



## Worklessness: A city approach

**Dave Simmonds and Paul Bivand\***

### Executive Summary

**Worklessness - all those without a job either actively or not actively seeking work - is one of the biggest challenges facing our cities. Having a lower proportion of the working age population available and appropriately skilled for work can frustrate employer demand, impact the local economy, and divert funds away from other city initiatives. These economic impacts, as well as the implications for social exclusion and equality, make reducing worklessness one of the top priorities for both national and local government.**

The Centre for Cities commissioned the Centre for Economic and Social Inclusion to explore the prevalence of worklessness in cities, critically review previous and current initiatives and approaches, and to consider how best to move forward and empower cities to tackle the issue.

### Key Points

- **Worklessness is concentrated in our cities - they contain 59% of Great Britain's population, but have 68% of benefit claimants and 64% of the workless.**
- **Within urban areas, there are 121 Local Authorities with heavy concentrations of worklessness - areas in need of a more tailored approach.**
- **National approaches to worklessness, such as the New Deals, have largely failed to move those furthest away from the labour market into work, and have had lower success rates in cities.**
- **The localisation of initiatives to tackle worklessness - giving cities more direct**

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“The Government should now extend City Strategies to all urban areas with high levels of worklessness”

**control over planning and delivery - will mean that employment and skills initiatives are integrated with other local services, more accessible to the individual, and more responsive to labour market needs.** This should result in an increase in economic performance and reduction in geographic disparities.

- **The UK is far more centralised in its approach to worklessness than other European countries and performs poorly on OECD measures of effective decentralisation.**
- **There have been some steps towards a more place-focused approach, for example through 15 City Strategies pathfinders – where neighbouring Local Authorities and relevant agencies are encouraged to work together to combine and align efforts to combat worklessness.** Although these pathfinders have now been extended beyond two years, they have few powers and little ability to influence mainstream employment and skills spending.

## Policy Recommendations

To have a more city-focused approach, and hence be more effective in tackling worklessness in our cities, three steps need to be taken:

- **STEP 1: Expand City Strategies to all High-Workless Cities:**

Building out from the 15 current City Strategy areas, which cover 34% of all benefit claimants, the Government should now extend City Strategies to all urban areas with high levels of worklessness (as defined in Annex 2). This would result in 58% of all benefit claimants being covered. Local Authorities in these areas need to be encouraged to work beyond their administrative boundaries to tackle worklessness. The City Strategy initiative will help to boost their capacity to respond to worklessness and other labour market challenges, as well as their ability to deliver improvements.

- **STEP 2: Employment and Skills Boards for city-regions:**

Beginning with the existing 15 City Strategy areas, create powerful Employment and Skills Boards to hold new responsibilities, prioritise funding, and deliver a range of training and labour market initiatives. Employment and Skills Boards should hold responsibility for: 1) working with the new Skills Funding Agency to prioritise adult skills funding according to economic need; 2) participating in the selection and monitoring of contractors delivering employment services on behalf of the Department for Work and Pensions (DWP); 3) scrutinising the performance of Jobcentre Plus; and 4) determining the priorities and spending of the Working Neighbourhoods Fund at city-regional level as well as European funds.

- **STEP 3: Pilot devolution of employment and skills funding:**

A large-scale pilot is needed to test whether a devolved approach – with budgetary and commissioning powers – would be more reactive to the demands of the local labour market, and deliver personalised services that reflect local economic conditions. In a city-region pilot, the budget for all eligible claimants should be passed down to the city-region Employment and Skills Board which should have the discretion to commission and deliver provision according to the needs of its local economy. The opportunity to retain any benefit savings would incentivise the city-region to get people into work. Retained benefit savings would then be recycled into further employment and skills programmes.



## Introduction

**While cities are centres of employment and entrepreneurship, they are also centres of worklessness. In fact, cities contain 59% of Great Britain's population, but have 68% of benefit claimants and 64% of the workless<sup>1</sup> - those without a job who are either actively or not actively seeking work.**

In the past decade the economy has been remarkably successful at generating new jobs, and government labour market programmes have generally been successful at moving people from welfare into these jobs. But these successes have often disguised where problems remain. Whilst unemployment has been declining the numbers on 'economically inactive' welfare benefits<sup>2</sup> have been increasing, and are only now beginning to decline. However, the current economic situation may lead to an increase in unemployment, making action even more urgent.

Evidence suggests that those without work in today's economy are more likely to have a range of different reasons why they find it difficult to get and keep employment – so-called 'multiple barriers to work'. Worklessness is also more geographically concentrated than ever before – and many of the pockets of high worklessness are in our cities.

Worklessness can impact on city economies in three main ways:

- Firstly, **inactive adults constrain the pool of available labour** – this can frustrate employer demands and deter companies from locating in a particular city.
- Secondly, **those without jobs typically have lower skills and command lower wages**, and thus have lower purchasing power to fuel the local economy. This has obvious implications for the strength of the wider city, regional and national economies.
- Finally, **managing the implications of high worklessness may divert funds away from other projects that may increase the economic prosperity of a city.**

More widely, worklessness has been linked to higher crime, health problems, child poverty and lower school attainment. It also has obvious implications for equity and social exclusion, especially when worklessness is highly concentrated at the neighbourhood level. In light of this, both the government and city leaders recognise the urgency of tackling worklessness – with many city leaders declaring it one of their top priorities.

This government remains ambitious in its aspirations: it is aiming for an 80% employment rate and has a target to eradicate child poverty by 2020. However, on a number of key indicators progress has stalled. Employment rates for the

1. English cities are defined as Primary Urban Areas (PUAs), a measure of the built up area or 'physical city.' These can include more than one Local Authority, see ODPM, 2006.

2. These are Income Support for lone parents and Incapacity Benefit for those who are disabled and with health problems.

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most disadvantaged people and places are not catching up sufficiently, if at all.<sup>3</sup>

Child poverty went up last year and the target to halve child poverty by 2010 is not likely to be met. The performance of labour market programmes such as the New Deals has generally not been good enough, especially in cities.

To inject new impetus the government has initiated a wide programme of welfare reform and signalled a new approach to child poverty. According to recent announcements Income Support and Incapacity Benefit are about to be reformed, from October 2009 the New Deal will have more flexibility, skills will be more integrated with employment support, and child poverty will be tackled on a wider range of fronts.

As part of this reform process, the needs and problems of cities have also been taken into account. 'City Strategies,' announced by the then Secretary of State for Work and Pensions, John Hutton MP, in 2006, are intended to co-ordinate employment and skills programmes at the local level. This represents a positive move to recognise the geographical dimension of worklessness and its concentration in urban areas. In addition, DWP in the recent report 'Ready for Work' announced that one of the principles for further reform would be 'local empowerment'. The Department for Communities and Local Government (DCLG) and DWP have merged and re-focused their area-based funds into a new Working Neighbourhoods Fund, which commenced in April 2008. The Department for Innovation, Universities and Skills (DIUS) is consulting on the future of the Local Skills Councils, and has already decided to devolve 14-19 education and skills funding to Local Authorities, and there is an encouragement to establish local Employment and Skills Boards in big city-regions. Finally, the Sub-National Review clearly signals an intent to devolve more to regions and city-regions, and bring local government into labour market policy.

These developments start to open up the debate about how cities can influence and direct employment and skills funding. However, whilst City Strategies have now been extended beyond March 2009, they have few powers and little ability to influence mainstream employment and skills spending. Employment and Skills Boards still only exist in a few cities, and have so far had varying levels of success.

Many cities are already convinced of the case for more local control over employment policy and programmes, but government remains reluctant to take bold steps. This report sets out why a more devolved and decentralised approach is necessary, and suggests the steps that government should take to empower cities to move people from welfare to work. It argues that the next stage in the Government's drive to end worklessness must be led by our cities – not by national government.

*3. The only exception is for people between 50 and retirement age where employment growth has been strong.*

**“The next stage in the Government’s drive to end worklessness must be led by our cities”**



“UK labour market policy needs to be localised as well as personalised, and both need to be done at the same time ”

## Why devolve to cities?

We do not start from the position that devolving power and funding to cities is necessarily right in all circumstances. Neither do we argue that devolution of more employment and skills powers to cities is right purely on the grounds of governance.

We base our reasons on the nature and characteristics of today’s labour market, and the next steps needed to achieve full employment and end child poverty. UK labour market policy needs to be localised as well as personalised, and both need to be done at the same time. To date, the Government has pushed ahead with personalisation – but using a national framework. This fails to account for the differences in our urban labour markets, which vary from place to place.

What we are not questioning is the UK benefits payment system, which is administered by Jobcentre Plus in England, Scotland, and Wales, and by the Department of Social Development in Northern Ireland. As yet there are no strong advocates for the break-up of the benefits system which would permit variations in levels of benefit payments and differing ‘rights and responsibilities’.<sup>4</sup>

What is questioned are the planning, delivery, and scrutiny of support to workless people. Not all of this is centrally managed – indeed it is the mix of different levels of control which makes joining up services for customers more difficult.

### **Devolution and decentralisation**

In this paper we use statistics for Great Britain to highlight the importance of cities, but our commentary and proposals are for England only. The framework for planning and delivering skills, and increasingly employment, is now considerably different in both Wales and Scotland which is why we concentrate our proposals on England. However, the general principles we are proposing for devolution and decentralisation equally apply to how Wales and Scotland develop their new frameworks.

‘Devolution’ and ‘decentralisation’ are often used inter-changeably but they are different. ‘Devolution’ refers to when powers, responsibilities, and usually budgets, are passed to another layer of governance. ‘Decentralisation’ usually means that powers and responsibilities remain centralised but these are delivered with local flexibility through dispersed locations and management structures. Responsibility for skills strategy and budgets is fully devolved to Scotland and Wales, but Jobcentre Plus remains a national agency and decentralises some functions and decisions to regional and district levels.

<sup>4</sup> There are, however, increasing questions in Scotland about the extent of influence and control the Scottish Government has over Jobcentre Plus.



“Cities have the highest rates of worklessness in Britain”

## Cities and worklessness

Cities have the highest rates of worklessness in Britain and, among the workless, the highest proportions claiming workless benefits.<sup>5</sup> By ‘workless’ we mean all people of working age who are not working, according to the international definition, which is earning for one hour a week or more, including the self-employed. This includes all those actively, as well as not actively, looking for work.

