south and east of England outside London.

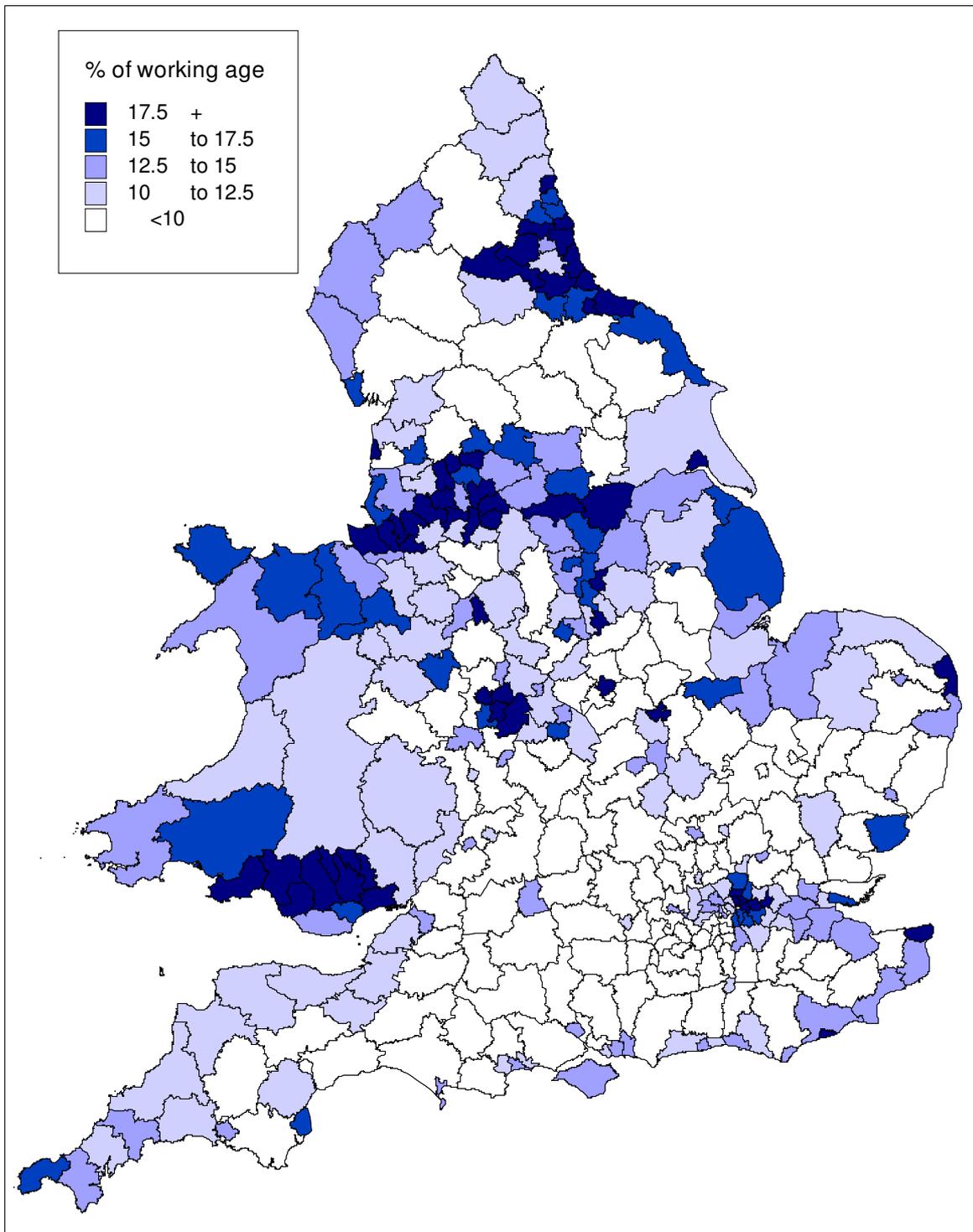
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<sup>3</sup> The figures here and elsewhere in the report are all for pre-2009 districts, i.e. before the creation of the new unitary counties in parts of England. Figures for the new unitary counties obscure important local variations, notably in Northumberland, Durham and Cornwall.

<sup>4</sup> Because of benefit rules and the way that the figures are assembled there is no double-counting between these groups.

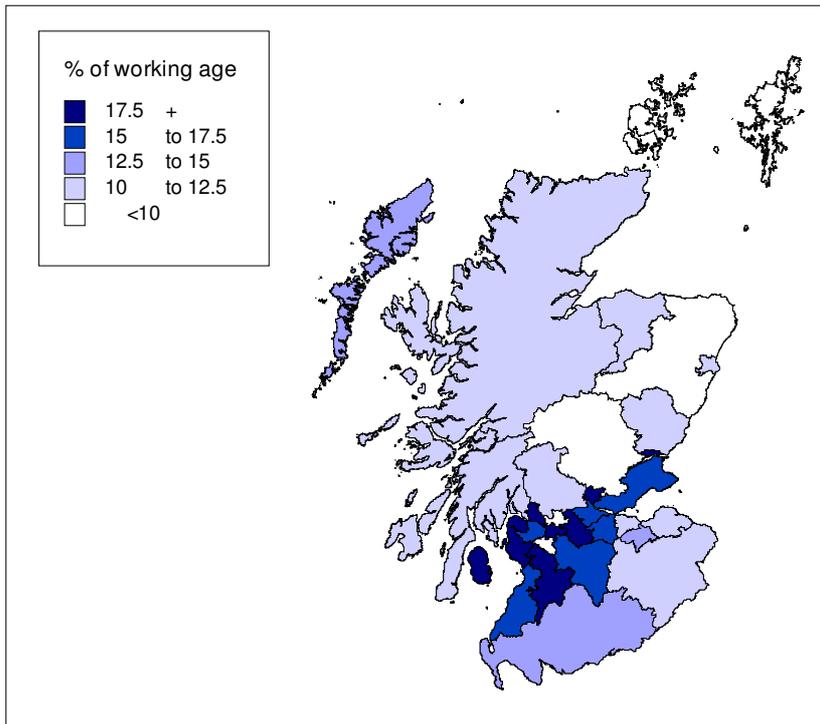
<sup>5</sup> There are just over 400 districts in all in Great Britain.

Figure 1: Working age benefit claimant rate, England and Wales, 2009



Source: DWP

**Figure 2: Working age benefit claimant rate, Scotland, 2009**



Source: DWP

**Table 2: Working age benefit claimant rate, 2009**

% of working age population			
<b>Top 20 districts</b>			
Blaenau Gwent	26.7	Caerphilly	22.1
Merthyr Tydfil	26.5	Blackpool	22.0
Easington	24.5	Wear Valley	21.3
Knowsley	24.2	Inverclyde	21.3
Liverpool	24.2	Stoke on Trent	21.1
Glasgow	22.8	Wolverhampton	21.0
Neath Port Talbot	22.6	West Dunbartonshire	21.0
Rhondda Cynon Taff	22.5	Hull	20.7
Hartlepool	22.3	Hastings	20.6
Middlesbrough	22.2	Hackney	20.6
<b>Bottom 10 districts</b>			
S Buckinghamshire	6.0	Elmbridge	5.7
Runnymede	5.9	S Northamptonshire	5.5
S Cambridgeshire	5.9	Rutland	5.1
W Oxfordshire	5.8	Wokingham	4.9
Surrey Heath	5.8	Hart	4.7

Source: DWP

## Making sense of the differences

In all, there are 112 districts across Britain where the working age benefit claimant rate exceeds 15 per cent. These fall neatly into two groups:

- The worst 100 districts outside London (pop 18.8m)
- The worst 12 London boroughs (pop 2.8m)

At the other end of the spectrum there are 142 districts, mainly but not exclusively in southern England, with a combined population of 15.8m, where the working age benefit claimant rate is less than 10 per cent.

Table 3 looks at non-employment in these 'worst' and 'best' districts<sup>6</sup>. 'Non-employment' is wider than just worklessness on benefit. It includes early retirees, students in full-time education, parents who have dropped out of the labour market to look after children, and even some jobseekers who do not claim benefit. What this table shows is that this diverse group of 'other inactive' outside the benefits system is found in much the same numbers in the 'best' and 'worst' districts – the 12 London boroughs have slightly more but this is a reflection, in part, of a very high student population.

**Table 3: Non-employment, 2009**

	% of working age		
	On benefits	Other inactive	Total
Worst 100 outside London	18.6	13.4	32.0
Worst 12 London boroughs	17.3	17.0	34.3
Best 142 districts	7.9	13.6	21.5
GB average	13.4	13.7	27.1

Sources: DWP, APS

By contrast, the proportion out-of-work on benefits varies enormously between the best and worst parts of Britain. In the worst 100 districts outside London, the average claimant rate – 18.6 per cent of all adults between 16 and state pension age – is more than 10 percentage points higher than in the best 142 districts across the country.

Table 4 looks at who makes up the working age benefit claimants in the worst 100 districts outside London. In total nearly 2.1m claimants live in these 100 districts. By far the largest group (nearly 1.2m) are incapacity benefit claimants. A further 0.6m are

<sup>6</sup> This table combines DWP benefits data and figures from the Labour Force Survey (LFS). A small number of benefit claimants do not count as non-employed in the LFS because they undertake 'permitted work' for a few hours a week. In this table the effect is to slightly underestimate the number of 'other inactive'.

JSA claimants and nearly 300,000 claim Income Support as lone parents. The longer-term claimants are dominated by incapacity benefits to an even greater extent – in the worst 100 districts outside London, more than 1m men and women have been out-of-work on incapacity benefits for at least a year. This compares to just 79,000 on JSA for at least a year, though it is worth bearing in mind that the figures here (for 2009) are unlikely to reflect the full and final impact of recession on the number of long-term JSA claimants.

**Table 4: Working age benefit claimants, worst 100 districts outside London, 2009**

	All claimants	Claimants 1yr +
Jobseeker's Allowance	626,000	79,000
Incapacity benefits	1,169,000	1,003,000
IS as lone parent	291,000	220,000

Source: DWP

### Trends before and after the recession

Table 5 shows the change in the working age benefit claimant rate between 1999 and 2008. The recession began in earnest in the latter part of 2008 and took a while to impact on benefit numbers, so this table essentially looks at pre-recession trends. District-level data on all the key benefits is only available as far back as 1999 so the figures exclude the preceding period of strong economic growth when claimant unemployment fell sharply.

