

A workforce fit for the future

Reforming Scottish skills and
employability services to support growth

Aveek Bhattacharya
Jamie Gollings
John Asthana Gibson

SMF

Social Market
Foundation

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ABOUT THE AUTHORS

Aveek Bhattacharya

Dr Aveek Bhattacharya is Research Director of the SMF, having joined as Chief Economist in September 2020, and served as Interim Director between 2023 and 2024. Previously, he was Senior Policy Analyst at the Institute of Alcohol Studies, researching and advocating for policies to reduce alcohol-related harm. He has also previously worked for OC&C Strategy Consultants, advising clients across a range of sectors including retail, consumer goods, software and services.

Aveek studied Philosophy, Politics and Economics at undergraduate level, and has Master's degrees in Politics (from the University of Oxford) and Social Policy Research (from the London School of Economics). He holds a PhD in Social Policy from the London School of Economics, where his thesis compared secondary school choice in England and Scotland.

Aveek is co-editor of the book *Political Philosophy in a Pandemic: Routes to a More Just Future*.

Jamie Gollings

Jamie is the Deputy Research Director at SMF. Before joining, he was the Head of Research and Policy at Our Scottish Future. His work there included reports looking at how to improve policy implementation, boosting innovation in Scotland, and forecasting the impact of the cost of living crisis on households. His work has been covered in publications including *The Guardian*, *The Times* and *The Herald*.

Jamie has also worked for OC&C Strategy Consultants in their London and Istanbul offices, leading teams advising firms in sectors ranging from tech to retail. During the pandemic he led on the development of the 'UK Year of Service' youth employment programme on behalf of UK Year CIC and in partnership with NCS Trust. Jamie studied Physics with Theoretical Physics at Imperial College London.

John Asthana Gibson

John is a Researcher at the SMF. Prior to joining the SMF in March 2023, John worked at the Centre for Cities, where he conducted research on topics including transport policy, devolution and the geography of the innovation economy. He holds a BA Hons in economics from the University of Manchester.

EXECUTIVE SUMMARY

Improving skills and employability support will be critical to turning around Scotland's economy

- Scotland's stagnant economy leaves its people poorer and its public services weaker.
 - Household incomes are 9% below UK average, which in turn are 16% below Germany.
 - In the past decade, the child poverty rate has risen from 21% to 24%.
- Any plan to address this problem, such as Our Scottish Future's *From Growth to Good*, needs to ensure an adequate supply of skilled labour.
- On paper, the Scottish skills and education system looks strong...
 - With 50% of adults holding post-secondary qualifications, Scotland can claim to have the most educated population in Europe.
- Yet labour market outcomes are disappointing, with those skills under-employed.
 - Scotland has the second highest proportion of graduates employed in non-graduate roles in the UK.
 - The proportion of vacancies reflecting skills shortages has risen from 24% in 2015 and 2017, and 21% in 2020, up to 31% in 2022.
 - Economic inactivity is also worse in Scotland (23%) than in England (21%) as of 2024 (Q4).

The Scottish skills and education system needs greater direction, coordination and flexibility

- Skills policy should be better integrated with industrial strategy, with the Scottish Funding Council given explicit responsibility for ensuring Scottish workers can develop the skills needed to support identified growth clusters.
- Every Scottish worker should have access to an individual learning account, reducing the fragmentation and bureaucracy of the current system, where funding is dominated by small time limited pots.
 - Individuals should be given a budget (either cash or 'credits') to be redeemed against approved training courses.
- Skills Development Scotland should be rebranded as the Scottish Careers Service, with a new remit focused on advice and guidance.
 - We support the move of Skills Development Scotland's apprenticeship funding to the Scottish Funding Council.
 - The new Scottish Careers Service (SCS) should proactively engage employers to better connect them to the skills and education system: too many employers are neglected because nobody has asked them to help.
 - The SCS should be federalised, made up of regional units aligned to Our Scottish Future's proposed Scottish Combined Authorities.

- Scotland can leapfrog England with better and more timely labour market information to support education institutions and careers advisers.
 - It should build on the existing Longitudinal Educational Outcomes data infrastructure developed by the UK government.

Economic inactivity is weighing increasingly heavily on Scotland, and its employability support offer has challenges

- Growing economic inactivity has been driven by ill health and more people studying.
 - 24.1% of 16-64 year-olds were inactive in 2024, up from 23.5% in 2015.
 - Ill health would have added 1.6 percentage points to the rate of economic inactivity, with another 0.4 points from greater studying.
 - This was balanced, to an extent, by a fall in people looking after family or the home (-1.1 points) and later retirement (-0.4 points).
 - 83% of the economic inactive population in 2024 do not want a job, compared to 76% in 2015, impacting their likelihood of returning to work.
- Work incentives in Scotland can be improved by forthcoming UK workers' rights and wage legislation, as well as revisions to the benefits system and process.
 - Income growth would do much to improve work incentives, with Labour's New Deal for Workers and minimum wage reforms also likely to help - although the extent of this is uncertain.
 - Scotland's less onerous application process for disability benefits does not appear to be the cause of growing inactivity, with application success rates having converged with that of the DWP scheme.
 - Benefits sanctions have questionable value – while they can drive action to find a job, they can push people into unsuitable roles that hamper their career growth and confidence.
 - The Scottish budget is creaking, but there are other places that we would suggest looking first, such as universal benefits and 'freebies', before aiming to squeeze spending on disability benefits.
- With 17% of the inactive population already wanting a job, the focus needs to be on ensuring that the right support is there.
 - Jobcentres should be devolved from the DWP to regional groupings of local authorities, allowing them to better align their approach to other Scottish programmes, and connect with regional skills priorities.
 - The flagship employability programme No One Left Behind appears to underperform for disadvantaged groups, with wide gaps in performance between local authorities – this should be investigated with urgency.
 - The scheme would also benefit from greater data transparency, longer term funding arrangements and for local authorities to be forced to fund a greater diversity of providers.
 - Individual Placement and Support (IPS), a well proven methodology for getting people back into work, is also underutilised in Scotland.

- In 2021/22, 20,850 people accessed IPS in England, compared to just 9 in Scotland.
 - Scotland should aim to provide IPS to at least 5,000 people a year, in line with England's planned provision.
- Ambitious employment and service programmes, inspired by examples overseas such as AmeriCorps Seniors and Service Civique, can help get younger and older Scots into work.
- Weaknesses in the public realm are also holding back the workforce.
 - Cutting NHS waiting lists will help to reduce economic inactivity, but likely only by a few thousand – a relatively small share of the total increase.
 - Social care waiting times are lengthening, but childcare is likely the biggest thing to get right to help get people back into work.

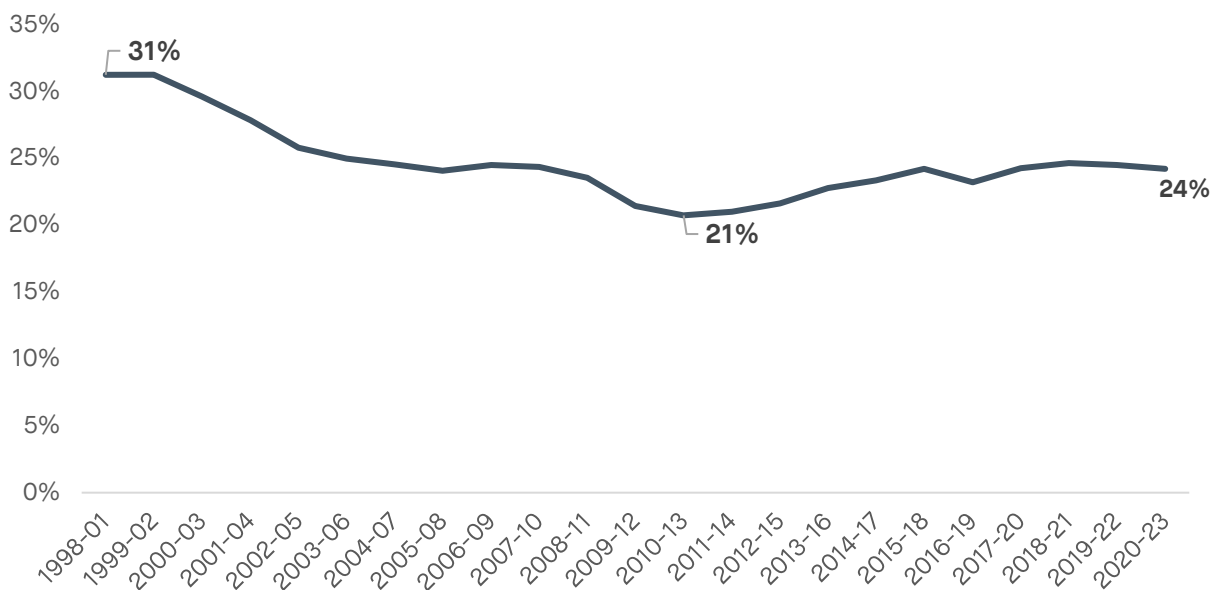
CHAPTER ONE – THE CONTEXT

Scotland's economy has underperformed in recent years

Since the financial crisis of 2008, Scotland, like the rest of the UK, has endured underwhelming economic growth. On top of that, it has suffered from a slowdown in economic performance relative to the rest of the UK. Scotland's average annual growth rate was 97% of the UK-wide rate between 2000 and 2009, falling to 78% in the following decade.¹

This stagnation affects the pay and benefits citizens receive, the success of Scottish business and worsens the quality of public services as the tax burden grows. The economic shock of the Covid-19 pandemic, and later the energy price spike caused by the war in Ukraine, has exacerbated Scotland's economic underperformance, with devastating impacts on living standards. In 2021, Scottish household incomes were 9% lower than the UK average (ONS), which in turn lag behind our Northern European neighbours: 2018 household incomes were 16% lower in the UK than in Germany and 9% lower than in France, having been higher before the 2008 financial crash.² Child poverty, which had declined in Scotland for many years before the crash, has been on the rise in the years since (Figure 1), up from a low of 21% to 24%.

Figure 1: Proportion of children in Scotland who are in relative poverty (below 60% of UK median income after housing costs), three year rolling average



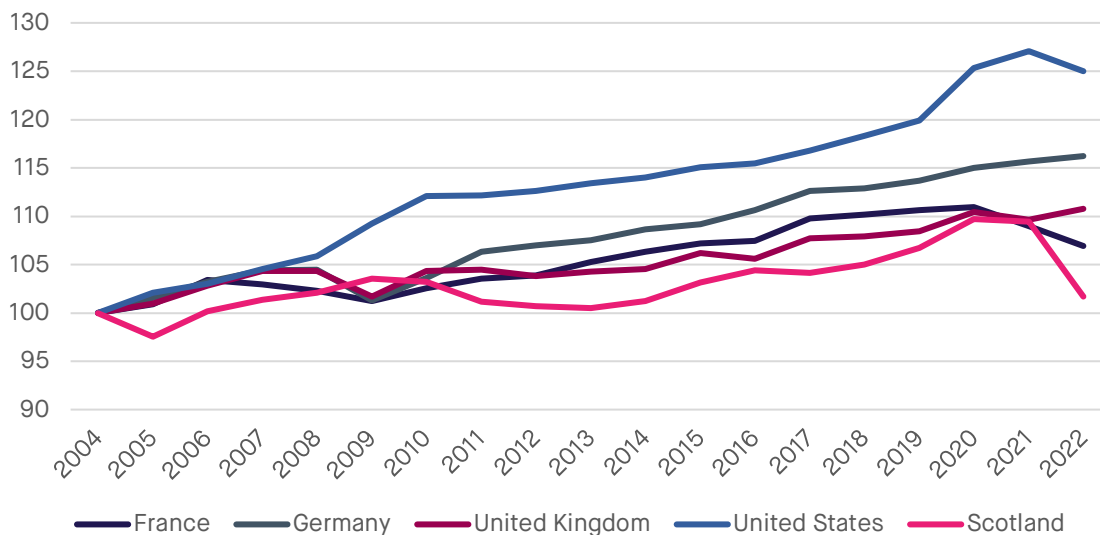
Source: Scottish Government

Weak productivity growth underlies Scotland's economic underperformance

The driving force behind Scotland's weak economic growth is low productivity growth. In the frequently cited words of Paul Krugman: "Productivity isn't everything, but, in the long run, it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker".³ The sizeable (and growing) gap in living standards between the UK and its Northern European neighbours is directly a result of the productivity gap between these countries. In 2019, French and German workers were, respectively, 13% and 14% more productive than their UK counterparts.⁴

Whilst Scotland is more productive than most UK regions, it is nevertheless below average, because it lags so far behind London and the South East. Relative to our advanced economy competitors, the weakness of Scotland's productivity growth is clear (Figure 2).

