



## Sticking plaster or stepping-stone? Tackling urban youth unemployment

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### Executive Summary

Youth unemployment has been a problem in the UK for a long time, but is getting a lot worse in the current recession. Over half a million young people were unemployed in February 2008. Now, around 900,000 young people are jobless. During 2010, youth unemployment is likely to exceed 1 million.

This paper distinguishes between two groups of unemployed young people: the majority that are unemployed for a few months, and the growing minority (currently 130,000) that have been out of work for over a year. By December 2011, the number of long-term unemployed young people is likely to reach 350,000.

The Future Jobs Fund (FJF), announced in the 2009 Budget, aims to create 150,000 jobs between 2009 and 2011 for young people who have been out of work for 12 months.

This paper also distinguishes between different cities. Some cities, like Swindon and Milton Keynes, have seen a sharp increase in youth unemployment from a relatively low base. In other cities, like Hull and Barnsley, youth unemployment has increased on top of already-high stocks of unemployment.

This paper argues that the FJF is a short-term “sticking plaster” initiative and should therefore take a segmented, targeted approach:

- The FJF should focus on unemployed young people that are most “work-ready” and closest to the labour market; and those cities that have seen the sharpest recent increase in unemployment.
- Jobs created through the FJF should be treated as “stepping-stones” towards permanent jobs.
- Young people that are furthest away from the labour market should be supported through other programmes such as the Flexible New Deal and Working Neighbourhoods Fund.



## Introduction

Youth unemployment<sup>1</sup> is a long-term national problem, and there is a concentration of young people out of work in UK cities. Young people make up one in five (21 percent) of the population, yet two in five (40 percent) of all those unemployed, and this is likely to rise further as they are disproportionately hit by the drop in labour demand caused by the recession. The 63 largest GB cities and towns contain 59 percent of the youth population, yet are home to 64 percent of the young people who are claiming benefits.<sup>2</sup>

As cities witness a growing queue of young people outside their Job Centres, the inevitable question is: what can cities do to help their younger residents survive the recession?

Since the recession began,<sup>3</sup> national youth unemployment has risen from 700,000 (13.8 percent) to 900,000 (18.4 percent). In contrast, the adult unemployment rate has risen from 3.6 to 5.2 percent over the same time period.<sup>4</sup> This situation is likely to get worse still as the “class of 09” leaves formal education this summer, adding an estimated 300,000 graduates,<sup>5</sup> and 400,000 school leavers,<sup>6</sup> to those looking for work.

Young people are not only more vulnerable to unemployment but are more likely to be ‘scarred’ by periods outside the labour market, facing a future of job instability and slow labour market progression.<sup>7</sup> This is one of the central economic justifications for investing more money in ensuring young people, as opposed to other age groups, are not disengaged from the labour market.

*“I am determined that we do even more to protect young people from the damaging impact of long-term unemployment...So I want to offer a guarantee. From January, everyone under the age of 25, who has been out of work for 12 months, will be offered a job or a place in training.”*

*Alistair Darling, Budget speech, 22 April 2009*

The Government’s answer to addressing youth unemployment and mitigating the scarring effect is a £1 billion Future Jobs Fund (FJF), announced in the 2009 Budget. The FJF is a “demand-side” initiative which aims to create 150,000 additional jobs to re-engage young people into the workforce between 2009 and 2011. It gives local authorities significant autonomy over the design of job programmes, providing them with the opportunity to bid for £6,500 per young person to create a job “both worthwhile for a young person and beneficial to the community” (see Box 1).

However, the fund was designed in a very short period of time and as a result has given rise to several questions and concerns, including:

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1. ‘Youth’ is defined here as those aged between 16 and 24 years old; ‘Adult’ is defined as those 25 to 59/64.
  2. Claimant count is used for cities because ILO unemployment figures are too small at this spatial level.
  3. February 2008 was the lowest point after which the unemployment began to rise.
  4. Labour Force Survey, February 2008 and April 2009. Data downloaded from NOMIS.
  5. BBC, 12 March 2009. “30,000 jobs for 300,000 graduates”
  6. Calculated by assuming that 20.3 percent of those leaving school between 16 and 18 will not be in education or training (based on the most recent DCSF statistics)
  7. See Gregg P & Tominey E (2004) ‘The wage scar from youth unemployment’ The Centre for Market and Public Organisation Working Paper Series No. 04/097. University of Bristol; Bell DNF & Blanchflower DG (2009) ‘What should be done about rising unemployment in the UK?’ IZA Discussion Paper No. 4040

“What can cities do to help their younger residents survive the recession?”



“The FJF is best used as a short-term “sticking plaster”, helping to cushion the blow of the recession. It cannot realistically create jobs for the future”

- What types of jobs should be created?
- What is the best spatial level for demand-side policy?
- Who is the fund targeting?
- How is the FJF different to other initiatives designed to tackle unemployment?

We have explored some of these concerns and asked how cities can best use this fund to help young people and their economies in both the short and long-term. To do this, we have looked at how different cities have been affected by youth unemployment, and why.

Using evidence collected from city level analysis, we conclude that as a limited fund, the FJF is best used as a short-term “sticking plaster”, helping to cushion the blow of the recession. It cannot compensate for the underlying structural supply-side factors that underpin youth unemployment, or realistically create jobs for the future. It should thus have a tightly defined set of objectives – different to those of the Working Neighbourhoods Fund and other employment initiatives. Cities with more endemic problems will have to focus more on their long term economic development plans to effectively address youth unemployment in the longer term.

#### **Box 1: The Future Jobs Fund**

The 2009 Budget allocated £1.2 billion to be spent over 2009-2011 to the Young Person’s Guarantee – a pledge to find a job, work placement or work-related training for at least six months for everyone aged 18 to 24 who has been claiming JSA for 12 months. The government proposed funding for:

- 50,000 traineeships for Care First, a programme designed to get young people into the growing social care sector. This funding will provide a subsidy for social care providers to offer employment and training for young people who have been out of work for more than 12 months
- The Future Jobs Fund which will allow local authorities and partners in Great Britain to create 100,000 new jobs deemed as ‘socially useful’, 10,000 of which should be green jobs. In addition, the Budget pledged additional funding to create 50,000 jobs for those local authorities deemed to be ‘hotspots’, with a JSA claimant count 1.5 percent above the national average. The first bids are due by 30 June, and then will be assessed on a rolling basis.

#### **The Future Jobs Fund bidding criteria**

As a challenge fund local authorities and partners can apply directly with their ideas and will be allocated up to £6,500 per young person for a minimum of 30 jobs per bid. According to the key criteria the jobs due to be created under the fund should:

- Be additional jobs, lasting for six months and paying minimum wages;
- Deliver work that benefits local communities;
- Be under way quickly (jobs should be created between October 2009 and March 2011).

While the focus of the fund is on young people, jobs can be created for other age groups if in a ‘hotspot’.



