Future Welfare State Programme

GUARANTEEING THE RIGHT START

PREVENTING YOUTH UNEMPLOYMENT AFTER COVID-19

Harry Quilter-Pinner, Sarah Webster and Henry Parkes

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The IPPR Future Welfare State Programme

Our Future Welfare State Programme looks to understand the big shifts that will transform our country in the 'decades of disruption' to come and how we can 'future proof' our welfare state to manage them, creating a prosperous and just society. The programme was launched in May 2020 and will publish new research on social security, poverty and inequality, care and public services into 2021. It is supported by an expert advisory panel and group of frontline charities.

The progressive policy think tank

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SUMMARY

- **We are facing the worst jobs crisis in a generation – with young people (18–24) set to be hit particularly hard.** Covid-19 is first and foremost a health crisis, but it has increasingly morphed into an economic one as well. However, this will be fundamentally different to the 2008–9 crisis. In particular, it will result in a much larger employment effect, with the Office for Budget Responsibility (OBR) forecasting 3.4 million people out of work this year (up from 1.3 million) (Henehan 2020). Young people will be particularly affected. We estimate that without further government action there will be an extra 620,000 young people unemployed by the end of the year (with 380,000 new claims to benefit between April and the end of the year expected to last for six months or more). This is on top of the 410,000 who are already unemployed as of quarter 1 this year (ONS 2020). This will take youth unemployment to the highest number on record.
- **There is a strong case for bold policy interventions to prevent youth unemployment.** Becoming NEET results in a 'scarring effect' that lowers long-term employment prospects and earning potential (Gregg and Tominey 2004). Furthermore, those from the poorest backgrounds and with the lowest qualifications are likely to be the worst affected (Henehan 2020). Each person that is out of work and education for six months or more costs on average £65,000 in direct lifetime costs to public finances and £120,000 in wider lifetime costs to the economy and community (Coles et al 2010). But ultimately becoming unemployed is a deep personal crisis with impacts on health, self-worth, identity and status.
- **We recommend the creation of a new 'Opportunity Guarantee' for young people: the government should ensure that every young person is either in education or work.** The government's main aim in the short term should be to prevent a rise in youth unemployment as a result of the Covid-19 crisis. But, looking beyond the crisis, they should be aiming even higher: *to eliminate all but the most temporary experience of being NEET amongst all young people*. This will require government to keep young people in education for longer – but more radically, it also demands a fundamental rethink of labour market policy in the UK (the focus of this paper). This **programme should be spearheaded by the prime minster as part of a campaign to inspire businesses to 'do their bit', by hiring young people during the crisis as part of an 'investment in the future of our nation'.**
- **Fulfilling this promise will require a new, more active, approach to labour market policy.** In recent decades, the UK has embraced a liberal welfare regime, meaning a flexible labour market with limited government intervention, and a welfare system designed to promote 'work first' through low replacement rates, conditionality and sanctions. This approach is always questionable, but it is particularly problematic in an environment of high and persistent unemployment. We must now take a more empathetic and interventionist approach, drawing on the Active Labour Market Policies (ALMPs) used more extensively elsewhere. If the UK spent the same proportion of GDP on these policies as other advanced European countries, we would invest £8.5 billion more a year in preventing unemployment. Some of these

measures are outlined in this paper but government must also take action for older people as well, for example, through reforming and extending the Coronavirus Job Retention Scheme.

WE RECOMMEND THAT THE GOVERNMENT IMPLEMENT THREE BOLD MEASURES NOW TO DELIVER THIS NEW APPROACH FOR YOUNG PEOPLE:

Work with young people to reform welfare support in England to help them remain in (or return to) education and training, or enter employment.

- Use Risk of NEET indicators (RoNI's), support schools to **identify young people at risk of becoming unemployed**.
- Provide additional **funding to schools and colleges for careers advice and guidance,** to help prevent these young people from becoming unemployed.
- **Replace the 'work first' approach for young people under universal credit (UC)** to allow them to pursue education and training for career development.
- Extend existing employment contracts and tender out for new services, to quickly **address the shortage of 7,000 work coaches**.
- Extend maintenance support, and reform UC entitlements, to **create a financial incentive for people to access further education.**

Reform the apprenticeship levy to create 200,000 new apprenticeships for young people in England.

- Provide an **additional £400 million to the apprenticeship levy budget to fully fund the training component of apprenticeships for small and medium-sized enterprises (SMEs).**
- Create a **£1.5 billion Youth Apprenticeship Fund (YAF) to subsidise the wages of new apprentices** during the Covid-19 crisis.
- Make **access to YAF funding conditional on the basis of age** (below 25 years) and on the job created being genuinely new (rather than replacing existing staff).
- **Introduce business support units for employers,** based on IPPR's London Progression Collaboration (LPC) model to ensure scale up at pace.

Create a Right Start Fund (RSF), to provide up to 140,000 subsidised transitional jobs for those who are not 'labour market or apprenticeship ready' across the UK.

- This would cost at least £1.1 billion to create 140,000 new jobs but could be scaled up over time to support all long-term unemployed young people (eg the existing cohort and all new young people claiming benefit for six months or more) at a total cost of circa £3 billion. The jobs created by this programme should be:
  - **six months in duration** with a focus on getting young people apprenticeship ready
  - **fully subsidised** by the state
  - **additional** roles (new jobs)
  - **linked to sectors where there is economic or social benefit** (eg environmental, care, digital, construction)
  - **available to those who have been unemployed and on benefit for six months** or most at risk of becoming long-term NEET.
- Ensure the bidding process is demand led, funded through grants and **avoids largescale outsourcing where possible.**
- **Give local government a central role in delivering the RSF, including full devolution to combined authorities.**
- **Devolve the relevant proportion of total funding for the scheme to Scotland, Wales and Northern Ireland,** to set up their own interventions.

INTRODUCTION

THE COVID-19 CRISIS

Covid-19 is first and foremost a health crisis. But as the government has sought to arrest the spread of infection it has morphed into an economic one as well. This is largely a consequence of the social distancing measures introduced to prevent the spread of Covid-19, which have created a 'sudden stop' in economic activity as all non-essential travel and economic activity has been prohibited. This is both a supply-side (eg reductions in production and trade) and a demand-side shock (eg reductions in demand and consumption). The result is a significant contraction in economic activity with the Bank of England predicting the worst recession in three centuries (Bank of England 2020).

