



West Midlands
Regional
Observatory

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Economic Inclusion

Baseline Report for the West Midlands

Executive Summary

March 2009

Version 4.0 – Final Published Report



Project Part-Financed
by the European Union
European Regional
Development Fund



European Union
European Social Fund
Investing in jobs and skills

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1 Background: The Policy context

1.1 The West Midlands Economic Strategy and the Scale of the Challenge

The West Midlands Economic Strategy, *Connecting to Success*, reveals a £10 billion output gap between the region and the UK average, based on Gross Value Added (GVA) per head. It goes on to identify some of the key challenges which contribute to that gap:

- Skills
- Enterprise
- Innovation
- Economic Inclusion
- Transport

Advantage West Midlands has now commissioned the Observatory to develop a three year programme of work around these key challenges identified in the WMES, to complement the existing programme of work on skills.

The focus of this work is around quantifying the ‘Scale of the Challenge’ facing the region in closing the output gap.

It is estimated that some 80% of this gap is attributable to industrial productivity and the structure of businesses in the region’s economy, while the remaining 20% is attributed to worklessness and low rates of employment.

The West Midlands Economic Inclusion Panel was established in 2008 to deliver the aspects of the WMES that relate to economic inclusion, and address the 20% of the output gap attributed to worklessness.

1.1.1 Better information and the Economic Inclusion Panel

The Panel has identified better information as crucial to informing its work. The West Midlands Regional Observatory has been commissioned to undertake a three-year programme of research and analysis to inform the work of the Panel and complement the work on other strands focussed on closing the output gap.

The Observatory’s research on economic inclusion is steered by a project board at Advantage West Midlands, complemented by extensive partnership working with partners from the Economic Inclusion Panel who form a data group and advisory group to link the research to the panel.

This report provides analysis of the key issues facing the region on economic inclusion and pulls together findings from the first six months of research.

1.2 Introduction

This report provides analysis of worklessness in the region, taking a detailed look at the issues underlying and associated with the series of indicators identified as priority areas for the economic inclusion panel (see Appendix 8.1).

The indicators illustrate the regional position with regard to a range of factors associated with worklessness. Detailed spatial analysis of concentrations and hot-spots of worklessness has also been produced, and this report brings these together along with analysis of the economic context for the region.

Worklessness and benefit dependency are explored in depth, followed by consideration of the issues affecting key demographic groups at high risk of worklessness. We then examine key issues associated with worklessness, which may have a two-way relationship with worklessness, sometimes acting as a cause of worklessness, and sometimes as an effect.

This report provides a regional level analysis of the key issues of worklessness and economic inclusion for the first time. It enables policy makers to see the scale of the worklessness problem in the region, and where it is concentrated, both spatially and demographically.

2 Executive Summary

2.1 The Economic Context

The Region has been estimated to have a £10 billion output gap, meaning the regional economy produces £10 billion per year less than it would if it were performing at the same rate as the country as a whole. 20% of this output gap is estimated to be attributable to worklessness, as employment rates in the region lag behind the national average.

The regional economy has undergone significant restructuring over the past 20 years, with a shift in employment from more traditional manufacturing industries to service industries.

Many of the region's population have not accessed new employment opportunities created over the past decade of growth: Despite new job creation in Birmingham, rates of employment are low, indicating a lack of access to employment among the resident population. While over the past decade the numbers of people in employment have increased, there has developed a large and persistent core of long-term workless people, many of whom are economically inactive rather than active jobseekers.

Long-term trends indicate that future employment opportunities are predicted to come in higher skilled occupations, and within service industries. There will be fewer opportunities for those with low skills levels. As the region has the highest proportion (of all the English regions) of its population with no qualifications, this poses a serious challenge to future employment take-up in the region.

A worsening economic climate, moreover, means that employment prospects are likely to deteriorate in the coming months. In the period August to October 2008, the region saw the second largest fall in employment rates of all UK regions and the region's claimant count rate is the second highest of the English regions¹.

¹ Source: December 2008 economic update report: prepared by Observatory for AWM

2.2 The Scale of the Challenge

In order to close the region's output gap the region needs to reduce its worklessness rate, and improve the productivity of the resident population.

Worklessness is higher among residents of some localities in the region, and among some social groups, and the scale of the challenge to get these areas and groups up to the national rate of employment presents an even greater challenge.

While the worklessness rate for the general population of working age is 28%:

- Among those with a limiting illness or disability it is 52%
- For people from the Black / Black British ethnic group it is 44%
- For those with no qualifications it is 53% and
- For those from the Pakistani/Bangladeshi group it is 57%

Among local authorities, rates of worklessness range from 37% in Birmingham to 21% in Warwickshire.

