



labour market update

Positive upturn in labour market

The headline statistics bring positive news for the labour market this month, reversing some of the slight deterioration that has occurred since the turn of the year.

Encouragingly, the employment rate increased by 0.2 percentage points over the three months to February. The majority of this increase was driven by full time jobs. This is good news given that the early recovery of improvements in employment rates was being driven by increases in part time jobs (because of weak labour demand).

The increasing role that full time job creation is playing suggests that demand of labour is becoming ever stronger. Page 2 looks in more detail at patterns of labour demand.

This rise in employment has had a positive impact on unemployment, which fell by 0.2 percentage points compared to last month. But the woes for women in the labour market continue. While male unemployment fell, female unemployment increased in the three months to February.

Table 1: Key statistics

Indicator	Reference period	Rate
Unemployment (ILO)	Dec 2010 - Feb 2011	7.8%
Claimant count	March 2011	4.5%
Employment	Dec 2010 - Feb 2011	70.7%
Year on year average weekly wage growth	Dec2010 - Feb 2011	2.0% inc bonus 2.2% exc bonus

Spotlight on Newport & Swansea

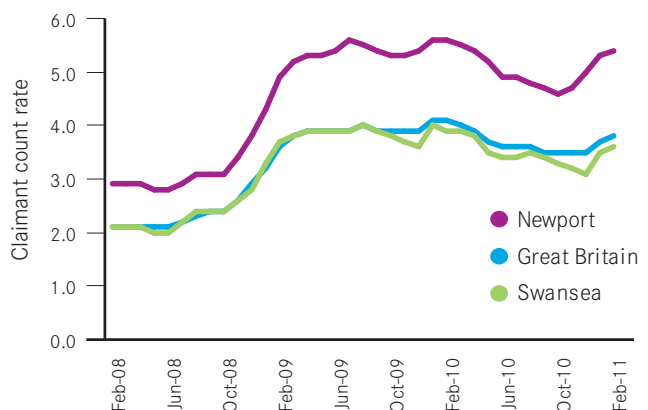
The beginning of the new fiscal year this month signalled the official start of the Government's planned spending cuts.

Cities Outlook 2011 revealed Newport and Swansea to be the most vulnerable to public sector job losses as a result of the spending cuts. Both are estimated to lose around 3 percent of total jobs in their economies. But as the Figure 1 shows, the impact of the recession has had a much worse impact on Newport, which has a claimant rate well above the national average, than it has on Swansea, which has a claimant rate below the national average.

The implication is that while the public sector job losses are likely to have a large impact

on both places, these job losses will compound Newport's already weakened labour market.

Figure 1: Claimant Count Rates in Cities in Newport & Swansea



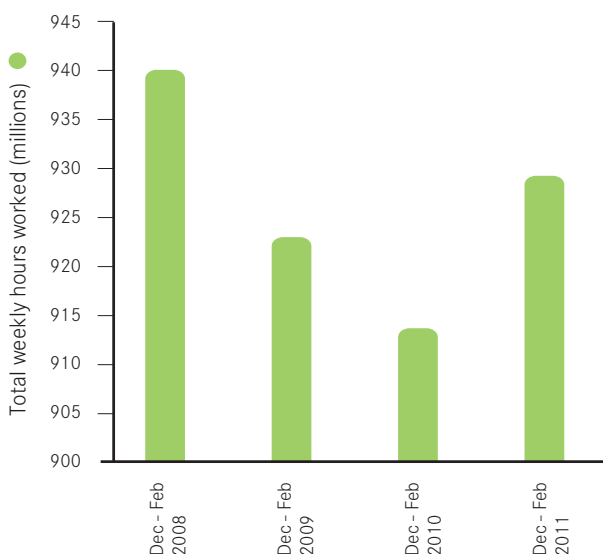
Source: Nomis

Hours worked shows increase

The number of hours worked per week has showed some improvement in recent months, as shown in Figure 2. The data reflects the demand for labour from firms in order for them to produce their goods or supply their services. As such it acts as a wider barometer of demand in the economy.

It can also provide an extra level of detail beyond the information provided by the employment rate. Whereas the employment rate measures whether someone is in employment only, hours worked gives an indication to the utilisation of that person. Therefore this data gives finer grained evidence to suggest that demand for labour is increasing despite only small improvements to headline employment and unemployment rates.