Tables 1 to 4 breakdown the composition of worklessness in England’s core cities, and provide a ‘top-ten’ of cities with the highest levels of benefits claimants, incapacity claimants and the lowest employment rates. Table 1 demonstrates that all core cities, except Bristol, have an employment rate below the GB average. These tables also reveal that it is not just core cities that suffer from high worklessness, but also smaller cities such as Barnsley.

**Table 1: Benefit Claimants in Core Cities**

City (PUA)	Employment Rate (2007)	Benefit Claimants	Incapacity Benefit Claimants	JSA Claimants
Birmingham	67.1%	20.03%	7.86%	4.62%
Bristol	77.9%	12.98%	6.37%	1.67%
Leeds	75.1%	13.76%	6.11%	2.71%
Liverpool	65.1%	26.10%	12.44%	4.57%
London	70.5%	13.92%	5.58%	2.64%
Manchester	72.1%	18.65%	9.51%	2.65%
Newcastle	70.5%	19.53%	9.43%	3.40%
Nottingham	72.0%	16.35%	7.13%	2.94%
Sheffield	70.6%	16.48%	7.67%	2.56%
Great Britain	74.3%	14.55%	6.75%	2.26%

Source: Data from April-May-June 2007 quarter DWP Benefit Claimants and DWP Job Seekers Allowance Claimants, Annual Population Survey. Taken from NOMIS Local Authority data and calculated for PUA in England only..

**Table 2: The Ten Cities with the Highest Benefit Claimants**

Rank	City (PUA)	Benefit Claimants
1	Liverpool	26.1%
2	Hull	22.9%
3	Sunderland	21.5%
4	Blackburn	21.3%
5	Barnsley	21.3%
6	Hastings	21.1%
7	Middlesbrough	21.0%
8	Rochdale	20.2%
9	Birmingham	20.0%
10	Birkenhead	19.8%

Source: Data from April-May-June 2007 quarter DWP Benefit Claimants, Annual Population Survey. Taken from NOMIS Local Authority data and calculated for PUA in England only.

5. The main workless benefits are Jobseeker’s Allowance, Incapacity Benefits, and Income Support.



“This pattern of worklessness can depend on how cities are defined”

**Table 3: The Ten Cities with the Highest Incapacity Benefit (IB) Claimants<sup>6</sup>**

Rank	City (PUA)	Incapacity Benefit Claimants
1	Liverpool	12.44%
2	Barnsley	11.82%
3	Sunderland	11.21%
4	Blackburn	10.99%
5	Stoke	10.72%
6	Rochdale	10.61%
7	Burnley	10.60%
8	Wigan	10.35%
9	Hastings	10.10%
10	Mansfield	9.63%

Source: Data from April-May-June quarter DWP Benefit Payments - Incapacity Benefits and Severe Disablement Allowance, Annual Population Survey. Taken from NOMIS Local Authority data and calculated for PUA in England only.

**Table 4: The Ten Cities with the Lowest Employment Rates**

Rank	City (PUA)	Employment Rate (2007)
1	Hull	64.5%
2	Liverpool	65.1%
3	Birmingham	67.1%
4	Burnley	67.2%
5	Oxford	67.4%
6	Blackburn	67.4%
7	Stoke	68.6%
8	Luton	68.7%
9	Bradford	68.7%
10	Rochdale	69.0%

Source: Data from the Oct 2006 - Sep 2007 Annual Population Surveys. Taken from NOMIS Local Authority data and calculated for PUA in England only.

This pattern of worklessness can depend on how cities are defined, so we have examined the picture for:

- the English cities identified in the ‘State of the Cities’ report for the DCLG<sup>7</sup>
- those urban Local Authorities (LAs) in England, Scotland and Wales which have above average worklessness and including all existing City Strategy areas – the ‘High Workless Cities’; and
- current City Strategy areas, which were selected on a ‘challenge’ basis and include most of the major cities in Great Britain but only cover eleven out of the 33 London authorities and do not cover urban areas such as Teesside or Bristol.

The approach we have taken in defining ‘High Workless Cities’ is to use

6. See Annex 1 for a table detailing the 10 cities with the highest combined Incapacity Benefit and JSA claimants.

7. State of the English Cities: the Competitive Economic Performance of English Cities, DCLG, 2006.



“For both High Workless Cities and City Strategy areas, there is a strong concentration of worklessness and poverty”

Office for National Statistics ‘area classifications’ to first group LAs with ‘city’ characteristics.<sup>8</sup> Secondly, we calculated for each of the LAs the percentage of the working age population claiming workless benefits<sup>9</sup> and identified those LAs with above average benefit claimant rates. We also included all existing City Strategy areas, even when they had benefits claimant rates below the average. The resulting High Workless Cities<sup>10</sup> are 121 LAs and comprise:

- 44% of the GB working age population
- 51% of the workless
- 58% of workless benefit claimants; and
- 61% of children in families claiming workless benefits.

The State of the Cities group overlaps but it excludes many urban areas that have suffered decline while including the semi-rural hinterland of much of the South East. As the State of the Cities group encompasses a larger proportion of the country’s population (59%) it also encompasses a larger proportion of benefit claimants – some 68%.

**Chart 1: Variations in concentrations of the working-age population and worklessness in cities, High Workless Cities and City Strategy Areas**



Chart 1 shows the population of working age, the workless, all workless benefit claimants and children in families claiming workless benefits in the three groupings of cities, as proportions of people in the same category in the country

8. London Centre, London Cosmopolitan, Regional Centres, Centres with Industry and Industrial Hinterlands.

9. The current GB claimant rate is 11.9% of the working age population.

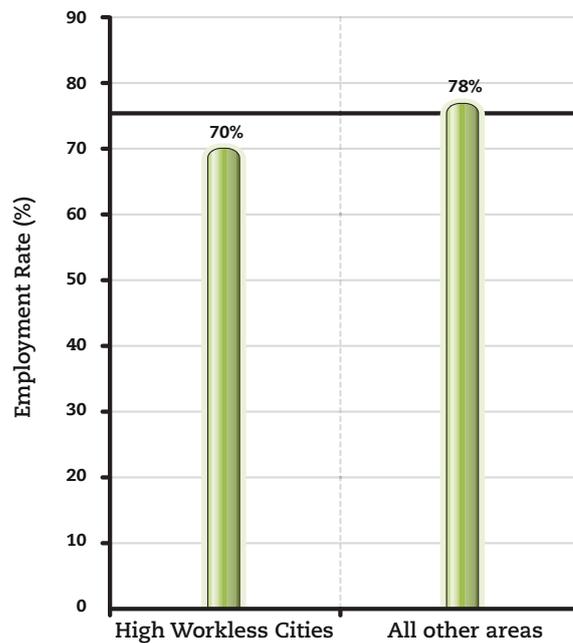
10. For a full list of Local Authorities see Annex 2, for a map of High Workless Cities see Annex 3.



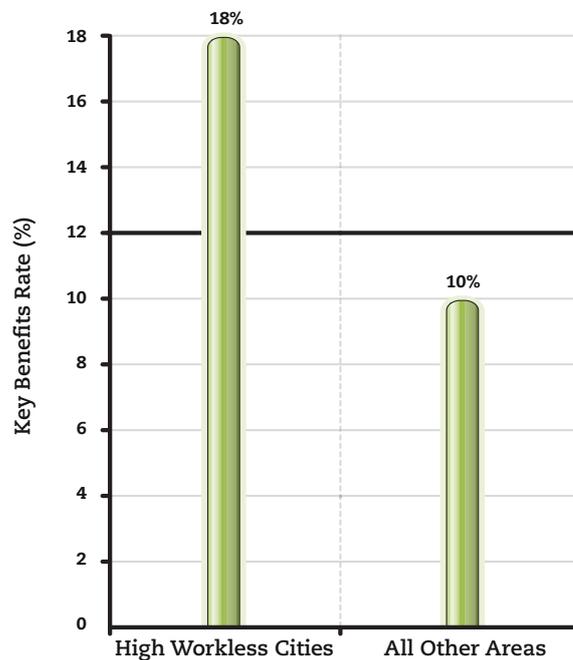
as a whole. It is evident that, for both High Workless Cities and City Strategy areas, there is a strong concentration of worklessness and poverty. The steps between categories in Chart 1 show that High Workless Cities have significantly more worklessness and poverty for their population compared to the State of the Cities group.

Charts 2 and 3 provide further evidence of the levels of worklessness concentrated in the High Workless Cities. The average employment rates are considerably lower, and the benefits rates considerably higher compared to all other LAs in Great Britain.

**Chart 2: The employment rates in High Workless Cities compared to all other areas**



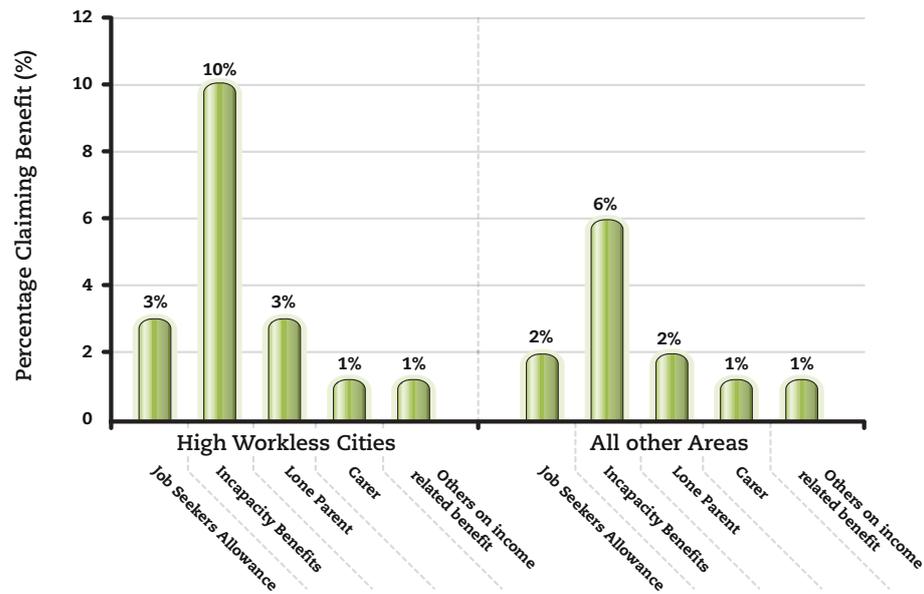
**Chart 3: The benefit claimant rates in High Workless Cities compared to all other areas**



“High Workless Cities have significantly more worklessness and poverty for their population”



**Chart 4: Claimant rates for different benefits in High Workless Cities compared to all other areas**



“20% of the population in High Workless Areas has a disability”

Chart 4 shows the claimant rates for each of the major benefits for both High Workless Cities and all other areas. Compared to the rest of the country High Workless Cities have:

- nearly double (1.8 times) the benefit claimant rates
- for Jobseeker’s Allowance, the claimant rates are more than double (2.1 times)
- for lone parent benefits the rate is 1.9 times
- for Incapacity Benefits the rate is 1.7 times; and
- the lowest ratio is for Carer’s Allowance (1.5 times).

