

Nesta...

**MAKING IT
WORK:
TACKLING
WORKLESSNESS
THROUGH
INNOVATION**

Jo Casebourne and Nick Coleman

October 2012

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ACKNOWLEDGEMENTS

We would like to thank all the people that have engaged with this work. In particular those who attended our round table event in March 2012, those who commented on drafts and provided very helpful suggestions, and those we have met with to discuss ideas and good examples of doing things differently. We would also like to thank Nesta colleagues, in particular Geoff Mulgan, Stian Westlake and Philip Colligan, for their input and advice and the Nesta Communications Team who have helped us bring the report to life. Any errors or omissions remain our own.

Jo Casebourne, October 2012

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EXECUTIVE SUMMARY

This paper makes the case for innovation in the jobs market. Few issues have as acute a need for innovation. Unemployment levels remain high, particularly for young people and in some local areas. Under-employment means many are working fewer hours than they would like. People previously classed as economically inactive (including those with health problems and disabilities) now need to find work. Insecure employment can mean individuals regularly moving between work and benefits. To date a set of policy approaches have focused on supporting individuals into work through supply-side labour market programmes, but these have been effective only in part and have reached a point of diminishing returns. It is clearly not enough to rely on the Work Programme as the sole source of innovation in this field. More systematic innovation across many parts of the labour market system is needed; to create new jobs markets, to support self-employment and to develop new and more effective ways of linking individuals to work. No one institution or government department currently owns this problem in its entirety, and innovation is therefore also needed in orchestrating this system and ensuring it works effectively. This paper sets out how a more systematic approach could be taken.

The state of the labour market

Inevitably, unemployment has risen since the start of the recession, though not as much as some feared. More worrying, it has stayed high, falling slower than in past downturns.¹ The current unemployment rate is 8 per cent, and long-term unemployment has increased substantially. Some local areas face levels of unemployment of over 12 per cent. One in five young people are now unemployed. There are now fears of a 'lost generation' of young people – shut out of the labour market, increasingly disconnected from work and learning, and 'scarred' throughout their working lives due to the experience of unemployment when young.²

This is not just a problem in the short term that will resolve itself in line with the economic cycle. There is evidence that there are deep-seated problems with the way that the labour market works. Some of these problems had their roots in the years before the financial crisis; for example, the rise in youth unemployment started in 2004. Unskilled men also face problems: one in two men without qualifications was not in work in 2007;³ people with disabilities are three times more likely than non-disabled people to exit from work,⁴ and lone parents twice as likely.⁵ A further long-standing problem is economic inactivity, rates for which have remained very similar (at around 22 per cent–23 per cent) over the last 20 years.⁶ Shifts in the profile of jobs haven't helped. For instance, the labour market has seen increasing wage inequality with a 'hollowing out of the middle' as the labour market has become polarised between high and low earners.

Current approaches to tackling worklessness

In broad terms, approaches to reducing worklessness to date have focused on:

- Increasing the aggregate demand for labour. This can take the form of monetary and fiscal policies, financial incentives for individuals or consumers, or supply-side reforms (e.g. to regulation and infrastructure) that make it easier for companies to improve productivity, expand and create well-paid jobs.
- Increasing or improving the supply of labour. This can be done, for example, through the benefits and tax credits system to make work pay, or by increasing skills and employability, through labour market programmes or as part of education or training.
- Improving the efficiency of the labour market, particularly through better matching of demand and supply. This has been an integral feature of labour market reform in the UK, with an emphasis on labour market deregulation from 1979 onwards followed by a focus on better matching including the introduction of Jobcentre Plus in 2001, building on the development of the Employment Service. The use of technology, often through intermediaries, can be important in this area, in making efficiencies in search costs and administration costs.

The current approach to tackling worklessness has also led to a complicated picture of multiple initiatives designed to help the labour market work better. The labour market is a complicated system and a large amount of money is spent within it. We have estimated the size of the (low end of the) labour market system in the UK as £5 billion per year.⁷ We spend £5 billion per year and yet the system is not working effectively in connecting individuals to work.

Within the system currently, the focus of attention is usually placed on Jobcentre Plus, welfare-to-work providers and the Work Programme, but there is clearly a large amount of activity occurring beyond this. There is potential within this system to place more emphasis on other intermediaries connecting supply and demand and on alternative ways to stimulate demand.

Innovation in tackling worklessness

The processes and institutions by which people are matched to jobs and jobs to people are too often taken for granted when thinking about how to create jobs. Innovation in these processes and institutions could help create jobs and work, over and above what has been done in the past. Innovation will be crucial in tackling the problems that are identified in this report, and in making it easier for individuals and employers to navigate through the complex labour market system.

Some parts of the labour market have thriving innovation systems. Executive search agencies operate to match highly-paid jobs with candidates, individuals pay to invest in their own skills, and employers are willing to pay to invest in senior staff (even though it is the individuals themselves who may benefit most from such investment).

But at the low end of the labour market, the incentives for innovation are weak. Employers are less willing, or able, to invest in matching services that connect individuals with jobs

and in skills development, as staff are seen as more easily replaceable. Individuals lack the resources to invest in training themselves even though they are the ones who will reap the main benefit from employability gains. This means that intermediaries (whether they be traditional employment agencies or welfare-to-work providers) have little financial incentive to innovate. Government then becomes the primary purchaser of such services in an attempt to make the low end of the labour market operate more effectively and to tackle worklessness.

Whilst labour market programmes, such as the Work Programme, have used innovative ways of commissioning and contracting, the aims of these programmes, and the content of delivery, are similar to what has been seen in the past. No evidence has yet been published on the extent to which innovation is taking place within the Work Programme. It is clear that we are still in the early stages of the innovation process and are a long way from achieving systemic change.

Labour market programmes also miss out on some of the promising fields of innovation – for example new platforms for job matching are likely to work best if they don't distinguish users by their welfare status; ways of reshaping schooling to make teenagers job-ready (like Studio Schools that go well beyond small slices of work experience to give pupils paid work); and ways of reshaping the very nature of jobs. Some fascinating innovation is underway which aims to speed up the circulation of resources within local economies – using complementary currencies, localised credit creation, or measures to unlock capital assets. Next year, for example, the city of Nantes in France launches a parallel currency for businesses. Hyperlocal media may play a role here, making it easier for people to find and buy reliable services from local providers.

We have identified three types of possible alternatives:

- a. **Creating and shaping new markets:** There are a number of examples of initiatives that aim to support the creation or expansion of new markets, often by influencing behaviour. These include developing new markets in growth sectors such as social care, using complementary currencies and vouchers to mobilise capital, and using tax incentives to stimulate new markets. For example, a number of models exist in the **social care sector** seeking to harness the growth in personal budgets to stimulate new jobs in the sector. This can be done through the use of service vouchers. In **Belgium, a service voucher scheme** has introduced a consumer subsidy in order to encourage the demand for domestic services, to create jobs in this sector, and to enable some high-skilled workers (especially women) to (re-)enter the labour market.

Complementary currencies and loyalty schemes aim to boost a local economy by stimulating the use of local services, catalysing economic activity, which can translate to new local jobs. A local currency is being introduced in the French city of Nantes that can be used by both businesses and individuals. One of the main goals of the system is to accelerate trade between local companies. Members of the **'Nanto zone'** will be able to limit the use of cash, thereby reducing cash flow problems and making exchanges easier. The approach responds primarily to the needs of small and medium-sized businesses in services, construction or restoration.

- b. **Support for self-employment:** This could include testing out tools such as smart applications of technology to lower the barriers to employment, such as **apps for self-employed people** to take on their first employee, that interact with HMRC systems
-

(minimising the risk and paperwork involved). Another example is **Working Rite**, a work-based mentoring programme, in which young people are paired up for six months with individual construction and other skilled industry tradesmen. Schemes like this could encourage sole traders to take on a young person.

Another approach to self-employment is through the use of franchising.

FranchisingWorks is a social enterprise that aims to help create new businesses and jobs through franchising. It provides independent advice and practical support to people interested in exploring franchising as a way into self-employment. In France, **Business and employment co-operatives (BECs)** help people to become self-employed in a range of activities through three stages of support. First, people remain technically unemployed but develop their business idea under the wing of the BEC. Next, if it looks like being a success, they become a 'salaried entrepreneur' with the security of a part-time employment contract. Finally they become a self-sufficient business.

- c. **Intermediaries that improve the efficiency of job-matching:** This could include the use of models such as **Fusion 21's Employer Pool**, which links procurement to sustainable job creation and skills training through capital and cyclical works projects, turning short-term opportunities into long-term jobs. **Apprenticeship Training Agency (ATA) models** are another example, which directly employ and develop apprentices and hire them out to host employers who provide the employment. This involves employers who would otherwise be unable to take the business risk of directly employing an apprentice. Another example of this approach is **Women Like Us** who work with employers to help them design part-time jobs using the skills of women returners, to benefit their business and grow the market in part-time employment.

Adapting **technology platforms** such as **TaskRabbit**, an online marketplace, which connects people to get everyday tasks done, to local employment markets is another way of stimulating demand for local services. On the demand-side individuals with needs, such as needing help to put together Ikea furniture, who previously would not have got these needs met are given access to people who can help them, creating new demand. On the supply-side workers can select from thousands of tasks and work when it's convenient. **Slivers of Time** is a web-based platform that allows scheduling of time, as part of an 'ultra flexible' employment system. **MyTaskAngel** and **TaskRabbit** are online marketplaces that connect people to get everyday tasks done. **Get your Job Done** is a UK intermediary for accredited trades people performing services in the home.

A weakness of the majority of these examples is that there is little evidence of their success to date. Most of the examples are current or recent, and are very much at the piloting stage. Even where initiatives are more established, there is a lack of evaluation, so it is difficult to assess how successful they have been – or can be – in addressing the problems we have identified. Many of these examples may be extremely effective at creating jobs, but there is rarely any evidence to show this.

Thorough evaluation is essential. Without this evidence, it is difficult to move beyond the piloting stage, as scaling up and sustaining the models requires commitment and funding. These types of innovation cannot work independently of the system as a whole. In the longer term, there needs to be a culture shift so that innovation in the labour market is supported by both legislation and policy.

Where next for innovation in tackling worklessness?

We call for more systematic innovation in this field. Few issues have as acute a need for innovation. But so far systematic innovation in this field has been neglected. Many parts of the labour market don't work well and it is not enough to rely on the Work Programme as the sole source of innovation in this field. We argue that a number of things should happen to lead to a step-change in innovation to tackle worklessness:

- We call for more **experimentation around ideas**. Local areas could commit to a package or programme of innovations that included those that created or shaped new markets, supported self-employment and used intermediaries to improve the efficiency of job-matching.
- We also argue for prototyping with much **more intensive measurement and assessment** of what works, so that successful models can be scaled up. There is little evidence currently on the effectiveness of many of the examples in this paper. Adopting any of these ideas provides an opportunity to test whether these are actually effective at tackling worklessness.
- No one institution or government department currently owns this problem in its entirety, and innovation is also needed in orchestrating this system and ensuring it works effectively. An **international independent evidence centre for the labour market** with a **global learning/knowledge exchange network** would help make the case for sustaining, scaling and diffusing successful innovations. An evidence centre could be charged with orchestrating knowledge about emerging approaches worldwide, collating evidence about what works, and ensuring that this is provided in forms that are useable by practitioners and meets their needs. It could also advise innovators on how to quickly and easily set up monitoring and evaluation mechanisms. A network to facilitate better dialogue internationally would help to exchange and diffuse ideas.

We hope that this report starts a debate around how these ideas can be taken forward.

1. INTRODUCTION

Inevitably, unemployment has risen since the start of the recession, though not as much as some feared. More worrying, it has stayed high, falling slower than in past downturns.⁸ The current unemployment rate is 8 per cent, and long-term unemployment has increased substantially. Some local areas face levels of unemployment of over 12 per cent. One in five young people are now unemployed. There are fears of a ‘lost generation’ of young people – shut out of the labour market, increasingly disconnected from work and learning, and ‘scarred’ throughout their working lives due to the experience of unemployment when young.⁹

This is not just a problem in the short term that will resolve itself in line with the economic cycle. There is evidence that there are deep-seated problems with the way that the labour market works. Some of these problems had their roots in the years before the financial crisis; for example, the rise in youth unemployment started in 2004. Unskilled men also face problems: one in two men without qualifications was not in work in 2007;¹⁰ people with disabilities are three times more likely than non-disabled people to exit from work,¹¹ and lone parents twice as likely.¹² A further long-standing problem is economic inactivity, rates for which have remained very similar (at around 22 per cent–23 per cent) over the last 20 years.¹³ Shifts in the profile of jobs haven’t helped. The labour market has seen increasing wage inequality with a ‘hollowing out of the middle’ as the labour market has become polarised between high and low earners.

