SENEDD EQUALITY AND SOCIAL JUSTICE COMMITTEE INQUIRY INTO THE DISABILITY EMPLOYMENT AND PAYMENT GAP

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Our evidence is primarily submitted in response to the following questions:

What progress has been made to deliver the recommendations set out in the 'Locked Out' report and to reduce and remove barriers faced by disabled people who want to access Wales's labour market. Why progress to reduce the employment and pay disability gap has been so difficult to achieve.

How the social model of disability is being used to underpin employment and recruitment practices, and what barriers continue to exist throughout society that impact on access to work (i.e. transport, attitudes).

What further policy measures are needed to support disabled people, young disabled people and employers to increase participation rates and what can be learned from elsewhere.

We present evidence about the employment disability gap (DEG), not the pay disability gap. We summarise the results of two separate pieces of research:

- A comparison of the DEG in Wales with the other countries of the United Kingdom, followed by an analysis of how the DEG varies across local areas within Wales (and Great Britain more broadly) and what explains this variation. These results address the first and second questions above.

- An analysis of the role of education in the DEG. The analysis was conducted for the whole United Kingdom, but holds lessons for policy in Wales. It addresses the second and third questions above.

1. WHO ARE WE?

We are a team of health and labour economists who have many years of experience of research on the complex relationship between health and work. This evidence is part of a larger 3 year research project on '*Unpacking the Disability Employment Gap*' funded by the Nuffield Foundation. Full details of the data, methods and results can be found in the papers listed in the References.

2. WHERE DOES OUR EVIDENCE COME FROM?

Our main data source for this evidence is the Annual Population Survey (APS), a large-scale, nationally representative UK data set. It is derived from the Labour Force Survey (LFS). The LFS is the key source of labour market information for the Office for National Statistics (ONS), and is used by the DWP to monitor the DEG. The APS can be used for national-level analysis but also includes extra respondents (to the LFS), specifically to provide better local area estimates. The sample sizes are sufficient to generate meaningful results for most of the UK's 166 ITL3 areas.[1]

The APS contains information on health and disability, labour market status and many other socio-demographic variables at individual and household level. It also contains geo-located identifiers to allow spatial analysis and the merging of area level data from other sources (see Bryan et al., 2024, for details).

The local area (ITL3 level) analysis uses combined data from 2014-19 in order to guarantee sufficient sample sizes within each local area. The analysis at country level uses data from 2019, in order to avoid the confounding effect of the pandemic and also concerns about its impact on the reliability of the LFS data (Francis-Devine, 2023). We look at more recent trends in forthcoming work (Bryan et al., forthcoming), although this is at UK level.