Figure 2: Labour productivity (GDP per hour worked), constant prices, 2004=100



Source: ONS and OECD

Reversing Scotland's productivity slowdown is key to boosting living standards, and improving skills and employability support can help achieve this turnaround

Turning around the economy will be one of the biggest priorities and challenges for any government that wants to improve Scottish people's lives. Fortunately, they have a ready-made starting point in the *From Growth to Good* report, published last year by Our Scottish Future, our partners in this project.⁵ That report mapped out a growth strategy for the Scottish economy, incorporating 26 recommendations. At its heart is the promise of better jobs, built around Scotland's clusters: developing an industrial strategy that makes 'big bets' on sectors linked to 'growth zones' that have the potential to generate substantial exports.

Yet as *From Growth to Good* recognises, improving Scotland's skills and employability infrastructure will be critical to economic success. 'Human capital' is a critical input to the economy. Without a supply of appropriately trained and experienced workers, any industrial strategy is bound to fall flat. If the mass of ordinary Scottish people are to drive and benefit from a more dynamic economy, they need to be adequately skilled and integrated into the labour force.

This report picks up from that one by delving into the policy areas of skills and employability support, and addressing them in greater depth. *From Growth to Good's* recommendations included a revised role for colleges, paid leave for learning and development, a Scottish Careers Service, and devolution of job centres. This report examines the case for such reforms, and develops and refines those ideas into recommendations of our own.

On paper, the Scottish skills and education system looks strong...

Scotland has the highest educated population of any country in Europe, with 50.4% of 25-61 year olds holding post-secondary school qualifications in 2019; considerably higher than the UK and EU average of 44.7% and 31.7% respectively.⁶ With 94.3% of 16-19 year olds in education, training or employment in 2023, Scotland also outperforms peer countries.⁷

Scotland's apprenticeship system has developed rapidly over the past decade, with apprenticeship starts growing by 10% between 2013/14 and 2019/20, becoming one of the most flexible and wide-ranging systems in the OECD, with several new apprenticeship types across many different sectors and offered at a variety of education levels. Outcomes have been positive, with 90% of those completing modern apprenticeships (the typical apprenticeship pathway in Scotland) being in work within 6 months.⁸

Scotland is also home to a thriving university sector, with three of the world's top 100 universities - and the highest per capita.⁹ These institutions ensure vast numbers of highly skilled graduates enter the labour market each year.

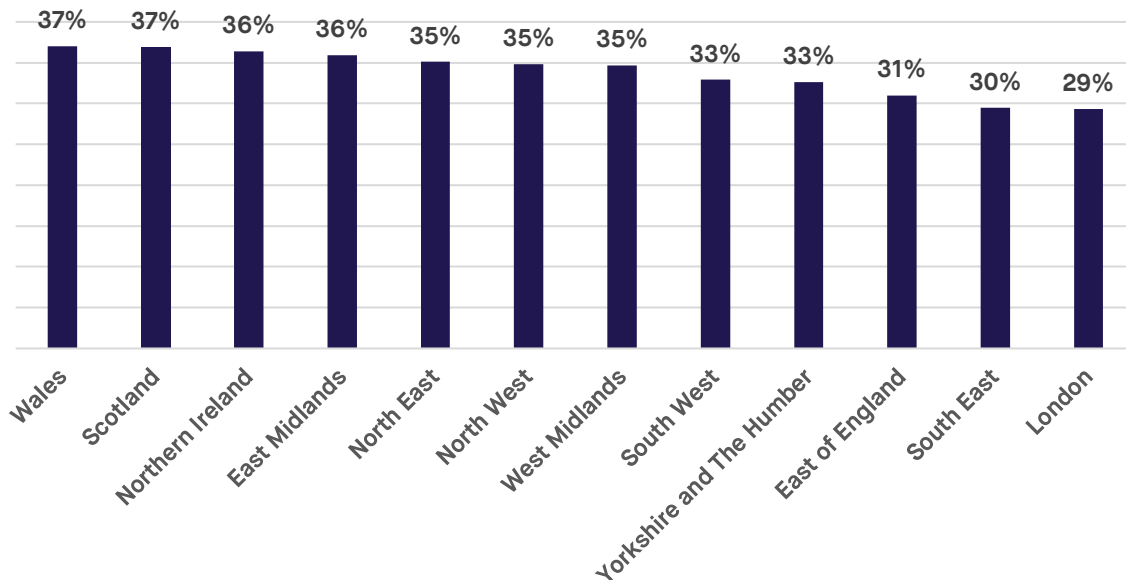
Yet labour market outcomes are disappointing, with those skills under-employed

Whilst there is clearly a high level of human capital throughout the Scottish workforce, there are reasons to worry that human capital is not as well deployed as it ought to be.

Too many young people leave education and become under-employed. As Figure 3 depicts, Scotland has the second highest proportion of graduates employed in roles where graduate qualifications are not required of all UK regions. This data looks at people 15 months on from graduating, so it is important to note that these statistics reflect people at an early stage of realising their career potential. The nature of what a 'graduate job' is may also evolve, however Scotland's relative performance here is worth investigating.

The high rate of graduates in non-graduate jobs could reflect issues in the *quality* of education and training Scottish people receive. The challenges facing Scotland's schools, which have slipped down international league tables, are well documented.¹⁰

Figure 3: Percentage of employed graduates working in non-graduate roles, by region, 2023.

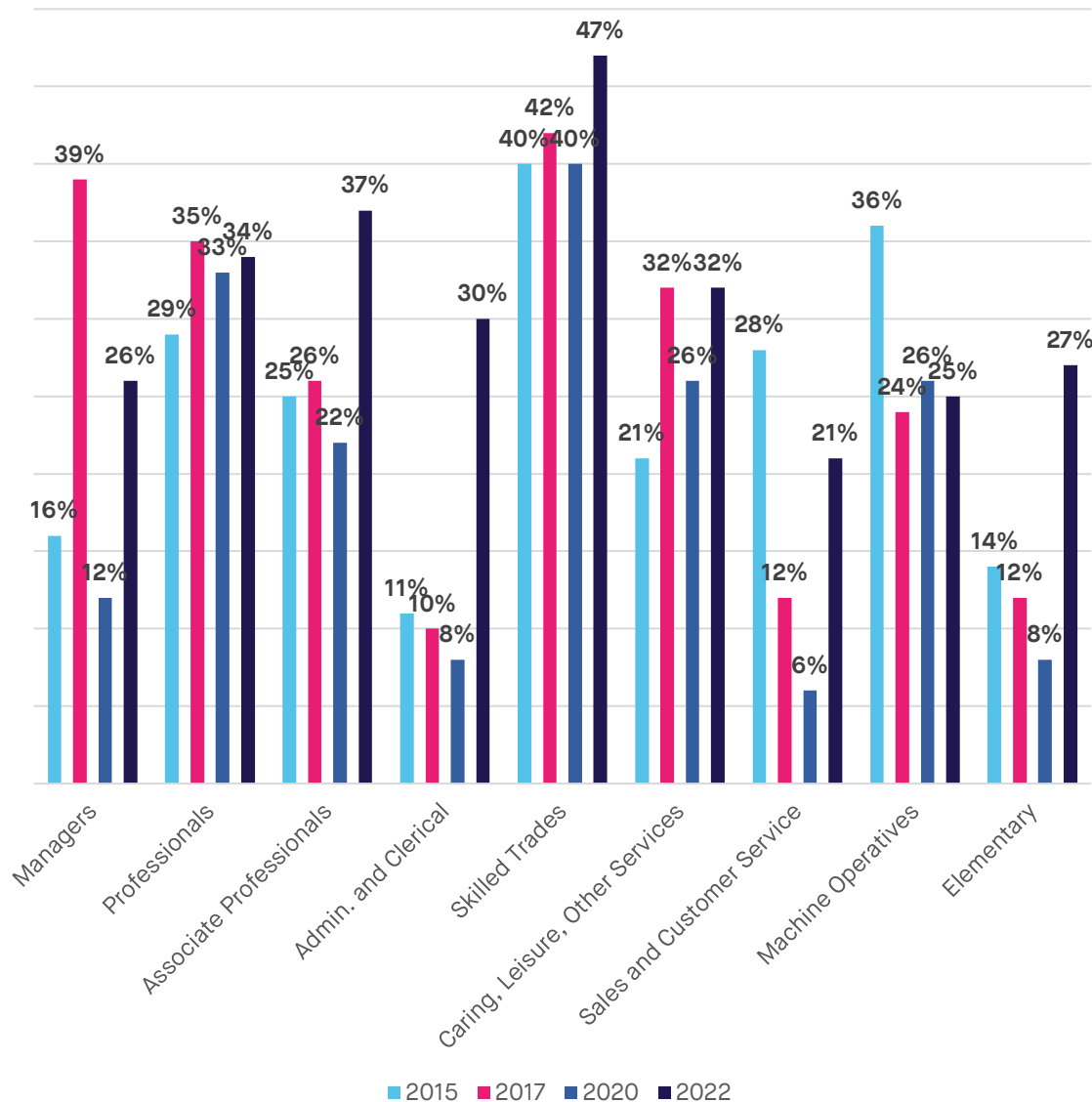


Source: Office for National Statistics

It could also be due to a lack of demand for highly skilled workers due to an insufficient number of high-value firms locating in Scotland. However, work by Skills Development Scotland has identified significant numbers of skill shortage-related vacancies in Scottish firms (Figure 4); implying that the problem is not a lack of demand for highly skilled workers, but rather a lack of supply of the 'right' kind of skills. Nearly a third (31%) of vacancies were classed as skills-shortage vacancies, up from 21% in 2020 and 24% in 2015 and 2017. These shortages extended across all occupation groups in a way that they had not in previous years, reflecting the tight labour market – the lowest density of skill-shortage vacancies was 21% (for Sales and Customer Service) whilst the lowest in 2015 was 11% (Admin and Clerical), in 2017 was 10% (Admin and Clerical) and in 2020 was 6% (Sales and Customer Service).

The solution, then, is not to cut the number of graduates in Scotland – it is to make sure that people are developing the kinds of skills that employers will be able to make the most of – matching the right kind of skills supply with employer demand.

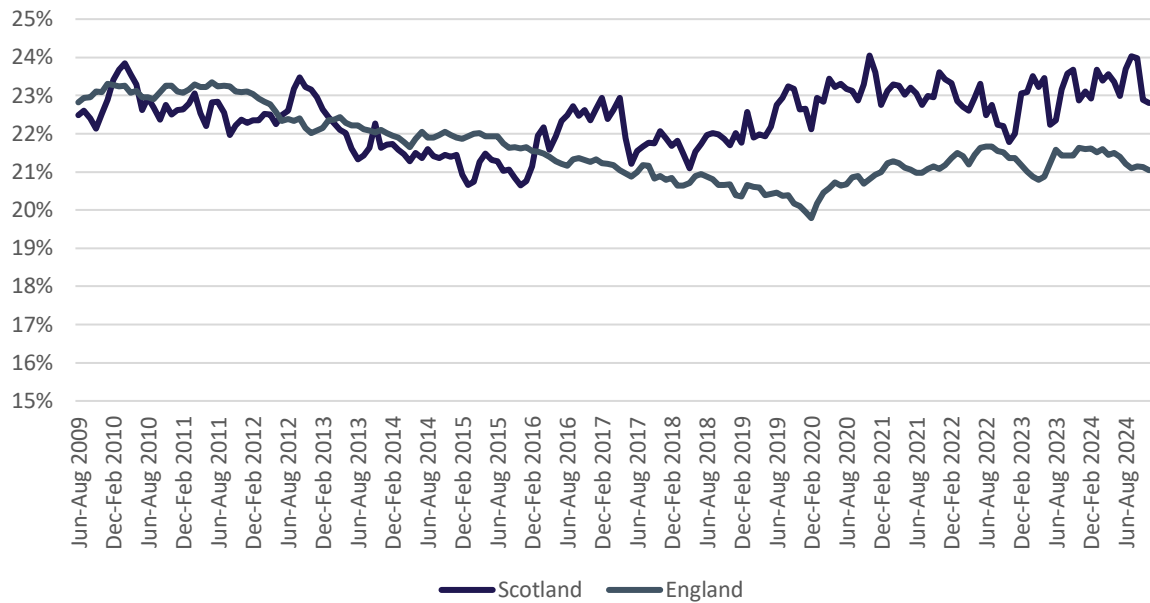
Figure 4: Density of skill-shortage vacancies by occupation (% of employment), 2015-2022



