## 40-70 Tomorrow's Workforce Programme

# Opportunities for Older Workers in the South East

Dr Claire Hann
SEEDA Research and Economics

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SERFA
Making the South East Work for Older People

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REGIONAL SKILLS FOR PRODUCTIVITY ALLIANCE

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## Note

Any views expressed in this report are the author's own, and do not necessarily represent the opinions of all partners in the Regional Skills for Productivity Alliance and South East Regional Forum on Ageing.

## Further information

For more information about this publication please contact:


Research & Economics Team
South East England Development Agency
Cross Lanes
Guildford
GU1 1YA
01438 484200

research@seeda.co.uk
www.seeda.co.uk/Publications/Research_&_Economics/

# Contents

# List of Figures

# Foreword

At the launch of the South East Regional Health Strategy, the Regional Minister for the South East, Jonathan Shaw MP, said that the ageing of the population means a significant 'greying' of the workforce in the South East. He pointed to the need to value and, where necessary, re-skill our older workforce as a challenge to which industry, the service sector and public agencies must respond if we are to draw effectively on a growing, and often untapped, employment pool.

As the Government has said in its recent *Opportunity Age* consultation document, we need to make it easier for older workers to have the opportunities for work that they want and to gain the new skills that they need. I am very pleased, therefore, that the South East is at the forefront of thinking and action nationally on this subject and that our *40-70 Tomorrow's Workforce Programme* should make a significant contribution to delivering the Regional Economic Strategy.

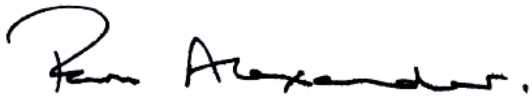
As part of this programme, the South East England Development Agency (SEEDA) has undertaken an extensive analysis to support the case for recruiting and retaining more older workers. The analysis in this report shows that:

- People over the age of 40 contribute around fifty per cent of the output of the South East economy, with those over the age of 50 accounting for about one quarter of the total.
- Beyond the current economic downturn, employment in the South East is forecast to grow by almost 80,000 by 2015.
- In the same period there will be fewer young entrants joining the South East labour market; the number of 35-45 year olds is due to fall by 130,000; and we are likely to be less able to rely on migrant workers to fill job vacancies.
- At the same time the number of 45-65 year olds in the South East is due to increase by 124,000 by 2015.

The message from this analysis is clear: **the South East will increasingly be a region of opportunities for older workers**, especially as our economy is expected to grow the fastest of all regions as we come out of the economic downturn. We are going to need our older citizens to contribute an even greater proportion of regional output.

It is equally clear that our economic success will depend on developing as well as drawing effectively on the talents, experience and skills of older workers. This will require employers to review their recruitment and employment practices. It will also require public agencies, training organisations and providers of employment support to ensure that their services are relevant to older workers. Now is the time to prepare.

I hope this report stimulates a lively debate amongst everyone who has an interest in our economy, in growing their businesses, or in providing employment or training services.



Pam Alexander
Chief Executive
South East England Development Agency (SEEDA)

# Executive summary

- The number of young people leaving the education system is projected to decline steadily over the next decade. There will be a significant reduction in the number of 35-45 year olds in the South East: in 2015 there are projected to be 130,000 fewer people in this age group than in 2008. At the same time the number of 45-65 year olds is forecast to grow by 124,000.

- There is evidence that migrant workers are returning home as the economic downturn worsens. This could lead to labour and skills shortages, particularly in sectors in which migrant workers have been concentrated, such as manufacturing, health and social care and hotels and restaurants.

- Following the current economic downturn, employment in the South East is forecast to grow considerably (by almost 80,000) by 2015. The normally tight labour market in the South East (high employment rate coupled with high demand for labour), together with projected demographic trends, mean that recruiting and retaining more 45-65 year olds will increasingly be a priority for meeting potential labour shortages.

- However, thirteen per cent of people *over* state pension age (208,000 people) were still in work in 2007/08 and the majority of future population growth will be accounted for by people aged *over 65*. In 2008, the dependency ratio (the ratio of people of 'non-working age' to those of 'working age') in the South East was 6:10; by 2020, it is forecast to rise to 7:10. The forecast change in the dependency ratio suggests that a medium-term goal may need to be to increase the proportion of people over 65 who continue to work.

- Coastal and rural districts of the South East tend to have significantly higher proportions of people of pensionable age than urban areas. This suggests that it would be particularly desirable to target interventions to support older workers in coastal and rural areas.

- More than 140,000 people in the South East aged 40 to 70 are currently economically inactive but would like a job if one were available. These are an obvious early priority for intervention.

- There are also approximately 710,000 people aged 40 to 70 who are economically inactive because they are retired or not looking for work. Illness or disability, or retirement, are the two most common reasons for economic inactivity amongst the older population. More than one fifth of economically inactive people in their 50s (35,500 people), and four fifths in their 60s (412,000 people), are retired. These people could be a potential source of volunteers, particularly in the current economic downturn when voluntary organizations are seeing increased demand for their services and some are facing a shortage of volunteers.

- Well over half (56 per cent) of all Employment and Support Allowance (formerly Incapacity Benefit) claimants – more than 133,000 – are in the 45-64 age group in the South East. Tailoring employment support to reflect the circumstances, experience and skills of older workers will therefore be a key challenge for Pathways to Work providers.

- People aged over 55 are significantly less likely than all other age groups to hold National Vocational Qualifications (NVQs) or equivalent qualifications at Levels 1, 2, 3 and 4. However, older people with no qualifications are significantly more likely to be employed than those from younger age groups who have no formal qualifications. Employers tend to value the experience and 'softer' skills offered by older workers, such as customer service and team working. This is something to consider in the further development of Train to Gain and other skills programmes.

- The sectors with the largest proportion of older employees include utilities, public services such as health and social work, and manufacturing. Workers aged over 40 are in the minority in the hotels and restaurants sector, along with retail and financial and business services, suggesting that these sectors could benefit from reviewing their recruitment and retention practices in relation to older workers.

- Generally speaking, in those sectors with larger proportions of older workers, employers are less likely to report skills gaps in their workforce. This applies to the utilities, education, construction and transport sectors in particular.

- Lower level occupational groups tend to have the largest proportion of workers aged over 55, while employees aged over 40 form a larger proportion of the workforce in professional and managerial occupations. Workers aged under 40 are particularly under-represented in sales and customer service occupations.

- The economic significance of this older workforce analysis is demonstrated by the fact that workers aged over 40 contributed more than half the total output of the South East economy in 2007. This equated to at least £93 billion.

Employees aged over 50 accounted for more than one quarter of total regional Gross Value Added in 2007 – equivalent to at least £45 billion.

- This analysis demonstrates the need for older workers to be recognised and valued as being essential to the economic success of the South East region. Workers over the age of 40 offer a range of benefits to employers and, by extension, the wider economy.

- Staff retention is higher and absenteeism lower in firms employing larger numbers of older workers; training older workers is cost effective because they are motivated and make good use of their new skills; older employees can pass on the benefit of their experience and knowledge to colleagues; and older staff are a source of creative and innovative business ideas.

- However, in previous recessions unemployed older workers experienced much greater difficulty in getting re-employed and many never got back into work. The South East *40-70 Tomorrow's Workforce Programme* has been developed to explore what kind of support is needed to maximise employment opportunities for older workers. It is intended to inform the future design and delivery of employment and skills programmes at local, regional and national level.

# 1

# Introduction

**Key messages**

- **This report presents the demographic, economic and labour market case for recruiting and retaining older workers.**
- **As a result of the economic downturn, employment is currently falling in the South East and unemployment is rising.**
- **Beyond the downturn, there should be good opportunities for older workers, particularly in the medium term.**
- **The South East is forecast to see the fastest growth in employment of any region between 2010 and 2016.**
- **Recent job losses have affected younger workers more than older employees, while many employers are trying to avoid the cost of redundancies by retaining experienced staff to enable them to prepare for the upturn.**

# 1. Introduction

The South East *40-70 Tomorrow's Workforce Programme* is intended to maximize the older workforce's contribution to increased economic activity and productivity in the South East. Its twin aims are, firstly, to *retain* more older workers in the active workforce through re-skilling, flexible employment opportunities and other means, and secondly to *return* more older workers to the active workforce when they have left as a result of redundancy, ill-health or for other reasons. The programme includes a series of projects specifically focused on the needs of older workers and employers but is also intended to influence the future design and delivery of mainstream employment and skills programmes.

The analysis presented in this report is intended to support the *40-70 Tomorrow's Workforce Programme* by presenting the demographic, economic and labour market case for recruiting and retaining more older workers in the South East.

This report has been written at a time when the UK is in recession, which is already having and will continue to have an impact on employment demand in the South East, as in other regions. Employment has been falling steadily in the South East since the spring of 2008, with the most recent figures showing a drop of 14,000 between September and December 2008. However, unemployment in the region has recently started to rise quite sharply, reaching 218,000 in December 2008. The number of people claiming Job Seekers' Allowance has almost doubled in the past year, reaching 115,000 in January 2009 – the highest level since February 1998. Redundancy notifications are increasing as employers look to cut costs to mitigate their worsening cashflow, and at the same time the number of vacancies notified to Jobcentre Plus is falling. As larger numbers of people compete for a declining number of job opportunities, it is very likely that there will be further rises in unemployment in the coming months.

On the face of it, the current economic situation would seem to present few opportunities for older people, particularly those who are currently outside the labour market. However, there are a number of reasons for optimism about the prospects for recruiting and retaining more older workers, particularly over the medium term:

- The fall in employment is expected to be a short-term phenomenon, particularly in the South East, where employer demand for labour has historically been high. Forecasts from Experian[1] suggest that employment growth in the South East will recover relatively quickly after 2009, with the South East seeing the fastest growth in employment of any region (along with London) between 2010 and 2016. Following the current economic downturn, employment in the South East is forecast to grow considerably (by almost 80,000) by 2015.

