



# Spare capacity in the Northern Ireland labour market – Paper 3

An hours-based assessment of labour market slack

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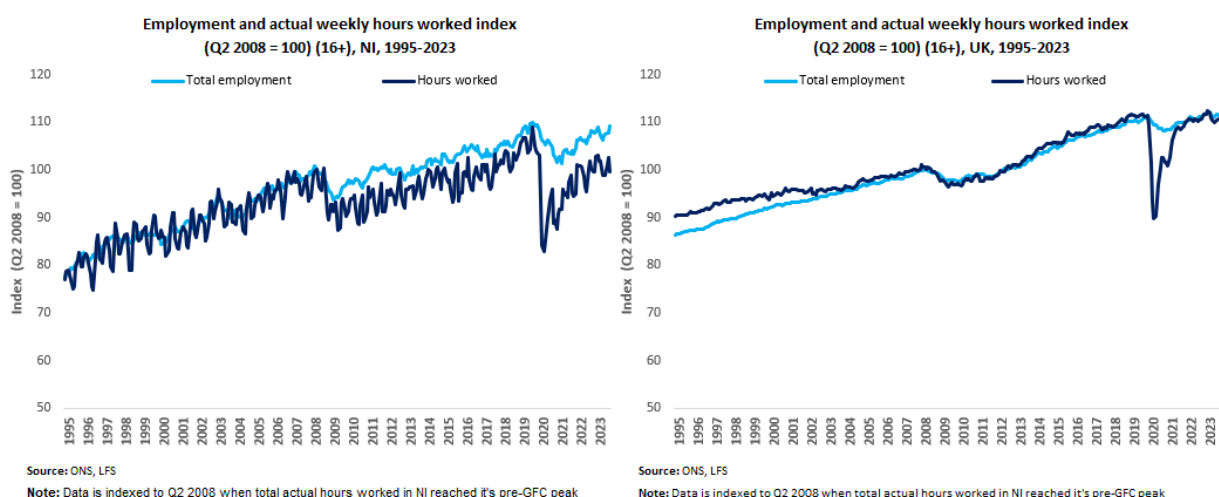


## Introduction

The first two reports in this series demonstrated that the Northern Ireland (NI) labour market has largely recovered from the global pandemic, with the local economy returning to pre-pandemic levels of employment and posting some of its lowest ever recorded unemployment rates in 2023. However, the reports highlighted that **the ILO definition of unemployment is narrow and masks spare capacity in the labour market** – notably hidden unemployment.

Further, the employment rate does not account for in-work spare capacity (i.e., underemployment). For this reason, hours-based measures can paint an alternate portrait of labour market performance. For example, following the 2007/08 Global Financial Crisis (GFC) total employment in NI returned to its pre-recession peak in early 2012. However, it took a further three years for the total number of hours worked to return to its pre-recession level. The severity of the 2007/08 global recession also appears to be more extreme on an hours worked basis. From peak to trough employment fell by 5%, whereas hours worked fell by 12%. The divergence between hours-based and people-based measures of total labour inputs was starker in NI relative to the UK as a whole. This suggests that **during the post-GFC recovery in NI total employment overstated the speed of the recovery** relative to the UK.

**Figure 1: Total hours worked and total employment, UK and NI (Q2 2008=100), 1995-2023**



Similarly, a large divergence between the two series emerged due to the Covid-19 pandemic. With restrictions in place many businesses could not operate causing a sharp decrease in the number of hours worked across the economy. The main employment support programme, the Coronavirus Job Retention Scheme (CJRS), enabled furloughing of employees at up to 80% of their wages. The labour market statistics counted workers who had been furloughed as employed, even if they have not been working.

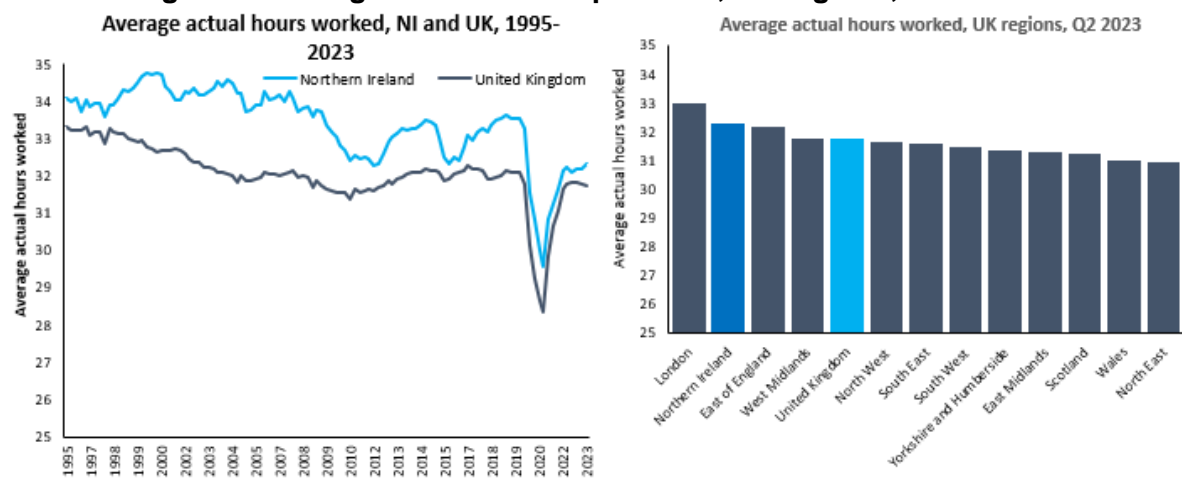
Therefore, **there are periods in an economic cycle when hours-based measures of labour inputs are the most appropriate indicator** to measure the health of the economy. This briefing paper provides an overview of the trends in hours worked, the number of additional hours sought from underemployed workers across the NI economy, and present an overarching measure of labour market slack using an hours-based approach. This paper then closes with a policy discussion, drawing from findings across the three briefing papers comprising this 'spare capacity' series.

## Hours worked

Paper 2 in this series highlighted that a smaller proportion of people in NI wanted to ‘work more hours’ compared to the UK (5.6% and 9.8% respectively). However, this may be aligned to higher average hours worked per week in NI compared to the UK. The average worker in NI works 32.3 hours per week, compared to 31.7 in the UK. Although, it should be noted that gap in working hours between NI and the UK has narrowed significantly when compared to pre-pandemic working patterns. In other words, the average number of hours worked in NI remains significantly below its pre-pandemic position, whereas the UK working patterns have almost returned to pre-pandemic norms.

NI has recorded a higher number of hours worked relative to the UK as a whole throughout the past three decades. A key reason for this is the structure of employment, whereby NI has a larger share of employment in sectors where jobs are predominantly full-time (e.g. agriculture and construction).

**Figure 2: Average hours worked per week, UK regions, 1995-2023**



Source: Labour Force Survey

Note: Figures refer to a 4-quarter rolling average.

Note: Figures refer to average actual hours worked in a persons main and second job.

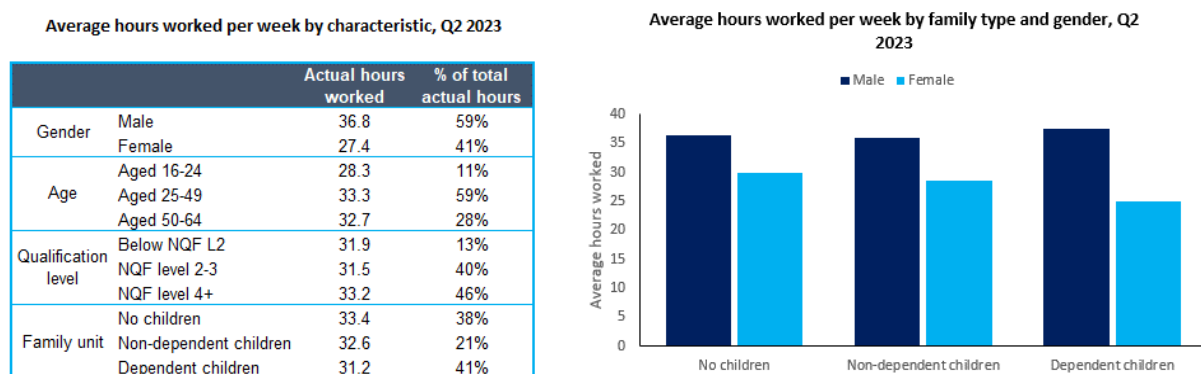
Source: Labour Force Survey

Note: Figures refer to a 4-quarter rolling average.

Note: Figures refer to average actual hours worked in a persons main and second job.

**The number of hours worked varies greatly depending on the characteristics of those in the labour force.** For example, men work on average 37 hours per week compared to 27 hours per week for women, due to differences in working patterns. Females account for around three quarters of part-time employment and two-fifths of full-time employment. Whereas nearly nine-tenths of employed men work full-time.

**Figure 3: Average hours worked per week by characteristic, NI, Q2 2023**



Source: Labour Force Survey

Note: Figures refer to a 4-quarter rolling average.