Source: Skills Development Scotland

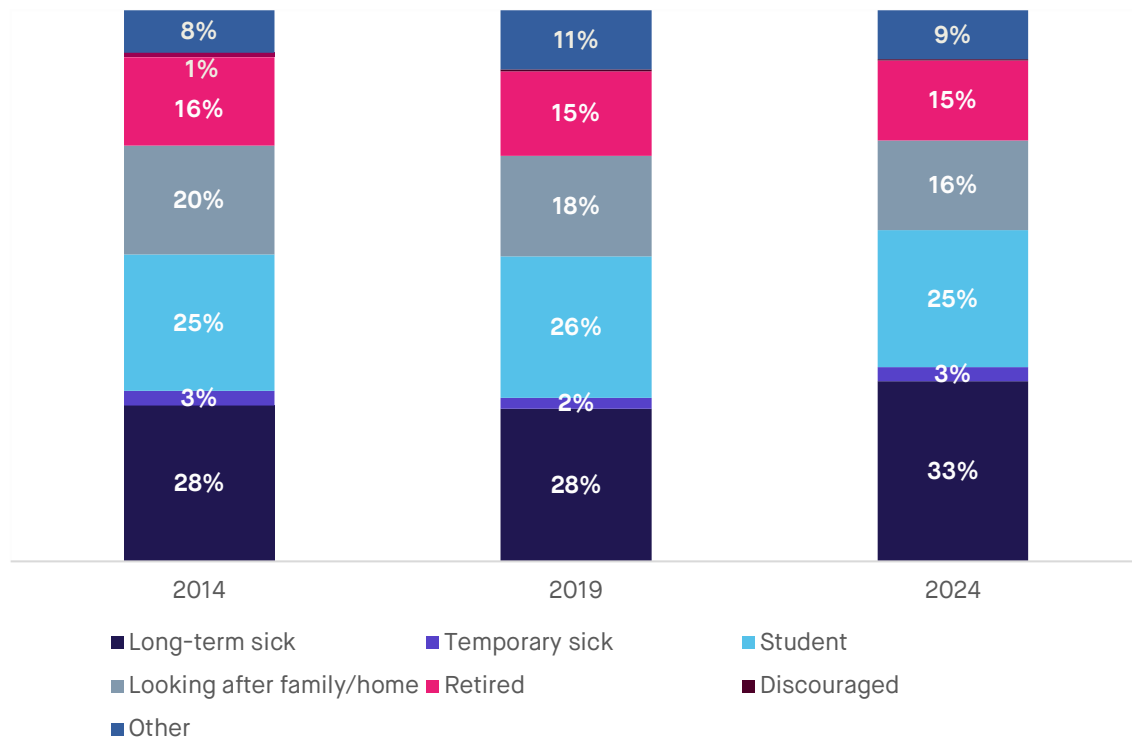
High levels of economic inactivity, a problem around the UK and indeed much of the Western world, crimps Scotland's economy. Analysis by the Office for Budget Responsibility found that the UK is the only G7 country except the US which has a higher rate of inactivity than pre-pandemic.¹¹ Many people, who may have skills that could be put to good use in high value industries, are instead out of work and not looking for a job. Scotland's inactivity rate has been ahead of England's for the last decade and been on an upward trend since 2022 (Figure 5).

Figure 5: Proportion of working age population economically inactive, Scotland vs England, by month, Jun-Aug 2009 to Oct-Dec 2024 (note not all date increments shown on x axis)



Source: Office for National Statistics

Not all forms of economic inactivity are problematic. Students, for example, make up a significant portion of the economically inactive population. But there are less benign reasons why people are forced out of the labour market. Figure 6 shows, sickness is the single biggest reason Scots are not looking for work. Similarly, caring responsibilities are another significant factor that prevents people from looking for work.

Figure 6: Share of Economic Activity by reason (April-March years):

Source: Office for National Statistics

Scotland's high rate of economic inactivity, as in other countries around the world, is a material constraint on growth. The absence of economically inactive workers from the labour market limits the pool of workers Scottish firms have access to. This issue, alongside several examined in this chapter, must be tackled to create a workforce that can meet the needs of Scotland's changing modern economy.

The relative integration of Scotland's institutions should make reform easier

There is, then, a lot of room for improvement in terms of Scottish economic and labour market outcomes. In turn, those will need to be changed from the skills and employability support systems. Fortunately, the nature of Scottish institutions are such that necessary reforms may be easier than they would be south of the border.

Compared to England, Scotland benefits from a relatively unfragmented institutional structure across several areas key to skills delivery. Scotland's schools are controlled by its 32 local authorities, whereas academisation has meant control of schools in England is much more diffuse; with over a thousand academy trusts overseeing varying numbers of schools, alongside traditional local authority maintained schools. Similarly, there are 335 further education institutions in England whereas there are only 27 in Scotland, neatly allocated within 13 college regions.¹²

The set up of local government in Scotland is also much simpler, with 32 unitary authorities compared to the confusing tiered system of local government south of the border (the existence of combined authorities and the Greater London Assembly add

to these layers in England). A similar picture can be seen with careers services: Skills Development Scotland is the body singularly responsible for providing careers services in Schools across the country, whereas England sees a hodgepodge of providers including local Careers Hubs, the Careers and Enterprise Company, the National Careers Service and many other private and voluntary organisations that offer careers guidance services.¹³ Further parallels can be seen in the integrated nature of skills funding and educational regulation in Scotland relative to England.

The integrated make-up of Scotland's education and skills institutions has the benefit of making policy change easier to enact, in part because the country's policymakers need to engage with fewer 'points of contact' relative to their English counterparts. It should also make coordination and information sharing – critical parts of effective industrial policy – more possible to enact.

This report lays out measures that could improve skills and employability support in Scotland and develop a workforce for the future

What can be done to improve skills and employability support in Scotland, and unleash the country's growth potential? In this report, we pick up where *From Growth to Good* left off, with some proposals for reform.

We believe we are particularly well-placed to contribute to this discussion, straddling the fields of economic and education policy in England and Scotland. While we all work for a Westminster-based think tank, one of us is Scottish and has spent several years comparing education policy across the border, and another worked at Our Scottish Future, focused on Holyrood policy before joining SMF. That means we have a good vantage point to identify parallels and opportunities for learning between the two countries, as well as ways in which the UK and Scottish Government can work together better to improve education and skills policy.

We certainly do not want to position ourselves as emissaries from the South, coming to teach Scottish people how to do things. In some cases, we find it is England that could take a leaf out of Scotland's book, or Scotland has advantages that make reform easier to implement. But we do adamantly believe that this sort of policy learning has the potential to improve outcomes for all.

In this report, we focus specifically on post-compulsory education and training, and on employability support. In other words, our scope is centred on further education, training, adult education and reskilling, rather than what happens in schools and universities. Our focus is on getting jobseekers into work, rather than addressing some of the more fundamental barriers that might lead to labour inactivity – for example, our report is not on the health service. We also do not address other issues relevant to labour supply, like immigration and retirement. All of these matters are economically consequential, but we have to draw limits somewhere to keep the scope manageable.

Chapter Two looks at skills and education. Chapter Three looks at employability support.

CHAPTER TWO – SKILLS

Despite its strengths, the Scottish skills and education system lacks direction, coordination and flexibility

As we have seen, the Scottish skills and education system has strong foundations. Yet there remains a sense that it does not achieve its full potential: that it is less than the sum of its parts. This sense is likely to be exacerbated if the country embarks on the sort of radical economic transformation envisaged by Our Scottish Future in *From Growth to Good*. It is critical that the skills ecosystem evolves in a way that harnesses the human capital of the country, and avoids labour being a constraint on the country's economic ambitions.

Looking across a range of analyses and evaluations of further education and skills in Scotland – such as the government-commissioned Withers review of the skills delivery landscape¹⁴ and Cumberford-Little report on colleges¹⁵ – a number of common themes emerge. Many of these are standard issues faced by most advanced economies in the 21st century to some degree or another. For example, the ever-elusive goal of ‘parity of esteem’ between vocational and academic options, or effective employer engagement – though some countries have been more successful in these regards than others.¹⁶ Encouraging innovation and the development of short, flexible, online modules while regulating standards is difficult for almost every government. Invariably, skills systems tend towards excessive complexity, and are challenging to regulate, though it is a virtue of Scotland's institutional infrastructure that they are on the whole more rationalised and better coordinated than England's.

Other failings are exacerbated by specifically Scottish issues. It is generally agreed that there are too many small, fragmented pots of funding. These often focus on specific sectoral, geographic or user challenges, and tend to be short-lived. This confuses learners and creates excessive bureaucracy for institutions. Yet it is hard to see this as anything but an outgrowth of the Scottish government's tendency to govern by announcement, its persistent and hyperactive ‘initiativitis’.¹⁷

The key overarching problem, however, seems to be a lack of strategic direction from the very top. Again, the complaints here will be familiar to observers of Scottish policy: vagueness over objectives, a tendency towards soundbites rather than precise and clear resolutions, an unwillingness to confront hard trade-offs and say no to stakeholders. In its *Planning for Skills* report, Audit Scotland was damning in its assessment that “The Scottish Government has not provided the necessary leadership for progress”.¹⁸ It said that greater clarity is needed on what the government wants to achieve, and what success would look like, with more explicit aims, desired outcomes and how to measure progress.

Similarly, the Withers review identified “a lack of strategic approach, common purpose or strategic narrative” joining the skills system together, and claims that the “landscape has been largely left to evolve” rather than cultivated by the Scottish Government since it created Skills Development Scotland in 2008.¹⁹ It describes a lack of prioritisation over sectors and occupations, which means that resources are

spread too thin, and confusion at sub-national level as to whether central government is leading or following.

Future skills policy must be better integrated with industrial strategy

More decisive industrial strategy, of the sort outlined in *From Growth to Good*, would naturally improve things – particularly if combined and coordinated with a Westminster government more amenable to such an approach. Identifying and seeking to build geographical industry clusters which are or could be world leading, would offer learners and institutions clearer direction as to where opportunities are likely to develop and where to prioritise their efforts. Equally importantly, it would send signals as to where to avoid duplication or where government support is likely to be less forthcoming.

Within the existing institutional set up, responsibility for industrial strategy sits with the Scottish Government. However, this could just as well be driven by the Scottish Combined Authorities Our Scottish Future has previously proposed – collaboratives of local authorities with powers to shape and drive economic development within a particular region. These would build on the industrial strategy and skills responsibilities partially devolved through the existing City Region Deals.^{20 21}

Beyond that, there remains an important role for formal institutions to connect the high-level objectives of industrial strategy with the practical, on-the-ground delivery of skills provision. At Westminster, the new Labour government has launched Skills England, which will liaise with the Industrial Strategy Council to identify England's skills needs; and coordinate government agencies, businesses, unions and providers to meet those needs²². It has promised to “work closely with our colleagues in the devolved nations”, seeking to spread best practice, share data, identify challenges in how different systems interact and provide for cross-border working on target sectors.²³

There is a case for setting up a Scottish counterpart with a similar remit – a ‘Skills Scotland’. Certainly, the proposed functions of the English body are necessary for Scotland, and there would be value in having a clear point of contact for each to collaborate with the other. However, given that institutional clutter and cross-cutting responsibilities already cause problems within the Scottish skills ecosystem, our preference would be to delegate such responsibilities to the already-existing Scottish Funding Council (with an expanded remit, as per the Withers Review – see below).

The key change we would recommend is for the Scottish Funding Council, and our proposed Scottish Careers Service agency, to be given explicit responsibility for ensuring that Scottish workers can develop the skills they need to support world-leading clusters in line with the government's industrial strategy.

Every Scottish worker should have access to an individual learning entitlement

As we have seen, the system of funding for skills training in Scotland is generally seen as excessively fragmented, complicated and bureaucratic. There is an obvious response: consolidate the various pots and programs into a single scheme of individual learning accounts or entitlements. This would put the learner at the heart of the system (education and training typically purports to be ‘learner centred’, but too often falls short of that objective). Every individual would be given a certain amount of credit, to be redeemed against approved education or training programs of their choice, rather than having to find the right funding source for the right course at the right time.

The principle of ‘learner accounts’ or ‘budgets’ have been floated several times, by a range of organisations and institutions. Most notably, the UK Government is currently implementing a Lifetime Learning Entitlement which will allow people in England that have not already been to university to access finance for higher technical, distance and online courses on identical terms to the university student finance system. They will be given the equivalent of four years’ worth of university education, to use as they wish to train, retrain and upskill over their career.²⁴

More ambitiously, in 2019, the Liberal Democrats proposed a ‘skills wallet’, into which the government makes three payments at age 25, 40 and 55, worth a total of £10,000, for every adult in England to be spent on education and training.²⁵

The Scottish Government already maintains a system of Individual Training Accounts, which can be used by eligible workers to pursue industry recognised certificates. These have been broadly successful – a government-commissioned evaluation last year found that the majority of participants, including those previously out of work, had subsequently found a better paying job.²⁶ Yet in some ways the programme demonstrates the problem – a worthy but relatively small scale project among dozens of others: there are up to 18,500 funded places a year, worth only up to £200.²⁷ That is a far cry from integrating the entire post-school or adult skills system.

Many within the Scottish skills system have been calling for something bigger. The Independent Commission on the College of the Future recommended the introduction of a ‘Lifetime Skills Account, through which individuals can access equal funding and maintenance support to engage in higher or further education.’²⁸ The Withers review noted that a number of respondents favour the introduction of something equivalent to a skills wallet or Lifelong Learning Entitlement, though it judged that such an idea was beyond its scope, leaving it to the Scottish Government to judge its cost effectiveness and feasibility.²⁹

The scheme we have in mind would give every worker a ‘budget’ (which could have a notional cash value, or be redeemed for a certain number of educational credits if the Scottish Government wishes to emphasise the value of free education). This would replace the diverse range of existing funding streams for upskilling and training. We will not specify here exactly how much the budget should be, but offering the equivalent of four years’ undergraduate education, as in England, seems like a good

target to aim for. This could be funded, at least in part, through the share of apprenticeship levy funding remitted to the Scottish Government.