In other words, those living in a High Workless City are twice as likely to be workless and claiming a benefit. They are also more likely to face labour market disadvantage. For example, 20% of the High Workless Cities population has a disability, compared with 17% elsewhere.

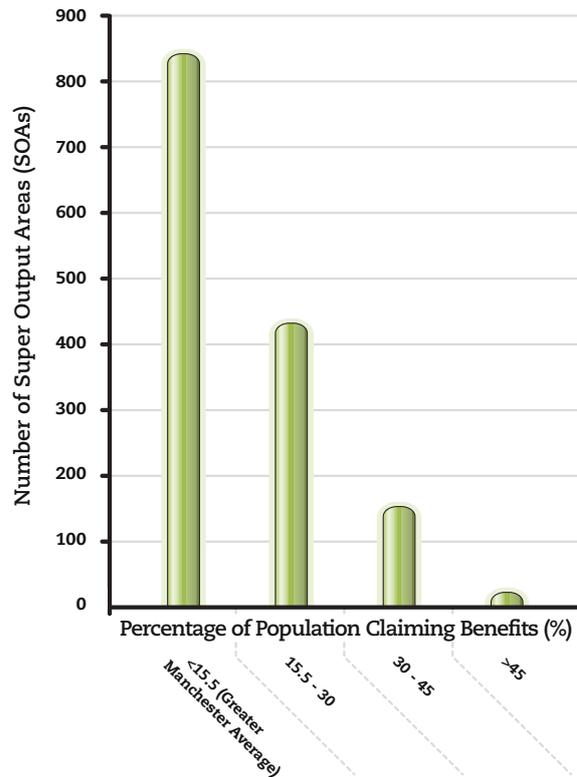
Claimant rates vary within cities as well as between cities and other areas. Chart 5 shows that in Greater Manchester the majority of Lower Super Output Areas (LSOA), the smallest official geography, have benefit claimant rates below the Greater Manchester average of 15.5%. However, there are a very small number of areas with exceedingly high claimant rates.<sup>11</sup> The lowest claimant rate is 1.2%, and the highest is 73.6%.

11. At this geographical level, the claimant rates are subject to the accuracy of the population estimate. LSOAs contain between 700 to 1,000 people of working age.



“Cities face additional barriers to employment, and thus require a more tailored approach”

**Chart 5: Range of benefit claimant rates in Greater Manchester Lower Super Output Areas**



### ***The employment gap in cities***

The Government’s aspiration of an 80% national employment rate can only be achieved if considerable progress is made in our cities, and especially in the High Workless Cities. Many areas of the country and some groups of people already have employment rates in excess of 80%. Growth concentrated in these areas will risk labour shortages and inflationary pressures. To open up and strengthen our labour market we need to address worklessness in those areas where the employment gap – that is, the difference between the 80% employment rate aspiration and the actual employment rate – is largest.

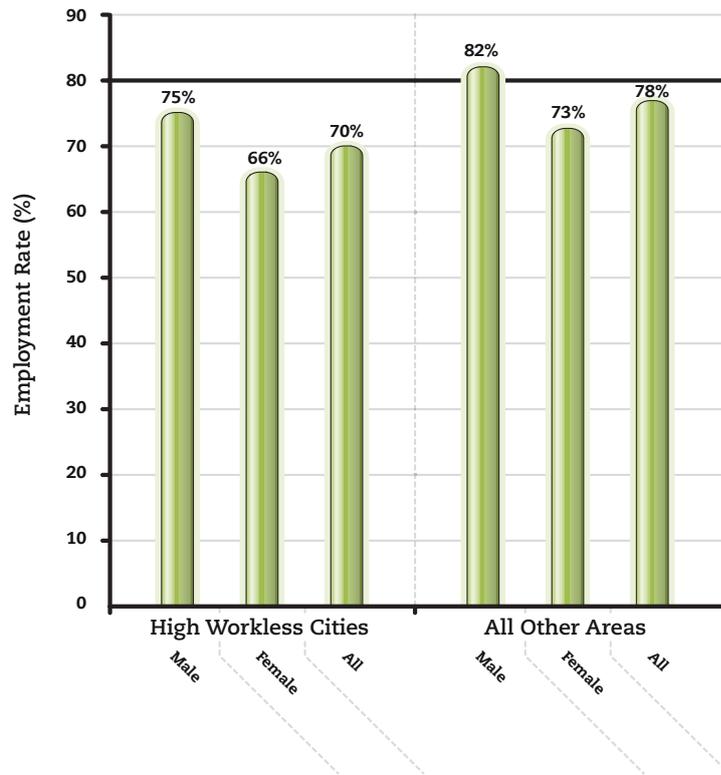
The following charts show just how far employment is from 80% for the most disadvantaged groups in High Workless Cities and the rest of the country. Together, they make a strong case that individuals in these cities face additional barriers to employment, and thus require a more tailored approach.

Chart 6 shows the employment shortfalls from 80% by gender in cities and elsewhere. Overall, the employment rate in High Workless Cities is 7.9% lower than in the rest of the country. For women, this gap is greater at 8.4%, with an employment rate for women in High Workless Cities of just 65%, compared with 74% elsewhere. The employment rate gap for men is a little smaller, at 7.3%.



“High Workless Cities have much larger employment shortfalls for disabled people”

**Chart 6: The employment shortfall from 80 percent for men and women in High Workless Cities compared to all other areas**



**Chart 7: The employment shortfall from 80 percent for people with a disability in High Workless Cities compared to all other areas**

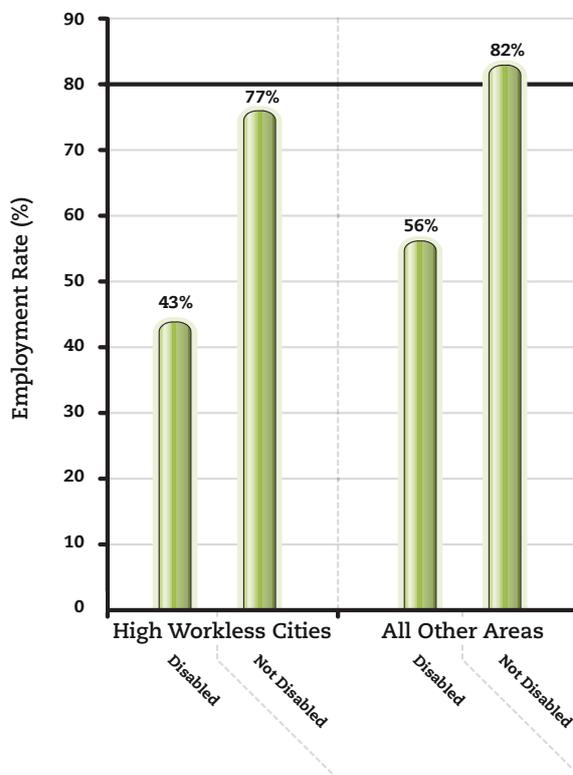


Chart 7 shows that the difference between High Workless Cities and all other areas is greater for people with a disability. For people without a disability, areas other than High Workless Cities have an employment rate of 82%, and High



“Competition for available jobs is stronger in cities”

Workless Cities have one of 76%, a difference of 6%. For people with a disability<sup>12</sup> the employment rate in High Workless Cities is 13% lower than in the rest of the country, more than double the difference for those without a disability. It is likely that competition for available jobs is stronger in High Workless Cities and therefore a disability or health problem is more of a barrier than in areas with less competition for jobs.

**Chart 8: The employment shortfall from 80 percent for ethnic minority groups in High Workless Cities compared to all other areas**

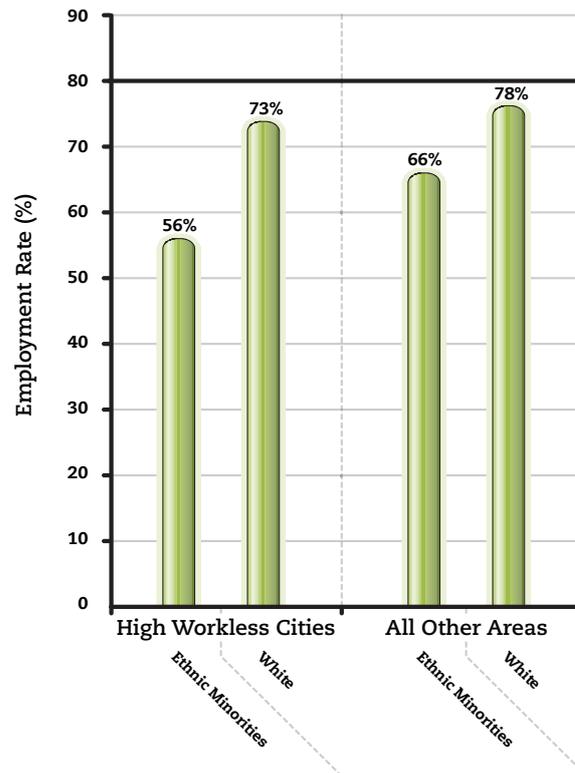


Chart 8 illustrates the employment gap for Ethnic Minority residents in both High Workless Cities and all other areas. Ethnic Minority residents form 18% of the High Workless Cities working age population, compared to 7% in the rest of the country. For White people, the employment gap in High Workless Cities is 5.5 percentage points, with an employment rate of 73% compared to 78% elsewhere. For Ethnic Minority residents, the gap is far higher, with an employment rate difference nearly double that for white residents at 10.7%. The employment rate gap between Ethnic Minority and White residents in High Workless Cities is 17.1%, compared with a gap of 11.9% elsewhere.