“ Youth unemployment has been much higher than adult unemployment for some time, with the low point being in 2001 when youth unemployment fell to 11.6 percent”

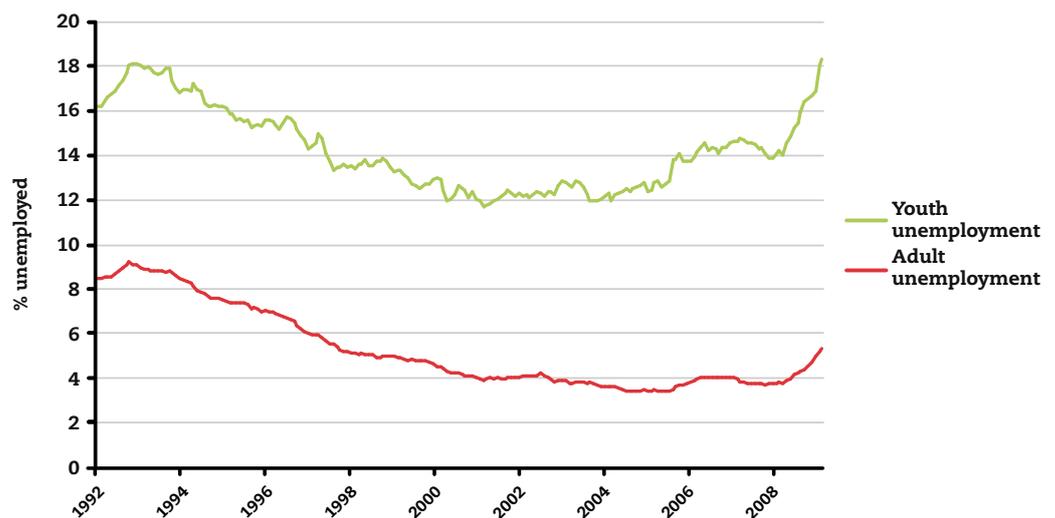
Secondary criteria include:

- The use of other funding streams, such as the Working Neighbourhoods Fund are used to augment FJF bids;
- How likely the job is to lead to permanent employment, either through the potential of the job itself to be permanent, or the inclusion of accredited training and job search activity.

## National trends in youth unemployment: a long-term challenge

Figure 1 illustrates that the current level of unemployment among 16 to 24 year olds is now the highest it has been since 1994. The recession has increased the number of young people out of work dramatically, from 13.8 to 18.4 percent. Over the same time period, adult unemployment has also increased, but by fewer percentage points - from 3.6 percent to 5.2 percent. Activity rates among young people have also fallen compared to adults (see Figure A1, Annex A).

**Figure 1: Trends in unemployment by age bands, 1992-2009**



Source: NOMIS 2009, Labour Force Survey (LFS), data from April 1992 to April 2009

Young people are particularly vulnerable during a recession, because firms stop hiring<sup>8</sup> and are more likely to make young people redundant (see Figure A2, Annex A). The labour market also becomes more competitive, making young people less attractive compared to more experienced applicants. In this scenario young graduates are likely to find themselves underemployed, having to lower their job and wage expectations. Young people without qualifications are even more disadvantaged, as even the most basic entry-level jobs become harder to get.

As well as the impact of the recession, Figure 1 demonstrates that youth unemployment is not a new problem. Youth unemployment has been much higher than adult unemployment for some time, with the low point being in 2001 when youth unemployment fell to 11.6 percent. Since then the trend has been upward.

8. For example survey results published by the Chartered Institute of Personnel and Development (CIPD) in May 2009 showed that nearly 50 percent of employers were not planning to recruit school leavers or graduates during the summer of 2009.



The long-term nature of youth unemployment suggests that non-recession factors underpin youth unemployment. The most important of these factors are:

- Globalisation, which has resulted in labour intensive industries moving to less developed countries where labour is cheaper
- A skills mismatch, including the fact that many young people leave the education system ill-equipped for jobs in the new economy.

The importance of skills in defining employment outcomes is clear from the higher rates of employment among young people with more formal qualifications (see Figure A3, Annex A).

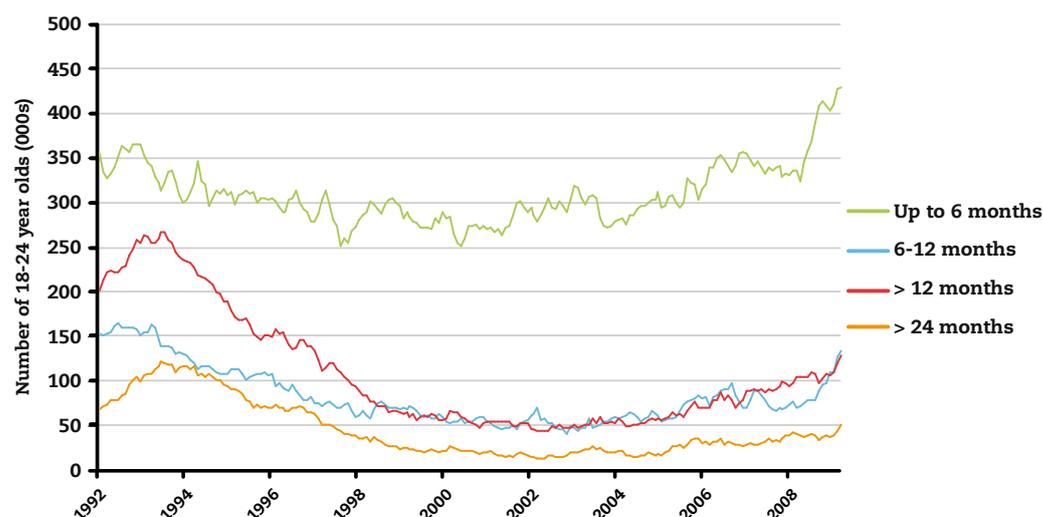
### Box 2: The economic costs of youth unemployment

Youth unemployment is argued to be more serious than adult unemployment for several economic reasons:

- **Scarring:** Scarring is a causal link between unemployment history and a negative future experience in the labour market. It includes long-term outcomes such as: lower wages; underemployment, and; low-pay no-pay cycles. This results in lost productivity over a lifetime.
- **Inactivity:** High youth unemployment or underemployment may discourage young people from investing in education and training as it does not necessarily translate into better labour market outcomes.

Extended and repeated unemployment spells are likely to impair young people's longer-term labour market outcomes,<sup>9</sup> so it is important to look at durations of youth unemployment. The Labour Force Survey, which uses the International Labour Organisation (ILO) definition of unemployment,<sup>10</sup> shows that in April 2009 over 430,000 young people had been unemployed for up to six months, and 130,000 people for more than 12 months.

Figure 2: Durations of youth unemployment, 1992-2009



Source: NOMIS 2009, Labour Force Survey (LFS), data from April 1992 to April 2009.

9. See Gregg P & Tominey E (2004) 'The wage scar from youth unemployment' The Centre for Market and Public Organisation Working Paper Series No. 04/097. University of Bristol.

10. The ILO definition of unemployment: those without a job, want a job, have actively sought work in the last four weeks and are available to start work in the next two weeks, or; are out of work, have found a job and are waiting to start it in the next two weeks.