The impacts of this crisis will be different to those felt after 2007/8. Notably, it is likely to have a much bigger impact on the labour market. The OBR forecasts unemployment will rise from 1.3 million to 3.4 million people in Q3 (10 per cent) (OBR 2020). This would be the highest number of unemployed people on record, dating back to 1922, higher than the peaks seen in the recession of the early 1980s (Evans and Dromey 2020). Whilst making accurate predictions at this point is challenging, many expect an even larger increase (ibid), although early data from the US suggests the economy could bounce back more quickly than currently forecast.

IMPACT ON YOUNG PEOPLE

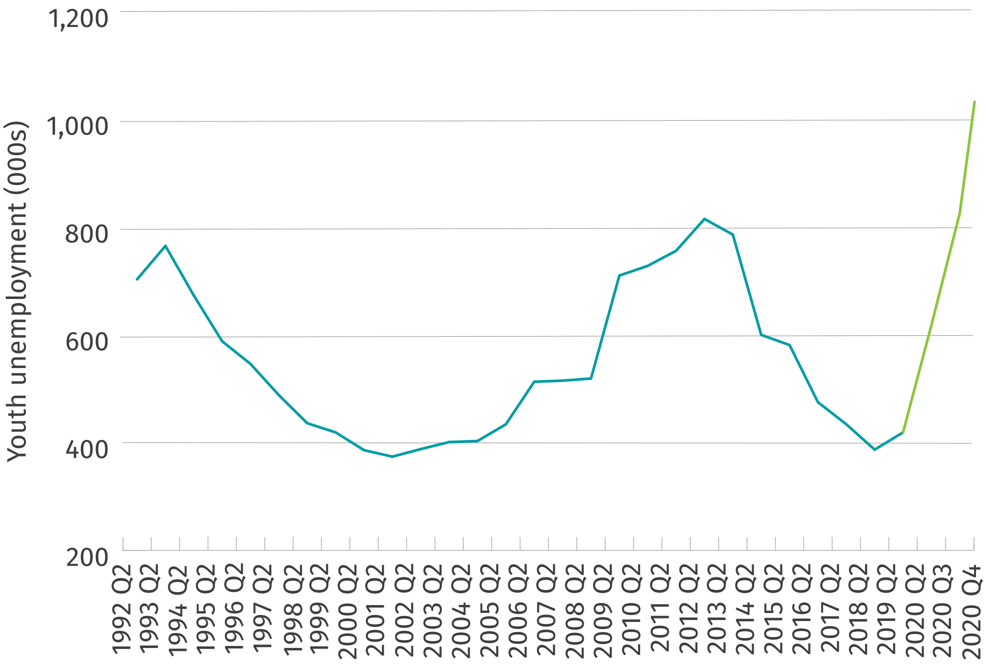
Regardless, one of the groups likely to be most impacted by the economic crisis is young people. There is significant evidence that people below the age of 25 are more likely to be let go by employers and less likely to be hired than older adults during a recession (Henehan 2020). This could result in a significant spike in youth unemployment (18–24) from its previous level of 410,000 (ONS 2020). Based on the Bank of England's overall forecast increase in unemployment, we estimate that youth unemployment could increase by a further 620,000 this year without further government intervention (see figure 1),[1] with around 380,000 new claims to benefit between April and the end of the year expected to last six months or more. This would be the highest level of youth unemployment on record (higher than the rates seen after the 2008–9 crash or in the 1990s recession) (House of Commons 2012).[2]

1 In quarters 2, 3 and 4 we estimate that there will be an additional 1.3 million claims from young people for out of work benefits, mostly universal credit.

2 This would be the highest record in the time series (based on ONS data) surpassing previous peaks in 1993 and 2011. It is possible that youth unemployment was higher in the 1980s but quarterly LFS statistics have only been published as a consistent and continuous series since 1992 (with no comparable data for the previous period).

FIGURE 1

Young people (18–24) unemployed 1992–2020 actual and forecast, UK



Source: ONS (2020) and IPPR analysis

THE CASE FOR INTERVENTION

The evidence is clear that youth unemployment has profoundly damaging effects on both the individual and society. Becoming NEET results in a 'scarring effect' that lowers long-term employment prospects and earning potential (Gregg and Tominey 2004) – with impacts that, for many, are still felt decades later. Furthermore, those from the poorest backgrounds and with the lowest qualifications are likely to be the worst affected (Henehan 2020). For example, Resolution Foundation estimate, based on previous crises, that whilst employment rates for graduates will bounce back in the next five years, outcomes for those with lower levels of qualification are likely to stagnate – widening existing inequalities (ibid).

Youth unemployment also has significant impacts on both economic growth and public finances. Notably, the University of York estimates that each person NEET for six months or more costs on average £65,000 each in direct lifetime costs to public finances, and £120,600 in extended lifetime costs to the economy and wider community (Coles et al 2010). A recent study estimated that youth unemployment costs the exchequer around £4.8 billion and £10.7 billion, to the economy, in lost output per annum (ACEVO 2012).[3] If the numbers of young people increase – and particularly if these increases are sustained, with young people remaining NEET for substantial periods of time – these costs will rise significantly.

But the impacts of youth unemployment are not just economic. They are also social, psychological and emotional. Studies are clear that unemployment results in significant damage to both physical and mental health. For example, the Health Foundation find a strong positive correlation between employment and healthy life expectancy (the number of years we live in good health) (Health Foundation

3 Note since these estimates were made youth unemployment has declined so they may overestimate the costs.

2020). Similarly, it is closely linked to mental health (ibid). This is unsurprising: work is not just a means to an end for most – it is part of our self-worth, social life, status, purpose and identity. The reality is that good work is foundational for a good life.

ADDRESSING THE PROBLEM

The case for intervention to prevent youth unemployment is therefore compelling. The immediate aim of government should be to **prevent a rise in youth unemployment – and particularly sustained unemployment – as a result of the Covid-19 crisis**. But, looking beyond the crisis the government should be aiming even higher: to eliminate all but the most temporary experience of being NEET amongst all young people and increase their skills, qualifications, progression and productivity. **Everyone under the age of 25 should either be in education, training, an apprenticeship or a job** – and the government should intervene in education and labour market policy now to ensure that this is achieved. This is what we call the 'opportunity guarantee'.

