



The Challenge of Worklessness – An Employer Perspective

Paper by
Chris Thompson & Patrick Diamond

Forward by
Rt Hon Alan Milburn MP

Content

Forward.....Page 3

Rt Hon *Alan Milburn* MP

Introduction.....Page 4

The Challenge of Worklessness – An Employer Perspective.....Page 5

Business legacy

Recent progress

Inactivity

People and communities

Targets

Programmes

Key Opinions

Politics and Policy

Time to act

The role of employers

Conclusion.....Page 12

About the Authors.....Page 13

Chris Thompson

Patrick Diamond

Forward

I strongly welcome the production of this strategy paper on tackling worklessness in the North-East economy, published under the auspices of the North East Economic Forum (NEEF).

The UK Government has recently announced proposals to get a million people off long-term sickness and incapacity benefit and back into the work. The potential of these proposals is vast, particularly for a region like our's where worklessness remains too high and many more people would prefer, with the right support, to be in work rather than on benefits. Fully realising that potential, however, means doing more to encourage employers to do more, as Chris Thompson and Patrick Diamond argue in the paper.

Recent studies by the Chartered Institute of Personnel and Development (CIPD) show that employers are still reluctant to take on people claiming long-term sickness or disability. Government agencies need to engage with employers, particularly in the private and voluntary sector, encouraging them to recruit potentially employable individuals currently on long-term incapacity benefit. Reducing worklessness will only be achieved if we work with partners in the local community to harness their energy and commitment to deliver real progress.

Government also needs to support organisations and companies in re-skilling those who have been excluded from the labour market, providing transport, special equipment and mentoring, and improving job-search facilities.

If these things can be achieved then we can build on the real signs of progress we have in the North-East over recent years. Visible signs of progress include the remarkable renaissance of the Newcastle-Gateshead waterfront, while the Tees Valley Partnership is transforming the economic landscape in the south of the region 200,000 jobs have been created in the region since the early 1990s. Employment is up; benefit rolls are falling.

I am confident that with the right policies in place we can build on these achievements and ensure that progress is even more widely shared across the whole of the North East.

Rt Hon Alan Milburn MP

Introduction

The North East has aspired for many decades to emulate the employment, growth and living standards of the South East of England by rejuvenating its regional economy. This paper argues that the economic success we desire will only be achieved if the North East tackles the deep-rooted social issues that have held the region back for successive generations.

In the 1980s, Britain's problems were perceived as fundamentally economic because the country lacked the dynamic industrial base necessary to compete successfully with the rest of the world. Yet the causes of decline were as much to do with social issues as economic performance. In this paper, we focus in particular on the theme of 'worklessness' and long-term unemployment as the core concern of social and economic policy.

How should the concept of economic inactivity and 'worklessness' be defined?

Economic inactivity refers to individuals of working-age who are not involved in the mainstream labour market, the main groups are those out of the workforce for reasons of sickness or disability, those with family or caring responsibilities, students, and the early retired. Worklessness specifically refers to people who are unemployed or economically inactive and in receipt of certain working age benefits, most of whom are receiving Incapacity Benefit (IB), Job Seekers allowance or lone parent allowances. As employment levels in all regions of the UK have risen progressively since the early 1990s and headline unemployment rates have fallen, increasing attention is being paid to these segments of the working-age population as potential contributors to the economy.

As background to our analysis, the paper also examines the changing socio-economic structure of the North East over the last century, and the transition of an economy based on manufacturing and natural resources, that has left a legacy of substantial long-term unemployment. It identifies key regional and national trends whilst identifying the fundamental effects of economic inactivity on the prosperity of the North East.

We then assess progress so far, as successive governments have sought to tackle the economic burden and social injustice of worklessness in our region. In the face of widespread pessimism that little can be done, the paper suggests that more meaningful engagement with employers and implementation of policy through stronger regional devolution is what is required to combat the high rates of economic inactivity.

The evidence of recent decades is that a centrally devised policy mix does not necessarily address the specific needs of this region. It recommends that an aligned economic and social strategy is needed for the North East and that the region must evolve a distinctive regeneration model, drawing on international as well as national and regional experience instead of solely implementing an agenda dictated by Whitehall.

