

GOING DUTCH

Devolving employment support and adult education to tackle economic inactivity

Summary Report

September 2024



About the Centre for Social Justice	1
Acknowledgements.....	2
Foreword.....	3
Executive Summary.....	5
Introduction.....	9
1. Part 1: The problems we face.....	16
1.1. Economic inactivity, hidden and real unemployment and economic dependency in numbers.....	17
1.2. Ineffective labour market programmes and associated schemes, and employment and health support.....	21
1.3. International comparisons of spend, size, generosity and strictness of welfare.....	24
1.4. Lessons from Scandinavia since the Covid era	27
2. Part 2: The solutions we should adopt.....	30
2.1. Proof of concept and funding for devolved employment services	31
2.2. The role of relationships in employment services.....	35
2.3. Reforming partnerships with the charity and private sector	39
2.4. Retraining and upskilling to meet an evolving economy.....	43
Recommendations In Full	48
Annex - Content of Full Report	53

This is a summary report. A full report including research methods and calculations can be found at: www.centreforsocialjustice.org.uk/discussions. Please see the annex for a synopsis of the contents of the full report.

About the Centre for Social Justice

Established in 2004, the Centre for Social Justice is an independent think tank that studies the root causes of Britain's social problems and addresses them by recommending practical, workable policy interventions. Our vision is to give people in the United Kingdom (UK) who are experiencing the worst multiple disadvantages and injustice every possible opportunity to reach their full potential.

The majority of the Centre for Social Justice's work is organised around 5 pathways to poverty, first identified in our groundbreaking 2007 report *Breakthrough Britain*. These are: educational failure; family breakdown; economic dependency and worklessness; addiction to drugs and alcohol; and severe personal debt.

Since its inception, the think tank has changed the landscape of our political discourse by putting social justice at the heart of British politics. This has led to a transformation in governments' thinking and policy. For instance, in September 2009, our seminal report '*Dynamic Benefits – Toward welfare that works*' which was a forerunner to this report.

Our research is informed by experts including academics, practitioners and policymakers. We also draw upon our Centre for Social Justice Alliance of charities, social enterprises and other grass-roots organisations with proven track-record of reversing social breakdown across the UK. The social challenges facing Britain remain serious, so the aim is to advance the cause of social justice so that more people can continue to fulfil their potential.

Acknowledgements

Author

The Centre for Social Justice would like to give special thanks to:

- Professors Christina Beatty and Steve Fothergill at Sheffield Hallam University for research on hidden and real unemployment;
- both academics and analysts, Danielle Venn and David Grubb, while at the Organisation for Economic Co-operation and Development (OECD) in 2012, for pioneering indicators of the strictness of employment support regimes more widely;
- leading researchers, Rasmus Lind Ravn, Kristian Nielsen and Thomas Bredgaard at Aalborg University, for conducting a sound empirical study to investigate if investing in active labour market policies and reducing caseloads produced positive employment effects; and
- policy commentators, Bruce Katz and Jeremy Nowak of the New Localism Advisors firm, for work around new governance structures, new financial mechanisms, and new growth models that prioritise innovation, inclusion and sustainability.

The Centre for Social Justice would also like to thank roundtable participants, in particular those from:

- Association for Colleges
- Better Pathways
- Birmingham University
- British Association for Supported Employment
- Careers Development Institute
- Carers Trust
- CatZero
- Centre for Ageing Better UK
- Employment and Skills Evaluation
- Gingerbread
- Greater Manchester Combined Authority
- OECD
- Rush House
- Scope
- Speak Up
- The Hinge
- West Midlands Combined Authority
- Zink

Foreword

The economically inactive population in the UK is edging ever closer to 10 million people - almost 1 million more than pre-pandemic. It includes almost 3 million who are sick, an all-time high since records began in 1993, and represents over a fifth of all 16-64 year olds. Any government that is serious about economic growth must get to grips with this immediately. Not only does this number represent a huge drag factor on the workforce, but the rising cost of the benefit bill is soon to become unaffordable.

The good news is that hidden in these numbers are hundreds of thousands of people that want to work, and given the right support would be fully able to. Various schemes have tried to do this over the years with mixed success, but often focused only on the lowest hanging fruit – those already in or recently out of the workforce. The real gains are to be made much higher up the tree.

To do this you need support that is holistic and person focused – something very hard to do from distant Whitehall offices. So this paper examines how you could devolve employment support and adult learning budgets so they can better respond to the needs of those they serve. Doing this would require a greater appetite for the risks of devolution from central Government, and an ability to engage with small grassroots, place-based charities and enterprises who know their populations and their needs best. What it wouldn't require is huge new slugs of cash, something that is increasingly hard to come by at national or local government level.

Initiatives such as Manchester's Working Well programme already give a roadmap for doing this, and not just in Manchester but in other similar countries across Europe. The Dutch have reduced inactivity at three times the rate we have managed by taking this exact approach to employment support, starting off from a centralised model over a decade ago. In Norway, they have for generations developed what a job coach might look like to something they call a social worker but who focuses on the need of the person not the services of the state. And in Denmark, they have experimented with giving local areas full autonomy in service design and delivery.

The King's Speech spoke of the Government's desire to empower metro mayors to deliver new housing projects, transport, employment support and energy.^{1 2} This report provides a blueprint for how to pursue this in employment support. The Deputy Prime Minister has also written to local leaders, metro mayors and combined authorities' management, on the next steps for devolution.³ Thus, this document can inform her and them on possibilities for further devolving of employment support and adult education with view of supporting legislative processes.

And the really good news is that this proposal works. In fact, if the programmes in Scandinavia performed as well here as they have there, not only would they be cost-neutral to deliver but they could save the Exchequer billions of pounds a year and give hundreds of thousands of people the dignity and purpose that comes with getting up and going to work every day, earning your own paycheque.

1 The Labour Party, March 2024 'Power and partnership: Labour's plan to power up Britain' <<https://labour.org.uk/wp-content/uploads/2024/03/Power-and-partnership-Labours-Plan-to-Power-up-Britain.pdf>>

2 The King's Speech 2024, July 2024 'Devolved affairs' <<https://researchbriefings.files.parliament.uk/documents/LLN-2024-0031/LLN-2024-0031.pdf>>

3 MHCLG, July 2024 <<https://www.gov.uk/government/publications/letter-from-the-deputy-prime-minister-to-local-leaders-the-next-steps-to-devolution/letter-from-the-deputy-prime-minister-to-local-leaders-the-next-steps-to-devolution>>

This is not a simple thing to do. It will not only require some huge downward shifts in cash, manpower and resources, but also a huge shift in mindset from central Government, as well as upskilling and rethinking commissioning at a local level. It is the kind of change that could take a whole Parliament or more to enact and implement. But the issue of economic inactivity is now too big and too thorny to ignore. If there were any simple answers we would already be doing them. It's time to rethink how we support the UK's most vulnerable citizens and this paper represents a big shift in the right direction.

A handwritten signature in black ink, appearing to read 'Andy Cook', with a stylized flourish at the end.

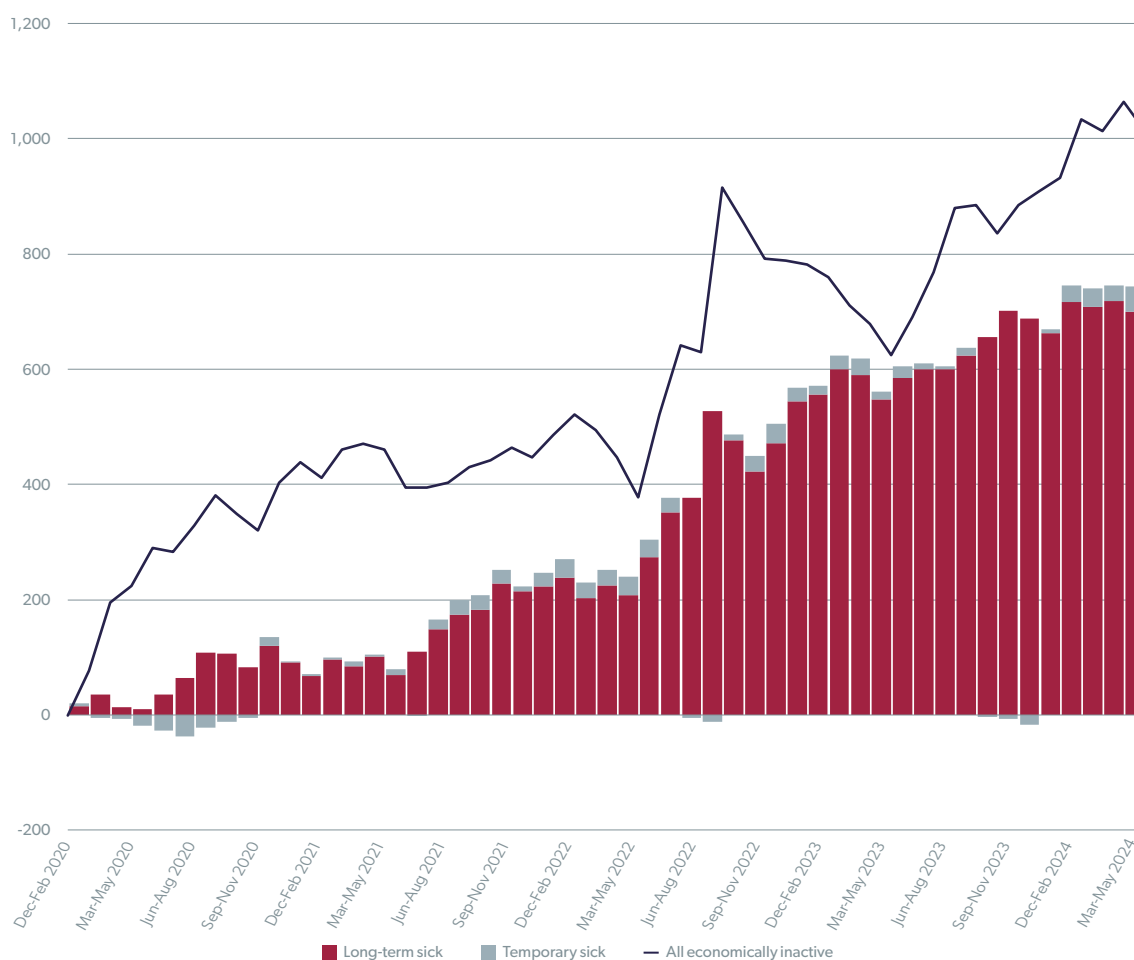
Andy Cook

Chief Executive The Centre for Social Justice

Executive Summary

The new Government has put economic growth at the top of its agenda. After almost two decades of a sluggish economy, the Prime Minister has made it his number one priority. However, he inherits all the same problems and chief among them is the alarming number and rise of the economically inactive – those not in work and not looking for work.

Growth in economic inactivity since Covid emerged (thousands of 16-64 year olds)



Source: ONS⁴

There are 9.4 million people in this category – that is up by 1 million since the eve of the pandemic according to the inactivity reason table or up by over 800 thousand on summary table of official statistics; and of them, 2.8 million are long-term sick – an extra 700 thousand since before Covid. A continuation of this would cost the Exchequer billions more in welfare payments by the end of the Parliament, and billions more in lost revenue. Any government serious about growth must have a plan for this cohort – this paper provides one.

4 ONS, July 2024 <<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/july2024>>

The solution

The good news is that within this group the Centre for Social Justice has identified 700 thousand people who would want to work and could work, given the right help – the question is how we get that help to the right people. Early Government announcements around devolving employment support are absolutely the right direction of travel and this paper makes the case for almost £6 billion to be devolved to the lowest level possible, so that locally embedded communities can commission the right support for the right people, from the right organisations. It will mean a move away from one size fits all Whitehall prescriptions and entrusting the people closest to the problems to come up with the right responses.

There is still an important role for central Government and individual job coaches in the administration of Universal Credit (UC) – from generosity to conditionality. But our research has told us that the same job coaches administering the important stick of a conditional welfare system are not always best placed to be the people who provide the carrot – the employment support. By devolving this function, you enable better relationships between jobseekers and supporters and partnership with community actors, which in turn leads to better outcomes.

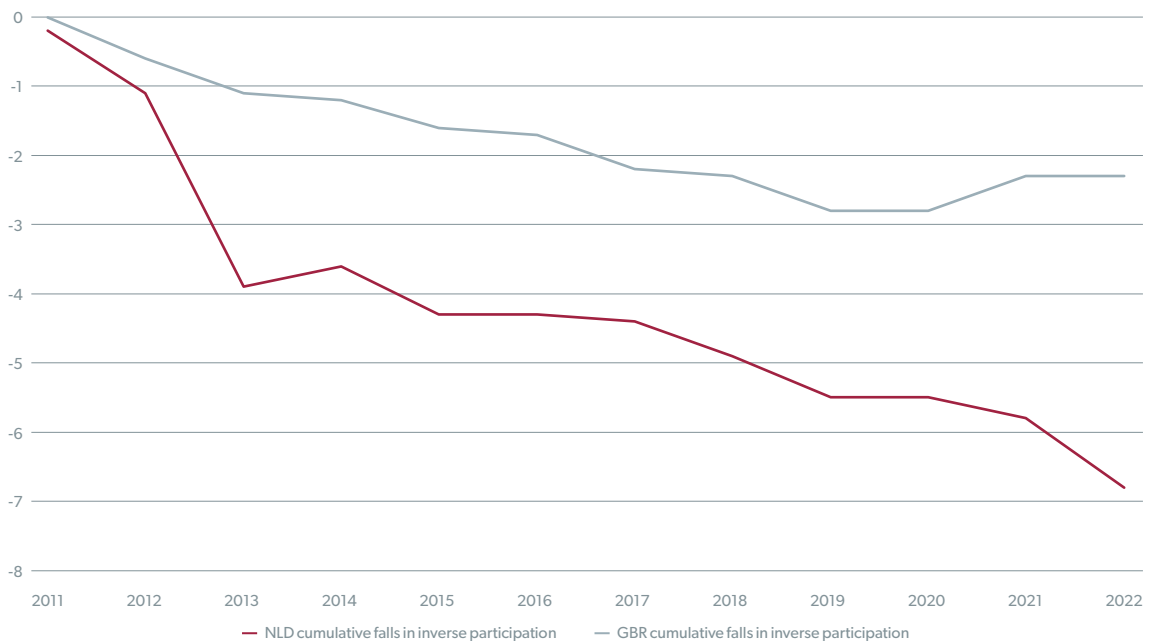
It will require an appetite for risk from Westminster officials to push decision-making and cash down the line but it would not require much, if any, extra spend overall and the good news is that this approach has successful national and international precedents.

Where this is already working

The Netherlands

The title of this report – Going Dutch – refers to a working example of a country that has already split its welfare administrative and support functions – The Netherlands. Since 2011, the Dutch have developed a highly devolved system of employment support, adult education and associated services. They have pushed both finance and governance down to local layers of administration with great effect. In fact, while the UK has seen modest improvements in its overall workforce participation rates through decreases in inactivity numbers, the Netherlands has been three times as successful in getting people back into the workforce.

Cumulative change in 15-64 year old inverse participation rate, 2011-22



* The approximation is based on OECD participation rates.

Source: OECD⁵

Other Scandinavian countries: notably Norway, provide further examples of how local support and provision can work well, particularly through a key social worker model, very different to our own; and Denmark, too has run successful pilots of service design and delivery autonomy.

But there is an exemplar for direction of travel much closer to home too.

Manchester

Greater Manchester Combined Authority's Working Well scheme is the nearest thing the UK has to a Scandinavian style devolved service and may serve as a roadmap. They started to commission partner organisations to support disadvantaged groups through the Work and Health Programme pilot ten years ago, as part of their localisation settlement. It was independently evaluated and recent performance reports seem to show a good return on investment. The combined authority indicates that targeted provision, pooled resources, contract packaging and integrating services (including hub strategy) are the drivers. The table below shows the Manchester Working Well return on investment within and after pilot, with the improvement showing how they learned as the pilot developed.

