

Time to act

Tackling the looming rise in long-term unemployment

October 2020

Learning and Work Institute

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Executive summary

Long-term unemployment could hit 1.6 million in 2021-22 – a 600% increase and the highest since 1994. These are our estimates, based on Office for Budget Responsibility (OBR) scenarios for total unemployment.

People become long-term unemployed when they have been out of work for 12 months and it scars individuals, families, and communities for years to come. It lessens the chances of finding work and significantly reduces income in future years. It demotivates people, undermines their skills, and can lead to health problems, especially mental health.

Based on the three OBR scenarios (upside, central and downside) we estimate that long-term unemployment will be between 1 million and 1.55 million in 2021-22. By 2025-26 it will still be between 0.48 million and 0.72 million.

If there is a slower recovery than anticipated by OBR in July, then we estimate that **long-term unemployment could remain over 1 million for up to four years.**

290,000 young people could become long-term unemployed, despite the measures announced in the Chancellors 'Plan for Jobs'. More than 1 million people aged 25+ could be long-term unemployed next year, the highest on records since 1992.

The scale of the challenge is huge. The number of people becoming long-term unemployed in April and May 2021 could be up to **three times higher than peak monthly referrals to the Work Programme** introduced after the last recession.

Planning to deliver support to the long-term unemployed at the right time and to the right scale is now critical. We estimate that up to £4 billion will be needed next year to provide the services to get people back into work, 25% more than DWP spent on employment programmes in its peak of 2010-11.

We think there should be a **universal offer to all long-term unemployed people** across the UK. The UK Government should broker speedy discussions with the devolved administrations, English local government, and other stakeholders.

The universal offer should be delivered by the devolved administrations and in partnership with local areas in England. This will make sure services are delivered in a way which makes sense for local conditions and local employers. We need to galvanise national and local partners to work together to gear up for a launch of new and extended support in Spring 2021.

Being prepared

So far most labour market commentary on the recession has focused on the numbers who are, or may become, unemployed. This report looks further ahead at the number of people who may become long-term unemployed in future years.¹ Our next report will consider the solutions that we need to put in place.

People become long-term unemployed when they have been out of work for 12 months. Young people are sometimes considered long-term unemployed when they have been out of work for six months or more, but in this report we only use the more commonly internationally accepted definition of 12 months.

All unemployment is damaging for individuals and the economy, but long-term unemployment is especially damaging. Individuals lose touch with the labour market, their skills start to become out-of-date, and young people's careers are on hold. Increased health problems, especially mental health, are reported and people's well-being declines. Household income drops, making households with long-term unemployed people among the poorest in the country.

The economy suffers a double-whammy. Costs rise to pay benefits and the social and health consequences. Income is lost as tax revenues and production fall and the labour market becomes less effective as the long-term unemployed are excluded.

What is clear is that we need to be prepared ... and quickly. Unemployment increased particularly sharply between March and May 2020, meaning we have fewer than six months before long-term unemployment starts to rapidly increase.

Many furloughed workers who will be (or have been) made redundant will only show up as 'unemployed' many months after they stopped working – although they have not been working, they are still classified as employed. In addition, some people who have already lost their jobs have either not been looking for jobs or not available to start new work due to restrictions on movement and activity. As a result, they are classified as 'economically inactive', rather than unemployed. **We will have disguised long-term unemployment long before the official statistics say we have a problem.**

Delivering support at the right time and to the right scale is critical. The task is to quickly ramp up capacity in a short period of time.

¹ For detailed information on how we calculated our estimates see Annex 1.

Scenarios for long-term unemployment

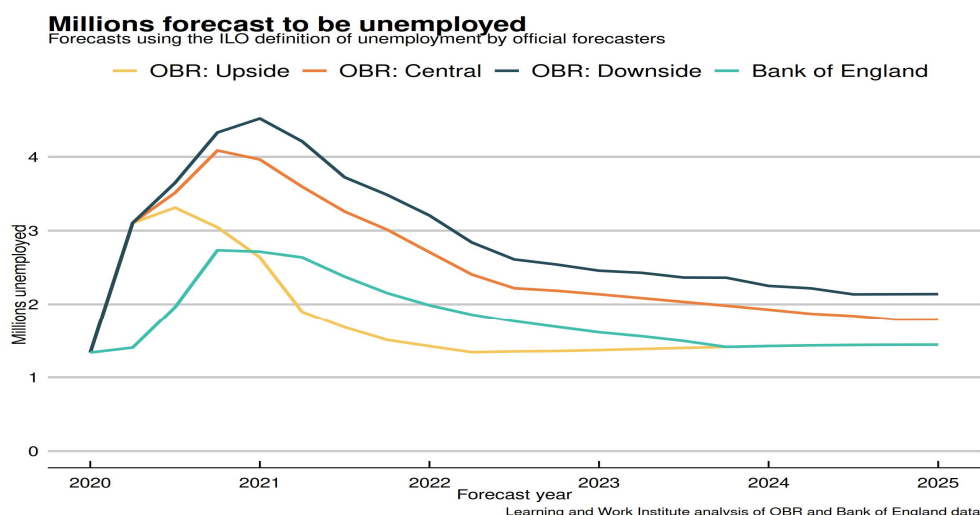
Over 1 million people could be long-term unemployed next year and it could peak at 1.6 million in 2022. It could be six years or more before we return to the low levels of long-term unemployment prior to coronavirus.

Our predictions for long-term unemployment are based on the Office for Budget Responsibility (OBR) scenarios for unemployment in their July 2020 Fiscal Sustainability report.² The Chancellor has asked the OBR to produce revised scenarios in November 2020, at which point we will also revise our estimates for long-term unemployment.

The OBR's central scenario suggests unemployment will peak at 11.9% in Q4 2020, with an upside scenario of 9.7% and a downside scenario of 13.2%. After this peak the OBR expects unemployment to fall sharply as the economy recovers but warns further shocks could delay the recovery.

In Figure 1 we also include the Bank of England's (BoE) scenario for comparison. The BoE's scenario is more optimistic, with unemployment expected to peak at 7.5% in Q4 of 2020, before declining more slowly compared to the OBR.³ In part their relative optimism reflected their assessment of the likely impact of Government measures to support household incomes, jobs and businesses.

Figure 1: Number of people forecast to be unemployed



² [Fiscal sustainability report](#), OBR, July 2020

³ [Monetary Policy Report](#), Bank of England, August 2020

Both the OBR and BoE (and other economists) warn of the high degree of uncertainty caused by coronavirus, Brexit and other longer-term trends that affect the level of employment.

The extent and duration of the rise in unemployment is still open to much debate. Will the recession be V-shaped, U-shaped, W-shaped or (at worst) L-shaped?

One key uncertainty is the duration and severity of restrictions on economic activity for public health reasons. The local lockdowns and additional restrictions introduced in September 2020 on hospitality businesses, and the advice to work at home if you can, will further affect employment, especially given the measures may need to stay in place for six months or more. As a response, the Chancellor has announced a Winter Economy Plan, which confirms the ending of the furlough scheme and its replacement by a less generous Job Support Scheme.⁴

In addition, the range and type of restrictions on economic activity vary over time and place for public health reasons,⁵ which could mean there needs to be additional measures matched to local lockdowns. If not, there is likely to be exaggerated differential impacts across the UK, which in turn will eventually impact on the local numbers of long-term unemployed.

A second main uncertainty is how much of the economic damage of coronavirus is temporary or whether it has caused permanent structural damage that will take years to adjust? Questions remain on the extent to which the crisis has accelerated structural trends (such as more remote working) or whether we can expect more of a return to pre-crisis patterns as restrictions ease. We addressed these questions in our Missing Millions report, which looked at the future jobs gap and its implications.⁶

The shape of the recession is important when considering the likely rise in long-term unemployment because it affects the speed with which new vacancies return and the unemployed can move back in to work. It will also influence the nature of measures that will need to put in place for long-term unemployed people, for example, should we emphasise re-training or creating temporary jobs for the unemployed?

The Government can make a difference to the numbers that become unemployed. For example, the different OBR scenarios are largely based on the percentages of furloughed workers that are made redundant once the Coronavirus Job Retention

⁴ [Winter Economy Plan](#), HMT, 24 September 2020

⁵ For example, see House of Commons, Treasury Committee report, [Economic impact of coronavirus: the challenges of recovery](#), September 2020

⁶ [Missing millions: where will the jobs come from?](#) Evans, L&W, September 2020

Scheme ends.⁷ Both the Job Support Scheme and the Job Retention Bonus⁸ aim to reduce redundancies, but there remains uncertainty on the extent to which they will affect employer decisions.⁹

The high levels of uncertainty mean that each of the scenarios in Figure 1 are plausible. We need to plan for the downside scenario but have the flexibility to adapt and scale back if the worst fears do not materialise.