Individuals would be free to use this budget for a place on any training program approved by the responsible agency (the most obvious candidate being the Scottish Funding Council). There is an inevitable trade-off between encouraging innovative and flexible provision on the one hand, and protecting against poor quality and ineffective courses on the other. Given the somewhat chequered history of individual learning accounts (a UK government scheme was introduced in 2000 and wound down amidst fraud and mis-selling³⁰), caution is warranted. We would favour relatively narrow eligibility, at least to begin with while the scheme is being set up. At a minimum, only courses offered by universities and FE colleges could be covered. However, as far as possible, it should be extended to include effective independently provided courses. The Scottish Government could learn from initiatives like the Adult and Community Education Learner Outcomes Tool in New Zealand, which uses comparative online surveys taken before and after a course to demonstrate learning.³¹ These support providers to improve their courses, and help government, employers and learners assess and navigate different options.

An individual learning entitlement would bring a number of advantages. First, as we have suggested, it would simplify the skills funding system. Second, it would encourage providers to respond to demand for different forms of training. Third, it would empower learners. At present, investment in upskilling or reskilling is largely dependent on goodwill or farsightedness from employers. Yet employers sometimes face a conflict of interest, because improving their workers' skills can increase the real or perceived risk that they will leave for a better job. Devolving control over skill development to workers helps to resolve this tension – though in practice, of course, employers still have a role to play in supporting and guiding their workers to find the best uses of their learning entitlements.

Skills Development Scotland should be rebranded as the Scottish Careers Service, with a new remit focused on advice and guidance

Also critical to ensuring people can make the best use of their learning entitlements is an effective system of careers information, advice and guidance. At present, this is the remit of Skills Development Scotland (SDS). It is regarded as an organisation that broadly functions well, with the Withers review complimenting its “strong internal culture”, and effective relationship building with large employers and trades unions.³² Yet despite having responsibility for delivering careers support in secondary schools, its workload seems to be dominated by funding and promoting apprenticeships. This is laudable and necessary, but contributes to funding complexity.

At the same time, there is a sense that careers guidance can be somewhat residualised – understandably prioritising the most vulnerable young people at greatest risk of becoming NEET (not in education, employment or training), but doing little to help others that might benefit. There is, for example, a tendency in much policy discourse to assume that careers guidance is an issue only for students that have yet to enter the workforce, or for the unemployed facing an enforced career change. Indeed, those stigmatised associations block many adults from accessing

the help they need.³³ In fact, many of the capable and skilled workers needed to drive Scotland's economic transformation will be career changers that already have a job but want a change of direction. As a result, it is critical to have institutions coordinated with, but separate from, schools and Job Centres. Skills Development Scotland is well placed to take on that role, but it could benefit from a sharper focus.

The Withers Review recommended that the funding functions of SDS should be carved out and integrated into the Scottish Funding Council, so that there is a single funding agency for all post-school education and training. This has been headed by the Scottish Government – in January 2025 they announced that funding for apprenticeships would be moved from Skills Development Scotland to the Scottish Funding Council.³⁴ The recommendations of the Withers Review allows Skills Development Scotland to be “recast as the national body for careers education and promotion”.³⁵ As it happens, *From Growth to Good* envisages the creation of a “Scottish Careers Service”, although it recommends delivering it through Job Centres and targeting it at benefit claimants.

We propose bringing these two visions together, and having a standalone Scottish Careers Service, built on Skills Development Scotland, that joins up career information, advice and guidance from schools through to adults; but is not associated purely with those on the fringes of the labour market. This body should be visible in local communities, ensure that advice and guidance is linked to national and local industrial strategy and build relationships with employers. The 2023 Careers Service Review stressed the need for a ‘collaborative’ of organisations to improve career outcomes in Scotland, beyond government agencies to education providers and the 3rd sector, and this should be key to the Scottish Careers Service's working too.³⁶

The Scottish Careers Service should proactively engage employers to better connect them to the skills and education system

A critical task of this new Scottish Careers Service should be to proactively engage employers to encourage them to participate in the education and skills system. It should start from a position of strength, with SDS recognised as having strong links with large private sector employers, but with work to do to strengthen relationships within the public sector and with small and medium enterprises (SMEs).³⁷

This is no source of shame – the fragmented nature of SMEs, and their relative lack of manpower and capacity (e.g. smaller or non-existent human resource functions) makes them harder to find and work with. However, there is untapped potential if an organisation reaches out to these employers in a systematic and targeted way. Previous SMF work has highlighted the fact that in England, 11% of employers do not offer work experience because they have never thought about it, and that 7% have not done so because nobody has asked yet.³⁸ If, as we would expect, there is a similar level of latent interest among employers in Scotland, there is a large amount of ‘shoe leather’ work needed to bring them on board.

In that previous research, we found wide variation in terms of employers' relationship with the education and skills system. Some employers are inundated with requests:

from schools, colleges and universities. Others are neglected entirely. Moreover, the requests made of them are not always relevant or suitable: the commitment involved in taking on an apprentice or a ‘sandwich year’ student is quite different to the commitment of a school careers talk or work experience placement. In an ideal world, employers would be guided up the ‘ladder’, trying out easy, low commitment engagements and working their way up to the more demanding activities. In England, local level organisations called Education Business Partnerships, and latterly Career Hubs, have led on this. North of the border, this is a natural extension of SDS’ work as part of the new Scottish Careers Service. Moreover, given the greater simplicity and coherence of Scotland’s institutions, it will be easier for the Scottish Careers Service to coordinate employers with schools (because they are almost all local authority run) and easier to dovetail with colleges and universities. That means the Scottish Careers Service is well placed to support advice and guidance in educational institutions, and programmes like Developing the Young Workforce and apprenticeships.

We have suggested that the Scottish Careers Service remain a national body. In practice, however, it will involve deep local level engagement and its activities will look rather different given local needs, employers and economic strategy. It would therefore make sense for the Scottish Careers Service to be somewhat federalised, broken into regional-level units. If Our Scottish Future’s proposed Scottish Combined Authorities were to come into being, it would be appropriate to align the regional careers services with those SCAs.

Better and more accessible labour market data can ensure that support and guidance is based on granular and timely intelligence

A vital input into an informed skills planning, flexible training offer and effective careers guidance system is robust, detailed and timely labour market intelligence. The sorts of employer engagements described above can help somewhat, providing informal information on the market and opportunities. Yet ideally, we want those setting industrial strategy, those deciding what courses to develop, and those advising workers to be working off robust data.

As researchers working on education policy across Scotland and England, we are afraid to say that Scotland is far behind on this front. This is disappointing because the relatively small population and simpler institutional set up should give Scotland an advantage when it comes to collecting administrative data, which has been such an impressive resource for the Nordic countries Scotland likes to model itself on.

Yet it is England that has led the way within the UK in establishing the National Pupil Database, that collects key information and educational outcomes on every child in an English state school. And it is England that has combined that with tax data to form the Longitudinal Educational Outcomes dataset, which can tell us how those young people fare in the labour market. The good news is that Scotland can piggyback on some of this infrastructure, taking advantage of the fact that we have a shared tax system. Indeed, it has tentatively started to do so, working with the English Department for Education to publish estimates of the economic returns to higher education and modern apprenticeships.³⁹

Where Scotland has the opportunity to leapfrog England is by taking the next step and devolving this information, making it accessible to practitioners on the ground – combining up-to-date educational and labour market information into a user-friendly tool. This could help guide local planners, educational institutions and careers advisers. It can help shape the education and training options such that they respond to the economic and industrial strategy needs of the country, and help careers advisers point people in the right direction.

CHAPTER THREE – EMPLOYABILITY SUPPORT

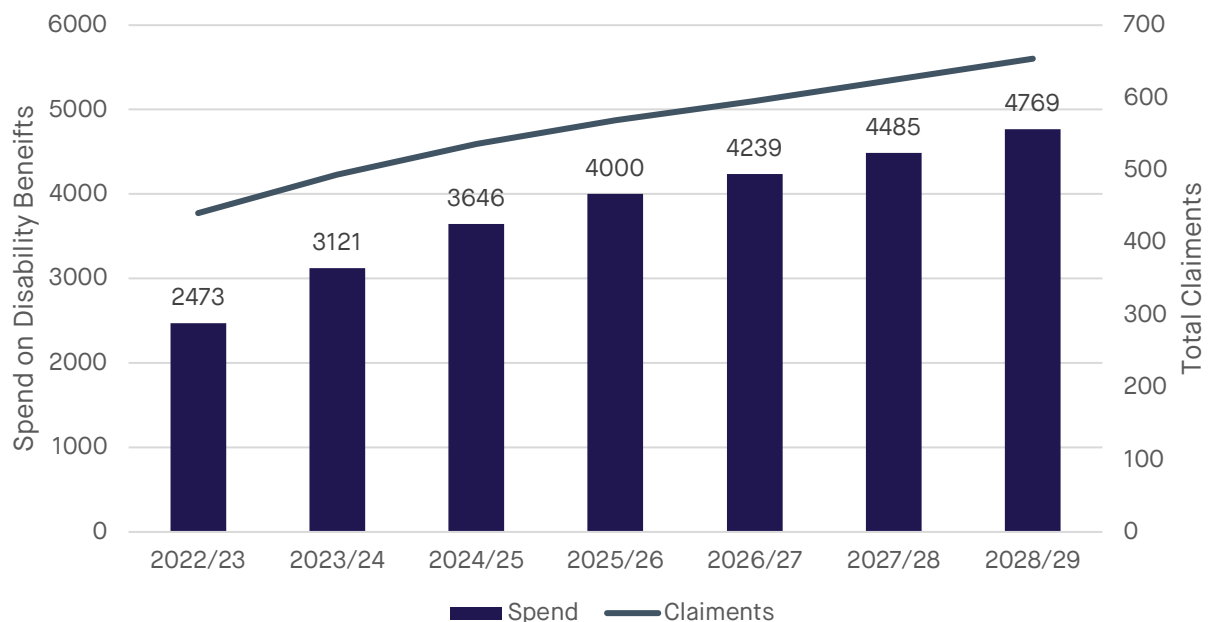
Economic inactivity is weighing increasingly heavily on Scotland

Unemployment has dropped back down towards 3.9% in Oct-Dec 2024 after spiking up to 5.1% in Mar-May 2024. It remains at low levels by historical standards in Scotland and the UK more broadly⁴⁰. Meanwhile, the share of the working age population who are inactive, for example due to ill health, has been drifting upwards in Scotland since the mid-2010s, especially following the pandemic, as was shown in Figure 5.

This inactivity harms the economy, with employers struggling to recruit from a dwindling pool of workers. Inactivity due to ill-health will also clearly affect families too, although inactivity due to studying, retirement or looking after family may be a conscious choice.

The other party affected by growing labour inactivity is the taxpayer. The Scottish Government spent around £2.5bn on disability benefits in 2022/23, plus a (far smaller) figure of £124m on employability support⁴¹. On top of these, there is spending on universal credit, foregone tax revenue and other less direct effects. Figure 7 below shows forecast Scottish government spending on disability benefits, made up of the new Adult Disability Payment, the legacy Personal Independent Payment and Scottish Adult Disability Living Allowance. The forecast rise in claimants, and therefore spend, will squeeze a Scottish budget that is already having to make cuts.