**Table 5: Pre-recession trends, all working age benefits, 1999-2008**

	Change	as % working age
Worst 100 outside London	-330,000	-3.7
Worst 12 London boroughs	-51,000	-4.7
Best 142 districts	-42,000	-0.9
GB	-565,000	-2.4

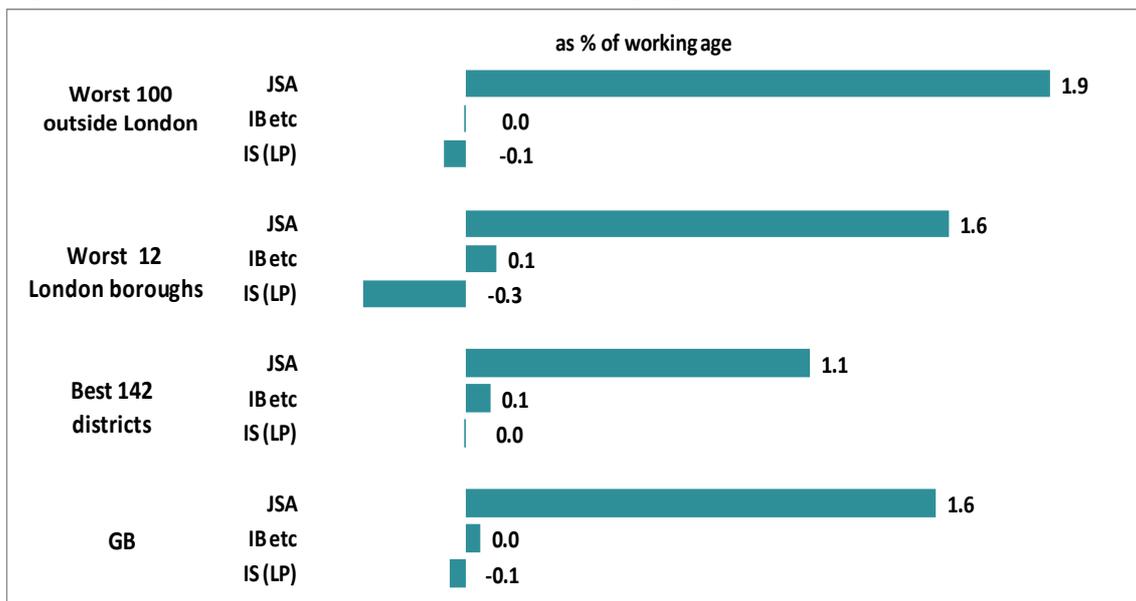
Source: DWP

As might be expected, in a period of sustained economic growth benefit numbers did fall – by more than 0.5m after 1999. What's more, they fell fastest in the parts of Britain where worklessness on benefit was highest. Expressed as a share of the working age population, benefit numbers fell four times faster in the worst 100 districts outside London than in the best 142 across the country. In the worst 12 London boroughs the proportional reduction was even greater. Just how much this narrowing of the gaps

across Britain was the result of policy interventions is unclear: it could be that, since worklessness on benefits was always quite low in parts of southern England, it had little scope to fall still further.

The impact of recession is shown in Figure 3. This shows the percentage point increase in the claimant rate of each of the three main working age benefits between 2008 and 2009. The increase in benefit numbers during the recession was overwhelmingly an increase in the number of JSA claimants. The number of incapacity claimants was barely affected, and the number of lone parents claiming Income Support actually fell slightly, reflecting the impact of new benefit rules. The disappointing aspect of trends during the recession was that the good progress in the worst 100 districts outside London was halted and reversed: on average these districts experienced the largest increases in JSA numbers.

**Figure 3: Impact of recession: Increase in working age claimant rate 2008 to 2009**



Source: DWP

### A shortage of jobs?

To what extent does the high level of worklessness in certain parts of the country reflect a lack of *demand for labour*, or does it reflect *failures in labour supply*, such as low skills and low motivation? In other words, are people out-of-work because there aren't enough jobs or because they have low employability?

This is a key debate in economics and it is inappropriate to repeat all the arguments here. However, there are two key observations that in the present context point strongly to a shortage of jobs as the underlying cause of the high levels of worklessness on benefits in Britain's weaker local economies:

- When the industries of older industrial Britain were still working, the numbers on benefits, especially incapacity benefits, were far lower. In coalmining areas, for example, the big increase in IB numbers only occurred *after* the pits were closed.
- In the parts of Britain where the economy is strongest, most especially in the parts of southern England that escaped relatively unscathed from the de-industrialisation of the 1980s and 90s, the working age claimant rate (and especially the IB rate) has consistently been far lower.

Added to this it is hard to ascribe the increase in JSA claimant numbers during the recession to anything other than a fall in the demand for labour.

Nor does the influx of migrant workers, especially from the EU accession states such as Poland, undermine the argument that a shortage of jobs lies at the heart of the problem in Britain's weaker local economies. Reliable data on the location of migrants is hard to come by – the best figures are for National Insurance registrations by foreign nationals, which show where in the country they first registered for work. Table 6 presents these numbers in index number form for a selection of districts where the working age claimant rate is well above average. A figure of 100 would indicate that a district had the national average share of registrations by foreign workers. Figures below 100 indicate a below-average share of migrant workers; figures above 100 an above-average share.

**Table 6: New NI registrations by foreign workers, selected districts, 2002-2009**

UK average=100			
Blaenau Gwent	20	Redcar and Cleveland	11
Easington	10	East Ayrshire	11
Knowsley	14	Gateshead	40
Stoke on Trent	79	Doncaster	62
South Tyneside	45	Bolsover	19
Sunderland	40		
Barnsley	28	Hackney	328
St Helens	22	Newham	583

Sources: 100% extract from National Insurance Recording System, ONS

The striking feature is that the districts outside London covering older industrial areas, where worklessness on benefits is widespread, have attracted substantially *less* than their fair share of migrant workers. The main cities and some metropolitan districts have generally attracted more than smaller towns, but districts such as Blaenau Gwent in Wales and Easington in County Durham – both at the very top in terms of their working age claimant rate – have attracted hardly any migrant workers at all.

The London boroughs are different. The two shown in Table 6 – Hackney and Newham – have both attracted far more migrants in relation to their population. In these places, at least, there is a case for arguing that migrant workers may have compounded the local problem of worklessness. On the other hand, it could be argued that in the mid-2000s the over-heated London economy may well have simply grown faster because of the inflow of labour from abroad.

Migrant workers from abroad may fill jobs in London that might otherwise have gone to migrants from the northern regions of the UK, thereby keeping them in the North instead and maintaining an over-supply of labour in difficult labour markets. Families with children have traditionally found it difficult to move from the North to the South because of the cost and availability of housing, but there has for many years been a steady flow of younger, single men and women from the North into London in particular. It is perhaps the lower-skilled among this group that has been most exposed to competition from migrant workers from abroad. On the other hand it is harder, on the basis of the figures, to argue that direct displacement within the North itself contributes more than marginally to worklessness.

The most persistent argument deployed against the idea that there is a shortage of jobs is that there are plenty of vacancies just about everywhere. Even where the vacancies are not on claimants' doorstep, there are usually plenty further down the road, the argument goes.

The trouble with this argument is that it fundamentally misunderstands the role of 'vacancies' in the labour market. Most vacancies are not hard-to-fill positions that nobody wants or has the skills to match. Most vacancies are not newly-created jobs either. Most represent the vacancies created by the normal turnover of staff as people leave one job and take up another. Since up to a third of the workforce changes job every year<sup>7</sup>, large numbers of vacancies are generated just about everywhere all of the time. A substantial flow of vacancies could be expected even, for example, if there were 10 million claimant unemployed – though that would clearly not negate the idea that there was a shortage of jobs.

The problem for out-of-work claimants is that some are far better placed than others to fill the vacancies that arise. The newly-unemployed with reasonable qualifications and good health are perhaps the best placed; the long-term sick with poor qualifications and skills are probably the most disadvantaged. The 'queue for jobs' does not operate like, for example, a bus queue. The fit and well-qualified stand at the front and fill the vacancies first, and are constantly replaced at the head of the queue by other fit and well-qualified workers leaving or losing a job. The sick and poorly-qualified stay at the back. They only ever reach the front of the queue if the economy is strong enough to absorb just about all the fitter and better-qualified.

The solution to the high worklessness in places like Blaenau Gwent in South Wales and Easington in County Durham is not simply that they should travel further to work. In neighbouring areas where jobs are more plentiful they may increase their chances of

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<sup>7</sup> Turnover does vary with the trade cycle, with the highest turnover in times of strong growth.

finding work, but even there a fit and well-qualified worker will be preferred to one with low skills and poor health. And if they do find work they may simply do so at the expense of someone else. What matters, ultimately, is that there are enough jobs in total in the local and regional economy.

## The jobs gap

The scale of the challenge in reducing worklessness in Britain's weaker local economies is best measured by 'employment rates' – the share of adults of working age who have jobs. In 2008/9<sup>8</sup> the average employment rate among residents in the worst 100 districts outside London was just 68 per cent, compared to a GB average of 73 per cent and an average in the best 142 districts of just under 79 per cent. Translated into hard numbers, for the worst 100 districts outside London this implies that:

- To reach the GB average employment rate would require 570,000 additional residents in employment
- To reach the average employment rate in the best 142 districts would require 1,220,000 additional residents in employment

For the 12 worst London boroughs, the equivalent calculations point to an extra 140,000 and 250,000 residents in employment.

These are large numbers by any standards. To illustrate the point, Table 7 looks at the scale of the jobs gap in five specific areas. The former Yorkshire coalfield for example (defined here as the boroughs of Barnsley, Doncaster, Rotherham and Wakefield) would require an additional 60,000 residents in work to raise the local employment rate to the average already found in the best 142 districts up and down the country. Teesside would require 40,000. For Merseyside the figure is 100,000.