5 OECD, August 2024 <<https://www.oecd.org/en/data/indicators/labour-force-participation-rate.html>>

Return on investment for every £1 spent in Manchester Working Well, 2019

Within pilot	£1.31 for every £1
After pilot	£2.68 for every £1

Source: Greater Manchester Combined Authority⁶

The results suggest that not only could devolving employment support be a cost-neutral change in provision, but its success would actually save the Exchequer money over time as people returned to work – potentially billions of pounds if success is replicated nationally.

Grasp the nettle

This is no small or risk-free undertaking; it requires substantial cash transfers to local government, giving local autonomy and decision-making power. But with very few real answers to the growing cohort of economically inactive adults, the greater risk to Britain's economy is to continue with the status quo. Far better to adopt a radical solution with proven success to support this Government's ambitions and get Britain growing again.

6 GMCA, August 2019 <https://www.greatermanchester-ca.gov.uk/media/2364/working-well-2019_web.pdf>

Introduction

This publication examines the benefits of devolving employment support and associated adult education to tackle economic inactivity. It takes its steer from more successful models in the Netherlands and Scandinavia and shows how they could be replicated in the UK.

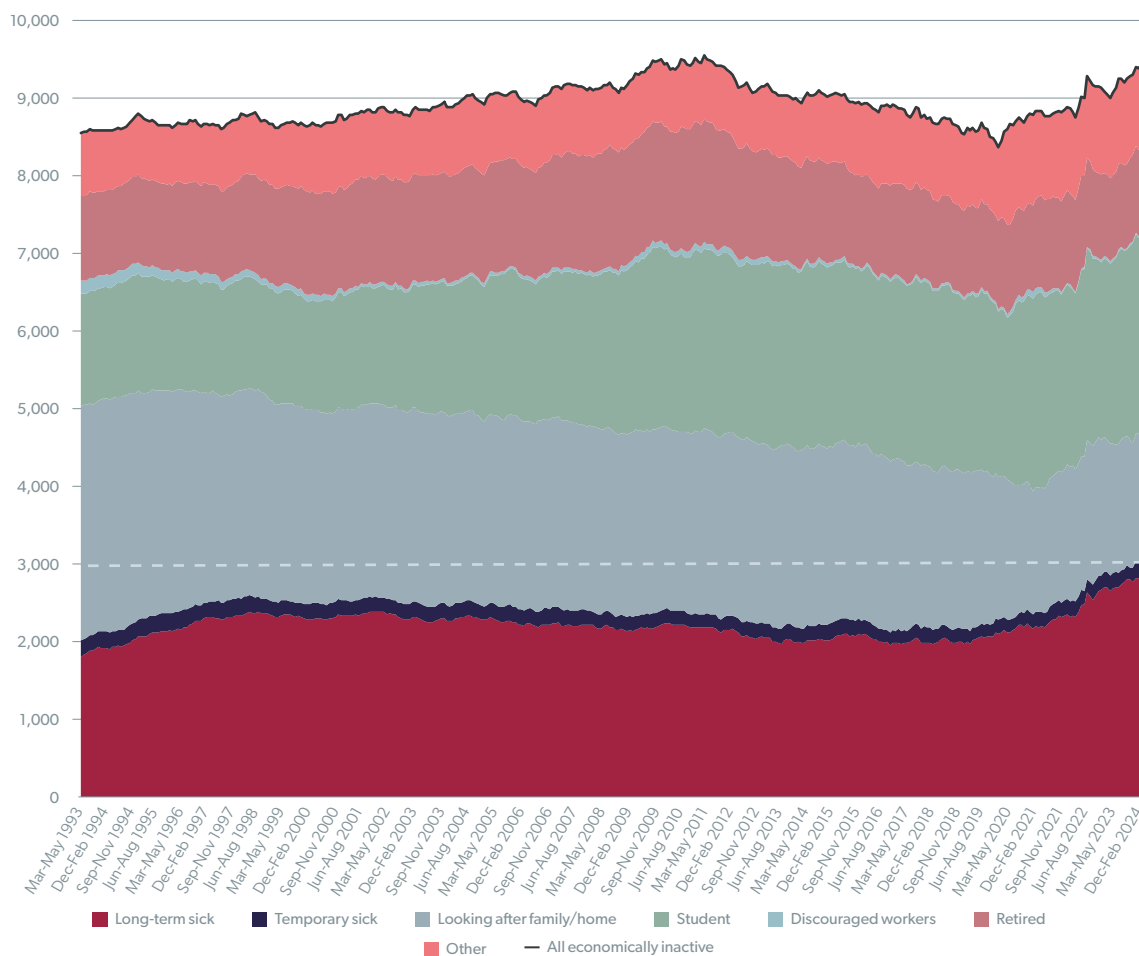
It would mean a number of changes such as deciding the right level of geographic authority at which to deliver employment support and change the role of Whitehall to an enabler and not a doer, as is currently the case. It would mean more than just devolving cash to tiered areas, regional institutions and down to combined and local authorities. Over time it would also mean buildings and people are distributed downwards, over a Parliament or more. Some are already well placed to do this because they have vanguard mayoralities and combined authorities but for others it may take time to develop local models. It also requires a different role for central Government departments to hold these localised bodies to account for public spend and adherence to a broader national strategy, with take-back controls as a backstop. However, only this allows local leaders to do different things in diverging labour markets spaces, thereby getting away from a one size fits all tendency, and away from the calls for ever more local tax raising functions.

As part of that devolution this report does not assume a one size fits all delineation of responsibilities. However, it does provide a starting point for discussion such that all stakeholders understand the direction of travel. The point of this paper is to give politicians a pragmatic means to improve employment support and associated services to address three challenges facing the UK; through devolving these aspects out, but leaving benefit administration at the centre.

1) Growing economic inactivity driven by physical health and mental health

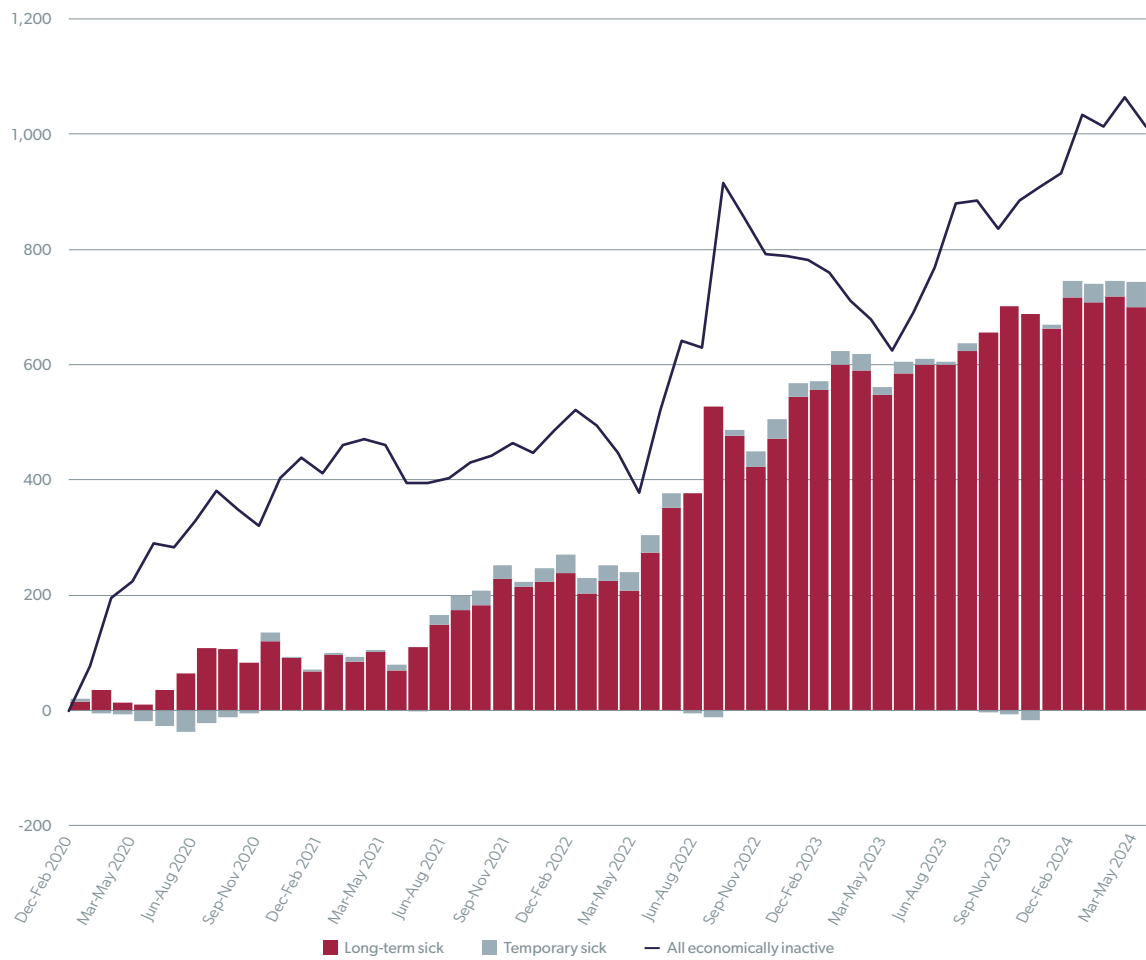
The first chart below shows the inactive population is at 9.4 million 16-64 year olds in the quarter to May 2024 up over a million since the pandemic according to the inactivity reason table or up by over 800 thousand on summary table of official statistics, which is nearer one fifth of all 16-64 year olds; 3 million of whom are sick, an all-time high since records began in 1993.⁷ The second chart below that shows this volume is driven by the long-term sick that are up nearer 700 thousand after the epidemic.

Exhibit A: Official UK economic inactivity (thousands of 16-64 year olds)



⁷ ONS, July 2024 <<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/july2024>>

And growth in economic inactivity since Covid emerged (thousands of 16-64 year olds)



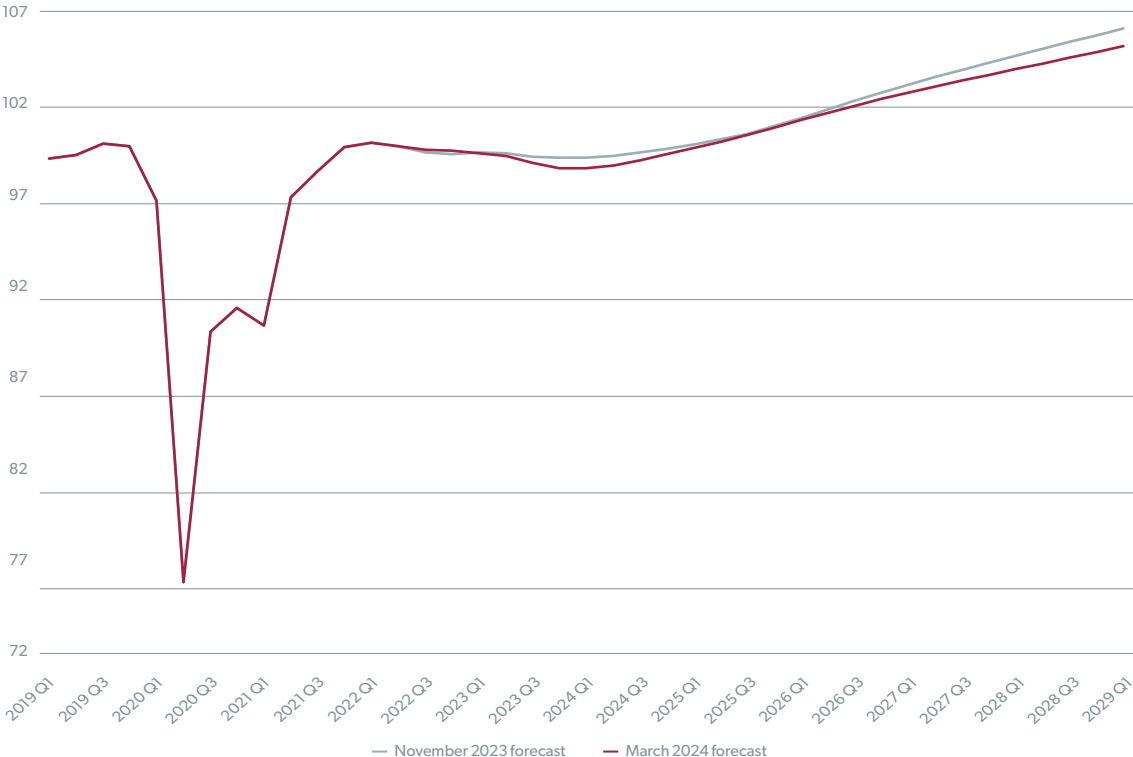
Source: ONS⁸

8 ONS, July 2024 <<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/july2024>>

2) Need for local control of growth levers and desire for greater self-determination

The rise in inactivity is not just a waste of talent but will have an increasingly harmful effect on the wider economy. The chart below shows Real Gross Domestic Product (GDP) per person below pre-pandemic peak in 2024, which is in large part driven by labour inactivity to around three quarter per cent lower projection at horizon end from March to November rounds. This has led to increased calls for control of local funding, particularly among institutions and leaders in regions most affected.

Exhibit B: UK Real GDP per person index



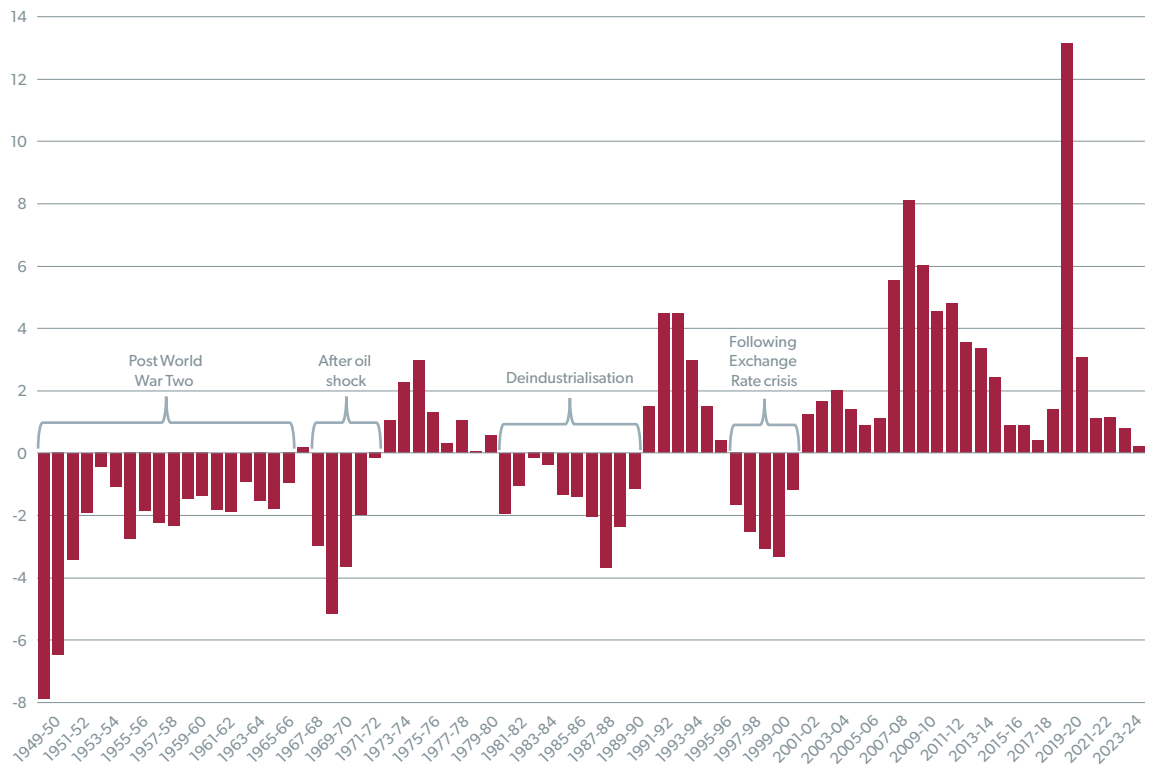
Source: OBR⁹

3) Need for a growth-centric industrial strategy

If we do not accelerate economic growth, the living standards of UK citizens will fall. The primary deficit, as it is usually referred to, is current income from taxes less current government spending excluding interest paid on government debt, if this were to go negative then that is a primary surplus. The chart below shows economic headwinds tended to mean governments contracted until sufficient growth is created, as per episodes after each event. However, following the 2008 financial crisis this did not happen with state borrowing, quantitative easing and reduced real-terms public spending taking the strain and this was repeated in the Covid era, leading to the high primary deficit bars below. It has been over twenty years since the country last declared a primary surplus, paid its way in the world without the kindness of others or at least the offer of debt.