Source: Labour Force Survey

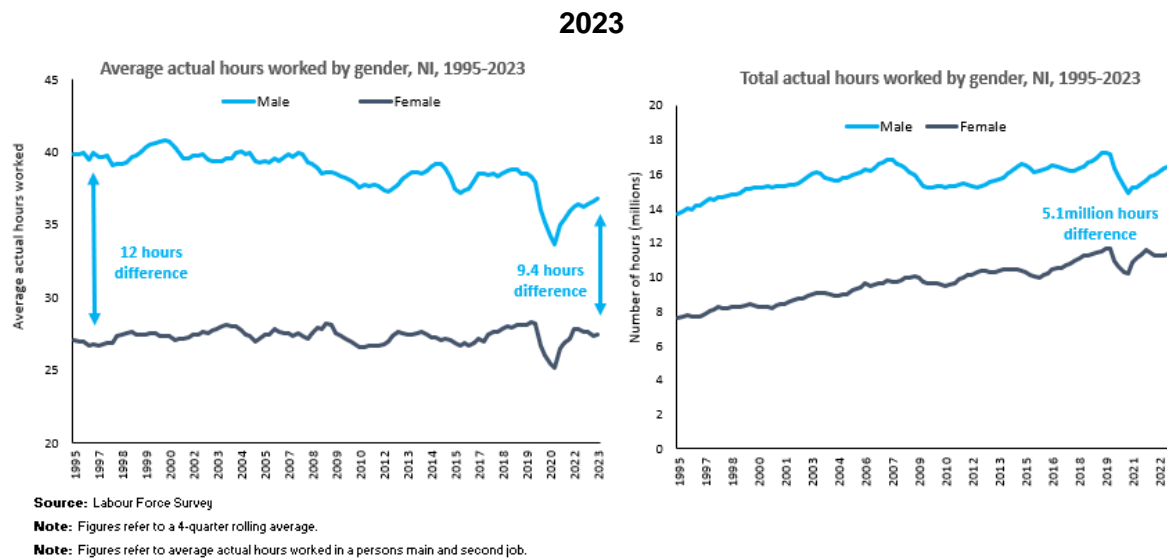
Note: Figures refer to a 4-quarter rolling average.

The additional barriers faced by females with childcare responsibilities in accessing full-time work are evident from Figure 3. **Females with dependent children work on average 24.9 hours per week compared to 30.0 hours amongst females with no children.** The same difference in hours worked is not evident amongst males in employment. This is likely to be a function of the division of childcare responsibilities amongst parents, whereby females are more likely to reduce hours<sup>1</sup> and take up lower status jobs relative to their qualifications and experience<sup>2</sup>. However, a gender gap in the average working week also exists for those with no children or with non-dependent children, indicating that there are other factors beyond childcare which influence working hours.

It is worth noting that **the gap between male and female hours worked has narrowed over the past 30 years.** In the mid-90's the average male worked 12 hours more than the average female, this has narrowed to 9 hours in 2023. However, the average number of hours worked for both men and women remains below pre-pandemic levels. Average hours worked by men are currently 4.0% below its pre-pandemic level, compared to 3.1% for women.

Higher female labour market participation alongside a narrowing of the gender gap in the average hours worked has led to an increase in the female share of total hours worked from 34% in the early 2000's to 41% today. **Over the past 25 years women have accounted for approximately two-thirds of the overall increase recorded in hours worked,** highlighting the important role that raising female labour market participation has had on the growth of NI economy.

**Figure 4: Average hours worked per week and total hours worked by gender, NI, 1995-**



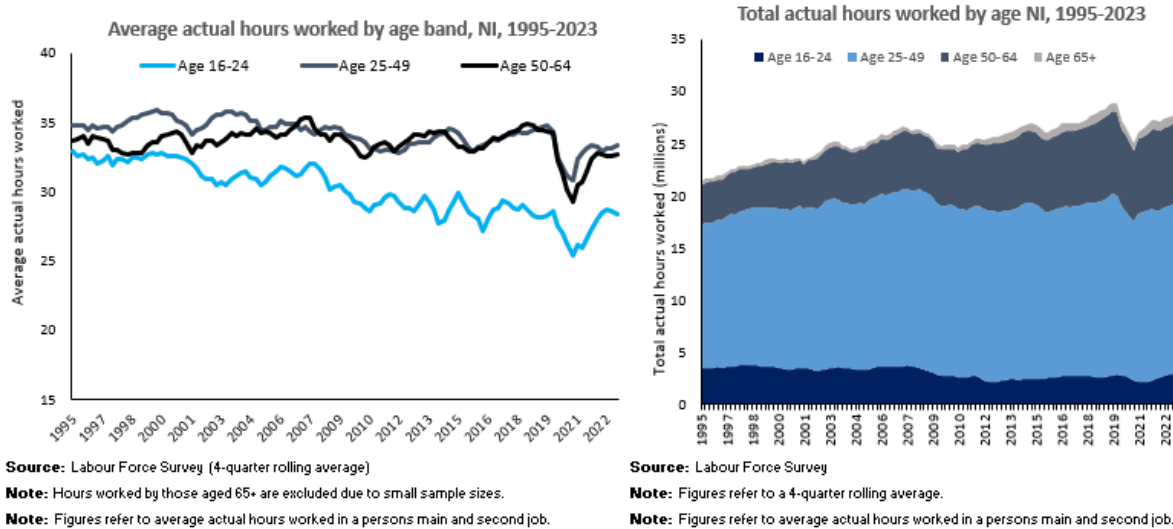
Outside of the Covid-19 pandemic average hours worked by age category for prime-age workers (25-49) and older workers (50-64) have remained relatively constant over the past 30 years. However, **older persons have steadily increased their share of total hours worked in the NI economy from less than one-fifth throughout the 1990s to almost one in three today.** Therefore, the rise in older workers' share of total labour hours is a function of an aging population rather than a change in work patterns. The main observable change over the past three decades in hours worked is a reduction in average hours worked by younger workers.

<sup>1</sup> Andrew, A., Bandiera, O., Costa-Dias, M. and Landais, C. (2021), 'Women and men at work', IFS Deaton Review of Inequalities. Available via: [IFS-Inequality-Review-women-and-men-at-work.pdf](https://www.ifs.ac.uk/research/2021/06/women-and-men-at-work)

<sup>2</sup> Murphy, L (2022) Constrained choices: Understanding the prevalence of part-time work amongst low paid workers in the UK. Available via: <https://www.resolutionfoundation.org/publications/constrained-choices/>

This is largely attributable to an increase in higher education participation, which has led to an increase in the share of young people in employment working part-time.

**Figure 5: Average hours worked per week and total hours worked by gender, NI, 1995-2023**



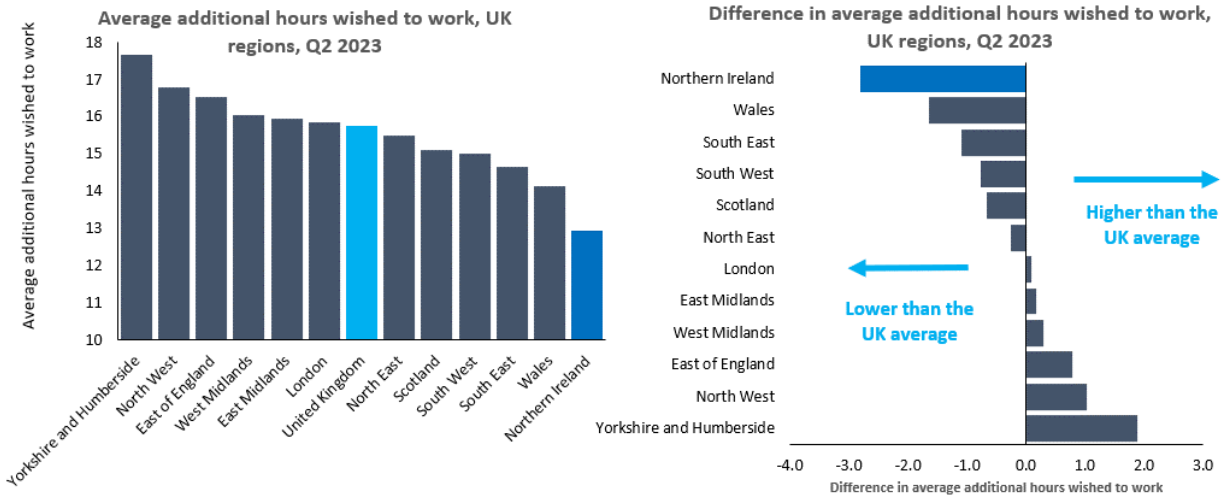
## Underemployed workers: The demand for hours

An 'underemployed' worker is defined as a situation where a person in employment is working fewer hours than they wish. For example, a person may wish to work 38 hours per week, but their employer can only offer 32 hours per week. Although NI workers record longer hours on average than their counterparts in the rest of the UK, there remains an hours deficit amongst certain groups.

Paper 2 in this series found that NI has the lowest proportion of people in employment reporting a deficit in preferred working hours amongst UK regions. However, underemployment exists to various degrees. For example, a worker can be marginally underemployed whereby they wish to work a small number of additional hours. Other workers can be severely underemployed, with relatively few hours available to them in their existing job.

In NI it is estimated that the **average number of additional hours sought by underemployed workers is 13.0**, which compares to 15.8 in the UK and is the lowest amongst any UK region.