- There is anecdotal evidence that migrant workers are returning home as the economic downturn worsens. In the medium term this could lead to labour and skills shortages in sectors in which migrant workers have been concentrated, such as manufacturing, health and social care and hotels and restaurants.[2] The commitment, strong work ethic and softer skills which employers have valued in migrants are also characteristics of older workers, which should make them attractive recruits for employers once the upturn starts.

- Recent job losses appear to have had a disproportionate effect on younger workers, particularly those aged under 25, while employment rates for those aged over 60 have in fact increased over the past year. Although the recession is affecting employment in all sectors, the earliest and most significant effects have been in sectors in which younger people make up a greater proportion of the workforce, such as financial and business services, retail, hospitality and construction (as well as manufacturing, where the workforce tends to be older). Public services, which employ the largest proportion of workers over 40, have been relatively unscathed by the recession thus far.

- Older workers might be seen as more vulnerable to voluntary redundancies or enforced early retirement in the current economic conditions. However, there is evidence of employers in the South East doing what they can to hold on to skilled and experienced employees, even if they have to reduce their hours, in order to ensure that they do not lose these workers when the upturn comes, and also to save the expense of making permanent staff redundant.[3]

[1] Experian Business Strategies, November 2008. Note that these forecasts are likely to be revised downwards when they are updated in Spring 2009.

[2] *Migrant workers in the South East Regional Economy* (Institute for Employment Research and BMG Research, July 2008).

[3] SEEDA, Regional Intelligence Snapshot for the South East, December 2008. According to the Chartered Institute of Personnel and Development, the cost of making people redundant averages over £16,000 in direct costs plus indirect costs such as loss of productivity.

- For those older people who do not need or want to work, there are increasing numbers of volunteering opportunities as the downturn persists. A recent survey of voluntary organizations who are members of RAISE (the umbrella organization for the voluntary and community sector in the South East) showed that more than half had seen an increase in demand for their services in the past three months.[4] At the same time, the number of volunteers available has started to fall in some organizations, as people increasingly need to seek paid employment to make ends meet.

The figures presented in this report provide a snapshot of demographic, labour market and economic conditions in the South East at a particular point in time, and are largely unadjusted for the effects of the economic downturn, given that there is still significant uncertainty as to the nature and duration of the recession. Nevertheless, the case that is presented here for the recruitment and retention of older workers remains relevant, certainly in the medium term. The remainder of this report discusses the demographic, labour market and economic reasons why boosting the employment of older workers will benefit employers and the wider economy in the South East.

The following section presents population projections for different age groups, highlighting the fact that older people will account for a large and growing proportion of future population growth, while the number of people of working age will grow more slowly and even decline in some age groups. The next section discusses the labour market experience of older people, demonstrating the need to increase the number of older workers to counteract potential labour shortages resulting from high employer demand and falling supply of younger workers. Although the employment rate amongst older people has increased in recent years, there are still significant numbers of people in their 50s and 60s who are retired or say they do not need a job. Those older people who are in work tend not to be as highly qualified as their younger colleagues, but their softer skills and experience are highly valued by employers. The differing age profiles of the workforce in different sectors and occupational groups are discussed in the following section, and the report concludes by demonstrating the significant contribution made by older workers to the regional economy.

[4] RAISE, Economic Downturn Survey, January 2009.

# 2

# Demographic change

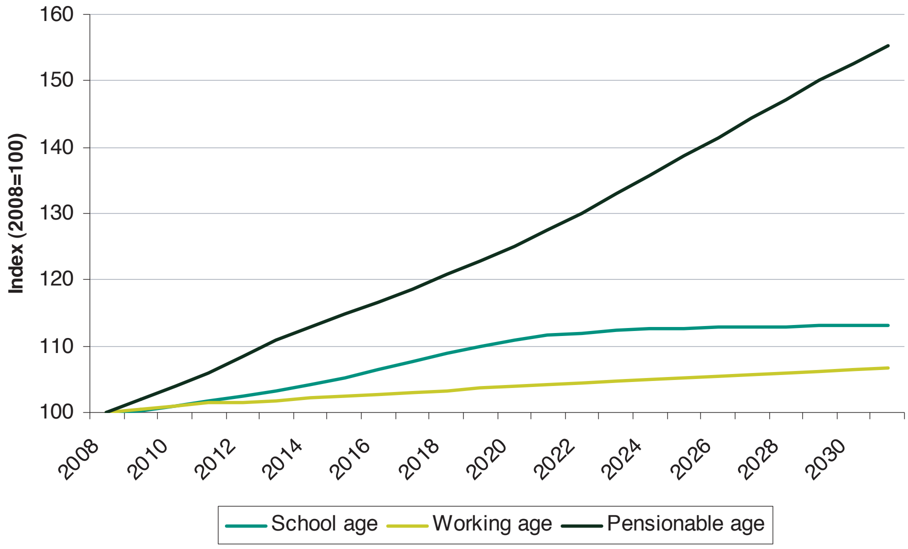
**Key messages**

- **In twenty years' time, one quarter of the South East population will be of pensionable age and little more than one half will be of working age.**
- **Coastal and rural areas of the South East tend to have larger proportions of pensionable age people than urban areas.**
- **Over the next decade or so, the number of people aged between 35 and 45 is projected to fall, while there will be a significant increase in the population aged 50 and above.**
- **The 'dependency ratio' (the non-working age population as a percentage of the working age population) is expected to grow considerably over the next few years.**
- **Net international migration accounted for nearly two thirds of population change in the South East in 2005/06.**
- **An estimated 470,000 international migrants were employed in the South East in 2007.**
- **The effect of migrant workers on the labour market opportunities for older workers is not clear, especially as migration flows can be unpredictable. Although migrants are concentrated in sectors in which large numbers of older people work, there is no significant evidence of UK-born workers being displaced from these industries.**

## 2.1 The ageing population

In common with other UK regions, the South East population is ageing, and this trend is projected to intensify into the future. The region's changing demography will have significant implications for the economy and labour market. In order to mitigate any potential negative impacts, it will be important both to encourage older workers to remain in or re-enter the workforce, and to convince employers of the benefits of recruiting and retaining older employees.

**Figure 1: Projected population growth by age group, South East, 2008-2031**



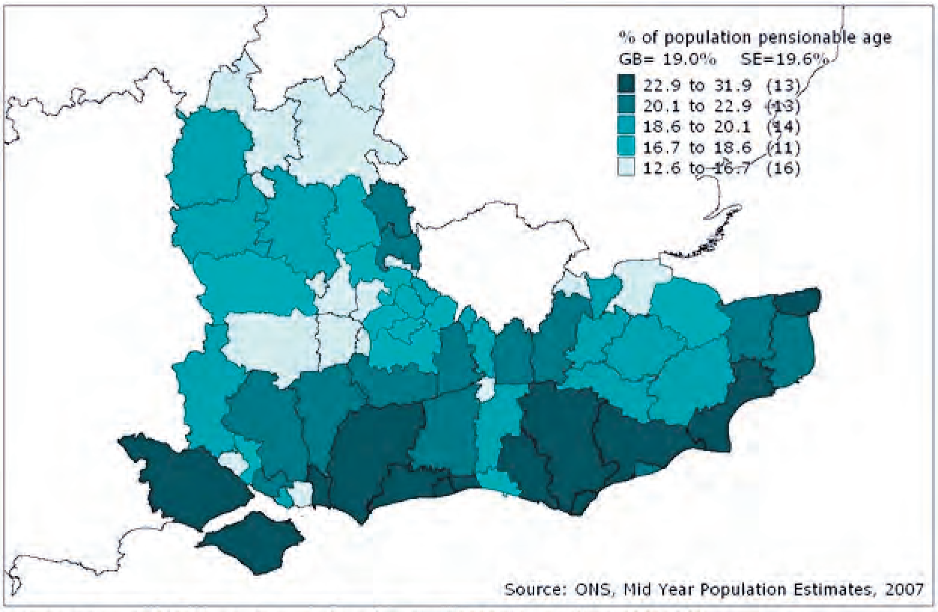

*Source: ONS 2006-based Sub-National Population Projections*

In twenty years' time, one quarter of the South East population will be of pensionable age[5], and little more than one half will be of working age. As people are living longer and the birth rate is falling, the population is beginning to age. The 'baby boomer' generation is approaching retirement, which is set to increase the number and proportion of older people in the population still further. In 1997, 18.8 per cent of the South East's population was of pensionable age (1.5 million people); by 2007 the figure was 19.6 per cent (1.6 million); and by 2020 the figure is projected to rise to 22.8 per cent (2.1 million), and by 2031 to 26.3 per cent (2.6 million).

[5] 'Pensionable age' is currently defined as women aged 60 and over and men aged 65 and over. Note that in this report, when presenting the population projections by age group, the proposed changes in state pension age are not taken into account. These changes will involve an increase in the state pension age for women to 65 between 2010 and 2020, and between 2024 and 2046, a three stage increase in state pension age from 65 to 68 years for both sexes.

At the same time, the proportion of people who are of working age is projected to fall – from 62.6 per cent (5.2 million people) in 2007 to 59.4 per cent (5.4 million) in 2020 and just 56.7 per cent (5.5 million) by 2030. Figure 1 shows how quickly the size of the pensionable age population is projected to rise relative to the working age and school age populations in the South East. Note that the chart shows the *relative* rates of growth rather than the actual size of the population in these three age groups.