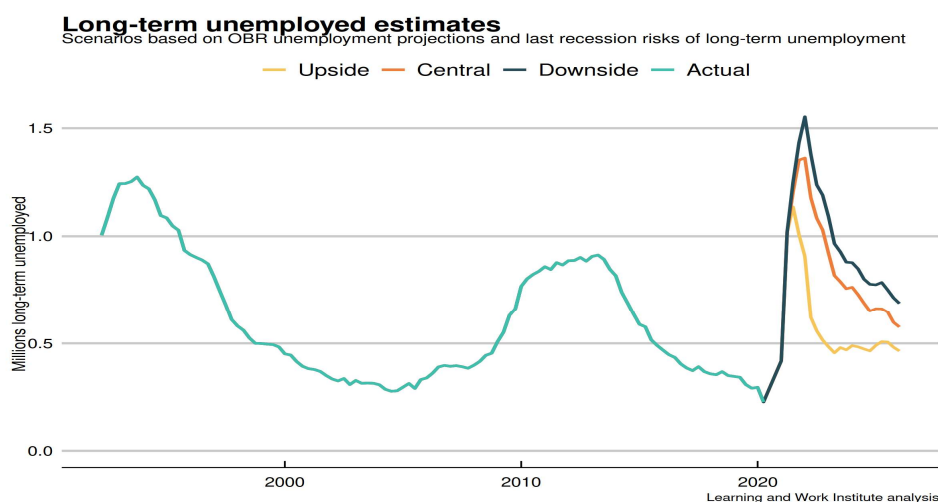
The rise in long-term unemployment

Long-term unemployment could peak at 1.6 million in 2022 – a 600% increase on pre-coronavirus levels, and the highest on records dating back to 1992.

We estimate the number of long-term unemployed people by using OBR scenarios for unemployment and assuming that the same proportion of these become long-term unemployed as occurred during 2008-12. These are shown in Figures 2 and 3.

People who become unemployed in or after March 2020 can only be out of work for 12 months, and hence long-term unemployed, from March 2021 onwards. Our estimate of the rise in 2020-21 also assumes that people who became unemployed before March 2020 are less likely to leave unemployment to work in each month from March onwards – this adds to the total numbers of long-term unemployed.

Figure 2: Total number of long-term unemployed people by year



⁷ For our forecasts we use the same OBR scenarios of 15% of furloughed workers moving into unemployment in their central scenario, with an upside scenario of 10%, and a downside scenario of 20%.

⁸ Details on [Job Support Scheme](#) and [Job Retention Bonus](#)

⁹ [The Winter \(Economy Plan\) is coming](#), Resolution Foundation, September 2020

Figure 3: Projections for total number of long-term unemployed people

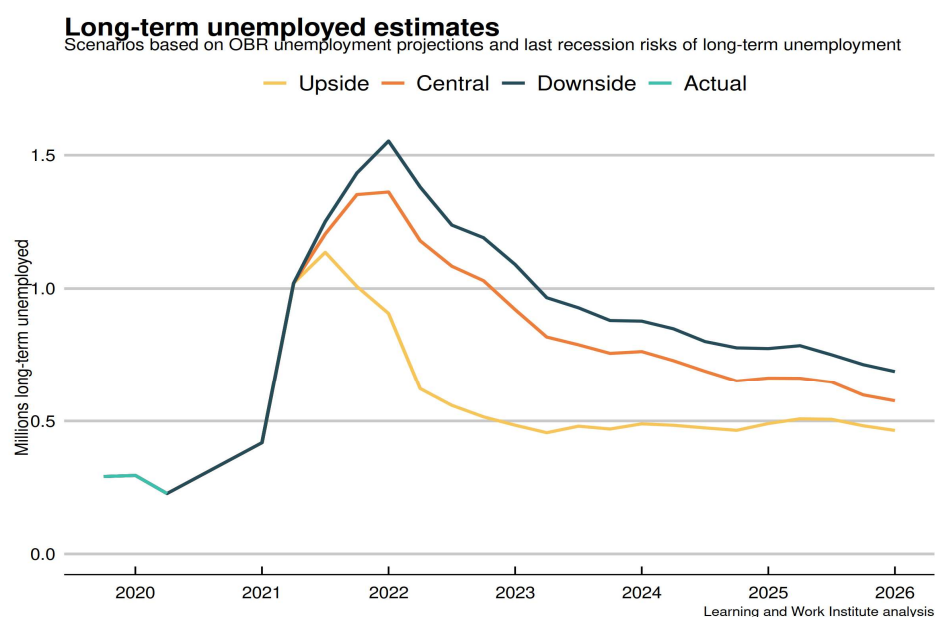


Table 1: Numbers of long-term unemployed people in each year

	Upside	Central	Downside
2021-22	1,007,817	1,352,469	1,552,965
2022-23	515,430	1,029,502	1,190,668
2023-24	469,533	756,833	880,167
2024-25	464,610	652,067	777,525
2025-26	481,736	598,064	714,371

How long will long-term unemployment remain high?

After the peak in 2021-22, Figure 2 shows a rapid decline in comparison with previous recessions. This is because the OBR scenarios assumed a three-month lockdown then a sharp recovery. But for their central and downside scenarios a full recovery is slower and there is 'scarring' to GDP and jobs growth.

In July the OBR¹⁰ identified the four main factors which will influence the speed and extent of recovery as:

- the course of the pandemic and the development of effective vaccines and treatments
- the speed and consistency with which the Government can lift its health restrictions
- the response of individuals and businesses as it does so
- the effectiveness of the policy response in protecting viable businesses and sustaining employment.

While there were signs of economic recovery over the summer (when some restrictions were eased), the subsequent course of the pandemic and the introduction of new restrictions will mean the speed of recovery is likely to have slowed. When taking into account the continued uncertainty around our future trading relationship with the EU, there is an increased likelihood of unemployment moving towards the downside scenario and a slower economic recovery.

The longer people remain long-term unemployed, the more the total number will increase. This is one of the reasons why governments invest in 'active labour market measures' – to reduce the time that people spend long-term unemployed. So, in part, the persistence of long-term unemployment depends on the success of measures to combat long-term unemployment, as well as the numbers of people continuing to become unemployed.

Past history has told us that long-term unemployment stays high for several years after a recession starts – even when inflows to unemployment drop. In the last recession, by the time long-term unemployment peaked in 2013, job losses had been falling for more than a year.

We have therefore also estimated the numbers of long-term unemployed using the 1990s recession as a model for what might happen. In the 1990s recession long-term unemployment was higher and lasted longer than in the 2008 recession. So, if the recession turns out to *not* be as 'V' shaped as the OBR envisaged, then long-term unemployment will persist for longer. There is every possibility that between a resurgent pandemic, Brexit, and uncertainty in world trade, the shape of the recession could be similar to the 1990s, and it is usual in recessions for the labour market to take longer to recover than the economy.

¹⁰ See Robert Chote [presentation](#), 14th July

Figure 4 and Table 2 show how this would mean the peak of long-term unemployment is unchanged but that high levels persist for much longer. For example, under the downside scenario long-term unemployment does not drop below 1 million until the summer of 2025.

