

Economic Affairs Committee

Corrected oral evidence: UK labour supply

Tuesday 8 November 2022

5 pm

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Members present: Lord Bridges of Headley (The Chair); Viscount Chandos; Lord Fox; Lord Griffiths of Fforestfach; Lord King of Lothbury; Baroness Kramer; Lord Layard; Lord Monks; Baroness Noakes; Lord Rooker; Lord Skidelsky.

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Questions 105 - 119

Witnesses

I: Guy Opperman MP, Minister of State, Department for Work and Pensions; Kevin Hollinrake MP, Parliamentary Under-Secretary of State, Department for Business, Energy and Industrial Strategy; Ronan O'Connor, Director, Strategy and Governance Directorate, Department for Work and Pensions; Mike Warren, Director, Labour Markets, Department for Business, Energy and Industrial Strategy.

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Examination of witnesses

Guy Opperman, Kevin Hollinrake, Ronan O'Connor and Mike Warren.

Q105 The Chair: Welcome to the second session of our inquiry into where all the workers have gone. I am very grateful to Guy Opperman, Minister of State at the Department for Work and Pensions, and Keven Hollinrake, Parliamentary Under-Secretary of State at the Department for Business, Energy and Industrial Strategy, for joining us today, together with Ronan O'Connor, a director at DWP, and Mike Warren, director of labour markets at BEIS.

I will crack on with my very first question, which is the same question I asked Huw Pill, and I will address it to you, Mr Opperman, if I may, to start. From where you sit, what do you reckon are the main reasons for the labour supply shortages that we currently see today?

Guy Opperman: I will do the best I can. Like Kevin, I was appointed formally only yesterday, and I was informally appointed 11 days ago. I was very curious about the previous witness, because I spent the previous five years being the Minister for Pensions and Financial Inclusion, so I could have answered lots of those questions, but I will park that for present purposes.

The Chair: We will come on to those, do not worry.

Guy Opperman: Let us start with the positives, which is that the UK labour market is currently strong, although it is facing similar challenges to those of many other advanced economies. Like most countries, the UK experienced a labour market shock from the effects of Covid and so on, all of which you have gone through, I am sure, in copious detail. Policy measures such as the furlough scheme and the Plan for Jobs helped to deal with those things. We have recovered to a degree, and more in certain respects, in unemployment, payrolls and the measures of underemployment.

You will be aware that the underemployment rate is currently 3.5%, which is the lowest since the 1970s. Payroll employment is at a record level, with 730,000 more employees on payrolls than in February 2020, and each region of the UK now has higher payroll employment than before the pandemic.

However, there are, one accepts, challenges to be faced. I am sure you will go through in detail things like the vacancy issues and the problems that we are trying to address at DWP. Ronan, I know, can give a more strategic overview as to what he has been doing as Ministers have come and gone over the previous few months. We look at and we address the increases in economic inactivity, which clearly reduce the size of the labour force. That is of prime concern. We can do a batting order in comparison to OECD, G7 and other countries, but we are, by and large, albeit that we have our own problems, in a good position by comparison to many other countries.

The Chair: Very good. That is a good starter for 10. Mr Hollinrake, do you have anything to add? Do not feel you have to.

Kevin Hollinrake: Thank you. It is a pleasure to appear before you. On the numbers, to add to Guy's points about the strength of the labour market, there is a classic supply/demand imbalance. The economy has bounced back very quickly. There is a 75% employment rate, which is marginally lower than it was pre pandemic, and 32.8 million people in employment. That is 630,000 more people than at the start of the year, and down 320,000 from pre pandemic.

Part of that is caused by people leaving the labour market domestically and the changes in migration patterns from EU migration, which was a prominent part of migration prior to Brexit, and now to non-EU migration, which has taken up that slack. That has created changes in some of the critical supply shortages in certain sectors.

The Chair: Both your answers beg the question as to the extent to which some of the problems we are seeing are structural, which Lord Monks will now probe.

Q106 **Lord Monks:** I am interested to know about labour supply trends and what you think about those. Mr Hollinrake might be best placed to have first crack at this. What effects are likely to be short term, the temporary effects of the pandemic, and which do you think will be long-lasting, which we will have to live with for some time? To add a rider, are you expecting that when unemployment rises, as many predict, it will be a major factor in easing the stresses and strains in the labour market?

Kevin Hollinrake: In answer to your first question about what will be long-term and what will be short term, it is difficult to say, to be fair. A lot will depend on immigration policy. I can tell you what is happening today: 15% of businesses are experiencing shortages, but it is much higher in certain sectors. In the health and social care sector, 33% of organisations report shortages; in hospitality, it is 31%; in construction, it is 22%. There are particular issues in certain sectors. That is partially driven by economic activity for 16 to 64 year-olds, which has gone up by 630,000 compared with pre-pandemic levels.

There are a number of factors. Clearly, we need to address some of the shortfalls and problems and certain sectoral difficulties through government policy. Certainly, the change in how we are dealing with immigration is likely to be medium to long term, and we have to try to address some of the shortage issues in certain sectors by different means.

Lord Monks: Okay, thanks. What about the cost of living crisis? Is that likely to be temporary, long lasting or medium term? How would you see that?

Kevin Hollinrake: You just had the chief economist of the Bank of England. He is probably better qualified to give you a prediction on that. I was on the Treasury Select Committee prior to becoming Under-

Secretary of State. You have some eminent economists here too. It seems to me that inflation is near peak and should start falling quite dramatically in the middle of next year, and that should impact on interest rates, which are the major problem for most households. In the meantime, the Government are trying to mitigate that through things like the energy price guarantee and the energy bills relief scheme. Personally, I would say short to medium term rather than longer term.

Guy Opperman: Perhaps I could try to address your first question regarding what is short term and what is long term. You can get some trends, which I am sure you have heard evidence on; I heard some of it already. There is clear evidence that there are more people studying than there were previously; the number of students has gone up. That can be a positive thing, because they are studying to get better employment, to get a change of employment or doing what we call in-work progression, but it is too early to say what the product of that study will be.

