

# NO MORE NEETS

A PLAN FOR ALL YOUNG PEOPLE TO BE LEARNING OR EARNING

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REPORT



## ABOUT THE AUTHOR

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# CONTENTS

<b>Summary .....</b>	<b>2</b>
The problem: a broken school-to-work transition system .....	2
The solution: a distinct learning and earning track for young people .....	3
Conclusion .....	10
<b>Introduction .....</b>	<b>11</b>
<b>1. The problem: A broken school-to-work transition system for young people .....</b>	<b>13</b>
<b>2. The solution: A distinct learning and earning track for young people .....</b>	<b>16</b>
The youth allowance .....	16
The youth guarantee .....	19
<b>3. The institutions: Mobilising the leadership of towns, cities and counties .....</b>	<b>22</b>
A staged decentralisation strategy, starting with London and the core cities .....	23
Strategies for raising quality and ensuring accountability in the youth guarantee .....	25
<b>4. The costs: Paying for all young people to learn or earn .....</b>	<b>29</b>
Youth allowance: options for costs and savings .....	30
Youth guarantee: options for costs and savings .....	35
<b>5. Conclusion: a strategy for effective and lasting reform .....</b>	<b>44</b>
<b>References .....</b>	<b>46</b>
<b>Annex: The position of 16- and 17-year-olds .....</b>	<b>49</b>

## SUMMARY

There are over a million young people who are not in education, employment or training (NEET) in the UK, equivalent to almost a fifth (18 per cent) of all 18–24-year-olds. Almost half (45 per cent) do not hold GCSE-level qualifications and almost a quarter (24 per cent) have never had a job.

This is a huge waste of individual potential and imposes large, long-term costs on society. In recent months there has been renewed political focus on this issue, suggesting an opportunity for reform. It featured in the party conferences speeches of David Cameron and Ed Miliband, and a cross-Whitehall review is underway under the chairmanship of the cabinet secretary, Sir Jeremy Heywood.

This paper sets out a strategy for radically increasing the proportion of young people who are learning or earning, by fixing the broken school-to-work transition system and establishing a distinct work, training and benefits track for those aged 18–24. This will require deep institutional innovation, strategic shifts in public spending, and the mobilisation of a range of actors spanning traditional policy and service divides.

The proposals draw on lessons from previous reforms in this area, as well as international insights. Just 4 per cent of 15–24-year-olds in the Netherlands and 7 per cent in Denmark are NEET, compared to 14 per cent in the UK. In these countries, young people are kept out of the adult welfare system and are directed to complete their initial education before entering the workplace. This is underpinned by conditional financial support, with routes to inactive benefits closed off. Both countries also boast high-quality vocational training and apprenticeship systems.

### **The problem: a broken school-to-work transition system**

The legacy of the recent recession is an important factor in explaining high levels of youth unemployment. However, comparative analysis suggests there are deeper, structural factors at play. It has long been argued that young people not on the ‘academic track’ are poorly served; this problem is exacerbated by labour market shifts that have squeezed out the types of jobs that enabled those in previous generations who decided not to go to university to embark on successful careers.

Much less commented on are the deeply flawed options offered to those who come into contact with the benefits system after leaving school.

- Jobseeker’s allowance (JSA) is aimed solely at encouraging claimants to find a job as quickly as possible, placing strict constraints on the scope for continued education or training, despite the significance of a decent set of qualifications for young people’s employment prospects.
- Employment and support allowance (ESA) and income support have few work or training requirements, despite the risk of a period of educational and economic inactivity in the formative stage of adult life resulting in long-term exclusion from the labour market.
- There is no system of financial support for young people aged 18–24 to participate in further education or vocational training, unlike for those in higher education, which restricts access to continued learning to those with support from parents or other independent sources of income.
- There is no upper limit on how long a young person can be out of educational or economic activity while claiming JSA, ESA or income support. Meanwhile, over two-fifths of young NEETs (43 per cent) do not claim any out-of-work benefit and so have no connection to systems that promote learning and earning.

These structural failures come at a significant cost to the taxpayer. In 2011/12, £2.5 billion was spent on out-of-work benefits for the under-25s: £1.2 billion on JSA, £439 million on ESA (and incapacity benefit) and £848 million on income support. A further £6 billion was spent on other benefits and tax credits for this group. Over half (52 per cent) of young people claiming ESA (and incapacity benefit) have been doing so for over a year, as have 61 per cent of under-25s on income support. Young people who fail to attain a good education or make early connections to the labour market face a far greater risk of future periods of unemployment and low earnings.

There are also wider flaws in the school-to-work transition system. The key priorities for young people should be to acquire a solid initial education and practical work experience. Yet back-to-work services are organised around neither, focusing instead on monitoring job-search. Further education courses remain of variable quality, with qualifications that are not always valued in the labour market. Employer engagement is patchy, with too few firms offering apprenticeships, compounded by deep dissatisfaction among the business community concerning the employability of young people.

### **The solution: a distinct learning and earning track for young people**

Being young is, by definition, a period of transitions. Nonetheless, there is no reason why any young person should spend long periods neither continuing their education nor building their career. Therefore, in addition to driving down short-term youth unemployment as quickly as possible, **the goal for society should be to eliminate all but the most temporary experience of being NEET among young people.**

This will require common endeavor among central and local government, schools, colleges, employers and the voluntary sector – not to mention young people themselves. To galvanise such a national effort, the government should establish a distinct learning and earning track for young people, separate from the adult welfare system, built around three core reforms.

In combination, these would ensure that all young people can complete their initial education and gain practical work experience – the key ingredients for future labour market success. They would collapse the division between educational and employment pathways for young people, prevent a drift into long-term inactivity, and spread the principle of mutual obligations, or ‘give and take’. They would also mobilise the energy and leadership of local areas to support their young people, overcoming the failures of previous centrally driven reforms in this area.

#### **1. A youth allowance should replace existing out-of-work benefits for 18–24-year-olds and provide financial support for young people who need it, conditional on participation in purposeful training or intensive job search. Access to inactive benefits should be closed off for all but a very small minority.**

To pay for this substantial expansion of financial support for young people who are currently NEET or in further education, the youth allowance should be paid at a standard rate and be means tested on the basis of parental income until the young person is over the age of 21. This would mirror the rules for access to the higher education maintenance grant. There should also be a presumption that young people are housed by their parents until they are over 21, with exceptions for those with a child, a disability or in employment.

Under this reform, entitlement to JSA, ESA and income support for under-25s should be ended, given that none of these benefits is capable of serving young people’s distinctive needs (a situation which would not be changed by the implementation of the universal

credit). In their place, a youth allowance should be made available to young people who need financial help while they gain skills or seek work, conditional on participation in such agreed activities. In the first instance, it should be paid at the same rate as JSA for under-25s, currently £56.80 a week.

This would mean that young people who currently make a claim for JSA would instead move on to a regime which demands personal responsibility but which enables them to continue their education if necessary, as well as supporting job-search. It would also mean those under-25s who currently claim ESA or income support moving on to an active and reciprocal system of financial assistance, but not one with a narrow focus on immediate labour market entry (with minor exceptions for those with substantial disabilities and very young children).

The youth allowance should be accessible by young people in further education or vocational training, as well as supporting them to look for work. The so-called '16 hours rule' currently prevents the vast majority of this group from accessing financial support, disincentivising continued education. Rectifying this would also create a lever to encourage young people to complete their initial education and to take up valuable training options once they have left school or college at 18.

Students in higher education should not be eligible for the youth allowance, given that they have an existing system of financial support through grants and loans. Similarly, the aim should not be to provide extra resources to young people in continued learning who have other means of financial support. Therefore the youth allowance should be subject to a means test on the basis of *parental* income until a young person is over 21, with minor exemptions. Beyond this age, it should be means tested on the basis of a young person's own resources, including a partner's.

Mirroring the wider youth allowance, until young people are over the age of 21 access to housing benefit should be subject to an assessment of whether they could be housed – or be supported to be housed – by their parents. As is the case for those in higher education, there should not be an automatic right to receive support with housing costs from the benefit system for those in this age group who are out of work or studying. This principle should include exemptions for those with children or a disability, in employment, unintentionally homeless or estranged from their parents. There would also be a case for making receipt of housing benefit and child tax credit conditional on participation in learning or job-search for those young people not also receiving youth allowance (and therefore already in an active benefit regime) and those not in employment. As with youth allowance, there should be exemptions to these conditions for those with children under 1 or a serious disability.

Based on the current cohort, an estimated 700,000 young people could be newly entitled to the youth allowance, before the parental means test is applied. This would comprise those who are NEET but not claiming an out-of-work benefit (440,000) and those who are studying (outside higher education) but not in employment or already receiving an out-of-work benefit (260,000). This is in addition to the 750,000 18–24-year-olds currently in receipt of JSA, ESA/incapacity benefit or income support who in future would receive the youth allowance.

If all 700,000 claimed the youth allowance for a full year the additional cost would be a little under £2.1 billion. Given fiscal constraints and public scepticism about benefit

expenditure, this would need to be met through offsetting savings and reasonable steps to control exposure to higher expenditure.

- Setting the youth allowance at the youth rate of JSA (£56.80) would save almost £300 million relative to existing spending on ESA / income support for young people (with protections for those in the ‘support group’).
- Means-testing the youth allowance on the basis of parental income until the young person is over 21, on the same basis as for the university maintenance grant, is estimated to offset almost £665 million of the additional costs and save £715 million relative to current expenditure on out-of-work benefits for young people.
- Limiting access to support for housing costs for those who are not over 21 to those with a child or a disability, or who are in work, would save £290 million a year.

These estimates are subject to a wide range of assumptions that are often impossible to model precisely. They are based on the ‘stock’ of current 18–24-year-olds when, in practice, costs and savings would depend on the ‘flow’ of young people around the system. They take no account of behavioural responses to introducing participation conditions on virtually all recipients, or widening opportunities to engage in further education.

Assuming existing entitlements were protected and the current system ‘grandfathered’ out, costs and savings would accrue gradually, as young people reach the end of the academic year after turning 18. In addition, shifting spending on apprenticeships towards under-25s would have the effect of reducing the number of young people potentially in receipt of youth allowance, further lowering its costs. Taken together, these options suggest the youth allowance could be introduced without the need for higher levels of public spending.

If, when subject to more detailed modeling, extra resources *were* required, three further steps could be considered to control costs. First, the threshold for the parental means test could be lowered. Second, the youth allowance could be restricted to supporting only job-search for those with a level 3 qualification or aged over 21. Third, a longer ‘waiting period’ could be applied before the youth allowance was paid to young people with a level 3 qualification, to encourage them to find work independently (with advice and guidance offered from day one).

**2. A youth guarantee should be established that offers young people access to further education or vocational training plus intensive support to find work or an apprenticeship. For those not learning or earning after six months, paid work experience and traineeships should be provided, with no option to refuse and continue receiving the youth allowance.** The youth guarantee would ensure that young people can complete their initial education and gain practical employability skills, while not drifting into inactivity. To pay for this substantial expansion of provision for young people, expenditure on 18–24-year-olds in the Work Programme should be re-directed, along with adult skills and apprenticeship funding for over-24s. In addition, parents’ entitlement to child benefit and child tax credit should cease at the end of the school year after their child has turned 18, when their entitlement to youth allowance begins.

For the youth allowance to achieve its goal of promoting participation in purposeful activity among young people, it must underpin good-quality learning and earning opportunities for young people, while preventing the drift into long-term inactivity. This should be organised around a youth guarantee, which gives young people access either to further

education and vocational training or to intensive support to access employment (including apprenticeships), with a backstop of paid work experience or a paid traineeship.

The clear offer to young people should be advice and guidance from day one, with learning or work guaranteed within six months. In return, the obligation on young people should be to participate meaningfully or forfeit entitlement to the youth allowance. Access to youth guarantee opportunities should be available to those not receiving the youth allowance (perhaps on account of the parental means test).

The path for young people within the youth guarantee should depend on their own circumstances and be agreed with a personal adviser, guided by a set of broad principles. The priority for the 460,000 18–24-year-olds who are NEET and do not hold a level 2 qualification should be completing their initial education. This should involve a programme of study, working towards a recognised and valuable qualification, ideally including practical work experience.

There would also be a strong case for the 250,000 young people without a level 3 qualification to participate in a good-quality programme of study at that level, given its higher wage returns. However, this should be focused on supporting progression into sustainable employment, higher learning or an apprenticeship. For the remaining 300,000 who are NEET but already hold at least a level 3 qualification, the objective should almost always be to enter sustainable employment as quickly as possible.

Once young people are over 21, the focus should shift strongly towards labour market entry, with any learning directly related to a specific occupational pathway or job opportunity. Alongside intensive job-search, young people should be encouraged to take up work trials with employers; support to become self-employed or to start a business should also be made available, alongside organisations with a track record in this area. A core objective within the youth guarantee should be to dramatically increase the number of good-quality apprenticeships, in both the private and public sectors. As well as delivering strong wage gains for young people, this would also reduce youth allowance caseloads and expenditure.

If young people are not learning or earning after six months, they should be provided with up to six months of paid work experience or a paid traineeship. This would place a limit on the length of time a young person could be unemployed, and at this point there would be no option to refuse and continue receiving youth allowance. These opportunities should be based on the previous government's Future Jobs Fund programme and the current government's traineeship programme, which have both enabled young people to develop employability skills and gain practical workplace experience.

If young people do not secure a successful 'learning or earning' outcome after six months' work experience or traineeship, they would be required to undertake an intensive, diagnostic review with their personal adviser. This would result in an agreed set of further actions, followed by participation in learning or work preparation activities, with a strong focus on full-time, purposeful activity in return for continuing to receive the youth allowance.

In practice, additional costs and potential savings associated with implementing the youth guarantee would depend on the flows of 18–24-year-olds into and out of employment and education, along with the rate and duration of youth allowance claims. However, based on the current cohort, an estimated 770,000 young people could participate, comprising those who are NEET and inactive (480,000) plus those who are NEET and unemployed but have been looking for work for longer than six months (290,000).



Based on current expenditure, unit funding of £3,000 should be allocated for the youth guarantee. Average unit funding of further education and apprenticeships for young people is currently below this level (with half of the actual costs of the latter met by employers). Analysis of the Future Jobs Fund found that net cost per place was £3,100; average unit funding for traineeships for this age group is £2,500, which would rise by £265 if participants were paid the ‘apprentice rate’ of the minimum wage instead of the youth allowance.

On this basis, it would cost £2.3 billion to offer youth guarantee provision to the 770,000 of the current cohort who are potentially entitled. In time, the goal would be to reduce expenditure on transfer payments to people who are persistently unemployed or inactive. But in the short term at least, funding the youth guarantee will require refocusing existing spending alongside steps to control the costs of provision.

- Based on current caseloads and expenditure on young people, it would be reasonable to reallocate £250 million of the Work Programme budget to funding the youth guarantee.
- Concentrating adult skills spending on 18–24-year-olds could release up to £1 billion, based on expenditure in 2011/12, while protecting over £400 million in spending on basic skills for over-25s (albeit in the context of substantial ongoing reductions in the budget for post-19 education).
- Shifting apprenticeships funding away from over-25s would mean an extra £487 million for 18–24-year-olds, based on spending in 2011/12, or 378,000 extra apprenticeship places (at current rates of funding by age).
- Ceasing parental entitlement to child benefit and child tax credit at the end of the academic year after their child turns 18 (rather than, as now, continuing until their child is 20) would save an estimated £690 million, while aligning with the start of entitlement to the youth allowance.

