

# SLIM – Comment

## The Chancellors Autumn Statement *Sticking to Plan A?*

30/11/2011

Well you can wait months for a SLIM Comment and then two come along at once. Hot on the heels of the Youth Contract SLIM Comment we have another one on the Chancellor's Autumn Statement.

Well there is little doubt now that we look set for a "lost decade". And while the Chancellor stays fixed to his Plan A, with a few Plan B type concessions, we can be sure that we face a tough future. The Chancellor now concedes that the UK risks falling into recession in the coming months and the economy will barely grow next year, with Britain's deficit bigger than previously thought.

Growth is now predicted to be 0.7% for next year, down from the 2.5% previously estimated. Eliminating the budget deficit by next year is no longer a possibility. Government put this down in no small part to the troubles in the Eurozone, whilst the opposition cite the failure of Plan A.

### **Key points**

- Downward revisions to growth forecasts; unemployment set to increase by 200,000 next year on both ILO and claimant measures
- Youth Contract confirmed - up to 160,000 subsidised jobs for long-term unemployed young people over three years
- Tax credits cut by £1.2bn a year, which will have negative impact on poverty and work incentives

In this *SLIM-Comment* we have a look at the measures being proposed to tackle this historic challenge.

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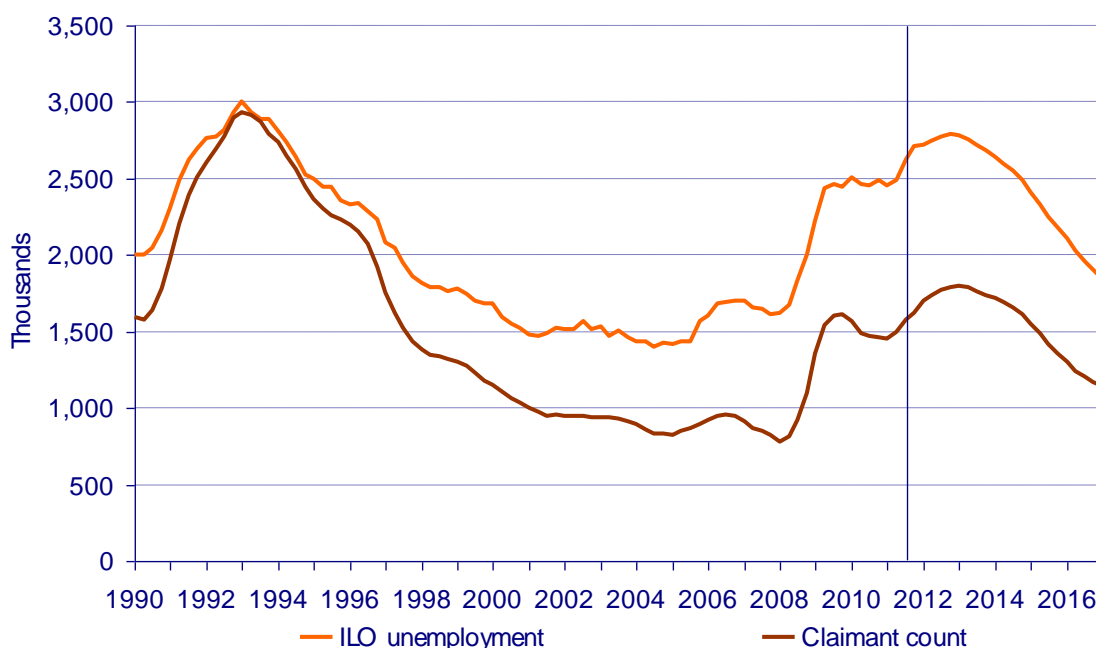
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## Growth down, unemployment up

As well as the Chancellor's announcements, attention now also focuses on the Office for Budget Responsibility's (OBR), underpinning economic forecasts, which make for increasingly uncomfortable reading. The OBR has cut its forecasts for economic growth over the next two years and with that has forecast an increase in unemployment.

The new forecast for unemployment shows a JSA peak of 1.8 million in early spring 2013 before a sharp improvement to 1.14 million in early spring 2017. The pattern for ILO unemployment is similar, with a peak of 2.8 million, lasting for a full year between July 2012 and June 2013.

### OBR Unemployment Forecasts



Office for Budget Responsibility, November 2011

Last year's autumn forecast anticipated a small peak in unemployment in spring 2011 of 1.52 million (Jobseeker's Allowance – JSA) and by now to have fallen 30,000 (JSA) from the peak. It was then expected to carry on down in a straight line. Unfortunately these estimates were used by the Department for Work and Pensions' in its Work Programme calculations and for subsequent Work Programme bids. *Inclusion* has estimated that job entry rates for the Work Programme are likely to be an average of 7% lower overall between 2010 and 2015. With contracts already tight, this could have dramatic consequences for the Work Programme and its providers. With lower levels of vacancies anticipated, at the same time as increasing numbers of referrals to provision, this is likely to prove challenging.