**Figure 6: Average additional hours wished to work (% of employed population) and difference with UK average, UK regions, Q2 2023**

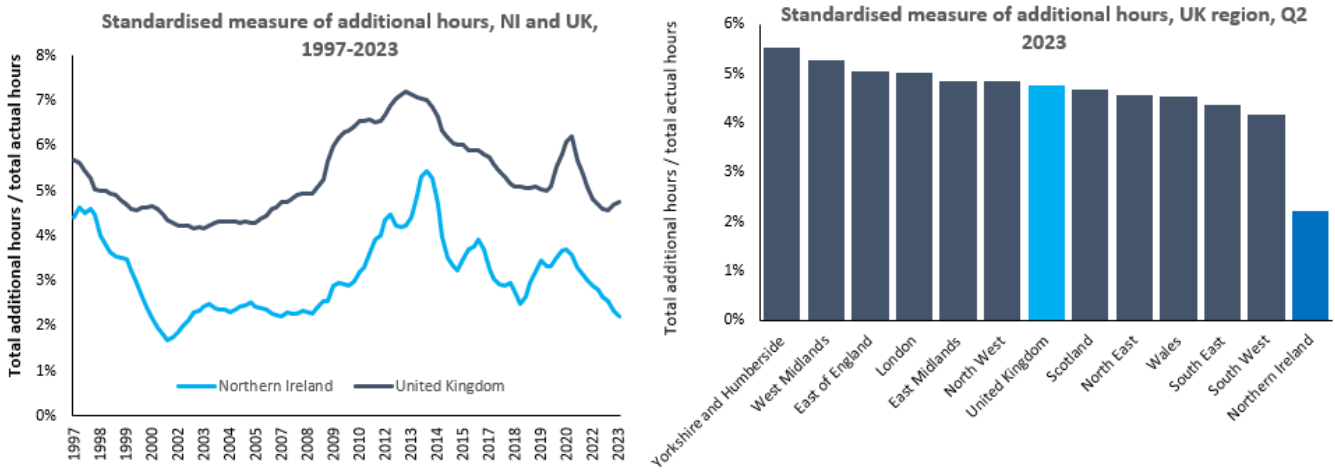


Source: Labour Force Survey  
 Note: Figures refer to a 4-quarter rolling average.

Source: Labour Force Survey  
 Note: Figures refer to a 4-quarter rolling average.

Standardising<sup>3</sup> the rate of hours-based underemployment to reflect the number of labour hours utilised enables regional comparisons. **NI has a standardised underemployment rate of 2.2%, the lowest rate amongst UK regions.** That is, the total additional hours underemployed workers want to work in NI accounts for 2.2% of total actual hours worked. To put this in context, for NI to have a rate as high as the UK (4.8%) would require the number of additional hours demanded by underemployed NI workers to more than double.

**Figure 7: Standardised measure of underemployment (total additional hours demanded / total available hours), UK regions, 1997-2023**



Source: Labour Force Survey  
 Note: Figures refer to a 4-quarter rolling average.

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 Note: Figures refer to a 4-quarter rolling average.

<sup>3</sup> The rate of underemployment is standardised by summing the total additional hours demanded by those in employment and dividing by the total actual hours worked in the economy.

Standardised hours-based underemployment increased between 2008-2014. A period where the increase in unemployment was less than expected. In other words, **headline unemployment masked the extent of labour market weaknesses during the GFC and the overstated the strength of the post-recession recovery.**

Whilst there was an increase in underemployment over the Covid-19 pandemic, the rise was small in comparison to the increase recorded following the GFC. During the post-pandemic recovery, there has been a rapid fall in hours-based underemployment, reflecting intense competition for talent as firms sought to build back their workforces. The resulting increase in vacancies led to an increase in job to job moves, and a smaller proportion of people trapped in jobs unable to provide workers with their desired number of hours.

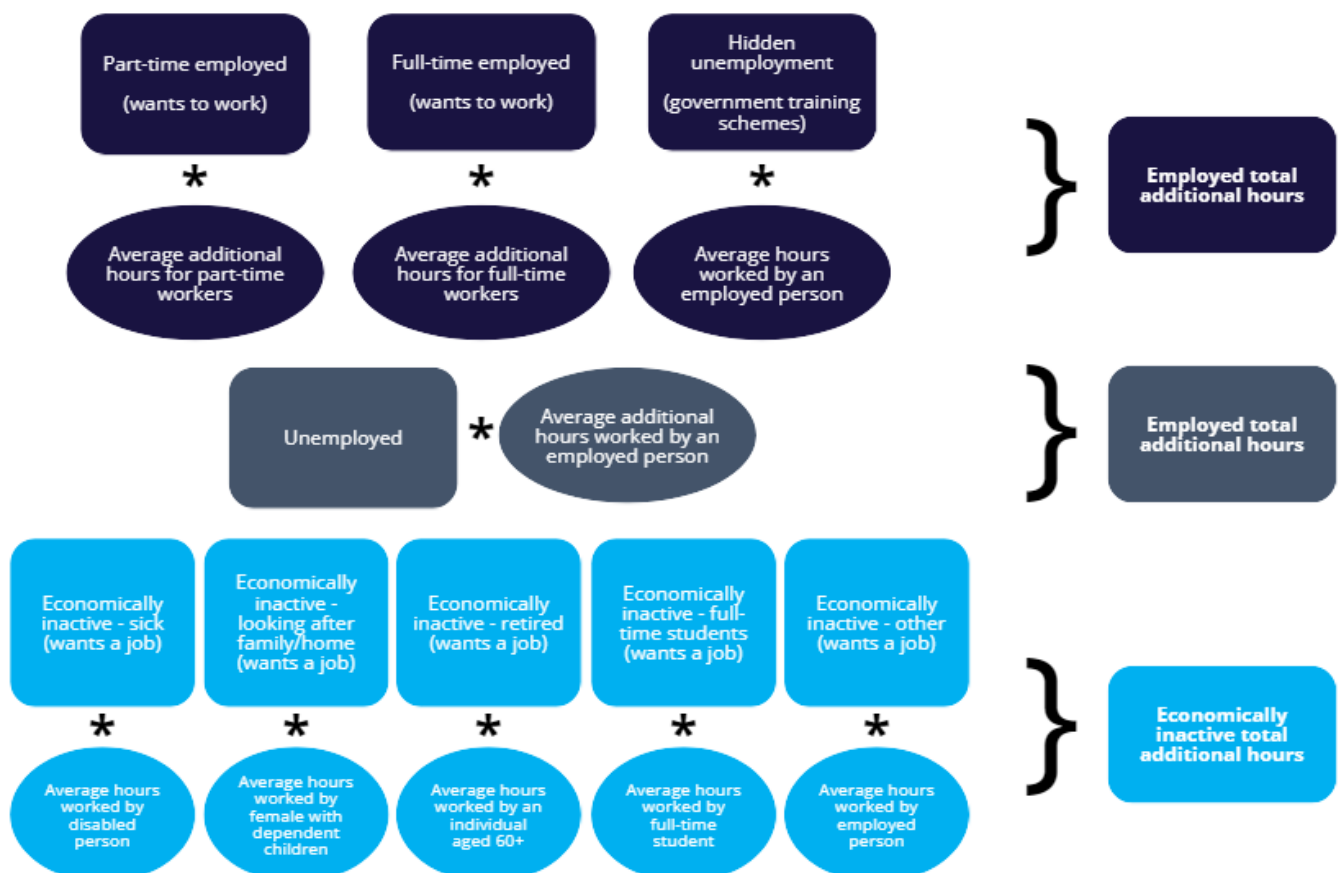
## Overall labour market capacity

This report series discussed the concepts of hidden unemployment (i.e. calculating the real unemployment level) and underemployment (i.e. identifying those in work that would like to work more hours). Data relating to these two concepts have been calculated separately, but they are not mutually exclusive. For example, our analysis of hidden unemployment did not include people in employment who would like to work more hours. On the other hand, underemployment only accounts for the additional hours an employed person would like to work, but does not account for the hours a workless person would like to work.

### A holistic measure of spare capacity in the labour market

To develop a methodology of spare capacity combining hidden unemployment and underemployment, an hours-based approach is adopted. This is summarised in the figure below.

**Figure 8: Conceptual model to calculate spare capacity in the labour market**



The holistic measure of spare capacity includes:

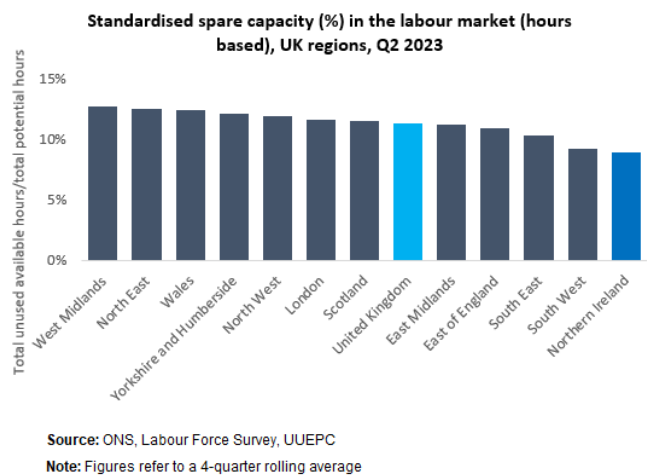
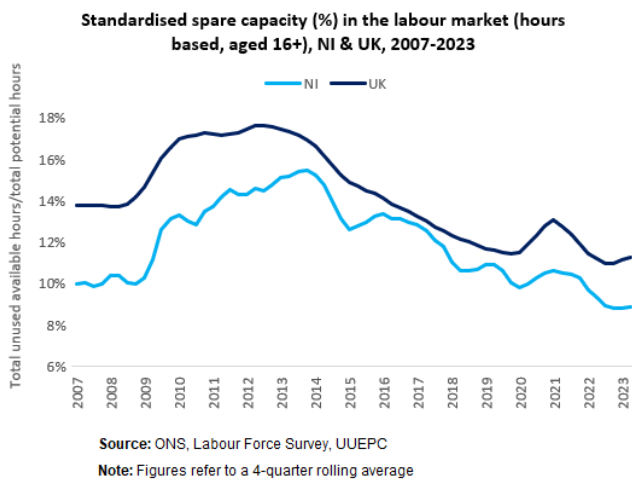
- Hidden unemployment (a potential 50,500 workers);
- The ILO unemployed (a potential 23,400 workers); and
- Underemployed workers (47,200 workers who want to work more hours).

