

Education and Life-Long Learning Committee

National Economic Development Strategy: Economic Inactivity in Wales

This paper was prepared for and discussed by the Economic Development Committee on 15 November 2000. It is provided for the Education and Life-Long Learning Committee for information.

Purpose

To provide the Committee with a summary of the barriers to economic activity in Wales and the measures in place to address them, as a part of the process of developing a new National Economic Development Strategy for Wales.

Economic inactivity in Wales

A person is said to be economically inactive on the internationally standardised definition used by the ILO if they have no job and have either not looked for work in the last four weeks or are not available for work in the following two weeks (people who have looked for work and are available are classified as unemployed). As a topic for analysis, discussion and action planning, economic inactivity crosses several Committee portfolios, in particular the social disadvantage agenda, and wades deeply into significant policy areas reserved to the UK Government, such as taxation, welfare benefits and employment policy. However the topic is of particular relevance to the EDC. Most of the gap in the employment rates of the working age population between Wales and the UK is directly explained not by differences in the unemployment rate of working age people, but by the greater proportion of working age people in Wales who are inactive. If sufficient people moved from economic inactivity into jobs in Wales so that the proportion of the working age population who were inactive fell to a similar level to the UK, and if those people were as productive as those currently employed, then somewhere between a third and a half of the GDP per head gap between Wales and the UK would be closed.

The extent of the problems and some of its immediate causes are set out below. However, it seems likely that at least some of the excess inactivity in Wales represents "hidden" unemployment - people who, if the labour market had been more buoyant, would have been willing and able to take jobs. Inactivity particularly affects older, less skilled workers whose labour market prospects are relatively poor. There seems little doubt that the origins of the problem lie in the decline in the demand for older unskilled workers. Part of any attempt to alleviate the problem of economic inactivity therefore has to include the traditional economic development agenda of providing jobs for people to fill but it is also possible that deficient demand has led to problems on the supply side, and it is these issues that this paper addresses.

There are many reasons why people of working-age may be neither in, nor seeking, employment. Often there will be a combination of factors, all critical, some about self improvement, and others wider, community concerns. Key issues include:-

lack of skills (basic, interpersonal and occupational);

lack of confidence;

lack of motivation;

lack of jobs;

lack of transport;

upbringing;

caring responsibilities, particularly childcare;

disability;

discrimination because of ethnicity, gender, disability or age;

debt;

"benefit trap";

the informal economy;

discrimination because of past behaviour - criminal offence or substance abuse.

For people from ethnic minorities these barriers can be more significant, and there can be additional difficulties which can discourage and lead to economic inactivity. For example, when recruiting, the need for qualifications rather than skills in some instances has been shown to be unjustified. This particularly affects people from ethnic minorities as children from certain ethnic minority communities achieve fewer academic qualifications in school than their white counterparts. In addition, ethnic minorities who have achieved qualifications from abroad are sometimes disregarded as they do not have the standard "British Qualifications". It should also be noted that ethnic minority graduates are 16 times less likely to find employment.

The whole recruitment process may be a barrier - from the advert, which may ask for certain qualifications, or be phrased in a particular way, to the application form. Employers need to think about the nature of their work and ask if the questions are relevant. The sifting and interviewing process generally involves white middle class men, who research has shown are more inclined to look for someone fitting their own ideals. Even if they do recruit someone from an ethnic minority background, they may expect them to comply with their "ideals" instead of embracing the differences and valuing the diversity that people from other cultures bring.

Issues that can impact on the economic activity of ethnic minority women include the fact that some cultures or traditions may forbid women to work, while the uniforms imposed on staff by certain employers (such as having to wear a skirt) can be a barrier to ethnic minority communities which expect their women to cover their legs and arms.

Scale of the problem in Wales

The charts at Annex 1 illustrate levels of inactivity in Wales compared to UK, including analyses by gender and by age-group and reasons for inactivity.

Charts 1 and 2 show that Wales has persistently had working-age population inactivity rates of between four

and six percentage points higher than the UK average.

The inactivity rates in Wales are higher than the UK for both men and women.