9 OBR, March 2024 <<https://obr.uk/efo/economic-and-fiscal-outlook-march-2024/#foreword>>

Exhibit C: UK primary deficit as a per cent of GDP



Source: OBR¹⁰

Over forty years, UK growth was generated with a model that: espoused first free trade and then globalisation; along with that migration of skilled and unskilled labour; and finally when these did not yield enough that debt be turned to until the next advance. So, it was the case that UK workers were outcompeted on cost where value added was not there.

10 OBR, March 2024 and November 2020 <<https://obr.uk/efo/economic-and-fiscal-outlook-march-2024/>> and <<https://obr.uk/box/trends-in-the-debt-stabilising-primary-deficit/>>

The link to previous welfare reforms

The UK has seen a great deal of change in benefit administration, which interacts with employment support. The policy formulation and ensuing delivery design of Universal Credit (UC) has been successful to some extent, it is just that this has focused on young jobseekers and those closer to the labour market. The key aims back then were, and many would say these are achievements now:

- benefit simplification – bringing together the main working age income replacement benefits (IRBs), Jobseekers Allowance (JSA), Employment and Support Allowance (ESA) and Income Support (IS), tax credits for those with children and/or with a disability or otherwise who work in lower paid jobs, Working Tax Credit (WTC) and Child Tax Credit (CTC), and Housing Benefit (HB). Prior to this, tax credits and HB overlapped with IRBs, and even the latter had people with underlying status under each other. Combining of previously separate benefits in UC makes it easier in principle for people to understand and navigate, and easier and cheaper for staff to administer, so it should reduce scope for fraud and error;
- digitalisation of system – being digital by default means communication channels of delivery are widened, so prospective or ongoing claimants can input information, self-serve and induce output actions online and Jobcentre Plus (JCP) can make changes more quickly online than the former paper based system. There are alternatives to this using telephony or face-to-face channels as per peoples' personal circumstances, but the population is increasingly expecting to access agent platforms digitally whenever it suits them. Points above were proven during the Covid era where unlike other developed states the country was able to move millions of people made effectively unemployed by the epidemic on to UC, and increase standard allowance relatively quickly and in an orderly way; and
- always better off in work – this is done through earnings from working that the claimant is able to keep in full without any taper applied, where awards are reduced, and in part after that. They are currently for those with child and/or disability and improve work incentives via lowering benefit withdrawal rates, which were higher under the legacy systems. It is about reducing in-work poverty, particularly where more hours are undertaken, and smoothing transitions in and out of work. Therewithin lays the UC quandary for the economically inactive who are subject to working hours restrictions and wider barriers.

Where there is reasonable challenge, it is that welfare generosity across the piece is less than it might have been given freezes in rates and freezes, falls and full or partial foregoing of work allowances and increases in the taper in UC from the middle of the last decade which have only recently been reversed. When people say it is not paying enough and/or putting people into poverty, this is actually driven by political decisions on generosity not UC's policy intent or implementation platform.

The proposals in this paper build on these changes and fit well with its intent, making them the next natural step in reforming the welfare system for the 21st century.

The basic outline of the solution

The aim is to devolve employment and associated services with sizable central monies to get 700-800 thousand disabled people into some degree of work, and to detach it from benefit administration which stays central. It is thought if this pure Universal Support can help them, it can help other vulnerable people, carers, lone parents, parents and the often older discouraged to work, to contribute to the 80 per cent employment rate aspiration. This will involve moving from a work-first to human capital model, from quick-fix to sustainability, from one size fits all to agile targeted support to those far from work to alleviate poverty. The endeavour will take over a Parliament, more likely two to make lasting change like the Dutch did, with vanguard areas in the lead and those parts of the country without mayoralities and/or combined authorities needing trajectory to build capacity and capability mapped out.

A viable proof of concept is there, as the Dutch went from central to tiered localised employment services over a decade ago and reaped the rewards; they had three times the percentage point reduction in economic inactivity rates as the UK over that time. It is all about putting things at the right levels, creating governance and finance frameworks and making local leaders accountable and liable for them. The reform is cost-neutral or cost a little with monies almost entirely coming from departmental account lines, in the form of budgets for people, equipments, estates and programmes, and setting up costs are covered by closure of bodies rolled up into devolved services. In the long-run, this is a cost saving measure, because if like in Scandinavia inactivity is reduced, the benefit bill comes down.



1. THE PROBLEMS WE FACE

1.1. Economic inactivity, hidden and real unemployment and economic dependency in numbers

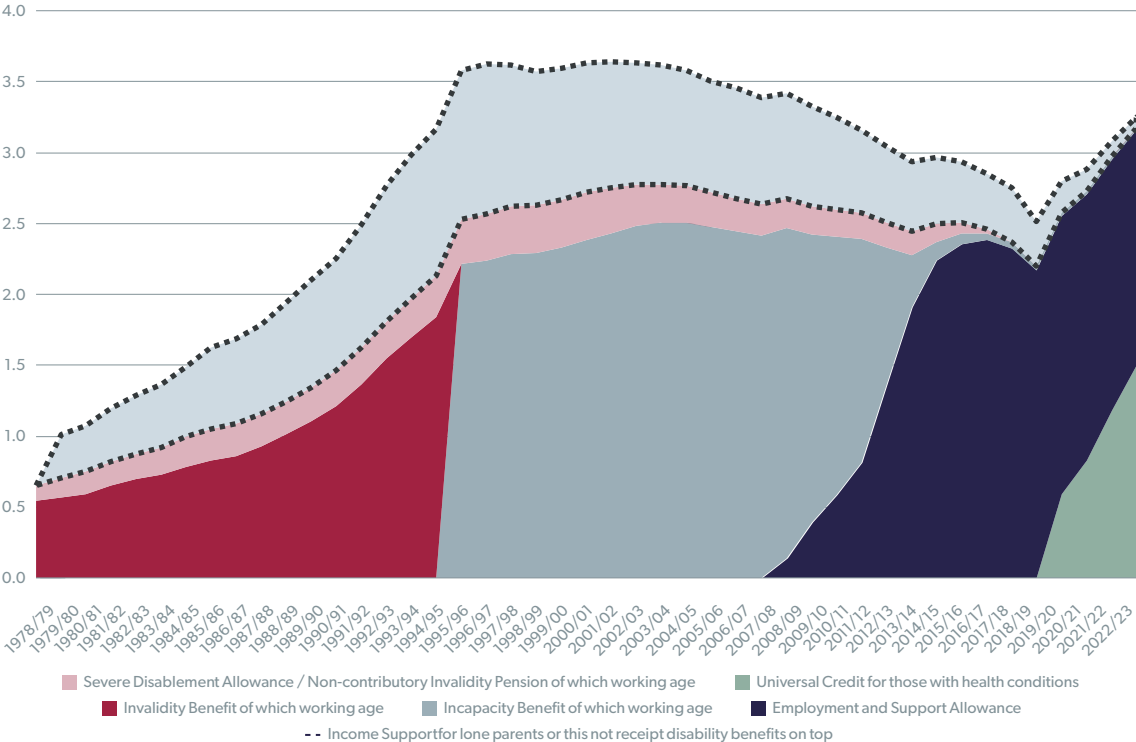
Over many decades, governments of all colours have used the unemployed and migrants to recover from recessionary periods, rather than deal with long-term economic inactivity; be that sickness, family responsibility or discouragement related. This can be seen in the relations between unemployment, economic growth and migration to fill UK enterprise's vacancies. When the supply of the workless was nearly expended, they tended to look to the reserve labour market of the European trading bloc and not to bring in the domestic inactive. That choice can of course be reversed more easily now as that reserve of labour is less available, though this is not to say immigration for work will not be part of the mix as demographics dictate it must until the population age profile is more balanced.

It is hard to believe now, as inactivity is ever present in news, but the media did not look at it as frequently in the past. This happened because of the model that used the unemployed and reserve labour which was yielding sufficient growth. There was instead a heavy focus put on the headline unemployment rate that excludes inactive people.

The broad story has been outside of downturns, the unemployment rate has been low and the employment one has been high in historic terms since the 1990s. However, the inactivity rate has been stubbornly steady, and where it appears to fall this is driven by bigger older cohorts leaving the working age population to be replaced by smaller younger ones in the labour market. Furthermore, dependency is set to get worse with pensioners living longer and new entrant cohorts into working age smaller than in years gone by. We are an aging population. The result of these trends is without ever-increasing immigration, the only way to fill vacancies is to tap into the inactive group.

Those incapacitated on benefits swelled to over 2.5 million from the late 1990s into the 2000s and again now to over 3 million; the first peak was due to the direct effects of deindustrialisation, chiefly amongst those laid off and indirectly on their families. The second one is the recent inactivity trend due to Covid directly, and indirectly on underlying conditions. Those out of work because they were/are on lone parenting benefits bulged to over 1 million in the mid-1990s, but has fallen away as the age of youngest child for eligibility has fallen and with UC incentivising many into work as childcare payments are provided and much of the earnings from working are not taken pound for pound. The chart below shows the breakdown, albeit one must be careful with lone parent caseloads as there may be overlap with incapacity volumes.

Exhibit D: Incapacity and lone parenting related benefits counts of claimants and claims from administrative data in Great Britain (GB), 1978/79-2022/23 (millions of cases)



Source: DWP¹¹

The tragedy is this trend comes at a time when over 700 thousand of these inactive people actually want to work or are the hidden unemployed. From the academic literature, the chart below gives you national time-series on real and hidden unemployment, and table below shows the real unemployment aggregated up to nations and regions under this definition in early 2022. This is remarkably similar to that independently worked out from the Centre for Social Justice’s own in-house analyses. The pattern of growth in inactive benefits receipt, hidden unemployment, is not evenly distributed across the country, with some regions having more of it. This is obviously the impact of deindustrialisation, but this is not just about that generation but also their offspring and even theirs in turn, and beyond there are other areas suffering, seaside towns and inner cities. These became black spots, initially owing to sectoral and lifestyle changes but over time due to weakness of those economies coupled with skills shortages; all of them require industrial strategy support.

There is no widely used methodology for hidden unemployment but Sheffield Hallam University have developed a relatively simple measurement that works across GB’s many local authority districts and unitary authorities. The university’s Centre for Regional Economic and Social Research (CRESR) overcomes the following problems:

- the labour market position of different areas means it is difficult to know what is excess incapacity related benefits claiming; and
- the weakest labour markets will have higher incapacity related benefit claiming due to poorer health owing to unemployment or underemployment.

11 DWP, May 2024 <<https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2024>>

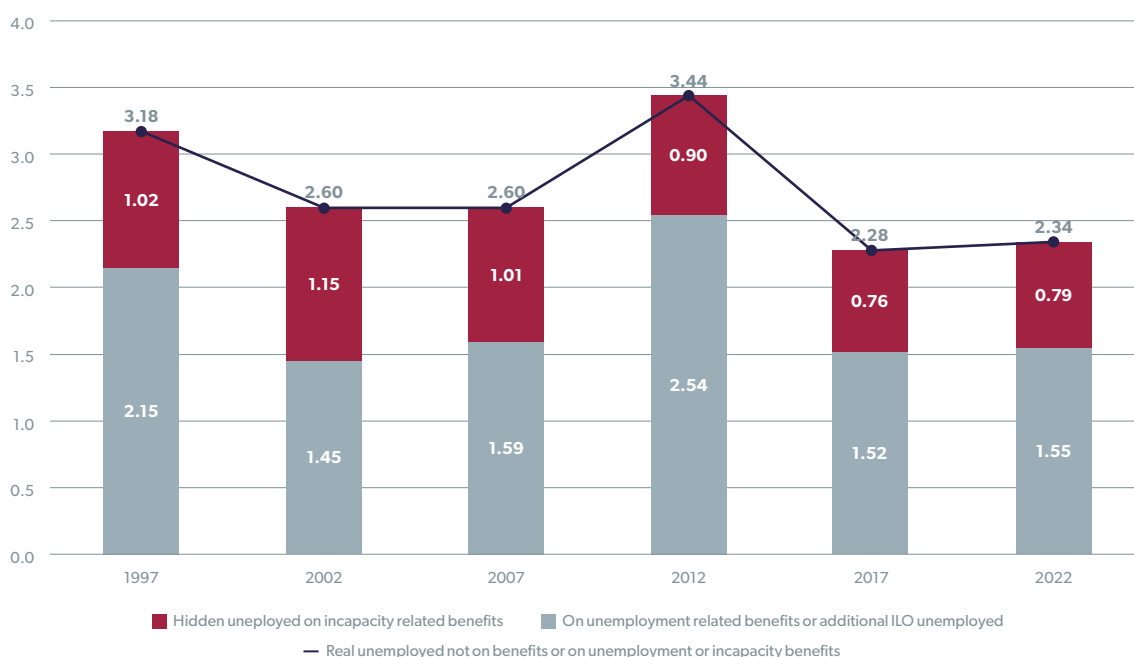
Practical example of method

The method works by taking average incapacity related benefit rate in near full employed southern England of 3.8 per cent and applies an uplift to it based on the ratio of Standardised Mortality Rates (SMR), each area's SMR over the SMR for in near full employed southern England. The point being that this SMR ratio represents a guide to differences in the incidence of incapacitating ill-health above and beyond the SMR in that for the fully employed part of southern England:

- say this is 20 per cent higher than the 3.8 per cent of southern England in a set district, then it gives a benchmark 4.56 per cent for the set area; and
- any amount rate of incapacity in excess of this is thought to be hidden unemployment, and the commensurate number of excess people equates to it; thus
- the excess is added to unemployment related benefits for the area to deliver the estimated real unemployment for that area.²¹

Exhibit E: The real and hidden unemployment in GB, early 2022 (in percentage of working age benefit population [table] and millions of claimants [chart])

GEOGRAPHY	PER CENT	GEOGRAPHY	PER CENT
1. North East	7.7	7. London	6.1
2. Wales	7.7	8. East Midlands	4.9
3. North West	7.5	9. South West	4.6
4. Scotland	6.4	10. East of England	4.1
5. West Midlands	6.4	11. South East	3.8
6. Yorkshire and Humber	6.4	Total: Great Britain	5.8



Source: Sheffield Hallam, CRESR¹²

12 Sheffield Hallam, May 2022 <<http://shura.shu.ac.uk/30252/1/real-level-of-unemployment-2022.pdf>>

This leads back to one of the Centre for Social Justice's flagship ideas - Universal Support that aims to provide personalised help to the furthest away from the labour market.

RECOMMENDATION 1

Government should roll out nationwide a Universal Support offer based on a locally commissioned and key worker model, using examples of best practice such as the Greater Manchester Combined Authority's Working Well programme. In Budget 2023, the last Government laid down plans to trial this approach with view of possible future roll-out.

1.2. Ineffective labour market programmes and associated schemes, and employment and health support

During the past forty years, there has been strong focus on young domestic workers and overseas reserve labour to maintain GDP growth. As developing nations industrialised and outcompeted developed nations on the cost of labour in the 1970s and 1980s, the more developed economies have concentrated on young jobseekers in new sectors where they have competitive advantage; these were thought in main unsuited for those who are economically inactive, with life events, complex circumstances and/or older. The proof of this is the many active labour market policies that governments have designed to resolve worklessness in this group. Interest in this group is valid because administrations have wanted to stop unemployment scarring, but both young and older groups need consideration in future.