This may sound ambitious but is also achievable. Policymakers have two main levers available to them in looking to achieve this:

1. **Keep as many young people in meaningful education during the Covid-19 economic crisis.** Given the current state of the labour market the government should support young people to remain in or return to the education system during the next year or beyond (where it is productive to do so). This means supporting as many as possible in places in higher and further education (FE). This will require reform in the post-18 education system, particularly in FE which is underfunded. These issues are largely beyond the scope of this research report though we do touch on some aspects throughout.
2. **Ensure every young person who needs an apprenticeship or a job, gets one.** Whilst for many young people remaining in or returning to education is the best option during the Covid-19 economic crisis, there will still be a large number who choose, or are forced (by the economic situation within their family), to enter or remain in the labour market at this time. The government must step in to support them to find and secure jobs or apprenticeships. Where this is not possible, we call on the government to build on the role it has taken for adults through the furlough scheme (as the employer of last resort) for young people, in the form of a subsidised job. This is a bold step but is necessary to address the scale of the crisis facing young people – which is the main focus of this research report.

NO MORE NEETS: DELIVERING AN 'OPPORTUNITY GUARANTEE'

In recent decades, the UK has embraced a liberal welfare regime (Quilter-Pinner et al 2020). This has included reducing the (relative) generosity of welfare payments, increasing means testing for state support and greater marketisation of public services. A similar approach has been taken to labour market policy with moves to make 'hiring and firing' easier and cheaper, through a reduction in union power, greater use of atypical employment contracts and harsher conditionality and sanctions for 'undesirable' behaviour within the welfare system.

Until Covid-19 hit, the UK was experiencing record levels of employment (even after the 2007/8 crisis) (ONS 2020b). Liberal market policy has often been credited with contributing to this performance by making labour relatively cheap and flexible. However, there is no doubt it has also led to many people experiencing endemic low pay, growing economic insecurity, low levels of skill and limited career progression (ibid). At macro level this is likely to have harmed economic growth and also exacerbated inequalities (ibid).

But we are about to enter a new context. Unemployment is set to rise. This will look more like the UK of the 1970s and 1980s than the Great Recession. As a result, it is time to rethink our welfare policy. In particular, the evidence suggests that greater use of ALMPs will be needed to tackle the upcoming wave of unemployment. ALMPs aim to improve the functioning of the labour market in various ways, including enhancing labour supply and stimulating labour demand (ILO 2015).

ALMPs include a range of measures which can be broadly split into three categories:

1. **Job brokerage,** with the aim of making the matching process between vacancies and job seekers more efficient.
2. **Labour market training,** in order to upgrade and adapt the skills of job applicants.
3. **Direct job creation,** which may take the form of either public-sector employment or subsidisation of charity/private-sector work.

As we set out in more detail below, there is strong evidence supporting the efficacy of these approaches to reduce unemployment and improve progression (ibid). Despite this, the evidence suggests the UK lags behind other comparable countries[4] in utilising these interventions (figure 3). Assuming the figures for ALMPs spending in recent years hold for 2019/20, the UK is deploying £8.5 billion less per year than other OECD countries.[5] Introducing an *Opportunity Guarantee* in England would begin to reverse this trend.

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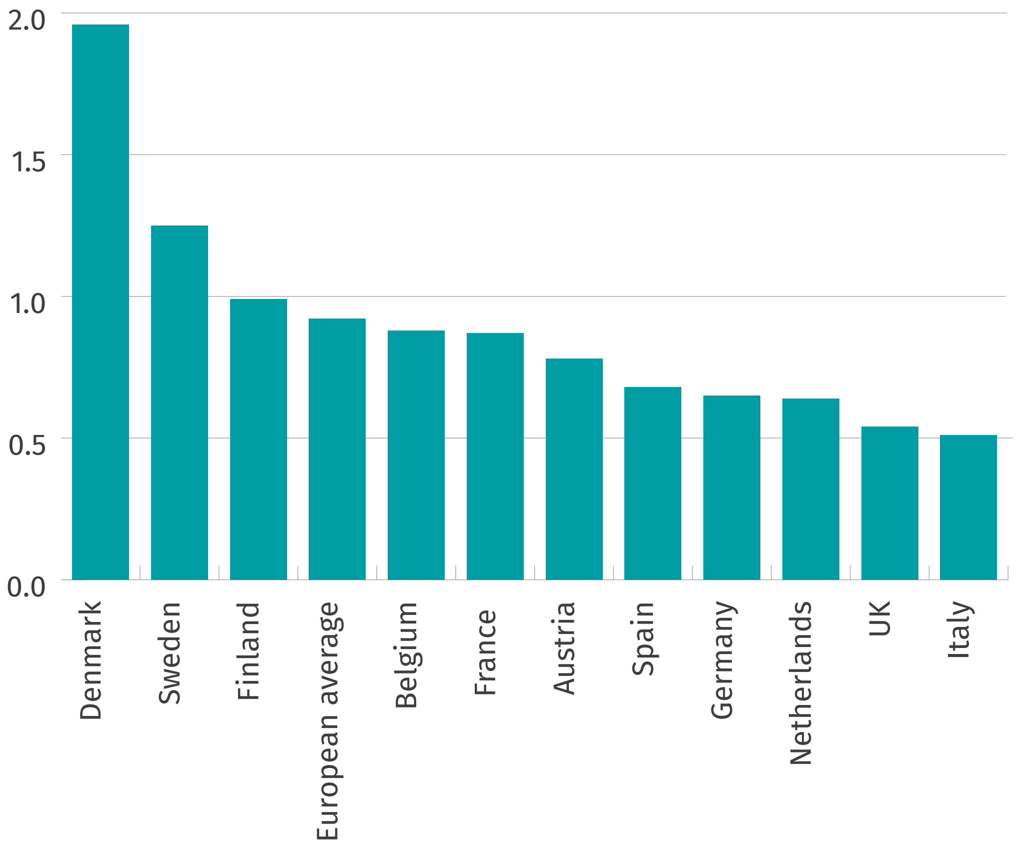
4 Countries were selected based on three criteria: GDP per capital between $30,000 and $60,000; reasonable population size (more than 5 million people); and similar cultural and political histories (European, excluding ex-Soviet Union countries). Indeed, the latest figures from DWP suggest that spending is just £284 million, which is less than 0.2 percent of GDP.