The Challenge of Worklessness – An Employer Perspective

Business legacy

The North-East economy expanded rapidly from 1850 to the mid 1900's. The wealth of the region developed from exploiting a combination of natural resources and industrial innovation - coal-mining, ship-building and heavy manufacturing. New technologies, including the railways for example, were invented here. The North-East was a major contributor to Britain's growing supremacy in the world economy, and as our reputation grew for skill, achievement and innovation, people from all over the country flocked here to find work. We built Victorian new towns across the region and large occupational communities on the coalfields and along the Tyne, Wear and Tees rivers.

The culture of the people and the communities in which they lived were derived from the homogeneous nature of the economy and the clustering of mutually dependent skills and manufacturing processes that formed the region's economic base.

By the end of the 20th Century most of the traditional industrial economy had disappeared due to a complex mix of factors including, competition from emerging international markets, underinvestment and divestment.

We have moved on and become dependant upon a knowledge-based service economy for our future. In the transition the region has been left with a legacy of the past, thousands of people that are unemployed and claiming health related benefits and whole communities that are cut off, marginalised and excluded from a new-found prosperity.

Recent progress

In the 21st century, the North East has changed beyond all recognition. This is to be commended and supported as it develops a new combination of economic strengths to replace those that gave the old industrial economy its backbone. The Regional Development Agency (RDA), One North East continues to offer the essential drive for this transformation.

There are signs of real growth; employment at 69.9% is the highest for 30 years and more than 200,000 new jobs have been created in the North East since the early 1990s.

In the last five years growth (measured in % GVA) has outpaced the rest of the UK economy, there are many more new business start-ups, educational attainment is rising, and there is massive investment in new commercial property and cultural regeneration projects.

One visible sign of the evolution is the remarkable renaissance of the Newcastle-Gateshead waterfront with iconic buildings such as the Baltic contemporary art centre, the Millennium Bridge and Norman Foster's Sage Gateshead Music Complex. The Tees Valley Regeneration Partnership is also reviving the commercial landscape in the south of the region.

The combination of private sector investment, business success and higher public spending has fuelled the expansion of the North East economy and has been critical in raising living standards and increasing wealth.

Inactivity

However, not enough has been achieved so far, the relative socio-economic position of the North East continues to decline, in comparison to other UK regions it remains one of the poorest. A recent extensive research and consultation project - SHINE (Strategic Horizons In the North East), highlighted a lack of businesses and a disproportionate number of economically inactive people as the key contributors to the region's lowly position.

When there are too few businesses, job creation is weak and as a consequence, many people remain economically inactive. Recent data shows that although the employment rate in the region among working-age people is relatively high, 40% of the North East's £5.8 billion output deficit is attributable to worklessness.

The North East has a population of 2.5 million of which 1.6 million are of working age and of these only 1.1 million are currently in work. There are a staggering 0.5 million people of working age economically inactive and 0.25 million of those are in receipt of Job Seekers Allowance (JSA), Incapacity Benefit (IB) or lone parent allowances.

Two reports have recently highlighted the detrimental impact of economic inactivity to the nations economy. The Bank of England has produced a paper detailing the loss of workers, especially men from the UK labour market and the increasing numbers of individuals claiming sickness-related benefits. The National Audit Office also reported that too many working-age people aged 50 or over that have left the labour market in recent years.

Since the mid-1980s, the number of IB claimants in the UK as a whole has risen to over 2.5 million, mainly due to recipients of Unemployment Benefit (now Job Seekers Allowance) migrating to IB. It is a stark reality that the rising welfare bill in the UK is the price of social failure and has resulted in reduced investment in the productive base of the British economy.

Surveys of those currently claiming IB suggest that 40% of people say that they would like to work if given a chance and that 75% have 'mild' to 'moderate' conditions. However there is evidence that with prolonged inactivity, illness worsens, skills and expectations diminish rapidly, and the probability of returning to work declines significantly over time.

Conversely, participation in the labour market improves health and raises aspirations; work remains the best route out of poverty and presents the opportunity for a better life.

People and communities

The challenge of a high number of IB claimants, and the low rate at which people leave these benefits for work, is common to most modern economies, but is especially prevalent in the North East. Worklessness tends to be associated with deprivation and social exclusion and has implications at an individual, household and community level.

