The Sand Timer

Skills and employment in the North West

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with Howard Reed

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Contents

List of abbreviations

CSR	Comprehensive Spending Review
DAF	Deprived Areas Fund
DCLG	Department for Communities and Local Government
DfES	Department for Education and Skills
DTI	Department of Trade and Industry
DWP	Department for Work and Pensions
ESA	Employment and Support Allowance
FE	Further Education
IB	Incapacity Benefit
JSA	Jobseeker's Allowance
LAA	Local Area Agreement
LEA	Local Education Authority
LSC	Learning and Skills Council
LSP	Local Strategic Partnership
ODPM	Office of the Deputy Prime Minister
ONS	Office for National Statistics
PCT	Primary Care Trust
PSA	Public Service Agreement
RDA	Regional Development Agency
RSP	Regional Skills Partnership
SEU	Social Exclusion Unit
TTWA	Travel-to-work area
VCS	Voluntary and community sector
WFI	Work-focused interview

Executive summary

This paper explores the relationship between skills and welfare-to-work policy, with a geographical focus on the North West of England.

The scale and demography of inactivity and unemployment

Those who are low skilled, sick or disabled, aged over 50, or lone parents face particular barriers to the labour market. These groups overlap and are not mutually exclusive.

The low skilled

- The North West has more people of working age at higher skill levels than the other northern regions, but fewer than the UK average. The proportion of people holding no qualifications is above the UK average, and only the West Midlands has a higher proportion.
- Within the region, the disparities in employment rates for unskilled people are far greater than the disparities for people at higher skill levels.
- The North West has a lower proportion of its workforce in the higher management, professional and technical jobs than the UK average, and a higher than average proportion of employment in the 'lower' occupations.

Sickness and disability

- There are significant regional differences in the proportion of adults of working age who claim benefits related to sickness and disability. Around 11 per cent of the working age population in the North West claim out-of-work benefits, compared with an average of eight per cent for Great Britain.
- The numbers of people claiming benefits related to sickness and disability are much higher than those claiming Jobseekers' Allowance.
- Around 47 per cent of under-60s in the North West who are claiming sickness and disability benefits are women. This means that the high numbers of claimants cannot be solely explained by the health impacts of past heavy industries, such as shipbuilding.
- Based on the existing research evidence and evaluation of the Pathways to Work pilots, we welcome the Government's roll-out of the programme, which will particularly benefit regions like the North West. However, it is essential the roll-out is adequately resourced, including provision for existing Incapacity Benefit (IB) claimants.

People aged 50 and over

- The over-50s have a low level of economic activity in the North West compared to the UK average, despite the fact that the North West performs close to or above the UK average for other age groups.
- Large numbers of people not in work and aged over 50 are in receipt of sickness and disability benefits. It can, therefore, be expected that welfare reforms to support their return to work will also increase the employment rate of the over-50s more widely.

Lone parents

- The cost of childcare remains a key barrier to employment among lone parents. Tax Credits have helped make childcare more affordable for those in work, but alternative strategies must be put into place to ensure the cost of childcare is not a barrier for those engaged in return-to-work activities.

Deprived communities

- Using the Social Exclusion Unit's definition of a 'concentration of worklessness' as the 10 per cent of Census Output Areas (roughly equivalent to a street or block of flats) with the lowest employment rate in England, almost 30 per cent of 'concentrations of worklessness' occur in the North West, compared with only 10 per cent in London.
- However, the majority of people claiming benefits for worklessness do not live in the most deprived wards (Kleinman 1999; Greater Manchester Sub-Region 2006.) Therefore, any area-based initiatives must be complemented by measures targeted at individuals, no matter where they live.

- The Government lacks clarity over the appropriate spatial scale for different types of policy intervention. The impact of a 'neighbourhood effect' on employment is overestimated by policymakers, and the focus of employment policy needs to be at the broader travel-to-work area (TTWA).

Governance, structure and delivery

Institutional capacity and delivery

The Government is committed to rolling out the Pathways to Work programme across the country by April 2008. However, there is concern about the capacity of Jobcentre Plus to deliver, due to the impact of the Gershon efficiency savings targets and the large turnover of personal advisers. Greater use of the voluntary and community sector (VCS) may be positive for reaching those most marginalised in society. However, contract outcomes must be more nuanced than simply 'job entry', to ensure organisations are not put off from working with those who are the least employable.

Delivering skills for employment

In England, the central objective of further education is shifting away from lifelong learning towards skills for employment, with an increasing role for employers. The specific policy focus on Level 2 qualifications is problematic, because the blanket Level 2 entitlement fails to recognise the varying needs of different sectors and labour markets, and the varying needs of individuals (Delorenzi 2007). Also, evidence suggests little or no wage returns to Level 2 qualifications in many sectors.

Young people currently have a greater training entitlement than older people of working age, yet employment rates among the over-50s in the North West are particularly low. Entitlement to training should be based on need, not age. The unskilled face particular disadvantage in the labour market, so the policy focus on basic skills is welcome. But, courses relating to social inclusion, outreach and 'soft skills' are being squeezed out as a result of the Government's 'skills for employment' agenda, which risks undermining moving some of the most disadvantaged towards the labour market.

A further barrier to the effective delivery of skills policy is the disjuncture between employment policy (led by the DWP) and skills policy (led by DfES) at a national level. The 2007 Comprehensive Spending Review presents an opportunity to introduce a shared Public Service Agreement (PSA) target for skills and employment that the DfES/Learning and Skills Councils and DWP/Jobcentre Plus districts are jointly responsible for.

Greater devolution and local flexibility

Greater devolution of employment and skills policy, enabling an approach more tailored to local labour market conditions and the requirements of individuals in need of training, is likely to prove effective. The North West region faces worse skills shortages than most other parts of the country, and a devolved approach should help address this. But there is no consensus on what is the most appropriate scale to devolve to.

While the regional level may be most appropriate for strategic coordination, the TTWA is more appropriate for training, as it reflects the workings of the local labour market. However, there is concern about the complexity of the governance arrangements that are emerging, and a danger of duplication of structures at city-regional, sub-regional and regional levels. A city-regional approach will not be suitable for all areas of the North West – particularly Cumbria, because its towns are small rural areas large.

We welcome a number of features of the DWP's City Consortia pilot, which includes Greater Manchester, Greater Merseyside and Blackburn in the first wave. The focus on retention and progression at work is an important aspect of employment, and one that has lacked policy attention. The experimentation with consortia at a city-regional level is welcome, and operating city strategies at a similar spatial level to that of the labour market will enable links to be made between areas of disadvantage and areas of opportunity.

The city strategy can bring together a broad partnership for employment and skills delivery, encompassing the private, public and voluntary sectors, but there is little new money available for City Consortia. For the schemes to work, organisations like Primary Care Trusts (PCTs) and Local Learning and Skills Councils must be allowed to participate fully, and liaise with Jobcentre Plus and local authorities. This will be a real test of 'joined up' government. Consortia must utilise their freedoms and flexibilities to produce *strategies*, which coordinate activity, and not just new *initiatives*, which add to the layers of complexity and opaque governance.

Improving access to labour markets: how best to remove the barriers

It is important to distinguish between short-term 'frictional' or 'search' unemployment and long-term worklessness. This paper develops a theoretical model, using an image similar to a sand timer to represent the comparative situations facing the short-term frictional unemployed and the long-term unemployed and inactive.

In our model of short-term unemployment, there is a steady 'churn' between work and unemployment, with the rate of churn corresponding to the rate of job creation and destruction in the economy. The corresponding model of long-term worklessness includes a number of barriers to employment; the more barriers between a given person and the labour market, the harder it is for that person to enter work. These barriers can include low skills, health problems, the high cost of childcare, homelessness and ex-offender status.

Different barriers may be more or less important in different localities, and the sand timer model helps elucidate the choices facing government departments and agencies tasked with reducing worklessness using limited resources, by showing the trade-offs between different labour market programmes, which address different barriers.

In principle, it is possible to build on the theoretical framework of the sand timer model by estimating an econometric model of labour market transitions – entry into work and exit from work – that would allow us to examine the main factors affecting entry into the labour market for various disadvantaged groups. This has been done at the national level (for example, by Myck and Reed 2006), but it is not currently possible to build a model of this type to look at a specific region, such as the North West.

This is because the existing UK panel datasets that contain the relevant information are not large enough to allow this type of model to be estimated with any accuracy. Therefore, it would be necessary to collect extra data on the region for this purpose. This is a costly undertaking, but it represents our best chance of understanding more about the severity of the barriers to work that exist, and which groups are the most affected.

Summary of policy recommendations

- Certain characteristics – being a lone parent, being over 50, being low skilled – can be major barriers to employment, and individuals experience different combinations of these barriers. The increasing personalisation of welfare-to-work support is a move in the right direction.
- The roll-out of Pathways to Work has the potential to make a significant different in the North West, because of the high proportion of people claiming IB. However, roll-out must be adequately resourced, including provision for existing IB claimants.
- The cost of childcare remains a key barrier to employment among lone parents. Tax Credits have helped make childcare more affordable for those in work, but alternative strategies must be put into place to ensure the cost of childcare is not a barrier for those engaged in return-to-work activities.
- Young people currently have a greater training entitlement than older people of working age, yet employment rates among the over-50s in the North West are particularly low. Entitlement to training should be based on need, not age.
- Current DfES policy has a tendency to focus on 'skills for skills' sake' whereas DWP targets can result in people entering employment before they are appropriately equipped. The DfES and DWP must acknowledge their shared ambition and work together to reduce worklessness and increase sustainable employment.
- There is consensus that the lead agencies should work more closely to achieve a growth in sustainable employment, through better alignment and, ultimately, a shared PSA target.
- The DWP City Consortia pilots are an opportunity for localities to implement some of the indigenous policies that they have long sought the freedom to develop. But these will only be realised if central government genuinely devolves the necessary powers. Equally, the consortia must learn lessons from existing bodies, such as Local Strategic Partnerships (LSPs).
- Evidence shows the DWP's 'work first' approach is successful. It is important that Jobcentre Plus retains the capacity to deliver this strategy, and that care is taken to ensure it is not undermined by the need to meet back office efficiency savings.

- The move to greater contracting with the VCS and private sector could bring great benefits. However, the move to outcomes-based contracting must not put organisations off working with those hardest to help. The understanding of outcomes must be more nuanced than simply 'job entry'.
- Agencies should not become preoccupied with trying to locate new jobs in the most deprived areas. Instead, more attention should be focused on improving links, for example transport links, between deprived areas and buoyant commercial centres.
- It would be extremely useful if more detailed data could be collected on the North West region in a panel format. This would enable researchers to build on the theoretical framework we have developed here, by estimating econometric models to help determine whether removing particular barriers, or chipping away at a range of barriers, will have more impact on long-term worklessness.

Introduction

This paper explores the relationship between skills and welfare-to-work policy. Skills and employment are intimately connected, and we intuitively expect to see a positive correlation between the two. Other things being equal, the more advanced the skills (notionally represented by qualifications) an individual has, the more employable he or she is.

Previous research overwhelmingly supports the assertion that the incidence of long-term unemployment and labour market inactivity is not evenly distributed. People of working age with certain characteristics – those with few or no educational qualifications, ethnic minorities, lone parents, those aged 50 or over, and those living in neighbourhoods with a low employment rate – are more likely to be out of work than others.

Section 1 of this paper looks at the scale, demography and idiosyncrasies of worklessness for these groups in the context of the North West England. This large and varied region was the UK's fulcrum of economic activity during the industrial revolution, but suffered from high levels of unemployment and economic inactivity during the recessions of the early 1980s and early 1990s.

Section 2 looks at the evolution of welfare-to-work policy in the UK, and its likely future in the context of the North West. On coming to power in 1997, the Labour Government put great emphasis on the ideological and fiscal unacceptability of long-term unemployment and inactivity among people who were capable of work, and its main response was to reform and expand welfare-to-work policy, beginning with the various New Deals initiated in the late 1990s.

Although the employment rate has risen in every region since the early 1990s, there is still substantial geographical variation in the distribution of worklessness. Figure 0.1 illustrates the differences in employment rates across the UK. The greatest proportion of 'hot spots' – areas with an employment rate above 80 per cent of the working age population – falls in the South East, with the northern regions experiencing more 'cold spots', where employment rates are less than 70 per cent.

Since 1997, the Government has attempted to address regional disparities with the establishment of bodies such as the Regional Development Agencies (RDAs) and Regional Skills Partnerships (RSPs), giving the regions some latitude to develop their own responses to high levels of economic inactivity.