Whilst labour market programmes such as the Work Programme have used innovative ways of commissioning and contracting, the aims of these programmes, and the content of delivery, are similar to what has been seen in the past. No evidence has yet been published on the extent to which innovation is taking place within the Work Programme.

Innovation is not the same as invention, creativity or entrepreneurship, though it overlaps with these. Broadly speaking, innovation is the process by which new ideas turn into practical value in the world: new products, services or ways of doing things. It is not just about new technologies or about scientific R&D.¹⁴

They also miss out on some of the promising fields of innovation – for example new platforms for job matching are likely to work best if they don’t distinguish users by their welfare status; ways of reshaping schooling to make teenagers job ready (like Studio Schools that go well beyond small slices of work experience to give pupils paid work); and ways of reshaping the very nature of jobs. Some fascinating innovation is

underway which aims to speed up the circulation of resources within local economies – using complementary currencies, localised credit creation, or measures to unlock capital assets. Next year, for example, the city of Nantes in France launches a parallel currency for businesses. Hyperlocal media may play a role here, making it easier for people to find and buy reliable services from local providers.

In all of these cases there will be valid objections from vested interests and traditional economists – who often claim that labour markets are already close to optimal. The only way to find out if innovations work is to test them in real-world environments. The potential social gains if they work are likely to greatly exceed the costs of experiment.

We consider '**worklessness**' primarily in relation to unemployment, but it also includes under-employment (people working fewer hours than they would like), unsustained employment (i.e. insecure or poor quality work that leads to repeated worklessness), and individuals who are economically inactive but who may not be claiming unemployment benefits.¹⁵

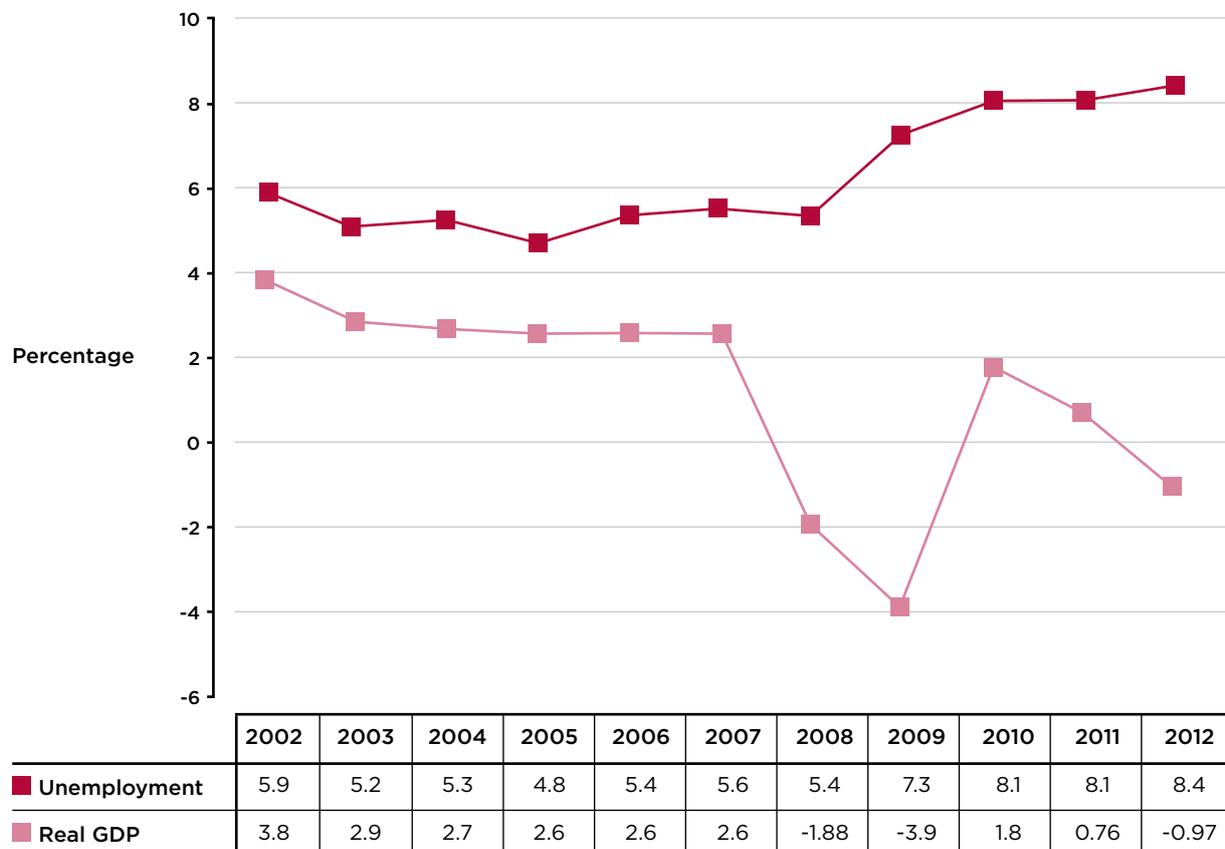
2. WORKLESSNESS IN THE UK

2.1 The current state of the UK labour market

Prior to the recession that began in 2008, employment levels in the UK were high and the (OECD-based) unemployment rate reached its lowest level in 30 years, falling below 5 per cent in 2005. However, **unemployment has risen since then**. The current unemployment rate is around 8 per cent, and long-term unemployment has increased substantially, along with the number of long-term JSA claimants. Youth unemployment (including students) is just under one million.¹⁶

However, **employment rates have remained higher** and unemployment rates lower than might have been expected given the experience of previous recessions, and alongside a substantial GDP fall. In recent times, the link between employment levels and GDP has not always been straightforward. The most recent figures show the economy shrinking, but employment increasing.

Unemployment and Real GDP 2002–2012

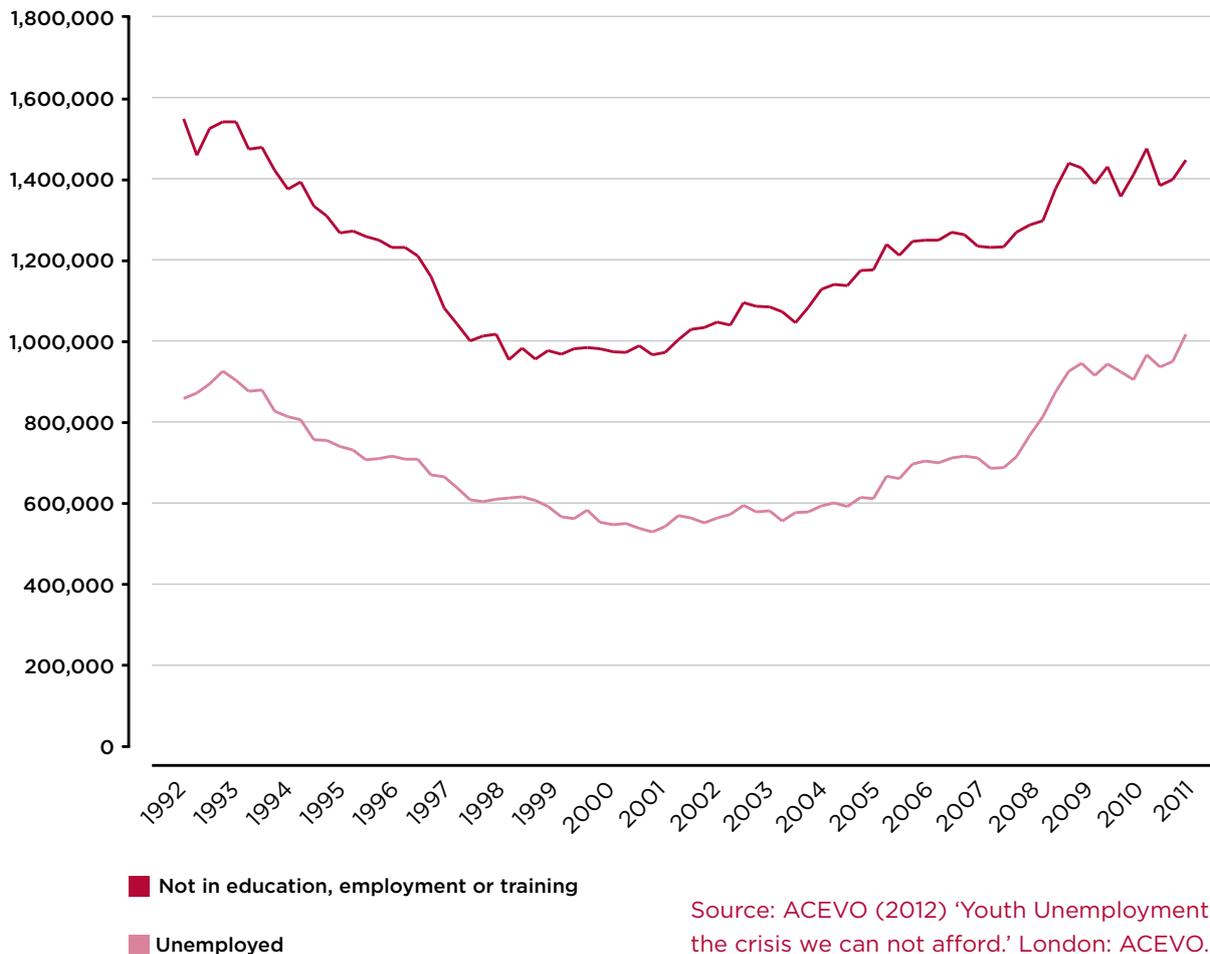


Source: UK Office of National Statistics

A wide range of possible reasons have been suggested as to why employment rates have remained higher than expected. These include: the high profitability levels of firms going into the recession; supportive monetary and fiscal policies during the recession; and firms ‘hoarding labour’ (cutting hours and pay rather than jobs), in an attempt to maintain the skills and expertise in their workforces.¹⁷ The downside of the relatively high employment levels during the recession is that productivity has fallen sharply,¹⁸ and there is a consensus that **recovery is likely to be slow**.¹⁹

In addition, the **effects of the recession** may be felt for many years. As youth unemployment has sharply increased there are now fears of a ‘lost generation’ of young people – shut out of the labour market, increasingly disconnected from work and learning, and ‘scarred’ throughout their working lives due to the experience of unemployment when young.²⁰ The effects of recession have been felt more strongly by **certain groups of the population**, including young people. The youth unemployment rate (including students) for 16–24 year olds is now 20.5 per cent (ONS). In general, where unemployment rates were relatively high before the recession, the problem has become more intensive. For example, employment rates in the most deprived wards and amongst the lowest educated have both fallen sharply through the recession.²¹

16–24s NEET and unemployed



A similar pattern applies to different industry sectors. During the recession, there was a substantial fall in the numbers employed in manufacturing, intensifying a downward trend that already existed. At the same time, job losses in other sectors have been equally significant. The percentage falls in finance, retail and transport have been smaller than in manufacturing, but they account for around half of total jobs lost as they are larger sectors.²² The falls in these service sectors can also be interpreted as being more dramatic than in sectors such as manufacturing, because they signal the reversal of a long-term pattern of growth.²³

2.2 Longer-term patterns

While much attention is currently focused on the cyclical effects of the recession, an examination of longer-term structural trends is important in trying to identify solutions that will provide sustained improvements.

As noted above, employment rates were high before the recession, the UK had performed well relative to other countries, and many analysts therefore view the UK labour market as being in a healthy position, with few structural barriers to job creation and with jobs-rich growth. This is particularly the case given the relatively strong performance of employment in recent months (see section 2.1).

However, even in the buoyant years preceding the recession, there were **problems in the UK labour market**. The recession may have highlighted these problems, but they are not the result simply of the economic downturn. We cannot, therefore, expect them to go away when the economic outlook improves. Rather, we need new and innovative approaches to tackle worklessness. These long-term problems with the UK labour market are summarised here and are then discussed further below:

- High rates of young people who are NEET.
- High levels of worklessness amongst some disadvantaged groups.
- Sustained levels of overall economic inactivity.
- Local areas facing very high levels of worklessness.
- Hollowing out of the middle of the labour market.
- Slow rise in demand for skilled occupations.
- Excess supply of intermediate skills.
- Too many poor quality jobs.

Firstly, while young people have suffered during the recession, the increase in **youth unemployment** started before this.²⁴ Between 2004 and 2006/7, there was a substantial growth in the number of young people unemployed and in the number of young people not in employment, education or training (NEET). This was followed by a second period of sharp growth related to the impact of the recession from 2008 onwards.²⁵ The causes for the increase from 2004 are unclear; for example, it may be related to a lessening focus on young people in labour market programmes, but this is not proven.²⁶

Other groups also saw high levels of worklessness prior to the recession. As shown in Table 1, employment gaps for disadvantaged groups have remained over time, even though these have decreased to some extent among particular groups.

