

## Getting Back to Work

### Dealing with the labour market impacts of the Covid-19 recession

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# Institute for Employment Studies

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## Executive Summary

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The Covid-19 crisis has led to an economic shock that is unprecedented in modern history in its size and speed. We expect that employment has already fallen by at least 1.5 million, equivalent to 5% of all of those in work. This would be double the fall in employment in the last recession (740 thousand) and five times larger than the previous largest quarterly fall at any point since 1971.

We expect that unemployment has already risen to at least 2.5 million, or around 7.5% of the workforce. This will be a far quicker rise than in any of the last three recessions, and would put it slightly higher already than the highest point it reached in the last recession.

These impacts would have been much worse without the government's support for the economy, and in particular its Job Retention Scheme. This gives grounds for cautious optimism that if we can 'turn on' the economy soon then jobs and demand will come back. However, the labour market will not pick up where it left off – with many households and businesses needing to repair their balance sheets and ongoing disruption due to the virus.

This paper sets out our assessment of the potential impacts of the coming recession, and proposals for the labour market response.

### 2020: the end of the jobs miracle

This crisis hit the UK economy at the peak of a jobs boom – with record levels of employment, near-record low unemployment and narrowing employment 'gaps' for disadvantaged groups. Employment had grown by 3.5 million since 2011, with more than three million of those jobs full time, permanent, and/ or higher skilled work.

However it was also a labour market that did not work for everyone – with more than three million people out of work who wanted to work, one in seven local areas with employment below 70%, and growing concerns around precarious and insecure work. Young people were often particularly badly served. Furthermore while employment has set new records, very weak productivity – growing at just a quarter of its long-run rate – had fed through into anaemic wage growth and stagnant living standards. So while the jobs recovery had been exceptionally strong after the last recession, it had also been uneven.

### What impact will this crisis have on the labour market?

Recessions tend to be characterised by a large and rapid increase in exits from work, with it then taking time for entries back into work to catch this up. This means that unemployment rises much faster than it falls. In each of the last three downturns, it has taken at least seven years for the labour market to get back to where it was before the recession began.

However even during the depths of a downturn, people continue to move into work: in the last downturn, movements from unemployment to employment rose during the recession itself and rose even more rapidly after it. This was aided by active policies to help those unemployed to move quickly back into work.

This current recession will be similar but different to our recent past. We know that we will have seen an increase in exits from work that will be far quicker than we have seen before. However it is also very likely that with much of the economy shut down, movements from unemployment into employment will have fallen back too.

The result of both higher exits and lower hiring will be a sharper rise in unemployment than in any recession in living memory. However at the same time, the combination of school closures and the shuttering of large parts of the economy will mean that many of those losing work will choose not to look for another job (at least in the short term) and so will be counted as 'economically inactive'. This will serve to *reduce* the headline rises in unemployment, although it will of course not change the scale of the job losses.

Rising unemployment also feeds through into much higher long-term unemployment, which in the last recession doubled to nearly one million. Importantly, the main growth in long-term unemployment tends to lag behind the initial economic shock – giving policy makers a window of opportunity in which to prepare a response.

The unemployment impacts in recessions are felt most keenly by young people, who in the last recession saw their unemployment rate grow three times faster than older people and saw long-term unemployment reach nearly half a million.

These impacts matter because there is clear evidence that prolonged unemployment, particularly while young, can cause long-lasting 'scars' on future earnings, employment prospects and health and wellbeing. However the evidence also shows that this is not inevitable: reducing the number of unemployment spells also reduces the harm caused. These 'scarring' effects are likely to be particularly pronounced in this recession, as the nature of the lockdown means that those who becoming unemployed now will find it harder and take longer to get a new job.

Early analysis suggests that groups at particular risk in this recession are likely to be young people and the lowest paid, with women more adversely affected than men. Older people are also likely to be particularly at risk –because they make up a larger share of the workforce now (nearly one in three workers) and because older unemployed people spend longer out of work and are more likely to reach long-term unemployment. We would also anticipate a stronger sectoral bias in this recession than in the last, with retail and hospitality appearing particularly vulnerable. Taken together, these impacts will likely also see some areas at greater risk than others of significantly higher unemployment.

## How long will this crisis last?

While we know that unemployment has risen with unprecedented speed in this crisis, what is less clear now is whether it will continue to rise steeply in the coming months and how fast the recovery will be. If we can leave the current lockdown smoothly and by late

spring, then there seems a reasonable chance that unemployment will peak quite quickly, and more or less where it reached after the 2008/9 recession. However if the lockdown continues into the summer, then it is plausible that viable businesses will start to run out of cash and loan options and that we will see a 'second wave' of large scale job losses.

Overall, in our view it is highly unlikely that we will see a steep recovery in employment or unemployment in the near future, and we expect that it will take years rather than months for the labour market to full recover. In the meantime, we will see significant negative impacts of high unemployment and lower incomes.

## Getting the country back to work

Recessions are always damaging, but long-term damage is not inevitable. The nature of this downturn also means that we have a real opportunity to minimise that harm and to maximise the chances of a strong recovery. So we propose five priorities for action. At their heart would be a new **Back to Work** campaign, underpinned by local Back to Work Partnerships and a Back to Work Service for the long-term unemployed.

### 1. Investment in new active labour programmes for those out of work

#### Rapid re-employment support for the newly unemployed

The most important lesson from previous downturns has been to provide rapid and high quality support for those who find themselves unemployed, so that they can maintain contact with the labour market and move back to work as quickly as possible. This needs to be mobilised now, in anticipation of the recovery.

Jobcentre Plus has around 11,000 'work coaches' who could deliver this support, but many of these have been redeployed to manage rising Universal Credit claims, and it is likely that the rise in volumes would mean that at least 17,000 advisers will be needed.

**We recommend that government contracts now with the wider sectors that can deliver this support** – so recruitment agencies, and those delivering employment services in many charities, housing associations, for-profit services, colleges and training providers, and local government. These should be 'call-off' contracts to provide work-focused support to new claimants for up to six months – ensuring that those out of work get the help that they need and freeing up Jobcentre Plus to support claim management.

#### A new Back to Work Service for the long-term unemployed and disadvantaged

Help for the newly unemployed needs to be accompanied by investment in more specialist and intensive support from next year for those reaching long-term unemployment. There is a wealth of evidence on what works in this space, much of it from successful programmes in the UK.

**We therefore recommend the development of a new Back to Work Service for the long-term unemployed and those at risk of long-term unemployment, comprising:**

- Specialist, one-to-one support tailored to the needs of specific disadvantaged groups;
- Partnership working and co-ordination with local stakeholders;
- Targeted access to work experience and placements, pre-employment training and additional specialist support where needed.
- Access to a targeted 'Back to Work wage subsidy' of £3,000.

### Maintaining the focus on wider structural challenges

Alongside this additional support, we would strongly recommend that the government continues the work that it has started in seeking to address wider structural challenges in the labour market – in particular by maintaining funding and current plans related to employment opportunity for disabled people and those with health conditions; supporting the progression of low paid workers; and 'levelling up' opportunities for more disadvantaged areas. This should include ensuring that the £450 million in currently uncommitted European funding is deployed urgently to support the recovery.

## 2. Refocusing skills and training to support the recovery

The Covid-19 crisis makes it even more important that we reverse the declines in public and private investment in education and training, and refocus priorities to ensure that this supports the recovery – so that those out of work can retrain, we can support higher quality and more productive work, and employers and workers can meet future skills needs. We would suggest six key priorities:

1. **A significant expansion of pre-employment, job-focused training as part of the Back to Work offer**, where there will be rising demand and is a strong evidence base;
2. **Investment in high quality, timely and responsive advice and guidance**, potentially through an expanded National Retraining Scheme
3. **Working in partnership locally and devolving where possible**
4. **Co-design and co-investment with employers and social partners**, emphasising and building on sector-led examples like the Digital Fast Track in Greater Manchester
5. **Targeting support** on those who may otherwise not benefit, including by ensuring that in general, apprenticeships support new entrants and re-entrants to the labour market
6. **Plan for disruption** – for example by encouraging more adoption of digital learning and of 'Training Agency' models where employers are reluctant to hire

## 3. An integrated and coherent offer for young people

Even before this recession, there were significant problems in how services for young people were organised, designed and funded. The recovery gives us an opportunity to address this, and rising youth unemployment will create an urgent need to do so.



We recommend that local and national government should work together to test a new, integrated **Youth Employment and Skills Service**, bringing together youth employment, training, skills and welfare support and building on the MyGo model tested in 2014-17.

In the shorter term however, we also recommend:

- **A youth education, employment and training guarantee** – based on high quality support, a choice of options and a guaranteed job, apprenticeship or training place
- **Specialist support for the most disadvantaged** – open to all aged 16-24, whether they claim benefits or not
- **Considering the case for reintroducing maintenance support for low income learners**, which increased attainment particularly for the most disadvantaged
- **Not reintroducing a cap on numbers in higher education**, if this is being considered
- **Looking at potential reforms to T Level industry placements**, for example to incentivise employers or relax hours requirements
- **Improving access to apprenticeships** – including potentially by reintroducing an employer grant for taking on young people

#### 4. An orderly withdrawal from the Job Retention Scheme (JRS)

The JRS has been timely and welcome. However we need a clear exit strategy which maximises the number of participants that stay in employment while minimising any risks that it distorts the recovery (for example by discouraging firms from increasing output, or workers from finding better jobs). We recommend:

- Closing the scheme to new applications at the end of this month (April)
- Extending it by four months, to subsidise affected staff until 30 September at the latest
- Reducing the subsidy between July and September – to 60, 40 and 20% of staff wages
- Amending the scheme to allow short-time working, and requiring employers to top up staff salaries to either their usual wages for the hours worked or 80% of their salary (whichever is the greater)
- Making access to JRS funding, and potentially other government subsidies, contingent on no lay-offs and on signing up to the new 'Back to Work Charter' set out below

#### 5. A new, partnership-based, 'Back to Work' campaign

##### Working in partnership with local areas

Local government has played a central role in this crisis, and this needs to continue in the recovery. Impacts will be felt differently in different places, and close working will be needed to ensure that provision is targeted, timely and joined up.

We recommend that this is done through new **Back to Work Partnerships**, bringing together local and national government, employers, Jobcentre Plus, further and higher

education institutions and other key local stakeholders. Where possible, these should use existing local partnership arrangements (for example Skills Advisory Panels).

**Central government should also look to devolve power and money to local areas where feasible.** This should certainly be done in Mayoral Combined Authorities, which already have substantial responsibility for economic development and adult skills. In time, this devolution could also form the basis for trialling the 'Work Local' model, proposed by the Local Government Association.

### Business and industries taking a lead

There is already well-established engagement with employers on skills and industrial policy, so this should be built on in the recovery. Business should also be under no doubt that the significant financial support made available during the crisis comes with an expectation that they will play their part in helping those disadvantaged by the recession.

**So we recommend developing and promoting a new government- and business-led Back to Work Charter**, to promote employment and good quality work in the recovery. This should be built on a clear 'ask' and 'offer' for employers, around offering opportunities, investing in workforce development, and in return receiving business support and being recognised for their commitment.

## Taking this forward

In order to be ready to act in the months ahead, we need to act now. However the sheer scale of the challenges that government is facing means that it will not be able to do this by itself. So finally, **we recommend that government brings together a 'Cobra' for jobs** – to work together on designing, co-ordinating and mobilising this response, and convening a wide range of partners including government Departments and agencies, local government, sector bodies, trusts and foundations and key stakeholders.

This labour market response will also need to be effectively co-ordinated with what will likely need to be a broader and larger macro-economic and fiscal response to the downturn. In particular, **if labour demand does *not* recover quickly then there may be a need for far fiscal stimulus to increase labour demand and reduce labour costs** – for example through significant cuts in National Insurance, further increases in social security support, and/ or more direct intervention to create temporary, transitional jobs for the long-term unemployed (as happened in the last recession).

The proposals in this report will help to ensure that as the economy recovers we can keep people attached to work, help them find better work, and minimise the 'scars' from being out of work. With a cost of around £4.7 billion over the next three years, the evidence from previous programmes tells us that this investment would more than pay for itself in the future; while the evidence from previous recessions tells us that the costs of inaction would be far higher.

# 1 Introduction

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It is now clear that the massive and necessary public health response to the Covid-19 epidemic has led to an economic shock that is unprecedented in modern history in its size and speed. Employment is likely to have fallen by well over a million in the last month alone, with unemployment rising sharply and new claims to Universal Credit running at more than five times their usual levels.

While there are reasons for cautious optimism that the economy will rebound strongly when the 'lockdown' is eased, we entered the year with many commentators predicting that a recession was 'due' in the near future (with slowing global trade, over-valued stock markets, high levels of debt and falling US profits) and the experience of the last three UK recessions has been that it takes time – in each case, at least seven years – for the labour market to fully recover. And in each downturn, active measures were needed in order to try to minimise the risks of the short-term crisis leading to longer-term structural problems.