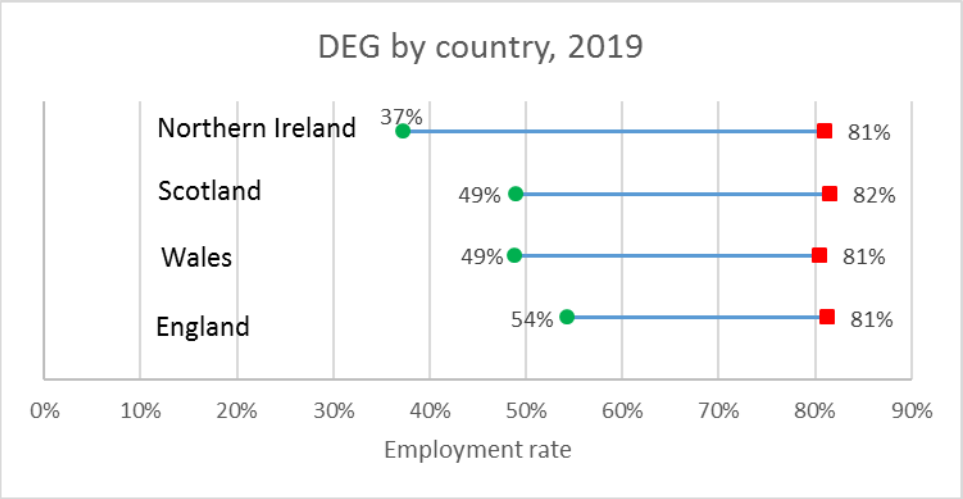
3. GEOGRAPHICAL VARIATION IN THE DEG

3.1. COMPARING WALES WITH THE OTHER UK COUNTRIES

In 2019 the employment rate among non-disabled people in Wales was 81%, compared with only 49% for disabled people, resulting in a DEG of 32 percentage points (pp). As shown in Figure 1 this DEG was significantly larger than that in England (27pp), about the same as the DEG in Scotland (33pp), and much smaller than that in Northern Ireland (44pp).

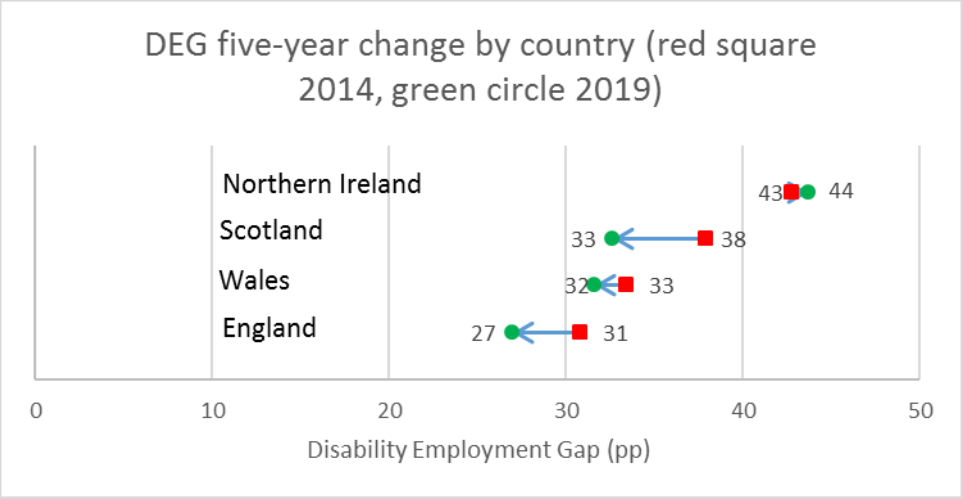
[1] ITL3 areas are administrative areas formerly known as NUTS3 areas. They are composed of one or more local authorities. Due to small sample sizes, Orkney and Shetland are excluded. We also exclude Northern Ireland due to inconsistencies with the rest of the UK in some other data sources used in our analysis.

Figure 1: DEG by country



However, unlike Scotland and England, Figure 2 shows that the DEG in Wales barely changed between 2014 and 2019. If it had shrunk by the same amount as in England (4pp), it would have been 29pp in 2019, not 32pp. It is clear from the chart that the reason for the higher DEG in Wales compared with England is that disabled people had a lower employment rate: 49% compared with 54%. This suggests that, at the country level, policy should focus on disabled people's employment prospects rather than overall employment (the employment rate of non-disabled people is very similar across the two countries). As we will see below, this does not necessarily apply when looking at differences in the DEG at a more local level.