**Figure 2: Percentage of the population of pensionable age, by local authority, 2007**





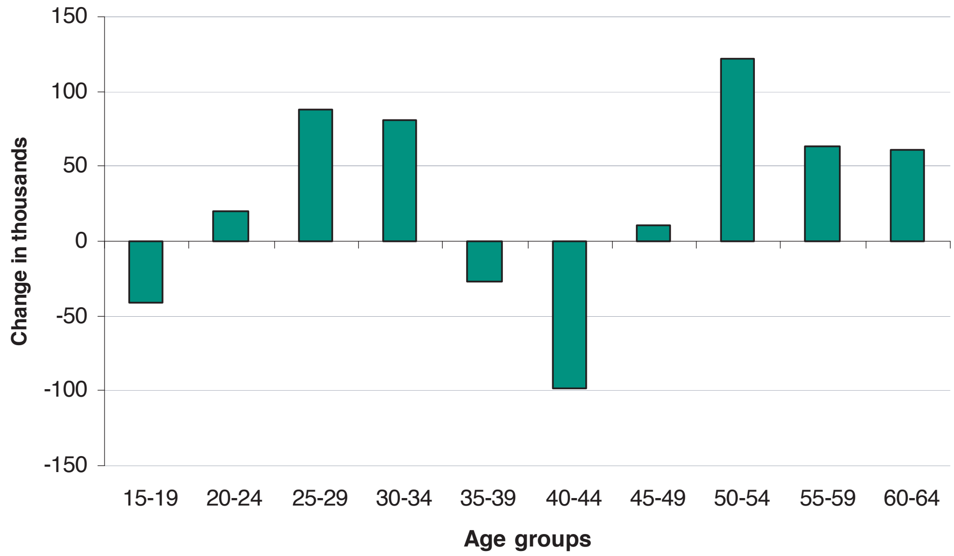

There is a distinct sub-regional pattern of population ageing. Coastal districts of the South East, particularly in Sussex and Hampshire, have a significantly higher proportion of residents of pensionable age, compared to the inland, more northerly parts of the region. Urban areas in particular tend to have smaller pensionable age populations. For instance, 32 per cent of the population of Rother, 30 per cent in Arun and 27 per cent in Chichester and the New Forest are of pensionable age. By contrast, just 13 per cent of the populations of Oxford, Milton Keynes and Slough and 14 per cent in Bracknell Forest and Reading are of pensionable age[6] (Figure 2).

With the size of the pensionable age population forecast to increase significantly, coupled with a much slower rise in the working age population, one could infer that there will be a need for employment rates amongst older workers, including those over state pension age, to rise. Otherwise, the population ageing process could potentially lead to a reduction in overall employment rates, a contracting

[6] ONS Mid-Year Population Estimates, 2007.

workforce, labour shortages and a resultant decline in prosperity. As Figure 3 shows, over the next decade or so, the South East (in common with the country as a whole) is forecast to witness a 'missing middle' of the workforce, as the number of people aged between 35 and 45 declines, while the number of people in younger age groups (principally 25-34 year olds) and in older age groups (particularly those aged 50-54) is projected to increase.

**Figure 3: Projected population change by age group in the South East, 2006-2020**



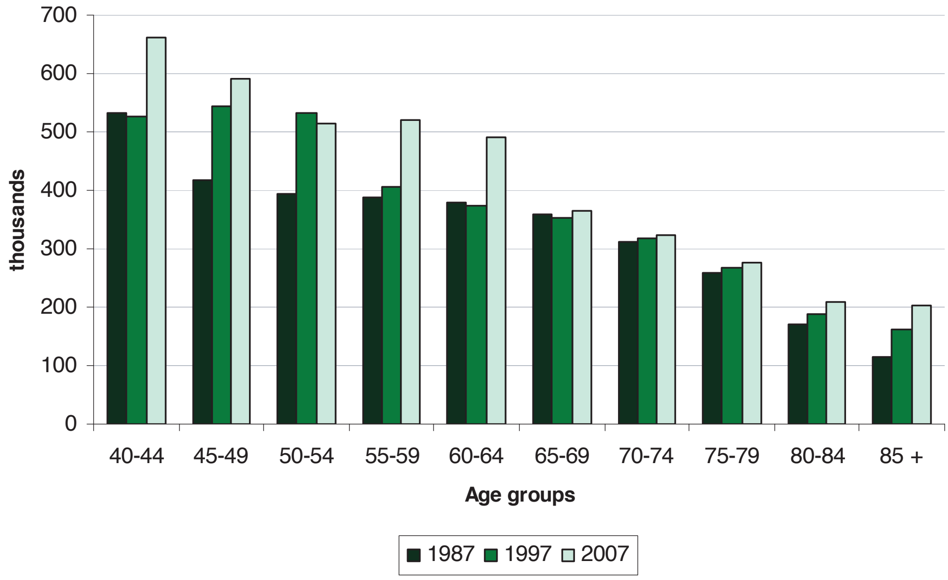

*Source: ONS Crown Copyright, 2006-based Sub-National Population Projections (2008)*

In order to raise economic activity rates amongst the older population it is important to engage with people aged 40 and above, since people in their 40s and 50s are the older workers of the future, and need to be both encouraged and equipped to remain in the labour market. Moreover, after the age of 40 the probability of individuals leaving work starts to increase. As Figure 4 shows, strong population growth in the South East was recorded amongst 40-44 year olds and 55-64 year olds over the past ten years. It is important to ensure that this population growth translates into increased labour market participation.

Although the majority of recent population growth in the South East has been amongst people of working age, most future population growth is forecast to be accounted for by people aged over 65 – that is, those age groups beyond 'conventional' working age.

From 2008, the 'dependency ratio' in the South East (the non-working age population as a percentage of the working age population) is forecast to increase substantially, to a greater extent than in England as a whole. As Figure 5 shows, the child dependency ratio (number of children under 16 expressed as a percentage of the working age population) is projected to remain very stable in future decades, so the increase in overall dependency ratios will be almost entirely due to growth in the pensionable age population.[7]

**Figure 4: Changing population size in older age groups, 1987-2007**

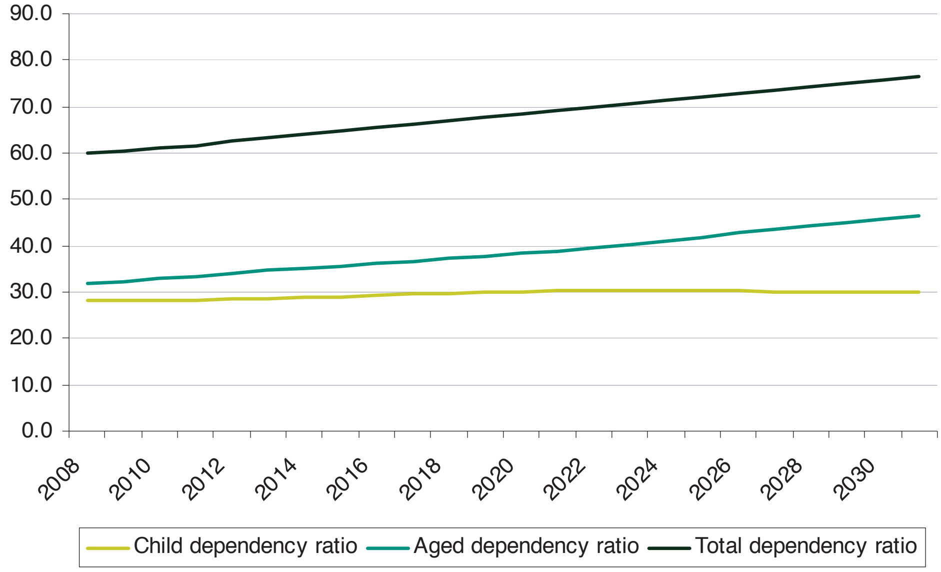



*Source: ONS Crown Copyright, Mid-Year Population Estimates, 1987, 1997 and 2007*

In 2008, there were 60 people of non-working age for every 100 people of working age in the South East (just below the figure of 61 for England). By 2020, there are forecast to be 69 people of non-working age for every 100 people of working age in the South East (while the figure remains at 61 in England). By 2031, there are projected to be 76 people of non-working age for every 100 of working age in the South East – significantly higher than the figure for England (63).[8] These rising dependency ratios will have significant implications for the economy and labour market, as there will be fewer people paying taxes and generating wealth through their labour, but at the same time the number of people drawing on public services but not generating wealth for the economy will grow.

[7] Child dependency ratio = child population/working age population x 100; aged dependency ratio = pensionable age population/working age population x 100; total dependency ratio = (child population + pensionable age population)/working age population x 100.
[8] ONS 2006-based Sub-National Population Projections.

**Figure 5: Projected changes in dependency ratios, South East, 2008-2031**




*Source: ONS 2006-based Sub-national Population Projections*

## 2.2 Migration

Migration is a very significant component of population change in the UK, and indeed the Office for National Statistics projects that half the UK's population growth to 2030 will be a result of net inward migration. The South East has a history of attracting migrants from across the world, and, like other parts of the UK, has seen a marked increase in economic migration over the last decade. By 2005/06, net international migration accounted for nearly two thirds of population change in the South East.[9]

Available data sources provide an incomplete picture of the size and characteristics of the migrant population in the South East, and much of the qualitative evidence available is anecdotal in nature. The complexity of migration flows, coupled with overlaps and inconsistencies between different data sources, further hamper attempts to quantify migration and measure migrant impacts.

Between 2002 and 2007 the percentage of employees in the South East who were international migrants (that is, had been born outside the UK) increased from 9 per cent to 12 per cent. An estimated 470,000 migrants were employed in the South East labour force in 2007, of which 153,000 (3.9 per cent of the South East workforce) had entered the UK

[9] Office for National Statistics revised estimates of Total International Migration, 2007.

after 2001.[10] Looking at a different measure of migration, recent years have seen a significant increase in the number of National Insurance number (NINo) registrations by foreign nationals in the South East. In 2006/07 there were just over 80,000 NINo registrations of non-UK nationals in the region, compared to 37,000 in 2002/03. [11]

The effect of migrant workers on the labour market opportunities for older workers is not yet clear, particularly as future migration trends are normally unpredictable and even more so at a time of economic downturn. There is anecdotal evidence that some of the more recent arrivals from central and eastern European countries had begun to return home as the economies of their own countries began to perform better relative to the UK economy, but the unprecedented *global* downturn may result in the emergence of new patterns of international migration.