“Extended and repeated unemployment spells are likely to impair young people’s longer-term labour market outcomes, so it is important to look at durations of youth unemployment”



## **Future trends in youth unemployment: How much worse is it going to get?**

Oxford Economics forecast unemployment to peak close to three million in 2011. Projections of youth unemployment can be derived by using ILO unemployment estimates from Oxford Economics, along with two estimates; one that assumes that youth unemployment will continue to make up 40 percent of all those unemployed (see Figure A3, Annex A), and the second that expects youth unemployment to make up a larger proportion of all those unemployed, up to 45 percent.

These projections show that youth unemployment will surpass the one million mark during 2010. The conservative estimate is 1.14 million by the end of 2010, and to 1.18 million by the end of 2011. The more pessimistic outlook suggests that it will rise to 1.3 million by the end of 2011.

There is ample evidence to show that durations of unemployment increase significantly in the aftermath of a recession.<sup>11</sup> The last recession saw a twofold rise in the percentage of young people claiming benefits for more than 12 months (see Figure A5, Annex A). Currently, according to the more reliable ILO estimates,<sup>12</sup> 15 percent of young people are unemployed for 12 months. Assuming that this proportion will double to 30 percent (as it did in the last recession), and that youth unemployment will reach 1.18 million, a total of 350,000 young people will be out of work for more than 12 months by the end of 2011. This far outstrips the figure for the number of jobs to be created under the FJF.

The government faces an uphill struggle to tackle youth unemployment – it is not purely a recession-induced problem, although the recession has intensified its impact, but a long-term trend in labour market dynamics.

### **Policy Context**

The high rate of youth unemployment in the UK is indicative of a large proportion of 16 to 18 year olds classified as ‘currently not in education, employment or training’ or NEET. The most recent figures show that over 200,000 16 to 18 year olds (10.3 percent) can be categorised under this heading.<sup>13</sup> In addition, these NEET young people are more disadvantaged than their equivalents in other developed countries, with poorer employment and training outcomes in the long term.<sup>14</sup>

There have been a number of policy announcements and initiatives aimed at increasing the skills of young people and getting more young people into work in the UK (see Box 3). The Labour government has relied most heavily on active labour market policy (ALMP), which includes training and job placements, embodied in programmes such as the New Deal for Young People (now being replaced by the Flexible New Deal).

11. See Coles M, Jones P & Smith E (2002) ‘A picture of long-term unemployment in England and Wales.’ Labour Research Discussion Paper. University of Essex.

12. The claimant count severely underestimates youth unemployment because (a) 16 and 17 year olds are largely not eligible to claim benefits (b) young people on the New Deal for Young People are not always allowed to continue to claim benefits.

13. DCSF, 16 June 2009, First Statistical Release, Participation in education, training and employment by 16-18 year olds in England.

14. OECD (2008) Employment Outlook 2008. Paris: OECD.

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The Conservative party has also signalled a keen interest in this debate, pledging to expand apprenticeships considerably and create a new fund aimed at NEETs.<sup>15</sup> They have also suggested an increased focus on science, technology, engineering and mathematics (STEM) skills, pointing out that these are the skills that are most likely to increase productive potential.

Concern from the Opposition points to the limited success of past approaches to improve skills and employment among young people. In particular, both Opposition parties and the business community point out that qualifications are not in line with business needs, and many young people lack the basic numeracy, literacy and soft skills needed in any job. Furthermore, businesses, schools, further education colleges and learners complain that the current skills framework is too complex and thus difficult to navigate.<sup>16</sup>

The architecture of education delivery is due to change substantially in 2010, with 14-19 education budgets being devolved to local authority level with the aim to link education, care and other children’s services. This devolution is a positive move, because local government has more knowledge of local challenges and is thus better positioned to commission suitable education services. However, the abolition of the Learning and Skills Council (LSC) and the upheaval the change is likely to cause is leaving many in the sector wary.

### Box 3: National skills initiatives for young people

The Government’s key aims on raising skills include:

- Reducing the proportion of young people not in education, employment or training (NEET) by two percentage points, from 9.6 percent in 2004 to 7.6 percent, by 2010. In fact, the proportion of NEETs has since risen to 10.3 percent of 16 to 18 year olds.
- Increasing the percentage of 19 year olds with a level 2 qualification from 71.4 percent in 2006 to 85 percent by 2013.

To achieve these aims, a host of initiatives focused on education and training have been introduced such as:

- The Right to Time Off initiative: Those aged 16 or 17 years old who are not in full-time education and do not have level 2 qualifications have an entitlement to paid time off to study for approved qualifications;
- More vocational options: New Diplomas and a promise of 400,000 new apprenticeships by 2020;
- The Education Maintenance Allowance: Pays up to £30 a week for young people from poorer families to carry on their education after the age of 16.
- An increase in the education participation age from 16 to 18 by 2015.

15. Conservative Party (2008) *Transforming Skills, Building Lives: A training and apprenticeship revolution. Opportunity Agenda: Policy Green Paper No. 7*

16. See UK Commission for Employment and Skills (2008), *Simplification of Skills in England, UKCES*.



## The Future Jobs Fund

The Future Jobs Fund (FJF) is the latest Labour government initiative designed to get young people into work. As a demand-side initiative, it aims to create 150,000 jobs for young people who have been out of work for 12 months (see Box 1). It is the outcome of a call to action from several prominent UK economists<sup>17</sup> and is designed in line with recommendations from the Houghton Review.<sup>18</sup>

The FJF is a good idea in principle because:

1. It is devolved and encourages local authorities to work with city and sub-regional partners to bid together. Such an approach should ensure a response more in line with the needs of the functional economy.
2. As a demand-side policy that will assist in the short-term, the fund will help to cushion the blow of job losses and create opportunities for young people.
3. If used properly, it could help lessen the scarring effects on young people's future labour market outcomes by giving them valuable work experience and ensuring that they do not become disengaged.

Despite these positive attributes, the aims of the fund are not entirely clear. The bidding criteria (see Box 1) give rise to four key questions:

1. **What types of jobs should be created?** Given the timing of the fund it can be assumed that this is a short-term demand-side measure to address the fall in vacancies – yet the criteria stipulates that it wants jobs to be permanent if possible. Creating jobs for the long term requires considerable thought and foresight, which is difficult under current economic conditions and the fast turnaround of the bidding process. The jobs created are also meant to be additional – meaning that they would not otherwise have been created by the market. This increases the likelihood that the jobs will fall away once the job subsidies end.
2. **What is the best spatial level for demand-side policy?** Demand-side, rather than supply-side, policy is best done at a bigger spatial scale than the local authority. Whilst the FJF bidding criteria do encourage local authorities to work with neighbouring local authorities, it does not emphasise the need to work to a functional economic scale, i.e. using existing Multi-Area Agreement (MAA) areas and city regions to create bids.
3. **Who is the fund targeting?** The bidding criteria target local authorities with a youth claimant count above 1.5 percent of the national average “hot spots” – but it may not be the case that these are the areas that have been hardest hit by the recession. This raises the question: is the fund to be used for the stock of young people out of work who are at some distance to the labour market or for those that have been out of work simply because of the shortage of jobs, or both? The needs of these groups are likely to differ significantly.

