

Reducing dependency, increasing opportunity: options for the future of welfare to work

**An independent report to the
Department for Work and Pensions**

by David Freud

Department for Work and Pensions

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First Published 2007.

ISBN 978 1 84712 193 6

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Printed by Corporate Document Services.

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Foreword

This report makes a series of recommendations to reduce the number of the most socially disadvantaged people in the country. The proposals aim to achieve this outcome at minimal effective cost and risk to the State. Within the inevitable time constraints I have used the data available within the Department, some of which will require further detailed analysis. This report should be a starting point for a long-term process of transforming the Welfare to Work system. The ideas here are designed to provide a base on which a process of extensive consultation can take place.

I would like to thank the Department and my team within it for all of their help in preparing this report.

A handwritten signature in blue ink that reads "David Freud". The signature is written in a cursive style with a large, stylized 'D' and 'F'.

David Freud

Executive summary

Background

This review was commissioned by the Secretary of State for Work and Pensions in December 2006. Its terms of reference have been:

“To review progress on the Welfare to Work programme since 1997, taking account of evidence from the UK and international experience, and make policy recommendations on how the Government can build on its success in using policies such as the New Deal to continue to reduce inactivity and in-work poverty, and meet the Government’s 80% employment aspiration.”

The review concludes that the Government has made strong progress in its Welfare to Work agenda, but that further evolution is necessary. Welfare to Work and the New Deals have been a success as has been the creation of the Government’s main delivery arm, Jobcentre Plus. The Government now needs to build on these successes, ensuring that resources are targeted in the most effective manner and on those who need them most, and that the expertise that exists across the public, private, voluntary and community sectors is fully utilised in tackling the challenge of extending employment opportunity to all.

The Government’s aspiration to achieve an employment rate of 80% is extremely challenging. Its achievement would establish the UK as a world leader in employment. It would also produce many other substantial benefits in helping to deliver other social goals, including, most importantly, that of reducing child poverty.

In this report I recommend that UK welfare policy applies its resources further towards helping and encouraging the least advantaged into work. The Department should develop a funding approach which will allow it to direct spending towards such groups, who have complex and demanding problems, in a more individualised way. Such programmes should be outsourced into the private and voluntary sector, giving them the incentive to improve performance. Jobcentre Plus, the Department’s one-stop shop benefit and job broking arm, should concentrate on those closer to the labour market, for which its standardised programmes have proved appropriate and successful. With the least advantaged in receipt of more individualised support, the rights and responsibilities of all benefit recipients should be brought more closely into line.

These proposals should be thoroughly tested and piloted before implementation, to establish that the long-term relationship proposed between provider and client produces enhanced outcomes and better cost-effectiveness.

Background

The foundations of today's welfare state were laid in the first half of the last century. It was after the 1942 Beveridge report that the UK made the first serious attempt to develop a comprehensive system of social insurance combined with help finding work. Where he refers to the need for the State to encourage people to find work, Beveridge's arguments still resonate today. As he put it:

"Most men who have once gained the habit of work would rather work – in ways to which they are used – than be idle ... But getting work ... may involve a change of habits, doing something that is unfamiliar or leaving one's friends or making a painful effort of some other kind."

And for those unemployed for a certain period, they:

"should be required, as a condition of continued benefit to attend a work or training centre, such attendance being designed as a means of preventing habituation to idleness and as a means of improving capacity for earnings."

So, even in 1942, it was understood that it was not enough just to provide a safety net – the welfare state also had to support people back into work in an active labour market policy. The balance between active and passive policies has ebbed and flowed over the intervening sixty years.

The welfare state ten years on

The Government has made strong, and in some respects remarkable, progress over the last ten years. Employment is up by 2.5 million; claimant unemployment is down by 670,000; ILO unemployment down by 350,000 to near its lowest rate since the 1970s; and those on the main out of work benefits are down by 900,000 to 4.4 million. The New Deals have been enormously successful - helping over 1.7 million people into work since 1998. The creation of Jobcentre Plus in 2002 extended the rights and responsibilities regime for people on all benefits (including those on lone parent and sickness benefits) and is widely seen as having been a model for effective public service delivery.

As a result the employment rate for "working age" adults (defined as those aged from 16 to 59 for women and 16 to 64 for men) is close to its highest ever level at 74.5%, an increase of 1.8 percentage points since 1997. The alternative measure, taking account of **everyone** in work (i.e. including those above state pension age) demonstrates still stronger recent performance.

This is a genuinely impressive record. And underneath these headlines the biggest improvements have been for areas and groups that were previously furthest behind. Nearly every disadvantaged group that the Government has targeted (e.g. lone parents, older workers, ethnic minorities and disabled people) has seen its 'employment gap' reduced (the only exception being the lowest skilled). Over the same period, long-term unemployment has halved on the international definition and is down nearly three quarters in terms of the claimant count.

But as these successes have happened, so they have brought into sharper focus the remaining challenges, including improving poor performance on low skills and tackling multiple disadvantage and benefit dependency.

Low skills

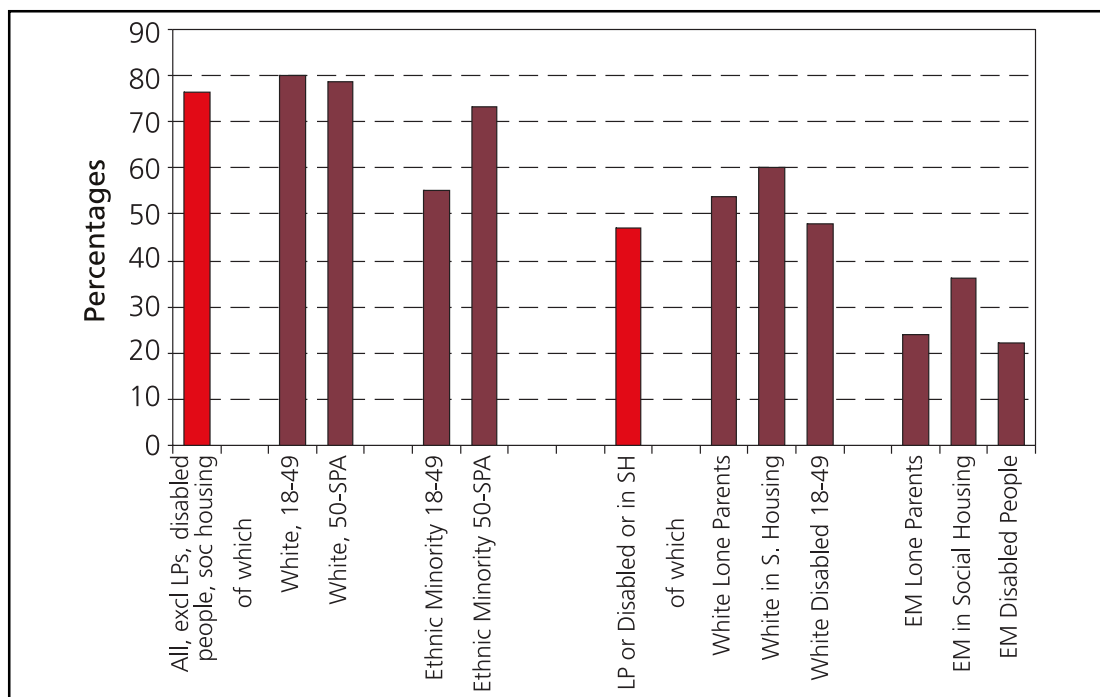
As Lord Leitch's report on skills, published late last year has demonstrated, despite recent progress the UK's skills base remains mediocre by international standards. The UK is internationally comparable in high level skills but has deficits at intermediate and low skill levels. While the number with no skills has nearly halved in the last ten years and the number of working age individuals with a Level 2 qualification is estimated to have risen by over 1 million since 2003, the figures still make sobering reading. 35% of the working age population do not have the equivalent of a good school leaving qualification, more than double the proportion in Canada, US and Germany, 4.6 million have no qualifications at all, 5 million working age people lack functional literacy and 7 million lack functional numeracy. The lowest skilled are the only client group targeted through the Department for Work and Pensions' Public Service Agreements that has seen their labour market position get worse in recent years.

In his report, Lord Leitch found that: *"Around 50 per cent of those with no qualifications are out of work. As the global economy changes, the employment opportunities of those lacking a platform of skills will fall still further. The millions of adults lacking functional literacy and numeracy skills risk becoming a lost generation, increasingly cut off from labour market opportunity. Equipping disadvantaged groups with a platform of skills, including literacy and numeracy, will be increasingly essential to improving their employment opportunities."*

Multiple disadvantage

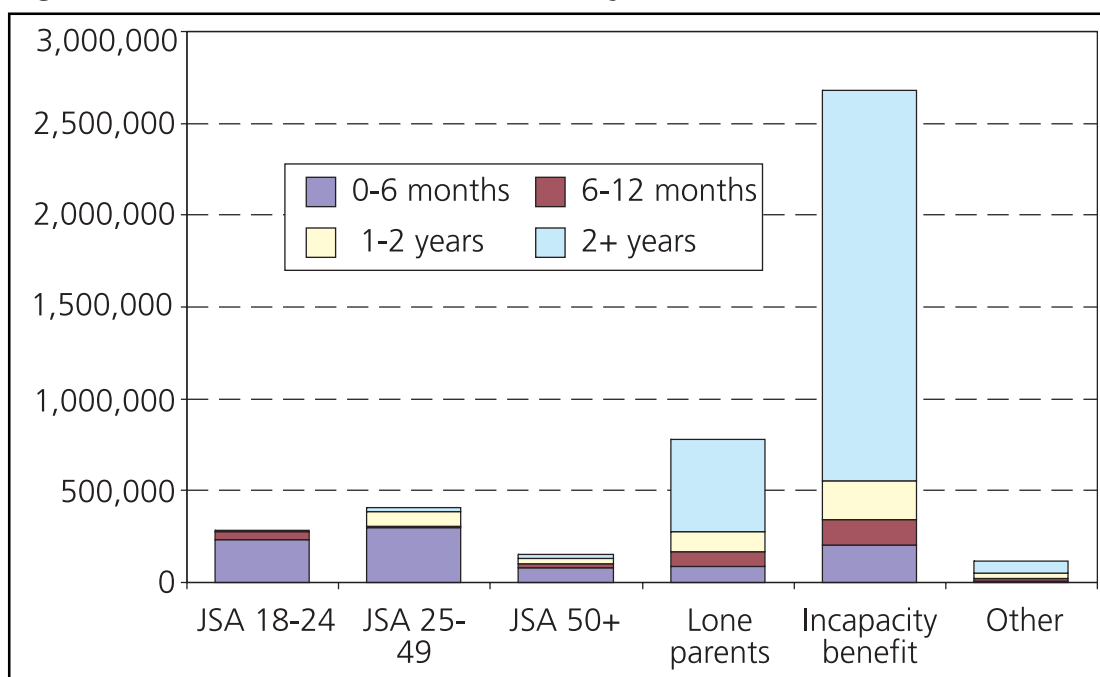
The extent to which disadvantages work together and reinforce each other is striking. Multiple disadvantage does not receive the attention it deserves because of the Government's "client group" approach. It needs more work to be understood fully. Figure 1 overleaf shows how a lack of qualifications combines with other indicators of disadvantage to depress employment rates still further. Harder to measure disadvantages, such as addiction, criminal records, and homelessness, are thought to lower employment rates even more.

Figure 1 Employment rates: 18 – State Pension age, people with no qualifications (excluding students)



The Government has tackled an inheritance of long-term dependency on unemployment benefits, but much more remains to be done on long-term dependence overall. There remain 3.1 million people who have been on benefits for over a year and over 95% of these people are on “inactive” benefits (2.3 million on incapacity benefits and 600,000 lone parents on income support). The JSA figure is 160,000. However, some 250,000 of a recent cohort of new JSA claimants have been on benefits for more than 18 months of the last 2 years.

Figure 2 Durations of claims for key benefits



So, as the Government moves beyond its traditional groups and further into the very hardest to help, the current regime will have to evolve further. It will need to move from a traditional approach based on client groups and specific symptoms to one based on individual needs.

The imperative to act

“There is a strong evidence base showing that work is generally good for physical and mental well-being. Worklessness is associated with poorer physical and mental health and well-being. Work can be therapeutic and can reverse the adverse health effects of unemployment. That is true for healthy people of working age, for many disabled people, for most people with common health problems and for social security beneficiaries. The provisos are that account must be taken of the nature and quality of work and its social context; jobs should be safe and accommodating. Overall, the beneficial effects of work outweigh the risks of work, and are greater than the harmful effects of long-term unemployment or prolonged sickness absence. Work is generally good for health and well-being.”¹

Governments have in the past shown a reluctance to engage with those furthest from the labour market. But the evidence is now overwhelming that employment is generally beneficial for individuals and their families. This corpus of evidence stands traditional Government policy on its head. Far from being reluctant to engage, the Government could on this evidence be accused of dereliction if it were to fail to do so.

Alongside this, greater global economic integration and unprecedented demographic change present both challenges and opportunities. The pace of change in the global economy will put pressure on existing jobs. Parts of the economy are likely to be exposed to international competition to an extent that they have not been before, and the evidence suggests that this exposure will tend to further disadvantage the lowest skilled. As the Leitch Review sets out, the UK response will need to go far wider than just helping people find a job. His report sets ambitious goals that 95% of adults should have basic skills in literacy and numeracy and 90% should be qualified to Level 2 by 2020. This will be central to extending employment opportunity to all.

To achieve its 80% aspiration, the Government will need to target its welfare strategy at tackling **all** of the inactive groups. It will require about one fifth of the “economically inactive” population to move into work. This would include 300,000 lone parents (relative to a current population of 780,000 claiming Income Support); 1 million more older people in work (relative to 20 million people aged over 50 in total) and reducing the numbers claiming incapacity benefits by 1 million (relative to 2.68 million).

¹ “Is Work Good for your Health and Well-Being”, Gordon Waddell and A Kim Burton [2006].

It also has significant implications from the perspective of the most socially disadvantaged – the 3.1 million people who have been on benefits for more than a year. To achieve the 80% figure would imply reducing that total by 1.3 million people, or 42%.

While current policies are making progress for those closer to the labour market, further reforms are needed for those further away. The welfare system will need to both widen and deepen its contact with those furthest from the labour market, and deliver innovative and flexible new ways to help people to find work.

Recommendations

Contracting support for the hardest to help

Intensive intervention at the start of a claim, focused on assisted job search, is now established as the best way to help people to move back into sustainable employment. As a one stop shop, Jobcentre Plus should therefore remain at the core of the service provided and retain ownership of claimants as they pass through the system. However the longer that someone is out of work, the more likely it is that they will stay out of work – long-term worklessness is both a cause and consequence of labour market disadvantage.

The intensive, individualised support which is effective in putting the most disadvantaged people into work is expensive. However, evidence from Employment Zones and the New Deal for Disabled People suggests that an outcome-based approach can deliver significantly improved results for the hard to help. And while there is no conclusive evidence that the private sector outperforms the public sector on current programmes, there are clear potential gains from contesting services, bringing in innovation with a different skill set, and from the potential to engage with groups who are often beyond the reach of the welfare state.

Therefore this report recommends that once claimants have been supported by Jobcentre Plus for a period of time, back-to-work support should be delivered through outcome-based, contracted support. This arrangement could in principle apply to all benefit recipients, including people on incapacity benefits, lone parents and partners of benefit claimants, but excluding carers. The private and voluntary sector would be responsible for intensive case management and for providing individual, tailored help for individuals to re-engage with the labour market. The contracting regime would set a core standard that everyone would receive, but beyond this there would be freedom between the provider and the individual to do what works for them. There may need to be enhancement of arrangements for the very hardest to help, who are the clients of multiple agencies, and supported by third sector contractors.