Table 1: Employment gaps for different groups of the population²⁷

Group	Employment gap ²⁸ (percentage points)	
	1998	2009
Disabled people	41	31
Lone parents	30	17
Ethnic minorities	19	15
Those with low qualifications	17	22
People living in the most deprived areas	13	12

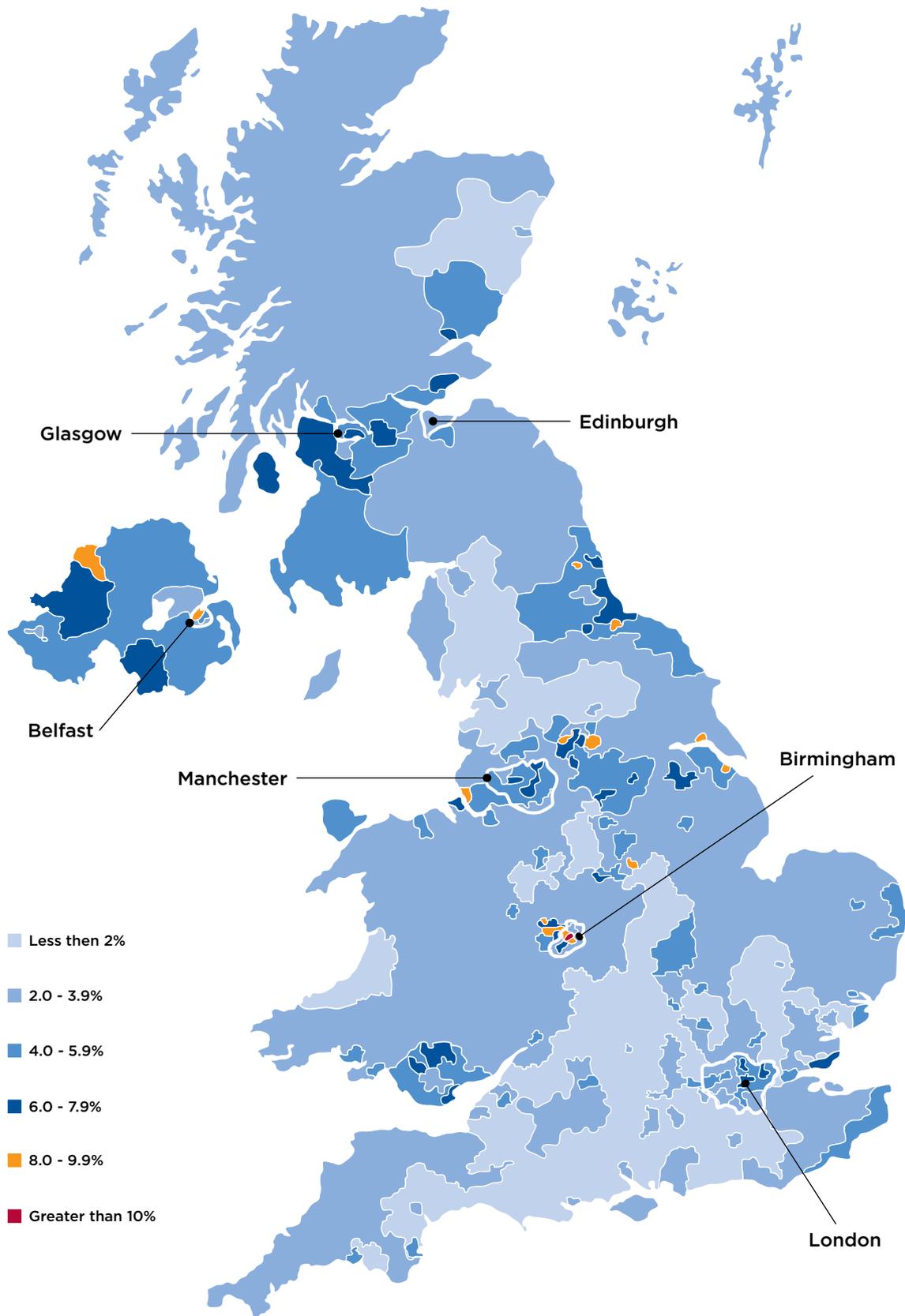
One of the main long-term problems in the UK labour market is **economic inactivity**, rates for which have remained very similar (at around 22 per cent–23 per cent) over the last 20 years. There have been changes in the profile of the economically inactive population during this time, but it is only more highly-educated women that have seen a substantial drop in economic inactivity levels²⁹ over time.

Recent Government policy has tried to address this issue, by moving large numbers of those who might formerly have been ‘economically inactive’ (e.g. older people, lone parents and those with health problems/disabilities) into more active labour market programmes in an attempt to move them into work.³⁰ However, this is a difficult challenge, given the long periods of worklessness experienced by many in these groups, and the complex barriers to work they often face. For instance, the Pathways to Work programme for disabled people had little impact in moving participants into work.³¹ These groups also present a challenge in relation to sustained work: previous research has found that disabled individuals are three times more likely than non-disabled people to exit from work, while lone parents are twice as likely as others to leave employment.³² Overall, it is clear that different groups of the population face different challenges in moving into work.

Unemployment patterns by area during the recession also tend to have re-enforced existing variations. Whilst ONS data (at September 2012) shows that some areas have less than 2 per cent unemployment (e.g. Cambridge South, Winchester, Dorset North), others have unemployment rates of around 10 per cent or over (e.g. 12.2 per cent in Birmingham Ladywood, 9.8 per cent in Middlesbrough and 9.8 per cent in West Belfast). Those areas that previously had the highest unemployment have seen the largest increases. Of the 20 local authorities with highest unemployment now, 15 were also in the top 20 in 2008 – with three each in the North East, Wales and the West Midlands.

The **profile of jobs** has been changing over a long period of time. The labour market has seen increasing wage inequality with a ‘hollowing out of the middle’ as the labour market has become polarised between high and low earners.³³ One explanation for this is ‘skills biased technical change’ where technology is argued to have replaced some routine jobs

Economy tracker: Unemployment



Source: Office for National Statistics September 2012 and BBC. See: <http://www.bbc.co.uk/news/10604117>

and has driven a growing demand for skills. The changing profile of employment in the UK in recent decades, with a growing 'service economy' alongside a declining manufacturing sector,³⁴ is also a factor.

Analysis of changes in occupational level highlight this trend of polarisation very clearly. There has been growth at the extreme ends of the occupational scale, with rises in managerial and professional jobs, as well as in low-paid personal and protective occupations and in sales. The numbers working as craft workers and in routine clerical jobs have declined, as have the number of machine operatives.³⁵

Related to these changes, there is a market failure in the continuing **mismatch of supply and demand** in relation to skill levels and employment. While skills have been rising, the increases have been quite small in comparison with some OECD countries. At the same time, the rise in prevalence in skilled occupations is also relatively small. As a result, neither the supply nor demand for skills are expanding fast enough to meet 2020 targets set for Britain's workplaces to be among the most skilled.³⁶

Alongside this shortage of supply and demand at the higher-skilled level, increases in educational attainment over time have led to rising populations of over-qualified employees with intermediate skills, providing an excess supply for the shrinking demand for intermediate-skilled jobs. Essentially, this means that there is an excess supply of people with intermediate level or non-specialised qualifications who are not meeting the demand for skilled jobs; are not required by the shrinking demand for mid-level occupations; and who are over-qualified for low-level occupations, for which there is also some demand but excess supply.³⁷ With these over-qualified people having to take on unskilled jobs, those at the bottom of the ladder (without skills) are being squeezed out. This pattern has been reinforced by a rising use of credentialism among the lowest-level occupations.³⁸

The labour market also has too many poor quality jobs. According to EU definitions, at present, about 22 per cent of the UK workforce are low paid (less than two-thirds median earnings), with work that is also often insecure and offering little opportunity for progression.³⁹ There has also been a rise in zero-hours contracts (ONS figures show a rise from 54,000 in 2005 to 161,000 in 2012), and suggestions that their use is becoming particularly prevalent in the health and social care sectors.

2.3 How can we expect the situation to change in the future?

In trying to identify solutions to problems in the labour market, it is important to consider how things are likely to change in the future.

Many books and articles have speculated on the future shape of the labour market, sometimes arguing that we are seeing **fundamental shifts** in the nature of work. Commentators such as Richard Sennett, Manuel Castells and Ulrich Beck have described a 'transformation of work'. Predictions of future change have included the end of salaried employment, fragmentation of labour markets and the atomisation of the experience of work.⁴⁰ The rise of technology is said by some to be leading to a new era, where future economic growth is not necessarily linked to employment growth.⁴¹ Other commentators have imagined various scenarios for what the future of work might look like.⁴²

However, others have argued that this narrative of the transformation of work overstates the impact of technological change on the labour market, and generalises from the

minority experience in the workforce represented by temporary, casual and part-time employment. Doogan⁴³ argues that there is little evidence to substantiate claims of transformation and that, prior to the recession, average job stability had not declined,⁴⁴ long-term employment had increased, and labour market attachment had increased for some groups. Doogan also argues that the effects of technology on working patterns are not proven or have been overstated (for example the shift to working at home).

Analysis of working patterns seems to confirm that changes in the nature of the work have been quite limited to date. For example, part-time work became more prevalent between 1980 and 1995 (rising from 16 per cent to 22 per cent of total jobs), but since then the proportion has been broadly stable. The share of part-time working has risen during the recession, consistent with falls in hours, but this is similar to previous recessions.⁴⁵

Overall, this suggests that predictions of fundamental changes in work patterns appear to be speculative, and there is no clear evidence yet for major future shifts in working patterns.

Trends that are shaping the labour market

While claims for fundamental changes in the nature of work are tenuous, it is clear that there have been changes in the profile of jobs in terms of sector and occupations. For example, new research by Nesta shows that foreign-owned firms have become far more important as a source of employment in the UK; increasing their share of overall private sector employment from 11 per cent in 1997 to 19 per cent in 2010.⁴⁶ It is likely that the trend of work polarisation and the mismatch between skills and available jobs will continue, given that both of the two likely causes (skill-biased technology change and the move to a service-based economy) are likely to remain. This will mean an increasing emphasis on work using specialised skills,⁴⁷ as well as a demand for jobs which are less skilled but unaffected by – or still needed alongside – technology.

Reflecting these likely changes, it is predicted that the demand for high-level **occupations** (managerial, professional and skilled technical) will continue to rise, as will demand for lower-level (unskilled) occupations. Projections indicate that demand for mid-level occupations, such as administrative and secretarial jobs, skilled trades, and process/plant/machine operatives, will continue to fall.⁴⁸

In terms of **industry sectors**, the European Commission has predicted that the green economy, health services and ICT have the biggest job potential for the future.⁴⁹ More detailed sectoral analysis in the UK suggests that business services (e.g. accountancy, law, consultancy, advertising and public relations, cleaning/facilities management, call centres) are expected to account for more than one-third of total jobs growth, while health and social work are also expected to grow significantly, as are retail and hotels/catering.⁵⁰ Other possible growth sectors include some technology and R&D related industries, computing services, and education.⁵¹ It is notable that some of these sectors are also those that exhibit skill shortages and gaps at present. Therefore, there is a risk that these gaps may be exacerbated by such future growth requirements.⁵² These growth sectors include some that have occupations that are well-paid, professional and highly skilled, and some that are low-paid, low-skilled jobs. If these sectors grow, they are likely to generate a range of skill requirements and a range of jobs from high 'quality' or 'good' jobs, to jobs that are seen as less 'good'⁵³ (see also section 2.2).

One sector that stands out is health and social services. This is a sector where “*skill shortages predominate, in terms of absolute numbers*”.⁵⁴ At the same time, there is a recognition that there is likely to be a growing demand for both short-term and long-term care services, due to demographic ageing (with associated need to create large numbers of quality jobs in the sector), pressure for more and differentiated formal employment in the care sector driven by wider societal changes in the role of women and changing family ties, as well as demand for higher-quality services that are more responsive to the needs of both direct users and their informal carers.⁵⁵ This suggests that this is an area requiring attention both in meeting increased demand and ensuring a supply of skilled workers.

As noted above, variations in employment by **local area** have been reinforced during the recession (see section 2.2). There is also a danger that, with many areas reliant on the public sector for employment, these differences will become even more pronounced over time. Public sector employment as a percentage of total employment is particularly high in the North East, Northern Ireland, Wales and Scotland, areas where unemployment is often already high. Solutions that target specific areas will be critically important in tackling worklessness.