The Government's 'Social Exclusion Unit' has examined the multiple causes and consequences of deprivation and identified economic inactivity as a crucial factor. Evidence suggests that worklessness is concentrated in localised pockets down to the level of individual streets within specific areas.

One in four streets in the North East have concentrations of worklessness compared to just one in forty in the South East and one in four people in the North East live in the worst 10% of streets in the UK. These people and streets form the region's communities and neighbourhoods where there is evident deprivation and poverty, and in many cases visible dereliction. Most are situated on the abandoned coalfields and in the deserted industrial areas along our rivers.

Having a large proportion of workless individuals living together in close proximity creates cumulative problems and is proven to damage life-chances. Children who live in deprived areas are shown to achieve lower test scores at just four years of age and to have extremely poor educational attainment in later years. Adults tend to fare worse in the labour market as almost half have no qualifications and therefore expectations of getting a job are low. There is evidence of significantly poorer health and many older people have industrial illnesses and disabilities that are a legacy from the harsh environments in which they used to work.

There is also a 'culture of worklessness' that is perpetuated through generations, and as a consequence, many individuals having barely reached adulthood are signed-on to benefit and condemned to a life of exclusion from the labour market.

However many of these communities in the North East of England are still proud of their industrial heritage where work was central to their identity, and not only ensured individual prosperity; it provided self-esteem and self worth.

Targets

Government targets for dealing with worklessness within the region are inconsistent and confusing. They are either unrealistic and unachievable or achievable with no impact, for example;

The "Towards full employment " goal of 80% may be achievable for areas of the South East enjoying current rates of employment in the high 70%'s, but it is too ambitious at present for the North East with the constraints of current policies and priorities.

The Northern Way targets require the North East to move 20,000 people from IB into work in the next ten years, but this will make relatively little difference to the 250,000 workless in the region.

The current proposed targets in the Green Paper "A new deal for welfare: Empowering people to work" are commendable but not credible. John Hutton stated in his address to the House of Commons on the 24th January 2006 "No longer is incapacity benefit associated with only Britain's industrial heartlands. There are more people on incapacity benefits in the South East than in the North East". This statement mis-represents the challenge as one in five of the working age population (20.3%) in the North East claim benefits, the equivalent figure for the South East is less than one in ten (8.8%).

Programmes

The goal of full employment remains a credible ambition for the North East; the cost of worklessness is too high, both through the loss of income and production and the burden of social decay.

Full employment may never return in the form it took 50 years ago, the demographics of the workforce have changed hugely and patterns of work are much more varied, but a vision of ensuring that everyone who wants to work can work, and that no one in work has to be poor, is achievable, and has never been more urgent.

If a large proportion of the economically inactive could be helped back into work, the North East could again be among the best performing regions in the UK. We should, of course aspire to this goal, however there are significant social as well as economic challenges.

Government at all levels is allocating vast sums of money and resources to assist people back into the labour market, and has been effective in addressing youth employment, but despite the considerable increase in the level of public expenditure to help tackle deprivation and worklessness, we have not as yet seen an adequate return on the investment.

As economic inactivity has moved up the political and policy agenda, Government has responded with the recent Green Paper. This contains some innovative new proposals for lone parents, older workers and IB recipients including the national roll out of Pathways to Work. There has not however been adequate consideration given to the role of employers, both as providers of jobs, and partners in the design and delivery of services.

There are several examples of best practice and effective "Pilots" across the region that have facilitated benefit claimants finding sustainable employment. However many other initiatives are poorly co-ordinated and do not respond to the specific opportunities for jobs in local market sectors. The most successful programmes are those that have a demand led perspective and have true collaborative partnerships with employers.

There are also a large number of agencies - the RDA, Learning and Skills Council (LSC), Job Centre Plus (JCP), the National Health Service (NHS), and local authorities that fund projects or programmes aimed at assisting people into work, but they are often poorly aligned and the substantial duplication that exists has resulted in fragmented delivery.

Unemployed people have widely varying needs and past employment programmes in the UK failed because they were standardised rather than fitted to the needs of the individual. Also too few adequately linked to the work of other agencies or to the needs of employers, and consequently failed to produce sustainable job opportunities.