In a region such as the South East where demand for labour is normally strong, both migrants and older people represent potential sources of labour for employers, and can also help to address skills shortages. Indeed, both groups are valued by employers for their commitment, reliability, softer skills such as customer service, and the good example they set to other employees.

Migrant workers are concentrated in particular sectors – notably manufacturing, hotels and restaurants, and health and social work – and at both ends of the occupational spectrum, in higher level professional jobs and in lower skilled elementary roles. Since older workers represent a significant proportion of employees in these sectors and occupational groups, they could potentially find themselves in competition with migrant workers for jobs. However, a recent study of migrant workers in the South East found no significant evidence of UK-born workers being 'crowded out' of the labour market by the arrival of migrants. Although there appeared to be some displacement of UK-born workers in those industries in which migrant workers are concentrated, the research suggested that this displacement was largely voluntary, being more to do with high labour turnover in these industries. Any negative impacts have tended to be felt by *young* UK-born males, particularly those with few or no qualifications. Growth in employment of migrant workers in some industries has been associated

[10] Office for National Statistics, Labour Force Survey estimates, presented in *Migrant Workers in the South East Regional Economy* (Institute for Employment Research and BMG Research, July 2008).
[11] Department for Work and Pensions, 2008.

with some increase in economic inactivity amongst younger men in these industries.[12]

[12] *Migrant Workers in the South East Regional Economy* (Institute for Employment Research and BMG Research, July 2008).

# 3

# Changing labour market

**Key messages**

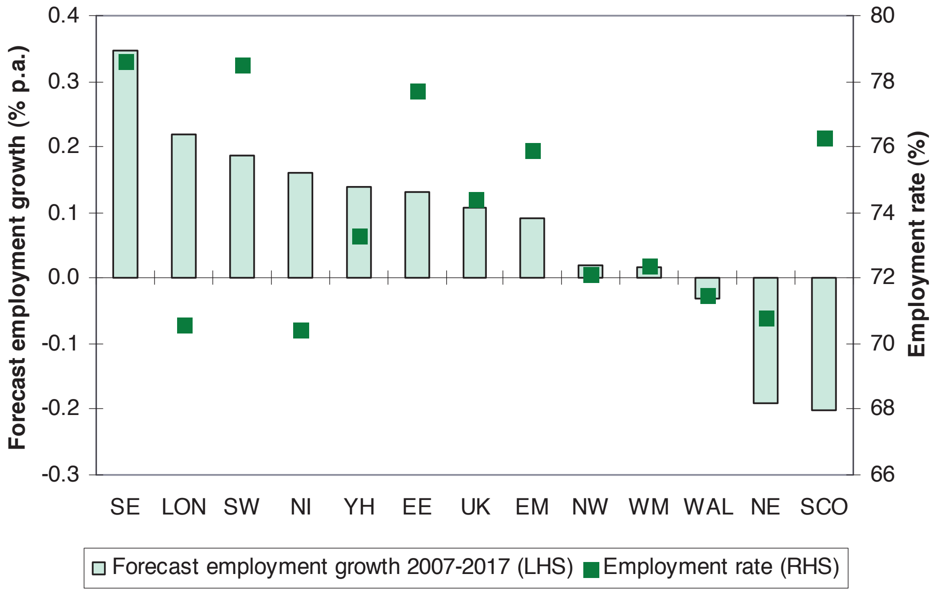
- **Beyond the current economic downturn, the South East is forecast to see the fastest employment growth of any region over the next decade.**
- **As the number of young people leaving the education system is projected to fall year on year over the next decade and there will be a drop in the number of 35-45 year olds, the number of older people in work will need to increase to keep pace with employers' demand for labour.**
- **The employment rate of those aged over 50 has increased in recent years, and 13 per cent of people over state pension age are still in work in the South East.**
- **A total of 140,000 people aged 40 to 70 are currently economically inactive but would like a job if one were available.**
- **The most common reasons for economic inactivity amongst older workers are ill health or retirement.**
- **Older people tend to have lower qualification levels than those in younger age groups, but employers value their experience and 'softer' skills.**

## 3.1 Forecast employment change

As the population ages, and the ratio of working to non-working people falls, there will be a greater need than ever before to *retain* a larger number of older workers in the active workforce and to *return* more older workers to the active workforce. The rationale for this is not based purely on the demographic changes outlined in Section 2. There are also compelling labour market-related reasons for increasing older people's participation in the workforce.

**Figure 6: Employment rate, 2007/08 and forecast employment growth (workplace-based), 2007-2017, by region**

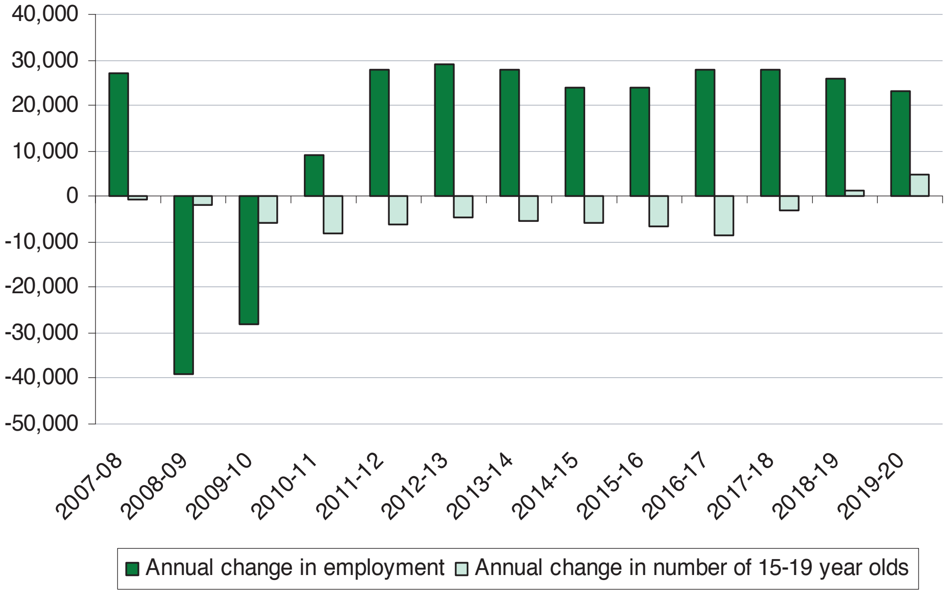
*Source: ONS Crown Copyright, Annual Population Survey, July 2007-June 2008, and Experian Business Strategies, Regional Planning Service, 2008.*




Firstly, the South East has a 'tight' labour market – in other words, the number of people available for work usually struggles to keep pace with employers' demand for labour. This is illustrated in Figure 6, which shows that the South East has the highest employment rate of any UK region, and at the same time is forecast to see the fastest employment growth of any UK region between 2007 and 2017. In other words, although a very large proportion of the working age population in the South East are already participating in the labour market, the demand for additional labour in the South East is forecast to increase more sharply than in any other region over the next decade (allowing for the temporary effects of the present recession).

There is limited scope to increase the working age employment rate in a region where 79 per cent of people in this age group are working. (The Government defines 'full employment' as 80 per cent of working age people in work). Therefore one of the most obvious ways to increase the size of the workforce, in order to keep pace with a forecast growth in employment of 129,000 in a decade, is to increase the number of older workers in employment.

**Figure 7: Forecast change in employment (workplace-based), and forecast change in number of 15-19 year olds, South East, 2007-08 to 2019-20**




*Source: ONS Crown Copyright, 2006-based Sub-National Population Projections; Experian Business Strategies, Regional Planning Service, 2008.*

Secondly, the number of young people leaving the education system, and therefore available to join the workforce, is forecast to decline year-on-year until 2018, while the demand for labour in the South East will continue to grow each year from 2010/11. In other words, there are likely to be too few young people available to meet the growth in employment which is forecast over the next decade or so. This is illustrated graphically in Figure 7, which shows that despite continued employment growth from 2010/11 onwards, the number of 15-19 year olds in the South East is forecast to fall each year until 2018. Note that the bars on the chart show the *annual change* in numbers of employees and numbers of young people, not the total number of employees and young people. To take an example, in 2016 there are forecast to be 24,000 additional jobs available in the South East compared to the previous year. However, the number of 15-19 year olds living in the South East is projected to fall by 6,700 between 2015 and 2016. Clearly, the number of new additions to the labour force from school and college leavers does not look likely to be able to keep pace with the number of new jobs available in the region.

There are some signs of change from 2018, when for the first time in more than a decade there is projected to be an *increase* in the number of 15-19 year olds in the South East. Between 2018 and 2019, there are forecast to be 26,000 additional jobs available in the region. At the same time, the number of 15-19 year olds is projected to increase by 1,400 – the largest growth in this age group since 2006-07.