Figure 7: Forecast spend on Disability Benefits (ADP, PIP, Scottish Adult DLA), 2022/23-2028/29



Source: Scottish Government, SMF analysis

Scotland’s economy and taxpayers will continue to struggle if the tide of rising inactivity cannot be turned. This chapter asks what is causing the increase in economic inactivity, and looks at how the desire to get a job has changed in some groups. It then looks at three key areas to helping more Scots to get back into the workforce:

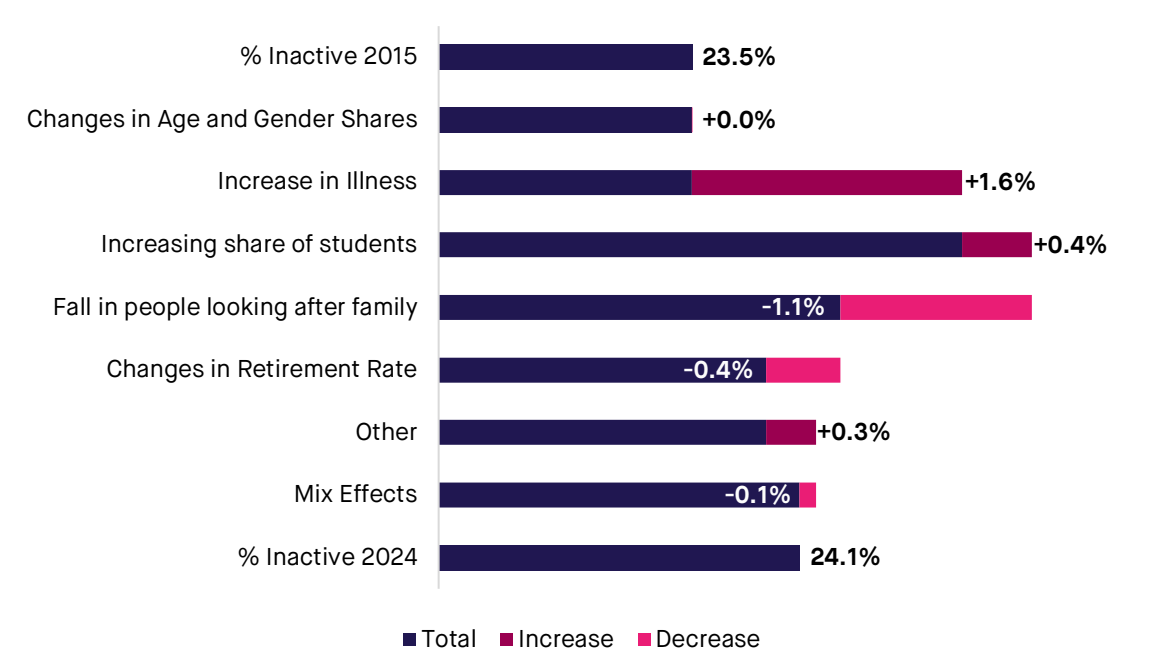
- Improving incentives to work.
- Providing the necessary support.
- Fixing the public realm to remove barriers to working.

Growing inactivity has been driven by ill health and more people studying

Scotland’s level of economic inactivity hit a recent low in Jan-Mar 2015, at 20.5% of the 16–64-year-old population. Since then, there has been an upward trend, although there has been year-to-year volatility as Figure 5 showed. By Aug-Oct 2024, the inactivity rate had risen to 24.0%, although it has dropped to 22.8% in Oct-Dec 2024; time will tell whether this is noise in the data, or represents a welcome reversal in growing inactivity. The 0.6 percentage point increase is not large, but as our analysis shows, the trends underlying this give more cause for concern.⁴²

Figure 8 breaks down the drivers of this increase in economic inactivity. This ‘waterfall’ analysis isolates the contribution of different factors, such as age profile and ill health. It shows that it is changes in behaviour and health, rather than changes in the composition of the workforce, that have had the biggest impact on Scotland’s rate of inactivity.

Figure 8: Drivers of changes in economic inactivity rate in Scotland from 2015 to 2024 (April to March years)



Source: SMF analysis of Annual Population Survey and Labour Force Survey

Note: The 2015 23.5% and 2024 24.1% inactivity figures are from the Nomis Annual Population Survey, whilst Figure 5 is based upon the Labour Force Survey

Ill-health has grown as a reason for economic inactivity in all demographics except, surprisingly, 50–64-year-old men

If all other factors had remained equal, the worsening health of Scots would have pushed up the labour inactivity rate from 23.5% to 25.1%, a 1.6 percentage point swing. The biggest contributor is from 25–49-year-old males, as Table 1 shows. The only group where rates of reported ill-health seem to have declined is, surprisingly, among 50–64-year-old men. The rise in early retirement among this group, however, could account for this.

Table 1: Change in rate of economic inactivity due to long-term and temporary ill-health issues by demographic segment, 2015–2024

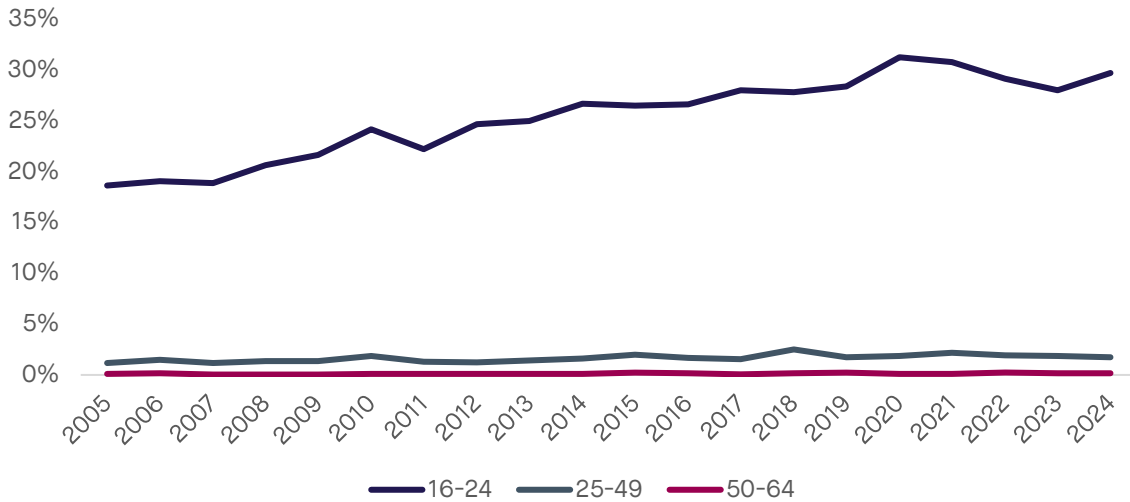
	Male	Female
16-24	+0.2%pt	+0.3%pt
25-49	+0.6%pt	+0.2%pt
50-64	-0.2%pt	+0.5%pt

Source: SMF analysis of Annual Populaton Survey and Labour Force Survey

Rates of studying increased up until the pandemic

Growth in the student population was the second largest driver of the increase in labour inactivity. Unlike worsening health, this is a more positive result for the economy, as people complete their education with a higher skill level. Figure 9 shows the trends in studying among different age groups. There is a clear upward trend for the 16-24 population up until the pandemic. There was a slight recovery in 2024, but the rate is still below that in the year ending March 2020, and it is unclear whether the previous trend towards a higher student population will continue. Scotland’s financial troubles are squeezing the HE sector, and this may mean that the government tightens caps on domestic student numbers⁴³.

Figure 9: Proportion of working age population that is a student, 2005-2024 (April to March years)

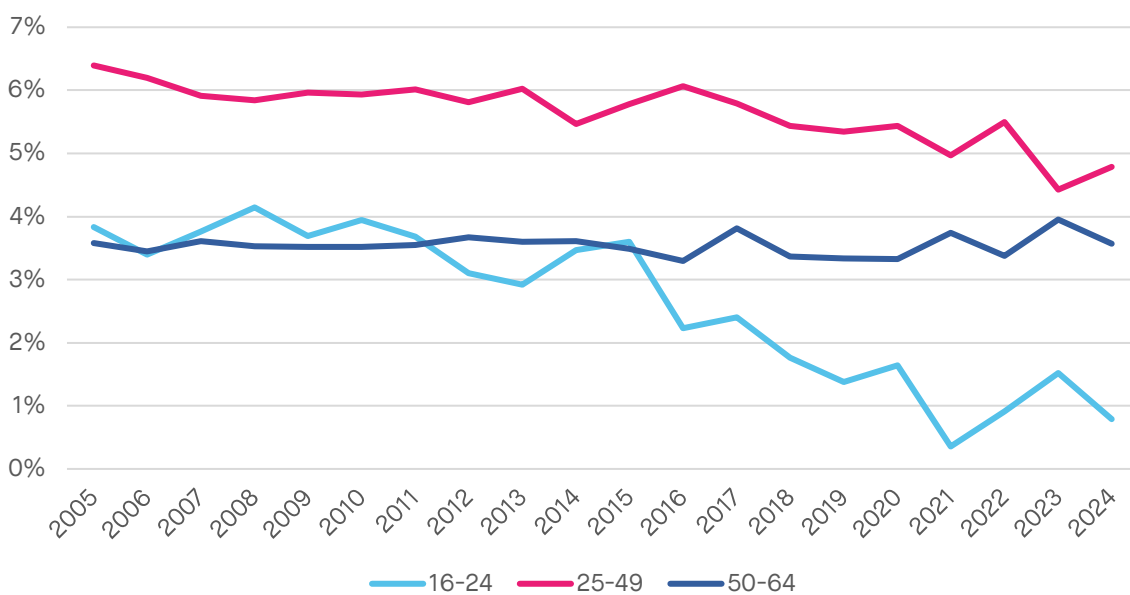


Source: SMF analysis of Annual Population Survey and Labour Force Survey

More working parents/carers and later retirement among women have been a positive influence upon rates of economic activity

Some factors have pushed in the other direction, acting to improve levels of economic activity since 2015. Fewer people are leaving the workforce to look after their family. The vast majority of this (97%) is driven by women aged under 50 entering the active workforce. Figure 10 shows this was an especially sharp change for the younger age group – and now under 1% of the 16-24 population is inactive is due to caring responsibilities. There is not much left further for rates of caring to fall, then, for 16-24-year-olds. There have been less steep falls in the share of 25-49-year-olds who are looking after the family/home. If this trend continues, that could act to increase rates of labour activity in this age group.

Figure 10: Proportion of working age population that is looking after family/home, 2005-2024 (April to March years)



Source: SMF analysis of Annual Population Survey and Labour Force Survey

Retirement patterns have also changed. 25,000 fewer women aged 50-64 retired in 2024 than would have been the case if the 2015 rate held. Meanwhile, earlier retirement became more common for men aged 50-64, and people in the middle age bracket (25-49), with around 10,000 more people taking early retirement than would be expected from 2015 rates.

Within the inactive population, the desire to get a job has also fallen, which affects their likelihood of returning to work

The ONS Annual Population Survey asks respondents whether they would want a job or not, as well as asking them their employment status and reasons for any economic inactivity. The proportion of those who are inactive and don't want to work has grown from 76% to 83%, with the total number not wanting to work of the inactive growing from 607,000 to 696,000.

Our analysis suggests that the majority of this (around 70,000) is because of a fall in the desire to get a job within certain groups. The rest (around 18,000) is from population growth and growth in the inactive population. The most significant increases in the proportions not wanting a job were found among those inactive due to illness or looking after their family/home. This may not just reflect changes in preferences away from working – it could be that those who are ill are more ill than their equivalents in 2025.

Table 2: Changes in rate of wanting a job by different reasons for economic inactivity, as their overall contribution to the increase in the numbers not wanting jobs

	Contribution to the fall in wanting to have a job	% of inactive who don't want a job	
		2015	2024
Illness	29,000	68%	81%
Looking after family/home	25,000	72%	84%
Student	10,000	81%	86%
Other	4,000	59%	66%
Retired	2,000	97%	98%
Total	70,000	76%	83%

Source: SMF analysis of Annual Population Survey and Labour Force

Studies have shown that motivation can predict how quickly someone with long-term disabilities returns to work.⁴⁴ These trends are therefore discouraging and may portend a more static population of economically inactive people.

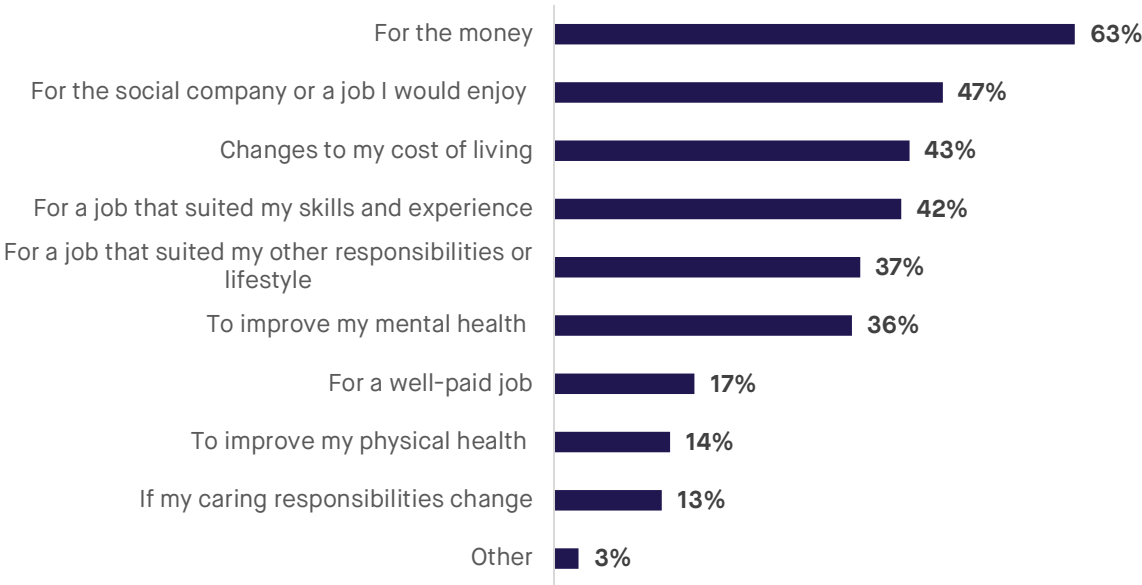
When looking to remedy Scotland's economic inactivity, this table also shows where the focus should be. The vast majority of the early retiree pool is determined to stay

out of the workforce. The ‘other’ pool is small. The student pool is larger, but presumably only able to take on casual or part-time work alongside their studies. The focus for policy, then, should be on supporting those looking after their family/home to enter the workforce if they wish, and on reducing those lost due to illness.