5 Most figures are from 2017 but the latest available data from the UK is 2011. Since 2011 the UK has experienced a period of austerity – with deeper cuts over average than the comparator countries. This is likely to mean this figure is an underestimate of the UK's underspend.

The next three chapters set out three steps the government should take now in pursuing this shift.

FIGURE 2

Public expenditure as a percentage of GDP on activation policies in selected European countries (2017 or most recent year)



Source: OECD (2020)

STEP 1

REFORM WELFARE SUPPORT FOR YOUNG PEOPLE IN ENGLAND TO HELP THEM REMAIN IN OR RETURN TO EDUCATION AND TRAINING, OR ENTER EMPLOYMENT

Universal credit (UC), introduced originally by the Coalition government in 2012, replaced six means-tested benefits for working-age households – jobseeker's allowance, income support, housing benefit, employment and support allowance, working tax credit and child tax credit (legacy benefits) – to create one integrated benefit. The aim of UC was to encourage more people into work by strengthening the incentives to take a job and simplify the system. It also sought to achieve this by increasing the conditionality attached to receiving benefits, plus the sanctions applied for not complying with these conditions.

UC is therefore an example of a 'work-first' approach to employment policy. It is aimed solely at encouraging claimants to find a job as quickly as possible (largely regardless of pay, job quality or alignment with the claimants' interests/skills). It also places strict constraints on the scope for continued education or training. As IPPR have argued previously, this is a questionable approach to welfare policy, for all groups of people, at all times (McNeil et al 2019). But it is particularly inappropriate for young people, especially for those with low qualifications, in a challenging jobs market.

This is because imposing a 'work-first' approach fails to recognise that the underlying causes of unemployment are not usually a lack of monetary incentives. During a recession, it is likely that insufficient aggregate demand is the major cause of unemployment (ILO 2015). This is the context we face today and for the foreseeable future. But, even in good times, it is likely that a lack of education and skills – as well as other personal circumstances (eg mental ill-health, addiction, family responsibilities etc.) – are a greater obstacle to getting people into work. Given this, an empathetic approach, that puts in place support to help people overcome these barriers, is far more likely to be effective than a punitive approach.

This is particularly true for young people. Additional investment in education or training – to prepare young people for a career of their choosing – is often a better option, for the individual and the economy, than entering the labour market. This is especially the case for 100,000 young people who leave school every year without basic qualifications (as these are a requirement for a level two apprenticeship). Pushing these young people into any work they can find risks locking them into a life a of low pay, precarity and – in all likeliness – will result in worse labour market outcomes over their life course (BIS 2011). If, instead, they can be incentivised and supported into further education (eg to a complete NVQ Level 2), this will increase their future earnings and reduce the probability of them being unemployed in the future.

The government should:

- **Ensure schools identify young people at risk of becoming unemployed prior to the end of the school year.** Risk of NEET indicators (RoNI's) can be used to do this. These indicators usually include: attainment at key stages 1–4; attendance and exclusion rates; eligibility for free school meals; special educational needs or disability; asylum seeker/refugee; looked-after children; and whether the young person has been referred to professional agencies (LGA 2012). Recent research has found that three indicators are particularly important: children who have been looked after by the Local Authority, who have had a Child in Need or Child Protection Plan designation, or who have had six or more interactions with Children's Social Care (Social Finance 2016).

- **Provide additional support to help prevent these young people from becoming unemployed.** Additional funding should be provided to DFE (schools and colleges) and DWP (Job Centres) to scale up the support available for this group. The evidence suggests that this should take the form of careers advice and guidance which has been shown to be cost effective and to lead to a reduction in unemployment through helping people into work or to continue their education (Percy and Dodd 2020). In particular, this funding should allow all schools to become part of a Careers Hub[6] and move more quickly towards achieving the Gatsby Benchmarks (House of Commons 2020), and increase the number of Job Centre Plus employment advisors for 14-18 years old (ibid).

INFORMATION BOX: YOUNG PEOPLE WITH DISABILITIES

There are currently few programmes adapted to the needs of young people with disabilities (NAO 2019). Helping young people with disabilities into employment requires specialized support and additional time and resource (eg to help them to communicate with employers to explain their needs and enable them to travel to interviews). City Bridge Trust funded a pilot 'Bridge to Work' programme supporting young people aged 16–30, offering bursaries for paid internships, access to practical support and guidance for employers and for those seeking work; plus enabling selected charities with deep experience of the issue to scale up their work. It has had a 30 per cent success rate for young people on the programme securing jobs (Aston et al 2019).

- **Make better use of existing provisions for young people with disabilities, by putting in place 'access to work funding' prior to young people entering the labour market.** The current process involved in applying for 'access to work' funding, cannot be started until after young people have secured employment, which means an employer is not aware of the support that is available at the point at which they make a decision to hire. It is recommended that, before finishing college or school, the access to work assessment should be carried out for the type of job the young person is likely to target so that they can share this with their prospective employer during the interview process.
- **Work with young people to reform UC, to offer them more support in order to prevent youth unemployment.** People below the age of 25 should receive a different welfare offer under UC. This should not prioritise 'work first' but seek to identify the young person's aspirations and support them to overcome personal barriers to move into work or education. This would essentially be a relaxation of conditionality rules to encourage people back into education if that is the right step for them. It would also be an increase in the support offer, with the evidence suggesting that all young people might need: one-to-one advisory support (with continuity of advisor); action planning; employability training; support for mental health and other personal barriers

6 As it stands only circa one-third of schools are part of Careers Hubs and there is significant variation in meeting Gatsby benchmarks.

to employment; and financial and cultural incentives (sometimes called 'magnets') to maintain engagement (Newton et al 2020).

