

Comment

Milburn Review of Young People and Work: IFS response

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Published on 17 November 2026

The Milburn Review has set out an ambitious and broad policy package to address high NEET rates for young people, but it is not without challenges.

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Xiaowei Xu, a Senior Research Economist at IFS, said:

"Given the huge ambitions of the Milburn Review, the set of reforms the review recommends is appropriately large-scale and system-wide, targeting health, education, labour markets and benefits. These have the potential to significantly improve outcomes for many young people. Young people looking for a job or with mental health problems would get more and faster help. The number of completed youth apprenticeships could double within a decade. Some of those with the most severe disabilities would receive more cash support than they do now.

But the proposals do not come without challenges. Many young people with health conditions would get less in benefits, and only some of them would be able to offset that loss by moving into work. Those over 25 may also find it harder to find a job or training opportunity as employers are incentivised in several ways to hire their younger peers.

The review is clear that the proposals would require higher public service spending up front. If the government wants to deliver the package laid out by Milburn, the Chancellor will therefore need to prioritise these reforms at next year's Spending Review, when many other pressures and ambitions will be competing for public service budgets. Moreover – as with any set of wide-ranging reforms – the projected long-run savings are highly uncertain. If the reforms are less effective at moving people into work than expected, the package could end up costing the government more, even in the long run.

The government will need to decide which of the very many recommendations to accept, and choose how and when to implement them. Such a wide-ranging package will be challenging to deliver, not least because the intention is to devolve more decision-making to local areas while simultaneously building local capacity. The government should build in mechanisms to evaluate the reforms, so that policies can be improved, scaled up or dropped, both as evidence comes in on what does and does not work, and as the wider world changes."

Last week, we set out five key questions for the Milburn Review. In this response, we evaluate the review's recommendations against these questions.

Question 1: Does the review recognise the diversity of young people's circumstances and needs?

The review rightly recognises that NEETs are a diverse group with a range of circumstances and needs. Its proposals broadly reflect this, with a small number of young people facing the most severe and complex needs receiving higher cash benefits, while others receive less in cash benefits but access to an expanded menu of skills, health and employment support. For those who are already NEET, this includes more targeted support, such as a specific local advisor to help them navigate available support, fast-track access to mental health support and vocational rehabilitation. NHS Integrated Care Boards would be tasked with reducing NEET rates, which could lead to extra resources allocated to NEETs.

The review also recognises that many of the factors shaping young people's employment prospects emerge well before they leave education. Across the education system, it proposes giving greater time to teaching employability and work readiness for students in schools and colleges, and greater exposure to employers throughout their time in education. However, there are serious questions about whether this sort of skill-based education can be delivered effectively within the existing education system and a risk that it crowds out time spent on other subjects.

Delivering the menu of options by **bringing a set of services together at a local level would offer the opportunity to better target local needs, but would also bring a delivery challenge**, not least because the government would be trying to roll this out while building the capacity of mayors and local authorities.

Question 2: How does the review balance resources between increasing support for young people and providing incentives for firms to hire them?

The review makes clear its view that **action is needed on both sides of the market: more support to get young people ready for work and greater incentives for firms to hire them**. On the demand side, a new "Opportunity Guarantee" would give every 18- to 24-year-old NEET access to further education, training or employment. To help achieve the last, the review proposes a significant expansion of targeted employment subsidies for employers who hire long-term NEETs. The reforms would double the number of 16- to 24-year-olds completing apprenticeships and significantly expand the number of jobs subsidised through the Jobs Guarantee or Youth Jobs Grant. But not all these jobs will be additional, and previous subsidised employment schemes have fallen well short of their target number of placements.

The review also considers the possibility of cutting employer NICs for 21- to 24-year-olds. Doing so across all sectors would on average roughly offset the increase in employer costs resulting from the 2025 NICs increase, for this age group. However, it proposes that this only be done for the hospitality and retail sectors at first, and only "when fiscal conditions allow" – this is often code for kicking a policy idea into the long grass. Labour demand is currently weak, with 2.4 jobseekers for every advertised vacancy, up from 1 per vacancy in 2022. The review is counting on targeted subsidies to do most of the work of creating jobs for young people, without the need for more widespread employer subsidies.

Question 3: How much will the reforms bring down the NEET rate, and over what timescale?

