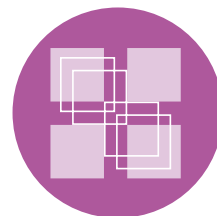


A report commissioned by Industrial Communities **Alliance** (Wales)



Tackling Worklessness in Wales

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Centre for Regional Economic and Social Research
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This report was commissioned by the Industrial Communities Alliance (Wales). The Alliance is the all-party association of local authorities in the industrial areas of England, Scotland and Wales.

Contents

Key points

1. PURPOSE AND SCOPE OF THE REPORT
2. THE SCALE OF THE PROBLEM
 - The national picture
 - The differences between places
 - Worklessness beyond the benefits system
 - A shortage of jobs?
3. PROGRESS AND PROSPECTS
 - Trends in benefit numbers before the recession
 - The impact of recession
 - The jobs gap
 - Employment trends
 - Scenarios to 2020
4. CAN CARDIFF'S GROWTH PROVIDE THE SOLUTION?
 - Cardiff's employment growth
 - Can Cardiff's growth be sustained?
 - Would the impact on the Valleys be big enough?
 - Is large-scale commuting realistic?
 - An assessment
5. THE WAY FORWARD FOR WALES
 - The Westminster government's policies
 - The impact of welfare reform on Wales
 - The Work Programme
 - A job creation programme?
6. CONCLUSIONS

Key points

- *Across Wales as a whole, 300,000 men and women of working age are out-of-work on benefits. More than 180,000 of these are on incapacity benefits.*
- *The Valleys have the highest benefit claimant rates not only in Wales but also in Britain. In Blaenau Gwent and Merthyr Tydfil, one-in-four adults of working age are out-of-work on benefits.*
- *In most of Wales the root cause of worklessness is a shortage of jobs.*
- *Prior to the recession, the numbers out-of-work on benefits were falling, and falling faster in Wales than in Britain as a whole. The recession brought a halt to progress.*
- *To bring the employment rate in Wales up to the level in the best parts of Britain would require an extra 170,000 residents in work. The Valleys alone would need 70,000 more in work.*
- *Before the recession, employment was growing in Wales but more than three-quarters of the job growth was in the public sector. This points to the difficulty of relying on a private sector-led revival.*
- *The performance of the private sector was particularly weak in the Valleys.*
- *Even on favourable assumptions about a resumption and acceleration in the pre-recession decline in benefit numbers, there is little hope that claimant rates in Wales will be reduced to acceptable levels by 2020 – at least not within the framework of present and planned policies.*
- *The loss of public sector jobs will exacerbate the situation.*
- *Worklessness in the Valleys is unlikely to be reduced much by job growth in Cardiff. This is partly because employment growth in Cardiff is unlikely to be sustained at the same pace and partly because of the sheer scale of the jobs gap in the Valleys.*
- *The Westminster government's welfare reforms are based on the assumption that there are plenty of jobs available – a false assumption in Wales.*
- *Incapacity claimants will be especially hard hit by welfare reform. In Wales, some 45,000 existing claimants look set to be denied Employment and Support Allowance by the new, tougher medical test and another 17,000 by new limits on the duration of non-means tested benefit.*
- *Around 30,000 of these claimants look set to be pushed out of the benefits system altogether.*
- *There is a powerful case for a job creation scheme as an integral part of the Welsh Government's efforts to bring down worklessness.*

1. PURPOSE AND SCOPE OF THE REPORT

Worklessness has long been a key concern in Wales, and rightly so. But in the post-recession era the concern has intensified, and not simply because the recession led to job losses and ushered in a new era of austerity.

Crucially, there is growing recognition of what some commentators have long been saying – that worklessness is far more widespread than just unemployment on Jobseeker's Allowance. Wales never did come close to achieving full employment in the years of strong economic growth up to 2008. Now, full employment is even further away.

In November 2010, Sheffield Hallam University published the report *Tackling Worklessness in Britain's Weaker Local Economies*¹. This looked across Britain as a whole at the extent of worklessness on benefit and at the scope for reducing the numbers in the new economic climate. The present report covers the same issues but focuses specifically on Wales.

Section 2 of the report documents the scale of worklessness across Wales as whole and in its constituent local authorities.

Section 3 looks at trends in benefit numbers before and after the recession and at progress in generating new jobs. It also looks at alternative scenarios for benefit numbers through to 2020.

Section 4 addresses a specifically Welsh concern: the extent to which the employment growth in Cardiff might offer a solution to the job shortfall in the Valleys.

Section 5 considers the ways forward for Wales, including the likely contribution of the Westminster government's economic policies and the impact on Wales of the welfare reforms that are underway. This part of the report also looks at the scope for the Welsh Government to initiate a job creation programme.

Section 6 draws overall conclusions.

¹ C Beatty, S Fothergill, T Gore and R Powell (2010) *Tackling Worklessness in Britain's Weaker Local Economies*, CRESR, Sheffield Hallam University. Report commissioned by the National Worklessness Learning Forum. The report can be accessed at www.shu.ac.uk/cresr

2. THE SCALE OF THE PROBLEM

The national picture

Worklessness on benefits is a lot wider than just 'unemployment'. Across Britain as a whole, around 1.5m unemployed claim Jobseeker's Allowance but a further 2.6m of working age are out-of-work on incapacity benefits and another 700,000 claim Income Support as lone parents. In total, Britain has nearly 5m non-employed adults of working age on benefits. These men and women account for 13 per cent of the entire working age population².

Table 1 shows the numbers on out-of-work benefits in Wales. The figures here are four-quarter averages for 2010³. The figures show very clearly that even in the wake of recession the 72,000 on Jobseeker's Allowance (JSA) – the main benefit for the unemployed – are far exceeded by the 186,000 on incapacity benefits (principally Incapacity Benefit (IB) itself but also Income Support (IS) paid on grounds of incapacity and the new Employment and Support Allowance (ESA)). A further 34,000 claimed Income Support as lone parents. In total, just over 300,000 adults of working age are out-of-work on benefits in Wales.

Table 1: Non-employed working age benefit claimants, Wales, 2010

	Number
Jobseeker's Allowance	72,800
Incapacity benefits	186,100
Income Support as lone parent	34,800
Other income-based benefits	9,400
TOTAL	303,100

Source: DWP

² 'Working age population', as defined here and throughout the report, refers to 16-64 year old men and 16-59 year old women. The difference reflects the ages at which men and women have until recently been entitled to state pension. The pension age for women is gradually being raised to the same age as for men.

³ Although claimant unemployment figures are published monthly, the quarterly data for benefits is published some six months in arrears. The 2010 figures here and elsewhere in the report actually refer to November 2009, February 2010, May 2010 and August 2010. Four-quarter data avoids the distortions arising from seasonal fluctuations in some local areas.

These 300,000 men and women represent just under 17 per cent – one-in-six – of all working age adults in Wales – a noticeably higher claimant rate than across Britain as a whole.

In Wales the balance between benefits differs from the GB average: incapacity benefits account for 60 per cent of the total, compared to just over half across Britain as a whole. Indeed, the 186,000 incapacity benefit claimants in Wales account for slightly more than 10 per cent of all working age men and women. These huge numbers on incapacity benefits underline the point that, in Wales in particular, worklessness on benefit is a lot wider than just conventional claimant unemployment on Jobseeker's Allowance.

The differences between places

Figure 1 shows the working age benefit claimant rate by district across the whole of England and Wales⁴. The benefits included here are JSA for the unemployed, IB/IS/ESA for the sick and disabled, and IS for lone parents and others⁵. This map, taken from the earlier worklessness report⁶, presents figures for 2009.