Figure 4: Impact of a slower recovery long-term unemployment

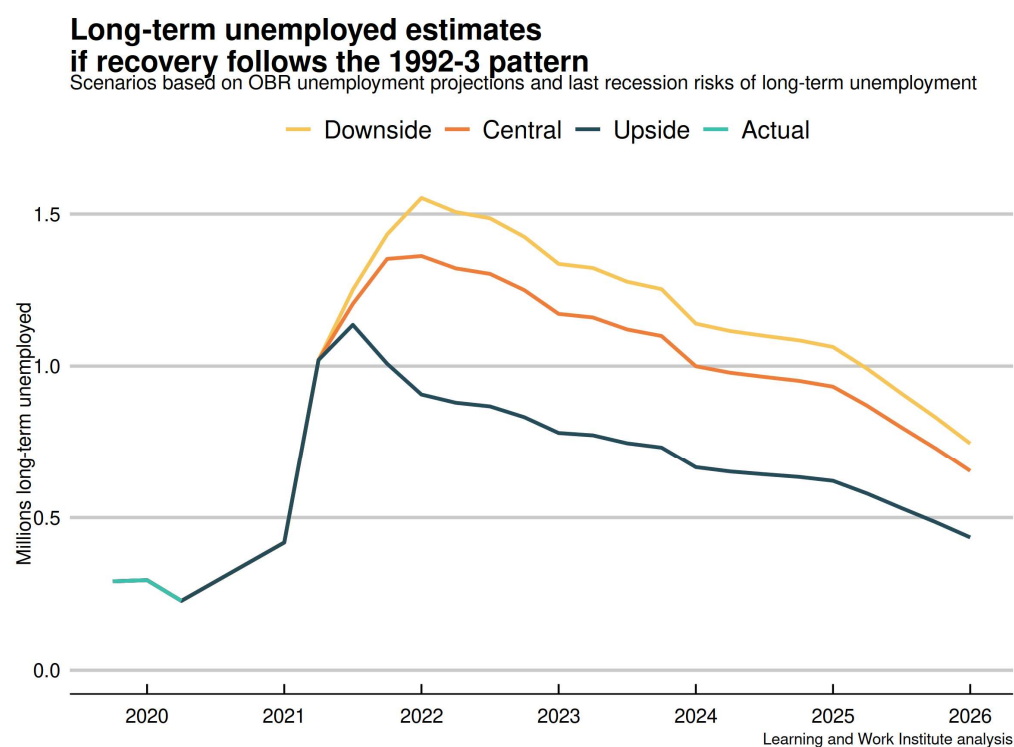


Table 2: Number of long-term unemployed people per year

	Upside	Central	Downside
2021-22	1,007,817	1,352,469	1,552,965
2022-23	831,807	1,249,771	1,424,973
2023-24	731,478	1,099,028	1,253,099
2024-25	633,283	951,493	1,084,881
2025-26	484,569	728,053	830,117

In Missing Millions¹¹ we argued that “we could face a jobs gap of more than one million jobs” with a risk the OBR scenarios prove too optimistic because some sectors will remain constrained and it takes time for the economy to adjust to new opportunities. Missing Millions defined these risks to employment growth as an **adjustment gap** and a **transition gap**.

The **adjustment gap** arises because it takes time for new opportunities to emerge and for businesses to make the most of them, and for this to then lead to employment growth. In previous recessions, it has taken 3-7 years for the employment rate to recover back to its pre-recession levels.

The **transition gap** arises because businesses in jobs-rich sectors like hospitality will operate below their pre-crisis capacity while vaccines and effective treatments are developed. We estimated that 5.4 million people worked in lockdown sectors: if these sectors are operate at 80-90% capacity during the transition phase, then up to one million jobs may no longer be needed.¹² This proportion, and its duration, will depend on the nature of social distancing restrictions and consumer behaviour.

In conclusion, in 2021-22 we could face levels of long-term unemployment of between 1.1 million and 1.6 million people. The earliest this could dip below 1 million would be February 2022 but it could be as late as May 2025. It will take until 2027, at the earliest, to return to pre-coronavirus levels of long-term unemployment.

Flows into long-term unemployment

So far we have given the figures for the total number of long-term unemployed people at any one point in time (known as the ‘stock’). However, for the purposes of planning programmes and budgets it is important to estimate the ‘flows’ of long-term unemployed. ‘Flows’ are those that *become* long-term unemployed in any one month (or quarter) and therefore become eligible for any provision for people who have been out of work for 12 months.

To calculate ‘flows’ consistent with the stock numbers we have continued to use the OBR scenarios and then calculated the flow rates into long-term unemployment for different recessions.

So our main assumptions for each ‘flow’ scenario are based on:

- **Upside scenario:** 10% of furloughed workers become unemployed and 11% of those become long-term unemployed (based on 2012 flow rates)

¹¹ Ibid

¹² Coronavirus and the labour market: challenges and impacts, L&W, 2020

- **Central scenario:** 15% of furloughed workers become unemployed and 15% of those become long-term unemployed (based on 2009 flow rates)
- **Downside scenario:** 20% of furloughed workers become unemployed and 25% of those become long-term unemployed (based on 1992 flow rates).

Table 3 gives the number that could become long-term unemployed each year. 2021 represents the largest flow because of the rapid rise in unemployment in 2020 in the OBR scenarios and then a rapid fall.

Table 3: Numbers becoming long-term unemployed based on OBR scenarios

	Upside	Downside	Central
2020-21	396,394	675,027	481,145
2021-22	491,189	1,048,456	660,691
2022-23	314,577	621,608	407,181
2023-24	302,001	571,476	382,705
2024-25	302,001	571,476	382,705

However, if there is a slower recovery (as shown in Figure 4) then the flows would remain higher for longer. Table 4 shows that flows into long-term unemployment would remain over 1 million for both 2021 and 2022.

Table 4: Numbers becoming long-term unemployed based on OBR scenarios for unemployment and last recession patterns of recovery

	Upside	Downside	Central
2020-21	396,394	675,027	481,145
2021-22	491,189	1,048,456	660,691
2022-23	470,625	1,004,562	633,031
2023-24	363,085	775,014	488,380
2024-25	276,713	590,651	372,202

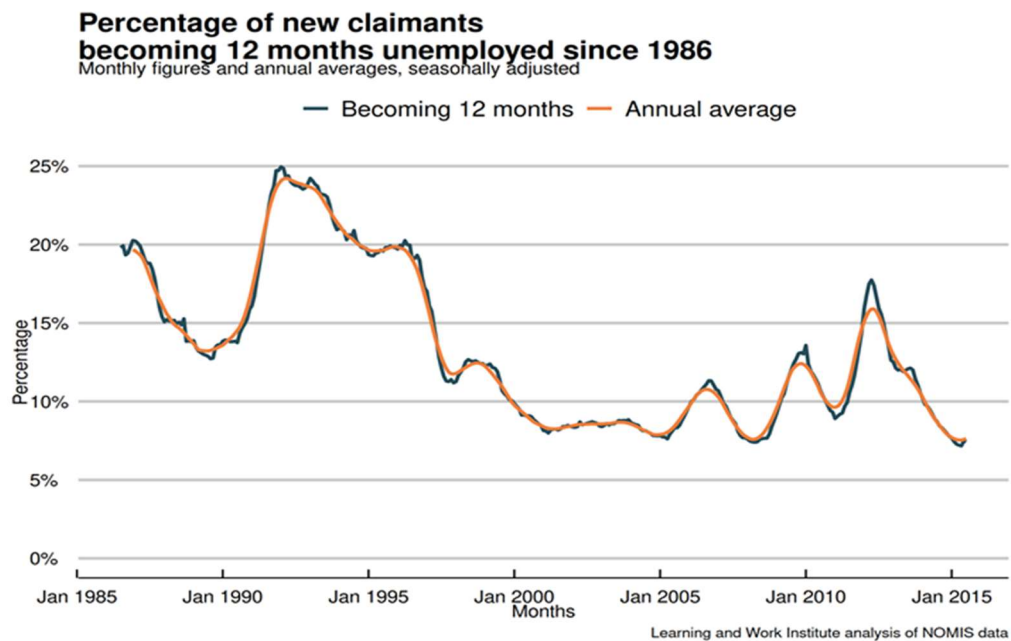
These numbers underline the scale of the delivery challenge. In 2019 there were an average of around 300,000 people who were long-term unemployed at any one time (of whom 160,000 had been out of work for 24 months or more) and just over 70,000 were referred to providers operating the Work & Health Programme.¹³

The challenge is potentially to **treble the amount of provision** in the coming months to meet the peak in 2021-22, though this peak will be front loaded to the first half of the year as later analysis shows.

¹³ [Work & Health Programme statistics](#)

The changing likelihood of long-term unemployment

The chart below shows how the percentage of unemployed people becoming long-term unemployed has changed over time. The pattern shows the combination of economic cycle effects and changes to labour market policy and administration within what are now DWP and Jobcentre Plus. The chart ends at 2015 as the introduction of Universal Credit changed the source data substantially.



What changes the number of people becoming long-term unemployed?

The chart is a success story of active labour market policy since the 1990s. There are two primary factors that affects the flow rate:

1. The level of suitable vacancies in local economies
2. The extent of requirements and support for people to search for work.

On the former the government can have influence, but on the latter the government has a great deal of control. The extent of 'activation' of unemployed benefit claimants has a significant influence on how quickly people find work. This is why additional support for the short-term unemployed is always important in a recession. Increasing the support for people to retrain will be particularly important in this recession.

However, the combination of a lack of vacancies and an increase in requirements on jobseekers can lead to an increase in those becoming economically inactive, as happened in the 1990s. There needs to be an appropriate balance of support and requirements which are commensurate with the causes and impact of the recession, as well as mental and physical well-being.