These contracts would roll up the existing patchwork of public, private and voluntary provision and put in its place a flexible approach that looked forward rather than back – focused on the barriers individuals face rather than the benefit that they are on or the Public Service Agreement category they are in. Payments to providers could be made over – perhaps – a three year period, from when an individual client moved into work. Periods of temporary unemployment, breaks for training and progress in career terms would all be factored into the rewards for providers. In order to ensure that everyone was supported, including those who required the most intensive help, the contracts would need to offer rewards that are proportionate to the value to society and the taxpayer of moving into work.

The report recommends that these contracts are outcome-based, long term, and based on the 11 regions and countries in Great Britain. They should be let to “prime contractors” who would be responsible for marshalling an appropriate blend of subcontractors to deliver the services required for the variety of claimants in that region. The prime contractors, who would compete on both price and quality for a regional contract, would need to arrange the finance to cover the upfront cost and risk of achieving adequate off flows from benefit. While it will be important to test this recommendation, I believe that on balance, each region should become the province of a sole prime contractor because of the complexity of the arrangements likely to be required with many other parties. The Government will need to balance this with the need to avoid over-dependence on single monopoly providers. The quid pro quo for local monopoly arrangements would be a totally transparent performance regime, so that innovative strategies that work could be quickly replicated in other regions. The prime contractors would also be required to work with local agencies and through any City Strategy consortia to ensure that the provision was responsive to local conditions and objectives.

Modelling outcome-based contracting for long-term worklessness

The contracting approach described above would work as a public-private partnership to deliver up-front investment in order to realise savings over the life of the contract. In order to deliver this the Department would need to develop a model that allowed it to understand the full costs and benefits of different groups of individuals moving into work. The more sophisticated this model becomes, as it develops over the years, the easier it will become to target early interventions cost-effectively.

The fiscal gain of a year-long move into employment by a claimant on one of the three main benefits is substantial. I estimate that the savings in terms of gross costs to the Department of moving an average recipient of incapacity benefits into work is £5,900, with wider exchequer gains (offsetting direct and indirect taxes paid with additional tax credits) raising this figure to £9,000. The equivalent figures for Jobseeker’s Allowance are £4,100 and £8,100 respectively. For lone parents on Income Support the Department savings are £4,400, with no further Exchequer savings because of the weight of extra tax credits balancing other tax revenues.

To the extent that the person would not have otherwise worked for many years, the saving to the State is a multiple of this figure. For example, once a person has been on incapacity benefits for a year, they are on average on benefit for eight years. So a genuine transformation into long term work for such an individual is worth a present value of around £62,000 per person to the State.

The cost of additional employment entry would reflect the terms the State could obtain in a competitive contracting process. To the extent that this cost was less than the welfare benefits that the Department would have paid over a three year period, the State would enjoy a financial gain. Outcome payments should only be made for performance which exceeds that achieved with current policy, so a benchmark could be set at the existing level of exit rates from benefit. This would be revised and updated as the involvement of the private and voluntary sectors developed over time.

Payment mechanisms would also need to create incentives to develop programmes across the spectrum of claimants and not to focus on a narrow group. This could be achieved through higher payments for the hardest to help or by providing bonus payments where certain outcome levels had been delivered for multiple client groups. It is likely that a combination of the two would be required to provide a strong incentive.

The Department would need to develop a world class contracting capability so as to ensure that the Government's complex social goals were met without compromising the robustness of the outcome focus. It would also need to develop sophisticated performance management tools and be prepared to remove contracts from providers who were not performing.

The scale of the potential market is large. It will be made up of the flow of new and existing hard to help clients from Jobcentre Plus. In the early years it would be further swollen as the existing customers on incapacity benefits were required to participate in labour market activity. Based on the analysis in this report, I have no doubt that this will be an annual multi-billion market. Such scale would attract commitment from a wide range of private service providers and voluntary groups.

The fiscal prize is considerable. Achievement of the 80% employment aspiration would boost GDP, reduce benefit spending and increase Exchequer revenues to a material extent.

Rights and responsibilities

Making a step-change is not, however, only about delivery. The Government has made a commitment to rights and responsibilities a central feature of policy. In return for more support in obtaining employment, it would seem appropriate for the state to expect more work-related activity from those on benefit. Recent evidence suggests that expecting more from those on incapacity and lone parent benefits, alongside the right support, can deliver greatly improved outcomes. It is also clear that, particularly as regards lone parents, the UK imposes much less 'conditionality' on these groups than in many other OECD countries.

This report has looked at a range of best practices from the UK and abroad:

- The Jobseeker's Allowance intervention regime is the most important reason why as many as nine out of ten people who claim the benefit leave within a year. A "work first" approach, alongside the New Deal for those with longer durations, has worked for the mainstream unemployed.
- For people with health conditions and disabilities, the Pathways to Work programme is now breaking new ground and delivering an increase in employment outcomes of 9 percentage points.
- By contrast, although eight out of ten lone parents want to work, the UK is some way behind international best practice. The lone parent employment rate in Great Britain stands at 56.5%, compared to 80% in Denmark, one of the best-performing comparators. Practices round the world vary. What is increasingly common, however, is an expectation that once children reach school age then receipt of benefits should be conditional on looking for a job.

The report therefore recommends maintaining the current regime for the unemployed, introducing stronger conditionality in line with Jobseeker's Allowance for lone parents with progressively younger children, and moving to deliver conditionality for other groups (including people already on incapacity benefits) along the lines of Pathways to Work and the Employment and Support Allowance. These changes should be phased in over the next decade, to take account of the rollout of Pathways to Work, the new Employment and Support Allowance, and the Government's childcare strategy.

Benefit reform – a single system

There is a strong case for moving towards a single system of working age benefits, ideally a single benefit, in order to better support the Government's ambition of work for those who can and support for those who cannot. A range of international evidence suggests that complexity in the benefit system acts as a disincentive to entering work, and that badly designed systems create unemployment and/ or poverty traps. The UK has made progress on both (and virtually eliminated the unemployment trap) but it can go further still. It should also do more to change the perception, where it exists, that moving into work does not pay; a perception which can be a function of fragmented delivery by the central benefit system, local authorities and tax authorities.

The report has considered a number of options for fundamental reform of benefits but none is straightforward and all would create winners and losers. Debate on further reform should be informed by detailed modelling on the impacts on work incentives, costs and benefits (for individuals, the Exchequer and society) and take into account the interactions between all out-of-work and in-work support. This should call on existing expertise in academia, think-tanks and the private and public sectors.

Streamlined, mass market provision based on Jobcentre Plus

With support for the hardest to help being delivered through the private and voluntary sector, the focus in Jobcentre Plus should increasingly be on providing a professional, high-quality, work-focused service for all claimants in the first year of their claim.

In the longer-term Jobcentre Plus should aim to provide a one-stop front-end for all benefits. Such a move would not necessarily mean changes in responsibilities for the benefits themselves, but it would mean linking the benefit system to improve the service that the Government gives to the 5 million claimants on out of work benefits and to support them in taking the first steps back into work. Such a programme would build on the progress made in recent years, in particular on the links with Housing Benefit and on the successful DWP/HMRC trials in North Tyneside which have shown that it is possible to significantly reduce processing times for benefits and tax credits while greatly improving customer service.

Implementation

These recommendations would involve substantial change for the Government, external providers and claimants and would take an extended period to test and implement. I anticipate that it would take at least six years to roll out a full system of provider contracts; at least eight years to introduce a new benefit system. Lone parents whose youngest child is aged 12 could be moved over to Jobseeker's Allowance as soon as is practicable, with further reductions in the age of the youngest child to follow.

This report has been commissioned by the Department for Work and Pensions and has naturally concentrated on its programmes and strategy. As the Department and the Government considers its response to these proposals I recommend that it develops its programme together with the other major Departments of State involved in social policy: the Departments of Health; Education and Skills; Communities and Local Government; Trade and Industry; the Home Office; and the Treasury.

The programme recommended here represents a major step forward in welfare reform, with the ambitious objective of reducing by two fifths those trapped at the bottom of society. To succeed fully, it will need sustained support from policy-makers, local organisations and employers. It represents an opportunity that I hope all these groups will seize with enthusiasm.

1 UK performance to date

A summary of the UK welfare state – active and passive

The evolution of rights and responsibilities

Today's welfare state was born nearly a century ago but it came of age in 1948. There had been a gradual movement of responsibility for those without work from local (and voluntary) provision to national Government first in 1911 and then in 1935. But it was with the 1948 National Insurance Act that the first serious attempt was made to develop a comprehensive social insurance system, supported by state assistance in finding work.

The Act was based on the 1942 report from William Beveridge, "The Way to Freedom from Want", which set out to tackle the five "Great Evils" of Want, Disease, Ignorance, Squalor and Idleness.

Beveridge's arguments still resonate today – to provide a national scheme of social insurance to tackle "want" and at the same time to ensure that people could make the transition back into work as efficiently as possible. As the report put it:

"Most men who have once gained the habit of work would rather work – in ways to which they are used – than be idle ... But getting work ... may involve a change of habits, doing something that is unfamiliar or leaving one's friends or making a painful effort of some other kind."

The state therefore had to "save" the unemployed from the "habituation to idleness" by ensuring that they sought and took up work. And for those unemployed for a certain period, they:

"should be required, as a condition of continued benefit to attend a work or training centre, such attendance being designed as a means of preventing habituation to idleness and as a means of improving capacity for earnings."

So, even in 1942, it was understood that it was not enough just to provide a safety net – the welfare state also had to support people back into work through an active labour market policy. The balance between active and passive policies has ebbed and flowed over the intervening sixty years.

The nature of the safety net, however, was right from its origins markedly different to that which Beveridge proposed – as it has remained to this day. Rather than a relatively narrow and generous social insurance scheme supported by limited targeting, the 1948 Act introduced a wider National Insurance, supported by (as the White Paper put it) “a scheme of National Assistance designed to fill the inevitable gaps left by insurance and to supplement it where an examination of individual needs shows that supplement is necessary.” The result is one of the most comprehensive, albeit not particularly generous, welfare systems in the world.

Passive labour market policies gained ascendancy in the late 1960s as the UK, in common with many major economies, increasingly sought to achieve its goals through full employment fiscal policies. The requirement for labour market attachment was reduced, first in 1974 with the split of Jobcentres from Benefit Offices and the creation of the Manpower Services Commission. In 1982, with unemployment rising towards three million, the requirement to look for work while on benefit was removed entirely.

It was with the introduction of Restart interviews and a stricter availability test in 1986 that the UK made a clean break with the passive welfare state of the previous twenty years. This was the start of a long process of re-engagement with the long-term unemployed to give them a second chance at finding work. In the years that followed, the benefits regime for the unemployed has become increasingly active, and the foundation of the present structure was established.

In the last ten years, the process has intensified, with the New Deals helping to deliver some of the lowest unemployment figures since the mid 1970s. In addition the rights and responsibilities regime has been increasingly extended to people on “inactive” benefits (those on lone parent and sickness benefits). In order to deliver this, the Benefits Agency and Employment Service were combined in 2002 into Jobcentre Plus, and with £2 billion investment, the rollout of new, more welcoming Jobcentre Plus offices is now virtually complete.

The current system

As it stands today, the rights and responsibilities within the system vary for different groups. Those on Jobseeker’s Allowance are required to be available for and to actively seek work. Those on lone parent or incapacity benefits must attend work-focused interviews at specific points during their claim. The new Employment and Support Allowance will extend the requirement for specific work-related activity to people with health conditions and disabilities.

More intensive support is also designed for those further from the labour market. Within JSA, the compulsory New Deal kicks in at six months for young people and at 18 months for those over 25. For those on other benefits, voluntary support is available through Pathways to Work, and New Deals for Lone Parents and Disabled People.

Government programmes for the most disadvantaged

The Government's main programmes for the most disadvantaged have been the New Deals and Pathways to Work. These are:

- New Deal for Young People. Mandatory programme for people aged 18-24 who have been on JSA for six months. It is composed of a "Gateway" period of intensive Personal Adviser support which lasts up to four months. This is followed by mandatory activity on one of four "Options" – subsidised employment, further education/ training, voluntary work or the environment task force.
- New Deal 25 Plus. Mandatory programme for those on JSA who are aged over 25 and have been on the benefit for 18 months. It follows the same structure as New Deal for Young People – with a Gateway of up to four months followed by one of four "Options".
- New Deal 50 Plus. Voluntary programme for people aged over 50 and who have been on a main benefit for more than six months. Based on Personal Adviser support with looking for and preparing for work, including employability measures (training and voluntary work). In-work financial support can be provided through a top-up to Working Tax Credit and access to a Training Grant.
- New Deal for Lone Parents. Voluntary programme of intensive Personal Adviser support, aimed at lone parents on Income Support. The adviser interventions can include confidence building, help with looking for and applying for jobs, help with understanding the financial returns from work, help with finding childcare, and some limited financial support.
- New Deal for Disabled People. Voluntary programme of intensive Job Broker support. Job Brokers are located outside the Jobcentre Plus network and can be in the public, private or voluntary sector. Intensive support covering all aspects of moving towards and taking up work, including in-work support for up to six months.
- Pathways to Work. Mandatory programme for new claimants to incapacity benefits and voluntary for existing claimants. Core of work-focused interviews delivered by Jobcentre Plus or the private and voluntary sector, supported by financial support in work and the New Deal for Disabled People.
- Progress2work/ linkup. a "benefit blind" programme for recovering drug addicts, the homeless and ex-prisoners.

Benefit levels have also been specifically targeted at these different groups, creating a system which has become extraordinarily complex. It mixes means-tested, contributory and universal elements, as well as entitlement based on individual circumstances in some cases and household circumstances in others. Many benefits are composed of one low basic rate with additions to provide extra help for certain groups. Some are paid by Jobcentre Plus, others by the Disability and Carers Service and others by local authorities. In addition tax credits, paid to both those out of work and low paid, are administered by Revenue and Customs.

Table 1 Administration of the benefits system

Benefits	Total annual spend	Administered by
Unemployment benefits	£2.5 billion	Jobcentre Plus
Income support for lone parents	£3.4 billion	Jobcentre Plus
Incapacity benefits	£12.5 billion	Jobcentre Plus
Disability and Carer benefits	£6.3 billion	Disability and Carers Service
Housing & Council Tax benefits	£11.9 billion	Local authorities

Note: Benefit figures are estimated out-turn for 2006/7, published on the DWP website at: www.dwp.gov.uk/asd/asd4/expenditure.asp and consistent with Pre-Budget Report 2006. All figures are for "working age" (16 to State Pension Age). Disability and Carer benefits do not include Industrial Injuries benefits, Disability Living Allowance for children and those over State Pension Age, and smaller benefits.

In addition to the main out of work benefits, the Government also pays tax credits.

It is important to note that these figures do not represent out of work spend only: all benefits have an earnings disregard, the level of which is dependent on circumstances. This means that some recipients of Jobseeker's Allowance and other benefits will be working, though usually for few hours. In the case of Housing Benefit and Council Tax Benefit, however, where rent and/or council tax payments are high, entitlement to HB and CTB may be maintained up to a relatively high level of income. For example, a lone parent with two children paying £150 per week in rent would be entitled to HB up to £535 per week in income. For this reason, it is important to treat all of these figures with caution.

The overall rights and responsibilities regime is set out on pages 15 and 16.