2.4 What is the current approach to tackling worklessness in the UK?

In broad terms, approaches to reducing worklessness have focused on:

- Increasing the aggregate **demand** for labour. This can take the form of monetary and fiscal policies, financial incentives for individuals or consumers, or supply-side reforms (e.g. to regulation and infrastructure) that make it easier for companies to improve productivity, expand and create well-paid jobs.
- Increasing or improving the **supply** of labour. This can be done, for example, through the benefits and tax credits system to make work pay, or by increasing skills and employability, through labour market programmes or as part of education or training.
- Improving the efficiency of the labour market, particularly through better **matching** of demand and supply. This has been an integral feature of labour market reform in the UK, with an emphasis on labour market deregulation from 1979 onwards followed by a focus on better matching including the introduction of Jobcentre Plus in 2001, building on the development of the Employment Service. The use of technology, often through intermediaries, can be important in this area, in making efficiencies in search costs and administration costs.

Table 2 summarises some of the examples discussed below. Section 2.5 contains a more detailed overview of the low end of the labour market.

Table 2: Examples of current approaches to tackling worklessness

Demand-side	Supply-side	Matching	Employer focused	Self-employment
Growth and innovation fund	Work Programme	Jobcentre Plus	Youth Contract	New Enterprise Allowance
Regional growth fund		DWP commissions Monster	Work experience	Start-up loans
			Apprenticeships	Revolving Loan Fund Scotland

Demand-side measures aim to boost aggregate demand for labour. Integral to recent Government policy in maximising labour demand has been macro-economic stability, with a stable economy based on low taxes, low inflation and low interest rates. The UK's growth strategy includes a range of measures to stimulate demand such as finance for start-ups and business expansion, simplification of the tax system, encouraging investment, decreasing regulation, and sector-specific strategies for growth sectors. Nesta's work on high-growth firms has highlighted the importance of the small number of fast-growing businesses that between 2002 and 2008 generated the lion's share of employment growth in the UK. These businesses can be found across all sectors, and include both established firms and start-ups, small businesses and large ones.⁵⁶ High-growth businesses remain vital to the economy, and government policy for fostering economic growth needs to have high-growth businesses at its heart.⁵⁷ We have also recently published *Plan 1: The case for innovation-led growth*,⁵⁸ which argues for a number of measures to boost the demand-side through adopting innovation.

Current examples of Government initiatives aiming to promote **sector-based growth** include the Growth and Innovation Fund, which aims to provide an opportunity for employers and government to invest jointly in creating new skills solutions in individual sectors. The Regional Growth Fund (RGF) aims particularly to help those areas and communities which were dependent on the public sector to make the transition to sustainable private sector-led growth. A recent NAO report found that the cost-effectiveness of the RGF was in line with previous programmes, but that it had "*not optimised value for money because a significant proportion of the £1.4 billion was allocated to projects that offer relatively few jobs for the money invested*".⁵⁹

In recent years, policy on jobs has overwhelmingly focused on **supply-side** measures. As part of this broad policy focus, individual labour market programmes have also focused on supply-side measures, although Meager⁶⁰ has noted that active labour market approaches often include both supply and demand-side measures. Typical supply-side measures include training schemes, information and job-brokering activities, information, advice and guidance, sanctions and incentives, and individual-level subsidies.⁶¹

In particular, the UK has had an extensive policy offering on supply-side active labour market programmes to help the unemployed and economically inactive back to work that has evolved over the last decade and a half. These programmes have been based on a work-first approach where job search support is combined with a focus on basic skills

and work placements, rather than long-term investment in training and human capital development. Employment support for the more disadvantaged (long-term unemployed) is now largely contracted out and delivered by new supply-chains of private, public and voluntary sector organisations. The Coalition Government's new flagship Work Programme builds on this model (see section 3.1).

Active labour market programmes have had varying levels of success in moving people into work. However, even where they have been successful, it is often difficult to sustain positive results, and programmes inevitably only help those eligible for the scheme. In the case of young unemployed people, for example, the New Deal for Young People (NDYP) was successful in increasing job finding rates by around 20 per cent. However, the weaker focus on young people from 2004 may have contributed to the rise in youth unemployment since then.⁶² Also, NDYP was restricted to JSA claimants, excluding the wider group of 18–24 year olds who are not in work. This has become an increasingly important factor in the success of labour market programmes, as the number of people unemployed (on the broader LFS measure) relative to the number of JSA claimants has increased over time. The latest data show the proportion of unemployed people not claiming Jobseeker's Allowance at 39 per cent.⁶³

Bridging demand and supply-side measures are efforts to improve the **efficiency of individual job-matching**. To some extent, this has been integral to government policy for many years. The introduction of Jobcentre Plus in 2001 was intended to bring together job search, job matching and brokerage within the benefits system. Earlier this year, DWP commissioned Monster Worldwide to provide a range of advanced online job advertisement and search services. This will extend the vacancies advertised directly by Jobcentre Plus, by including vacancies from employers' own websites and other job boards. It also offers more sophisticated search facilities that will aim to match individual profiles and vacancies.⁶⁴ Other projects such as Networking for Work,⁶⁵ Flip⁶⁶ and Backr⁶⁷ focus on how individuals who are out of work can use their online presence and social networks to market themselves to employers and to find jobs.

There are also examples of **government initiatives that focus on employers**. The current Youth Contract includes a wage subsidy for employers taking on a young unemployed person. Previous examples have suffered from low take-up and a high level of 'deadweight' (where employers are paid for recruitment that would have happened anyway). Another approach is the provision of work experience placements to unemployed people. The current Work Experience initiative builds on the recent Future Jobs Fund, which contained positive elements but was costly and had a limited impact on sustained work.⁶⁸ Early findings suggest that the current scheme has had some success in moving people into sustained work, with an additional impact of around 6 per cent.⁶⁹

Apprenticeships have also had some success, with growing participant numbers and producing higher returns for individuals for the same level of qualification.⁷⁰ However, as with the other initiatives, there is a question mark over additionality: the extent to which apprenticeships represent new or additional jobs for people who have been unemployed.

A further category of government intervention is aimed at increasing **entrepreneurship or self-employment**. Current examples include the New Enterprise Allowance (one of the Government's 'Get Britain Working' measures), and the initiatives 'Start-up loans' and the Revolving Loan Fund in Scotland.

Previous UK schemes have been relatively unsuccessful: often high cost per participant, with high levels of deadweight and relatively low survival rates, and little measurable impact on participants' subsequent employability. Reducing deadweight by targeting disadvantaged and longer-term unemployed people tends to reduce levels of survival and jobs created.⁷¹ These difficulties may reflect more general problems, in that some research suggests that businesses set up by unemployed people have higher failure rates than businesses set up by others.⁷² Recent research on how self-employment schemes can most effectively and efficiently enable unemployed people to enter sustainable self-employment found that 'long-term unemployed people tend to be highly risk averse and require the safety net of a regular income to be encouraged to 'make the leap' to attempt self-employment'.⁷³ This suggests that intensive support is needed to help people manage the difficult process of moving to self-employment.

Recent self-employment schemes in Germany have had more success, both in terms of participant numbers and employment outcomes.⁷⁴ Part of this success may relate to a clearer focus. Research suggests that self-employment schemes for the unemployed or disadvantaged groups tend to suffer from ambiguity and lack of clarity about objectives. For example, it is often unclear whether the object of a programme is to reduce unemployment directly, to enhance the long-term employability of participants, to stimulate enterprise and small-firm growth in the economy, or some combination of these. This clarity is particularly important, because the self-employed are a very heterogeneous group of people working on their own account, from entrepreneurs and small business proprietors to freelancers and subcontractors.⁷⁵

For all of the approaches highlighted above, a key issue is the extent to which interventions are creating new jobs and therefore increasing aggregate employment. Some interventions may not actually create additional jobs – they may either re-distribute existing jobs (as part of a 'displacement effect') or dedicate resources on people who would have got a job anyway ('deadweight').

The evidence presented so far suggests that the current approach to tackling worklessness, and the government interventions in recent years it has involved, have had somewhat limited success in moving people into work. They are unlikely to address the longer-term labour market issues such as work polarisation and the mismatch between supply and demand.

2.5 Mapping the labour market system

The current approach to tackling worklessness has led to a complex picture of multiple initiatives designed to help the labour market work better. The labour market is a complex system and a large amount of money is spent within it. Mapping some of the players in the low end of the labour market enables us to build up a picture of the dynamics of the system – for instance, how different elements influence each other and how changes in one area might affect other areas.⁷⁶ Whilst it is not intended to be comprehensive,⁷⁷ the map on pages 24–25 enables us to see the factors affecting the worklessness of individuals. It also highlights some of the examples discussed later in this report (see section 3.3).

A large amount of money is spent on this system. We have estimated the size of the (low end of the) labour market system in the UK as £5 billion per year. This includes spending on Jobcentre Plus (and the Employment Service in Northern Ireland), the Work Programme,

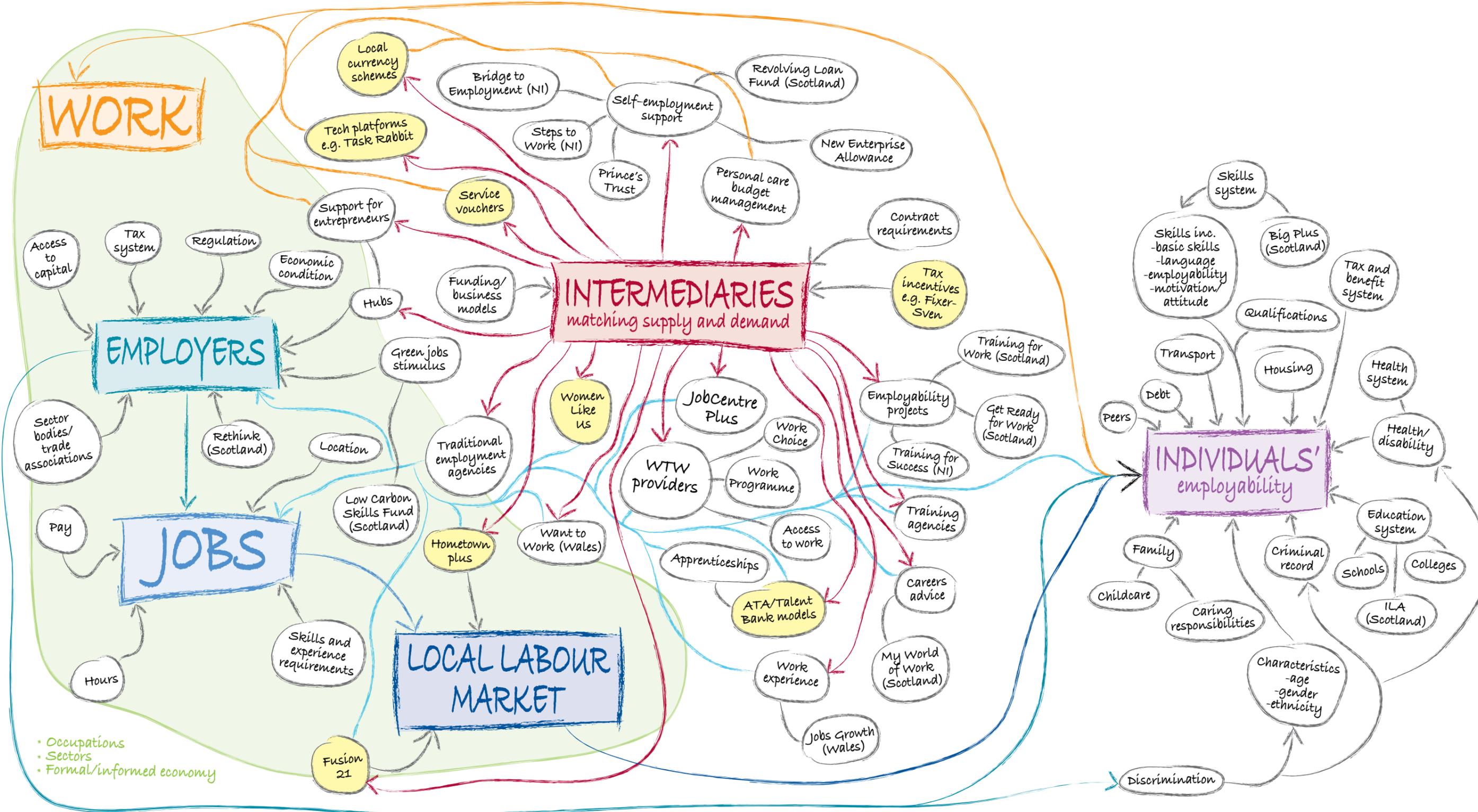
Work Choice and specialist disability provision, other welfare-to-work provision, apprenticeships, self-employment support, employability support and careers advice.