As Birmingham's rate of worklessness is so much higher than average, at 37%, the scale of the challenge for the city to reach the national worklessness rate would be greater than the overall regional challenge: 70,000 of the city's resident population would need to enter employment to reduce the rate of worklessness to the national average.

In order for the regional employment rate to match the national rate, 64,500 presently workless West Midlands residents would need to enter employment ².

The challenge for urban areas to match the rate of worklessness in England is greater, as their rates of worklessness are higher. So in Birmingham alone, 70,700 people would need to enter employment, as the map below shows.

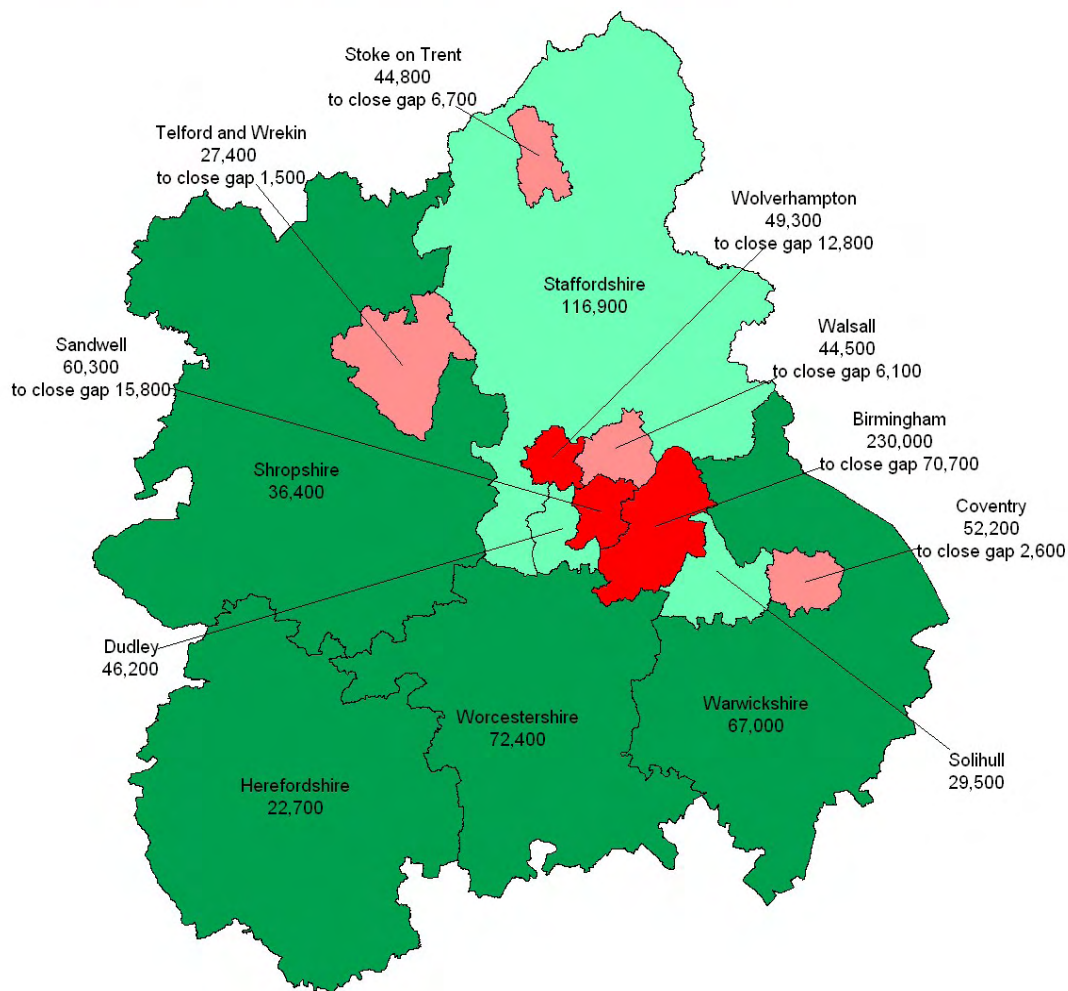
The areas in green have employment rates already above the England average. These are Dudley, Herefordshire, Shropshire, Solihull, Staffordshire, Warwickshire and Worcestershire.

In order to match the national rate of worklessness:

- A third of Birmingham's workless population would need to enter employment
- A quarter of Wolverhampton's and Sandwell's workless populations would need to enter employment

² In order to look at long-term issues, and to maximise consistency, data in this report refers to the period up to end 2007.

Volume of worklessness* and scale of the challenge to close the gap with the national rate



Worklessness rate

- 32 to 37% (above England average)
- 26 to 31% (above England average)
- 23 to 25% (below England average)
- 21 to 22% (below England average)

The number presented for each Local Authority is the number of workless people living in that authority. 'To close gap' gives the number of people required to enter employment in that Local Authority to match the national rate of worklessness.