## 3.2 Employment status of older people

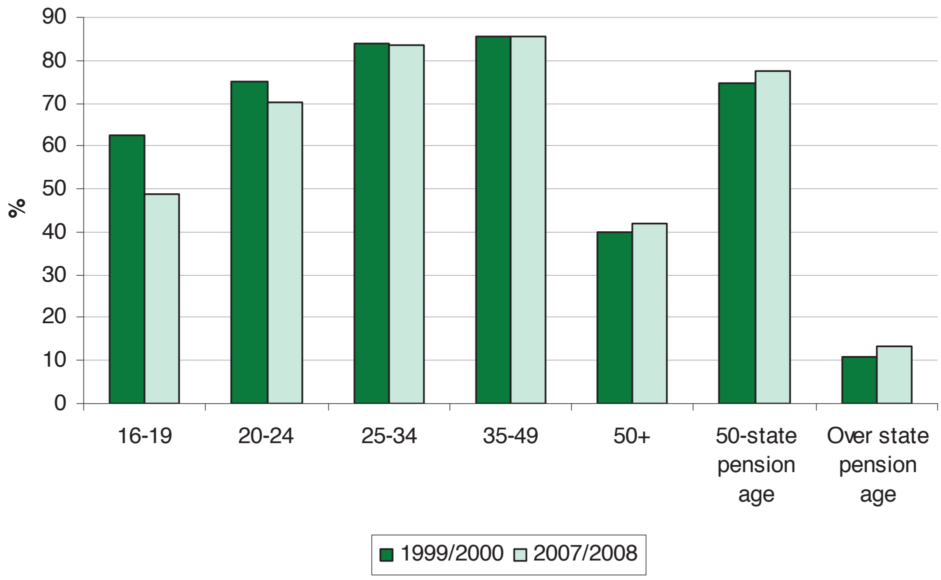
Having established that there is a clear rationale for increasing older people's labour market participation, we now move on to consider the current labour market profile of older people in the South East.

### Employment rates

In all age groups, employment rates in the South East are higher than the English average. The difference is greatest at both extremes of the labour market – amongst 16-19 year olds and amongst those aged 50 to state pension age.

Since 1999, the employment rate of those under the age of 50 (particularly in the age group 16-24) has fallen, while the employment rate of those aged over 50 has increased. In 1999, 74.7 per cent of people aged between 50 and state pension age (888,000 people) were in employment. By 2007/08, this had increased to 77.4 per cent, or 983,000. In other words, 95,000 additional people aged between 50 and state pension age were in employment in 2007/08 compared to eight years earlier.[13]

**Figure 8: Employment rate by age band, South East, 1999/00 and 2007/08**




*Source: ONS Crown Copyright, Local Area Labour Force Survey, March 1999-February 2000; Annual Population Survey, April 2007-March 2008.*

Importantly, though, the increase in labour market participation of older people has been greater in England than in the South East. The employment rate of those aged 50 to state pension age grew by 4.7 percentage points between 1999 and 2007/08 in England, but increased by

[13] ONS Annual Population Survey, 2007/08.

just 2.7 percentage points over the same period in the South East. However this is partly because the South East already had a larger than average number of older people in employment, meaning that there were fewer older people on the 'margins' of the labour market who could be potential recruits. Figure 8 shows how the employment rate varies between age groups and has changed between 1999 and 2007/08 in the South East.

As might be expected, employment rates are highest amongst those aged over 24 (the age when the majority of people have finished full time education) and under 50. In 2007/08, 84 per cent of people aged 25-34 and 86 per cent of people aged 35-49 were in employment in the South East. Of those aged between 50 and state pension age, 77 per cent were in employment. Despite being a lower figure, this is only just below the average employment rate for all working age people in the South East (78.5 per cent in 2007/08). It is also higher than the figure for England as a whole, where 72 per cent of people aged between 50 and state pension age were in work in 2007/08.

Perhaps surprisingly, 13 per cent of people *over* state pension age (208,000 people) were still in work in the South East in 2007/08. This compares to 11.5 per cent (or 1.07 million) in England as a whole. In other words, nearly one fifth of people in England who are still working past state pension age live in the South East. Since 1999, the number of South East residents over state pension age who are working has increased by 53,000, or 2.5 percentage points. In England as a whole the number rose by 3.3 percentage points, or 362,000 between 1999 and 2007/08.[14] It is likely that this figure will increase further in the coming years, as the value of pensions drops due to the economic downturn, prompting more people to stay on in work.

## Economic activity and inactivity

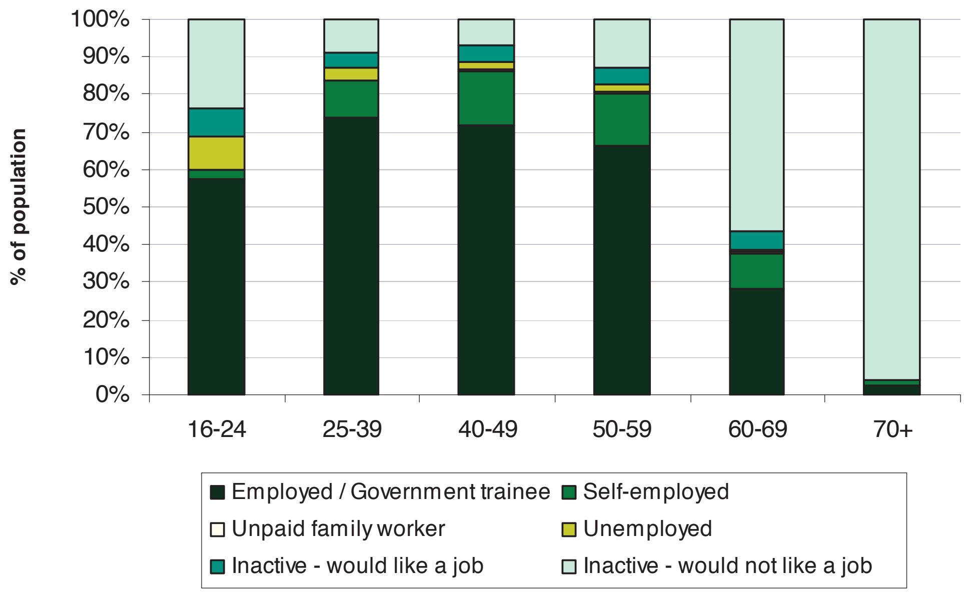
Looking at employment status more broadly, the 'labour market profiles' of different age groups tend to vary quite significantly, as Figure 9 shows. As would be expected, the vast majority of people aged under 60 are in employment. The proportion of people who are self-employed tends to increase with age, with more than 14 per cent of people in their 40s and 50s being self-employed, compared to 10 per cent of 25-39 year olds.

By far the highest economic inactivity rates are recorded amongst those aged over 60. Moreover, people in this older

[14] ONS Annual Population Survey, 2007/08.

age group are less likely to be economically inactive and wanting a job than those in younger age groups. This may be related in part to the fact that older people tend to have a more pessimistic outlook on the availability of jobs for people in their age group, and experience barriers to employment. For instance, 7 per cent of 16-24 year olds in the South East are economically inactive but would like a job if one were available for them, compared to just 4 per cent of people in their 40s and 5 per cent of people in their 50s and 60s. In total, some 141,000 people aged 40 to 70 are currently economically inactive but would like a job if one were available. However, this still leaves a large proportion of older people who are economically inactive but say that they do not want or need to work: 13 per cent of those aged 50-59 (130,900 people), 56 per cent of 60-69 year olds (490,900 people), and 96 per cent of those aged over 70 (912,200 people).[15]

**Figure 9: Employment status by age band, South East residents, 2007/08**




*Source: ONS, Annual Population Survey, July 2007 – June 2008 (via Super Cross)*

In order to understand the extent to which it may be possible to bring these economically inactive older people into the labour market, we need to consider the reasons for their inactivity. As Figure 10 shows, the reasons for inactivity vary significantly by age group.

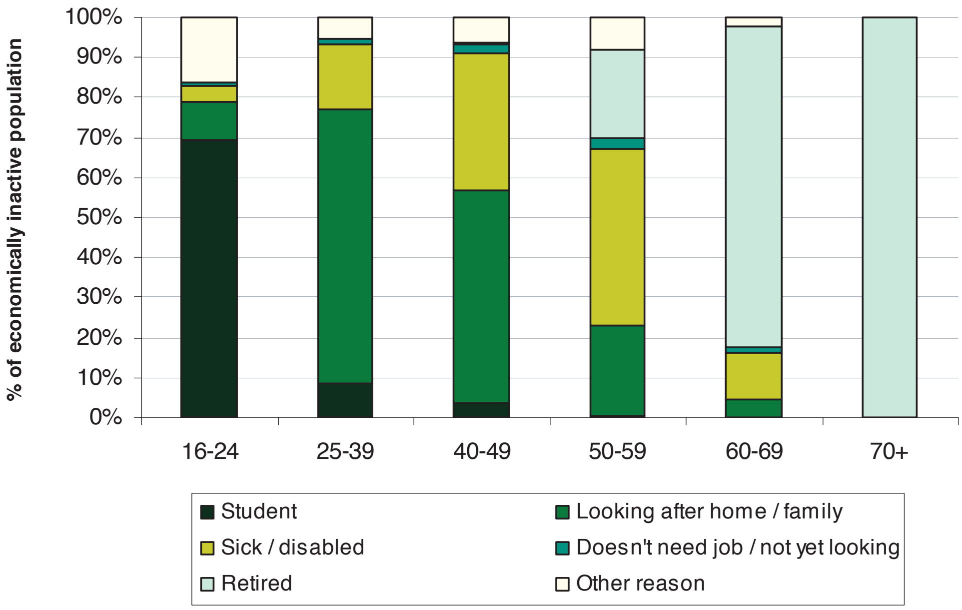
Perhaps not surprisingly, being a student is the most common reason for economic inactivity amongst those aged 16-24: 77 per cent of economically inactive people in this age group are students. For those aged 25-49, economic inactivity is most commonly explained by their

[15] ONS Annual Population Survey, July 2007-June 2008.

responsibilities for looking after a home or family. This reflects the fact that people in this age group are most likely to have children living at home and/or elderly relatives to care for.