It is useful to look at England and Wales together because the map shows not only the variations within Wales but also allows comparisons between Wales and various parts of England. What is immediately apparent is that there are enormous differences in the working age benefit claimant rate between different places. What's more, these differences follow a clear pattern. Anyone with a reasonable knowledge of the geography of Britain will recognise that the places with the highest claimant rates are predominantly the older industrial areas of northern England and Wales and, to a lesser extent, a number of seaside towns and inner urban areas. In contrast, there is a large part of southern England outside London where the working age benefit claimant rate is much lower.

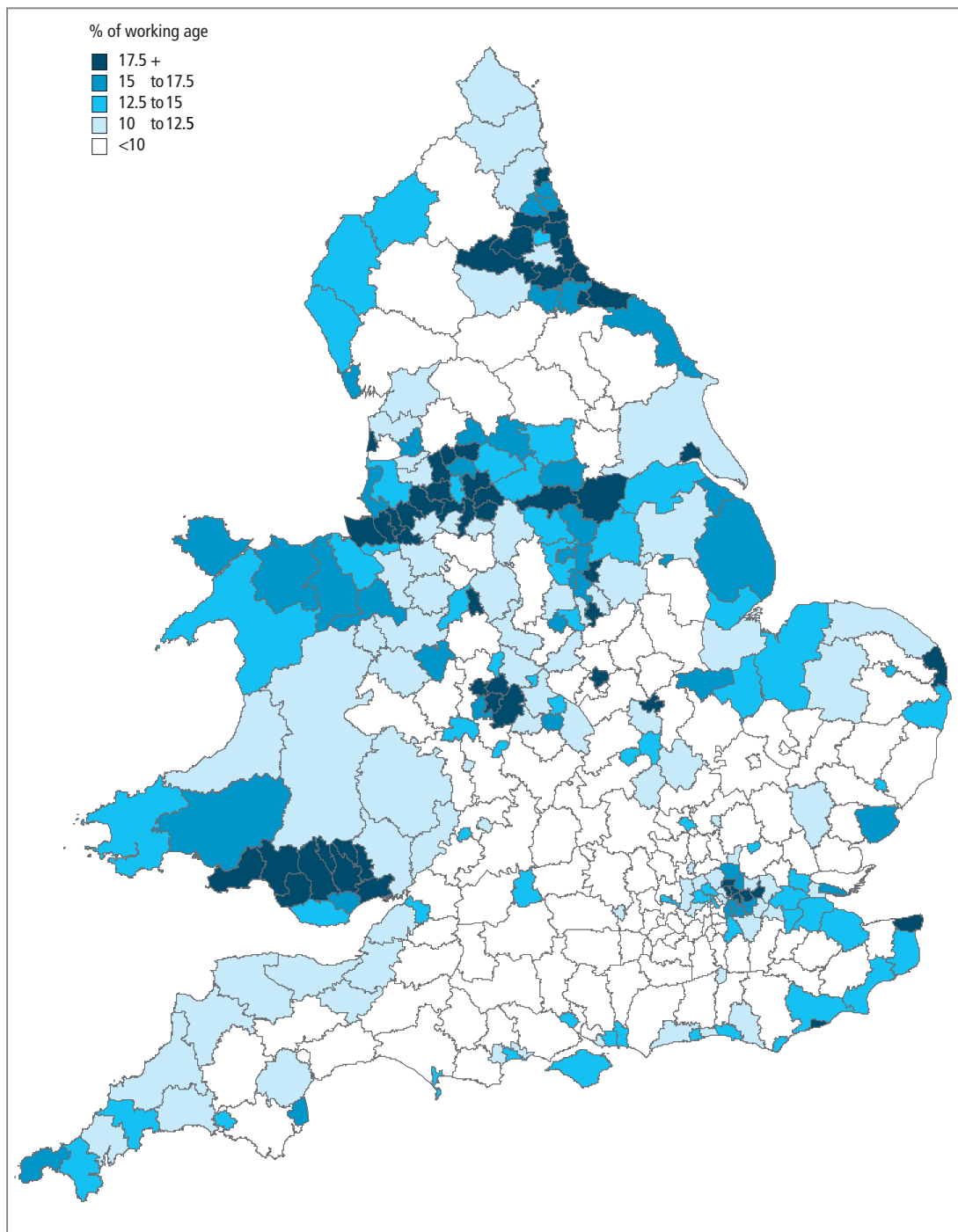
A block of Welsh local authorities, mainly covering the Valleys, stands out as having an unusually high claimant rate. Indeed, the earlier worklessness report identified five Welsh authorities – Blaenau Gwent, Merthyr Tydfil, Neath Port Talbot, Rhondda Cynon Taff and Caerphilly – as being among the top 20 districts in Britain in terms of their claimant rate. The first two on this list (Blaenau and Merthyr) have the very highest claimant rates of all. By contrast, no parts of Wales match the very low rates found in large parts of southern England.

⁴ The figures are for pre-2009 districts, i.e. before the creation of the new unitary counties in parts of England.

⁵ Because of benefit rules and the way that the figures are assembled there is no double-counting between these groups.

⁶ C Beatty et al (2010) op.cit.

Figure 1: Working age benefit claimant rate, England and Wales, 2009



Source: DWP

Table 2 shows the claimant rate in each local authority in Wales. The numbers here underline the point that nowhere in Wales has an especially low claimant rate – in every one of the 22 authorities the rate exceeds 10 per cent.

What is striking, however, is that in a number of authorities the claimant rate spirals up to appallingly high levels. In Merthyr Tydfil and Blaenau Gwent one-in-four of all residents between 16 and state pension age are out-of-work on benefits. In a further three authorities the proportion exceeds 20 per cent. In nine more authorities the rate is between 15 and 20 per cent.

A reasonable judgement would be that parts of Wales – the Valleys in particular – suffer from higher levels of worklessness on benefit than just about anywhere in Britain.

Table 2: Working age benefit claimant rate, 2010

	% of working age population
Merthyr Tydfil	25.8
Blaenau Gwent	25.8
Neath Port Talbot	21.9
Rhondda Cynon Taff	21.7
Caerphilly	21.5
Bridgend	19.5
Torfaen	18.7
Newport	18.1
Swansea	17.2
Carmarthenshire	17.0
Denbighshire	16.6
Anglesey	16.0
Conwy	15.9
Pembrokeshire	15.1
Wrexham	14.9
Cardiff	14.5
Vale of Glamorgan	13.8
Flintshire	12.7
Gwynedd	12.7
Powys	11.4
Monmouthshire	11.2
Ceredigion	10.8
Wales	16.9

Sources: DWP, NOMIS

Worklessness beyond the benefits system

It is important to note that there are also substantial, additional numbers of men and women who are out-of-work but do not claim benefits. Some of these are close enough to the labour market to be regarded as 'unemployed', others less so.

In particular, across Britain as a whole the numbers recorded as unemployed by the UK government's Labour Force Survey now exceed the numbers claiming Jobseeker's Allowance by around one million. This gap has widened since the 1990s. It is mostly explained by men and women who are available for work and look for work but fail to qualify for Jobseeker's Allowance. This mainly arises because Jobseeker's Allowance is means-tested for all claimants after six months, and for many claimants from day one, so that other sources of household income (such as a partner in work) disqualify some jobseekers from benefit.

Other groups outside the benefits system are less easily described as 'unemployed'. They include students in full-time education, early retirees and large numbers of women (in particular) who opt to look after children or home.

As Table 3 shows, in addition to the 303,000 men and women in Wales who claim benefit, there are a further 255,000 non-employed of working age outside the benefits system. These additional men and women account for 14 per cent of the working age population, bringing the overall non-employment rate in Wales to 31 per cent. However, to underline the point made above, it would be wrong to regard all of these as unemployed.

The non-employed outside the benefits system tend to be more evenly distributed between places. At the local level there are concentrations of students in full-time education (for example in university towns like Cardiff) and of early retirees (for example in some resort towns). However, as Table 3 also shows, in Wales the overall numbers in this group differ little from the GB average despite the much higher claimant rate in Wales. The core of the problem, in Wales, is the very high number out-of-work on benefits.