Some of the programmes for younger adults in the main include:

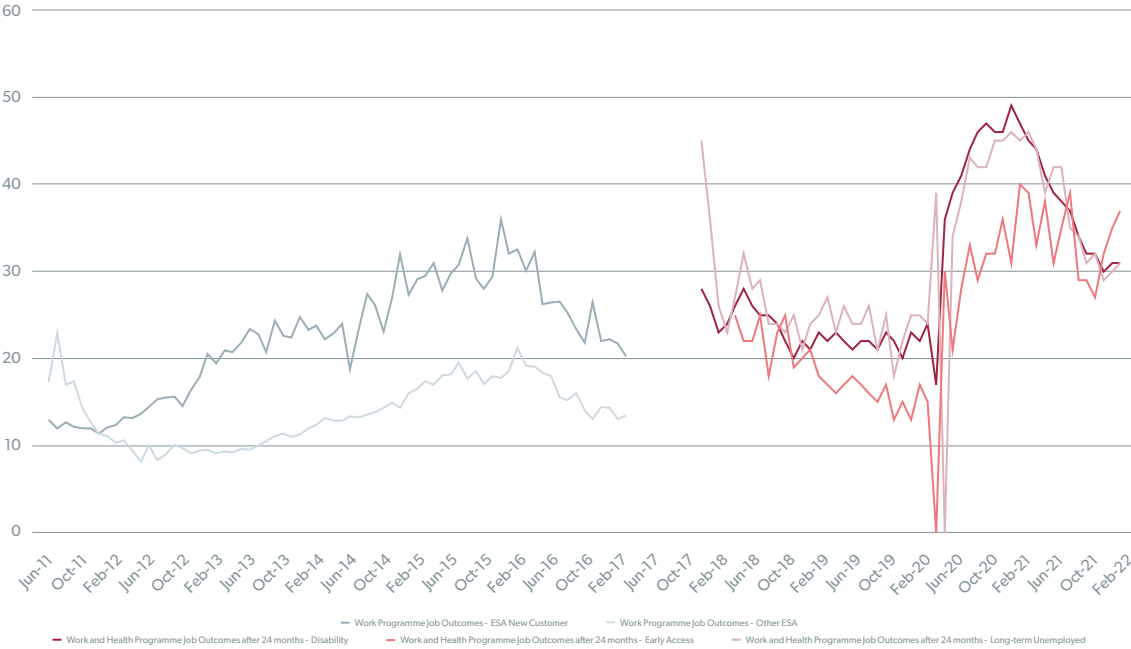
- eight departmental jobseekers orientated active labour market programmes where initiatives were directed at tackling youth unemployment. The most prominent one of recent times was the Work Programme which ran from 2011 to 2017 when referrals ended, with referrals mainly being JSA claimants but also some ESA ones. It was criticised for cherry-picking people who were job ready or were near it and not helping those further away from working;
- six departmental jobseekers orientated job retention, training or assistance schemes where initiatives were directed at tackling youth unemployment from the pandemic; and
- four cross-government interventions where initiatives were directed at youth unemployment from 2020 when epidemic hit. These were largely direct subsidies from the Exchequer.

Those few in number for the inactive, the disabled, those with family and caring responsibilities and the long-term unemployed (often older) are:

- six departmental non-jobseekers orientated programmes, of which about half are specifically for the incapacitated as two are place and mentoring related. The most preeminent one for the inactive groups was/is the Work and Health Programme which has been running since 2017, which has relatively small intakes each month.

The Work and Health Programme is now clearly better than the Work Programme was for inactive claimants as contracted providers consider their needs. The chart below shows the performance rate of different programmes over the last 15 years; performance has returned to that before Covid struck, falling before the lockdown support schemes stimulated marked rises to new higher level.

Exhibit F: Chief programmes performance rates by select groups, 2011-22



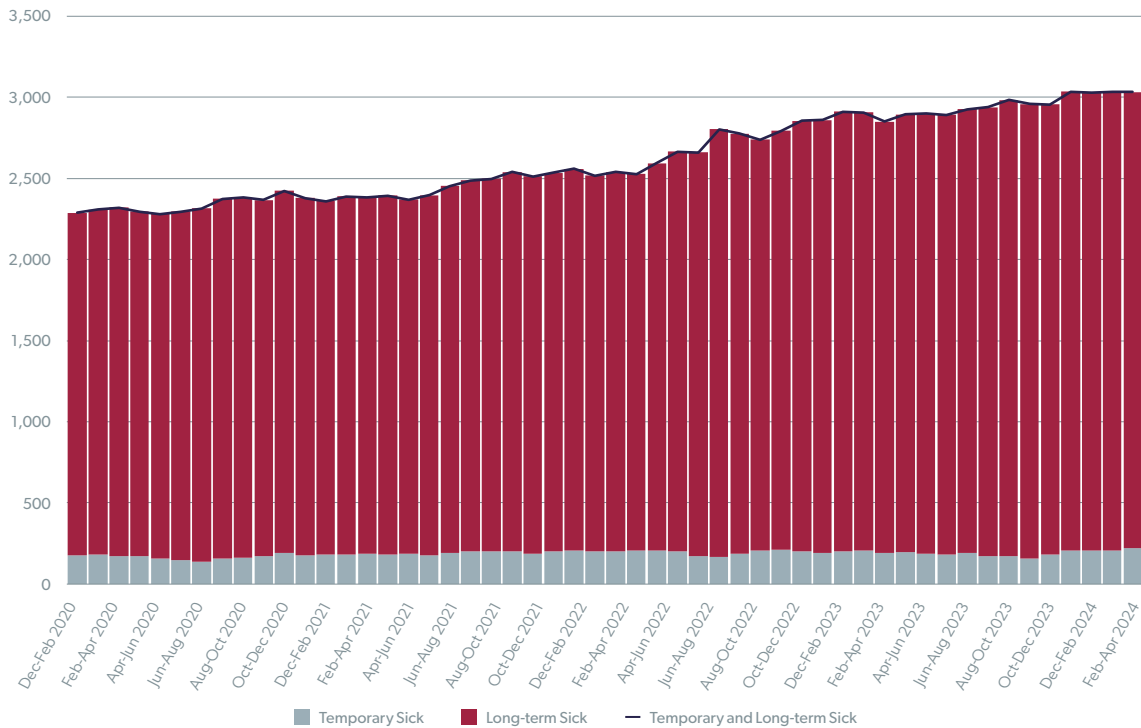
Source: DWP^{13,14}

A trend emerged where many older people suffering multiple physical and mental health conditions and young persons with poor mental health have come into inactivity. The chart below shows long-term sickness has grown from 2.1 to 2.8 million since the pandemic, while temporary sickness has remained stable. This has brought the combined total to a record near 3 million, undoing past policies of all governments since the 1990s.

13 DWP, July 2020 <<https://www.gov.uk/government/statistics/work-programme-statistical-summary-data-to-june-2020>>

14 DWP, May 2024 <<https://www.gov.uk/government/statistics/work-and-health-programme-statistics-to-february-2024>>

Exhibit G: Rise of economic inactivity related to long-term and temporary sickness in the UK since Covid (thousands of 16-64 year olds)



Source: ONS¹⁵

This extremely sharp rise in long-term sickness manifests in the growth of people with: multiple health conditions, especially among the over 50s with musculoskeletal and other types; and escalation of the mental health ones, more among the under 35s.

This loops back to offering the Centre for Social Justice’s Universal Support, personalised help to the furthest away from the labour market, with the security of return to welfare.

RECOMMENDATION 2

The Government should implement a set protected period for benefit claimants with No Work Requirements to move into paid employment without the risk of losing their existing benefit entitlement and right of return to the previous regime in the event the spell in work ends within short duration.

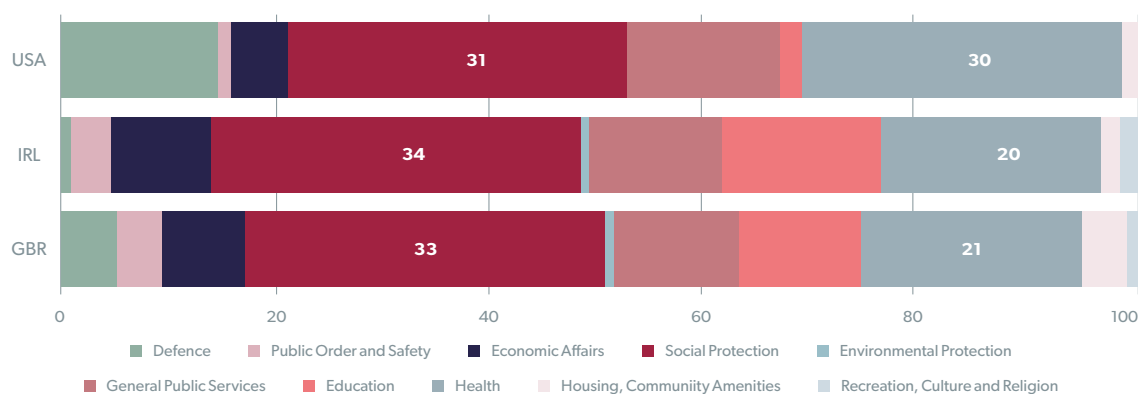
15 ONS, July 2024 <<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/july2024>>

1.3. International comparisons of spend, size, generosity and strictness of welfare

Over many decades, the UK has become poorer with less activity per person; this conundrum is seen in GDP per hour closer to southern rather than northern Europe. The political dialogue is about improving productivity via quality rises, but it is difficult to pin down what this will come from and has therefore proven elusive. While this is in flux, policymakers may want to raise quantity which is easier to specify; but if net migration is not the conduit that will mean returning national fertility to replacement rate. Both of these are not an either or but one cannot wholly detach lower growth from demographics.

Working from available data, the country has similar employment to competitors, but higher economic inactivity to them. Incomes are lower here than many states with those earning below two thirds of the median earnings being very much higher in the UK which can make living on benefits look appealing as the gap may not be so large between that and being in low paid work. Different benefits have very different disincentive effects here, with those on inactive ones and/or in certain locations better off on welfare than in work – or close to it. This however is an argument for lifting pay not reducing awards, given the proportion below two thirds of median earnings. The chart below shows the United States and Ireland are the best match to the UK, with similar public spending on social protections [welfare] and health accounting for more than 50 per cent.

Exhibit H: Functions as percentage of government spending in three OECD countries, pre-Covid in 2019



Source: OECD¹⁶ - please see standard OECD country codes in the annex of the full report

Assessment of unemployment benefits coverage, generosity and wider features are substantively complicated by there being at least two system types: Bismarkian insurance based models and Beveridgian universal ones – both bear the name of the person under whom they came into existence

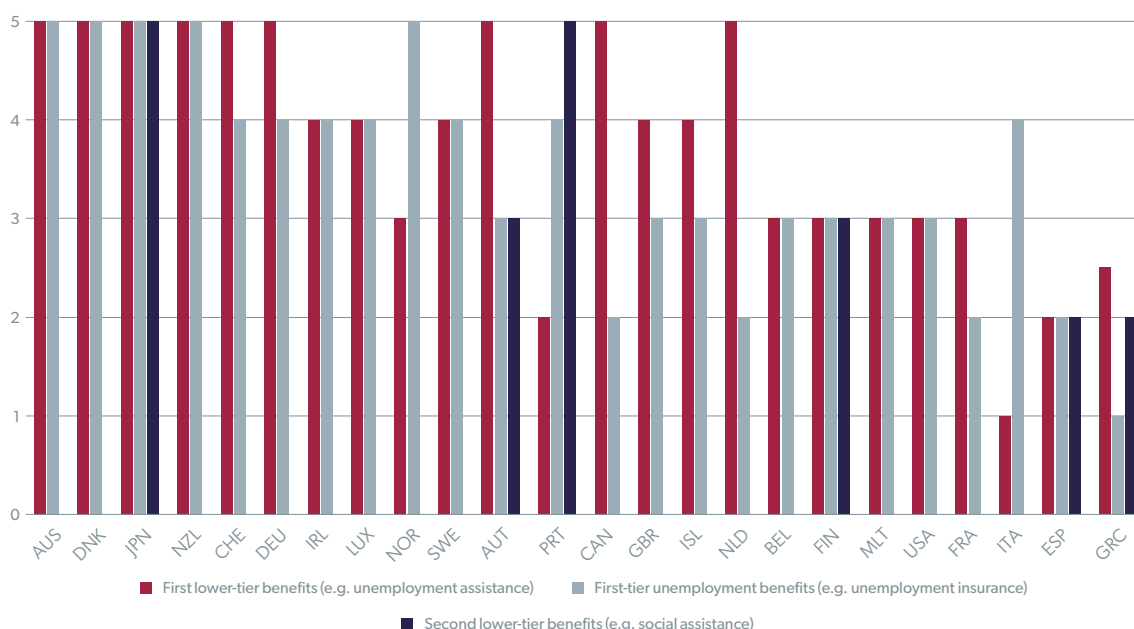
16 OECD, August 2024 <<https://www.oecd.org/en/data/indicators/central-government-spending.html#indicator-chart>>

in newly unified Germany and inter- and post-war Britain respectively. The UK's unemployment offer is universal above low eligibility and contribution bars meaning coverage is amongst the higher end of the range, partly because of the bar to entry of the insurance based systems of many European countries. It is of low generosity as a percentage of previous income compared to others, as one might expect from a universal system. However, the UK has especially low rates on this metric, indeed only the United States having lower rates but that is only after the first year has elapsed.

Judgement on whether step up in replacement rates from unemployment benefits to inactive ones as incentive to not work is hard to measure. If there is a substantial difference or even on a gradient disparity then claimants at the margin have a strong incentive to stay out of work and live on them, particularly for those in depressed areas and with higher living costs and lower wages. There was such a panel study in the 2010s that aimed to get at this, but it had a limited number of European countries in it, and some were not those the UK would readily be compared with. What it revealed was that the UK had marginal incentive to claim disability as maximum pay-off is a high positive difference. While others like two Scandinavian countries had this finding as well, they imposed penalties for minimal disability claims. Moving beyond replacement rates, there are other reasons for being on inactive benefits; the most obvious of which is the lack of state support to compensate for additional childcare costs.

The strictness of UK benefit and support regime is robust, but not the most severe as is often reported. It is preoccupied with job search and sanctions; these are not or not much relevant to the inactive. Others around restricting availability where claimant's lack of flexibility on occupational and geographical mobility are not so strictly followed through. The chart below shows the country is middle of the pack compared with usual comparators on an average score basis across types of benefit or support for occupational mobility.

Exhibit 1: 5-point strictness on occupational mobility item in set of OECD countries, post-Covid in 2022



Source: OECD¹⁷ - please see standard OECD country codes in the annex of the full report

17 OECD, August 2023 <<https://stats.oecd.org/Index.aspx?DataSetCode=SBE>>

There needs to be a great deal of thought going into policymaking around calibrating coverage, generosity and strictness of regime; therefore there is a need to look into the best practice exemplars in the Nordics. These countries are recognised as having the most success in getting and keeping people in employment, while balancing the health and care facets of state, regional and local authorities.

This interacts with the Centre for Social Justice's proposal, personalised support to those with varied and difficult obstacles before them in order to give them identity, purpose and structure. This should be available to both the unemployed and inactive people.

RECOMMENDATION 3

The Government should allow localised differences in delivery of support to inactive benefit claimants within national strategy to give those able and wanting to enter employment help and reassurance. This means letting local leaders make more decisions on provision and incentives, be that in current centralised or future devolved employment service.

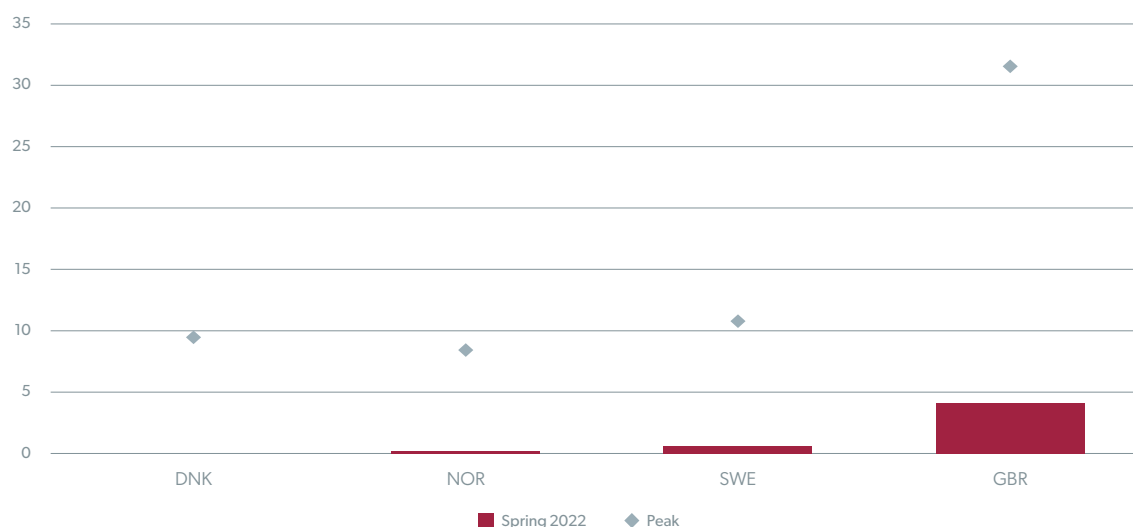
1.4. Lessons from Scandinavia since the Covid era

There is much that can be learnt from Nordic countries, but in particular how they did during the Covid period and how their history helped with this. They also saw their economies reframed by the outbreak but for them growth sectors have been sustained, youth and low-educated employment recovered or is recovering, younger people were put more into education and training, and employers have adapted to teleworking practices. As everywhere, use of communication technologies, was most beneficial to those already established but their success in getting particularly young and low-educated peoples' employment rates back up suggest it also helped more widely.