Illness or disability becomes an increasingly common cause of inactivity as people get older. Just 9 per cent of those aged 25-39 are inactive due to sickness or disability (either temporary or long-term), compared to 32 per cent of those in their 40s and 43 per cent of those aged 50-59. This is backed up by data on the numbers of people claiming sickness or disability benefits. The number of Disability Living Allowance (DLA) claimants increases steadily with age, reaching a peak in the 60-64 age group, with 34,310 people in this age band claiming DLA in May 2008 in the South East. More than half (55 per cent) of the 280,370 DLA claimants in the South East in May 2008 were aged between 40 and 69. Between 2003 and 2008 the number of DLA claimants increased in all age groups, but the largest increases (up to 79 per cent growth) were seen amongst those aged under 25 and over 75. The number of DLA claimants aged 40-49 or 60-64 increased by more then 30 per cent between 2003 and 2008.[16]

**Figure 10: Reasons for economic inactivity, by age band, 2007/08**




*Source: ONS Crown Copyright, Annual Population Survey, July 2007-June 2008 (via Super Cross)*

The number of Employment and Support Allowance (formerly Incapacity Benefit) claimants also tends to increase with age, being highest amongst people in their 40s and 50s. In May 2008, 133,600 people aged between 45 and 64 claimed Incapacity Benefit (IB), which represents 56 per cent of all IB claimants in the South East at that

[16] Department for Work and Pensions, Benefits claimants data, from NOMIS, February 2009.

time. In most age groups, the number of people claiming IB increased between 2003 and 2008, but there were exceptions. The largest increase in claimants (16 per cent) was in the 45-49 age group, while the number of claimants fell in the age groups 16-17, 25-34, and 55-64, with the 16-17 age group showing the largest fall (37 per cent).[17]

The proportion of people who are economically inactive because they have retired is significantly larger in the older age groups, with the large proportion of 'early retirees' perhaps being a particular cause for concern. Just over one fifth of economically inactive people in their 50s are retired (35,500 people), while this applies to four fifths of inactive people in their 60s (411,800). This represents a significant untapped resource of labour, which could help to meet an increasing demand for workers (once the recession is over) in an already tight labour market in the South East.

Interestingly, almost 4,000 inactive people in their 50s say they are not working because they do not need a job, while the same is true for 6,400 people in their 60s. Perhaps more heartening is the fact that only 900 people in their 50s are inactive because they believe there is no job available for them, while 3,100 people in their 60s feel this way.[18] Nonetheless, these figures suggest that there is still some way to go to change attitudes towards the employment of older workers amongst older people themselves, as well as employers.

## 3.3 Skills and qualifications

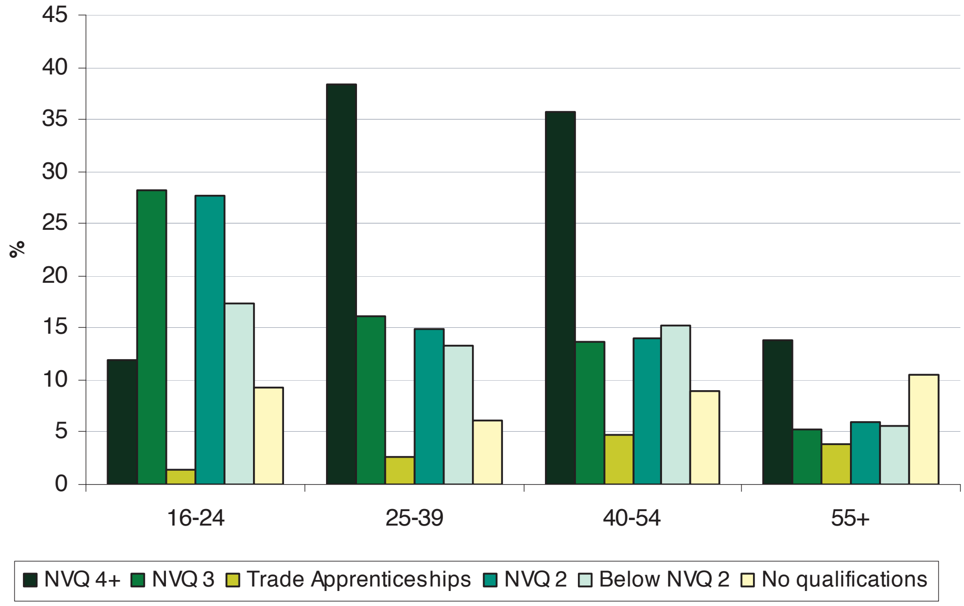
On the whole, older people tend to have lower qualification levels than those in younger age groups. As Figure 11 shows, people aged over 55 are significantly less likely than all other age groups to hold National Vocational Qualifications (NVQs) or equivalent qualifications at Levels 1, 2, 3 and 4. For instance, 38 per cent of 25-39 year olds have an NVQ Level 4 or higher (equivalent to a degree), compared to just 14 per cent of people aged over 55. Meanwhile, 28 per cent of 16-24 year olds have an NVQ Level 3 or equivalent, and a further 28 per cent have reached NVQ 2, compared to just 5 per cent and 6 per cent respectively of people aged over 55.

[17] DWP Benefits data, from NOMIS, February 2009.
[18] ONS Annual Population Survey, July 2007-June 2008.

Larger proportions of people in older age groups have Trade Apprenticeships compared with younger adults,[19] which is likely to reflect the greater availability and popularity of apprenticeships at the time when people of an older generation were starting their working lives. Although older people are less likely to hold NVQ or equivalent qualifications, the proportion who have no qualifications at all is relatively low, at 10.5 per cent for the over-55s, and 9 per cent of those aged 40 to 54. For comparison, 9 per cent of 16-24 year olds have no qualifications.[20]

The qualifications profile by age group for the UK is very similar to that of the South East, although smaller proportions of people in the UK are qualified to higher levels.

**Figure 11: Proportion of people in different age bands qualified to different levels, South East, 2007/08**




*Source: ONS Crown Copyright, Annual Population Survey, July 2007 – June 2008 (via Super Cross)*

Although older people may not be as highly qualified 'on paper' as their younger colleagues, this does not mean that they are less skilled. Qualifications are not the only proxy for skill, since they usually only measure the acquisition of a particular set of attributes or knowledge required to gain the qualification, rather than more 'generic' skills, which are arguably more valuable in the workplace, such as communication, team working and customer handling skills. The level of experience that many older workers have, and their ability to pass that on to younger colleagues, are

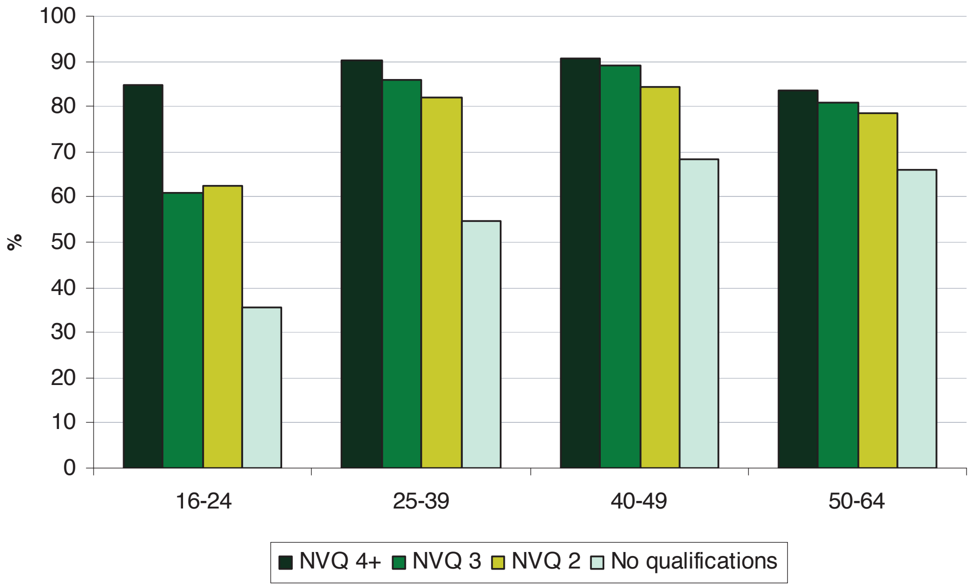
[19] Though this looks set to change with the Government's renewed support for apprenticeships for young people.
[20] ONS Annual Population Survey, July 2007-June 2008.

potentially more valuable to employers than formal qualifications.

We can get some sense of the value to employers of older workers' skills rather than their formal qualifications by looking at the employment rate of people who have reached different qualification levels, by age group. As Figure 12 shows, older people with no qualifications are significantly more likely to be employed than those from younger age groups who have no formal qualifications. Two thirds of people aged between 40 and 64 who have no qualifications are in employment, compared to just 36 per cent of 16-24 year olds without qualifications, and 55 per cent of 25-39 year olds. Meanwhile, the employment rate for people aged over 50 who have qualifications at NVQ Levels 2, 3 or 4 is lower than for people aged between 25 and 49 who have the same level of qualifications.[21] This suggests that for older workers, 'softer' skills and years of experience are of relatively greater value in the workplace than formal qualifications.

**Figure 12: Employment rate by highest level of qualification held, for different age groups, South East, 2007/08**

*Source: ONS Crown Copyright, Annual Population Survey, July 2007 – June 2008 (via Super Cross)*




The extent to which older workers' skills are under-utilised in the workplace, and whether older workers would be able to get their current jobs today without higher qualifications would make interesting topics for further research. National studies have shown that there is often a significant difference between the formal qualifications required by

[21] ONS Annual Population Survey, July 2007-June 2008.

employers from applicants, and the skills actually needed to carry out the job effectively.[22]

[22] A. Felstead, D. Gallie, F. Green and Y. Zhou, *Skills at Work, 1986 to 2006* (ESRC Centre on Skills, Knowledge and Organisational Performance, 2007).