These estimates suggest that the youth guarantee could be funded in a way that allows a greater share of the adult skills budget to continue to be channeled towards those aged over-24 than is implied above. However, if more detailed modeling suggested these savings were not sufficient, further options to control costs could be considered. There would certainly need to be limits on the number of qualifications for which young people could receive public funding. Additionally, the point at which the paid work experience and paid traineeship ‘backstop’ kicks in could be pushed back slightly beyond six months to limit the costs of this relatively more expensive provision.

**3. The government should set national objectives and priorities for the youth guarantee, but the leadership of local areas should be mobilised to organise and deliver it. Decentralisation should start with London and the eight ‘core cities’ in England taking on resources and responsibility for their young people.**

These cities should establish strong governance arrangements, including a central role for employers, along with plans for commissioning a diverse network of local providers. In other parts of England the youth guarantee should be commissioned nationally and delivered through existing agencies and providers (with local input wherever possible). In every area, the personal adviser model should be paramount and data on performance against headline national objectives should be regularly published. To increase opportunity and drive employer engagement, large firms that do not offer apprenticeships for young people should pay a ‘youth levy’ to train and prepare the future workforce.

The youth allowance should be operated through a national processing system, with rates and eligibility rules applying across the UK, consistent with arrangements for existing benefits. Its implementation would require nothing like the scale of IT and systems redesign being undertaken for the universal credit. However, organising and delivering the youth guarantee would require substantial *institutional* reform.

Two key lessons arise from previous attempts at reform in this area. The first is the need to overcome the gap between the employment and education sectors for young people, rather than trying to work around it. The second is that attempts to ‘integrate employment and skills’ from the centre, through joint Whitehall committees and documents co-authored across government departments, have failed to drive substantial or enduring change.

Therefore, the ambition should be the mobilisation of local areas to take responsibility for supporting their young people, within agreed national goals for the youth guarantee. This would make it possible to bring together all those with a stake in supporting young people in that area and to bridge institutional divides between employment support and further education provision in particular parts of the country.

In recent years, many local areas have taken the initiative in responding to rising youth unemployment. A number have established apprenticeship agencies, youth employment commissions or intermediate labour market programmes to support their young people. There is evidence of a real appetite to act on this issue within local government, as well as the foundations of new local institutional arrangements.

However, not all local authorities have the track-record or capacity to take on responsibility for delivering the youth guarantee immediately, while a number of local enterprise partnerships (LEPs) remain institutionally weak. Therefore the decentralisation of resources and responsibility for the youth guarantee should be staged, starting with London and the eight ‘core cities’ in England, where a little under half (44 per cent) of all unemployed young people live.

At the next spending review, the government should establish a pooled budget for the youth guarantee at the national level, covering back-to-work support, further education and apprenticeships for 18–24-year olds. Ministers should set national objectives and priorities, as the basis for agreements with London and the core cities about their institutional arrangements and delivery plans for the youth guarantee in their area.

Cities would be expected to establish governance arrangements, building on those put in place through the city deals process. These should reach across traditional service and professional boundaries, with local authorities, employers, colleges, welfare-to-work providers, trade unions and young people themselves represented. Within this, clear lines of executive decision-making, responsibility and accountability would need to be agreed, with local authorities, employers (ideally via the LEP) and young people in the lead.

They should also cultivate and engage with a diverse base of provider organisations, enabling them to commission a range of educational provision and back-to-work support, as well as linking in other statutory funding and services. This should include more specialist organisations, such as those working with young people who face substance abuse, housing, debt or mental health problems.

Once proportional resources for the decentralised areas had been allocated, the remaining funding should be used to commission youth guarantee provision centrally for other areas

of England. Delivery would take place through existing agencies, with either JobcentrePlus or a large college in the lead in particular parts of the country. Ideally, these local areas would develop ‘shadow’ school-to-work transition institutions – led by local authorities and engaging employers via the LEP – to advise on or co-commission this provision.

During this process, other parts of the country could make their case for being ready and able to join London and the core cities in the first wave of devolution. In time, those areas with a track record and robust plans should take on power and resources as well, ideally on a combined authority basis. It would be for the devolved administrations to determine whether the youth guarantee was delivered in Scotland, Wales and Northern Ireland.

This asymmetrical approach would maintain a spine of national services and institutions, which would also remain to serve those aged 25 and over. This would enable JobcentrePlus, the Skills Funding Agency and the National Apprenticeship Service to maintain strategic relationships with large, multi-site employers. It would also make it possible for the government to step back in if a local area performed persistently poorly.

Whatever the institutional arrangements, the personal adviser model should be central to the youth guarantee. Advisers should be responsible for working consistently with young people to identify life aspirations and specific goals, codified in a personal contract that underpins receipt of the youth allowance. This should treat young people as individuals, rather than administering standardised ‘doses’ of support based on benefit category.

A key goal of these reforms should be to improve the quality of further education and apprenticeships, building on moves already underway. Apprenticeships should be restricted to new hires that are working towards a recognised qualification, with substantial off-the-job learning (increasingly over a minimum of two years and at level 3). To drive these changes, employers should be central to the governing and commissioning of the youth guarantee.

Accountability for the youth guarantee should be built around a set of core objectives: the share of young people with different levels of qualifications, the share in employment, the share that are NEET, and the share that have been unemployed or NEET for more than six months. Data for these goals across local areas should be published regularly. A reformed school-to-work transition system should also develop proactive strategies for engaging with young people identified as at risk of becoming NEET when they leave school or college.

These reforms should aim to increase dramatically the number of good-quality apprenticeships and drive employer engagement in the school-to-work transition system. The most recent survey found that only 13 per cent of UK establishments with at least two people working offered formal apprenticeships, which is significantly lower than in many European countries. These moves should be combined with a major drive to ensure that all large public sector employers offer good-quality apprenticeships for young people.

In return for a leading role in the governance and commissioning of the youth guarantee and a national mission to improve the skills and employability of the future workforce, employers should meet their responsibilities to give young people a chance, through offering work experience, traineeships and good-quality apprenticeships.

As an impetus, large firms should either offer apprenticeships to young people, in proportion to their size, or pay a ‘youth levy’ towards the costs of training young people. This should go alongside steps to preserve the brand and quality of apprenticeships. Resources raised should be controlled by employers, via LEPs, and used to fund vocational training and apprenticeships, potentially focused on supporting smaller firms.

The design of the youth levy should be subject to much further discussion and consultation. This should include the size of firms affected, the rate itself, and how these decisions themselves should be taken. National rules would prevent undercutting, but there is a case for local employers controlling locally raised youth levy revenue, with a redistributive element to support areas with low private sector activity.

In addition to raising revenue, a youth levy of this kind would establish an incentive for employers to actively engage in school-to-work transition arrangements in their area. This could include the development of apprenticeship training agencies or group training arrangements for small and medium-sized firms, as well as a lead role in the design of courses and qualifications.

As a guide, there are just over 37,000 businesses in the UK with over 50 employees, a number of whom operate across multiple sites. Together, they employ 12.9 million people, or just over half (53 per cent) of the private sector workforce. The latest figures show that just over a quarter (27 per cent) of 'establishments', rather than firms, with 25–99 employees offer apprenticeships, rising to just under a half (46 per cent) among those with 100 or more staff.

## Conclusion

In contrast to previous initiatives and attempts at reform in this area – Connexions, the New Deals, the Work Programme and the Youth Contract – this strategy aims to solve the fundamental failures of the school-to-work transition system, rather than making up for them.

It creates the potential to drive improvements in further education and vocational training provision, as well as increasing employer engagement in the educational system. It includes those on inactive benefits and is built around practical activities, not merely advice and guidance. And, through deep institutional reform, it seeks to restructure the opportunities and obligations facing young people.

There are also reasons to think this reform could carry widespread public support. Polling conducted earlier this year by YouGov for IPPR asked whether people would support 'Keeping young people out of the adult welfare system, restricting their access to things like disability benefits and social housing, but providing financial support for and greater access to education, apprenticeships and opportunities for work-with-training'. In response, 60 per cent backed the idea, while 14 per cent opposed it. The proposal was strongly supported by Conservative, Labour and Liberal Democrat supporters alike.

A return to sustained economic growth is a precondition for the headline rate of youth unemployment to fall. However, even then deeper problems will remain, and a recovery may well not benefit all young people. Evidence from other countries suggests that the structure and effectiveness of the school-to-work transition system makes a big difference. Unlike previous reforms, these proposals directly address the well-known weaknesses in this country by ensuring that young people can complete their initial education and gain practical work experience, while not drifting into inactivity.

It would be impossible to reduce the number of 18–24-year-olds who are NEET to zero – there will always be short periods when a young person is in a state of transition. However, our society should not settle for a system that systematically permits large minorities of 18–24-year-olds to spend long periods neither learning nor earning.

## INTRODUCTION

Over the last 18 months, IPPR has been analysing the trends and drivers of youth unemployment comparatively across Europe (Thompson 2013). Drawing on insights from the best-performing countries – in particular the Netherlands and Denmark – this paper sets out a central proposition for reform for the United Kingdom.

Our particular focus is on fixing the systems and institutions aimed at supporting young people to make the transition between school and work to radically reduce the number who are not in education, employment or training (known as ‘NEET’). There has been renewed interest in this issue at the highest political levels in recent months, suggests an opportunity for reform.

In September, the *Financial Times* reported that the Cabinet secretary, Jeremy Heywood, was to lead a ‘wholesale review of how to help unemployed young people amid concern at the top of government that the coalition is failing the under-25s’ (Stacy and Neville 2013). Later that month, in his speech to the Labour party conference, opposition leader Ed Miliband said:

**‘We have a tragedy in this country. Hundreds of thousands of young people who leave school and end up on the dole. We’ve got this word for it haven’t we? NEET: Not in education employment or training. Behind that short word is a tragedy of hundreds of thousands of wasted lives. If the school system fails our young people they shouldn’t be ending up on benefits. They should be ending up in education or training so they can get back on the road to a proper career. That requires them to accept responsibility but it requires government too to accept our responsibilities for the next generation in Britain, and that’s what we’ll do.’**

Miliband 2013

That intervention was followed, a week later, by prime minister David Cameron making a similar argument in his address to the Conservative party:

**‘There are still over a million young people not in education, employment, or training. Today it is still possible to leave school, sign on, find a flat, start claiming housing benefit and opt for a life on benefits. It’s time for bold action here. We should ask, as we write our next manifesto, if that option should really exist at all. Instead we should give young people a clear, positive choice: Go to school. Go to college. Do an apprenticeship. Get a job. But just choose the dole? We’ve got to offer them something better than that... So this is what we want to see: everyone under 25 earning or learning.’**

Cameron 2013

Then, in October, the independent Social Mobility and Child Poverty Commission, chaired by Alan Milburn, argued for the government to:

**‘...set a challenging aim of eliminating long-term (12 month+) youth unemployment and reducing NEETHood below the European average by increasing learning and earning opportunities for young people who should be expected to take up those opportunities or face tougher benefit conditionality.’**

SMCPC 2013

The focus of senior politicians and Whitehall officials on youth unemployment is not surprising. It is perhaps the most socially and economically damaging consequence of the recession, and is widely acknowledged also to have deeper, structural causes that pre-date the financial crisis. More politically significant is the common focus across the spectrum on the almost one-fifth of young people (18 per cent) who are not in education, employment or training (so-called 'NEETs') and their connection to the benefits system.

**We agree that ensuring young people are learning or earning – and kept out of the adult welfare system – is exactly the right goal.** However, turning this rhetoric into reality will take deep institutional innovation, strategic shifts in public spending, and the mobilisation of a range of actors spanning traditional policy and service divides. The prime minister's initial focus on access to housing benefit among the under-25s, for instance, does not do justice to the scale of the changes required.

The final report from our programme of research will set out a comprehensive reform strategy to bear down on youth unemployment. However, given the recent political interest in the role of the benefits system for young people, we initially focus our attention on that area, and specifically on how it works for the 18–24 age group.

The direction of reform proposed is heavily informed by the lessons and experiences of the Netherlands and Denmark, as well as our own analysis of the domestic challenges. In recent years, both countries have taken steps to construct a distinct benefits, training and work track for those moving from education to employment; separate from the adult welfare system. Both now also boast some of the lowest rates of youth unemployment and young people being NEET across Europe. Our proposals also draw on the experience of Australia, which has a unified system of financial support for young people engaged in learning or job search.

# 1. THE PROBLEM: A BROKEN SCHOOL-TO-WORK TRANSITION SYSTEM FOR YOUNG PEOPLE

IPPR's comparative analysis has highlighted a number of factors – beyond the short-term lack of demand – that are contributing to relatively high levels of youth unemployment and the comparatively widespread incidence of young people being NEET in the UK (see Thompson 2013).

It has long been argued that British youngsters not on the A-levels–university academic track are poorly served, with the evidence pointing to three serious failures in our education and training systems:

- the substantial minority of young people leaving school without decent qualifications, basic literacy and numeracy, or broader employability skills
- the variable quality of courses and qualifications in the further education and vocational training system
- the weak connections between that system and the changing needs and demands of the labour market.

Consistent with other countries, the declining prevalence of British young people gaining work experience alongside their studies also appears to be a major problem. This trend is compounded by structural labour market shifts that have squeezed out the kinds of jobs that enabled previous generations of young people to embark on successful careers. However, contrary to some other countries, there is little evidence to suggest that either labour market regulation or the minimum wage are significant barriers to the employment of young people in the UK (Thompson 2013).

Some of these issues have been long discussed and are well understood. And the current government is in the process of reforming further education funding to address some of the problems in this area (SFA 2013). However, much less commented on in either the academic literature or policy debates is the deeply flawed set of options facing those who come into contact with the benefits system after leaving school. None requires young people to 'learn or earn' or facilitates their doing so. In combination, they actively hamper successful school-to-work transitions, at both the individual and institutional level.

The majority of young people do not claim out-of-work benefits early in their adult life: they move quickly into paid employment, enroll at university (with its own system of grants and loans), or are supported financially by their parents. However, for those that do, the benefits system forces young people to make a crude choice between trying to start earning or trying to continue learning, while leaving open the possibility of drifting away from education and the workplace indefinitely.

- The main benefit for those looking for work is jobseeker's allowance (JSA), which is aimed solely at encouraging claimants to find a job as quickly as possible. It places strict constraints on the scope for continued education or training, including a requirement to take available jobs at short notice. This 'work first' approach is broadly appropriate for people who have been in employment but lost their job. But is not optimal for those starting out in their career, especially if they have not attained a decent set of qualifications that reduces their risk of future unemployment and equips them to succeed in the labour market.
- The other out-of-work benefit options are employment and support allowance (ESA) and income support, which are both designed to provide an income for those who are unable to work. The former is available to those with a health condition or disability, while the latter is accessible by those with a child. Both have few, if any, work or training requirements. This may be appropriate for older adults in these particular

life circumstances, but for young people, a period of inactivity in the formative stage of their adult life should be avoided if at all possible, given the risk that it will lead to long-term exclusion from the labour market.

- There is very little financial support for young people aged 18–24 to participate in further education or vocational training, unlike for those in higher education.<sup>1</sup> This restricts access to continued learning among young people without support from parents or other independent sources despite this being precisely the group who need it most. It is possible for ESA or income support claimants to participate in continued learning, though it is not the purpose of these benefits and there are no participation conditions attached to keep young people engaged. Training of 16 hours or more a week is not permitted for those on JSA.<sup>2</sup>
- There is no upper limit on the amount of time a young person can claim JSA, despite the damaging effects of long periods of time neither learning nor earning at the formative stage of adult life. Similarly, ESA and income support can allow unlimited periods out of educational or economic activity. Perhaps even more worryingly, 43 per cent of young people who are NEET do not claim any out-of-work benefit,<sup>3</sup> and so have no systematic connection to the kind of support that could engage them in learning or earning.