Spare capacity is measured using an hours-based equation similar to how the ILO unemployment rate is calculated in people-based terms. The proportion of spare capacity available in the labour market is calculated by the following formula:

$$\text{Spare capacity (\%)} = \frac{\text{Total additional hours wanted (employed, hidden unemployed and unemployed)}}{\text{Total hours worked + total additional hours wanted}}$$

This measure indicates spare capacity in the NI labour market is currently 8.9% of total potential hours available in the economy, which compares to 11.3% in the UK. **The NI labour market has the least spare capacity available of any of the 12 UK Government Office Regions**, with the South West, South East and East of England recording the next tightest labour markets on this measure. NI is an outlier in this group because these English regions also record the highest employment rates in the UK, whereas NI has the lowest employment rate amongst UK regions. NI continuing to record a stubbornly high economic inactivity rate within a labour market with limited spare capacity marks it out as unique amongst UK regions.

**Figure 9: Spare capacity in the NI labour market, UK regions, 2007-2023**



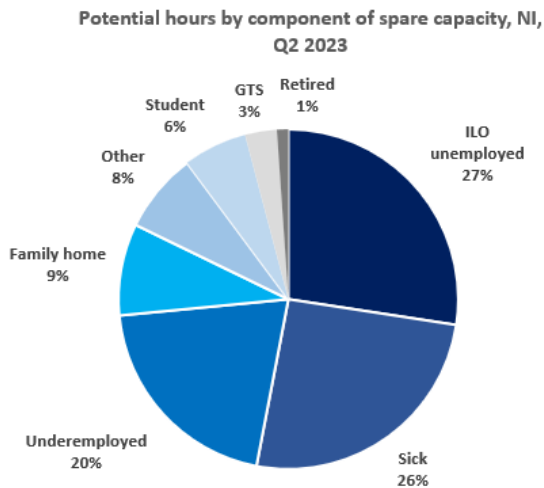
On an hours basis, the composition of unused labour hours in the economy is as follows:

- The unemployed (27% of total potential hours);
- The hidden unemployed (53% of total potential hours); and
- Underemployed workers (20% of total potential hours).

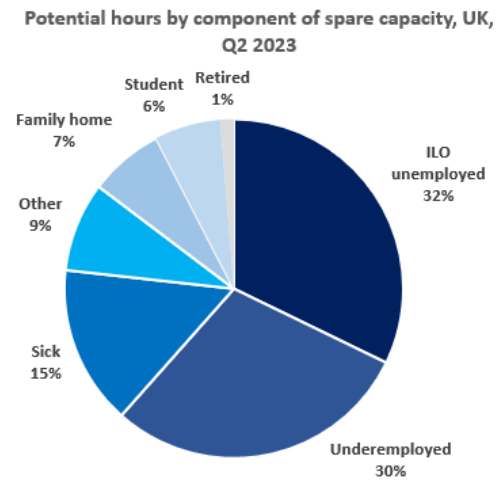
The unemployed represent over one in four unused labour hours in the NI labour market. This demonstrates that **the unemployment rate in isolation no longer represents a reliable barometer of the genuine level of spare capacity in the local economy.**



**Figure 10: Distribution of unused labour hours in, NI & UK, Q2 2023**



Source: Labour Force Survey, Department of Economy, Department of Communities  
 Note: Figures refer to a 4-quarter rolling average



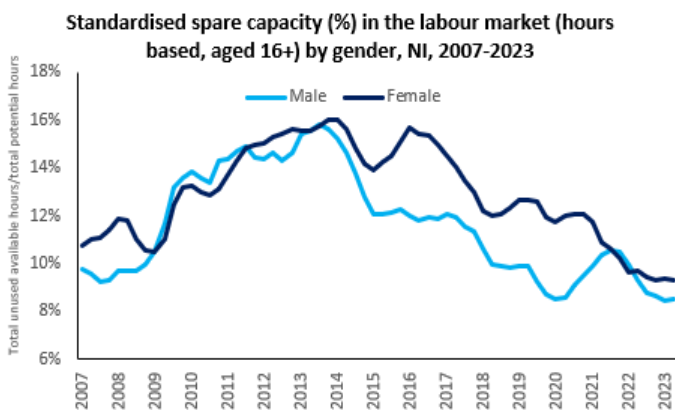
Source: Labour Force Survey, Department of Economy, Department of Communities  
 Note: Figures refer to a 4-quarter rolling average

The **distribution of unused hours differs between the NI and UK labour markets**. A smaller proportion of spare capacity is manifested in the form of underemployment in NI (20%) compared to the UK (29%). A much higher proportion of potential labour supply comes from those economically inactive due to sickness (26%) relative to the UK (15%), owing to NI's much higher rates of sickness per capita.

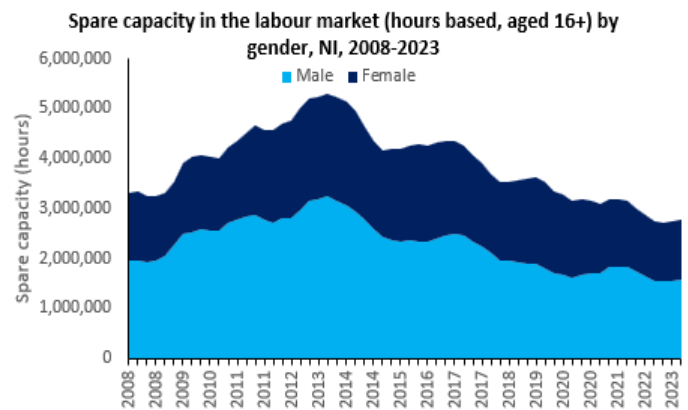
### Spare Capacity: Gender

The **standardised spare capacity rate in the NI labour market is slightly higher amongst females (9.3%) than males (8.5%)**. However, as there are more men than women in employment, males account for more unused hours in the labour market (around three-fifths).

**Figure 11: Spare capacity by gender, NI, 2007-2023**



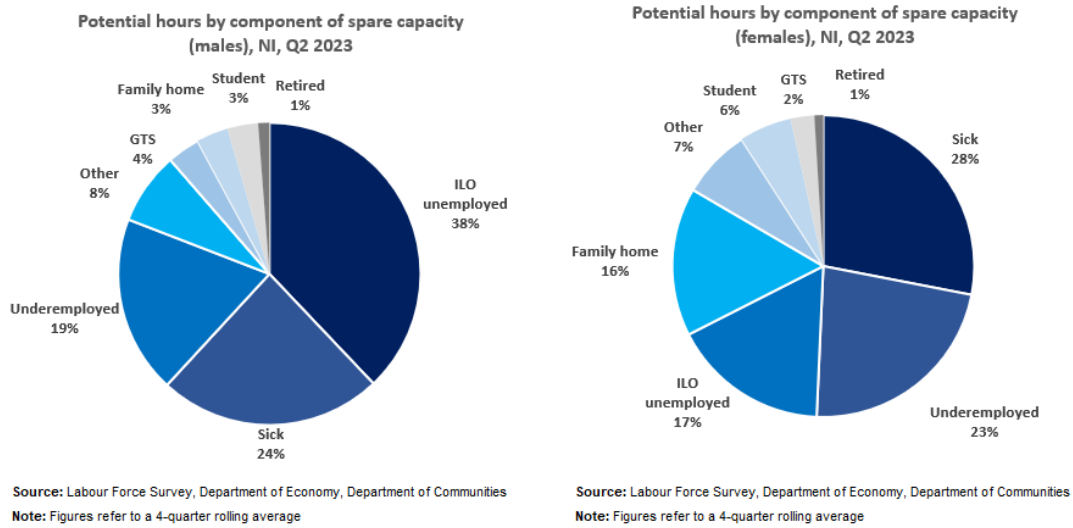
Source: ONS, Labour Force Survey, UUEPC analysis  
 Note: Figures are based on a 4-quarter rolling average



Source: ONS, Labour Force Survey, UUEPC analysis  
 Note: Figures are based on a 4-quarter rolling average

The composition of potential hours differs between males and females. For example, unemployment represents only 17% of unused labour hours amongst women compared to 38% amongst men. Economic inactivity due to looking after the family/home accounts for 16% of female spare capacity compared to 3% of male spare capacity. Therefore, **although there are similar rates of spare capacity in both genders, the composition is very different**.

**Figure 12: Spare capacity by gender and economic status, NI, Q2 2023**



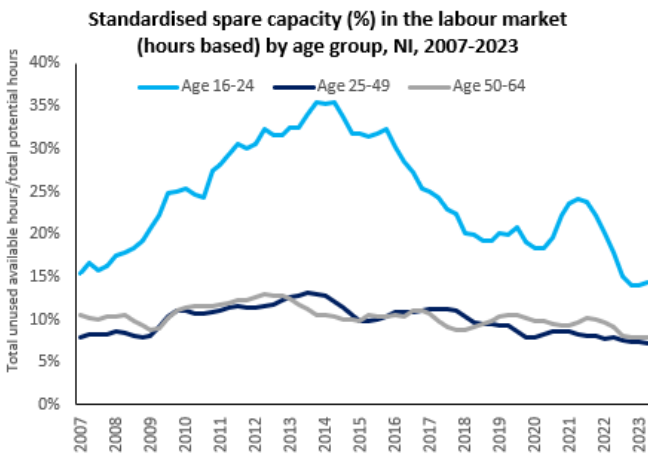
### Spare Capacity: Age

**Young people under 25 years old have the highest rates of spare capacity and tend to be the most sensitive to changes in the business cycle.** For example, following the GFC unused labour hours amongst young people increased significantly as a function of rising youth unemployment and growing underemployment.