**Table 7: The jobs gap in selected districts**

	To raise residents employment rate to:	
	GB average	Level in best 142 districts
Welsh Valleys	38,000	64,000
Teesside	20,000	40,000
Yorkshire coalfield	24,000	60,000
Merseyside	55,000	100,000
Glasgow City	30,000	51,000

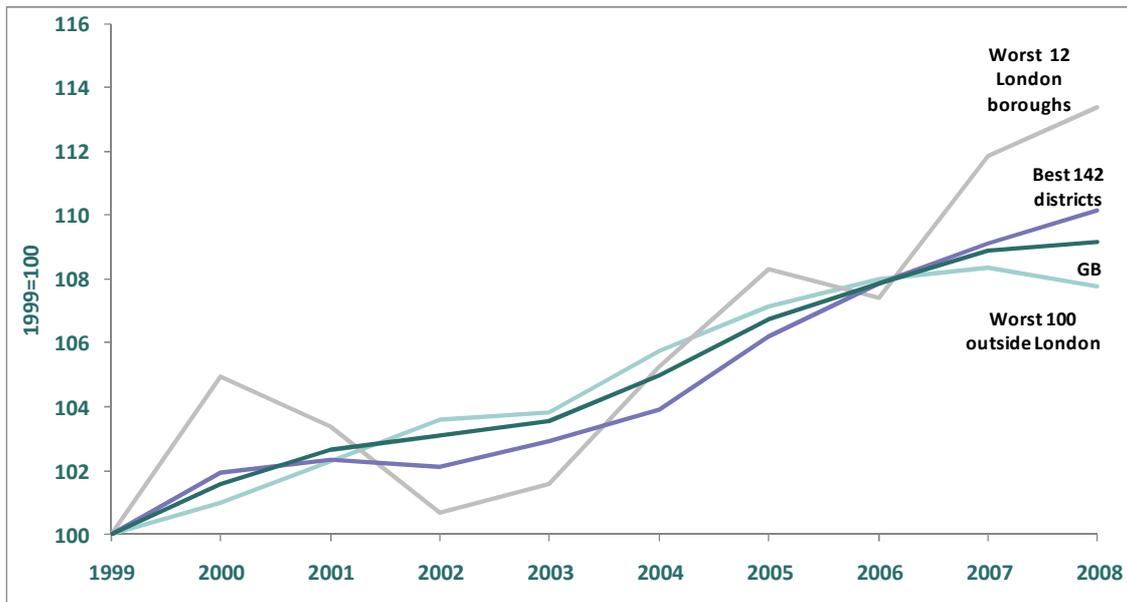
Source: SHU calculations based on APS

<sup>8</sup> October 2008-September 2009

## Employment trends

Up to the recession at least, there was progress in the right direction. Figure 4 shows the trends in employment<sup>9</sup> between 1999 and 2008, nationally and in the different groups of districts. On average, the worst 100 districts outside London experienced similar employment growth to the GB average, and to the average for the best 142 districts. The London boroughs fared rather better, though there is volatility in the year-by-year data.

**Figure 4: Employment trends, 1999-2008**



Source: ABI

The balance of this employment growth between the public and private sectors, shown in Table 8, is more concerning. The ‘public sector’ is defined here as all the jobs in public administration and defence, health and education<sup>10</sup>. This shows that job growth in the worst 100 districts outside London was overwhelmingly underpinned by the public sector – 460,000 additional jobs in the public sector compared to just 130,000 in the private sector. In the best 142 districts the balance was far more even, with the public and private sectors each contributing around a third of a million new jobs. In the worst 12 London boroughs the split between the public and private sectors was also fairly even.

<sup>9</sup> The figures are for employees in employment, from the ABI, and exclude the self-employed. The figures have been adjusted, on the basis of statistics by district and by SIC group, for discontinuities in the ABI data in 2006. The 2008 figures are for December and are the most up-to-date figures available at the time of writing.

<sup>10</sup> In effect, these are the jobs supported directly by *public spending*. In strict statistical terms the public sector also includes employees of public corporations (such as the Post Office) and of the banks owned in large part by the state.

Across Britain as a whole in the years 1999-2008, the balance between public and private sector job growth was 60:40 in favour of the public sector. This does not auger well for an era of public spending cuts. But most particularly, the trends up to 2008 in the weaker local economies outside London do not inspire confidence that job growth in the private sector will easily take over from the public sector.

**Table 8: Public vs private sector job growth, 1999-2008**

	Public sector*	Private sector
Worst 100 outside London	460,000	130,000
Worst 12 London boroughs	70,000	80,000
Best 142 districts	330,000	340,000
GB	1,370,000	910,000

\*Public admin & defence, health, education

Source: ABI

## Scenarios to 2020

So what is the best that might realistically be achieved in terms of a reduction in worklessness in the coming years? To explore the possibilities four scenarios can usefully be explored. None of these is intended to be a forecast of what will actually happen; rather, they are attempts to sketch out what might happen if all went well for the present government. The trends in benefit numbers over the 1999-2008 period are the starting point because this was a period of sustained economic growth and job creation and, in many respects a favourable macroeconomic backdrop against which to reduce claimant numbers. The four scenarios are:

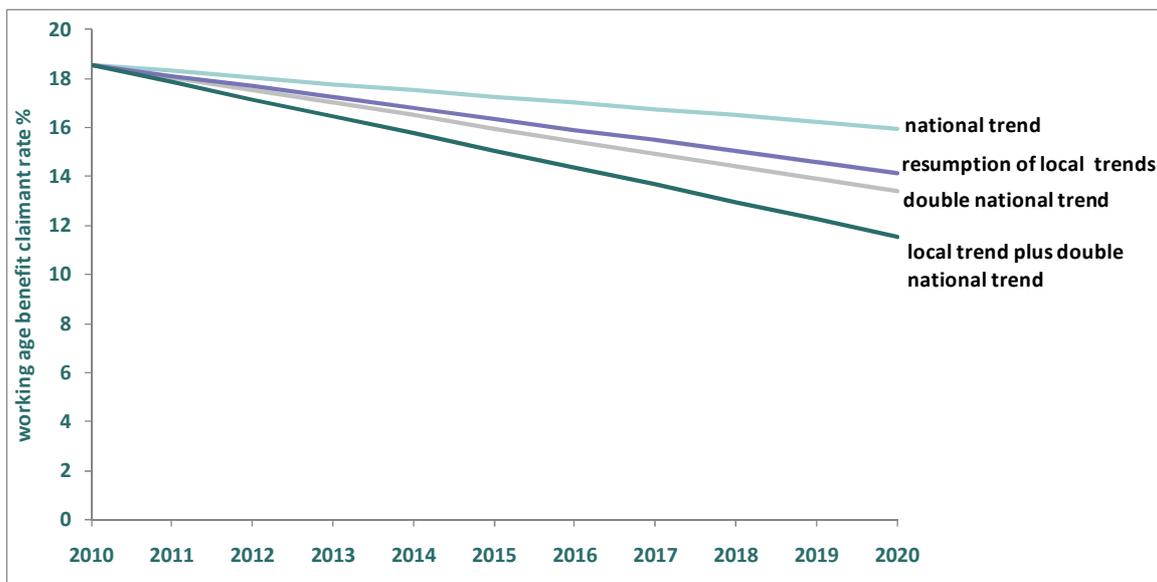
- A resumption of pre-recession *local* trends in benefit numbers
- A resumption of the pre-recession *national* decline in benefit numbers, spread evenly across all areas
- A *doubling* of the pre-recession national decline in benefit numbers, spread evenly across all areas
- A resumption the pre-recession local trends *plus* a doubling of the national decline in benefit numbers

The four scenarios each imply a different geography but each one builds in a national decline in benefit numbers, at a minimum at the national rate in the years leading up to the recession. Since the new government is implementing major welfare reforms intended to lower benefit numbers an acceleration in the national decline might be

expected. On the other hand it is generally acknowledged that that the wider economic context may be more difficult in the coming years than in the years up to 2008.

Figure 5 shows the results of these calculations for working age benefit claimant rates in the worst 100 districts outside London<sup>11</sup>. In all four scenarios the claimant rate, expressed as a percentage of the working age population, falls from its 2010 level. The reduction is largest if a resumption in pre-recession local trends is combined with a doubling in the overall national reduction.

**Figure 5: Positive scenarios to 2020, worst 100 districts outside London**



Source: Sheffield Hallam based on DWP data

The concerning aspect of these scenarios is revealed by Table 9. For each of the different groups of districts this shows the range of benefit claimant rates in 2020 that would arise from the four scenarios. What this reveals is that despite all the scenarios implying a reduction in benefit numbers, by 2020 the claimant rate in the worst 100 districts outside London would remain high – between 12 and 16 per cent of all adults of working age. For the worst 12 London boroughs the rate would be only a little lower – 11 to 15 per cent. Furthermore, the gap between these districts and the average in the best 142 districts in the country (coming in at 3 to 7 per cent) would remain enormous.

<sup>11</sup> The calculations use 2009 benefits data as the 2010 starting point.

**Table 9: Positive scenarios to 2020**

	<b>Share of working age out-of-work on benefits</b>
Worst 100 districts outside London	12 – 16 %
Worst 12 London boroughs	11 – 15 %
Best 142 districts	3 – 7 %
GB	8 – 10 %

Source: Sheffield Hallam based on DWP data

All these scenarios are arguably too favourable. One of the few apparent certainties about the coming years is that there are likely to be large public sector job cuts. It is useful therefore to modify the scenarios to include:

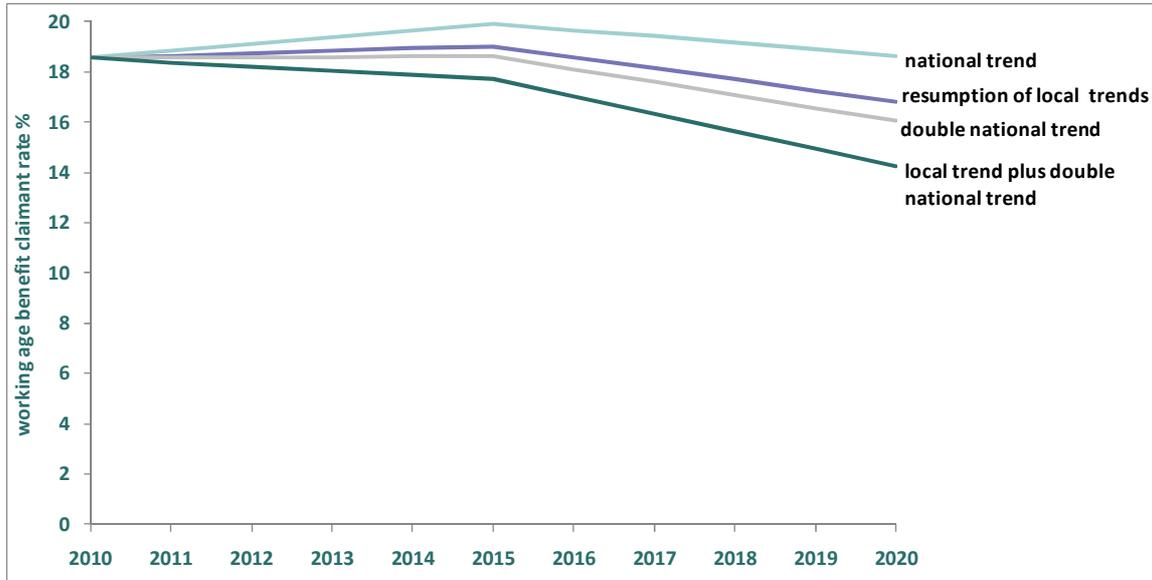
- 600,000 public sector job losses in the period to 2015<sup>12</sup>, spread evenly around the country
- A further 600,000 knock-on job losses in the private sector by 2015, again spread evenly around the country
- An assumption that 75 per cent of these job losses lead to an increase in benefit numbers

The last of these assumptions doesn't imply that it will be the redundant workers themselves who will necessarily add to benefit rolls. In practice, many of them will find work, but often at the expense of others. The intention here is to model overall labour market outcomes.