Figure 2: Change in DEG by country

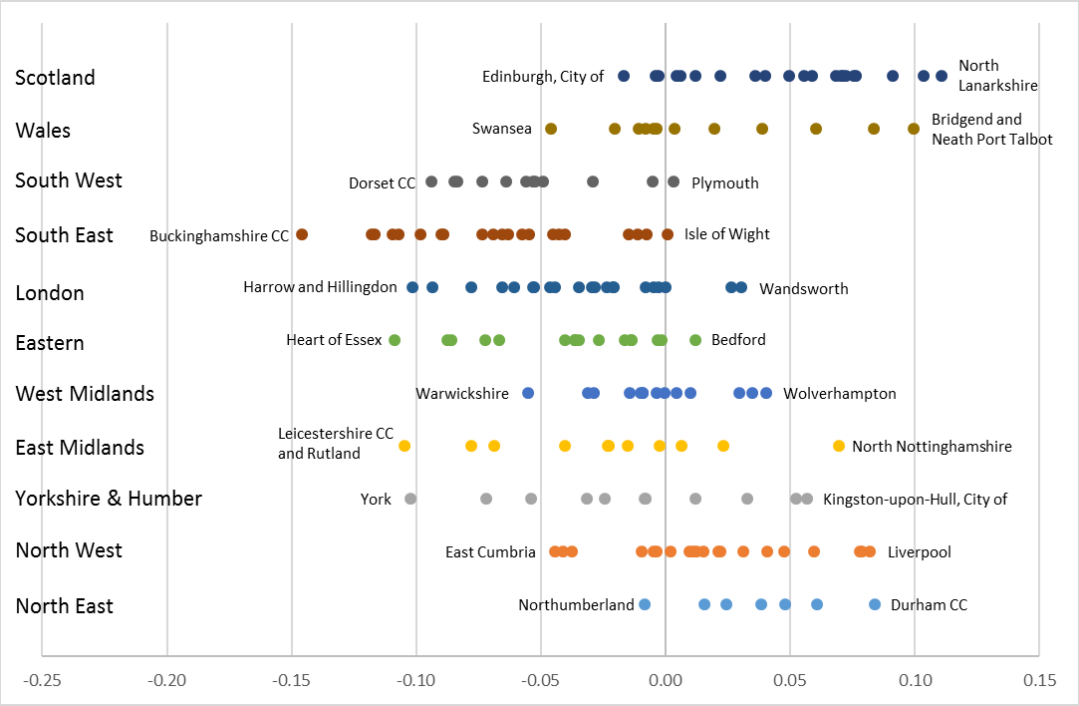


3.2. LOCAL VARIATION IN THE DEG

Figure 3 shows a more disaggregated picture, across the ITL3 areas of Great Britain (GB), using combined data from the years 2014-2019. Each point on the chart shows the DEG for an ITL3 area relative to the GB average (the vertical zero line). It is clear that there is wide variation

within countries and regions. For Wales the local DEGs range from nearly 5pp less than the GB average in Swansea to 10pp to more than the average in Bridgend and Neath Port Talbot. The latter DEG is almost the highest in GB (exceeded only by two areas in Scotland, East Ayrshire & North Ayrshire mainland and North Lanarkshire).