Scandinavian and adjoining countries successfully kept their populations together like the UK and others during pandemic but to a greater degree, and have done so in recovery. They already had generous income replacement benefits to start with, so in crisis they were starting from a high base and widened access and durations. These states brought in social partners at national and local levels to modify benefits, and specific active labour market policy upskilling from already high educational standards such that economic inactivity owing to incapacity and discouragement to work remained low in their core countries. There seems to be careful calibration around effort and disadvantage, propensity to seek benefits vis-à-vis work, and promoting of flexible and frictionless labour markets here.

In Scandinavia and its adjuncts, they did not use subsidies to employers to take employees in and out of lockdowns, they do so only as last resort and even then very sparingly. They did not overuse job retention schemes, which subsidise employment and may cause displacement of those not eligible. Where these were used by them more of the cost for this was put on business like mainland Europe and unlike the UK, and were as generous as European equivalents. The chart below shows usage in core countries was at the height of the crisis nearer the UK's in normal operating conditions. They have sought retooling and upskilling as the long-term remedy, and so avoided directing money to short-term fixes; given their national cultures, they prefer to change and localise employment support services while upholding investment in human capital and workers' aggregate skillsets.

Exhibit J: Ratio of job retention scheme support jobs to all dependent employment, post-Covid in 2022 and the peak of the outbreak



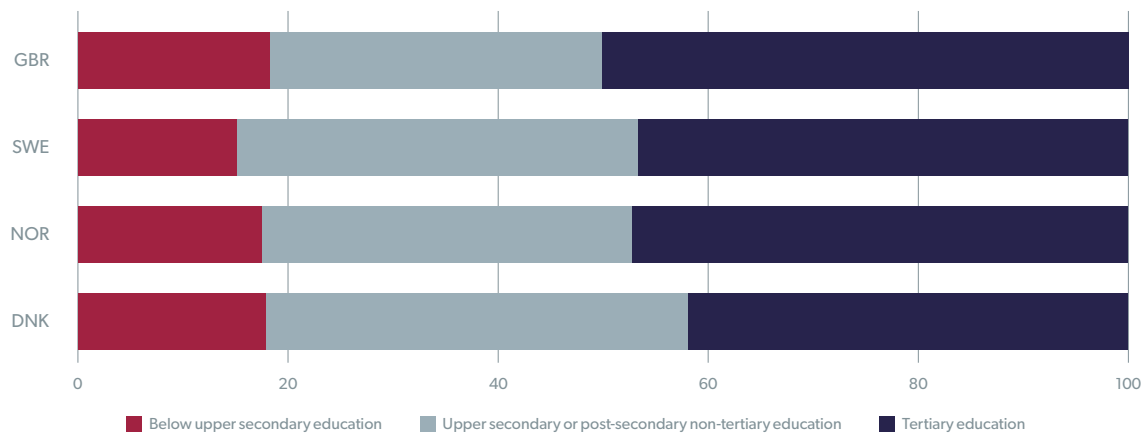
Source: OECD¹⁸ - please see standard OECD country codes in the annex of the full report

Scandinavian and associated states were agile in delivering active labour market policies, after waves of disease. This was because of their states' national, regional and local levels of governance, use of agencies, partners and contractors, and willingness to accept decentralisation and diffusion in diagnosis and prescription to local people's needs. In doing this human capital is maintained and even advanced, such that these countries bounced back in the recovery from contagion with strong economic growth.

Recovery was especially strong in the Nordics because of the pre-existing balance between academic, vocational and other skills, unlike in the UK. They along with others resisted the developed world's obsession with sending more and more young people into tertiary education, seeing that a sound upper secondary sector can secure livelihoods and underpin the wider economy. The first chart below shows that, comparatively speaking, their core countries have a more balanced spread of potential workers across educational levels and the UK has a squeezed middle layer, meaning their skill shortages are less acute. These states drew on a diverse range of providers to grow the adult education sector and engagement in it is high. The second chart below shows their core states also have higher participation in continuous professional development, so it seems the lifelong learning agenda has taken deep roots. Denmark has even piloted radical direct intensive upskilling and greater than 100 per cent of usual benefit rates on the basis that the participants take jobs that are in skills shortage areas.

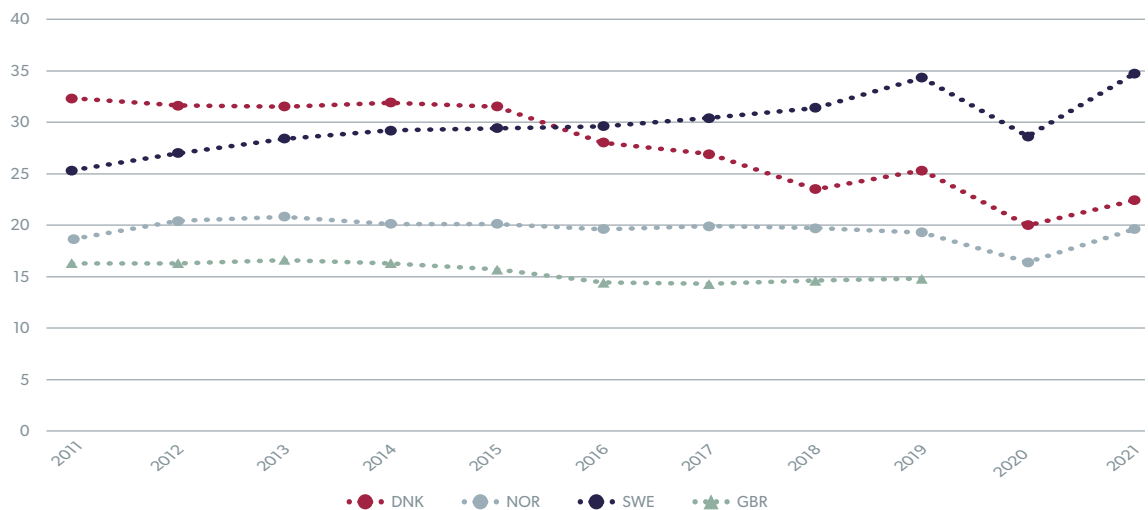
18 OECD, March 2022 <<https://stat.link/rx9m41>>

Exhibit K: Share of 25-64 population by educational qualification level in 2021



Source: OECD¹⁹ - please see standard OECD country codes in the annex of the full report

Exhibit L: Participation in adult education of 25-64 year olds, 2011-21



Source: OECD²⁰ - please see standard OECD country codes in the annex of the full report

The Centre for Social Justice believes there is much for UK policymakers to consider in the broader Scandinavian experience. Though it seems fair to say some of their agility comes from being able to do things at different levels of national and local government.

RECOMMENDATION 4

The Government should implement regional International Territory Level 1 Industrial Strategic Councils, above the local authority and perhaps at combined authorities or in mayoralities where these levels exist, to act as regional convening hubs for business and industry, educational providers and workers and people. This means control of employment and associated services falls within the jurisdictions of local leadership(s) in order for them to develop their local economies.

¹⁹ OECD, March 2023 <<https://stat.link/s83lvq>>

²⁰ OECD, March 2023 <<https://stat.link/ysazwt>>



2. THE SOLUTIONS WE SHOULD ADOPT

2.1. Proof of concept and funding for devolved employment services

The Centre for Social Justice convened a series of roundtables with sector experts to understand how devolving employment and adult education services would work best. Attendees were from combined authorities, international bodies, educational institutions and associations, national and local charities and businesses, and best practice from practitioners and academia. Several learnings emerged from these meetings:

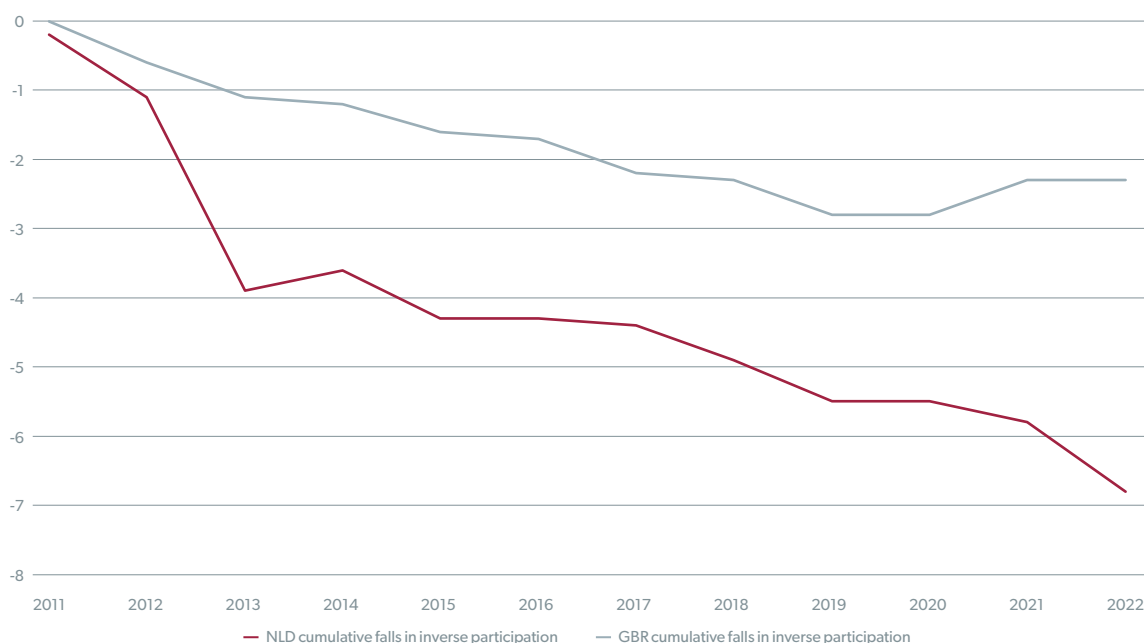
- the UK has a work-first rather than a human capital strategy, which is less good at getting people into sustained employment. If it wants devolved employment services then it needs division of benefit administration and employment support, and consideration of geographic units' governance and finance, relationships and negotiations, partnerships and cooperation and management;
- devolution of the above is desirable within a national manpower planning strategy and where it leads to co-location. However, pathways for places with differing maturity need to be staged because standards must be maintained and evaluated over a long-run;
- funding needs to be relevant to local employment, transferred from existing pots and subject to stocktake, outcomes accurately counted and performance frames simplified. There may also be opportunity to diversify the pool of monies available; and
- to support periodical reassessment of performance and contingency at centre, and to reform business cases for contracting out data sharing is needed.

The Netherlands successfully devolved employment and adult education services but this required legislation from the mid-2010s. It split out roles and responsibilities:

- overall framework, insurance systems and platforms, and evolution at state level;
- the national agency doing payments, handling labour markets and service levels, and segmenting clients;
- provinces performing cooperation, partnership and critical friend functions as well as citizen advisory, geographic mobility and emergency management; and
- the vast majority of activities like doing payments, handling labour markets and service levels, segmenting, managing and incentivising clients back into work, and focusing on the vulnerable and programmes for them, using and spreading best practice, and developing a co-located service hubs happen at the municipal level.

The chart below shows that since 2011 the Dutch saw impacts most in their economic inactive populations with inverse participation rates falling close to three times as much in percentage point terms as that of the UK after eleven years. They have not stopped reforming and reviewing to improve the performance of institutions since. If this kind of reduction had been seen in this country then it would very likely constitute a reduction of billions of pounds sterling off the national benefits bill.

Exhibit M: Cumulative change in 15-64 year old inverse participation rate, 2011-22



* The approximation is based on OECD participation rates.

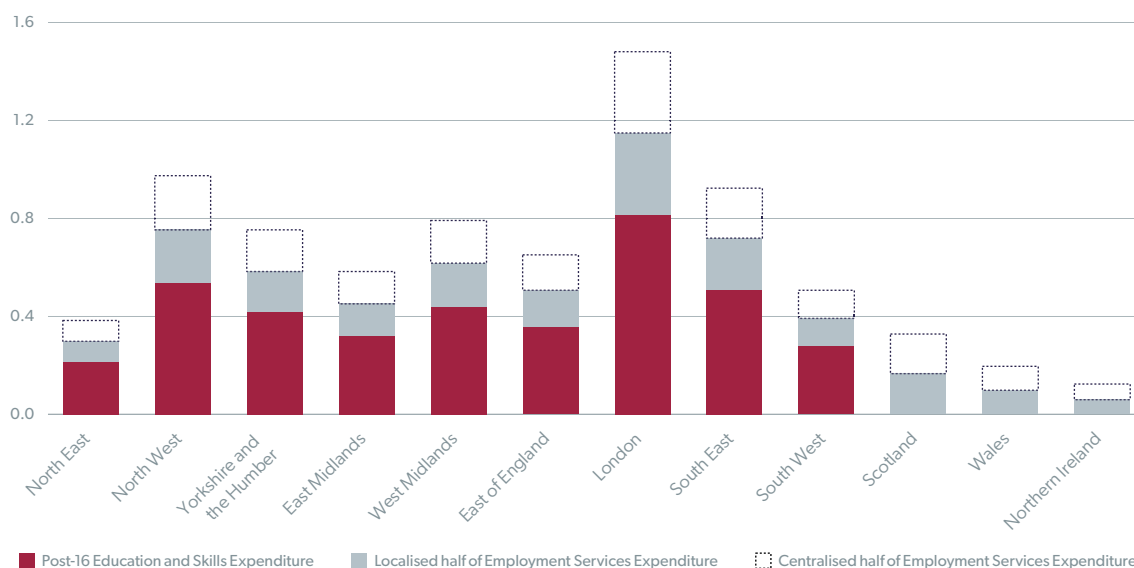
Source: OECD²¹ - please see standard OECD country codes in the annex of the full report

This UK reform package for devolving employment and adult education services is cost-neutral or minimal outlay, with any welfare savings accrued going back into the public purse. Monies spent on both of these are presently spent by departments for the UK and England respectively; with employment support expenditure seeming to have loose relations with economic performance and labour market trends. Most of the cost side is transfers of existing expenditure within £7.7 billion in 2022/23.

The Centre for Social Justice's experimental analysis distributes £5.8 billion of the above supposed 2022/23 spend based on labour market indicators comprising half of employment support spending largely marries up with Government's hypothecated analysis and that for all of post-16 education which tallies with devolved settlements with combined authorities, with half the former left at the centre to cover economic shocks. Overall our simple analysis provides a way to get at the range of possibilities for the size of pots to the regions. The chart below gives just that for the combined unemployment and inactivity basis. There is also in low hundreds of millions of pounds of further funds for England, which perhaps could be part of this Machinery of Government Change – so the start-up costs are also covered off.

21 OECD, August 2024 <<https://www.oecd.org/en/data/indicators/labour-force-participation-rate.html>>

Exhibit N: Experimental division of the public expenditure for only the English post-16 adult education and skills and half of economic affairs – employment policies by region in billions of £s, based on unemployment and economic inactivity, 2022/23



Source: HMT²² and HMG²³

* Note Scotland and Wales do not have post-16 educational allocation because that is already devolved.

The Centre for Social Justice implores any government to decentralise employment and adult education services, giving local leaders the chance to do Dutch style devolution to reduce differentials in economic performance without large extra cost to the Exchequer.