* Worklessness is defined as those who are not in employment, i.e the unemployed and the economically inactive.

Source: Office for National Statistics
(Annual Population Survey, 2007)

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Advantage West Midlands, 100030383 (January, 2009)

Further analysis on the 'Scale of the Challenge' is provided in Section 4.

2.3 Worklessness

Definition of Worklessness

Worklessness is defined here as the proportion of the working age population who are not employed. This includes people who are unemployed *and* people who are economically inactive e.g. people who are sick/disabled, students, people looking after the family and home, and retired people. This definition can be understood as the inverse of the employment rate.

2.3.1 Regional

The rate of worklessness in the region has remained high in recent years, at 28% compared with 26% in England³. 900,000 people are workless in the region, and the gap with England has widened. Only three other regions have a higher rate of worklessness than the West Midlands.

The region’s high rate of worklessness has been estimated to cost the region around £2 billion per year in lost productivity⁴.

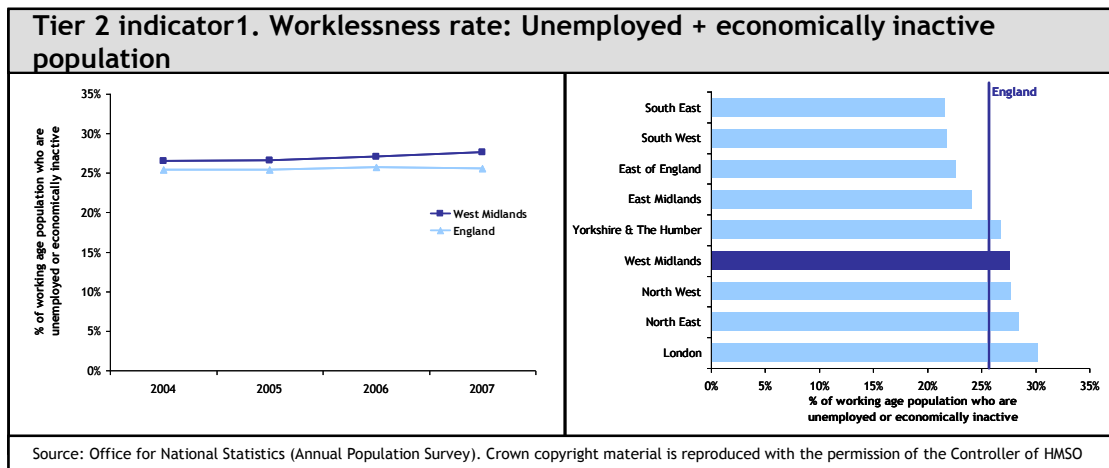
Table 1: Worklessness: Key facts for the West Midlands and England

	West Midlands	England
Employment rate (2007)	72%	74%
Worklessness rate (2007)	28%	26%
Number of workless people (of working age)	900,000	8,070,000
Unemployment rate (2007)	6.1%	5.4%

³ As at end 2007

⁴ West Midlands Economic Strategy 2007

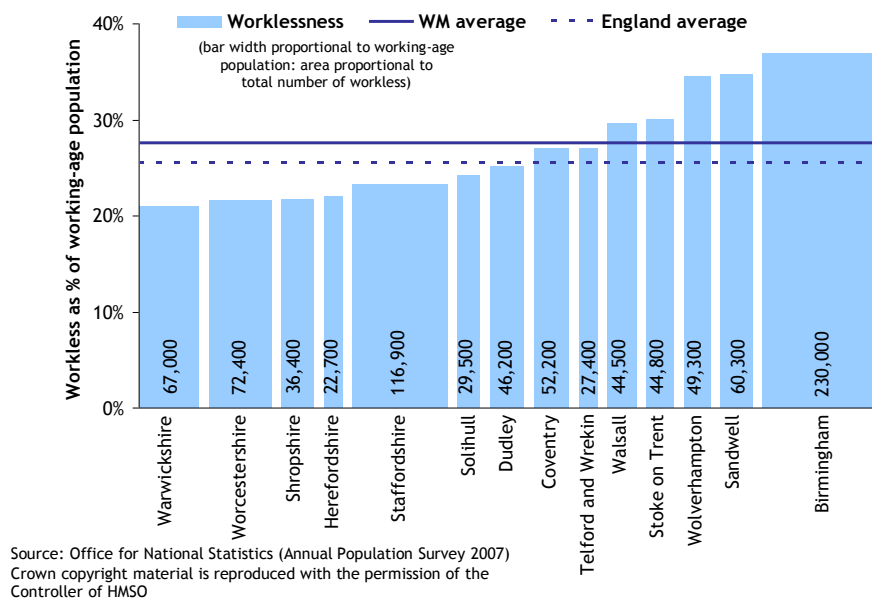
Figure 1: Worklessness rate (Indicator 2.1)



2.3.2 Sub-regional

Worklessness is a concentrated problem within the region: while some local authorities have worklessness rates well below the national average, others have significantly higher rates, placing them well behind the West Midlands average, and even further behind the England average. Birmingham, Sandwell and Wolverhampton all have more than one third of their working age populations not engaged in the labour market.