Chart 9 shows employment shortfalls by qualification. For the high qualified (the equivalent of NVQ level 3 or above), the difference between the High Workless Cities and all other areas is only 1.9% (this is largely due to low female employment rates at this qualification level in London)<sup>13</sup> and employment rates for both High Workless Cities and elsewhere are already over 80%.

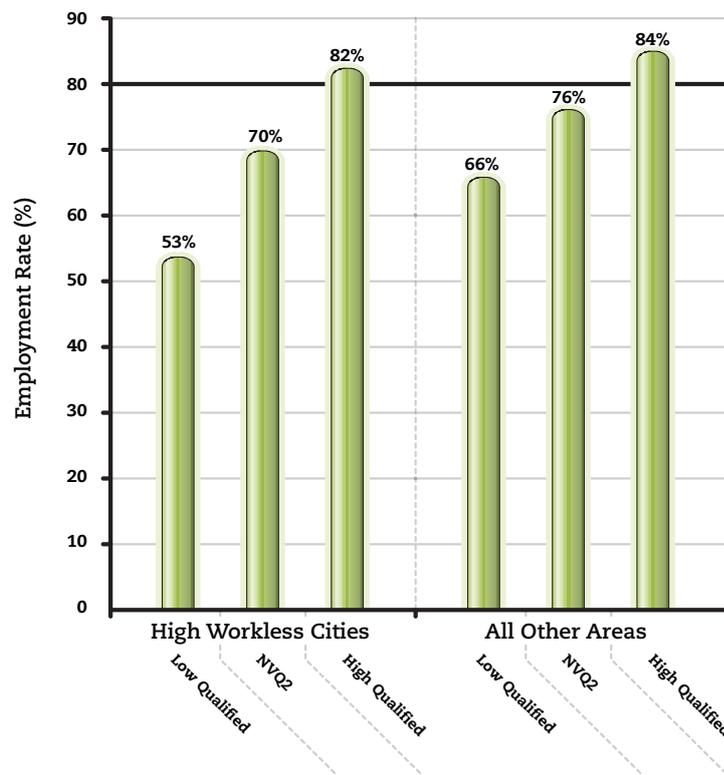
12. We use the broadest definition of those either with a disability covered by the Disability Discrimination Act or those who have a work-limiting disability, or both.

13. This difference is likely to be due to a combination of transport, childcare, and less part-time jobs.



For lower qualified people, the difference between High Workless Cities and all other areas escalates. For those with qualifications equivalent to NVQ level 2 (5 GCSEs at grades A-C), the employment rate is 5.6% lower in High Workless Cities than elsewhere. However, in London qualifications at this level do not provide the same improvement in employability that is visible in other areas. In the most competitive labour markets, better qualifications than NVQ 2 equivalence are needed. The new London Skills and Employment Board has recognised this, and sees getting more people to higher level qualifications as necessary to meet employer demands and get people back in to work.

**Chart 9: The employment shortfall from 80 percent for people with different levels of qualifications in High Workless Cities compared to all other areas**



“More people in High Workless Areas face a combination of disadvantage”

For those with qualifications lower than NVQ level 2, or no qualifications, the difference between High Workless Cities and all other areas is worse again, at a gap of 13.7%. At the same time, a higher proportion of these city residents are low-qualified than elsewhere – 34% of High Workless Cities’ populations are low-qualified, compared to 28% in the rest of the country. This mix of higher proportions with low qualifications and a labour market turning increasingly against the low-qualified is a potent argument that national targets are inappropriate to the needs of cities.

The message from these figures is clear – more people in High Workless Cities face a combination of disadvantage. This fact appears to help explain why employment rates are lower in cities, and reinforces why effective supply-side interventions in cities are important for lifting city economies.



In London, where there is a stronger concentration of more disadvantaged groups who are more like to face multiple forms of disadvantage,<sup>14</sup> a Greater London Assembly report ‘What works with tackling worklessness?’<sup>15</sup> concluded that:

“Many Londoners face more than one barrier to work. Tackling one set of problems while ignoring others is unlikely to make much impact on the problem. .... The evidence makes clear that there is no universal model of intervention that will help all workless people. Help and support needs to be tailored to the needs of the individual.”

The evidence presented here highlights that there is a long way to go in closing the employment gap between High Workless Cities and elsewhere. This means that the performance of labour market interventions in cities needs to be better than other areas to help close the gap. However, experience has shown this is not generally the case.

### ***New Deal performance in cities***

Active labour market programmes, such as the New Deals, have had lower success rates in most High Workless Cities than elsewhere. The Government has recognised the need to boost performance and there have been initiatives mostly specific to cities. This includes the Employment Zones, where the DWP contracts with private providers to deliver job outcomes for long-term unemployed and lone parents. The nature of Employment Zone contracts is that while, with the exception of North West Wales, they cover cities and urban areas, the cities themselves have no input into the objectives or design of the contracts. The Employment Zones are, in particular, a replacement for the New Deals for 25+ in their areas, and also for those who would return to the New Deal 18-24.

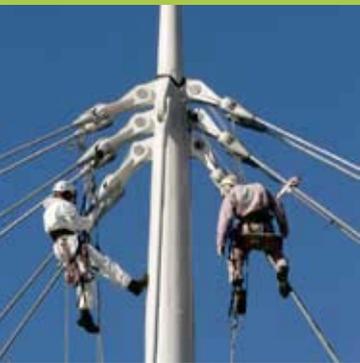
To calculate the performance in cities we have amalgamated the results for all three programmes – New Deal 25+, Employment Zones, and New Deal 18-24. In 2006 (the most recent year with full results) High Workless Cities had 62% of all ‘starts’ on the three programmes. As High Workless Cities have 60% of all Jobseeker’s Allowance claimants in the country, this shows that High Workless Cities also have a higher incidence of long-term unemployment leading to New Deal (and Employment Zone) eligibility. In other words there are 2% more participants than would be expected because people in cities claim benefits for longer periods.

The job outcome rate – that is, those starting paid employment - across all three programmes is lower in High Workless Cities at 39% of starts in 2006, compared with 42% in the rest of the country. These New Deal figures include all jobs, including those that were not sustained, but it is likely that the patterns apply to sustained jobs as well as to the ‘all jobs’ figures.

14. ‘Worklessness in London: why is it higher than in the rest of the country?’ Pam Meadows, GLA, 2006. See [www.london.gov.uk/mayor/economic\\_unit/worklessness/Pam\\_Meadows.pdf](http://www.london.gov.uk/mayor/economic_unit/worklessness/Pam_Meadows.pdf)

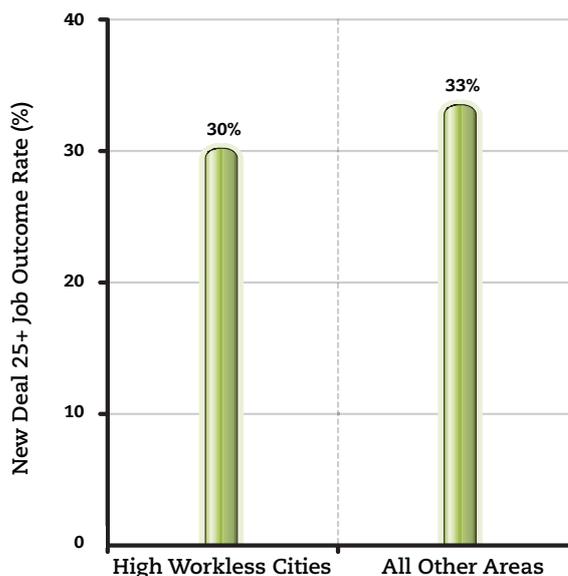
15. GLA Economics, 2007

“The performance of labour market interventions in cities needs to be better than other areas”



“High Workless Cities have 60% of all Jobseeker’s Allowance claimants in the country”

**Chart 10: Performance of programmes for the unemployed in High Workless Cities compared to all other areas**



Similar figures for the New Deal for Lone Parents are complicated by the fact that it is a voluntary programme. Whilst this means it records high job outcome rates, these are people who volunteered to take part, and the issue of low take-up in some urban areas (particularly in London) is hidden if people who do not participate are not counted.

### City Strategies

This low performance of the New Deals was one reason why the DWP identified a need to do better in cities, and announced the 15 City Strategy pathfinders, where neighbouring LAs and relevant agencies are encouraged to work together to combine and align efforts to combat worklessness.

City Strategies are based on the idea that local partners can deliver more if they combine and align their efforts behind shared priorities, and are given more freedom to try out new ideas and to tailor services in response to local need. City Strategies aim to:

- ensure provision is more attuned to the needs of local employers so individuals gain the skills and attributes they need to access the particular jobs that employers need to fill
- play a significant role in increasing local employment rates, ensuring those most disadvantaged in the labour market can receive the help and guidance they need.

City Strategies require partnership working between local authorities in their areas, Jobcentre Plus, the Learning and Skills Council (LSC) in England, and bodies responsible for adult skills and training in Scotland and Wales. The award of City Strategy ‘status’ itself has, in many cases, increased the focus on problems of worklessness and provided an impetus to bring employer requirements into the heart of employment and skills planning processes at the sub-regional and local levels.



**“Any employment and skills partnerships which are established must have real authority”**

City Strategies have worked hard to establish effective partnerships by engaging with the private sector and seeking to align targets and funding streams as far as possible under the current arrangements. Their business plans all express a common desire to join up provision and create a seamless customer journey that meets the needs of employers and individuals. They have focused on improving outcomes to those areas with the highest concentrations of worklessness and lowest skills levels.

Activities undertaken by City Strategies include the development of multi-agency services that join up employment support and training in the most disadvantaged communities in their localities. Many City Strategies have also introduced unified branding for these services and linked them to other core provisions including health and housing. As such, the work being undertaken by City Strategies holds many lessons for the future development of the Adult Advancement and Careers Service.

City Strategies have also made great progress in bringing together previously disparate sources of funding and commissioning arrangements. Many of them have been successful in joining up Disadvantaged Areas Funding and European Social Funds to maximize the impact on worklessness targets. In some areas this approach has extended further and formal procedures are starting to be developed to assess and appraise the impact of mainstream funding and regional investment in employment and skills.

However, most City Strategies have also expressed the view that they are currently prevented from realising their full potential because they lack formal responsibilities for employment and skills provision in their areas. In particular, many City Strategies are now looking for further powers to enable them to more effectively align targets and funds, and to scrutinise and drive up performance. Problems continue to arise because much provision is either directed to achieve nationally determined targets, or else funding and provision is completely delegated to the local authority level.