Figure 3 – Difference from national DEG (2014-19) by ITL3 area

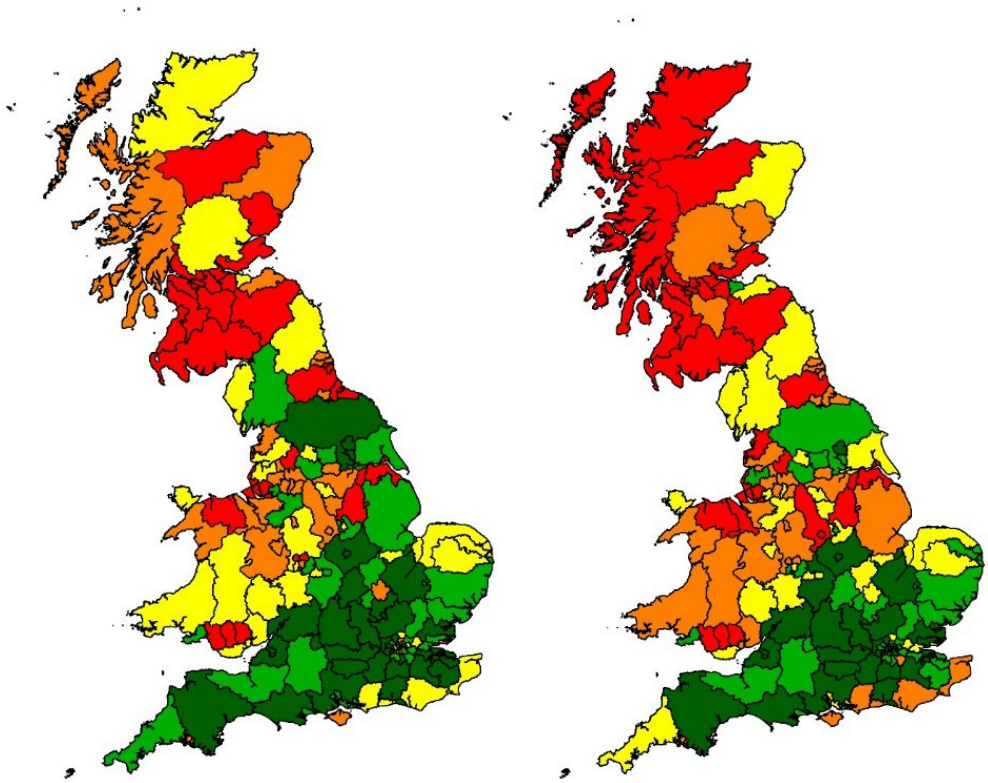


The map in Figure 4(a) also represents the local DEGs, which have been divided into 5 quintile groups according to their size, ranging from red (the largest DEGs), though orange, yellow, light green and dark green (the smallest). Four areas (Conwy & Denbighshire, Central Valleys, Gwent Valleys and Bridgend & Neath Port Talbot) stand out as being in the highest quintile group of the GB distribution.

Using statistical decomposition techniques (Bryan et al, 2024), we analyse what lies behind the geographical variation in the DEGs. Some of the difference between each area's DEG and the national DEG can be explained by the profile of the working age population living in that area – characteristics such as age, education level and family type. This is called the people effect. Any remaining difference between each area's DEG and the national DEG is termed the place effect – reflected in features such as the state of the local economy and infrastructure.

Figure 4 – DEG quintiles by ITL3 data

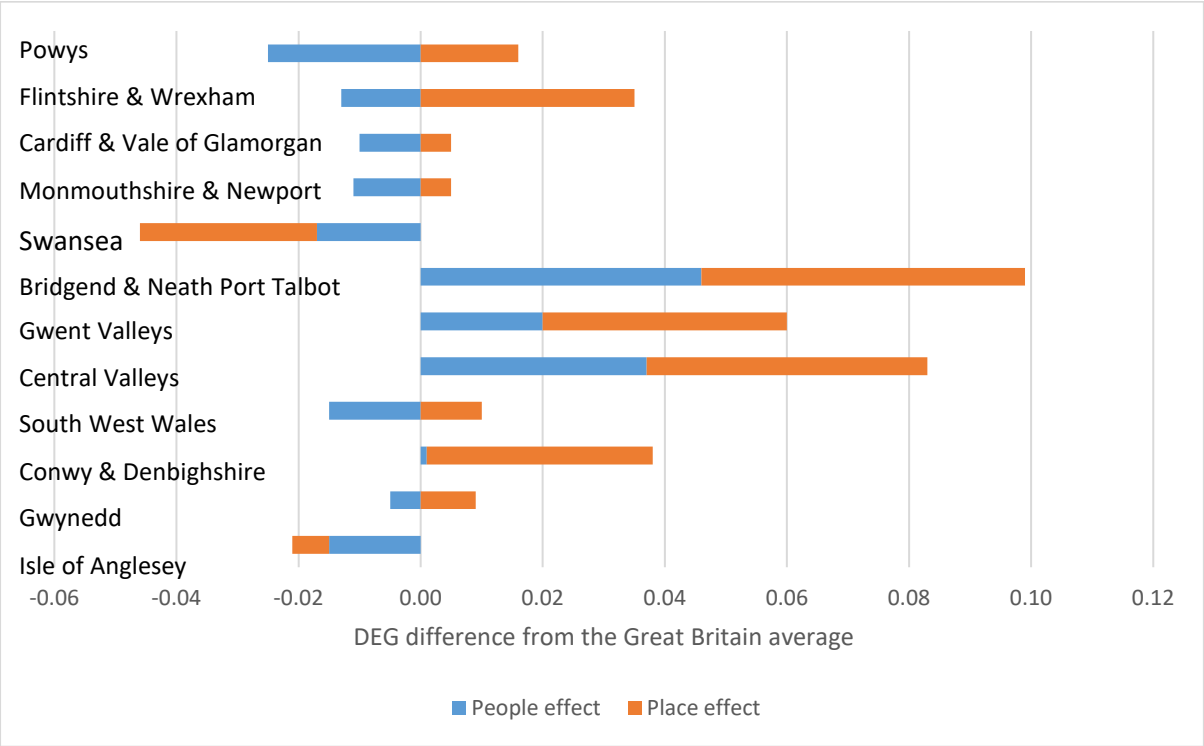
(a) Total difference in DEG **(b) Difference in DEG due to place effect**