Figure 0.1: Employment rates for people of working age by travel-to-work area: Great Britain, January to December 2004

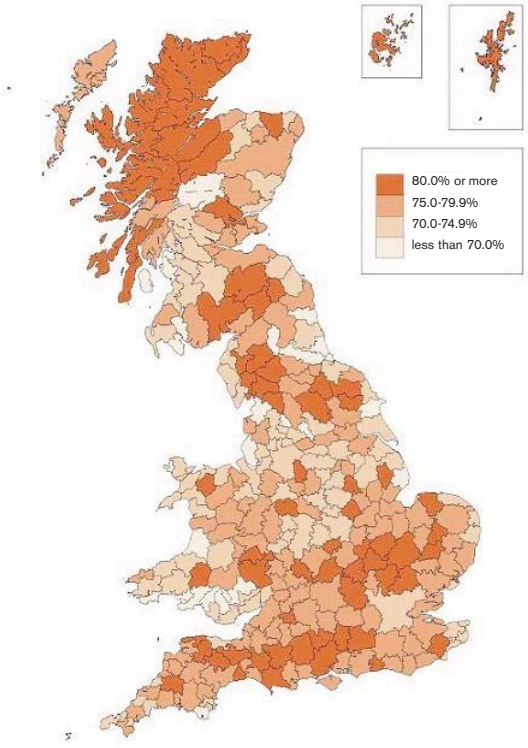
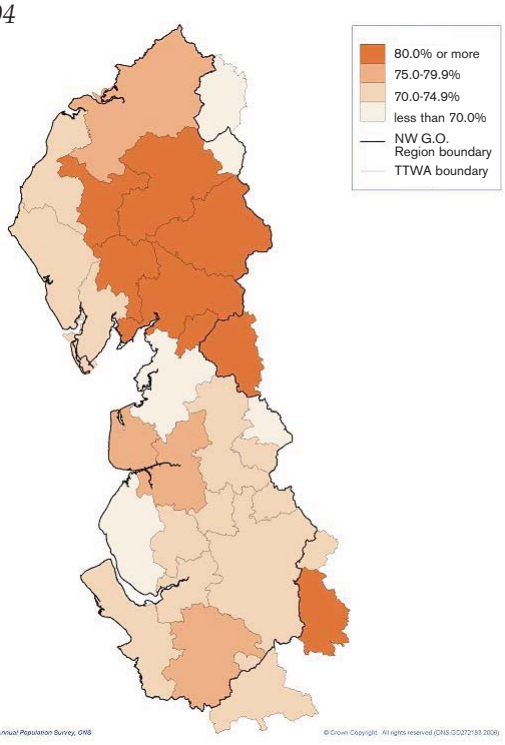


Figure 0.2: Employment rates for people of working age by travel-to-work area: North West Government Office Region, January to December 2004



Source: Annual Population Survey, ONS. Crown copyright material is reproduced with the permission of the Controller of HMSO

As Figure 0.2 demonstrates, the North West's experience of unemployment is not uniform. Like the UK as a whole, it has 'hot spots' and 'cold spots'. This suggests that a uniform regional policy, covering the whole of the North West, would be open to criticism on the basis that it was not capable of responding to local labour market nuances, in very much the same way that national policy may not respond to regional requirements. Addressing the issue of long-term unemployment at its most appropriate spatial scale is a central theme running through this paper.

The processes of governance are also addressed in Section 2. Institutional capacities and competences are a central theme, in particular the extent to which government departments are working effectively together to reduce unemployment.

The Department for Work and Pensions (DWP), Department for Education and Skills (DfES), Department for Communities and Local Government (DCLG), and the Department of Trade and Industry (DTI) are all involved in creating prosperous and inclusive labour markets, and each department delivers aspects of its particular remit successfully. The issue we assess here is whether they act in combination as effectively as they might, and whether the success of devolutionary measures might ultimately be restricted by an inability to cooperate at a national level.

Section 3 develops a theoretical framework for analysing an area's workless population, using economic theory to construct a simplified abstraction of the labour market that seeks to make strategy design easier for the agencies charged with increasing employment. The model investigates the nature of the challenges faced by individuals, and whether a greater understanding of the characteristics of the long-term unemployed or inactive might catalyse more effective interventions. We explain how researchers might construct an empirical model of the North West labour market, based on our theoretical framework, and what data sources would be necessary to implement such a model.

The study concludes with a summary of policy recommendations, based on the research documented within the chapters.

1. The scale and demography of inactivity and unemployment

Full employment, currently defined as an employment rate of 80 per cent among people of working age, has been an important aspiration for this Labour Government – one that stretches beyond moving those claiming Jobseeker's Allowance (JSA) into work, to helping more disadvantaged and longer-term unemployed groups, such as those claiming benefits related to sickness and disability.

This is reflected in the 2004 PSA target to increase the employment rate of disadvantaged groups – defined as lone parents, ethnic minorities, people aged 50 and over, those with the lowest qualifications, and those living in local authority wards with low employment rates (HM Treasury 2004).

Each individual group faces specific barriers that inhibit their entry to the labour market, and a variety of government programmes have been designed to address them. But some people will belong to more than one group, and, while such generic programmes may be able to deal with common barriers, there is a risk that they will not be sufficiently nuanced or flexible to adapt to personal circumstances and the overlapping nature of some of the barriers faced.

Furthermore, while the focus on these groups is an important recognition that the labour market does not treat people equally, there are other marginalised groups – including those recovering from substance misuse, ex-offenders leaving a custodial sentence, and refugees – who do not explicitly feature as part of the Government's target to increase employment (although there is overlap between these groups and those specified in the current target). These groups also tend to include people with complex needs and 'chaotic lives', and are generally the furthest away from the labour market (they have the most barriers to overcome before they can be employed) (Rankin and Regan 2004).

Recent policy shifts indicate moves towards a more personalised approach to employment, particularly following the Welfare Reform Green Paper (DWP 2006a) and the subsequent Welfare Reform Bill, expected to pass into law in 2007. This marks a very important recognition that different individuals require different packages of support to move into work, depending on their particular circumstances. However, there is concern about the capacity of government agencies, particularly Jobcentre Plus, to deliver on this agenda. This will be examined further in Section 2.

The rest of this section will look in more detail at some of these disadvantaged groups, and the specific conditions in the North West of England.

Sickness and disability

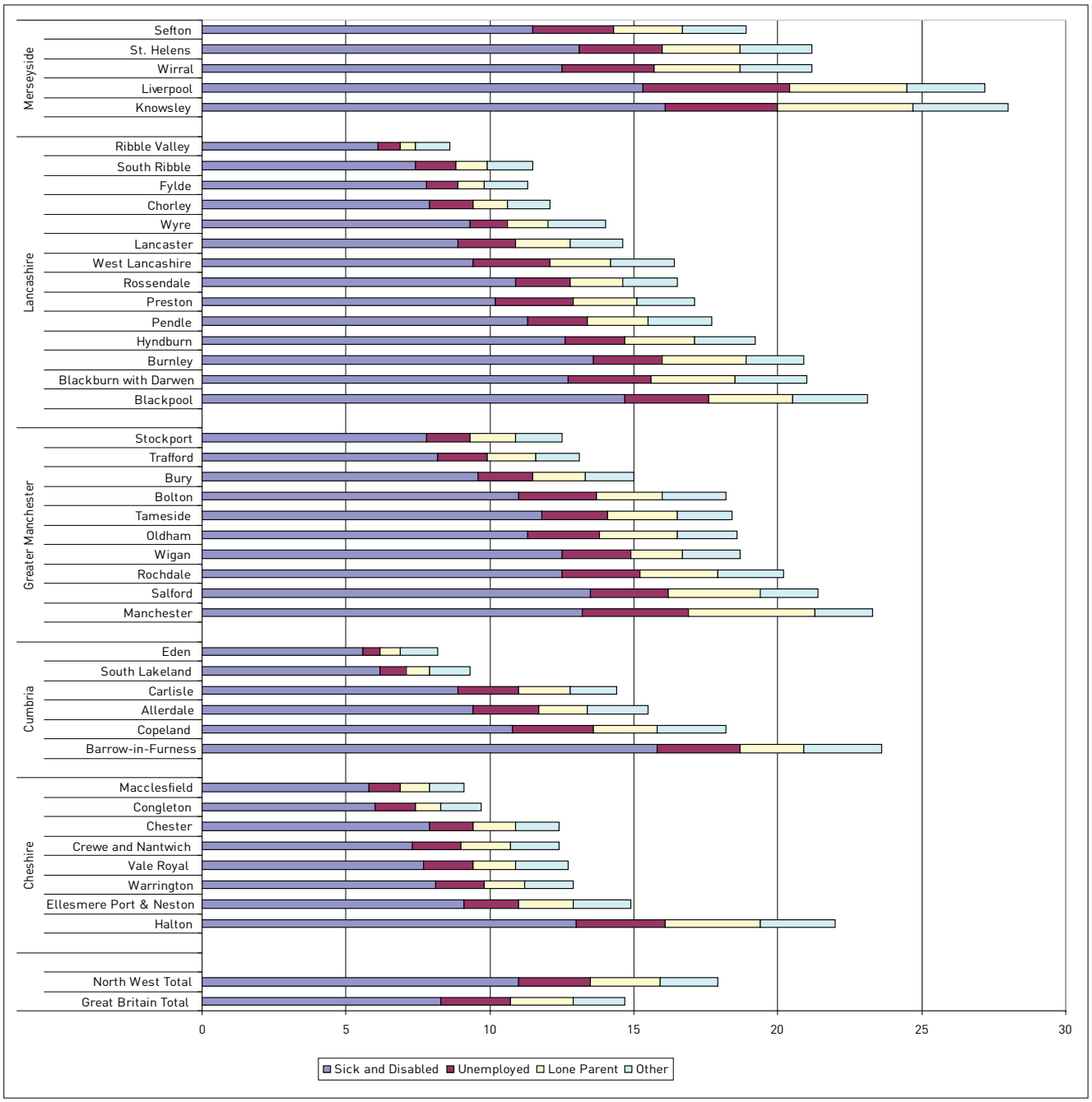
The largest of the disadvantaged groups comprises those people with long-term sickness or disabilities. There are significant regional differences in the proportion of adults of working age who claim benefits related to sickness and disability (including IB, Income Support Disability Premium, and Severe Disablement Allowance).

As Figure 1.1 and Appendix A demonstrate, nearly one in five of the working age population in the North West claims out-of-work benefits; and claims related to sickness and disability account for nearly two thirds of this figure. These claims dwarf the numbers that claim JSA. The proportion of the population claiming benefits on the grounds of sickness and disability in the North West, along with Wales and the North East, is twice as high as levels in the East and South East of England.

Figure 1.1 also reveals some substantial variations within the North West region. In August 2005, in Knowsley, over 16 per cent of the working age population claimed benefits relating to sickness and disability; in four of the five Merseyside authorities, over 12 per cent of the working age population claimed these benefits. However, the problem is not confined to Merseyside, as levels are above 12 per cent in other North West local authority areas: Manchester, Wigan, Salford, Rochdale, Blackburn with Darwen, Blackpool, Burnley, Hyndburn, Barrow in Furness, and Halton.

This compares starkly to the more prosperous areas of Cheshire – such as Macclesfield or Congleton – or some of the rural areas – such as Eden or Ribble Valley – where benefit claims related to sickness and disability are well below the British average. These districts, however, account only for a small proportion of the North West's population.

Figure 1.1: Claimants of key benefits in the North West as a percentage of the working age population, August 2005, by statistical group and local authority



Source: DWP Information Directorate: Work and Pensions Longitudinal Study, available at: www.dwp.gov.uk (accessed 4.4.06)

What is clear from this analysis is that, in all parts of the North West, the number of people claiming benefits related to sickness and disability is much higher than those claiming JSA. Although this is a trend that is reflected nationally, more of the North West's unemployed claim benefits related to sickness and disability than is typical nationally.

Often, the immediate reaction to the high proportion of people claiming benefits related to sickness and disability in the North is to attribute it to the health impacts on men of past heavy industries such as coalmining, shipbuilding and steelworks. Indeed, research by Steve Fothergill and colleagues has estimated that there are 219,000 'hidden unemployed' in the North West (Beatty and Fothergill 2005); by this, they mean IB claimants who might be expected to be in work in an economy with full employment. This is not to say that the health impairments of the hidden unemployed are not genuine (they will have undergone medical assessment to claim IB), but, rather, that they have drifted onto IB through a combination of lack of labour demand in their travel-to-work area, the perception that there are no appropriate jobs for them, and

higher IB payment rates compared to JSA.

Some suspect that this process was part of a deliberate policy in the 1980s and early 1990s to keep the unemployment count down (Beatty *et al* 2000). However, as time goes by, and this cohort reaches pensionable age, the number of IB claimants is not falling, which challenges the view that the higher proportion of IB claimants in the North can be explained solely by the former industrial profile.

Furthermore, the gender profile of those claiming benefits related to ill health and disability also challenges this received wisdom. While Table 1.1 shows that 59 per cent of claimants in the North West are men, it is important to remember that women reach state retirement age at 60. Once the different retirement age is taken into account, men account for approximately 53 per cent of under-60s claiming these benefits.

Table 1.1: Number of claimants receiving benefits relating to sickness and disability in North West England in August 2005, by gender and by claimant age (thousands)

	16-24	25-34	35-44	45-49	50-54	55-59	60-64	All working age
Male	13.4	31.5	50.6	27.3	31.1	43.5	50.7	248.1
Female	11.7	22.4	39.9	26.5	31.0	42.4	-	173.9
All	25.1	53.9	90.5	53.8	62.1	85.9	50.7	422.0

Source: DWP Information Directorate: Work and Pensions Longitudinal Study, available at: www.dwp.gov.uk (accessed 4.4.06)

The Welfare Reform Bill, expected to become law in 2007, outlines some major reforms to IB. These changes will see IB and Income Support paid on the grounds of incapacity, replaced with a new benefit: the Employment and Support Allowance (ESA). Alongside this will be changes to the Personal Capability Assessment, which is being redesigned to assess an individual's capability for work, rather than their entitlement to benefits (as is currently the case).

While this change in emphasis is welcome, much rests on the details of the new method of assessment, which are currently under review and out for consultation. New claimants who are assessed as able to do some work-related activity will receive a 'work-related activity component', which will be paid in return for work-focused health-related assessments, work-focused interviews (WFIs), and some form of work-related activity. Non-compliance could lead to a reduction in benefit levels.