- **Extend existing employment contracts and tender out for new services to quickly scale up job search support.** Understandably, DWP job search support has been largely paused due to the need to process UC claims and the challenges of delivering support remotely during the Covid-19 lockdown. This must be reintroduced – including face-to-face support – as quickly as possible. However, there is also an estimated shortage of 7,000 work coaches given the rise in unemployment (YEG 2020). The government should provide additional funding to mainstream recruitment services, as well as local government and voluntary sector providers, to fill this gap. These services played a crucial role in during the 2007-8 recession and could be scaled up now, by extending existing contracts or tendering for new services.[7]
- **Extend maintenance support and reform UC entitlements to support students to access FE.** FE students are not currently eligible for maintenance support loans. Likewise undertaking full-time study breaches work requirements attached to UC. This is a barrier to participation (Robinson et al 2019). The government should overcome this in the short term by creating an emergency £300 million bursary fund for school leavers during Covid-19, as recommended by the Association of Colleges (18/19 year olds) (AOC 2020). In the longer term this should be done by extending maintenance loans to young people below the age of 24. These loans should be on the same terms as those offered to higher education students (Robinson et al 2019). Also, government could consider maintaining the bursary fund suggested above to replace loans for low-income students (eg reinstating a form of Educational Maintenance Allowance). DWP should introduce an exemption for loan entitlements for FE students applying for or receiving universal credit.[8]

7 An 'Accelerated Open Procedure' could result in provision being in place within two months.

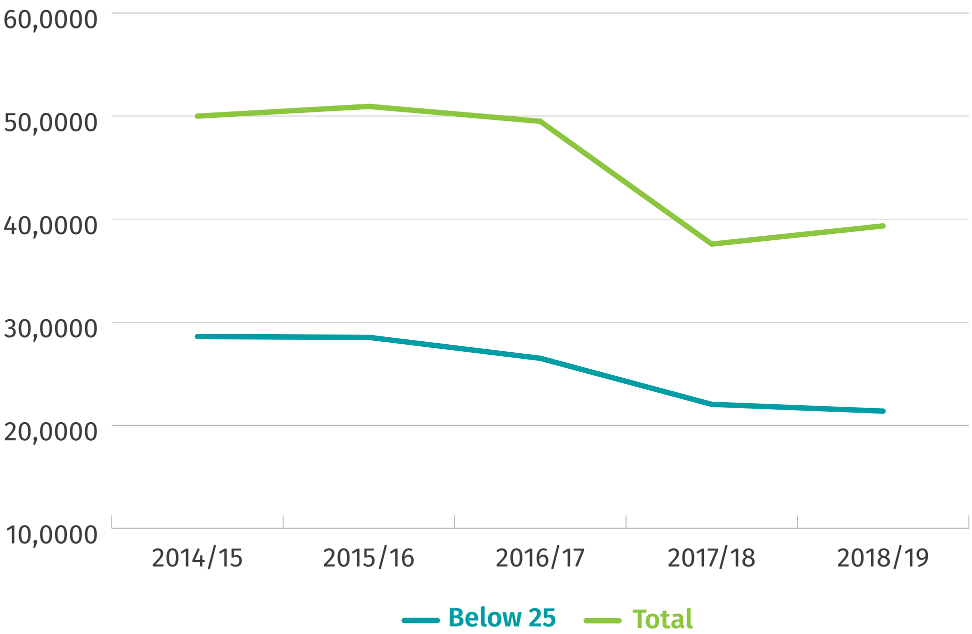
8 Loan entitlement (whether taken up or not) counts against benefit entitlement. This could act as a barrier through locking those on benefits out of FE. DWP already has exemptions for Special Support Loans for HE students. This same approach could be taken for FE students.

STEP 2
REFORM THE APPRENTICESHIP LEVY TO CREATE 200,000 NEW APPRENTICESHIPS FOR YOUNG PEOPLE IN ENGLAND

Apprenticeships are an effective means of improving skills and driving career progression (Cavaglia et al 2017). The prime minister's pledge to ensure a 'guaranteed apprenticeship for every young person', as a response to the crisis, is a welcome statement of intent (Parker and Moules 2020). However, it has been made in a challenging context for the apprenticeship policy agenda. The number of apprenticeships has declined since the introduction of the apprenticeship levy. From a peak of more than half a million apprenticeship starts in 2015/16, the number has declined by a fifth to 389,000 in 2018/19 (Evans and Dromey 2019). This is especially true for apprenticeships for young people. In 2002/3, 58 per cent of apprenticeship starts were among young people aged under 19 and none were aged 25 or over. By 2018/19, just 25 per cent were aged under 19, and 30 per cent were aged 25 and over (ibid).

FIGURE 3

Apprenticeship starts per year, total and 19–24 year olds



Source: DFE (2020)

This decline is linked to the introduction of the apprenticeship levy.[9] The levy, set at 0.5 per cent on large firms (2 per cent of total firms), is placed in a

9 Firms with a wage bill of more than £3 million.

personal account at DFE, accessible by the levy paying firm to pay for the training component of apprenticeships within their organisation. Any unspent levy after two years is made available to non-levy paying firms who can use it, to fund up to 95 per cent of the costs of training component of an apprenticeship – with the remaining five per cent coming from a ‘co-investment’ by the hiring firm. This system has led to a reduction in numbers – particularly at younger ages – because levy-paying firms have used their levy funds to invest in higher level qualifications for existing staff within their organisations rather than new hires at younger ages.

Furthermore, Covid-19 is likely to exacerbate the decline in apprenticeship numbers. Recent polling of employers of apprentices, conducted by the Sutton Trust, found that 60 per cent of apprenticeships had been disrupted in some way – with 26 per cent of employers reporting that they had decided to make at least one apprentice redundant as a result of the economic crisis (Doherty et al 2020). Furthermore, 37 per cent of employers reported that some of their apprentices were not able to work from home due to a lack of equipment, or because their role was not suitable for such work (ibid). This implies that apprenticeship numbers – and potentially quality – may well decline – with action needed now to prevent redundancies (ibid).

However, it would be possible to arrest this decline and to scale up apprenticeships in the coming months. IPPR believes that achieving this will require four key interventions.