Figure 2: Volume of worklessness (Indicator 3.1)



By far the largest proportion of the region’s workless live in Birmingham. 230,000 people in the city, or 37% of the working age population, are workless.

While rates of worklessness are highest in the region’s urban areas, the volume of worklessness is slightly different. As figure 2 shows, having both the largest population and the highest rate of worklessness, gives Birmingham the greatest volume of worklessness. However, Staffordshire, despite having a below average rate of worklessness has a large volume, due to the large size of its population. Wolverhampton on the other hand has a high rate but smaller population, giving it a relatively low volume of worklessness.

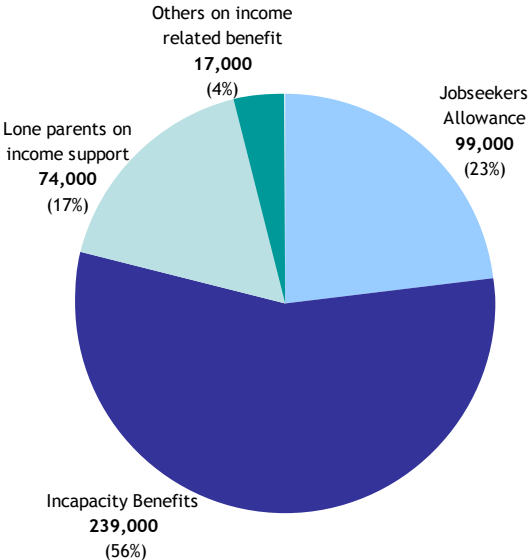
2.4 Out-of-work benefits

Every working day £7.7 million is paid out in out-of-work benefits in the West Midlands region⁵. This amounts to over £2 billion per year.

13% of the working age population of the West Midlands (429,000 people) are claiming an out-of-work benefit. Of these

- 239,000 or 56%, are claiming Incapacity Benefit (IB), compared to
- 99,000 or 23% claiming Jobseekers Allowance (JSA), and
- 74,000 or 17% claiming Income Support for lone parents.

Figure 3: Out-of-work benefit claimants - West Midlands



Source: WPLS 2007, DWP

Less than one quarter of claimants of out-of-work benefits are jobseekers claiming Jobseekers Allowance.

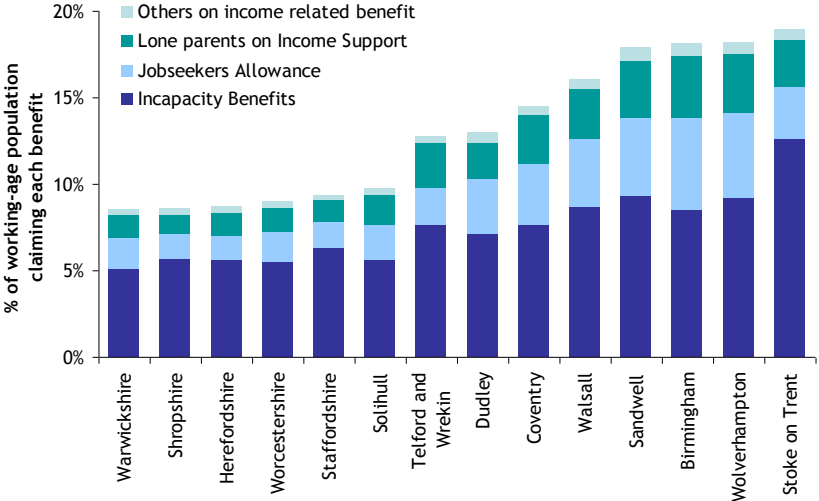
⁵ Source Jobcentre Plus West Midlands Regional Director "Key Facts" July 2008

Within the region, there is some variation in claimant rates for the different types of benefit. High rates of incapacity benefit claimants are concentrated in former industrial areas of the country, with Stoke-on-Trent among the top 20% of districts nationally for IB claimant rates.

Stoke-on-Trent has a particularly high proportion of claimants on incapacity benefits. A greater proportion of Birmingham’s benefit claimants are actively seeking work and therefore claiming Jobseekers Allowance, indicating a more active workless population than is the case in Stoke-on-Trent.