Table 3: Non-employment, 2010

		On benefits	Other non-employment	Total*
Wales	- no.	303,100	255,000	558,000
	- as % w. age	16.9	14.2	31.0
GB	- no.	4,903,100	5,160,000	10,063,000
	- as % w. age	13.2	13.9	27.1

*APS data based on year to Sept 2009
Sources: DWP, APS, NOMIS

A shortage of jobs?

To what extent do high levels of worklessness in Wales reflect a lack of *demand* for labour or failures in labour *supply*? In other words, are people out-of-work because there aren't enough jobs or because they have low employability?

This is a major debate in economics and it is inappropriate to repeat all the arguments here. However, there are two key observations that in the present context point strongly to a shortage of jobs as the underlying cause of the high levels of worklessness in large parts of Wales:

- When the industries of older industrial Britain were still working, the numbers on benefits, especially incapacity benefits, were far lower. In coalmining areas, for example, the big increase in IB numbers only occurred *after* the pits closed.
- In the parts of Britain where the economy is strongest, most especially in the parts of southern England that escaped relatively unscathed from the de-industrialisation of the 1980s and 90s, the working age claimant rate (and especially the IB rate) has consistently been far lower.

Added to this it is hard to ascribe the increase in JSA claimant numbers during the recession to anything other than a fall in the demand for labour.

Against this conclusion – that the problem is a shortage of jobs – four arguments tend to be deployed:

- That there are plenty of vacancies everywhere
- That the unemployed lack skills
- That the unemployed won't travel or move to where jobs are available
- That migrant workers seem to have no problem finding work

In the Welsh context, all these arguments have serious flaws.

Vacancies

The most persistent argument deployed against the idea that there is a shortage of jobs is that there are plenty of vacancies just about everywhere. And it is certainly true that vacancies can always be found in the weakest local economies, even if not in the numbers to match benefit claimants.

The trouble with this argument is that it fundamentally misunderstands the role of vacancies in the labour market. Most are not hard-to-fill positions that nobody wants or has the skills to match. Most are not newly-created jobs either. Most are actually vacancies created by the normal turnover of staff as people leave one job and take up

another. Since up to a third of the workforce changes job every year⁷, large numbers of vacancies are generated just about everywhere all of the time. A substantial flow of vacancies could be expected even, for example, if there were 10 million claimant unemployed in Britain – though that would clearly not negate the idea that there was a shortage of jobs.

What matters for worklessness is not the *flow* of vacancies but the *stock* of jobs in relation to the potential labour supply. In simple terms, if there aren't enough jobs in total to go around, some people will be squeezed out. The Welsh economy may constantly generate vacancies, but if the stock of jobs is insufficient to absorb the all the men and women who would like to work then worklessness will be the result.

Skills

The unemployed can't find work because they haven't got the necessary skills, the argument goes. It is certainly true that compared to the rest of the workforce the unemployed are on average a poorly qualified group. And it is true that the parts of Wales with the highest rates of worklessness, such as the Valleys, have a low proportion of graduates.

What we are observing here is really the filtering and sorting that goes on within all labour markets. The problem for out-of-work claimants is that some are far better placed than others to fill the vacancies that arise. The newly unemployed with reasonable qualifications and good health are perhaps the best placed; the long-term sick with poor qualifications and skills are probably the most disadvantaged. The 'queue for jobs' does not operate like, for example, a bus queue. The fit and well-qualified stand at the front and fill the vacancies first, and are constantly replaced at the head of the queue by other fit and well-qualified workers leaving or losing a job. The sick and poorly qualified stay at the back. Over time, therefore, the stock of unemployed becomes dominated by men and women with poor qualifications and poor health but the root cause of the problem is that there aren't enough jobs to absorb them all.

Places like the Valleys have a low proportion of graduates not so much because they are unable to generate an educated workforce but more because the job opportunities to absorb them mostly lie elsewhere. London is at the opposite end of the spectrum – its high proportion of graduates reflects its pull on graduates from elsewhere in Britain and abroad.

To blame high levels of worklessness in parts of Wales on the low skills of the unemployed is to confuse cause and effect.

⁷ Turnover does vary with the trade cycle, with the highest turnover in times of strong growth.

Moving people to jobs

It has long been a favourite argument that the unemployed won't travel to work, even to the next Valley. And they certainly won't move right out of the area to find work, it is often said.

These comments undoubtedly apply to some individuals but they do not stand up well to scrutiny. In practice, as a recent report showed⁸, commuting into Cardiff from the Valleys has increased substantially despite the deterrence of long travel times and, for those on low wages, significant costs. Furthermore, people do leave areas where job opportunities are limited to take up work elsewhere – this is the reason why the population of the Rhondda, for example, is now so much lower than in the early 20th century. Out-migration is modest on a year-by-year basis but it tends to be persistent. These days, one of the main ways in which it occurs is through young people leaving to go to university and never returning.

The real shortcoming of travel-to-work as a solution for unemployment is that is where there is an overall shortfall in job opportunities it can be a zero-sum game. If an individual finds work by travelling further, say to a neighbouring Valley, they may simply do so at the expense of someone else. In effect, worklessness is transmitted from one place to another.

Migrant workers

Nor does the influx of migrant workers, especially from the EU accession states such as Poland, undermine the argument that a shortage of jobs lies at the heart of the problem.

Reliable data on the location of migrants is hard to come by – the best figures are for National Insurance registrations by foreign nationals, which show where in the country they first registered for work. Table 4 presents these numbers in index number form for each local authority in Wales. A figure of 100 indicates that a district had the UK average share of registrations by foreign workers. Figures below 100 indicate a below-average share of migrant workers; figures above 100 an above-average share.

The striking feature is that the whole of Wales, except Cardiff, has attracted less than the UK average share of migrant workers. This is what might be expected in one of the UK's weaker regional economies. A large number of Welsh authorities, especially in the Valleys, have attracted particularly low numbers of migrant workers⁹.

It is hard to argue that direct displacement of local workers by migrants has contributed more than marginally to worklessness in Wales, especially in the places where worklessness is most endemic.

⁸ T Gore, S Fothergill, E Hollywood, C Lindsay and K Morgan (2007) *Coalfields and their Neighbouring Cities: regeneration, labour markets and governance*, Joseph Rowntree Foundation, York.

⁹ Merthyr Tydfil is an exception. The figures here are likely to be strongly influenced by a large meat-processing factory that has made a regular practice of seeking to recruit foreign workers.

Table 4: New NI registrations by foreign workers, 2002-2009

Cardiff	117
Wrexham	74
Newport	72
Merthyr Tydfil	62
Ceredigion	55
Gwynedd	52
Swansea	51
Pembrokeshire	49
Cardiganshire	46
Conwy	39
Denbighshire	37
Powys	36
Flintshire	32
Bridgend	27
Monmouthshire	26
Rhondda Cynon Taff	25
Vale of Glamorgan	24
Anglesey	24
Blaenau Gwent	20
Neath Port Talbot	13
Torfaen	12
Caerphilly	12
Wales	47
UK average	100

Source: 100% extract from National Insurance Recording System, ONS

3. PROGRESS AND PROSPECTS

Trends in benefit numbers before the recession

Table 5 shows the change in the working age benefit claimant rate in Wales between 1999 and 2008. The recession began in earnest in the latter part of 2008 and took a while to impact on benefit numbers, so this table essentially looks at pre-recession trends. Data on all the key benefits is only available as far back as 1999 so the figures exclude the preceding period of strong economic growth when claimant unemployment fell sharply.