Secondly, the pandemic clearly had a health impact, and the health impact is genuinely too early to say. There is the prevalence of long Covid, which we all are aware of. How bad it is, what DHSC can do on that, and how long term it will be is clearly something that is ongoing.

Thirdly, going back to the previous witness and something that Ronan and I were both doing in our previous lives, there is evidence that a number of people are retiring early and taking advantage of pension freedoms or change of lifestyle, or have caring responsibilities.

Those three trends are clearly prevalent. They are probably with us for some time. What their impact is on long-term employment and economic inactivity depends to a certain extent on government policy and what we do to address them, and on the offer we give those who have recently retired or those who have suffered from long Covid and those sorts of things. Those would be the three things that would jump out at me as immediate, long-lasting effects, but it is genuinely too early to tell what their consequences are.

Kevin Hollinrake: I missed the point about whether unemployment will help some of the issues. The Bank of England is suggesting that an extra 1 million people will enter the ranks of the unemployed within 18 months to two years, so that is bound to ease some concerns and problems in certain sectors. A key way we have of addressing the cost of living is the national living wage, and that is rising progressively, which most people would welcome.

Q107 **Viscount Chandos:** Mr Hollinrake, you have already referred to the issue of migration. Can I ask you to expand a bit further on the extent to which you think changes in migration have affected the labour force both overall and in particular sectors?

Kevin Hollinrake: We have seen non-EU migration accounting for all the net migration. EU migration is negative right now. We have seen a switch from EU migration to non-EU migration. That is driven partly by

government policy, of course—a points-based immigration system designed to try to fill the key gaps in our economy and to move towards a high-wage, high-growth economy. That is a pretty well-declared government policy. That is where we are today. Clearly, that is causing some of the shortfalls of lower-skilled workers in some sectors—hospitality, healthcare, social care and some of the sectors that I described earlier.

Guy Opperman: I am not a specialist, but the statistics from the Home Office bear repeating: 330,000 work-related visas were granted up to June 2022 in that particular period, 72% more than in 2019; and work-related visas—of which two-thirds were worker visas, previously known as skilled worker visas—are up. That is a 96% increase on the proportion of skilled worker visas in 2019. Clearly, there are other aspects of immigration policy, but on that, for example, the outcome is very positive.

The Chair: Is it a policy of British jobs for British workers?

Guy Opperman: I think you should refer that to the Home Secretary.

The Chair: You are DWP. You are in charge of jobs and work.

Guy Opperman: I am interested in getting everybody in this country back to work to the best of their ability.

The Chair: But at the moment there are lots of British jobs and no British workers. Should there be a change in immigration policy to—

Guy Opperman: That is right. I mean no disrespect, Lord Bridges. The Bank of England has shown that there have been high levels of hiring this year and that there is a strong demand for workers across the economy. Hiring has increased. If we are having an equivocation about the last 50 years, we are at the best we have been in employment for the last 50 years.

Q108 **Viscount Chandos:** When we heard evidence two weeks ago from Madeleine Sumption from the Migration Observatory at the University of Oxford and Professor Jonathan Portes, they were completely as one in saying that in sectors such as hospitality and agriculture jobs would disappear over time rather than domestic workers replacing the largely EU workers who have left. Would you comment on that?

Guy Opperman: I am not aware of that evidence. That is their opinion. Speaking as someone who represents pretty much the largest farming constituency in the country, in rural Northumberland, I am not sure I necessarily agree with that on an anecdotal basis. Genuinely, I cannot comment on their evidence.

Kevin Hollinrake: In net migration terms, it is broadly similar to pre pandemic, of course. It is the sectoral problems that seem to be the biggest problems. There are other interventions which the Government are putting in place—for example, trying to incentivise investment in

skills. There are interventions that are broadly successful in those kinds of areas, but no doubt there is a problem in the shorter term.

Viscount Chandos: Professor Portes in particular was quite positive about migration policy and said that it had gone better than he had expected. Therefore, both his and Ms Sumption's comments were very specifically about the sectoral issue.

Guy Opperman: We can definitely agree—Ronan has way more long-term knowledge than I have—that there are particular sectors with particular vacancies. There is no doubt about that. If you speak to any constituency MP, they will say that they are struggling to get workers in a pub, workers in care and in some other particular sectors. That is quite clear, and we are all trying to address that.

Kevin Hollinrake: Can I address a couple of points on agriculture? We have things like the seasonal agricultural worker scheme to try to fill some of the gaps you described. On the Chair's point about whether it is British jobs for British workers, it is quite clear that we ideally want British businesses to employ domestic workers. That is part of government policy and has been clearly set out. Anecdotally, when I speak to businesses on my various visits, they certainly see that, and say that that is the alternative now rather than employing labour from overseas and the EU. More of them are focusing on training domestic workers to do those jobs.

Q109 **Baroness Kramer:** Mr Opperman, you might be interested in the Bank of England evidence that a lot of the hiring is churn. That is something one has to keep in mind.

We are trying to understand how fungible the vacancies created by the end of EU migration are versus the inflow of workers through the new visa schemes. You are talking about existing jobs in industries and sectors. We are trying to understand your thinking on how those slots will be filled, or whether that is not a significant strand of government policy. Could you help us through that process?

The answer that we are bringing in high-skilled and medium-skilled workers through a visa system does not seem to be providing people who fit into the slot of the particular roles where vacancies have been created by the departure of EU migrants. That is the bit I am trying to understand.

Guy Opperman: It would be a very brave Minister, who would be way better, more competent, more intellectual and capable than the two of us, who would wander in on day 11 and say, "We have the definitive answer to this". Clearly, there are trends that we can all see. There is discussion about whether the high-skilled visa scheme has filled which particular gaps.

The Department for Work and Pensions has a series of sector-based systems that we are particularly looking at: construction, engineering, digital, green jobs. I am happy to write to you in more detail about that.