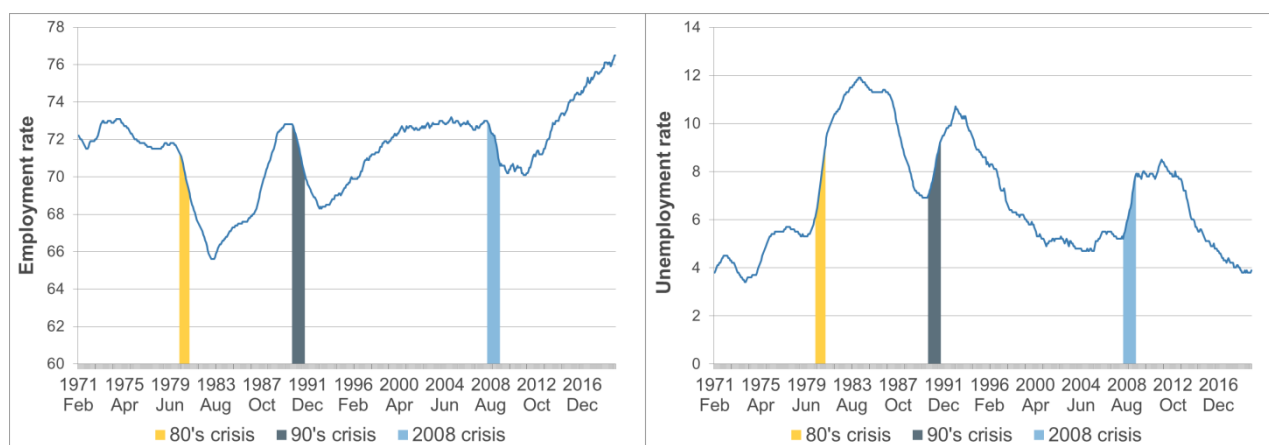
This paper therefore seeks to help inform what the response should be this time. It focuses specifically on our labour market response, so does not explore the wider fiscal and monetary policies that may be necessary, nor issues related to Universal Credit. It starts with a brief recap of where the labour market was at the start of the year, just before the crisis hit, then sets out what we know about the impact of recessions on the labour market and what we think may happen in this one. It then makes recommendations for how labour market policy should respond in the months ahead – drawing on what's been tried before, and the evidence of 'what works' for whom – before concluding with proposals for taking this forward.

## 1.1 2020: The end of the jobs miracle

The UK labour market began the year at what we now know was the peak of a jobs miracle. Employment had risen steadily since late 2011 to record levels, while unemployment had dropped back to its lowest since 1974. This is illustrated in Figure 1.1 below, with the last three recessions highlighted. 'Economic inactivity' – the measure of those neither looking for nor available for work – had also fallen back to historic lows, driven in particular by more older people and parents working, and lower inactivity among students.

This jobs boom had been driven by higher skilled, permanent and full time work – with full time work accounting for more than three million of the 3.5 million jobs created since 2010, more than three million jobs created in higher skilled jobs and the rate of temporary employment at its lowest ever.

**Figure 1.1: Employment rate (left panel) and unemployment rate (right panel), people aged 16-64, seasonally adjusted**



Source: IES analysis of Labour Force Survey

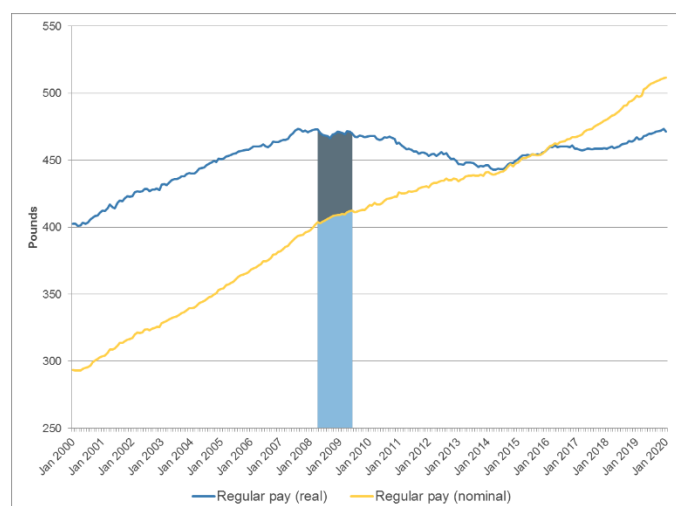
The tightening of the labour market – alongside changing demographics – had also started to see the ‘gaps’ in employment rates for disadvantaged groups narrowing. Most notably, employment of disabled people had grown by over one million since 2015, with all of the employment growth in the last two years being accounted for by more disabled people in work (with employment of non-disabled people broadly flat since 2018). However, this jobs boom also masked some significant challenges in the economy and labour market.

### 1.1.1 Flatlining pay and productivity

Most obviously, strong employment growth was accompanied by very weak growth in productivity (output per hour) – which rose by just 0.5% a year over the last decade, a quarter of what it had averaged over the previous half-century. Part of this story is explained by a growth in low paying and often less productive employment; by a ‘long tail’ of smaller firms often serving local markets; and by significant falls in both workforce training and capital investment.<sup>1</sup> Public funding of adult skills has also fallen precipitously, nearly halving over the last decade (Farquharson and Sibiet, 2019).

This has fed through into anaemic wage growth. In real terms, weekly pay on the eve of the crisis had only just returned to where it had been in 2008 (as Figure 1.2 shows), meaning that living standards over the decade had largely stagnated. At the same time however, significant hikes in the National Living Wage saw above average wage growth for the bottom third of earners – so helping to make inroads into reducing the number of people in low pay with little evidence of negative impacts on employment (Capuano et al, 2019).

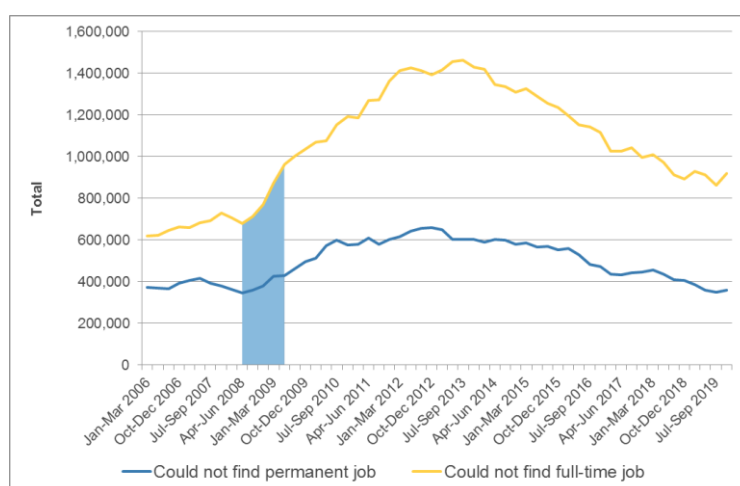
<sup>1</sup> See for example Innes (2018) and <https://www.centreforcities.org/blog/tackling-long-tail-wont-boost-uk-productivity/>

**Figure 1.2: Average weekly earnings excluding bonuses, seasonally adjusted, GB**

Source: IES analysis of Labour Force Survey

### 1.1.2 Not enough hours

Furthermore, despite increases in full time and permanent work, the number of people who wanted more hours or full time work remained significantly higher at the turn of this year than before the 2008 recession. Underemployment<sup>2</sup> stood at 2.5 million, more than half a million higher than in 2008. Additionally, the number of people in part-time work because they could not find full-time employment was significantly higher than before the downturn, as Figure 1.4 shows. In total around one in nine part-time workers wanted but could not find a full-time job.

**Figure 1.3: Number of part time workers that could not find a full-time job and temporary workers that could not find a permanent job**

Source: IES analysis of Labour Force Survey

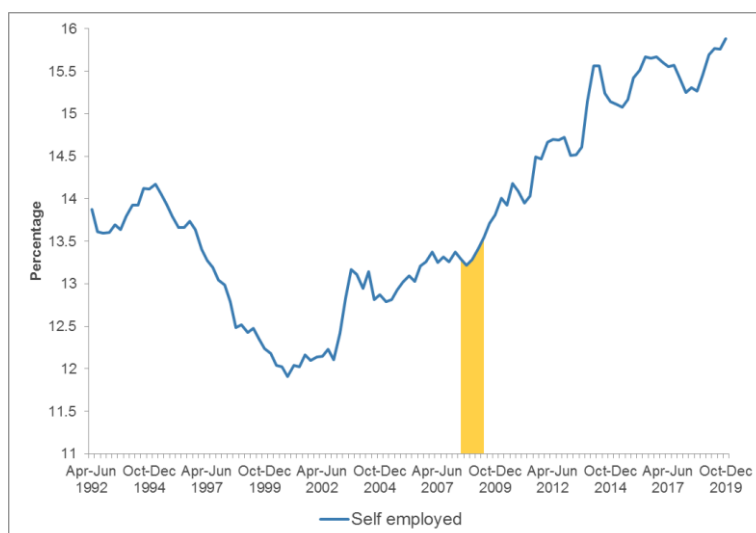
<sup>2</sup> Defined in this case as those wanting more hours, available to work them, and working less than full-time

### 1.1.3 Precarious and insecure work

The nature of employment had also often become more precarious and less secure over the last decade. The most obvious evidence of this was in self-employment, which grew by around a quarter since 2008, from 3.9 to 5.0 million. As Figure 1.4 shows, on the eve of the crisis the self-employed accounted for around one in six of the workforce. While self-employment is not inherently insecure or poor quality work, and the self-employed report higher work satisfaction than their employed peers, our research with the Centre for Research on Self Employment in 2017 found that one in five self-employed workers were in insecure work (CRSE and IES, 2017) and more recent analysis to update these figures had found this number had grown in the last two years. As the Covid-19 crisis has shown, many self-employed workers are particularly vulnerable to economic shocks and cannot benefit from the (potential) protection of an employment relationship.

In addition there was some evidence of increased employment insecurity within permanent work. This was particularly the case among young people, where IES research for the Health Foundation last year found that poor quality work, underemployment and insecurity were all significantly higher than pre-2008 (Papoutsaki et al, 2019). This was most clearly illustrated in data for ‘Zero Hours’ Contracts, which accounted for one in eleven of all contractual relationships for young people.

**Figure 1.4: Self-employed workers as a proportion of all employment**



Source: IES analysis of Labour Force Survey

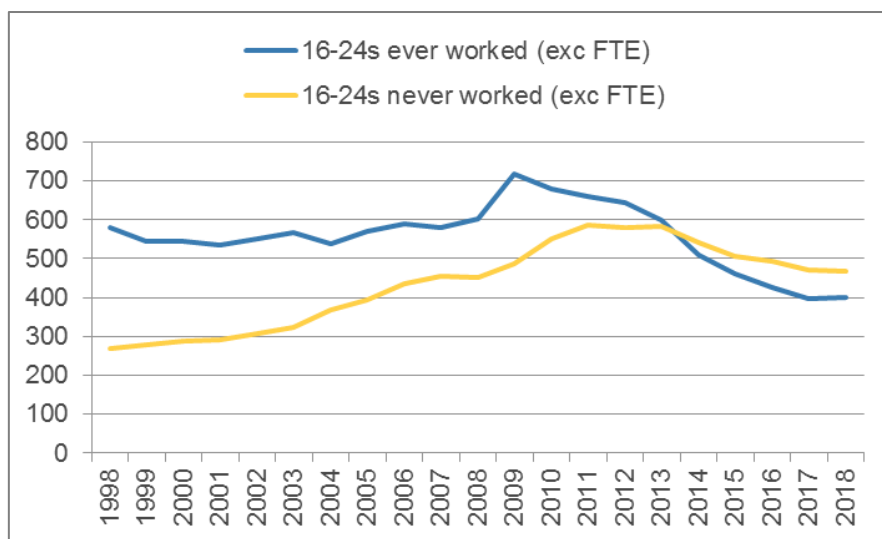
### 1.1.4 Young people missing out

Young people also remained at significant risk of being outside any form of education, employment or training, with around one in six young people consistently neither in employment nor full-time education. Overall one in ten young people were economically inactive – usually due to ill health or caring responsibilities – a figure that had been unchanged in nearly thirty years. Alongside this, successive reforms since the 1980s had led to a fragmented and complex system of education, careers, skills and employment

support for young people, with responsibilities across four different Departments and dozens of funding streams. This contributed to gaps in support for specific groups (particularly those aged 16-17) and at key transition points.

Furthermore, strong growth in participation in education since the last recession had also been accompanied by a collapse in working whilst studying. As a consequence, even though employment for those outside full-time education had recovered by the eve of this crisis, for the first time ever those who were not in employment were more likely to have never worked than to have ever worked, as Figure 1.5 illustrates.

**Figure 1.5: Number of young people not in employment or full time education who have ever worked or never worked**



Source: IES analysis of Labour Force Survey

### 1.1.5 High employment is not full employment

Finally, despite record levels of employment participation, many areas and groups had not shared as fully in the labour market recovery and remained significantly disadvantaged. In all, 1.9 million people who were economically inactive reported that they wanted to work. With 1.3 million people unemployed, this meant that over three million people were out of work and either wanted to work, were actively looking for work or both.

This was most clearly illustrated in employment opportunities for disabled people. While the employment rate for disabled people had grown significantly over five years, it still stood at just 54% compared with 82% for non-disabled people. Those that were out of work with ill health also appeared to be becoming more disadvantaged, with the number of people 'economically inactive' due to a long-term health condition actually growing steadily since 2017 to 2.1 million people (or a quarter of all economic inactivity – the highest rate in over a decade).

The pre-2020 jobs miracle was also not evenly spread across the country. In one in seven local authority areas, the employment rate remained below 70%. These 27 areas were more likely to be in the North East, the North West and in some London Boroughs.

So while the jobs recovery had been exceptionally strong, like other recessions it had also been uneven. Many of these structural challenges are likely to be exacerbated in the recovery from the Covid-19 crisis and will have implications for how public policy responds.