In this and a number of subsequent tables the 22 Welsh local authorities are grouped into four broader areas:

The Valleys

Torfaen, Blaenau Gwent, Caerphilly, Merthyr Tydfil, Rhondda Cynon Taff, Bridgend, Neath Port Talbot

South Wales Coast

Swansea, Vale of Glamorgan, Cardiff, Newport, Monmouthshire

Mid and West Wales

Carmarthenshire, Pembrokeshire, Ceredigion, Powys, Gwynedd, Anglesey, Conwy, Denbighshire

North East Wales

Flintshire, Wrexham

Table 5: Pre-recession trends, all working age benefits, 1999-2008

	change	as % working age
The Valleys	-22,000	-4.6
South Wales Coast	-12,900	-3.4
Mid and West Wales	-18,000	-4.0
North East Wales	-4,000	-2.8
Wales	-56,000	-3.9
GB	-566,000	-2.3

Sources: DWP, NOMIS

As might be expected in a period of sustained economic growth, benefit numbers did fall in Wales – by 56,000 in total between 1999 and 2008. This reduction – a fall in the claimant rate of 3.9 percentage points – was greater than the fall across Britain as a whole (2.3 percentage points).

Within Wales, the biggest reduction both in absolute and percentage terms was in the Valleys.

Just how much the narrowing of the gap between Wales and the rest of Britain, and between the best and worst parts of Wales, was the result of policy interventions is unclear: it could be that, since worklessness on benefits was always quite low in parts of southern England, it had little scope to fall still further there. However, the trends in benefit numbers in Wales before the recession were unequivocally ‘good news’ even if they still left a long way still to go.

The impact of recession

The impact of recession on working age benefit claimant numbers in Wales is shown in Table 6. Three points are worth noting.

First, the increase in claimant numbers was surprisingly modest given the severity of the fall in economic output. In total, working age benefit claimant numbers in Wales only rose by just over 20,000 between 2008 and 2010. This wiped out only a little over a third of the positive progress over the preceding nine years.

Second, Wales was fortunate to avoid the much larger increases in the benefit claimant rate that occurred some older industrial areas elsewhere in Britain¹⁰.

Third, within Wales the increase in the claimant rate was relatively evenly spread. In particular, benefit numbers in the Valleys increased at much the same rate as in Wales as whole.

Table 6: Increase in working age benefit numbers since the recession, 2008-2010*

	no.	as % working age
The Valleys	6,600	1.3
South Wales Coast	8,200	1.2
Mid and West Wales	4,300	1.0
North East Wales	2,300	1.5
Wales	21,500	1.3
GB	524,400	1.4

*2008 (4 quarter average) to Nov 2009/August 2010 (4 quarter average)
Sources: DWP, NOMIS

¹⁰ Industrial Communities Alliance (2009) *The Impact of Recession on Unemployment in Industrial Britain*, Industrial Communities Alliance, Barnsley.

In Wales, as in the rest of Britain, the increase in benefit numbers was more or less exclusively in the number of Jobseeker's Allowance claimants. Welfare reform, in particular, worked strongly to hold down the numbers on other working age benefits.

The jobs gap

The scale of the challenge in reducing worklessness in Wales is perhaps best measured by 'employment rates' – the share of adults of working age who have jobs. In 2008/9¹¹ the average employment rate in Wales was just 69 per cent, compared to a GB average of 73 per cent and an average in the best 142 districts in Britain¹² of just under 79 per cent.

Table 7 shows the additional numbers of residents in employment that would be required, first, to raise the employment rate to the GB average, and second, to raise the employment rate to the level in the 'best 142 districts'. Across Wales as a whole there is a serious jobs gap on both these measures:

- To reach the GB average employment rate would require 70,000 additional residents in employment
- To reach the average employment rate in the best 142 districts would require 170,000 additional residents in employment

The scale of the challenge in the Valleys is particularly large: to reach the GB average employment rate would require more than 40,000 additional residents in work; to equal the rate already prevailing in the best parts of Britain would require more than 70,000 more in work.

Table 7: The jobs gap in Wales, 2008/9

	To raise employment rate to	
	GB average	Level in best 142 districts
The Valleys	42,000	72,000
South Wales Coast	20,000	52,000
Mid and West Wales	14,000	43,000
North East Wales	0	3,000
Wales	70,000	170,000

Source: SHU calculations based on APS

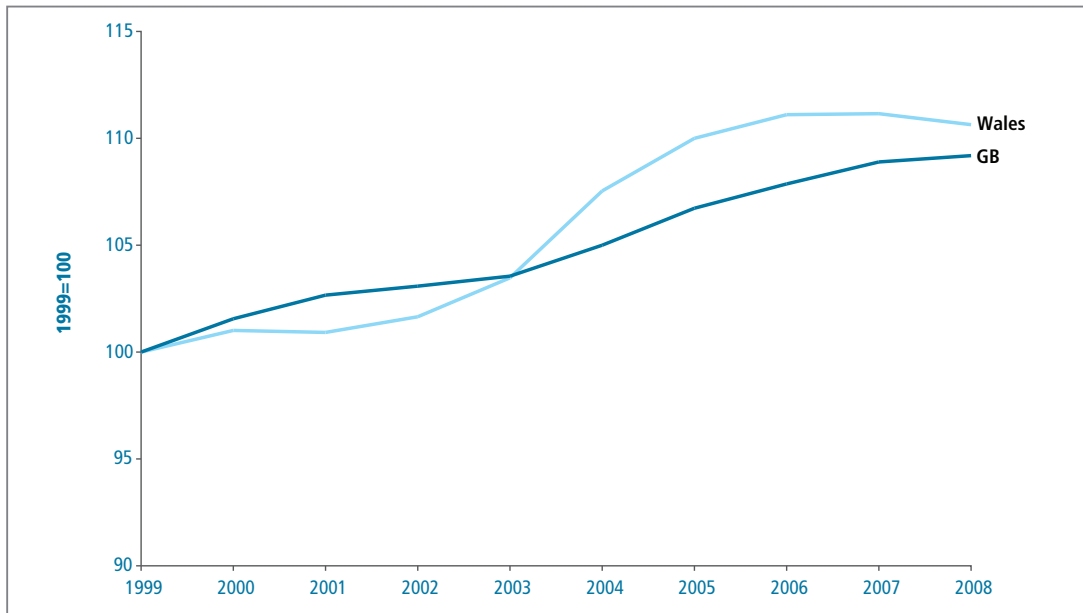
¹¹ October 2008-September 2009

¹² These are the 142 local authority districts where in 2009 the working age benefit claimant rate was below 10 per cent. These districts have a combined population of 15.8m.

Employment trends

Up to the recession at least, there was progress in the right direction. Figure 2 shows the trends in employment¹³ between 1999 and 2008¹⁴, in Wales and in Great Britain as a whole. Figure 3 shows the trends in the four groups of areas within Wales.

Figure 2: Employment trends, Wales and GB, 1999-2008



Source: ABI

Over this pre-recession period employment in Wales increased by 114,000, or just over 10 per cent. This growth was slightly faster than the GB average, especially between 2002 and 2006.

All the four component parts of Wales also experienced employment growth, though the performance in Mid and West Wales was distinctly more impressive than in the Valleys.