Figure 6 looks again at working age benefit claimant rates in the worst 100 districts outside London using these modified assumptions. It is immediately apparent that on these less favourable but realistic assumptions there is little prospect that claimant rates in 2020 will be more than marginally lower than in 2010. Indeed, by 2015 there may have been no reduction at all.

<sup>12</sup> This is the number of public sector job losses identified by the Office for Budget Responsibility at the time of the of the June 2010 budget. The October 2010 Spending Review points to smaller numbers (490,000). Other commentators, for example the Chartered Institute for Personnel Development, have suggested the figure could be as high as 750,000.

**Figure 6: Realistic scenarios? Worst 100 districts outside London**



Source: Sheffield Hallam based on DWP data

Too much weight ought not to be placed on any of these scenarios. To repeat, they are not an attempt to forecast what *will* happen but rather an attempt to explore what *might* happen if certain trends were to arise. Collectively, however, the scenarios do point to two alarming conclusions:

- **Even on favourable assumptions, in Britain’s weaker local economies there is little hope of reducing worklessness on benefits to acceptable levels within the next ten years – at least not within the framework of existing and planned policy**
- **There is also little hope, within the present policy framework, of more than a marginal narrowing in the gap between the best and worst parts of the country.**

## 2. THE CASE FOR RADICAL ACTION

If, within the framework of present policies, there is little hope of reducing worklessness in Britain's weaker local economies to acceptable levels there is a good case for exploring radical alternatives. There are three main possibilities:

- A private sector-led economic revival to generate more jobs
- Reduced availability of benefits
- Job creation schemes

### A private sector revival?

Few would argue against the desirability of a private sector revival. What is at issue is whether it is achievable, especially against the backdrop of public spending cuts that directly and indirectly reduce the demand for private sector goods and services.

The long period of economic growth up to 2008 was in many respects a very favourable period for private sector growth. UK consumer spending was rising, and there was strong growth in potential export markets. It was also an era in which private sector growth in the weakest local economies was often strongly supported and encouraged by public policy, for example through the Regional Development Agencies in England. Yet the job outcomes in the private sector, shown in Table 8 earlier, at 910,000 additional jobs across Britain as a whole between 1999 and 2008 were still less than the 1.4 million jobs growth seen in the public sector.

The lower exchange rate and lower interest rates that flowed from the recession should in theory promote private sector growth but the scope for major new stimuli looks distinctly limited in an era of deficit reduction. Indeed, as the local case studies later in the report show all too clearly, there is pessimism about the likely extent of a private sector revival in the near future. At this stage at least, only a very brave commentator would back the private sector to generate jobs on the scale that is needed.

There are also legitimate concerns about exactly *where* across Britain any new private sector jobs might be located. In broad terms, the South of England has a much better track record in this regard than the rest of the country. As Table 8 also showed, in the decade or so prior to the recession the districts with the lowest claimant rates, mostly in the South, generated far more new private sector jobs than the districts where benefit claimant rates are highest. This would normally be seen as providing a strong justification for regional policy, to raise the performance of the private sector in the

areas where it is weakest. The demise of the English Regional Development Agencies and the curtailment of regional grants to businesses<sup>13</sup> suggest that regional policy is being weakened rather than strengthened. The new Regional Growth Fund, intended to support private sector job creation, has a much lower budget than the RDAs and is potentially available across the whole of England.

A private sector revival needs to lie at the heart of the long-term revival of Britain's weaker local economies. But delivering this looks likely to be a long haul, and one that needs not just the right national economic environment but also targeted support for economic regeneration in the places that need it most.

## Welfare reform

But what of the government's efforts to bring down benefit numbers through welfare reform?

Although the government has emphasised the need to limit the impact of spending reductions on the most vulnerable members of society, at the same time it has major concerns over what it sees as an over-dependence on welfare benefits. In particular, it characterises the welfare system as offering insufficient incentives for people to move into paid employment, thus compounding other practical barriers faced by those on benefits in escaping poverty. A central theme here is the need for a rebalancing between citizens' rights and responsibilities, particularly for those who are in receipt of 'inactive' benefits such as Incapacity Benefit and Income Support.

The DWP consultation paper *21st Century Welfare*, issued in July 2010, argues that the "benefits system as it stands often provides incentives to stay on benefits rather than take a job". This is seen as resulting partly from the complexity of the system, in terms of the number of different benefit payments available and their varying eligibility rules, and partly from the often perverse ways in which it interacts with income from employment and the taxation system. Key proposals are therefore intended to *simplify* the system, to make it more *transitional* so that men and women are financially better off moving into work.

Whether financial incentives really do work in this way is far from clear. There will no doubt be circumstances in which some individuals face disincentives to working but the general experience of 'better-off calculations', often reported by Jobcentre Plus staff, is that most claimants would already be financially better off in work. Moreover, the vast majority of incapacity claimants, for example, see their health or disability, not their finances, as the principal obstacle to looking for work or taking up a job<sup>14</sup>. The financial disincentives to work are likely to be most common among those who might take up low-wage part-time employment, and it is perhaps this group that stands to benefit most from forthcoming reforms.

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<sup>13</sup> Grants for Business Investment, the main form of financial support to companies to protect or create jobs in the English Assisted Areas, is effectively suspended at the present time.

<sup>14</sup> See for example the extensive survey work reported in C Beatty et al (2009) *Women on Incapacity Benefits*, CRESR, Sheffield Hallam University.

An integral part of the government's approach is that the level of conditionality should be determined by the reason for receiving benefit. Those deemed fit for work will be expected to take active steps to find employment, as at present with Jobseeker's Allowance. Others will be encouraged to prepare themselves for work, by agreeing to receive help to overcome the barriers they face or by taking on jobs for relatively limited hours each week in the first instance. For example, lone parents whose youngest child is seven will, from October 2010 onwards, lose entitlement to Income Support and the plan is to extend this to lone parents whose youngest child is five.

The reform of incapacity benefits, initiated by the Labour government, will continue. New claimants are already subject to a new, tougher medical assessment – the Work Capability Assessment – and the intention is that, beginning in October 2010, all existing incapacity claimants will be called in for the new test by 2014. Some of those who are judged fit for work will sign on for Jobseeker's Allowance instead, but if they have no entitlement to income-based JSA because of other household income or savings they will be pushed out of the benefits system altogether. For the majority of those who move across onto the new incapacity benefit, Employment and Support Allowance (ESA), the benefit will in future come with conditions requiring them to engage in activity intended to prepare them for work.

Following the Comprehensive Spending Review, even those who remain on the work-related element of ESA will in future only be entitled to one year's non-means tested benefit. If they have a partner in work, or a substantial pension or significant savings they will no longer qualify and be pushed out of the benefits system altogether.

The effect of welfare reform can therefore be expected to reduce benefit numbers by denying access to some, to promote greater labour market attachment for others, and to make employment a more financially worthwhile option. The scale of the reduction in numbers remains unclear, particularly because the impact of the new medical test on the numbers of existing, longer-term incapacity remains unknown. Also, it remains unclear just how many ESA claimants might be pushed off benefit altogether by the wider application of means-testing. A prudent assumption might be that incapacity benefit numbers might be reduced by one million by 2015, of whom half might be pushed out of the benefits system altogether.

## **The Work Programme**

The Work Programme, which goes live in 2011, is the government's new initiative to help claimants return to work. It replaces just about all existing welfare-to-work programmes, which will either not now proceed (eg Flexible New Deal) or be merged into the new scheme (eg Pathways to Work). Operated by contractors to DWP, the Work Programme is expected to provide a range of services from tackling barriers that may be relatively easy to address, such as deficiencies in job search and interview technique, through to improving basic literacy and numeracy and mitigating health concerns. Support will be on offer either on a mandated or voluntary basis, depending on the type and duration of benefit being claimed.

The Work Programme involves a new funding model where the payments to contractors for helping someone into employment will be made from the benefit savings actually realised. The intention is that full payment will only be made after clients have been in continuous employment for 12 months. There will also be stronger incentives for providers to work with the harder to help.

The most commonly expressed concern about the viability of the Work Programme is its funding model. The 'payment by results' approach, and especially the need for providers to wait at least 12 months before remuneration can be claimed, is likely to create unfortunate incentives. The fear is that a lot of providers will respond by being selective at the front door, taking in only those most likely to find work quickly and excluding the most vulnerable and marginalised. The institutional and human resource capacity to deal with the scale of activity required by the Work Programme is also an issue.

And even if the Work Programme were to have sufficient capacity to deal effectively with all the claimants referred to it, the question remains as to whether there are sufficient jobs for them to move into. Even if there were to be an upsurge in employment, the geographical distribution of job opportunities is likely to be uneven. An obvious worry here is that most might be located in the stronger local economies of the South, far distant from the concentrations of benefit claimants in former industrial areas.

### **A new job creation programme?**

It is difficult to be confident, therefore, that either a private sector revival or the welfare reforms set in train by the government will deliver a reduction in worklessness on the scale required in Britain's weaker local economies. In the circumstance, job creation schemes are an option that deserves serious consideration.

It is important to be clear, in this context, about just what is meant by 'job creation schemes'. These are programmes that fund jobs that would otherwise not exist. They may involve an important element of training but their primary purpose is to reduce the number out-of-work on benefits and at the same time undertake socially useful work. Traditionally, job creation schemes are delivered by the public and/or voluntary sectors. A private sector input is not impossible – and indeed has proved possible in some cases – but needs to be reconciled very carefully with EU state aid rules prohibiting subsidies to individual employers that may distort competition, though there are exceptions where the aim is to promote training or regional development for example.

An example of a job creation scheme is the Future Jobs Fund, set up in spring 2009 and due to be wound up at the end of March 2011. This initially aimed to create 150,000 temporary jobs, later raised to 170,000, targeted mainly at under-25s who had been unemployed for approaching a year. The Fund was open to bids from public and voluntary sector bodies across the whole country, with local authorities expected to

take the lead in many cases. The posts were full-time<sup>15</sup>, involved remuneration at the national minimum wage, and expected to deliver community benefits. Participation in the programme was on a voluntary basis. The government contributed £6500 per post, and each post was expected to last a minimum of six months. Before the Fund was closed to new entrants in June 2010, DWP had issued contracts for more than 100,000 posts.