## 2 The labour market impacts of recessions

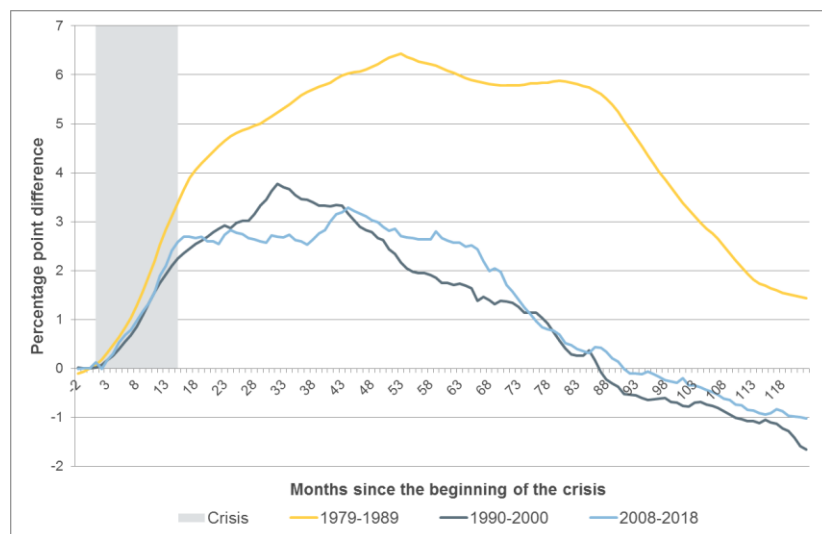
### 2.1 Previous recessions

As Figure 1.1 above set out, we have had three major recessions in the last thirty years. While this current crisis has been induced by the (necessary) public health response to the Covid-19 pandemic, it was likely that we would have faced a slowdown – and likely a recession – in the next few years.

In each of the last three recessions the unemployment ‘peak’ has been lower than for the previous downturns – aided by government fiscal, monetary and ‘active labour market’ policies. This was particularly remarkable in the last downturn, where the impact on GDP was three times greater than in the 1990s recession but the impact on employment and unemployment was smaller.

However as Figure 2.1 below illustrates, a common theme of each of the last three recessions was that it took at least seven years for the unemployment rate to return to its pre-crisis levels. This was despite strong economic recoveries after the 1980s and 1990s recession, and the post-2008 jobs boom set out in chapter 1. Unemployment tends to rise fast in recessions, but it falls more slowly in recoveries.

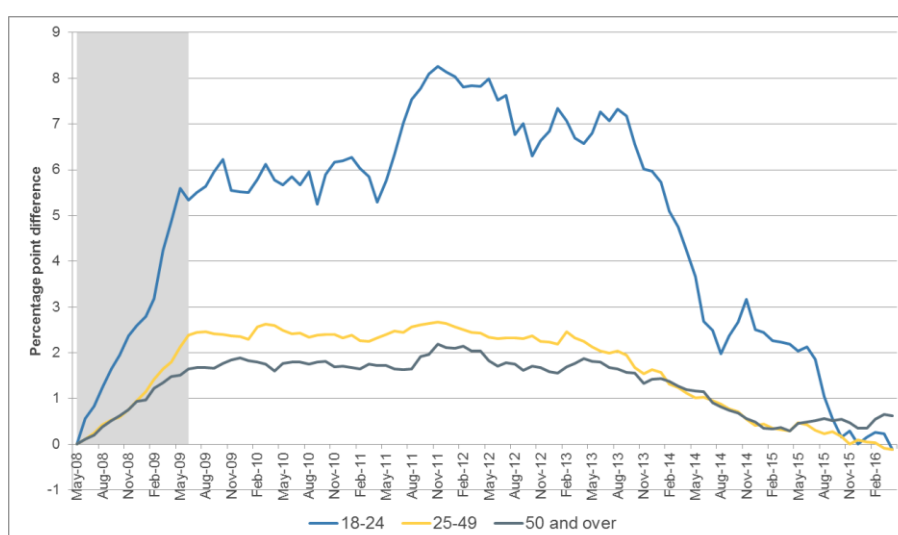
**Figure 2.1: Percentage point change in unemployment rates following the last three recessions**



Source: IES analysis of Labour Force Survey

Recessions tend to lead to particularly large increases in unemployment for young people – as they are most likely to be moving in and out of work, are most affected by increases in job separations and by slowdowns in hiring, and face increased competition from those with more work experience and job-specific skills. Figure 2.2 illustrates this for the 2008 recession. The unemployment rate for young people increased initially three times more than it did for older age groups, and then rose further again between 2011 and 2013 (when the premature tightening of fiscal policy led to a further slowdown in the labour market). It has then recovered significantly since 2013, and on the latest data had more or less reached pre-recession levels.

**Figure 2.2: Percentage point change in unemployment rates by age following the 2008/9 recession**

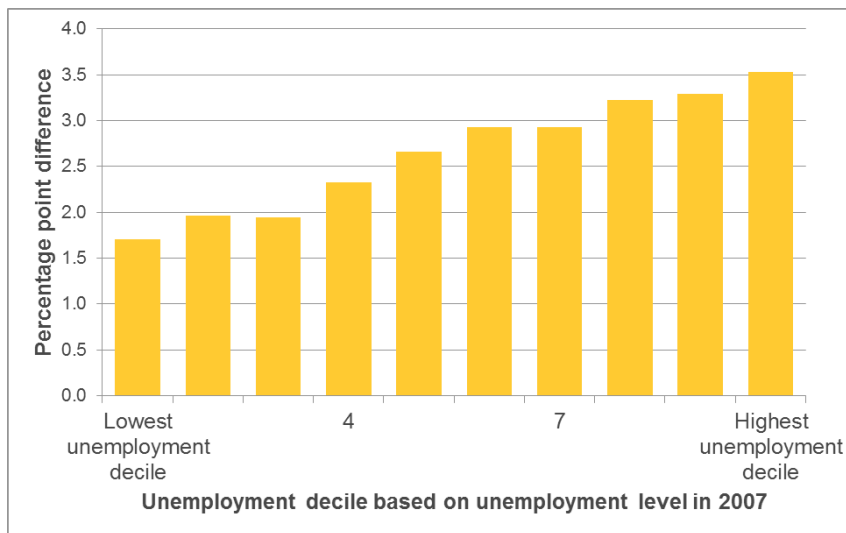


Source: IES analysis of Labour Force Survey

However while unemployment in the last recession both started and stayed lower for older age groups, the rate of growth for older groups was often more significant than was the case for youth. So while the number unemployed rose by two thirds between 2008 and 2011 for young people, it rose by 70% for those aged between 25-49 and by 90% for those aged 50 or over. So while older people may be less likely to become unemployed, that those do so are often more likely to need support to get back into work.

Similarly when looking at the local effects of the recession, unemployment rose most in areas that were previously more disadvantaged. Figure 2.3 below illustrates this, using local authority district-level data for the last recession. However as with unemployment by age, while areas with lower unemployment before the recession remained lower after it, the rate of growth in those places was often far greater – with 10 of the 15 areas that saw unemployment double over this period being in the bottom half of the distribution in 2007.

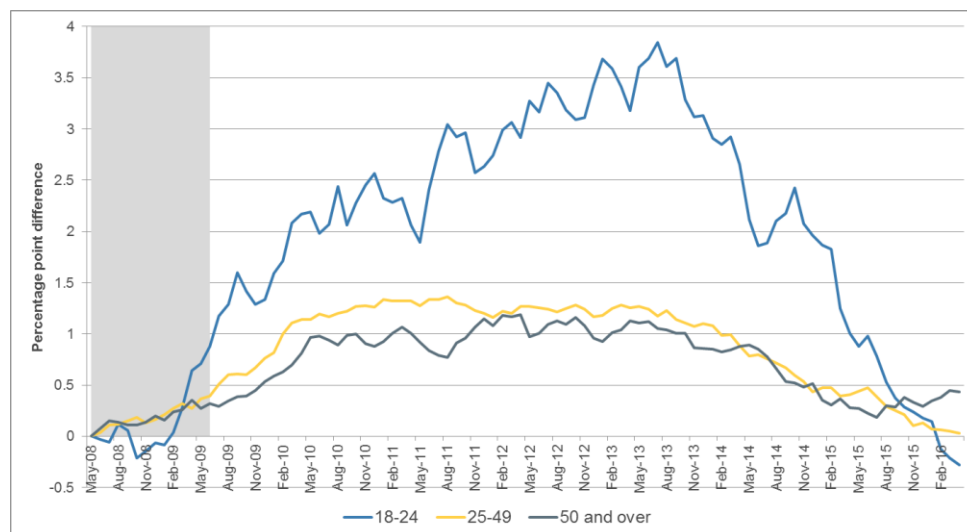
**Figure 2.3: Percentage point change in local authority district level unemployment rates between 2007 and 2011, by 2007 unemployment rate decile**



Source: IES analysis of Nomis

Recessions also lead to significant rises in long-term unemployment – i.e. the number of people continuously unemployed for a year or more. This has been common across recessions and is a consequence of reduced hiring in the recession itself, and by those people unfortunate enough to find themselves unemployed during the recession becoming increasingly disadvantaged compared with other jobseekers as hiring picks up. Once again, as Figure 2.4 shows, this particularly affects young people – although it is notable that for those aged over 50 the long-term unemployment rate remains higher than it was before the recession.

**Figure 2.4: Percentage point change in long-term unemployment rates by age following the 2008/9 recession**



Source: IES analysis of Labour Force Survey

Importantly, the rise in long-term unemployment after recessions lags behind the headline rise in unemployment, as it is particularly driven by increased inflows into unemployment a year earlier. In the last recession, this lag was around seven months – giving public policy a small window in which to prepare a response.

This matters because unemployment, and particularly long-term unemployment, has significantly negative social and economic consequences for individuals, families and communities. The evidence on this is set out in Box 1 below.

### Box 1: The scarring effects of unemployment

There is clear evidence that long-term unemployment leads to permanent labour market ‘scars’ – with those affected more likely to be out of work later in their lives, to be in poor quality work and to have lower earnings (Arulampalam et al, 2001). These scars can also have lasting negative impacts on physical health (Nordstrom et al, 2014) and mental health (Paul and Moser, 2009), with long-term unemployment leading to lower overall life satisfaction and happiness (Eurofound, 2017).

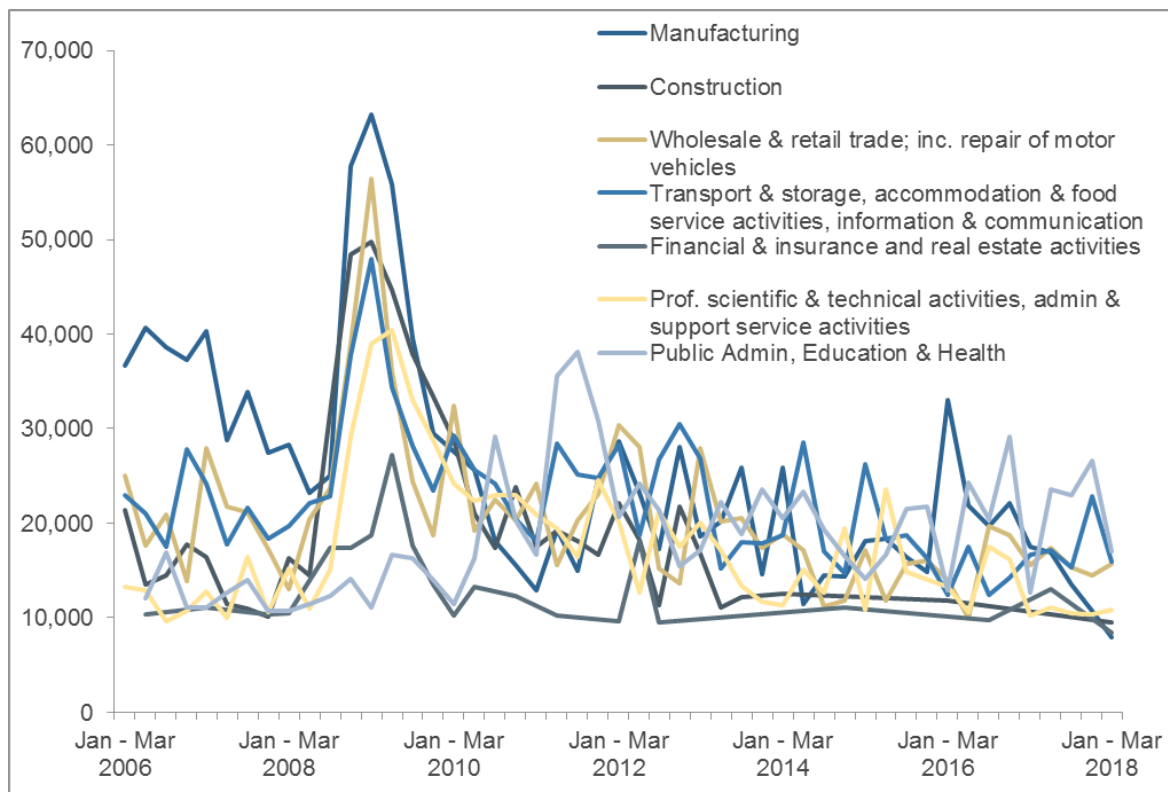
These scarring effects are most pronounced for young people, in part because there is a far longer working life over which these impacts can be felt. UK evidence suggests that wages for young people experiencing unemployment are up to 20% lower twenty years later than they would otherwise have been (Gregg & Tominey, 2005). Related to this, young people entering the labour market during downturns can face significant lower earnings and employment than if they had entered the labour market at other times (Cribb et al, 2017).