The government should:

1. **Provide additional funds to the apprenticeship levy budget to scale up training availability.** As it stands, there is a significant risk that the apprenticeship levy budget will be overspent (Evans and Dromey 2019). This is largely because levy paying firms have spent more than originally forecast because they have mainly invested in more expensive higher-level apprenticeships (Richmond 2020). This has effectively resulted in a cap on the number of apprenticeships created (particularly in non-levy paying firms). The government should provide an additional £400 million in funding to fully fund the training component for apprenticeships for young people for non-levy paying firms (eg scrapping the current co-investment requirement of five per cent of the cost of the apprenticeship) (Evans and Dromey 2019). This would essentially increase the cap on potential apprenticeships starts for young people.
2. **Create a Youth Apprenticeship Fund to incentivise employers to take on new apprentices.** In the current context, with a sharp reduction in the profitability of firms, employers are likely to be reluctant to take on the wage costs of new apprentices. To combat this, we recommend the creation of a Youth Apprenticeship Fund (YAF) to subsidise the wages of apprentices in the short term.[10] [11] There are a number of potential forms this subsidy could take, with little clear evidence on which would be the most effective.[12] But assuming a full subsidy (100 per cent of wages) for the first six months of an apprenticeship and the creation of 200,000 additional apprenticeships, this

10 There may also be a case for varying the subsidy based on the sector in which the job is operating in order to channel job creation into more productive/socially valuable sectors (eg green jobs, care etc) or sectors which are more likely to enable high quality remote learning/working.

11 There may also be a case for a disincentive to let people go at the end of the subsidy. This could include a requirement to repay a proportion of the total subsidy. However, this will increase the risk associated with taking on an apprentice and could limit the impact of the policy on apprenticeship numbers.

12 This could either take the form of a one-off upfront incentive payment to employers who take on a new apprentice; a partial wage subsidy (eg 50 per cent of the wage) for the duration of the apprenticeship; or a full subsidy (eg 100 per cent of the wage) but for a shorter period of time (eg first six months with potential to extend dependent on the labour market).

would require a fund of around £1.5 billion.[13] [14] If the labour market does not recover, this subsidy may need to be extended beyond the first six months, requiring the fund to be replenished.

3. **Introduce additional conditionality on apprenticeship funding in order to target apprenticeship creation at young people.** Whilst there is a case for investment in training at higher qualification levels for older people – in particular in order to create progression routes out of low pay, low skill roles – the priority now should be creating additional opportunities for young people. This can be achieved by making access to the YAF, conditional on the employer creating an additional role for younger people or older people with prior attainment of level 3 qualifications or less.[15] The government should ensure it meets the existing targets, for participation from people with disabilities and from the BAME community.
4. **Introduce greater support for both employers and potential apprentices to scale up at pace.** Research has shown that without additional support, many employers overlook opportunities to hire apprentices. This is often due to a lack of internal capacity and the time required to establish an apprenticeship, as a consequence of the complexity of the system. The result is a suboptimal level of apprenticeship creation. IPPR has helped to create the London Progression Collaboration (LPC) which provides strategic and practical business support to encourage and facilitate apprenticeship creation, particularly amongst SMEs who do not have the HR resource required to investigate and undertake the apprenticeships creation process. As well as work to build SME's interest in apprenticeships, the LPC's support includes help to undertake workforce planning and identify suitable apprenticeship standards, find a training provider who meets their needs, and to access the online Apprenticeship Service for the first time. We recommend that government provides additional funding to local areas to roll out the LPC model, which is ideally placed to support businesses to access the incentives recommended and therefore increase apprenticeship creation.

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13 This assumes that half of the new apprenticeships are for below the age of 19 (wage of £4.25) and the other half are of people aged between 21–24 (minimum wage of £8.20 plus on costs). It assumes government subsidised the first six months of the wage.

14 Some of this funding could also be used to prevent redundancies now.

15 There is a strong case to make the additional funding to scrap co-investment available to all apprenticeships levels and for all age groups to support apprenticeship creation in the SME sector.

STEP 3
CREATE A RIGHT START FUND (RSF) TO PROVIDE SUBSIDISED EMPLOYMENT FOR THOSE AT RISK OF BECOMING LONG-TERM NEET

Whilst the measures set out in this paper so far are necessary to tackle youth unemployment, in the current labour market, they are unlikely to be sufficient. In particular, they are unlikely to benefit the most disadvantaged young people, who are furthest from the labour market. For example, roughly 100,000 young people leave school each year but are not 'apprenticeship ready'. Due to low qualifications and employability skills they are very unlikely to succeed in securing an apprenticeship (the number of young people leaving school without Grade 5 or above in GCSE English and/or maths is up 28 per cent since 2015) (Children's Commissioner 2019). Others will require more support to remain in work than is traditionally provided as part of an apprenticeship (eg due to disability or poor mental health) or an unsubsidised job.

In light of the prime minister's 'apprenticeship guarantee' there may be a temptation to place these groups of young people in apprenticeships before they are ready to meaningfully benefit from them, or to create a second tier of apprenticeships that are less demanding. Both of these responses should be avoided as they risk devaluing apprenticeships. Over the last decade there has been a significant push to design and implement a set of minimum standards for apprenticeship creation to ensure they are high quality and lead to the desired outcomes. Rapidly expanding apprenticeships to young people who are not apprenticeship ready risks undoing these efforts (Pullen and Clifton 2018).

A better response would be to put in place separate interventions for young people who are not yet 'apprenticeship ready'. Some commentators have advocated achieving this through scaling up the number of traineeships, but the reduction in uptake of traineeships and our qualitative research for this project suggests this may not be desirable.[16] Instead the government should be revisiting the evidence in favour of state funded job creation, with the aim of employment re-engaging young people with learning, and delivering better long-term employment outcomes. Whilst many historical schemes show limited results (Newton et al 2020) there is growing evidence that, if properly designed, job creation schemes – Intermediate Labour Markets – are effective at creating 'transitional' jobs that support disadvantaged groups to improve their confidence, build their skills and thus enable the transition to unsubsidised work (ibid). This also has the benefit of supporting aggregate demand.

16 Interviews with providers of traineeships suggest that they struggle to engage potential beneficiaries in the programme (due to a lack of pay) and employers (due the 12-week wait for employment). Often this cohort of young people are extremely disengaged with education and their main aim is to 'get a job' due to poverty and economic pressures. The flaw with the traineeship model is that six weeks – three months is rarely long enough for the young person to achieve a substantive qualification but six months is too long for someone to undertake unpaid work experience and see no financial reward. To link employment with meaningful training rather than long-term work experience will have a far bigger impact on the young person's engagement with learning.