Table 2 Overall benefits rights and responsibilities

Benefit	Rights		Responsibilities		
	Who is it paid to?	Contributory or means tested?	How much is it per week?	What happens now	What is being piloted/ planned
Jobseeker's Allowance	People looking for work who meet the qualifying conditions	Both – contributory element lasts 6 months, then all means tested.	£57.45 for a single person aged 25+	Claimants "sign on" fortnightly to prove that they are actively seeking and available for work. Additional activity at 13 weeks, 6 months and 12 months. New Deal at 18 months (25+) or 6 months (18-24).	Jobseekers Mandatory Activity (short course and PA support) is being piloted for those over 25 who reach 6 months unemployment.
Lone Parent Income Support	Lone parents	Means tested	£57.45 for a single person aged 25+ (plus disability premia where relevant)	Where the youngest child is under 13, three work-focused interviews in the first year, then annually. Where the youngest child is aged 14-16, three interviews in the first year then quarterly.	Frequency of interviews where youngest child is under 13 is being increased to every 6 months.
Incapacity Benefits – contributory IB and means-tested income support	People with ill health or disability with the necessary contribution record; or people with ill health or disability who don't have the contribution record to claim IB	Contributory – and lasts as long as the person is still entitled to benefit; or means-tested	Long term rate is £78.50 (other additions may also be payable); £57.45 for a single person aged 25+ plus disability premia	Single work focused interview. The Pathways to Work regime, which is currently being rolled out, comprises 6 interviews at monthly intervals at the beginning of a claim.	National roll-out of Pathways by 2008. New Employment and Support Allowance will be introduced and, as resources allow, most ESA claimants will be required to participate in work-related activity as a condition of receiving benefit.

Continued

Table 2 Continued

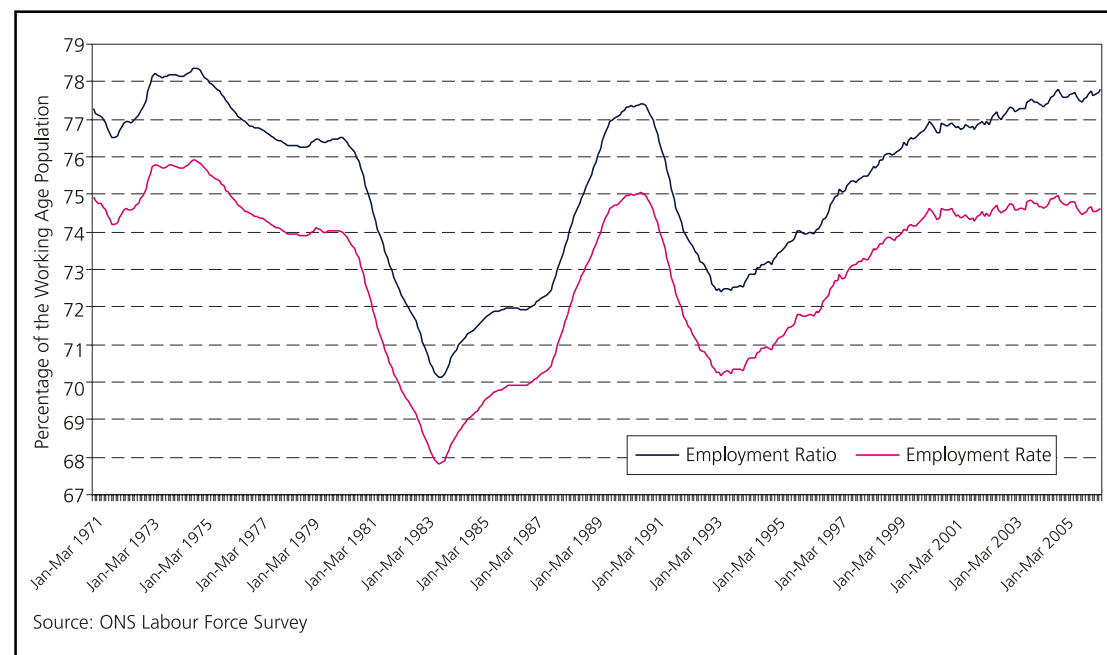
Benefit	Rights		Responsibilities		
	Who is it paid to?	Contributory or means tested?	How much is it per week?	What happens now	What is being piloted/ planned
Carer's Allowance	People who don't get another benefit and are caring for someone for more than 35 hours a week who is in receipt of a qualifying benefit.	Means tested (on basis of earnings but not savings)	£46.95	None	None
Housing Benefit and Council Tax Benefit	People in and out of work with qualifying incomes. Other benefits "passport" to entitlement to HB and CTB.	Means tested	Varies depending on rent, council tax, family type and size	None	LHA in private rented sector

The result – UK performance

There is no question that the UK has made significant progress in the labour market over the last ten years. Employment is up by more than 2.5 million and now stands at 29 million. The employment rate for “working age” adults (defined as those aged from 16 to 59 for women and 16 to 64 for men) is at 74.5%, an increase of 1.8 percentage points since 1997.² This is a genuinely impressive record – particularly when it is considered that the UK weathered the global economic downturn in the early 2000s without any fall in the employment rate, in contrast to previous downturns.

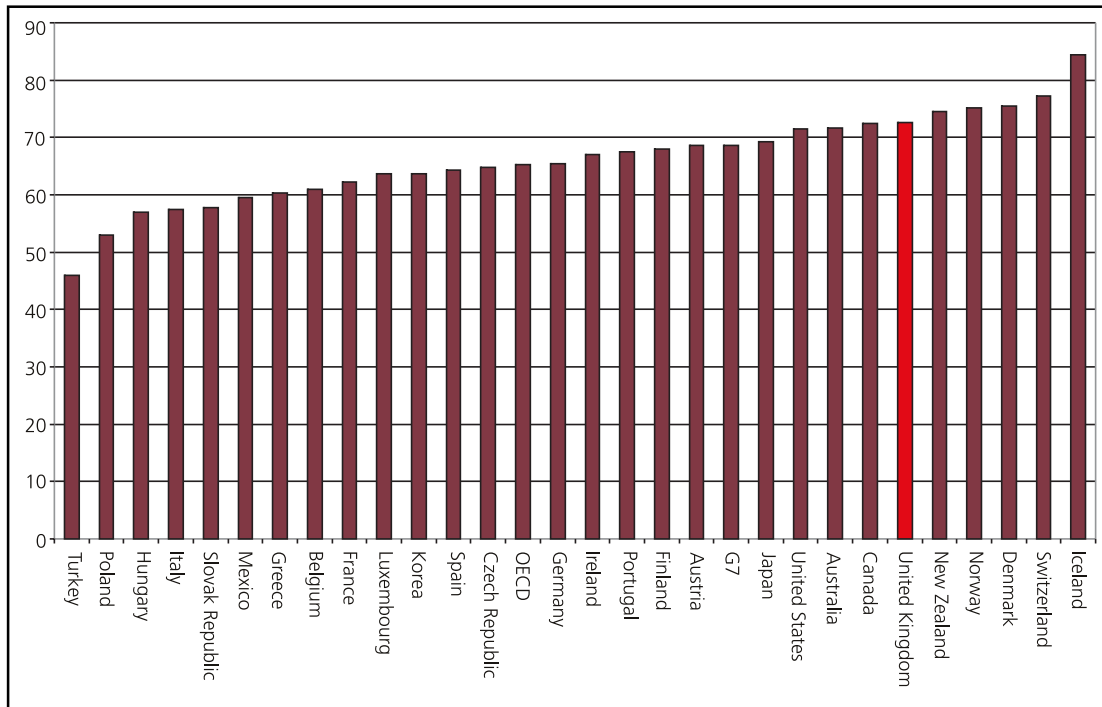
Taking account of **everyone** in work, recent performance is stronger still. This is illustrated in the graph below – the lower line shows the “working age” employment rate since 1970, the upper line shows all people in work, including those over state pension age, divided by the working age population (the employment ratio).

Figure 3 UK employment 1970 to 2006



On international definitions, the UK has the highest employment rate of any G7 economy and indeed one of the highest rates in the world, as Figure 4 overleaf shows.

² Labour Force Survey.

Figure 4 Employment rates of OECD countries, 2005

Employment, unemployment and economic inactivity

The economic “status” of individuals can be boiled down to just three terms – employed, unemployed or economically inactive. Employment and unemployment together describe “economic activity”, with the unemployment rate being the proportion of the economically active group (not the proportion of the whole population) that are actively seeking and available for work. The remaining population are “economically inactive”, meaning that they are not available for or not looking for work. This could be for any reason, for example, a health condition or disability, caring commitments, study or early retirement.

These distinctions mean that focusing on unemployment provides only a partial measure of labour market success or failure. Increasing unemployment could signify either a weakening labour market, or an increase in labour supply as previously economically inactive people start looking for work. In turn, falling unemployment could be due to improving labour market conditions or an increase in economic inactivity.

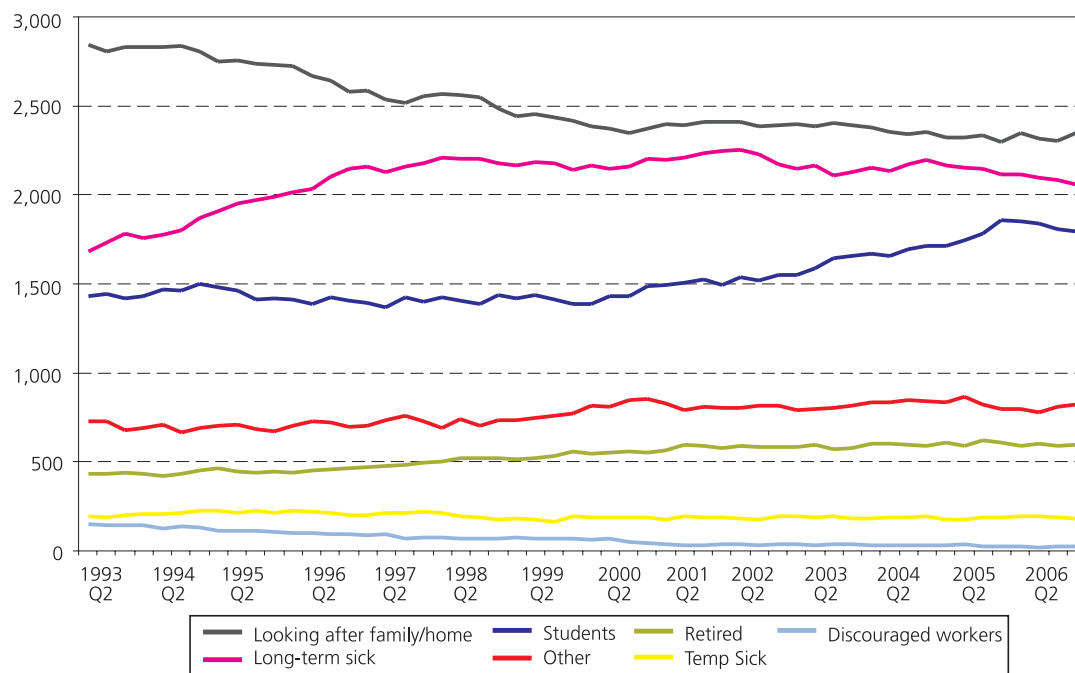
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This report agrees with the Government that the focus must therefore be on all three measures. Future increases in employment will likely require reductions in both unemployment and economic inactivity.

The overall picture on economic inactivity is not straightforward. By definition, economically inactive people are outside the labour market, for any number of reasons. So while the proportion of the population who are inactive has only fallen by around 0.6 percentage points since 1997, this disguises the fact that the number of inactive students has grown strongly (a consequence of the Government's significant expansion of post-16 education). When students are taken account of, inactivity has fallen by far more – around 1.4 percentage points.

As the graph below shows, around 8 million people, or just over 20% of the population, are economically inactive. By far the largest causes of inactivity are looking after family or the home, and long-term sickness. Note that people who are described as economically inactive on this basis (the Labour Force Survey) may or may not be claiming benefit. Around 3.5 million people claim "inactive" benefits (incapacity benefits or Income Support for lone parents). The Government has recognised the importance of tackling economic inactivity, and has put a number of policies in place to do so.

Figure 5 Reasons for inactivity



What is driving labour market performance? An analytical framework

There are a number of factors that lead to jobs being created and reasons why people take them up. Active labour market policies are just one, albeit important, driver.

The framework used by the Organisation for Economic Co-operation and Development (the OECD), and in this report, is based on four elements:

A. Set appropriate macroeconomic policy

- Aim at price stability and sustainable public finances
- Use to help stabilise the economy

B. Remove impediments to labour market participation as well as job-search

- Implement well-designed unemployment benefit systems and active labour market policies
- Make other non-employment benefits more work-orientated
- Facilitate family-friendly arrangements
- Adjust taxes and other transfer payments to make work pay

C. Tackle labour- and product-market obstacles to demand

- Ensure that wages and labour costs respond to labour market developments
- Enhance competition in product markets
- Facilitate the adoption of flexible working time arrangements
- Make sure that employment protection legislation helps labour market dynamism and provides security to workers
- Promote transition to formal employment

D. Facilitate the development of labour force skills and competences

- Promote high-quality initial education and set conditions to improve labour market skills
- Facilitate school-to-work transitions by reducing early exits from education, ensuring that young people acquire skills relevant to labour market requirements, and helping to combine education with work

The focus of this report is on the second element and to some extent the fourth. However this framework clearly places employment as a priority across Government – with the Treasury responsible for macroeconomic policy, DWP in the lead on labour supply, the Department of Trade and Industry on product and labour market competition and regulation, and the Department for Education and Skills on labour force skills.

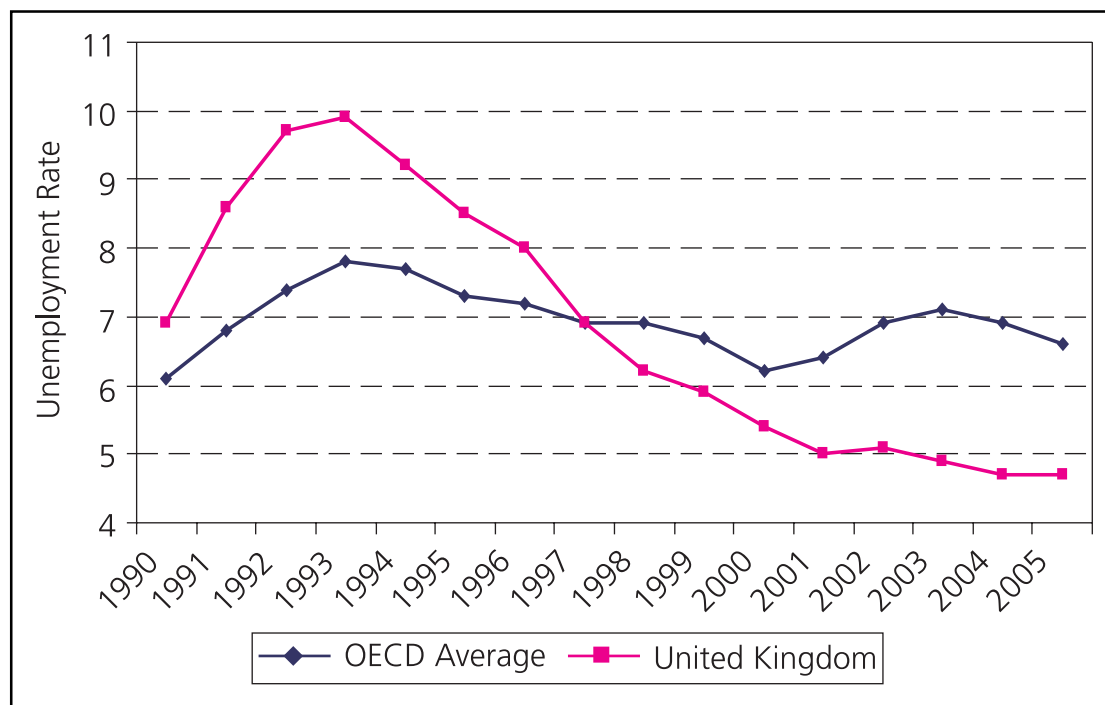
The UK's very strong relative position is not all down to active labour market policies, although they have undoubtedly played an important part. Using the OECD framework opposite, clear progress can be seen against all four elements:

A. Sound macro-economic policy. The UK economy is currently experiencing its longest unbroken expansion since quarterly records began, with GDP now having grown for 58 consecutive quarters. Macroeconomic stability is the best labour market policy available, and represents a sharp turn-round from the experience in much of the post-war period, when the UK economy not only performed relatively poorly but also suffered from greater volatility than most other large economies.