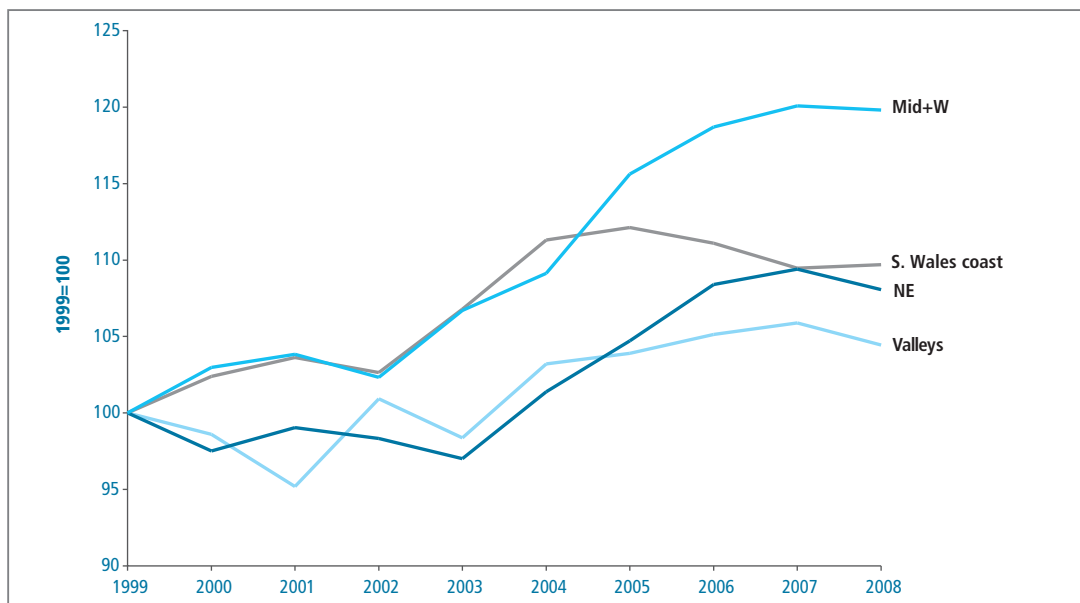
The balance of this employment growth between the public and private sectors, shown in Table 8, is more concerning. The 'public sector' is defined here as all the jobs in public administration and defence, health and education¹⁵. Across Britain as a whole roughly 60 per cent of the increase in employment between 1999 and 2008 was in the public sector. In Wales, the proportion was more than three-quarters. These figures do not auger well for continuing employment growth in an era of public spending cuts.

¹³ The figures are for employees in employment, from the ABI, and exclude the self-employed.

¹⁴ More recent data, for 2009, is affected by important discontinuities and is not at present comparable with data for earlier years.

¹⁵ In effect, these are the jobs supported directly by *public spending*. In strict statistical terms the public sector also includes employees of public corporations (such as the Post Office) and of the banks owned in large part by the state.

Figure 3: Employment trends, constituent parts of Wales, 1999-2008



Source: ABI

Table 8: Public v private sector job growth, 1999-2008

	Public sector*	Private sector
The Valleys	22,000	-9,000
South Wales Coast	35,000	4,000
Mid and West Wales	29,000	24,000
North East Wales	3,000	6,000
Wales	88,000	25,000
GB	1,368,000	913,000

Source: ABI

The geography of the public/private split is also disturbing. Mid and West Wales, and to a lesser extent North East Wales, have fared well in terms of private sector job growth. On the other hand in the Valleys – the part of Wales worst affected by joblessness – the public sector was the sole source of job growth, with the private sector on balance shedding labour. The figures for the Valleys look even worse if Bridgend (which straddles the coastal strip and the Valleys) is excluded: stripping out Bridgend, the job growth in the public sector (15,000) only just managed to stay ahead of the job loss in the private sector (14,000).

The South Coast too is revealed by these figures to have relied overwhelmingly on the public sector as a source of new jobs, though the aggregate numbers here disguise private sector job losses in Newport and the Vale of Glamorgan, offset by private sector growth in Cardiff and Swansea.

Scenarios to 2020

So what is the best that might realistically be achieved in terms of a reduction in worklessness in the coming years? To explore the possibilities four scenarios can usefully be examined. None of these is intended to be a forecast of what will actually happen; rather, they are attempts to sketch out what might happen if all went well for the present Westminster government. The trends in benefit numbers over the 1999-2008 period are the starting point because this was a period of sustained economic growth and job creation and, in many respects, a favourable macroeconomic backdrop against which to reduce claimant numbers. The four scenarios are:

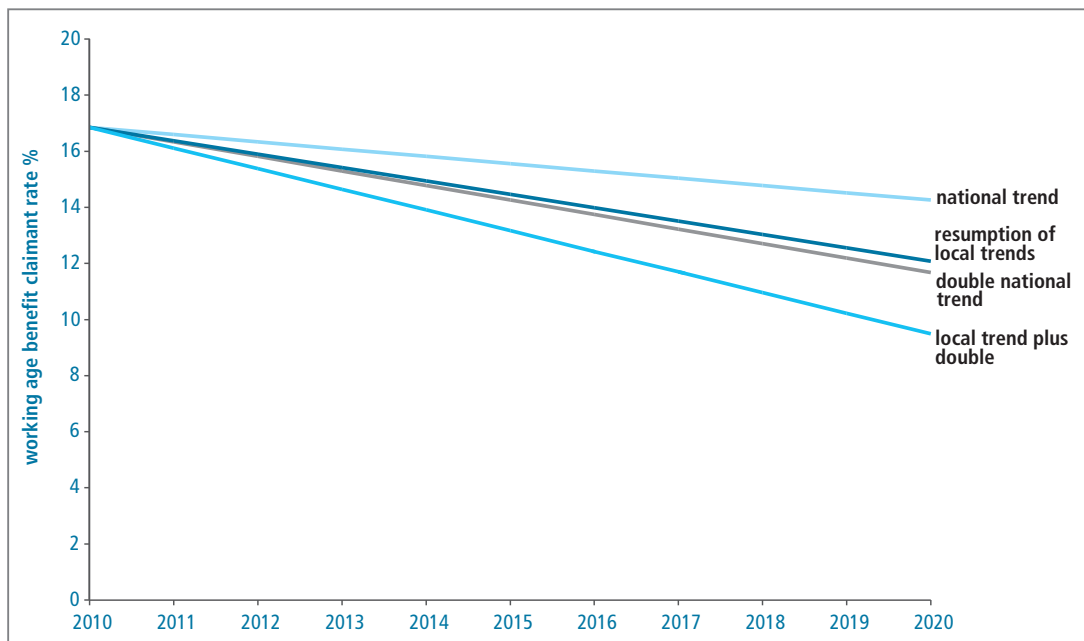
- A resumption of pre-recession *local* trends in benefit numbers
- A resumption of the pre-recession *national* (GB) decline in benefit numbers, spread evenly across all areas
- A *doubling* of the pre-recession national (GB) decline in benefit numbers, spread evenly across all areas
- A resumption of pre-recession local trends *plus* a doubling of the national (GB) decline in benefit numbers

The four scenarios each imply a different geography but each one builds in a decline in benefit numbers, at a minimum at the GB rate in the years leading up to the recession. Since the Westminster government is implementing major welfare reforms intended to lower benefit numbers an acceleration in the decline might be expected. On the other hand it is generally acknowledged that the wider economic context may be more difficult in the coming years than in the years up to 2008.

Figure 4 shows the results of these calculations for working age benefit claimant rates in Wales. In all four scenarios the rate falls from its 2010 level. The reduction is largest if a resumption in pre-recession local trends is combined with a doubling in the overall national reduction. Even so, these favourable assumptions about future trends all leave Wales with a high claimant rate in 2020 – between 10 and 14 per cent of the working age population, depending on the scenario.

Another concerning aspect of the scenarios is emphasised by Table 9, which shows the range of forecasts for each of the four broader areas within Wales. Even on these favourable assumptions, the Valleys would still have a claimant rate of between 14 and 19 per cent in 2020.