It is very much tripartite work with the Department for Education—with Rob Halfon, who runs skills—and individual Ministers in individual departments such as Defra, BEIS and the Ministry of Justice. That is sector-based work and it predates both of us and our predecessors. It was a No. 10 instruction from the last Prime Minister but one, who was very much trying to drive forward attempts to address that. It is work in progress, to be fair, but we are doing things to try to address that.

Only yesterday, I was at South Essex College meeting dozens of would-be mechanics, who, you may say, would traditionally not necessarily have been all UK-based but were all being trained by the South Essex College to become mechanics. It is similar with carpenters. It is similar with brickies. That was very positive, in my eyes.

The Chair: Very good. Lord Rooker wants to probe further on that point.

Q110 **Lord Rooker:** I appreciate the fact that you have only been in post for a while, but I assume that your departments have been monitoring the evidence we have been collecting for the last seven or eight weeks, and I do not expect that you have a full résumé of it. We have been told more than once, quite specifically, that, given the labour shortages, certain sectors of the economy—manufacturing, hospitality and social care—will shrink long term, and hospitality in particular.

We had detailed evidence that in Devon and the Lake District the real problem was that there was nowhere for the workers to live. Hotels were closing. They were shutting two days a week in August in some places because they just did not have the staff right at the height of the season. It was put down to the fact that in certain parts of the country the economy is such that in trying to recruit locals, whether British or not, or people from abroad or a combination, the problem was accommodation. For the hospitality sector, it is a serious problem.

I think you said earlier that you want to get people into work. Our people and their capacity and willingness to work are the country's greatest asset. If you have evidence—we have been collecting it—that it looks as though we are going to shrink some of our industries, what are the Government going to do about that? Is it the Government's responsibility?

Guy Opperman: I agree that our people are our greatest asset. We are in glorious agreement on that. I also agree that successive parts of the Government—this started under Prime Minister Johnson in particular—have identified certain sectors where there are problems, construction being an obvious one, in a post-Brexit economy. What are we trying to do about that?

We are trying to work with the individual departments and more particularly with the Minister for Skills—in this case, Robert Halfon—to ensure that we have the workforce coming through that is suitably trained in construction, for example, with bricklayers, carpenters, and all the things we need so that we have a throughput of workers coming

forward. That takes time; you cannot just flick a switch and literally manufacture these people. Similar arguments could be made in relation to certain sectors such as social care; you need to train people up.

I am not sure I totally agree with you on things like engineering—I am not good enough on it—because self-evidently the skilled workers scheme can address that particular point in some areas. We all accept that there are problems. We are all trying to deal with them. There is genuinely work being done on all this already, hence why I said I am happy to write to the committee. Can we do it better? Yes, I think we can.

Q111 Lord King of Lothbury: It obviously takes time to change the pattern of training and skills, but it is over six years since Brexit. Have we made more progress in the last 11 days than we have in the previous six years?

Guy Opperman: Of course I would say yes.

Lord King of Lothbury: Could you elaborate on that theme?

Guy Opperman: Certainly, as a new Minister to the post, where I have been in the department for five years bar a 60-day firing session that is called a summer holiday, I am doing everything I can to galvanise a sector-led drive for greater employment in areas where we have identified clear gaps. I think that is possible. If you are not aware of what DfE is doing on what it calls skills bootcamps, I strongly urge you to look at that. It does what it says on the tin. It is a fast-tracking of skills in particular sectors to try to get people to fill the gaps that we have. Those things, to be fair, pre-existed my tenure and pre-existed my 60-day predecessor, but they are things where we are trying to put rocket boosters.

Lord King of Lothbury: It seems that either the first attempt to do it did not work or nothing happened for a long while until it is now being rocket-boosted.

Kevin Hollinrake: It was only in 2020 that the rules on EU immigration changed. It is two years that we are talking about, not six. There is no doubt that the vote for Brexit was a vote for change. Things have changed. There was deliberate change based on the promises that were made at the time. We have now moved to a points-based immigration system, which was largely set out as part of the Brexit campaign. We are trying to plug gaps for seasonal agricultural workers and shortage occupations. We are also trying to make moving into work more attractive. The national living wage is the obvious place to look.

We talked a lot about people leaving work for retirement or because of ill health. Those people say that one reason why they would come back to work or stay in work would be if we made work more flexible. Part of the Government's legislative agenda that I look after is bringing in more flexible working and more help for people in different circumstances, such as neonatal and people who are carers. We are trying to increase participation in the domestic workforce as well as looking abroad for gaps in our economy that need filling. It is a combination of approaches.

The Chair: On the timeframes, to pick up Lord Rooker's point and Lord King's point, these are industries and businesses that need workers now, tomorrow. They cannot wait. Are you looking, from your perspectives, to relax or change the immigration system in some shape or form to make it easier and more attractive for EU or non-EU workers to come here to fill those slots?

Kevin Hollinrake: We should always look at the immigration policies we have and try to help businesses that are in desperate need. I have great sympathy and empathy particularly with lots of hospitality venues around my constituency and the ones I visit as part of my role that are really struggling to fill vacancies, which can be business critical.

Guy mentioned the skills bootcamps. You saw the interventions and measures—the bootcamps and the short-term visas—that we put in place for HGV drivers, which were very successful. It demonstrates that where we identify problem areas we can step in successfully.

The Chair: You mentioned the short-term visas, so there might be an immigration solution to some of the problems with vacancies that we are identifying.

Kevin Hollinrake: That is what we did with HGVs—£34 million was spent on skills bootcamps, 11,000 people were trained, and there were 4,700 HGV short-term visas. Where real pressures occur, there is no doubt that we can step in if required.

Q112 **Lord Fox:** Moving from immigration to the domestic workforce, we have seen a large exit by people aged 50-plus from the workforce. Ironically, the Minister mentioned flexibility as a way of staying in work. Of course, during the pandemic there was a great deal of flexible working, yet that seems perhaps to have increased the exodus.