These place effects are shown in Figure 4(b). Comparing them to the total DEGs of Figure 4(a), we see that Conwy & Denbighshire, Central Valleys, Gwent Valleys, and Bridgend & Neath Port Talbot are still in the highest quintile group. But three other areas have moved up: the place effects of South West Wales, Powys, and Monmouthshire & Newport are now in the second highest quintile group (in orange) and Flintshire & Wrexham is now in the highest group (in red). The change in ranking for these areas is because they have population characteristics that lead to a lower DEG, and these characteristics were previously masking the effect of their unfavourable area characteristics.

The relative roles of people and place effects emerge more clearly in Figure 5, where we can identify the underperforming areas as those with large positive place effects (in orange). The two exceptions to the general picture are Anglesey and, most noticeably, Swansea. Swansea has a total DEG that is 4.6pp less than the GB average, and this can attributed to favourable population characteristics and, in particular, favourable area characteristics. Despite the positive performance of Swansea, the place effects for all but three areas in Wales fall within the top two quintile groups of the GB distribution. This suggests there is considerable scope for place-based polices to reduce the DEG.

Figure 5: Breakdown of DEG in ITL3 areas in Wales (difference from GB average)



3.3. EXPLAINING THE PLACE EFFECTS

Based on a GB level analysis, we explore a set of area-level characteristics which contribute to the place effects. Industrial composition makes the largest contribution to explaining geographical variation in the DEG. Areas with a large proportion of people in 'knowledge services' have high employment of disabled people, after accounting for people effects. In comparison, there is no relationship between the employment rate of non-disabled people and industrial composition. Therefore, overall, a large knowledge sector is associated with a smaller DEG. Related to this, a higher concentration of jobs suitable for working from home is also associated with a lower DEG. This finding provides some support to the recommendation in the 'Locked Out' report (Welsh Government, 2022) to increase employer support for working from home.

Given an industrial composition that favours the knowledge sector, areas with a high proportion of people working in elementary occupations have a smaller DEG. This is not surprising as disabled people are often concentrated in lower skilled occupations. Moreover, local unemployment rates affect the employment prospects of disabled people to a larger degree than non-disabled people, suggesting that both the level of and composition of labour demand is important for the DEG.

In contrast, geographic variation in the provision of services that might be expected to help disabled people find employment (namely healthcare provision, strength of social institutions and public transport travel times) has minimal influence on the DEG. Similarly, very little of the geographic variation in the DEG can be explained by local differences in disability employment policies. Specifically, we find minimal geographic effects from employer engagement with Disability Confident or the strictness with which benefit sanctions are applied.

3.4. POLICY IMPLICATIONS

Strong local labour markets characterised by low unemployment and a thriving knowledge sector, coupled with good availability of elementary jobs, can disproportionately improve the employment prospects of disabled people and narrow the DEG. Attracting high value investment in the knowledge sector (IT, finance, professional services and education) to left behind areas in Wales (in particular the 5 areas with the largest DEG place effects) could help to boost the employment prospects of disabled people to a greater extent than their non-disabled counterparts (even if this employment is not concentrated in the most high-skilled occupations).