Figure 4: Positive scenarios to 2020, Wales



Source: based on DWP data

Table 9: Positive scenarios to 2020

	Share of working age out-of-work on benefits
The Valleys	14 – 19 %
South Wales Coast	9 – 13 %
Mid and West Wales	8 – 12 %
North East Wales	8 – 11 %
Wales	10 – 14 %

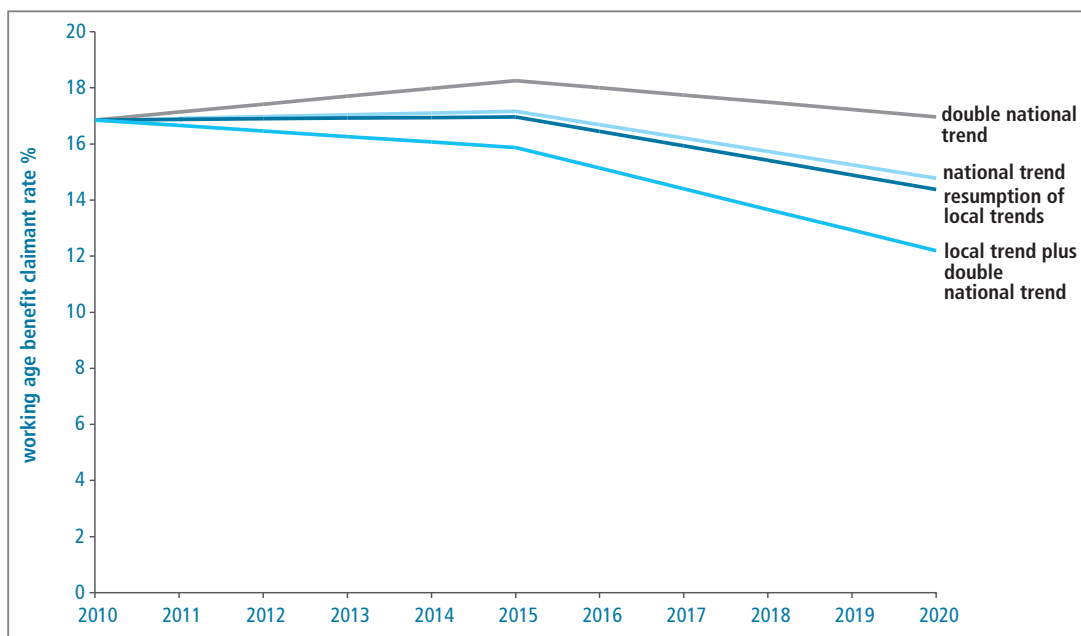
Source: Sheffield Hallam based on DWP data

All these scenarios are arguably too favourable. One of the few apparent certainties about the coming years is that there are likely to be large public sector job cuts. It is useful therefore to modify the scenarios to include:

- 600,000 public sector job losses in the period to 2015¹⁶, spread evenly around Britain
- A further 600,000 knock-on job losses in the private sector by 2015, again spread evenly around Britain
- An assumption that 75 per cent of these job losses eventually lead to an increase in benefit numbers

The last of these assumptions doesn't imply that it will be the redundant workers themselves who will necessarily add to benefit rolls. In practice, many of them will find work, but often at the expense of others, and even if public sector job loss is achieved through early retirement those jobs will no longer be available to a younger generation at the point retirement would normally have taken place.

Figure 5: Realistic scenarios to 2020?, Wales



Source: Sheffield Hallam based on DWP data

¹⁶ This is the number of public sector job losses identified by the Office for Budget Responsibility at the time of the June 2010 budget. The October 2010 Spending Review points to smaller numbers (490,000). Other commentators, for example the Chartered Institute for Personnel Development, have suggested the figure could be as high as 750,000.

Figure 5 looks again at working age benefit claimant rates in Wales using these modified assumptions. It is immediately apparent that on these less favourable but realistic assumptions there is little prospect that claimant rates in 2020 will be more than marginally lower than in 2010. Indeed, by 2015 there may have been no reduction at all.

Too much weight ought not to be placed on any of these scenarios. To repeat, they are not an attempt to forecast what *will* happen but rather an attempt to explore what *might* happen if certain trends were to arise. Collectively, however, the scenarios do point to an alarming conclusion: even on favourable assumptions, there seems little hope of reducing worklessness on benefits to acceptable levels in Wales within the next ten years – at least not within the framework of existing and planned policy.

4. CAN CARDIFF'S GROWTH PROVIDE THE SOLUTION?

Cardiff's employment growth

A view often heard in Wales – though one that is also often contested – is that job growth in Cardiff offers a solution to the employment problems of the Valleys.

That Cardiff's employment growth over the last decade or so has been impressive is beyond dispute. Table 10 shows the figures for 1999 to 2008. Both in absolute terms and in relation to the size of the local working age population, Cardiff's growth far outstrips either the rest of the coastal strip or the Valleys.

Table 10: Growth in employment, 1999-2008

	no.	as % working age
Cardiff	26,300	12.0
Rest of South Coast*	12,500	3.6
The Valleys**	12,900	2.4

*Swansea, Vale of Glamorgan, Newport, Monmouthshire

**Torfaen, Blaenau Gwent, Caerphilly, Merthyr Tydfil, Rhondda Cynon Taff, Bridgend, Neath Port Talbot

Source: ABI, ONS

Can Cardiff's growth be sustained?

The first issue to consider is whether Cardiff's impressive employment growth is likely to be sustained.

Between 1999 and 2008 Cardiff's overall job growth was made up 15,300 additional jobs in the public sector and 11,000 in the private sector. This balance of growth was more strongly weighted in favour of the private sector than across Wales as a whole, or than in the rest of South Wales. Nevertheless, the fact that nearly 60 per cent of the new jobs in Cardiff were in the public sector does not bode well for job growth in an era of public spending cuts. Until recently much of Cardiff's employment growth was fuelled by public spending on health and education, including the university sector, and by the city's role as the seat of the Welsh Assembly Government. These stimuli to growth have probably come to an end for the moment.

There must also be doubts about the continuing growth of Cardiff's private sector employment. Some of these jobs will relate directly to the growth of the public sector, for example jobs in construction. But the pre-recession years were also marked by a strong rise in consumer spending, boosting jobs in sectors such as retailing and leisure which tend to be concentrated in cities. Those sources of growth may also have come to a halt for the moment.

Would the impact on the Valleys be big enough?

Even if strong job growth could be sustained in Cardiff, it would not necessarily have a huge impact on the Valleys.

The key point here is one of *scale*. What can often be overlooked is that Cardiff is in fact a relatively small city – it has a population of just 330,000 compared to nearly 900,000 in the seven Valley authorities. What this means is that it would take exceptional job growth in Cardiff to begin to have a large impact on the Valleys.

To illustrate this point, Table 11 looks at the possible impact of 30,000 new jobs in Cardiff. It takes as its starting point the jobs gap of 72,000 in the Valleys (see Table 7 earlier). This is the additional number of Valley residents who would need to be in work in order to raise the employment rate to the level already found in the best 142 districts across Britain. The table shows the effect on the jobs gap of varying assumptions, from 10 per cent of the additional jobs in Cardiff being taken by Valley residents through to a distinctly unrealistic 75 per cent.

The important conclusion is that even on extreme assumptions the jobs gap in the Valleys would remain large.

Table 11: Possible impact on the Valleys of 30,000 new jobs in Cardiff

	No.
Initial jobs gap in the Valleys*	72,000
Jobs gap in the Valleys if:	
10% of jobs go to Valley residents	69,000
25% of jobs go to Valley residents	65,000
50% of jobs go to Valley residents	57,000
75% of jobs go to Valley residents	50,000

*based on comparison with best 142 GB districts
Source: Sheffield Hallam based on ONS data

Is large-scale commuting realistic?

The final issue is the extent to which it is realistic to expect larger numbers of Valley residents to commute into Cardiff.

A key point to note is that there is already substantial commuting out of the Valleys and into Cardiff and other areas. Table 12 provides a very rough indication. This compares the number of employee jobs located in each area with the number of local residents in employment. The difference is a guide to net commuting flows¹⁷. The figures show that on a daily basis the Valleys already export large numbers of workers to other areas. Conversely, Cardiff is a big recipient of commuters.