We are interested to know the ministerial assessment of what is driving the exit of 50 year-olds. Is it pandemic related or a pre-pandemic trend? Is it things like increased savings, changes in working practices and changes in aspiration that happened during Covid, or perhaps changes in the pension rules, which were already happening before Covid? Perhaps we can start with Minister Opperman and he can use both his previous hat and this hat.

Guy Opperman: There are an awful lot of causations. There is not just one by any stretch. There is a multitude of different factors, and the pandemic has accelerated some of those without a shadow of a doubt. Clearly, there are changes in lifestyle, caring responsibilities, and some health impacts, the extent of which we are not quite sure, but there have clearly been some. Self-evidently, there is a cohort of people who have retired from the workforce at an earlier stage and who are not part of the economically active workforce at the present stage. Getting those people back into the workforce and addressing the other cohorts I have described is one of the tasks that I am most definitely focused on. When the Secretary of State gave responses in the House of Commons at Oral

Questions on Monday a week ago, he made it very clear that he was very focused on addressing the economically inactive.

Kevin Hollinrake: I endorse those comments. Economic activity for the 16 to 64 year-olds is up 630,000 compared with pre-pandemic levels. As Huw Pill said, it is very difficult to ascertain what element of that is because people are retiring, what element is due to long-term sickness or whether people feel well-off enough to retire. It is a combination of factors. What we are trying to do, as I said before, is make the world of work more attractive and more flexible; there is no doubt that people in later years would rather work more flexibly, and all the research indicates that. We are trying to increase remuneration through the national living wage and by other means to make work more attractive, and bring some of those people back into the workforce or delay their departure from the workforce, which should help to ease some of the pressures.

Lord Fox: Are either of your departments modelling this? What are your models telling you? How do you see the forward movement, and how will inflation at the current very high levels affect those models?

Guy Opperman: The number of people aged 50 to 64 who are economically inactive increased from 25.2% to 27.6% between December 2019/February 2020 and June 2022/August 2022. We have statistics on the numbers. There is a bunch of causations in those figures that we are looking at. Then we will attempt to sit down with the Secretary of State and the department and identify what we can do about it. There are a number of interventions that predate.

In my former life, I came up with a thing called the midlife MoT, which seeks to address people's wealth, work and well-being. It is particularly focused on 45 to 50 year-olds but also 50 to 55 year-olds. It encourages people to work longer. It encourages people to have an understanding of what their actual retirement savings are, because most people do not have as many savings as they think they have for their life expectancy. It also encourages them to do lifelong learning and change from a particular job that they may be perfectly happy to do at the age of 45 but would not want to be doing at 60, 63 or 64, so that they can then retrain and do things. It was particularly pioneered by Aviva, but other companies such as Hargreaves Lansdown have done huge work on it.

I managed to secure from the present Prime Minister a very significant amount in the previous spending review to do a proper intervention on this, with a three-way address of this particular problem, with massive effort to be made on job coaches, massive effort to be made online, and utilising the private sector to do three trials across the country to really build on the LEP trials that we have already done. The point is that we are trying to persuade people who are contemplating leaving the workplace at that particular stage, between 45 and 55, to stay in the workplace, and we are trying to make it easier for people to return to the workplace with an understanding of lifelong learning and a better understanding of their finances. Genuinely, the Aviva trial, which is well worth looking at, showed that everybody who did it stayed in

employment. All of them had been intending to leave employment. They all then stayed in employment.

Baroness Kramer: You know why it matters; it is because 50-plus is a growing cohort within the overall population, so the effect is magnified. Some of the evidence we heard was that the kind of support that is typically available—I am not saying in your special programmes—is focused on jobcentres, which are for people who are already unemployed but seeking work, and perhaps have to in order to retain benefits. It seems to bear no relationship to the cohort that we have been looking at of people who have become inactive but are outside the benefits system and the reach of jobcentres. Is there some thought process for how to deal with that issue?

Guy Opperman: Yes, and it is developing. There are bits already in place. The National Careers Service exists for all people and may not have been utilised as much in the past as it should have been. That could be amplified. Secondly, in terms of finances, the Money and Pensions Service was only recently set up, three years ago. MoneyHelper specifically addresses finances. You can get a free, independent assessment of your finances, which decides whether you actually have the money you need to retire and whether you are making the right choices. You will be aware of the Augar review of lifelong learning, which specifically addresses things that were not available in the past.

Are we doing more in the DWP on what is called in-work progression for people who are in employment but contemplating leaving or basically wish to get better hours? Yes, we are. As to the difficulties of dealing with a new cohort, the statistic that I think is legitimate for you to know is that of the people who retired aged 50 to 64, the new people—a significant number; the precise numbers we are still being utterly clear on—are not engaged with government; they have opted out. What you then have to do as policymakers is look at the options you have, whether or not that is some sort of intervention.

I would love this committee to come in and solve all our problems. There are previous examples with young people. The Kickstart programme is a good example where you get young people into employment and you kick-start that. There is already an over-50s offer. Certainly, there are things we are looking at, but it is very early days.

Lord Fox: Mr Hollinrake, do you have anything to add to that very comprehensive answer from your colleague?

Kevin Hollinrake: We should not just focus on the more elderly population returning to work. There are also people who need better, cheaper and more efficient childcare. We could provide sources of labour for our businesses and opportunities for them, too. Other legislation we are planning is stuff like neonatal care to encourage more people, and protections around pregnancy and return to work for people who have had children to try to make the workplace more attractive more of the time.

It is not just about what the Government can do, although we need to reform our education system and have more vocational training; that is pretty well laid out. It is about businesses themselves investing in skills. We underinvest while people are at work compared with our EU counterparts. We want to make sure that there are incentives for businesses in the UK to skill up their workforce to address some of the challenges.

Guy Opperman: The bit that you cannot avoid is that there is a cohort of people who have opted out of employment by choice and believe they have the finances to do so. That is a very hard cohort to persuade to come back, and interventions by government have to be very impressive to address that particular cohort. My door is open to those of you who have the solutions to that particular problem.