The region needs to act decisively to identify the programmes that are most effective and more importantly, capable of being scaled-up with mainstream funding, instead of wasting resource and experimenting with multiple micro-level initiatives that fail to make the impact that is required.

Key Opinions

A recent survey of employers and benefit claimants, commissioned by the North East Employer Coalition (NEEC), demonstrates clear delivery weaknesses in the employment service offered by JCP, there is confusion and a lack of clarity about what level of support is available to both the individuals outside the labour market and to employers with vacancies.

Job Centre Plus is criticised for adopting a 'one size fits all approach' and that there is too little tailoring of support to the specific needs of individuals with impairments, long-term health conditions, or basic skill deficiencies. The service is perceived as 'impersonal' and not connecting with the reality of people's everyday lives.

Many claimants who have been out of work for years feel trapped on benefit and a burden to the rest of society, and many employers are unclear about their role in relation to the New Deal and other initiatives that tackle worklessness.

Many employers outside the public sector are unaware and to a large extent, care little about the issues of worklessness. Others feel that they cannot contribute to the solution, as they perceive that it could compromise their performance.

However there is wide recognition that the balance of supply and demand for labour has changed and several sectors are experiencing real labour deficiencies that are constraining growth and threatening competitiveness. Many of these employers are receptive to working with public sector agencies to explore new ideas and innovate ways of accessing effective workers.

Politics and Policy

The vacuum left after a failed referendum for an elected Regional Assembly has stirred a desire for a new purpose and agreement on strategic priorities, that will unite all relevant stakeholders in the pursuit of common objectives.

Central government is still unclear about how it wants to devolve democratic accountability - Core Cities, City Regions, and Elected Mayors all present opportunities and uncertainties, and the debate will continue for months if not years to come. As a region we need to show that even in the absence of clarity about future governance structures, we can decide on what it is we should do for the prosperity of the region and for the quality of life of the people living in the North East.

The present structure of government has encouraged us to measure ourselves against national indicators and to follow priorities and policies that have not been aligned with regional realities.

The North East deserves its own regeneration model based on a distinctive regional formula that may have more in common with other parts of Europe than the South East of England. We should not make the mistake of continuing to assume that what works for the South does the same in the North.

The method of delivering the North East's economic and social aspirations has to be modernised if we are to have any chance of effectively reducing the disproportionate number of economically inactive people and satisfying the demand for labour in our region. We need a home-grown social strategy to tackle worklessness that identifies the practical priorities that will make the biggest difference and that are then pursued relentlessly.

Tackling worklessness would transcend sub regional administrative boundaries and provide the focus for a regional partnership that brings together employers, public sector stakeholders, local government and the Voluntary and Community Sector (VCS).

Time to act

The North East must reconcile the scale and the cost of worklessness, and act now, not at some ill-defined point in the future. It is time to deal with the legacy of economic change and de-industrialisation and ensure that the prosperity of the past will be recreated in the future; to do so is critical both for economic success and for social justice.

There has never been a better time to prioritise the removal of widespread poverty and deprivation as the impetus for the region's renaissance. We currently have an opportunity to take action based on a unique combination of circumstances:

- Employers in many sectors are in desperate need of labour and skills.
- Government policy at a national and regional level requires a focus for alignment.
- We have more experience than most in successful pilots and programmes that enable people on benefit to find sustainable employment.

Employment is at its highest for decades and employers for the first time are confronting the reality of substantial skill and labour shortages in key sectors. Many increasingly recognise that they cannot address these issues in isolation, and that government and regional agencies have a meaningful role in helping to solve their medium and long-term recruitment and training requirements.

The growing demand for people in the labour market could, and should, provide the region with a key policy focus.

The role of employers

This paper argues that the next steps in devising a North East strategy to tackle worklessness must fully involve employers. We need a remodelled employment service that is built around assessing the barriers that prevent

an individual from getting a job and then putting together a personalised package of support. This will require the closer involvement of employers in both the public and private sector:

Companies such as Northern Rock contribute significant resources through their foundation to the VCS that has made a tremendous difference to the lives of disadvantaged people in the most deprived communities. However as a region we cannot continue to rely on large private sector companies with a strong Corporate Social Responsibility (CSR) to have the desired impact on the numbers of people excluded from the labour market.