B. Removing barriers to work and looking for work. Firstly, labour market policies have both increased employment and helped move people who were previously inactive closer to work.

Through the New Deal and a strong economy, long-term claimant unemployment has fallen by 73% since 1997 to 157,700, of which only 10,300 are aged 18-24 – an 88% drop. The progress on reducing long-term unemployment is also reflected in UK performance on the ILO measure. But nonetheless, there are a large number of claimants – perhaps a third – who have spent more time on benefits than in work. Around 100,000 people on JSA have spent six of the last seven years on benefit.

Figure 6 Total OECD and UK unemployment rates: 1990-2005



The UK's relative success has been consistently recognised by, among others, the OECD – which has stated that 'in the UK sharp declines in beneficiary totals followed the introduction of activation policies'.³ More recently, the OECD Employment Outlook 2006 described the UK as one of the most effective countries in using welfare to work policies such as JSA and New Deals to reduce unemployment.

Secondly, the Government has used the tax and benefit system to ensure that work pays. The UK has among the strongest work incentives in the personal tax and benefit system of any major economy⁴. The benefit system provides a safety net rather than a long-term replacement for work, while tax credits have addressed the unemployment trap for key groups – particularly lone parents. This means that individuals are better off in work, and reinforces the evidence that work is the best and most sustainable route out of poverty.

However, while the incentives to enter and progress in work have improved in the last twenty-five years, and are among the strongest in the industrialised world, they can vary significantly for different groups. The most significant challenge appears to be in improving awareness of financial returns from work. The introduction of "Better Off In Work" calculations at Work Focused Interviews for lone parents has improved this, but as page 36 shows, awareness of how Housing Benefit works remains low.

Thirdly, the Government has improved financial support for people making the transition into work. This has included the new Job Grant – eligible for most people on benefits after 26 weeks out of work and worth £100 for single people and £250 for couples – as well as changes to benefit run-ons and "linking rules" (where previous benefit entitlement is protected for a length of time in case the job does not work out).

³ OECD Employment outlook 2003 pg. 203.

⁴ See in particular Chapter 3 of the OECD Employment Outlook 2006.

Success of the Government's labour market policies

Shortly after the current Government came to power, it launched the New Deal for Young People and the New Deal for 25 Plus, in response to the challenges of long term unemployment.

By any measure, these programmes have been a success. The New Deal for Young People has got over 700,000 people into work. The equivalent figure for the New Deal for 25 Plus is around 280,000. Youth claimant unemployment is close to its lowest level for 30 years. The Government now spends £5 billion less on unemployment than it did in 1997.

The Government built on this success by introducing New Deals for other groups, including older workers, disabled people, lone parents and partners of benefit claimants. In total, these programmes have helped over 1.7 million people into work.

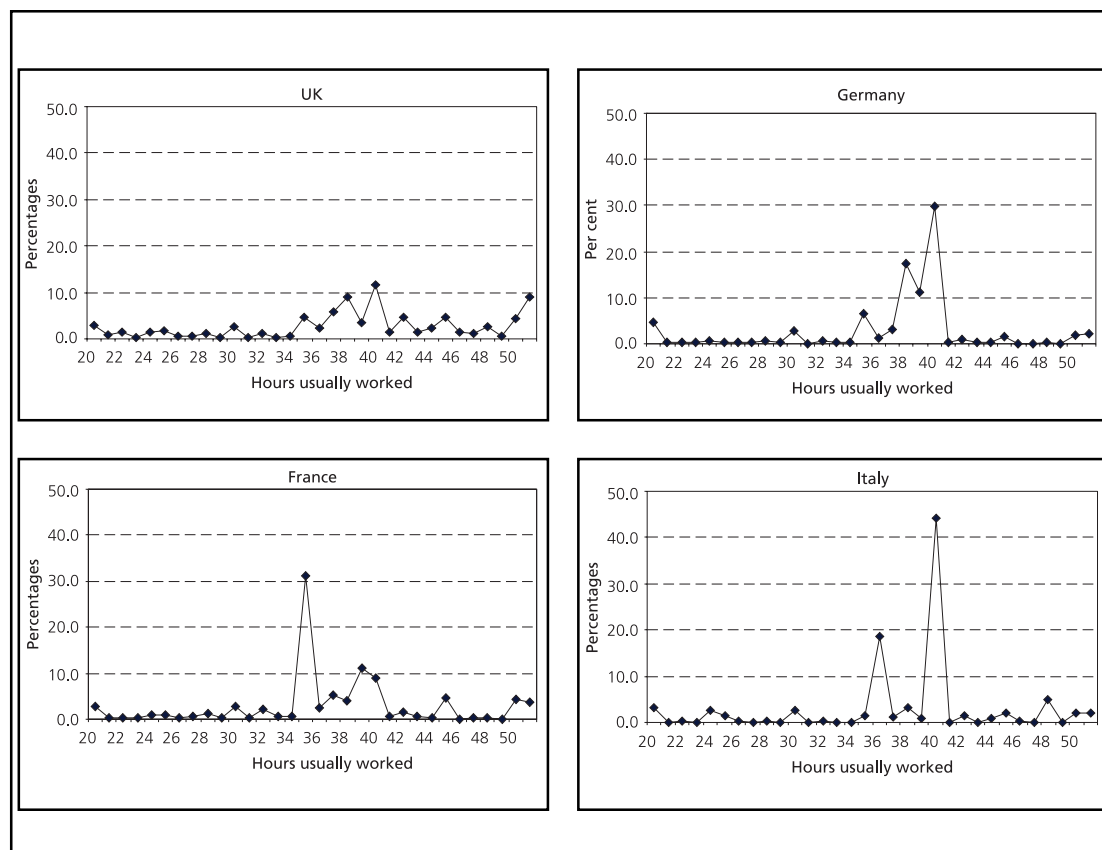
In 2002, the Government took the important step of introducing Jobcentre Plus, which brought together the Employment Service with the working age part of the Benefits Agency to create a single agency to support everyone of working age with benefits and work. 849 of 865 Jobcentre Plus integrated offices are now rolled out providing a single service covering both employment advice and benefits delivered from a much higher quality, and more welcoming, environment. This integrated service enables the Government to support people who are on traditionally "inactive" benefits (such as lone parents and disabled people) to return to work.

Every working day, Jobcentre Plus receives 18,500 jobs from employers; conducts 43,000 adviser interviews; processes over 15,000 new benefit claims; pays more than £100 million in working age benefits; and helps almost 4,000 people into jobs.

C. Tackling barriers to labour demand. The UK labour market has always been lightly regulated – meaning that compared in particular to the large European economies, it has been relatively easy for UK employers to make decisions about hiring and firing people. Less employment protection legislation does not necessarily mean more insecurity – research suggests that countries with relatively high employment protection legislation can also have lower perceptions of job security⁵. This may be because of the higher incidence of (less secure) temporary work. In the UK, less than 6% of employees are on temporary contracts, one of the lowest figures in the industrialised world – while perceptions of job security have increased between 1998 and 2004⁶.

This employment flexibility has also not manifested itself in a reduction in average job tenure. Average tenure is still around eight years, and in fact it has increased slightly in the last decade. However what is seen is a wide flexibility in working patterns, evident in the wider variety of hours worked per week in the UK:

Figure 7 Hours per week usually worked in main job, 2002⁷



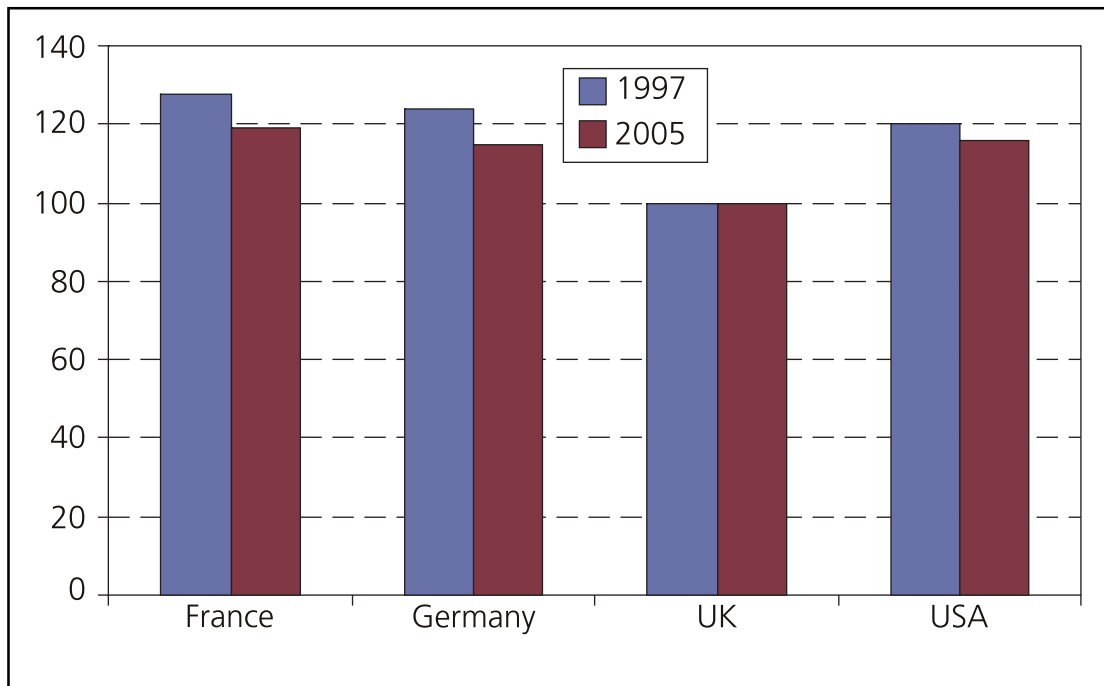
⁵ *Job Security and Job Protection*, Andrew Clark and Fabien Postel-Vinay; Centre for Economic Performance Discussion Paper No 678, February 2005

⁶ *“Inside the Workplace: Findings from the 2004 Workplace Employment Relations Survey”*, Barbara Kersley, Carmen Alpin, John Forth, Alex Bryson, Helen Bewley, Gill Dix and Sarah Oxenbridge; July 2006. Temporary employment figures from Labour Force Survey.

⁷ Source: Eurostat.

D. Develop labour force skills and competencies. Skills are one of the five key drivers of productivity.⁸ As the graph below shows, the UK's productivity has improved on a GDP per hours worked basis relative to its key competitors.

Figure 8 Gross Domestic Product per hour worked

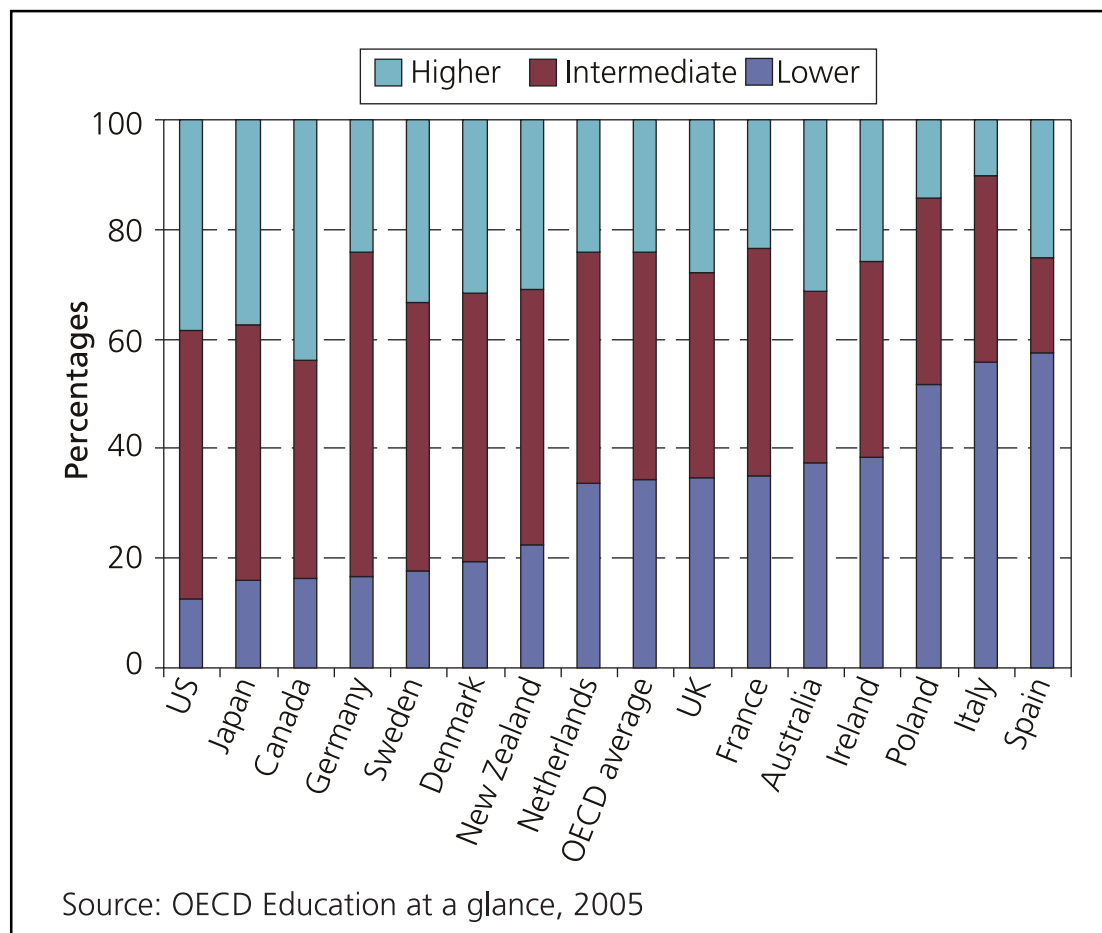


In recognition of the importance of raising the UK's skills levels, the Government commissioned Lord Leitch to review the UK's performance and the policies need to close the skills gap. The Leitch Review cites evidence suggesting that around one fifth of the UK's productivity gap with France and Germany results from the relatively poor skills of workers in the UK. If the ambitions set out in the Leitch Report are met (i.e. 95% of adults to have basic skills, more than 90% qualified to Level 2 or above, 40% of adults qualified to Level 4 or above) then the Review predicts that there will be an increase of up to 10% in the rate of productivity growth.

While performance on skills has improved over the last decade, the UK remains some way behind many of its competitors in certain areas. As Figure 9 overleaf shows, the UK has a comparable proportion of workers with qualifications at degree level and equivalent but has deficits at intermediate and low skill levels. 35% of the working age population do not have the equivalent of a good school leaving qualification, more than double the proportion in Canada, US and Germany. 4.6 million have no qualifications at all, 5 million working age people lack functional literacy and 7 million lack functional numeracy.⁹

⁸ The other four are enterprise, innovation, competition and investment.