The Chair: To pick up that point, which we discussed with Huw Pill, is the brutal truth that the Government cannot do anything and, even more brutally, that people's savings will be denuded by the cost of living, mortgage rises and so on, and they will return?

Guy Opperman: The answer is no; I disagree. I think the Government can do things. Education is the first thing. A better understanding of your finances is a fundamental for me. I was a former Pensions Minister. I was constantly trying to get people to understand their likely longevity, the amount of money that they would have and whether they wanted a gold, silver, or bronze lifestyle in retirement. We need better understanding of that and better use of MoneyHelper. The Aviva trial conclusively shows that if you address people on their wellness, their work and their wealth, the thing they are interested in is their wealth. If you can address that particular point, you will address motivations as to whether they return to employment.

There are also things that the Government can do to make it easier for people like that to return to employment. We need to work with BEIS and other departments to try to make it easier for employers to employ people, so that they then say, "I'm 59 or 63, but I'll return to employment".

The Chair: Very good. Thank you.

Q113 **Lord Griffiths of Fforestfach:** There has been a sharp increase in the number of men who have left the labour force and do not want to return to work. Why do you think that is?

Guy Opperman: Men and women have experienced increases in economic inactivity, although the increase has definitely been larger for men. We are looking at the specifics of that. Many of the answers I have already given apply. Certainly, they would apply for the 50 to 64 cohort. We are looking at the extent to which early retirement has been taken in those particular examples. Frankly, the evidence for why an individual man has decided to exit the workforce is hard to assess on an individual

basis. You can see trends and you can see people choosing to retire from 50 to 64, in particular.

Lord Griffiths of Fforestfach: Do you have any evidence from interviewing people or from questionnaires that would help you come to a fuller conclusion?

Guy Opperman: There is some data. The data I have with me might not help much, but I will do the best I can to assist; for example, 20.4% of economically inactive men want a job, but that is down from 23.6% before the pandemic. There is some evidence that there is less inclination to want to return to employment, but it is a very difficult area. We are working on it. I would love to give you a better answer, but that is the practical truth.

Q114 **The Chair:** On long-term sickness, as you said, Mr Opperman, there is no one answer to this problem. I am trying to get a sense of the balance. Can we turn to long-term sickness? We heard from Huw Pill that there might have been a trend of increasing long-term sickness pre-Covid. Is that borne out by what the Government see in trends on long-term sickness? Maybe this is again a question for you, Mr Opperman. Has there been an increase in the number of claimants of health-related benefits? Are there any regional issues that we should be looking at as well within this trend?

Guy Opperman: I have done 43 minutes on my own and I am delighted to turn to Ronan.

The Chair: Please do. Feel free. We have been very impressed that you have not handed over.

Ronan O'Connor: To answer on the long-term trends, you started off with, "What is a long-term trend?" You did not say, "What is a blip?" Having reviewed all the evidence from quite a few people, I was struck by how careful people were. I particularly liked Ian Stewart from Deloitte saying, "The more I look at it, the less I am certain of the causes". On the specific inactivity-type questions, it is far too early to say whether it is a trend or not. That is the first question.

On your question about whether we were seeing trends in long-term sickness before, there is a demographic trend that is quite obvious; we have an ageing workforce. There is a correlation between health problems and age. We are seeing that. We have seen, and the evidence you have taken from other people shows, that there is a rising incidence of ill health or long-term sickness. I cannot say whether that was something that we were noticing before the pandemic or not. Is it an underlying trend? It is quite difficult to say.

As for the way in which DWP has been looking at this, we already had work under way to work with people on the barriers they face with long-term sickness. If we are getting back to what is a trend, and what we should or should not do about it, we know what is happening, but we do not know why. We know the groups of people who are increasing and we

already have some policy interventions to address that. We have policy interventions that address specifically people who are over 50, who leave the labour market. We have policy interventions that we are beginning in our jobcentres on people's health and disability issues.

The tough truth is that this is very difficult to deal with. It is very difficult to deal with people with these barriers. The further away you are from the labour market, the more difficult it is to get back. If you look at it as a stock and flow issue, DWP has a stock of people we are going to work with that is quite difficult. If you are looking at trying to stem the flow into inactivity, do we know where people are flowing from to inactivity? They flow from employment to inactivity, and we have just talked through that. It is easier to stem the flow than to deal with people once they get there. We know that people move from unemployment or long-term unemployment into inactivity. There is a correlation between long-term unemployment and health conditions. As I said, we already have some interventions specifically on that. It is difficult and we do not do a lot of it; we are better with people who are closer to the labour market. We need to learn which interventions work.

The Chair: Are you seeing any data showing correlations between regions on rises in long-term sickness, chronic ill health and rising inactivity and/or any correlation between the rise in the NHS waiting list and inactivity? This has been pointed to a lot.

Ronan O'Connor: Yes.

The Chair: I am just interested in data.

Ronan O'Connor: I do not have the data to hand, but there are regional discrepancies. Regions where there are declining manufacturing or heavy industries typically have higher unemployment rates and higher sickness rates. I believe you have had plenty of evidence on that. Yes, we are seeing that as well.

Specifically on the question about longer waiting lists, we are not seeing that. I could not see from any of the evidence from anybody who came in that they were willing to say, "That is what we are seeing". It could be there but we do not know.

The Chair: Is it that we do not know because we have not analysed the data enough, or have we analysed the data and it does not show a correlation?

Ronan O'Connor: We do not know. In the UK, we have fantastic data and it is all open; everybody can see it. DWP has some data because it pays benefits to people. The sort of data you are discussing is open and comes from the Labour Force Survey and from others. We have no data that is not available publicly.

Kevin Hollinrake: On the regional aspect, a couple of things might prove useful. Job adverts in Scotland and the north-east are 32% higher

than pre pandemic; in London, they are no higher. That points to some regional differences in shortage of labour force.