The OBR has also projected that general government employment would fall by 710,000 between the first quarter of 2011 and the first quarter of 2017. As Dr John Philpot of the CIPD has pointed out it is important to recognise that the full impact of the Government's fiscal austerity measures is set to be around 850,000 - almost 15% of the public sector workforce when

the government came to power in 2010<sup>1</sup>. The Work Foundation estimates that this means that we need 1.7m new private sector jobs over that period.

## Skills and education

The Autumn Statement included some 20 education and training measures. Some of these had been the subject of previous announcements, such as the Youth Contract and employer ownership of some skills funding.

### Youth Contract

The Chancellor confirmed the 'Youth Contract', announced on the 25 November at a cost of £1bn to the government. Under the Youth Contract:

- Over three years, at least 410,000 work placements will be created for 18 to 24 year-olds.
- 160,000 wage subsidies will be offered through the Work Programme and 250,000 work experience placements will be offered.
- At least 20,000 incentive payments are to be delivered for employers to take on young apprentices.
- There will be a programme to help 16 and 17 year-olds not in education, employment or training into school, college, an apprenticeship or job.

The basic idea of giving young people some experience of work and a stronger CV is a good one, however the means of delivery are uncertain. There is a serious risk, particularly in the current climate, that there will be insufficient opportunities available. With more than a quarter of a million young people having been out of work for over a year perhaps a job guarantee for all long term unemployed young people would be more effective.

See SLIM Comment on the Youth Contract

[http://www.swslim.org.uk/documents/comments/20111129\\_youth-contract.pdf](http://www.swslim.org.uk/documents/comments/20111129_youth-contract.pdf)

## Apprenticeships

The government has made a series of announcements (some of which have already been announced) to reform skills, work experience in post-16 learning, and careers advice.

**Apprenticeships quality** – The government will improve the quality of the apprenticeship programme by:

- requiring all apprenticeship providers to support training in English and maths from C up to A\* GCSE standard, where not already achieved
- launching a further opportunity in 2012 for organisations to bid for funding to extend higher apprenticeship provision
- conducting an employer-led review into the quality and standards of apprenticeships to report by spring 2012.

**Apprenticeship administration** – The government will ensure that every employer is able to advertise a vacancy within one month of deciding to take on an apprentice, and have them ready to start work within three months, provided that employers play an active role. The government

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<sup>1</sup> Public Sector Job Cuts Revisited – CIPD, October 2011

will also remove all unnecessary health and safety requirements for apprenticeships.

**Employer ownership of skills funding** – The government will route public investment in skills directly to employers to allow them to purchase the vocational training they need through a new pilot fund of up to £250m. In early 2012, employers will be invited to bid for a share of the fund.

**Destination information publication** – The government will publish destination information at ages 16 and 18 from spring 2013 to encourage schools' focus on young people's future beyond school as well as attainment. The government recognises the contribution that strong links between schools, colleges, and business can make to outcomes for young people, and will keep the impact of this measure under review and consider stronger incentives if needed.

**Work experience** – The government will invest £4.5m over the next two years to support work experience as part of post-16 learning, work with the Federation of Small Businesses and other employer groups to review regulation impacting on work experience by the end of December 2011 and publish a guide to address common misconceptions about work experience.

**Course kite-marking** – a group of 'science, technology, engineering and mathematics' (STEM)-focused sector skills councils, with support from CBI and Skillset, will lead an industry group to kite-mark courses, helping students understand better which courses are valued by employers. The government will encourage other sector skills councils to do the same.

**Careers information, advice and guidance** – The government will create an improved careers information portal as part of the National Careers Service from April 2012, through which the public can access up to date, employer-sourced information on occupations, progression routes, wages and employment trends. As part of the Youth Contract, an additional £4.2m over three years will be provided so that the service can provide careers interviews for 18 to 24 year olds who have been on Jobseeker's Allowance for three months.

## Schools

**Free Schools** - Government is promising £600m to fund an extra 100 Free Schools, including new specialist Maths Free Schools for 16-18 year olds by the end of this Parliament.

**School places** - An extra £600m from 2012/13 to help fund an extra 40,000 places as councils struggle to cope with extra demand

**Science teaching** - Investing £10 million over five years from 2013-14 in 'Project Enthuse' - matched by investment from the Wellcome Trust, to improve the quality of science teaching in schools.

**Ofqual** - Support for a proposal from Ofqual to work with the OFT and others on how well the qualification market is working

## Welfare

**Tax credits** - The government announced its intention to freeze tax credits, apart from the child element of the Child Tax Credit and disability elements of tax credits, which will be uprated in line with the Consumer Prices Index in 2012–13. Plans for a £110 above-inflation increase to the child element of the Child Tax Credit (announced in the 2010 budget) has also been scrapped, nor will the couple and lone parent elements of the Working Tax Credit in 2012–13 be uprated. This will provide savings of between £1.2bn and £1.3bn per year. These savings in spending are projected beyond the introduction of Universal Credit so will have an impact on pot of money available to fund it.

These measures are sure to impact on child poverty and will weaken incentives to work for lone parents.