In a fully functioning system all these elements would be aligned to enable individuals to be connected to work. We spend £5 billion per year and yet the system is not working effectively in connecting individuals to work. Examining the system as a whole enables us to see where the focus of attention is usually placed and how this contrasts with where the points of leverage are. Interventions may then be best focused on points of leverage that are not being addressed in the way the system is currently operating.

What does this map tell us about the labour market system? There are a clearly a large number of actors in the system. Starting with the supply-side of individuals' employability, a large number of intermediaries are attempting to influence individuals' employability and to link individuals to either jobs or work (which is confusing for the individual). Individuals can also be linked directly to jobs and work without the help of intermediaries. Individuals' employability is also influenced by numerous factors beyond this range of intermediaries and their direct links with employers or work. Employability support being offered may not be able to overcome other influences pulling in different directions such as peers, family responsibilities and debt.

On the demand-side, a large number of intermediaries are trying to connect with employers (which is confusing for employers) and are trying to get access to the jobs to match their clients with. Employers are also influenced by a range of other factors, such as the tax system and regulation. Some intermediaries are trying to match individuals to jobs, others are matching individuals directly to work. Local labour market conditions have a role to play, with some intermediaries trying to directly affect these conditions. The way that employers define and structure jobs will continue to play an important role in shaping the labour market. For instance, whether jobs are defined as permanent, temporary, or project-based, are full-time or part-time, and have flexibility in working patterns as a possibility.

Within the current system the focus of attention is usually placed on Jobcentre Plus, welfare-to-work providers and the Work Programme, but there is clearly a large amount of activity occurring beyond this. There is potential within this system to place more emphasis on other intermediaries connecting supply and demand and on alternative ways to stimulate demand.



3. INNOVATION IN TACKLING WORKLESSNESS

The processes and institutions by which people are matched to jobs and jobs to people are too often taken for granted when thinking about how to create jobs. Innovation in these processes and institutions could help create jobs and work, over and above what has been done in the past. Innovation will be crucial in tackling the problems that have been identified in this report, and in making it easier for individuals and employers to navigate through the complex system described previously.

3.1 Innovation within the mainstream system

Innovation thrives in some parts of the labour market. For example, when it comes to job matching at the high-end of the labour market, leadership executive search agencies operate to match highly-skilled and highly-paid jobs with candidates, and a range of well-paid intermediaries operate. Individuals pay to invest in their own skills, as shown by the growth of coaching and other intensive individualised career services. In addition, employers are willing to pay to invest in senior staff and the employability and technical skills their staff need to perform (even though it is the individuals themselves who may benefit most from such investment). These types of intermediary are highly responsive to shifts in demand; new business models in search agencies frequently emerge, agencies provide a flexible on-call workforce for temporary skilled employment, and the rise in the use of technology has seen the growth in use of forums such as LinkedIn to match skilled and well-paid individuals with employers. There is little need here for government intervention to ensure that matching works efficiently.

However, there is market failure at the low end of the labour market, as the incentives for successful innovation are weak (and it is the low end of the labour market that is the focus of this paper). Employers are less willing, or able, to invest in matching services that connect individuals with jobs and in skills development as staff are, or are seen as, more easily replaceable. Individuals are also often unable financially to invest in these services themselves even though they are the ones who will reap the main benefit from employability gains. This means that intermediaries (whether they are traditional employment agencies or welfare-to-work providers) have little financial incentive to innovate.

Government then becomes the primary purchaser of such services in an attempt to make the low end of the labour market operate more effectively and to tackle worklessness. Innovation led by government can be constrained by a tendency to design large programmes centrally, which are then rolled out and not always adapted to local context and ideas, by political capital resting on high-profile initiatives leading to a tendency to be risk averse, by short timescales of programmes, and by policy moving on before evidence of what works has been gathered. Government also has to balance its dual role of the provision of benefits to those out of work and being the provider or purchaser of 'matching' services, a dual role that has a long history, from labour exchanges onwards.

Innovation prior to the Work Programme

There is a lot of evidence on the extent of innovation in labour market programmes prior to the Coalition Government's launch of the Work Programme. The Labour government began 13 years of wide-scale experimentation in labour market programme design with the launch of the **New Deal programmes** in 1997, focused on lone parents, young people, disabled people and long-term unemployed people. These were followed by a plethora of pilots to develop and test innovative ideas. These included:

- Redesigning how employment services were delivered (e.g. **New Deal Innovation pilots, ONE, introduction of Jobcentre Plus, introduction of Work-Focused Interviews, Employment Zones, private sector-led New Deals**).
- Area-based initiatives (e.g. **Action Teams for Jobs, Working Neighbourhood Pilots, City Strategy Pathfinders**).
- Skills initiatives (e.g. **New Deal for Skills, Integration of Employment and Skills pilots, Skills Coaching pilots**).
- Initiatives for Black and Minority Ethnic Groups (e.g. **Fair Cities, Ethnic Minority Outreach, Partners Outreach for Ethnic Minorities, Specialist Employment Advisers**).
- Initiatives for lone parents (e.g. **In Work Credit, New Deal Plus, Employment Retention and Advancement Demonstration Project**).
- Initiatives for those with health problems and disabilities (e.g. **Pathways to Work, Disability Employment Advisers, Workstep/Workprep, Access to Work**).
- Initiatives focused on the 'hardest-to-help' (e.g. **Progress to Work/Progress to Work Linkup, StepUP**).

These were all evaluated (and the results published in DWP's extensive Research Report Series)⁷⁸ and elements seen as successful were designed into future employment initiatives. This approach to evidence-based policymaking goes far beyond that of many other government departments.

Some evaluations suggested that flexibility in how services were delivered could bring improved results. For example, one of the constraints to innovation in the past has been the system of Jobcentre Plus contracting arrangements. The evaluation of Fair Cities found that there was not enough flexibility to restructure contracts in the light of experience gained.⁷⁹ The lack of innovative approaches in the **Working Neighbourhood Pilots** was partially due to the rigidity of Jobcentre Plus procedures which inhibited the ability of Jobcentre Plus-led pilots to develop new approaches, particularly in the use of a flexible pool of money designed to be used locally – the Community Flexible Discretionary Fund. Rigid contracting arrangements also meant that some pilots were less able to be responsive to customer needs (due to lengthy contracting procedures), which limited both flexibility and innovation.⁸⁰

More recently, as a result of an independent report on the future of welfare-to-work done for the Labour government in 2007,⁸¹ and the subsequent development of DWP's Commissioning Strategy in 2008,⁸² there has been a shift towards outcomes-

based commissioning and the development of 'Payment-by-Results' (PBR) models as mechanisms for buying employment outcomes in welfare-to-work, with the aim of incentivising service providers to innovate in how they deliver these social outcomes.

Based on this work, **Flexible New Deal** (FND) was launched in two phases in April 2009 and April 2010, replacing a previous plethora of programmes and pilots with a single outcome-based programme delivered by contracted-out providers who were paid by results and could choose what services to deliver in a 'black box' of provision designed to increase innovation. A key change in this programme compared to previous ones was a focus on sustainable employment (defined as being in work for 52 weeks), rather than the past focus on an employment outcome being defined at 13 weeks.

Whilst FND used an innovative approach to employment programme design, an evaluation of FND found that minimum prescription/black box approaches did not necessarily result in greater innovation to deliver sustainable employment. For example, *"despite limited prescription on what providers should deliver, little innovation was evident in the design and content of services"*.⁸³ In fact there was *"evidence to suggest that the choice of services on offer was narrow and did not address the full range of customer needs, contrary to what might be expected from a 'black box' approach"*.

Innovation in the Work Programme and beyond

In June 2010, the new Coalition Government announced its intention to overhaul and further streamline the employment, welfare and benefit systems. From June 2011, FND was discontinued and was replaced by the Coalition Government's flagship '**Work Programme**' across Great Britain. The Work Programme has used innovative ways of commissioning and contracting, and has been designed with the intention of stimulating innovation, through freeing up of providers to deliver within a 'black-box' approach (building on FND), longer outcome-based contracts and incentives to work with those who need it most. However, no evidence has yet been published on the extent to which innovation is actually taking place within the Work Programme, or whether constraints such as the financial models behind it are preventing investment in innovation. For instance, the focus in the Work Programme on cutting costs and delivering performance may be crowding out the ability to try new things and to learn from those that do not work (particularly as some, including the NAO, have predicted that providers will fall short of their targets).⁸⁴ The use of a black box approach may prevent the benefits brought by more open innovation processes.

In general, the welfare-to-work market has a number of structural rigidities that inhibit the innovation process.⁸⁵ As a result, innovation can still happen, but is haphazard, and occurs within a restricted framework. Competition normally drives adoption of innovation and eventually drives those out of the market who do not adopt innovation. However, the welfare-to-work market is still at an early stage of development, and has not reached the point where innovators are dominating the market. The use of payment-by-results and prime contractors to deliver services has also led to concerns that small, and often innovative, providers have been squeezed out of the delivery system.⁸⁶ To address these concerns the Merlin Standard⁸⁷ has been designed by DWP with providers and representative bodies to try and ensure balanced supply chains and to prevent, in future, small organisations being written into contracts as 'bid candy' who are then not used in delivery of services. The impetus for competition has also led to a lack of recognition that collaboration in some industry-wide issues will be beneficial. Market mechanisms to support collaboration are lacking, for example in staff training and leadership⁸⁸ and in promotion of dialogue.

Alongside the emphasis DWP has put on trying to design innovation into the Work Programme, there have been a number of other serious efforts by DWP to actively stimulate innovation beyond the Work Programme. DWP announcement in January 2012 of a **£200 million payment by results scheme to help 'troubled families'** and the launch of the **Innovation Fund**. However, it is too early to say how successful these two initiatives are being.

DWP INNOVATION FUND⁸⁹

On 12 May, the Government announced a package of measures to help address youth unemployment. These included a new 'Innovation Fund' of up to £30 million over three years from 2012 to support social investment projects. The projects will support disadvantaged young people and those at risk of disadvantage. The Innovation Fund (IF) is being commissioned via two rounds. The first round of the IF focused on 14-24 year olds and provision started in early 2012. The second round, which focuses on disadvantaged young people, and those at risk of disadvantage, aged 14 and 15 years to reduce prospects of them being or becoming long-term NEET, was launched on the 20 January 2012.

Alongside the Work Programme, a new and innovative system of benefits and tax credits '**Universal Credit**' is to be launched in 2013. Universal Credit has the potential to help in moving beyond some of the constraints that have long undermined innovative ideas in the past. In theory it will enable individuals to more flexibly combine packages of work by removing the 'cliff edges' in the current benefits system, where benefits fall away sharply when individuals work a certain number of hours, disincentivising people to work small numbers of hours and disincentivising some people to move into work. This should also make it easier to test and further develop new ideas around stimulating new markets in working time. In practice, its success will depend on the detail of implementation, much of which is still being worked out.

In addition to DWP-led initiatives, **City Deals**⁹⁰ led by the Cabinet Office are enabling the trialling of a number of different models that could contribute to reducing worklessness in local areas. These include:

- **Earn Back** in Greater Manchester – a new payment by result model that incentivises them to invest in growth in return for a share of the national tax take. They plan to raise £1.2 billion and invest it locally in growth-maximising projects. They will then be able to earn back a share of national tax take on a payment by results basis and will reinvest earned-back funds into further infrastructure projects. This model goes further than many of the others, no doubt in part due to strong local governance in place through the Greater Manchester Combined Authority, established in April 2011.
 - **Local skills funding model** in Sheffield City Region – gives a proportion of the skills budget to the city to control and to invest in skills local businesses need.
 - **City Apprenticeship Hubs** in a number of areas – to boost apprenticeships by supporting SMEs to take on apprentices through ATA models.
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- **Low carbon pioneering cities** – to enable investment in green infrastructure and technology to generate low carbon jobs. Pioneers will get some green deal funding for ‘Green Deal Go Early’ pilots and feasibility studies to offer district heating⁹¹ across their areas.