Guy Opperman: I have three points in addition. Ronan is far better on this than I am. You can definitely say that there is a rising amount of long Covid as a causation. You can definitely say that the larger NHS waiting list has an impact. You can definitely say, and the independent Health Foundation has concluded, that there is a rising trend of poor health as a reason for inactivity. Those are three clear evidential causes in this particular space. Clearly, an ageing population does not help that.

The Chair: Yes.

Guy Opperman: How you then address that is harder. There is a bunch of things that my colleague from disability will be doing already for the disability workforce. The health service must address long Covid and the backlog, which would undoubtedly make a massive difference, without a shadow of a doubt.

The Chair: Very good. You teed up very nicely a question Baroness Noakes was going to ask on the ageing population.

Q115 **Baroness Noakes:** Yes, although I was not going to come in on long Covid and waiting lists. On the ageing population, we have briefly referred to demography and to a lot of the data we have on what has been happening. What do the Government think will happen to the workforce as a result of the ageing population? What specifically do the Government see on participation in the workforce, inactivity levels and retirement levels, and to what extent is that driving policy development and interventions?

Guy Opperman: I will go first and Kevin can come in on the business approach.

It is a factual reality. We are going to have a much larger, older workforce. Many years ago, we appointed a lovely man called Andy Briggs as the older workers champion. He is a former chief executive of Aviva; he now runs a company called Phoenix. He passionately drives forward greater engagement by businesses to hire and retain older workers. There is a package of policies. If you are retired, you do not pay NI, so it is more attractive for some employers to employ retirees in those contexts. There is an economic advantage to doing that. There are certain things you can look at to try to make it better.

We must accept that we have to train our older workers better. The Augar review on training is unquestionably the way ahead on that. We must have a better focus on FE and lifelong learning, as well as better education of the workforce, much as I was explaining earlier, where they need to understand how long they will need to work. Most people do not know how long they will have to work to maintain the lifestyle that they would like on a long-term basis. That needs to be changed.

Baroness Noakes: What specifically do the Government think will

happen to the workforce?

Guy Opperman: The older workforce will get bigger; there is no doubt whatever about that.

Baroness Noakes: Do you have that quantified?

Guy Opperman: Yes, somewhere. I am delighted to say that someone is going to give me the figures. Failing that in nine minutes, I give an undertaking to write to you.

The Chair: Excellent.

Q116 **Baroness Kramer:** Yes. I come back to a question that you touched on at the beginning, Mr Opperman. Somewhat to my surprise and perhaps to the surprise of other members of the committee, you said that the experience of rising inactivity levels was very similar to other economies. The evidence we have seen seems to demonstrate quite clearly that the UK is an outlier; that other economies indeed saw a drop in activity during the pandemic but it has risen rapidly to normal levels.

When we took evidence from an appropriate expert in the United States and an appropriate expert in Germany, they both struggled to understand what our question was. For example, in the States they had seen rising inactivity in people over 65, but it had never even occurred to them that there could be rising inactivity in people over 50. There is nothing in their numbers to indicate it. We looked at Germany and the US because of their very two different styles of economy in correcting what might be a different social basis. Could you help me understand the factors that make the UK particularly an outlier? Do we need to understand that if we are going to get it fixed?

Guy Opperman: I do not think the UK is an outlier. I may have misspoken or failed to give my words at the outset appropriately. I will try to make the position clear. We believe the UK is still in a strong position as regards economic inactivity. In the G7, the UK has lower inactivity than France, Italy and the United States. Its inactivity rate is lower than the OECD average by 5.3 percentage points and the European average by 3.9 percentage points. To put those numbers into context, if the UK had the average inactivity rates of the OECD or the EU, there would be 2.2 million or 1.6 million more people inactive. That is my first context point.

My second point—just let me finish—is that despite those factors, it is worth comparing us with other countries. Clearly, we have inactivity and no one is disputing that, but it would be double our rates if we were in Australia, which is 107% higher. The rates in Austria are 58% higher, 62% higher in Finland and 95% higher in Switzerland. We have a 56.5% rate here, so I am not saying that things are perfect. In comparison to G7, OECD, the EU, we are in a competitive position. That is a fact.¹

¹ In a discussion about comparative inactivity rates between countries, there was an error used in the vacancy figures for the respective economies instead of economic

Baroness Kramer: I am not asking the question to see who scores best. I am trying to understand what is different in the dynamic. The pattern of recovery from rates prior to the pandemic to post pandemic, which is the core of what we are looking at, is substantially different in the UK. I am trying to take stock.

Guy Opperman: There was also positive.

Baroness Kramer: I am talking about the change.

Guy Opperman: Yes.

Baroness Kramer: Do you have any sense of what the elements were that created that difference? That gives us a lever on which to try to look for ways to counter the level of inactivity, if we think it is a significant and important trend.

Guy Opperman: I will finish on one statistic, which is that payroll employment is at a record level; there are 730,000 more employees on payroll than in February 2020. I will let Kevin address those points.

Kevin Hollinrake: You ask what we will do to counter these issues, Baroness Kramer. As I said earlier, it is not just the situation we are facing; it is how we deal with it. We are trying to make the workplace a more attractive place. We have the higher minimum wage and that clearly has a knock-on effect through the system. There are things like flexible working, pregnancy return to work and reforming childcare to try to increase participation all the way through the different age groups. It is also about reforming the education system to make it more relevant to businesses. We spend a lot of time in BEIS engaging with businesses, trying to determine their skills and educational needs. It is very important that the two things match up; they do not right now.

I welcome the appointment as our Education Secretary of Gillian Keegan, who has an apprenticeship background herself and is somebody who might move education forward to better suit the ongoing needs of businesses, which obviously will make it easier to cope with their future labour needs. It is also about businesses themselves. The UK invests around 50% of the EU average on in-work training; 20% of UK workers, between 25 and 65, have a technical qualification. That is 33% lower than the OECD average.

Baroness Kramer: I am not trying to create a scoring system for who does best, who is the winner or whatever else.

Kevin Hollinrake: No.