INFORMATION BOX: FUTURE JOBS FUND (FJF)

The Future Jobs Fund was introduced during the depths of the 2008–9 crisis to create temporary, transitional jobs for the long-term unemployed. It provided a full jobs subsidy to employers who created a new six-month job for a young person who had been unemployed for six months or more. It was shown to be an effective intervention. A counterfactual impact analysis conducted by DWP and peer-reviewed by the National Institute of Economic and Social Research (NIESR) found that the impact of FJF on the chances of participants being employed and/or off benefit was substantial, significant and positive. Two years after starting the programme, participants were 11 percentage points more likely to be in unsubsidised employment compared with the comparison group (DWP 2012).

The government should:

- **Create a Right Start Fund (RSF) to fully finance newly-created jobs for those who have been, or are most at risk of becoming, NEET.** The programme should build on the evidence of the FJF (ibid) and other subsidised job creation schemes from the US. These new jobs would have some similarities to apprenticeships (eg including both a job and a compulsory training component) but would also have a number of key differences:
    - At six months in duration they would be **shorter** than an apprenticeship – and with training and job/apprenticeship search continued throughout the placement – plus the option to leave the placement early. This will limit the potential deadweight cost to the government and the risk of 'lock in'[17]
    - They would be **fully subsidised** and would be largely aimed at the government and community sector, in industries where there is expectation of future growth such as the green, care, digital and construction sectors. This would allow for job creation at a faster pace than apprenticeships in the private sector and ensure that these are additional/new roles
    - They would be offered to young people alongside **significant additional support to maintain employment during and after the placement.** This would include mentoring, job search and support for mental health, disabilities and other personal barriers to employment
    - They would be **targeted at a different cohort to those going into apprenticeships,** with a focus on those who have been unemployed and on benefit already for more than six months, those entering the labour market with less than level 2 English and/or maths, and those with special educational needs or disabilities and care-leavers.

This does not mean that these policy initiatives – the RSF and measures to scale up apprenticeships – should not be linked. **The explicit aim of the RSF should be to prepare young people for an apprenticeship or a job in the labour market** upon completion of their placement, and to ensure they move on to long-term employment (or training).

- **Give local government a central role in delivering the RSF, including full devolution to combined authorities.** National government should have responsibility for setting high-level objectives, priorities and standards for the RSF. But the RSF should be as devolved as possible. Local government – as well as local job centres – should be provided additional funding to help manage

17 Locking in young people to subsidised jobs – which are less desirable than unsubsidised employment – with impacts for society (eg cost to the exchequer) and the individual (eg suboptimal employment outcomes).

this scheme. In all areas, this should involve working with local employers to encourage bids to the programme, be involved in the assessment of bids, provide additional wrap around support for participants and ensure local employers are engaged at the point of move-on from the programme. In local areas with significant local government capacity (eg combined authorities and core cities) the whole programme (including local budget) can be devolved. This would help minimise the institutional separation between employment support and further education for 18–24-year-olds.

- **Ensure the bidding process is demand-led, funded through grants and avoid large-scale outsourcing where possible.** As per the FJF, jobs should be created through a demand-led approach but with some allowance made for the geographical distribution based on need (eg of the organisations bidding, based on their ability to deliver high quality, additional work and provide the necessary support) and funded through grants. This should avoid the necessity of large-scale outsourcing which has been shown to fail, particularly for services aimed at supporting vulnerable groups. Work on implementing this infrastructure should start now, as the FJF took significant time (six to 12 months) to set up. The RSF is likely to be time consuming even if it is designed to avoid contracting out processes. Work on establishing the infrastructure to implement this should therefore begin now.
- **Devolve the relevant proportion of total funding for the scheme to Scotland, Wales and Northern Ireland,** to set up their own interventions.

INFORMATION BOX: POTENTIAL COST AND BENEFITS OF THE RSF

We estimate that between April and December 2020, there will be approximately 1.3m UC claims by young people, of which 380,000 will last six months or more based on data from previous recessions. Of these we assume that three-quarters (280,000) are suitable for the programme. This is in an addition to the approx. 130,000 people aged 16–24 (most of which will be 18–24) who are on UC and have been claiming support for more than six months. This suggests that we can assume an eligible population for the RSF of around 500,000 of which around 400,000 may be suitable.

We estimate that the cost per person of this programme is around £8,000.[18] If we provided this programme for all newly unemployed young people who we expect to make a claim for longer than six months, along with the existing stock of long-term unemployed claimants it would cost over £3 billion (Scenario 4).[19] However, the reality is, in the short term, it will not be possible to scale up to this level. If we assume that half of newly unemployed suitable benefit recipients are supported (140,000), the cost would be around **£1.1 billion (Scenario 1)**. If we then added all of those who were already on benefits for more than six months (130,000 people of which we assume 100,000 suitable) the cost would increase **to £1.9 billion (Scenario 3).**[20]

However, as demonstrated in this report, based on evidence of the FJF, this programme should lead to significant reduction in spending on these young people in other areas of government (notably on welfare) both immediately and in the future. Based on the evaluation of the FJF we can estimate that 55 per cent of the costs of this programme could be recovered, reducing net costs to £3,600 per placement. **When accounting for potential benefits net costs would be expected to fall by at least half**

18 See annex.
19 For all scenarios, see annex.
20 Though it is worth noting that even this increase would likely be impossible in the short term.

to £0.5 billion for the lower level ambition fund (140,000, Scenario 1) and net costs would be £1.4 billion for the most ambitious scheme (380,000, Scenario 4). This is in addition to the wider social and economic benefits of the programme which cannot be monetised. Indeed, the benefits, including the savings to government, may well be larger than this because i) the employment and off-benefit effects are likely to last longer than was measured in the FJF; and ii) the Covid-19 recession is set to be deeper than the 2008–9 recession which would reduce the lock-in impacts.