However, levelling up is not a magic bullet. Even if all areas had the same characteristics, there would still be considerable variation in the DEG. So there is also a need for bespoke local interventions to address the specific barriers to disabled people's ability to access employment. Recent UK government proposals to empower local leaders to develop work, health and skills plans appear to offer potential, although it is unclear at this point how they will apply to Wales.[2] However, they chime with the recommendations in the 'Locked Out' report (Welsh Government, 2022) about encouraging "meaningful co-production" on the part of local authorities and health boards.

4. THE ROLE OF EDUCATION IN THE DEG

In other research (Bryan et al., 2023), we explore the extent to which differences in education explain the DEG, using APS data from 2019 on a sample of 134,103 25-64 years olds (an age group that has generally completed full-time education). We break down how much of the DEG in 2019 is due to education, how much is due to other measured socio-demographic characteristics, and how much is due to other factors that limit the employment of disabled people after accounting for education and these other measured characteristics. We use the term 'structural barriers' to refer to the latter component, which can include lack of suitable

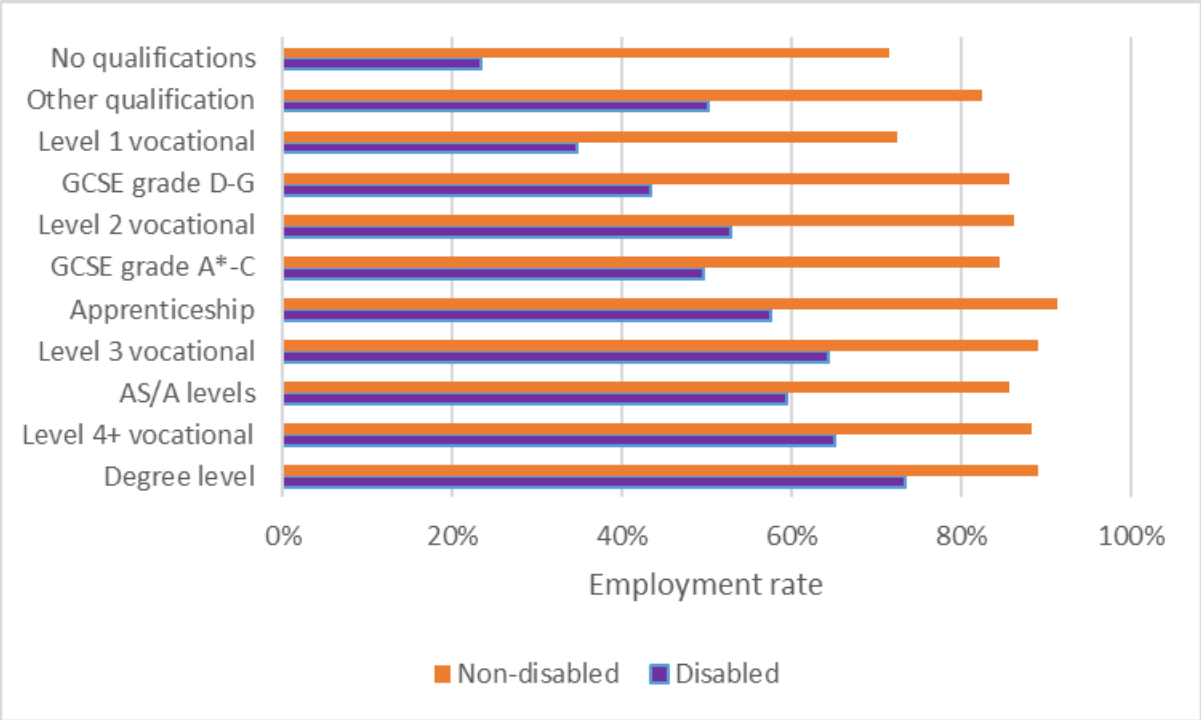
[2] See the UK government's announcement at: https://www.gov.uk/government/news/kendall-launches-blueprint-for-fundamental-reform-to-change-the-dwp-from-a-department-of-welfare-to-a-department-for-work

equipment in the workplace, inappropriate working arrangements, poor access to transport, as well as discrimination and negative attitudes.