These scars have clear economic and fiscal costs too. Cole et al (2010) estimated that the long-term cost to the public finances of youth non-participation in education or employment was between £10 billion and £30 billion in 2009, equivalent to over £50,000 per person (in 2009 prices).

Importantly, Gregg and Tominey (2005) also show that *avoiding* repeated spells of unemployment can significantly reduce the negative effects of being unemployed. So it is not inevitable that a spell of unemployment should be significantly damaging.

Finally, recessions usually see far higher levels of redundancy, and particular sectoral and geographical impacts of these. In the last recession, redundancies rose from around 150,000 a quarter to 300,000 in January to March 2009. As Figure 2.5 shows, this spike was particularly driven by manufacturing, retail, hospitality and construction. This reflects both those industries that are most exposed to cyclical impacts, and the fact that manufacturing was hit particularly hard in the last recession. Redundancies in public services showed very little change, but did peak three years later as fiscal tightening took hold.

Nonetheless, even in recessions redundancy only accounts for a small fraction of job separations. In January to March 2009 for example, just one in six of those leaving their job did so as a result of redundancy (compared with a long-run rate of around one in ten).

**Figure 2.5: Redundancies by industry**

Source: IES analysis of Labour Force Survey

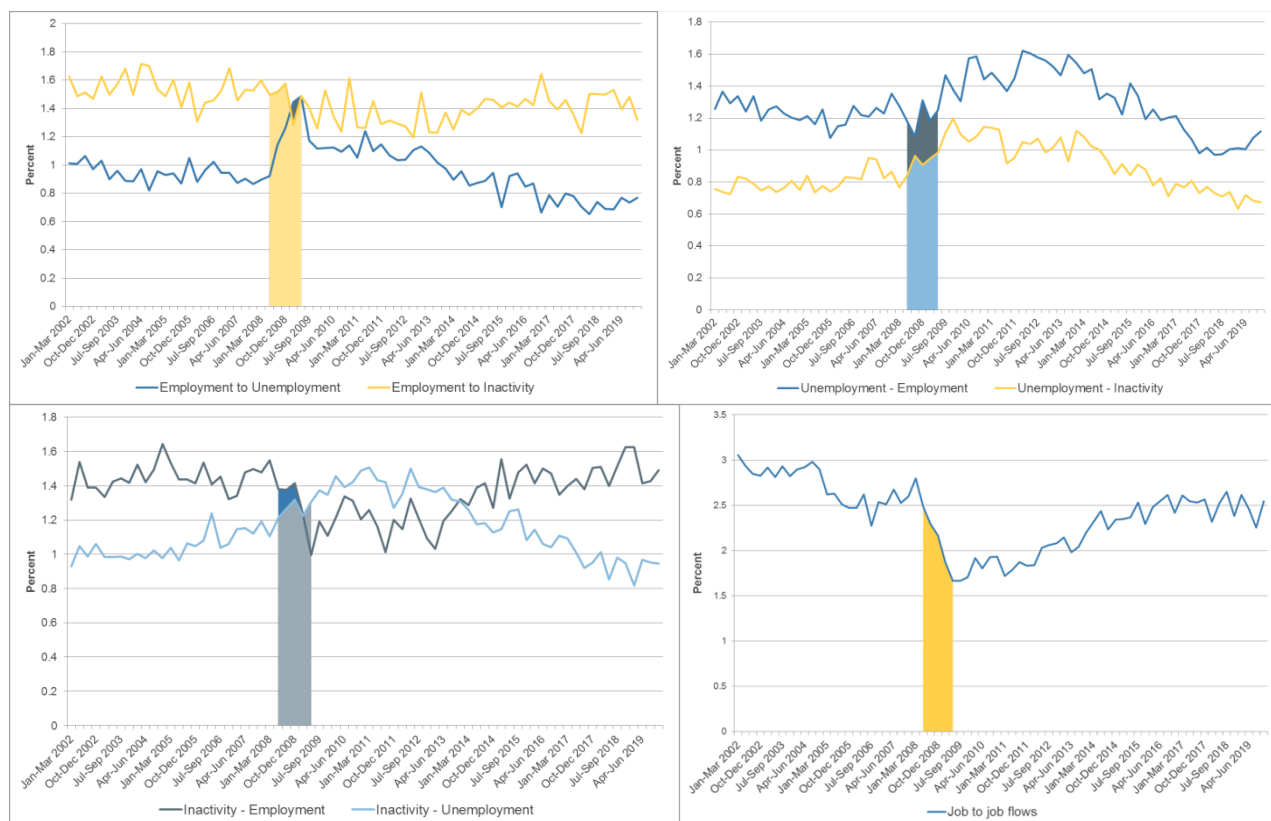
## 2.2 Labour market flows

These headline movements in employment and unemployment are driven by significant changes in the ‘flows’ between employment, unemployment and economic inactivity during recessions.

Figure 2.6 shows these movements for the last recession, and illustrates that the immediate fall in employment was explained both by a sharp rise in movements from employment to unemployment, and by a fall in moves from economic inactivity to employment (and specifically, a fall in the number of young people leaving education for work). Movements from unemployment to employment did not fall. In fact, in common with other recessions, flows from unemployment to employment rose significantly after the downturn and remained elevated. In other words, the economy continued to create jobs throughout the recession and this rate of growth increased in the recovery.

Importantly, Figure 2.6 also shows that ‘job-to-job’ moves fell sharply in the last recession. This reflects lower hiring overall, as well as people choosing to stay put rather than search for new work. As a consequence, hiring fell further for those moving from job-to-job than it did for those moving from being out of work, and it recovered more slowly. In this current lockdown, we will likely see even greater falls in job-to-job moves.

**Figure 2.6: Outflows from employment (top left), unemployment (top right) and inactivity (bottom left) and job-to-job flows (bottom right) as a percentage of the working age population**



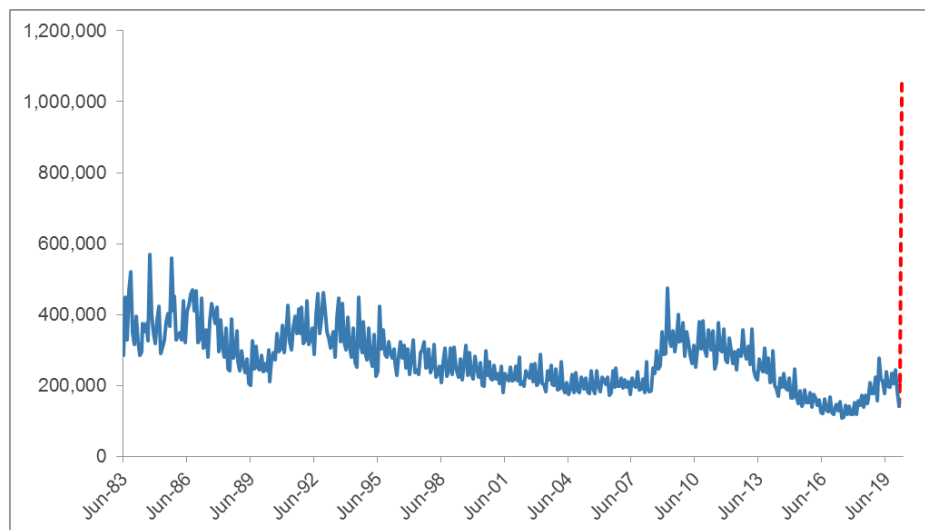
Source: IES analysis of Labour Force Survey

## 3 What will happen in this recession?

### 3.1 Inflows, outflows and unemployment

Over the last two weeks, a clearer picture has started to emerge with regards to how the Covid-19 recession will have an impact on the labour market, at least in the short term. In particular we know that this crisis has led to a steeper and larger rise in claimant unemployment than in any recession in modern history, with nearly one million new claims for Universal Credit in the second two weeks of March alone. As Figure 3.1 shows, new claims in March are likely to be more than double the highest monthly rise in the 2008/9 recession (474,000 claims).

**Figure 3.1: Monthly new claims to Unemployment Benefits, Jobseeker's Allowance and Universal Credit\***



Source: IES analysis of Labour Force Survey and DWP Stat-Xplore data.

\* Chart combines unemployment benefit 'on-flow' figures from 1983 to present with Universal Credit 'starts' data from 2013 to present. Note that not all UC claims lead to UC 'starts', and not all UC 'starts' would have previously met the criteria for claiming an unemployment benefit. The red dotted line is estimated by the authors.

These very large increases in the flow into unemployment are in spite of the unprecedented government response to the downturn, most notably through:

- **The Job Retention Scheme** – which funds 80% of wage costs (up to a maximum of £2,500 per month) for employees 'furloughed' between 1 March and 31 May;
- **The Self-Employment Income Support Scheme** – where 80% of trading profits (up to the same maximum) can be claimed by as a grant by the self-employed; and



■ **Access to rate relief and business loans** – particularly targeted at small and medium enterprises, and at retail, hospitality and leisure businesses

Without these measures, it is highly likely that new claims would have risen even faster and higher – in the United States for example, which focused on strengthening unemployment insurance rather than subsidising wages, there has been a thirty-fold increase in unemployment claims during March.

Virtually all of the additional claims for Universal Credit are likely to be where people have lost work (either as employees or self-employed). However the fall in employment during March will almost certainly be larger than the rise in Universal Credit claims, as many of those who lost work will not have started new claims – for example because their savings or other household earnings mean that they would not be eligible<sup>3</sup>.

As with previous recessions then, this labour market crisis will be characterised by a large rise in separations from work, but on an unprecedented scale. Unlike the last recession, it is likely that a sizeable proportion of those leaving employment will have entered ‘economic inactivity’ rather than unemployment, at least in the short term, due to the school closures. We know that one third of the workforce pre-crisis were in couple households with school-aged children where both parents work, so it is plausible that with current school closures up to a third of those exiting employment will care for their children rather than actively seek another job. This will serve to dampen the headline rise in unemployment, at least until schools return, but will bring its own challenges in how we then reach and support those parents when this immediate crisis ends.

There are also signs that with the economic shutdown, recruitment activity has slowed significantly – with vacancies falling by at least a fifth in the last six weeks<sup>4</sup>. So once again, as with other recessions flows to employment are likely to fall, but these are likely to have dropped to a far greater extent than in previous downturns. Nonetheless, some sectors are of course recruiting at a rapid rate – including in food retail, food production, delivery drivers and health and social services.

Taking this all together, it is highly likely that employment during March will have fallen by around 1.5 to 2 million, equivalent to 5% of those in work. It is hard to over-state how significant this reduction is. This would be more than double the fall in employment in the last recession (740 thousand) and would be five times larger than the previous largest quarterly fall at any point since 1971 (which was 1.0% in June-August 1991).

Assuming that two thirds of this fall in employment feeds through into unemployment, then the unemployment rate would rise from 3.9% to 7.5% in the short term, or 2.5 million overall. Again, it is hard to overstate how significant this rise would be. As Figure 3.2 below illustrates, it would mean that unemployment would rise to just above where it

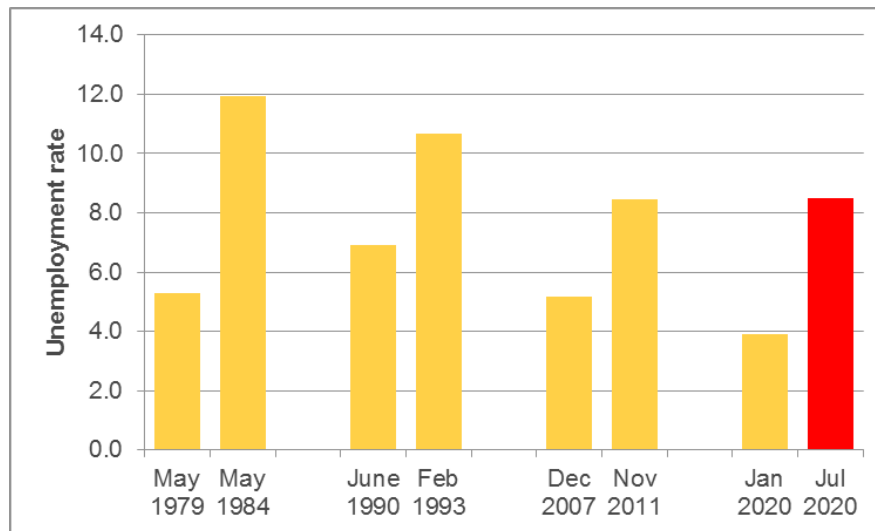
<sup>3</sup> On the other hand, many of those submitting new Universal Credit claims will not go on to become claimants – either because their household income or savings mean that they are not entitled, or because they find that they are only entitled to very small awards and so withdraw their claims. Typically around one in five new claims for Universal Credit do not result in a start.

<sup>4</sup> See: <https://www.adzuna.co.uk/blog/covid-19-hits-the-job-market-vacancies-drop-22-in-six-weeks>



peaked after the last recession, and will have done this far quicker than in any recession in modern times.

**Figure 3.2: Unemployment rates before and after economic crises (Nomura prediction for 3rd quarter of 2020)**



*Source: IES analysis of Labour Force Survey (red bar, Nomura forecast of unemployment)*

## 3.2 How long will this downturn last?

What is far less certain right now is whether employment will continue to fall through the spring and summer, and how fast the recovery will be.