17. The most notable are David Blanchflower, Dartmouth College, New Hampshire USA; Paul Gregg, University of Bristol; Richard Layard, LSE.

18. Houghton S, Dove C & Wahhab I (2009) *Tackling Worklessness: A Review of the contribution and role of local authorities and partnerships*. London: CLG.

“If used properly, the FJF could help lessen the scarring effects on young people’s future labour market outcomes by giving them valuable work experience and ensuring that they do not become disengaged”



**4. How is the FJF different to other initiatives designed to tackle unemployment?** Figure 3 provides an overview of the core initiatives that aim to help young people into work (for more details see Table B1, Annex B). Of these programmes, the Working Neighbourhoods Fund (WNF) is the most spatially targeted and the most focused on the long-term unemployed. The Flexible New Deal (FND) will be a national programme. The FJF falls somewhere between these two, with some spatial targeting and focus on the long term unemployed. Thus, it differs primarily because it is a demand, not supply-side policy.

**Figure 3: Unemployment initiatives**



“Is the fund to be used for the stock of young people out of work who are at some distance to the labour market or for those that have been out of work simply because of the shortage of jobs, or both?”

A drawback of the FJF is that it only provides work for those young people who have been out of employment for 12 months, and those 18 years or older. Whilst this avoids the deadweight incurred from giving those young people jobs who would have found work without the FJF, it does mean that earlier intervention may not take place at a suitable scale.

There are lessons that can be learnt from past job creation packages, such as the Youth Opportunities Programme introduced in 1978 and the Youth Training Scheme introduced in 1983. In contrast to the FJF, these were top-down nationally administered programmes. Some of the schemes under these initiatives were “make work” programmes or simply provided employers with cheap labour. Furthermore, instead of increasing the employability of young people these schemes stigmatised them as those incapable of finding “real” work – effectively marking them as the least attractive prospective employees.<sup>19</sup>

Given the current absence of detail on the scope of the FJF and the potential pitfalls, the rest of this paper is dedicated to suggesting what the FJF should be aiming to achieve in the context of the needs of different city economies.

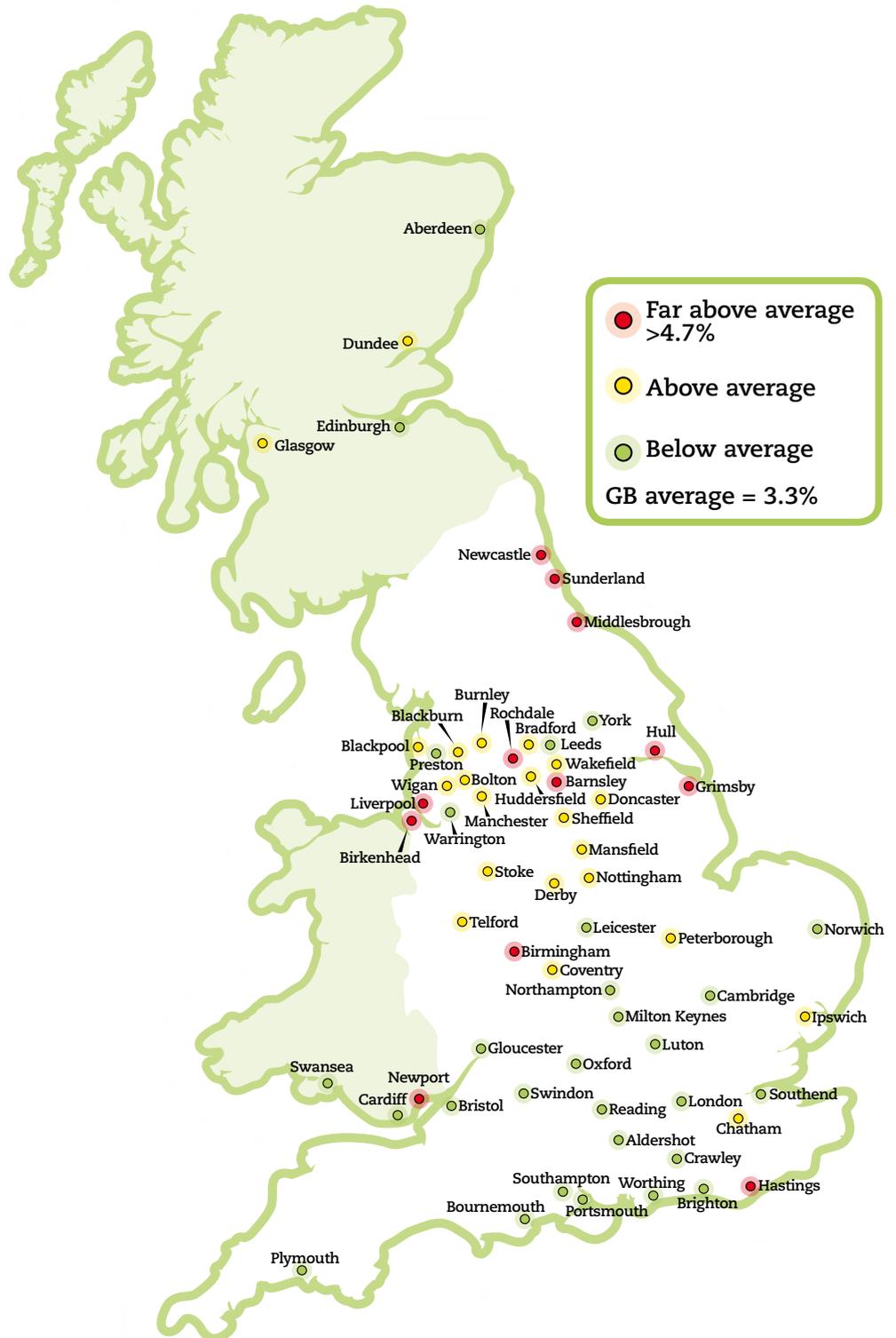
19. See Dolton P, Makepeace G & Treble J (1994) ‘The Youth Training Scheme and the school-to-work transition’, *Oxford Economic Papers* (46) pp. 629-657



## Youth unemployment in GB cities: Where and why?

This section pinpoints which cities have higher stocks of youth unemployment and which have borne the brunt of the recession. This will help to answer how the Future Jobs Fund can tackle youth unemployment in different cities. To supplement the data analysis it draws on stakeholder interviews<sup>20</sup> in several GB cities, including Hull and Swindon.

**Figure 4: Youth claimant count<sup>21</sup> in GB PUAs before the recession (Feb 2008)**



Source: NOMIS 2009, Claimant Count data for Feb 2008.

20. Included interviews with those working in local authorities, Connexions services, third sector and voluntary organisations.  
21. Measured as a percentage of all young people in Primary Urban Areas.