The existing stock of IB claimants will also be encouraged to participate in work-related activity. This approach should herald a shift towards a more client-centred approach to welfare-to-work, which is to be welcomed, as there is strong evidence to suggest this is effective (ERS 2005). Those with the most severe difficulties that are assessed as having limited capability to work will receive ESA with a 'support component', without conditionality attached. A drawback of this approach is that it effectively creates a two-tier system, and does not move on from the current practice of labelling some people as 'incapable'. It creates black and white categories of health and ill-health, of economic activity and inactivity, when, in reality, it is much more complex (Stanley 2004).

Overall, these changes are to be welcomed, particularly if they represent the beginning rather than the end of a programme of reform to make the benefits system more active and personalised. Not only will a focus on those claiming benefits related to sickness and disability particularly help regions like the North West, but there is also a strong body of evidence that supports this type of 'work first' approach to active labour market policies.

A number of studies in Europe and the US have demonstrated the efficacy of this approach (see, for example, Greenberg *et al* 2004). Furthermore, this finding has been supported by evidence from the UK (Robinson 2000). The Work Trials initiative encouraged employers to take on those unemployed for over six months for a trial period of up to three weeks, while participants continued to receive benefits as well as work expenses. Evaluations concluded that the typical participants in Work Trials increased their employment rate by 34 to 40 percentage points after six months (White *et al* 1997).

While these statistics are encouraging, they need to be handled with care, as the evaluation of the Work

Trials programme was not carried out using random assignment methods; participation in the scheme was voluntary, and, therefore, it would be fair to expect those who were most capable of gaining employment to be those who signed up for the scheme. Nevertheless, the success of Work Trials offers some evidence that many of the long-term unemployed are employable, and only need an opportunity to show their worth.

Further support is indicated by the analysis of the recent Pathways to Work pilots. Pathways to Work introduced mandatory WFIs (with a sanction of a 20 per cent reduction in benefit for non-attendance), and the development of a personalised plan of work-focused activity to get people back into or closer to the labour market. The analysis is preliminary, and, therefore, needs to be treated with some caution. However, early indications are that Pathways to Work has increased by approximately eight percentage points the number of people leaving IB within six months of a claim. Pathways districts have also increased the flow of people onto New Deal for Disabled People, compared to non-pilot districts (Blythe 2006).

While the full evaluation of Pathways to Work will not be published until 2008, this early analysis seems to support anecdotal evidence coming from pilot Jobcentre Plus districts. The Welfare Reform Green Paper (DWP 2006a) announced the roll-out of Pathways to Work, which is to be welcomed on the basis of this evidence. However, it is essential that this is adequately resourced, and includes help for existing IB claimants who wish to access support.

People aged 50 and over

Table 1.2 demonstrates that the over-50s have much lower rates of economic activity than those aged 25 to 49. Those aged under 25 also have a relatively low economic activity rate, but this will mostly be due to the high numbers who are in full-time study. Indeed, many of the individuals that are economically active will actually be students in part-time jobs.

Only in three local authorities in the North West do the over-50s have economic activity rates above the UK average – Cheshire, Bury and Stockport. Conversely, in Liverpool, Knowsley, Manchester and Salford, over 40 per cent of those between the age of 50 and retirement are not economically active. The low level of economic activity among those aged between 50 and retirement in the North West, when compared to the UK average, is made more striking by the fact that the North West performs close to or above the UK average for other age groups. However, for the older age group, in England only, the North East has lower rates of economic activity (Figure 1.2).

Figure 1.2: Economic activity rates for selected English regions and the UK as a whole, by age, January to December 2005

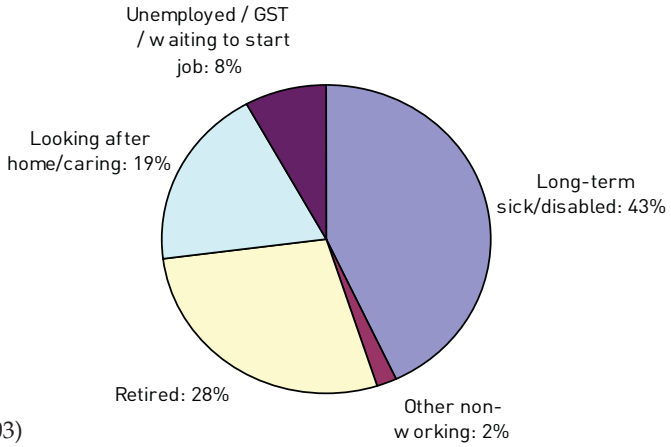
Source: ONS Annual Population Survey, available at www.nomisweb.co.uk (accessed 28.10.06)

Table 1.2: Economic activity rates in North West local authorities, by age, January to December 2005

	Working age	16-19	20-24	25-34	35-49	50-r'ment
Liverpool	67.9	48.2	72.8	71.9	79.2	53.3
Knowsley	72.3	50.8	79.0	82.7	79.3	56.0
Manchester	65.2	40.0	57.1	75.6	76.0	56.9
Salford	74.0	61.4	81.7	79.8	80.1	59.6
Wigan	77.8	64.0	69.7	86.3	86.5	64.1
Blackburn with Darwen	73.0	54.9	75.7	79.6	77.6	64.7
Halton	77.0	61.5	85.2	78.6	83.9	66.4
Tameside	77.7	58.3	84.8	82.1	85.6	66.7
Blackpool	76.2	63.7	76.5	83.4	81.3	67.0
St Helens	76.2	55.4	76.0	82.6	83.4	67.1
Cumbria	79.3	68.9	82.4	86.0	86.6	67.7
Warrington	80.8	61.6	90.6	85.4	89.7	67.9
Bolton	76.1	56.7	77.8	81.4	83.0	68.0
Sefton	76.5	50.9	80.6	84.7	84.3	68.5
Lancashire	77.8	58.8	76.7	85.0	86.3	68.6
Wirral	76.2	52.5	75.6	80.6	84.2	69.7
Trafford	79.6	64.1	77.3	87.7	86.0	70.2
Oldham	78.2	55.9	82.9	85.0	84.0	70.6
Rochdale	76.0	46.3	75.1	80.6	84.1	71.2
Cheshire	80.3	56.8	82.9	86.9	85.9	74.6
Bury	81.4	52.2	86.4	87.1	87.0	76.3
Stockport	84.4	65.4	80.8	91.7	91.0	76.4
North West	**76.6**	**56.0**	**76.8**	**83.0**	**84.4**	**67.6**
United Kingdom	**78.2**	**57.1**	**75.7**	**83.4**	**84.7**	**72.5**

Source: ONS Annual Population Survey, available at www.nomisweb.co.uk (accessed 28.10.06)

Figure 1.3: Characteristics of people aged between 50 and state pension age who are not working



Source: Humphrey *et al* (2003)

Figure 1.3 shows the results of a DWP-commissioned survey of a representative sample of people aged over 50 who were out of work. The survey participants were asked what their main reason for being out of work was. As the figure demonstrates, there are a number of reasons for the over-50s being out of work, including retirement, caring responsibilities and – by far the largest group – long-term sickness or disability.

Those who retired early are likely to have substantial savings, housing wealth and/or occupational pensions. However, there is also a large number of people in this age group who are actively seeking work, and other survey evidence suggests that over a third of people who are aged 50 to 64 and not in work would like to work again (TUC 2006). Indeed, Table 1.1 above demonstrated that sickness and disability benefits are significantly associated with age. It can, therefore, be expected that welfare reforms to support people claiming sickness and disability benefits back into work will also assist in increasing the employment rate of those aged 50 and over.

For the relatively small proportion of over-50s in the North West claiming JSA, the Welfare Reform Green Paper's alignment of employment support for older long-term unemployed people with that available for those in their 30s and 40s is welcome. This includes the introduction of mandatory participation in intensive back-to-work activity and the associated support programme of the New Deal 25 Plus, for those who have been claiming JSA for 22 months or longer (DWP 2006a). Not only will this additional support assist older workers as they attempt to re-enter the labour market, as surveys suggest many would like to (Humphrey *et al* 2003), but it introduces greater parity of support for people of working age seeking employment.

As Figure 1.3 shows, a significant proportion (19 per cent) of those aged between 50 and retirement who are out of work have caring responsibilities. While caring has risen up the policy agenda in recent years, the debate tends to revolve around childcare. While adequate and affordable provision of childcare is an important issue, which still needs to be addressed (it can impact on the over-50s in a parenting or grandparenting capacity), the debate needs to be rebalanced to include broader caring needs, including care for elderly relatives or a sick or disabled partner.

Work with employers on these issues is essential. Given demographic changes, the proportion of older people is set to grow, and the proportion of older workers in the labour market will grow accordingly. The demands of caring, along with a general desire to taper employment, rather than reach the 'cliff edge' of retirement (Robinson 2005), highlights the importance of greater flexible working and more part-time work for people moving towards employment. This will require a shift in attitude from employers, particularly as research shows employers often hold stereotypical views of older workers as less receptive to training, and resentful of younger people being senior to them (TUC 2006).

While the Employment Equality (Age) Regulations 2006 provide a mandate that should help to change attitudes, working with employers' organisations at all levels could still make an important contribution.

Lone parents

There are fewer significant regional differences for lone parent benefit. London has a particularly high proportion of lone parents claiming benefits, at 3.3 per cent in August 2005, compared to 2.2 per cent for Great Britain and 2.4 per cent in the North West. However, there are substantial differences in the proportion of people claiming lone parent benefits within the North West, with three local authority areas having a significantly disproportionate number of claimants: Manchester, Liverpool and Knowsley.

Since the mid-1990s, the proportion of lone parents claiming benefits has declined. During this time, there have been changes to the system of benefits, most notably the introduction of compulsory work-focused interviews (WFIs) for some lone parents, and the voluntary New Deal for Lone Parents, which provides personalised support and advice on childcare, training and work searches.

Over this time there have also been progressive changes to in-work fiscal support, such as the introduction of the Working Families Tax Credit, and, later, the Working Tax Credit and the Child Tax Credit, both of which were more generous than the Family Credit system they replaced, with better support for childcare expenditure.

The available evidence suggests that the introduction of WFIs has had a limited impact on moving people into work (Stanley *et al* 2004), and the effect is difficult to isolate from that of general economic growth and stability. However, there is strong evidence that the combination of policy reforms, particularly the

improved in-work support for lone parents, has helped to substantially raise the employment rate of lone parents (Gregg and Harkness 2003).

The Welfare Reform Green Paper proposes stepping up mandatory activity for lone parents, so that lone parents who have been on Income Support for at least a year, and whose youngest child is over 11, must attend a WFI every three months, and those whose youngest child is under 11 must attend an interview every six months. However, undertaking any work-related activity will remain voluntary. More intensive support during the first year of a claim, and a new premium payment (at a suggested level of £20 per week) for lone parents preparing for work will also be piloted (DWP 2006a). This latter proposal, in particular, would seem to be in keeping with the evidence that providing greater financial support for lone parents moving into work has been effective (Gregg and Harkness 2003).

A particularly important element to lone parents returning to work is being able to access adequate and affordable childcare, although changes to Housing Benefit, the National Childcare Strategy and the introduction of a new job grant of £250 for moving into work have all increased the support to lone parents leaving welfare and entering work. However, despite these changes, childcare still remains a central issue affecting employment rates among lone parents.

One in seven lone parents working 16 hours a week or less cites lack of affordable childcare as a barrier to employment (Harker 2006). The Daycare Trust's childcare costs survey finds that, on average, the cost of childcare in the North West is lower than the Great Britain average (see Table 1.3). However, this has to be considered in relation to the average earnings in the North West, which are below the UK average for both men and women. In the North West, average gross weekly full-time earnings are £450.00 for men and £351.60 for women, compared to UK averages of £471.50 and £371.80 respectively (ONS 2006). Moreover, data from the Labour Force Survey shows that people who enter the labour market after a period of unemployment or inactivity can expect to be paid considerably less than the average (Gregg and Wadsworth 2000).

The point here is that, while the average cost of childcare is lower in the North West of England than in Great Britain as a whole, it may still present a barrier to those looking to return to work or embark on training to improve employability.

Table 1.3: Average weekly childcare costs in the North West and Great Britain

	Nursery (under 2)	Childminder (under 2)	Nursery (2 and over)	Childminder (2 and over)	Out-of-school club
North West	£130	£110	£123	£103	£38
Great Britain	£142	£132	£133	£130	£40

Source: Daycare Trust 2006b

Furthermore, while the Working Tax Credit has played a very important role in making childcare more affordable for those in work, it is not available to those who are not in work, but who are taking steps to improve their employability. There must be alternative strategies put into place to ensure the cost of childcare is not a barrier, and to ensure affordable childcare is accessible to those engaged in return-to-work activities (Stanley *et al* 2006).

Finally, it is not just the cost of childcare that can act as a barrier to work, but also its availability. The Childcare Act (2006) has introduced a legal duty on local authorities to ensure there is sufficient childcare in their area to meet the needs of working families and families with disabled children. The Act specifically states that this means sufficient childcare to enable people to take up or remain in work, or undertake education or training that could be reasonably expected to lead to work.

How this comes to be interpreted, particularly the inclusion of education and training activities, remains to be seen, and, while the Act is a welcome development, a further question remains over whether local authorities will have sufficient resources to perform this duty effectively, and what consequences will await failing authorities (Daycare Trust 2006a). Furthermore, while the Act may require the availability of childcare for parents engaged in training, or returning to work, it says nothing about its affordability.

Low skills

Skills development plays a dual role within an economy. On one hand, skills have been identified as a key driver of productivity (HM Treasury 2006); on the other, they contribute to an employment agenda (DfES 2005, 2006). The report of the Leitch Review of Skills (2006) concluded that increasing the stock of working age people with higher level skills was most crucial for achieving higher UK productivity, while enabling unskilled and low skilled individuals to access training was an important route out of worklessness and to progression while at work. However, it is important to note that skills and education also play an important non-labour market role: in personal development and developing the capacity for independent critical thought (Margo and Dixon 2006).