4.1. EDUCATION LEVELS AND EMPLOYMENT RATES

Disabled people have lower levels of education, on average, than non-disabled people. In our sample, nearly two-fifths (39%) of non-disabled people are educated to degree level or higher compared to less than a quarter (24%) of disabled people; and disabled people are nearly three times as likely not to have any qualifications (17%, compared to 6% of non-disabled people). There are also stark differences in employment rates of disabled and non-disabled people across education levels (Figure 6). In particular, there is a steep education-employment gradient for disabled people, with is not evident for non-disabled people. This means that the DEG is much smaller at higher qualification levels, ranging from 16pp among those educated to degree level to 48pp among those with no qualifications.

Figure 6 – Employment rates of disabled and non-disabled people by highest qualification, 2019



4.2. UNPACKING THE ROLE OF EDUCATION IN THE DEG

In light of these difference, we address two questions:

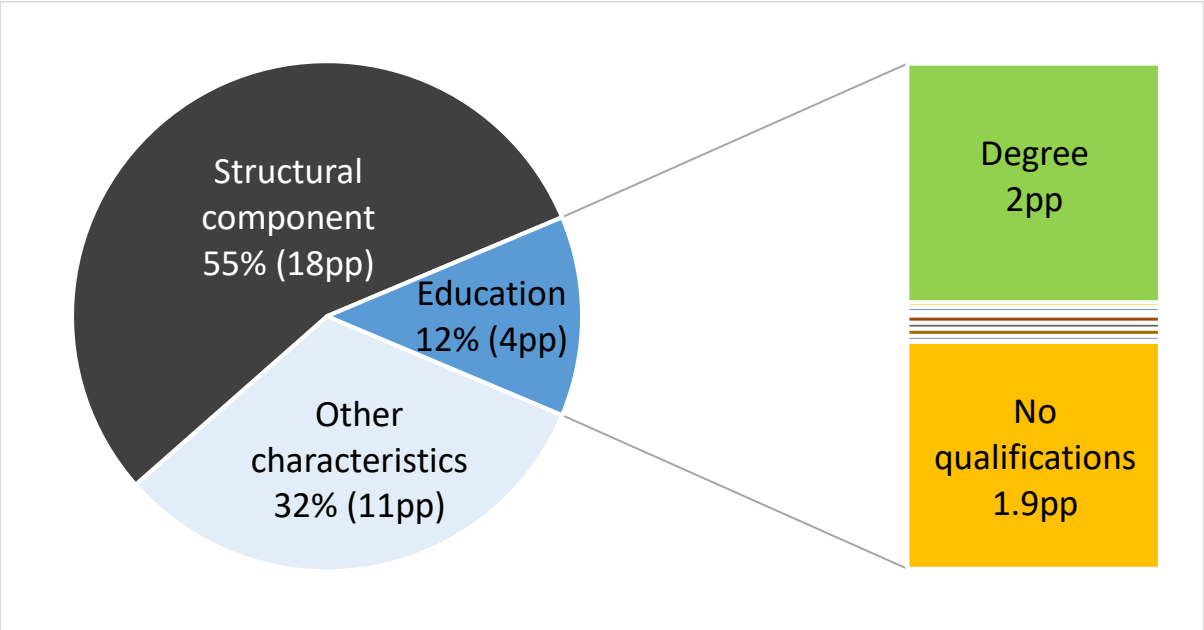
1. If the educational divide were to be eliminated entirely (by raising disabled people's qualifications), without changing anything else, by how much would the DEG be reduced?

