

## **Economic Development and Transport Committee**

**Date:** 13 May 2004  
**Venue:** National Assembly for Wales, Cardiff Bay  
**Title:** Policy Review: Economic Inactivity

### **Economic Development and Transport Committee Policy Review: Economic Inactivity Evidence presented by ELWa, 13<sup>th</sup> May 2004**

#### **Introduction**

1. ELWa recognises the twin imperatives of social justice and economic success for the Welsh Assembly Government's priority to tackle economic activity. The Minister for Education and Learning's remit letter states that ELWa should concentrate its time and resources in the coming year on, amongst other things, proactively engaging with other agencies in raising economic activity levels and ensuring that programmes and provision are responsive to the needs of those who are economically inactive.
2. ELWa has been pleased to be a member of the Welsh Assembly Government's Task and Finish Group on Economic Activity. In this submission we draw on our work for this group to present ELWa's key findings to date. We incorporate relevant results of the Future Skills Wales 2003 survey. Our submission describes current ELWa activity to assist those who are economically inactive or at risk of becoming so and the future direction of our work.

#### **Low skills and economic inactivity**

3. The fundamental origin of Wales' relatively low economic activity rates lies in the compositional changes in the demand for labour. There has been a 'hollowing out' of the jobs distribution, with a comparative rise in demand for highly skilled labour and a fall in demand for less skilled labour, with a concentration of losses amongst jobs for the lower skilled.
4. A major part of the explanation of the inactivity problem is the skill profile of the Welsh population.
5. There is certainly a correlation between low skills and economic activity. Low skills are a significant factor in determining the likelihood of an individual being unemployed or economically inactive:
  - the greater proportion of the non-employed have qualifications at level 2 or below, and just under one third have no qualifications

- employment rates are higher, the higher the qualification – 89% of those with NVQ Level 4 and above are in employment as are 71% with qualifications below NVQ Level 2, compared with only 48% of those with no qualifications.

#### 6. Future Skills Wales identifies:

- one third of Welsh residents who are out of work would like paid employment. They are especially keen to take up opportunities in Health and Social work, Distribution, Hotels and Restaurants, and Community, Social and Personal Service;
- of those who want work, 37% believe a barrier is qualifications – they have none;
- 9% of respondents who are not currently in paid work and would like paid work gave the reasons of childcare too expensive/childcare not available (respectively) as part of a multiple choice question. These responses were the fourth and fifth most popular replies, with similar numbers to lack of suitable jobs available locally; and
- only 3% of those not currently in paid work and would not like paid work or don't know if they would gave the reasons as childcare not available/childcare too expensive.

7. This evidence could lead to the view that supply-side measures, especially education and training, might play a decisive role in reducing inactivity by equipping the inactive, and those 'at risk' of inactivity, with the skills to access new employment opportunities.
8. There is certainly a need for supply-side interventions, including learning programmes, to help the inactive to access jobs, and ELWa funds many programmes that fulfil this role. However, it is important to be realistic. The poor Welsh skills profile appears to be as much a factor of derived demand from employers as inadequate supply, and the problem of inactivity cannot simply be resolved by education and training interventions.

### **The demand for skills in Wales**

9. Whilst a general fall in the demand for unskilled labour appears to underpin the growth in inactivity, analysis of the demand for skills in Wales demonstrates a complex picture.
10. Compared to the rest of the UK, Wales is a low skilled economy. Even as some sectors decline, replacement demand continues to ensure that there is a demand for low intermediate level skills. There is no significant evidence of a strong push from employers for higher skills. The Institute for Employment Research has forecast that employment growth to 2010 in Wales will be restricted to the broad service sector industry, which accounts already for 76% of all jobs in Wales. The largest increase is forecast in personal service occupations, which are relatively low skilled, followed by increases in professional occupations. The greatest reductions are anticipated in 'skilled trades occupation'.
11. It may be assumed that, notwithstanding a relative lack of demand for skills, a basic level of literacy and numeracy is a pre-requisite for most forms of employment. Future Skills Wales shows increasing employer demand for generic or essential skills. However, there is a body of evidence that a substantial component of contemporary employment is relatively undemanding of

literacy and numeracy, implying that attempts to counter inactivity (or assist those most 'at risk' of it) through traditional basic skills programmes may not always be effective or appropriate. Employers place great stress on individuals being "employment ready" which is more about attitudes to work and to learn than competencies or qualifications. This in turn places a challenge on education and training provision.