As this paper is looking at an employment agenda in the North West, we focus on low skills and skills for the unemployed or economically inactive as the area of particular policy interest.

The skills profile of the North West is better than the other Northern regions in terms of higher level skills. As Figure 1.4 shows, the proportion of people with skills at Level 4 or above is below the England average, at 25 per cent, compared to 27 per cent for England as a whole; but higher than Yorkshire and the Humber (at 22 per cent) and the North East (at 21 per cent). However, the proportion of people holding no qualifications is 15 per cent, which is above the England average of 13 per cent. The only region with a higher proportion of people with no qualifications is the West Midlands.

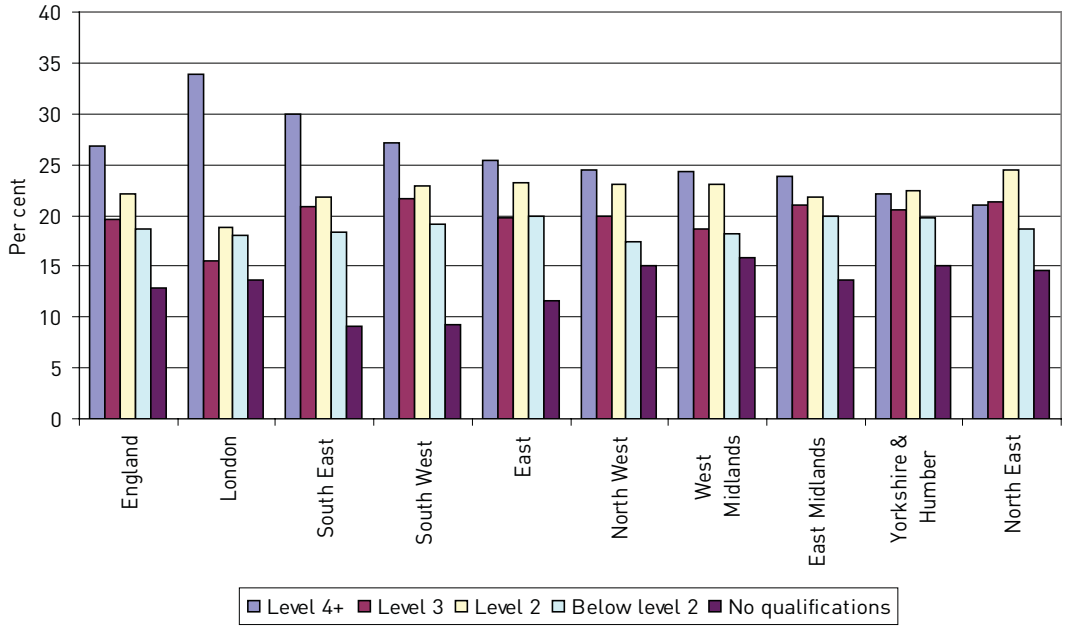
For this least well-qualified group, both employment and unemployment rates have fallen since the economic recovery of the 1990s, even though the employment rate overall has been growing (Adams 2005). This could suggest that many low-skilled individuals have moved to economic inactivity during a time of strong economic performance, which would be concerning.

However, an alternative explanation would be that more recent cohorts of school leavers without qualifications are less employable than older cohorts, simply because the proportion of school leavers with qualifications is increasing over time, and, therefore, the proportion of school leavers without qualifications is shrinking with each new group of school leavers, and will eventually include only the most disadvantaged young adults.

Further research in this area in the North West would be of particular interest, as there is a higher than average proportion of people with no qualifications.

Table 1.4 shows that individuals without qualifications have much lower employment prospects than their more qualified counterparts. However, the prevailing labour market conditions also have an important role to play. For example, the employment rate of the unqualified population was some 15 percentage points

Figure 1.4: Level of highest qualification held by people of working age, by region, 2005



Source: DfES 2006

higher in the East of England, an area with a tight labour market, than in the North West. Within the region, only a minority of local authorities have more than half the unqualified population in employment.

In contrast, there are fewer regional disparities in employment rates for graduates; and, in 2004/05, in Stockport, Wigan and Knowsley, over 90 per cent of those with Level 4 qualifications were in work. It is interesting to note that, even in the most depressed labour market areas, there were high levels of employment among graduates – Knowsley had one of the highest employment rates for graduates but the lowest employment rate for the unqualified.

Table 1.4: Working age employment rates by qualification level by region and North West LEA, 2004/05

	Overall levels	Employment rate of those with highest qualification at: *Level 4*	*Level 3*	*Level 2*	*Below L. 2*	*No quals*
South East	78.8	87.0	80.9	78.6	77.4	55.7
East of England	78.8	87.1	82.2	78.7	78.3	60.6
South West	78.6	86.9	80.1	79.7	76.8	56.1
East Midlands	75.6	88.1	79.2	77.4	73.7	53.5
Yorkshire and the Humber	74.4	88.2	77.5	77.4	73.1	47.9
West Midlands	73.8	86.8	78.8	75.9	72.5	51.4
North West	72.9	87.1	78.6	74.5	72.0	46.7
North East	70.2	85.9	77.8	73.6	66.4	41.1
London	69.2	85.5	69.8	66.6	65.2	41.3
England	**74.8**	**86.9**	**78.3**	**75.7**	**73.1**	**50.1**
Stockport	81.5	92.4	82.2	81.3	79.0	58.8
Cumbria	79.0	88.4	83.4	78.6	77.2	56.1
Warrington	77.8	87.4	79.5	80.3	79.1	52.9
Cheshire	76.9	86.1	81.1	75.6	76.9	50.3
Bury	76.7	85.7	82.4	77.5	75.2	53.4
Wigan	75.6	90.9	78.9	78.6	78.0	47.4
Bolton	75.4	84.8	82.0	74.4	74.5	55.1
Trafford	75.0	86.0	77.5	74.7	73.7	45.9
Lancashire	74.9	87.8	78.7	75.5	72.8	49.0
Tameside	73.9	89.5	84.6	75.3	70.2	49.9
Sefton	73.3	88.9	75.2	76.6	70.2	47.4
Rochdale	72.5	85.2	79.3	76.9	68.5	49.5
Oldham	72.1	88.3	80.9	80.8	70.9	44.3
St Helens	71.6	88.5	75.6	74.8	73.8	49.2
Wirral	71.4	87.8	78.4	67.8	72.2	47.2
Blackpool	70.6	85.8	73.4	75.7	69.1	53.2
Blackburn	69.2	88.2	79.6	70.0	67.1	42.0
Salford	68.5	86.1	82.3	70.2	65.1	41.2
Halton	67.7	86.8	76.0	71.6	64.3	46.4
Knowsley	65.9	93.5	75.5	75.7	72.4	34.4
Liverpool	61.9	79.6	73.4	67.8	64.0	37.2
Manchester	61.1	83.8	63.6	58.3	57.8	38.7

Source: Labour Force Survey, ONS (2005)

However, to put this into context, those with Level 4 qualifications constitute only 14 per cent of the working age population in Knowsley, compared to 30 per cent in Stockport (LFS 2005).

The current set of regional strategies emphasises the need to boost skills to meet the aspiration of a 'knowledge-based' economy. While it is important that regional strategies set out an aspirational vision of where the region is heading, it is also important that any skills programmes take into account the realities of the labour market (Delorenzi and Robinson 2005).

Table 1.5: Employment in the North West local authority areas, by Standard Occupational Classification categories, April 2004 to March 2005

	1. Managers and senior officials	2. Professional occupations	3. Associate prof and tech occupations	4. Admin and secretarial occupations	5. Skilled trades occupations	6. Personal service occupations	7. Sales and customer service occupations	8. Process, plant and machine operatives	9. Elementary occupations	Higher (1-3)	Middle (4-5)	Lower (6-9)
Stockport	19.8	13.0	15.9	14.6	8.0	6.5	7.8	4.6	9.7	48.7	22.6	28.6
Trafford	16.1	16.6	15.0	13.8	9.2	9.0	6.7	5.7	7.7	47.7	23.0	29.1
Cheshire	16.5	16.6	13.3	12.1	9.2	7.1	6.8	6.0	11.6	46.4	21.3	31.5
Warrington	17.4	14.9	12.7	12.0	8.3	5.8	9.1	7.5	12.2	45.0	20.3	34.6
Bury	16.1	10.4	14.1	13.4	9.9	7.9	9.9	8.5	9.8	40.6	23.3	36.1
Wirral	12.4	12.4	15.8	11.7	10.7	8.5	9.9	9.2	8.7	40.6	22.4	36.3
Lancashire	15.6	11.6	12.7	13.4	11.7	8.1	8.2	7.9	10.5	39.9	25.1	34.7
St Helens	13.8	12.0	14.1	11.3	10.7	8.5	8.6	9.5	10.8	39.9	22.0	37.4
Manchester	10.8	14.5	12.1	11.0	10.0	10.3	9.6	5.6	15.6	37.4	21.0	41.1
Bolton	13.4	9.2	14.1	13.6	12.0	8.7	8.4	8.7	11.6	36.7	25.6	37.4
Rochdale	13.9	9.4	13.2	10.2	11.3	9.6	8.1	8.7	15.6	36.5	21.5	42.0
Sefton	11.6	11.0	13.5	16.2	12.5	10.4	8.6	6.3	9.5	36.1	28.7	34.8
Tameside	13.1	8.3	14.4	14.0	12.3	7.1	9.8	10.4	10.2	35.8	26.3	37.5
Blackburn with Darwen	11.8	10.6	13.4	11.8	11.4	9.5	9.0	11.9	10.2	35.8	23.2	40.6
Cumbria	13.0	11.0	11.2	10.9	13.5	5.8	8.5	10.7	14.0	35.2	24.4	39.0
Salford	12.0	9.7	12.0	13.9	11.4	8.5	8.8	9.1	14.6	33.7	25.3	41.0
Liverpool	10.7	9.9	12.7	15.7	9.0	8.4	10.6	9.2	13.9	33.3	24.7	42.1
Halton	13.2	9.3	10.6	14.0	9.0	9.0	9.4	12.0	13.2	33.1	23.0	43.6
Oldham	13.0	8.7	10.0	13.6	13.6	8.7	5.9	12.7	13.8	31.7	27.2	41.1
Wigan	11.4	8.4	11.4	13.9	13.4	7.6	8.8	12.0	12.1	31.2	27.3	40.5
Knowsley	11.0	6.6	11.9	15.4	11.3	9.8	10.0	11.1	12.8	29.5	26.7	43.7
Blackpool	10.6	7.5	9.9	16.7	12.6	10.3	9.6	8.7	13.7	28.0	29.3	42.3
UK	**14.8**	**12.6**	**13.9**	**12.6**	**11.3**	**7.7**	**7.8**	**7.5**	**11.5**	**41.3**	**23.9**	**34.5**
North West	**14.0**	**11.6**	**12.9**	**13.2**	**11.0**	**8.1**	**8.5**	**8.4**	**11.8**	**38.5**	**24.2**	**36.8**

Source: ONS Annual Population Survey, available at www.nomisweb.co.uk (accessed 4.4.06)

Table 1.5 indicates that the North West currently has a lower proportion of its workforce in the higher management, professional and technical jobs than the UK average, although there are four authorities that have a higher than average proportion of residents in these 'higher' occupations: Stockport, Trafford, Cheshire and Warrington. Blackpool has the lowest proportion of its employment in higher occupations. The North West also has a higher than average proportion of employment in the 'lower' occupations, with areas like Knowsley and Halton nine percentage points above the UK average, and seven percentage points above the North West average.

Deprived communities

Before discussing the evidence, it is worth noting that there is no consensus about what constitutes a 'neighbourhood' or a 'deprived community'. The DWP's PSA target is to raise the employment rates of individuals living in the local authority wards with the poorest initial labour market performance. Meanwhile, what was then the Social Exclusion Unit (SEU), in what was then the Office of the Deputy Prime Minister (ODPM), published a report in 2004 examining concentrations of worklessness at the Census Output Area level – roughly equivalent to a street or a block of flats (SEU 2004).

The analysis of the 2001 census conducted by the SEU concluded that worklessness was 23 times higher in the worst tenth of streets than in the best. More than one quarter of unemployed people, and nearly one third of people on incapacity benefits lived on the worst tenth of streets. This worst tenth of streets was what the SEU defined as 'concentrations of worklessness'.

Concentrations of worklessness occur in all parts of the country, but the SEU concluded that they were not evenly spread throughout the country (SEU 2004). Almost 30 per cent of these occur in the North West alone, and 60 per cent are found in the North West, North East, and Yorkshire and the Humber. Only 10 per cent are in London, despite its high levels of worklessness. Adjusting these figures to take account of population size gives a more accurate picture. This reveals that more than a fifth of the streets in the North West are concentrations of worklessness (SEU 2004).

But, while there are clearly concentrations of worklessness in certain communities, policymakers who wish to tackle this situation cannot simply assume a straightforward causal relationship between the two. There are many factors that play a role in determining individuals' employment chances, and the area in which they reside is not necessarily one of the most important.

It is difficult to separate neighbourhood effects from other characteristics of individuals, such as educational attainment and socio-economic background. The best evidence on this comes from the United States and the Moving to Opportunity Program carried out in a number of major cities (Orr *et al* 2003). This randomised experiment moved families from acutely deprived neighbourhoods into better areas. The families received help finding accommodation, and were given financial support to pay for the higher housing costs.

