



# **Mutual Learning Programme**

DG Employment, Social Affairs and Inclusion

**Peer Country Comments Paper- United Kingdom**

**Similar labour market problems – but  
different scale and context**

**Peer Review on 'Strategies for Employment Policy  
reform. Implementation challenges in decentralised  
countries'**

**Madrid (Spain), 5-6 October 2015**



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Unit C1

Contact: Emilio Castrillejo

E-mail: [EMPL-C1-UNIT@ec.europa.eu](mailto:EMPL-C1-UNIT@ec.europa.eu)

Web site: <http://ec.europa.eu/social/mlp>



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## 1 Labour market situation in the peer country

*This paper has been prepared for a Peer Review within the framework of the Mutual Learning Programme. It provides information on the United Kingdom's comments on the policy example of the Host Country for the Peer Review. For information on the policy example, please refer to the Host Country Discussion Paper.*

The UK labour market experienced a difficult period through the Great Recession with a prolonged fall in GDP causing job losses across most sectors. However, the rate of unemployment peaked at 8.0 per cent in 2012, which was better than expected and partly attributed to employers holding on to skilled labour in the expectation of an upturn (and subsequent problems in recruiting skilled workers). However, improvement in the economy took longer than expected but after over two years of strong growth, GDP is well ahead of its lowest point during the recession. In 2014 GDP growth was 3.1 per cent and is forecast to be slightly lower in 2015 at around 2.5 per cent. This has fuelled a strong growth in job creation to the extent that the UK employment rate reached its highest ever rate of 73.5% (for the 16-64 cohort), mostly from a significant increase in that for females at 68.7% (compared to 78.1% for males).

Not all of this increase in jobs has been filled by the unemployed - an increase in migrant workers, especially from other EU Member States, have also filled a significant number of vacancies, but unemployment has fallen to 5.6 per cent, though the past two quarters have seen this plateau. Youth unemployment peaked at around 23 per cent of the 16-24 age group in the depths of the recession (late 2011), but has shown distinct signs of improvement and now hovers around 16 per cent and the level of NEETs has also fallen. Long-term unemployment (of over 12 months) is around 31 per cent of total unemployment and is falling, albeit slowly. Therefore, in comparison to the Spain the UK labour market is much stronger and less beset by the problems posed by unemployment, much of which is due to the stronger economy which not only creates new employment opportunities, but also underpins increased success with ALMPs. Where labour market conditions are tight, employers will always be more receptive to considering unemployed jobseekers, especially when backed by measures such as training or wage subsidy. It is significant that in the UK the main vehicle for ALMPs, the Work Programme, has seen success rates improve markedly in line with improving economic conditions.

In terms of labour market (or employment) policy, the UK has a highly centralised system reflecting the limited extent of decentralisation in government. The three 'home nations' of Scotland, Wales and Northern Ireland have devolved administrations but with different powers and when it comes to employment policy only the Northern Ireland government has transferred power (in this case for employment and skills). In the cases of Scotland<sup>1</sup> and Wales, employment is a 'reserved' matter for the Westminster Parliament which means that it sets the basic parameters of policy and implementation that applies throughout Great Britain (i.e. England, Scotland and Wales).

However, this does not mean that there is economic and labour market uniformity across the UK. Economic growth has affected all parts to some extent, though this is variable with London and the South East of England region gaining most. This is to some extent reflected in the composition of sectors, with more of the high added-value ones such as IT, pharmaceuticals and financial services favouring congregating in certain areas (particularly the South East) which creates wage disparities and consequent wealth divergences. However, the gap is not necessarily reflected in the unemployment rates, which range over a relatively small difference from a high of 7.7% in the North East region of England, to a low of 4.4 per cent in the South East region. Among the home nations, the gaps are even smaller with England at 5.6%, Scotland 5.5%, Wales 6.6%

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<sup>1</sup> Scotland is scheduled to receive more transferred powers in employment as part of an extended devolution agreement.

and Northern Ireland 6.2%. The figures suggest that the UK does not have the same wide regional differences as in Spain.