Whilst City Strategies have attempted to join up these two aspects at the level of the logical labour market, often the sub-region, this remains problematic in the absence of a clear framework that sets out the responsibilities of national, regional, sub-regional and local agencies. Importantly, this lack of clarity has delayed progress in many City Strategies and led to frustration amongst some private sector partners. If employment and skills provision is to be made more responsive to employer requirements, then one of the main lessons from City Strategies is that any employment and skills partnerships which are established must have real authority to set priorities, direct funds, and change the way that services are provided.



## Why do we need to localise?

There are many reasons why the UK labour market needs more localised provision. The concentration of worklessness in particular urban areas, explored in the previous section, is one of them. This section explores how localisation will aid in the integration of employment initiatives with skills training, help to better tailor services to the individual and make services more accessible, as well as how localisation can result in a more dynamic labour market and improved economic performance.

### 1. To improve economic performance, especially by improving skills

The first reason for devolving to cities is to provide them with the tools to determine their competitiveness within a global economy. The State of the Cities<sup>16</sup> report states:

“Urban comparative advantage has to do with the ability of a city to provide sufficiently attractive wages, employment prospects and returns on capital to attract and retain labour and capital from elsewhere, and to focus its exports on those activities in which it has higher productivity than other cities and regions. .... Urban competitive advantage depends on creating and attracting a highly educated and skilled labour force.”

One of the primary drivers for countries to improve their training and employability infrastructure is to improve the adaptability of their economies to global economic, environmental, and political change. Successful economies will be those that can quickly adapt to external trends and shocks. Employers have to be enabled and incentivised to innovate and introduce change, and the local workforce needs the opportunities to train and upskill. In the future, the more adaptable a local economy, and hence its labour market is, the more likely it will be to be successful.

The Government therefore needs to establish legislative and institutional frameworks that permit local economies to adjust quickly. Achieving this is not easy given the complex inter-relationship of different policy objectives embedded in current skills and employability systems. Indeed it can be argued that national government can slow down the rate of adjustment of local economies because of the need to achieve other policy priorities.

Meeting changing skills demand is a central element to why worklessness initiatives need to be devolved. The success of some Local Authorities in helping increase school leaver qualification levels is an important signal to employers. Now the government has decided to further extend the role of local authorities by devolving responsibility for education spending for 16-18 year olds from 2010.<sup>17</sup> Instead of a national agency (the LSC) being responsible, Local Authorities will plan and co-ordinate all childcare, schools, sixth forms and further education. This will give Local Authorities responsibility for education

16. *State of the English Cities: the Competitive Economic Performance of English Cities*, DCLG, 2006  
17. *Raising Expectations: enabling the system to deliver* DIUS and DCSF, March 2008

“Successful economies will be those that can quickly adapt to external trends and shocks”



“Glasgow City  
Strategy supports  
the innovative  
“Bridging  
Services” model”

and skills services from pre-school childcare to adulthood - particularly important from 2014 when the age at which young people have to remain in formal learning increases to 18. The importance that Local Authorities attach to young people and their transition to the labour market is shown by the large number selecting the ‘not in education, employment and training’ (NEET) indicator for their Local Authority Agreements (LAAs). However, for adults the picture is very different.

Adult skills are presently controlled by the LSC but the government is now reviewing its future. The consultation paper ‘Raising Expectations’ sets out proposals to create a new Skills Funding Agency.

“.....we will create a new Skills Funding Agency. It will be a focused, streamlined agency, close to Government and with an operational role. It will have national and regional presence, deploying its activities and resources flexibly to reflect the fact that skills needs are manifested in sectoral, regional and sub-regional patterns, and rarely follow Local Authority geographies.”

The LSC, as a national agency, did have local offices that were responsible for local suppliers. However, since 2006 the LSC has re-structured and shut local offices and built up stronger regional and sub-regional offices. This has led to a perception at the neighbourhood level that the LSC is less responsive<sup>18</sup>, however LSC offices have a considerable degree of flexibility in how they work with and support local partnerships.

## 2. Integration with local services

Tackling inactivity and child poverty involves a wider range of interventions and therefore services. Health, childcare, transport and skills become more important but these are either directly controlled locally or (in the case of skills) have a far higher degree of local flexibility.

Where people live also becomes more important and the role of Registered Social Landlords has been highlighted by both John Hills<sup>19</sup> and Caroline Flint<sup>20</sup> MP, Minister for Housing.

Bringing these services together is a complex exercise. City Strategies have been at the forefront of trying to do this over the last year. Whilst significant progress has been made in starting to align funding and services, most City Strategies will also acknowledge that it has been time-consuming. It has sometimes been difficult to bring local partners together around common goals to increase employment and reduce claimant numbers.

### **Glasgow - Building Bridges between Health and Employability Services**

Glasgow City Strategy supports the innovative “Bridging Services” model which has been developed across the five Community Health Care Partnership Areas in Glasgow. The services are made up of multi agency/

18. ‘An overview of Neighbourhood Renewal in Six New Deal for Communities areas’, DCLG, April 2008

19. ‘Ends and Means: The future roles of social housing in England’, John Hills, independent report to DCLG, February 2007

20. Caroline Flint MP, speech to Fabian Society, February 2008



disciplinary teams, co-located in local venues most suited to making contact with people who have health and/or social care needs and are distanced from the labour market. This model is proving highly successful with one Bridging Service receiving over 400 referrals in a six month period.

Glasgow Works, New Connections Team have developed Employability Training to support frontline health and social care staff to incorporate employability into their assessment framework. To date over 500 members of staff have been trained. Partnership working is continuing with the Scottish Executive to support dissemination and use of the training packs across Scotland to health professionals.

### 3. To bring services closer to the customer

Benefit claimants and employers are the customers of employment programmes, and the low skilled and employers are the primary customers for skills. In his final report Lord Leitch argued that there should be more integration of employment and skills infrastructures and a more integrated system should be more demand-led. The government is now implementing this broad approach and is in the process of personalising how both employment and skills services are delivered to customers.

The Flexible New Deal and Skills Accounts are currently the two main vehicles for doing this, along with a new Adult Advancement and Careers Service. Putting the customer at the heart of the system is a necessary but not a sufficient step. Leitch also argued that there should be local Employment and Skills Boards to ensure there was a good match between demand and supply, as well as to influence the nature of demand and scrutinise the quality of supply.

‘Their [Employment and Skills Boards] role will be to engage local employers, articulate local labour market needs, scrutinise local services and recommend improvements in integrating labour market and training support. Engaging local employers will improve the matching of work-ready applicants to sustainable jobs, including the disadvantaged.’<sup>21</sup>

David Freud<sup>22</sup> expressed a different view for the employment system. This was driven by large, new contractors covering whole regions and driven by payments by results. Freud side-stepped institutional reform by establishing a new market where contractors would behave in appropriate ways towards local partners to ensure they levered other funds and maximised performance. However, Freud said nothing on the functions of Employment and Skills Boards as envisaged by Leitch. Instead Freud believed that radically improved contract management by DWP would be sufficient.

DWP’s Commissioning Framework<sup>23</sup> released in February 2008, maintained Freud’s broad approach but reduced the size of contracting areas from regions to sub-regions and also recognised the importance of sub-regional contracts reflecting the needs of the local economy and local partners.

21. ‘Prosperity for all in the global economy – world class skills’ HM Treasury, December 2006

22. ‘Reducing Dependency, increasing opportunity: options for the future of welfare to work’ independent report to the Department for Work and Pensions, 2007

23. ‘DWP Commissioning Strategy’ February 2008

“there should  
be more  
integration of  
the employment  
and skills  
infrastructures”



“Localisation is  
now an economic  
imperative”

#### **Blackburn with Darwen – Developing sub-regional structures**

The Blackburn with Darwen City Strategy has recognised the need for greater co-ordination of economic strategy across the six Local Authorities that comprise the Pennine Lancashire sub-region.

A proposal has been submitted to Government Office North West to establish a Pennine Lancashire Multi-Area Agreement to better integrate transport planning, spatial planning, housing strategy, economic and physical development, and employment and skills provision. Four of the six Local Authorities are committed to establishing an Economic Development Company as the new delivery vehicle for this purpose which will assume responsibility for strategic economic development functions, housing strategy, and the employment and skills strategy.

#### **4. The characteristics of workless people**

As described above, the nature of the labour market challenge has changed over the last decade. A recent OECD<sup>24</sup> paper suggested a number of indicators that can be used to assess whether decentralisation is more likely to be required. The indicators include:

- A shift in the ratio between the unemployed and the economically inactive, towards the inactive
- A growing proportion of the workless who have multiple labour market disadvantages
- An increase in the geographical concentration of workless people
- A decline in the success rate of national programmes
- An increasing proportion of returners on unemployment benefits
- Significant variations in skill levels and declining employment rates for low skilled workers
- High levels of inward and outward migration.

These indicators are all apparent in the UK, suggesting that more localisation is now an economic imperative, not just politically desirable in some quarters.

#### **East London City Strategy – Unified Branding and Single Point of Access**

East London City Strategy is establishing a ‘Single Point of Access’ (SPA) to join up and improve access to employment and skills provision and childcare services under the unified ‘Workplace’ branding within Newham. The service will provide employment and skills support from Children’s Centres, co-

24. OECD Background paper for Venice Conference on ‘Enhancing Flexibility in Labour Market Policy’, April 2008



“increasing sustainable employment should become the primary aim of a new integrated system”

ordinate provision to meet parental needs, and make additional funding available to cover childcare costs, including for parents of children with special needs. The City Strategy is also exploring the feasibility of extending the £40 in-work tax credit, currently available to just lone parents, to all parents in Newham as part of this service.

The SPA is in its first phase of development and is already working to improve referrals between Jobcentre Plus, local ‘workplace’ employment and skills services, and Children’s Centres. A second phase is planned to link in health services. Once completed, the service will be based at 2 Workplace Centres, 4 Jobcentre Plus Centres, and 20 Children’s Centres (6 in the first year). The SPA will also link with a variety of other centres in the Borough on an outreach basis.

### **Integrating employment and skills – recognising the need for change**

The Leitch Review laid the groundwork for the intent to better integrate the employment and skills systems. Leitch argued that if the twin aims of upskilling the workforce to world class standards and achieving higher employment rates were to be met, we would have to develop a demand-led system that better met the needs of learners and employers. Access to skills and qualifications for claimants was seen as a critical step for not only increasing their employability but also increasing their chances of sustainable employment. Leitch suggested that increasing sustainable employment should become the primary aim of a new integrated system.