On the one hand, the government's response has reduced the risk of further large-scale job losses in the next month or so. However, this risk has not disappeared. In particular it is becoming increasingly clear that many businesses are at risk of imminent failure, and that the Business Interruption Loan Scheme is not reaching many firms quickly enough. Even with loan support, for as long as economic activity is suppressed the risks of business failure will only grow. Additionally, support through the Self-Employed Income Support Scheme will not reach workers until the summer, and many self-employed will have found themselves ineligible (for example because they did not declare a profit, paid themselves in dividends, or their profits were too high).

So unemployment will continue to rise throughout the duration of the lockdown and into the summer, but the rate of growth should slow and it could still be the case that unemployment will end up below its peaks in the 1980s and 1990s recessions. The fall in employment however is likely to be of a similar scale to those recessions, and may yet be greater.

The duration of this downturn will clearly also critically depend on how and when we and our trading partners emerge from the current lockdown. Given the substantial current support to (most) household incomes and the deferral of spending during the lockdown, it seems highly likely that if we are able to end the lockdown over the next two to three months that we will see a short-term economic boom – with a sharp increase in economic

activity, labour demand and employment. However if the lockdown continues into the summer, then it is plausible that larger and otherwise-viable businesses will run out of cash reserves and loan options and begin to close – which could cascade through supply chains and lead to a ‘second wave’ of job losses, perhaps concentrated in particular areas and sectors.

However even assuming we exit the lockdown by late spring, it seems very unlikely that we will see a rapid return to where we were at the turn of the year, for four reasons:

- We are likely to face suppressed demand for some time, because many households will need to deal with the financial impacts of the lockdown and because there is a good chance that Covid-19 will continue to lead to disruption over the next year or so.
- The downturn has caused huge damage to company balance sheets, which will force some otherwise healthy companies to close and act as a brake on job creation and investment for others. Similarly if the government embarks on significant fiscal tightening too quickly, as it did in 2011-12, this could again choke off the recovery.
- Recessions can accelerate changes already happening in the economy and there is every indication that this recession will do so too – potentially speeding up the adoption of digital technologies, automation, and labour- and contact-saving innovations. Without active intervention, this will lead to lasting implications for those in low skilled work, many older workers and those in areas reliant on lower paid and more labour intensive work.
- Finally, unless the government and European Union agree to extend the Brexit transition, the UK will face significant economic disruption at the end of this year. This will further inhibit business investment and job growth as the deadline approaches.

Overall then, it feels highly unlikely that we will see a steep recovery in employment or unemployment in the near future. Our view is that it will take years rather than months for the labour market to fully recover, and that in the meantime we will see significant increases in long-term unemployment and disadvantage, with associated negative impacts on communities and local areas.

### 3.3 Who is most at risk in this downturn?

In all downturns, most workers do not lose their jobs and so the negative impacts fall disproportionately on those that do. It is not yet clear who will be most affected this time, but some signs are beginning to emerge.

First, the immediate impact of the economic shutdown appears to be disproportionately affecting women, young people and the lowest paid. In particular, analysis by the IFS released this week suggests that (Joyce and Xu, 2020):

- Nearly a third of young workers are in ‘shut down’ sectors, compared with one in eight of those aged 25 or over;
- Low earners are seven times as likely to have been in a sector that has shut down than the highest paid; and

- Women are about one third more likely than men to work in these sectors than men.

Of course the impact felt in these sectors could be relatively short lived, if the combination of government support now and relaxing of restrictions in the summer leads to these firms quickly reopening and rehiring. However as discussed above, many of the firms shuttered now will be slow to recover or will fail entirely. Additionally many of those working in affected sectors have been laid off rather than furloughed, and so will already be at risk of having longer-term negative impacts on their incomes, health and wellbeing.

The impact of this scarring is likely to be particularly pronounced in this recession – as the nature of the lockdown means that those who find themselves unemployed will find it harder and take longer to get a new job. Long-term unemployment has fallen from over 900 thousand in 2012 to 300 thousand now, but is likely to start rising significantly towards the end of this year. If there is a quick recovery then it may peak below where it was in 2012, but this will also depend on there being the right support both to increase flows into work for the short-term unemployed and to intervene for those reaching long-term unemployment.

There are further reasons to be particularly concerned about the prospects for the three groups set out above:

- As chapter 2 sets out, **young people** are always among the groups most affected by downturns and this recession will be no different. Young people may also find it harder this time to respond to the weaker labour market by staying in education, as has happened in previous downturns. Education participation is already at record levels, and there are significant funding pressures in further education.
- For **women**, those not working in affected sectors are also more likely to have to work less or leave work entirely, given that women will be bearing the greater share of childcare commitments in working households. This will be particularly acute for the 1.2 million lone parents in work (70% of all lone parents, a figure that had increased from just over 50% a decade ago).
- For the **lowest paid**, forecasts before the downturn were already suggesting that over the next decade there would be a sharp decline in demand for low skilled work – with three million more low skilled people than low skilled jobs available (Melville and Bivand, 2019). If, as is likely, this downturn accelerates this trend then significantly more support will be needed in the short term to improve skills and prospects for the lowest paid.

We know from previous recessions that other groups with labour market disadvantages also tend to be disproportionately affected by slow-downs in hiring, and again this time is unlikely to be any different. Chief among these in this downturn are likely to be **older people** – both because past recessions have shown that those older people who do lose their jobs are at greater risk of becoming long-term unemployed (George et al, 2015), and because they make up a large and growing share of the workforce. There are now nearly 10 million workers aged over 50 – two million more than in the 2008-9 downturn, and more than four million more than in the early 1990s.

The scarring effect will also be felt differently in different sectors. It seems highly likely that **retail** will be particularly hard hit, likely accelerating what has been a rapid decline in employment over the last decade (driven by changes in shopping habits and technology). **Hospitality** is likely to be similarly at risk, particularly if employers respond to the downturn by choosing to restructure or reduce staffing, and if households cut back on spending. Meanwhile both **manufacturing** and **construction** tend to be particularly susceptible to cyclical changes, although these affects may be more short-run.

What is less clear now is what will happen to productivity during the downturn and recovery. During the lockdown itself, the combined impact of furloughed workers, remote working and low demand will likely see output per hour fall significantly (perhaps by even more than in the last recession). In the medium term though, if the downturn results in lower employment in less productive sectors and jobs, as seems likely, then both unemployment *and* productivity may rise – particularly because retail and hospitality account for 14% of hours worked but just under 10% of value added (Innes, 2018). Nonetheless, a weak recovery and increased corporate debt will almost certainly further undermine investment in skills training and capital.

Finally, the scarring will clearly affect local areas differently. The nature of these differences will take time to emerge, but again previous recessions suggest that employment losses will be greatest in poorer areas – and that this will be exacerbated if job losses are concentrated in lower paying sectors.

Taken together, while it is too early to say for sure who will be particularly badly affected by this downturn, there is every indication that losses will be greater for those people and places already most disadvantaged. It will be critical then to ensure that the policy response can recognise and meet these challenges.

## 4 Getting the country back to work

Recessions are always damaging, and they can cause lasting harm to individuals and communities – often to those already significantly disadvantaged. This recession will be no different. However, long-term damage is not inevitable and the nature of this downturn in particular means that we have a real opportunity to minimise that harm and to maximise the chances of a strong recovery.

Achieving this will depend on a robust and co-ordinated public policy response, and starting work on this now. So we set out five priorities for action. At their heart would be a new Back to Work campaign, underpinned by local Back to Work Partnerships and a Back to Work Service for the long-term unemployed.

1. Investment in new active labour programmes for those out of work
2. Refocusing skills and training to support the recovery
3. An integrated and coherent offer for young people
4. An orderly withdrawal from the Job Retention Scheme
5. A new, partnership-based, 'Back to Work' campaign

### 4.1 Active labour market support for those out of work

Chapters 2 and 3 set out the case for investing in high quality, publicly-funded employment support so as to help those who find themselves out of work in recessions to get back into work as quickly as possible. In this recession, the shutdown means that there are arguably increased risks of labour market 'scarring' for those becoming unemployed, but the recovery may also lead to greater opportunities to get back into work. We would argue that the policy should comprise:

- Rapid re-employment support for the large volumes of newly unemployed people
- Extra help for the long-term unemployed and most disadvantaged
- Maintaining the pre-recession focus on addressing wider structural challenges – particularly around disability and health, in-work progression and 'levelling up'

The fact that more people are out of work, and those out of work will be at risk of becoming more disadvantaged, means that this support will need investment. However this will likely pay for itself in fiscal terms, and will far outweigh the potential economic and social consequences of inaction.

### 4.1.1 Rapid re-employment support for the newly unemployed

The most important lesson from previous recessions has been to provide rapid and high quality support for those who find themselves unemployed, so that they can maintain contact with the labour market and to move back into work as quickly as possible. When this employment support is not in place – as happened in the early 1980s, when it was suspended in order to deal with rising claim volumes – the consequence is that unemployment stays higher for longer, with larger increases in long-term unemployment and therefore greater social and economic damage.

Clearly during the lockdown, labour demand is weak and there are practical barriers to providing employment support. Jobcentre Plus is also fully occupied in processing and verifying new claims to Universal Credit. But that labour market picture could change very quickly, so we need to mobilise resource to provide this support as soon as possible. And as Figure 2.6 above illustrates, even relatively weak recoveries are characterised by higher volumes of people moving into employment than in ‘normal’ times.

In terms of ‘what works’ in this space, Box 2 below sets out that there is unequivocal evidence that high-quality, work-focused and one-to-one adviser support is effective and can more than pay for itself in fiscal terms.

#### Box 2: Evidence on the effectiveness of public employment service activation

There is extensive and growing evidence internationally that high-quality, one-to-one caseworker support leads to higher employment and increased exits from unemployment.

Pederson *et al* (2012) reviewed 37 evaluations of the effects of caseworkers and job search assistance meetings, with 30 of the studies reporting positive effects for the meetings (or aspects of the meetings). The positive effects are attributed to three factors: the meetings can give caseworkers more time to provide job search assistance and support with job search strategies; they can provide more information about and direct referral to vacancies; and they can increase monitoring ensuring that claimants are meeting their obligations and remain eligible for unemployment benefits.

Rosholm (2014), also synthesised these findings, concluding that caseworker meetings are a cost effective and relatively inexpensive policy option, especially when compared with other labour market programmes. There is no ‘lock in’ effect; the frequency of caseworker interviews can easily be scaled up or down in relation to the economic cycle; and the content of caseworker interviews can be varied and targeted at different groups. The results suggest caseworker interviews are an effective tool, especially during the early phases of unemployment and when targeted at more employable claimants,

More recently, the ‘Berliner Job Offensive’ trialled the introduction of an additional 600 employment counsellors in local offices enabling more frequent and intensive support for long term unemployed and social assistance claimants. The lower caseloads (of around 100 per adviser) and more intensive and individualised support resulted in a 10 per cent positive effect on employment outcomes and more stable employment (Fertig, 2015). In Denmark, a ‘Quickly Back to Work’ programme tested weekly or twice-monthly meetings after the first month of unemployment, followed by a mandatory activation programme after four months. The median unemployment duration of the control group was 14 weeks, whilst it was reduced to 11.5 weeks



for the treatment group – who saw their job finding rate increase by 30% (Graversen and van Ours, 2008).

Experimental evidence from the USA also shows that job-focused activation services can play a significant role even in a period of high unemployment. When benefit caseloads increased during the Great Recession and benefit eligibility was temporarily extended, there was a marked increase in long term unemployment. This led to the introduction of 'Reemployment and Eligibility Assessments' (REA) which expanded the capacity of US states to target about a quarter of all benefit claimants profiled as 'high risk' with mandatory in-person assessments and reemployment services. The services included the development of a reemployment plan, access to information on job vacancies and skills, referrals to training and employment programmes, whilst at the same time ensuring that the individual claimant continued to be eligible for benefit.

An experimental evaluation of initiative in Nevada found that it was effective partly because there was stronger integration of benefit administration and reemployment services. Those that who participated had significantly shorter benefit durations and lower total benefits paid (1.82 fewer weeks and \$536 lower total benefits paid); were more successful in returning to work sooner in jobs with higher wages and retaining their jobs; and generated \$2.60 of savings for every \$1.00 of cost (Michaelides et al, 2012).

Recent evidence also suggests that remote job search support may deliver comparable results to face-to-face engagement. For example a Swedish study (Cheung et al, 2019) utilised large scale random assignment to evaluate an increased frequency of meetings between job seekers and caseworkers in the first three months of unemployment. The meetings were delivered in three formats and the study found that face-to-face and online /telephone 'distance' meetings increased exits out of unemployment by 3.5 percentage points in the first three months, and the 'treated' participants had 5.9 fewer days of unemployment in the year after participation. The group meetings were less effective. The efficacy of the face-to-face and distance meetings was attributed to personalised job search support and increased vacancy referrals as compared with the more formal protocols of the group meetings.

While the evidence on caseworker support and activation is compelling, it is important to note that Rosholm (2014) also found that the most disadvantaged job seekers will often need additional support and complementary measures. Care must also be taken to guard against the risk that increased caseworker meetings may push such claimants into unsuitable unstable employment or result in them making a transition onto disability benefits and/or economic inactivity.