In England there are eight regions (including London as a separate region though geographically located in the south east of the country) but they have no effective regional structures and do not get involved with the implementation of employment policy. More relevant are the Local Enterprise Partnerships (LEP)<sup>2</sup> set up in 2010 to cover meaningful geographical areas in terms of business and labour markets (there are 39 of them covering the whole country), many of which are involved with monitoring business needs in terms of employment and skills and so provide a useful adjunct to the nationally determined, but locally implemented ALMPs (including acting as a conduit for EU Structural Funds). They have access to funding through programmes such as the Regional Development Fund (which is awarded on the basis of competitive tendering) and can apply to set up Enterprise Zones.

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<sup>2</sup> For more information on the LEPs see House of Commons Library paper (March 2015) available at:  
<http://researchbriefings.files.parliament.uk/documents/SN05651/SN05651.pdf>



## **2 Assessment of the policy measure**

In comparison to the situation in Spain there are three important differences to consider in relation to the United Kingdom (UK):

- I. The administrative structure in terms of regions and the degree of autonomy;
- II. The current condition of the labour market; and
- III. The way in which labour market policy in general and Active Labour Market Policy (ALMP) in particular are determined and delivered.

Consideration of these factors underpins the relevance of any transferability of the emerging approach in Spain to ALMPs.

In comparing the developments in Spain with those in the UK there are some similarities in approach and these are outlined below. However there is one important difference – the labour market context. In Spain the high and persistent levels of unemployment (over four times the rate in the UK) have clearly provided an impetus for the changes in ALMPs, with an emphasis on making them more effective through the new framework and focusing on regional responsibility for implementation. The UK has not had to face the same pressures and while the Great Recession saw greater challenges for jobseekers, unemployment peaked at a comparatively low rate and has since fallen as the economy has grown. Of course the challenge of tackling unemployment remains, but it is particularly focused on assisting the more vulnerable groups such as long-term unemployed, disabled and youth get a place on the regular labour market and both active and passive policy is geared to this.

The UK has a less decentralised structure to that of Spain, with most elements concentrated on the devolved administrations of Scotland, Wales and Northern Ireland, though even here only Northern Ireland has employment as a referred power. But this is likely to change in the future with Scotland gaining more control over employment policy and some areas of England (such as Manchester and London city regions from 2017) experimenting with some greater control of elements of employment policy.

The centralisation extends to the main government agencies involved with employment policy and its implementation, led by the Department for Work and Pensions (DWP) and in some fields the Department for Business, Innovation and Skills (BIS). The public employment service, Jobcentre Plus (JCP) is an executive agency of the DWP with a network of local and areas offices throughout the UK. These offer an integrated service for jobseekers including the administration of benefits and information, advice and guidance to jobseekers whether claiming benefits or not. The jobcentres are the principal referral points for jobseekers and ALMPs and, as such, means that there is a high degree of local determination responding to the fact that most jobseekers look for and find work in their local labour market.

Since 2010 the majority of ALMPs have been delivered through the Work Programme and a year later the Youth Contract. A key feature of the Work Programme is the contracting out of ALMP delivery to private sector providers. This is not a new approach in the UK and the predecessor to the current programme, the New Deal (under the Labour government of 1997-2010) also used this delivery approach though the Work Programme has taken it to a new level. It embraces a much more results-orientated payment structure whereby contractors receive most of the payment when a jobseeker has been placed in sustainable employment (of six months or more) and there are also different levels of payment for harder-to-help clients. The programme was designed to instil a degree of competition between contractors and in awarding the contract, the country (i.e. England, Scotland and Wales) was divided into 18 geographical areas with two or three prime contractors operating in each one, working with local delivery partners (such as local authorities, training providers, voluntary and community bodies - around 700 in total across Great Britain).

The contracts are designed to encourage delivery of programmes that reflect local employer needs and have a degree of flexibility that helps customise activities accordingly (to both employer and jobseeker needs). Measured performance is based on job outcomes claimed by the contractors and validated by the DWP (which has a team of Compliance Monitoring Officers). The programme also comes under the scrutiny of other government agencies and in 2014 the National Audit Office (NAO) compared the performance of the Work Programme to previous welfare-to-work programme such as New Deal<sup>3</sup>. It found that performance levels were similar to some parts of New Deal though costs appeared to be lower (and probably more transparent).