Following Leitch’s recommendation the Government established the UK Commission for Employment and Skills (UKCES) which started work on 1st April 2008. The Commission’s overall aim is to ‘increase UK prosperity and opportunity by improving employment and skills.’ It will do this by providing independent advice to the Government, Scottish Executive, Welsh Assembly and Northern Ireland Assembly to help achieve improvement through ‘strategic policy development, evidence-based analysis and the exchange of good practice’. The UKCES will:

- monitor and challenge the performance of the differing employment and skills systems in creating sustained employment and career progression.
- recommend systematic improvements in policy and delivery, including the better use of skills at all levels.
- suggest further innovations and advise how employment and skills related services, working together, can deliver an integrated service for employers and individuals.

Leading the way on this at the regional level is the new London Skills and Employment Board.<sup>25</sup> Government established a statutory London Skills

25. See [www.london.gov.uk/lseb/](http://www.london.gov.uk/lseb/)



and Employment Board in February 2008 and is expected to publish its first long-term strategy in summer 2008. In establishing the London Skills and Employment Board, the then Secretary of State for Education and Skills, Alan Johnson MP said in his letter to the Mayor:

“The role of the Board will be to champion skills in London, to set priorities and determine the strategy for adult (post 19) skills training in London. The strategy should focus on the needs of adults in the labour market or seeking to enter it (including those on benefits), making a strong link between skills, employment and worklessness. The Board’s work and its strategy must be driven by the needs of the employers, giving employers in London a new opportunity to exercise powerful leverage to ensure that training equips adults with the skills and qualifications they need to raise productivity.”

London’s employment and skills needs, as well as its governance structure, mark it out as a city requiring a distinctive approach, and the London Skills and Employment Board is now well advanced (along with the two<sup>26</sup> London City Strategy areas) in developing new priorities, targets, and structural reform needed in the capital. However, the door is also open for other cities to follow suit because the legislation establishing the London Skills and Employment Board created the option for other areas to assume the same powers and responsibilities.

In addition, DWP and DIUS are actively pursuing how integration should be implemented and are starting ‘Integration of Employment and Skills’ pilots in 2008. In the joint DWP and DIUS paper ‘Ready to Work, Skilled for Work’<sup>27</sup> the importance of reflecting local needs was recognised:

“We are committed to helping employers respond to local conditions and the needs of their communities by:

- allowing greater local flexibility, so that delivery can match local need, backed by greater targeted funding to help areas with the greatest issues; and
- involving employers in the development of plans for the future economic development of their area and giving them influence over the delivery of the employment and skills services at the local level.”

DCLG, DWP, and DIUS are now actively encouraging Local Authorities coming together to form Multi-Area Agreements (MAAs). These allow groups of Local Authorities to come together on a sub-regional basis to collaborate in the delivery of services and meet common objectives and targets. The first wave of MAAs are presently being prepared and due for agreement in summer 2008. Some of these highlight employment and skills as an area to take on more responsibility as well as increasing collaboration across partners.

26. *West London and East London*  
27. *DWP and DIUS, January 2008*

“London’s  
employment  
and skills needs,  
as well as its  
governance  
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city requiring  
a distinctive  
approach”



“The message to employers is clear: the Government does not want to dictate a one-size fits-all approach.”

The Government is also consulting on plans to introduce a new statutory framework for Local Authorities to assess their local economies either individually or jointly across a functional economic area.<sup>28</sup> Such assessments will increase the capacity of Local Authorities, and their partners, to analyse and co-ordinate the demand and supply-sides of their economies. Proposals in the consultation paper include placing a duty on Local Authorities to undertake an assessment of ‘economic conditions in their local area’. In delivering the assessment there would be duties to consult and as well as duties on others to participate in the process.

#### **West Midlands - Employer Offer**

West Midlands City Strategy has taken steps to address the confusing marketplace of employer support, which provided a large number of products for employers from a range of agencies and providers. The LSC and Jobcentre Plus, working with Employment and Skills Boards, has produced a West Midlands Employer Offer. The offer is simple – it does not promote any one product and it only offers two points of contact – one for recruitment and one for workforce development.

Work with the employer is tracked so wherever an employer enters the system they are guided through the available services until all their needs are met. The Employment and Skills Boards in the West Midlands are central to this work and each receive regular progress reports via a Jobs and Skills Scorecard tailored to their local priorities. The services available through the Employer Offer include:

- Recruitment services tailored to employers’ requirements delivered by Jobcentre Plus, depending on the needs of the employer
- Job scoping and individual skills assessment, to ensure a match between prospective recruits and the skills requirements of the job
- Bespoke pre- and post-recruitment programmes designed by employers
- Work Trials to enable employers to assess suitability for a particular role
- Youth and Adult Apprenticeships to provide a structured career development programme
- Independent advice and support in undertaking an Organisational and Individual Training Needs Analysis reviewing the skills of the employee(s)
- Free training in order to address basic literacy, communications and numeracy needs.
- Training employees to their first level 2 qualification

The local assessment is also intended to ‘consider the skills that will be required by employers’, and recognises the ‘emerging sub-regional Employment and Skills Boards’ as part of a new regional governance structure for economic development. These proposals reinforce the central message from DWP and DIUS about stronger local empowerment and the involvement of employers.<sup>29</sup>

“The message to employers is clear: the Government does not want to dictate a one-size fits-all approach. We want to let local partners decide what is best for

28. *Prosperous Places: Taking forward the Review of Sub-National Economic Development and Regeneration*, BERR, March 2008

29. *Ready for work, skilled for work: unlocking Britain's talent*, DWP and DIUS, January 2008



their community and their local businesses.”

Leitch was very clear about the need for employer involvement and recommended that Government “develop a network of employer-led Employment and Skills Boards, building on current models, to influence delivery.” Leitch recognised that some local areas had already established partnerships that resembled Employment and Skills Boards – but operating under different names and with a range of different governance arrangements. The Government has continued to encourage an ‘organic growth’ of Employment and Skills Boards but has not yet taken the step of establishing the licensed network that Leitch envisaged:

“A network of employer-led Employment and Skills Boards to give employers a central role in recommending improvements to local services, mirroring the national role of the Commission for Employment and Skills. The Boards will work to ensure that local services meet employer needs and the workless are equipped to access work.”

This will need to be the critical next step – building on what local areas have already achieved but linking their Employment and Skills Boards into a national framework that gives them more power and influence than they do at present. Whilst some local areas and employers may be concerned about central government specifying what Employment and Skills Boards should do and look like, there is clearly an important trade-off between the degree of influence Employment and Skills Boards can have and the functions and standards they should meet.

Moving towards an Employment and Skills Board network with real influence, as envisaged by Leitch, requires a statutory framework that is clear about the responsibilities of the national, regional and local partners. A new framework is needed if Government is going to open up the possibility of more devolution and flexibility for cities.

In summary, the nature of the UK’s current labour market challenges requires both personalisation and localisation. These are two of the main principles for reform of our skills and employment system.

However, whilst there have been some significant moves to potentially increase influence at the local level, there is presently a confusing mix of messages. What is urgently needed is greater clarity about the role, powers, and influence of different levels of government. This is especially true at the Local Authority and city-regional levels where capacity needs to be built if they are to have more responsibility.

City Strategies have demonstrated the scale of opportunity and the extent of the task involved in local partners coming together to plan and co-ordinate employment and skills policies. City Strategies are confident that they are achieving increased effectiveness through aligning funds, better targeting, customised initiatives, ending duplication and filling gaps in provision.

There is a story of devolution and decentralisation of employment and skills but Government is not yet telling it as a coherent story.

“A new framework is needed if government is going to open up the possibility of more devolution and flexibility for cities”

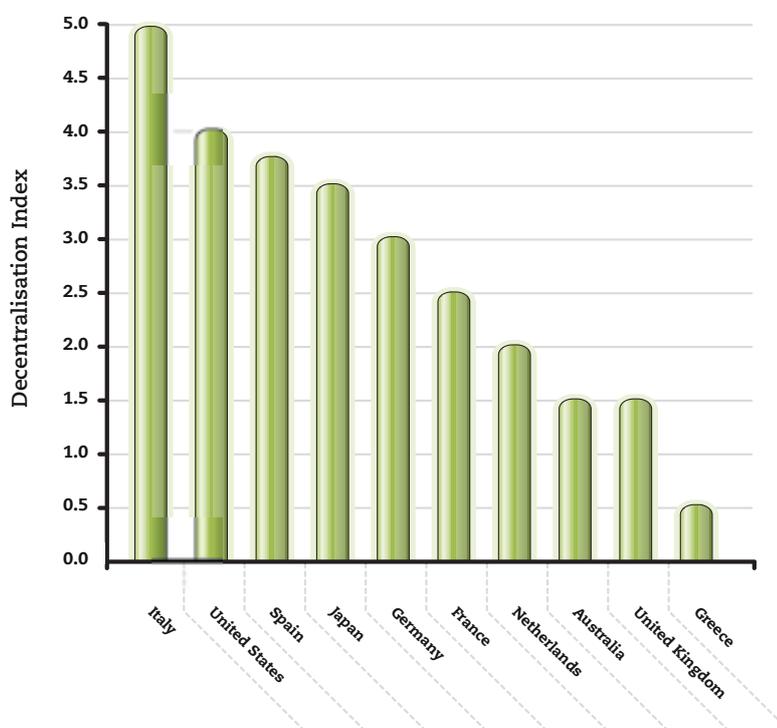


## Devolution: International experience

The UK has operated one of the most centralised employment and skills systems in OECD countries. Only Greece is more centralised according to the OECD's index of 'effective decentralisation'. Chart 11 shows the extent of decentralisation in each country based on an index calculated from a range of functions. Chart 12 shows those 'accountability mechanisms' that are most commonly decentralised.

Not surprisingly 'collaboration' scores the highest, followed by 'outsourcing' where local, sub-regional, or regional governments undertake commissioning instead of national government. 'Eligibility' is the least devolved showing that most national governments want to maintain control over who has access to support and who does not.

**Chart 11: Total effective decentralisation to below national level across OECD countries**



Source: Scuola Grande di S. Giovanni Evangelista, (2008) 'Decentralisation and co-ordination: The twin challenges of labour market policy' Draft Background Paper for OECD LEED Programme Conference April 2008, p.16.