## **Understanding the 'skills problem'**

12. What can explain this pattern of low demand for skills? Many of the factors could be deeply embedded in our economy. For example, the UK, is compared to many developed countries, a relatively low wage economy with a large number of poorly paid workers, and Wales is one of the 'lagging areas' of Britain.
13. This structure of income distribution creates a domestic market in which many people can only afford to buy goods and services on the basis of price rather than quality or specification. Firms consequently adopt rational competitive strategies based on price and standardised goods and services, produced by lower paid and low skilled employees.
14. Low cost, low skill approaches often deliver good profits and, in many cases, a change of strategic direction in favour of 'high performance working' practices is viewed as pointless or impossible by management. Unfortunately, the results may be sub-optimal as a whole – consigning a significant proportion of the adult workforce to unrewarding, low paid jobs requiring low skills (which in turn contributes to Wales' poor skills profile).
15. This analysis challenges conventional skills policies, which have hitherto focused almost exclusively on the supply side. More needs to be done to stimulate the demand for skills by helping firms to compete on the basis of quality and innovation and to adopt 'high performance working' practices.

## **Not all inactivity is a problem**

16. There are various complexities in consideration of the inactivity issue and the role of ELWa. The first of these concerns the distinction between groups for which inactivity may be seen as a 'problem' and groups for which it may not. In the latter group are:
  - students – being in learning must be regarded as a positive thing;
  - people caring for the home or family and not receiving state benefits;
  - people who are clearly incapable of work through ill-health; and possibly
  - early retired people with sufficient private means.

In the 'problem' group are:

- younger people with no education, employment or training;
- single parent families who for a variety of reasons are constrained from working; and
- older people, particularly men, who want to work but not in jobs where the financial gain from

work over benefit is marginal.

17. A second complexity concerns the cost/benefit equation of inactivity for individuals and the consequent debate about the 'voluntary' nature of inactivity for different groups of inactive people. For older men, receipt of incapacity benefit may provide a more socially acceptable and more stable long-term income than unemployment benefit. The financial advantage of a low paid job over benefits may be marginal. For young people not in education, training or employment, who are characterised as having little or no skills, their calculation is perhaps quite simple. Without skills and qualifications the attractions of 'straight' low paid work are for some, less attractive than the alternatives available.
18. Understanding these issues is relevant to the way ELWa develops services and promotes and delivers education and training to the economically inactive. It is quite clear that one size will not fit all.

## **What is ELWa doing about low skills?**

19. ELWa's Corporate and Operational Plans approved by the Minister for Education and Lifelong Learning can be found at <http://www.elwa.org.uk/elwaweb/elwa.aspx?pageid=1393> (Ops Plan) and <http://www.elwa.org.uk/elwaweb/elwa.aspx?pageid=1116> (Cor Plan).
20. Our emphasis is on delivery of learning provision. In 2004-05 ELWa will support approximately 245,000 learners in further education, 26,000 in sixth forms and 53,000 working age adults on Work Based Learning courses. At the same time ELWa is committed to investing in the people and fabric of the learning and skills sector, recognising and developing the talents of educators and improving the quality of facilities.
21. ELWa supports basic skills provision and targets learners from disadvantaged areas through a range of programmes: FE, work-based learning, family literacy and numeracy programmes, local area projects.

## **Further Education**

- in 2001/02 30,925 students enrolled for basic skills qualifications.
- 54,000 students came from disadvantaged wards where there is a close relationship with high levels of economic activity.

## **Adult Continuing Education**

- approximately 5% of the 16,300 ACE enrolments were in basic education, with the largest single group being 25-39 year olds doing part-time study.

## **Work-based Learning**

- this suite of programmes each includes support for special training needs. For example, on the

‘Skill Build ‘ programme which assists young people to join a training programme approximately 25% of the 12,500 recruits in 2002-03 received special training in literacy and numeracy.

- 16,500 learners were recruited from the poorest Welsh wards.

## **Business Skills Development**

- these programmes help employers to address the training needs of their workforce many of whom will have low skills and basic skills needs.
- ELWa is working with the WDA, through Business Eye, to develop integrated skills support as part of whole firm development plans.
- approximately 5,000 firms are supported in workforce development each year.
- a major review of Workplace Learning is underway which is examining, amongst other things, how we can raise the demand for skills.
- In-depth sectoral reviews commencing with the Care Sector which has major job opportunities for those returning to work at appropriate skill levels. Later this year we will commence a review of the Construction Sector.

## **Individual learning Accounts**

- this Assembly Government initiative, managed by ELWa, targets people with no or low qualifications, is aimed at 10,000 people per annum.

## **Special projects**

some of ELWa’s Innovation and Development projects and Learning Challenge Fund projects are aimed at the economically inactive and low skilled, such as:

- ‘The Oak Project’ in Blaenau Gwent which will deliver basic and essential skills to currently disenfranchised learners;
- a Powys CCET project to improve basic skills provision by providing a quality framework to support a network of organisations in the delivery and widening community access to basic skills training;
- Carmarthenshire Basic Skills Strategy; and
- the Five Counties Learning Network in response to the Corus closures.