Unequal impacts

The particularly negative impact of long-term unemployment is that it causes, and reinforces, disadvantage for years into the future. **Without radical action it will force a generational delay to the levelling up of our communities.**

Like all recessions, long-term unemployment will hit some groups of people and areas harder than others. Too often centralised policy and programmes haven't taken sufficient account of these unequal impacts. We need better targeted resources and greater tailoring to local need and context.

Young people (aged 16-24)

The number of young people long-term unemployed¹⁴ could increase five-fold from 55,000 to 291,000 (downside scenario). This is calculated using the same method as for Figure 2, using the same profile as for the last recession. However, it is plausible that the furlough redundancy rate will be higher for young people, primarily because young people are employed in sectors that were most affected by shutdowns.¹⁵

Relative to the last recession the numbers of young people out of work for 12 months or more (see Figure 5) are comparable or could be lower – only the downside scenario exceeds the last recession. There are three possible reasons for this. First, there are 5% fewer young people than in 2008 (and even fewer compared to the 90s). Second, we are starting from a lower level of youth long-term unemployment compared to 2008. Third, 45% of 16-24 year olds are in full-time education, compared to 40% in the last recession.¹⁶

Because it is likely the furlough redundancy rates will be higher for young people we think the out-turn will trend towards the downside scenario of a peak of around 290,000. If this is the case, young people will represent around 20% to 25% of the long-term unemployed, which will have policy implications for programme design.

The Government's Plan for Jobs set out a welcome range of measures for young people including: 6-month Kickstart jobs; Youth Hubs; sector-based work academies;

¹⁴ We use long-term unemployment for young people at 12 months in line with the international definition. However, in the past many programmes have used 6 months as eligibility for additional support due to evidence on the scarring effect of long-term unemployment on young people.

¹⁵ ONS report that young people were most likely to be employed in the Wholesale and retail trades, and accommodation and food services. It is therefore likely that the shutdowns (and slow recovery) in these sectors accounts for the high proportion that HMRC reports being furloughed of eligible employments for young people.

¹⁶ Many higher and further education providers are reporting high enrollments in autumn 2020, so full-time education participation is likely to rise above 45%.

and incentives for employers to hire apprentices. The scale of the challenge means we need more support and better join up, such as the Youth Guarantee we proposed to ensure all young people are offered a job, training place or apprenticeship.¹⁷

Figure 5: Youth long-term unemployment

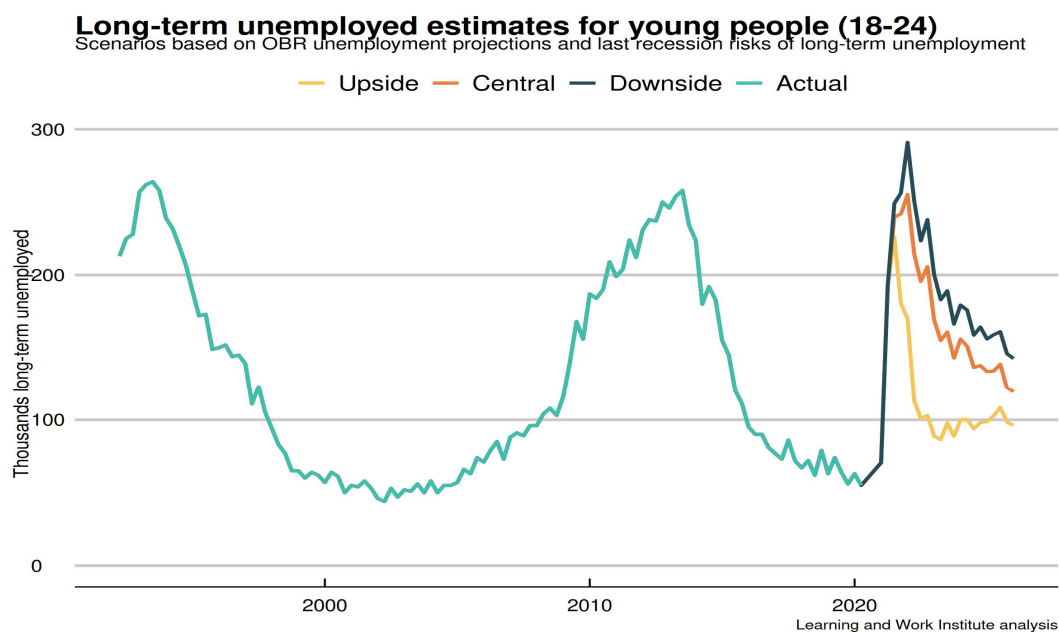
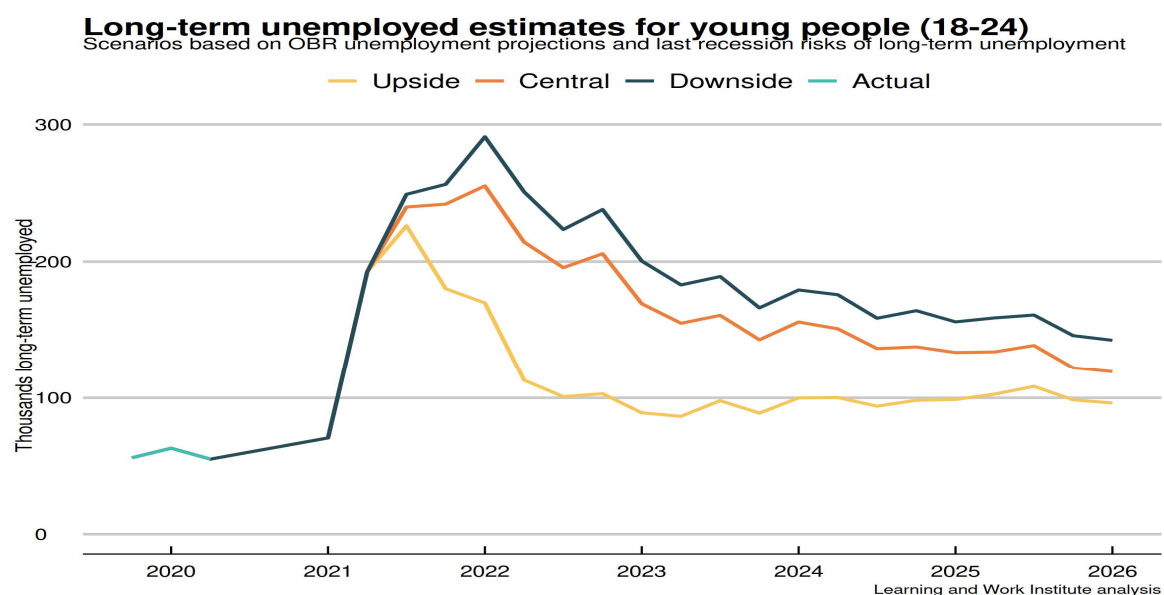


Figure 6: Youth long-term unemployment projections



¹⁷ [Emergency exit: how to get Britain back to work](#), L&W, June 2020

Table 5: Youth long-term unemployment projections

	Upside	Central	Downside
2021-22	180,272	241,922	290,985
2022-23	103,021	205,770	237,983
2023-24	88,719	143,004	166,308
2024-25	98,152	137,753	164,257
2025-26	98,474	122,253	146,028

Adults aged 25 and over

Our projections suggest long-term unemployment for those aged 25+ could be considerably higher than the last recession and higher than the 1990s. Figure 7 shows that the numbers could increase as much as seven-fold from 172,000 to 1,262,000. Only the upside scenario is lower than the 1990s.

Before the pandemic the numbers of people aged 25+ who were long-term unemployed were at an historic low. If furloughed workers in this age group are less likely to be made redundant than young people, then long-term unemployment for those aged 25+ could be closer to the central scenario of around 1 million, still a fivefold increase compared to today.

There is proper concern about the position of older workers (those aged over-50) who are vulnerable to losing their jobs and more at risk from coronavirus. Already there have been signs that employment for the over-65s is falling and especially for women where there was a record fall in the most recent quarter.¹⁸ Our report with the Centre for Ageing Better highlighted the position of unemployed older people, with over 50s jobseekers facing a series of barriers to finding work.¹⁹

¹⁸ See Employment section of [ONS Labour Market Review](#), September 2020.