The Future Jobs Fund was in many respects a response to the specific circumstances of the recession. However, after initial teething troubles, some arising from its hasty design and implementation, the Future Jobs Fund became regarded within DWP as a successful model that could in theory be applied more widely.

If there were to be a new job creation scheme to reduce worklessness, what might it look like? There are perhaps four factors that need to guide the selection of the target group:

- The problem of large-scale, enduring worklessness is geographically concentrated so there is a good case for targeting the worst-affected areas. The worst 100 districts outside London, plus the worst 12 London boroughs, would be a good starting point.
- Long-term JSA claimants are not the core problem, at least at the present time. The number of 1yr+ JSA claimants remains modest.
- The number of lone parents on Income Support will anyway fall as planned reductions in eligibility kick in, and the remaining claimants with under-5s may be especially hard to shift because of the difficulties and costs of reconciling the competing claims of employment and childcare.
- Incapacity benefits remain where the big numbers out-of-work on benefits are to be found. This applies particularly to longer-term claimants.

So the front-runner for a new job creation scheme would be one that primarily but perhaps not exclusively targeted incapacity claimants in Britain's weaker local economies.

But would there be enough potential takers to make such a scheme worthwhile? What needs to be kept in mind here is that the numbers on incapacity benefits are huge – 2.6m nationally and 1m alone in the worst 100 districts outside London. Survey work<sup>16</sup> suggests that only around 30 per cent of IB claimants express an interest in working again, now or in the future, but even that equates to 800,000 claimants nationally and the proportion is likely to rise as welfare reform promotes greater labour market attachment.

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<sup>15</sup> A minimum of 25 hours a week.

<sup>16</sup> C Beatty et al (2009) op cit.

Estimates from Sheffield Hallam University, published on a periodic basis since 1997<sup>17</sup>, suggest that approaching 1m men and women on incapacity benefits are in effect 'hidden unemployed'. These are the IB claimants who *might reasonably be expected to have been in work in a genuinely fully employed economy*. Their benefit claims are legitimate and their health problems and disabilities are real, but in a different labour market context – the most prosperous parts of southern England – they would have almost certainly still been in work. The most recent Sheffield Hallam estimates (for February 2009) put the GB total of hidden unemployed on incapacity benefits at 510,000 men and 430,000 women.

These men and women are disproportionately concentrated in Britain's weaker local economies. Table 10 shows the estimates for a selected group of districts. The important observation is that in all these districts there should be no shortage of incapacity claimants who might be encouraged – or indeed might be only too keen – to take up work on a job creation scheme.

There are practical issues that would have to be addressed if a scheme of this kind were to be introduced. In particular, incapacity claimants have issues of health or disability that need to be taken into account in identifying appropriate jobs, and their health problems may need to be addressed directly alongside their training needs. Additionally, long durations out-of-work may necessitate a gradual and closely supported re-introduction to employment. This is a very different group from the one targeted by the Future Jobs Fund. On the other hand there is no reason to suppose that, with such a large potential client base, there would be any need to introduce compulsion and there is a growing body of experience from local schemes around the country on which to draw.

**Table 10: Estimated 'hidden unemployment' on IB, selected districts, February 2009**

	no.	% of all adults of working age
Barnsley	8,200	6.0
Bolsover	2,600	5.7
Barrow in Furness	3,100	7.1
Doncaster	7,200	5.9
Neath Port Talbot	6,700	8.2
N Lanarkshire	11,600	5.7
Blackpool	5,800	6.8
Sunderland	8,900	5.1
Copeland	2,100	4.8

Source: Sheffield Hallam estimates

<sup>17</sup> See for example C Beatty and S Fothergill (2005) 'The diversion from 'unemployment' to 'sickness' across British regions and districts', *Regional Studies*, vol 39, pp837-854.

## Costings

How much would a job creation scheme cost? The important point here is that the up-front initial cost to the Exchequer is not the same as the net cost to the public purse. Moving an individual from benefits into employment leads to a reduction in the benefits bill and increases in tax revenue. The net cost is therefore substantially smaller than the initial cost.

Table 11 looks at the annual cost of supporting 100,000 jobs filled by former incapacity benefit claimants. The assumption is that these jobs are all paid at the national minimum wage and that they are full-time (35hrs a week). An allowance of £1,000 per job per year is also included for the set-up and running costs of the scheme. The first part of the table shows that the up-front cost to the Exchequer would be just over 1.2bn a year.

**Table 11: Estimated annual cost of 100,000 jobs for former IB claimants**

	<b>£m</b>
Wages	1,060
Employers NI contribution	60
Set up and running costs	100
<b>SCHEME COST</b>	<b>1,220</b>
<i>Less savings on incapacity benefits</i>	490
<i>Less savings on Housing Benefit</i>	210
<i>Less savings on Council Tax Benefit</i>	40
<i>Less Income tax revenue</i>	80
<i>Less Employees NI contribution</i>	50
<i>Less Employers NI contribution</i>	60
<i>Plus Working Tax Credits</i>	150
<i>Equals</i> <b>NET COST TO EXCHEQUER</b>	<b>440</b>

Source: DWP and Sheffield Hallam University

The second half of the table shows the estimated savings and revenue that would accrue to the Exchequer. The benefits savings have been calculated on the basis of average payments<sup>18</sup> to incapacity claimants from DWP sources plus, in the case of Housing Benefit and Council Tax Benefit, data on average payments and the proportion of IB claimants who also receive these benefits. Income tax, national insurance contributions and Working Tax Credits have been calculated on the basis of earnings. The calculations suggest that the net annual cost to the Exchequer of

<sup>18</sup> Including Income Support as a top-up to incapacity benefits

100,000 jobs would be around £440m, or £4,400 per job. This is not a great deal more than one-third of the up-front cost of a job creation scheme of this kind. Furthermore, the calculations exclude any additional VAT revenue and excise duty arising from higher spending by participants on a scheme.

The figure of 100,000 jobs is purely illustrative. In effect, the calculations suggest that the net Exchequer cost of 50,000 jobs would be around £220m a year, for 200,000 jobs it would be around £880m, and for 300,000 just over £1.3bn. In relation to the number of jobs that might be supported, and the impact on claimant numbers, these are arguably not large sums.

The positive benefits of employment should also be thrown into the calculation. Work is generally regarded as being good for individuals' well-being, physically and mentally. It delivers identity and self-regard. There is also the output from work itself – the services that would not otherwise be delivered to communities. These have value too. And, of course, many participants on job creation schemes find that their experience equips them to progress into other employment.

### 3. LOCAL CASE STUDIES

#### Barnsley

Barnsley MBC, in South Yorkshire, has a population of 226,000. Located roughly midway between Leeds and Sheffield, the borough is at the outer edges of both cities' commuter hinterlands but in other respects is an important local economy in its own right. Much of Barnsley borough covers the heart of the former Yorkshire coalfield and the area lost nearly 20,000 coal jobs between the early 1980s and mid-1990s. There have since been sustained efforts to rebuild the local economy and there has been real progress in generating new jobs, though quite a number of these have been just over the borough boundary in neighbouring Rotherham and Doncaster.

#### *Statistical overview*

Barnsley ranks 39<sup>th</sup> among GB districts<sup>19</sup> in terms of its working age benefit claimant rate, with 26,900 men and women out-of-work on benefits in 2009<sup>20</sup>, a claimant rate of 19.4 per cent of the working age population or just less than one-in-five of all adults between the age of 16 and state pension age.

Table 12 breaks down the total into the main benefit groups and also shows the numbers on each of these benefits for at least a year. In Barnsley, as in so many other older industrial areas, the benefit numbers are dominated by incapacity claimants. This is particularly the case for 1yr+ claimants.

**Table 12: Non-employed working age benefit claimants, Barnsley, 2009**

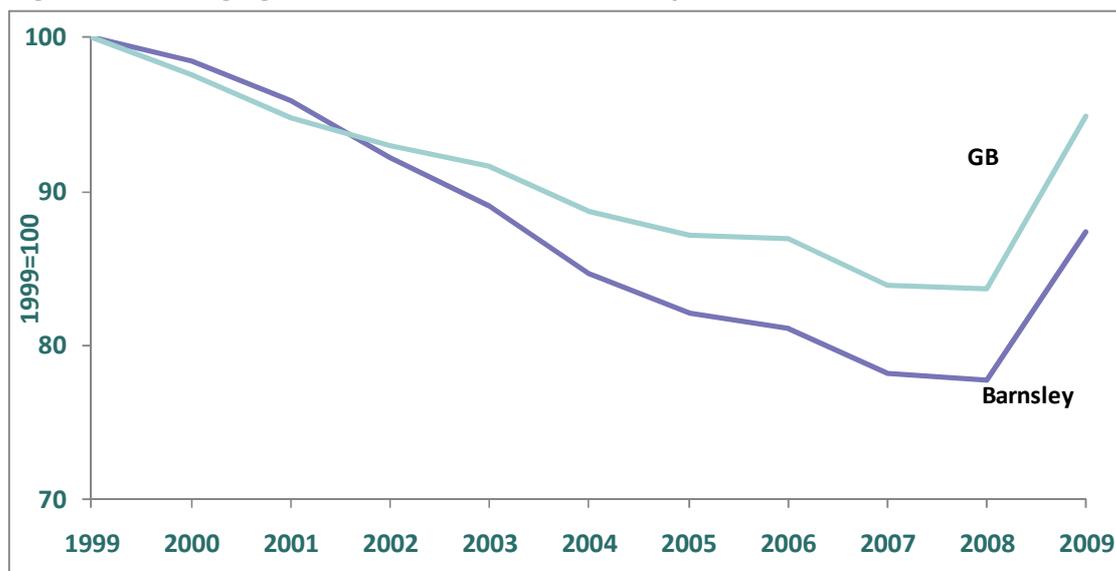
	Total	1 yr+
Jobseeker's Allowance	7,100	700
Incapacity benefits	16,000	13,800
Income Support as lone parent	3,100	2,200
Other income-based benefits	700	400
<b>TOTAL</b>	<b>26,900</b>	<b>17,200</b>

Figures are four-quarter averages  
Source: DWP

<sup>19</sup> Pre-1999 districts. If the districts subsequently merged into unitary counties are excluded, Barnsley ranks 35<sup>th</sup>.

<sup>20</sup> Quarterly average

**Figure 7: Working age benefit claimant rate, Barnsley, 1999-2009**



Source: DWP

Barnsley's ranking has actually improved since 1999, when the borough had the 25<sup>th</sup> highest claimant rate in Britain<sup>21</sup>. Figure 7 compares Barnsley with the national trend. Until the onset of recession, claimant numbers fell faster in Barnsley than in GB as a whole. The recession pushed up the numbers again, locally and nationally, eroding nearly half the reduction in Barnsley's claimant rate since 1999. The increase associated with the recession was entirely among JSA claimants – between 2008 and 2009 there was actually a small reduction in IB/ESA numbers while the numbers of lone parents on IS remained stable.