“A drawback of the FJF is that it only provides work for those young people who have been out of employment for 12 months”



### **Cities with the highest stocks of young people claiming benefits**

Figure 4 highlights the Primary Urban Areas<sup>22</sup> (PUAs) that had the highest levels of young people claiming benefits before the recession. There is a clear North-South divide in rates of youth claimant counts, with Hastings being the only southern PUA to have had a youth claimant count “far above” the GB average. Other PUAs that had particularly high levels of young people claiming benefits included Grimsby (5.6 percent) and Hull (6.3 percent), with Sunderland and Liverpool also featuring in the top ten (see Table C1, Annex C). These cities are traditionally associated with a high overall claimant count (see Table C1, Annex C), highlighting that youth unemployment is not a unique problem to particular cities, but indicative of wider weaknesses in the labour market.

### **Cities with the biggest increases in young people claiming benefits**

All GB cities saw an increase in the youth claimant count between February 2008 (when the national claimant count was at its lowest) and May 2009, which is not surprising given the onset of the recession. However, cities had varying jumps, ranging from a 0.6 percentage point increase in Cambridge to a 5.3 percentage point increase in Swindon. Figure 5 highlights the cities that have seen the biggest percentage point increases in young people claiming benefits (in red).

Similar to Figure 4, cities in the North, such as Hull and Sunderland, are more likely to have had increases in the youth claimant count “above”, or “far above”, the GB average. These are typically cities that are still finding it hard to recover from long-term industrial decline and the impact of globalisation. They have been particularly hard hit by the recession – experiencing a rapid decline in vacancies (Table C2, Annex C) as well as an increase in their claimant count for all ages (see Table C3, Annex C).

Despite this growth in youth unemployment in cities already suffering from high unemployment, PUAs in the south of the country have not avoided significant increases in youth unemployment altogether. Several cities, including Swindon, Milton Keynes and Northampton, turn from green to red, i.e. had below average stocks but far above average increases (see Table C3, Annex C).

The correlation between stocks and increases in youth unemployment is illustrated in Figure 6. There is a positive correlation between the youth claimant count in February 2008 and the subsequent percentage point rise in the youth claimant count. **This confirms that those areas that already had high levels of youth unemployment were more vulnerable to increases than cities with lower levels.** However, there are some anomalies; for example, Swindon had a low stock but a high rise, and Liverpool has a high stock but a low rise.

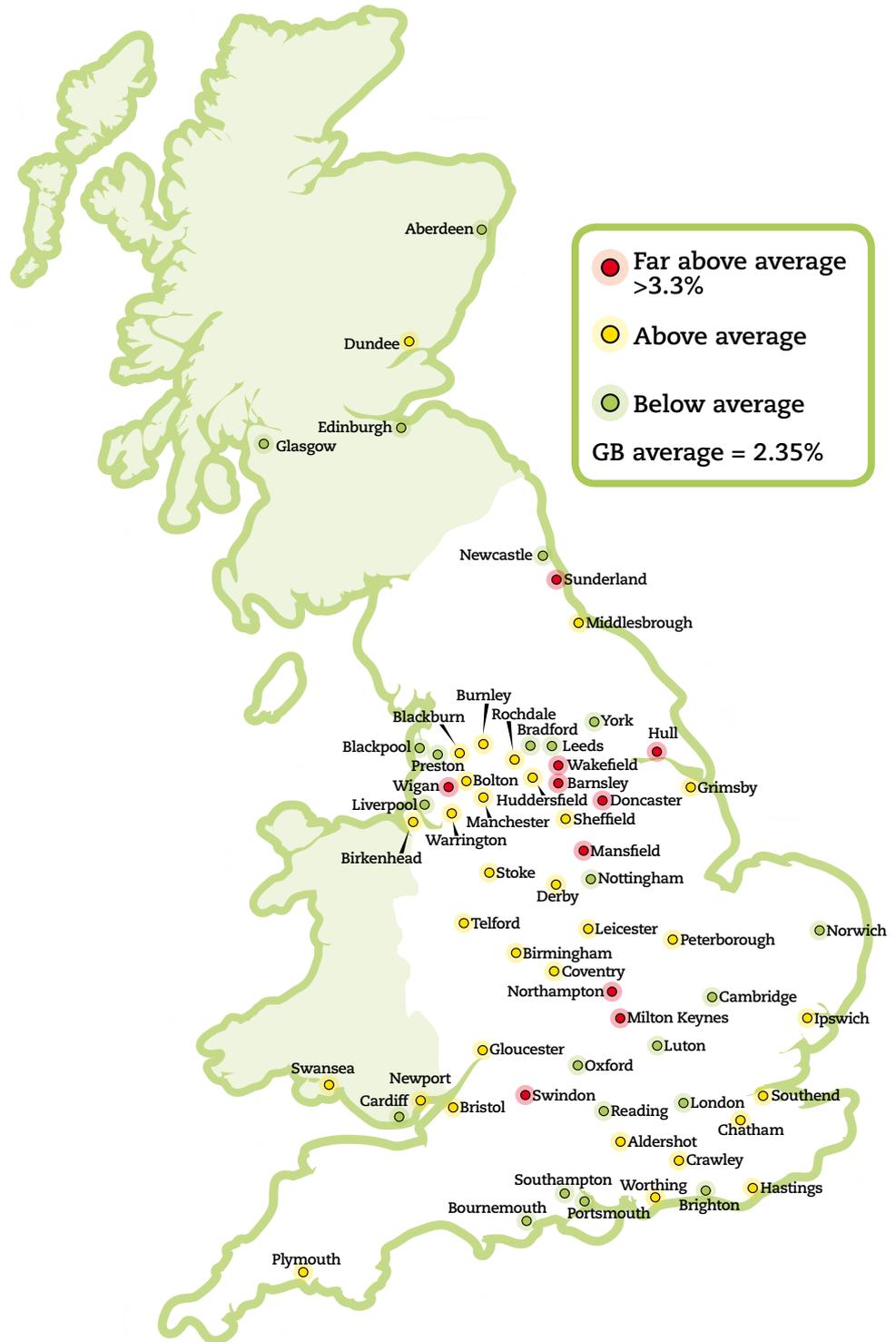
22. PUAs are used in this analysis as a proxy spatial area for the functional city economy.

“There is a clear North-South divide in rates of youth claimant counts, with Hastings being the only southern PUA to have had a youth claimant count “far above” the GB average”



“Those areas that already had high levels of youth unemployment were more vulnerable to increases than cities with lower levels”

Figure 5: Percentage point increase in youth claimant count in GB PUAs since the recession (Feb 2008 – May 2009)