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The largest single employer of advisers who could deliver this support is Jobcentre Plus – who have around eleven thousand full-time equivalent 'work coaches'. Caseloads in Jobcentre Plus are intended to average around 280 claimants per work coach, falling to caseloads of between 98 and 133 where are in the main unemployed group ('intensive work search') within Universal Credit (NAO, 2019).

If claimant unemployment increases to around 2.5 million in the next two to three months, as appears likely, then even if *all* of those work coaches had the right skills and were in the right places at the right times, and none of them were redeployed to process benefit claims, Jobcentre Plus would need at least six thousand more trained advisers. Furthermore, the reality is that, as with the last recession, many of those making new

claims for Universal Credit will have very different needs, skills and job goals to those who were previously claiming the benefit.

Mobilising support for the newly unemployed therefore needs to be a collective effort. Luckily, more than one hundred thousand people work in the recruitment industry; while more than ten thousand work specifically in providing employment services for those out of work. They work for local government, housing associations, colleges and training providers, for-profit employment services, and the voluntary and community organisations. The membership body for this sector, the Institute for Employability Professionals, has over eight thousand members alone.

During the last recession, the government contracted with recruitment services to provide additional capacity through the “Support for Newly Unemployed Professionals” programme, specifically targeted at those closest to work. Given the very sudden and large-scale shock this time, we would propose a scaled-up approach, where:

- Employment services are commissioned immediately on ‘call off’ contracts covering different geographical areas and labour market groups – this should include recruitment agencies and specialist employment services (in the private, non-profit and public sectors)
- These would work with Jobcentre Plus to provide to provide timely, high quality re-employment and jobsearch support for those who have recently become unemployed
- Jobcentre Plus work coaches would conduct the initial meeting, by video or phone where necessary, to agree with each individual an initial back to work plan and then to meet fortnightly; and
- Those still unemployed after eight weeks should then be referred to the most appropriate service or provider for ongoing work-focused employment support – i.e. recruitment agency services, an employment services provider, or continued support from a Jobcentre Plus work coach.

This would both free up government resources to focus on claims management, significantly increase capacity to support those unemployed, and ideally mobilise a range of providers who can offer expertise in supporting different groups (for example young people, lone parents and newly unemployed professionals) and local labour markets.

The costs of commissioning this support would be approximately **£340 million**, based on supporting one million new claimants through contracted support over the next twelve months.

#### 4.1.2 A new Back to Work Service for the long-term unemployed and disadvantaged

As chapter 3 sets out, long-term unemployment is likely to rise significantly from the early part of 2021 and may well peak close to where it did in the aftermath of the last recession. This will have long-lasting negative impacts on the incomes, health and wellbeing of the households and communities affected. So intervening to address this must be a top labour market priority.



This means that increasing support for the short-term unemployed needs to be accompanied by investment from early next year in support for those reaching long-term unemployment. There is a wealth of evidence around ‘what works’ in this space, with evaluations over the last twenty years leading to a shift – across the developed world – away from expensive training and job creation programmes and towards models that are based on intensive and specialist job search assistance often alongside well-targeted employment subsidies, work placements/ trials and work-related training.

Within this, there is consistent evidence that the key ingredient of effective active labour market support for the long-term unemployed and disadvantaged is (again) high quality personal advisers – providing intensive job preparation, motivation, job search and placement support, and working with small caseloads and access to complementary support (see for example Hasluck and Green, 2007).

The UK has often been at the forefront of these approaches, most notably through the New Deals for the unemployed between 1998 and 2010 and to some extent through the Work Programme from 2011 to 2019. Both programmes were designed to provide a large-scale and specialised response to high long-term unemployment. The New Deal programmes were well evaluated and highly effective (see Box 3 below). The subsequent Work Programme supported 1.1 million long-term unemployed people (and 350 thousand ‘early entrant’ jobseekers) with 37% of participants achieving a ‘sustained’ employment outcome<sup>5</sup>.

### **Box 3: The New Deal programmes for the unemployed**

The New Deal for Young People and New Deal 25 Plus were introduced in 1998, to address the legacy of high long-term unemployment following the recession of the early 1990s. All Jobseeker’s Allowance claimants unemployed for more than six months (if aged 18-24) or eighteen months (if aged 25 or over) were required to participate.

The New Deals comprised an initial period of intensive and personalised jobsearch support – known as the ‘Gateway’ – which lasted up to four months. Those still unemployed at the end of the Gateway were then offered one of four options: full-time education or training for up to twelve months, leading to a recognised qualification; a work placement with either a voluntary sector organisation or ‘environmental task force’ for up to six months; or paid employment with an employer wage subsidy (of £60 a week for 26 weeks, alongside £750 to fund workplace training). For those still out of work after their Option, a ‘follow through’ period provided a further four months of adviser support. If all options were refused, then entitlement to Jobseeker’s Allowance was ended.

The New Deals were extensively evaluated, and in particular the New Deal for Young People. Impact evaluations suggest that the programme reduced youth long-term unemployment in the short term by around 30,000 (a reduction of 40%), and that up to 200,000 young people may have left unemployment earlier than would otherwise have been the case (Hasluck and Green, 2007). Evaluation of longer-term impacts suggested that positive effects were sustained, with New Deal participants spending on average 90 fewer days on benefit over a four year period

<sup>5</sup> Source: DWP Work Programme Statistics

than a comparison group (Beale et al, 2008). The success of the programme was attributed in particular to the personalised support available through the Gateway, which contributed over two thirds of employment outcomes. Among the options, Beale et al (2008) found that the subsidised employment option appeared to be the most effective, followed by full-time training. Participants' perceptions were also more favourable towards subsidised employment than other options.

Many European countries have adopted similar and successful models of the last fifteen years – including Germany, Sweden, Denmark and Ireland. Box 4 sets out the evidence from one particularly successful model developed in Germany, to tackle long-term unemployment amongst older people – which is likely to be a particular challenge in this downturn.

We would therefore recommend the development of a new '**Back to Work**' service to provide specialist, intensive employment support for those reaching twelve months of unemployment (specifically, twelve months in the 'intensive worksearch' group in Universal Credit) based on:

- Specialist, one-to-one advisory support, with small caseloads and frequent and high-quality contact – tailored to the needs of specific disadvantaged groups including young people, older people, lone parents and those with health conditions;
- Working in partnership and co-ordinated with local stakeholders – particularly local government, employers, training providers and health services (see section 4.5); and
- Targeted access to work experience and placements, pre-employment training, and additional specialist support where needed – for example: childcare for lone parents; basic skills support for those with literacy, numeracy or digital needs; vocational rehabilitation and condition management for those with health conditions; specialist self-employment and business start-up support for those looking to (re)enter self-employment; and transport support for those in more rural areas.

We would recommend that this support is also opened up to shorter-term unemployed people who are at risk of reaching long-term unemployment, as has been the case with previous UK and international programmes for the long-term unemployed.

We estimate that a programme of this type would cost on average £920 per participant for up to twelve months of one-to-one support<sup>6</sup>. Assuming that this supported 1.28 million unemployed people over three years (which was the number enrolled through the first three years of the Work Programme) then the estimated total cost would be **£1.2 billion**, or **£390 million a year**. While these costs are not insignificant, if this new programme achieved a similar additional impact to that of the New Deal programmes, then it would more than pay for itself. There are also likely to be opportunities in some areas for co-investment of funds, for example alongside health and employment services.

<sup>6</sup> This is modelling on providing up to 12 months of support for each participant, on average two one-to-one meetings a month, and on average £300 per participant to purchase or contribute to additional specialist support.

Typically, the lead-in times for commissioning programmes of this sort can be up to twelve months. Again, there is a ready market of potential providers of these services – in the recruitment industry, specialist employment services (both for-profit and in the voluntary and community sector) as well as in local government and housing. If the government can start the process for purchasing these services now, then there is every chance that they can be in place by early 2021.

### A ‘Back to Work’ wage subsidy

Alongside this programme support, we would recommend creating a targeted **‘Back to Work’ wage subsidy** available to support recruitment from the Back to Work Service set out above.

Wage subsidies have been a feature of the response to previous recessions, both to boost demand for labour generally and to incentivise firms to hire the long-term unemployed specifically. As noted in Box 3, the New Deal employment subsidy appeared to be the most effective of the four ‘Options’ available, and international evidence on wage subsidies finds that they modestly raise the demand for disadvantaged workers and have positive employment effects for beneficiaries. However they also tend to have quite high ‘deadweight’ costs, subsidising hiring that would have happened without a subsidy. These risks can be reduced with careful targeting on specific groups and by managing employer behaviour, but this in turn typically reduces employer take-up (Martin, 2014). In the UK for example, take-up of targeted subsidies has been in a range of 10,000 a year (for the New Deal) to 40,000 a year (for the 2009 Six Month Offer, which was relatively untargeted).

Learning from previous schemes, we would recommend that the new subsidy is:

- Set at £3,000 – so a level that is likely to affect employer behaviour
- Actively managed and promoted – by Jobcentre Plus employer engagement teams, local government, those delivering the Back to Work Service and employer/ sector partners
- Simple to claim – e.g. with half is paid immediately on employment, and the remainder paid in monthly instalments
- Monitored and enforced appropriately – with indicative allocations to Back to Work Service providers based on caseloads and take-up, and Jobcentre Plus allowed to suspend future payments where there is evidence of employer abuse
- Carefully targeted – for example, only eligible for those still unemployed after three months on the Back to Work Service

Based on take-up of 20,000 participants a year, this would lead to costs of **£60 million per year, or £180 million over three years.**

**Box 4: Perspektive 50plus (Germany)**

The German government has implemented a range of targeted measures to tackle long term unemployment, with its '*Perspektive 50plus*' programme one of the most significant and successful. This programme represented a significant change in approach, focusing on reintegrating the longer term unemployed in regular labour market jobs, rather than the previous use of limited 'make work' employment schemes. It was delivered through local 'employment pacts' which brought together Jobcentres, employer organisations and other partners to provide individualised support for the unemployed. The pacts encourage a cross-sectoral approach, combining employment, health and social services, and also promoted the recruitment of older workers amongst employers.

A comparison between 2010 expenditure on Perspektive 50plus and standard employment services found that spending was lower both per participant and per sustained employment outcome (Bookmann and Brändle, 2015). This was attributable to higher employment success rates and less use of costly wage subsidies or make-work schemes. The relative success of the programme was considered to rest on the specialism, intensity and frequency of adviser support as well as the flexible combination of measures – including more investment in short-term training and more self-employment start-up support. Evaluation evidence also suggested that intensified cooperation between Jobcentres and other local service providers, and the ability to tailor employment pacts to local needs, contributed to its success. This tailoring included for example new approaches in improving participants' subjective health conditions, their personal management of health problems and their health-related life styles; and in rural areas developing innovative solutions such as interest-free loans for buying a second-hand car (Knuth, 2014).

The German Ministry has since chosen to integrate successful components of Perspektive 50plus into regular labour market programmes, while the approach to networking and individualised coaching helped shape a new ten-year programme targeted at the long term unemployed. Over 1,000 Jobcentre counsellors who delivered Perspektive 50plus have since been employed in Jobcentre 'activation centres' which offer intensive employment counselling and complementary health and social welfare support to the very long term unemployed.

*Research by Professor Dan Finn, University of Portsmouth*

**4.1.3 Maintaining the focus on wider structural challenges**

In the aftermath of previous recessions, there has been an inevitable tendency to draw back from efforts to address wider structural challenges in order to focus effort on those directly affected by the downturn. While understandable, it has also perpetuated a pattern where governments begin to make most progress on dealing with these underlying structural challenges just at the point when the next downturn hits.

We cannot afford to let that happen this time, for two important reasons – first, because these issues will only grow in importance during the recovery; and secondly because progress was just starting to be made in developing policy responses to many of these. In particular, we would recommend maintaining the focus on employment support for disabled people and those with health conditions; on supporting in-work progression for low paid workers; and 'levelling up' areas that are less prosperous and more disadvantaged.

## Employment support for disabled people and those with health conditions

Over the last decade, as the recovery gathered pace, employment policy increasingly focused on how best to support those still most disadvantaged in the labour market, and in particular disabled people and those with health conditions. This also reflected a growing recognition that as populations get older, workplaces need to better accommodate, reflect and be responsive to the needs of these groups.

Over the last five years, we have seen significant investment in research, development and testing of new approaches to support employment entry and retention for disabled people and those with health conditions; funding of a large-scale, national 'Work and Health Programme' and a specialist 'Intensive Personalised Employment Support' programme to support these groups; the reform of the Access to Work programme; the creation and promotion of new 'Disability Confident' employer standards, with significant public sector backing; and the creation of a new joint unit – between the Department for Work and Pensions and the Department of Health – to drive progress. In the most recent election, the government also committed to draft an ambitious new national strategy for disabled people, which would include an employment strategy, by the end of this year.

These issues are likely to become more prominent in the years ahead, with evidence already emerging that individuals with mental health conditions are reporting more daily stressors as a result of Covid-19<sup>7</sup>, and studies in China (as well as anecdotal reports) suggesting that diagnoses such as anxiety, depression and posttraumatic stress disorder (PTSD) may become more prevalent in the general population once the immediate physical risks of the virus have relented<sup>8</sup>. Furthermore, it is inevitable that many individuals will have experienced one or more bereavements due to the virus (potentially in distressing circumstances) with implications for their mental health and wellbeing.