In 2008/9<sup>22</sup> the employment rate – the share of adults of working age in work – in Barnsley was 67 per cent, about six percentage points adrift of the GB average and 11-12 percentage points behind the average for the best 142 districts in the country. To raise Barnsley's employment rate to the national average would require an additional 8,100 residents in work. To raise the rate to the average in the best 142 districts would require an additional 15,800 in work.

According to the latest figures (for December 2008) Barnsley has a total of just under 69,000 jobs<sup>23</sup> located within the borough. As Table 13 shows, this figure is little changed since 1999. Within the total, however, public sector employment<sup>24</sup> has grown by 1,700 whereas the number of private sector employees has declined by more than twice this amount, leaving the public sector accounting for a third of total employment. This provides a slightly unfair picture of progress in economic regeneration because a great many of the new jobs in the sub-region have been located just across the borough boundary, for example in the Dearne Valley development that was actively supported by Barnsley MBC.

<sup>21</sup> 24<sup>th</sup> highest excluding recently merged districts

<sup>22</sup> October 2008-September 2009

<sup>23</sup> Employees in employment

<sup>24</sup> Defined here as public administration & defence, health and education

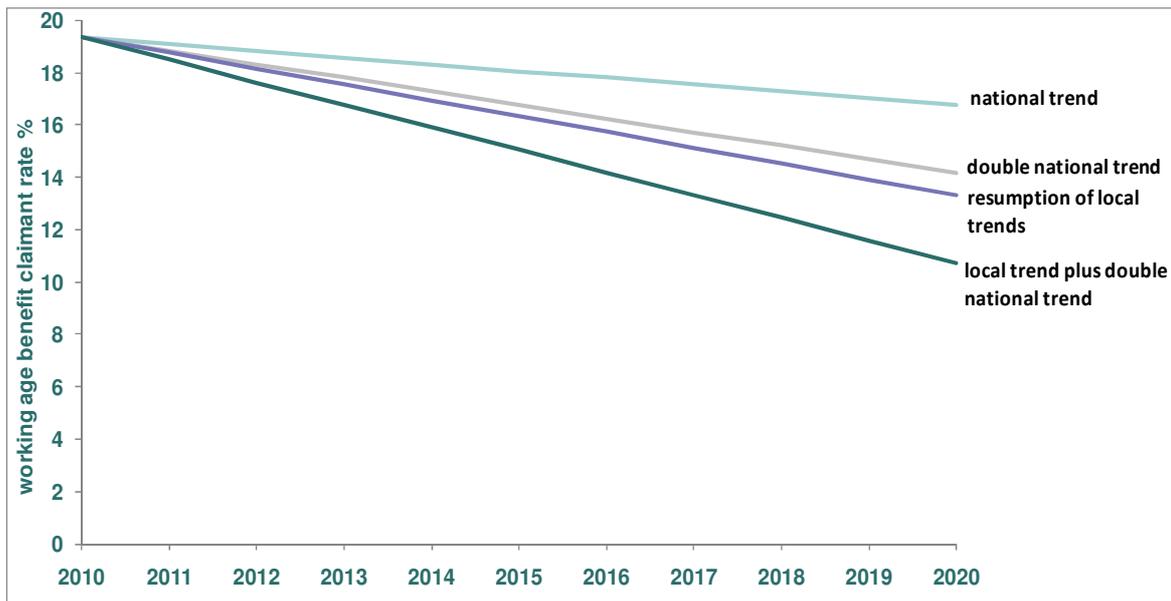
**Table 13: Employment in Barnsley, 1999-2008**

	1999	2008	change
Public sector	20,200	21,800	+ 1,700
Private sector	49,600	45,900	- 3,600
<b>TOTAL</b>	<b>69,800</b>	<b>67,800</b>	<b>- 2,000</b>

Source: ABI

Figures 8 and 9 project working age claimant numbers in Barnsley through to 2020 on the basis of the four scenarios described earlier in the report. The first set of projections are based on a resumption (and in some cases an acceleration) of pre-recession trends. The second set include the possible impact of public sector job cuts. As before, this is not an attempt to forecast what *will* happen but rather an attempt to explore what *might* happen, especially if the government is successful in bringing down benefit numbers.

**Figure 8: Positive scenarios to 2020, Barnsley**

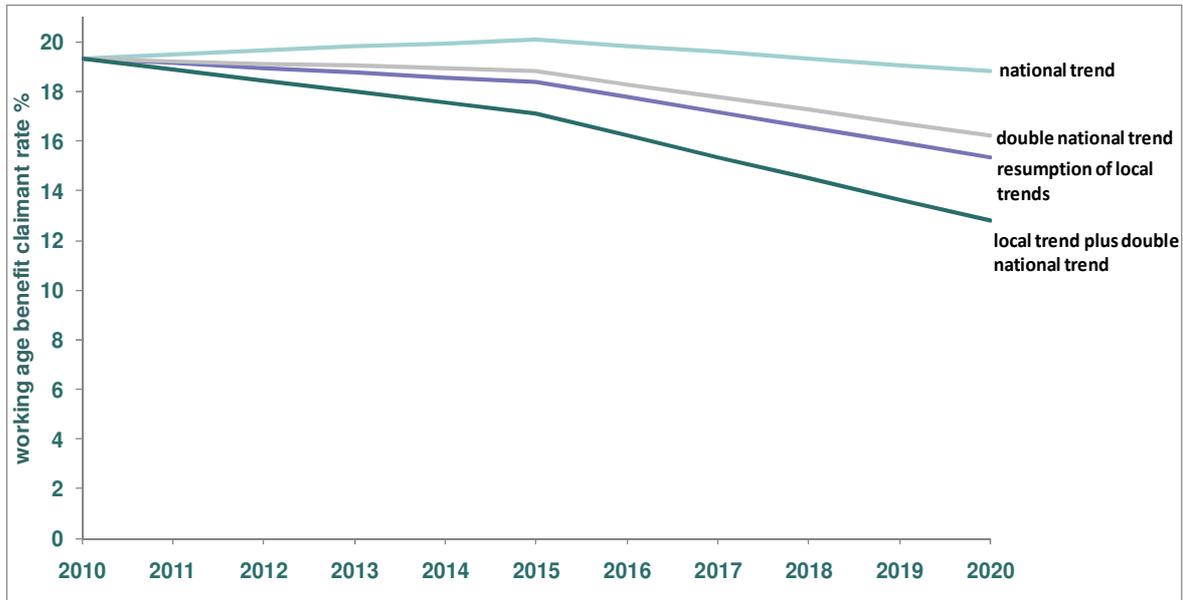


Source: Sheffield Hallam based on DWP data

Because Barnsley experienced an encouraging reduction in benefit numbers prior to the recession, if these trends were to resume after 2010 further reductions in the benefit claimant rate might be expected. By 2020 the working age claimant rate might range from 11-17 per cent, or 13-19 per cent allowing for the impact of public sector job cuts. What is significant here, however, is that all these potential scenarios still leave Barnsley's working age claimant rate in excess of 10 per cent, sometimes by quite a

margin. Furthermore, if the impact of public sector job cuts is taken into account there seems little prospect of any significant reduction in the working age claimant rate by the middle of the decade. For 2015, taking account of public sector job cuts, the projections are for a claimant rate of between 17 and 20 per cent compared with a starting point of 19.4 per cent.

**Figure 9: Realistic scenarios to 2020?, Barnsley**



Source: Sheffield Hallam based on DWP data

Specifically in the context of incapacity claimants, if there were to be a one million reduction in the headline GB total by 2015 as a result of welfare reforms, and if the local reduction were in line with the national average, Barnsley’s incapacity numbers would fall by around 5,000. If half of these were then to claim JSA instead, the effect would be to increase Barnsley’s claimant unemployed by more than a third, from around 7,000 to 9,500.

### *Local perspectives*

There is considerable scepticism in Barnsley about the prospects for a private sector-led revival<sup>25</sup>. Although there is a high degree of uncertainty about what lies ahead, the typical expectation is that in the short term there will be a net loss of jobs. The ‘best case scenario’ for the borough is seen as maintaining the job shortfall at the current level; the ‘worst case scenario’ would involve the loss of larger employers.

<sup>25</sup> The research team interviewed eight key players in the Barnsley labour market including representatives of the council, the local development agency, Jobcentre Plus, and the private and voluntary sectors.

This perspective is rooted in difficulties in adding to the business stock and in growing existing businesses, in a dependence on public sector employment and in a recent decline in speculative investment in industrial and commercial floorspace. Only a few relatively small firms are known to be expanding, sometimes on the back of public sector contracts with an uncertain future, so the view is that there is an on-going need to encourage inward investment.

Recent years in Barnsley have been characterised by “a steady trickle” of new investors rather than by major projects that have impacted positively on the local economy. Furthermore, the job gains in the private sector have been countered by significant losses, notably among construction firms and at a major window manufacturer. The 80 largest private sector employers in Barnsley are reported to employ 10,000 workers – down from 11,000 a year ago. The local economy is however expected to be bolstered by the imminent arrival of ASOS, an online shopping company. ASOS represents the largest single inward investment in Barnsley over the last 10-15 years, with a proposed 750 jobs to be created by March 2012 rising to 2,000 by 2016.

Office space has been a particular area of development over the last few years. Previously Barnsley did not have any top-quality office space, limiting the scope for a shift from manufacturing to services, but the borough has gradually acquired more, notably through EU-funded projects. Even so, doubts are expressed about the extent to which the IT and cultural sectors might rescue the Barnsley economy, and about the limits of trying to compete with nearby Doncaster for jobs in distribution and logistics. At least to some extent, Barnsley’s strength is seen as a location where industries can keep down costs in difficult times.

The other side of Barnsley’s efforts to bring down worklessness has involved sustained support for benefit claimants to re-enter the labour market, and on this front there is a growing body of positive local experience. The consensus is that there have been lots of things that worked but the job outcomes have so far been small scale. It is widely agreed, for example, that intensive one-to-one support for claimants has worked particularly well.

Barnsley’s experience of implementing the Future Jobs Fund is a case in point – locally, this is seen as having worked “fantastically well”. By March 2011, when the funding expires, it is hoped that 200 people will be in on-going employment thanks to the Fund and an approach based on ‘wrap around support’. Total job starts as at August 2010 were 298, of which 245 were men. In Barnsley the Future Jobs Fund has been used to develop basic skills (literacy and numeracy) where necessary, and to promote self-esteem and confidence. Local financial contributions to the programme mean that in Barnsley participation in the scheme lasts for 50 weeks instead of 26 weeks.