RECOMMENDATION 5

The Government should devolve employment support and adult education and skills associated services to a subnational geographic unit closer to the people who need to be helped back into work and require wider support. This can be a regional unit, and under them combined and local authorities depending on the task. It is for national and local elected leaders, perhaps mayors, to negotiate the terms of this decentralisation, but this report provides them with practitioner opinions and proof of concept from a similar Western developed country.

22 HMT, December 2023 <<https://www.gov.uk/government/statistics/country-and-regional-analysis-2023>>

* Centre for Social Justice has applied 12 months to June 2023 average headline labour market indicators under a methodology that has volumes/sum of volumes for a region over the national total, the percentage share is then applied to the official national expenditure or half of it to give a range of estimates for each region.

23 HMG or derived from HMG department and agency sources originally; latest or most relevant sources comparable to PESA and CRA <<https://www.gov.uk/government/collections/dfc-annual-reports>> , <<https://www.efsa.europa.eu/en/corporate-pubs/annual-reports>> , <https://assets.publishing.service.gov.uk/media/609d33878fa8f56a32f91cb3/CP_S31_Letter_2021-22_Financial_Year.pdf> , <<https://ifs.org.uk/sites/default/files/2022-12/Annual-report-on-education-spending%20in-England-2022-Institute-for-Fiscal-Studies.pdf>> and <<https://www.gov.uk/government/statistics/gdp-deflators-at-market-prices-and-money-gdp-june-2023-quarterly-national-accounts>> .

* Centre for Social Justice has applied 12 months to June 2023 average headline labour market indicators under a methodology that has volumes/sum of volumes for a region over the national total, the percentage share is then applied to the official national expenditure or half of it to give a range of estimates for each region.

RECOMMENDATION 6

The Government should provide funding commensurate with the devolution of the functions set out in the last recommendation to the subnational unit, whatever that might be in the end. The only monies held back in the centre should be for ongoing management of non-core labour market segments and contingency on economic shocks in the labour market, which is often lagged from recession and ongoing cyclical effects of that can exist some years after the event. It is for national and local elected leaders to negotiate share of the economic affairs – employment policies line to be kept centrally and distributed to units, the shares in the chart of this report are just for illustrative example to start off that debate.

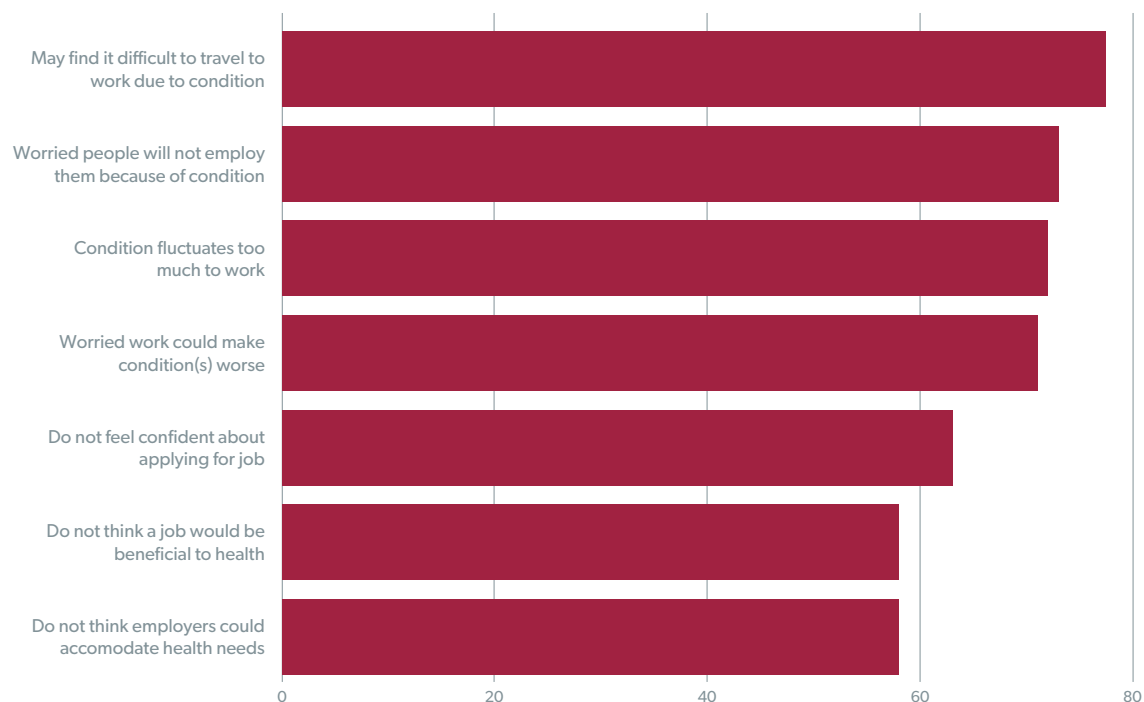
2.2. The role of relationships in employment services

The participants in the Centre for Social Justice's roundtables stressed that there was an enormously important human element to devolving employment and adult education services. It will involve different individuals and relationships that will need to be navigated well for the change to work. Among their key observations were:

- the UK does not have universal employment services, but some stakeholders want it rather than focus on claimants. There were differing opinions on a full market approach which might give bigger returns or target those on welfare with view of reducing benefit outgoings, those in the latter camp stressed tailoring to the individual person;
- this will change relationships with unemployed and economically inactive users becoming more like customers, as they seem to be in northern Europe. There was a desire to keep conditionality with national benefit administration and not devolved services, and replace claimant commitment but without any clear position on its successor, just it is less likely to be held in suspicion;
- those in supply-chain want more job brokering, matching and upskilling to be done locally and by specialists. There was appetite for increasing scope for creating opportunities for vulnerable groups, fitting to their wider skills rather than occupation codes, qualifications, and experiences and changing advisory to them; and
- there were also responses from interested parties wanting more third sector provision, choosing local by default and core funding for it; and a new deal for the ageing, less well, society via employee and employer bargaining, overcoming barriers and better planning.

The Department for Work and Pensions admits in a research report, relations between disabled claimants and key workers and their delivery arm are at a low, but given many of them want to work this needs to change and devolution presents this opportunity. This group fears financial impacts of moving into work and there are varied reasons sitting behind it; the claimant commitment is an inhibitor to good relationships, but scope exists for different bonding and bridging ones. The chart below shows statements where over half canvassed agreed; where along with health-related concerns were labour market ones which can be surmounted with adaptation of employer views and workplace settings.

Exhibit O: Percentage of the most disabled respondents agreeing with following, 2020



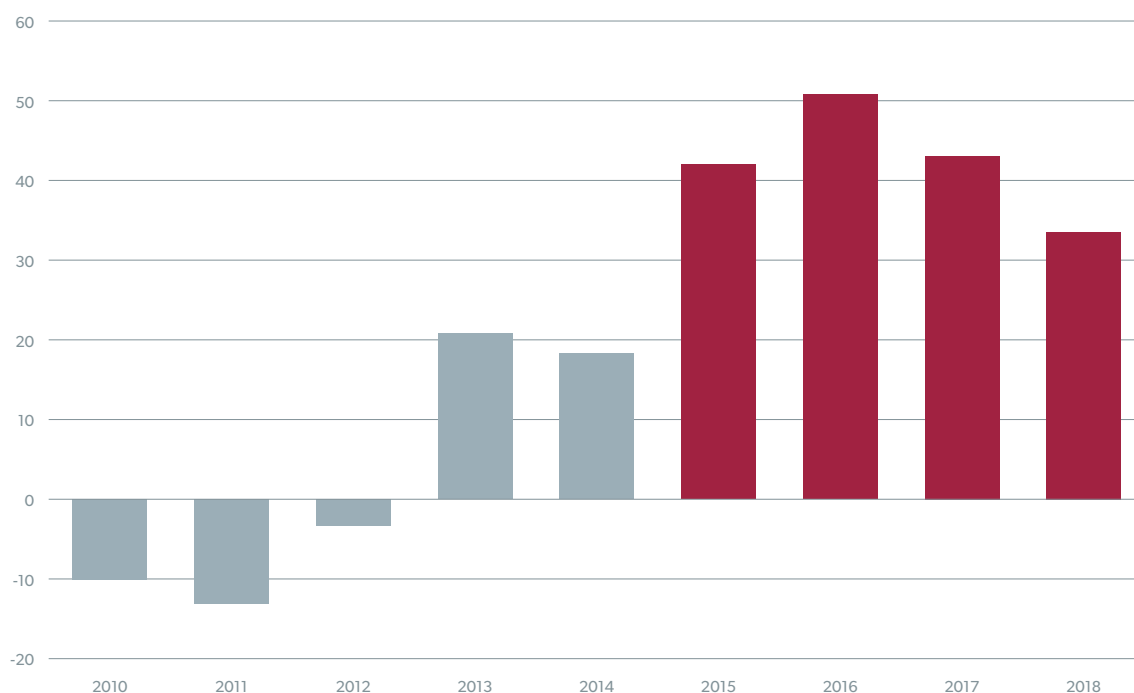
Source: DWP²⁴

Any model for helping disabled and wider inactive people back into work must be supported by smaller and local operators from the third sector, who give the specialised support required. But these parties find it harder to get Government contracts, and in fact even large charities often lose out to multinationals. Therefore, devolution of services and service commissioning needs to bring in these providers.

Danish academics ran an experiment to test the impact of giving local areas command of both employment services design and staff workloads in forming relationships with jobseekers, especially those with limitations, conducive to sustaining employment, with a positive treatment effect reported in Hjørring over control municipalities. These working alliances were underpinned by investments in client services and hiring caseworkers, and is the first detailed study of relationships and collaboration as well as caseload reduction effects on getting people into work, particularly those with limitations. The chart below shows the thrust of test results with strong positive effect of treatment over control group. It has a differential more like twice that of baseline of 2014 from 2015 to 2018 with the 2016 one nearer three times. The fact that this is over four years suggests it is a sustained effect.

²⁴ DWP, February 2020 <<https://assets.publishing.service.gov.uk/media/5e53bac5d3bf7f3938182cd2/work-aspirations-and-support-needs-claimants-esa-support-group-and-universal-credit-equi.pdf>>

Exhibit P: Differential effect between the treatment and control municipalities in terms of yearly number of hours in employment in the experiment, 2010-18



Source: Aalborg University²⁵

Greater Manchester Combined Authority's Working Well is the nearest thing the UK has to Scandinavian style devolved employment services, and may serve as a roadmap. They started with devolved Work and Health Programme commissioning to partners to support disadvantaged groups; it was independently evaluated and recent performance reports are encouraging on value creation. The combined authority indicates that targeted provision, pooled resources, contract packaging and integrating services (including hub strategy) are the drivers. The table below shows the Manchester Working Well return on investment within and after pilot, with a doubling owing to institutional learning.

Exhibit Q: Return on investment for every £1 spent in Manchester Working Well, 2019

Within pilot	£1.31 for every £1
After pilot	£2.68 for every £1

Source: Greater Manchester Combined Authority²⁶

The Centre for Social Justice appeals to any government to devolve employment and adult educational services, because local governance needs to change relationships to get more people into sustained work. This is especially true for the inactive, the disabled, carers and others, but also some jobseekers, say older ones, as antagonism owing to decisions on the benefit administration side can make it difficult to broker, match and upskill them.

25 Advance on Rasmus Lind Ravn and Kristian Nielsen of Aalborg University 'Employment effects of investments in public employment services for disadvantaged social assistance recipients', March 2019 <<https://journals.sagepub.com/doi/10.1177/1388262719836797>> and <<https://journals.sagepub.com/doi/epub/10.1177/1388262719836797>>

26 GMCA, August 2019 <https://www.greatermanchester-ca.gov.uk/media/2364/working-well-2019_web.pdf>

RECOMMENDATION 7

The Government should expediate the rollout of Universal Support, where some strategy, financial, evaluation and other controls remain at the centre, but most of the running of employment and associated services move to higher and lower geographic units as appropriate. Stakeholders in the space are of the opinion that mayoralties and combined authorities best fit this role, and are best placed to help those experiencing complex barriers to the labour market take advantage of the value working brings. However, there will be different trajectories to this end state as some places have both, some one and other none of these local governances, so instituting one or both of these will take some time. Furthermore, there will be staff and asset transfer from the centre to the locality, which can over time be physically moved with natural churn.

RECOMMENDATION 8

While mindful of commercial sensitivities, the Government should amend its commissioning playbook, not to exclude bigger players but to include small- and medium-sized ones. Stakeholders think procurement processes are not yielding enough intensive personalised employment support, and the Government should empower local devolved employment services to bring in voluntary, community and social enterprise to grow this function, perhaps in consortia with big charities that hold the business case.

RECOMMENDATION 9

The Government should recognise pathways from targeted provision, pooling budgets and packaging contracts to integration of services, and encourage hub strategies as ultimate manifestation of this. This means there is a place for national and local governance in managing this co-location for successful running of programmes that help the disabled and other disadvantaged groups into employment.

RECOMMENDATION 10

The Government should better monitor and mediate within the supply-chain, through either agencies or mechanisms for those downstream to hold the contract holders to set standards. Stakeholders in the arena reckon poor behaviour and poor management of supply-chains have led to the mistreatment and marginalisation of smaller providers within the nationally contracted disability employment programmes. The Merlin Standards were introduced to counteract this but subcontractors suggest that it has had limited impact, with the result that grassroots organisations are not given freedom to innovate owing to the payment by immediate result structure imposed on them. It is important local commissioners have the scope to bring in these partners as many are embedded in communities and have a wealth of expertise and local knowledge.

2.3. Reforming partnerships with the charity and private sector

The contributors to the Centre for Social Justice's roundtables told us that an increasingly complex caseload would require tailored and individualised support. This in turn would require closer partnership with experts in the charitable and private sector as well as across public services:

- they thought any service needs to be aware of a disenfranchised younger cohort, and work-life balance for the economically inactive, the disabled or otherwise, who want more control and flexibility;
- they believe it also has to account for belief among many older and disabled people that early retirement is best for their loved ones or longer working lives is not for them given pensions sufficiency and offer support to those who really need to work;
- they reasoned any new service must create a can-do mindset amongst the disabled, structural change to work across health, adult social care and employment spaces to integrate in partners and co-location strategy to pool resources and plan ahead; and
- they accept it also has to consider wider strategic development matters around advisory and interconnection with partners, and worker progression for business needs and joint stake in owning this between the public and private sectors.

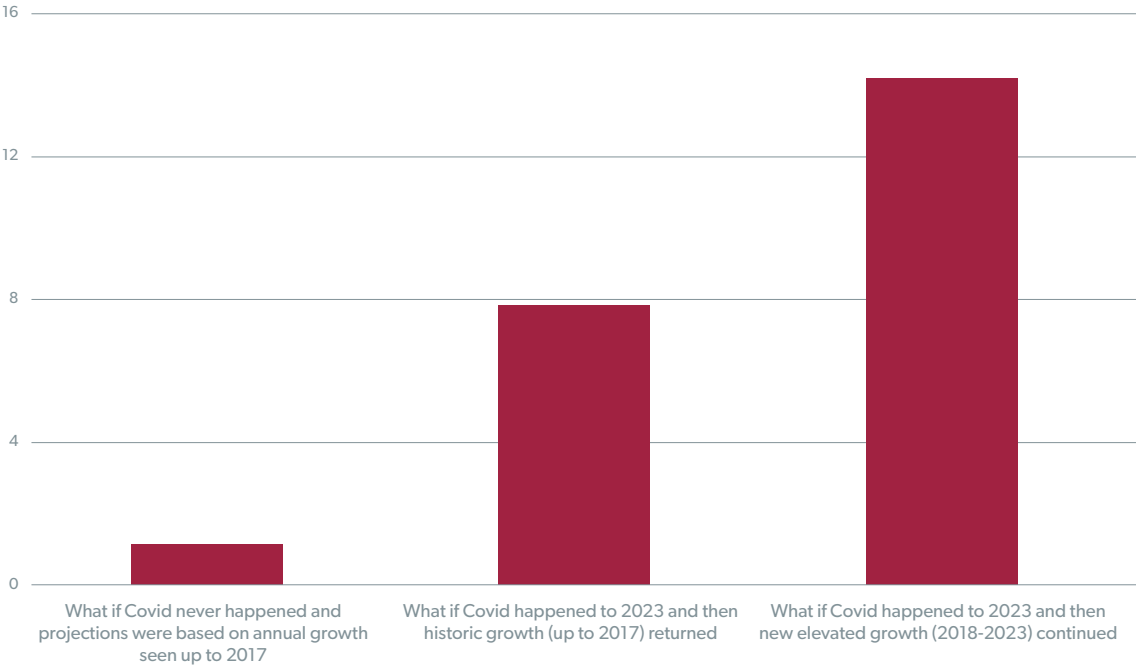
Norway has a lot of public sector partnership flexibilities in its employment and related services to not only deal with skillsets but also health and social difficulties. This is a product of their social worker model which is very different to that in the UK; it was built up over the many decades before and after World Wars to give employees good careers, opportunities to follow interests, flexible working patterns and ability to make judgements. They have a strong record of providing personalised employment support for the inactive owing to care-centric approach helping staff motivation. However, the system is highly dependent on professional and specialist workers who develop their own strategies personalised to individuals within broad limits. Although this model faces other strains including blurred profession boundaries, dilution of the social worker model and rising workloads, there is a strong base position so the model is not in danger. The quote below shows the degree to which the model is engrained here.