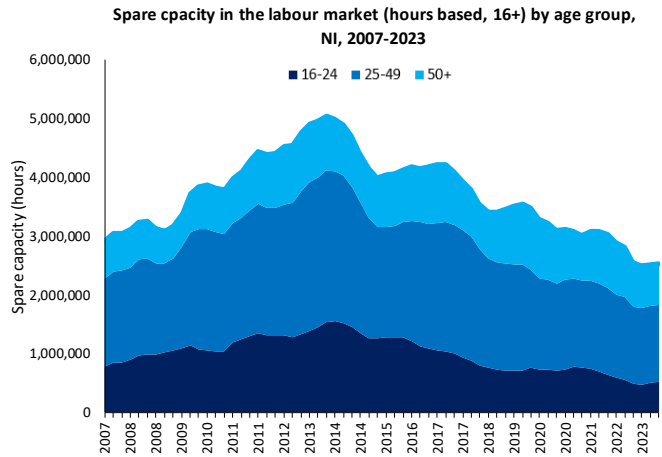
In the five years preceding the Covid-19 pandemic spare capacity amongst young people decreased to pre-GFC levels. However, at the onset of the pandemic youth spare capacity increased in response to the introduction of restrictions on trading, with the most impacted sectors tending to be those with a youthful workforce such as retail and hospitality. However, **in the post-pandemic recovery unused hours amongst young people fell to an all-time low**, which has a disproportionate impact on recruitment difficulties for sectors relying on young and flexible labour.

Although 16-24 year olds have the highest standardised spare capacity rate (14%), they only account for one-fifth of total unused hours. The 25-49 group account for the largest proportion of unused hours (51%). The over 50's have increased their share of total unused hours from less than one-fifth ten years ago (18%), to over one quarter (28%) today. As the population ages it is expected that this trend will continue, and **an increasing proportion of the labour supply will be concentrated in the over 50 age group.**

**Figure 13: Standardised underemployment by age, NI and UK, 1997-2023**



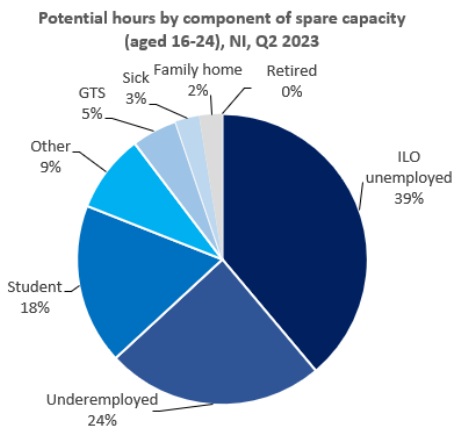
Source: ONS, Labour Force Survey, UUEPC analysis  
 Note: Figures are based on a 4-quarter rolling average



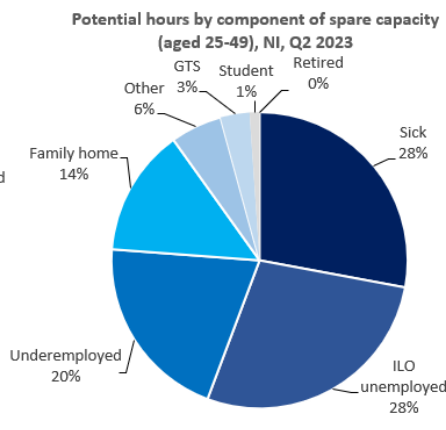
Source: Labour Force Survey  
 Note: Figures refer to a 4-quarter rolling average

The profile of unused hours across age groups is very different. Almost one-fifth (18%) of unused hours amongst 16-24's are attributable to non-working students. Therefore, flexible and attractive work is important to improve labour market participation. Nearly one-quarter (24%) of available labour hours amongst young workers are from underemployed workers. Amongst 25-49 year olds, family and home commitments are more severe barriers to labour supply relative to other age groups. However, sickness and unemployment are larger sources of potential labour hours within this age group. For older workers, sickness is the major barrier, accounting for almost half (46%) of unused hours amongst the over 50's.

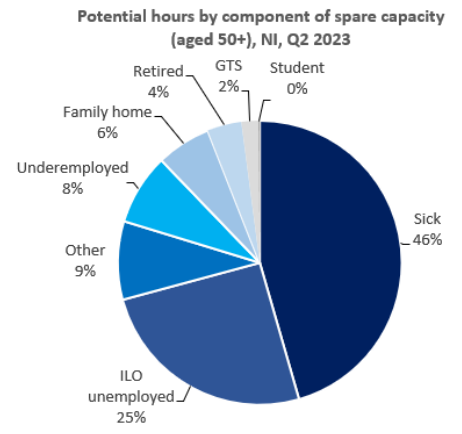
**Figure 14: Spare capacity by economic status and age group, NI, Q2 2023**



Source: Labour Force Survey  
 Note: Figures refer to a 4-quarter rolling average



Source: Labour Force Survey  
 Note: Figures refer to a 4-quarter rolling average

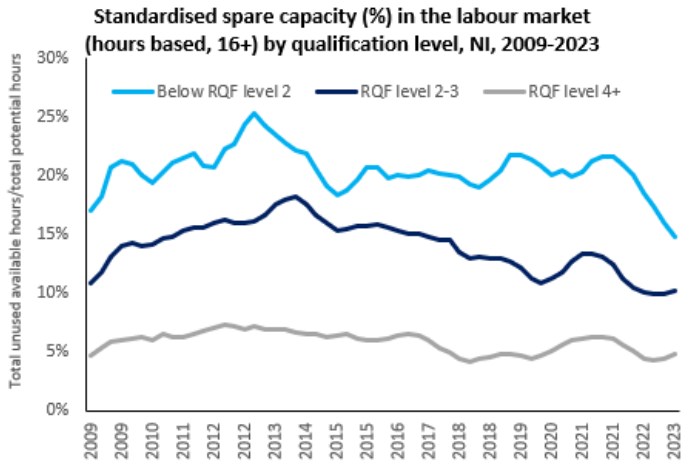


Source: Labour Force Survey  
 Note: Figures refer to a 4-quarter rolling average

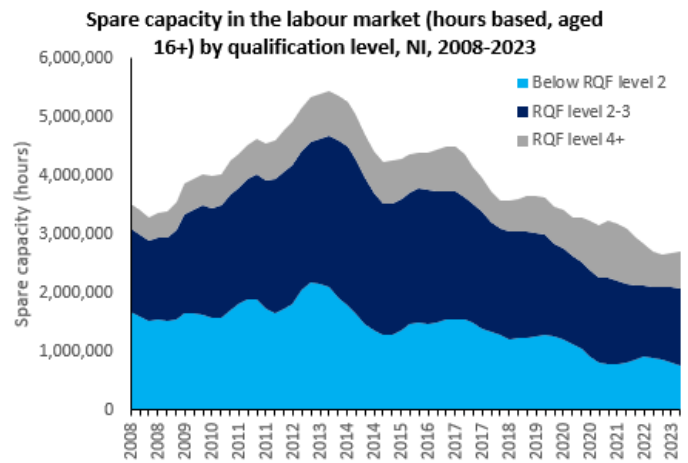
**Spare Capacity: Qualification level**

Spare capacity rates tend to be lower amongst people with higher qualifications, owing to the extremely high employment rates for people with tertiary level qualifications. People with lower level qualifications have typically had very high rates of spare capacity due the higher rates of unemployment, hidden unemployment and underemployment.

**Figure 15: Standardised underemployment by gender, NI and UK, 1997-2023**



Source: ONS, Labour Force Survey, UUEPC analysis  
 Note: Figures are based on a 4-quarter rolling average



Source: ONS, Labour Force Survey, UUEPC analysis  
 Note: Figures are based on a 4-quarter rolling average

However, in the post pandemic recovery period spare capacity amongst those with qualifications below RQF level 2<sup>4</sup> has been squeezed significantly. This is due to a post-pandemic trend of both falling unemployment and a higher proportion of the economically inactive stating that they do not want a job. **The tightening of the labour supply amongst this group will have a disproportionate impact on sectors which rely heavily on recruitment from the non-tertiary qualified labour pool.**

Overall, the number of unused labour hours has consistently decreased since 2012, and within the smaller quantum of unused hours the mix has changed significantly. Those with qualifications below RQF level 2 have recorded a fall in their share of the total number of unused hours from almost half in 2008 to under one-third in 2023. Whereas, **in 2008 those with tertiary qualifications represented just over one-tenth of spare capacity compared to almost one-quarter today.** This is reflective of changes in the skills profile of the working age population where there are fewer people with low level qualifications and higher numbers of people with tertiary qualifications. This trend is expected to continue as older workers, who on average, have lower qualifications move into retirement to be replaced in the working age population by younger people with higher level qualifications.

<sup>4</sup> A qualification at RQF level 2 and below equates to having a highest qualification of at least 1 GCSE at A\*-C.

## Conclusion

The analysis presented in this paper has highlighted the importance of considering the performance of the labour market using an hours-based approach. Beneath the veneer of strong employment growth recorded during the post-GFC recovery, **labour market weaknesses in the form of underemployment were hidden**. For example, in both NI and the UK there were periods whereby total employment was growing, but the rate of underemployment was also increasing.

The usefulness of hours-based measures of economic activity were particularly evident over the 2020-22 period. Wherein the CJRS encouraged employers to retain employees by paying up to 80% of an employee's wage during periods when they could not work due to trading restrictions. The labour market statistics classified workers receiving support via the CJRS as employed, even if they had undertaken no work. Therefore, **hours-based measures, rather than headline employment, provided a more accurate measure of labour market activity during this period**.

With these two examples in recent history, it is evident that hours-based measures represent a useful metric of economic activity. Papers 1 and 2 in this series outlined how the headline measure of unemployment underestimates the level of spare capacity available in the labour market by failing to capture 'hidden unemployment' and 'underemployment'. **This paper has developed an hours-based measure encapsulating all three measures of unused labour**.