The strengths of the Future Jobs Fund are seen as *voluntary* participation, that the support for individuals is *personalised* once they have passed through the pre-employment phase, and that implementation is *local in nature*, building on local knowledge and partnership structures. The jobs available through the Fund that

appeal to 'low or no skill' people have been filled quickly. Typical roles include street cleaners, care assistants, admin assistants, decorators, handypersons, facilities assistants and catering assistants.

The main limitation of the Future Jobs Fund is seen as the extent to which the private sector is allowed to become involved. If this barrier could be overcome the scope for job creation would be much larger – perhaps of the order of 1,000 in one view. Additionally, recent public sector cutbacks have resulted in the loss of 150 Future Jobs Fund places in the borough.

In Barnsley, the voluntary and community sector is seen as doing well in terms of building partnerships and participation in back-to-work programmes, but the funding cuts are expected to impact hard because many voluntary and community organisations are dependent on public sector finance.

## Blackpool

Blackpool, on the North West coast of England, is Britain's premier seaside resort. A recent study<sup>26</sup> concluded that the local area has a greater concentration of jobs directly dependent on seaside tourism – more than 19,000 – than anywhere else along the coast of England and Wales. Blackpool borough has a resident population of 140,000, but it sits at the heart of a larger built-up urban area including Lytham St Anne's and Fleetwood with a total population of around 260,000. Despite the size of the local tourist trade, the Blackpool economy is not without problems. Work in tourism is often seasonal and low-paid, and Blackpool has lost at least some of what was once its core holiday business. The tourist sector also continues to dominate employment in the town to an extent that is these days unusual for any one sector in an urban area of this size.

### *Statistical overview*

Blackpool ranks 12<sup>th</sup> among GB districts<sup>27</sup> in terms of its working age benefit claimant rate, with 18,900 men and women out-of-work on benefits in 2009<sup>28</sup>, a claimant rate of 22 per cent of the working age population or more than one-in-five of all adults between the age of 16 and state pension age. This extremely high claimant rate places Blackpool in unusual company among the older industrial areas that dominate the list of districts with the highest rates. Partly this reflects weaknesses in the local economy, and partly it will reflect residential segregation within the Greater Blackpool urban area, with Blackpool borough itself to some extent functioning as an 'inner city'. But there is also evidence that Blackpool's benefit numbers are inflated by claimants who move

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<sup>26</sup> C Beatty, S Fothergill, T Gore and I Wilson (2010) *The Seaside Tourist Industry in England and Wales: employment, economic output, location and trends*, CRESR, Sheffield Hallam University.

<sup>27</sup> 11<sup>th</sup> excluding recently merged districts

<sup>28</sup> Quarterly average

there from elsewhere in the country, sometimes from the older industrial areas of the North<sup>29</sup>.

Table 14 breaks down the total into the main benefit groups and also shows the numbers on each of these benefits for at least a year. In Blackpool, as in so many other places, the benefit numbers are dominated by incapacity claimants. This is particularly the case for 1yr+ claimants.

**Table 14: Non-employed working age benefit claimants, Blackpool, 2009**

	Total	1 yr+
Jobseeker's Allowance	4,400	400
Incapacity benefits	11,000	9,300
Income Support as lone parent	2,400	1,700
Other income-based benefits	900	500
<b>TOTAL</b>	<b>18,600</b>	<b>11,900</b>

Figures are four-quarter averages  
Source DWP

Blackpool's ranking has actually deteriorated since 1999, when the borough had the 30<sup>th</sup> highest working age claimant rate in Britain<sup>30</sup>. Figure 10 compares Blackpool with the national trend. Until 2006 the claimant rate was falling in Blackpool, though distinctly more slowly than across Britain as a whole. After stabilising for a couple of years, the claimant rate then shot up again with the recession, effectively wiping out all the gains over the preceding ten years. The increase associated with the recession was exclusively among JSA claimants – between 2008 and 2009 there was actually a small reduction in IB/ESA numbers while the numbers of lone parents on IS remained stable.

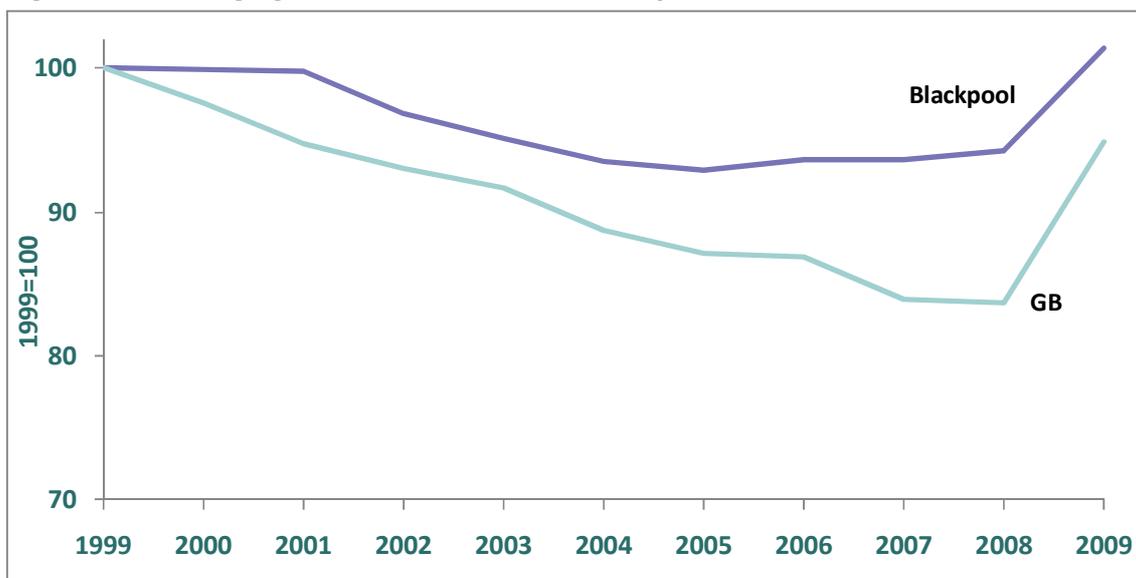
In 2008/9 the employment rate in Blackpool was 71 per cent, which is actually quite high for a district with so many benefit claimants and only a couple of percentage points adrift of the GB average<sup>31</sup>. Nevertheless, to raise Blackpool's employment rate to the average in the best 142 districts across the country would still require an additional 5,700 residents in work.

<sup>29</sup> See for example C Beatty et al (2007) *Blackpool's Incapacity Claimants*, CRESR, Sheffield Hallam University.

<sup>30</sup> 27<sup>th</sup> highest excluding recently merged districts

<sup>31</sup> This could point towards a proportion of claimants who work for a very few hours a week, perhaps in the tourist trade, which is something that is permitted under detailed benefit rules (subject to reductions in benefit payments above an earnings threshold) but would mean that they would be counted both as claimants and employees. Sampling errors and biases in the Labour Force Survey (the source of the employment rates) may also play a part.

**Figure 10: Working age benefit claimant rate, Blackpool, 1999-2009**



Source: DWP

According to the latest figures (for December 2008) Blackpool has a total of just under 56,000 jobs<sup>32</sup> located within the borough. As Table 15 shows, this figure is more than 3,000 down on the 1999 total. Unusually public sector employment<sup>33</sup> appears to have declined in absolute terms and as a share of total employment<sup>34</sup>.

**Table 15: Employment in Blackpool, 1999-2008**

	1999	2008	change
Public sector	23,400	21,300	- 3,100
Private sector	36,900	35,400	-1,500
<b>TOTAL</b>	<b>60,400</b>	<b>55,700</b>	<b>- 4,600</b>

Source: ABI

Figures 11 and 12 project working age claimant numbers in Blackpool through to 2020 on the basis of the four scenarios. The first set of projections are based on a resumption (and in some cases an acceleration) of pre-recession trends in benefit numbers. The second set include the possible impact of public sector job cuts. Once again, this is not an attempt to forecast what *will* happen but rather an attempt to

<sup>32</sup> Employees in employment

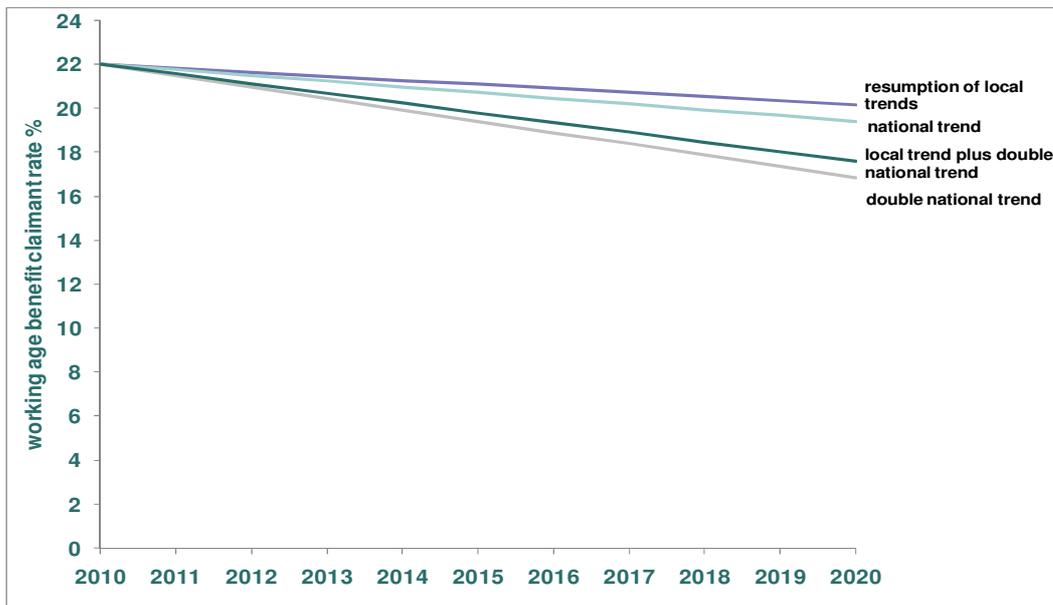
<sup>33</sup> Defined here as public administration & defence, health and education

<sup>34</sup> These figures need to be treated warily. In the early years of the Annual Business Inquiry, on which they are based, there was a history of misallocating jobs in central government agencies. Blackpool has significant employment in this sector.

explore what *might* happen especially if the government is successful in bringing down benefit numbers.