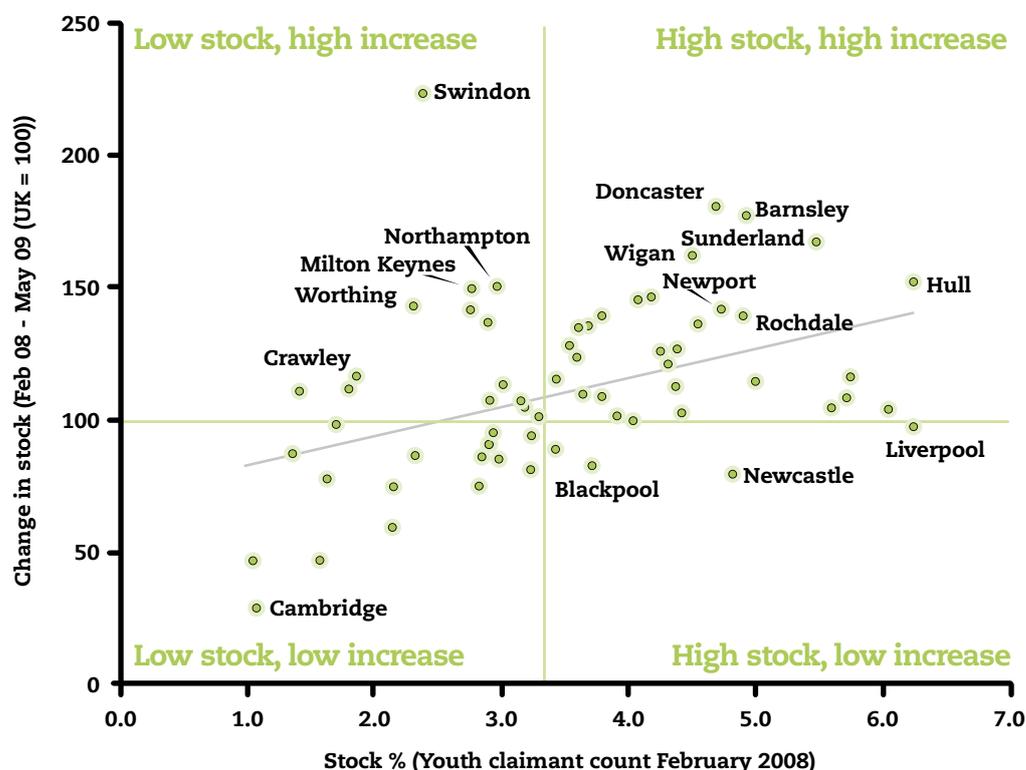


Source: NOMIS 2009, Claimant Count data for Feb 2008 and May 2009.

Since the beginning of the recession, Swindon’s claimant count has risen to 5.4 percent - passing the GB average for the first time in 30 years. Explanations for this increase cannot be attributed to the temporary closure of the Honda plant for four months because many of these workers returned once it re-opened. However, the knock-on effects on the local economy through lower consumer spending and on suppliers have been substantial. Job loss has been further linked to the closure of a large Woolworths store and distribution centre which together employed 400 people.



Figure 6: The relationship between the youth claimant count in February 2008 and the change between February 2008 and May 2009



Source: NOMIS 2009, Claimant Count data for Feb 2008 and May 2009.

In short, national trends in youth unemployment have not been uniformly distributed across GB cities. Instead, different cities have experienced youth unemployment to different extents, and for different reasons. Increases in youth unemployment cannot be entirely attributed to a collapse in the demand due to the recession – there are long term structural and supply-side factors that have made some cities more vulnerable than others. The FJF will not be able to address these more endemic problems.

### Implications for the Future Jobs Fund

Our findings so far lead to three key implications for the Future Jobs Fund:

- 1. Cities must be realistic about what the fund can achieve.** It will not be able to tackle the underlying factors, such as the skills mismatch, which drive youth unemployment in the cities with the highest stocks of unemployment. In this respect, the FJF is a short-term “sticking plaster” initiative. Thus, prioritising those cities that have had the highest increases over the past 12 months, rather than those with the highest stocks, will be a better way to use the fund. Our analysis shows that 11 PUAs – Swindon, Milton Keynes, Northampton, Crawley, Southend, Plymouth, Warrington, Worthing, Aldershot, Bristol and Gloucester – have experienced a rise in youth unemployment above the GB average but did not have a high stock.

“Since the beginning of the recession, Swindon’s claimant count has risen to 5.4 percent - passing the GB average for the first time in 30 years”



“Increases in youth unemployment cannot be entirely attributed to a collapse in the demand due to the recession – there are long term structural and supply-side factors that have made some cities more vulnerable”

2. As the FJF is a tool to help young people through the recession, **it needs to be focused on those already “work-ready”**, i.e. those that would have found a job had it not been for the recession. Other funds, such as the Working Neighbourhoods Fund and national programmes such as the Flexible New Deal are better suited to provide the more long term and intensive support needed to help those further away from the labour market.

3. **The fund will not create jobs for the future, but can create jobs for now.** The speed of the implementation of the FJF, and its central criterion that jobs must be “additional” to those which would naturally have been created in a local economy, mean that is unlikely to create jobs that either add significant economic value or that are long-term. Instead, jobs are likely to be community orientated and should act as “stepping-stones” into other jobs once demand returns. Again, this means it is most suitable for cities that have experienced an increase in youth unemployment due to the impact of the recession, rather than those that have more underlying endemic problems.

**Box 4: The efficiency/equity trade-off for the Future Jobs Fund**

- Efficiency means that society is getting the most it can from its scarce resources.
- Equity means that the resources are distributed fairly among the individuals.

We can view efficiency as the size of a pie, and equity being how evenly the pie is being divided. When government policies are being designed, there is usually a trade-off between the two goals, because we have to sacrifice one in order to gain the other.

In thinking about the FJF the trade-offs between efficiency and equity are particularly acute. When targeting the fund we might focus on those closer to the labour market and those who live in areas where we think the economy is likely to be more robust in the medium to long term. Such a targeting would likely produce a more efficient outcome in terms of how much economic activity is likely to be stimulated for a given use of public resources.

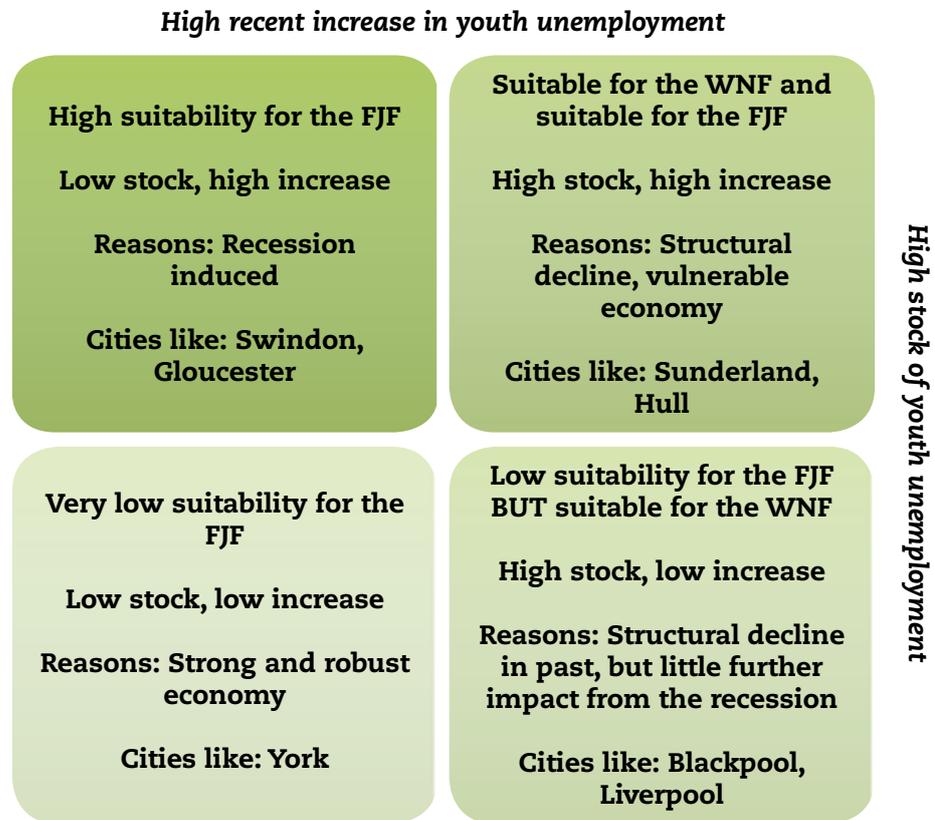
On the other hand, if we took an equity objective as being paramount, resources would be targeted at those more disadvantaged, but to the likely detriment of economic efficiency.