Our measure of spare capacity indicated that **NI has the tightest labour market of any of the 12 UK regions**. The local labour market is characterised by the UK's lowest unemployment rate, the lowest underemployment rate and the lowest percentage of the economically inactive stating they 'want to work'. These three factors have combined to create the tightest labour market ever recorded in NI, which compliments employer surveys indicating more prevalent recruitment difficulties across major sectors, employment types and qualification levels.

In a period of tight labour market conditions where business growth is constrained by labour shortages, policy makers and business leaders must come together to think creatively about how workers can fulfil their labour potential.

## Policy remarks

There are a number of policy and research discussion points which have arisen across the three 'spare capacity' briefing papers which comprise this series summarised below.

### Capturing the right data

**A changing data landscape** – In 2024 the 'Transformed Labour Force Survey'<sup>5</sup> (TLFS) will be introduced. This replaces the existing Labour Force Survey and will use a much shorter questionnaire. It is possible that the questions related to underemployment may be removed to facilitate a shorter survey. If this were to occur the analysis presented in paper 2 and paper 3 of this series will no longer be possible, as an alternative source relating to underemployment in NI does not exist. It is the authors' view that this would leave a gap in the evidence base, creating a blind spot with regard to in-work spare capacity.

**Utilise administrative data to identify target groups** - Early interventions tend to achieve more successful outcomes, and much of NI's potential labour supply are distant from public employment services. Quantitative profiling tools using administrative data can be effective tools to identify those needing support who are not currently in contact with public employment and skills development institutions. For example, Estonia's Youth Guarantee Support System<sup>6</sup> links data from nine registers to detect the young people in need of support and provides results to the case managers to reach and support them to continue their education or integrate them into the labour market. Statistical profiling is not new, and has been used by many countries since the 1990's. However, with improvements in administrative data and technological advancements through AI and machine learning a number of countries have developed pioneering new approaches (Belgium, Denmark, Luxembourg<sup>7</sup> etc.) to support their activities in profiling jobseekers, identifying skill gaps and matching jobseekers and vacancies.

**Determining what works** – In a tight fiscal environment, strengthening evaluation capacity to identify value for money interventions becomes increasingly important. Using anonymised administrative data that can be linked to outcomes data facilitates the use of counterfactual impact analysis. The creation of platforms to pool relevant administrative datasets can be particularly useful. For example, the Labour Market Program Data Platform (LMPDP) in Canada<sup>8</sup> brings together a wide range of data registers, including data from the Canada Revenue Agency to capture employment outcomes. Similar systems are possible in NI by linking programme data to HMRC employment data and DfC benefit statistics. This type of platform helps ensure value for money by avoiding the need for expensive surveys, improves quality and generates efficiencies by using a linkage system that avoids duplication between evaluations. While there has been some progress in the use of administrative data in recent years, there are relatively few examples of counterfactual impact evaluations of labour market programmes in NI using linked administrative datasets.

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<sup>5</sup> For more detail on the Transformed Labour Force Survey please see <https://www.nisra.gov.uk/statistics/labour-market-and-social-welfare/labour-force-survey-transformation>

<sup>6</sup> Kõiv, K. (2018), Profile of effective NEET-youth support service. Available via : [https://ank.ee/wp-content/uploads/2018/10/CommunityGuarantee.IO1\\_Final.pdf](https://ank.ee/wp-content/uploads/2018/10/CommunityGuarantee.IO1_Final.pdf).

<sup>7</sup> OECD (2022) Harnessing digitalisation in Public Employment Services to connect people with jobs. Available via: [https://www.oecd.org/els/emp/Harnessing\\_digitalisation\\_in\\_Public\\_Employment\\_Services\\_to\\_connect\\_people\\_with\\_jobs.pdf](https://www.oecd.org/els/emp/Harnessing_digitalisation_in_Public_Employment_Services_to_connect_people_with_jobs.pdf)

<sup>8</sup> OECD (2022), Assessing Canada's System of Impact Evaluation of Active Labour Market Policies, Connecting People with Jobs, OECD Publishing, Paris, <https://doi.org/10.1787/27dfbd5f-en>

This may be due to a number of barriers that have prevented adoption of linked administrative data including privacy issues, accessibility to researchers and lengthy processing time-lags. Solutions to these barriers should be sought.

## Encouraging those out of work

**Engagement with those who want to work** – Jobs and Benefits Offices (JBO's) primarily operate on an appointment only basis<sup>9</sup>. The primary users of the service are those that are on an active benefit and are mandated to engage with JBO's. A negative consequence of having low unemployment rates and high economic inactivity rates is that a high proportion of NI's potential labour force are not on an active benefit and therefore have minimal engagement with support available at JBO's. At a UK level a smaller proportion of jobseekers use their public employment service than any other European country<sup>10</sup>. As NI's potential labour supply is weighted increasingly towards the economically inactive, many of whom will not be on benefits at all, support needs to be much better at reaching people who aren't in the labour force. This must entail accessible support to all designed to complement other services which people regularly use (GP surgeries, libraries, childcare facilities, schools etc.).

**Good work fuels worker appetites** – Many within NI's potential labour supply are interested in working – but only work with sufficient flexibility that pays an attractive wage. Whilst the reach of policy to influence the pay and conditions of individual jobs is limited, there are a number of interventions that can help encourage the use of good working practices:

- **Employment Charters** - A number of UK cities (e.g., Manchester<sup>11</sup>, Liverpool<sup>12</sup>, London<sup>13</sup> etc.<sup>14</sup>) have launched Employment Charters and similar accreditation initiatives in recent years, signing up employers to commit to inclusive recruitment and fair working practices.
- **Institutions** - Another potential option is the establishment of new labour market institutions at a sector level aimed at improving the quality of work. For example, in Ireland, Joint Labour Committee's (JLC's<sup>15</sup>) exist in a range of low paying sectors, including contract cleaning, security and childcare. These committees are comprised of both employee and employer representation and are forums where a range of issues such as pay, working conditions and training rights can be agreed. These sectoral bodies could also be useful to provide advice to Government on skills related issues.
- **Make work pay** – There is a need to reward jobs which society will need, for example in caring roles. In the private sector, policy tools to influence wages are largely limited to changes to the minimum/ living wage. However, the wage for social care workers is directly set by Government policy, where there is an opportunity to lead from the front. The number of people aged over 80 is projected to more than double by 2050, and social care will become increasingly important. If we are to succeed in growing a social care workforce of a scale sufficient to care for NI's aging population then the pay and conditions in the sector will need to be improved to be attractive to the unemployed and economically inactive. Importantly, this issue is broader than social care.

<sup>9</sup> For further information please see: <https://www.nidirect.gov.uk/contacts/jobs-and-benefits-offices>

<sup>10</sup> OECD (2023) Evaluation of Active Labour Market Policies in Finland. Available via: <https://doi.org/10.1787/115b186e-en>

<sup>11</sup> For more information please see: <https://www.gmgoodemploymentcharter.co.uk/>

<sup>12</sup> For more information please see: <https://www.liverpoolcityregion-ca.gov.uk/lcr-fair-employment-charter-plain-text>

<sup>13</sup> For more information please see: <https://www.london.gov.uk/programmes-strategies/business-and-economy/supporting-business/good-work-standard-gws>

<sup>14</sup> For a more complete list of UK fair employment charters please see: <https://inclusivegrowthnetwork.org/resource-hub/ign-index-of-fair-employment-charters>

<sup>15</sup> For more information on JLC's please refer to: [https://www.workplacelrelations.ie/en/what\\_you\\_should\\_know/hours-and-wages/employment%20regulation%20orders/](https://www.workplacelrelations.ie/en/what_you_should_know/hours-and-wages/employment%20regulation%20orders/)

**Removing learning disincentives** - There are also in-built disincentives within our system of welfare support. For example, once most people enrol on an education course they become ineligible for most benefits, therefore disincentivising people who are reliant upon benefits to support their income. The Danes provide an alternative approach. Prior to the pandemic they allowed people over 30 with low qualifications the opportunity to participate in education or training and still receive 80% of the maximum benefit entitlement. Over the pandemic this was uplifted to 110% if the qualification was in a skills shortage area<sup>16</sup>.

**Local tailored solutions** – The diversity amongst NI’s potential labour supply and differences in skills demand across local areas has long pointed towards the need for a localised person centric delivery model for employability support. NI is ahead of the curve with an infrastructure in place in the form of Labour Market Partnerships (LMP’s). The LMP’s are required to develop and consult on local plans, can commission their own services, and are expected to work together to join up and deliver on them. Scotland is moving towards a similar model with the establishment of their Local Employability Partnerships (LEP’s)<sup>17</sup> and the Local Government Association has proposed a comparable approach for England<sup>18</sup>. With the structures in place it is important that the LMP’s are empowered and adequately funded to deliver the flexible, tailored and responsive interventions needed. As a new form of service delivery with other similar models emerging elsewhere in the UK, there should be ongoing benchmarking of funding arrangements and commissioned services to establish ‘what works’ and best practice value for money approaches.

**Improving participation of persons with disabilities** - NI has not only the lowest disability employment rate, it also has the largest employment gap between disabled and non-disabled persons. This is an important component in the story of the local labour market, whereby disabled persons account for around three-fifths of NI’s hidden unemployment. Therefore, NI cannot fully utilise all of the labour available without also becoming a more inclusive place to work. There is no simple solution for improving economic activity amongst the disabled, a wide range of interventions are required alongside a change in culture. UUEPC<sup>19</sup> published a research paper in 2022 which provides a full policy discussion on maximising the potential of persons with disabilities in the NI labour market.