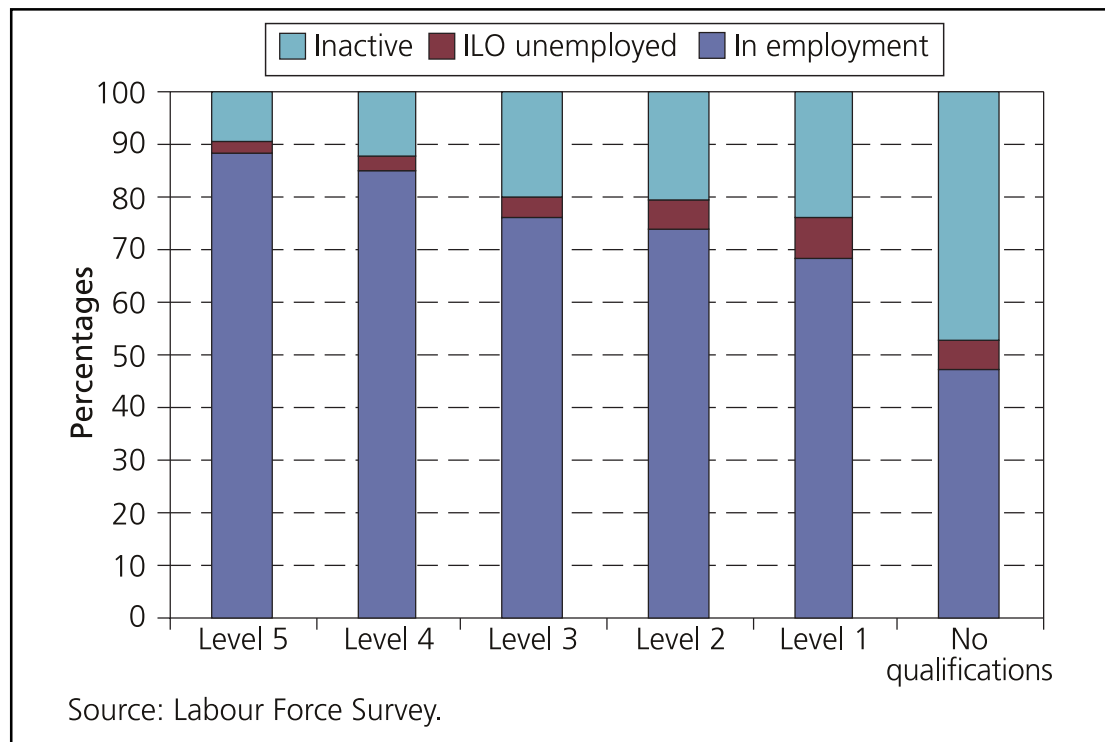
⁹ Leitch Review (2006).

Figure 9 International comparisons of adult qualifications

There is a wealth of evidence to suggest that skills are important to individuals, the economy and society. People with skills are more likely to be in employment and to be productive. People with higher qualifications are more likely to be employed than people with lower level or no qualifications. It is having no qualifications at all that seems to put people at the greatest disadvantage in the labour market – even those with low level qualifications have an employment rate of almost 70%.

The openness and flexibility of the UK economy has presented labour market opportunities for many individuals. It has also created specific challenges for individuals with no or low skills. The global market is expanding at an unprecedented rate and parts of the economy, particularly the service economy, are likely to be exposed to international competition to an extent that they have not been before. In short, in an increasingly global economy a failure to tackle low skills could damage the UK's competitiveness and entrench poverty.

As the Leitch Review set out, the Government will need to improve its skills base to meet this challenge and the UK response will need to go far wider than just helping people find a job. The Leitch Review sets ambitious goals – that 95% of adults should have basic skills and 90% should be qualified to Level 2 by 2020.

Figure 10 Economic activity and highest qualification

This high-level analysis against the OECD's four elements disguises a more complicated picture for specific groups and areas. Here the UK has made significant progress in reducing disparities but a substantial challenge remains. The sections below explore this further, looking at specific disadvantaged groups, multiple disadvantage, social mobility and benefit dependency.

The most disadvantaged groups

DWP has historically taken a "client group" approach to tackling worklessness, focusing on particular groups who face labour market disadvantage – for example disabled people, older workers, lone parents, ethnic minority groups. The Government has made strong progress on all but the lowest skilled, with every other group seeing their employment gap narrow and unemployment fall.

Disabled people

Around half of disabled people are in work, and the number on incapacity benefits is now falling after around two decades of strong growth (see Figure 11 below). However the total number of people on incapacity benefits stands at around 2.7 million, and this disguises large flows in and out of the benefit (around 600,000 a year in each direction). Of the total, 85% – or 2.3 million people – have been on benefit for over a year. The large flows have brought with them significant changes in the composition of those on IB – away from the stereotype of middle-aged men in the industrial heartlands and towards a new generation with manageable mental health or musculoskeletal conditions (Figure 12).

Figure 11 Working age Incapacity Benefit caseload, August 2000 – August 2006

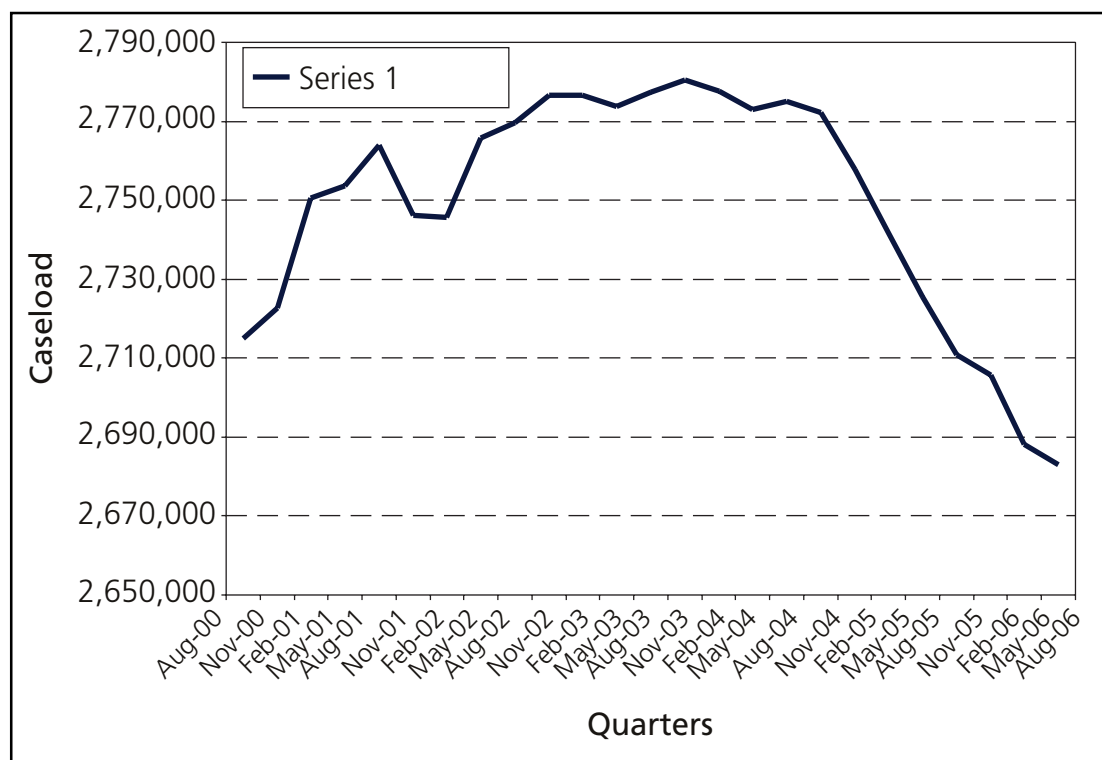
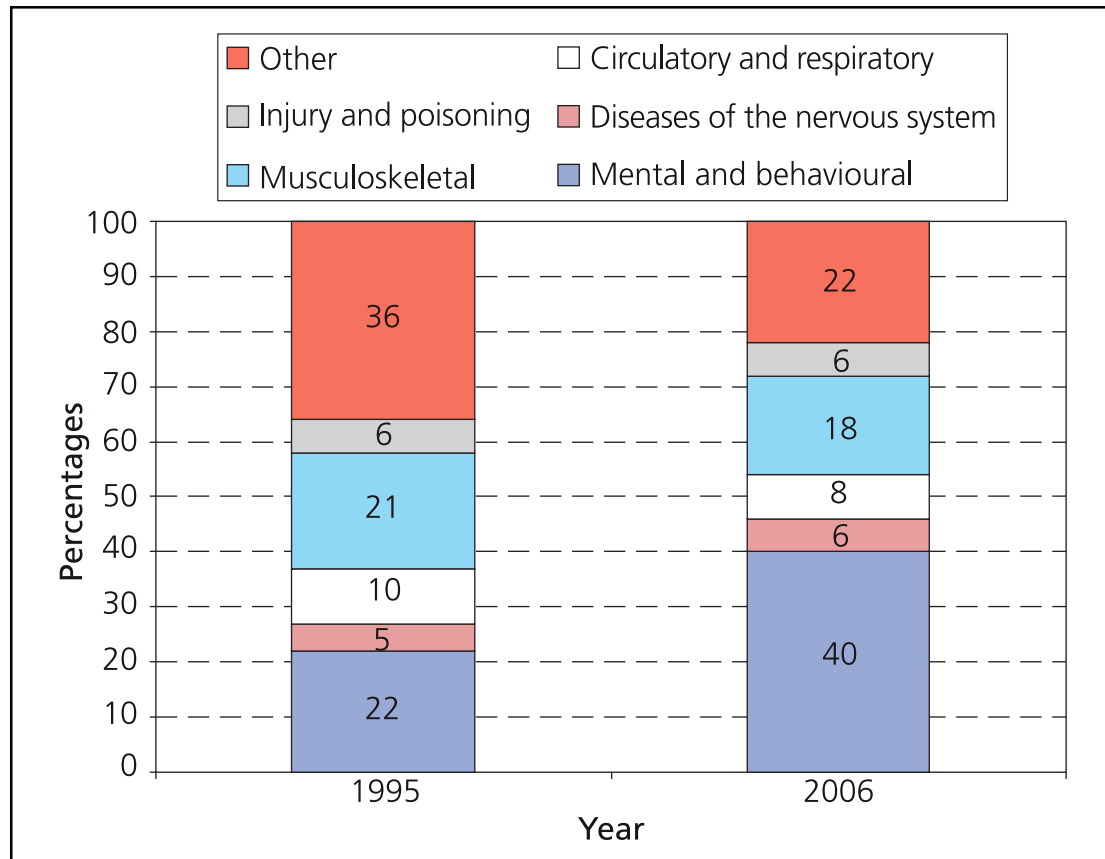


Figure 12 Working age Incapacity Benefit caseload by medical condition 1995 and 2006



The Government has taken steps to remove some of the barriers facing disabled people moving into work. This is one building block of a wider strategy to create an equal society in which disabled people can fully participate. This has included the establishment of comprehensive civil rights as a necessary foundation for achieving equality. Disability rights have been transformed, notably with the creation of the Disability Rights Commission in 2000 and the Disability Discrimination Act 2005.

A key element of this is the Disability Equality Duty which requires everyone in the public sector - from policymakers to people delivering front-line services - to promote equality for disabled people. The Prime Minister's Strategy Unit published a report during 2005¹⁰ setting out a long-term vision for disabled people, which contained recommendations in four key areas: early years; transition to adulthood; employment; and independent living. This strategy is being taken forward by the Office for Disability Issues, launched in December 2005.

¹⁰ "Improving the Life Chances of Disabled People", Prime Minister's Strategy Unit, 2005.

The Government has also had a focus on employment programmes designed to support disabled people into work. In addition to the New Deal for Disabled People and the flagship Pathways to Work programme, which has had a very encouraging record so far and which is therefore being rolled out nationally by 2008, there are a number of specialist disability programmes. These include Access to Work, which helps employers meet the costs of making adjustments to the workplace. This can range from the cost of a keyboard or chair to the salary of a support worker. The Government is due to publish a consultation document on its specialist programmes this year.

Lone parents

For lone parents, the employment rate stood at 56.5% in the second quarter of 2006 - an increase of 11.8 percentage points since 1997 and one of the highest lone parent employment rates on record. Undoubtedly this has been driven by the success of the New Deal for Lone Parents (NDLP). Since its introduction NDLP has helped 483,000 lone parents into employment, of which 293,000 entered into sustained employment. The number on benefits is also down – by around a quarter of a million since 1997, to 783,000¹¹.

Tackling worklessness among lone parents is key to tackling poverty. As Lisa Harker wrote in her recent report on child poverty, “There is wide recognition that relying solely on benefit and tax credit increases to reduce child poverty would be undesirable since, for many families, an income through paid employment offers a more effective and sustainable route out of poverty.”¹² The report goes on to state that a combination of out-of-work and in-work policies will be needed to achieve the 2020 target to eradicate child poverty.

The Government estimates that around 47% of children living with a workless lone parent are in relative income poverty, and reaching its aim of 70% lone parent employment would lift a further 200,000 children out of poverty¹³.

Supporting lone parents into employment is also of vital importance to breaking the cycle of deprivation facing the children of many lone parents. Most lone parents want to work, and research now shows that the outcomes of children of working lone parents are significantly better than those growing up in a household where no-one works¹⁴.

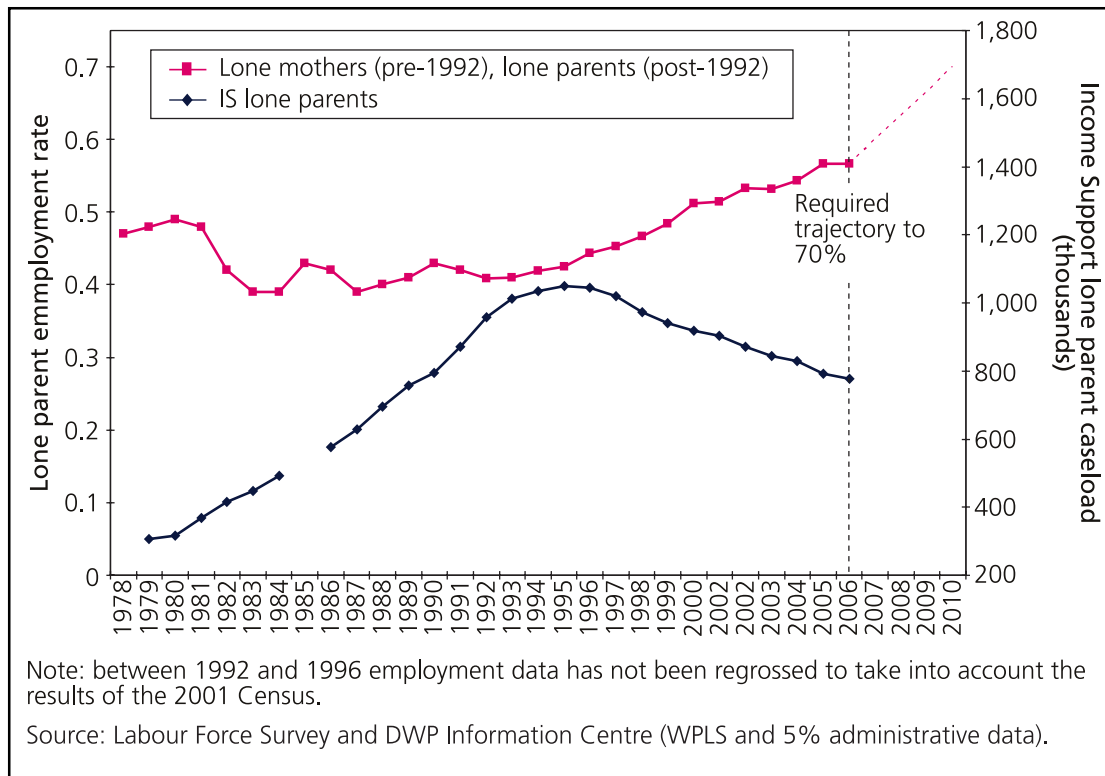
¹¹ Work and Pensions Longitudinal Study.

¹² “Delivering on Child Poverty: what would it take? A report for the Department for Work and Pensions”; Lisa Harker, November 2006.

¹³ Households Below Average Income, 2004/5.

¹⁴ See for example, Kiernan K.E (1996) ‘Lone motherhood, employment and outcomes for children’, International Journal of Law, Policy and the Family, 10, p. 233-249.

Figure 13 Lone parent employment, including trajectory to 70% by 2010, and number of lone parents on Income Support – 1978 to 2006¹⁵



¹⁵ A consistent series for caseload, including earlier periods, based on Work and Pensions Longitudinal Study (WPLS) levels, has been created by combining older information, available from the previously published 5% sample data, with the WPLS data.