Aside from the Work Programme and Youth Contract, JCP delivers a range of smaller scale activities aimed at helping target groups into work. Recently, for example, 'jobcentre work coaches' were introduced to help the transition of 16 and 17 year olds (mainly NEETs) from school to employment, education or training. The specially trained advisers work with local authorities and voluntary organisations to provide a one-stop-shop approach for helping this hard to reach group. At the other end of the age spectrum, the 'Older Workers Champion Scheme' was rolled out by JCP in selected areas of the UK from April 2015 targeting age discrimination in recruitment of unemployed jobseekers aged over 50 and involving a mix of lobbying employers and digital training needs identification and provision for the older jobseekers lacking proficiency.

These are just two examples of recent activities taken on by JCP and are indicative of how the service is evolving. Part of this process is due to the increased use of IT systems and in particular the on-line vacancy and job matching system (*Universal Jobmatch*) introduced in 2013. This has effectively removed some the traditional tasks of JCP surrounding the handling of job vacancies, enabling a refocusing of the time and resources on individual client support. This, for example, enables JCP to pick up those participants on the Work Programme that have failed to find a job after two years on programme. In such cases it has responsibility for the 'Post Work Support Programme' that involves a small specialised team of advisers based at jobcentres to work closely with the clients to form a back-to-work plan and agreement.

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<sup>3</sup> National Audit Office (2014) *The Work Programme*, available at: <http://www.nao.org.uk/wp-content/uploads/2014/07/The-work-programme.pdf>

### **3 Assessment of the success factors and transferability**

The regional structures are different in the UK compared to Spain, though the devolved administrations of Scotland, Wales and Northern Ireland have some of the characteristics of some of the Spanish autonomous regions. However, employment policy is already devolved to Northern Ireland and Scotland will soon have extended powers, with Wales likely to follow suit. In this sense, the retention of centralised control over broad employment policy will eventually apply to just England. However, it is likely that there will be more delegated powers to areas and in particular city regions (such as Manchester and London) and here there could be some useful experience to draw on from the Spanish example. Even if the regional differences in rates of unemployment are small in comparison to those in Spain, there are still elements of inequality to be found, not least in the quality of jobs, their remuneration and sustainability.

This would suggest that a more regional focus on ALMPs (as in Spain) may be beneficial to the UK in tackling these inequalities but to a great extent this already happens but without the need for such formal regional administrative structures. In the UK, while overall employment policy is centralised, the determination of what is needed and its implementation is highly localised with the main programmes (I.e. the Work Programme and Youth Contract) designed to respond to local needs. Furthermore, jobcentres are locally focused and have a high degree of flexibility on how their activities can be used, including working in collaboration with local partners such as local authorities and NGOs. It suggests that to have effective locally-focused ALMPs does not necessarily require a highly decentralised formal administrative structure.

The development of IT in the provision of PES activities and in particular job matching is an important development since it can not only lead to a more up-to-date and inclusive job vacancy database, but it can also release the time of PES staff which can be redirected to a more personalised service for jobseekers. Here the UK has a lead on Spain with its Universal Jobmatch, but this is still in need of development to enable it to link with other job vacancy databases to provide a more comprehensive source of openings. Here the Spanish developments are interesting, with specific efforts to bring together the public and private services in a collaborative effort and as this matures, it may have useful lessons for the UK system.

Any system, even one based on less formal administrative structures as in the UK, requires appropriate checks and balances to maximise its effectiveness and value for money. In the UK this means closely monitoring the activities of agencies such as JCP, with appropriate performance indicators that measure quality as well as throughput. It also is evident in the major funded activities such as the Work Programme which, partly by virtue of its payment-by-results structure, has built in monitoring and evaluation. In the early stages of the programme in particular, there were instances where poor performance was detected (for example where some contractors have under-delivered or even misused funds) but these were uncovered by the system and remedial actions taken. However the NAO report was critical of the way in which the Work Programme was set up with regard to the monitoring of levels of support where the prime contractors were left to set their own minimum standards of service. This led to a fragmented approach that was eventually tackled by the DWP which implemented changes to how standards of service were monitored.