It is worth remembering that, even during a recession and despite these failings of the benefit system, most young people navigate the transition to adulthood, often with the help of friends and family. Well over half (58 per cent) of 18–24-year-olds are in employment while just under a quarter (24 per cent) are in education or training (but not working) (IPPR calculations using ONS 2013). However, these figures do not necessarily mean that those young people are in good, secure jobs with prospects or in high-quality training that enhances their employment opportunities or enables them to access higher-level education.

For instance, the JSA regime is blind to claimants' employment history, meaning that young people can spend significant periods 'cycling' into and out of temporary work without this being registered or responded to by the system.<sup>4</sup> Similarly, young people who continue in learning after leaving compulsory schooling can find themselves on a series of poor-quality training courses without strong labour market or educational value.

These structural failures of the benefits system come at significant cost to the taxpayer. In 2011/12, £2.5 billion was spent on out-of-work benefits for the under-25s: £1.2 billion on JSA, £439 million on ESA (and incapacity benefit) and £848 million on income support. A further £6 billion was committed to this age-group through child tax credit (£3.1 billion), housing benefit (£1.8 billion), working tax credit (£383 billion) and disability living allowance (£766 million).<sup>5</sup>

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1 The small exceptions are 'Care to Learn' and Discretionary Learner Support, which are discussed further below.

2 After scrapping the educational maintenance allowance (EMA) this government has introduced the bursary fund to provide financial support to vulnerable young people aged 16–19 to continue in education. At £180 million a year in 2011/12, its budget is substantially lower than the £564 million spent on EMA in the previous year.

3 Figure derived from an average of four quarters of the Labour Force Survey (Q2 2012 – Q1 2013).

4 There are attempts to recognise the particular circumstances of disadvantaged young people on JSA, through the 'fast tracking' of those with a history of being NEET to the Work Programme.

5 Benefit expenditure figures derived from DWP Tabulation Tool. Working tax credit and child tax credit figures based on IPPR calculations using DWP 2013. Total child tax credit expenditure is £21 billion and 15 per cent goes to 'benefit units' with all adults under 25. Total working tax credit expenditure is £7.7 billion and 11 per cent goes to 'benefit units' with all adults under 25.



Annual social security expenditure figures understate the cost of the NEETs problem, for individuals and society. The majority of young people in receipt of JSA leave relatively quickly: almost two-thirds (64 per cent) of current 18–24-year-old claimants have been on the benefit for less than six months.<sup>6</sup> However, those on inactive benefits tend to claim for much longer. Over half (52 per cent) of young people claiming ESA (and incapacity benefit) have already been doing so for over a year, as have 61 per cent of under-25s on income support.<sup>7</sup> The substantially longer duration of inactive benefit claims mean that those started early in adulthood risk compounded, long-term costs to the taxpayer – not to mention the individual.

Looking more broadly, young people who fail to securely attach to the labour market face a far greater risk of future periods of unemployment and low earnings potential, as do those who do not attain decent qualifications. Longitudinal analysis suggests that, controlling for other factors, those who are unemployed at a young age will spend, on average, an extra two months a year out of work in their late 20s than they would otherwise have done. They will also, on average, go on to earn between £1,800 and £3,100 less a year by their early 30s than if they had never been out of work (CYU 2012).

There are also wider flaws in the current school-to-work transition architecture. Mirroring the fragmentation of the benefits system is a structural disconnection between employment support and training provision. The culture of back-to-work services – whether delivered by JobcentrePlus or through the Work Programme – is largely dismissive of anything other than very short-term, specific job preparation training (for example, helping someone to gain a licence to become a security guard). Meanwhile, the commissioning of further education and vocational training is not yet systematically connected to labour market demands.

Finally, employer engagement in the education system is patchy, including in relation to the design and accreditation of programmes of vocational study, while the recent revival of apprenticeships have been concentrated among the over-25s and existing staff (Richard 2012). This, in part, reflects the historically weak organisation of employers in this country, relative to many on the continent. However, there remains widespread employer dissatisfaction about the work readiness of young people and the effectiveness of the education system in meeting their needs (CBI 2012). These factors, in combination, point to a school-to-work transition system with serious and structural failures, requiring deep institutional reforms.

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6 Data derived from Nomis claimant count data and refers to September 2013.

7 Compared with 59 per cent and 80 per cent of all ESA/incapacity benefit and income support claims respectively. Figures calculated using the DWP tabulation tool and refer to Q1 2013.

## 2. THE SOLUTION: A DISTINCT LEARNING AND EARNING TRACK FOR YOUNG PEOPLE

David Cameron and Ed Miliband were both right in their party conference speeches: young people should not be on welfare. It is terrible for their prospects, expensive for the state and indicative of a major social policy failure. Instead, they should be learning or earning – and in many cases ideally both. They certainly should not be spending long periods of time in neither education nor employment.

Being young is, by definition, a period of transitions. Nonetheless, there is no reason why any young person should spend more than short periods of time neither continuing their education nor building their career. Therefore, in addition to driving down short-term youth unemployment as quickly as possible, **the goal for society should be to eliminate all but the most temporary experience of being NEET among young people.**

Achieving this goal will require the mobilisation of effort and resources across society, including central and local government, schools, colleges, employers and the voluntary sector – not to mention young people themselves, supported by their friends and families.

To galvanise such a national effort, major institutional reform is needed. This paper proposes the establishment of a distinct learning and earning track for young people, separate from the adult welfare and benefits system, built around two core features:

1. A **youth allowance**, providing financial support for young people who need it, conditional on their participation in purposeful training or intensive job search.
2. A **youth guarantee**, offering the chance of training and work to all young people, with the backstop of paid work experience or traineeships to prevent long-term inactivity.

The combined objective of these entitlements would be to ensure that all young people aged 18–24 complete their initial education and set out into the labour market with prospects. To achieve this, their design and delivery should facilitate breaking down the division between working and learning pathways for young people, while preventing a drift into long-term inactivity. They should also overcome the perverse rigidities that are endemic to the current range of benefit options, while entrenching the principle of mutual obligations, or ‘give and take’ for all.

But how could such arrangements be brought about and how might they work in practice?

### The youth allowance

The starting point for reform should be ending entitlement to JSA, ESA and income support for under-25s – given that none of these benefits is capable of serving the distinctive needs of this age-group.<sup>8</sup> The universal credit, even if it is implemented, does not solve that problem; it simply changes the labels. In place of existing and planned benefits, a youth allowance should be made available to young people who need financial help while they gain skills or seek work, according to their own personal goals and circumstances. Receipt of the youth allowance should be conditional on participation in such agreed activities. In the first instance, it should be paid at the same rate as JSA for under-25s, which currently stands at £56.80 a week.

This change would mean that a young person who would currently make a claim for JSA would instead move on to a regime that continues to demand personal responsibility but which enables them to continue their education if necessary, as well as supporting job

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<sup>8</sup> There would be case for retaining carer's allowance under this reform, which is currently available to those over 16 who spend at least 35 hours a week caring for someone they live with. Young carers often face major disadvantages in relation to their education and future employment prospects, so every effort should be made to support them to participate in learning and work if this is possible.

search. It would also mean that the vast majority of those under-25s who would currently claim ESA or income support would move on to an active and reciprocal system of financial assistance, but not one with a narrow focus on immediate labour market entry.

There should be exceptions to these arrangements for young people with a health condition or disability that renders future paid employment virtually impossible (perhaps acquired in childhood), and for young people with a child of their own under the age of 1.<sup>9</sup> A higher rate of income replacement should be retained for the former group, probably through early access to the (adult) ESA support group. Young people with very young children of their own should have a period of entitlement to support through the youth allowance without participation conditions, to enable them to focus on their caring responsibilities, before re-engaging with education or employment.

However, despite these exemptions, the firm intention should be to keep as many young people with a disability or children within an active system, given the significance for an individual's health and wealth of working and learning – and the risks of long-term exclusion from both. Given that participation requirements under the youth allowance would cover education, rather than only employment-related activities, the expectation should be that fewer young people are exempted from the youth allowance than are in the ESA support group currently<sup>10</sup> and that participation conditions should apply for young parents earlier than for older parents on JSA.

The other exemption from the youth allowance should be young people with a sufficiently strong employment record of their own to qualify for contributory JSA. As now, they would be entitled to six months' non-means-tested financial support if they lose their job. In all other respects, they should be within the same system as other under-25s, with options and obligations tailored to their personal circumstances. If they have not found alternative employment within six months they would then revert to the (means tested) youth allowance for financial support.

In some respects, the introduction of the universal credit could be seen as a step towards a system of this kind. Assuming its implementation challenges are overcome, it will replace JSA, ESA and income support, along with three other benefits, for all working-age recipients. However, in practice, young people will face the same mix of support, conditions and restrictions under the universal credit as they do now, with only the separate benefit labels disappearing. The youth allowance, as described above, would be a fundamentally restructured system, designed around the particular needs of young people.<sup>11</sup>

Another major difference in comparison with the current regime – and that planned under the universal credit – is that the youth allowance would be accessible by young people in further education or vocational training. The so-called '16 hours rule' currently prevents access to financial support from the vast majority of this group, while disincentivising continued education. The absence of a system of financial support for this group also means no lever to direct young people towards valuable training options and to encourage them to complete their initial education once they have left school or college.

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9 Young people would continue to receive 'extra cost' benefits: disability living allowance (which is in the process of becoming the personal independence payment), or child benefit and child tax credit.

10 This would require a different approach from the current 'work capability assessment, in particular to place far greater focus on a personal education or employment plan for young people with a health condition or disability.

11 There is set to be one exception, which is that young people who are estranged from their parents can receive the universal credit while participating in non-advanced education, training or work up to the age of 21. See paragraph 11: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/221579/uc-draft-regs-2012-memorandum.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221579/uc-draft-regs-2012-memorandum.pdf).

Filling this gap in financial support would aim to re-engage those 18–24-year-olds who are ‘inactive’ NEETs – that is, who are not in education or training *and* not looking for work. Alongside the youth guarantee (set out below), it would also provide a mechanism for driving better commissioning and accountability of further education and vocational training provision, alongside back-to-work support. In particular, it would enable a firmer focus among providers on the labour market or continued education destinations of young learners, as well as aiming to raise quality across the board.

The likely costs of this reform and how they might be met are discussed later in this paper. However, it is clearly not viable to open up access to the youth allowance to all under-25s in education and training (who currently number around 2.4 million). Students in higher education should not be eligible, given that they have a separate and existing system of financial support through grants and loans. Similarly, the primary aim is not to provide extra resources to young people in continued learning who have other means of financial support, either in their own right through earned income or from their parents.

Therefore, in addition to being conditional on purposeful activity, the youth allowance should also be means tested on the basis of *parental* income. This would mirror the design of the Australian youth allowance, which is similarly structured to provide support for ongoing learning and job-search. The precise nature of this targeting would depend on public spending constraints and political choices. However, a leading option should be to apply the same rules governing entitlement to a higher education maintenance grant, which is assessed on the basis of parental income for under-25s. For the purposes of the youth allowance, once young people are over the age of 21, entitlement should be means tested on the basis of their own independent resources, including their partner’s.

Under-25-year-olds with their own children would continue to have access to child benefit and child tax credit as now. However, for any such recipient who is not also claiming the youth allowance and not in employment, there would be a case for making receipt of child tax credit conditional on engagement with education or back-to-work support once their youngest child is 1 year old. This could begin with young child tax credit recipients who do not hold an approved level 2 qualification. This would further reduce the chances that young people with children, who are still in the formative stage of their own adult life, do not become detached from learning or working. As part of this bargain, the government should aim to meet the childcare costs of young parents engaging in learning or job-search,<sup>12</sup> and ideally provide help with transport costs as well.

Mirroring the wider youth allowance, until young people are over the age of 21, access to housing benefit should be subject to an assessment of whether they could be housed – or be supported to be housed – by their parents. As is the case for those in higher education, there should not be an automatic right to receive support with housing costs from the benefit system for those in this age group who are out of work or studying. There should be exemptions from this principle for those with children or a disability, those in employment and those who are unintentionally homeless or estranged from their parents.

As with child tax credit for young parents, there is a similar case for housing benefit being conditional on participation in education or back-to-work support for young people not also receiving youth allowance (and therefore already in an active benefit regime) and not

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12 Building on the existing ‘Care to Learn’ system: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/239848/Care\\_to\\_Learn\\_Guide\\_for\\_2013-14.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/239848/Care_to_Learn_Guide_for_2013-14.pdf)

in employment.<sup>13</sup> Again, this could begin with those who do not hold a level 2 qualification. Local authorities should not allocate lifetime social housing tenancies to those under the age 25, while aiming to provide supported accommodation to vulnerable young people, including those with children of their own who cannot live with their parents (such as on the Foyer Federation model).<sup>14</sup>

For completeness, young people with a disability should continue to be eligible for DLA – and the new personal independence payment – as they are now. There should also be no change to the availability of working tax credit or housing benefit for employed under-25s in a low-income household. The youth allowance is not intended to provide in-work support to young people in employment or on a (waged) apprenticeship. However, it should also not create new disincentives to work, especially given the importance of young people gaining work experience while completing their initial education. Therefore, an earnings disregard and taper should apply, potentially consistent with that planned for young people under the universal credit.<sup>15</sup>

Finally, 16–17-year-olds would not be covered by the youth allowance; their position under these proposals is discussed in the annex to this report.

### The youth guarantee

The introduction of a youth allowance along the lines described above would establish a system of financial support for 18–24-year-olds which would facilitate their participation in positive, purposeful activities. For this architecture to achieve its goal, it must underpin good-quality learning and earning opportunities for young people, while preventing the drift into long-term inactivity. These should be capable of fitting around an individual's particular goals and circumstances.

The framework for improving these opportunities should be a youth guarantee, which gives young people access either to good-quality further education, vocational training or an apprenticeship or to intensive and supported job-search, with a backstop of paid work experience or a paid traineeship. The clear offer to young people should be this: advice and guidance from day one, with learning or work guaranteed within six months. In return, the obligation on young people should be to participate meaningfully in these activities or forfeit their entitlement to the youth allowance. Access to youth guarantee opportunities – such as education and training, or support with job search – should also be available to those not receiving the youth allowance (because of the parental means test).

The path for young people within the youth guarantee should depend on their own circumstances, guided by some broad principles. For those who have not completed their basic education – that is, who do not have a level 2 qualification plus good literacy and numeracy – the priority should be continuing their learning. This should involve a programme of study, working towards a recognised and valuable qualification that facilitates access to higher learning, an apprenticeship or work. It should include components of literacy and numeracy (or GCSEs in English and mathematics for those who have not already attained it, or made several attempts to do so) and ideally work experience or work placements.

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<sup>13</sup> As with youth allowance, there should be exemptions from this rule for those with children under the age of 1 or a serious disability.

<sup>14</sup> For more information, see: <http://foyer.net/>.

<sup>15</sup> There is a wider question, not addressed fully here, about how the youth allowance would align with the universal credit for over-25s and whether couple claims would be possible under such a reformed system.

The pathway should be less strictly predetermined for young people who have secured a basic education (at level 2). They should have the option of participating in further learning or vocational training, where this is identified as advancing their personal goals and is agreed with their personal adviser. Receipt of the youth allowance would then be conditional on participation and completion of the agreed programme of study leading to a level 3 qualification. There would be limits placed on the number of programmes of study young people could engage in, with the clear objective of them progressing into secure employment, higher learning or an apprenticeship as soon as possible. Any further education or vocational training would have to be with an approved provider.