Table 3 A comparison of average lone parent income – in-work and out of work¹⁶

	Out of work	In work
Benefits and tax credits		
Earnings	£0	£7,600
Income Support	£3,000	£0
CTC	£3,400	£3,400
WTC	£0	£2,400
HB/CTB		
	HB	£2,700
	CTB	£400
Taxation		
Income Tax	£0	£300
Employee NI	£0	£300
Employer NI	£0	£300
Consumption Tax	£1,900	£2,800
Exchequer Costs	£10,900	£8,900
Exchequer Income	£1,900	£3,700
Net Cost	£9,000	£5,300
Overall Exchequer benefit	£3,800	

Note: Figures may not sum due to rounding.

¹⁶ 2-quarter longitudinal Labour Force Survey analysis indicates that lone parents who moved into employment in 2005 worked on average 22.6 hours per week. The Family Resources Survey 2004-5 estimates a median hourly wage for a lone parent working between 20 and 24 hours a week of £6.46. Combining these, estimated average gross annual earnings are £7,600. Income Support estimates are based on the 2006-7 weekly rate of £57.45. Housing Benefit and Council Tax benefit data from May 2004 indicates that the average HB and CTB amounts for lone parents with no income from earnings are £73.85 and £13.32 respectively. The corresponding figures for those with income from earnings are £52.45 and £7.65. Full take up of Working Tax Credit and Child Tax Credit is assumed although there is no estimate of childcare costs (and as a result the childcare element of tax credits) contained within the estimates. The actual Exchequer saving would be lower than presented here if childcare tax credit estimates were included. Estimates of direct taxation and National Insurance Contributions are made using 2006/7 rates.

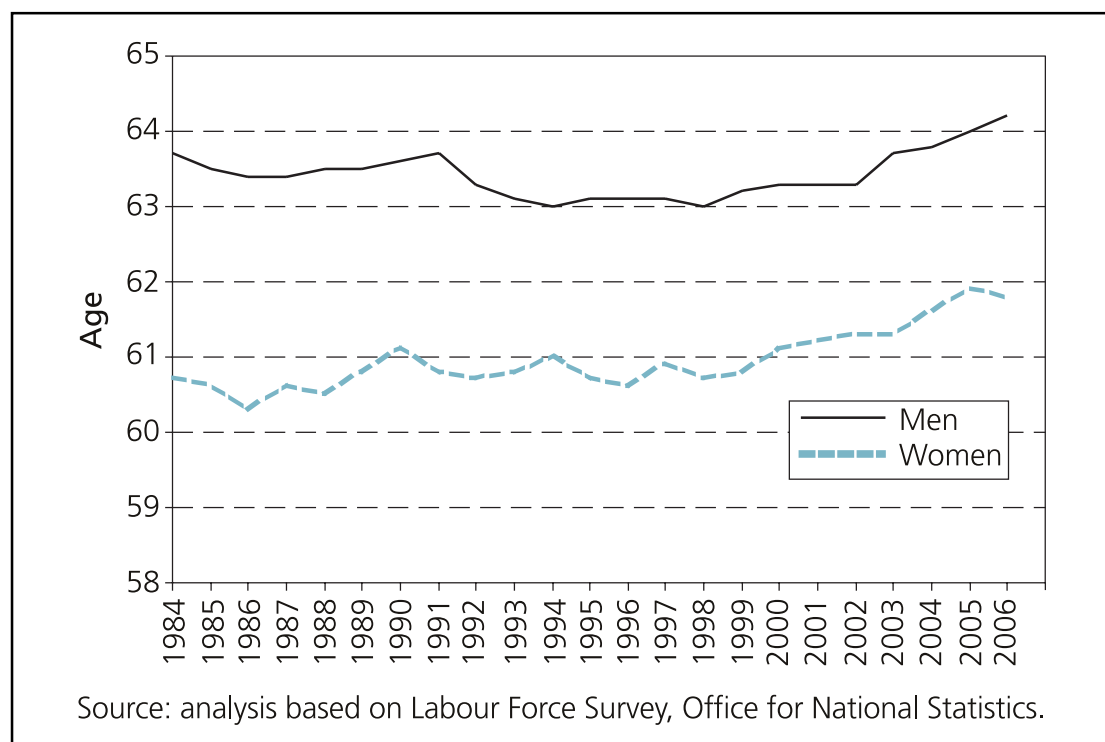
Older workers

Policies to increase the employment of older workers have focused on helping people over 50 to enter work (particularly through the New Deal), encouraging people to work longer and working with employers to improve demand for older workers. There are now over a million more people in work over 50 than there were in 1997, with the employment rate of people aged 50 to 69 increasing by 6.7 percentage points. The employment rate of older men as well as older women is now higher than at any point since the early-mid 1980s. This has started to reverse a long-established trend of early retirement.

An important component of the increase in employment rates in recent years has been the decline in the proportion of men in the older age group claiming incapacity benefits. The rate of flow on to these benefits dropped rapidly for older men in the mid-1990s. The proportion of 60 to 64 year old men claiming incapacity benefits fell from 26.9 per cent in 1997 to 19.5 per cent in 2006.

Regions with the lowest economic activity rates for men aged between 50 and State Pension Age, and typically with high proportions of older men inactive due to sickness and disability, have been catching up with those regions with the highest rates.

Figure 14 Average age at labour market exit, 1984 to 2006, by sex

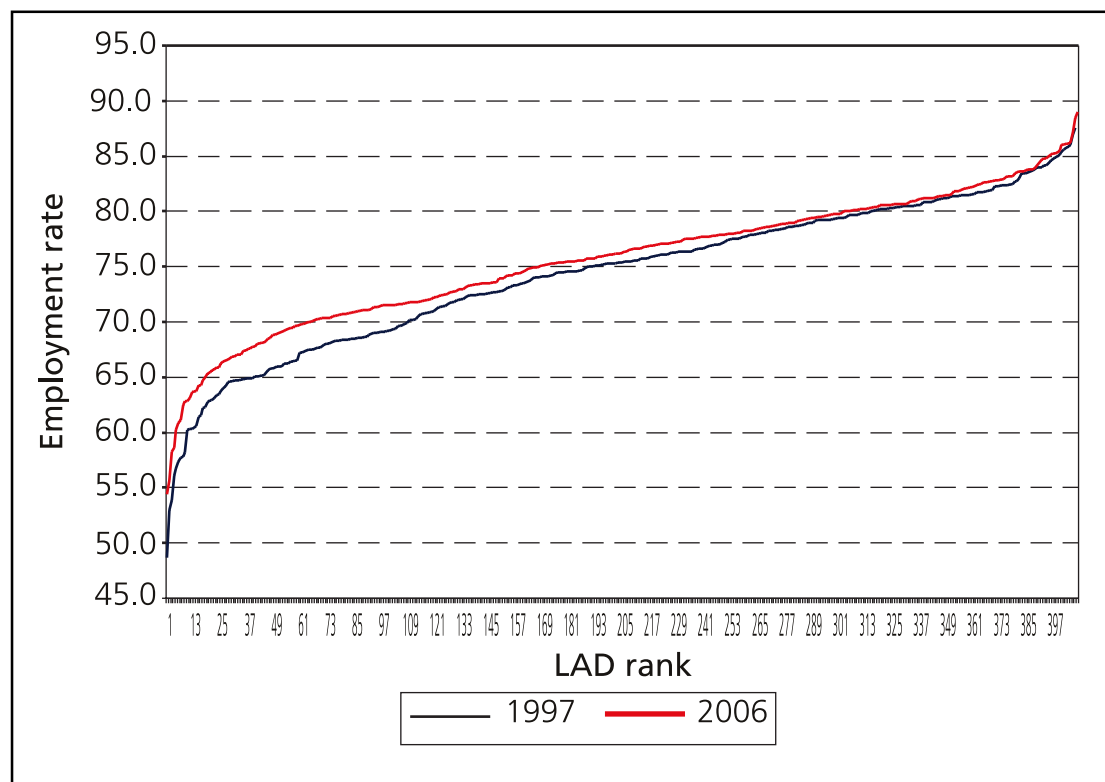


Disadvantaged areas

Progress on tackling neighbourhoods with the very lowest employment rates has been a real achievement – and is a result both of national policies targeted at the most disadvantaged and local initiatives targeted (in particular) within cities. The graph below ranks employment rates in local authorities in 1997 and 2006. It demonstrates that overall employment has increased, but that the increase has been greatest for those local authorities that were previously furthest behind.

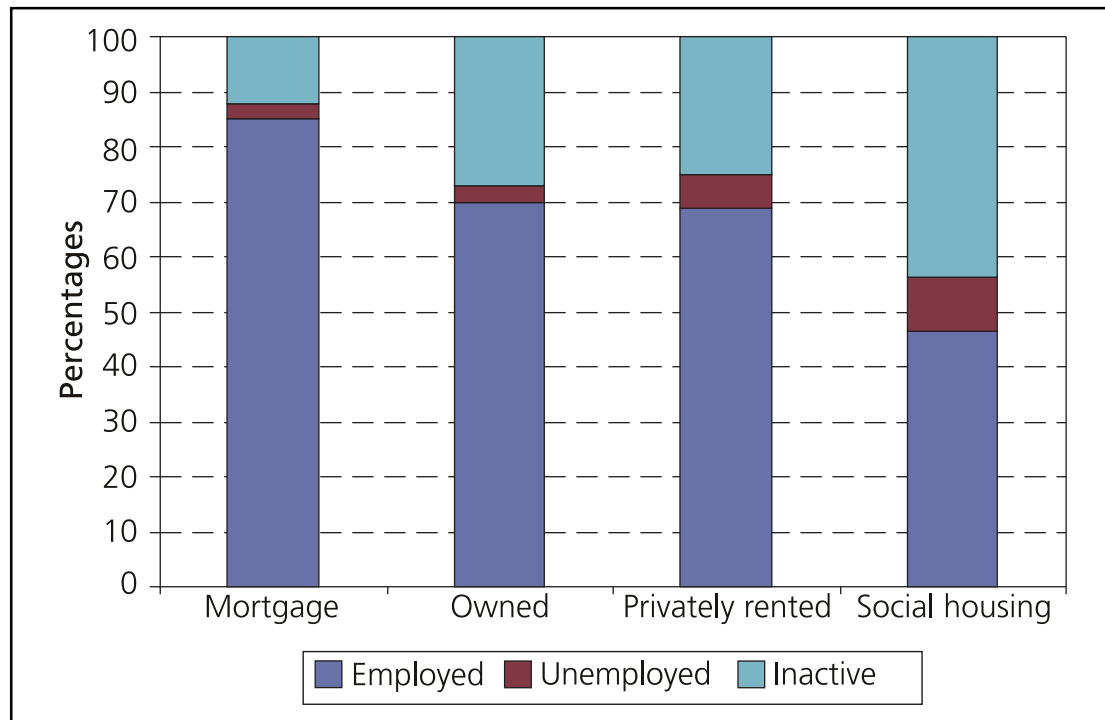
Nonetheless, the graph also demonstrates that there remain pockets of significant disadvantage. This is one of the most significant challenges for the next decade. Many of the most disadvantaged local authorities are in major cities – 10 of the bottom 20 local authorities are in London, and five are in other major cities. Jobs exist in these cities but they may well require skills which the local population does not possess.

Figure 15 Employment ranked by Local Authority



Labour market activity and housing status

Economic inactivity is also closely correlated to social housing – with unemployment and inactivity rates nearly twice the national average. Over a third of all workless people in Great Britain live in social housing, and more than half the people in social housing are out of work (as Figure 16 shows).

Figure 16 Labour market activity and housing status

The recent report by John Hills on the future of social housing explored the relationship between worklessness and social housing in some detail.¹⁷ Professor Hills concluded that:

“Some of [the employment gap] is unsurprising given the labour market disadvantages of many social tenants, such as lack of qualifications or disability. However, this does not appear to be the only explanation: employment rates of those living in social housing with particular disadvantages or with multiple disadvantages are substantially lower than those of people with similar disadvantages but living in other tenures. Even controlling for a very wide range of personal characteristics, the likelihood of someone in social housing being employed appears significantly lower than those in other tenures. There is no sign of a positive impact on employment of the kind that the better incentives that sub-market rents might be expected to give. Potential explanations of this include: the way those with the greatest needs even within any category are screened into social housing, but out of other tenures; particular fears about loss of benefits on moving into work within the social sector; the location of social housing and “neighbourhood” effects from its concentration in deprived areas; possible “dependency” effects of welfare provision; and the difficulty of moving home to get a job once someone is a social tenant. There is no evidence on the relative importance of these factors, but the rate of employment-related mobility within social housing is strikingly low. Nationally, one in eight moves is associated with work, but only a few thousand social tenants each year move home for job-related reasons while remaining as social tenants (even within the same area), out of a total of nearly four million.”

¹⁷ Ends and Means: The future roles of social housing in England, John Hills; CASE 2007.

It is unlikely that financial work incentives themselves are a large part of the explanation for high worklessness – rents are on average much lower in the social rented sector, and indeed the existence of sub-market rents in the social sector should have a positive effect on employment. As John Hills points out *“we appear to be missing out on what could be one of the significant incentive advantages that provision of social housing at sub-market rents should provide”*.

The design of Housing Benefit is also unlikely to be the reason for worklessness. Housing Benefit does not create an unemployment trap – in other words people are (almost always) financially better off in work. And in practice social tenants are more likely to move into lower paid jobs working fewer hours, and therefore less likely to float off Housing Benefit on entering work.

What seems more important, however, is awareness and understanding of Housing Benefit as an “in work” benefit. Evidence shows that had claimants been aware that Housing Benefit could be claimed in work then it would have positively impacted on their decision to enter employment. In addition Jobcentre Plus advisors have stated that if Housing Benefit is presented alongside other measures of in work support (such as Tax Credits) then it would be viewed as a work incentive.¹⁸

To get behind the factors driving lower social sector employment rates, the Centre for Regional, Economic and Social Research at Sheffield Hallam University has been commissioned by DWP to undertake research into social housing and worklessness in four areas around the country. Fieldwork is currently underway and initial findings will be available in the late spring (with final reporting over the summer).

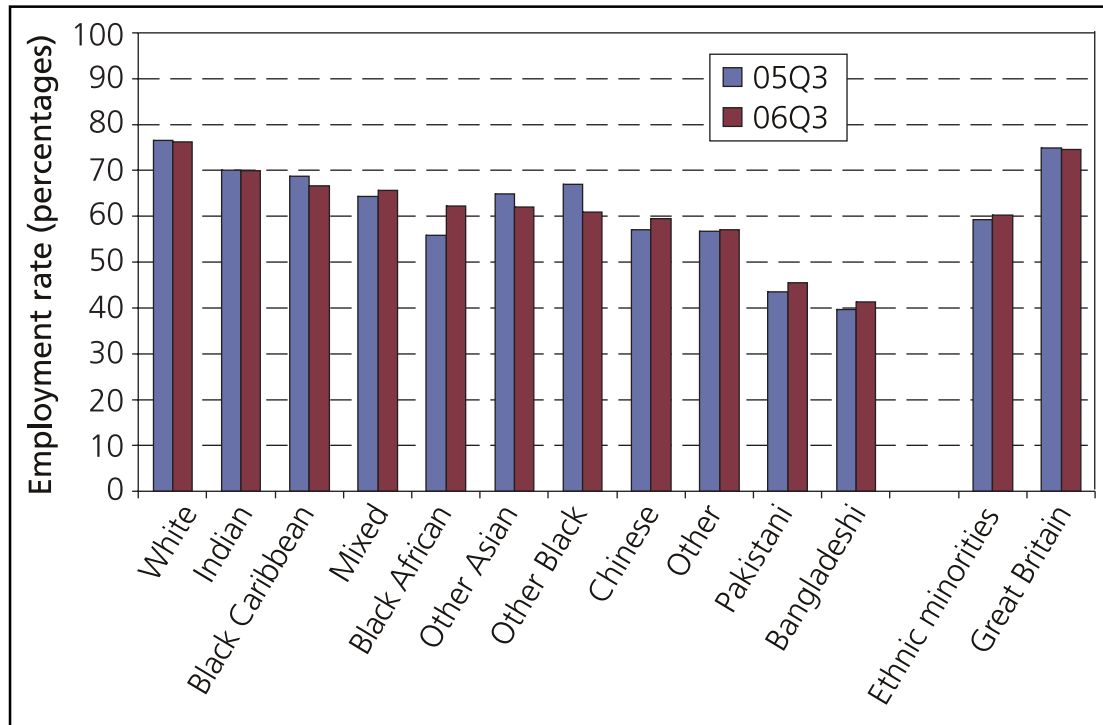
Overall, housing status on its own does not appear to be a significant cause of worklessness. However the high levels of worklessness in social housing appear to indicate a range of factors from housing allocation systems to benefit dependency to geographical mobility.