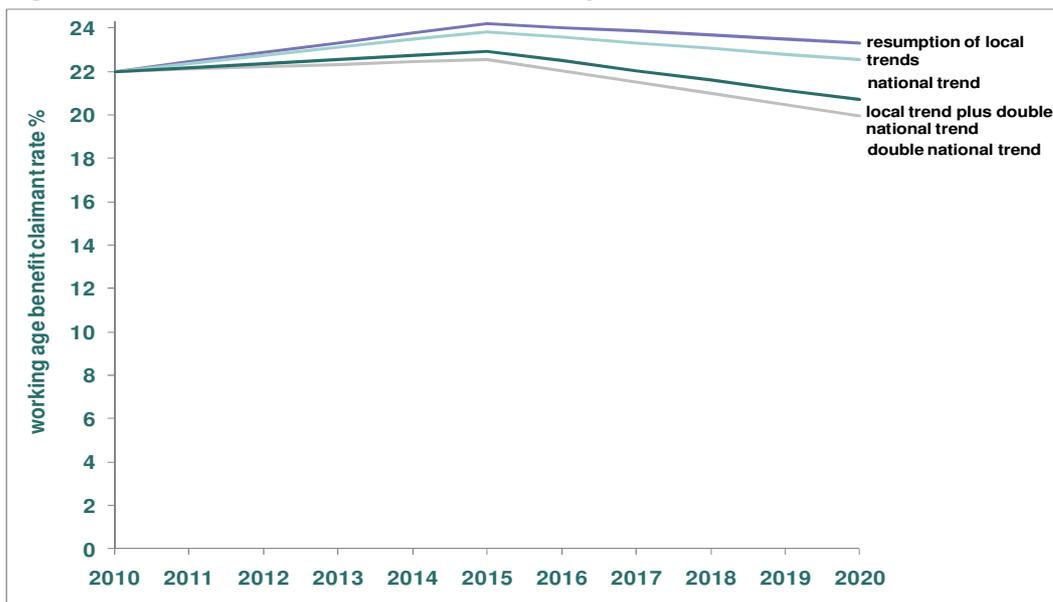
Because Blackpool's benefit claimant rate fell only slowly prior to the recession, none of these projections suggest spectacularly large falls resulting from a resumption in pre-recession trends. By 2020 the working age claimant rate might range from 17-20 per cent, or 20-23 per cent allowing for the impact of public sector job cuts. This compares with a starting point of 22 per cent. Indeed by 2015, taking account of public sector job cuts, the claimant rate in Blackpool could be as high as 23-24 per cent.

**Figure 11: Positive scenarios to 2020, Blackpool**



Source: Sheffield Hallam based on DWP data

**Figure 12: Realistic scenarios to 2020?, Blackpool**



Source: Sheffield Hallam based on DWP data

Specifically in the context of incapacity claimants, if there were to be a one million reduction in the headline GB total by 2015 as a result of welfare reforms, and if the local reduction were in line with the national average, Blackpool's incapacity numbers would fall by around 3,800. If half of these were then to claim JSA instead, the effect would be to increase Blackpool's claimant unemployed by more than 40 per cent, from around 4,500 to nearer 6,500.

### *Local perspectives*

Blackpool perspectives on the prospects for a private sector-led revival invariably centre on the tourist industry<sup>35</sup>. The town can point to positive developments in this regard, for example the involvement of *Merlin*, the second largest leisure operator in the world, in the management of Blackpool Tower, the Sealife Centre and Madame Tussauds. The Winter Gardens are the subject of a heritage restoration and the redevelopment of the promenade is set to be completed by summer 2011. Added to this, the continuing weakness of the sterling exchange rate raises hopes that more British holidaymakers will opt for 'staycations' rather than foreign holidays. That said, visitor numbers had increased in 2009 but people seemed not to be spending greatly.

However, as the public sector accounts for over a third of all jobs in Blackpool there are doubts as to how far the private sector can replace large scale job losses. Given the relatively poor position of the underlying Blackpool labour market, even before the onset of public sector cuts, there are fears that the headline workless figures will rise further and that the gap between the local and national figures will widen.

The need to capitalise on opportunities in other sectors of the local economy is widely recognised. The preferred approach is to build on the existing tourism base but also to look for additional all-year-round activities. There are hopes that major physical regeneration projects, such as the Talbot Gateway project, will offer job opportunities, including a surge in construction employment and training. Blackpool council's collaboration with the local college has proved particularly effective in connecting large numbers of unemployed men to jobs in construction trades. Other areas of potential local job growth include aerospace (though hopes here appear to be dashed by recent redundancies), Blackpool airport (though passenger numbers are down on a couple of years ago), the nuclear industry (where a local plant is a front-runner to supply components to a new generation of reactors) and call centres (where Blackpool's peripheral location tends not to be a handicap). Nevertheless, the local view is that all of these possibilities and more would have to be realised if public sector cuts were to be offset.

On balance, the assessment is that the town will do very well to "break even" in the coming three or four years. There is an awareness too that previous large-scale regeneration projects – the casino for example – haven't always come to fruition. In

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<sup>35</sup> The research team interviewed nine key players in the Blackpool labour market, including representatives of the council, Jobcentre Plus, the local college and training agencies.

addition, migrants from Eastern Europe and perhaps a flood of former public sector workers are seen as important competition for those on workless benefits.

Over the last five years, efforts to foster job creation have been countered by job losses. A national retailer, for example, moved its headquarters from Blackpool to Liverpool. The care sector is a big employer, partly because people tend to retire to the coast, but the jobs are mostly low-paid and often part-time. A local claims management company had grown from four employees to around 300 but such successes are seen as isolated and lacking the scale to impact on the overall level of worklessness.

Blackpool does nevertheless have positive experience of fostering new firms: some 500 start-ups have been established with backing from the council over the three years to 2010 as part of Local Enterprise Growth Initiative. 86 per cent of these businesses were still trading after two years.

Like other places with large numbers on workless benefits, Blackpool also has substantial experience of projects aimed at assisting claimants back into work. There have been some notable success stories. The Working for Health programme, for example, proved exemplary in moving Incapacity Benefit claimants into work though the numbers (around 60) were small. Partnership working is much improved in Blackpool and said to be more 'client focused' with an increase in referrals between different organisations. Where private firms have engaged there is evidence of success too, for example in a pre-employment programme for the long-term unemployed, run by the local college, which had links with a waste recycling firm and resulted in 60 out of 90 participants securing work.

Local experience of the Future Jobs Fund has been mixed. It is considered a success in engaging benefit claimants but the timing has proved unfortunate given cutbacks in public spending, which have limited the scope for taking on participants in a permanent capacity at the end of their six-month contract, and the lack of scope for private sector involvement is regretted. The Future Jobs Fund is nevertheless said to have opened the eyes of employers to the fact that although some people have few formal qualifications they can still be very capable individuals who perform well and earn significant praise in many cases. There is frustration that the intensive support associated with the Future Jobs Fund evidently works but that the funding is currently being wound up.

There is a local view that national policy interventions are not always appropriate for Blackpool, and that "giant" outcome-driven contracts (as part of the Work Programme for example) can be unhelpful given what is known about the support needs of Blackpool residents and the positive outcomes of local initiatives. The distinctive local features of worklessness in Blackpool include a high transient population living in houses in multiple occupation (often former hotels and boarding houses), a group that includes substantial numbers of in-comers, ex-offenders and drug users. The seasonal nature of so many job opportunities is an issue too. It is also felt that the government underestimates the scale of the support required by some people.

## 4. CONCLUSIONS

The evidence in this report shows that worklessness remains widespread in Britain's weaker local economies. Around one-in-five of all adults of working age are typically out-of-work on benefits in these places. Furthermore, we are not talking here just about a few dozen disadvantaged communities – Britain's 'weaker local economies', as defined here, include around a third of the entire UK population. Worklessness on this scale is a colossal waste of talent and a waste of productive potential. It is also a huge drain on the Exchequer.

During the long years of economic growth the trends were in the right direction – the numbers on out-of-work benefits were falling, and they were falling fastest in the areas where benefit claimant rates were highest, though progress was arguably far too slow. The recession has been a serious setback, and the prospects for a swift return to rapid economic growth presently seem poor.

This creates an impasse in Britain's weaker local economies. Even on favourable assumptions involving a return to pre-recession trends, or indeed an acceleration in those trends, there seems little prospect of reducing worklessness on benefits to acceptable levels over the next ten years, let alone over the life of the present Parliament. There also seems little prospect of a significant narrowing of the gap between worklessness in these weaker economies and in the more prosperous parts of the country.

This is a moment, therefore, for bold new thinking. The government recognises this and is implementing major welfare reform. It is also looking to the private sector to generate the new jobs that are needed. However, on both fronts the government's hopes seem misplaced. The welfare reforms are predicated on an assumption that there are plenty of jobs for people to fill. This is a view that may hold in parts of southern England, where even now the economy remains fundamentally strong, but it seems wide of the mark in Britain's weaker local economies. Furthermore, for all the efforts to generate new private sector jobs in these places – and the efforts have been considerable over the last decade or so – the recent performance of the private sector does not inspire confidence. The statistical evidence supports this view and it is certainly the perspective on the ground in the two case study areas – Barnsley and Blackpool – covered in the report. The private sector has a mountain to climb to deliver new jobs on the scale that is needed, and it seems unlikely to get much beyond the foothills.

Of course, every effort should be made to promote a private sector revival. But the scale of the job shortfall in the coming years means that there is a powerful case too for job creation schemes. What we're talking about here is not just temporary programmes to provide training or work experience for long-term JSA claimants but

sustained job opportunities for a much larger group of men and women, especially incapacity claimants, who would otherwise stand little chance of gainful employment. It is better to pay people to work, especially if they would like to work, than to pay them to stay on benefit.

The economics of such a scheme are surprisingly positive. As the calculations in the report show, the annual up-front cost of 100,000 jobs for incapacity claimants would be around £1.2bn, but the net cost to the Exchequer (allowing for benefit savings and tax revenue) would be around £440m. This seems extraordinarily good value.

There is no need to introduce such a scheme across the whole country. Some parts of Britain, where the local economy is strong, probably don't need help. A good starting point would be to target the places with the highest claimant rate – in this report the 100 worst districts outside London and the 12 worst London boroughs. In every one of these at least 15 per cent of all adults of working age are currently out-of-work on benefits.

In Barnsley and in Blackpool, and elsewhere in the country, there is positive experience of job creation schemes. In these places the Future Jobs Fund, for example, is widely regarded as a success and there is a body of experience on which to build. The Work Programme is the government's preferred vehicle for helping claimants back into work, but it presently lacks any measures to boost the demand for labour in the weakest local economies. If the government really does intend to bring down benefit numbers, this omission needs to be rectified.