Young people who have attained a basic education – and for whom further learning was not desired or deemed appropriate – should be intensively supported to find a job with prospects (ideally one that includes training). The focus should be to identify a good match between job opportunities and a young person's skills and aspirations, with the goal of their making a successful transition into a high-quality apprenticeship or sustainable employment. As is discussed below, the success of the youth guarantee would depend significantly on employers meeting their responsibilities to help prepare the future workforce, including through offering apprenticeships. Support to become self-employed or to start a business should also be available to young people, working with organisations that have a track record in this area (like Young Enterprise).<sup>16</sup>

Receipt of the youth allowance should be conditional on participation in continued learning or actively looking for work and taking reasonable job offers. Once young people are over 21, the focus of the youth guarantee should shift strongly towards labour market entry, with any learning permitted being directly related to a specific occupational pathway or job opportunity.

Alongside intensive job search, young people should be encouraged to take up short work trials or work experience with employers. There is strong evidence on the impact of work experience and informal contacts with employers on an individual's labour market prospects (see for example Hensvik and Skans 2013). In addition, a core objective within the youth guarantee should be to increase dramatically the number of good-quality apprenticeships, in both the private and public sectors. As well as delivering strong wage gains for young people, this would also reduce youth allowance caseloads and expenditure.

If young people are not learning or earning after six months, they should then be provided with up to six months of paid work experience or a paid traineeship. The effect of this measure would be to place a limit on the amount of time a young person could be unemployed, with no option for young people to refuse these opportunities and continue receiving youth allowance.

The model for paid work experience should be based on the successful Future Jobs Fund, established under the last Labour government. Evaluations show that this programme substantially increased participant's future employment prospects (Fishwick et al 2011, DWP 2012a). Such work opportunities should be sourced across the public, private and voluntary sectors, with young people carrying out tasks of social value which provide experiences similar to those on the open labour market (while not displacing existing jobs).<sup>17</sup> Placements should be structured to give young people practical experience and employability skills while allowing (and expecting) them to continue looking for work. The

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<sup>16</sup> For more information, see: <http://www.young-enterprise.org.uk/>.

<sup>17</sup> For examples, see Fishwick et al 2011

focus throughout should be on supporting participants to progress into unsubsidised employment, an apprenticeship or valuable training as soon as possible.

The other ‘backstop’ option within the youth guarantee should draw on the recently introduced Traineeship programme.<sup>18</sup> Traineeships last up to six months and combine a work placement with work preparation training, including English and mathematics.<sup>19</sup> They are intended for young people who lack work experience and have a low skill level, with the goal of preparing them for employment or an apprenticeship. The aim is for young people to be guaranteed a job interview at their ‘host’ employer at the end of their placement. Participants are encouraged to secure sustainable employment or an apprenticeship as soon as possible, which will count as having completed their traineeship. As currently designed, young people do not receive a wage while on a traineeship, but are able to continue receiving JSA while they are participating.

If young people do not secure a successful ‘learning or earning’ outcome following the six months on work experience or the traineeship, they would be required to undertake an intensive, diagnostic review with their personal adviser. This would result in a further agreed set of actions, followed by further participation in learning or work preparation activities, with a strong focus on full-time, purposeful activity in return for receiving the youth allowance.

The conditionality regime underpinning the youth allowance should be aimed at promoting engagement in purposeful activity. If young people fail to fulfill their side of the bargain then they should face a financial penalty, including if they are found to be willfully avoiding or subverting the opportunities they are receiving. Such penalties should be activated quickly and tied to a discussion with the young person about the reason why they broke their promise. At all times, the aim should be to get young people to re-engage with positive activity as soon as possible and to not lose them from the system altogether.

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<sup>18</sup> For more information, see: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/223591/Traineeships-framework-July2013.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223591/Traineeships-framework-July2013.pdf). The prime minister has also announced the goal of creating 100,000 vocational training opportunities for young people over the next two years, in partnership with large employers.

<sup>19</sup> Training would have to be with an approved provider.

### 3. THE INSTITUTIONS: MOBILISING THE LEADERSHIP OF TOWNS, CITIES AND COUNTIES

The youth allowance should be operated through a national processing system, with rates and eligibility rules applying across the UK, consistent with arrangements for existing benefits. It would require nothing like the scale of IT and systems redesign being undertaken for the universal credit. The key change is about what young people get and what they are able to do; not the wiring of the benefits system. By contrast, organising and delivering the youth guarantee would require substantial *institutional* reform.

An important lesson from previous attempts to fix the broken school-to-work transition system is that they have tried to operate around the deeply embedded cultural and bureaucratic divides between the education and employment sectors, rather than restructuring and overcoming them. The experience of Connexions is a case in point: it had no stake in, or purchase over, JobcentrePlus or further education and vocational training provision. It was therefore doomed to remain a marginal player, advocating around the edges of the system, with neither meaningful power nor real responsibility.

Similarly, repeated attempts to ‘integrate employment and skills’ at the national level have made precious little practical progress. Joint Whitehall committees and documents co-authored by different government departments do not drive enduring and substantial change.

Therefore, while the Westminster government should retain responsibility for setting high-level objectives and priorities for the youth guarantee (for England at least), the ambition should be for local areas to be mobilised to support their young people to attain a decent education and achieve a successful transition into employment.<sup>20</sup> Decentralising responsibility for the youth guarantee would collapse the institutional separation between employment support and further education for 18–24-year-olds.<sup>21</sup>

In recent years, many local areas have taken the initiative in responding to rising youth unemployment and disengagement, within the constraints of existing national policy and resources. Local authorities in Sheffield, Gateshead, Newcastle, Nottingham, Manchester and Liverpool have all created forms of ‘apprenticeship agency’ to coordinate local apprenticeship provision and to work with employers (often via further education colleges). South Tyneside and Birmingham councils have established ‘youth employment commissions’ to draw together efforts to get young people into training or work. Jobs Growth Wales, the Glasgow Guarantee, Jobs for Haringey and the Nottingham Jobs Fund have all been set up to provide paid work experience for young people at risk of long-term unemployment. Leeds is working towards becoming a ‘NEET-free’ city.

These examples demonstrate the appetite within local government for showing leadership on this issue, as well as the foundations of new local institutional arrangements to support young people. Overall, local government in England is better regarded and higher performing than for many years (for instance see Travers 2012); despite major on-going budget reductions. There is no route to rebuilding strong civic government – and challenging the centralisation of power in England – without major acts of devolution in areas where different interests need to be brought together to solve a common problem, and where there are inherently distinctive needs and circumstances in particular parts of the country. The school-to-work transition system meets both these criteria.

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20 The devolved administrations in Scotland, Wales and Northern Ireland would be offered the chance to develop youth guarantees in their territory, which would come with the transfer of control for back-to-work support. These administrations are already responsible for their education and training.

21 Further education funding and entitlements are currently divided into 16–19 and post-19. This is confused by the difference between calendar and academic years. The focus here is on young people who have finished the school year after their 18th birthday.



## A staged decentralisation strategy, starting with London and the core cities

However, an act of decentralisation along these lines would mark a major break in the design and delivery of employment support and adult skills policy. To succeed, local areas would need to significantly enhance their institutional and delivery capacities, while demonstrating the ability to show real civic leadership. The impact of a long period of political centralisation has left local authorities as largely delivery agents of central government. And the absence of an established architecture of strategic sub-national governance sets England apart from virtually all advanced countries.

In reality, not all local authorities have good enough track records or have the necessary capacity to take on responsibility for delivering the youth guarantee immediately. Many do not yet have strong partnership arrangements with neighbouring authorities necessary to act together on a larger scale, while a number of local enterprise partnerships (LEPs) remain institutionally weak. There is, therefore, a strong case for staging the decentralisation of the school-to-work transition system and the delivery of the youth guarantee; starting with London and the eight 'core cities' in England.

As the table below shows, a little under half (44 per cent) of all unemployed young people live in these cities, which are based on the LEP boundaries. These 'city-regions' are already demonstrating a willingness and capacity to act at a strategic level, through 'city deals', community budgets and the emergence of combined authority structures (notably in Greater Manchester).

**Table 3.1**  
Share of youth unemployment concentrated in the core cities\* and London, in the year to June 2013

Cities*	Unemployed 18-24s	Total 18-24s	% of 18-24s unemployed**	% of all unemployed 18-24s in UK	% of all 18-24s in UK
London	104,100	722,600	14.4	<b>13.6</b>	12.5
Leeds	43,500	329,300	13.2	<b>5.7</b>	5.7
Manchester	35,000	284,700	12.3	<b>4.6</b>	4.9
Birmingham	34,500	190,500	18.1	<b>4.5</b>	3.3
Sheffield	32,700	187,300	17.5	<b>4.3</b>	3.2
Nottingham	27,200	210,600	12.9	<b>3.5</b>	3.6
Newcastle	26,400	201,400	13.1	<b>3.4</b>	3.5
Liverpool	23,100	155,900	14.8	<b>3.0</b>	2.7
Bristol	12,400	115,800	10.7	<b>1.6</b>	2.0
Total core cities	234,800	1,675,500	14.0	<b>30.6</b>	29.0
Total core cities + London	338,900	2,398,100	14.1	<b>44.2</b>	41.5
United Kingdom	766,900	5,779,600	13.3	<b>100.0</b>	100.0

Source: Annual Population Survey, 2013

\* 'Cities' here refer to putative city-regions, based on existing LEP areas, which has been used by the government in the city deals process.<sup>22</sup>

\*\* This is not the youth unemployment rate, which is the share of the economically active population that is looking for work.

As a starting point, the Westminster government should use the next spending review to establish a pooled budget for the youth guarantee at the national level, covering back-to-work support, further education and apprenticeships for 18–24-year olds. This should be accompanied by clear national objectives and priorities, for instance covering issues such as raising the quality of vocational training and apprenticeships. Ministers and officials

<sup>22</sup> See [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/7523/CO...Unlocking\\_20GrowthCities\\_acc.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/7523/CO...Unlocking_20GrowthCities_acc.pdf)

in Whitehall should then negotiate with the leaders of London and the core cities over a strategy for advancing reform in this area.

This would entail a combination of national legislative changes and funding decisions, alongside cities setting out their plans for organising and delivering the youth guarantee in their area. The latter must include detail on the establishment of local institutional and governance arrangements, plus strategies for local commissioning and accountability. Within this model, local institutions or providers would advise and support young people in making claims for the youth allowance, while also ensuring they fulfill their obligations to participate in purposeful activity (and processing financial penalties from a failure to do so).

A strategy along these lines would mean London and the core cities taking over those responsibilities now exercised in their areas by JobcentrePlus and through the Work Programme for the under-25s, as well as for commissioning post-19 further education and vocational training provision. This must be done alongside employers, who should have a central role in local governance and decision-making structures. Driving such sub-national integration would overcome the fragmentation that currently exists between the Department for Work and Pensions (DWP, including JobcentrePlus), the Department for Business, Innovation and Skills (BIS, including the Skills Funding Agency) and the Department for Education (DfE) in Whitehall. Recent analysis found that young people between the ages of 13 and 24 can receive support from at least eight national organisations and 33 different funding streams (LGA 2012).

It should be for each part of the country affected to determine their own geography, drawing on existing city-region and combined authority models.<sup>23</sup> Where possible, boundaries should align with LEPs areas to help drive employer engagement. Governance arrangements in the cities should give practical form to the importance of reaching across traditional service and professional boundaries, with local authorities, employers, colleges, welfare-to-work providers, trade unions and young people themselves represented. Within this, clear lines of executive decision-making, responsibility and accountability would need to be agreed, with city authorities, employers (ideally via the LEP) and young people in the lead.

Cities should also cultivate and engage with a diverse base of provider organisations, enabling them to commission a range of educational provision and back-to-work support, as well as linking in other statutory funding and services. In addition to the established colleges and welfare-to-work providers, this should reach out to more specialist organisations, such as those working with young people who face substance abuse, housing, debt or mental health problems. There could also be a key role for the private sector, in particular in helping local areas to develop effective systems for data processing, information management, partnership working and performance assessment.

A particular example of local partnership arrangements along the lines envisaged here is North Lanarkshire's Working,<sup>24</sup> which IPPR visited as part of our Condition of Britain programme.<sup>25</sup> This partnership brings together a range of statutory and non-statutory organisations involved in promoting and supporting employment in this part of Scotland. In a similar vein, cities might consider creating an independent not-for-profit company to lead, run and manage the youth guarantee in their part of the country. This is the status

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23 Operating on a scale larger than individual local authorities would reduce the risk of young people being caught by boundary issues, such as living in one area and studying in another.

24 For more information, see: <http://www.northlanarkshiresworking.co.uk/>.

25 For more information, see: <http://www.ippr.org/research-project/44/10307/the-condition-of-britain>

of Routes to Work Ltd, a back-to-work provider that has autonomous governance and management but is part-owned by North Lanarkshire council.

During this initial process of decentralisation, other parts of the country should be able to make their case for being ready and able to join London and the core cities in the first wave of devolution. Over the medium term, if these reforms prove successful, the ambition should be for local leadership in all areas to assume responsibility for the resources and commissioning of the youth guarantee in their part of the country. It would be for the devolved administrations to determine whether how they configured the delivery of the youth guarantee in Scotland, Wales and Northern Ireland.

A staged implementation approach along these lines would mean putting in place alternative arrangements for delivering the youth guarantee in areas of England outside London and the core cities, at least in the short term. Once proportional resources for the decentralised areas had been allocated from the pooled national budget, the remaining funding should be used to commission other youth guarantee provision centrally. Delivery would take place through existing agencies, with either JobcentrePlus or a large college in the lead in particular parts of the country. Ideally, local areas affected by these arrangements would develop ‘shadow’ school-to-work transition institutions – led by local authorities and engaging employers via the LEP – to advise on or co-commission this provision.

This asymmetrical approach would maintain a spine of national services and institutions, which would remain in any case to serve those aged 25 and over. This would enable JobcentrePlus, the Skills Funding Agency and the National Apprenticeship Service to maintain strategic relationships with large, multi-site employers. It might also be sensible to retain a national tariff structure, such as for commissioning further education and vocational training, to reduce bureaucracy for providers with a wide geographic reach.

This reform would, of course, create a new fragmentation by *age*. However, such a life-course approach is far more appropriate, given the need for a different balance between educational and employment objectives as young people move from childhood to adulthood. For those aged 18–24, these goals must be held together, whereas education should be the priority before this point and employment afterwards. There is a broader case for decentralising control of employment support and adult skills provision for all ages, but it makes sense to start with the younger cohort. This also allows local areas to build up their capacity and capabilities while retaining a spine of national provision if the Westminster government needs to step back in because a particular city-region has performed persistently poorly.

### Strategies for raising quality and ensuring accountability in the youth guarantee

However the institutional arrangements governing the youth guarantee are configured, this reform should be used to advance the primacy of the personal adviser (or caseworker) model. Consistent evidence points to the impact of the adviser–client relationship in achieving positive employment outcomes (see for example NAO 2006). Advisers should be responsible for working consistently with young people to identify life aspirations and specific goals, codified in a personal contract underpinning receipt of the youth allowance (similar to the recently introduced ‘claimant commitment’). This contract would prioritise completion of a basic education, followed by concrete steps towards higher learning, an apprenticeship or sustainable employment. If possible, the parents or guardians of young people should be actively involved in this process.