Given the nature of the FJF as a temporary demand side measure, and the existence of a number of initiatives focused on the most disadvantaged, we argue that the efficiency outcome should be favoured over the equity outcome in this particular scenario.



Figure 7 divides cities into four quadrants based on the stocks of youth unemployment, versus the recent changes in the number (see Figure 6). It uses this classification to prescribe the use of the FJF, alongside other funds such as the Working Neighbourhoods Fund.

**Figure 7: Future Jobs Fund – target cities**



**Cities suitable for Future Jobs Fund:** Hull, Sunderland, Barnsley, Doncaster, Wigan, Telford, Middlesbrough, Mansfield, Wakefield, Rochdale and Newport.

According to this classification, cities that have high stocks and high increases of youth unemployment, such as Hull, are suitable for the FJF, but must segment the groups of young people into those that are “work-ready” and therefore suitable for an opening created by the FJF, and those that are further away from the labour market and need more intensive supply-side and “hand-holding” support. Whilst this harder-to-help group of young people should not be excluded entirely from the jobs created using the FJF, they are likely to need extra support before they are ready to access these jobs.

The cities in the top right quadrant must also put in place methods, such as job matching, to move young people into work once the FJF jobs end. More importantly, they must continue to work on their long-term economic development plans. If they fail to do this, the continued absence of demand will mean that high levels of youth unemployment will persist long after the FJF ends.

“As the FJF is a tool to help young people through the recession, it needs to be focused on those already “work-ready”, i.e. those that would have found a job had it not been for the recession”



**Cities highly suitable for Future Jobs Fund:** Swindon, Milton Keynes, Gloucester, Crawley, Southend, Northampton, Warrington, Worthing, Plymouth, Aldershot and Bristol.

Cities falling into the top left quadrant are considered to be most suitable for the fund. These are cities that have experienced an increase in youth unemployment disproportionate to stocks pre-recession. Whilst these cities will again need to segment groups of young people into those that are “work-ready” and those that need more supply-side support, it is much more likely that the FJF will act as a bridge between the recession and the upturn.

PUAs falling into either of the top quadrants of the grid are the “hotspots” for the purposes of this fund (see Table C4, Annex C).

Both quadrants on the bottom of the grid are considered to be unsuitable for the fund – the FJF should primarily be given to those cities that need a short-term demand-side fix to keep young people engaged until their economy recovers.

By focusing on those young people that are “work-ready”, that would have found a job had it not been for the recession, the FJF becomes purely about giving cities a tool to survive the recession. This provides the FJF with a more realistic and clear objective, whilst also helping to overcome the gap between the number of jobs needed and number of jobs to be created using the FJF.

## Policy Recommendations

Based on the findings in this report the Centre for Cities recommends:

### **To cities with high stocks of youth unemployment:**

1. The FJF will not be able to tackle the underlying problems that are driving youth unemployment, such as a fundamental mismatch between skills and available jobs and the long-term absence of appropriate “starter” jobs for young people. To tackle these problems, cities should consider the employment needs of the youth population when constructing their economic development plans and work with employers, through channels such as the Local Employment Partnerships, to create jobs for young people in the long term.

### **To central government:**

2. Based on the evidence provided here, the Department for Work and Pensions (DWP) and Communities and Local Government (CLG) should think again about the aims of the fund, and ensure that it is distinct from other welfare initiatives– focussing squarely on unemployment caused directly by the recession, and not attempting to fix more entrenched issues for which other initiatives are more suitable policy levers. The Centre for Cities recommends that DWP and CLG should prioritise cities like Swindon and Milton Keynes, which have seen a sharp rise in youth unemployment because of the recession, when selecting bids.
3. The DWP and CLG should re-emphasise the need for local authorities to form partnerships that reflect the size of the functional economy – such as city regions. This would help this demand-side policy to be exercised at the most suitable spatial level.

“By focusing on those young people that are “work-ready”, the FJF becomes purely about giving cities a tool to survive the recession”



## Acknowledgements

The Centre for Cities is grateful to ASDA for its support of Surviving Recession, the Centre for Cities' research strand examining how cities can mitigate the worst impacts of recession.



**June 2009**

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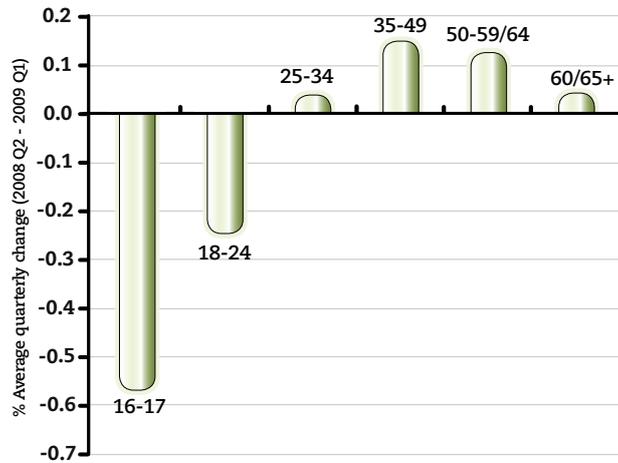
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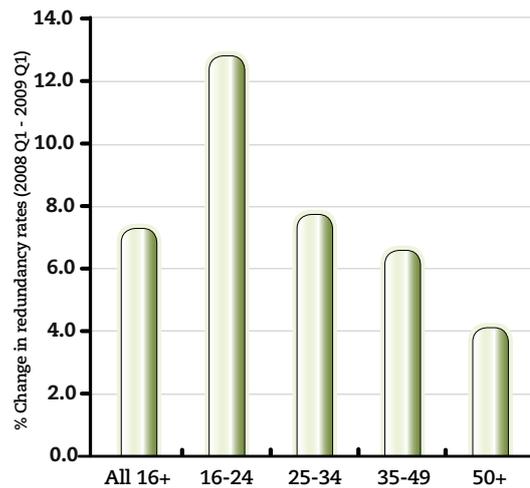
## Annex A

Figure A1: Change in economic activity rates by age (2008 Q2- 2009 Q1)



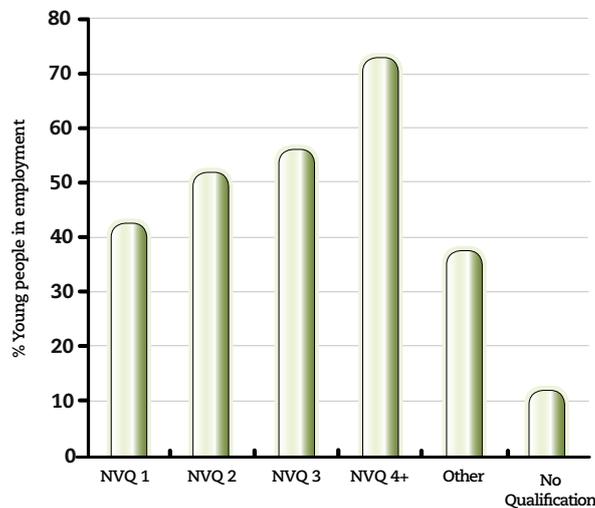
Source: Bank of England, Inflation Report May 2009 data.