**Expanding employability interventions** – Employability interventions have been historically geared towards young people, reflecting the profile of unemployed. However, as NI’s potential labour supply is increasingly shifting towards hidden unemployment within the economically inactive, the profile of those out of work has changed. Successful interventions aimed at younger people could potentially be trialled on other groups where less support is available (e.g., older people, people with disabilities, lone parents). For example, the Department for Communities’ JobStart scheme which supports under 25s participate in the labour market reported 77% of participants secured full-time employment upon completion of the programme<sup>20</sup>. With supporting evaluation evidence, a case could be made for the expansion of such programmes to target other vulnerable groups requiring employment support.

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<sup>16</sup> European Commission (2022) Uprated benefits for unemployed persons who train in labour shortage areas. Available via: <https://ec.europa.eu/social/BlobServlet?docId=25514&langId=en>

<sup>17</sup> For more information please see: <https://www.employabilityinScotland.com/policy/no-one-left-behind/>

<sup>18</sup> Local Government Association (2022) Work Local: Unlocking talent to level up. Available via: <https://www.local.gov.uk/publications/work-local-unlocking-talent-level#foreword>

<sup>19</sup> UUEPC (2022) Maximising potential: A review of labour market outcomes for people with disabilities in Northern Ireland. Available via: [https://www.ulster.ac.uk/\\_data/assets/pdf\\_file/0007/1275811/Disability-and-the-labour-market.pdf](https://www.ulster.ac.uk/_data/assets/pdf_file/0007/1275811/Disability-and-the-labour-market.pdf)

<sup>20</sup> Northern Ireland Executive (2023) Successful youth employment scheme relaunched by DfC. [Available via: <https://www.northernireland.gov.uk/news/successful-youth-employment-scheme-relaunched-by-dfc>]



**Compounding interventions** – It is common for those not participating in the labour market to face multiple labour market barriers. Effective policy should seek to target multiple barriers simultaneously. For example, a lack of affordable childcare is an established barrier to maternal labour force participation. However, whilst this is a challenge for many families there are other factors which are also significant barriers to labour market participation – notably low qualifications. A relatively small proportion of economically inactive mothers with young children want a job, however, a majority intend to return to the workplace at some point in the future. The qualifications profile of economically inactive mothers is heavily weighted towards low qualifications. Therefore, there is a window of opportunity for upskilling to bring the qualifications of inactive mothers in line with labour market demand. Provision of free childcare (possibly in the tertiary education setting) for those participating in an approved course in a subject aligned with labour market demand would remove a potential barrier to upskilling, and achievement of higher qualifications removes a barrier to labour market participation.

**Challenge funds** – Our potential labour supply is out of work for a diverse range of reasons, therefore, no one size fits all policy is appropriate, and support must be tailored to individual needs. The groups are hard to reach, and international best practice examples to replicate are limited. There is an opportunity to try new approaches and given the scale of labour shortages, the environment is more conducive to private sector collaboration for the co-design of interventions. One option to encourage this would be the establishment of a challenge fund for those with innovative ideas to engage the economically inactive in employment support.

**Ensure appropriate investment in employment support** – Over the past two decades a high proportion of interventions targeted at economically inactive groups were delivered by community and voluntary organisations. These interventions were reliant upon European funding, notably through the European Social Fund. Following the UK's exit from the European Union this fund has been replaced by the UK Shared Prosperity Fund (SPF), however, SPF funding is only guaranteed until 2025. The lack of a clear and sustainable funding source acts as a disincentive for organisations to develop and deliver the type of long-term interventions required to support the inactive back to work.

## The role of employers

**The role of employers in job design and advertisement** – To overcome recruitment difficulties employers need to consider how they recruit and design jobs. There is an opportunity to attract underrepresented groups into the labour market. For example, almost three-fifths of the over 50's who have left the labour market say they would be interested in returning<sup>21</sup>. Unless job adverts clearly advertise flexibility, a large pool of willing workers may not engage with employer recruitment campaigns. Those with health conditions are unlikely to risk losing benefits if jobs do not appear inclusive and flexible, and mothers are more likely to be attracted to jobs which promote flexible hours structured around childcare commitments. Research by the Behavioural Insights Team<sup>22</sup> (BIT) analysing job advertisements found evidence of an increase in job applicants for positions which explicitly mentioned flexible working. Companies are increasingly recognising the need to embed flexibility within their culture as a tool to improve workforce diversity and attract and retain talented staff. The BIT research also highlighted that prompting employers to advertise jobs flexibly led to a significant

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<sup>21</sup> ONS (2022) Reasons for workers aged over 50 years leaving employment since the start of the coronavirus pandemic. Available via:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/reasonsforworkersagedover50yearsleavingemploymentsinceshthstartofthecoronaviruspandemic/wave2>

<sup>22</sup> Behavioural Insights Team (2021) Encouraging employers to advertise jobs as flexible. Available via:

<https://www.gov.uk/government/publications/encouraging-employers-to-advertise-jobs-as-flexible-with-jobs-site-indeed>

increase in the number of posts advertised with flexible working arrangements. Therefore, promotion of best practice flexible working strategies<sup>23</sup> may encourage more firms to consider posts as flexible.

**Minimise employer incentives towards part-time employment models**– The national insurance contribution system can incentivise employers to take on multiple part-time employees, rather than one full-time employee, as they will pay less in National Insurance contributions (and potentially pension contributions). That is, the threshold for employer national insurance contributions is on a per worker basis, so two part-time employees earning marginally above the national insurance threshold will equate to less employer contributions than one full-time employee earning over double the earnings threshold.

**Preventing detachment** – Workers who lose their job have lower life expectancies, are more likely to develop new illnesses and earn less later in life. People who take a period out of the labour market due to long-term sickness have very low return rates<sup>24</sup>, therefore, measures to avoid detachment are important to help prevent long-term economic inactivity. Accessible occupational health services can keep people in work through periods of ill health by providing independent advice to both employer and employee. A Harvard University study found that investment in occupational health leads to significant savings in absenteeism costs and medical costs<sup>25</sup>. However, there are barriers for employees working in smaller firms that do not have the scale to offer occupational health services. Another potential option, recently suggested by the Resolution Foundation<sup>26</sup>, is to use legislation to introduce a time-limited ‘right of return’ period, during which employers must keep jobs open to workers who are away from work as a result of sickness, disability or caring responsibilities. This type of intervention has the potential to have a positive impact since we know that workers have a higher probability of re-entering work after a few months of absence compared to longer periods of inactivity.

## Supporting people in work

**Job mobility and income replacement** – UK workers are changing jobs at a slower rate than historical norms<sup>27</sup>, and NI records both the lowest rate of job-to-job movements amongst UK regions and the lowest proportion of existing workers seeking a new job. A lack of job mobility can hold back wage growth<sup>28</sup> and trap workers in low paid jobs and possible underemployment. In Nordic countries workers move easily between jobs, with workers in Sweden, Finland and Denmark changing jobs more often than anywhere else in Europe. Government spending on education and active labour market programmes in these countries is considerably higher than in the UK. This more intensive support and training ensures that workers are more capable of undertaking job moves, and reduces the risk that skills mismatches create a barrier to job mobility.

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<sup>23</sup> A useful collection of case studies highlighting the flexible working practices of companies is available via:

[https://www.psc.nsw.gov.au/sites/default/files/2020-12/NSW\\_PSC\\_Flexible\\_Working\\_Case\\_Studies.pdf](https://www.psc.nsw.gov.au/sites/default/files/2020-12/NSW_PSC_Flexible_Working_Case_Studies.pdf)

<sup>24</sup> Magill, M. [https://www.ulster.ac.uk/\\_data/assets/pdf\\_file/0005/526046/UUEPC-Inactivity-Discussion-Paper-Final-Report1.pdf](https://www.ulster.ac.uk/_data/assets/pdf_file/0005/526046/UUEPC-Inactivity-Discussion-Paper-Final-Report1.pdf) & McPeake (2017) An anatomy of economic inactivity in Northern Ireland. Available via:

<sup>25</sup> Baicker, Katherine, David Cutler, and Zirui Song. (2010). Workplace wellness programs can generate savings. Health Affairs. Available via: <http://nrs.harvard.edu/urn-3:HUL.InstRepos:5345879>

<sup>26</sup> Resolution Foundation (2023) Post-pandemic participation | Exploring labour force participation in the UK, from the Covid-19 pandemic to the decade ahead. Available via:

<https://www.resolutionfoundation.org/app/uploads/2023/02/Post-pandemic-participation.pdf>

<sup>27</sup> N Cominetti et al (2022) Changing jobs?: Change in the UK labour market and the role of worker mobility. Available via:

<https://economy2030.resolutionfoundation.org/reports/changing-jobs/>

<sup>28</sup> Kirkup, J. & Petrie, K. (2020) Job switching and wage growth for low-income workers. Available via:

<https://www.smf.co.uk/wp-content/uploads/2020/11/Job-switching-and-wage-growth-Nov-2020.pdf>

The nature of unemployment support can also adversely impact the number of job moves as NI has one of the lowest income replacement rates for unemployment<sup>29</sup> amongst advanced economies. A smaller safety net makes workers more unwilling to take risks, keeping people in unsuitable jobs wasting potential.

**Signposting lifelong learning opportunities** – NI performs poorly on lifelong learning measures. This can leave workers, particularly older workers, vulnerable to job loss from skills-based technical change. However, the available learning and career pathways can often be unclear and confusing for potential learners. An example of an initiative to encourage adult skills development is available from Portugal. Their *Qualifica* programme provides personalised guidance on learning opportunities through an online platform called *Passaporte Qualifica*<sup>30</sup>. The platform records learners' qualifications and skills (including recognition of prior learning) to identify further learning pathways. The passport can be updated and printed at any time for use in both training and job opportunities.