Given the immediate and urgent challenges in responding to the recession, there will be only limited scope to expand on the government's funding and reforms over recent years, but we should at least maintain it. This means in particular:

- Continuing to focus the Work and Health Programme on supporting those with long-term health conditions to prepare for and move back to work. The Programme must not be repurposed as a general response to rising long-term unemployment.
- Maintaining funding for Access to Work and the Intensive Personalised Employment Service, and continuing to promote Disability Confident to employers.
- Promoting and encouraging workplace support for those with mental health conditions, including by expanding access and funding for occupational health, encouraging more use of evidence-based approaches like mental health awareness training for line managers (Wilson, 2019), and promoting Employee Assistance Programmes

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<sup>7</sup> See: <https://whatworkswellbeing.org/blog/new-research-on-emotional-wellbeing-impacts-of-covid-19/>

<sup>8</sup> See for example: <https://www.medrxiv.org/content/10.1101/2020.02.19.20025395v2> and <https://www.telegraph.co.uk/global-health/science-and-disease/covid-19-mental-health-crisis-expect-depression-anxiety-stress/>



- Continuing to invest at the next Spending Review in ‘test and learn’ initiatives that can build the evidence base on what works in increasing employment for disabled people and those with health conditions
- Continuing to encourage health services to view work as an outcome, and to invest in services that can help support those out of work and with poor health to prepare for and move into appropriate work
- Publishing an ambitious national strategy for disabled people later this year

### **In-work progression support for low earners**

The last five years has also seen government begin to explore how it can improve support for those in low paid work to progress into better quality, better paid and/ or more secure employment. Government-funded trials have focused specifically on supporting progression for those on Universal Credit through more intensive work coach support, with some positive results (Valerio and Martyn, 2019), and on changing funding rules to allow Adult Education Budget funds to be used to support low-earning workers.

However government has also committed to further and more extensive testing of more integrated and innovative approaches, while research by IES has pointed to a range of good practices by employers in low-paying sectors (leading to the development of an evidence-based Progression In Employment Toolkit, described in Box 5 below).

With the likelihood that this downturn will particularly impact on low-earners and on low paying sectors, there would be clear value in maintaining – and where possible increasing – the focus on supporting progression as well as participation in work. As a minimum, this should include continuing to commit to fund the trialling of new models of support; as well as including earnings- or progression-based metrics within the new Back to Work Service.

#### **Box 5: The Progression in Employment toolkit**

The Progression in Employment (PIE) employer toolkit, developed by IES with the support of the J.P. Morgan Chase Foundation, is designed to support employers with practical ways in which they can enhance job quality, in particular for employees in low-paid work. The toolkit comprises an evidence-based Progression Readiness Model and an associated index (the Progression Readiness Index) against which organisations’ can self-assess the extent to which their current practice supports and enables progression at work, as well as to pinpoint areas of strength and opportunities for improvement.

The model and index consist of eight dimensions: HR Philosophy; Pay and Financial well-being; Fair contract and predictable work hours; Pathways to Progression; Opportunities to develop; Designing jobs for meaning and purpose; Supportive line management; Flexibility as a default.

The toolkit includes practices and techniques employers can adopt to achieve progress against each of the eight dimensions and support job quality and progression for the low-paid within their workplace.

The toolkit and resources are available online at: <https://www.employment-studies.co.uk/resource/progression-employment-employer-toolkit-case-study-collection>

### Area-based funding

The government has also had a growing focus recently on ‘levelling up’ areas that are less prosperous and where disadvantage is greater. Much of this focus has been on investment, economic development, transport and housing. However it has also included commitments to a new Shared Prosperity Fund of at least the same value as the European Social Fund that it will replace; and to further devolution of skills funding.

As a minimum, the government should maintain these commitments. On the Shared Prosperity Fund specifically, this should be geared towards those areas most affected by the current crisis, and/ or those recovering more slowly. This would ensure that additional extra money is available to support more specialist or higher cost interventions where these are needed.

The government should also ensure that the £450 million in currently uncommitted European Social Funds are deployed urgently – before they are lost – to support a rapid recovery in disadvantaged areas.

## 4.2 Skills and training to support the recovery

Both public and private investment in adult training has fallen precipitously over the last decade. The Covid-19 crisis makes it even more important to reverse these declines – so that those out of work or at risk of job loss are able to retrain; we can support more productive, higher quality work; and employers and workers can meet future skills needs. Skills training is particularly important for those affected by recessions, as there is extensive evidence that the longer people are out of work the more likely they are to lose job-specific skills (‘skills atrophy’) and become less well-equipped for the labour market (De Grip & Van Loo, 2002).

The centrepiece of the government’s plans before the recession was the creation of a new £600 million-a-year National Skills Fund, which was described as the first step in delivering a “right to retrain” for all adults. The government is currently consulting on the design of this fund, which would sit alongside:

- An Adult Education Budget (AEB) of £1.3 billion a year – which funds a range of Level 2 and 3 entitlements, training for the unemployed and for low paid workers and community learning, with funding devolved to Mayoral Combined Authorities.
- Apprenticeships – which supported 740,000 people in the last academic year, funded mainly through a levy on firms with a payroll of over £3 million. Approximately three fifths of apprenticeship starts are young people, with two fifths aged 25 or over.
- The National Retraining Scheme – introduced last year, and with planned funding of around £100m, this is intended to support the unemployed and those at risk of unemployment to find and then retrain for new jobs.
- A range of structural and sectoral funds, including European Social Fund and construction industry grants.

In all, an estimated £4 billion of public funding a year supports post-18 further education, training and apprenticeships (Lemin and Wright, 2020). The £600m of new investment through the National Skills Fund will be a significant increase, but will still only restore around one fifth of the cuts to further education funding since 2010 (Farquharson and Sibieta, 2019).

While these different funding streams and the many programmes, initiatives and entitlements within them create a complex picture, there is clear potential to draw this together into a coherent system to support the economic and social recovery – built around core entitlements to basic skills training for the (ten million) adults lacking core literacy, numeracy or digital skills; a first ‘Level 3’ qualification for those without one; job-focused training for those that are out of work and need it; retraining and upskilling to meet future local and labour market needs; and a high-quality apprenticeships offer. However there are diverse views on how this should be achieved<sup>9</sup>.

We would propose that reform of skills training for the recovery should be based on six key priorities:

- **A significant expansion of pre-employment, job-focused training.** Box 6 overleaf sets out the evidence base for what works in this space, and a number of current initiatives exemplify this well, albeit often at a relatively small scale – most notably Sector Based Work Academies, which the government’s evaluation suggests more than pay for themselves in the savings that they generate (Ward et al, 2016). These need to be ramped up in the year ahead, working in concert with employers, and should be a key part of the ‘Back to Work’ service set out in section 4.1 above.
- **Investment in high quality, timely and labour market responsive advice and guidance.** It is highly likely that this recovery will lead to significant labour market adjustments, and that these will affect some groups and areas more than others. The National Retraining Scheme has begun to test how individuals can be better supported to understand what skills they need and what employers want, and this will need to be expanded and accelerated in the recovery.
- **Work in partnership locally, and devolve power where possible.** The impacts of this crisis will be felt differently in different areas, and so priorities and needs will be different too. Combined Authorities are well placed to lead this work locally where they exist, and most already have devolved Adult Education Budget. In other areas, reformed Skills Advisory Panels could play a co-ordinating and convening role, with the right membership and governance.
- **Co-design and co-invest with employers and social partners.** There is a range of international evidence to support sector-based and employer-led models. The UK experience has been more mixed, but there have been good examples in recent years – often convened locally – to support major infrastructure projects or sector challenges, for example the current ‘Digital Fast Track’ model in Greater Manchester, with direct

<sup>9</sup> For a good summary of different perspectives on this, see Lemin and Wright (2020)



co-design of training so as to align to immediate employer needs<sup>10</sup>. There is every likelihood that this recession will see significant sectoral restructuring, so it will be important to build on these approaches and to support sectors to identify their skills needs and work with government and areas to address them. Given the extensive support to employers over the last month, it would also be reasonable to expect a more significant role in helping prioritise, co-invest, and open up opportunities to those out of work or looking to reskill.

- **Target effort and support.** One of the main challenges in maximising the benefits from skills investment is that these tend to accrue most to those people and places that are already well skilled. Participation in learning is highest amongst those with the highest qualifications, and funding is greatest in better paid jobs. A key objective of public policy should be to redress this, by targeting funding on groups that otherwise would not benefit (and 'levelling up' those areas less well served) and by then focusing effort on identifying and engaging with these people and places. Most tangibly, the government's review of apprenticeships should look to ensure that in general, apprenticeship funding is supporting new entrants and re-entrants to the labour market to get the skills and training that they need for good quality and productive work.
- **Plan for disruption.** It is very likely that Covid-19 will continue to disrupt places of work and education for at least the next eighteen months. So skills policy and implementation will need to adapt. One obvious need will be for greater use of remote and virtual learning. However the impact may be even greater on apprenticeships, with twin pressures on apprentice employment and on their off-site training and assessment. This may mean considering improved incentives for employers to take on and retain apprentices during disruption, and also expanding the use of 'Apprenticeship Training Agency' models, where the apprentice is placed with host employers rather than employed directly.

#### Box 6: What works in pre-employment training for the unemployed

As noted in section 4.1, the last decade has seen many countries move away from large-scale training programmes for the unemployed and towards more work-focused and targeted approaches. Nonetheless there is a body of evidence from the UK and internationally around 'what works' in pre-employment training for the unemployed. This suggests in particular that programmes are most effective when they (Wilson, 2013):

- Are well targeted – for example at particular disadvantaged groups or occupations;
- Reflect specific labour market needs and involve employers in their design and delivery;
- Are workplace rather than classroom-based, or include a strong workplace element;
- Include support with building key employability skills such as time management, building confidence and addressing numeracy/ literacy skills;
- Build in support for the transition into work – ideally including a work placement, guaranteed interview and/ or follow-on job matching and brokerage.

<sup>10</sup> See: <https://www.greatermanchester-ca.gov.uk/what-we-do/digital/digital-talent-pipeline/fast-track-digital-workforce-fund/>

Several studies have found evidence that positive effects from skills training emerge over a longer time period, and are often more sustained and of higher quality than the employment outcomes achieved in jobsearch services (Card et al, 2017).

In the United States in particular, there is good evidence on the effectiveness of demand-led 'sector based' and 'career pathway' training programmes that have been developed by local workforce boards and labour market intermediaries and are now supported through the federal Workforce Investment and Opportunity Act (Prince et al, 2017). Importantly, these programmes have not only targeted higher-wage industries (like advanced manufacturing and digital technology) but also a number of traditionally low-skilled sectors including hospitality, care and retail.

This evidence base has informed the development of training for the unemployed in England in recent years, most notably through the **Sector Based Work Academies** programme. This was introduced in 2011 and combines up to 30 hours per week of pre-employment training, funded through the AEB; a work experience placement with an employer in that sector; and where possible a guaranteed interview with that employer. Impact evaluation for the programme found significant and sustained positive impacts from the programme – with participants spending on average 50 more days in work than non-participants over the following eighteen months. This analysis also found that the fiscal benefits of the programme, in terms of increased taxes and reduced welfare spending, more than outweighed its costs – with a net positive benefit of £100 per participant. It also found a net benefit to participants, from higher earnings, of nearly £2,000 (Ward et al, 2016).

Before the crisis, there was a strong argument that the scale of investment in skills and training (public and private) was not enough to meet the challenges of the next few years. Post-crisis, the case for increasing investment is far stronger. We would therefore recommend an additional **£600 million** a year for the next three years (so **£1.8 billion** in total) to ensure a significant expansion of pre-employment support, upskilling and retraining, locally targeted provision and digital/ online learning.

As Box 6 sets out, much of this funding would likely more than pay for itself in terms of increased employment entry and reduced benefit expenditure. This would still leave funding significantly lower than a decade ago, but would help to minimise the risks that this recession leads to yet further falls in learning participation and workplace training, and that skills atrophy and industrial restructuring leads to long-term labour market scars.

### 4.3 An integrated and coherent offer for young people

As discussed in chapters 2 and 3, young people are particularly adversely affected by downturns and are likely to be significantly affected by this one too. At the same time, even before this recession began, there were significant problems with how services for young people were organised, designed and funded. The recovery gives us an opportunity to address this, and to develop a more integrated and coherent approach.

A reformed approach should be built on ensuring that all young people have a meaningful offer of education, training and/ or employment, that meets their needs and aspirations, and with the right support to take it up. This needs to follow the individual both through

school and post-school, and be co-ordinated across secondary and further education, local authority and youth services, social security and employment.

We would recommend therefore that local and national government work together to test a new, integrated **Youth Employment and Skills Service** that brings together youth employment, training, skills and welfare support in a single, integrated service. This should build on the learning from the 'MyGo' model developed as part of the Greater Ipswich City Deal, which ran from 2014 to 2017 and got very close to achieving this – by integrating Jobcentre Plus, local authority and some skills and careers support, and providing a single service to all young people in Ipswich and later across Suffolk (Bennett et al, 2018).