At a recent OECD conference<sup>30</sup> participating countries (including the UK) agreed the Venice Action Statement, which highlights 'the importance of enhancing flexibility in the management of labour market policy in order better to reconcile national and local goals.' Specifically, the Action Statement set out a number of aims:

- Inject flexibility into the management of labour market policy

30. Venice Action Statement on Enhancing Flexibility in Labour Market Policy and More Than Just Jobs: Workforce Development in a Skills-Based Economy, OECD, April 2008

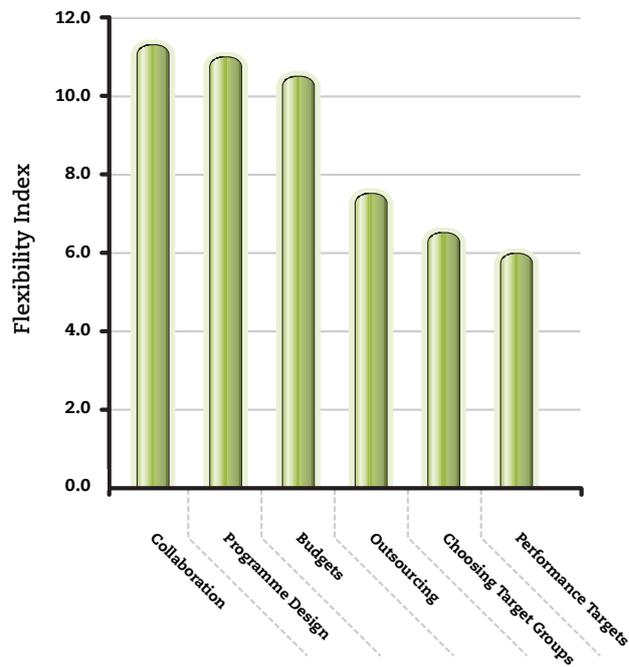
“The UK has operated one of the most centralised employment and skills systems in OECD countries”



“The Venice Action Statement provides a useful agenda for the UK to pursue”

- Establish an overarching management framework which embeds local flexibility
- Build strategic capacity
- Build up local data and intelligence
- Improve governance arrangements; and
- Improve administrative arrangements.

**Chart 12: Comparison between flexibility available at local level for the different aspects for management in OECD countries**



Source: Source: Scuola Grande di S. Giovanni Evangelista, (2008) 'Decentralisation and co-ordination: The twin challenges of labour market policy' Draft Background Paper for OECD LEED Programme Conference April 2008, p.29.

The similarity with UK issues is striking and the Venice Action Statement provides a useful agenda for the UK to pursue. Other countries are actively pursuing decentralisation and some have been doing so for some time.

Both Germany and Denmark currently have pilots where they have devolved powers to shape and manage employment support to local partners. In Germany, this involves 69 different areas in a controlled pilot where the results will be compared with other areas that have not been devolved.

In the Netherlands there has been extensive reform over the last five years to devolve employment support for the long-term unemployed and the equivalent of UK inactivity benefits. Local Authorities have been given complete control over the planning and delivery of provision. Budgets have been determined by an agreed national formula and Local Authorities can retain the balance if they exceed targets; however they are also liable for any overspend. Initially Local Authorities were required to commission all provision, but the law has recently been changed to enable them to directly manage provision.



“There is a strong international movement towards more devolution”

### **Devolving in the Netherlands**

Since 2004 the Netherlands has devolved responsibility for long-term workless claimants to each municipality (Local Authority). They receive two different funds: 1) The ‘income fund’ which pays for means tested assistance and must be passed onto claimants; 2) ‘the work fund’, which must be used to provide employment and reintegration support to claimants.

The ‘income fund’ is capped so that if the number of claimants increases the municipality has to cover the extra funds, but only up to a set limit. However, if the number of claimants decreases then the local authority can keep the balance and spend it as it sees fit. This provides a powerful incentive to local authorities to reduce the number of claimants. However, any unused funds in the ‘work fund’ must be returned to central government, and this incentivises municipalities to make full use of the budget to provide support to claimants.

Municipalities are free to operate the programmes they think will work, and the majority have adopted a ‘work first’ approach. In the Netherlands ‘work first’ is broader than it is in the UK. Whilst it emphasises the importance of work experience and moving into a paid job, it also gives stronger recognition that some people need ‘capacity building’ over a period of time.

The primary barrier to the UK piloting a similar system to the Netherlands is the so called DEL/AME debate. The Treasury divides spending into two separate pots – DEL (Departmental Expenditure Limit) a limit that departments can spend up to and is set by the three-year Comprehensive Spending Review, and AME (Annually Managed Expenditure) which is demand-driven because of universal rights to benefit payments. Strict Treasury rules mean that funds cannot be transferred between the two. As David Freud pointed out, if transfers were permitted then providers could be incentivised to achieve higher levels of savings in AME and retain some of the resultant savings. This principle could also be applied to local areas – essentially the deal that exists between the Netherlands government and its local authorities.

The UK is not alone in addressing the issues of how to deliver more effective programmes in a changing labour market. Whilst the nature and characteristics of devolution will vary according to the institutions and history of a country, there is a strong international movement towards more devolution, not less. A fully devolved approach, such as in the Netherlands, could be used to inform more effective ways to equip UK cities to address worklessness in the UK.



## Conclusions and next steps for cities

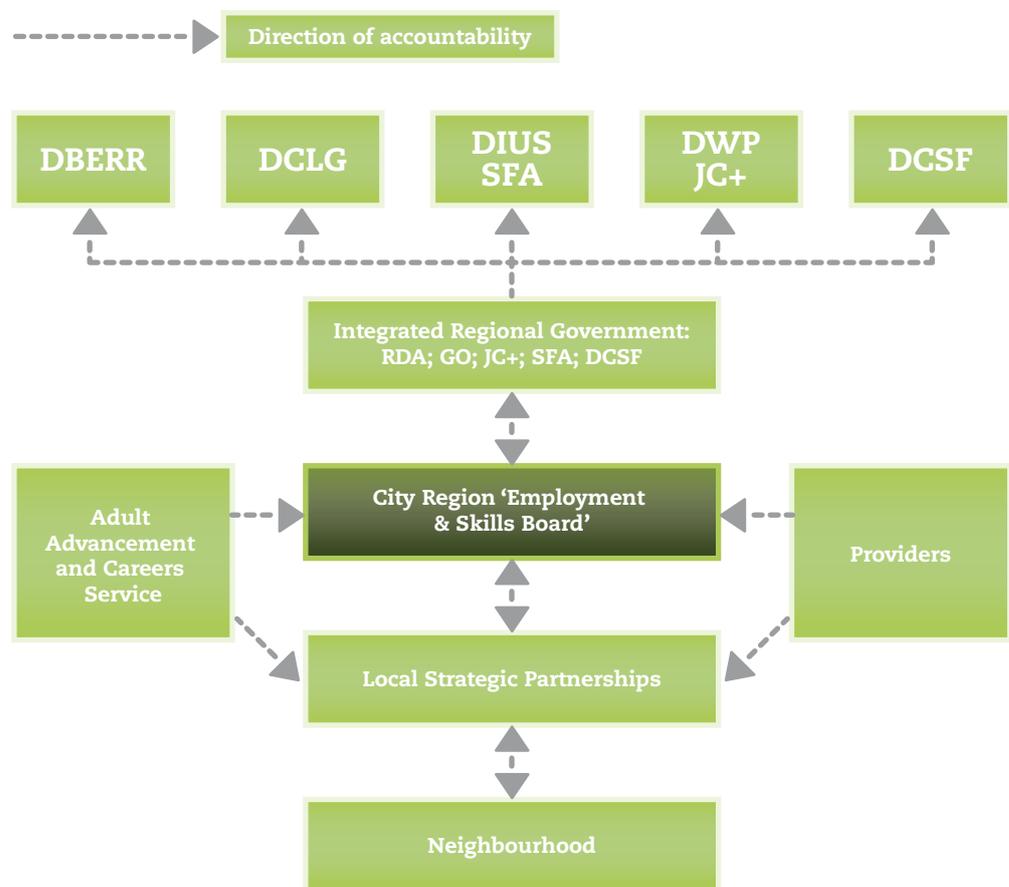
**There is a general case for more local flexibility in the delivery of employment and skills throughout the UK, but cities need to be the focus for how and when flexibility is introduced. Our analysis shows that a relatively small number of Local Authorities in cities are of critical importance if the government’s social and economic objectives are to be achieved.**

Cities should be the focus for the next stage in the reform of welfare and skills. Meeting the current skills, employment and child poverty challenges depends on dramatically improving the situation in our cities where worklessness is most concentrated. Given the UK’s track record this looks a difficult task, but our analysis has demonstrated why we need a new framework that empowers local partners to drive forward the next steps in welfare reform.

This new framework is emerging but it needs consolidation and clarification. Presently there are too many conflicting messages to the range of players – national, local, private and third sector - in the employment and skills industries. The UKCES has been asked to look at how the whole system can be improved to better deliver on worklessness objectives, so here we put forward some ideas for debate.

“Cities should be the focus for the next stage in the reform of welfare and skills”

**Chart 13: A new framework for enterprise, employment and skills**





What should a new framework look like? Chart 13 proposes one way of constructing a new framework based on the principles of:

- Simplification through integration
- Localisation through devolution
- Employer engagement
- Better performance through accountability.

City region 'Employment and Skills Boards' should be at the heart of the system, localising provision, and prioritising the employer voice. Regional government needs to be integrated and made more powerful, bringing together the different functions that operate at regional level and enabling central government to decentralise. The national level should be slimmed down, strategic and enabling.

What are the next steps that are needed to create this new framework?

#### **STEP 1. Extend City Strategies to all High Workless Cities**

On employment and skills, City Strategies have already provided a solid starting point from which LAs can work together to deliver these sorts of responsibilities. They have led to the establishment of new sub-regional Employment and Skills Boards, and in some cases, innovative MAA proposals. Government has recognised the importance of these initiatives by extending the existing 15 City Strategies.

However, those LAs which are not part of a City Strategy place varying degrees of priority on skills and employment, and they also have different levels of capacity to react to new responsibilities. Their Local Strategic Partnerships have had varying success in leading on skills and worklessness. This will need to change if cities are to respond to their local challenges and improve the performance of employment and skills spending.