Exhibit R: Quote from Norwegian social worker ²⁷

“it’s about meeting people with respect and then recognising their own responsibilities for their own lives. ... listening and providing support”

In the near-term, national and subnational third sector partners are the only group that can be contracted to support the disabled, carers, long-term unemployed and so on. There is need to consider capability and core funding of these to tackle health-related inactivity, and especially that of poor mental health amongst the young as these people will be in the working age labour market for many decades. The chart below shows that on various trends the end of decade position of mental health could be much worse than prior to Covid or even the current position; thus action is needed now to turn this around.

Exhibit S: What if scenarios on percentage growth of mental health disorders in all 5-15 year olds by 2030 based on pre- and post-Covid trends (of 7-16 year olds)



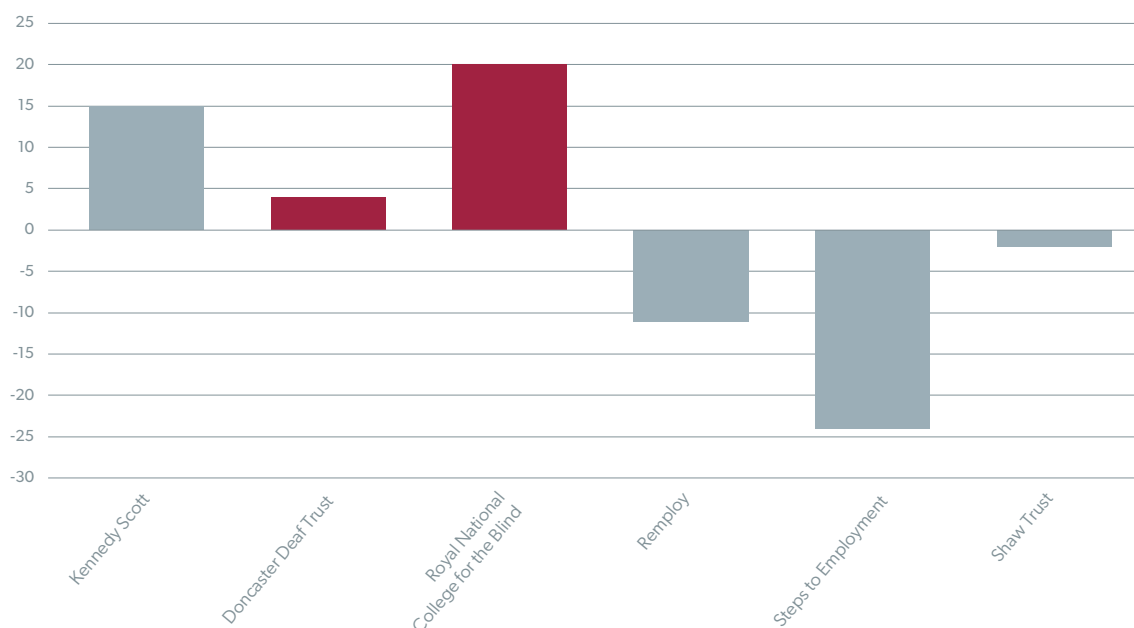
Source: DHSC²⁸

Third sector partners could be national charities but ideally local ones with the most knowledge and experience of their area. Historically larger charities have held central provision contracts and then sub-contracted to smaller groups with the trust of customers and track record of providing general and specialist support more responsive to clients. But this has had mixed results. The chart below shows that small organisations who are often overlooked for prime contracts can sometimes outperform larger groups or multinationals.

²⁷ Anita Røysum of Oslo Met and Akershus University ‘How we do social work, not what we do’, 2017 <https://oda.oslomet.no/oda-xmlui/bitstream/handle/10642/5143/Roeysum_postprint_nordic%20social%20work%20research.pdf?sequence=2&isAllowed=y>

²⁸ DHSC, November 2018 Survey and January 2017 – April 2023 Period and Follow-up Survey <<https://digital.nhs.uk/data-and-information/publications/statistical/mental-health-of-children-and-young-people-in-england/2017/2017>>, <<https://digital.nhs.uk/data-and-information/publications/statistical/mental-health-of-children-and-young-people-in-england/2023-wave-4-follow-up#summary>> and <<https://digital.nhs.uk/data-and-information/publications/statistical/mental-health-of-children-and-young-people-in-england/2023-wave-4-follow-up/data-sets>>

Exhibit T: Percentage distance from overall (all provider) performance on sustained employment outcomes, September 2020



Source: DWP²⁹

Partnership with the private sector via new laws to protect workers' rights is increasingly being considered but building an aggregate gig economy platform for piecemeal work may be better to halt reducing labour prices paid by capital intermediary and/or consumers; both require negotiation with commercial and regulatory partners. While boundary organisations are important to have as partners for oversight, intel and wider purposes.

The Centre for Social Justice presses any government to decentralise employment and associated services, as localities need to construct the partnerships to get inactive people into sustained work, be they the disabled, carers, older jobseekers and others.

²⁹ DWP, November 2020 <<https://www.gov.uk/government/collections/specialist-employability-support-statistics>> and <<https://www.gov.uk/government/statistics/specialist-employability-support-statistics-to-september-2020>>

RECOMMENDATION 11

The Government should assist regional and local units towards devolved employment and associated services and develop to a social worker model along the lines of Scandinavia. This will provide members of staff with richer careers, more progression and alignment with work-life balance. It will also give managers better flexibilities in moving them across purposes and priorities, giving those on the ground discretionary powers to help those furthest away from work. The new model will take time to embed not least as workers will need the kind of training offered in stated countries.

RECOMMENDATION 12

The Government should encourage regional and local units to bring in the third sector into devolving of employment and associated services. This might mean contract based or in some cases core funding to fill the gaps in integrated personalised employment support in the near-term while a Scandinavian style model is being raised. In some cases, there may be wholesale taking in of a third sector organisation into public hands, particularly if that fits with the areas long-term hub strategy.

RECOMMENDATION 13

The Government should legislate at least one further employment status to take in job-lot workers, a group that has grown with the rise of the gig economy. This is to ensure they have more rights than the genuinely self-employed. It is needed as the alternative is labour disputes, where trade unions and business end up negotiating some rights for the said group, but not in a uniform way across sectors and employers.

2.4. Retraining and upskilling to meet an evolving economy

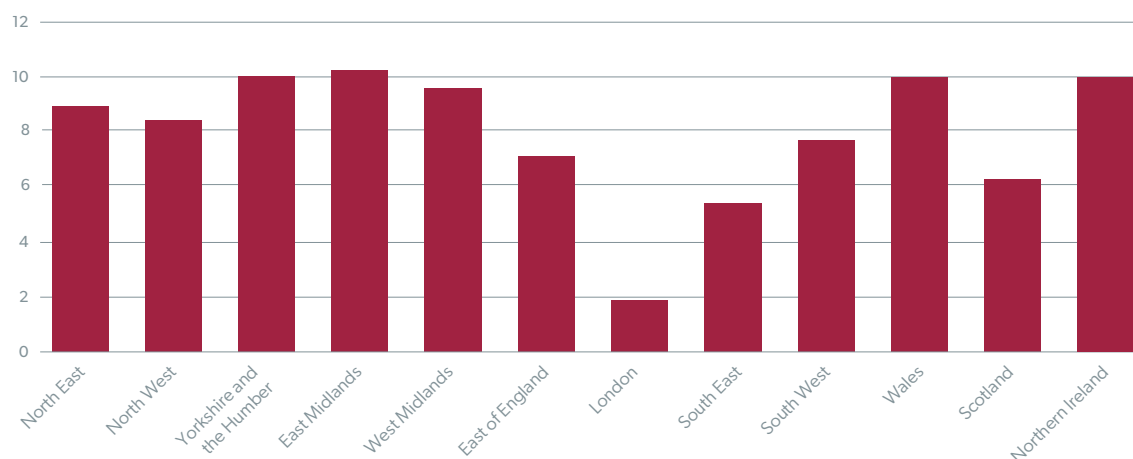
The audience in the Centre for Social Justice's roundtables told us that devolved employment support would still have to link to overall industrial strategy to have a good effect. Within that framework they raised a number of concerns, including:

- programmes have been too often sticking plasters in downturns, one size fits all and drawn up without the unemployed and economically inactive users, but there are dual use schemes that are more successful;
- there is disconnect between employees and employers around best ways to identify and sort skillsets and fitting peoples' future aspirations into national or area plans; and
- national plans are hindered by spurious segmenting, matching to non-existent jobs, not accounting for surplus shortages and people wanting to cross boundaries.

The world is in flux – health, geopolitical, economic, housing and climate problems – and first-mover countries have gone local; restructuring, onshoring (and if not that friendshoring) and decarbonising and securing greener energy supply to grow. There is a cross-political desire for an industrial strategy where competitive advantage is paramount, which means picking places and things to go for, being more horizontally rather than vertically organised and drafting new rules, networks and forms.

Attempts at devolution in England have often been without purpose, pounds or power and have been coupled with constitutional reform, which slowed it down. The chart below shows the reason for the frustration felt by just about managing people, many of whom will be in particular parts of the country. The last Government's Levelling Up White Paper was an effort to speed things up, but suffered from not putting devolving employment support as part of that project. The Machinery of Government change to do it would not cost too much either.

Exhibit U: Official UK workforce jobs – percentage manufacturing sub-sector of production, seasonally adjusted, March 2024

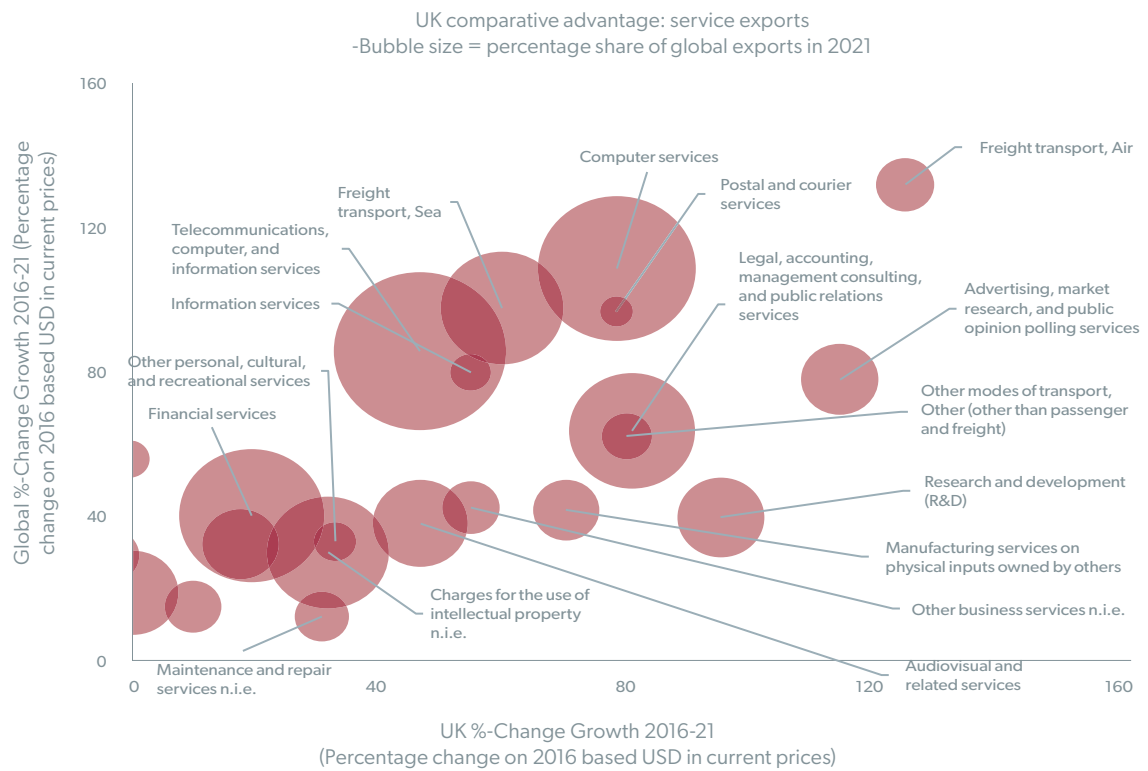


Source: ONS³⁰

It is important the first national and regional developments supported by decentralised employment support is real world; the UK is a service economy and any attempt to reindustrialise must be fuelled by public and private investment in people and technologies and not currency depreciation. The chart below shows that were this to happen it would favour poorer deindustrialised places, and some of these can play into areas where the country has a competitive advantage in services, such as intellectual property, research and development (R&D) and the tech-sector. Examples include decarbonising homes via growing green skills and onshoring more public contracts targeted at poorer areas. With these there is scope to grow high-end manufacturing without diluting UK services strength, which can be facilitated by devolved employment and educational services. The chart below this shows that these growth driving sectors are much needed to overturn the UK's lost productivity that has fallen below trend since the mid-2000s.

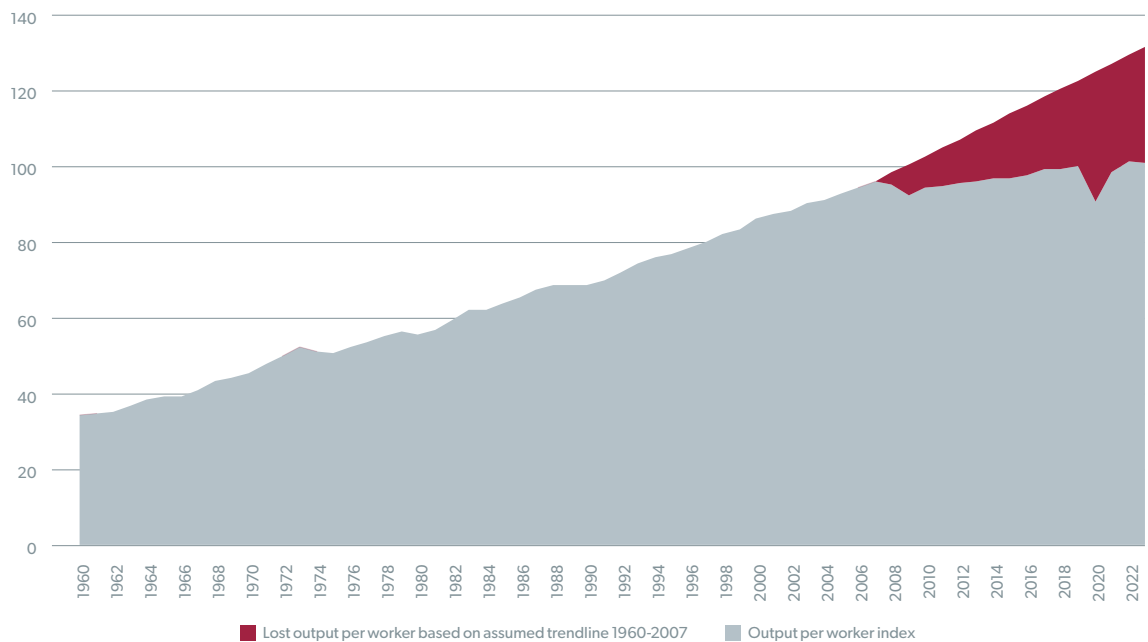
30 ONS, June 2024 <<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/workforce-jobsbyregionandindustryjobs05s>>

Exhibit V: UK comparative advantage: service exports, 2016-21 – growth bubbles



Source: UNCTAD³¹

Exhibit W: UK output per worker (Index 2019=100), seasonally adjusted, 1960-2023



Source: ONS³²

31 UNCTAD - Services (BPM6): Exports and imports by service-category, trade-partner World, Annual, September 2023 <<https://unctadstat.unctad.org/datacentre/dataviewer/US.TradeServCatTotal>>

32 ONS, May 2024 <<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/datasets/labourproductivity>>

The Centre for Social Justice urges any government to devolve employment and associated services, as localities with better relationships with people and partnerships with stakeholders in cities and regions can help the inactive into sustainable jobs. Financial incentives alone are not enough to bring back the disabled, carers, older jobseekers and others into economic activity.