**Aligning training and support with labour market need** – Training programmes designed to satisfy the specific needs of employers combined with work experience have larger impacts and are more effective than classroom training unconnected to the private sector<sup>31</sup>. The Assured Skills Programme<sup>32</sup> in NI appears to represent a successful example of this type of intervention. This pre-employment programme aims to upskill individuals and help them compete for guaranteed job vacancies in new foreign direct investment (FDI) companies and expanding local businesses. Although the initiative has not received an impact evaluation to assess additionality, it does boast an 80% success rate of participants proceeding to full-time employment. To date most activity on the programme has focussed on skills related to professional services and IT. However, an expanded version of this type of programme, with a focus on economically inactive individuals, could also work in other areas of the economy where there are known skills shortages and anticipated future labour demand (e.g., social care, childcare, net zero etc.).

**Zero hours contracts** – This type of employment contract is not widely used in the NI labour market, covering 1.5% of workers. Although some people on zero hours contracts feel insecure and exploited, this form of contract also suits many workers. A high proportion of workers on these contracts are students, and a majority do not want to work more hours. McDonald's offered 115,000 UK workers on zero-hours contracts the option of moving to fixed contracts with a minimum number of guaranteed hours every week and four-fifths opted to remain on flexible contracts, highlighting that flexibility is attractive to many groups in the labour market<sup>33</sup>. This type of contract has been highly politicised in recent years, and the Labour Party has a commitment to ban zero hours contracts entirely. This is a disproportionate response to the problem, a more appropriate response would involve strengthening workers' rights to request a move to a guaranteed hours contract if that is their preference, and penalising employers who abuse these type of contracts (e.g. ensuring workers' rights to compensation if shifts are cancelled at short notice etc.).

**Supporting mental health problems** – People who are economically inactive due to long-term sickness account for around one-quarter of NI's spare capacity, and mental health is the fastest growing form of sickness. In NI 15 years ago approximately one in ten people reporting health problems identified mental health issues as their main health problem, which has

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<sup>29</sup> Benefits in unemployment as a percentage of previously earned income.

<sup>30</sup> The *Passaporte qualifica* platform is accessible via: <https://www.passaportequalifica.gov.pt/cicLogin.xhtml>

<sup>31</sup> Shafak, M. (2021) What we owe each other. A new social contract. Penguin Random House.

<sup>32</sup> For more information please see: <https://www.economy-ni.gov.uk/articles/assured-skills-programme#:~:text=The%20academies%20have%20around%20an,skills%20and%20start%20new%20careers.>

<sup>33</sup> Taylor, M. (2017) Good work: The Taylor review of modern working practices. Available via: <https://www.gov.uk/government/publications/good-work-the-taylor-review-of-modern-working-practices>

increased to over one in four today. Separate figures from the Department of Health recorded a 43% increase in the number of people diagnosed with depression on General Practitioners (GP's) registers between 2015/16 and 2021/22<sup>34</sup>. The Chancellor announced in his Autumn Statement a range of measures to tackle rising mental health problems in the UK. This included the expansion of individual placement and support for severe mental illness and the talking therapies programme (targeted at those with mild and moderate mental health conditions). There has been a recent rise in waiting times for access to NI's mental health services<sup>35</sup>, which can delay those most in need from receiving the help and support they require. It is important that the mental health workforce is expanded at a rate commensurate with need as a preventative measure for rising inactivity due to long-term sickness.

**Proactively planning for industrial change** – The majority of the economically inactive have previously worked. Excluding students, almost four-fifths have been employed at some stage of their life, with a high proportion employed in sectors that have experienced industrial decline<sup>36</sup>. This highlights the importance of lifelong learning and training to prevent workers falling into risk of job loss. However, reactive policies when workers are already at risk of job displacement are likely to be less successful than if undertaken in anticipation of technological changes<sup>37</sup>. For example, displaced workers often attempt to find work within the same industry and thus move to similarly vulnerable jobs. With the help of targeted lifelong learning interventions before job loss, workers will have better prospects to succeed in a changing labour market. Recognising the importance of avoiding labour market detachment, Sweden operates a system of Job Security Councils<sup>38</sup>, which provide advice, training, financial assistance and business support to workers before jobs are lost. The high re-employment rates and moderate income losses experienced by Swedish displaced workers suggest that this model works well. In Ontario, the Rapid Re-employment and Training Service provides an immediate response to large scale layoffs with the objective of connecting individuals with employment services to help them regain employment<sup>39</sup>. The Danish Disruption Council<sup>40</sup> provides an example of a forward-looking strategy focussing on training requirements for those vulnerable to technical change (e.g., the disabled, recent immigrants and the low skilled).

**Recognising prior learning** – the economically inactive have a very weak qualifications profile, and this can act as a barrier to gaining employment, however, as a majority have previously worked at some point they will have gained skills on the job. In other words, they are poorly qualified but not necessarily low skilled. To counter this potential barrier Finland's Competence Based Qualifications (CBQ)<sup>41</sup> system has a recognition of prior learning at the heart of its system. The system enables those learning on the job to gain accredited qualifications and offers the opportunity to undertake further study. The Netherland's operates

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<sup>34</sup> National Audit Office (2023) Mental health services in Northern Ireland. Available via: [https://www.niauditoffice.gov.uk/files/niauditoffice/documents/2023-05/00293490%20-%20Mental%20Health%20Report\\_WEB.pdf](https://www.niauditoffice.gov.uk/files/niauditoffice/documents/2023-05/00293490%20-%20Mental%20Health%20Report_WEB.pdf)

<sup>35</sup> BBC (2023) Mental health services struggling as waiting lists grow. Available via: <https://www.bbc.co.uk/news/uk-northern-ireland-64643344>

<sup>36</sup> Magill, M & McPeake (2017) An anatomy of economic inactivity. Available via: [https://www.ulster.ac.uk/\\_data/assets/pdf\\_file/0005/526046/UUEPC-Inactivity-Discussion-Paper-Final-Report1.pdf](https://www.ulster.ac.uk/_data/assets/pdf_file/0005/526046/UUEPC-Inactivity-Discussion-Paper-Final-Report1.pdf)

<sup>37</sup> Kochan., T. & Kimball (2019) Unions, worker voice and management practices: Implications for a high productivity, high wage economy. Available via: <https://www.rsfjournal.org/content/5/5/88>

<sup>38</sup> Semuels, A. (2017) What if getting laid off wasn't something to be afraid of? The Atlantic. Available via: <https://www.theatlantic.com/business/archive/2017/10/how-to-lay-people-off/543948/>

<sup>39</sup> OECD (2015) Back to Work: Canada – Improving the re-employment prospects of displaced workers. Available via: [https://www.oecd-ilibrary.org/employment/back-to-work-canada\\_9789264233454-en](https://www.oecd-ilibrary.org/employment/back-to-work-canada_9789264233454-en)

<sup>40</sup> The Danish Government (2019) Prepared for the future of work: Follow up on the Danish Disruption Council. Available via: [https://bm.dk/media/9602/regeringen\\_disruptionraadet\\_uk\\_web.pdf](https://bm.dk/media/9602/regeringen_disruptionraadet_uk_web.pdf)

<sup>41</sup> For more information please see: <https://eurydice.eacea.ec.europa.eu/national-education-systems/finland/adult-education-and-training>

a similar system called *Ervaringscertificaat*<sup>42</sup>, which aims to establish parity of esteem between skills gained in a formal learning environment and those acquired in informal or non-formal settings.

**Careers advice shouldn't just be for young people** – A careers strategy is a key component of most Governments' education, skills and economic strategies. Careers advice tends to focus on young people, particularly those still in the education system, however, the workforce is aging, and there are more older people in work than at any point in history. Data indicates that older workers are staying longer with firms suggesting barriers to job mobility. As the population continues to age, providing older workers with opportunities for job moves and career development will become an increasingly important and necessary feature of the labour market. Examples of career advice and guidance targeted at older adults come from Australia's Career Transition Assistance programme<sup>43</sup> and South Korea's Job Hope Centres<sup>44</sup>. These provide tailored careers advice for older people, with a particular focus on digital skills. The Netherlands offers a subsidised career development service (*Ontwikkeladvies*<sup>45</sup>) for the over 45s involving a job review, highlighting education and career change opportunities and drawing up a personal development plan. The UK trialled a similar mid-life career review intervention in 2013, which reported a number of positive outcomes<sup>46</sup>.

### Final remarks

The NI labour market is operating from its tightest ever position and with future demographic challenges, competition for labour will be strong over the long-term. A growing labour force has played an important role in driving the NI economy over the past 50 years, and a slowdown in the growth of labour inputs will dampen the local economy's potential growth rate. This in turn will put pressure on the ability to deliver first class public services, which are already under financial pressure. In other words, we can no longer afford to have unutilised or underutilised spare capacity in our labour market. Mothers, older workers, disabled talent, persons with health problems and those with low level qualifications are the key to maximising our potential. It is a diverse group, requiring a broad range of interventions to create the conditions to maximise participation. In the absence of successful policy our firms will continue to experience labour shortages holding back growth and wasting the potential of our people. Neither outcome should be acceptable.

<sup>42</sup> UNESCO (2023) Recognition, Validation and Accreditation in Netherlands. Available via: <https://www.uil.unesco.org/en/articles/recognition-validation-and-accreditation-netherlands>

<sup>43</sup> For more information please see: <https://www.workforceaustralia.gov.au/individuals/training/activities/career-transition-assistance>

<sup>44</sup> OECD (2018), Working Better with Age: Korea, Ageing and Employment Policies, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264208261-en>.

<sup>45</sup> For more information please see: <https://www.hoewerktnederland.nl/onderwerpen/gratis-ontwikkeladvies>

<sup>46</sup> NIACE (2013) Mid-life career review. Pilot project outcomes: Phases 1-3. Final report to the Department for Business, Innovation and skills. Available via: <https://learningandwork.org.uk/resources/research-and-reports/mid-life-career-review-2/>