The VCS is itself a major employer and a provider of intermediate employment for many individuals outside the labour market wanting to make a contribution to society but not able to find a relevant job. Social enterprises and community projects employ local people and involve many individuals claiming benefit in non-paid work that make a major contribution in caring for children, older people and disadvantaged individuals. Employers should be made aware of the benefits of purchasing goods and services from local social enterprises that provide valuable work experience and purpose to volunteers that are on benefits.

The public sector employs almost 50% of the region's people and has a major contribution to make, but must differentiate between its role of policy implementation and its role as an employer. The private sector also generates many thousands of jobs and over 35% of the region's disposable income, and if effectively engaged in the design of interventions, could provide an "entrepreneurial" dimension to tackling the social challenge of worklessness.

With the increasing skill and labour market pressures, progressive employers are changing their recruitment and retention practices and introducing more flexible arrangements to facilitate recruitment of lone parents, older workers and IB claimants where appropriate job opportunities exist. There needs to be more communication of successful case studies where employers with vacancies have benefited from working with public sector agencies in developing sector specific programmes or "routeways" that have provided substantial numbers of suitable individuals for employment.

Larger employers are aware of the importance of occupational health as a means of retaining staff in work and there is a growing realisation in smaller companies that proactively managing sickness and absenteeism is more cost effective than recruiting and training "new starts". Government through the Health and Safety Executive (HSE) should work with employers to develop incentives and support to introduce and provide occupational health services; the longer term effect of which will reduce the flow of individuals onto benefit.

Employer organisations such as Employer Coalitions, Chambers of Commerce, Engineering Employers Federation and the Confederation of British Industry have a key role in communicating to their membership the "business case" for engaging with the public sector to access people for employment. These organisations also have a responsibility to encourage a more flexible approach to recruitment and retention practices as a credible solution to the immediate skills and labour requirements of their membership.

Both employers and employers' organisations must be able to influence policy to bring about a strong demand-led perspective to a regional framework of programmes. The integration of mainstream funding and contracting activity to scale-up the most successful interventions will maximise the proportion of workless individuals moving from benefit into employment, education or enterprise.

Conclusion

This paper argues that economic and social policy in the region has to be brought together if we are to satisfy the demand for labour and to decisively address the highest rates of worklessness in the United Kingdom. Tackling social exclusion and multiple deprivation, is as big a priority for the North East's economy as skills, infrastructure or inward investment in securing our future prosperity.

There are reasons to believe that this is an opportune moment for a determined attack on worklessness and to place it at the centre of public policy in the region, and that the solutions, adequate resources and the ability to make the decision to do so, lie here and not in Whitehall.

There is a case for creating a regional social strategy to support the regional economic strategy, the aim of which must be to set clear targets and to draw together the resources and activities of the numerous stakeholders that can have an impact on worklessness.

We must build on our recent economic performance, but continued incremental improvement will not make the necessary difference. To achieve the required step change we need to design a new model of regeneration with a distinctive vision and regime that is relevant to the North East, we should cast aside the "me too" attitudes and the traditional measures that encourage us to try and emulate the South.

Employers can lead the drive against worklessness, creating real opportunities for the excluded and vulnerable to access the paid labour market.

Together, the North East will rise to the challenges.

About the Authors

Chris Thompson

Chris Thompson is Chief Executive of the North East based Express Group of companies that provides engineering, design, product development and manufacturing services to the aerospace and defence, medical and scientific and oil and gas sectors.

Alongside this position, and as a former North East Businessman of the Year, Chris is also a key player in the Regional Business community and holds a number of senior strategic positions which look at the broad areas of regeneration and business growth, social inclusion and the skills gap:

- Chairman – North East Employers Coalition
- Board Member – North East Regional Development Agency, One NorthEast
- Chairman – The Tyne & Wear Partnership
- Board Member - NStar
- Goldman Visiting Professor of Business Innovation – Newcastle University Business School

Patrick Diamond

Patrick Diamond is a Fellow of Northumbria University's Centre for Public Policy and a Senior Visiting Fellow at the London School of Economics. He is a former Special Adviser to Alan Milburn MP, and a member of the No. 10 Policy Unit.



www.northeasteconomicforum.co.uk



www.necoalition.org.uk