¹⁹ [Back on track: Improving employment support for over 50s jobseekers](#), Centre for Ageing Better, July 2020

Figure 7: Long-term unemployment for those aged 25 and over and last recession recovery patterns

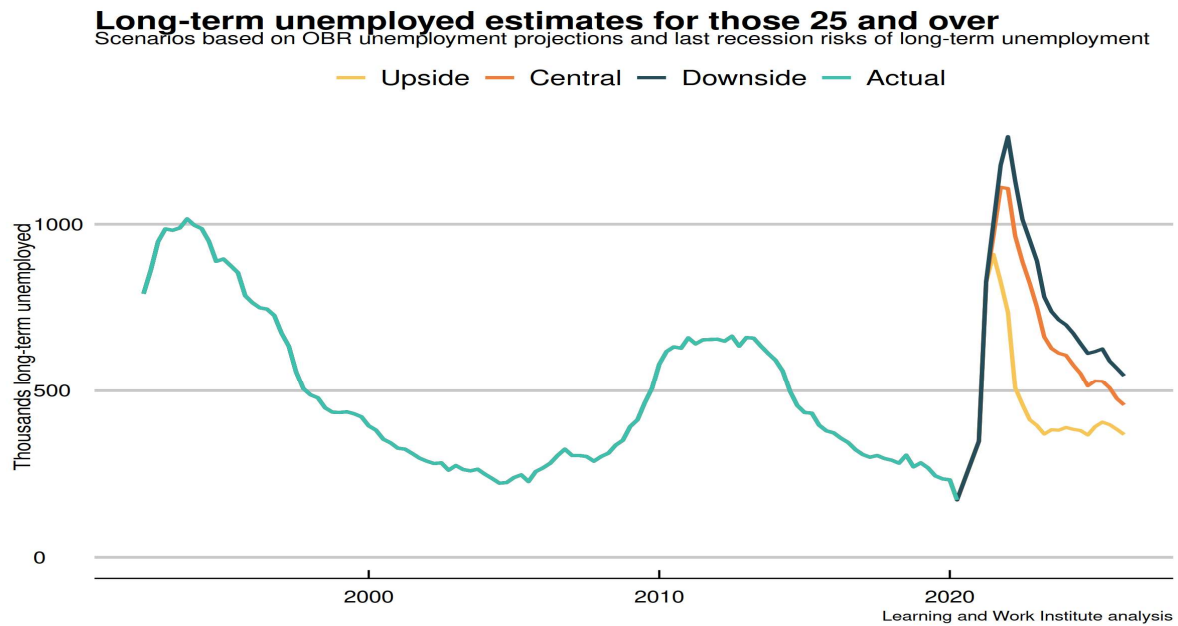


Figure 8: Adult long-term unemployment with last recession recovery patterns

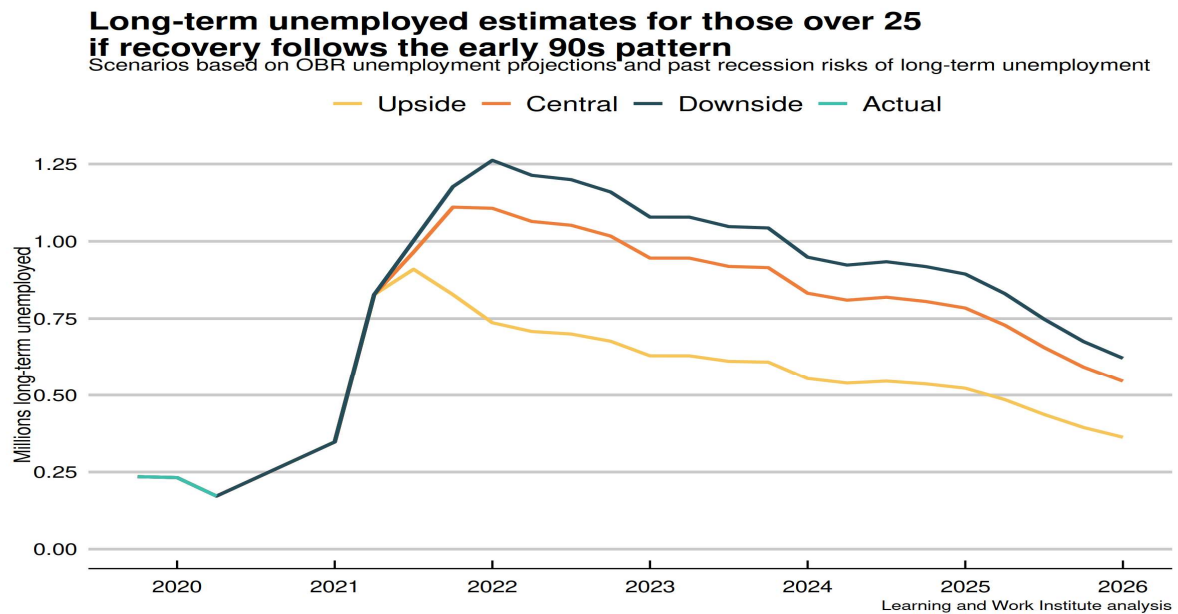


Table 6: Adult long-term unemployment projections

	Upside	Central	Downside
2021-22	827,545	1,110,547	1,176,798
2022-23	412,409	823,732	952,685
2023-24	380,814	613,829	713,859
2024-25	366,458	514,314	613,268
2025-26	383,262	475,811	568,343

UK nations

Figure 9 shows the proportion of unemployed people who became long-term unemployed in each of the UK nations after the start of the last recession. The rate in Northern Ireland was almost double that of the rest of the UK. For England, Scotland and Wales there has been a convergence since the start of the 2008 recession when England had a slightly higher rate.

The UK had an average of just 7% of those becoming unemployed still claiming after 12 months, and this we expect to double and potentially treble. We need a common policy aim by the UK government and devolved administrations to reduce the proportion of people who become long-term unemployed, aiming to return to pre-recession rates.

Table 7 gives the expected flow numbers for each devolved administration for 2021-22 (i.e. the additional people becoming long-term unemployed). Each nation has different powers, responsibilities and budgets to design and manage programmes for the long-term unemployed. This will give important flexibility to reflect the different labour market challenges caused by the responses to the virus. At the same time there are common challenges that should be met by a concerted UK-wide effort.

Figure 9: Percentage of unemployed people becoming 12 months unemployed following last recession by devolved administration

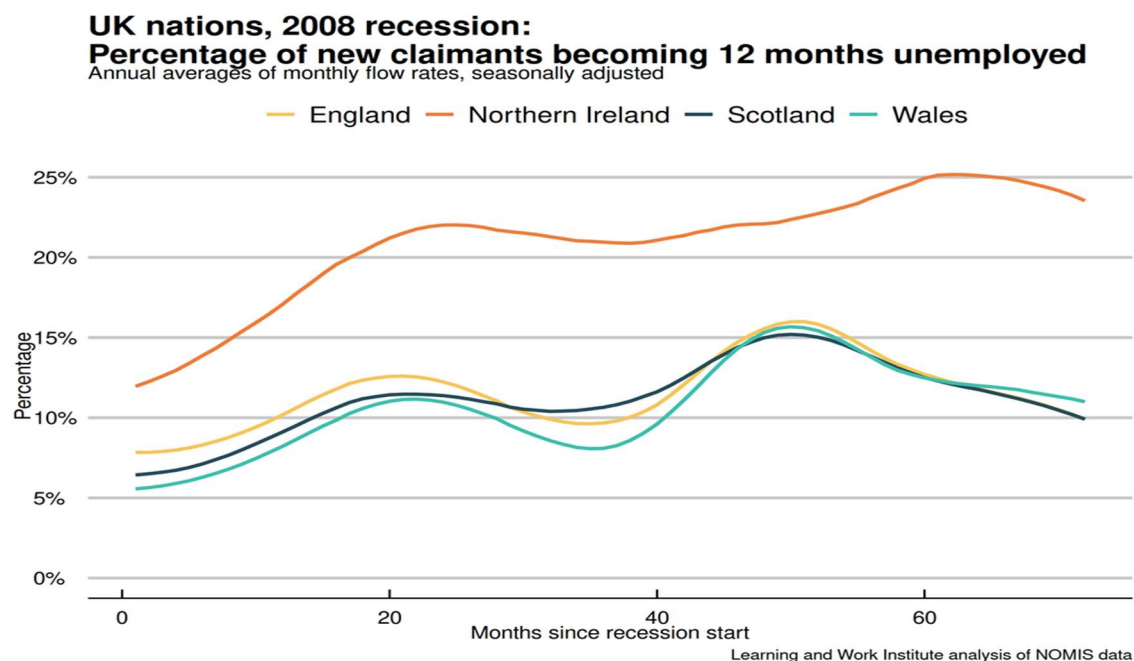


Table 7: Flows of people becoming long-term unemployed in 2021-22

	Upside	Central	Downside
UK	491,000	661,000	1,049,000
England	379,000	505,000	826,000
Wales	29,000	44,000	67,000
Scotland	54,000	78,000	114,000
Northern Ireland	30,000	34,000	41,000

Local economies

Other reports²⁰ have highlighted the impact of the recession at the local level. These have shown some of the differential impacts across the UK, and we anticipate that long-term unemployment will be no different.