The evaluations concluded that there were no substantive impacts upon welfare rolls, employment or earnings (Orr *et al* 2003, Goering 2003, Gibbon *et al* 2005). There were, however, positive effects in other areas, such as child and parent health, child behaviour, and youth delinquency.

This lack of a neighbourhood effect on employment would seem to back up the conclusions of an exhaustive review of the research literature on the effects of neighbourhood concentration (Ellen and Turner 1997). The review concluded that there was little or no area effect, and that those studies that did 'a particularly careful job of controlling for unobserved family characteristics found no independent neighbourhood effects, casting some doubt on the robustness of results from other studies'. Furthermore, there was no consensus on which of the factors at the neighbourhood level were most relevant, providing little guidance to policymakers.

In contrast, there is evidence that most low skilled jobs come by word of mouth or advertisements in windows (Gregg and Wadsworth 1996). In 2002, 38 per cent of employers stated that they used word of mouth as their main recruitment method (DWP 2002b). Therefore, being in an area with low employment rates may damage a person's chances of finding work, as informal information networks about employment opportunities are restricted. It is also possible that employers exercise postcode discrimination.

This raises a number of difficult policy questions for an area like the North West, where significant concentrations of worklessness are experienced. Despite the evidence suggesting there is not a significant

neighbourhood effect for employment, focusing on areas of concentrated deprivation may make sense in terms of outreach, making contact with the highest number of people most efficiently for a given level of programme spend (getting more 'bang for your buck') and increasing visibility and people's identification with and participation in initiatives (Kleinman 1999).

On the other hand, while this may be an appropriate level at which to reach out to people, that does not mean it is the most appropriate level for job creation. Indeed, overly localised job creation schemes are rather akin to targeting a leaky bucket (Gordon 1999), as those jobs will not necessarily be taken by deprived local people, but by anyone in the local labour market. This underlines the fact that deprived areas do not operate in isolation, and area-based initiatives need to integrate much more successfully with those at the broader regional and sub-regional level, linking areas of deprivation to areas of opportunity.

In practice, this could mean careful transport planning or skills training to provide access to new job opportunities in the labour market area, rather than creating jobs in the immediate local area. Unfortunately, it is not clear that this analysis always informs area-based initiatives, which will be less than fully successful, if their work is not integrated with that of surrounding areas. In particular, supply-side area-based initiatives to tackle worklessness will not be fully effective in increasing the rate of employment unless there is commensurate demand for labour across the TTWA.

A further drawback to an area-based approach to employment is that the majority of people claiming benefits for worklessness do not live in the most deprived wards (Kleinman 1999). This is highlighted by the Greater Manchester Expression of Interest in becoming a city strategy pilot area, which identifies 58 priority wards with a collective worklessness rate of 27.7 per cent. These areas are home to: 40 per cent of Greater Manchester's out-of-work benefits claimants; 44 per cent of JSA claimants; 38 per cent of IB claimants; and 48 per cent of lone parents (Greater Manchester Sub-Region 2006).

While these are clearly areas with high concentrations of worklessness, which may benefit from a geographically targeted approach, in each case, a majority of claimants live outside the identified priority wards. It is, therefore, vital to ensure that any area-based initiatives are complemented by measures targeted at individuals, no matter where they live.

However, this is not to say that the neighbourhood level is irrelevant. In his foreword to the Social Exclusion Unit's report *Bringing Britain Together: a national strategy for neighbourhood renewal*, the Prime Minister wrote: 'We all know the problems of our poorest neighbourhoods – decaying housing, unemployment, street crime and drugs. People who can, move out. Nightmare neighbours move in' (SEU 1998).

In truth, most people who move in are not 'nightmare neighbours' – rather, they are the economically weakest and most socially disadvantaged individuals in society. On the other hand, it is certainly true that those who can, will move out. The ability of the more economically active and stable households to move to other residential areas is one of the main reasons that some areas remain persistently and consistently poor. As the SEU argued, 'Too often policy-makers have acted as if it was possible to "turn round" one neighbourhood in isolation from the surrounding areas. But neighbouring areas depend on each other in all sorts of ways' (SEU 1998).

While neighbourhood effects may be marginal for employment purposes, tackling other aspects of social exclusion that result in geographical concentrations remains an important objective for public policy. As market forces are operating to translate inequalities in income and employment into geographical inequalities, through differences in house prices and rents, the role of housing authorities is crucial in this policy area. Housing and planning authorities have to take the objective of trying to create mixed neighbourhoods more seriously.

The Government lacks clarity over the appropriate spatial scale for different types of policy intervention. Regeneration policy at the neighbourhood level should focus on housing policy, particularly reducing residential segregation. The impact of a 'neighbourhood effect' on employment is vastly overestimated by policymakers, and the focus of employment policy needs to be at the broader TTWA.

2. Governance, structure and delivery

The previous section looked in some detail at the characteristics of various disadvantaged groups, and analysed them within a North West context. This section examines questions of governance, structure and delivery of policies designed to tackle worklessness, with a specific focus on skills for employment.

First, it considers questions of institutional capacity to deliver greater personalisation of the welfare system, before looking specifically at the delivery of skills for employment. It then goes on to consider two vital issues of the appropriate spatial scale for strategy design and delivery, and questions related to devolution and joined-up policymaking. Finally, it puts some of these issues in context by looking at the DWP's pilot City Strategies.

Institutional capacity and delivery

The Government is committed to rolling out the Pathways to Work programme across the county by April 2008. However, there is concern about the capacity of Jobcentre Plus to deliver. While the general approach of personalised, client-centred support seems to be an effective way of moving people from benefits into work (ERS 2005), it is a highly intensive process, far removed from simply administering benefits. As Jobcentre Plus is trying to introduce this approach, it is facing the twin pressures of the Gershon efficiency savings targets and the seemingly large turnover of personal advisers at Jobcentre Plus, both of which could have an adverse effect on the quality of service provided (Adams 2005).

The Gershon report requires the DWP to achieve a net reduction of 30,000 posts, and redeploy 10,000 extra staff to frontline roles (Gershon 2004). As Jobcentre Plus employees make up approximately 60 per cent of the DWP's workforce, it is possible that these changes will affect the ability of the DWP to actively help people move into jobs, rather than passively administering benefits. There is a commitment to not reduce the number of personal advisers. However, some are concerned about the impact that reductions in the number of back office staff will have on the workload of personal advisers, at a time when their workload is set to increase anyway, given the commitment to support the more long-term unemployed back into work (Adams 2005).

The response from the Government has been a commitment to procure far more from the private sector and the VCS. Greater use of the VCS, in particular, may be positive for those most marginalised in society, as the VCS is often more trusted than the public sector, and already working in those communities and with those individuals. In this sense, the commitment to increase capacity by working with other sectors is positive. However, there is some concern about what the DWP's proposed outcomes-based contracts might mean in practice.

Clearly, it is very important for the DWP to ensure that public services are provided effectively, and to an adequate standard, and to ensure the public receives value for money. However, if, in practice, outcomes-based contracts mean contracts where the primary criterion for success is the number of clients entering employment, there is less incentive to work with the hardest-to-reach groups, which are furthest from the labour market. These individuals often require support over a long period of time before they are job ready. However, a more nuanced understanding of outcomes, perhaps defining employability milestones, could satisfy this concern.

Given that this is the DWP's area of responsibility, it is, perhaps, understandable that they would pursue an agenda that focuses on strategies to move people into employment as quickly as possible as a key outcome. However, there are two important qualifications that preclude a full endorsement of this approach.

First, care must be taken in the way outcomes-based contracts are drawn up to ensure there is no perverse disincentive to cherry-pick the clients who are the most job-ready, at the expense of those that are more socially excluded. Second, while greater contracting with VCS employers is welcome for many reasons, it is essential that one of the areas of value-added provided by the voluntary sector – an ability to reach groups who are disengaged from mainstream programmes – is not lost amid this.

This important issue of strategies to maximise employment among the most disadvantaged groups will be picked up in Section 3, which looks more closely at the economics of the labour market.

Delivering skills for employment

In England, the central mission of Further Education (FE) is shifting away from lifelong learning and towards skills for employment (DfES 2006). This is perhaps well illustrated by the increasing role for employers in adult education. Most recently, the 2006 Pre-Budget Report indicates an expanded role for employers, particularly through Train to Gain. It also pledges to respond in full to the Leitch Review at the time of the Comprehensive Spending Review (CSR) 2007, and, in the interim, has created the post of Skills Envoy, to liaise with employers on skills (HMT 2006).

In practice, this means a three-pronged approach, focusing on: a first, full Level 2 qualification, young people, and basic skills training (Education and Skills Committee 2006). While these targets have had the effect of placing a greater priority on those most disadvantaged by their lack of skills, the approach is problematic for a number of reasons.

First, the blanket approach of the Level 2 entitlement fails to recognise the varying needs of different sectors and labour markets (Keep 2006). It also fails to recognise the varying needs of individuals, who may need flexibility to study a different level, depending on their ability or aspirations, or to study a part qualification rather than a full one (see Delorenzi 2007). Furthermore, evidence suggests that, in a large number of sectors, NVQ Level 2 qualifications carry no wage premium, and in some sectors, such as banking, insurance and finance, they even carry a negative wage premium (Adams 2005, Delorenzi and Robinson 2005).

These findings are disappointing in the light of the Government's commitment to a blanket Level 2 target, although, of course, additional benefits, such as improved labour mobility and job security, might be accrued by the individual. It is also possible that the achievement of a Level 2 qualification acts as a springboard towards higher level NVQs, which do carry a wage premium.

Second, the focus on young people, particularly restricting the full Level 3 entitlement to the under-25s only, means that those older workers that already have Level 2 qualifications, but either want to progress to a Level 3 or retrain in a different Level 2, are less likely to receive support. This is at a time when the Leitch Review of Skills (2006) has recommended shifting the balance towards Level 3 qualifications, and when the labour market will increasingly rely on older people returning to work or remaining in work, rather than new labour market entrants, due to demographic changes (Education and Skills Committee 2006).

This is particularly pertinent in the North West, where large numbers of people between the ages of 50 and retirement are currently economically inactive. It is essential that the region is able to draw on this experienced pool of labour, and that the individuals are adequately skilled to return to the labour market or remain in the labour market, should they want to. The entitlement to training should, therefore, be based on need, rather than on age (see Delorenzi 2007).

Third, there is plenty of evidence that those without any qualifications are particularly disadvantaged in the labour market, which has made the Government's focus on basic skills particularly welcome. However, this group is still the least likely to access training, and the least likely to experience good quality training provision (Leitch 2006, Delorenzi forthcoming).

The Leitch Review of Skills reported that only 11 per cent of JSA claimants with identified basic skills needs completed a basic skills course. Furthermore, the National Audit Office (2004) found that basic skills provision for Jobcentre Plus clients suffered from having less well-qualified staff and fewer resources than other training provision. In this respect, Leitch's recommendations regarding earlier and greater engagement of benefits recipients with training are welcome. The Leitch Review recognises the value of completing a training course, even if the participant secures employment partway through the course. Such a recommendation could make an important contribution to better linking welfare-to-work with progression and retention.

There is some concern among policy commentators that the Government's shift in the focus of adult learning policy, and the targets that have been set, may be adversely affecting the delivery of skills for those with the deepest skills needs (Meadows and Metcalf 2004, Delorenzi 2007). This, in turn, could undermine the Government's shift towards a 'skills for employment' agenda and the full employment aspiration, if some of those most in need are not accessing skills programmes.

In particular, there are fears that the focus on basic skills training and Level 2 qualifications is having the unintended consequence of undermining the FE sector's ability to promote social inclusion and widen

participation. The Government's approach has been to argue that it is right for 'leisure learning' to be paid for, and that what the economy needs is 'plumbers not pilates'. This may be correct, but evidence is already emerging that it is not just 'leisure courses for the middle classes' that are being squeezed or cut as the result of funding pressures. Recent evidence suggests that courses relating to social inclusion and outreach are also under pressure (Education and Skills Committee 2006).

Fees for leisure learning and personal development are also rising substantially. This comes at a time when employers are increasingly highlighting 'softer skills' as being of concern. In the North West, employers are particularly likely to raise concerns about communication skills, customer handling, team working, literacy and numeracy (LSC 2006).

It is here that the outreach and inclusion work of FE colleges and the VCS may contribute to the 'skills for employment' agenda, creating a platform for enhancing employability by reaching out to the most marginalised and drawing them into learning activities. Learning can raise confidence and enhance personal development (Margo and Dixon 2006). It can also be an important means of combating social isolation, and can have a number of positive effects on the wider community. While it may not directly result in employment, it may lay the foundations for progress towards employability, and towards other types of more formal training (Morell *et al* 2004), which may in turn lead to employment.

However, there remains a lack of concrete and generalisable evidence regarding the effect of informal education on employability, and no consensus over how to measure outcomes like increased confidence. Furthermore, these types of courses frequently do not lead to recognised formal qualifications, and are often not monitored or measured, making it difficult to quantify them as concrete steps towards employment (SEU 2004). The Government's intention is for local authorities, local Learning and Skills Councils (LSCs), and the VCS to work together in partnership, to ensure that an acceptable level of provision remains in these non-priority areas. However, it is unclear where the resources for this will come from, or how it will happen in practice.

A further barrier to the effective delivery of a skills-for-employment agenda is the disjuncture between employment policy (led by the DWP) and skills policy (led by the DfES) at a national level, as highlighted by the Leitch Review (2006). Questions remain regarding to what extent targets for these two departments and their agencies are aligned. The New Deal for Skills (HMT 2004) pilot programmes, such as the Adult Learning Option and Skills Coaching, suggest that thinking is shifting nationally. However, the two agencies' key targets remain separate.