Ideally, personal advisers would have manageable caseloads and skills in pedagogy or life coaching, rather than a narrow educational or labour market background. To control resources, it would be sensible to operate a triage system, informed by a segmentation tool (such as the Job Seeker Classification Tool, used in Australia<sup>26</sup>), although for 18–24-year-olds this should not be focused solely on distance from the labour market. This would enable lighter-touch advice and guidance for young people who have clear and acceptable plans of their own (or who are not eligible for the youth allowance). The overriding aim should be to treat young people as individuals, rather than administering standardised ‘doses’ of support based on benefit category.

The success of the youth guarantee would depend substantially on whether it drives improvements in the quality of further education and vocational training and its effectiveness in preparing young people for work, apprenticeships or higher learning. At present, too many young people are participating in courses that do not improve their future prospects (Wolf 2012). The goal should be for young people in continued learning to be following programmes of study, linked to occupational pathways, with core English and mathematics components, which lead to recognised and valuable qualifications. Ideally, such programmes of study should include time spent in the workplace gaining practical skills and experiences. Further steps should also be taken to improve further education provision, in particular the quality of teaching and lecturing. Consideration should be given to learning from – or replicating for the post-19 sector – the work of the Education Endowment Foundation to support innovation and best practice in schools.<sup>27</sup>

The current government has taken important steps on quality, not least through reviews into vocational education and apprenticeships (see Wolf 2011, Richard 2012 respectively). But there is much further to go. Sub-national commissioning of post-19 education and training would enable greater responsiveness to the particular needs of young people and the labour market in each area. It would also create the possibility of a more active and ongoing dialogue among commissioners, educational providers and employers. This, in turn, would increase the likelihood that provision could be adaptive to demand and that persistent poor performance would be identified (relative to large-scale, centrally commissioned skills programmes). It would also make it more possible for the voice of small and medium-sized employers – which can get lost in national programmes<sup>28</sup> – to be heard.

These reforms should be linked to reform of apprenticeships that preserves their status and brand while taking steps to improve their quality. Consistent with reforms underway, this should involve restricting them to new hires that are working towards a recognised qualification, with substantial off-the-job learning (increasingly over a minimum of two years and at level 3).<sup>29</sup> Employer engagement in commissioning youth guarantee provision would help to ensure that young people are being properly prepared for apprenticeship opportunities and the workplace. And it would encourage employers to offer traineeships, work experience placements and work trials to young people looking for employment in their local area, as well as creating a mechanism to connect local employers and local schools.<sup>30</sup>

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26 For more information, see: <http://www.alrc.gov.au/publications/8-social-security%E2%80%94determining-capacity-work/job-seeker-classification-instrument>

27 For more information, see: <http://educationendowmentfoundation.org.uk>

28 This is also the case with JobcentrePlus and Work Programme providers, who tend to focus their employer engagement activity on large firms who recruit in bulk (such as when a new retail store opens).

29 In its response to the Richard review, the government has taken some steps in this direction by agreeing that by 2018 all apprenticeships should be a minimum of one year in length, with apprentices working towards an independently assessed qualification and spending at least 20 per cent of their time in off-the-job learning.

30 Especially important since the statutory requirement for young people to participate in work experience while at school has been removed.

It would be essential for school-to-work transition systems to be subject to a robust accountability framework. One advantage of the current JSA regime is that ‘success’ is easily measurable, according to the number of young people claiming the benefit and the speed with which they leave (ideally to enter employment). Under these proposals, the objective would be successful transitions from school-to-work for all young people, while preventing any from spending more than short, temporary periods as NEET. Accountability should, therefore, be built around a set of clear outcome measures, maximum data transparency and rigorous performance management.

The core objectives against which local areas should be held to account are:<sup>31</sup>

1. the share of young people without level 2, level 3 and level 4 qualifications – assessed by different types and across various age sub-groups
2. the share of young people in work, in secure employment (of more than three months) and in apprenticeships
3. the share of young people who are NEET
4. the share of young people who have been unemployed or NEET for more than six months.

Data for these goals across local areas should be published regularly, alongside contextual economic and labour market indicators. This would highlight poor performance, allowing a local or national response, and identify local areas that are succeeding, as a source for sharing innovation and best practice. Crucially, these metrics would serve to further ensure educational and employment objective are held together, with the focus shifting from the former to the latter as young people move from their teenage years into their 20s.

It would also be vital for accountability metrics to capture ‘durations’, to give a fuller sense of young people’s employment and educational histories and their personal trajectories. This should become increasingly possible with the development of the systems underpinning the universal credit, including ‘real-time information’ on earnings collected by HM Revenue and Customs. There are also doubtless many opportunities for harnessing the potential of new technology to support young people and improve service performance. Online information on education and employment opportunities and digital or social media tools to enable young people to understand options available to them and to keep in touch with advisers (and mentors or coaches) are only the most obvious examples.

Finally, to succeed in their core objective, it would be vital for school-to-work transition systems to develop strategies for engaging with young people as they leave school or college. For a minority of young people, this is where they ‘fall through the cracks’. Local authority duties in this area are currently weak<sup>32</sup> and, in practice, responsibility tends to fall between them, JobcentrePlus, further education institutions and the remnants of Connexions. The effective abolition of the careers service has not helped. Legislation raising the participation age should help, although there is uncertainty about whether – in the absence of wider changes – this will prevent 16- and 17-year-olds becoming detached from education and employment. Therefore, local areas must develop systems to intervene earlier with the minority of young people who can be identified as at risk of becoming NEET. This issue, along with the wider position of 16- and 17-year-olds under these reforms, is addressed further in the annex to this report.

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31 These deliberately do not include the share of young people who are participating in education or training at any one time. In itself, this is not a salient measure.

32 For more information, see <http://www.education.gov.uk/aboutdfe/statutory/g00222993/stat-guide-young-people-edu-employ-train>

### **Learning from abroad: Youth transitions in Denmark and the Netherlands**

Both the Netherlands and Denmark have distinct work, training and benefit tracks for young people that are separate from the main adult welfare system.

These prioritise the acquisition of a basic education and qualifications that are valued by employers. Financial support can underpin both continued learning and intensive job-search, with obligations attached. Routes to long-term, inactive benefits are cut off (with minor exceptions for young people with substantial disabilities acquired in childhood).

Reforms shortly to be introduced in Denmark mean that young people who have not completed their basic education are required to enroll in school, college or workplace learning, with a stipend to support them, rather than claiming social benefits. If young people with a basic education have not found work within three months they are provided with a community job and required to take it.

In the Netherlands, the youth transition system operates until young people are 27. Those without a decent education are directed back to school or college, alongside systematic early engagement with those at risk of dropping out of learning (with schools held to account for the share of young people leaving without decent qualifications). Receipt of financial support is conditional on young people's participation in training or job search, according to an agreed plan and overseen by a caseworker.

The Dutch system is heavily decentralised. 'Youth desks' run by local municipalities lead on delivery, involving specialist support in areas ranging from housing to mental health, substance abuse to debt. Municipalities receive a budget from the federal government for reintegration services and social assistance benefits, with savings on the latter kept locally.

The Netherlands and Denmark combine these active youth transition strategies with high-quality vocational education and apprenticeship systems that provide a clear pathway from learning into work. Employers and unions design courses and accredit qualifications so that young people acquire skills with labour market value and gain important work experience in the process.

Both these countries have among the lowest rates of youth unemployment in Europe. Based on the latest comparative figures, just 11.0 per cent of young people are unable to find work in the Netherlands and 11.7 per cent in Denmark, compared with 21.1 per cent in the UK and 23.4 per cent across the European Union (Thompson 2013).<sup>33</sup>

Just 9.0 per cent of unemployed young people in Denmark have been out of work for more than a year and 13.8 per cent in the Netherlands, compared to 27.4 per cent in the UK and 31.5 per cent across the EU-15.

Perhaps even more impressively, in 2012, just 4 per cent of Dutch young people aged 15–24 and 7 per cent of Danish in this age bracket were NEET. This compares to 14 per cent in the UK and 13 per cent across Europe.

<sup>33</sup> The Dutch youth unemployment rate has risen somewhat in recent months.

## 4. THE COSTS: PAYING FOR ALL YOUNG PEOPLE TO LEARN OR EARN

The plausibility of these reforms, in the current fiscal context, depends on their cost and the options available for financing them. This is difficult to determine precisely, due to data constraints and uncertain behavioural effects. However, it is possible to give a sense of the areas where additional expenditure would be needed, as well as options for redirecting existing spending and finding new sources of revenue. Over the medium term, the objective would be to substantially reduce long-term demands on the benefit system and to raise economic output through a higher employment rate and a more productive workforce.

To approximate the costs of this package of reforms, it is first necessary to understand who would be affected. A little under one-fifth of 18–24-year-olds – 18 per cent, or just over 1 million young people – are currently NEET. As a guide to potential engagement with a reformed school-to-work transition system, the overall population of 18–24-year-olds can be broken down as follows (ONS 2013):

- **480,000** are inactive and NEET
- **540,000** are unemployed and NEET
- **240,000** are unemployed but in education or training
- **1,180,000** are economically inactive but in education or training
- **3,360,000** are in employment (and possibly also in education or training)

Over half (57 per cent, or 580,000) of 18–24-year-olds who are NEET claim one of the main out-of-work benefits: JSA, ESA/incapacity benefit or income support. This leaves just over two-fifths (43 per cent, or 440,000) who do not. In addition, 150,000 young people in education, employment or training claim an out-of-work benefit (out of 4.8 million in total who are in 'EET'). Based on administrative data, in the first quarter of 2013, there were 750,000 18–24-year-olds in receipt of an out-of-work benefit: 400,000 on JSA, 150,000 on ESA/incapacity benefit, and 200,000 on income support.<sup>34</sup> There were also 350,000 18–24-year-olds receiving housing benefit: 187,000 who live in the social rented sector and 167,000 who live in the private rented sector.<sup>35</sup>

Young people on JSA are in contact with JobcentrePlus for the first nine months of their claim. Beyond this point they participate in the Work Programme (or earlier, if they have a history of being NEET). Those on ESA/incapacity benefit are in principle also supported by the Work Programme. However, so far, only a little over one in ten (11 per cent) of young people on ESA have participated (17,000 out of a current ESA/IB caseload of 150,000 18–24-year-olds). The remainder will be attending biannual 'work-focused interviews' at JobcentrePlus. Few of those aged 18–24 on income support will have any engagement with back-to-work support at all, given that the majority of young lone parents will have young children (unless they have voluntarily opted into it).

Looking in more depth at the population of young people who are NEET reveals that slightly over half (51 per cent) are female. Over half (54 per cent) of young females who are NEET have at least one child, compared to less than one in 10 (9 per cent) of their male counterparts. Seventy per cent do not have a level 3 qualification, compared to 43 per cent among all 18–24s. Almost half (45 per cent) do not have a level 2 qualification, compared to just 21 per cent of all young people. Nearly one in five (18 per cent) 18–24-year-olds who are NEET do not have any qualifications at all; over a fifth (21 per cent) have some form of disability (ONS 2013).

34 Since then, the number of 18–24-year-olds on JSA has dropped to 350,000. However, the higher figure is quoted here for the purposes of comparability with other benefits.

35 Figures based on IPPR calculations using Q2 2012–Q1 2013 of the ONS Labour Force Survey (ONS 2013).

Many young people face periods of transition as they move into adulthood, but damage is done when these become prolonged. This makes understanding the dynamics of young people's experience vital. Almost half (46 per cent) of unemployed 18–24-year-olds have been looking for work for less than six months. However, more than a third (35 per cent, or 190,000 young people) have been unemployed for over a year. Even more worryingly, just under half (49 per cent, or 240,000) of 18–24-year-olds who are NEET and not looking for work have never had a job, while well over three-quarters (86 per cent, or 420,000) have not worked in more than a year (ONS 2013).

Many young people are not in employment because they are still in education. Exempting students in higher education, the latest data suggests there were 754,600 19–24-year-olds engaged in (publically funded) further education in 2011/12, including apprenticeships and work-based learning.<sup>36</sup> Just over half (51 per cent) studied in a further education college, a third (33 per cent) in a private sector college, and the remaining 15 per cent in a sixth form college, school or other institution.<sup>37</sup> According to these latest figures, almost four-fifths (79 per cent) of the courses undertaken by 19–24-year-olds were at level 2 or below (with 35 per cent at level 2 and 44 per cent below level 2). By contrast, just 20 per cent of the courses were at level 3, while less than 1 per cent were at level 4 or higher.<sup>38</sup>

Turning to apprenticeships, significant numbers are taken by over-24s and most are directed towards lower-level qualifications. Of the 800,000 people participating in an apprenticeship in 2011/12, only a third (34 per cent) were aged 19–24. Just under a quarter (24 per cent) were taken by those under 19, while over two-fifths (43 per cent) were filled by those aged over 24. Overall, almost two-thirds (61 per cent) of apprenticeships were at level 2, 38 per cent were at level 3 and less than 1 per cent were at level 4.<sup>39</sup> The distribution of apprenticeships among 19–24-year-olds followed a similar pattern, with over half (56 per cent) at level 2, 42 per cent at level 3 and just 1 per cent at level 4.

This analysis gives a snapshot of the current cohort of 18–24-year-olds: their benefit, employment and educational status, along with the services, provision and options available to them. Next it is necessary to consider the likely costs and possible savings associated with the youth allowance and youth guarantee. In practice, these would derive from the flows of young people into and out of education and employment and the dynamics of their own and (for those not over 21) their parent's incomes. However as a guide, cost estimates are based on implementing the new system for the current cohort of young people.

### Youth allowance: options for costs and savings

The introduction of the youth allowance would potentially open up access to financial support to two new groups. The first comprises young people aged between 18 and 24 who are NEET but not claiming an out-of-work benefit; there are currently 440,000 young people in this position (ONS 2013). The second comprises young people aged 18–24 who are in education or training but not receiving an out-of-work benefit; the size of this group is less straightforward to estimate.

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36 [http://www.thedataservice.org.uk/Statistics/statisticalfirstrelease/sfr\\_current/Summary.htm](http://www.thedataservice.org.uk/Statistics/statisticalfirstrelease/sfr_current/Summary.htm) (this data divides young people into 'under 19', '19–24s' and '25-plus' age-groups).

37 For more information, see: [http://www.thedataservice.org.uk/Statistics/fe\\_data\\_library/further\\_education\\_skills/](http://www.thedataservice.org.uk/Statistics/fe_data_library/further_education_skills/)

38 [http://www.thedataservice.org.uk/Statistics/statisticalfirstrelease/sfr\\_current/Summary.htm](http://www.thedataservice.org.uk/Statistics/statisticalfirstrelease/sfr_current/Summary.htm). Note that the total number of courses undertaken by 19–24-year-olds in 2011/12 was 315,800 higher than the total number of learners in that year, indicating that a significant minority participated in more than one course during the year.

39 [http://www.thedataservice.org.uk/Statistics/statisticalfirstrelease/sfr\\_current/Summary.htm](http://www.thedataservice.org.uk/Statistics/statisticalfirstrelease/sfr_current/Summary.htm). Note that, as with courses, the total number of apprenticeships undertaken was slightly higher than the total number of people participating in apprenticeships in 2011/12.



There are around 2.4 million 18–24-year-olds in education or training in total. However, of those, 1.3 million are working towards a degree-level qualification and 180,000 are 18-year-olds studying for A-levels. The former group is taken as a proxy for those in higher education, who would automatically be outside this system. The latter group is also excluded for the purposes of these calculations because, in practice, they would not become eligible for the youth allowance until the end of the academic year that they turned 18.<sup>40</sup> This leaves 880,000 18–24-year-olds in relevant forms of education or training. However, the actual number eligible for the youth allowance would be substantially lower, because 370,000 of this group are in employment and a further 160,000 are on a (waged) apprenticeship (ONS 2013).