## **Redundancy Action Fund (REACT)**

- helps 2,500 redundant workers gain new skills and return to work quickly.

22. ELWa is working in partnership with the Basic Skills Agency, learning providers and other stakeholders to meet the National Strategy objective that all basic skills programmes obtain the Quality Mark by December 2004. The Assembly Government has indicated that after this date

- public funding should only support basic skills programmes that have met this target.
23. ELWa is also developing an all-Wales training and networking project for work-based basic skills providers, which will work to disseminate best practice and will complement the activities of the Basis Skills Agency.
  24. The forthcoming evaluation report on the Basic Skills Support Development Fund (a three year project focused upon developing basic skills support in FE institutions) will inform ongoing policy development and assist ELWa in sharing good practice with learning providers.

## **What should be done**

25. Early years education interventions to combat social and economic problems are a priority. These measures will be beneficial particularly in localities where there is a history of low education and skills and concentrated disadvantage.
26. There is widespread support, backed by evidence, for improving the quality and performance of the compulsory education system, improving literacy and numeracy, encouraging better attainment at 16 and higher staying-on rates thereafter. In part this relies upon the education system being able to compensate for some of the adverse social and economic background factors that help to explain poor attainment.
27. ELWa agrees that these two sets of action, and the integrated package of Assembly Government proposals for early years and pre-16 education, will result in the longer term in a better qualified, higher skilled supply of labour with less likelihood of economic inactivity.
28. As regards post-16 education and training provision (excluding HE) ELWa rejects the argument that its simple role is to provide a post -16 learning infrastructure which is able to develop the skills of those who want to progress, and it is for agencies to bring the economically inactive who want to learn to ELWa and its network of providers.
29. ELWa, as described above, is in many ways already making learning work to tackle economic activity, but wishes to play a more proactive role in contributing to national aspirations to reduce 'problematic inactivity'. Key features of the new approach include:
  - development of explicit objectives towards economically inactive groups in ELWa's strategy and planning documents to give a stronger focus to the issue.
  - distinguish and prioritise different economically inactive groups and this might, in principle, take a geographical focus, with specific targeting of different localities. The Committee's policy review may be especially helpful on this issue.
  - ELWa, albeit with a post-16 focus, to work in a co-ordinated effort with schools and Careers Wales to reduce the number of young people who drift out of the education system at age 16. The Assembly Government's work on 14-19 Learning Pathways and the Welsh Baccalaureate are critical here.
  - equivalent effort with the WDA and Sector Skills Councils to work on the demand side and create opportunities for people to use their skills. This is the best long- run preventive measure to stop the flow of the employed into economic inactivity and to raise Wales' skills profile.
  - more practical help to those losing their job to gain new skills through the REACT programme. This includes the provision of information on job opportunities in different sectors and

appropriate training.

- existing programmes are being examined to see how they can best be delivered in order to make them effective in countering economic inactivity. For example:
- the development of Modern Apprenticeships so that the numbers of young people who complete their programme is increased, and hence stand a better chance of progressing into employment.
- the Adult Continuing Education budget being used to provide courses likely to attract inactive people as a means of keeping learning interests active, and, perhaps, as a stepping stone into more formal re-skilling.
- the development of the Basic Skills Strategy so that it improves employability amongst groups such as young offenders.
- working more closely with Job Centre Plus and New Deal programmes so that they bear more directly on inactive groups and to improve progression to Work Based Learning.
- the new National Funding System to be introduced from August 2005, with dual running from this autumn, will introduce a consistent weighting in favour of support for learners from deprived communities, with the associated higher risk of embedded economic inactivity. Our approach to planning would allow specific geographical areas to be prioritised, such as the Upper Valleys, and for ELWa to bring together the collective effort of its network of learning providers.
- maximising the opportunities from Objectives 1 and 3 to support the expansion of existing programmes and the introduction of new activities, possibly in partnership with other agencies such as Job Centre Plus.

## Summary

30. Whatever the view taken on inactivity as a specific focus of post-16 education and training strategy, it is evident that it needs to do so in a realistic light. Economic activity has proved to be difficult to shift even when significant taxation/credit incentives are available and benefit threats wielded. Thus, while education and training have a role to play in influencing the wage vs. benefit balance for individuals by making a higher wage (or even any wage) a possibility, expectations need to be moderate. The evidence from Future Skills Wales of low levels of potential - client motivation ensure this.
31. Secondly, it is obvious that whatever ELWa does needs to be co-ordinated, coherent and significant. There is a need for a long-term focus, and recognition that there are no quick fixes.
32. The general message must be that any serious attempt to respond, with a specifically 'skills' contribution, to the problems will require substantial and sustained resources to make a difference.