The question is how much higher the numbers of commuters might be pushed, given the constraints of the local transport infrastructure. This is not something to which there is an easy answer. However, it is worth bearing in mind that the commuting estimates presented here are *net* flows, in other words the balance of flows both in and out. The gross flows in each direction – in particular out of the Valleys and into Cardiff – will already be significantly larger than the figures shown here.

Table 12: Commuting flows, 2008/09

	Jobs located in area	Residents in work	Difference (net commuting)
Cardiff	191,000	147,000	+44,000
Rest of South Coast	248,000	242,000	+6,000
The Valleys	298,000	351,000	-53,000

Sources: ABI, APS

An assessment

Whilst there is certainly a role for employment in Cardiff in helping to alleviate the labour market problems of the Valleys, expectations should not be unrealistic. The exceptional employment growth in Cardiff in recent years may prove to be a transitory phenomenon and even impressive growth in future would struggle to make a big impact on the Valleys – and that is assuming the transport network could handle the extra commuters.

¹⁷ More accurate measurement of net commuting would require further adjustments for self-employment and double-jobbing.

5. THE WAY FORWARD FOR WALES

The Westminster government's policies

Whilst much decision making is now devolved, many of the key policies affecting the economy, employment and benefits still remain the preserve of the Westminster government. A year into the life of the Coalition government in London, the fundamentals of its approach to worklessness are now clear:

On macroeconomic policy:

- Low interest rates and a low exchange rate, intended to foster exports and business investment
- But also deficit reduction, which will act as a brake on growth and jobs

On a private-sector revival:

- Low business taxation
- Reductions in planning controls – in England at least
- Reductions in business regulation

On welfare reform:

- Much more restrictive entitlement to incapacity benefits
- New requirements to engage in work-related activity
- A new Work Programme, led by the private sector, to replace existing welfare-to-work schemes
- The eventual introduction of Universal Credit to replace most working-age benefits

Few would argue against the desirability of the private sector revival sought by the Westminster government. What is at issue is whether it is achievable, especially against the backdrop of public spending cuts that directly and indirectly reduce the demand for private sector goods and services.

The long period of economic growth up to 2008 was in many respects a very favourable period for private sector growth. UK consumer spending was rising and there was strong growth in potential export markets. It was also a period in which substantial public spending, in Wales and elsewhere, was devoted to the promotion of jobs and enterprise. Yet the job outcomes in the private sector, shown in Table 8 earlier, were modest – just 25,000 additional jobs across Wales as a whole between 1999 and 2008.

The lower exchange rate and lower interest rates that flowed from the recession should in theory promote private sector growth but the scope for major new stimuli looks distinctly limited in an era of deficit reduction. Moreover, there are legitimate concerns about exactly *where* across Britain any new private sector jobs might be located. In broad terms, the South of England has a much better track record in this regard than the rest of the country.

So while a private sector revival needs to lie at the heart of the long-term revival of the Welsh economy, delivering this looks likely to be a long haul.

But what of efforts to bring down benefit numbers through welfare reform? The Westminster government has major concerns over what it sees as an over-dependence on welfare benefits. It characterises the welfare system as offering insufficient incentives for people to move into paid employment. Key proposals, most notably the introduction of Universal Credit from 2013 onwards, are intended to simplify the system, to make it more *transitional* so that men and women are always financially better off moving into work.

Whether financial incentives really do work in this way is far from clear. There will no doubt be circumstances in which some individuals face disincentives to working but the general experience of 'better-off calculations', often reported by Jobcentre Plus staff, is that most claimants would already be financially better off in work. Moreover, the vast majority of incapacity claimants, for example, see their health or disability, not their finances, as the principal obstacle to looking for work or taking up a job¹⁸.

The reform of incapacity benefits, initiated by the Labour government, will continue. New claimants are already subject to a new, tougher medical assessment – the Work Capability Assessment – and from spring 2011 onwards all existing incapacity claimants are being called in for the new test. Some of those who are judged fit for work will sign on for Jobseeker's Allowance instead but if they have no entitlement to income-based JSA because of other household income or savings they will be pushed out of the benefits system altogether. For the majority of those who move across onto the new incapacity benefit, Employment and Support Allowance (ESA), the benefit will in future come with conditions requiring them to engage in activity intended to prepare them for work.

From 2012 onwards, even those who remain on the work-related element of ESA will in future only be entitled to one year's non-means tested benefit. If they have a partner in work, or a substantial pension or significant savings, they too will then no longer qualify and be pushed out of the benefits system.

¹⁸ See for example the extensive survey work reported in C Beatty et al (2009) *Women on Incapacity Benefits*, CRESR, Sheffield Hallam University.

The impact of welfare reform on Wales

The impact of welfare reform on incapacity benefit numbers in Wales is likely to be substantial, though it will be spread over a number years.

The process of calling in existing Incapacity Benefit claimants for the new medical test has just begun. DWP's plan is to ramp up the numbers steeply during the rest of 2011 and complete the exercise by 2014:

- If 30 per cent of current Incapacity Benefit claimants are denied access to ESA by the new Work Capability Assessment – a proportion in line with trials of the new rules¹⁹ – **the effect will be to lower incapacity numbers in Wales by around 45,000**

Not all the 45,000 who fail to qualify for Employment and Support Allowance will then be entitled to other benefits instead:

- If, as the official impact assessment suggests²⁰, 30 per cent of those denied access to ESA fail to qualify for JSA or other means-tested benefits, **around 14,000 in Wales will disappear from the benefit system altogether**

For those who qualify for the work-related element of ESA, the clock then starts ticking on their one-year, non-means tested, contributions-based entitlement:

- If, as the same official assessment suggests, 40 per cent of the contributions-based ESA claimants in the 'work-related activity group' drop out when their entitlement to non-means tested benefit comes to an end, **from 2012 onwards a further 17,000 in Wales will drop off benefits**

In total therefore, rather more than 60,000 claimants look set to be pushed off incapacity benefits in Wales – 45,000 by the medical test and 17,000 more at the point their non-means tested entitlement comes to an end. Of these, rather more than 30,000 look likely to be pushed off benefits altogether – 14,000 in the wake of the test and 17,000 more a year later.

These anticipated reductions in benefit numbers are entirely the result of welfare reform. They owe nothing to any improvement in job opportunities. Indeed, if comparable numbers of new jobs are not generated in Wales the effect of the reforms will simply be to push some claimants from one part of the benefits system to another while others, who remain jobless, are pushed out of the benefits system altogether.

For many of those who remain within the system, on means-tested benefits, entitlements will be lower than was previously the case. For those who are pushed out of the benefits system and then don't find a job, there will be a significant loss of income. In practice, the group that looks likely to be hardest hit are those who have

¹⁹ DWP news release 019-11, February 2011

²⁰ DWP (2011) *Impact Assessment for Universal Credit*

hitherto been able to combine non-means tested Incapacity Benefit with other household income (say a small occupational pension or a partner's earnings) in order to get by a little above poverty level. When they are pushed onto means-tested benefit or off benefits altogether, their financial comfort zone will disappear.

A reduction in incapacity benefit numbers in Wales of 60,000, purely as a result of welfare reform, represents a reduction of one-third in the current Welsh total. The impact will be greatest in the places where the local economy is weakest and where the reliance on benefits is highest. A one-third reduction in incapacity numbers in the Valleys, for example, would mean 22,000 being denied incapacity benefits, of which around half would be pushed off benefits altogether.

The Work Programme

The Work Programme, which goes live in 2011, is the Westminster government's new initiative to help claimants return to work. It replaces just about all existing welfare-to-work programmes. Operated by contractors to DWP, the Work Programme provides a range of services, from tackling barriers such as deficiencies in job search and interview technique through to improving basic literacy and numeracy and mitigating health concerns. Support is on a mandated or voluntary basis, depending on the type and duration of benefit being claimed.