Figure A2: Change in redundancy rates by age (2008 Q1 - 2009 Q1)



Source: ONS 2009, Labour Force Survey Data between 2008 Jan-Apr to 2009 Jan-Apr.

Figure A3 – Percentage of young people in employment by qualification



Source: NOMIS 2009, APS (total numbers of young people with different qualifications) for 2007; ONS 2009, total age group in employment by qualification (requested data).



Figure A4: Youth unemployment as a proportion of all unemployment (March 1992-April 2009)



Source: ONS 2009, Labour Force Survey Data for March 1992 to April 2009.

Figure A5: Change in percentage of young people claiming benefits for over 12 months compared to all age groups (June 1985 - May 2009)



Source: NOMIS 2009, Claimant Count data for June 1985 to May 2009.



## Annex B

Table B1 Funding dedicated to unemployment objectives

Fund/ Programme	Key aims	Amount (£billion)	Spatial scale	Date
<b>Flexible New Deal</b>	<ul style="list-style-type: none"> <li>To help those claiming JSA for more than 12 months get back into work</li> <li>To provide increasing levels of support to individuals according to unemployment duration/ distance from the labour market</li> </ul>	£3b	National	Oct 2009 (over 3 years)
<b>European Social Fund</b>	<ul style="list-style-type: none"> <li>Improve employment opportunities in the EU</li> <li>Decrease spatial inequalities</li> <li>Give people better skills and job prospects</li> </ul>	£2.3b	Regional	2007 (over 7 years)
<b>Working Neighbourhoods Fund</b>	<ul style="list-style-type: none"> <li>To help focus on worklessness in the most deprived areas</li> <li>To aid in any interventions (e.g. transport, training etc.) that help the most disengaged individuals in the most deprived areas into work.</li> </ul>	£1.5b	Local authorities (who are charged with targeting finer spatial units)	2008-11
<b>Future Jobs Fund</b>	<ul style="list-style-type: none"> <li>To get young unemployed people into work and reduce the risk of 'scarring'</li> <li>Create 150,000 jobs primarily for young people who have been out of work for 12 months</li> <li>Target areas with the highest levels of youth unemployment</li> <li>To create additional jobs and /or jobs beneficial for the community.</li> </ul>	£1b	Local authorities/ city regional partners	2009-11



## Annex C

Table C1: Primary Urban Areas with highest stocks of youth & adult claimant counts

	Youth claimant count as % of all young people (February 2008)	Total claimant count as % of working age population (February 2008)
1	Hull (6.3)	Hull (4.8)
2	Liverpool (6.3)	Liverpool (4.6)
3	Middlesbrough (6.0)	Birmingham (4.4)
4	Birmingham (5.8)	Middlesbrough (3.9)
5	Hastings (5.7)	Grimsby (3.7)
6	Grimsby (5.6)	Dundee (3.7)
7	Sunderland (5.5)	Hastings (3.6)
8	Birkenhead (5.0)	Sunderland (3.4)
9	Barnsley (5.0)	Coventry (3.4)
10	Rochdale (4.8)	Newcastle (3.4)
	<b>GB (3.3)</b>	<b>GB (4.1)</b>

Source: NOMIS 2009, Claimant Count data for May 2009.

Table C2: Top ten Primary Urban Areas with the biggest decreases in vacancies

	Percentage decrease in vacancies (May 08 - May 09)	Claimants per vacancy (May 09)
1	Chatham (-68.0)	Hull (24.2)
2	Doncaster (-65.3)	Chatham (19.9)
3	Dundee (-63.5)	Rochdale (18.4)
4	Swindon (-63.1)	Doncaster (16.1)
5	Newport (-62.1)	Grimsby (15.8)
6	Rochdale (-61.3)	Liverpool (15.4)
7	Bolton (-60.9)	Birkenhead (15.4)
8	Ipswich (-60.3)	Bolton (15.1)
9	Crawley (-58.7)	Middlesbrough (14.5)
10	Birkenhead (-58.5)	Hastings (14.3)
	<b>GB (-42.4)</b>	<b>GB (39.0)</b>

Source: NOMIS 2009, Jobcentre Plus Vacancy data for May 2008 and May 2009; Claimant Count for May 2009.



**Table C3: Primary Urban Areas with the highest increases in the youth and adult claimant counts**

	Percent point increase in youth claimant count (Feb 08 - May 09)	Percentage point increase in total claimant count (Feb 08 - May 09)
1	Swindon (5.3)	Swindon (3.8)
2	Doncaster (4.3)	Hull (3.4)
3	Barnsley (4.2)	Sunderland (2.9)
4	Sunderland (4.0)	Northampton (2.9)
5	Wigan (3.8)	Barnsley (2.8)
6	Hull (3.6)	Doncaster (2.8)
7	Northampton (3.5)	Milton Keynes (2.7)
8	Milton Keynes (3.5)	Birmingham (2.7)
9	Mansfield (3.4)	Telford (2.6)
10	Wakefield (3.4)	Gloucester (2.6)
	GB (2.4)	GB (1.9)

Source: NOMIS 2009, Claimant Count data for Feb 2008 and May 2009.

**Table C4: DWP/CLG Future Jobs Fund defined 'hotspots' versus Centre for Cities defined 'hotspots'**

	DWP / CLG hotspots*	Centre for Cities hotspots
1	Barnsley	Aldershot
2	Birkenhead	Barnsley
3	Birmingham	Bristol
4	Blackburn	Crawley
5	Bolton	Doncaster
6	Doncaster	Gloucester
7	Grimsby	Hastings
8	Hastings	Hull
9	Hull	Mansfield
10	Liverpool	Middlesbrough
11	Mansfield	Milton Keynes
12	Middlesbrough	Newport
13	Newport	Northampton
14	Peterborough	Plymouth
15	Rochdale	Rochdale
16	Stoke	Southend
17	Sunderland	Sunderland
18	Swindon	Swindon
19	Wakefield	Telford
20	Wigan	Wakefield
21	-	Warrington
22.		Wigan
23.		Worthing

\*Those with a claimant count 1.5 percent above the national average.