Ethnic minority employment

Many people from different ethnic minority backgrounds are achieving labour market success across a wide range of fields and contributing to the social and economic growth of the nation. There continues, however, to be a long-term and potentially very damaging gap between the employment rate for ethnic minorities and the rest of the population – 14 percentage points in the year to 2006. For example, Indian and Black Caribbean groups have relatively high employment rates (68.7 and 64.2 percent respectively) whereas Pakistani and Bangladeshi groups have the lowest employment rates amongst ethnic minorities (47.5 and 42.5 percent respectively).

¹⁸ Housing Benefit and Council Tax Benefit as in-work benefits; claimants’ and advisors’ knowledge, attitudes and experiences, by Caroline Turley and Andrew Thomas. DWP Research Report No. 383, September 2006.

Figure 17 Employment rate by ethnic group, LFS: third quarters 2005 and 2006¹⁹



As Figure 18 overleaf shows, ethnic minorities are more than twice as likely to be unemployed as white people and one and a half times more likely than the overall working age population to be economically inactive. The inactivity rate is 30.6% compared to an overall rate of 20.4%. Many of the inactive group are not claiming benefit but are partners in very low-income households – over 50 per cent of Pakistani and Bangladeshi children live in households where one or more earners carry a risk of poverty²⁰.

Bangladeshi and Pakistani remain the groups with the highest inactivity rates; around half are economically inactive (49.9 and 46.8 percent respectively). These rates increase to 71.9 and 68.5 percent for Bangladeshi and Pakistani women respectively²¹.

By 2009, over half the new entrants to the labour market are anticipated to be people in ethnic minorities.²² Failure to enable these people to fulfil their full potential in the labour market would not only have economic consequences but would also have a negative effect on social mobility and social cohesion.

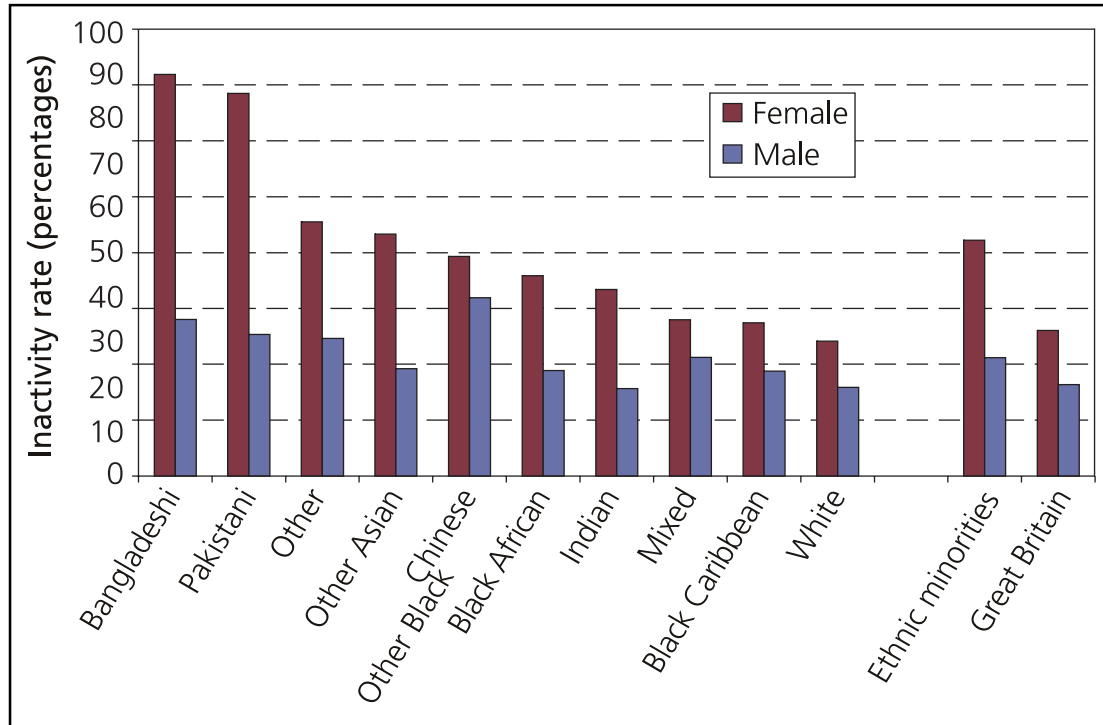
¹⁹ Labour Force Survey.

²⁰ Platt, Lucinda; Ethnicity and Child Poverty; University of Essex (2006) paper commissioned for the Ethnic Minority Employment Task Force.

²¹ All figures in this section from LFS 4 quarter average to Q3, 2006 unless otherwise stated.

²² Strategy Unit (SU) report Ethnic Minorities and the Labour Market, (TSO, March 2003).

Figure 18 Inactivity rate by ethnic minority group and gender, Third quarter 2006²³



The Ethnic Minority Employment Task Force

The DWP-led Ethnic Minority Employment Task Force has identified a number of key areas of work to address in 2007-08:

- Employer Engagement – to diversify workplaces and address entrenched discrimination;
- using the City Strategy pathfinders in areas with high ethnic minority populations to bring into the labour market those not currently using mainstream services by tailoring engagement and provision to local circumstances;
- Procurement: building on the three pilots set up in 2006, to make use of Government contracts to bring about equality of opportunity; and;
- ensuring that the 2012 Olympic and Paralympic Games and their legacy bring real employment opportunities for ethnic minority communities.

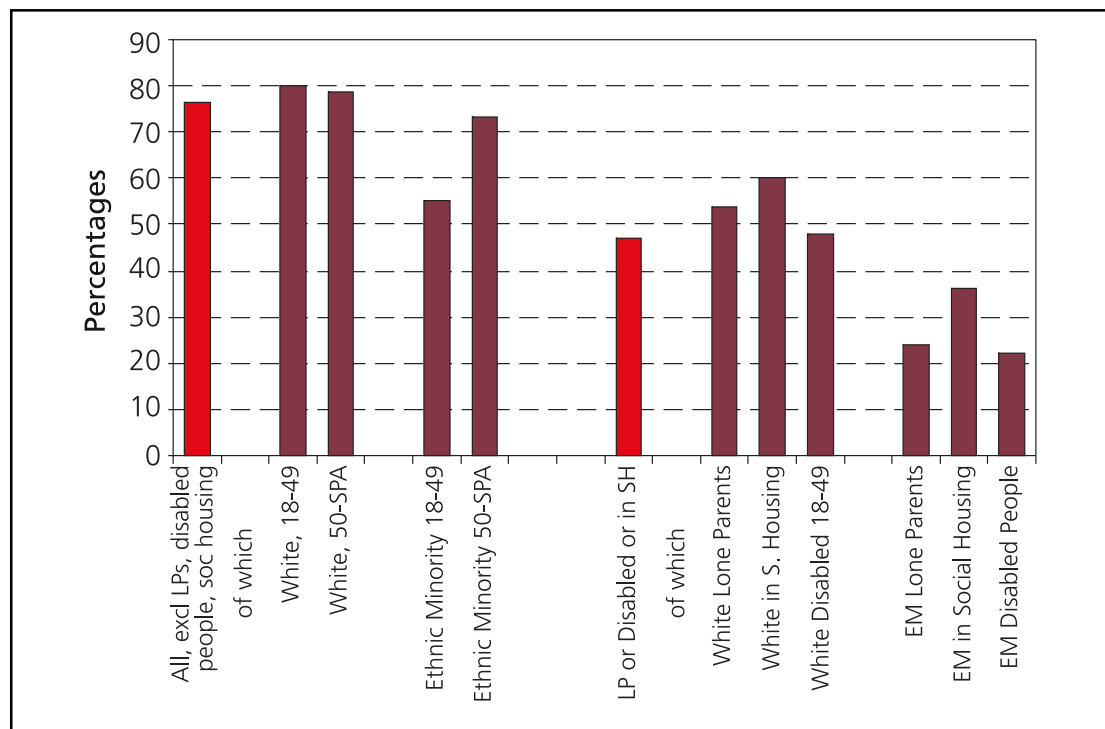
²³ Labour Force Survey.

Multiple disadvantage

What is perhaps most striking in this analysis is how disadvantages work together and reinforce each other. This is not picked up in the “client group” approach to welfare, and the relationships are also not well understood. For example more than three quarters of the people without any qualifications at all, who number 4.6 million, face at least one other characteristic of disadvantage.

However as the graph below demonstrates, those with no qualifications and no other disadvantage actually have a relatively high employment rate. But there are a disproportionate number of people in certain categories which have low employment rates – particularly those living in social housing, lone parents and disabled people. The Department for Work and Pensions has started to record other indicators of disadvantage – refugees, release from prison, homelessness, addiction – not to extend the client group approach, but as a basis for teasing out the barriers and need of individuals .

Figure 19 Employment rates: 18 – State Pension age, people with no qualifications (excluding students)



To meet this challenge the Government must move from an approach that categorises people by their disadvantage towards one that focuses on overcoming individual barriers to work. The City Strategy has been a recent attempt along these lines, by inviting local partners to find what works best in their area.

The City Strategy and the importance of local involvement

In its Green Paper, *A new deal for welfare: Empowering people to work*, the Government announced a new "city strategy" to tackle localised pockets of worklessness, poverty, low skills and poor health, many of which are found in the UK's major towns and cities. This will focus on areas with significant proportions of all benefit recipients, and concentrations of deprivation and social exclusion.

The city strategy is based on the premise that local stakeholders can deliver more if they combine and align their efforts within agreed priorities, have greater powers to innovate, and tailor services more closely to local needs. In fifteen selected areas across the country, key stakeholders from the public, private and voluntary sectors, and local employers, have formed 'consortia' to improve co-ordination and delivery of support for jobless people. Each has developed a business plan to increase the number of disadvantaged people in work.

The pathfinders will test the merits of localised, more flexible back to work support, as designed by the consortia. They will align the discretionary funds that they receive from across Government and decide on spending priorities. Consortia will work with the Department for Work and Pensions, and with local providers of contracted back-to-work support, to ensure a cohesive service to claimants.

There is a balance to be struck between the merits of localised control on the one hand, and the economies of scale that may be obtained from centralised design and delivery on the other. The city strategy approach clearly leans towards the first of these, and the degree of longer term influence of agencies at the local level will be an important factor in designing provision for the future.

There are also certain relatively small numbers of people who suffer extreme disadvantage because of a particular characteristic – for instance people who are ex-offenders, drug or alcohol misusers, refugees or homeless. Around 100,000 people come out of prison and go onto benefit each year, with only 20-30% of these finding work.²⁴ Clearly, the social and economic benefits of moving such people into work span much wider than those solely for the Department for Work and Pensions. Supporting such groups may well require consolidated programmes with other arms of government, particularly the Home Office and the Department for Communities and Local Government. The recent report of the Social Exclusion Task Force, *Reaching Out: An Action Plan on Social Exclusion*, set out the range of interventions required to support the most socially excluded. It set out five guiding principles, including better co-ordination between agencies, promoting rights and responsibilities, and tackling poor performance.²⁵

Social mobility

Employment has traditionally been a key driver of social mobility – the means by which various groups have been able to share in the benefits of rising living standards. While the UK has made significant progress on poverty, social mobility appears to have declined both by historical and international standards, although by definition it is not possible to track trends in social mobility until the events which shape it are some decades in the past. One comprehensive longitudinal study has looked at the outcomes for children born in 1958 and in 1970. The children of rich parents in 1958 were on average 17.5% better off at age 30 than those of poorer parents. By 1970, the children of richer parents were on average 25% better off.²⁶ This implies that the silver spoon effect had increased over this period and the relative disadvantage of being born poor had been exacerbated. Naturally it will not be possible for a decade or more to assess whether policies over the last ten years have changed these adverse trends.

²⁴ National Offender Management Service and Home Office.

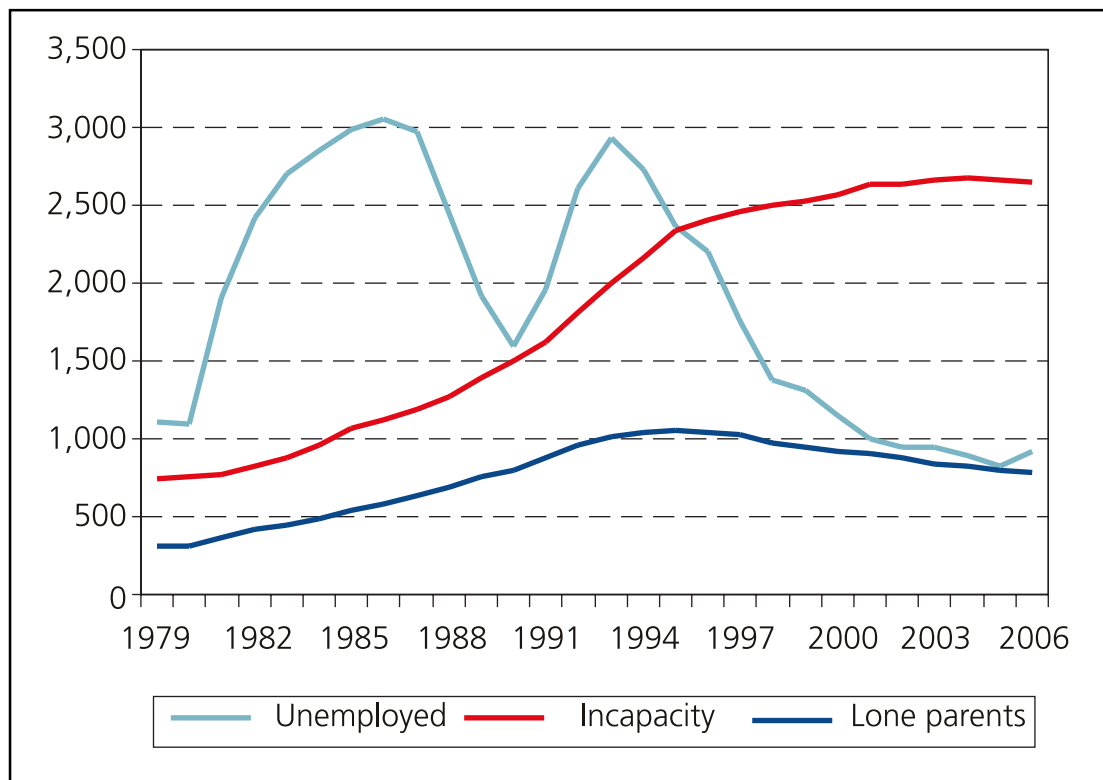
²⁵ *Reaching Out: An Action Plan on Social Exclusion*, Social Exclusion Task Force; September 2006.

²⁶ <http://cep.lse.ac.uk/centrepiece/v10i1/blanden.pdf>

Benefit dependency

Drawing these groups together, there have been significant declines in the number of people on both active and inactive benefits – down by around 900,000 since 1997²⁷. This means that the benefit roll is now at its lowest since 1990. Initially driven by strong falls in the claimant count, in the last two years the biggest falls have been in inactive benefits – for lone parents and for people on incapacity benefits.