RECOMMENDATION 14

The Government should bring together funding into devolved employment and associated services, so that monies across Lifetime Skills Guarantee, Institute for Apprenticeships and Technical Education, job retention schemes underspend and wider active labour market programmes and other pots deliver upskilling and reskilling opportunities for those in high-carbon industries and other priority groups. This is to be concentrated within the poorer regions to expand access to sustainable, high-quality jobs – especially in the retrofit, heat pump installation and wider insulation spaces.

RECOMMENDATION 15

The Government should work with housing associations to further develop and target employment and skills programmes; owing to the long-term nature of the relationships housing associations have with their tenants, as they are well placed to offer sustained support that is tailored to both the individual and the local labour market. This is about encouraging support wherever possible. It should also update the aims of the UK Shared Prosperity Fund to better harness the opportunities of the green economy, explicitly aligning the Fund with the opportunities of net zero will create economic opportunities within left behind communities.

RECOMMENDATION 16

The Government should include comprehensive retrofit standards within the forthcoming consultation on energy efficiency in social housing, and include a social value standard within the criteria for future waves of the social housing decarbonisation funding. This is about providing the industry with a clear set of standards and requiring them to consider opportunities to maximise social value – for example by upskilling and/or employing local people.

RECOMMENDATION 17

The Government should ensure that the Procurement Bill makes public bodies take into account wider social costs and costs to the Exchequer that are foreseeable, including cost of unemployment and underemployment, when seeking value in contracts. This is about having an explicit domestic preference criterion in all contracting where Agreement on Government Procurement regulations allow, and embedding principles of national supply-chain resilience, reducing regional disparities, raising local job creation and support for small- and medium-sized enterprises in the contract rounds. This wider understanding of value for money should be embedded in procurement rules, so that wherever there is a geographical choice about redress of inter- and intra-regional economic disparities; such that it boosts investment in left behind communities across the country.

RECOMMENDATION 18

The Government should merge the Low Pay Commission, functions of HMRC related to wage enforcement, the Gangmasters and Labour Abuse Authority to form a new wages and wider employment terms and conditions enforcement agency. This is because it is clear from anecdotal evidence from the Centre for Social Justice's Alliance of charities that there is widespread abuse of salary floors, bonuses and other aspects of remuneration, which affects those on the smallest wage packets.

RECOMMENDATION 19

The Government should target increasing UK manufacturing as a percentage of national gross value added steadily from 9 per cent over the medium-term. Notwithstanding the dominance of services in the economy, this is about re-establishing industrial strategy with a specific plan for manufacturing, recognising the unique importance of the sector for national export growth, and local and national jobs, productivity and security. This is investment as part of strategic priority within the new rules framework reality after exiting the EU, and the strategic policy lever within a renewed national plan for manufacturing.

RECOMMENDATION 20

The Government should implement manufacturers' tax credit(s), deductible against corporation tax at a rate affordable to the Exchequer and likely to yield greater economic activity so as to be at least cost-neutral but perhaps even a net revenue stream over reliefs: for all manufacturers who import less than set threshold, say less than 50 per cent of all of their component parts; and for all manufacturers who export above set threshold(s). This is on top of retaining R&D tax relief for the manufacturing industry in order to incentivise private sector contributions to the UK's overall R&D annual spend.

Recommendations In Full

RECOMMENDATION 1

Government should roll out nationwide a Universal Support offer based on a locally commissioned and key worker model, using examples of best practice such as the Greater Manchester Combined Authority's Working Well programme. In Budget 2023, the last Government laid down plans to trial this approach with view of possible future roll-out.

RECOMMENDATION 2

The Government should implement a set protected period for benefit claimants with No Work Requirements to move into paid employment without the risk of losing their existing benefit entitlement and right of return to the previous regime in the event the spell in work ends within short duration.

RECOMMENDATION 3

The Government should allow localised differences in delivery of support to inactive benefit claimants within national strategy to give those able and wanting to enter employment help and reassurance. This means letting local leaders make more decisions on provision and incentives, be that in current centralised or future devolved employment service.

RECOMMENDATION 4

The Government should implement regional International Territory Level 1 Industrial Strategic Councils, above the local authority and perhaps at combined authorities or in mayoralities where these levels exist, to act as regional convening hubs for business and industry, educational providers and workers and people. This means control of employment and associated services falls within the jurisdictions of local leadership(s) in order for them to develop their local economies.

RECOMMENDATION 5

The Government should devolve employment support and adult education and skills associated services to a subnational geographic unit closer to the people who need to be helped back into work and require wider support. This can be a regional unit, and under them combined and local authorities depending on the task. It is for national and local elected leaders, perhaps mayors, to negotiate the terms of this decentralisation, but this report provides them with practitioner opinions and proof of concept from a similar Western developed country.

RECOMMENDATION 6

The Government should provide funding commensurate with the devolution of the functions set out in the last recommendation to the subnational unit, whatever that might be in the end. The only monies held back in the centre should be for ongoing management of non-core labour market segments and contingency on economic shocks in the labour market, which is often lagged from recession and ongoing cyclical effects of that can exist some years after the event. It is for national and local elected leaders to negotiate share of the economic affairs – employment policies line to be kept centrally and distributed to units, the shares in the chart of this report are just for illustrative example to start off that debate.

RECOMMENDATION 7

The Government should expediate the rollout of Universal Support, where some strategy, financial, evaluation and other controls remain at the centre, but most of the running of employment and associated services move to higher and lower geographic units as appropriate. Stakeholders in the space are of the opinion that mayoralities and combined authorities best fit this role, and are best placed to help those experiencing complex barriers to the labour market take advantage of the value working brings. However, there will be different trajectories to this end state as some places have both, some one and other none of these local governances, so instituting one or both of these will take some time. Furthermore, there will be staff and asset transfer from the centre to the locality, which can over time be physically moved with natural churn.

RECOMMENDATION 8

While mindful of commercial sensitivities, the Government should amend its commissioning playbook, not to exclude bigger players but to include small- and medium-sized ones. Stakeholders think procurement processes are not yielding enough intensive personalised employment support, and the Government should empower local devolved employment services to bring in voluntary, community and social enterprise to grow this function, perhaps in consortia with big charities that hold the business case.

RECOMMENDATION 9

The Government should recognise pathways from targeted provision, pooling budgets and packaging contracts to integration of services, and encourage hub strategies as ultimate manifestation of this. This means there is a place for national and local governance in managing this co-location for successful running of programmes that help the disabled and other disadvantaged groups into employment.

RECOMMENDATION 10

The Government should better monitor and mediate within the supply-chain, through either agencies or mechanisms for those downstream to hold the contract holders to set standards. Stakeholders in the arena reckon poor behaviour and poor management of supply-chains have led to the mistreatment and marginalisation of smaller providers within the nationally contracted disability employment programmes. The Merlin Standards were introduced to counteract this but subcontractors suggest that it has had limited impact, with the result that grassroots organisations are not given freedom to innovate owing to the payment by immediate result structure imposed on them. It is important local commissioners have the scope to bring in these partners as many are embedded in communities and have a wealth of expertise and local knowledge.

RECOMMENDATION 11

The Government should assist regional and local units towards devolved employment and associated services and develop to a social worker model along the lines of Scandinavia. This will provide members of staff with richer careers, more progression and alignment with work-life balance. It will also give managers better flexibilities in moving them across purposes and priorities, giving those on the ground discretionary powers to help those furthest away from work. The new model will take time to embed not least as workers will need the kind of training offered in stated countries.

RECOMMENDATION 12

The Government should encourage regional and local units to bring in the third sector into devolving of employment and associated services. This might mean contract based or in some cases core funding to fill the gaps in integrated personalised employment support in the near-term while a Scandinavian style model is being raised. In some cases, there may be wholesale taking in of a third sector organisation into public hands, particularly if that fits with the areas long-term hub strategy.

RECOMMENDATION 13

The Government should legislate at least one further employment status to take in job-lot workers, a group that has grown with the rise of the gig economy. This is to ensure they have more rights than the genuinely self-employed. It is needed as the alternative is labour disputes, where trade unions and business end up negotiating some rights for the said group, but not in a uniform way across sectors and employers.

RECOMMENDATION 14

The Government should bring together funding into devolved employment and associated services, so that monies across Lifetime Skills Guarantee, Institute for Apprenticeships and Technical Education, job retention schemes underspend and wider active labour market programmes and other pots deliver upskilling and reskilling opportunities for those in high-carbon industries and other priority groups. This is to be concentrated within the poorer regions to expand access to sustainable, high-quality jobs – especially in the retrofit, heat pump installation and wider insulation spaces.

RECOMMENDATION 15

The Government should work with housing associations to further develop and target employment and skills programmes; owing to the long-term nature of the relationships housing associations have with their tenants, as they are well placed to offer sustained support that is tailored to both the individual and the local labour market. This is about encouraging support wherever possible. It should also update the aims of the UK Shared Prosperity Fund to better harness the opportunities of the green economy, explicitly aligning the Fund with the opportunities of net zero will create economic opportunities within left behind communities.

RECOMMENDATION 16

The Government should include comprehensive retrofit standards within the forthcoming consultation on energy efficiency in social housing, and include a social value standard within the criteria for future waves of the social housing decarbonisation funding. This is about providing the industry with a clear set of standards and requiring them to consider opportunities to maximise social value – for example by upskilling and/or employing local people.

RECOMMENDATION 17

The Government should ensure that the Procurement Bill makes public bodies take into account wider social costs and costs to the Exchequer that are foreseeable, including cost of unemployment and underemployment, when seeking value in contracts. This is about having an explicit domestic preference criterion in all contracting where Agreement on Government Procurement regulations allow, and embedding principles of national supply-chain resilience, reducing regional disparities, raising local job creation and support for small- and medium-sized enterprises in the contract rounds. This wider understanding of value for money should be embedded in procurement rules, so that wherever there is a geographical choice about redress of inter- and intra-regional economic disparities; such that it boosts investment in left behind communities across the country.

RECOMMENDATION 18

The Government should merge the Low Pay Commission, functions of HMRC related to wage enforcement, the Gangmasters and Labour Abuse Authority to form a new wages and wider employment terms and conditions enforcement agency. This is because it is clear from anecdotal evidence from the Centre for Social Justice's Alliance of charities that there is widespread abuse of salary floors, bonuses and other aspects of remuneration, which affects those on the smallest wage packets.

RECOMMENDATION 19

The Government should target increasing UK manufacturing as a percentage of national gross value added steadily from 9 per cent over the medium-term. Notwithstanding the dominance of services in the economy, this is about re-establishing industrial strategy with a specific plan for manufacturing, recognising the unique importance of the sector for national export growth, and local and national jobs, productivity and security. This is investment as part of strategic priority within the new rules framework reality after exiting the EU, and the strategic policy lever within a renewed national plan for manufacturing.

RECOMMENDATION 20

The Government should implement manufacturers' tax credit(s), deductible against corporation tax at a rate affordable to the Exchequer and likely to yield greater economic activity so as to be at least cost-neutral but perhaps even a net revenue stream over reliefs: for all manufacturers who import less than set threshold, say less than 50 per cent of all of their component parts; and for all manufacturers who export above set threshold(s). This is on top of retaining R&D tax relief for the manufacturing industry in order to incentivise private sector contributions to the UK's overall R&D annual spend.

Annex - Content of Full Report

This is a summary report. A full report including research methods and calculations can be found at: www.centreforsocialjustice.org.uk/discussions. It includes greater depth on things listed below.

Part One, Section One contains a full explanation of:

- why employment, unemployment and economic inactivity rates do not add up with all of the supporting charts, and the reasons for past governments overlooking the last of the work ready/readier;
- why there is a relation between inactivity and migration, population and dependency ratio management, where in the past there was more and frictionless access to the European reserve labour market; and
- why real unemployment is higher than that stated in official numbers because of hidden unemployment calculated by independent academics, with many charts on regional and local authority impacts.

Part One, Section Two has a full run through of:

- why there has been a focus on youth unemployment scarring, the rationale for this and implications for helping other groups further away from work;
- what past Government programmes have been applied to young people over the past four decades and to those furthest from the labour market over that time, a very exhaustive audit of all of them; and;
- what the future challenges are for assisting the inactive back into work after Covid, looking at changing trends around physical and mental health with four years of comparative charts.

Part One, Section Three summarises a range of international comparisons:

- why the UK is different in terms of coverage and generosity of benefits and employment support vis-à-vis countries it is readily compared against with supporting charts;
- what the UK spends on social protections relative to other states it tends to be compared with, using a range of charts; and
- what is the position of the UK regarding the strictness of the welfare and employment service regime across job searching, sanctioning and geographic and sectoral mobility, with corresponding charts.

Part One, Section Four studies Nordic countries and speaks to the Covid era:

- why Scandinavia and neighbouring countries bounced back in key sectors of the economy and for particular disadvantaged groups, with charts of recovery since the peak of pandemic;
- what traditional welfare and new technologies Scandinavian states brought into manage people through the lockdowns compared to the UK, with assorted relevant tables and charts; and
- what the Nordics have done in focusing on the manpower planning of populations from education, upskilling and lifelong learning perspectives against the UK, with various charts.

Part Two, Section One reviews the proof of concept on devolving employment and associated services:

- what do stakeholders think about devolution, and how the Netherlands did it over the past decade or so with full tables of responsibilities at multiple levels of government and overall outcome charts;
- how, using Government data, employment support and adult education expenditure can be identified and split into regional pots, with methodological explanation and charts of sums in localities; and
- how additional monies can be found from identified organisation that will be rolled up into devolved jurisdictions that can be used as start-up capital for this large Machinery of Government change.

Part Two, Section Two lays out the ideal relationship within devolved employment services:

- what do stakeholders feel about current relations between caseworkers and claimants, and challenges faced by this relationship from published research, with key elements brought out in tables and charts;
- how the think tank, the association for supported employment and the experiment in northern Denmark suggests this relationship can be changed and improved, with high interest charts from the last; and
- how have the best examples of the previous been applied in the UK in Manchester's Working Well, with key driver analysis and accompanying performance information including return on investment.

Part Two, Section Three showcases partnerships for devolved employment services:

- what do stakeholders believe are the problems with working with the public sector, and how can something similar to the Norwegian [Scandinavian] social worker model be implemented here;
- how can more national and particularly local place-based third sector organisations be brought in given health crises, including case studies and charts on commissioning and bidding issues; and
- how can private sector employers be better regulated, employees' rights be protected whilst keeping flexibilities and digital platform based marketplaces be levelled, with set case studies.

Part Two, Section Four gives line of sight between devolved employment services and industrial strategy:

- what stakeholders want from devolved services, relating to localism, and how these feed into reducing inequality and expanding self-determination, with political parties and commentators' views;
- how have past governments, including the Levelling up White Paper, thought about this Machinery of Government change, and how could it be relatively cheaply done referring back to charts and sums; and
- how can devolved employment support assist future industrial strategy, and how can the UK decide where competitive advantage lies and security and climate change obligations apply, with underpinning charts.



The Centre for Social Justice

Kings Buildings
16 Smith Square
Westminster, SW1P 3HQ

 centreforsocialjustice.org.uk

 [@CSJthinktank](https://twitter.com/CSJthinktank)