Being in work would not automatically disqualify young people from receiving the youth allowance, but their earnings would be taken into account (as would that of their parents if they were not over 21 and not deemed ‘independent’, and any partner’s if they were over 21). As discussed earlier, in practice, entitlement would depend on the design of disregards and tapers. For the purposes of the cost estimates below, the assumption is that those in employment are not also in receipt of the youth allowance.<sup>41</sup>

This leaves 350,000 18–24-year-olds who are in education or training but not claiming an out-of-work benefit, in addition to the 440,000 young people who are NEET and not in receipt of a benefit. Counted against these numbers are 90,000 18–24-year-olds who are in education or training but *already* receiving an out-of-work benefit.<sup>42</sup> Based on the current cohort of 18–24-year-olds, this suggests that **700,000 additional young people could be eligible to receive the youth allowance, less those affected by the parental means test** (discussed below). In addition, **the 750,000 18–24-year-olds already in receipt of JSA, ESA/incapacity benefit or income support would be transferred across to the youth allowance.**

Given the fiscal context, the additional costs implied by this increase in access to financial support among those who are NEET would need to be met through offsetting savings, new sources of revenues and reasonable steps to control exposure to higher expenditure.

As a starting point, £2.5 billion was spent on out-of-work benefits for 18–24-year-olds in 2011/12. This comprised £1.2 billion on JSA, £848 million on income support and £439 million on ESA (and its predecessor, incapacity benefit).<sup>43</sup> This money would be recycled into the youth allowance. In the same period, a further £1.9 billion was spent on housing benefit and £3.1 billion on child tax credit for young people in their own right, which would be affected by these reforms.<sup>44</sup>

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40 This is likely to be an underestimate of those who would be ineligible, as it does not include those studying for vocational qualifications in the academic year during which they turn 18.

41 This reform would not create a new disincentive to work, as earned income is already counted against entitlement to JSA, ESA or income support. Theoretically, it could lead to those in education or training and also in work exiting employment to become entitled to the youth allowance. However, unless they were earning less than £56.80 a week, they would be financially worse off from doing so.

42 The other 60,000 18–24-year-olds who are in ‘education, employment and training’ and receiving an out-of-work benefit are classified in the data as being in work and so are assumed to be counted out of the youth allowance (though this does not feature in the cost estimates).

43 Figures derived from the DWP tabulation tool and refer to 2011/12 (DWP 2013c).

44 Housing benefit figures is derived from DWP 2013a. Child tax credit figure is derived from IPPR calculations using DWP 2013d. Both refer to 2011/12.

In practice, the design of the youth allowance would come down to a political judgment. However, there are a number of options that should be considered as a way of financing this reform.

**a. Setting the youth allowance in line with the youth rate of JSA**

The youth rate of JSA is currently £56.80 a week. This option would save money relative to existing entitlement to ESA and income support among young people. The average award for 18–24-year-olds in receipt of ESA (or incapacity benefit) is £91.77 a week; for those claiming income support it is £68.52 a week. If these were both reduced to the youth allowance rate – exempting young people in the ESA support group – it would generate savings of £176 million and £122 million a year respectively (based on the current caseload). Higher savings would accrue from increasing the share of young disabled people that are within the active youth allowance system, relative to the current ESA support group.<sup>45</sup> Assuming existing entitlements were protected, any savings from transferring young people from current benefits to the youth allowance would accrue over a transitional period (as would extra costs).<sup>46</sup>

**b. Means-testing the youth allowance on parental income until young people are over 21, with minor exceptions**

This would control the additional expenditure arising from widening entitlement to financial support, while also saving money relative to the current cost of JSA, ESA and income support. This approach should mirror the rules governing support for young people at university, where access to a maintenance grant is based on parents' income for those aged up to 25. The full grant is available to those whose parents' income is under £25,000. The parental means test does not apply to young people under the age of 25 who have children, have lived away from the family home for at least three years, were in local authority care, or are irrevocably estranged from their parents.

There is no data on the parental income of those aged over 19 to assess how many of those entitled to the youth allowance might be affected by a parental means test of this kind. However, under a third (30 per cent) of 16–19-year-olds who are dependent on their parents live in a household with an annual income of less than £25,000.<sup>47</sup> There are a further 6 per cent who are considered 'independent' in the data, meaning they either do not live with their parents or are married (excluding those already in higher education); though living away from parents should not trigger an automatic exemption from the parental means test (ONS 2013).

By way of comparison, the most recent figures show that 40 per cent of those starting higher education receive the full maintenance grant (see SLC 2011). Young people going to university tend to come from higher-income families. However, this figure covers all full-time students and therefore the equivalent figure for under-22s is likely to be lower, first, because the parental means test for the maintenance grant applies until 25 for university students, by which time more people will have had children or lived away from home for three years, and second, because the 40 per cent figure includes all new students, including those over 25 who are means-tested on their own income.

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45 The saving given here is based on exempting the 38 per cent of young people on ESA who are in the support group (57,000 18–24-year-olds).

46 In the last year for which figures are available, 127,000 young people started claiming ESA, while 120,000 started claiming income support. There would also be a decision about whether to have a 'couple rate' in the youth allowance, as is the case in JSA and income support.

47 Figure refers to 2011/12 and is based on IPPR calculations using DWP 2013a.

Taking all these insights into account, it might be expected that around 40 per cent of 18–21-year-olds who are eligible for the youth allowance will have parents with an income of less than £25,000 (or be deemed ‘independent’).<sup>48</sup> They would receive the youth allowance in full, but others would be entitled to partial or zero awards. As with student finance rules, a taper would need to apply for young people with parental income above £25,000. Those aged over 21 would be subject to a means test based on their own income and that of their partner’s, if they have one (which could affect a number of those young people brought into eligibility for financial support under the youth allowance).

### **c. Establishing a presumption that young people are housed by their parents until they are over 21, with some exceptions**

This would generate savings relative to current housing benefit rules by establishing a default that those young people aged 18–21 who are still in education or looking for work should be housed (or be supported to be housed) by their parents. This would maintain the same rules for those studying in further education or vocational training as currently apply to those in higher education. There should then be exceptions to this rule where parental support is not an option or appropriate.

Based on the latest expenditure figures, just under £740 million a year is currently spent on housing benefit for those aged 18–21.<sup>49</sup> If housing benefit for this age group was restricted to those ‘family units’ that included someone with a disability, someone with a child or someone in employment it would save £290 million. In this instance, being in receipt of ESA is taken to denote having a disability. This is clearly not a precise assessment of the impact of this change, given that current benefit rules do not take account of parents’ ability to house (or support to house) their children once they turn 18. As a guide, £354 million is spent on housing benefit for 18–21-year-olds with children and £70 million on those in receipt of ESA.

These estimates can take no account of the behavioural response of young people and their families, were this new principle to be introduced. This makes any assumption about possible savings highly tentative. Assuming existing entitlements were protected, any savings would accrue over time. Consequential changes to ‘non-dependent deduction’ rules would also be needed, to cover situations where those not over 21 continue to live with parents who are themselves in receipt of housing benefit.

### **d. Other affordability measures**

In addition to these direct savings, extending the principle of reciprocity – or ‘give and take’ – through the youth allowance would be likely to have behavioural effects that generate savings. Additional obligations to engage in learning or job-search among young people who currently receive ESA and income support (with small exceptions) would be expected to lead to less time spent on benefits over the long term, even if this followed an initial period of re-engagement in education. A similar impact could also be expected from placing participation requirements on the receipt of housing benefit and child tax credit for young people who had not attained a decent qualification (at level 2) and were not also receiving the youth allowance.

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48 Young people are deemed ‘independent’ if they have children, have lived away from the family home for at least three years, were in local authority care, or are irrevocably estranged from their parents.

49 To be precise, this refers to households where all adults are in this age bracket. It does not cover, for instance, a household where a 25-year-old lives with a 21-year-old. Further consideration is needed to the treatment of mixed-age couple households under this reform. Data sourced from DWP 2013e.

There might also be a ‘shake out’ effect from introducing participation conditions on the 350,000 young people who are currently receiving out-of-work benefits that place few, if any expectations on claimants (ESA/incapacity benefit and income support). Such strategies would also act to reduce or offset any higher costs associated with delayed labour market entry for young people who would spend longer in education under the youth allowance system relative to the current system (including those now on JSA).

#### **e. Funding the youth allowance: conclusion**

To summarise, if the 700,000 18–24-year-olds newly entitled to financial support under the youth allowance all claimed for a full year the additional cost would be a little under £2.1 billion. However, assuming claimant numbers divided evenly by age<sup>50</sup> and that – as per the assumptions above – 60 per cent of those aged 18–21 were disentitled by the parental means test, the additional cost would reduce by £665 million. It is very difficult to assess what share of existing 750,000 young claimants of out-of-work benefits would be affected by this change, but if it was a similar share, a further £715 million would be saved.

On top of this, £300 million towards the cost of financing the youth allowance would be released by applying the £56.80 rate for the youth allowance in place of the current (higher) average awards of ESA and income support for young claimants. A further £290 million would be saved by restricting access to housing benefit among 18–21-year-olds to those with a child or disability or in employment.

In combination these measures would offset almost all of the estimated additional costs of the youth allowance. In later sections, the costs and savings associated with implementing the youth guarantee are discussed. This includes shifting funding for apprenticeships towards the under-25s, which would have the effect of reducing the number of 18–24-year-olds potentially in receipt of the youth allowance. If just 10 per cent of the existing apprenticeship places for over-25s were instead taken by young people who would otherwise receive the youth allowance then the remaining costs of this policy would be offset.

It is vital to note that all of the costs and savings figures given here are subject to a wide range of assumptions that are difficult – often impossible – to model precisely. In addition, estimates are based on the ‘stock’ of current 18–24-year-olds when, in practice, costs and savings would depend on the ‘flows’ of young people around the different parts of the system.<sup>51</sup> Assuming existing entitlements were protected and the current system ‘grandfathered’ out, costs and savings would accrue gradually, as the youth allowance was implemented for those reaching the end of the academic year after turning 18.

However, despite these caveats, what this assessment of financing options attempts to show is that **the youth allowance – entailing an expansion of financial support to disadvantaged young people to keep them engaged in learning or work – could be introduced without the need for higher levels of public spending.**

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50 Assuming that youth allowance is available over a period 6.5 years, from halfway through being 18 to turning 25. Therefore 3.5 years of potential claims are affected by the parental means test and three years are not.

51 As previously noted, there is a chance that employment rates among those in education or training could decline as a result of financial support being available through the youth allowance to this group. The behavioural effects from a wider application of ‘participation conditions’ on financial support for young people should reduce benefit expenditure over the long term.

Given fiscal constraints and public skepticism about benefit expenditure, if additional resources were a precondition then this reform would be very unlikely to gain political traction or have any realistic prospect of being implemented.

If, when subject to more detailed modeling, the design features proposed above suggest that the youth allowance *would* require extra resources, three further options could be considered. First, the threshold for the parental means test could be lowered from £25,000 or the taper beyond that point set more steeply. Second, the youth allowance could be restricted to supporting only job-search rather than further learning for young people with a level 3 qualification or aged over 21, thereby accelerating labour market entry and cutting the average duration of claims.

A third options would be a longer ‘waiting period’ before the youth allowance was paid to young people with a good qualification – such as at level 3 – to encourage them to find work independently. Young people would still be able to access advice and guidance with job-search and preparation during this period. The Netherlands is introducing a four-week waiting period for access to social benefits among young people, to encourage them to access education or employment independently.<sup>52</sup>

### Youth guarantee: options for costs and savings

As with the youth allowance, additional costs and potential savings associated with implementing the youth guarantee would, in practice, depend on the flows of 18–24-year-olds into and out of employment and education, along with the rate and duration of youth allowance claims. In the absence of this data, which given uncertain behavioural effects is impossible to model, the best shorthand is to consider the position of the current cohort of young people.

Delivering the youth guarantee would require additional resources in two areas. The first would follow from more aggressively (and successfully) promoting further education and vocational training to those who are currently NEET, as well as making such opportunities available to those on JSA. The second would result from providing paid work experience or a paid traineeship to young people who were not learning or earning (or about to start doing so) after receiving the youth allowance for six months. These two groups are not mutually exclusive.

Turning to the size of the cohort affected, there are **just over 1 million 18–24-year-olds who are not in education, employment or training (NEET) across the UK (1,020,000)**. Of these, 480,000 are inactive and NEET – that is, who are not looking for work – with only 40,000 having been in this position for less than six months. It is possible that this group could respond to these reforms by moving closer to the labour market and deciding to look for work. The remaining 540,000 18–24-year-olds who are NEET are unemployed – they *are* looking for work – of whom 250,000 have been in this position for less than six months.<sup>53</sup> It is similarly possible that this group might respond to the possibilities available under the youth allowance to continue their education before entering the labour market.

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52 There is also £127 million spent on discretionary learner support that provides help to disadvantaged young people aged 19 and over in meeting the costs associated with staying in further education. This could be incorporated into the funding of the youth allowance, though it currently benefits those aged 25 and over in addition to young people: <https://www.gov.uk/discretionary-learner-support/overview>.

53 Data derived from IPPR calculations using ONS 2013. By way of comparison, around 228,000 young people aged 18–24 have been claiming JSA for less than six months, out of a total youth caseload of 353,000. The higher figures for those who are unemployed reflect the larger number of people looking for work than claiming JSA (Nomis 2013).

Extra provision would obviously not be needed for those young people who are already in education or training.

Given this cohort size, it is necessary to consider the costs and funding options for the youth guarantee pathways.

### **a. Further education, vocational training and apprenticeships**

Recent changes have sought to bring greater clarity to the funding of post-19 (non-HE) education and training. The government now funds providers on a simple per-qualification basis.<sup>54</sup> For example, GCSE mathematics and English (level 2) are funded at a basic rate of £724 each, while the final year of an A-level in social care is funded at £1,417 (before any 'top ups' are added). Those studying towards larger 'diploma-level' qualifications attract greater funding: a level 3 NVQ diploma in business administration attracts £1,987, for example, while a level 3 BTEC diploma in communication technology attracts £2,583. Meanwhile, those studying smaller award-sized qualifications will attract less funding (somewhere between £150 and £600).

In addition to these basic rates, there is 'top-up' funding for providers in London and the south east, and for learners who live in a deprived postcode. Finally, there are performance incentives, with 20 per cent deducted from a provider's grant if a student does not achieve their 'learning aim' (attain their qualification).

These variations mean there is not a standard unit level of funding for further education and vocational training. There is a cap of £4,400 of funding per learner per year, although many will courses do not reach this limit. As a guide, figures for 2011/12 suggest average unit funding of £1,273 per learner aged 19–23 (BIS 2012).<sup>55</sup> It is important to remember that providers tend to make budget decisions based on the cost of putting on a *class*, rather than on a per-student basis. The unit cost of increasing the marginal number of learners will often be lower than the average (unless new capital expenditure is required). Therefore, unit funding of £3,000 for further education and vocational training within the youth guarantee would seem to be conservative; leaving scope to improve the quality of courses and teaching.

There is also no standard unit level of funding for apprenticeships, the costs of which are split equally between employers and the state for those aged 19–24.<sup>56</sup> On the latest figures for 2011/12, the average unit funding from the government for apprenticeships for 19–24-year-olds was £1,323 (BIS 2012).<sup>57</sup> By contrast, guidance from the Skills Funding Agency suggests a national rate of apprenticeship funding of £2,615 for this age group for 2012/13.<sup>58</sup> In practice, apprenticeship funding varies depending on a number of factors, not least its length and the qualification being studied. In addition, steps to raise the quality of apprenticeships, with more at level 3 and lasting two years, will increase the resources required, albeit that these (training) costs are shared between employers and the state. Therefore, it would seem to be reasonable to allocate *public* funding of £3,000

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54 For more on how the funding system has been simplified, see SFA 2013.