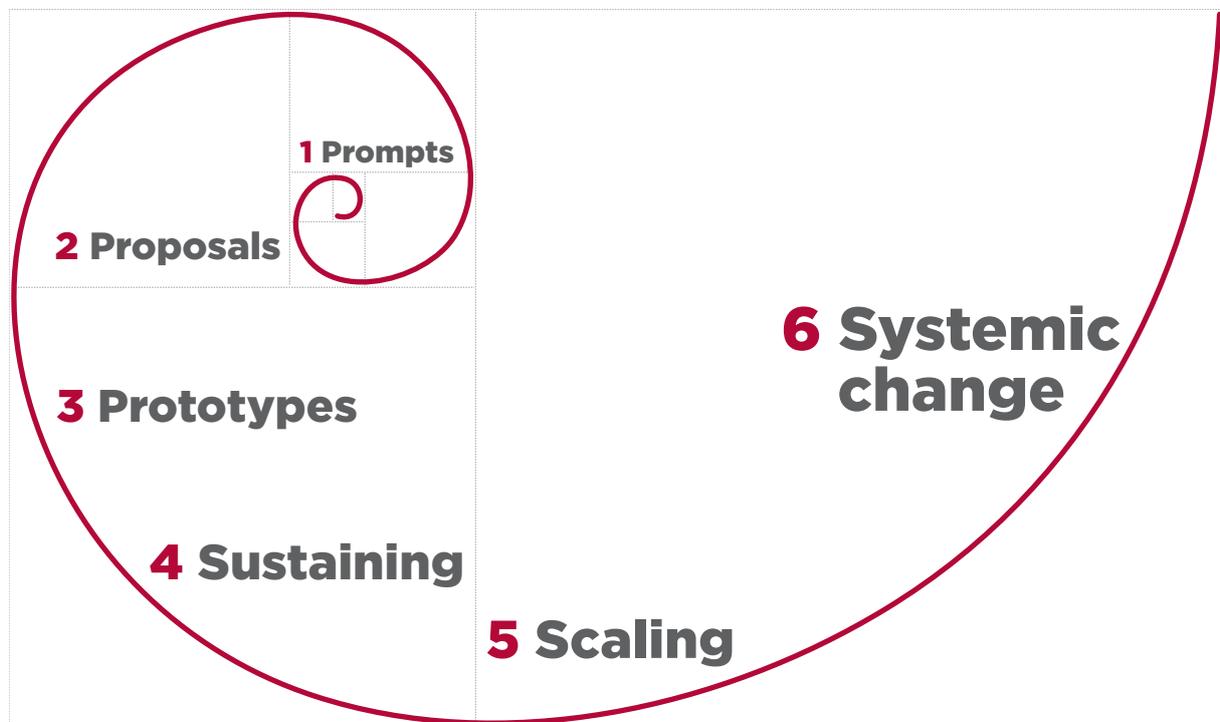
The core cities have estimated that the first wave of deals will create 175,000 new jobs and 27,000 new apprenticeships over the next 20 years. However, none are explicitly focused on the labour market.

Whilst innovation has, therefore, been occurring in the design of welfare-to-work programmes since 1997, and supply-side labour market programmes such as the Work Programme have used innovative ways of commissioning and contracting, the aims of these programmes, and the content of delivery, are similar to what has been seen in the past. Innovation has not attempted to start with an overview of the system as a whole, or to work through the stages of the innovation process. It has not gone far enough to tackle the problems facing the labour market.

3.2 The lack of innovation in the mainstream system

*The Open Book of Social Innovation*⁹² describes six stages of innovation that take ideas from inception to impact.

The stages of innovation



Taken from p12-13 in Murray, R. Caulier-Grice, J. and Mulgan, G. (2010) ‘The Open Book of Social Innovation.’ London: NESTA and The Young Foundation.

Work in other policy areas has shown that, to work effectively, innovation needs to incorporate all of the stages shown in this model (although stages are not always sequential, feedback loops exist between stages and stages can also be thought of as overlapping spaces). The model confirms that, in the world of worklessness, there is limited effective use of innovation; even at the prompts stage (diagnosing what the problems are and where innovation can help), there is no clear consensus. The use of proposals/ideas (stage 2) is haphazard and there is very little at all happening in stages 3–6. Given this, some effort needs to go into building up the early stages before moving forward to think about sustaining and scaling innovation and changing the system. This paper is an attempt to start this process, by trying to clarify the diagnosis (in section 2 and 3.1), by identifying some ideas and proposals (in section 3.3) and by suggesting some ways of testing these in future (see section 4).

Following this model through its stages, we can see how innovation inside the system is lacking.

1) Prompts, inspirations and diagnoses. This stage includes all the factors which highlight the need for innovation as well as the inspirations which spark it. This stage involves diagnosing the problem and framing the question in such a way that the root causes of the problem, not just its symptoms, will be tackled.

In terms of diagnosing the problem of worklessness there has not been consensus on the nature of the problem, and indeed whether there is a problem at all. Many commentators argue that the problem of worklessness is cyclical and will resolve itself with the economic cycle, in contrast to others who argue that structural problems exist (see section 2). Unemployment has become normalised in our political and economic discourse and assumptions that ‘excess’ unemployment is mostly a cyclical phenomenon has caused us to be too accepting of unemployment. Other responses are that all problems will be solved by the introduction of the Work Programme and Universal Credit (see section 3.1). Part of the purpose of this paper is to try to add some clarity as to the nature of the problems that exist, and to identify how innovation can help.

2) Proposals, and ideas. This is the stage of idea generation. This can involve formal methods – such as design or creativity methods to widen the menu of options available. Many of the methods help to draw in insights and experiences from a wide range of sources.

In terms of idea generation, the welfare-to-work market can suffer from a view that it has ‘all been done before’. There is a lack of new ideas, and idea-generation methods have not been applied at a strategic level to examining the system as a whole. Idea generation has to some extent been devolved to welfare-to-work contractors and it is not clear what, if any, new ideas are being generated by them, particularly given the constraints the financial model imposes on them. As discussed above (see section 3.1), there have been a limited number of new entrants into the market who have brought new ideas and new models.

3) Prototyping and pilots. This is where ideas get tested in practice. This can be done through simply trying things out, or through more formal pilots, prototypes and randomised controlled trials. It's through these processes that measures of success come to be agreed upon.

This should be happening within the 'black box' provision of the Work Programme. However, the financial model with its slim financial margins is likely to increase risk adversity in what is tested, and lead to a lack of different models being tried out. Public scrutiny could also inhibit some types of innovation (with a fear of being too generous or too harsh towards workless people). Prototyping and piloting may be happening, but a lack of transparency across different contract package areas (CPAs) in the Work Programme means it is unclear the extent to which it is (see section 3.1). Prototyping and piloting is happening outside the labour market system (see section 3.3) but connections are rarely made between initiatives like local currency schemes and time banks and employment programmes.

The prime providers in the Work Programme are now at a critical point in the delivery of their contracts where original service delivery and supply chains can be reshaped, based on their experience of what is working in delivering sustainable job outcomes. This is a critical moment to think about developing their own experiments. There is a real opportunity for prime providers to conduct experiments to see which interventions within their black boxes are most effective. There is also an opportunity here for data mining – using the data being collected to analyse and assess what is working.

4) Sustaining. This is when the idea becomes everyday practice. It involves sharpening ideas (and often streamlining them), and identifying income streams to ensure the long-term financial sustainability, that will carry the innovation forward.

5) Scaling and diffusion. At this stage there are a range of strategies for growing and spreading an innovation – from organisational growth, through licensing and franchising to federations and looser diffusion. Emulation and inspiration also play a critical role in spreading an idea or practice and demand matters as much as supply.

In terms of sustaining, scaling and diffusion, there are a number of barriers to these stages of innovation. Before ideas in how best to get people into sustained work become everyday practice, we need to know what works. As noted in section 3.3, there is a lack of evaluation in existing pilots and models that can identify what works and what can be developed more widely. There is also high turnover amongst people working in the market, which can mean not enough people have a rich and deep enough understanding of the evidence of what works. Scaling also requires funding and, increasingly, funding requires evidence of what works. Social investment and investment mechanisms such as Social Impact Bonds (SIBs) for example, require evidence of outcomes and evidence that outcomes can be attributed to the intervention.

The ability to rapidly diffuse successful innovations can be constrained by commercial sensitivities between those delivering services, as market innovators attempt to hold on to competitive advantage for as long as possible and are highly reluctant to share their

market advantage. There is also a lack of mechanisms to exchange and diffuse good ideas so that successful practices can be observed from global welfare markets. Whilst a number of information exchanges do exist (for example the annual Welfare-to-Work Convention in the UK,⁹³ the Welfare Reform Evaluation Conference⁹⁴ in the US, and the National Employment Services Association (NESA) annual conference⁹⁵ in Australia) there is no international forum for exchanging and diffusing innovations.

A number of examples of networks exist that provide useful models for how this could be done. For example, Communities of Practice are often used to connect leaders and practitioners to one another so they can share ideas, foster innovation, and create results. The Green For All programme brings together professionals with on-the-ground experience and national experts to shape and advance cutting-edge practices for growing an inclusive green economy. A number of social enterprise forums also exist, including Social Business World; a social network aimed at facilitating and developing the discussion around social business; and the Urban Enterprise Network, which promotes social, cultural and economic development through events, debate and discussion.

6) Systemic change. This is the ultimate goal of social innovation. Systemic innovation commonly involves changes in the public sector, private sector, grant economy and household sector, usually over long periods of time.

Given the gaps and problems highlighted above, it is clear that we are still in the early stages of the innovation process and are a long way from achieving systemic change in tackling worklessness.

3.3 Innovation from outside the mainstream system

What alternative approaches can help to address the problems affecting worklessness? There is a role for innovation in more proactive approaches to shaping markets and sectors. This could be to boost the market in growth sectors such as social care and the green economy; to target areas of high unemployment; and to try to address the current mismatch of supply and demand in relation to skills and employment. While initiatives such as the Regional Growth Fund tackle these issues, previous experience has found these types of approach to be very expensive and sometimes limited in their impact. As a result, there is scope for more radical innovation to address these long-term trends.

Innovation can also help in improving the efficiency of the labour market. Despite the central role of Jobcentre Plus in job-matching, and the presence of many intermediaries, there is a need for more proactive approaches that bridge the gap between supply and demand. This could involve specialist job-matching for particular groups, taking on additional responsibilities (e.g. the legal or administrative responsibilities of employers) while facilitating work, or enabling alternative working patterns or packages of work. This is also an area where technology can play a key role.

We have identified examples of initiatives that can help to create or shape new markets, support self-employment, or help to improve the efficiency of the labour market. In doing so, we have looked beyond mainstream interventions to smaller scale initiatives, as well as good practice from outside the UK. The examples highlight innovation, and can provide lessons of how greater innovation can be introduced in tackling worklessness.

In setting out these examples, it is important to stress that a key weakness of the majority of them is that there is little evidence of successful innovation in the labour market to date. Most of the examples are current or recent, and are very much at the piloting stage. Even where initiatives are more established, there is a lack of evaluation, so it is difficult to assess how successful they have been – or can be – in addressing the problems we have identified. As a result, our aim is to highlight initiatives with at least the potential to tackle worklessness, if they are developed and tested further.

Broadly speaking, we can distinguish the following types of intervention:

- Creating and shaping new markets.
- Supporting self-employment.
- Intermediaries that improve the efficiency of the labour market.

Creating and shaping new markets

There are various examples of initiatives that aim to support the creation or expansion of markets, often by influencing behaviour (e.g. through incentives).

New markets in growth sectors

Previous sections have highlighted high-growth sectors, including social care and the green economy (see section 2). Here we look at initiatives that have aimed to create or support new markets in these sectors.

Wigan Council have developed a project as part of Nesta's Creative Councils programme,⁹⁶ focusing on social care. The aim of Wigan's project is to create a new economic model for social care as a way of managing personal care budgets. The project incorporates the Hometown Plus approach (described below), using service vouchers to develop the market.

WIGAN COUNCIL⁹⁷

Description

Aims to respond to reductions in council budgets by harnessing underutilised and untapped resources within the local community through volunteering and the development of micro-enterprises.

Strengths

Has strong potential benefits for local communities. Innovative/potentially effective model for social care in response to reductions in council budgets and as way of managing personal care budgets.

Evidence of success

Project at very early stage/no evidence for success so far.

Transferability

Can be applied/adapted for use in other locations.

In the US, PCG Public Partnerships (PPL) is a financial management services firm that provides support services to public agencies. As part of its work, PPL has developed a model for managing personal care budgets, in which PPL works with public agencies to design, implement and manage ‘participant-directed’ programmes in the social care sector. PPL provides financial management and co-ordination between service user, providers and public agencies, to manage and monitor the spending of personal budgets.⁹⁸

PCG PUBLIC PARTNERSHIPS (PPL)

Description

‘Participant-directed programs’ in the social care sector, PPL work with public agencies on programmes that allow disabled people to make individual choices about services within their personal budgets. Operate in 21 US states (plus District of Columbia).