The claimant rate in Stoke for the four out-of-work benefits is 18.9%, with 12.6% of the working age population claiming incapacity benefits. By contrast, in Birmingham the out-of-work claimant rate is almost as high at 18.1% but the proportion claiming incapacity benefits is much lower, at 8.5%. In Stoke-on-Trent 67% of claimants of out-of-work benefits are claiming incapacity benefit, while in Birmingham 47% of claimants are claiming IB.

Figure 4: Claimant rates: out-of-work benefits (Indicator 3.7)



Source: WPLS 2007, DWP
Rates calculated using ONS mid-year population estimates

2.4.1 Incapacity benefits

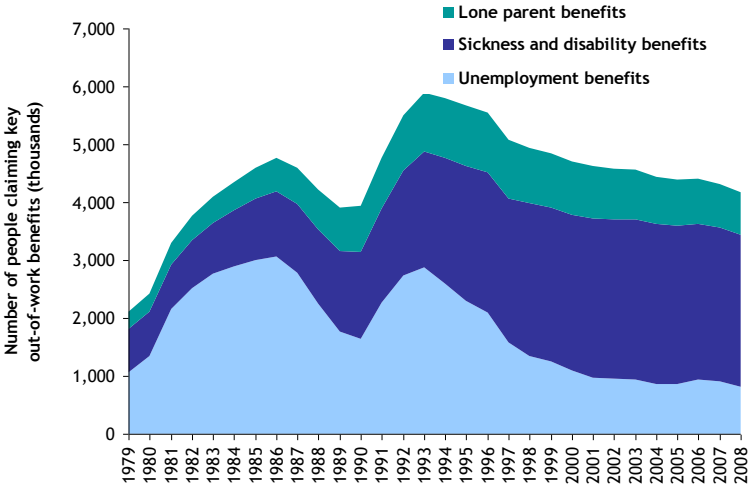
Incapacity benefits represent the largest and most persistent group of workless people in the region, outnumbering claimants of jobseekers allowance by 2.4 to 1. After 2 years claiming IB a person is more likely to die or retire than work again⁶. Claiming incapacity benefits subjects individuals to a particularly acute and chronic form of economic exclusion, as claimants are unlikely to return to employment.

⁶ HM Government, ‘Health, work and well-being’ 2005

Table 2: Incapacity benefits: Key facts for the West Midlands

Incapacity Benefits: Key Facts for the West Midlands	
Total number of regional claimants	239,000
Percentage claiming for 1 year +	87%
Percentage claiming for 2 years +	79%
Percentage claiming for 5 years +	60%
Percentage claiming for mental and behavioural disorders	40%
Percentage claiming for musculo-skeletal disorders (includes back pain)	20%

Figure 5: Change in volume of key out-of-work benefits - UK



Source: Realising Potential: A Vision for Personalised Conditionality and Support

Over the past 30 years sickness and disability benefits have seen a threefold increase, and now account for more than half of out-of-work benefit claimants, dwarfing unemployment benefits.

There are a number of reasons why incapacity benefits have increased so dramatically and why they present such a stubborn problem:

IB is concentrated in former industrial areas where labour demand has suddenly declined - Stoke is among the highest quintile nationally. This indicates a core of long-term unemployed who may have given up looking for work due to a mismatch between labour supply and demand.

The long term unemployed have gravitated towards it for a number of reasons:

- Have had to prove a degree of 'illness' rather than 'fitness' to perform work-related tasks
- Not means tested so fewer people are ineligible, particularly relevant for male older workers
- Pays more than JSA, and more the longer you claim
- No requirement to look for work so people don't, and become less work-ready
- Unemployment and poverty have negative effect on physical and mental health, so the problems become mutually-reinforcing

For these reasons thousands of long-term unemployed people have ended up on incapacity benefits and become economically inactive. Their barriers to employment become more pronounced the longer they are away from the labour market, enabling the problem to become entrenched.

2.4.2 Jobseekers Allowance

Jobseekers Allowance is paid to those who are actively looking for and available for work. It is a means-tested benefit so large numbers of people are not eligible to receive it, which particularly affects the numbers of women able to claim.

While people are less likely to stay on JSA for prolonged periods, they are likely to return to it, indicating that a large proportion of those who leave benefits to enter work do not manage to stay in work in the long term.

Of the 99,000 claiming Jobseekers Allowance

- 1 in 5 have been claiming for over 1 year
- More than 75% of new claimants for JSA have had one or more previous claims
- 40% of new claimants had a previous claim within last 6 months
- 31,000 are aged 18-24 years

2.4.3 Long-term claimants

A considerable proportion of the region's out-of-work benefit claimants have been claiming for a prolonged period of time. This makes a sustained return to work less likely as claimants' work skills decline.