There is **no doubt that the review is ambitious**. It sets an aim to reduce the share of 16- to 24-year-olds that are NEET from today's 13% to 5% within a decade. This would bring the UK close to the lowest rates in Europe and well below the lowest rate seen in the UK since records began in 2000 (10%).

There are two key risks to delivering on the plans. First, it is difficult to scale up support quickly. History shows that delivering large increases in apprenticeship numbers, such as the additional 100,000 a year the review envisages, can be difficult. The previous Conservative government fell well short of its apprenticeship targets between 2015 and 2020. Many employment support schemes have also struggled to deliver the planned number of places.

Second, the support might not be as effective as the review hopes it will be. Employment support programmes have a mixed record. The review's own modelling anticipates that its proposals would bring an extra 440,000 into work, bringing the NEET rate to 7% by 2036, slightly short of their target. It is difficult to judge the plausibility of these modelled employment effects based on the limited detail in the report. But employment increases of this scale are far from guaranteed and would hinge on the effectiveness of the programmes proposed.

Question 4: Who is likely to gain and lose out from the reforms?

The review incorporates substantial shifts in the shape of the support and incentives the state provides, which will inevitably create winners and losers.

First, it involves a **shift from health-related cash benefits to a broader set of support**. In England and Wales, 390,000 18- to 24-year-olds receive a health-related benefit, on average getting £9,500 a year. The

review proposes replacing these benefits with a new set of benefits that are more tightly related to disability-related costs and focused on those with the more severe disabilities (some of whom would see an increase in cash support). If the government wants to adopt the proposed package, a challenge will be in designing a system that stays tightly targeted on the most severe cases, rather than expanding over time. Historically, governments have tended to underestimate how many people will qualify for the highest level of support in similar benefits.

The review recommends using some of the savings from reduced health-related benefits on higher benefits for in-work claimants and much more support to help people into work through the "Support Guarantee". This includes job coaching, additional workplace adjustments and psychological therapies, delivered by local "Youth Opportunity Services". Put these elements together, and many of those with less severe disabilities would be likely to see large income losses initially; the review anticipates that the changes to the benefit system for young people would reduce spending by £3.6 billion a year (equivalent to 50% of projected spending on health-related benefits for young people in 2036–37). For some of those who are successfully supported to move into work, their additional earnings will make up for their lost benefits.

Second, the review **prioritises support for NEETs, sometimes over other young people and those aged 25+**. Under the proposals, NEETs would get fast-track access to mental health support and vocational rehabilitation. Targeted employment subsidies would make it more attractive for businesses to hire long-term NEETs, but in some cases this would come at the expense of other young people and workers over 25. Similarly, the review proposes that the subsidy for apprenticeship training costs for over-25s be reduced by at least 25%, with funds redirected to expand apprenticeships for young people. Targets for public sector hiring, which include increasing the share of entry-level Civil Service roles going to 16- to 24-year-olds from 6% to 11%, would further reallocate opportunities towards younger workers and away from those aged 25+.

Question 5: Do the proposed reforms offer value for money?

The review's modelling suggests that its recommendations would require additional spending of up to £5.8 billion per year. By 2036, this would be partly covered by £3.6 billion of benefit cuts. Over time, higher employment is expected to increase tax receipts and further cut the benefits bill, such that the package would be fiscally neutral or positive from 2036. Making projections of spending this far out is highly uncertain, and it is very possible that the reform proposals would end up costing more in the long run than the modelling suggests. Of course, even if the proposals end up with a net fiscal cost, the government may legitimately judge that the benefits they deliver to young people justify the additional spending.

The value for money of the reforms will depend on what recommendations the government chooses to take forward and how effectively it implements them. These proposals are novel in key ways: they propose joining up support for young people at risk of being NEET across different areas of government, devolving key parts of the support offer to mayors and strategic authorities, and delivering employment support to young people with health conditions on a scale not done before. This novelty increases the uncertainty around the impacts of the proposals. Given this, the government should build in opportunities to rigorously test different approaches and learn from them.

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Comment details

DOI
10.1920/co.ifs.2026.0093

Publisher
Institute for Fiscal Studies

Suggested citation

Cribb, J et al. (2026). Milburn Review of Young People and Work: IFS response [Comment] Institute for Fiscal Studies. Available at: https://ifs.org.uk/articles/milburn-review-young-people-and-work-ifs-response (accessed: 22 November 2026).

Grant

ESRC Institute for the Microeconomic Analysis of Public Policy 2025-30

Funded by