Ultimately, the PSA outcome target for Jobcentre Plus and the DWP is to increase the number of adults entering employment, whereas, for the Learning and Skills Council (LSC) and DfES, it is to increase the number of adults with the skills required for employability. In practice, though, the outputs measured are basic skills training and Level 2 qualifications, not whether people have entered employment or whether their qualifications make them employable.

In order for this to be effectively achieved there needs to be a greater integration of departmental objectives, with shared targets for reducing long-term unemployment providing the backbone to these. Employment for the most disadvantaged must remain a priority for this government, and the CSR 2007 presents an ideal opportunity to introduce a shared PSA target for skills and employment that the DfES/LSC and DWP/Jobcentre Plus districts are jointly responsible for. It would also be beneficial to include DCLG in the target, given its responsibilities in relation to community regeneration.

Greater devolution and local flexibility

A number of the concerns outlined above reflect England's highly centralised approach to employment and skills policies – which is perhaps best typified by the inflexible blanket Level 2 entitlement. Greater devolution, enabling a more nuanced approach, tailored to local labour market conditions and the requirements of individuals in need of training, is likely to prove more effective. Potential evidence of this can be found in Table 1.4.

Every district experiences higher levels of employment in those holding Level 2 qualifications in comparison to those with no qualifications. However, comparisons between adults with qualifications at Level 2 and those with some qualifications *below* Level 2 are mixed. In Oldham, employment levels are 9.9 percentage points higher for those with Level 2 qualifications than for those below Level 2, whereas in the Wirral, employment rates for those below Level 2 are 4.4 percentage points *higher*.

It is important that central government – for example through a shared PSA target as outlined above – ensures that a certain minimum standard is delivered, but, rather than blanket entitlements, local flexibility to identify and respond to localised challenges and exceed the minimum standard in these identified areas must be complementary.

Furthermore, the North West region faces some specific challenges in terms of skills shortages. Surveys of employers in England find that the North West has a greater proportion of skills shortage vacancies (18 per cent), hard-to-fill vacancies (17 per cent) and overall vacancies (15 per cent) than its share of employment (13 per cent) (LSC 2006). While the methodology of asking employers to report on their skills gaps is contested, it remains the nearest approximation available to measure skills shortages.

This data suggests that the North West is facing a significant recruitment drive and greater problems filling vacancies than other parts of the country. This creates a number of opportunities for those currently out of work. According to employers in the North West, skills gaps occur particularly among skilled trades, sales, process, plant and machine operatives and the elementary professions (LSC 2006). Operatives and elementary professions typically require relatively little in the way of formal education and qualifications, but will involve some experiential development in work. It has, however, been suggested that skills shortages in some sectors, particularly those where low pay and shift work are common, may be overreported, with shortages resulting from aspects of the job that deter people from applying, rather than a lack of skills (Leitch 2005).

Tackling these more nuanced issues requires a more devolved approach to skills and employment. However, while filling skills gaps may be a legitimate rationale for an employer-led skills approach, planning of future skills needs must be done sensibly, as recognised by the interim report of the Leitch Review (2005). The approach to planning should focus on providing the maximum amount of information to the individual, enabling them to make choices based on an informed analysis of the costs and benefits. Only if this approach appears ineffective should the state seek to incentivise particular courses to address specific skills gaps, through subsidies, for example.

While there seems to be broad consensus that there should be greater devolution of skills policy, it is more difficult to find consensus on what is the most appropriate scale to devolve to – the regional level, the local authority level, or something in between, such as the city-region? The remainder of this section examines these issues in detail. We also examine the issue of whether *coordination* and *delivery* of skills policy need to take place at the same spatial scale.

The Regional Skills Partnership (RSP) brings together key organisations, including the Sector Skills Councils, the Learning and Skills Council and Jobcentre Plus, at the regional level, in order to set strategic priorities for the North West. Two of its eight priorities currently relate specifically to skills for employability (RSP 2005). While the region may be an appropriate scale for strategic coordination, to effectively deliver skills for employment, training must reflect the conditions of the labour market, meaning that the TTWA is likely to be a more appropriate scale.

TTWAs reflect the workings of the local labour market, and most jobseekers act locally when seeking employment or training (National Employers Panel 2004). Furthermore, as discussed in the previous section, even though the symptoms of disadvantage may be highly visible at a very local level, this does not necessarily mean that the solution is also found at that level. A more strategic view must be taken that links areas of disadvantage to areas of opportunity. Rather than trying to create jobs in deprived areas, this may mean ensuring that people living in deprived areas are able to access new jobs created in the wider area, for example through transport planning.

Building up a coalition of local LSCs, Jobcentre Plus, employers' organisations and other relevant stakeholders, including local authorities and employers, could be an effective way of better joining up skills and employment delivery in a way that simply cannot be achieved from the centre. This type of approach is already being taken in Greater Manchester and Merseyside, through the city-regional development plans.

In both cases, the cities have the opportunity to build on these developments as they have been selected to pilot the DWP's City Strategy, which will be discussed further below. While this suggests positive shifts in policy, to be effective it will require two notoriously centralised departments (DWP and DfES) to allow greater flexibility and discretion to their agencies at a local level.

However, there is concern about the complexity of the governance arrangements that are emerging, and the impact this could have on accountability. Central government initiatives continue to emerge, as do

initiatives like the city-regional development plans. There is a danger of duplicate structures being developed at the city-regional, sub-regional and regional levels, adding further complexity to an already opaque system. Much greater clarity is needed about the roles for different spatial scales and organisations.

As a city-regional approach will not be suitable for all areas of the North West, particularly, for example, in Cumbria, due to its small towns and large rural areas. The regional level is therefore likely to continue to play an important role in joining up activity and identifying gaps.

Developments at a city-regional or sub-regional level should focus on bringing partners together for delivery, and must nest within the relevant regional strategies. Continuing strong links and joint working between the regional and city-regional level, particularly between local authorities and the regional level, will be vital in order to achieve this.

Attempting devolution – the DWP 'City Strategy'

Major conurbations have long been recognised as having lower levels of employment than other areas of the UK, a fact reflected by hot spots of worklessness in Greater Manchester and Greater Merseyside in the North West. The Government's 2006 Welfare Reform Green Paper proposed piloting new consortia in cities that bring together public sector agencies – such as local authorities, Jobcentre Plus, local LSCs and PCTs – with private and voluntary sector organisations to help improve levels of skills, employment, retention, progression at work, and health. Target groups include black and minority ethnic communities, lone parents, older workers and recipients of incapacity benefit (DWP 2006a).

In the North West, Greater Manchester, Greater Merseyside and Blackburn have all secured the opportunity to be in the first wave of areas to pilot City Consortia.

The objective is to deliver high levels of flexibility for local areas by aligning or pooling budgets, and successful bids will receive some seedcorn funding from the DWP, through the Deprived Areas Fund (DAF). Each consortium will agree stretching targets with central government, to secure 'freedoms and flexibilities' to enable them to tackle specific local labour market issues. They will also have complete control over the DAF, although it will not be a large financial resource (DWP 2006b).

There are a number of features of this pilot that are to be welcomed. First, the focus on retention and progression at work is an important aspect of employment that has lacked specific policy attention. Currently, Jobcentre Plus has a key objective of getting people into work, and the LSC is focused on promoting increased levels of qualifications. But neither agency specifically focuses on the quality of jobs secured, or retention and progression once in work.

This is an important economic issue, as evidence from the Labour Force Survey shows that 'entry wages' for people entering the labour market after a period of unemployment or inactivity are much lower than average wages for people who have been in work for at least a year, controlling for other observable factors that affect wage levels, such as educational qualifications (Gregg and Wadsworth 2000). Also, repeated returns to benefits after a period in work are known to have a 'scarring effect' on an individual's future employment prospects (Robinson 2005).

A difficulty, however, has been a lack of good evidence about what types of intervention are effective, so different consortia piloting different approaches could be a good way of developing the evidence base, in addition to what is expected to come out of the Employment Retention and Advancement Demonstration project that is currently being evaluated by a consortium that includes the Policy Studies Institute, the Institute for Fiscal Studies and the Office for National Statistics.

Second, the experimentation with consortia at a city-regional level in Greater Manchester and Merseyside (and elsewhere in the UK) is welcome. These city-regions roughly equate to TTWAs, meaning that these consortia will operate on a similar geographic scale to the labour market, as discussed above. While the City Consortium pilot in Blackburn with Darwen is operating at a local authority level, data suggests that it is a relatively self-contained labour market, covering the unitary authority and the neighbouring districts of Ribble Valley and Hindburn (Lancashire Economic Partnership 2005).

Operating city strategies at a similar spatial level to that of the labour market will enable links to be made between areas of disadvantage and areas of opportunity (Adams *et al* 2003, Adams 2005, Marshall and Nathan 2006). For example, a workless person living in Broughton, Salford, may find employment within relatively easy travelling distance in Manchester city centre. This underlines that, while areas of

disadvantage may be highly localised, the solutions to disadvantage may not be.

Similarly, operating city strategies across a TTWA makes sense in terms of an appropriate and feasible scale at which to bring together employment and skills delivery, encompassing the private, public and voluntary sectors, and enabling partners to try to tailor skills provision to the specific needs of the local labour market. However, it is in the bringing together of a broad partnership that an important challenge lies.

There is little new money available for City Consortia – just seedcorn funding through the DAF. A key test will be whether the consortia are able to get partners signed up to agreed objectives and actions, and influence mainstream funding of other organisations. Real commitment from local LSCs, Jobcentre Plus, local authorities and PCTs will be vital, as they are major budget holders. However, this raises some important questions for central government.

How far employment is shared as a key outcome across different departments will be revealed by these pilots. For the pilots to work, other departments, such as the Department of Health and DfES, must allow their agencies – in the form of PCTs and local LSCs – to fully participate in city strategies, mainstreaming resources to meet locally agreed priorities. This will be a test not only for the Government's devolutionary rhetoric, but also of the commitment of other departments to the DWP's city strategy. This will only become clear as the plans become operational.

Furthermore, as discussed above, there is a danger that they will simply add to an already complex system. Consortia must be outward looking, ensuring their strategies nest into other regional and local ones. And they should be encouraged to learn from the experiences of Local Area Agreements (LAAs), and benefit from the existing governance structures – LSPs and Sub-Regional Partnerships, for example.

For this to work, there must be genuine devolution by the centre. However, the DWP is notoriously centralised, and Jobcentre Plus does not have a great record of engaging with local and regional partners (Adams 2005). For City Consortia to make a difference, it is vital that the DWP embraces devolution, and Jobcentre Plus must start punching its weight with regional and local partners, getting involved in strategic decision-making, and not acting simply as a commissioning and/or delivery organisation.

A further challenge is to the consortia themselves. If genuine freedoms and flexibilities are devolved to the consortia, it is imperative that they take advantage by tailoring their approaches to meet the needs of their long-term unemployed residents. Both local authorities and the DWP must to be open to fundamental changes in how employment services are planned, contracted and delivered. Old strategies cannot be simply recycled. Also, it is vital that City Consortia produce *strategies*, which coordinate activity, and not just new *initiatives*, which merely add to the layers of complexity, opaque governance.

The accountability mechanisms for the delivery of City Consortia will have to be established and agreed on locally at an early stage. Failure to grasp this opportunity to trial a more devolved approach would be disappointing, and seeing 13 identical strategies would be frustrating.

Another outstanding question is how workless individuals are to be targeted. Many consortia plan to focus on the wards and super-output areas (SOAs) that have the highest levels of worklessness (DWP 2006c). However, as discussed in Section 1, most deprived people do not live in deprived areas, so, while an area-based approach may make sense in terms of efficiency and visibility, it is vital that it is complemented by approaches designed to target individuals, wherever they are.

Furthermore, while low employment in cities is a problem that must be addressed, it is not just cities that suffer problems of worklessness. Other areas, such as former coalfield communities, some rural areas such as east Cumbria, and some small towns, for example in west Cumbria, also have low employment rates. While the City Strategy is generally to be welcomed, and it is still early days, there remain a number of important questions to be answered.

3. Improving access to labour markets: how best to remove the barriers

The previous sections have focused on individuals of working age who face particular difficulties in entering work, for example men and women experiencing sickness or disability, those aged over 50, lone parents, and the low skilled. In this section, we explore in more depth the disadvantages facing these groups by developing a theoretical framework for analysing, stratifying and prioritising the factors that inhibit entry to the labour market for the long-term unemployed and inactive. The analysis is highly abstracted, in ways that we will make clear later in the section. But it provides a useful starting point for conceptualising the problems, which future empirical research could usefully build on.

Long-term and short-term unemployment

It is important to distinguish between different types of unemployment. A certain degree of 'frictional' or 'search' unemployment is an essential part of the efficient operation of any market economy (Rogerson 1997). Firms lay workers off, or close down in some cases, as part of the continuing process of structural change in the economy, as resources – including labour and capital – are moved to their most profitable use.

In the relatively benign economic environment that has operated in the UK since the recovery from the recession of the early 1990s, frictional unemployment is likely to be short-term in nature. Large numbers of vacancies are available in all UK regions, although there is an ongoing shift from the manufacturing to the service sector, and workers displaced from industries that are shrinking as a proportion of UK employment may have to change careers to secure new employment.

Fortunately, however, the difficulties of the recessions of the early 1980s and early 1990s – where workers were laid off in such large numbers that local economies that had been dominated by old industries such as steel and coalmining were depressed, and took years to return to healthy operation – seem to be largely behind us. However, this does not mean that the Government can be complacent.