55 Based on total spending on learners aged 19–24 of £982 million divided by 771,500 total learners in this age group.

56 This situation may be clarified when planned reforms to apprenticeship funding are published.

57 Based on total spending on apprenticeships for 19–24s of £328 million divided among 248,000 people participating in a (funded) apprenticeship in this age group. There is also a £1,500 grant available to an employer with less than 1,000 employees that takes on an apprentice aged 16–24 having not previously done so during the previous 12 months (via the 'Apprenticeship Grants for Employers' scheme).

58 See page 86: [http://www.niace.org.uk/sites/default/files/documents/projects/Family/External\\_research/SKILLS-FUNDING-AGENCY-Funding-Rule-2012\\_2013.pdf](http://www.niace.org.uk/sites/default/files/documents/projects/Family/External_research/SKILLS-FUNDING-AGENCY-Funding-Rule-2012_2013.pdf)

per apprenticeship within the youth guarantee.<sup>59</sup> Of course an apprenticeship is a ‘job with training’, so increasing the number available to young people will reduce the caseload and cost of the youth allowance.

### **b. Paid work experience and paid traineeships**

The most accurate basis for costing paid work experience – effectively an intermediate labour market programme – is the government’s cost-benefit analysis of the Future Jobs Fund. This put the gross cost to the exchequer at £6,850 per participant, which covered their pay for 25 hours a week at the appropriate rate of the minimum wage. However, the net cost was found to be £3,100 once increases in tax revenues and reductions in benefits and other costs were taken into account. This includes the effect of young people not receiving out-of-work benefits when participating in this waged provision. Significantly, the programme also delivered a net gain (per place) for participants of £4,000, to employers of £6,850, and for society of £7,750 (DWP 2012a: 60).

The average unit funding for new ‘traineeship’ programme for 19–23-year-olds is £2,500.<sup>60</sup> Providers can draw funding on a per-qualification basis for the learning element (as described above). They also receive a lump sum to organise the work placement, although there are no financial incentives for employers to participate. To align with paid work experience, participants on traineeships should be paid the ‘apprentice rate’ of the minimum wage. At the current rate of £2.68 an hour, this would mean £67 for a 25-hour week (matching the length of Future Jobs Fund placements, to leave room for work search and engagement with personal advisers). These wage costs should be met by the state. However, given that participants would not receive the youth allowance, the *additional* gross unit cost would only be £265 over a six-month period. This suggests it would be reasonable to assume unit funding of £3,000 for paid work experience and paid traineeships as part of the youth guarantee.

In practice, it would be for local areas – and personal advisers and young people themselves – to determine the appropriate balance of options and pathways under the youth guarantee. This would also depend on local providers and employers – and the effectiveness in getting young people into learning or earning options quickly. However, in general, the focus for those with low or no qualifications should be participation in further education and vocational training. By contrast, for those who have completed their initial education and have decent skills, the priority should be entry into an apprenticeship or employment (or higher education). The ‘backstop’ of paid work experience and paid traineeships should come into play for any young person who has not moved into learning or work within six months.

As a guide, there are 460,000 18–24-year-olds who are NEET and do not hold a level 2 qualification. The absolute priority for them would be to complete their basic education. There is then a further 250,000 young people who do not hold a level 3 qualification. There would be a case for this group also returning to education, given that the average wage return for a level 3 vocational qualification can be around twice as high as for an equivalent level 2 (BIS 2011).<sup>61</sup> However, this should only be pursued where further education comprises a programme of study leading to a valuable and recognised

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59 At least in advance of updating government funding formulas. Employers also pay the apprentice a wage.

60 Figure supplied by BIS. For more information on the design and funding of traineeships, see DfE and BIS 2013 and here: <http://skillsfundingagency.bis.gov.uk/providers/programmes/Traineeships>

61 For example, those with a level 3 BTEC have an average wage premium of 20 per cent relative to those holding an equivalent level 2. This compares to just a 12 per cent wage premium for those with a BTEC level 2 qualification relative to a similar at level 1.

qualification, ideally linked closely to future work or higher learning opportunities. Depending on individual circumstances, a job (ideally with training) or an apprenticeship may well be a better option.

For the remaining 300,000 18–24-year-olds who are NEET but already hold at least a level 3 qualification, the focus should almost always be on entering sustainable employment. For young people coming into this system in the future, personal contracts should seek to balance the importance of gaining valuable skills and qualifications, alongside practical work experience and contact with employers.

To recap, we have now identified the number of young people who would be in line to participate in the youth guarantee – if introduced for the current cohort of 18–24-year-olds – and the unit cost of the different pathways within it. These contain a range of uncertain assumptions, but **at an average unit funding of £3,000, it would cost £2.3 billion to offer youth guarantee provision to 770,000 18–24-year-olds who are currently NEET – excluding the 250,000 young people who have been unemployed for less than six months.**

### c. Funding the youth guarantee

The strategic goal of this reform is to shift the balance of spending towards productive, human-capital-enhancing investments and away from transfer payments to people who are persistently unemployed or inactive (by improving their employability and firms commitment to training and hiring young people). An additional objective is to drive improvements in both further educational provision and back-to-work support, so they deliver better long-term outcomes. However, in the short-term at least, funding the youth guarantee will require refocusing existing expenditure and raising additional revenue, along with steps to control the costs of provision.

Beginning with back-to-work support, the latest annual budget for JobcentrePlus was £2.3 billion in 2011/12 (DWP 2012b). Removing its responsibility for young people – and transferring this to local areas – would significantly reduce its workload given that just over a quarter (26 per cent) of JSA claimants are 18–24.<sup>62</sup> However, it would not be reasonable to reduce the budget for JobcentrePlus by an equivalent share, given the marginal saving from supporting one fewer benefit recipient is not proportional (not least due to fixed capital costs).

In addition, in whatever way school-to-work transition systems are configured under these reforms, the functions currently performed by JobcentrePlus would still need to be fulfilled. In many cases local areas might choose to use JobcentrePlus within its provider network, especially in the short-term before any alternatives were in place. Therefore, it would not be reasonable to count any existing JobcentrePlus resources towards the additional costs of funding the youth guarantee.

The situation is somewhat different for the Work Programme. It does not have ‘sunk’ capital costs, at least not for the taxpayer, and its caseload would drop directly as a result of removing young people from its remit. The latest outturn figures showed that £453 million was spent on the Work Programme in 2012/13 (DWP 2012c). This represents an underspend of more than £200 million compared to the government’s earlier projections for this year,<sup>63</sup> reflecting the underperformance of this ‘payment by results’ programme to date.<sup>64</sup>

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62 As are under a fifth (18 per cent) of those on income support and under a 10th (7 per cent) of those on ESA/ incapacity benefit; though JobcentrePlus engages far less with claimants of these benefits.

63 Expenditure was projected to be £668 million in 2012/13 (DWP 2012d).

64 For further evidence on underperformance relative to estimates, see CESI 2013: 21.



Just over a quarter (28 per cent) of those who have so far participated on the Work Programme have been under the age of 25. Analysis of expenditure data suggests that just over £200 million – or a little under half – of payments made to providers have been in respect of young people.<sup>65</sup> Spending on the Work Programme in 2013/14 is projected to be £703 million.<sup>66</sup> Therefore, based on current caseloads and expenditure, **it would be reasonable to allocate £250 million of the Work Programme budget to contribute to funding the youth guarantee.**<sup>67</sup>

The Coalition government's major intervention in the area of youth unemployment is the Youth Contract, which was launched in April 2012.<sup>68</sup> This is worth £1 billion over three years, funding wage subsidies, unpaid work experience placements and 'sector-based work academies'. However, it is a one-off expenditure that expires at the end of 2014/15, which therefore cannot be baselined into future public spending plans. Young people with a disability are able to benefit from Access to Work, which funds adaptations to the workplace, and Work Choice, which is a specialist disability employment programme. Both would remain accessible by young people under these reforms.

Turning to further education and vocational training, the breakdown of expenditure by the Skills Funding Agency shows £2.9 billion being spent on vocational and education training programmes for over 19s in 2011/12. This includes £1.6 billion on 'education, training and retraining, £815 million on apprenticeships and £412 million on other forms of learning.<sup>69</sup> A little less than one billion (£982 million) of overall expenditure is devoted to 19–24 year-olds.<sup>70</sup> This latter figure divides as: £603 million for 'education, training and retraining', £328 million for apprenticeships, £38 million for workplace learning in SMEs (at level 2) and £13 million on community learning (BIS 2012).<sup>71</sup>

Within current funding, young people already have substantial entitlements to education and training. Those in receipt of JSA and ESA (in the 'work-related activity group') are fully funded for all units of study and full qualifications. Those wanting to study English or mathematics at level 1 or 2 (including GCSEs) can receive funding to do so. And all under-24s are entitled to a fully funded first level 2 and first level 3 qualification. Those not covered by these entitlements are required to make a contribution, normally equivalent to 50 per cent of the cost of the course.<sup>72</sup> Therefore, some of those who would hopefully be engaged in continued learning through the youth guarantee could be catered for through existing entitlements. However, adult skills provision has a fixed budget, so substantial increases in learner demand would lead to lower unit funding and therefore reduced quality of teaching and learning.

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65 Based on data in DWP 2012c. This high share of expenditure reflects the (relative) effectiveness of the Work Programme among this group.

66 For more information, see <http://transparency.number10.gov.uk/assets/client/pdf/dwp-expenditure.pdf>

67 On the basis of current participants on the Work Programme, the implied spend on 18–24-year-olds would be £197 million. On the basis of the profile of current spending, it would be £323 million.

68 See <http://www.dwp.gov.uk/youth-contract/>.

69 This includes £68 million on level 2 workplace learning for small and medium-sized enterprises, £210 million on community learning and £134 million to support learning in the justice system.

70 Personal correspondence with officials at BIS suggests that this breakdown actually covers learners aged 19–23. However, the range given in the official publication is the one used here.

71 See the annex to BIS 2012 for figures.

72 For a full description of current entitlement see SFA 2011. Those aged 24 and over are required to take out loans to cover the cost of continued learning.

Given resource constraints, a strategic decision should be taken to focus a greater share of public funding on adult skills towards younger people – and away from those aged 25 and over. Securing young people’s initial education, enabling them to succeed in the workplace or access higher learning, should be the government’s priority. Beyond this, individuals and employers should assume greater responsibility. Based on the latest figures, **just over £1 billion was spent on ‘education, training and retraining’ for those aged 25 and over in 2011/12. This will reduce as a result of the introduction of fee loans for over-24s, but the equivalent figure for subsequent years should be considered in scope for meeting the costs of the youth guarantee.**

This move would not affect funding streams for learners aged 25 and over worth a total of £412 million in 2011/12. These comprise community learning, learning in the justice system and level 2 workplace learning in SMEs. In practice, it would take time to switch resources towards young learners immediately and, crucially, this change would take place in the context of a substantial contraction in adult skills funding overall. Its budget is set to fall from £2.7 billion in 2012/13 to £2.2 billion in 2014/15 (BIS 2012), following previous large reductions (BIS 2012: 15).

The government is already driving a greater share of adult skills funding towards apprenticeships. However, only a minority of funding and places are currently benefiting young people.<sup>73</sup> In 2011/12, just 40 per cent of those who participated in a funded apprenticeship were under the age of 25 (248,000 of the 626,000 total). Similarly, public funding for apprenticeships for under-25s was only £328 million out total spending of £815 million.<sup>74</sup> It will not be possible immediately, but the goal should be to focus public funding for apprenticeships on the under-25s. Based on current funding and provision, **this would provide an additional £487 million towards the provision of apprenticeships for young people within the youth guarantee, based on expenditure in 2011/12.**

Based on the current number of apprenticeships attracting public funding, this would imply an additional 378,000 places for young people. However, this is likely to be an overestimate, given that there is currently greater unit funding for apprenticeships taken by young people. The budget settlement for the Skills Funding Agency implies government funding for 681,000 apprenticeships in 2014/15 (BIS 2012). Training for older workers remains vital but this should not be called an apprenticeship, which has a particular purpose in supporting young people to develop a trade or profession and make the initial transition into the workplace.

These steps, in combination would make a substantial contribution to meeting the costs of the youth guarantee. However a further measure would be needed to ensure it was fully funded. At present, parents can receive child benefit and child tax credit for their children after they turn 16 until they are 20, if they are in approved education or training.<sup>75</sup> Under these reforms, young people would become eligible for the youth allowance from the end of the academic year after they turn 18. Therefore, to remove any double funding, parental entitlement to child benefit and child tax credit should cease at this point.

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73 Three-quarters (75 per cent) of the increase in apprenticeship places between 2009/10 and 2011/12 were taken by those aged over 25. See ‘Breakdown by Geography, Equality & Diversity and Sector Subject Area’ tables for data: [http://www.thedataservice.org.uk/Statistics/fe\\_data\\_library/Apprenticeships/](http://www.thedataservice.org.uk/Statistics/fe_data_library/Apprenticeships/).

74 See the annex to BIS 2012 for figures.

75 They must be enrolled on a course before their 19th birthday.

Based on the current cohort, **estimates suggest this change would save £380 million from child benefit and £310 million from child tax credit, or £690 million in total towards the cost of the youth guarantee.** This assumes that half of 18-year-olds have not yet reached the end of the academic year after their last birthday and so remain in receipt of existing payments, via their parents.<sup>76</sup>

This measure would mark a shift in spending from income transfers to social investment, consistent with IPPR's broader strategy for controlling social security spending and redirecting public expenditure towards areas that boost jobs and growth (Cooke 2013). These resources would help fund education, training and work experience for young people. On the basis of the estimates given here, including this reduction in child benefit and child tax credit spending would more than meet the extra resources needed to fund the youth guarantee. Depending on the results of more detailed modeling of these costs, this would potentially allow a greater share of the adult skills budget to continue to be channeled towards retraining among those aged over 24.

#### **d. A 'youth levy' to fund youth training and apprenticeships**

In addition to the measures outlined above, one further important reform should be implemented as part of the youth guarantee, to raise further resources and drive employer engagement in the school-to-work transition system.

The switch in adult skills spending described earlier must be matched by efforts to substantially increase the number and quality of apprenticeships, while strengthening its brand.<sup>77</sup> The most recent, large scale survey found that 13 per cent of UK establishments<sup>78</sup> with at least two people working at them offered formal apprenticeships, leading to a nationally recognised qualification (UKCES 2012: 115). This ranged from 8 per cent among establishments where 2–4 people work to 46 per cent among workplaces where over 100 people work (lower shares actually had an apprentice 'on the books' at the time of the survey). Comparative data, albeit prior to the recent expansion, suggested there were only 11 apprentices per 1,000 employed people in the UK; significantly lower than countries such as France (17 per 1,000), Austria (33), Australia (39) and Germany (40) (Steedman 2010).