Strengths

One of a number of models of managing personal accounts. This model does not emphasise job creation as such, but aims to support/develop a growth sector.

Evidence of success

Company has been successful in securing contracts to carry out this service.

Transferability

Could be applied to social care sector in UK; potential cross-over with service voucher/Wigan approach, by providing support to new ‘buyers’ and providers of services in social care/other markets.

These models offer ideas for developing this approach for managing personal care budgets (and budgets devolved to disabled people under the Right to Control)⁹⁹ in the UK. Wigan’s experience can provide good practice learning for other authorities looking to adopt a similar model. The successful spread of PPL’s model in the US suggests that an organisation such as this – with a national coverage – may be able to develop the use of the model in the UK more widely, and to establish good practice in the use of such a model. However, such an organisation would need to secure funding (either from local authorities or centrally) in order to replicate the PPL approach.

Another growth sector is the **green economy**. As part of the recently announced City Deals, a number of cities have proposed programmes that will investment in green infrastructure and technology, as well as generating low carbon jobs (Low Carbon Pioneering Cities).¹⁰⁰ In addition, there are one-off initiatives that aim to increase employment in the green economy.

For example, **Nordic countries have developed deposit refund systems for drinks containers** (Dansk Retursystem, Norsk Resirk, Returpack and Palpa). A recent report suggests that a similar system in the UK could create between 3,000 and 4,300 FTE jobs while also bringing environmental benefits. These would be ‘green’ jobs, similar to current waste collection and processing occupations, as well as higher-skilled maintenance and engineering jobs and administrative positions. The report notes that a central office

could be situated anywhere in the UK and could be targeted towards an area with high unemployment.¹⁰¹

In the US, the organisation **Green for All**¹⁰² has set up Green Business academies. These aim to provide support for green entrepreneurs and small business owners, particularly those coming from low-income areas. The academies aim to connect these businesses with local organisations and community stakeholders that can collectively help them grow their enterprises. This project is distinctive in recognising the importance of connecting entrepreneurs to relevant businesses, organisations and stakeholders in their area.

There are interesting examples from very different contexts of how markets can be shaped. The China Center for Comparative Politics and Economics (CCCPE) at Qinghua University is running a social innovation prize in China. The first winner was a venture employing 3,000 disabled people in programming based in Shenzhen.¹⁰³

Using complementary currencies and vouchers to mobilise capital

There are various examples of locally-based schemes that use alternative currency mechanisms to stimulate demand and create jobs. Examples include local currencies, such as the Lewes Pound,¹⁰⁴ and loyalty or smartcard schemes, such as Hometown Plus.¹⁰⁵

The principle of this type of scheme is to encourage local use of services, thereby helping the local economy, as well as bringing potential environmental and social benefits. It is also a flexible approach that can be replicated in any location, and can be extended to a range of different services. Hometown Plus is a generic model that is particularly flexible – it can be developed for various media (e.g. smart phones) and can also be applied to functions such as time banking and personalised social care provision (as in Wigan, described previously).

HOMETOWN PLUS

Description

Loyalty card that members can use in their local town across local retailers, local leisure services, local transport and local council services. Model can also be applied to other services, such as time banking and personalised social care provision. Broad aims are to boost the local economy and improve local service provision/access to services.

Strengths

Flexible platform that can be applied to different local issues. Has strong potential benefits for local communities. However, the direct impact on increasing employment is not proven.

Evidence of success

Has been applied to individual initiatives, but no hard evidence for success so far.

Transferability

Easily transferable to different areas and sectors.

A local currency is being introduced in the French city of Nantes that can be used by both businesses and individuals. One of the main goals of the system is to accelerate trade between local companies. Members of the '**Nanto zone**' will be able to limit the use of cash, thereby reducing cash flow problems and making exchanges easier. The approach responds primarily to the needs of small and medium-sized businesses in services, construction or restoration. The city intends to put public transport companies, car parks and after-school programmes in the loop. Nantes also wants to include individuals in its system, who could then receive additional remuneration and bonuses in Nanto.

This approach has strong potential benefits for local communities. However, there is limited evidence of the direct impact on employment of this type of approach, or of the financial implications. For example, a review of local authority smartcard schemes was unable to draw clear conclusions on economic viability, as local authorities had typically not carried out any cost-benefit analysis or evaluation of costs in a systematic way. As a result, it is difficult to draw conclusions from the existing examples as to the success of this type of scheme, and therefore to provide evidence to justify funding.

Service voucher schemes are based on a similar model, but focus on particular types of services. This approach is more directly aimed at increasing employment.

The Belgian service voucher scheme¹⁰⁶ was a consumer subsidy introduced in order to encourage the demand for domestic services and proximity services, to create jobs in this sector, and to enable some high-skilled workers (especially women) to (re-)enter the labour market.

The scheme included annual evaluation, to measure the proportion of new job entrants previously unemployed, long-term unemployed and low skilled. The evaluation was able to demonstrate that the scheme had met its net job creation target of 25,000 new jobs. As a result, the evaluation found that it was an effective method of integrating vulnerable groups into the labour market, while also addressing other policy objectives (e.g. to reduce undeclared work). The key concern in the evaluation was over cost – both in terms of the level of subsidy offered and the running costs of the scheme. Variants were trialled in other countries, sometimes on a smaller scale and with lower subsidies, although with varying levels of success. This indicates that there is a difficult balance between effectiveness and cost in such a scheme.

BELGIAN SERVICE VOUCHER SCHEME

Description

Consumer subsidy introduced in order to encourage the demand for domestic services, to create jobs in this sector (of benefit to long-term unemployed and other excluded groups), to provide incentives to convert undeclared work into regular employment, and to enable some highly-skilled workers (especially women) to (re-) enter the labour market. Other countries have similar models which are less/un-subsidised.

Strengths

Evaluation saw it as an effective, if comparatively expensive, method of integrating vulnerable groups on the labour market, while also addressing other policy objectives (e.g. to reduce undeclared work). However, it is a complex system with considerable administration. Also concerns over possible labour market distortions, narrow focus of services and type of work ('dead-end jobs').

Evidence of success

Annual evaluations. Has met net job creation target of 25,000 new jobs ahead of schedule; has measured proportion of new job entrants previously unemployed, long-term unemployed and low skilled.

Transferability

Variants had been trialled in other countries, sometimes on smaller scale and with lower subsidies.

Creative ways of thinking about how to release capital locked up in people's homes and connecting the released capital to jobs growth could be further explored.

Tax incentives to support markets

A variation on the service voucher model described above is to use tax incentives to encourage demand for services.

In Sweden, mothers who work are given tax breaks which cover up to half the cost of employing domestic help (*"household services such as cleaning, cooking, lawn-mowing, snow-shovelling and babysitting"*). The concession *"is said to have created more than 5,000 jobs"*, both by encouraging mothers with families to work, and by creating more work in the domestic help sector.

However, this approach has also attracted criticism, with claims that a relatively small group of wealthy Swedes are far more likely to make use of the subsidised services than lower-paid households. In addition, there are claims that new employment in the domestic sector has been largely restricted to immigrant labour.¹⁰⁷

This example indicates that tax incentives can be influential in stimulating demand as well as boosting employment, but that they may only affect certain groups of the population, who may not be the primary target. A full assessment of benefits and risks is therefore important in developing the precise design of this type of initiative.

Supporting self-employment

As discussed earlier, government programmes have often included elements aimed at encouraging self-employment. Currently, the **New Enterprise Allowance**¹⁰⁸ aims to increase employment rates through self-employment, while the current StartUp Loan Scheme¹⁰⁹ and Revolving Loan Fund (in Scotland)¹¹⁰ are initiatives that offer funding to people starting up their own business.

There are also initiatives in Europe that support business creation in different areas and sectors. The EQUAL programme¹¹¹ (which ran from 2002 to 2007) encouraged different types of organisations – for instance local authorities, colleges, employers and trade unions – to collaborate in a concerted effort to boost labour market participation through self-employment. The four key principles of the programme were: creating the culture and conditions for self-employment; integrated start-up support and training; support for consolidation and growth; and access to appropriate finance. The principle of the programme was that it is important to have all four of these elements in place, and to ensure collaboration from different local organisations, in order to work effectively.

The programme was not intended as a means of rapidly generating new business start-ups, but was part of a longer-term move strategy for employment and social inclusion.

In France, **Business and employment co-operatives** (BECs)¹¹² support people to become self-employed in a range of activities (from cookery, industrial cleaning, furniture restoration and organic horticulture to violin making, jewellery, translation and web design). There are three stages of support:

- First, people remain technically unemployed but develop their business idea under the wing of the BEC. The BEC takes care of the administrative headaches, which frees them to focus on succeeding;
 - Next, if it looks like being a success, they become a ‘salaried entrepreneur’ with the security of a part-time employment contract;
 - Finally they become a self-sufficient business, sharing in the ownership and management of the co-operative.
-

BUSINESS AND EMPLOYMENT CO-OPERATIVES (BECS)

Description

Supports business creation in different areas and sectors. Encourages self-employment; targets economic development in rural areas; regularisation of informal work; increasing labour market participation. Includes three stages of support.

Strengths

A key feature of this approach is that it provides a secure and managed transition into self-employment and a high level of personal support.

Evidence of success

Not clear how successful individual projects have been. No evaluation.

Transferability

Partnership working and managed start-up approach can be applied to a range of sectors and has cross-over with other initiatives.

Another approach to self-employment is through the use of franchising.

FranchisingWorks¹¹³ is a social enterprise that aims to help create new businesses and jobs through franchising. It provides independent advice and practical support to people interested in exploring franchising as a way into self-employment. FranchisingWorks also has access to sources of finance that can help meet the start-up costs for successful candidates with insufficient financial resources of their own. Sources include its own fund, as well as investment from the Big Society Investment Fund, which is used as loans to invest in franchise licences for unemployed candidates needing extra financial support.

The **Adult Enterprise Partnership** focuses on developing a curriculum that can be delivered through local colleges and adult learning institutes to support adults who want to become self-employed. The New Qualification Framework is made up of ten Awards at Level 2 and three made up of units of skills training to take an Adult Entrepreneur through all the stages of the Start-up Journey.

ADULT ENTERPRISE PARTNERSHIP¹¹⁴

Description

The Adult Enterprise Partnership has developed a national skills-based curriculum for adult entrepreneurship that includes a unitised qualification framework, curriculum training materials and a train-the-trainer programme so that local providers can provide high-quality entrepreneurship skills training to enable individuals to create, launch and grow sustainable new businesses.

Strengths

The approach to developing the curriculum has been co-creation through partnership. The diversity of partners from the Voluntary, FE College, Adult Learning and Private Sectors provides a rich range of perspectives in viewing the framework required for adult learners wanting to become entrepreneurs.

Evidence of success

Not yet available. The development of a national curriculum for adult entrepreneurs through co-creation has been welcomed by the sector and 25 institutions across the country have signed up to pilot the qualification framework and blended learning materials in 2012–2013.

Transferability

It involves the creation of an Adult Enterprise curriculum, supported by an efficient delivery approach, which has the potential to be rolled-out across the country.

Working Rite is a work-based mentoring programme, in which people aged 16–19 are paired up for six months with individual construction and other skilled industry tradesmen. Evidence indicates that this programme has had some success in progressing people into more sustained work; for example since 2004, 83 per cent of participants had progressed into a four year apprenticeship or other full-time employment.¹⁵ Schemes like this could encourage sole traders to expand their business by taking on a young person.

WORKING RITE**Description**

Intermediary for employers and trainees; work-based mentoring programme, in which people aged 16–19 are paired up for six months with individual construction and other skilled industry tradesmen in which they work, learn and develop mentoring relationships with role-model adults. Aims to get young people into intermediate work to help long-term employment prospects.

Strengths

Helps to engage young people and provides route into employment.

Evidence of success

Since 2004, “800 young people have been on training placements; 90 per cent of our trainees complete their placement; 83 per cent of our trainees progress into a four year apprenticeship or other full-time employment, approximately double the success rate of other training programmes”. However, the additional impact of the scheme on employment, and the cost-effectiveness, is not clear.

Transferability

Can be applied to other sectors.

Intermediaries that improve the efficiency of the labour market

Intermediaries that bridge the employer and employee

Whilst there has been some focus in current approaches to tackling worklessness on improving the efficiency of job matching and this is part of core government intervention through Jobcentre Plus (see section 2.4), there is scope for intermediaries to play a more active role in shaping employment opportunities, beyond the traditional job matching role. The following examples attempt to be more proactive in matching individuals to work and in providing practical support to employers.