The groups identified in Section 1 face lower than average employment rates, which are largely *structural* rather than cyclical in nature. For men and women in these groups who have not worked for many years, if at all, the path into employment will normally present greater obstacles than for the short-term unemployed. Many people in this group will not be claiming Jobseeker's Allowance, or be actively seeking work, and so will not contribute to claimant count unemployment, or to the International Labour Organisation's internationally agreed definition of unemployment; hence, we use the term 'long-term unemployed and inactive' to describe this group.

In the absence of government intervention to enhance the chances of long-term unemployed or inactive groups finding jobs, employers are more likely to fill vacancies by using the short-term frictional unemployed than they are a long-term unemployed or inactive person. Indeed, recent evidence from the North East suggests that many employers prefer to use new sources of immigrant labour (often from the new EU accession countries) to the long-term unemployed – mainly on the grounds that they are perceived as keener to work, more attuned to the demands of the working environment, and, in many cases, better qualified (Pillai 2006). The long-term unemployed and inactive, therefore, face competition for job entry from both the frictional unemployed and migrant jobseekers.

An analysis of unemployment and inactivity

This report will develop the idea of using an image similar to an hourglass to visually represent the comparative situations facing the short-term frictional unemployed, and the long-term unemployed and inactive, respectively. Consider first the short-term unemployed. Assume that:

1. The employment rate is at a 'steady state', with no trend towards increasing or decreasing employment.
2. Vacancies for the short-term unemployed are reasonably homogenous; in other words, people who enter employment after a period of short-term unemployment can expect a broadly similar wage rate.
3. There is a single 'job queue' of short-term unemployed or inactive people waiting to enter work.

In these circumstances, the vacancy rate is constant, and there is a rate of 'churn' between the labour market and short-term frictional unemployment. This rate of churn will depend on the speed at which jobs are being created and destroyed in the economy, which will be a function of technological progress, the degree of competition in the product market, and the amount of regulation in the labour market.

Figures 3.1a and 3.1b show two possible scenarios. In 3.1a, the rate of job creation and destruction, and thus the frequency of churn, is low, whereas in 3.1b it is much higher. These examples are presented in order to contrast the case of short-term unemployment with the case of long-term unemployment, shown later in this section. Note that the flow between unemployment and employment is two-way in both figures 3.1a and 3.1b; the relative size of the 'sand piles' in the top and bottom halves of the timer does not change over time, due to assumption 1 (the 'steady state').

Figure 3.1a

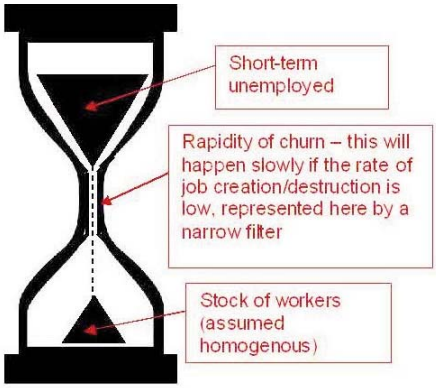
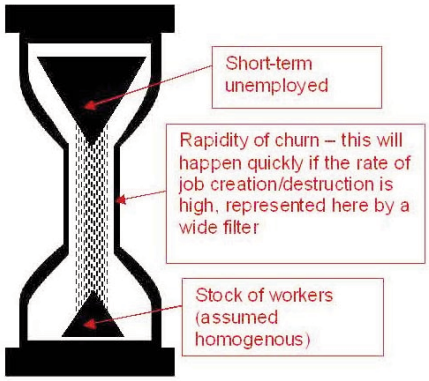


Figure 3.1b



We now move on to consider a comparable hourglass analysis for the long-term unemployed and inactive population.

In the short-term unemployment model, the sand flows freely through the 'neck' of the glass, with its rapidity determined only by the width of this neck (which acts as a visual representation of the level of job creation and destruction in the economy). Once the grain of sand closest to the neck of the glass has fallen through, the next closest follows it.

The hourglass model is a highly simplified and abstracted view of the labour market. In this model, once the most employable unemployed person finds a job, the next most employable replaces him/her at the front of the line. For the long-term unemployed, we no longer assume this 'single queue' model of the transition into work, but, instead, make the following assumption:

1. There is a set of barriers (call them, for example, A, B and C). Any one of A, B or C can prevent entry into work. Note that there could be any number of barriers – we have assumed three here for simplicity and tractability, but more could be added without affecting the basic structure of the model.

We also replace assumption 2 with an analogous assumption for the long-term unemployed/inactive:

2. The job vacancies facing the long-term unemployed/inactive are homogenous, that is there is one particular wage rate (the 'entry wage rate') for this kind of 'entry job', and all entry jobs require a basic set of 'employability' skills.

Assumption 1 (the 'steady state' equilibrium employment level) remains unchanged. Figures 3.2a and 3.2b correspond to the situations observed in Figures 3.1a and 3.1b respectively, but have been modified to incorporate the barriers faced by the long-term unemployed and inactive.

Figure 3.2a

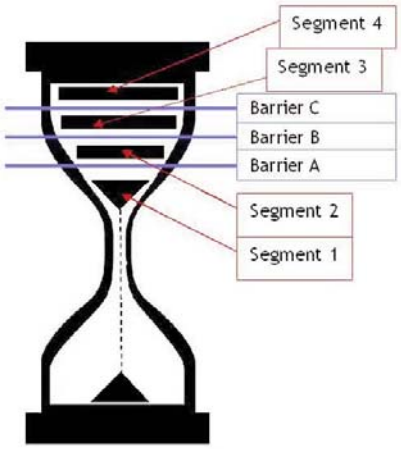
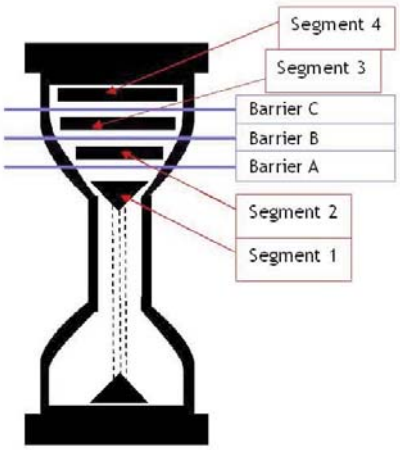


Figure 3.2b



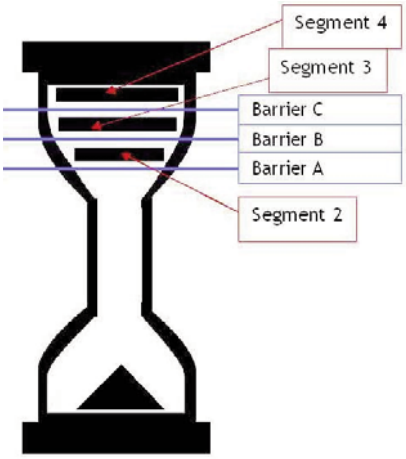
A low level of job creation and destruction is again represented by the hourglass having a narrow neck in Figure 3.2a. Segment 1 represents the most employable of the long-term unemployed, and, in a scenario where job turnover is low, as shown here, only a few of them successfully enter the labour market. Figure 3.2b begins to highlight the differences between the short-term and long-term unemployment scenarios. The rate of job creation and destruction has increased – represented by a widening of the neck of the hourglass – but only those in segment 1 are able to enter the labour market.

What happens if we now relax assumption 1 (the 'steady state' assumption), and assume that the level of employment is *increasing* over time? This implies that the job creation rate is greater than the job destruction rate, and corresponds to the situation that the UK has been experiencing for most of the period since 1993. An increase in the job creation rate could occur for several reasons, for example:

- Recovery from a previous recession (as occurred in the UK in the mid-to-late 1990s).
- An exogenous increase in product demand (due, for example, to increased demand for UK exports, arising from strong growth abroad), which means that UK firms can boost output without creating inflationary pressure.
- Successful reforms to UK product and labour markets that decrease the Non-Accelerating Inflation Rate of Unemployment (NAIRU), and, hence, raise the sustainable rate of employment in the UK without increasing wage and price inflation.
- Increased labour supply (for example, if the UK manages to achieve reductions in the number of unskilled workers in the working age population).

Figure 3.2c shows what could happen to the stock of long-term unemployed and inactive people in the UK if the job creation rate increases, but barriers A, B and C are not removed or eased.

Figure 3.2c



In Figure 3.2c, all the people in segment 1 have entered the labour market (notice that there is more sand in the bottom half of the hourglass), but segment 2 is prevented from entering the labour market by barrier A, segment 3 is prevented from entering the labour market by barriers A and B, and segment 4 is prevented from entering the labour market by barriers A, B and C. Figure 3.2c clearly exhibits that long-term unemployment and inactivity has been reduced, compared to Figure 3.2b, but the outcome is still a long way from being optimal, because segments 2, 3 and 4 of the long-term unemployed and inactive are still prevented from entering the labour market.

What are these barriers?

A situation like that depicted in Figure 3.2c represents a missed opportunity, because barriers A, B and C have prevented employment increasing as much as it could have done had they been absent.

The terminology used in figures 3.2a, 3.2b and 3.2c is intentionally vague. Specifically, barriers A, B and C have not been identified. This has been done to maintain flexibility in the model. As discussed in the previous section of this work, local flexibilities are integral to the delivery of effective interventions to reduce long-term inactivity and unemployment.

It would be fair to expect issues such as basic skills deficiencies, mental health problems and homelessness to feature in many areas, but presumptuous to assume that they will be arranged uniformly across localities. As we explain at the end of this section, more empirical work, and better data availability, are necessary to identify the particular barriers to work that may be most inhibiting in the North West.

Stratifying and compounding barriers

The conventional wisdom that has pervaded recent debate on reducing long-term unemployment has focused on the compound nature of the challenges faced by individuals in entering work, which correspond to the barriers shown in Figures 3.2a, 3.2b and 3.2c.

By the *compound* nature of the barriers, we mean that, if an individual faces barrier x (illiteracy, for example) then the same individual's likelihood of facing barrier y (homelessness, for example) may be higher (or lower) than if one does not face barrier x. Thus, the barriers may not be simply additive in nature (as Figures 3.2a to 3.2c suggest), but may be *multiplicative*.

In mathematical terms, the individual faces a 'compound premium', which we shall call z. If $z>1$, then the individual faces positive compounding. If $z=1$, then no compounding takes place, and the aggregate 'barrier' is simply the sum of the individual barriers.

It is also possible, although, in this instance, unlikely, that $z<1$. This suggests that each additional barrier faced by the individual increases their chances of entering the labour market. Richard Berthoud's (2003) analysis of the relationship between factors of labour market disadvantage in combination rather than isolation suggests that the compounding is neutral (that is, $z=1$).

Whether the barriers can be stratified clearly, as depicted in Figures 3.2a, 3.2b and 3.2c, depends partly on the compound issue explained above, but also on the availability and understanding of data at a given geographic unit. TTWAs are probably the most appropriate level at which empirical analysis of the barriers can be carried out. Below, we discuss the data requirements and technical challenges facing empirical researchers looking at this phenomenon. In addition, it is reasonable to question where those who become long-term unemployed (that is, those flowing 'back up' the hourglass) enter the model. The answer is that this will be determined by the barriers preventing them from entering the labour market, and that they will not necessarily start at the 'back of the queue'.

Policy implications

The hourglass analogy does not, in essence, act as a prescriptive tool. Furthermore, it does not purport to offer an instantaneous solution to long-term unemployment and high levels of economic inactivity in the North West. Its added value lies in providing a framework that encourages clarity, enabling policymakers to effectively prioritise areas of underperformance that they wish to address.

Figure 3.3a

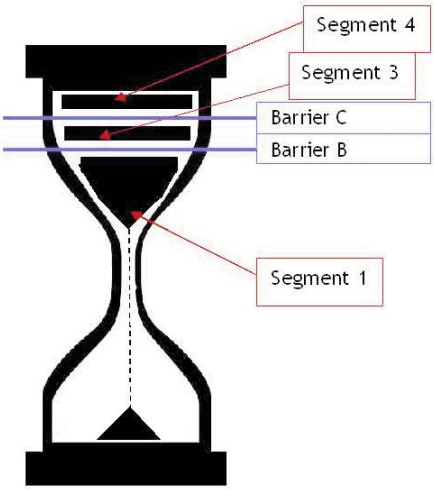
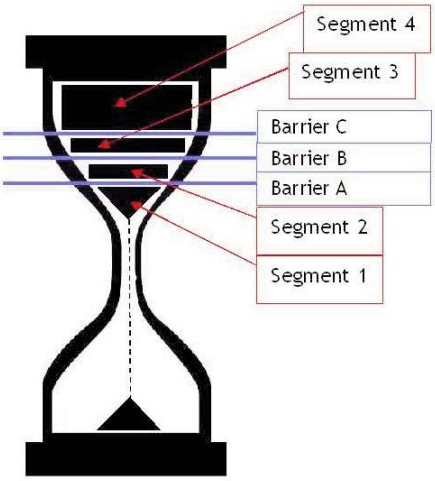


Figure 3.3b



A scarcity of financial resources available for government departments to allocate to labour market policy demands that decisions are taken over which barriers to remove. Let us assume that completely removing all three barriers simultaneously is not a viable proposition. In such a situation, figures 3.3a and 3.3b

illustrate a choice that policymakers will face: whether to focus on the most employable segment of the long-term unemployed and inactive; or whether, instead, to try to introduce measures that enable even the most remote segments to access the labour market.