The Work Programme involves a new funding model where the payments to contractors for helping someone into employment will be made from the benefit savings actually realised. The intention is that full payment will only be made after clients have been in continuous employment for 12 months. The fear is that this creates unfortunate incentives and that providers will respond by being selective at the front door, taking in only those most likely to find work quickly and excluding the most vulnerable and marginalised.

A more fundamental worry is that the Work Programme simply starts from the wrong assumption, namely that there are plenty of jobs available if only claimants were motivated and equipped to fill them. In much of Wales this has always seemed unrealistic.

A job creation programme?

Taking the long view, the solution to worklessness almost certainly lies in the combination of sustained national economic growth and effective regional development. National economic growth is needed to ensure the new jobs are generated; regional development is necessary to help steer them to the right places. Unfortunately, effective regional development takes time and strong national economic growth currently seems uncertain. If there are to be major reductions in worklessness in the short-run, the Welsh Government will have to act more boldly. The missing element is a *job creation programme*.

Job creation schemes fund jobs that would otherwise not exist. They may involve an important element of training but their primary purpose is to reduce the number out-of-work on benefits and at the same time undertake socially useful work. A recent example is the Future Jobs Fund, set up in spring 2009, which successfully created 110,000 temporary jobs across Britain targeted mainly at under-25s. The Fund was open to bids from public and voluntary sector bodies across the whole country, with local authorities taking the lead in many cases. The posts were full-time²¹, involved remuneration at the national minimum wage, and were expected to deliver community benefits. Participation in the programme was on a voluntary basis. The government contributed £6500 per post, and each job was expected to last a minimum of six months.

The Future Jobs Fund was a response to the specific circumstances of the recession. However, after initial teething troubles, some arising from its hasty design and implementation, the Future Jobs Fund became regarded as a successful model that could in theory be applied more widely.

In Wales there is a good case for building on this positive experience. In particular, the welfare reforms that are now underway will push many incapacity claimants into active job seeking (if they transfer across to JSA) or closer to the labour market (if they are placed in the work-related activity group for ESA). Most former IB claimants will not find it easy to find conventional work because of their health and long duration on benefit and, in many cases, their age and poor qualifications as well. These men and women are disproportionately concentrated in places such as the Valleys.

There are practical issues that would have to be addressed if a scheme of this kind were to be introduced. Incapacity claimants have issues of health or disability that need to be taken into account in identifying appropriate jobs, and their health problems may need to be addressed directly alongside their training needs. Additionally, long durations out-of-work may necessitate a gradual and closely supported re-introduction to employment. On the other hand there is no reason to suppose that, with such a large potential client base, there would be any need to introduce compulsion and there is a body of experience from local schemes around the country on which to build.

Table 13 shows the estimated annual cost of supporting 20,000 jobs in Wales for former incapacity benefit claimants. This would be enough to employ one-in-ten of the current stock of IB claimants in Wales. The assumption is that these jobs are all paid at the national minimum wage and that they are full-time (35hrs a week). An allowance of £2,000 per job per year is included for the set-up and running costs²². The first part of the table shows that the up-front cost would be just over £260m a year.

The second part of the table shows the estimated savings that would accrue to the Exchequer. The benefits savings have been calculated on the basis of data on

²¹ A minimum of 25 hours a week.

²² This figure has been revised upwards in the light of comments on the earlier figures published in *Tackling Worklessness in Britain's Weaker Local Economies*.

average payments²³ to incapacity claimants plus, in the case of Housing Benefit and Council Tax Benefit, data on average payments and the proportion of IB claimants who receive these benefits. Income tax, national insurance contributions and Working Tax Credits have been calculated on the basis of earnings.

The calculations suggest that the net annual cost to the Exchequer of 20,000 jobs would be around £100m, or £5,000 per job. This is less than half the up-front cost of a job creation scheme of this kind. In relation to the number of jobs that might be supported and the impact on claimant numbers, these are arguably not large sums.

What the Welsh Government might note, however, is that whereas the up-front cost of any scheme in Wales would be borne by its own budget, the substantial financial savings would mostly flow to the Treasury in London. If such a scheme were to be put in place in Wales, there would be a clear case for negotiations with the Westminster government over the division of the spoils.

Table 13: Estimated annual cost of 20,000 jobs for former IB claimants

	£m
Wages	210
Employers NI contribution	10
Set up and running costs	40
SCHEME COST	260
<i>Less savings on incapacity benefits</i>	<i>100</i>
<i>Less savings on Housing Benefit</i>	<i>40</i>
<i>Less savings on Council Tax Benefit</i>	<i>10</i>
<i>Less Income tax revenue</i>	<i>20</i>
<i>Less Employees NI contribution</i>	<i>10</i>
<i>Less Employers NI contribution</i>	<i>10</i>
<i>Plus Working Tax Credits</i>	<i>30</i>
<i>Equals NET COST</i>	<i>100</i>

Source: DWP and Sheffield Hallam University

²³ Including Income Support as a top-up to incapacity benefits

6. CONCLUSIONS

The evidence in this report shows that worklessness remains widespread. One-in-six of all adults of working age in Wales are out-of-work on benefits. In some Valley authorities this rises to one-in-four. Worklessness on this scale is a colossal waste of talent and productive potential.

During the long years of economic growth the trends in Wales were in the right direction – the numbers on out-of-work benefits were falling and they were falling fastest in areas like the Valleys, where benefit claimant rates are highest. The recession has been a setback, and the prospects for a swift return to rapid economic growth presently seem poor.

This creates an impasse. Even on favourable assumptions, involving a return to pre-recession trends or an acceleration in those trends, in Wales there seems little prospect of reducing worklessness to acceptable levels over the next ten years.

This is a moment, therefore, for bold new thinking. The Westminster government recognises this and is implementing major welfare reform. It is also looking to the private sector to generate the new jobs that are needed. However, on both fronts its hopes seem misplaced.

The welfare reforms are predicated on an assumption that there are plenty of jobs for people to fill, a view that seems wide of the mark in much of Wales. In practice, the main impact of welfare reform in Wales looks set to be that some 60,000 current Incapacity Benefit claimants will be denied access to its successor, Employment and Support Allowance, either by the new medical test or by new limits on non-means tested entitlement. Of these, around 30,000 look likely to be pushed out of the benefits system altogether. The main impact of welfare reform will therefore be more widespread financial hardship rather than a reduction in worklessness.

Furthermore, for all the efforts to generate new private sector jobs – and the efforts have been considerable over the last decade or so – in Wales the recent performance of the private sector does not inspire confidence. The private sector has a mountain to climb to deliver new jobs on the scale that is needed, and it seems unlikely to get much beyond the foothills.

This is even true of Cardiff, Wales' star performer in terms of job creation before the recession. Even in Cardiff it was the public sector that was the biggest source of employment growth in the good years. And even if Cardiff impressive growth could be maintained, which seems unlikely, it could only be expected to have a modest impact on the job shortfall in the Valleys.

Every effort should be made to promote a private sector revival, and regional economic development in the Valleys and elsewhere must be central to these efforts. But the scale of the job shortfall means that in the short-run there is a powerful case for a job creation scheme. What we're talking about here is not just temporary programmes to provide training or work experience for long-term JSA claimants but sustained job opportunities for a much larger group of men and women, especially incapacity claimants who otherwise stand little chance of gainful employment.

The economics of such a scheme are surprisingly positive. As the calculations in the report show, the annual up-front cost of 20,000 jobs for former incapacity claimants would be around £260m, but the net cost (allowing for benefit savings and tax revenue) would only be around £100m. This seems extraordinarily good value, and it is something that the Welsh Government should now consider.



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