In the more immediate term however, we need to ensure that there is sufficient access to the right education, training and employment support to help young people navigate and deal with the coming recession. In particular this should mean:

- **An education, employment and training guarantee** – with guaranteed high quality careers and employment support for all, a choice of education and training places for those under 19, and a guaranteed job, apprenticeship or training for all of those not in education or employment for more than four months (Papatsouki et al, 2019);
- **Specialist support for disadvantaged young people.** This should include specialist support through the 'Back to Work' service, with a particular focus on supporting young people to move into good quality education or training. It should be available to all young people whether they claim benefits or not – including to 16 and 17 year olds, who currently risk falling between services if they are not in full-time education. This needs to be accompanied by support for disadvantaged young people to access and navigate this offer, where evaluation evidence points to the benefit of specialist advisers sitting alongside employment services (Ray et al, 2018).
- **Considering the case for reintroducing maintenance support** for low-income learners, which evaluation evidence suggests can increase attainment overall, and particularly for disadvantaged learners (Chowdry et al, 2007). This could also build on the successful Activity Agreements pilots, which combined personalised support, financial incentives and mutual obligations (described in more detail in Box 7 below).
- **Not reintroducing a cap on student numbers in higher education**, which appears to be being considered in order to discourage universities from expanding UK recruitment as a response to a fall in enrolments by international students. As in all recessions, many more young people are likely to want to remain in education and improve their skills, so artificially capping the supply of higher level skills – which have a clear labour market return in the long run – would be counter-productive.
- **Making T Level reforms work.** Government intends to continue with rollout of T Levels from the autumn, and central to these are the new Industry Placements of 315 hours. Our research has demonstrated that employers are concerned about the supervisory and other costs of placements, and the impact of this crisis is likely to exacerbate these concerns. There is potentially a good case either for incentivising some employers to provide these placements, or relaxing the requirement that the majority of hours take place externally with industry employers.

- **Improving access to Apprenticeships.** As set out in Section 4.2, the government's review of Apprenticeships should seek to ensure that as far as possible these support new entrants and (re)entrants to the labour market. Apprenticeship take-up by under-19s has fallen from around 130 thousand ten years ago to around 100 thousand now and there is evidence that disadvantaged young people are less likely to access higher quality, advanced apprenticeships (Fuller et al, 2017). With labour demand likely to be weaker in the coming years, there is a case for reinstating the Apprenticeship Grant for Employers (which subsidised take-up of younger apprentices) or of introducing other funding incentives to support take-up by young people and particularly those from less advantaged backgrounds.

We have not attempted to cost the above package in detail, but if the additional costs of the incentives and support were around £2,000 (which is reasonable) and they were taken up by an additional 200,000 young people a year then ballpark additional funding of **£400 million per year** – or **£1.2 billion overall** – would be reasonable.

#### Box 7: Personalised package of support through the Activity Agreements Pilot

The Activity Agreement Pilot provided an example of a multi-magnet approach proving effective. This offered a financial incentive of £30 per week for up to 20 weeks to vulnerable young people aged 16-18 years. In return, young people agreed to undertake personalised programmes of support, education and training selected from a menu of choice, or using discretionary funds to access bespoke provision, to help them progress into work, learning or apprenticeships (i.e. training). To do this, they worked with an advisor across the period of their engagement on the pilot to agree an action plan and take steps, which could include training and development, towards their 'goal' EET destination. The impact of the Activity Agreement three months following participation was an approximate 13 percentage point shift from non-activity or employment in jobs without training to work-based training (better quality employment) and education. (Hillage et al, 2008; Maguire and Newton, 2010 and 2011; and Tanner et al, 2010)

*Adapted from Newton, B., Sinclair, A., Tyers, C. and Wilson, T (2020) Supporting disadvantaged young people into meaningful work, Youth Futures Foundation (forthcoming)*

## 4.4 An orderly withdrawal from the Job Retention Scheme

The Job Retention Scheme has been timely and welcome – without it, we would be facing increases in unemployment over the coming months of many millions, rather than the one to 1.5 million that we are anticipating. However, the scheme also has its drawbacks. Most importantly, as a 'furlough' scheme it requires that those taking it up do not do any work for their firms. While this makes sense where the lockdown has led to effective closure – for example in hospitality and most of retailers – for those that have been partially affected by the scheme encourages firms to reorganise so as to withdraw some of their workforce

and maintain the rest. In a worst case scenario, it may simply lead to less economic activity overall<sup>11</sup>.

With the scheme due to expire at the end of May, the benefits of the support far outweigh what will be likely to be fairly minor short-run impacts on labour supply. However in practice it will be necessary to extend the subsidy by at least a couple of months so as to enable firms to get back on their feet as the lockdown ends, and the longer that the subsidy is in place the harder it will be to exit from it. This then creates a risk that the scheme may affect the post-crisis recovery – for example by disincentivising some firms from increasing output; propping up some firms that would otherwise fail (and that may then fail later and more spectacularly); or discouraging workers from filling new vacancies or moving to jobs with better prospects.

The government therefore needs a clear exit plan from the scheme, which maximises the number of participants that stay in employment but also ensures that the scheme doesn't distort the recovery or the supply of labour. We would recommend taking a **five-step approach**, based on an assumption that the economic shutdown begins to be eased in June:

- Closing the scheme to new applications at the end of this month (April)
- Extending it by four months, to subsidise affected staff until 30 September at the latest
- Progressively reducing the subsidy over July to September – to 60, 40 and 20% of staff wages
- Amending the scheme to allow short-time working, and requiring employers to top up staff salaries to either their usual wages for the hours worked or 80% of their salary (whichever is the greater)
- Making access to JRS funding, and potentially to other government subsidies (for example, the interest payments on Business Interruption Loans) contingent on not laying off staff and on signing up to a new 'Back to Work Charter' set out section 4.5.

If the lockdown is not eased from June, then there would be a case for a further extension in the JRS beyond September, along the lines set out above.

Transitioning to a less-subsidised, short-time working model would support firms to scale up for the recovery without having to artificially distort behaviour, while closing it in advance of making this change reduces the risks of large-scale 'gaming' (i.e. by placing more staff on furlough in anticipation of being able to then claim while they work). There are clearly still risks of paying firms that may not 'need' the funding, but given the huge shock to demand during the shutdown these are likely to be far outweighed by the benefits of extending the scheme.

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<sup>11</sup> An alternative approach would have been to subsidise 'short-time working', as happens in some other countries (most notably the *Kurzarbeit* model in Germany). However, developing this from a standing start would have been impossible to implement and police effectively, with no way to monitor or enforce the agreed hours reductions.



Where this approach would be more challenging is for firms that are in worse financial shape, or ones that intend to make significant redundancies once support is removed. Tapering funding away and making other support conditional on no layoffs may lead some firms either not to take up the extension. Arguably however these impacts will be less extensive than if the scheme were stopped entirely at the end of May, and (assuming the lockdown ends in June) should come at a time when the economy and employment services are better prepared to support those affected.

Looking further ahead, there could be value in maintaining some form of targeted temporary subsidy if some areas or sectors continue to face disruption beyond the summer. There would be benefits and risks in doing this, but a similar model was proposed by the TUC and Federation of Small Businesses in 2008-9, based on providing short-term support to firms assessed by an independent panel as being otherwise viable, and there would be merit in exploring this further.<sup>12</sup>

## 4.5 A new ‘Back to Work’ campaign

The scale and speed of this economic contraction has been unprecedented, and the response set out above will need to match it. It will also need to be implemented quickly, effectively and responsively. We therefore recommend that **government convenes and leads a new ‘Back to Work’ coalition** – working in partnership with local areas, and with business and industries playing their part.

### 4.5.1 Working in partnership with local areas

Local government has played a critical role in co-ordinating and delivering the response to the Covid-19 crisis, working in partnership with national government. This needs to continue in the recovery. The impacts of this downturn will be felt differently in different places, so the detailed design of our employment and skills response will need to meet these different local needs. Close local working will also be needed to ensure that provision is well targeted, timely and joined up.

We recommend that this is done through local **Back to Work Partnerships** – bringing together local government, national government, employers, Jobcentre Plus, further and higher education institutions, and other key local stakeholders. The purpose of these partnerships should be to ensure that the different elements of provision are well planned, co-ordinated and responsive to local needs; and that provision is effectively managed and implemented. Where possible, these should use existing local partnerships, for example Skills Advisory Panels, which exist in every Local Enterprise Partnership and themselves often build on existing Employment and Skills Boards.

Central government should also look to devolve to local areas where this is feasible. A key difference from the last recession is that Mayoral Combined Authorities now have the powers and funding to lead employment and skills provision locally, and are already

<sup>12</sup> See <https://www.tuc.org.uk/sites/default/files/extras/wagesubsidies.pdf>

commissioning Adult Education Budget provision and (in many cases) devolved employment programmes. So devolving the funding and policy responsibility for the labour market response to the recession – co-ordinated and overseen by a board bringing together national and local partners – would ensure that funding and provision is locally aligned but still accountable to national and local governments.

In time, this could also form the basis for trialling further devolution of employment and skills policy, underpinned by Labour Market Agreements between national and local tiers (as envisioned in the Work Local model proposed by the Local Government Association (LGA 2017)).

#### 4.5.2 Business and industries taking a lead

Clearly, how employers respond in this crisis will fundamentally affect what happens next in the labour market. In previous recoveries, governments have sought to garner support and engagement from employers through straightforward campaigns with a clear ‘ask and offer’. The most recent example of this was the Get Britain Working campaign under the Coalition government, described in Box 8 below.

In this recovery, there are two reasons why a similar campaign could work well.

- First, because there is now very well-established engagement by employers with government skills and industrial policy, most notably through employer-led Local Enterprise Partnerships; and
- Secondly, because the huge financial support for companies over the last month should give the government leverage in asking employers to play their part in supporting the recovery – including potentially by making some support conditional (see section 4.4).

So we would recommend that government work with businesses, social partners and sector bodies, and via Local Enterprise Partnerships, to develop and then promote a government- and business-led **Back to Work Employer Charter** – to promote employment and good quality work in the recovery. This should be built on a clear ‘ask’ of employers – for example to:

- Invest in and develop their workforce – including by engaging with the National Skills Fund;
- Help to tackle unemployment – by advertising vacancies through the FindaJob Service, recruiting unemployed people, offering work experience and training placements
- Offer Apprenticeships or Traineeships to young people and/ or those out of work
- Sign up as a Disability Confident employer

In return, the offer from government would be to:

- List that employer as supporting the workforce and the economic recovery;
- Provide account managed support with filling vacancies, via Jobcentre Plus or a contracted service;



- Invite the employer to engage locally with Jobcentre Plus, colleges and/ or training providers to help shape the skills and retraining offer; and
- Continue to provide access to the Job Retention Scheme

Where possible, this should also build on and align with local employer standards and charters, and working with and through Mayors in Combined Authorities.<sup>13</sup>

#### Box 8: The Get Britain Working campaign

The Get Britain Working campaign ran from 2010 to 2015. Employers were encouraged to sign up by agreeing to do at least one of six things:

- Offer a work experience placement to a young unemployed person
- Engage with sector-based work academies, so providing a work placement to someone completing a sector-based pre-employment training course
- Provide volunteering opportunities for young people as part of the community-based 'Working Together' volunteering programme
- Attend a local Work Club – to give unemployed people information on what employers look for when recruiting, or to offer the chance to practice interview skills
- Mentor a new self-employed person, being supported through the New Enterprise Allowance programme
- Attend an Enterprise Club, to provide advice and support to unemployed people who want to set up in self-employment

While the campaign succeeded in signing up a range of large employers, it also became mired in controversy – as unemployed people were initially 'mandated' to take up work experience placements, under threat of losing their benefit if they failed to attend. Subsequent negative media coverage led to a number of retailers withdrawing from the scheme, until the rules were changed to remove mandatory participation in work experience.

### 4.5.3 A co-ordinated response

The labour market response to the downturn will also need to be effectively co-ordinated with the broader macro-economic and fiscal response to the downturn. In particular if labour demand does not recover quickly, then there may be a need for far fiscal stimulus to increase labour demand and reduce labour costs – for example through significant cuts in National Insurance.

A weak recovery could also make it necessary to further increase social security support for those out of work – as benefits and tax credits significantly cushioned the blow for low income households during the last recession (Jenkins et al, 2012) and may also have helped to sustain women's employment (Harkness and Evans, 2011). There would also in those circumstances likely be a case for more direct intervention to create temporary,

<sup>13</sup> See for example the Greater Manchester Good Employment Charter: <https://www.gmgoodemploymentcharter.co.uk/>

transitional jobs for the long-term unemployed – as the Future Jobs Fund did in the last recession, with significant positive impacts (DWP, 2012).

## 5 Taking this forward

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The Covid-19 crisis has created an economic shock like no other, and over just a few weeks has led to increases in unemployment at a speed not seen in modern times. Right now, in the middle of the crisis, it is hard to predict what impact this will have on jobs, people and communities in the months ahead – but there is every reason to believe that it will take most of this decade to get back to where we were at the start of the year. Recessions can be uniquely damaging for those people and communities that lose jobs and income, but history also tells us that those impacts are not inevitable.

In order to be ready to act in the months ahead, we need to start now. However, the sheer scale of the challenges that government is facing in dealing with the public health emergency and with the huge volumes of Universal Credit claims means that central government will not be able to do this by itself, even if wanted to. So finally, we **recommend that government brings together a ‘Cobra’ for jobs** – to work together on designing, co-ordinating and mobilising this response, and convening a wide range of partners including government Departments and agencies, local government, sector bodies, trusts and foundations and key stakeholders.

The proposals in this report will help to ensure that as the economy recovers we can keep people attached to work, help them find better work, and minimise the ‘scars’ from being out of work. With a cost of around £4.7 billion over the next three years, the evidence from previous programmes tells us that this investment would more than pay for itself in the future. The evidence from previous recessions tells us that the costs of inaction would be far higher.

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