Work incentives in Scotland can be improved by forthcoming UK workers’ right and wage legislation, as well as revisions to the benefits system and process

If Scotland needs to lower the share of its population that is economically inactive, then ensuring that incentives to work are in place will be part of the solution. This is not just about financial incentives – other factors such as job satisfaction and personal development are also important, as Figure 11 shows relating to older workers.

Figure 11: Responses to “For what reasons, if any, would you consider returning to paid work or self-employment in the future?” of 50-65 year-olds who are not working but would consider returning to work



Source: ONS⁴⁵

Labour plans reforms that should increase the appeal of getting a job. Reforms to the minimum wage will mean that it reflects inflation, not just wage growth. The gaps between the National Minimum Wage for 18-20 year-olds and the National Living Wage are also to be narrowed, improving pay for the young. The government’s New Deal for Working People will ensure employee rights from day one of employment, ban zero hours contracts and deliver other measures. The extent of this impact on inactivity remains to be seen. The government’s economic analysis of the Employment Rights Bill notes that “employment rights can support labour market

participation” as a possible wider impact, but does not quantify them. The report does cite a study that found that those who are inactive would be more likely to work if they could work flexibly.^{46 47}

If the UK returns to sustained income growth, as the government hopes, that too will improve the appeal of work – experts have found that “areas [of the UK] where inactivity has grown most have experienced smaller wage growth”.⁴⁸

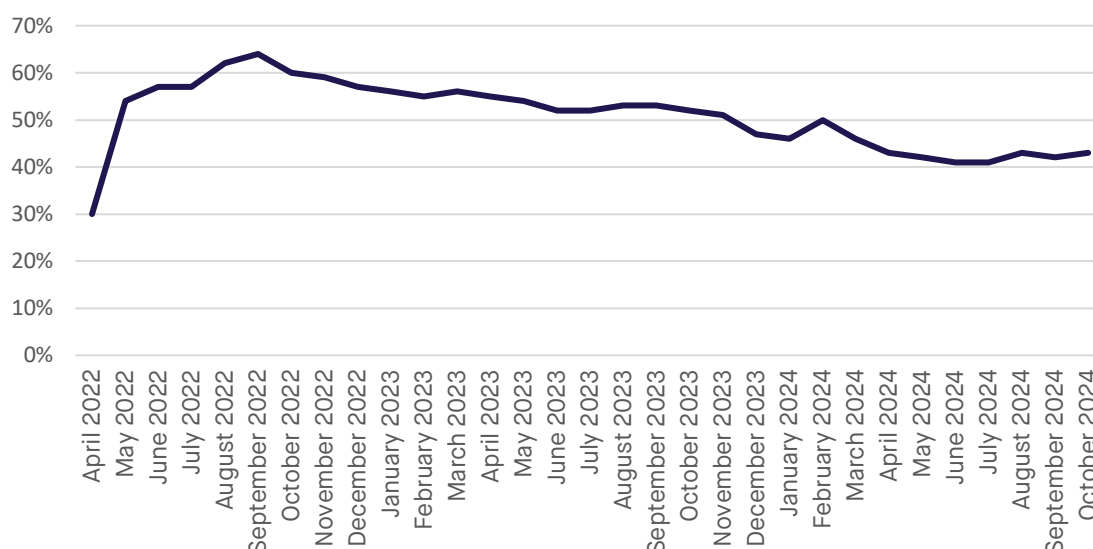
The other side of this is the benefits system. The Scottish Fiscal Commission forecast that spend on disability benefits will grow from £2.5bn in 2022/23 to £4.8bn in 2028/29 – nearly doubling in nominal terms. Claimant numbers are expected to increase from 440,000 to 654,000. Scottish Universal Credit claims have also grown from 392,000 at the start of 2022 to 475,000 by May 2024. What should be done?^{49 50}

Before looking at solutions, it is important to note that not all of those who are economically inactive claim benefits. Furthermore, not all on benefits are economically inactive – disability benefits, for example, are not means tested or affected by the work status of an individual. Reducing economic inactivity, however, remains a fiscal positive, drawing in tax revenues from work and cutting spend on those benefits that are means tested.

The way that benefits and taxes interact mean that work may not always pay that well. The IPPR found in England that “some households...[face] a combined tax-benefit withdrawal rate of 69 per cent because of the way Universal Credit taper rates and work allowances work alongside national insurance and income tax”⁵¹. In Scotland, the story is likely to be similar, and potentially worse given that new benefits such as the Scottish Child Payment are paid out to households only if they claim one of a range of other benefits, creating a bigger income drop if they come off benefits.^{52 53}

Scotland has also taken a different approach to processing benefits. Scotland gained control of Personal Independence Payment (PIP) from the DWP in 2022, and has been transitioning people onto its own Adult Disability Payment (ADP). The payment rates, and eligibility criteria applied are the same, but the ADP assessment process is designed to be less stressful. Evidence collected from family and carers is weighted as much as evidence from medical professionals, and the burden to collect and possibly pay for lots of additional medical information.⁵⁴

When it was introduced, the success rate for ADP was substantially higher than for PIP. Over time, however, the gap has reduced, with the ADP success rate falling from 69% in September 2022 to 53% in October 2023. For PIP, the success rate in October 2023 was 50%, after having increased from a typical level of 40% in the 5 years up to 2023. Since then, the success rate of ADP has continued to decline towards 41-43%, although later comparators with PIP are not available. A benefits system that is less stressful for those it is designed to support may not necessarily, then, result in greater success for applicants. The higher success rate earlier on may also reflect the people with the strongest need applying earlier on.

Figure 12: Application success rate for Adult Disability Payment, March 2022 to October 2024

Source: Social Security Scotland⁵⁵

The new Labour government in Westminster discusses wanting to “get Brits back to work” and the DWP has announced a new plan to “crack-down on benefits fraud”. This echoes the rhetoric of the previous Conservative administration and, campaigners fear, will lead to a repeat of the focus on benefits sanctions and demonisation of claimants.⁵⁶ Asked about benefits in a BBC *Today* Programme interview, the Prime Minister responded that “of course people need to look for work, but they also need support.” Their ‘Get Britain Working’ white paper had a number of welcome interventions. With 17% of the inactive population already wanting a job, it is on providing that support which governments should focus – this will be the focus of subsequent sections of this chapter.⁵⁷

That is not to say that improvements cannot be made to improve the incentives to work in Scotland.

Recommendations:

- Eliminate benefits ‘cliff-edges’:** The UK and Scottish governments should erase benefits ‘cliff-edges’ that diminish work incentives. For example, a young person living in supported accommodation working 12 hours a week can be earning just £23.48/week more than that they would on benefits. If they worked an extra hour, they would face being *worse off* because of benefit ‘cliff-edges’. Most of this will be under the purview of the DWP, but collaboration between the DWP and Scottish Social Security will be important so that both devolved and reserved benefits can be considered. The Labour government is currently reviewing the benefits system, with a view to finding £3bn worth of savings. This would be an opportune time for Holyrood to work with Westminster to ensure that changes dovetail in a way that reduces cliff-edges.^{58 59 60}
- Prioritise support over sanctions:** The UK and Scottish Governments should avoid the temptation to use benefits sanctions as a way to push people into the workforce. Whilst they may encourage engagement with finding work,

people are forced to take ‘any job’ rather than the right job. This has been shown to hamper career development and future earnings. Better to give people the space and support to skill up and find a job in something that makes the most of their abilities, and reserve sanctions for the most egregious cases where someone is not engaging.^{61 62}

As well as the right incentives, workers also need the right support to achieve their goals

Employability support for the economically inactive has several strands. Jobcentres are available for all of those out of work – unemployed workers actively seeking it, as well as those currently economically inactive. These remain under the control of the DWP. There are also employability programmes, Fair Start Scotland, its successor No One Left Behind, and the Young Persons’ Guarantee.

The approach of the Jobcentre Plus system can be seen as punitive when compared to the more supportive approach of the Scottish-led services. Service users find that the Jobcentre Plus and DWP has “...no compassion, no flexibility, or anything” with a drive to “just get a job”.⁶³

IPPR Scotland found that just 3% of those out of work who want to work accessed the two main Scottish support programmes in Q4 2023. Meanwhile, the majority will have experienced the Jobcentre Plus approach. They cautioned that “the devolution settlement and design of the system could actively work to undermine the Scottish government’s ambitions, by severely restricting the numbers of people eligible to get support from NOLB”.⁶⁴

The differing philosophies behind the Jobcentre and the Scottish employability services can therefore make an incoherent system of support. Further devolution in this area should therefore be embraced, as called for in Gordon Brown’s report of the Commission on the UK’s Future.⁶⁵

Scotland has strived to simplify its landscape of employability services

The Scottish Government took control of other strands of employability support in April 2017, effectively taking over the running of the DWP’s Work Choice and Work Programme as a transitional arrangement. In October 2017, contracts for Fair Start Scotland were awarded, with delivery starting in April 2018.⁶⁶

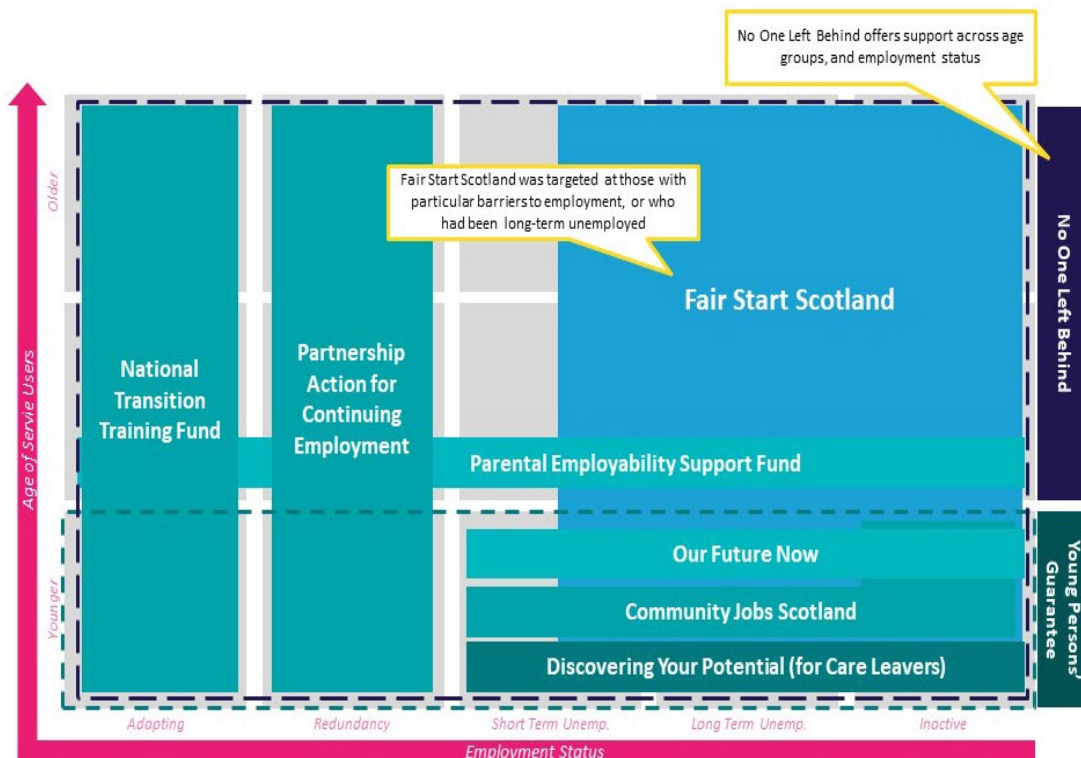
Fair Start Scotland is roughly equivalent to the Restart programme seen in England. It ran from April 2018 to March 2024, focused from day one of unemployment on those groups who may have greater barriers to working, and after 12 months of unemployment for the rest of the population. Users are given an advisor who meets them weekly, helping to find opportunities, understand their skills and prepare them for applications. Its delivery is contracted out to several providers across the nine regions of Scotland – a mixture of private sector, third sector and local authority providers.⁶⁷

Whilst delivery for this scheme was ramping up, the Scottish Government published No One Left Behind (NOLB), its longer-term reform plan for employability services, in March 2018. It made a number of changes, compared to Fair Start Scotland. Rather

than being delivered by regional, outsourced providers, services are commissioned at a local authority level. The 'Partnership Agreement for Employability' between the Scottish Government and the Convention of Scottish Local Authorities enshrined this collaborative approach. Services are also less targeted. People are able to self-refer, whereas 73% of Fair Start Scotland participants came through Jobcentre Plus.⁶⁸

NOLB also intended to streamline what is currently a complex landscape of services. As well as NOLB and Fair Start Scotland, there is a preponderance of other schemes. The diagram below illustrates the primary services, and how they differ based upon the intended age group and job situation.