Of the region's 99,000 JSA claimants, more than 1 in 5 have been claiming for over a year. This figure is much higher in Birmingham, where nearly 30% of JSA claimants have been claiming for over a year - 6 percentage points higher than the next highest local authority, Dudley.

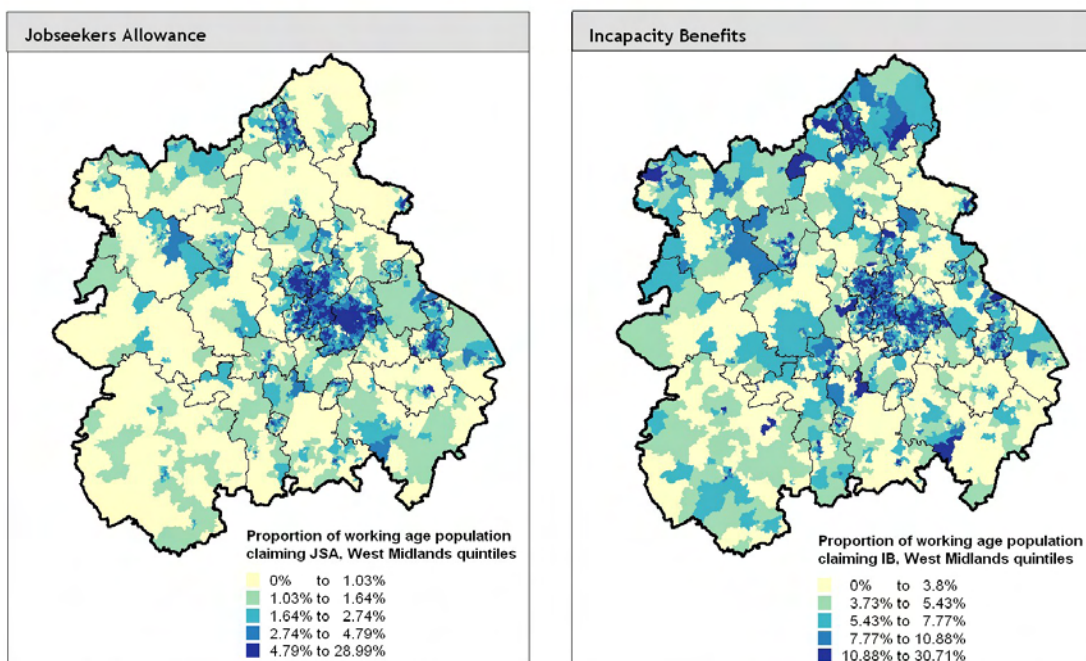
Long-term dependency on Incapacity Benefits is a much greater problem, with over 80% of the region's 239,000 claimants having claimed for over a year. 60% have been claiming for more than five years.

2.4.4 Concentrations of different benefit types

Claimants of out-of-work benefits are significantly concentrated within some areas of the region.

Figure 6: Comparing concentrations of Jobseekers Allowance and Incapacity Benefits

Concentrations of JSA and IB claimants by LSOA



Source: Department for Work and Pensions WPLS, 2007

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As the maps above show, Incapacity Benefits show less concentration than Jobseekers Allowance, and areas with high rates of incapacity benefits can be found across the region.

Claimants of JSA are heavily concentrated in the region's large urban areas, such as Birmingham, where demand for labour is relatively high.

2.5 Welfare Reforms and the economic downturn

The government has introduced in 2008 a range of welfare reforms aimed at reducing the numbers claiming incapacity benefits and the numbers of lone parents claiming. The reforms are ambitious and could significantly reduce the benefits burden in the region. However, the timing of their introduction now coincides with the economic downturn, creating an additional challenge to the proposals.

The government has made it clear that it intends to tackle the short and long term worklessness problems together, but as the impact of the economic downturn is still unpredictable it remains to be seen to what extent this is possible.

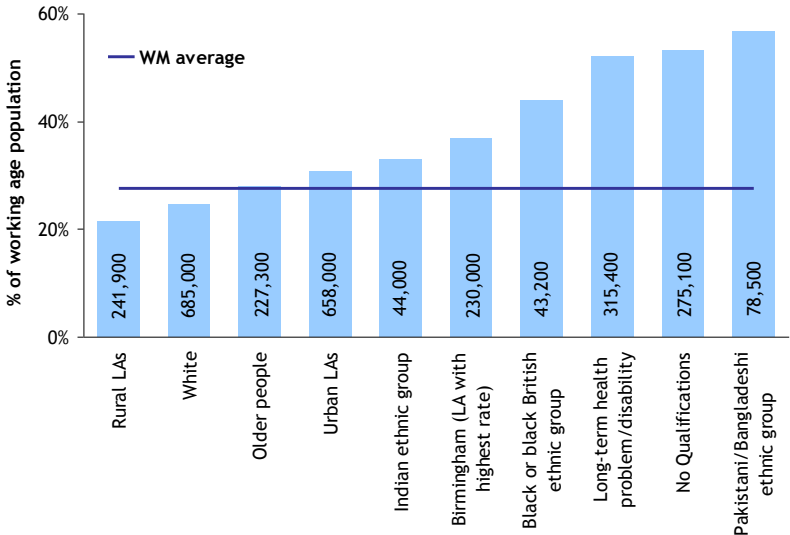
2.6 Reasons for worklessness

There are some key factors which contribute to the region’s workless total:

Living in an urban area; holding no qualifications; being from a minority ethnic group; having a long-term health problem or disability; and being young all increase an individual’s chances of being workless.

- Two thirds of the region’s workless population live in urban areas;
- 30% have no qualifications;
- More than one third have a limiting illness or disability;
- and 24% are from a minority ethnic group

Figure 7: Risk factors which increase likelihood of being workless



Source: Office for National Statistics (APS/LFS 2007)
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The table below illustrates how many of the region’s workless population are characterised by one of these factors:

Table 3: The profile of worklessness in the region⁷

	Number of people workless
All workless	900,000
Live in urban area	658,000
Live in Birmingham	230,000
Have no qualifications	275,000
From non-white ethnic group / 3 key groups (Indian, Pakistani/Bangladeshi, Black/Black British)	215,000 / 166,000
Long-term health problem / disability	315,000
Would like paid work (and are economically inactive)	179,000
Aged 16-19 and unemployed	33,000

2.7 Demographic groups and Worklessness

The risk of being workless is not even throughout the community. Some key demographic groups are at high risk of being workless. Many of the people in these high risk demographic groups are also concentrated in deprived areas, further increasing their risk of being workless.

2.7.1 Minority ethnic groups

The region has an ethnically diverse population, and this diversity is set to continue to grow. However the region's minority ethnic groups are characterised by high rates of worklessness, low rates of qualification attainment, and are more likely to live in deprived areas. All of the region's main ethnic minority groups have higher rates of worklessness than the white population:

74,900 people from the region's key minority ethnic groups need to enter employment to match the white employment rate in the region. This figure comprises:

- 19,100 people from the black population (equally split between men and women),

⁷ As at end 2007

- 11,300 from the Indian population and
- 44,500 people from the Pakistani/Bangladeshi population. The scale of the challenge for Bangladeshi/Pakistani women is considerable; 36,900 women from this group would need to enter employment to match the worklessness rate of white women.

Black or Black British people resident in the West Midlands are more likely to be JSA claimants than if they lived elsewhere: Black or Black British people living in the West Midlands are one and a half times more likely to be claiming JSA than if they were living elsewhere in England. For Indian people the likelihood is higher than for Pakistanis and Bangladeshis.

2.7.2 Young people

In common with national trends, the region has large numbers of disengaged young people. Youth unemployment for those aged 16-19 years is, at 23%, almost four times the rate for all people of working age, and this is the third highest rate of all the regions. This equates to 33,000 unemployed 16-19 year olds in the region.

Problems of engagement in the labour market continue into young adulthood, with one third of the region's jobseekers allowance claimants, or 31,000 claimants, aged between 18 and 24.

2.7.3 Older people

Demographic projections show that older people are set to make up a greater proportion of the population in future. It will therefore be increasingly important that employers are able to recruit and retain older workers in the future.

Employment rates peak well before state retirement age, and many workers leave the workforce from the age of 50. Furthermore, many of the region's industrial sectors have a predominantly young workforce, employing relatively few older workers.

2.8 Issues associated with worklessness

There are a number of key issues that are strongly correlated to issues of worklessness. Sustainability of employment, skills, health, disability, poverty, and living in deprived areas can all impact on an individual's chances of successfully engaging in the labour market.

2.8.1 Sustainable employment

Three quarters of new claimants for jobseekers allowance in the region have had one or more previous claims, while 40% have had a previous claim in the previous six months. Only 27% of those making a new claim for JSA have had no previous claims. These levels of repeat claims are consistent with national rates.