**Long awaited changes to the 16 hour rule** - Good news is announcement that from this month, those claiming Jobseeker's Allowance (JSA) for six months or more will be able to undertake training of up to 30 hours per week for a maximum of eight weeks without losing entitlement to JSA. Previously, under the so-called '16 hour rule', claimants have usually had to transfer to a discretionary training allowance to undertake training of more than 16 hours a week. While on training, claimants will have to continue to engage with the labour market.

## Employment deregulation and local pay

### Employment deregulation

A range of measures were announced aimed at "reducing the burden" of complying with employment law. Measures include:

- Increasing the qualifying period for unfair dismissal claims from one year to two years from April 2012 to help address employers' fears about the risks of taking on a new member of staff.
- Introducing fees for individuals who want to bring cases to employment tribunals and will consult on the level of fees.
- Look for ways to provide a quicker and cheaper alternative to a tribunal hearing in simple cases – a 'Rapid Resolution' scheme;
- Complete a call for evidence on the effectiveness of the TUPE (Transfer of Undertakings – Protection of Employment) regulations and will consult on proposals for any changes in early 2012;
- Complete a call for evidence on the impact of reducing the collective redundancy process for redundancies of 100 or more staff from the current 90 days to 60, 45 or 30 days; and
- Government will consider how it could move to a simpler, quicker and clearer dismissal process.

With these measures the Chancellor is clearly pitching employment deregulation as a major contribution to driving growth. Yet the CIPD points to recent survey evidence showing that the proportion of small businesses that regard regulation, including employment regulation, as the main obstacle to business success was only 6%, and this figure has halved over the last two years. In addition, removing employment protections can have an adverse impact on employee relations.

## Pay Cap and Local Pay

Public sector workers will get a pay rise capped at just 1% for two years from 2013 once the current two-year pay freeze comes to an end next year

As the Work Foundation points out, tucked away in George Osborne's Autumn Statement yesterday was an "apparently uncontroversial commitment" to review the case for Regional pay in the public sector. In 2002 the Comprehensive Spending Review (CSR) included proposals to increase local flexibility in pay across the Public Sector. A review conducted by HM Treasury (HMT) - found that public sector pay tended to be uniform across the country, and thus failed to address local recruitment and retention pressures. Public Sector unions have long argued against the erosion of National Pay Bargaining, fearing an erosion of their influence. Some key concerns include:

- That local pay determination may make it more difficult to encourage senior staff or specialists to move out of London & SE.
- That local pay determination might stimulate artificial and costly competition for talent.
- Concern about the displacement costs of replicating bargaining processes locally.
- Some of the assumptions on which plans for local pay determination could be questioned

While Mr Osborne's objective is to reduce the public sector pay bill, past experience shows this may be harder to deliver.

## Growth Review

Some things to emerge from the second phase of the Government's Growth Review:

- Creation of a £20 billion National Loan Guarantee Scheme for small businesses, and a £1 billion Business Finance Partnership, which will lend to mid-sized businesses and small and medium sized businesses.
- Increasing the Regional Growth Fund by £1 billion, supporting private sector growth in areas currently dependent on the public sector.
- A new build mortgage indemnity scheme which will help up to 100,000 families to buy their own home, and launching a new £400 million Get Britain Building investment fund to progress stalled developments.
- £45 million of support to UK firms wishing to export.
- Making 100 per cent capital allowances available in six Enterprise Zones (Black Country, Humber, Liverpool, North Eastern, Sheffield, and Tees Valley).
- £250 million from 2013 to support energy intensive industries manage the costs of electricity.
- An additional £200 million for science capital investment.
- Investing £55m into the Strategic Rail Freight Network.
- Removing barriers to hiring by making reforms to streamline employment law.
- Announcing how the Government will maximise the value of public sector data.

## Further Reading

Autumn Statement 2011, HM Treasury

[http://cdn.hm-treasury.gov.uk/autumn\\_statement.pdf](http://cdn.hm-treasury.gov.uk/autumn_statement.pdf)

Autumn Statement 2011, IPPR

[http://www.ippr.org/images/media/files/publication/2011/11/autumn-statement-2011\\_Nov2011\\_8322.pdf](http://www.ippr.org/images/media/files/publication/2011/11/autumn-statement-2011_Nov2011_8322.pdf)

Work Foundation – Regional Pay Can it Work This Time

<http://www.theworkfoundation.com/blog/591/Regional-Pay-Can-it-Work-This-Time>

Office for Budget Responsibility – Economic and Fiscal Outlook, November 2011

[http://cdn.budgetresponsibility.independent.gov.uk/Autumn2011EFO\\_web\\_version138469072346.pdf](http://cdn.budgetresponsibility.independent.gov.uk/Autumn2011EFO_web_version138469072346.pdf)

CESI Autumn Statement Briefing

<http://www.cesi.org.uk/keypolicy/autumn-statement-2011>

Public Sector Job Cuts Revisited – CIPD, October 2011

[http://www.cipd.co.uk/NR/rdonlyres/370EDF3D-F945-4733-97F4-B9872E5BA914/0/5673\\_Work\\_Audit\\_WEB.pdf](http://www.cipd.co.uk/NR/rdonlyres/370EDF3D-F945-4733-97F4-B9872E5BA914/0/5673_Work_Audit_WEB.pdf)



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