The UK - Wales **gap** tends to be a little higher for men than for women but women are more likely to be inactive than men.

Over time, activity rates have tended to rise for women and fall for men.

Chart 3 shows the major reasons reported by men for being inactive in Wales and the UK in Spring 2000.

For 16-24s, the most important reason for inactivity was being a student.

For other age groups, the most important reason was self reported long-term sickness.

Most of the difference between activity rates in Wales and the UK for the over 25s is explained by higher self-reported long term sickness in Wales. Much of the difference occurs amongst those aged 50 and over.

Chart 4 shows the analogous position for women of working age.

"Looking after the family home" is a significant additional factor in inactivity among women, but being students and long-term sickness are also important.

There is little difference between the proportion of women inactive because of "family responsibilities" in Wales and the UK in the 25-49 age group but both above and below that age the proportion in Wales is higher.

For women aged 50 and over, self reported sickness is the most important reason for inactivity.

The difference in activity rates for women in Wales and the UK is partly due to self-reported sickness, , and partly family responsibilities.

Chart 5 shows how the reasons for inactivity vary across the UK.

Wales has significantly higher inactivity rates than anywhere else except North East England and Northern Ireland.

Wales has the highest proportion of self-reported long-term sick people.

In addition to these bare facts we also know a little more. There is a strong geographical pattern within Wales, with the South Wales Valleys having particularly high rates of inactivity and sickness.

Both self-reported sickness and the number of Invalidity/Incapacity Benefit claimants have increased very substantially since the early 1980s in **both** Wales and GB.

Health problems reported are musculo-skeletal (by far the largest), breathing problems, heart problems and depression.

There is no firm evidence that the general health of the population of either Wales or GB is **deteriorating**. On

most measures (eg life span) it is improving, but there is firm evidence that health **levels** in Wales are poorer than in the rest of GB.

Wales has a higher proportion of working age population who are inactive long-term sick but who want to work than GB as a whole.

Measures to address inactivity

A. Stemming the flow of people into inactivity

Root causes of economic inactivity in adult life can emerge at an early age, through poor performance in school (perhaps linked to experiences at home) or lack of direction on leaving school. The following initiatives are all funded via the National Assembly.

Practical advice for schools and local education authorities on preventative actions aimed at **reducing truancy** was issued by the National Assembly in 1999. Schools have been asked to concentrate on early intervention, including first day contact with parents and establishing good working relationships with the Education Welfare Service and the Police. When pupils do decide to miss school, new powers under the Crime and Disorder Act 1998 allow the Police to return truants found in public places to school.

In 2000-01, the National Assembly invited LEAs to submit bids that demonstrated working through Education Welfare Service in promoting school-based action to tackle attendance and behaviour difficulties, including truancy. Nine schools in Wales have also received money from the Home Office Crime Reduction Programme for pilot projects to combat truancy with the aim of reducing juvenile crime.

All unemployed 16 and 17 year olds are offered **careers advice** and assistance in finding suitable education, training or employment through the eight Career Service companies (to be developed into an all-Wales, all-age, guidance service - Careers Wales – from April 2001). The companies also work with the Employment Service and the Benefits Agency where young people are eligible to claim benefits. Since 1995, many companies have relocated to high street shop-front locations to encourage young people to make more use of Careers Service support and enable greater involvement by parents in the guidance process.

For older people, the **Adult Guidance Initiative** provides opportunities to access information and advice, and referral where needed, to specialist counselling at a range of local venues - including careers offices, community education centres and libraries. Information is also available free of charge to all adults through the telephone helpline "learndirect".

Careers Wales will be charged with further extending access to guidance for adults, in particular to ensure that good quality, user friendly data on learning opportunities is made available via the internet and to increase the number of information points where people can access data held on the internet. The Education and Training Action Plan identified a priority to offer support to people earning low wages to help them raise their skill levels and move out of the low pay/low skill trap. In response to this, Careers Wales will provide practical help, including in-depth guidance and assessment of basic skills, to help people target learning needs and identify appropriate education and training - including on-line provision.