Figure 13: Selection of Scottish employability schemes, arranged based upon target demographic and employment status



Source: SMF analysis

As part of the NOLB strategy, more services are being brought under the NOLB banner. The services focused on the younger generations are grouped under the Young Person's Guarantee. Both of these are shown with the dashed lines on Figure 13.

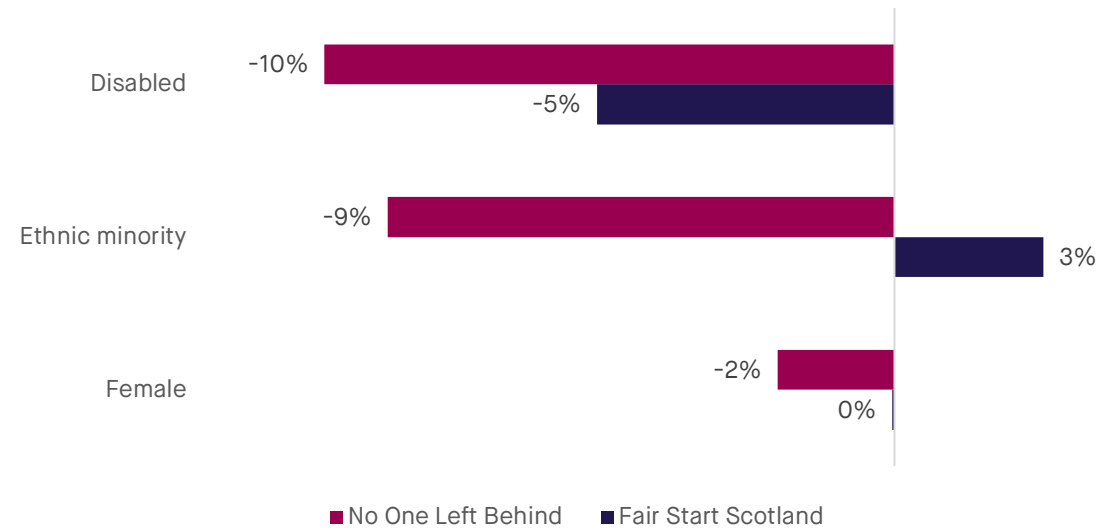
No One Left Behind sees disadvantaged groups perform relatively worse, and big disparities in outcomes between Local Authorities

Although No One Left Behind may help with streamlining, our analysis suggests that its outcomes are more unequal than under Fair Start Scotland. The data does not allow a direct comparison of employment outcomes between the two schemes. Fair Start Scotland measures outcomes after the programme length of 12 months, whilst No One Left Behind does not have a fixed end and counts outcomes from time someone starts on it. We can, however, compare outcomes for different groups within both schemes against the average for that programme.

No One Left Behind (NOLB) seems to be relatively worse at supporting those with more historic barriers to employment. Disabled people are 10%pt less likely to find a job after doing a NOLB programme than the average participant, compared to a gap of 5%pt for FSS. Ethnic minority people are 3%pt more likely to get a job after FSS than average, but 9%pt less likely than average under NOLB. Women are also slightly less likely to get a job through NOLB than average, whilst in FSS performance across the genders is even.⁶⁹ As NOLB is less targeted than FSS, it may be that caseworkers

focus more on groups that are easier to support, resulting in a wider disparity in outcomes.

Figure 14: Difference in share gaining employment between the programme average and average for certain characteristics for NOLB (as of end of September 2024) and FSS (up to end of 2022)



Source: Scottish Government, SMF analysis

There is also a greater variability in outcomes across local authorities. Figure 14 shows local authorities based upon what share of participants on either programme are marked as starting employment. As noted before, the employment outcome figures are not directly comparable, so purpose of this analysis is to show the distribution. The variability is significantly greater for No One Left Behind – the distribution is wider. The standard deviation, a measure of spread, is 9%pt for No One Left Behind, compared to 5%pt for Fair Start Scotland.

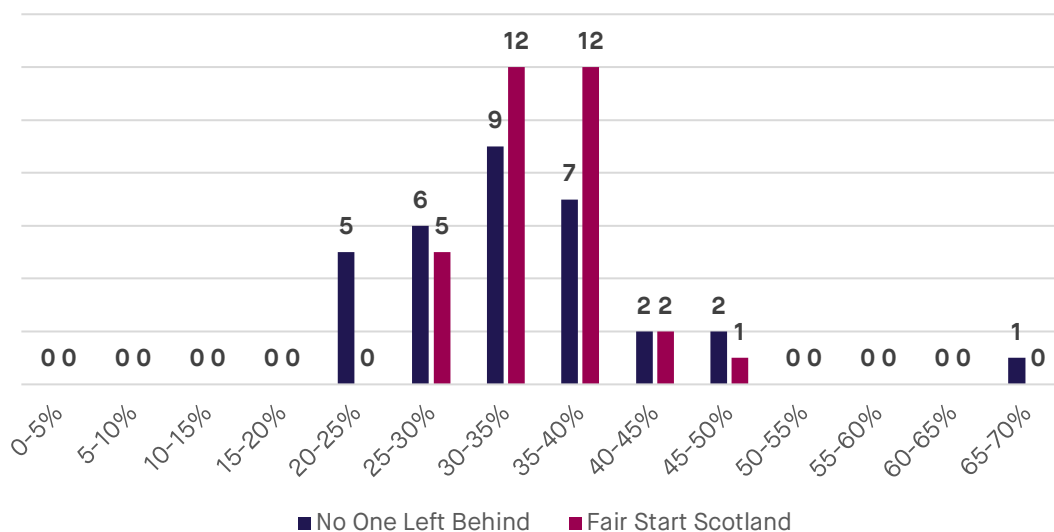
This result may reflect the local authority rather than regional approach of No One Left Behind compared to Fair Start Scotland. The decentralisation can be freeing for the better local authorities, but those living in weaker ones are being worse served. There are a range of issues identified with NOLB that may be driving this and other weaknesses.

NOLB funding is routed through local authorities which one provider described as making it a more “political process”, according to an IPPR report. This can reduce transparency over how much of local authority budgets are spent, and how. Some local authorities are also largely commissioning themselves to deliver employability services – up to 90% in some cases – creating a perceived conflict of interest and meaning that other providers, such as in the third sector, miss out.

Providers can find LA processes cumbersome, and duplicative if they seek to offer services in multiple areas. There is also evidence that some LAs are spending less on services that previously complemented Holyrood’s employability offers.^{70 71}

Moreover, providers have objected to the fact that budgets are issued annually, rather than multiple years. They say that this is “limiting their ability to plan longer term and creating pressure to allocate available local funding at pace”. One complained that “quite often it’s not even one year funding – by the time it comes through, we’re sometimes commissioning services for 6 months”. Much longer is required to deal with the intractable barriers to employment of some service users and this uncertainty in funding hinders this.^{72 73}

Figure 15: Number of local authorities by share of participants reaching employment outcomes after programme for NOLB (as of end of September 2024) and FSS (up to end of 2022)

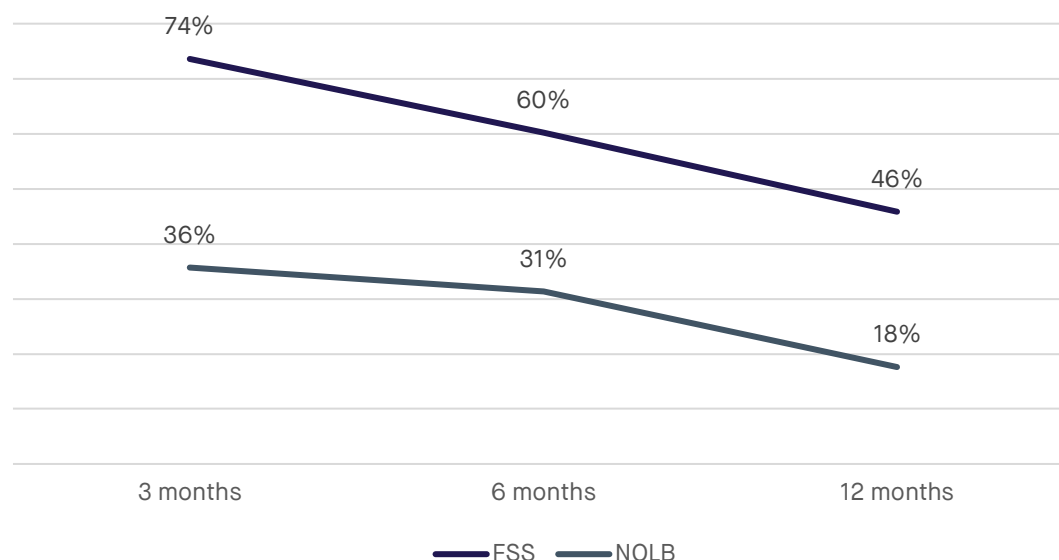


Source: Scottish Government, SMF analysis

NOLB is also terrible at keeping people in jobs, gathering data on participants, or both

Those who take part in FSS also seem to stay in jobs for longer than those doing NOLB, at least according to the available data. 74% of those who got a role after FSS are still employed after 3 months, whilst just over a third (36%) of NOLB participants are. By the year mark, just under half (46%) of FSS participants are employed compared to under 1 in 5 (18%) of NOLB starters.⁷⁴

Figure 16: Proportion of those who have started a job after beginning the programme, by the length of time that they stay in the role (FSS based upon average across Apr-Jun 2018 to Jul-Sep 2022, NOLB based upon Apr 2019 - Dec 2023 cohorts)



Source: Scottish Government, SMF analysis

This may be due to limitations in the data collection for NOLB. Local authorities are tasked with following up on participants at the various stages following the start of employment. The providers of FSS are more strongly incentivised to gather the longitudinal data on participants than local authorities are, as it drives a portion of their payment. If poor data collection is significantly driving this difference, then local authorities need to be pushed to meet the response rate of the FSS providers.⁷⁵

Scotland should offer more Individual Placement and Support, as England does

Whether through No One Left Behind or Fair Start Scotland, the country lacks provision of some well evidenced interventions, in particular Individual Placement and Support.

In 2023, the then UK Government announced changes to the benefits system and employability support as part of their 'back to work plan'. One of the most welcome was an expansion of access to Individual Placement and Support (IPS) to 140,000 additional people over the five year parliament, which the new Labour government has also committed to.⁷⁶

IPS is a specific method of supported employment. It is well evidenced. One literature review found that 27 out of 28 randomised controlled trials (RCT) found IPS had a positive impact on employment outcomes, with 55% of IPS participants entering 'competitive employment' versus 25% using other employability services.⁷⁷

The UK Government's own recent RCT found more mixed results, with strong employment outcomes in the West Midlands part of the trial, and strong wellbeing outcomes in the other part of the trial, in Sheffield. Researchers hypothesised that the better employment results in the West Midlands reflected more frequent

meetings with service users, a smaller caseload and a weaker labour market. The better wellbeing outcomes in Sheffield could reflect longer meetings and integration between employment and mental health services. This indicates how to strengthen IPS in the UK in the future.⁷⁸

In 2021/22, 20,850 people accessed IPS in England. In Scotland, meanwhile, just 9 people benefited from IPS in Scotland in the same year. A review of the use of IPS in Scotland, published in 2023, found that delivery did not yet align with the full set of principles behind IPS, and, clearly, this form of support was not widely enough available. It is unclear what is being done to offer IPS through the NOLB model.^{79 80 81}

A Scottish Service Year would target youth unemployment whilst buttressing public services

Community Jobs Scotland (CJS) ran from 2011 to 2022. It offered paid work placements of 25 hours a week for at least 6 months to those aged under 25, or under 30 if they had employment barriers. These roles were in the voluntary sector, providing impact to society more broadly whilst acting as an employability intervention. An evaluation of CJS found that 57% of those doing the programme went on to positive destinations (employment, education or training), or 64% if including volunteering. 48% of participants were retained by their placement hosts.⁸²

The programme was closed down as the NOLB reforms came in. Some local authorities may be working with local charities to offer work placements, but there are benefits to running such schemes in a more nationally unified way, as can be seen internationally. CJS also focused narrowly on voluntary sector employers. We recommend the creation of a Scottish Service Year. As Our Scottish Future suggests, there is a need for a programme for young people that learns lessons from the bureaucratic pandemic-era Kickstart programme and international examples.⁸³

Kickstart was initiated during the pandemic. It incentivised employers to take on young people by covering 25 hours a week of minimum wage for 6 months, along with a lump sum of £1,500 to cover onboarding costs. Jobcentre Plus was the sole entry point onto the scheme for young people, but this acted as a bottleneck, and take-up relied on the Jobcentre staff's ability to 'sell' the various placements which varied significantly, according to conversations had at the time with Kickstart providers. Employers also found the process of becoming registered and approved for the scheme extremely cumbersome, with smaller employers having to go through Kickstart Gateway organisations. In fairness to the DWP, this scheme was sprung up quickly in the middle of an emergency, but the experience suggests that more flexibility is required to recruit both young people and employers for such schemes.⁸⁴

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The AmeriCorps programme has been running since Bill Clinton's presidency, surviving multiple changes of administration. Service Civique in France, Servizio Civile Universale in Italy and FSJ in Germany are all examples of long-running programmes that are giving tens of thousands of young people work placements in socially impactful industries.