In Table 8 we include examples of English local authority areas and their rates for which unemployed people become long-term unemployed compared to the UK average. A minus (-) sign indicates that the flow rate is lower (and therefore better) than the UK.

Most areas shown here are above the UK average and can therefore be expected to have higher levels of long-term unemployment. These disparities have important implications for how support is targeted, organised and delivered at the local level.

Table 8: Proportion of unemployed people who could become long-term unemployed in 2021-22 by area, using historical recession patterns

Area	Upside (2009-10)	<i>Diff to UK +/-</i>	Central (2012-13)	<i>Diff to UK +/-</i>	Downside (1992-93)	<i>Diff to UK +/-</i>
All UK to 12 months	12.4%	0.0%	15.9%	0.0%	24.1%	0.0%
Tyneside	12.2%	-0.2%	20.0%	4.1%	24.3%	0.2%
Leeds City Region	12.6%	0.2%	17.3%	1.4%	23.2%	-0.9%
South Yorkshire	13.7%	1.3%	18.8%	2.9%	26.1%	2.0%
Merseyside	14.6%	2.2%	16.3%	0.4%	29.5%	5.4%
Greater Manchester	13.1%	0.7%	15.5%	-0.4%	24.3%	0.2%
West Midlands Metropolitan area	16.7%	4.3%	16.7%	0.8%	31.2%	7.1%
London	13.3%	0.9%	17.2%	1.3%	30.1%	6.0%
West Wales and the Valleys	11.1%	-1.3%	16.0%	0.1%	22.5%	-1.6%
Leicestershire, Northamptonshire and Rutland	12.8%	0.4%	14.3%	-1.6%	24.6%	0.5%

²⁰ For example, 'When the Furlough has to stop', L&W and Reform, August 2020 and 'The Full Monty', Resolution Foundation, June 2020

Table 9 gives indicative figures for the areas. These are flow figures and consistent with numbers in Table 8. We have weighted these numbers to take account of the flow rates in Table 8 and the numbers that have been furloughed in each area.²¹

Table 9: Flows of people becoming long-term unemployed in 2021-22 by area

Area	Last recession peak	Upside	Central	Downside
All UK	710,400	491,000	661,000	1,049,000
Tyneside	21,800	13,000	22,000	29,000
Leeds City Region	32,800	25,000	37,000	54,000
South Yorkshire	21,500	16,000	23,000	35,000
Merseyside	21,300	19,000	23,000	44,000
Greater Manchester	35,600	35,000	45,000	75,000
West Midlands Metropolitan area	44,200	48,000	51,000	102,000
London	107,200	101,000	136,000	240,000
West Wales and the Valleys	23,500	15,000	24,000	36,000
Leicestershire, Northamptonshire and Rutland	17,400	20,000	24,000	45,000

²¹ Source: HMRC CJRS statistics, July 2020

Those most at risk of long-term unemployment

To understand who is more likely to become long-term unemployed we have looked at the experience of the last recession. Every recession is different so there is no certainty the same sorts of people will become long-term unemployed again. Plus not everyone with a particular characteristic will become long-term unemployed – these are indicators of risk and support to find work should be tailored to individuals.

Experience of work: In 2010, 56% of long-term unemployed young people had '*never had paid work*', compared to 23% for the 25+. Analysis by the Resolution Foundation²² has shown that the numbers who have never worked has been increasing over the years and they attribute this to:

- The death of the teenage Saturday job
- Less work at college or university
- A longer journey from education to employment.

This is one strong reason why paid temporary jobs should be part of the offer to the long-term unemployed, to build and demonstrate work experience.

Educational qualifications: The lowest qualified were significantly over-represented in long-term unemployment in 2009. 52% of young long-term unemployed people and 43% of adults had either no qualifications or below Level 2 (GCSE grades A*-C), compared to 20% for all workers at that time.²³ People who are long-term unemployed are also more likely to have low literacy or numeracy, which will drastically cut the number and types of jobs they can apply for.

Access for the long-term unemployed to basic skills (including digital) will help put people on the path to learning and qualifications and will increase their job prospects. However, gearing all provision to the low qualified would be a mistake – 26% of young people long-term unemployed in 2009 had A-levels or above.

Health: in 2009 the 25+ long-term unemployed had the highest proportions that reported a health problem – 40% self-declared they had some sort of health problem (either mental or physical). For young people this is much lower at 24%. We should

²² [Never Ever](#), Laura Gardiner, Resolution Foundation 2019

²³ Annual Population Survey, ONS

also not lose sight of the 1.9 million people on Employment Support Allowance, the significant majority of whom would have been out of work for over 12 months.

Extended periods of shielding for the 'clinically extremely vulnerable' have had an impact on their employment status. ONS estimated²⁴ that of the 2.2 million who were shielding, 623,000 were in employment prior to shielding and over half (52%, estimated 325,000) had either stopped working, been furloughed or were on the Self-Employment Income Support scheme.

Ethnicity: The one main ethnic group that was over-represented in long-term unemployment in 2010 were 'Black or Black British' – 5.8% were long-term unemployed compared to 3.4% of the working age population in 2011. 'Asian or Asian British' were under-represented at 7.5% compared to the working population of 8.1%. Table 10 shows UK data, but the picture will vary significantly locally.

Table 10: Proportion of unemployed becoming long-term unemployed in 2009, by ethnicity

	Number of LTU (2009, all ages)	Percent of LTU	Percent of working age pop (2011)	+/- pp
White	567,185	82.6%	85.6%	-3.0pp
Mixed	9,711	1.4%	1.8%	-0.4pp
Asian or Asian British	51,711	7.5%	8.1%	-0.6pp
Black or Black British	40,015	5.8%	3.4%	2.4pp
Chinese	1,186	0.2%	0.9%	-0.7pp
Other	16,742	2.4%	1.1%	1.3pp

Prior occupation: of the long-term unemployed who had a job before becoming unemployed, a significant proportion were in occupations generally requiring lower qualifications. In Table 11, 54% were in three occupations compared to 25% of the workforce in the same occupations. While Sales, Machine Operatives and Elementary were significantly over-represented, at the same time 20% of the long-term unemployed were in the top three occupational groups.

As with qualifications, this points to the need for personalised systems and choices for support rather than one-size-fits-all programmes for unemployed people.

²⁴ [Coronavirus and shielding of clinically extremely vulnerable people in England](#): July to 16 July 2020, ONS

Table 11: Long-term unemployment by prior occupation, 2009

	LTU in 2009 by prior occupation (all ages)	Percent of LTU	Percent of 2009 workforce by occupation	+/- pp
1 Managers and Senior Officials	33,571	7%	16%	-8pp
2 Professional occupations	17,241	4%	14%	-10pp
3 Associate Professional and Technical	31,838	7%	15%	-8pp
4 Administrative and Secretarial	37,301	8%	11%	-3pp
5 Skilled Trades Occupations	64,787	14%	11%	3pp
6 Personal Service Occupations	26,635	6%	9%	-3pp
7 Sales and Customer Service Occupations	44,243	9%	7%	2pp
8 Process, Plant and Machine Operatives	62,333	13%	7%	6pp
9 Elementary Occupations	148,645	32%	11%	21pp

Prior industry: the industry that long-term unemployed people last worked in will be heavily influenced by the sectors that the recession has hit the hardest. This time it will inevitably be the shutdown sectors. Analysis by the Resolution Foundation²⁵ shows the hardest hit sectors are: hospitality; non-food retail and wholesale trade; arts, entertainment and recreation; construction and transport.

Table 12 shows which industries were over-represented in the last recession: manufacturing; construction; and wholesale, retail, repair of vehicles.