CONCLUSION: BEYOND THE PRESENT CRISIS

We have argued for the government to ‘aim higher’ in its response to the coming unemployment crisis. There are already more than 400,000 young people in this country who are unemployed (and an even larger number not in employment, education or training. This is evidence of a broken school-to-work transition. This is why the measures we have described in this paper are not just responses to current crisis but permanent shifts in our welfare system, which aim to tackle some of the systemic barriers that contribute to this. These include improving the financial assistance on offer for young people to access further education, and ensuring that if they do need universal credit to stay afloat at certain points, they receive support from Jobcentre Plus work coaches which is appropriate to their age and career stage.

Beyond this we have also called for a more fundamental rethink of labour market policy. In recent decades, a ‘work first’ approach has become a stronger feature of our welfare to work system. But in an era with challenges such as climate change and workplace automation, we must place a stronger emphasis on the role for re-training and skills development. Similarly, in our ‘Right Start’ scheme we set out a different approach to labour market policy, one which will offer young people the purpose and meaning afforded by work in the absence of an alternative. We need to be similarly ambitious in tackling longstanding labour market problems, such as the disproportionately low employment rate among disabled people. Creativity and ambition must be applied to reducing the stubbornly high disability employment gap, with new ways of working with employers to find paid work opportunities and supporting employees to stay in work. This is the focus of our Future Welfare State programme – and this is the first in a series of papers that will examine pathways for reform to ‘future proof’ our welfare state for the decades ahead.

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ANNEX
YOUTH UNEMPLOYMENT MODELLING

Firstly, we wish to predict the inflow onto benefit between April 2020 and December 2020 for 18–24 year olds.

- We use historic data from 2008–2010 to compare 18–24 LFS unemployment with 18–24 JSA Inflows.
- We estimate a simple regression to predict quarterly 18–24 inflows with the quarterly 18–24 LFS unemployment level.

We find that (where R^2 = 0.59)

JSA 18–24 Quarterly On-flows = (0.5702 x Youth LFS Quarterly Unemployment Level) – 24,123[21]

To predict quarterly on-flows, we need to predict the quarterly unemployment level in Q2, Q3, Q4:

- We know that the Bank of England expects unemployment to rise from 3.9 percent to circa 9.8 percent. We assume a commensurate rise in youth unemployment, which is an increase from 10.5 percent to 26.25 percent by quarter 4.
- We assume this happens linearly between Q1 and Q4.
- We can therefore estimate the levels in each quarter, and use the regression equation above to predict on-flows in each quarter.

	Quarter 2	Quarter 3	Quarter 4
Projected 18-24 unemployment level	616,500	822,000	1,027,500
Projected quarterly benefit on-flows (using equation above)	327,405	444,581	561,758

As such, we predict 1.3 million benefit on-flows for 18–24 year olds between Q2 and Q4.

We then estimate what proportion of these people might reach six months:

Analysis of survival curves data from the 1990s recession assume that 34 per cent of those who flow on will still be claiming in six months. For the 00s recession, the figure is 22 per cent. Here we take the average of these and assume that 28 per cent of new claims to benefit last for six months or more.

21 We recognise that flows drive stocks, rather than the other way around, but they are well correlated and this is a reasonable approach to estimate inflows

Assuming that three quarters of those could potentially be suitable leads us to an eligible population of 280,000 young people who could flow on to benefit between April and December, who would have a claim that lasts for six months or more who could be suitable.

There is also an existing 'stock' caseload of 130,000 UC claimants (based on May snapshot data) with a claim of six months or more. We assume this group remains stable in size. This excludes a small number of JSA claims who are 18–24 who have claimed JSA for more than six months (around 5,000 in May).

Unit costs

In the FJF evaluation, £2,600 was provided for upfront costs and £3,900 for wage costs (approximately 25 hours at minimum wage at the time of the programme, for 26 weeks).

- We update the upfront costs by inflation from 2011 costs up to 2019 costs to reach £3,192.
- We update wage costs to be the mid-point of current minimum wage for the 18–20 group and the 21–24 group, or £7.33 – for 25 hours for 26 weeks. This is £4,764.
- As such we estimate unit costs at £7,956 per placement, up from £6,500 in the former FJF.

However, we then assume, as found in the FJF evaluation, that 55 percent costs are recovered due to the impacts on work and employment outcomes, reducing net costs to £3,580 per placement (see table below 'cost/benefit per participant of the FJF' where exchequer costs were 55% lower when factoring in positive effects).

There are several reasons to think that the net costs could be lower than this:

- The FJF central estimate assumes that any positive effects stop after the tracking period, whereas it may be reasonable to expect them to last beyond the tracking period.
- The benefit and work impacts included substantial lock-in which reduced the additional days off benefit and in work. If we think labour market conditions will be harsher than as seen in the period of the FJF evaluation then these lock-in effects could be smaller and thus additional days off benefit and work could be larger.

However, it is worth noting that benefit rates are relatively less generous now than in 2011 which would lower the cost recovery factor slightly, but likely be outweighed by the two factors above.

Assuming we can scale up as necessary, costs are estimated as follows under different scenarios:

Scenario	1	2	3	4
%age of Flow	50%	100%	50%	100%
%age of Stock	0%	0%	100%	100%
Participants	140,000	280,000	240,000	380,000
Gross Costs	£1.1bn	£2.2bn	£1.9bn	£3.0bn
Net Costs	£0.5bn	£1.0bn	£0.9bn	£1.4bn

As noted above, all figures assume three quarters of eligible claimants are suitable for a placement.

Cost/benefit per participant of FJF:

FJF programme impact	Cost/benefit per participant (£)			
	Participants	Employers	Exchequer	Society
Increase in outputs	0	+4,400	0	+4,400
Increase in wages	+4,300	-4,300	0	0
FJF employer payments	0	+6,850	-6,850	0
Reduction in operational costs	0	0	+900	+900
Reduction in benefits	-1,450	0	+1,450	0
Increase in taxes	-1,000	-100	+1,100	0
Increase in travel and childcare costs	-250	0	0	-250
Reduction in healthcare costs	0	0	+300	+300
Redistributive costs and benefits	+2,400	0	0	+2,400
Social costs of Exchequer finance	0	0	0	0
Total programme impact	**+4,000**	**+6,850**	**-3,100**	**+7,750**

Key: '+' denotes a net benefit; '-' denotes a net cost; '0' denotes neither a cost nor a benefit

Note: Totals may not sum due to rounding

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