Baroness Kramer: I am trying to understand the dynamic—I believe “the flow” was the term that Ronan used. For some reason, the flow behaviour is different. For example, when we took evidence from the US,

inactivity. The economic inactivity rate in the UK is 5.3% lower than the OECD average and 3.9% lower than the EU average.

they thought one reason why their over-50s had recovered to prior levels of activity so rapidly is due to the particular character of the engagement between companies and their employees. It was different in character from the ongoing engagement in the UK. Whether that is true I do not know. There were examples like that which one would start to explore if one were to look at this difference in international behaviours. That is all I am trying to get a grip on.

Ronan O'Connor: You are right. The UK is an outlier but only in one particular sense, in that we had record low levels of inactivity before the pandemic. We are now at 2017 levels—still relatively pretty good. What has been different in the UK is that the increase in inactivity that everybody experienced was reversed in most but not all economies. There are two or three other countries that do not provide a particularly good comparison to the UK. What is different is that our inactivity rate has not returned in the same way.

This is still a why question. What we have seen in government, DWP and BEIS is what most, if not all, of your contributors have told you has happened, but it is very difficult to say why it happened. It is a very interesting question. We welcome the work you are doing and I certainly welcome it. I am looking forward to the report drawing out and asking questions such as, “Is there something different in the UK that doesn’t apply in other countries? Is there something in the UK that is incentivising people to leave or enabling them to leave?” It is a difficult question. If they are making a choice to leave, what is the role of government in interfering in that choice? It is only if we think that choice will have some detriment in the future, and we do not know. We do not know whether the uptick in inactivity will go back down again or whether it will stay slightly above, but trend down; we do not know what the future holds.

The Chair: Given your mastery of the data—you are the expert here—what is your hunch telling you, given everything you have read and the evidence we have taken? Clearly, you have been looking at some of the evidence we have been given.

Ronan O'Connor: It is undoubtedly true that in the UK the way we have structured our pension system gives people over the age of 55 more choices than in other countries. It has been incredibly popular and incredibly useful for a lot of people. However, most of the people between the ages of 55 and 59 who are accessing their pensions earlier are still involved in the labour market. There is a data lag, so we do not know.

What is my gut telling me? My gut is telling me never to say what my gut is saying. What my gut is saying, when I step back and look at this and when government is stepping back and looking at this question, is that it is a priority; tackling inactivity is an absolute priority for this department, for BEIS and for other departments.

We understand the groups that are affected. We have some policy interventions in place already, but we need to do more if we really want

to stem the flow. When you ask people who are inactive, of the 9 million who are inactive, 1.7 million say they would like to do some work. If you ask what is stopping them, it is about flexibility, about keeping people in the workplace.

My gut is saying that we should be concentrating on working with employers to make sure that jobs are more able to cope with some of the choices and issues that people over 50—I am in that group myself—are facing: caring responsibilities, health responsibilities and other issues. We should be looking at our health and disability prevalence. We are an ageing population regardless of whether inactivity drops. We are worried about inactivity because we have a very tight labour market; we have lots of vacancies. That may not persist and we may have other issues. We definitely have an ageing population. We definitely have a higher prevalence of health and disability issues. Those are the things we should be looking at and they are the things we are looking at, but it is a whole of government as well as an employer challenge.

The Chair: Looking at trends in other countries, especially in the EU, that have similar demographics, and looking at what they do not have and that we have that could spur people, does the pensions point you made earlier stand out as an issue?

Ronan O'Connor: Absolutely. We are one of the only countries.

The Chair: Is there anything else that you would highlight?

Ronan O'Connor: It is interesting that in the evidence I have heard lots of people have put forward conjectures, but they are also very careful: "I kind of agree with everything. Yes, it could be that or it could be this". I am slightly struggling with the UK. The pension thing is interesting, but the evidence is not there to back it up.

There is some interesting stuff about health waiting lists. I know you have heard evidence on that, but the data is not there to back that up. We do not know what the future will bring. To throw it into the mix, pre pandemic we had very low levels of inactivity. We had very high employment rates, quite a small gender pay gap, record high disability employment and record high youth employment. We had a well-functioning labour market. We had driven out much of the fat.

If you had a labour market that already had high levels of inactivity, they do not know what is happening. We did know, because our levels were low. We knew what was happening in a greater proportion of our labour market. It may well be that in countries where the inactivity was already higher, and increased and decreased, it is masking a lot that our labour market is uncovering. Does that make sense?

The Chair: Yes.

Q117 **Lord Layard:** We have already talked a lot about policy. Maybe you could say anything that you have not already said about what is being done or could be done to deal with the shortage problem. I have three

specific questions. The mid-life MoT was very interesting. Could you tell us a little more about who exactly it reaches? I was not quite clear on that from your exchange with Baroness Kramer. How far is it still continuing? How widespread is it? That is number one.

Number two is about employment support for the long-term sick. I know about and have even been involved a bit in the provision for people with mental health problems. It is now very extensive and going well. What about people with physical chronic problems? Is there the same employment support? Is that an area that should be addressed, given the prevalence of the long-term sick issue?

The third question is about the minimum state pension age, which is quite an important variable in all of this. Do you have any thoughts about whether it might be increased?

Guy Opperman: I will take those in reverse order. The minimum state pension age is determined ultimately by the Prime Minister and the Chancellor. There has been a review and obviously the actuarial review. That will be disclosed in due course. If I was to express a view on that particular matter at this present stage, I would unquestionably be fired. It would be right to tender my resignation immediately. I will pass and duck that like a good politician.

The second question was on the long-term unemployed who have long-term physical disabilities. There is a huge amount of work being done by the Department of Work and Pensions in a variety of ways. There is a cohort of people trying to enhance and increase the numbers with disability who are employed, and those who have long-term sick problems and who wish to get back into the workforce. There is a lot of work being done with job coaches. I am happy to write to you about the work we are doing. I could give you quite a lot of chapter and verse. Certainly, the department can give you more.