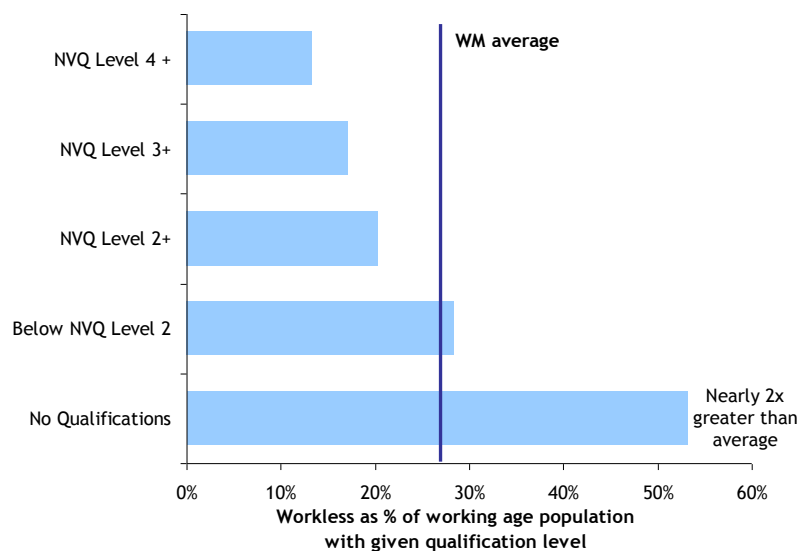
Existing research shows many of those who leave benefits enter temporary employment which leads them back to benefits. Keeping people in employment in the long term when they leave benefits is a key challenge.

2.8.2 Skills

While rates of qualification attainment among young people and adults in the region are improving the proportion of people with no qualifications remains, at 15%, the highest of all the regions.

Of those people in the region with no qualifications, 53% are workless compared with 12% of those with high level qualifications, and there is a large gap in worklessness rates between those with low level qualifications and no qualification. Holding a qualification of a low level compared to holding no qualifications almost doubles the chances of employment for an individual.

Figure 8: Worklessness rate by qualification level (Indicator 3.6)



Source: Office for National Statistics (LFS 2007)
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Those seeking declining low skilled occupations are heavily over-represented among the unemployed, due to a fall in demand for these occupations. Investment in skills is crucial to ensuring these people are able to access available employment opportunities.

2.8.3 Health

The region has a relatively high proportion of its population with a limiting illness or disability.

The region's rate of worklessness among those with long term health problems/disabilities is, at 52%, 3 percentage points above the national average. In order to close this gap, 17,500 people with a long-term health problem or disability would need to enter employment.

Among those with a limiting condition, the largest cause is mental or behavioural disorders. This group also has the highest rate of worklessness: 58% of those with a mental health problem are workless.

239,000 people in the region are claiming incapacity benefits, almost two and a half times the number claiming jobseekers allowance. 40% of these are claiming for mental and behavioural disorders while a further 20% are claiming for musculo-skeletal disorders.

2.8.4 Poverty

In-work poverty and low pay are serious problems which make it difficult for individuals to lift themselves out of poverty when in work. Making work pay and easing the transition from benefits to work are important to increasing take-up of employment.

Eliminating child poverty by 2020 is a key government target. Despite significant focus on this issue, child poverty has increased in recent years both within the region and nationally. 33% of children in the region are living in poverty (396,000 children) representing the second highest proportion of all the regions.

2.9 Conclusions

- There is a long-term problem of persistent worklessness in the region. Almost a quarter of a million people are excluded from the labour market through claiming incapacity benefits, while almost 100,000 more are claiming unemployment benefits for short but repeated episodes.
- Incapacity benefit claimants represent the bulk of the region's workless problem, and are distanced from the labour market.
- The majority of job seekers are unable to sustain a return to the workforce and return to benefits quickly
- Health, and in particular mental health, are major problems with high rates of worklessness associated with a variety of health conditions
- Skills is a major contributor to the worklessness problem as demand for unskilled labour has declined
- Economic exclusion of the long-term workless could be exacerbated by the present rise in unemployment among people who have been in work and are therefore more attractive to employers

Full document information

Title	Economic Inclusion: Baseline report for the West Midlands - Executive Summary
Date created	09-03-2009
Type	Report
Description	An executive summary of the baseline report of economic inclusion in the West Midlands.
Creator	Research Team West Midlands Regional Observatory
Publisher	West Midlands Regional Observatory Level 3, Millennium Point Curzon Street Birmingham B4 7XG Telephone: 0121 202 3250 Fax: 0121 202 3240 Email: enquiries@wmro.org Website: www.wmro.org
Rights	West Midlands Regional Observatory 2008
Document contact	Helena Duignan Senior Research Analyst West Midlands Regional Observatory Tel: 0121 202 3253 Email: helena.duignan@wmro.org
Location	West Midlands Regional Observatory
Coverage, Time period	To 2007
Coverage, Geographical	West Midlands
Format	Text and graphical
Subject category	Economic Inclusion
Subject keywords	Economic inclusion; economic exclusion; worklessness; unemployment; employment; out of work benefits; sustainable employment; poverty; health; skills;
Date available	March 2009
Cost	Free
Access restrictions	Read only
Language	English
Identifier URL	www.wmro.org
Status	Version 4.0 - Final Published Report



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