Intermediaries can help to bridge the gap between the employer and employee. For example, intermediaries may help individuals to piece together small packages of work with multiple employers. Private and third sector intermediaries may also directly employ an individual on behalf of one, or a number of, employer(s). In this model they take on the legal responsibilities of the employer and may pool pieces of work together for the individual with multiple organisations that need workers. Alongside intermediaries that link individuals to employers there has also been a growth in new intermediaries who connect individuals directly with work through technology-based platforms.

The **Apprenticeship Training Agency (ATA)**¹¹⁶ model aims to extend the reach of the Apprenticeship programme to employers who would otherwise not participate. The ATA takes on the role of employing the apprentice, and then hires out the apprentice to host employers (who provide productive employment), while training is delivered by an SFA contracted training provider. This approach removes the risk and administrative burden of directly employing the apprentice from employers.

APPRENTICESHIP TRAINING AGENCIES (ATAS)

Description

Model is intended to support the delivery of a high quality apprenticeship programme involving employers who are unable to take the business risk of directly employing the apprentice. An ATA is a business whose core function is the employment and development of apprentices. Under the model, the apprentice is hired out to host employers who provide the productive employment key to the apprenticeship. Training is delivered by an SFA contracted training provider.

Strengths

Innovative way of adapting the core apprenticeship model so that it is extended to a wider range of employers and occupations.

Evidence of success

Not available.

Transferability

Can apply principle elsewhere – i.e. by providing support to smaller employers/those who may be excluded to allow them to part in a scheme.

Similarly, as part of the Growth and Innovation Fund, **Talent Bank**¹⁷ is an initiative that provides centralised functions, such as a recruitment and matching service for trainee cohorts; commissioning and contract managing training provision; and directly employing apprentices and other trainees.

TALENT BANK

Description

A collaborative solution to provide regionally-focused skills delivery to match needs. Activities include: a centralised recruitment and matching service for trainee cohorts; pooling demand, commissioning and directly contract-managing training provision on behalf of employer groups; directly employing apprentices and other trainees, where required.

Strengths

Innovative solutions, sector specific, holistic response. However, emphasis more on skills and industry standards rather than job creation per se.

Evidence of success

Too early. The initial target is that Talent Bank will support 400 new apprenticeship places and the training of 400 highly-skilled technicians by 2014.

Transferability

Principles of model are transferable.

There is scope for these models to expand the use of adult apprenticeships, blurring the boundaries between education and work, and ensuring that maximum benefit is gained from public spending; with apprenticeships increasingly attached as conditions when public services are procured.

While these initiatives target increasing skill levels as well as aiming to create additional job opportunities, other initiatives are aimed more directly at job creation.

For example, **Fusion21**¹⁸ employs individuals directly and pools work with multiple employers so that, for example, local residents can deliver planned maintenance programmes in properties owned by a number of housing associations. Fusion21 is a social enterprise and is the delivery vehicle developed in 2002 when seven Merseyside-based Housing Associations came together to collaborate in linking their spend to the creation of jobs, and reinvesting savings into the local area. It has demonstrated significant success and is a model that is scalable.

FUSION21

Description

The Fusion21 model is a forerunner in linking procurement to sustainable job creation and skills training through capital and cyclical works projects.

Strengths

Fusion21's supply chains help to deliver capital and cyclical works programmes, create and retain sustainable jobs for local people and generate cashable savings to reinvest in further frontline service improvements.

Evidence of success

- Delivered c£45 million of cashable efficiency savings, as well as non-cashable benefits linked to the use of eProcurement systems.
- Created 961 permanent jobs in the construction industry with Fusion21 contractors.
- Provided contractors and materials to complete over £500 million of capital improvement works for Fusion21 partners and clients.
- Provided vocational training to thousands of residents, many of whom have gained NVQs in key construction skills.
- Generated an estimated financial benefit to Merseyside boroughs in excess of £32 million, through regular paid work and reductions in benefit claims.

Transferability

The Fusion21 model is scalable and can transcend the boundaries of the Social Housing sector and be equally applied to Health and Education within the public sector and further still into the private sector. The model can connect with organisations' multi-faceted investment programmes in order to stimulate local economies, rejuvenate local communities and tackle worklessness. It currently operates in most areas of England and in Northern Ireland and is currently developing a business plan to scale further.

Women Like Us¹¹⁹ is a social business aimed at women who want to return to work after they've had children. This approach responds to a problem in the supply and demand for women returners,¹²⁰ and is a wide-ranging and holistic service. Similar examples exist in other countries (e.g. Pracujflexi.pl in Poland), and this initiative could be adapted for other target groups.

WOMEN LIKE US

Description

Social business aimed at women who want to carry on working after they've had children; aims to get them back into quality work. Activities include: career support workshops; bursaries for women on low incomes to access career support; 'Timewise Jobs', a jobsite specialising in part-time vacancies, as well as a London-based recruitment agency called Timewise Recruitment; work with employers to help them design part-time jobs to benefit their business.

Strengths

Addresses a key issue of improving the demand for high-quality part-time work; holistic response including support, recruitment advice and work with employers.

Evidence of success

No hard evidence (as yet) on extent to which it helps women into work/better work or merely facilitates the job search process.

Transferability

Could be expanded/developed or adapted for other target groups. Similar examples exist in other countries, e.g. Pracujflexi.pl in Poland.

Web-based intermediaries in the flexible labour market

New ways of working are emerging that mean individuals do not necessarily need to belong to an organisation to work and may instead be organised in networks or online communities.¹²¹ The growth of new forms of 'collaborative consumption'¹²² and changes to the delivery of services (where individuals who need a service have a more direct relationship with the individual providing a service to them, as in personal budgets in social care) provides an opportunity to develop new markets of micro-providers. These markets can link people who need work (but perhaps not in traditional 9am-5pm jobs) and who represent an unused resource of talent and ideas, to people and organisations with unmet needs for goods and services (and who may need them delivering in non-traditional ways) in a more efficient way than traditional labour markets.

There are various examples of web-based intermediaries providing recruitment services for the flexible labour market. In some cases, these intermediaries focus on task-based work, rather than 'jobs'. Examples include:

- **Slivers of Time**,¹²³ supported by Nesta, a web-based software that allows scheduling of time, as part of an 'ultra-flexible' employment system.
- **Gigwalk**,¹²⁴ a US-based platform for projects and events, in which employers/providers can access available workers.
- **My Task Angel**¹²⁵ and **Task Rabbit**,¹²⁶ online marketplaces that connect people to get everyday tasks done.
- **Your Job Done**¹²⁷ and **Get your Job Done**,¹²⁸ UK intermediaries for accredited tradespeople performing services in the home.

Potentially, this type of initiative can increase demand for services and allow those who are unwilling or unable to take up contracted work to participate in employment to some extent. This approach should also be more compatible with the benefit system with the introduction of Universal Credit. In addition, this approach can help to create or support new markets for small pieces of work, by increasing demand among those willing to pay. This approach could be developed by hyperlocal media platforms, examples of which are currently being supported in Nesta's Destination Local programme.¹²⁹

At the same time, there are questions as to how much work or income people can gain from this type of initiative; whether it can help people progress to more structured/sustained employment; and whether this approach undermines job quality, job security and/or minimum wage levels. In addition, the take-up of this type of initiative requires a certain level of motivation and initiative, as well as commitment and organisational skills related to self-employed status.

WEB-BASED INTERMEDIARIES

Description

Provide recruitment services for the flexible labour market.

Strengths

Potential to increase demand for services and allow those who are unwilling/unable to take up structured/contracted work to participate in employment to some extent. Questions as to level of impact on employment and extent to which different parties benefit.

Evidence of success

Case studies of success, but no systematic evaluation of impact on employment or earnings.

Transferability

Already large number of similar platforms.

Key lessons from innovations outside the mainstream system

Several of the initiatives aiming to **shape or create new markets** combine job creation with other aims, such as social or environmental benefits. The Belgian service vouchers scheme aimed to reduce undeclared work as well as creating jobs. An additional dimension such as this can potentially increase the viability of the initiative as well as the scope for funding. At the same time, it is important that the initiatives retain a clear aim on reducing worklessness. A danger of initiatives that focus on particular markets, particularly those that aim to influence individuals' behaviour or spending, is that they 'redirect' resources – and jobs – from one market to another. This is a good way of addressing imbalances between supply and demand in different sectors, but may not increase aggregate employment.

A key feature of the initiatives that support **self-employment** is the intensive support and mentoring that is provided, often with a staged or managed approach. This recognises

that sustained outcomes require investment of time and resources, and that people need a clear support structure to make a significant change like this.

The various types of **intermediary** aim to identify a problem that is holding back job creation – such as the ability of employers to take people on, or the ability of individuals to find appropriate work. To have a long-term impact, this type of approach needs to reflect a real and lasting need – i.e. to help with the key issue that is affecting an employer's ability to recruit or an individual's ability to find work. They also need to provide a high quality service, or to offer high-quality jobs that match what people want, and/or to offer high quality workers.

A key question is how new innovations – or the development of existing innovations – will be **funded**, particularly given the limited public funding that is currently available. The various examples show the importance of a sustainable model. Initiatives often require start-up funding, but if they can become self-sustaining or even can pay back some of the up-front investment, this strengthens the case for funding. In order to do this, many initiatives have connected up various organisations and agencies to build collaboration. There is also a critical need to evidence success.

In order to demonstrate whether initiatives are meeting their aims, thorough **evaluation** is essential. Many of the above examples may be extremely effective at creating jobs, but there is rarely any evidence to show this. Without this evidence, it is difficult to move beyond the piloting stage, as scaling up and sustaining the models requires commitment and funding. Without clear evidence of the benefits, this funding will be hard to secure. In particular, a key challenge is to demonstrate that interventions create additional jobs rather than merely redistributing existing ones; thorough evaluation is needed to do this.

Above all, it is fundamentally important to articulate clearly the aim of any innovation or the need it is addressing, and to consider how well an innovation actually meets this aim. For example, some initiatives may be very innovative, but may not actually create many jobs (either in the UK or at all). In fact, there are examples of innovative firms that are boosting productivity and increasing their market share, whilst employing very few people. Similarly, initiatives that stimulate demand for self-employment may look impressive, but results need to be seen in the context of whether these initiatives have helped people into work/self-employment who would otherwise have been unemployed. Equally, the impacts (both positive and negative) of any initiative need to be considered (e.g. are new approaches to flexible working reducing job security and undermining the National Minimum Wage?).

The section on self-employment also highlighted the importance of different components being in place to support the movement into self-employment, and this indicates a more general point: that initiatives need to work alongside a **supportive legal and policy framework** (e.g. in terms of regulation, financial incentives) in order to be effective. It is, therefore, not the case that these types of innovation can work independently of the system as a whole. In the longer term, there needs to be a culture shift so that innovation in the labour market is supported by both legislation and policy.

4. WHERE NEXT FOR INNOVATION IN TACKLING WORKLESSNESS?

Worklessness is not just a short-term cyclical issue. Current mainstream approaches to tackling worklessness overlook how intermediaries could be better used to connect supply and demand and what alternative ways exist to stimulate demand. Innovation will be critical if we are to successfully tackle worklessness, but we are still in the early stages of the innovation process. We have highlighted some examples of different approaches outside of the current mainstream system that can provide lessons of how greater innovation can be introduced in tackling worklessness.

More systematic innovation is needed in this field.¹³⁰ Few issues have as acute a need for innovation. But so far systematic innovation in this field has been neglected. Many parts of the labour market don't work well and it is not enough to rely on the Work Programme as the sole source of innovation in this field. So, what can be done to innovate in the field of worklessness? We argue that a number of things could happen that could lead to a step-change in innovation to tackle worklessness:

- We call for more **experimentation around ideas**. Local areas could commit to a package or programme of innovations that included those that created or shaped new markets, supported self-employment and used intermediaries to improve the efficiency of job-matching.
- We also argue for prototyping with much more **intensive measurement and assessment** of what works so that successful models can be scaled up. There is little evidence currently on the effectiveness of many of the examples in this paper. Adopting any of these ideas provides an opportunity to test whether these are actually effective at tackling worklessness.
- No one institution or government department currently owns this problem in its entirety, and innovation is also needed in orchestrating this system and ensuring it works effectively. An **international independent evidence centre for the labour market** with a **global learning/knowledge exchange network** would help make the case for sustaining, scaling and diffusing successful innovations. An evidence centre could be charged with orchestrating knowledge about emerging approaches worldwide, evidence about what works, and ensuring this is provided in forms that are useable by practitioners and meets their needs. It could also advise innovators on how to quickly and easily set up monitoring and evaluation mechanisms. A network to facilitate better dialogue internationally would help to exchange and diffuse ideas.

We hope that this report starts a debate around how these ideas can be taken forward.

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October 2012