Inspired by these, report author Jamie Gollings helped to design and launch a pilot project in 2022 – UK Year of Service. This gave several hundred young people in England, Scotland, Wales and Northern Ireland paid, 9–12 month work placements in a broader range of fields than CJS had, including public sector employers, social enterprises as well as the voluntary sector. It also took more care to build a ‘movement’ around those taking part in the programme, offering in person and online training across the cohort. Over half of participants were on benefits before the programme. After it, over 80% were in work, education or training.⁸⁶

A Scottish Service Year would learn from these approaches. Young people aged 16–24 would be offered placements that have clear social benefit, lasting up to a year. Hours per week would be flexible, depending on the circumstances of the participant, but most would be full time, and paid at least at the National Living Wage. The roles would focus on areas where there are existing vacancies in public sector delivery, or other clear public need, such as education, healthcare, social care, home retrofitting and renewable energy.

The National Careers Service could manage this at a national level, in partnership with Scottish Combined Authorities if they emerged. Both bodies would be able to leverage their relationships with employers to identify Scottish Service Year placements, and then coordinate regional training and networking events for participants, to expose them to other potential roles and keep them inspired about their contribution to their community.

There are three areas of cost for such programmes – the salary, the cost to the employer of training and supporting their new staff, and the cost of any regional events. We estimate that £3,500ⁱ could cover the last two elements, which is in line with the cost of someone being on Job Seekers Allowance for a year. The salary element may also be essentially cost neutral if young people are placed to support or fill existing public sector vacancies, which are already budgeted for.⁸⁷

This principle should also extend to the older age group, whose skills and experience can help to reinforce public services

Research has shown that those retiring are still looking for chances to share their experience, and contribute to society. The Scottish employability services landscape currently lacks focus on this group. Our Scottish Future have proposed a ‘wind-down’ career status allowing “employees to gradually reduce their hours over time”, and a programme that “enable[s] older people to play a role in their community”.^{88 89 90 91}

The AmeriCorps Seniors scheme in the US gives older people a platform to help their communities. 140,000 take part every year, tutoring teens in the justice system, acting as befrienders to the elderly, renovating homes, providing employability skills classes or doing any number of other roles. As well as helping to support public services, 84% of volunteers reported stable or improving health after one year of

ⁱ The National Citizen Service are currently the National Partner delivering the UK Year of Service scheme. In their December 2023 grant guidance they offered employers £1,715 per placement. The costs of the National Partner running the scheme (in this case NCS) also need to be covered, so we have estimated a total non-salary cost of £3,500.

service, and 88% of those who felt a lack of companionship reported fewer feelings of isolation after joining AmeriCorps Seniors.⁹²

Scotland's public services are creaking, as in the rest of the UK. Drawing inspiration from AmeriCorps Seniors to launch a similar scheme – 'Seniors for Scotland' – could help to draw on the experience of older people to tackle those challenges. Those looking for a late change in career to something rewarding would be offered paid Scottish Service Year placements, where there is sufficient volume to not take opportunities away from young people. For people looking for less intensive hours, volunteering placements would be offered as in AmeriCorps Seniors. Participants would receive a volunteering stipend to cover their costs.

Weaknesses in the public realm are also holding back the workforce

The degradation of public services and care seen in the UK in recent years is a contributor to the increase in the inactive population. Swollen NHS waiting lists, a lack of affordable social or childcare are all factors that can keep people out of the workforce. This report does not aim to recommend cures for these wider issues, but it is important to acknowledge that, if the public realm recovers, then this will benefit economic activity rates.

The growth in illness was the most significant contributor to growing economic inactivity. The waiting list for NHS treatment was ticking up in Scotland before the pandemic, but since then it has nearly doubled, as Figure X shows for outpatients. The waiting list for psychological therapies is down from a peak in 2019, but still at a markedly higher level than it was in the mid-2010s⁹³.

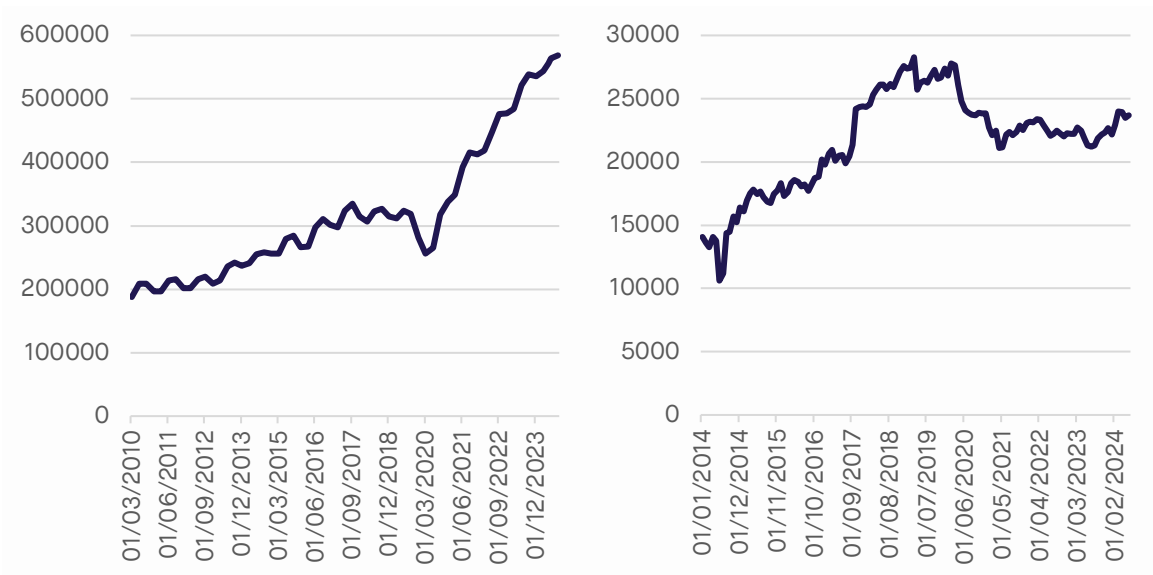
NIESR found a clear correlation between economic inactivity and waiting lists in England following the pandemic, although there was not one beforehand.⁹⁴

The Office for Budget Responsibility explored this relationship further, modelling the extent to which cutting the NHS waiting list would contribute to falling inactivity in England. They found that there would be an impact, but that it would be small, "reducing working-age inactivity by around 25,000". The small impact is because most of the treatments being waited for are not likely to change someone's work capability, and although longer than previously, a median wait of 15 weeks is much shorter than the typical length of time someone is economically inactive for⁹⁵.

Translating that scale of impact to Scotland would result in the movement of several thousand people back into economic activity – positive, but not enough to solve the problem alone. The Scottish government pledged £30m extra in April to help tackle the longest waits.⁹⁶ This is likely to help but come far from clearing the backlog.

Figure 17: Left - New outpatient appointment waiting list size, March 2010-September 2024

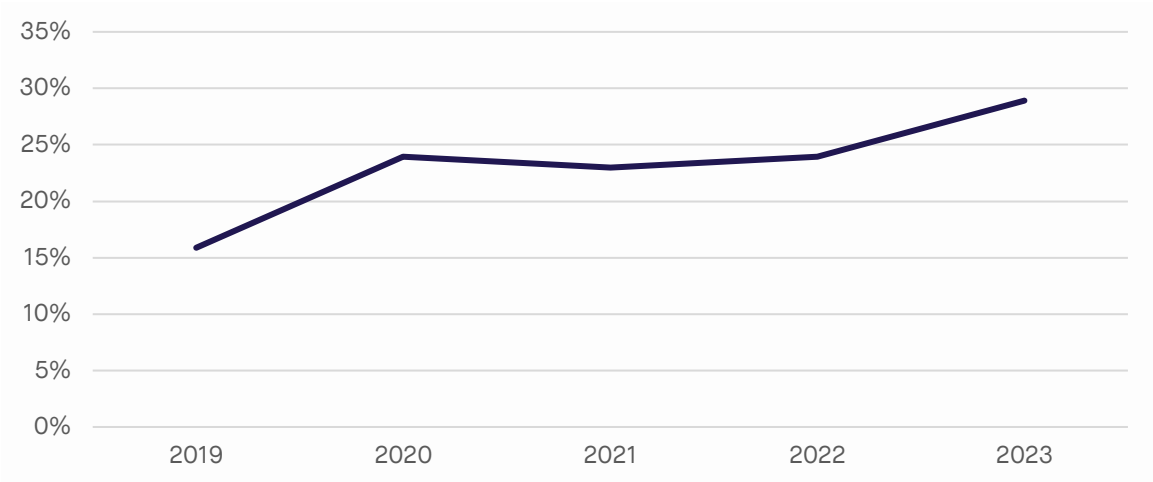
Figure 18: Right – Psychological therapies waiting list size, January 2014-June 2024



Source: Public Health Scotland

The falling share of working age people looking after family or the home was a boon to economic activity figures over the period that we have studied. To support this further, families need the social care and childcare support available to help them return to the workforce if they want to. However, like the healthcare system, the social care system is also suffering from delays. Figure 19 focuses on those aged 18 to 64 who are waiting for care after an assessment. It shows that the proportion waiting for more than 6 weeks has nearly doubled from 16% to 29% from 2019 to 2023.⁹⁷

Figure 19: Proportion of clients aged 18-64 waiting more than 6 weeks for service delivery after having been assessed, 2019-2023



Source: Scottish Government

Parents and guardians are another group who have increasingly moved into the workforce, especially women. The Scottish childcare system is strained. One survey found that 34% of parents report that their childcare provider has a waiting list longer

than 9 months, with 43% saying that childcare costs mean they cannot afford any more children. The number of nursery teachers halved in Scotland from 2012 to 2022, with almost 1 in 10 Scottish parents having faced the closure of a provider they were using, compared to 6.8% in England.^{98 99}

The Scottish Government is offering up to 30 hours of free childcare to all 3- and 4-year-olds, and for 2-year-olds whose families are claiming one of the qualifying benefits (e.g. Universal Credit, Income Support). Take up is high, with 97% of 3-4 year-olds and 52% of eligible 2 year-olds accessing the government funded childcare. Even those who benefit from this support face costs though – some nurseries charge top up fees on food and nappies, and hours above 30 a week are not covered. Childcare is likely to remain a barrier for a number of parents returning to work, until the supply of staff in the sector, and therefore the number of nurseries available, expands to meet the demand.^{100 101}

CHAPTER FOUR – RECOMMENDATIONS

- **Devolve Jobcentres to Scottish regions:** Power over the Jobcentre network should be passed to groupings of local authorities. Their operational philosophy can then better align with the Scottish approach to employability support, and connect to other regional skills provision and needs.
- **Enquiry into No One Left Behind performance:** Our analysis has raised red flags regarding disparities in outcomes on NOLB. The current data does not allow a direct comparison between No One Left Behind and its predecessor, let alone schemes elsewhere in the UK and abroad. The Scottish Government should launch an investigation into the performance of No One Left Behind, the disparities revealed in this report, and understand what may be driving it.
- **Greater transparency, sharing and stability of funding for NOLB:** Holyrood should track the share of spending supporting third sector organisations and encourage LA to use at least 20% of funding in this way to ensure diversity of services. Funding for providers needs to be multi-year to enable investment.
- **Expand Individual Placement and Support to 5,000+ places a year:** Scotland should do more to offer IPS, as England is, and as Our Scottish Future recommended in *From Growth to Good*. Scaling England's ambitions down to Scotland's population, around 4,500-5,000 IPS places would be offered a year. That would be c150 per local authority. IPS may be delivered most effectively through partnerships between multiple local authorities, or combined authorities, to benefit from scale, especially where neighbouring LAs are commutable, as in the central belt.
- **Introduce a 'Scottish Service Year':** Programmes like the cancelled Community Jobs Scotland can combine social impact with employability benefits, as seen in the UK Year of Service pilot, which reduced the NEET rate from over 50% to under 20%. A Scottish Service Year would follow that model, giving 9-12 month paid placements in anything from home insulation to healthcare, with participants brought together to network and receive training.
- **Introduce a 'Seniors for Scotland' scheme:** The AmeriCorps Senior programme gives 140,000 older Americans the chance to contribute to their communities each year, whilst keeping them healthy and reducing loneliness. A Seniors for Scotland programme would do the same, enabling older people to contribute their skills and experience to reinforce public services. Some of the placements identified for the Scottish Service Year would be appropriate for those looking for a late career change, and could be offered on the same terms to those aged 55+. There would be an additional voluntary placement strand, as with AmeriCorps, managed through shared procurement between local authorities.

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¹⁰⁰ <https://www.gov.scot/policies/early-education-and-care/early-learning-and-childcare/>

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