Government should now expand City Strategies to all the 'High Workless Cities' (see Map 1) - boosting both their responsibilities for and their capacity to deliver improvement for their citizens. They should be encouraged to team up with surrounding LAs to co-ordinate worklessness initiatives and respond to the demands of employers and the labour market.

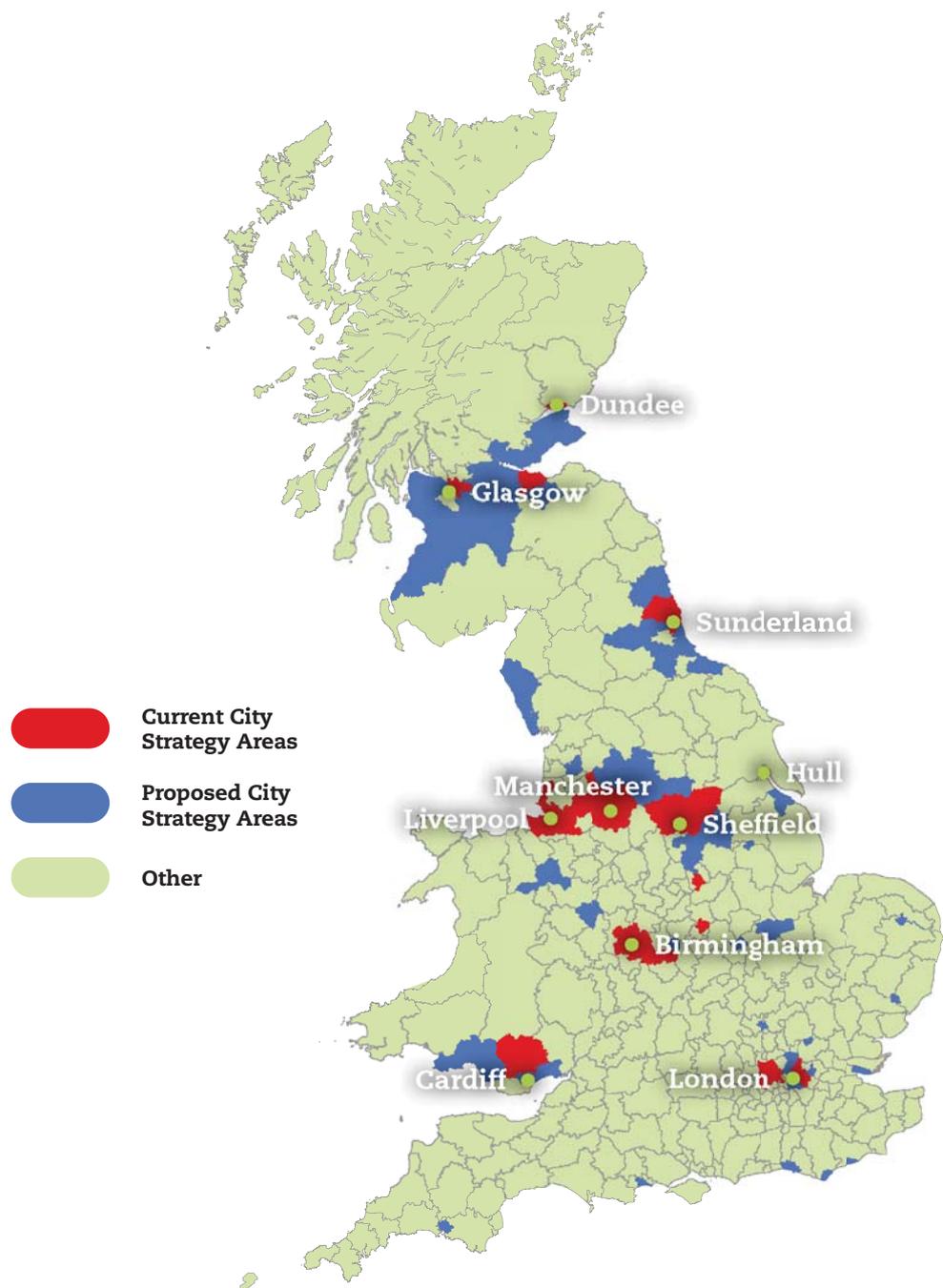
This would mean that City Strategies will cover 58% of all claimants rather than the present 34%. The new City Strategy areas will be able to build on the learning of existing City Strategies and move faster to establish strong partnerships. The needs of each English region should also be taken into account, for example, it may make more sense to designate the whole of London as a City Strategy, and give more responsibilities to the statutory London Skills and Employment Board.

**“City region  
Employment  
and Skills Boards  
should be at  
the heart of the  
system”**



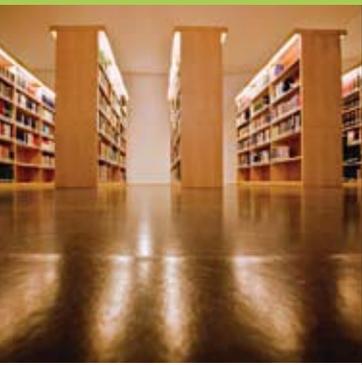
“Current and proposed City Strategy Areas”

Map 1: Current and proposed City Strategy Areas



In order to improve opportunities in the High Workless Cities, and ultimately improve city performance, each of these Local Authorities should have the responsibility for:

- Setting local targets for employment and skills by using existing Local Area Agreements and extending them if necessary.
- Identifying their priority neighbourhoods where effort and resources will be focused.
- Working with surrounding LAs to establish an Employment and Skills Board (where one does not already exist) to ensure services are tailored to meet the needs of the local labour market.



“Employment and Skills Boards should be guardians of local targets for the attainment of skills and employment targets”

- Establishing agreements with Jobcentre Plus, DWP contractors and LSC providers about the nature and extent of provision for priority areas, with clear duties to co-operate placed on national partners.
- Reducing the number of workless families as a high priority, and demonstrating what they are doing to reduce child poverty.
- Scrutinising performance across their area, especially in their priority neighbourhoods, and reporting performance and progress to the Local Strategic Partnership, the Employment and Skills Boards, and national government.

### **STEP 2. Implementing Leitch: more powerful Employment and Skills Boards in all city-regions**

The ambition should be that every city region should be covered by an Employment and Skills Board, irrespective of the level of worklessness. However, the priority should be the High Workless Cities.

Beginning with the existing fifteen City Strategy areas, Employment and Skills Boards should be created to hold powers, prioritise funding, and co-ordinate and scrutinise training and labour market initiatives. Employment and Skills Boards will be the employer voice to influence local skills and employment provision. There are a number of options for how Employment and Skills Boards can be given more powers, but they should be licensed (as suggested by Leitch) and given formal responsibilities, as well as flexibilities to adapt provision and spending. Some Boards may wish to extend their remit to also cover ‘enterprise’ and other areas. This will depend on emerging city-region governance arrangements.

One of the main Employment and Skills Board functions will be to scrutinise the performance of skills and employment providers and advise on changes and improvements. Employment and Skills Boards should be guardians of local targets for the attainment of skills and employment targets. They should be given powers to:

- Determine the local priorities for adult skills funding
- Scrutinise the performance of Jobcentre Plus and DWP contractors
- Work with DWP to ensure all contracted provision is appropriate for their labour market and reflects local needs
- Be responsible for determining the priorities and spending of the Working Neighbourhood Fund and European funding.

Employment and Skills Boards should have a costed city-region employment and skills plan that identifies the contribution of different partners and sets out Employment and Skills Board targets in line with the national targets for employment and skills, as well as maximising the impact on reducing child poverty. In addition, there should be a local framework of employment and



“Government should establish a large-scale pilot to test a fully devolved system”

skills targets that align city-regional and local authority objectives. There should be flexibility in the nature and composition of Employment and Skills Boards but the model should build on the powers and experience of the London Skills and Employment Board. Employment and Skills Boards should cover sub-regional areas combining a number of local authority areas, although the geography of Employment and Skills Boards should be left to local determination and take into account the new geography of emerging Multi-Area Agreements.

In summary, Employment and Skills Boards need to be the foundation of a new flexible framework. Employment and Skills Boards, with real powers and funding, will give city leaders and local employers a stronger role in employment and training initiatives – which is critical to improving city economies in the longer term.

### **STEP 3. Pilot a radical approach: devolve responsibility for employment and skills budgets**

The above two steps will equip cities better to tackle worklessness, but some cities will want to move further and faster than others.

Government should establish a large-scale pilot to test a fully devolved system, perhaps borrowing elements of the Netherlands approach. This would involve agreeing budgets for employment and skills support for a city region – and handing full control to the Employment and Skills Boards and city leaders.

The budget for employment and training for all eligible claimants will be passed down to City Region Employment and Skills Boards, and local areas will have the discretion to deliver and commission provision according to the needs of their local economy. Cities would be given financial incentives to get people into work by being allowed to retain any benefit savings. These savings, however, must be earmarked to invest further in employment and skills.

The pilot would test if a devolved approach can be more reactive to the demands of the local labour market, and deliver more personalised services. It could also highlight the merits of making existing DWP contractors and LSC skills providers accountable to the Employment and Skills Board for performance and contract compliance.

This pilot would establish if city-regions – in full control over employment and training resources – can deliver substantial reductions in worklessness, and ensure better local economic outcomes.

### ***Delivering change***

A new integrated approach to worklessness, employment and training, with emphasis on local solutions for England’s urban economies, will not be easy to develop. Greater local control over labour market policies however is necessary to deliver improvements in economic performance and social outcomes. While the new UKCES will play a critical role in leading and stimulating how change is delivered, city-regions – the building blocks of the national economy – must also



“Empowering cities to tackle worklessness and boost employment is the next critical step to reducing inactivity and advancing towards full employment”

be involved. Employers too will need support if they are to make the transition to a more central role in skills planning and delivery.

This report has shown that empowering cities to tackle worklessness and boost employment is the next critical step to reducing inactivity and advancing towards full employment. Clear leadership and direction from the Government is vital for the success of this approach.

## Acknowledgements

The Centre for Cities would like to thank all those who attended the 4 June roundtable for their input on this project. The authors are grateful for the assistance of Faiza Shaheen and Adam Marshall at the Centre for Cities and Kris Krasnowski of the London Development Agency. The views expressed in the paper, however, are the responsibility of the authors.

The Centre for Cities is grateful to ASDA for its support of this project.



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