The made-in-Wales **Youth Access Initiative** became operational in April 1998, initially for a three year period. It aims to help young people under school leaving age who have dropped out of mainstream education (or are in danger of doing so) to be reintegrated into education or training, and disaffected young people above school leaving age to move into education, training or jobs. It is delivered by partnerships led by the

Training and Enterprise Councils and including local authorities and the voluntary sector. Typically, locally developed action plans include two categories of activity - pre-16 projects, such as providing alternative curricula for young people at risk of disaffection, and post-16 activities, such as outreach and mentoring.

The **Youth Gateway Programme**, a programme unique to Wales, began as a pilot in September 1999. It provides a comprehensive assessment and support service to help unfocused young people who have left full-time compulsory education to decide on a career opportunity that meets their aims, aspirations and abilities (primarily targeted at 16 to 18 year olds but available up to 25). A key feature is the appointment of specialist personal advisors, who provide support to the young people throughout their time in the Gateway and during the transition to further training, education or employment. The Gateway also provides counselling; part-time training and work sampling; and help to overcome motivational problems and identify and overcome learning blockages. The Gateway is currently managed by the Careers Service Companies and will transfer to Careers Wales from April 2001.

Other people fall into economic inactivity in adult life, particularly following a period of sickness. Each year in UK, 150,000 people take-up Incapacity Benefits, of whom 135,000 remain on the benefit. A new cross-Government pilot initiative under development proposes to tackle this by testing approaches to help people receiving Statutory Sick Pay return to work, or at least remain in contact with the labour market, rather than progress onto Incapacity Benefits.

Under the **Job Retention Pilots**, it is planned to introduce pilot schemes to determine the relative impact of three main strategies for early work-focused intervention - by boosting publicly funded help (a) in the workplace; (b) in healthcare services; and (c) a combination of workplace and healthcare services.

The pilots should provide robust evidence about the overall impact of job retention and rehabilitation services; their cost effectiveness; and the relative impact of the three intervention strategies. There will be four pilots running for two years, starting in April 2001. Three pilots will test job retention services for all illnesses and disabilities in particular localities ("generic"), while the fourth will test job retention services for a specific disability - mental health. The three generic pilots will be implemented across some, or all, of nine shortlisted areas across Great Britain, including one possible location in Wales (Iechyd Morgannwg, covering Swansea, Neath, Port Talbot and Bridgend). The mental health pilot will be introduced in an area comprising North Cheshire / South Cheshire / the Wirral.

B. Breaking down the barriers to work

The Government's response to address employment barriers has included the range of Welfare to Work and related programmes, introduced over the last three years and continuing to be developed. All of these initiatives aim to improve the job readiness of people not in work to increase their employment opportunities and tackle employment barriers. In addition to the UK-wide Welfare to Work programmes, the Employment Service and its partners in Wales are developing an enhancement of the New Deal using European Structural Funds.

The Assembly also plays a part in this, through various initiatives to support children and families and its training programme *Work based Learning for Adults*. Aside from the issues normally addressed by employability programmes, debt can be a significant barrier for some people seeking to enter work, and the Assembly and its partners are beginning to address this through development of the Credit Union movement in Wales.

The voluntary **New Deal for Lone Parents** is delivered by the Employment Service with support from the

Benefits Agency and Child Support Agency. It was introduced fully throughout Great Britain in October 1998, having been piloted in some areas (including Cardiff and Vale) since July 1997. All lone parents in receipt of Income Support are eligible, although invitations to join are targeted at lone parents whose youngest child is aged 5 years and 3 months. The programme comprises a comprehensive package of support to ease the transition into work or training. Those taking up the offer of help are assigned a Personal Adviser who gives guidance on programmes to develop job search skills, in work benefit entitlement, places on training programmes and childcare information. Help with the cost of childcare is available through the New Deal for lone parents taking-up training, and under the Working Family Tax Credit for those entering work of 16 hours or more per week.