This serves to illustrate that it is difficult to get any programme (and particularly those as large and complex as the Work Programme) perfect from the start. The operation of the programme will inevitably disclose adjustments that need to be made. To some extent the piloting or trialling of programmes is a pre-requisite for effective ALMPs and the UK has a strong track record of this and should involve a compendium of factors (such as different locations, labour market contexts, client groups, etc) that provides a proper test of the programme under different conditions. However, sometimes the testing process can be rushed (this was a criticism of the Work Programme, for example,

which was developed quickly after the 2010 general election) and this often means that when the policy is rolled out, more problems are likely to be uncovered.

The thorough evaluation of ALMPs at the pilot stage and through subsequent roll out is essential to effective policy. Here the UK has a tradition of evidence-based monitoring and evaluation within government departments such as DWP (with their own analytical staff), supplemented by external independent evaluation funded by a dedicated research budget. The department also maintains communications with leading academic research bodies (such as the Institute for Fiscal Studies) for formal and informal inputs to their work. This of course is generally welcomed by the research community, giving them a closer link to policy makers and the opportunity to access data for their research.

It is noted that the new ALMP delivery framework in Spain have yet to be effectively evaluated as a whole since some aspects are still in their initial phases but some independent evaluation in these formative stages may help maximise the effectiveness of the subsequent stages.

#### **4 Questions**

- Is the labour market information at regional and local levels good enough to meet the needs of the ALMP system?
- Are there limits set on the overall expenditure on ALMPs at a national level and how is the budget allocated to the regions (and within regions)?
- By focusing in the regions in terms of delivery of ALMPs, it may prove difficult for some areas (perhaps in the more sparsely populated and geographically isolated areas) to find organisations (public or private) with sufficient experience in the delivery of ALMPs. One way around this is to use larger national contractors with a remit across a number of regions thus giving them sufficient critical mass to make the activity viable. Does Spain currently have enough large, experienced organisations available to deliver what is needed in all the regions?

## 5 Annex 1: Summary table

### Labour market situation in the Peer Country

- The setting of employment policy in the UK is highly centralised with Northern Ireland the only home nation with it as a referred power
- The UK economy has emerged strongly from the Great Recession with 3.1% GDP growth in 2014 and a projected growth of 2.5% in 2015
- Economic growth has led to significant job creation and a fall in unemployment to 5.6% with youth unemployment down to 16%
- Regional differences in unemployment rates across the UK are relatively small and within the range 7.7% to 4.4%
- While there are no significant regional structures in England, Local Enterprise Partnerships work across meaningful labour market areas

### Assessment of the policy measure

- Lower unemployment in the UK than in Spain and less regional disparity means policy can be focused on the harder to help labour market groups
- While in the UK much of the implementation of ALMPs is contracted out to large private providers, delivery is geared to local needs and local delivery partners
- The public employment service in the UK (Jobcentre Plus) plays an important role in implementing ALMPs locally and working with local partners
- The introduction of an internet-based job matching portal (Universal Jobmatch) has not only improved jobseekers' access to vacancy information, but also freed up resources of jobcentre staff to offer more client-centred support

### Assessment of success factors and transferability

- The regional structures are mostly different to those in Spain though more autonomy on employment policy is likely to be granted in the near future and the Spanish experience could be useful in this transition
- Even though unemployment rates between UK regions are relatively small, there exists sometimes wide difference in economic conditions reflected in the quality of jobs and remuneration, which may be addressed through more effective regional structures
- While the UK has had an internet-based job-matching system for over two years, it would still benefit from better integration with other job vacancy systems and the Spanish developments in this are interesting

### Questions

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- Are there limits set on the overall expenditure on ALMPs at a national level and how is the budget allocated to the regions and within regions?
- Does Spain currently have enough large, experienced organisations (private or public) to deliver what ALMPs are needed in all the regions?