Employers are rightly interested in the quality of young people leaving the school system and entering the workforce, with repeated studies suggesting considerable level of dissatisfaction (for example see CBI 2012). The package of reforms proposed here would aim to significantly improve this situation. Employers would be offered a leading role in the governance and commissioning of the youth guarantee, via the school-to-work transition system, including ensuring further education and vocational training provision has a strong labour market focus. In return, employers should be expected to meet

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76 Figures derived from IPPR calculations using DWP 2013s and administrative data cited below. Calculations for the savings on child benefit draw on data up to the end of August 2012, prior to child benefit entitlement being ended for families with a higher-rate taxpayer, when payments were made to approximately 527,000 18-year-olds and 96,000 19-year-olds (who are all assumed to be the eldest child, therefore receiving the higher rate): <http://www.hmrc.gov.uk/statistics/child-geog-stats/chb-geog-aug12.pdf>. Calculations for savings on child tax credit draw on data for 2011/12 when around 173,000 families were receiving the credit and had at least one child aged 18 or 19: <http://www.hmrc.gov.uk/statistics/fin-main-stats/cwtc-awards.pdf>. The average weekly award overall that year was £68.94 a week. Weighted by the proportion of children in these families by age, the average weekly award 'directed at 18/19-year-olds' was £43.93. The expenditure figure on this group is then derived from spending on this groups as a share of overall expenditure. Figure given is based only on savings from the per-child element.

77 Such as working towards a goal of apprenticeships lasting at least two years, involving both on-the-job and classroom learning (including elements of English and mathematics), and leading to an occupationally recognised qualification at a minimum of level 3.

78 As distinct from firms, which can have multiple establishments across different locations.

their responsibilities to give young people a chance, through offering work experience, traineeships – and hiring young people for jobs and apprenticeships.

It is unsurprising that small firms are less likely to offer apprenticeships, due to cost and capacity (though a previous survey suggested they offer a higher share relative to their number of employees than larger firms).<sup>79</sup> However, **large firms should either offer apprenticeships, in proportion to their size, or be expected to contribute to the costs of training and preparing the future workforce. This should take the form of a ‘youth levy’, with resources controlled by employers themselves (such as via LEPs).** It would be for local employers to determine how this money is spent, but it should be used to support the delivery of the youth guarantee, in particular funding vocational training and apprenticeships in smaller firms – as an act of solidarity within the business community.

Employer levies of this kind are common in other European countries, but rare in the UK.<sup>80</sup> This is, in part, due to the absence of strong and representative employer organisations, including in particular parts of the country or sectors of the economy. The notable exception in the UK is the Construction Industry Training Board (CITB), which collects levies and dispenses grants in the construction sector, including in support of apprenticeships.<sup>81</sup> To address business concerns, small and medium-sized firms should be exempt from the youth levy, which would be focused explicitly on apprenticeships and vocational training for young people, with revenue raised controlled by employers, not the state. Ideally, decisions on how to spend these resources would be taken in consultation with local authorities and other partners involved in the delivery of the youth guarantee via school-to-work transition arrangements.

The design of the youth levy should be subject to much further discussion and consultation. This should include the size of firms affected, the rate itself and how these decisions themselves should be taken. Consistent national rules on both these issues would prevent undercutting, but there is a strong case for local employers controlling youth levy revenue raised from local firms (at least in areas that have taken on responsibility for delivering the youth guarantee, starting with London and the core cities). This should include a redistributive element, to support areas with low private sector activity.<sup>82</sup> In addition to raising revenue, a youth levy of this kind would establish an incentive for employers to actively engage in school-to-work transition arrangements in their area. This could include supporting apprenticeship training agencies or group training arrangements for small and medium-sized firms.

As a guide, there are just over 37,000 businesses in the UK with over 50 employees, a number of whom will operate across multiple sites. Together, they employ 12.9 million people, or just over half (53 per cent) of the private sector workforce.<sup>83</sup> The latest figures show that just over a quarter (27 per cent) of ‘establishments’, rather than firms, with 25–99 employees offer apprenticeships, rising to just under a half (46 per cent) among those with 100 or more staff (UKCES 2012: 115). Decisions about the design of the youth levy

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79 See National Employer Skills Survey, 2009.

80 For a discussion of the role of training levies in the UK, see Gospel 2012.

81 For more information, see: <http://www.citb.co.uk>

82 Such as operates within the Business Rate Retention scheme. For more information, see: <https://www.gov.uk/government/policies/giving-local-authorities-more-control-over-how-they-spend-public-money-in-their-area--2/supporting-pages/business-rates-retention>

83 For the latest figures, see: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/254552/13-92-business-population-estimates-2013-stats-release-4.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/254552/13-92-business-population-estimates-2013-stats-release-4.pdf)

would need to consider how many apprenticeships a large firm would need to offer in proportion to its size to be exempt (such as one for every 50 or 75 employees), and how much time after their last apprenticeship finished could pass before the youth levy was payable. It would also be vital to combine this reform with moves to clarify the definition of an apprenticeship and maintain its quality and status. The government should ensure that all large public sector employers offer apprenticeships proportional to their size.

**e. Other potential costs associated with the youth guarantee**

In addition to the direct cost of provision, there could also be additional resources required to offer more intensive personal adviser support, earlier targeted work in schools with those at risk of becoming NEET, and systems for actively engaging with young people who are beginning to drift away from the worlds of work or education. It would be for local areas to determine how they wanted to organise and deliver these activities. But at least some of the costs are already met within the current system.

The DWP is in the process of implementing a 'claimant commitment', around which personal contracts could be based (see DWP 2013a), while a more effective triaging system would enable adviser time to be focused on those young people in need of intensive support. Local authorities currently have a responsibility to secure sufficient and suitable post-19 education provision for young people in their area and to provide targeted support to young people who are NEET (see DfE 2013a). Having said that, a more hands-on approach is envisaged here, including to maintain engagement with young people who are not entitled to the youth allowance due to the parental means test. There is also much scope for creative uses of data and technological innovations to support young people, keep in touch with them, and monitor the performance of a reformed system – that could drive higher performance for lower cost.

There could also be extra costs associated with providing support with childcare and travel costs for young people engaging in education or employment. However, help with childcare exists through Care to Learn, while JobcentrePlus already has 'adviser discretionary funds' which can be used to meet childcare costs for those attending job interviews and other back-to-work activities. There is also help available to young people with transport costs. In addition to the Young Person's Railcard, there are discounts on Oyster cards for young people in education or training in London, while some local transport authorities and bus companies offer concessionary fares for young people.<sup>84</sup>

Finally, if more detailed modeling of the cost implications of the youth guarantee suggested these strategies were not sufficient to finance this policy, there are further options to control its costs. There would, for example, need to be limits on the number of qualifications for which young people could receive public funding. This would, in fact, be essential to prevent them from spending long periods of time cycling around a series of courses rather than progressing into employment. Additionally, the point at which the paid work experience and paid traineeship 'backstop' kicks in could be pushed back slightly beyond six months to limit the costs of this relatively more expensive provision.

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84 For more information, see: [http://www.bettertransport.org.uk/files/Young\\_People\\_and\\_Buses\\_FINAL\\_forweb\\_0.pdf](http://www.bettertransport.org.uk/files/Young_People_and_Buses_FINAL_forweb_0.pdf)

## 5. CONCLUSION: A STRATEGY FOR EFFECTIVE AND LASTING REFORM

To conclude, it is worth reflecting briefly on previous approaches to tackling youth unemployment and improving school-to-work transitions – and why the proposals outlined here stand a greater chance of success.

The comparison to Connexions has been touched on (see page 22). This was created as an advice and guidance service, without reforming the actual options available to young people. What is proposed here constitutes major institutional innovation aimed at breaking down the division between education and employment for the 18–24 age group and drawing substantially increased resources into this area to improve provision. The Connexions experience also highlights the limits and risks of attempting to address complex and locally contingent challenges through a centrally driven, standardised service and set of policy interventions.

It is worth also reflecting on other previous attempts at reform in this area. The last Labour government was elected in 1997 with a pledge to establish the New Deal for Young People (NDYP), which was funded by a windfall tax on the privatised utilities. Its aim was to provide young people who had claimed JSA for six months with four work or training options but ‘no fifth option’ of simply remaining on benefits. NDYP was independently evaluated as effective in increasing the employment prospects of young people (see for example Beale et al 2008).

However, over time, the impact of NDYP waned and it left a number of problems unaddressed, at a time when the labour market seems, in retrospect, to have turned against young people (see Thompson 2013). It did not drive reform of the further education or training system, which meant young people continued to participate in courses with limited labour market purchase. The overwhelming focus remained ‘work first’, pitching some young people into the jobs market before they had completed their basic education. The NDYP also did not cater for young people on inactive benefits – incapacity benefit and income support – which meant that many who were NEET were unaffected.

At the time, NDYP was a major innovation in welfare-to-work, which foreshadowed many subsequent reforms, leading to the Flexible New Deal and then the Work Programme. However, it largely layered a new intervention on top of an otherwise unreformed benefits and training system. It did not drive fundamental change in the institutions that govern the transition from school to work for young people. This is in large part because of the failure to overcome the cultural, institutional and financial divides between education and employment.

Policies under the current government have tended to fall into the same trap. The Work Programme is a standard ‘work-first’ employment programme, albeit with a more sophisticated contracting and payment structure. However, it does not support continued learning and is performing very poorly for those with sickness or health conditions (see DWP 2013b). The Youth Contract – a combination of wage subsidies, work placements and short-term training put together in response to rising youth unemployment in 2012 – is a quintessential example of the kind of initiative which has long bedeviled this area of policy.

The most positive recent policy developments have been in relation to vocational education and apprenticeships, plus the introduction of the traineeship programme and the development of a network of university technical colleges (UTCs). However, these strategies operate in parallel to, rather than integrated with, the benefits and employment system. Meanwhile, despite some encouraging moves, too many apprenticeships continue to be insufficiently rigorous and accessed by existing employees and those aged over 25.

In contrast to previous policies, the strategy outlined here aims to solve the fundamental failures of the school-to-work transition system, rather than trying to make up for them. It seeks to restructure the opportunities and obligations facing young people through a deep reform of the institutional architecture that offers the prospect of overcoming traditional sector divides. It creates the potential to drive improvements in further education and vocational training provision, alongside increasing employer engagement in apprenticeships, work experience and the broader educational system.

Finally, there are also reasons to think this reform could carry widespread public support. Polling conducted earlier this year by YouGov for IPPR asked whether people would support 'Keeping young people out of the adult welfare system, restricting their access to things like disability benefits and social housing, but providing financial support for and greater access to education, apprenticeships and opportunities for work-with-training'. In response, 60 per cent backed the idea, while 14 per cent opposed it. The proposal was strongly supported by Conservative, Labour and Liberal Democrat supporters alike.<sup>85</sup>

In the end, a return to sustained economic growth is the essential precondition for the headline rate of youth unemployment to fall. However, even then deeper problems will remain, and a recovery may well not benefit all young people. Young people's prospects depend significantly on future trends in the labour market and the distribution of opportunities it generates. But, as the evidence from other countries demonstrates, the structure and performance of the school-to-work transition system makes a big difference (Thompson 2013).

It would be impossible to reduce the number of young people who are NEET to zero – there will always be short periods when they are transitioning from one thing to another. However, our society should not settle for a system that systematically permits large minorities of 18–24-year-olds to spend long periods neither learning nor earning. If successful, these reforms could make a substantial impact on young people's health, wealth and future life outcomes – as well as strengthening our society and economy as a whole.

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85 Survey conducted 5–6 June 2013, comprising 1,905 GB adults. For full polling results, see: [http://d25d2506sfb94s.cloudfront.net/cumulus\\_uploads/document/az5cybaaw2/YouGov-IPPR-results-130606-Welfare.pdf](http://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/az5cybaaw2/YouGov-IPPR-results-130606-Welfare.pdf)

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## ANNEX

### THE POSITION OF 16- AND 17-YEAR-OLDS

The focus of this paper is learning and earning for 18–24-year-olds. This is in large part because steady progress continues to be made in reducing the number of 16- and 17-year-olds not engaging in education or employment. The share of this group not in education or training fell from 17.7 per cent at the end of 2001 to 9.2 per cent at the end of 2012 (a drop from 219,800 to 119,400 young people). Between the end of 2005 and the end of 2012, the ‘NEET rate’ for 16- and 17-year-olds also dropped from 8.5 per cent to 6.6 per cent. By contrast, the problem of disengagement from learning and work among those aged 18–24 is getting worse: the proportion who are NEET rose from 15.5 to 17.8 per cent between 2008 and 2013.<sup>86</sup>

The focus on 18–24-year-olds is also justified by the increase in the legal participation age, which means that from 2015 young people will be required to continue in education or training until their 18th birthday.<sup>87</sup> In advance of this change there are doubts about whether an adequate implementation plan is in place. In particular, it is not clear that schools and colleges have strategies and provision capable of meeting the needs of those who would otherwise drop out of formal learning before this point. However, the objective that young people should remain in education or training until the age of 18 is correct, albeit that this requires improvements in both academic and vocational options for 14–18-year-olds in order to succeed.

In the meantime, there remains a small minority of 16- and 17-year-olds who are NEET: 70,000 young people, or 5 per cent of this cohort. Of this group, 40,000 are looking for work and 30,000 are economically inactive and not in education. The official data suggests that none have a qualification at level 2. Losing touch with the education system and the labour market at this young age, especially without holding decent qualifications, carries the risk of long-term damage to an individual’s employment and earnings potential. Therefore, as part of their duty to prevent young people becoming persistently NEET, under the reforms proposed here local areas must develop strategies for identifying and engaging with under-18s who are at risk of ‘falling between the cracks’ and becoming disengaged.

Access to the adult benefit system does not begin until the age of 18, other than in a small number of exceptional circumstances. They include care-leavers, young carers, lone parents and young people with a serious disability or who are orphaned or estranged from their parents. Similar rules will pertain under the universal credit. There are currently around 18,000 young people age 16–17 in receipt of an out-of-work benefit: just over 12,000 on income support, 4,000 on ESA and 2,000 on JSA. The large majority of all young people in this age-group are enrolled in school or college and – if they are – their parents are entitled to child benefit and child tax credit on their behalf (subject to a parental means test).

To support local areas in preventing vulnerable young people from becoming NEET, there should be reform to the system of financial support for 16- and 17-year-olds. Following the abolition of the EMA, the current government introduced the Bursary Fund, which provides support with costs associated with staying in education to vulnerable 16–19-year-olds.<sup>88</sup> It offers £1,200 a year (the equivalent of £23 a week) to those in care or care-leavers, plus that small minority of under-18s receiving income support or ESA. It is also available to other young people in this age group who are deemed vulnerable, on a discretionary basis. Schools, colleges and training providers administer the fund, which has an annual budget of £180 million.

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86 For NEET and NET (‘not in education or training’) data see DfE 2013b.

87 See <http://www.education.gov.uk/childrenandyoungpeople/youngpeople/participation/rpa>

88 See <https://www.gov.uk/1619-bursary-fund>

Under the reforms proposed here, under-18s would not be eligible for the youth allowance. However, there is a strong case for amalgamating expenditure on out-of-work benefits for 16- and 17-year-olds and the Bursary Fund, given that they both target the same group. In 2012/13, just under £65 million is projected to be spent on out-of-work benefits for those under 18. Combined with the Bursary Fund, this would create a £245 million pot for targeted measures aimed at under-18s who do not have parental support and are at significant risk of becoming NEET. If participation rates among 16- and 17-year-olds do not continue to fall, the government should prioritise increasing this funding.

There is a strong case for this funding being made available to local areas to spend on a targeted basis, conditional on participation in school or college (as proved effective under the EMA<sup>89</sup>). To ensure that very vulnerable young people receive this support, there should be a balance between national entitlements (such as for those in or leaving care) and discretionary spending by local areas (or their commissioned providers). Funding could be dispensed in cash or through in-kind support with travel or subsistence, as is judged to be most appropriate and effective.

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89 As demonstrated by evaluations by the Institute for Fiscal Studies – see Chowdry and Emmerson 2010.