# 4

# The sectoral and occupational picture

**Key messages**

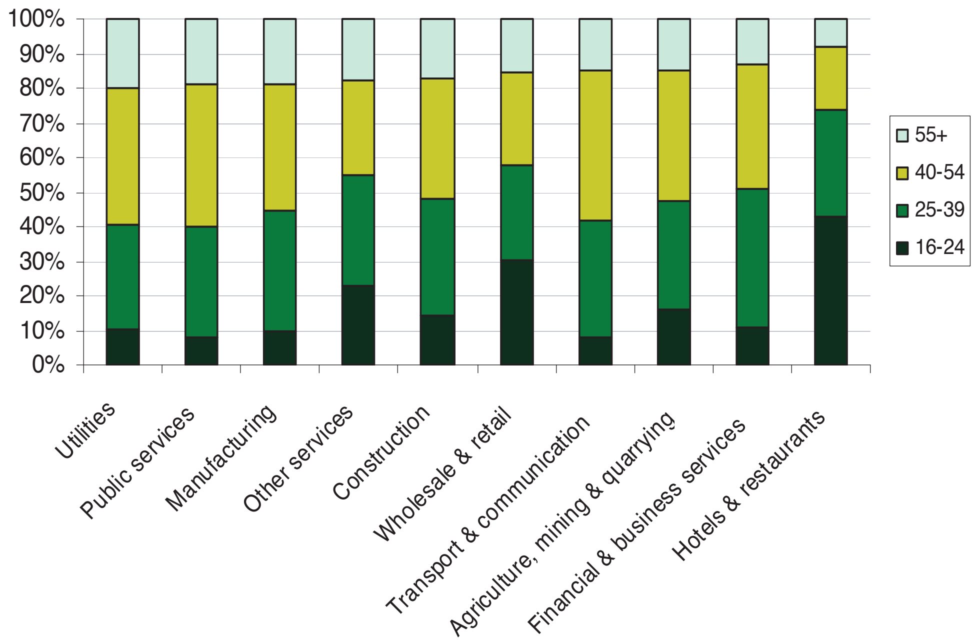
- **The sectors with the largest proportion of older workers (aged 55 and above) are utilities (energy and water), public sector services and manufacturing.**
- **Workers aged over 40 are in the minority in the hotels and restaurants sector, retail, and financial and business services.**
- **In those sectors with larger proportions of older workers, employers are less likely to report skills gaps – that is, staff who are not proficient in their jobs.**
- **Older workers tend to be under-represented in sales and customer service occupations and occupations requiring intermediate level qualifications, such as associate professional and technical occupations and skilled trades.**

## 4.1 Employee age profile by sector

The age profile of employees can vary quite significantly between sectors, depending on the nature of work in these sectors and, to some extent, the attitude of employers. At the same time, many sectors are experiencing skills shortages. It is important for those sectors in particular to be made aware of the benefits of recruiting and retaining older workers. As shown in Section 3.2, there is a large resource of currently economically inactive older people that could be drawn upon to help address skills shortages.

Figure 13 shows the age breakdown of employees in different sectors. The sectors with the largest proportion of 'older' workers (those aged 55 and above) are utilities (energy and water), public sector services such as education, health and social work, and manufacturing. In these sectors, roughly one fifth of employees are over the age of 55. Looking at a broader definition of the 'older workforce' – those aged 40 and above – we see that the sectors with the largest proportion of employees in this age group are public services (where 60 per cent of employees are over 40), utilities (59 per cent), and transport and communications (58 per cent).

**Figure 13: Proportion of employees in different age bands, by sector, South East 2007/08**

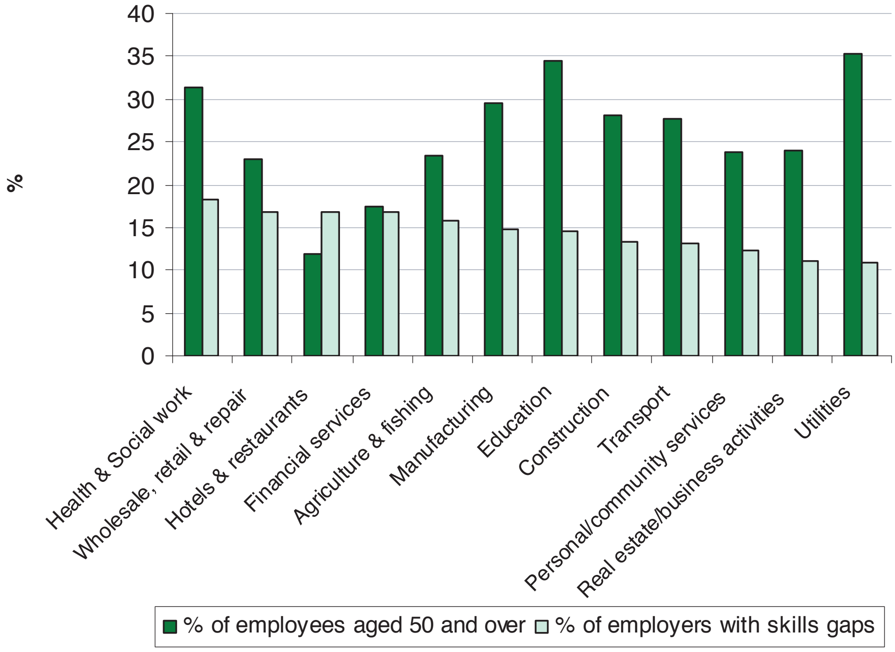



*Source: ONS Crown Copyright, Annual Population Survey, July 2007-June 2008 (via Super Cross)*

At the opposite end of the spectrum, those sectors where the majority of the workforce is aged under 40 include hotels and restaurants (where almost three quarters of employees are aged 16-39), wholesale and retail (where 58 per cent of employees are under 40), other services[23] (55 per cent) and financial and business services (50 per cent).

Generally speaking, in those sectors with larger proportions of older workers, employers are less likely to report skills gaps (that is, people in the workforce who are not proficient in their jobs).[24] This suggests that older workers are more likely to have the skills required to do their jobs effectively, even if they do not have the formal qualifications that might now be required for the job (as suggested in Section 3.3).

**Figure 14: Percentage of employees aged 50 and over and percentage of employers with skills gaps, by sector (2007/08)**




*Source: National Employer Skills Survey, 2007, and ONS Crown Copyright, Annual Population Survey, July 2007-June 2008 (via Super Cross)[25]*

As Figure 14 shows, sectors like utilities, education, construction and transport have larger proportions of employees over the age of 50 (between 28 per cent and 35 per cent of all employees). At the same time, a relatively small proportion of employers in these sectors (less than 15 per cent) report skills gaps. By contrast, in sectors such as hotels and restaurants, financial services and retail, a relatively small proportion of employees are aged over 50, but the percentage of employers reporting skills gaps is higher than in most other sectors.

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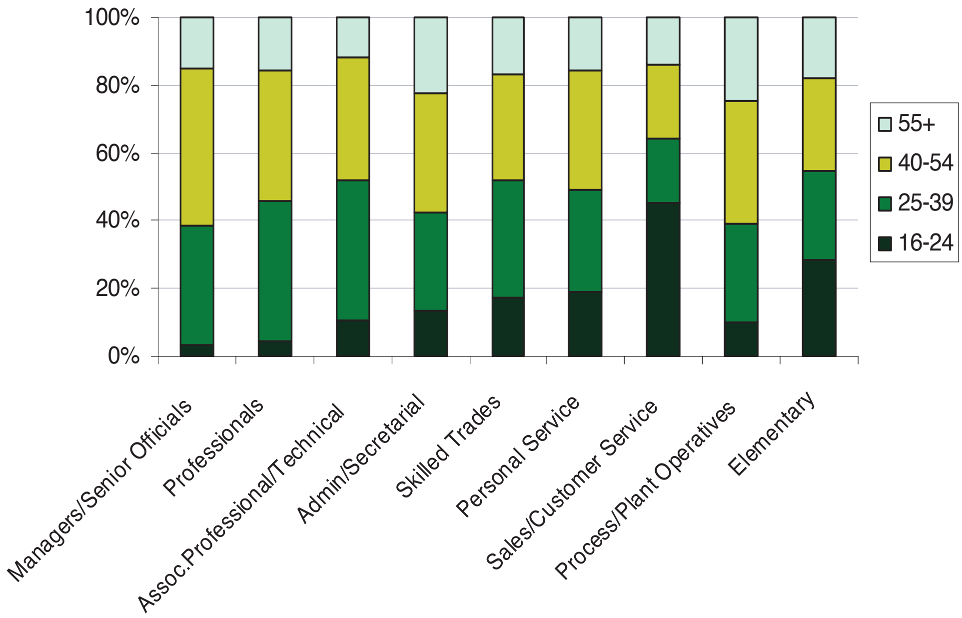
[23] The category 'other services' includes mostly private-sector social and personal services.
[24] Though it should be noted that, as with any survey, the figures only show what employers have chosen to report. It may be the case that the true extent of skills gaps in some sectors is sometimes concealed.
[25] Note that data from the National Employer Skills Survey relates to Sector Skills Councils, which do not always correspond neatly to the sectors used by the Office for National Statistics. This means that these data should be treated with some caution, as the two sets of data shown on the chart are not strictly comparable.

## 4.2 Employee age profile by occupation

If we look at the type of occupations in which people of different age groups are engaged, some interesting patterns emerge. As Figure 15 illustrates, the *'lower level'* occupations, such as process, plant and machine operatives, and elementary jobs, as well as administrative and secretarial positions, have the largest proportion of workers over the age of 55. However, using a broader age band (workers aged 40 and over), the occupational groups with the highest proportion of workers within this age group include the *higher level* occupations - professional and managerial. This is not surprising, given that these types of occupation tend to require significant work experience (as emphasised by the fact that a very small proportion of employees in these occupations are aged under 25).