From April 2001, lone parents making new or repeat claims for Income Support, and whose youngest child is aged at least five years and three months, will attend a Personal Adviser Meeting to consider the opportunities available to enter work (however take-up of the *New Deal for Lone Parents* will remain voluntary). Also in April 2001, the *New Deal for Lone Parents* will be enhanced with a new Training Premium for participants entering work-focused training and twelve months help with childcare costs for lone parents moving into work of less than 16 hours a week.

The Assembly-funded ***Sure Start*** provides integrated, locally based services to support families with very young children. The programme aims to improve the health, social and emotional development and the ability to learn of very young children so that they are ready to thrive when they get to school. It also links to a wider social inclusion agenda, by providing support to parents and encouraging capacity building in the most disadvantaged communities.

The ***Children and Youth Partnership Fund***, also funded by the Assembly, aims to promote local initiatives to lift youngsters' educational achievements, engage them in creative activities in their communities and encourage them away from crime, drugs, vandalism and truancy.

The ***National Childcare Strategy in Wales*** is being taken forward in each local authority area by Early Years Development and Childcare Partnerships, who are responsible for planning the development of childcare to meet the needs of their areas. The strategy aims to benefit children and to support working parents by ensuring good quality, affordable childcare for children aged 0-14 in every community and to develop a strategy for Wales within a UK-wide framework of Government initiatives.

The Assembly's ***Play 2000*** grant scheme provides funding to improve play facilities in deprived communities in Wales. It aims to meet the need to improve open-access play provision in the most deprived communities in Wales, generating sustainable change and encouraging new ways of working. Distribution and administration of funding is via partnership arrangements to ensure sensitivity to local needs.

Under the ***Children's Services Grants***, the Assembly provides funding to assist with the core costs of 17 children's and women's voluntary organisations working in Wales and a wide range of ongoing projects. They encourage and assist the provision of a range of services for children in need and their families in accordance with the provisions of the Children Act 1989.

The ***New Deal for Disabled People*** is a voluntary programme currently comprising a range of pilots, including a successful Personal Adviser pilot covering part of the South Wales Valleys. The programme is open to people with disabilities or long-term illness who have been on Incapacity Benefit / Income Support for more than 28 weeks. The programme is delivered in partnership between the Employment Service and the Benefits Agency.

The Government is finalising arrangements to extend the *New Deal for Disabled People* throughout GB from July 2001. An announcement is expected shortly.

New Deal for 50 plus provides additional help to people aged over 50 who are entering full or part-time work or self-employment who have been (or are partners of people who have been) unemployed and claiming for at least six months one of a wide range of benefits (Job Seeker's Allowance; Income Support; Incapacity Benefit; Severe Disablement Allowance; Widows Children's Allowance; Invalid Care allowance).

The *New Deal for 50 plus* includes access to a Personal Adviser; training grant of up to £750; jobsearch help; and an "Employment Credit" of £60 per week for 12 months (£40 for part-time work) payable to the participant. The programme is voluntary and lead responsibility rests with the Employment Service.

Action Teams for Jobs is a new Government initiative to help jobless people living in communities with low levels of employment secure jobs in more buoyant areas. Projects are currently being developed under the lead of the Employment Service throughout GB, including several communities in Wales (communities within Swansea, Pembrokeshire, Anglesey, the North-West Wales coast, Rhondda Cynon Taff, Merthyr Tydfil, Caerphilly, Blaenau Gwent and Torfaen). *Action Teams for Jobs* have been funded until October 2001, with no indication yet on longer-term funding.

At the request of the Assembly's New Deal Advisory Task Force, the Employment Service in Wales is developing with its partners a package of ***enhancements to the New Deal***, using European Structural Funds. Although all jobless people may be helped via the package, a particular emphasis will be placed on activities that will help economically inactive people secure employment.

Work Based Learning for Adults is the National Assembly's programme to help jobless adults secure work. While the programme is targeted at people claiming Job Seeker's Allowance, it is also open to economically inactive people, including lone parents in receipt of Income Support, disabled people in receipt of Incapacity Benefit claimants, ex-carers and other returners to the labour market.

The programme provides help through an individually tailored combination of guidance, structured work experience, training and approved qualifications. The focus and content of the programme was reviewed during Summer 2000, and the findings are to be discussed shortly with the Education and Life-Long Learning Committee.