Let me quickly address the midlife MoT, because I am conscious that time is short. There are three strands to what we are doing now. We deliberately made it three strands. One is a pure online version, because lots of people prefer something online that is easily accessible. The second is available in jobcentres. There are some people who are doing in-work progression in employment on UC, but want longer hours, want to understand what their finances are like, how they retrain, or how they progress on a long-term basis. We have a variety of jobcentres up and down the country doing that.

The third strand is that I particularly made sure we had some money to build upon the Aviva and Hargreaves Lansdown work and say to the private sector, "How can government forward real change in the cohort 45 to 55 to persuade them, first, to stay in employment, and to reskill and have a better understanding of their finances and their health?" The evidence is overwhelming. People do not see their GP for their annual check-up. The evidence is overwhelming that people do not know what their finances are. The evidence is overwhelming that not enough people

are getting reskilled in later life. You need to try to address all those three things.

There is plenty of published evidence on this. There is the Aviva trial. I did a 10 LEP trial and pilot last year, which has been published; you can access the information. There is a very impressive GOV.UK statement by me from June this year in my former life where I set out in quite some detail the mid-life MoT and the plans that we have.

Kevin Hollinrake: It is important that we listen to what people want regarding return to the workplace; 32% of older workers said flexible working was the most important thing in returning to work or staying in work. That should be a key focus in trying to maintain that cohort of workers in the system.

Q118 **Lord Skidelsky:** There is something that has run through all the questions and answers. Why is the activity rate higher in the UK than in the USA and many other European countries? Baroness Kramer asked about the trend. What about the actual stock?

Guy Opperman: Ronan answered that in quite a lot of detail, unless he wants to amplify.

Lord Skidelsky: Did you? If you did, I will get it.

Ronan O'Connor: Were you asking why our inactivity rate was better, so lower inactivity?

Lord Skidelsky: Yes.

Ronan O'Connor: I do not know how inactivity is broken down in those countries. I only have the headline figures. We know the groups that are inactive: students, people caring, and people with health conditions who are over 50. I do not have that data. I am not saying that it is not available, but I do not have it to hand, so I do not know. All I know is how we compare.

Lord Skidelsky: We work harder and longer than people in most of—

Guy Opperman: Let me give you an example. It is quite clear that we have a greater number of students. It is quite clear that a lot more people are studying.

Lord Skidelsky: Than France or Germany?

Guy Opperman: We cannot give you the detailed breakdown. In the UK, one reason why economic inactivity has gone up is that people have opted out of unemployment to go into further study. That could in some cases be a very good thing, and it is what we are trying to encourage people to do with the mid-life MoT, but we do not have the hard data to say why it is and what kind of long-term future they have. As to international comparison on student numbers and others, I do not think we have that.

Ronan O'Connor: We do not. We moved more quickly in the UK to increase state pension age. A lot of the driving-down inactivity was through equalising men and women first and then increasing it. We moved quicker. That takes a lot of inactivity out of the system. We were also very successful in reducing inactivity of parents, and lone parents in particular.

It may well be in the UK that in our policies we tend to have a much more interventionist labour market approach than a lot of other countries. We try to work and support more and we require more people to be actively seeking work. Those active labour market policies and raising pension age ahead of some other countries may well have contributed overall to the lower than G7 average or OECD average.

Kevin Hollinrake: Can I bring Mike in? He has a point on this.

Lord Skidelsky: Please.

Mark Warren: Over the long term in this country, we have had a consistent upward trend in workforce participation. People from groups that in other countries are less likely to work are able to participate in the UK labour market. In BEIS, we tend to celebrate the fact that our labour market is very flexible and dynamic. Some of that flexibility you would see in the availability of zero-hours contracts, for example; it is easier to move jobs in this country than in other countries. That would be my hypothesis for why inactivity is lower here than in European countries where labour markets are more restrictive. Unfortunately, that hypothesis does not at all explain what is happening in the United States, which has a very different labour market. We can explain the situation comparing us with Europe; perhaps less so, the United States.

Q119 **The Chair:** I have just one final question, which is on the mismatch we are hearing about. In everything you are saying, in the fantastic examples you are giving us about mid-life MoT, the mismatch could be that people in their 50s are leaving jobs but the vacancies are in low-skilled jobs, jobs for which you do not need more skills and that are potentially unattractive. I come back to the vacancy point; even if you get the inactive to want to look for a job, the jobs they will want are not the ones on offer. Is that a broad concern that you share?

Guy Opperman: There is a degree of truth in that. To go back to the Aviva trial, a hard data trial of skilled workers, some 25% of their workforce were above the age of 45 to 50 and a very large proportion were about to leave. That is a lot of people with 30-year muscle memory in a high-skill insurance and specialist business. The replacement of those individuals would be exceptionally hard.

There is definite effort being made by lots of bits of government to retain workforce. We should not ignore that. We are trying to retain people in the jobs they want to do or change the nature of those jobs so that they are better employed longer term, staying and paying taxes, and are healthier because they are at work.

There is a separate issue about a pre-existing problem that has grown. Some sectors have clearly been affected. How are we trying to address that? We have a separate issue, which is: who drives that? It is a legitimate point for your committee. Should the Department for Work and Pensions or BEIS say, "We have a haulage drivers' shortage. We should fix it"? Frankly, that is a transport issue. The Department for Transport has most of the levers, understanding and capability. We should be helping it and using the Department for Education in how we will deal with those particular problems.

A sector-driven addressing of the particular areas where there are particular vacancies seems to us to be best driven by the department that knows that sector best. Your committee is important in holding individual departments to account and saying, "Well, you were here. Why are you here now?" Likewise, we at DWP and BEIS will be doing exactly the same thing.

The Chair: Thank you very much. I am conscious that we have gone on. Thank you very much not only for making the time but for doing this when you are only 11 days into the job.

Guy Opperman: Eleven days and only confirmed yesterday.

The Chair: Thank you very much. It is very good to see you all. Thank you everyone for coming. On that, we will end.