**Figure 15: Age profile of employees in different occupational groups, 2007/08**




*Source: ONS Crown Copyright, Annual Population Survey, July 2007-June 2008 (via Super Cross)*

Occupational groups in which the majority of workers are under the age of 40 include sales and customer service occupations (where 64 per cent of employees are under 40), and occupations requiring intermediate level qualifications, such as associate professional and technical occupations and skilled trades (where 52 per cent of workers are under 40).[26]

[26] ONS Annual Population Survey, July 2007-June 2008.

# 5

# The contribution of older workers to the regional economy

**Key messages**

- **Although some mental and physical capabilities decline as we age, the weight of research evidence shows that this rarely affects older people's ability to perform well at work.**
- **Baseline estimates of the contribution of older workers to regional output show that workers aged over 40 accounted for almost half of regional Gross Value Added in 2007 (£86 billion) and those over 50 contributed one quarter of regional output (£43.5 billion).**
- **A second set of estimates, which take into account differences in productivity between older and younger workers as indicated by differences in earnings, show that the contribution of older workers to the economy is even greater. Workers over 40 account for more than half of regional output using these estimates.**
- **Older workers offer a number of benefits to employers, including lower rates of absenteeism, long service, strong customer handling skills, knowledge transfer to younger colleagues, and creativity.**

## 5.1 Introduction

There are different ways in which we can assess how older people contribute to the economy of the South East:

- The contribution of older workers to regional output (Gross Value Added, or GVA);
- The value of unpaid care provided by older people;
- The value of unpaid childcare provided by grandparents;
- The value of formal voluntary work in which older people are engaged;
- The cost to the economy of early retirement / economic inactivity amongst older people.

The analysis in this report focuses on the contribution of older workers to regional GVA. This has been estimated on the basis of the contribution that each sector of the economy makes to GVA and the proportion of older employees (aged 40 and above) in each sector. Two approaches are presented here. For the first, 'baseline' estimates, the assumption was made that older workers are no less productive than younger employees, since the weight of evidence from a large number of studies is that people over 50 are just as productive employees as people aged 25 to 49 (and more productive than new workers under 25). Any differences in productivity relate to the productivity differences between sectors in which people of different age groups are concentrated. The second, 'productivity adjusted' estimates use average earnings as a measure of productivity differences between age groups.

Although some physical and mental capabilities (such as hearing and memory) decline as we age, research evidence shows clear reasons why older people continue to perform well at work:

- Age-related deterioration affects most people from their mid-30s and is not relevant to most jobs. Only a tiny minority of jobs make heavy calls on our strength or reactions (eg. athletes or fighter pilots).

- Some capabilities improve with age – older people tend to perform better in comprehension, knowledge and verbal-meaning tests.

- Observed differences in average performance are largely due to the deterioration of only a minority of older people. In general, older people are actually more consistent than younger people in their performance in physical and cognitive tests.

- Most workplace tasks do not make full use of our mental and physical capacity, so even where this capability has declined it rarely reaches a point where there is a noticeable impact on work.

- Work is familiar and practiced – evidence shows that the performance of routine activities shows little decline with age, partly because regular use preserves capabilities and partly because older people use their experience and knowledge to compensate for any declining capability.[27]

## 5.2 Older workforce contribution to GVA

The 'baseline' estimates show that older employees (aged 40 and above) accounted for 49 per cent of regional GVA in 2007, while those aged 16-39 accounted for 51 per cent of total regional GVA. In other words, older workers contributed almost half the total output of the South East economy in 2007. This equated to around £86.4 billion, compared to £89.9 billion generated by workers aged 16-39. [28]

Workers aged over 40 account for 49 per cent of regional GVA, and 50 per cent of employees in the region. This suggests that productivity per worker is on average almost the same amongst older workers as it is amongst younger employees.

Using 'tighter' definitions of older workers produces some different results. Older workers defined as those aged 50 and above contributed £43.5 billion to the regional economy in 2007, which represents 25 per cent of regional GVA. Workers in this age group represent 26 per cent of all employees in the South East.

The above estimates of the contribution made by older workers to regional GVA assume that all employees are equally productive, whatever their age. It is highly likely that older workers are more productive than younger workers, as they tend to be more experienced and often work in sectors where overall productivity is higher (such as manufacturing). This means that the contribution of older workers to the regional economy is likely to be higher than the above estimates suggest.

[27] Policy Unit, Age Concern England, *The economy and older people* (February 2004), p. 24.
[28] SEEDA estimates using data from Experian Business Strategies Regional Planning Service (2007), ONS Annual Population Survey and GVA statistics (2007).

In order to take this into account, a second set of estimates can be produced, using differences in average earnings as a 'proxy' for differences in productivity. As a general rule, more productive employees tend to earn higher wages. Applying average earnings for different age groups to the estimates of GVA shows that the total contribution of workers aged 40 and above to the regional economy was £93.4 billion in 2007, which is 53 per cent of regional GVA. Using the same methodology, the contribution of workers aged 50 and above is also slightly higher, at 26 per cent or £45.8 billion.[29]

Even these figures are likely to be an underestimate of the contribution of older workers to the regional economy. We do not have figures on average earnings by age group *and* sector, so these estimates do not account for the fact that younger people are often employed in lower wage, less productive industries such as hotels and restaurants and retail. Moreover, older people represent a larger proportion of the workforce in the public sector, which often scores lower on measures of productivity, mainly because it is very difficult to produce accurate estimates of productivity in this sector, and those figures that are available are quite likely to be underestimates.

## 5.3 Positive impact of older workers for employers

Older workers not only contribute in economic terms to the region as a whole – they also offer a number of benefits (both financial and 'social') to employers. Evidence from surveys, qualitative research and case studies highlights a range of positive impacts of employing older workers, although it should be borne in mind that the evidence may not be representative of all employers, as some of it is drawn from 'champions' of older people in the workplace. A range of positive experiences have been reported by employers:

- Lower rates of absenteeism amongst older workers, especially in cases of short-term sickness (eg. at B&Q absenteeism is 39 per cent lower among older people).

- Customer relations – older people are better at handling customers especially in high-pressure situations or

[29] SEEDA estimates using data from Experian Business Strategies Regional Planning Service (2007), ONS Annual Population Survey , GVA data and Annual Survey of Hours and Earnings data (2007).

when dealing with older customers (eg. public services; financial services; supermarkets).

- Retention – some employers have attempted to quantify the impact on staff turnover from using older workers. For example, Nationwide's annual turnover rate for older people is 4 per cent, compared to 10 per cent for younger people. Using older workers has led to a saving of £7 million a year in recruitment costs. People recruited to Nationwide in their 50s and 60s stay for an average of 13 years.

- Knowledge transfer – older workers act as informal mentors to younger people and bring their life experience to bear (eg. B&Q, ASDA, public service employers).[30]

- Creativity and innovation – 80 per cent of the most workable and worthwhile new production ideas come from employees aged over 40.[31]

- Lower training costs - training older workers is good value for money and a good investment. While older workers take longer to absorb new material, their better study attitudes and accumulated experience mean lower training costs.[32] Employers find that upgrading older employees' skills leads to improved motivation, greater flexibility and increased productivity.[33]

[30] Policy Unit, Age Concern England, *The economy and older people* (February 2004), p. 26.
[31] *An Overview of Age Demography Issues, Policies and Action*, NIACE, South West Region.
[32] *An Overview of Age Demography Issues, Policies and Action,* NIACE, South West Region.
[33] Responses from 350 employers in South East ReGROW action research project (A4E/Centre for Research into the older Workforce), 2008.

# 6

# Conclusion

This report has shown that the South East is and will continue to be a region of opportunities for older workers. Demographic changes mean that over the next decade there will be far fewer 35-45 year olds in the workforce but more 45-65 year olds, and very many more people over the age of 65. At the same time employer demand for labour in the South East will be the highest of any region once the recession is over. Reliance on migrant workers to address labour and skills shortages may not be sufficient, especially if the number of new arrivals begins to fall away as they are attracted by opportunities in their home countries or elsewhere in the world.

This analysis demonstrates the need for older workers to be recognised and valued as being essential to the economic success of the South East region. Workers over the age of 40 contribute more than half of regional output, and also offer a range of benefits to employers and, by extension, the wider economy. Staff retention is higher and absenteeism lower in firms employing larger numbers of older workers; training older workers is cost effective because they are motivated and make good use of their new skills; older employees can pass on the benefit of their experience and knowledge to colleagues; and older staff are a source of creative and innovative business ideas. Older workers are therefore of critical importance to employers in weathering the current downturn and in ensuring that firms can remain competitive when the upturn comes in the South East.

However, in previous recessions unemployed older workers experienced much greater difficulty in getting re-employed and many never got back into work. The South East *40-70 Tomorrow's Workforce Programme* has been developed to explore what kind of support is needed to maximise employment opportunities for older workers. It is intended to inform the future design and delivery of employment and skills programmes at local, regional and national level.

If English is not your first language we can provide a summarised version of this document in Punjabi, Hindi, Gujurati,Urdu, Polish and Bengali. The document can be made available in large print, Braille, disk and audio cassette.

If you require any further information about this Report or the activities of SEEDA, please contact us


**SEEDA Headquarters**
Cross Lanes, Guildford, Surrey GU1 1YA  England

**Phone** +44 (0)1483 484 200
**Fax** +44 (0)1483 484 247

**Chatham Maritime Office**
The Observatory, Brunel, Chatham Maritime, Kent ME4 4NT  England

**Phone** +44 (0)1634 899 900
**Fax** +44 (0)1634 899 901

**SEEDA Brussels**
South East England Brussels Office, Rue du Commerce 45, 1000 Bruxelles  Belgium

**Phone** 00 322 504 0720/0721
**Fax** 00 322 504 0722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