Figure 2:
Total weekly hours worked



Source: ONS

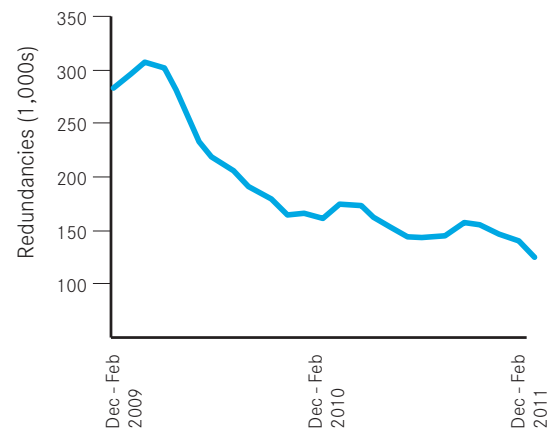
Are redundancy rates about to increase once more?

A further positive indicator for the improvement in labour demand is the sharp fall in the number of redundancies since its peak at the beginning of 2009, as shown in Figure 3.

Unfortunately this is not all good news. This decrease in the number of redundancies is unlikely to be sustained due to the forthcoming

public sector job cuts. The impact on the wider labour market will ultimately depend on the private sector's ability to absorb these cuts.

Figure 3:
Number of redundancies



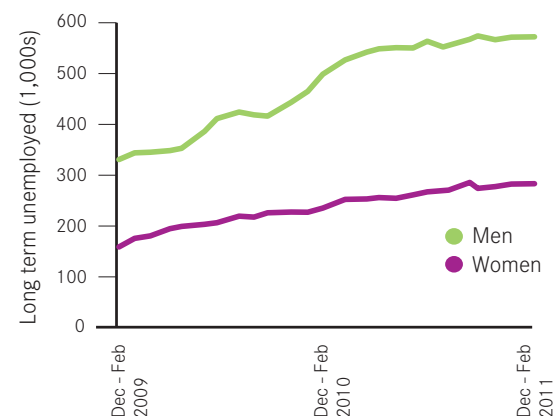
Source: ONS

Long term unemployment continues to rise

Those furthest from the labour market do not appear to be benefitting from the increase in labour demand. Figure 4 shows that the number of long term unemployed continues to rise.

The Government will hope that the forthcoming implementation of the Work Programme, which is profiled on page 3, will help to arrest this increase.

Figure 4:
Number of long term unemployed



Source: ONS

the work programme

How will it work?

The Work Programme took another step towards implementation recently when the Government announced the prime contractors for the scheme.

Main Aims

There are two main aims of introducing the Work Programme. The first is to simplify the provision of welfare to work into one programme. The second is to use market based incentives to improve the delivery of welfare to work. By paying by results the Government hopes that providers will have to gain a strong understanding of local labour markets in order to overcome place specific barriers to work.

Claimants in **Reading**, for example, which has a claimant count rate of 2.4 percent, are likely to face very different issues to those in **Hull**, which has a claimant rate of 7.8 percent. This more flexible and place-based approach will hopefully deliver better outcomes for the individuals concerned in both cities.

Structure

Instead of having a centralised system, as has often been the case in the past, the UK has been split into 18 different areas or “lots”.

Each area has been assigned at least two prime contractors in the hope that this competition will bring about both value for money and innovation in the provision of welfare to work services. Within each lot providers will start with equal market share, but market share will be shifted to better performing providers.

The selection of prime contractors in these areas has received some criticism due to the lack of third sector providers on the list. But the composition of the providers should come as no surprise. Many third sector organisations are not large enough to manage the risk or working capital required to deliver the main contract. The programme has been designed so that their main involvement will come through sub-contracting by the main providers to take advantage of their specialist knowledge.

Payment

There will be three main payments made to the prime contractors:

- 1. An attachment fee** – when a “customer” starts on the programme
- 2. A job outcome fee** – paid when a customer returns to work
- 3. Sustainment fees** – paid to reward providers for keeping customers in work

These payments will vary so that providers receive a greater reward for helping those further from the labour market such as the long term unemployed.

Start Date

The programme is expected to start this summer and each prime contractor has been awarded a five year contract.

You can see how the labour markets of cities differ across Great Britain by visiting www.centreforcities.org/citytracker

Contact:

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