2. How do the remaining structural gaps in employment vary across different qualification levels, and at what point in the qualifications hierarchy are the main effects seen? For example, does the main explanatory power come from contrasting people who do and do not have any formal educational qualifications; or it is more informative to consider the different prevalence of higher education among disabled and non-disabled people?

The DEG in 2019 for people aged between 25 and 64 was 33.2pp. As shown in Figure 7, differences in educational attainment explain 12% (4.1pp) of this DEG. Other observed characteristics that we control for in our model explain 33% (10.7pp). The remaining 55% of the DEG is attributed to structural barriers. This means that if the educational divide between disabled and non-disabled people were to be eliminated, the DEG would be reduced by 12% (holding all else constant).

We can further break down the education component to see how much of the DEG is explained by each of the education levels we consider. Out of the eleven education levels shown in Figure 6, two stand out as the main drivers behind the education component of the DEG, namely having a degree and having no qualifications (Figure 7). Together they account for a difference in employment rates of 3.9pp, which suggests that policies aimed at improving the employment outcomes of disabled people should focus primarily on increasing the number of disabled people with a degree and decreasing the number of disabled people with no qualifications.

Figure 7 – Breakdown of the overall DEG



The size of the structural component in Figure 7 suggests that eliminating structural barriers to employment would have a much greater impact on the DEG than on simply improving the education levels of disabled people. The factors that make up this structural component are complex and numerous and it is beyond the scope of our research to identify them in detail, however we can ascertain how much of the DEG could be eliminated if structural barriers were removed for each qualification level.

Wider structural gaps exist at lower levels of educational attainment: for people with no qualifications the structural gap is 32.2pp, compared with 12.3pp for people with degrees. This means that higher education mitigates some of the barriers to employment that disabled people face. It also suggests that eliminating structural barriers for a disabled person with no qualifications would have a larger impact than eliminating them for a disabled person with a degree. However, looking at the sample as a whole, the greatest impact on reducing the DEG would be achieved by focusing on disabled people with a degree because they are relatively numerous (24% hold a degree versus 17% with no qualifications). More specifically, the structural gap among people with a degree accounts for over a quarter (26%) of the overall structural gap of 18pp.

Since most education is acquired at a young age, and young people are one focus of this Inquiry, it is also relevant to look at the DEG among those who recently completed full time education. Repeating the analysis for the 25-34 year olds, we find that the DEG is 27.7pp. This is somewhat smaller than the overall DEG of 33.2pp, however the share explained by education is larger at 18% (compared with 12% for the overall DEG), emphasising the potential benefits to improving education among young people.

4.3. POLICY IMPLICATIONS

Whilst the above results apply to the UK rather than Wales specifically, they suggest that a significant proportion of the DEG can be explained by inequalities in educational attainment between disabled and non-disabled people. If disabled people could achieve qualification levels equal to those of non-disabled people, this may by itself reduce the gap by up to 12%, an effect that would be greater for younger people. This would be equivalent to 24% of a target to halve the DEG (which was briefly the goal of the UK government; Department for Work and Pensions & Department of Health, 2016).

In England since 2015, all young people must continue to participate in education until the age of 18 (HM Government, 2011). While this does not guarantee that everybody leaves full time education with a qualification, over time this should reduce the number of working age adults with no qualifications and limit the intersectional disadvantage of being disabled and having no qualifications. Preliminary findings from new work (Bryan et al., forthcoming) suggest that improved education can explain about a third of the fall in the UK DEG over 2014-22.

Currently, the school leaving age in Wales is 16, but there have been calls for a 'skills participation age' of 18 (Fawcett and Gunson, 2020), which could accelerate the fall in the DEG. However, the investment required to achieve educational equity should not be underestimated. Many disabled students at the margins will need additional support to achieve these qualifications, relative to the support required by existing student caseloads. Moreover, a bigger challenge is to address the structural barriers to employment that exist among people with the same education levels.

5. REFERENCES

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