Figure 3.3a takes the first approach – resources are channelled towards completely removing barrier A. It disappears, and segment 2 is subsumed into segment 1. Those in segment 3 and 4 do still benefit from such an intervention; there is now one barrier less preventing them from accessing the labour market, although, admittedly, they will only really appreciate this if and when barriers B and C are removed.

Figure 3.3b adopts a different approach. By partially removing all three barriers, all three restricted segments (2, 3 and 4) can potentially access the labour market. Given that resource constraints determine that all three barriers cannot be completely removed, this option would be in the best interests of those in segments 3 and 4. They will now have the opportunity to compete with those in segments 1 and 2 for the available jobs. In an arena of notoriously imperfect information, the trade-off often seems to be between pragmatism and equity.

If localities can improve the richness of the data available to them, they can use the analogy to inform their policy decisions more effectively. Whether to attempt to completely remove one barrier or remove some aspects of all barriers is a decision that can be hugely influenced by the distribution of long-term worklessness, and, thereby, the relative size of each segment.

Figure 3.4a

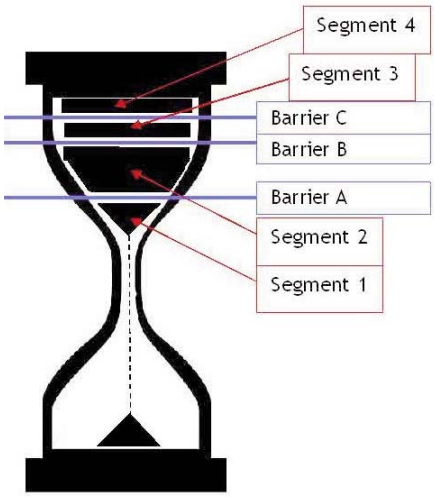


Figure 3.4b

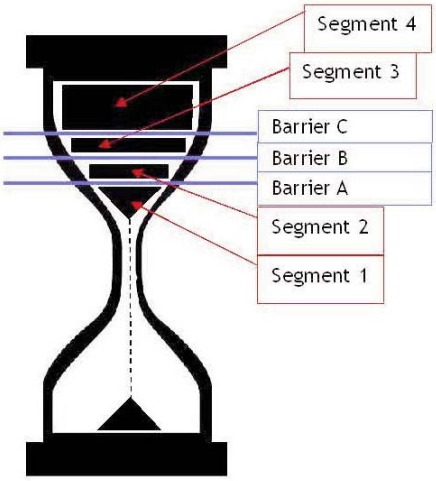


Figure 3.4a shows segment 2 to be relatively large in comparison to segments 3 and 4. If the data that was gathered in a locality indicated that the distribution of people who were long-term unemployed and/or inactive looked something like Figure 3.4a, then a policy to focus investment on removing barrier A (as in figure 3.3a) appears appropriate.

This can be practically applied to the employment rates, comparing those with qualifications below Level 2 to those with Level 2 qualifications, in Oldham (see Table 1.4). It appears that approximately 10 per cent more people are employed once they attain Level 2 qualifications, as opposed to with qualifications below Level 2. It might be fair to expect the distribution of Oldham's long-term unemployed to resemble figure 3.3a, with barrier A being Level 2 skills. Effectively tackling such a barrier has a relatively high impact on the level of employment.

However, if the data indicates a distribution more similar to Figure 3.4b, then removing barrier A is going to have relatively little overall impact. The majority of the long-term unemployed and inactive groups are found in segment 4, and, while (as explained above) they can benefit from the removal of barrier A, this benefit would only be fully realised if and when barriers B and C are also removed. A better alternative in this instance would be to pursue a strategy similar to that used in Figure 3.3b, where all of the barriers are partially removed.

Limitations of the hourglass model

The analysis we have set out in this section is only a starting point as a guide to policy – it is extremely simple, and suffers from a number of limitations. Here we discuss these limitations, and how we might improve the model to increase its usefulness.

1. Sequencing and transitivity of the barriers

As we have drawn in Figures 3.2a and 3.2b, the barriers to work are sequential in nature; a long-term unemployed or inactive person in segment 4 of the diagram has to overcome barrier C before barrier B, and then finally barrier A. It is possible that, in reality, someone might have to overcome the barriers in a different order. It is also possible that the barriers to the labour market do not operate in a 'transitive' fashion, so that (for example) there might be a group of people who are restricted by barriers A and C, but not by barrier B. The model can be amended to handle these more complex cases, although it becomes harder to visualise them on a simple diagram like Figure 3.2a

2. Calibre and variation in entry-level jobs

The model assumes that there is only one type of job that short-term unemployed people will move into, which pays the average hourly wage, and, similarly, a single type of job that long-term unemployed or inactive people move into, which pays an 'entry wage' (lower than the average wage).

This is extremely simplistic, as, in reality, those who have removed all significant barriers to entering the labour market will not all have an identical level of employability, or identical characteristics. Empirical research suggests that the entry wage is significantly lower, on average, than the average wage across all workers (Gregg and Wadsworth 2000), and that people entering the labour market after a long period of unemployment or inactivity earn significantly less on average than those entering work after only a short period of unemployment (Gregg *et al* 1999).

But there is a distribution of different wages at which people might enter work, depending on their personal characteristics, the length of time they have previously spent out of work, and the characteristics of the job they are moving into.

Fortunately, it is possible to estimate empirical models that take all of these factors into account, although good quality data is required to make the best of this kind of model. We discuss data and methodological issues further below.

Modelling the determinants of job entry and exit in the North West – the data and methodological requirements

In principle, it is possible to estimate an econometric model of labour market transitions – that is, entry into and exit from work – that would allow us to examine the main factors affecting entry into the labour market for the different groups examined in Section 2 of this report. Examples of this type of empirical work include Gregg *et al* (1999), who looked at the effect of tax and benefit reforms during the 1990s on the likelihood of entering work; and Myck and Reed (2006), who looked at job entry and exit by people with work-limiting disabilities. Both of these studies are national rather than regional, however.

To estimate an econometric model of the determinants of job entry and exit, very good quality data, collected from a sample of individuals, is necessary. For each person in the sample, the following data is required:

- Basic personal characteristics (for example, whether the person has children or not, whether he/she is single or in a couple, whether he/she has a work-limiting disability, whether he/she holds any qualifications, the person's age, and so on). This allows us to allocate the person to one or more of the groups outlined in Section 2.
- Whether the person is in receipt of benefits, such as Income Support or IB (and, if so, the amounts being paid).
- The length of time the person has been unemployed or inactive for.
- Information on where the person lives – the more detailed, the better. (At a minimum, to do an analysis for a single region, such as the North West, we would need information on the local authority in which the person lives; ward-level data would be better still.)

- For people in work, we would need information on their hourly earnings and weekly hours of work.

It is necessary to have this information in a *panel* format, where each individual person is interviewed several times over a long period. Ideally, we would need annually-collected data over several years, or quarterly data over a shorter time period.

If suitable data is available, it is possible to estimate an econometric model that relates the number of people entering and leaving work over a given time period – a year, for example – to their personal characteristics, and to labour market conditions. Such a model allows us to begin to identify the barriers to work shown in the hourglass model above. For example, if low skills are a barrier to employment, then the model should show that people who have no qualifications are significantly less likely to enter work, controlling for all other factors, using regression analysis.

Furthermore, it is possible to examine whether different factors compound each other, as mentioned above – for example, low skills and old age, or disability and lone parenthood. This can be done straightforwardly in the model, by *interacting* the variables for these different factors.

Unfortunately, at present, it is not possible to build a model of this type to look at a specific region such as the North West. This is because the existing UK panel datasets that contain all the information listed above (the Labour Force Survey and the British Household Panel Survey) are simply not large enough to allow a sophisticated model of this type to be estimated with any accuracy.

For example, a typical quarterly panel of the Labour Force Survey only contains 6,000 households from the North West region; and the British Household Panel Survey is much smaller. Therefore, it will be necessary to collect extra data on the region, either by boosting national samples, or by designing a new bespoke survey from scratch, for this purpose. This is a costly undertaking, but, nonetheless, it represents our best chance of understanding more about the severity of the different barriers to work that exist, and which groups are the most affected. This, in turn, would enable RDAs and other regional partners to develop effective policy solutions in the best way.

Policy recommendations

- Certain characteristics – being a lone parent, being aged over 50, lack of skills – can be major barriers to employment, and individuals experience different combinations of these barriers. The increasing personalisation of welfare-to-work support is a move in the right direction.
- The roll-out of Pathways to Work can make a significant difference in the North West, because of the high proportion of people claiming IB. However, roll-out must be adequately resourced, including provision for existing IB claimants.
- The cost of childcare remains a key barrier to employment among lone parents. Tax Credits have helped make childcare more affordable for those in work, but alternative strategies must be put into place to ensure the cost of childcare is not a barrier for those engaged in return-to-work activities
- Young people currently have a greater training entitlement than older people of working age, yet employment rates among the over-50s in the North West are particularly low. Entitlement to training should be based on need, not age.
- Current DfES policy has a tendency to focus on 'skills for skills' sake' and DWP targets can result in people entering employment before they are appropriately equipped. The DfES and DWP must acknowledge their shared ambition and work together to reduce worklessness and increase sustainable employment.
- There is consensus that the lead agencies should work more closely to achieve a growth in sustainable employment, through better alignment and, ultimately, a shared PSA target.
- The DWP Cities Consortia pilots are an opportunity for localities to implement some of the indigenous policies that they have long sought the freedom to develop. These will only be realised if central government genuinely devolves the necessary powers. Equally, the consortia must learn lessons from existing bodies, such as LSPs.
- Evidence shows the DWP's 'work first' approach is successful. It is important that Jobcentre Plus retains the capacity to deliver this strategy, and that care is taken to ensure it is not undermined by the need to meet back-office efficiency savings.
- The move to greater contracting with the VCS and private sector could bring great benefits. However, the move to outcomes-based contracting must not put organisations off working with those furthest from the labour market. The understanding of outcomes must be more nuanced than simply 'job entry'.
- Agencies should not become preoccupied with trying to locate new jobs in the most deprived areas. Instead, more attention should be focused on improving links, for example transport links, between deprived areas and buoyant commercial centres.
- It would be extremely useful if more detailed data could be collected on the North West region in a panel format. This would enable researchers to build on the theoretical framework we have developed here, by estimating econometric models to help determine whether removing particular barriers, or chipping away at a range of barriers, will have more impact on long-term worklessness.

Appendix A

Claimants of key benefits in the North West as a percentage of the working age population, August 2005, by statistical group and local authority

	All	Unemployed	Sick and disabled	Lone parent	Other
Cheshire					
Chester	12.4	1.5	7.9	1.5	1.5
Congleton	9.8	1.4	6.0	0.9	1.4
Crewe and Nantwich	12.5	1.7	7.3	1.7	1.7
Ellesmere Port and Neston	15.0	1.9	9.1	1.9	2.0
Halton	22.0	3.1	13.0	3.3	2.6
Macclesfield	9.1	1.1	5.8	1.0	1.2
Vale Royal	12.6	1.7	7.7	1.5	1.8
Warrington	12.8	1.7	8.1	1.4	1.7
Cumbria					
Allerdale	15.5	2.3	9.4	1.7	2.1
Barrow-in-Furness	23.5	2.9	15.8	2.2	2.7
Carlisle	14.5	2.1	8.9	1.8	1.6
Copeland	18.3	2.8	10.8	2.2	2.4
Eden	8.2	0.6	5.6	0.7	1.3
South Lakeland	9.4	0.9	6.2	0.8	1.4
Greater Manchester					
Bolton	18.2	2.7	11.0	2.3	2.2
Bury	15.0	1.9	9.6	1.8	1.7
Manchester	23.5	3.7	13.2	4.4	2.0
Oldham	18.6	2.5	11.3	2.7	2.1
Rochdale	20.1	2.7	12.5	2.7	2.3
Salford	21.4	2.7	13.5	3.2	2.0
Stockport	12.6	1.5	7.8	1.6	1.6
Tameside	18.4	2.3	11.8	2.4	1.9
Trafford	13.1	1.7	8.2	1.7	1.5
Wigan	18.7	2.4	12.5	1.8	2.0
Lancashire					
Blackburn with Darwen	21.0	2.9	12.7	2.9	2.5
Blackpool	23.1	2.9	14.7	2.9	2.6
Burnley	20.8	2.4	13.6	2.9	2.0
Chorley	12.0	1.5	7.9	1.2	1.5
Fylde	11.5	1.1	7.8	0.9	1.5
Hyndburn	19.3	2.1	12.6	2.4	2.1
Lancaster	14.5	2.0	8.9	1.9	1.8
Pendle	17.7	2.1	11.3	2.1	2.2
Preston	17.2	2.7	10.2	2.2	2.0

Ribble Valley	8.7	0.8	6.1	0.5	1.2
Rossendale	16.4	1.9	10.9	1.8	1.9
South Ribble	11.4	1.4	7.4	1.1	1.6
West Lancashire	16.2	2.7	9.4	2.1	2.2
Wyre	14.0	1.3	9.3	1.4	2.0
Merseyside					
Knowsley	27.9	3.9	16.1	4.7	3.3
Liverpool	27.2	5.1	15.3	4.1	2.7
Sefton	18.8	2.8	11.5	2.4	2.2
St. Helens	21.1	2.9	13.1	2.7	2.5
Wirral	21.2	3.2	12.5	3.0	2.5
North West	18.0	2.5	11.0	2.4	2.0
Great Britain Total	14.8	2.4	8.3	2.2	1.8

Source: DWP Information Directorate: Work and Pensions Longitudinal Study, available at www.dwp.gov.uk (accessed 4 .4.06)

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Note: web references correct February 2007

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