²⁵ [The Full Monty](#), Resolution Foundation, June 2020

Table 12: Long-term unemployment by industry

	LTU in 2009 by prior industry (all ages)	Percent of LTU	Percent of 2009 workforce by industry	+/-
A Agriculture, forestry and fishing	4,884	1%	1%	0pp
B Mining and quarrying	877	0%	0%	0pp
C Manufacturing	69,113	15%	9%	6pp
E Water supply, sewerage, waste	4,107	1%	1%	0pp
F Construction	59,832	13%	5%	8pp
G Wholesale, retail, repair of vehicles	86,282	19%	16%	3pp
H Transport and storage	28,613	6%	5%	1pp
I Accommodation and food services	32,533	7%	7%	0pp
J Information and communication	11,702	3%	4%	-1pp
K Financial and insurance activities	10,096	2%	4%	-2pp
L Real estate activities	3,093	1%	2%	-1pp
M Prof, scientific, technical activ.	13,703	3%	7%	-4pp
N Admin and support services	36,750	8%	8%	0pp
O Public admin and defence	10,871	2%	5%	-3pp
P Education	18,534	4%	9%	-5pp
Q Health and social work	25,458	6%	13%	-7pp
R Arts, entertainment and recreation	10,187	2%	2%	0pp
S Other service activities	8,736	2%	2%	0pp
T Households as employers	643	0%	0%	0pp
U Extraterritorial organisations	840	0%	0%	0pp

Targeting support

It is usually no single attribute that explains why a person becomes long-term unemployed. Often it is not only about a person's employability but also about the number of suitable jobs available – and the greater the local concentration of hardest hit industries, the greater the problem.

Nonetheless, it makes sense to target support at an early stage for those most at risk of long-term unemployment. This will mean giving some additional priority to those that evidence has shown are more at risk of long-term unemployment. The profile from the last recession suggests that at risk people are more likely to have combinations of:

- little or no experience of paid employment, especially young people
- low qualifications

- a health condition which limits their ability to work
- previously worked in hardest hit industries and occupations.

On top of these there will be an added risk for some BAME groups, particularly Black and Black British. Furthermore there will be smaller groups of people who can have severe labour market disadvantages irrespective of the economic cycle. These groups will include care leavers, ex-offenders, people with alcohol and drug addictions and others²⁶.

These are only indicators of a higher risk of long-term unemployment and there are some 'at risk' people who search for and get jobs quickly. An early focus on jobsearch is important for everyone but for disadvantaged jobseekers it should be combined with more intensive support.

It is when the months go by of persistent job application rejections that people become understandably discouraged and demoralised. This is why 'active labour market programmes' for the long-term unemployed must help keep people in touch with the labour market and improve their prospects of finding and sustaining work.

Planning to deliver support to the long-term unemployed at the right time and to the right scale is now critical. The task is to ramp up capacity in a short period of time. This requires both extra resources and a more joined-up approach to local and national employment, skills and health support.

²⁶ See [Early Access Disadvantaged Groups](#) for Work & Health Programme

A new approach

Ramping up support to the right scale and in sufficient time will be a significant challenge.

The first critical decision will be about what sort of services should be on offer to long-term unemployed people? The second step will be to decide how and who is best to deliver the services? And all of this must be decided within a constrained timescale and with not insignificant capacity constraints, as well as linked to action to increase employment growth and the national and local measures needed to limit the spread of the virus.

In this report we are proposing a set of design principles on which the support services should be based. We will be following this up with a more detailed set of proposals for the sort of services and how to deliver them.

The design principles are based on our long track record of designing programmes tailored to the needs of people, economies, areas and the specific challenges of time and place. 'What works' and 'best practice' should always be seen through the prism of today's challenges and this sometimes means taking radical but simple steps.

Our eight design principles:

1. **A clear offer, easily delivered:** time and need are pressing which is why clarity is needed on what support should be on offer, and which can easily be put in place with the minimum of delay. This is achievable with the right approach to working together.
2. **A combined effort between national and local:** No single organisation will have the capacity to deliver all that will be needed to the numbers of people involved. A collaborative approach is needed – bringing together the expertise and capacity of national government, local government and private and voluntary sectors.
3. **Personalise:** there will be a wide range of circumstances and characteristics in the coronavirus long-term unemployed generation. Every individual is different and we need a service which can build on people's strengths and hopes. A strong trusting relationship with an advisor should be at the core of the service.
4. **Choice:** we need support where there is a choice of pathways for individuals – flexible, responsive and personalised.

5. **Contributing to recovery:** retraining will remain important for the long-term unemployed, as will job creation projects. Funds spent on the long-term unemployed should be seen as an investment towards economic recovery.
6. **Coronavirus proofed:** there will many challenges to the traditional way of delivering which we will need to rethink. Provision must be covid-secure and respond to different local measures, and this includes how we support those most at risk from the virus.
7. **Flexibility and adaptability:** there are many uncertainties ahead. This should mean that we don't tie ourselves into inflexible long-term arrangements. We need nimble and agile arrangements that can easily be scaled up or down.
8. **Prevention and sustainment:** design needs to consider the support people have already had before becoming long-term unemployed. There also needs to be new approaches to sustaining employment for those who get a job, and a new start for those who are still unemployed after two years.

The initial building block should be to define the services and standards that should be available everywhere - a **universal offer for all long-term unemployed people** across the UK. The UK Government should broker speedy discussions with the devolved administrations, local government, and other stakeholders.

How the universal offer is delivered should then be led by the devolved administrations and, where appropriate, local areas in England. This will make sure services are delivered in a way which makes sense for local conditions and local employers. We need to galvanise national and local partners to work together to gear up for **a launch of new and extended support in Spring 2021**.

We believe this timetable is achievable, so long as a universal offer can be quickly agreed. In our next report we will lay out our ideas for what the universal offer could look like and how it can be quickly delivered.

Ramping up support

In our next report we will examine the range of provision, their likely cost, and the numbers of people that will use the different types of provision.

The design of programmes for long-term unemployed people should be determined by the nature and depth of the recession, as well as the existing long-term challenges for the labour market. Therefore we should **not** assume that past solutions will work for this recession.

The UK has a good knowledge base of the types and cost of provision but we have also learned there is a complex relationship between costs, standards, and outcomes. Comparing the costs and performance of different programmes can be difficult and often it is impossible. But decisions on expenditure are not always determined by narrow definitions of cost-effectiveness in delivering employment outcomes. For example, skills programmes will value the growth in human capital and programmes for disadvantaged groups will value a range of health and social policy outcomes. Similarly there is a wide range of 'costs per person' for different types of interventions and outcomes. Payments can range from less than £500 (eg. for assessments) through to over £7,000 (eg. a Kickstart job).

Based on the downside flow numbers we estimate a reasonable range for the cost of provision needed for 2021-22 could be £1.8-4.2 billion, depending on the mix between high and low cost provision.

Figure 10: Actual and planned DWP spend on employment programmes

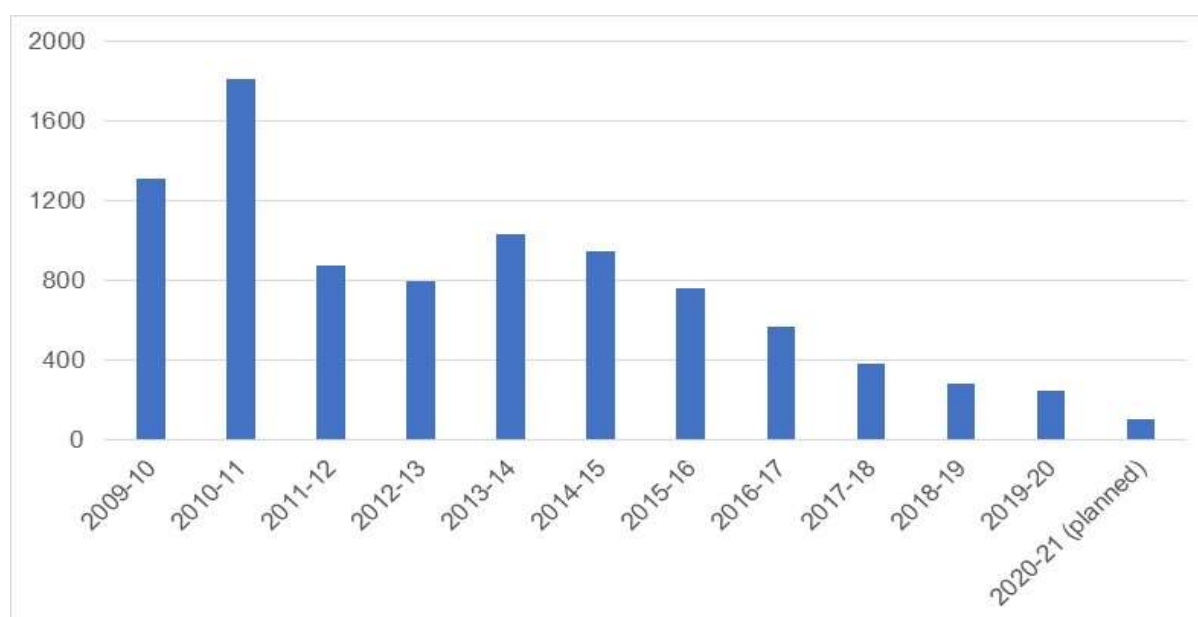


Figure 10 puts this into context: the downside estimates for long-term unemployment could require expenditure in 2021-22 in excess of that seen in 2010-11, and at least 18 times higher than DWP had originally been planning for this current year. This shows the scale of the delivery challenge: capacity has been reduced while employment was high and now needs to be ramped up almost overnight.