Debt can be a major barrier for some people wishing to re-enter the labour market, as repayments are kept artificially low for people receiving benefits but return to the full level when they gain employment. ***Credit Unions*** are financial co-operatives that can help people who would otherwise be excluded from mainstream financial services by providing preferential borrowing and repayment arrangements. The Assembly has made a commitment to develop the credit union movement in Wales and is taking this forward in partnership with the Wales Co-operative Centre and the Association of British Credit Unions.

C. Making work pay

In the Welfare Green Paper (*New Ambitions for our country: a new contract for welfare*), the Government highlighted that almost one in seven people entering work reported that they were worse off than when they were on welfare. To address this, the Government is engaged in reforming the tax and benefits system. Among the changes already in place are the National Minimum Wage and the replacement of Family Credit with *Working Family Tax Credit*.

The ***National Minimum Wage*** was introduced in April 1999 and has benefited some 1.5 million workers in UK. It is estimated that over two-thirds of those helped in UK are women.

The ***Working Family Tax Credit*** replaced Family Credit in October 1999. At the end of May 2000, almost 1,100,000 families in UK were receiving the Working Family Tax Credit, including over 62,000 families in Wales. The UK total was some 270,000 more than were receiving Family Credit at its peak. The Working Family Tax Credit offers additional financial support to families who have childcare responsibilities through the Childcare Tax Credit. By May 2000, 111,000 families in UK were claiming the Childcare Tax Credit, more than double the number that claimed help with childcare under Family Credit at its peak.

D. Other initiatives under development

The Government is looking to keep economically inactive people more aware of the support available to help them enter work or training. Initiatives currently underway include the *ONE* pilots and the development of the new Working Age Agency.

The ***ONE*** (formerly *Single Work Focused Gateway*) pilots are testing ways of simplifying access to benefits through a single point of entry, whilst also ensuring that claimants are aware of the opportunities available. Since April 2000, all people making a new or repeat claim for one of a wide range of benefits in the pilot areas have been required to take part in a work-focused discussion with a Personal Adviser.

There are twelve *ONE* pilots in GB, all of which involve the Employment Service, Benefits Agency and Local Authorities. There is one pilot in Wales (South-East Gwent, covering Monmouthshire, Newport and Torfaen), which is testing a call-centre approach.

The Government has announced the replacement of the Employment Service and much of the Benefits Agency with a new working-age agency by summer 2001. The aim of the new agency will be to deliver a single integrated service to benefit claimants of working age and to employers. Personal advisers will steer clients towards work and training, help them claim the benefits they need and provide additional support tailored to their individual needs.

Way forward

In addition to those already summarised, there are other policy areas devolved to the National Assembly that can contribute to encouraging and/or enabling people to seek and secure jobs. In taking forward this aspect of the National Economic Development Strategy, Divisions across the Assembly, including their external partners, will need to be involved, from the social inclusion work of Communities First, to health, schools, further education and other post 16 learning, transport, European programmes, rural strategies and others. Perhaps most critical of all however is economic development. Without an adequate number of jobs of sufficient quality, there will not be the incentive for people to take-up the help available to tackle their employment barriers and enter the labour market.

Chart 1 : Economic inactivity, 1984-2000



*not seasonally adjusted Source: National Statistics, Labour Force Survey (Spring)

Chart 2 : Economic inactivity by gender



*not

seasonally adjusted Source: National Statistics, Labour Force Survey (Spring)

Chart 3 : Reasons for economic inactivity, males, by age



Chart 4 : Reasons for economic inactivity, females, by age



***not seasonally adjusted Source: National Statistics, Labour Force Survey, Spring 2000**

(1) Main reasons for economic inactivity are shown for each age group. Therefore the ‘other reasons’ categories are not directly comparable between charts or age groups. They are residual categories, formed partly due to small sample sizes in some of the other categories.

Chart 5 : Reasons for economic inactivity



***not seasonally adjusted Source: National Statistics, Labour Force Survey, Spring 2000**