However, we are not assuming that all of this will be DWP expenditure, for example, some of the costs in England could be covered by the Adult Education Budget, as was the case under the Work Programme, National Skills Fund etc. Some measures have already been announced to limit the numbers becoming long-term unemployed, such as increased numbers of Work Coaches, expansion of Flexible Support Fund and National Careers Service, and support for the short-term unemployed.

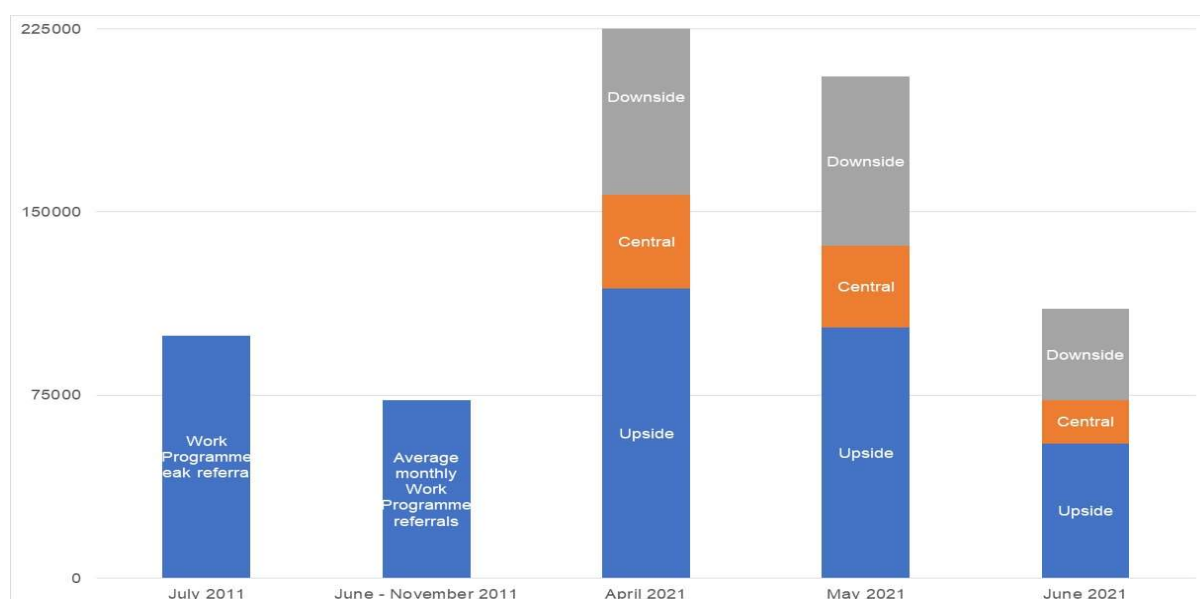
The need for speed (and flexibility)

A distinguishing feature of this recession is the sharpness of the increase in the number of people claiming unemployment-related benefits during late March and April 2020. By July 2020, the number of new Universal Credit claims had returned to pre-crisis levels. It is likely there will be a further (lower) spike through the winter as more people lose their jobs as the furlough scheme unwinds.

This means that there will be similar twin peaks in long-term unemployment during March-May 2021 and winter 2021-22. We need to have support in place for these likely peaks: time is short to sharply scale up provision for March 2021, and we don't want to build in permanent capacity that we may only need temporarily. This points to a different approach to previous commissioned employment programmes, which have generally assumed a different pattern of referrals.

To set this in context, Figure 11 shows that the number of people becoming long-term unemployed in March 2020 could be up to twice as big as peak monthly Work Programme referrals and triple the average for the first six months of the Work Programme. Not all of these will be referred to an employment programme – they won't all be claiming benefits (see below) and in 2011 some long-term unemployed people would have been referred to provision other than the Work Programme. However, this gives a sense of potential scale.

Figure 11: Long-term unemployment flows and peak Work Programme referrals



Support for all

There is a further consideration about the eligibility for support. The flow figures on which we have based our budget estimates are for *all long-term unemployed people* but not all of these are *claimant* long-term unemployed. Government programmes have mostly been targeted at those who claim benefits but there is a very strong case to broaden this eligibility. There are precedents²⁷ in the UK for unemployed people being able to access support without having to claim a benefit.

The Coronavirus Job Retention Scheme has had a positive and significant impact but many furloughed workers who will be (or have been) made redundant will only show up as 'unemployed' many months after they stopped working.

This means we will have disguised long-term unemployment long before the official statistics say we have a problem. Which is why eligibility for support should start from Day 1 of when unemployed people were furloughed.

Now is the time to extend support to everyone whose job prospects have been affected the virus.

²⁷ For example, eligibility to access ESF provision allows for non-claimants and the economically inactive

Annex 1: Methodological note on L&W estimates

DWP information on inflows to benefit systems

We have used the DWP Alternative Claimant Count, which adds together new claimants for Universal Credit as unemployed and new claimants for Jobseeker's Allowance.

This is available for inflows, outflows and stock numbers, by age and geography. It excludes new Universal Credit claimants who were in employment which includes those who were furloughed and still getting part-pay, and many self-employed who had businesses to go back to when permitted. DWP also only count claimants once (people can and do claim both JSA and Universal Credit).

Official scenarios

We use the Office for Budget Responsibility (OBR)'s three scenarios for numbers becoming unemployed at the end of the Coronavirus Job Retention Scheme (CJRS) published in July 2020. These are:

1. Central scenario: 15% of those furloughed at any time become unemployed – 1.4 million
2. Upside scenario: 10% of those furloughed at any time become unemployed – 960,000.
3. Downside scenario: 20% of those furloughed at any time become unemployed – 1.9 million.

The OBR did not make any other assumptions about policy changes that may lead to changes in unemployment. Their projected unemployment rates in July 2020 are more V-shaped than any of the last three recessions, and their scenarios will be reviewed in November 2020.

Our use of the OBR scenarios for people who are furloughed

We have applied these percentages to HMRC figures on CJRS numbers by age-group and geographic area.

We have followed the OBR lead in assuming that, after furloughed workers become unemployed, inflows into unemployment revert to the pattern before coronavirus. The OBR upside projections return to their prior projected path towards the end of their scenarios period, so we consider our assumption is consistent with the OBR work.

We assume that people who had previously been furloughed become unemployed at an even rate between the end of our DWP dataset and the end of the financial year in March 2021, and that these are additional to the ‘normal’, prior flows into unemployment. In practice, as we present our estimates in terms of financial years, this has little effect.

Estimating long-term unemployment numbers

We have estimated the numbers likely to be long-term unemployed by taking the pattern of people becoming long-term unemployed in the last recession combined with the OBR’s estimates of numbers likely to be unemployed in their three scenarios. The pattern of people becoming long-term unemployed is defined as the number who were long-term unemployed (12 months or more) as a percentage of those who were unemployed twelve months previously over the last recession. This has been done for each of the three age-groups analysed, all ages, 18-24 and 25 and over. The definition of long-term unemployment we use is of being unemployed for 12 months or more.

We have then added alternative projections starting from the peak numbers identified above, but using the pattern of improvement in long-term unemployment following the 1990s recession. The 1990s recession was more V-shaped than the 2008 recession, but not as V-shaped as the OBR forecasts.

Estimating flows into long-term unemployment

We have used flows from unemployment into long-term unemployment from the last two recessions to determine flow rates into long-term unemployment for each group analysed. Similar data for the 1979-80 recession start is not available.

We have analysed this for each month, and taken the annual average rate of flowing onto long-term unemployment.

The Upside is based on flow rates centred on October 2009 – the initial peak (annualised) flow rate post 2008. The Central estimate is based on flow rates reached in April 2012 (the secondary peak). The Downside estimate is based on flow rates reached in January 1992. The flow rates used are contained in the table below.

Table A1: Assumed proportion of unemployed people who will become long-term unemployed

Group	Upside	Central	Downside
All to 12 months	12.4%	15.9%	24.1%