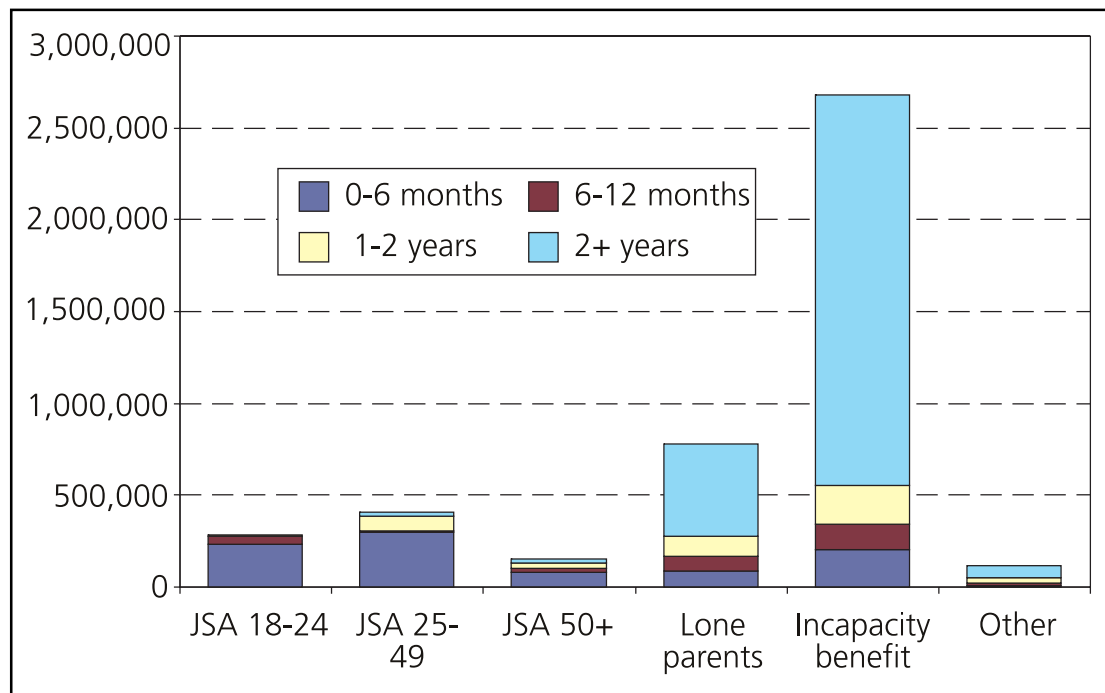
Figure 20 Working age on three benefits



²⁷ Work and Pensions Longitudinal Study.

However there remain around 3.1 million people who have been on benefits continuously for over a year. As Figure 21 shows, overwhelmingly these people are on inactive benefits. Of the 3.1 million total, 2.3 million have been on incapacity benefits for over a year and 600,000 on income support for lone parents. Furthermore, of the total number of people claiming Jobseeker's Allowance, a significant proportion – perhaps one third - have spent more time on benefits than in work.

Figure 21 Working age on three benefits



Conclusion

The labour market story of the last ten years tells itself. Employment is up, unemployment is down and inactivity is down. The biggest improvements are in areas that were previously furthest behind. Long-term unemployment has halved on the international definition and is down nearly three quarters on the claimant count. Nearly every targeted disadvantaged group has seen its "employment gap" fall, the only exception being the lowest skilled.

But while the active welfare state has worked for many people, it has also left many behind. To help these people, strategies must be developed to tackle the barriers that keep over one in five of the working age population outside the labour market.

As the Government moves further into the very hardest to help, a focus on delivering the current separate models for different groups will become more difficult. Support needs to be delivered according to individual need, rather than based on the benefit claimed. The aim should be to deliver intensive support and innovative solutions that both introduce people to the labour market and help them flourish once they are in it.

Active Labour Market Policies – what works

There has been a wealth of research and evaluation of DWP employment programmes, but comparatively little cost-benefit analysis or analysis that pulls together performance across programmes on a like-for-like basis.

Published research has shown that DWP's main programmes are on the whole effective. For example:

- Early evidence on Pathways to Work has found a nine percentage point increase in the proportion of people employed 10.5 months after claiming incapacity benefits.²⁸
- Research by the National Institute for Economic and Social Research found that New Deal for Young People has led to an increase in national income of around £500 million.²⁹
- New Deal for Lone Parents has been found to more than pay for itself in fiscal terms.³⁰

International evidence, from the OECD, also suggests that activation policies that focus on assisted job search tend to be the most cost-effective (with the UK being particularly successful)³¹.

Interestingly, evidence suggests that where providers have flexibility over the provision that they can offer (for example in Australia and in the UK through Employment Zones (see box on page 56)) they tend to focus on the most efficient, and work-focused, interventions – in particular around intensive adviser support.

What is also striking within this overall picture is that programme spending is not evenly distributed across all benefit groups – for example two thirds of those on out-of-work benefits are lone parents or disabled people, but they account for just 14% of programme spending.

²⁸ Early quantitative evidence on the impact of Pathways to Work pilots', Institute for Fiscal Studies, DWP report no. 354, 1 June 2006.

²⁹ New Deal for Young People: Implications for Employment and the Public Finances, Rebecca Riley and Garry Young; National Institute of Economic and Social Research (2000).

³⁰ *New Deal for Lone Parents: second synthesis report of the national evaluation*; Martin Evans, Jill Eyre, Jane Millar, Sophie Sarre; Centre for Analysis of Social Policy - University of Bath, W 163; June 2003

³¹ See for example the 2003 and 2006 OECD Employment Outlooks.

2 Towards 80% in work

“There is a strong evidence base showing that work is generally good for physical and mental well-being. Worklessness is associated with poorer physical and mental health and well-being. Work can be therapeutic and can reverse the adverse health effects of unemployment. That is true for healthy people of working age, for many disabled people, for most people with common health problems and for social security beneficiaries. The provisos are that account must be taken of the nature and quality of work and its social context; jobs should be safe and accommodating. Overall, the beneficial effects of work outweigh the risks of work, and are greater than the harmful effects of long-term unemployment or prolonged sickness absence. Work is generally good for health and well-being.”

“Is Work Good for your Health and Well-Being”, Gordon Waddell and A Kim Burton; September 2006.³²

The benefits of employment

Governments have in the past shown a reluctance to engage with those furthest from the labour market. But the evidence is now overwhelming that employment is generally beneficial for individuals and their families. This corpus of evidence stands traditional Government policy on its head. Far from being reluctant to engage, the Government could on this evidence be accused of dereliction if it were to fail to do so.

Work is advantageous for individuals for a number of reasons. Burton and Waddell find that employment is the most reliable means of ensuring that an individual has enough money. This then leads to other advantages in terms of participation in society. But work fulfils psychological needs too: it is central to identity and social roles and status, which in turn drives better physical and mental health. The converse is also true: worklessness is strongly associated with poor health, including higher

³² *“Is Work Good for your Health and Well-Being”, Gordon Waddell and A Kim Burton, September 2006*

mortality, poorer mental health and higher usage of medical services. Claimants moving off benefits into work experience improvements in their income, socio-economic status, mental and general health, and well-being.

This is also important for tackling generational disadvantage. Poor children are more likely to be poor adults, and to suffer social exclusion, worse access to services and fewer opportunities to participate throughout their lives³³. Having a job makes families materially better off and research suggests that children tend to benefit the most (because the “additional” income is often spent on child-related items)^{34 35}. But work also improves the quality of life and well-being of parents and their children. Lone parents themselves say that work has given them a sense of identity and achievement.³⁶ For children the benefits can include “fitting in” with peers and losing stigma, and spending quality time together as a family³⁷.

Achieving the changes on the scale recommended in this report implies much more than purely tinkering with benefit rates, conditionality and the provision of support. The whole system is predicated on a cultural context which changes in line with people’s perceptions and expectations. A system based on a presumption of robust self-reliance will require an entirely different set of rules than one in which significant parts of society are not given the opportunity of, or expected to, work. The difficult heritage of the passive labour market policies of the 1970s is one of welfare dependence rather than self-reliance. One of the objectives of this reform must therefore be to generate clear signals around independence, respect and mutual obligations.

³³ Ridge, T. (2002) *Childhood Poverty and Social Exclusion: From a Child’s Perspective*, Bristol: Policy Press.

³⁴ Farrell, C. & O’Connor, W. (2003) *Low-Income Families and Household Spending*, DWP Research Report 192.

³⁵ Gregg P, Waldfogel J and Washbrook E (2005) ‘That’s the way the Money Goes: Expenditure Patterns as Real Income Rise for the Poorest Families with Children’ in Hills J and Stewart K (eds) *A More Equal Society? New Labour, Poverty, Inequality and Exclusion*, Policy Press.

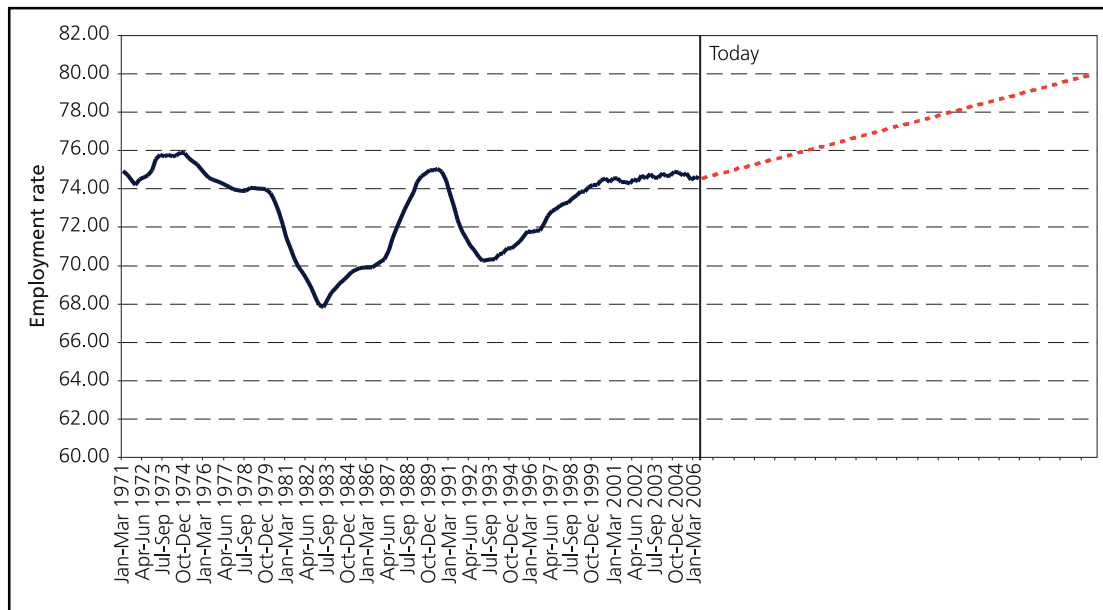
³⁶ “Lone Parents, Work and Care – One Parent Families’ survey”, February 2007.

³⁷ Farrell, C. & O’Connor, W. (2003) *Low-Income Families and Household Spending*, DWP Research Report 192, Graham, J. et al (2005) *The Role of Work in Low Income Families with Children – a longitudinal qualitative study*, DWP Research Report 245.

80% employment

Against this background the government has set itself a long term aim of 80% employment. By historical and international standards this is clearly an ambitious aspiration – probably the most ambitious made in the area of employment policy. Only one country in the world, Iceland, has employment substantially above 80%.

Figure 22 Trajectory to achieve 80% employment in the long term



The Department has said in its Green Paper³⁸ that, in order to achieve 80% employment:

- the lone parent employment rate would need to increase to 70%;
- the incapacity benefits caseload would need to reduce by one million;
- the number of older workers in employment would need to increase by one million³⁹.

Assuming that the increase in lone parent employment is matched by a fall in the number on lone parent benefits, then based on these assumptions reaching 80% would mean reducing the number of people on benefits by up to 1.3 million. This would generate significant fiscal and economic benefits. The boost to public finances could also be substantial.

³⁸ *A new deal for welfare: Empowering people to work*, January 2006.

³⁹ In oral evidence to the Work and Pensions Select Committee, Jim Murphy set out that the older worker aim is for one million more workers over and above demographic change.

Defining 80% employment

In September 2006, the Government set out further details of its 80% aim in evidence to the Work and Pensions Select Committee:

"The Government will also need to consider how progress towards 80% is measured. On the current definition (16 to State Pension age) the employment rate is 74.6%. This does not include women aged between 60 and 64 but, by 2020, women in this age group will be included as the State Pension age is equalised. The current employment rate for all people aged 16 to 64 is 72.4%. Neither of these two measures includes those people who are aged over State Pension age and are in employment. This is a significant omission – there are already over one million people aged over State Pension age and in work, and the Government has an ambition to extend opportunities and choice to enable older people to stay in, and enter, the labour market. The headline measure of employment therefore currently excludes a significant proportion of one of the hardest to help groups.

"As one of its headline employment rate measures, the Organisation for Economic Co-operation and Development uses what it calls the "employment / population ratio", which is achieved by dividing the total number of people in work by the 16-64 population. Technically this is a ratio and not a rate, but using this measure (total in work over 16, divided by the 16-64 population) UK employment is currently equivalent to 74.0%. The Government is minded to use this as its principal measure for monitoring progress towards 80%.

"The current employment rate measure (16-59/64, moving to 16-64 by 2020) will continue to be the government's headline measure of employment. The employment/ population ratio would be additional. Under this measure, the aim would therefore be to increase employment by the equivalent of 6.0 percentage points of the 16-64 population, rather than 5.4 percentage points of the current working age population..."

The Select Committee's report on the Government's employment strategy was published on 21 February.⁴⁰ The Committee has welcomed the Government's aim, but disagreed with it on its proposed use of an employment/ population ratio, arguing that "for the sake of clarity, we recommend that the DWP retain the link between the employment rate and the SPA" and that "the measure used by the DWP to track progress towards the employment rate aspiration should be a rate and not a ratio."

Continued

⁴⁰ "The Government's Employment Strategy: Third Report of Session 2006–07", Work and Pensions Select Committee; HC63-I.

The Committee sets out an alternative approach to setting a long-term aim, which is based on segmenting the “working age” population into groups that are expected to work and groups that are not, and aiming for 100% employment for groups expected to work. This would be supplemented with a separate target for people aged over State Pension Age.

“We recommend that the DWP produce a clear list of the groups which it thinks should not be expected to work, together with estimates for the percentage of the UK’s working age population which fall into each of the groups it has identified. We recommend that it should then take the percentage of the population which remains as its long-term employment rate aspiration.”

By definition, the long-term aim proposed by the Committee would not be 80% (unless by coincidence). Therefore for the purposes of this review, I have assumed the long-term aim remains 80% - at least until the Government responds to the Committee in the coming months.

Conclusion

With unemployment at 5.5% and inactivity at 21.0%, it is clear that, more than ever, the Government will need to target its welfare strategy at tackling inactivity in order to reach 80% employment. Economic inactivity would likely need to reduce by one fifth. On the Government’s assessment, the number of people on lone parent and incapacity benefits would need to fall by 1.3 million, or around two fifths.

As Part 1 showed, current policies have underpinned substantial progress to date. But in order for the Government to achieve its ambitions of 80% employment, much more still needs to be done.

3 Contracting support for the hard to help

Issue

As Part 1 has shown, the Government has made good progress with addressing the issue of unemployment. Around two thirds of people leave unemployment within three months, 80% within 6 months and 95% leave within a year. Overall, unemployment is probably close to its frictional level. Significant progress has been made with reducing long-term unemployment. The biggest challenge now is to support those people who are facing multiple disadvantage and long term benefit dependency. This can only happen effectively if the system treats people's individual needs, rather than classifying them by benefit type or other characteristics.

Adding value

Jobcentre Plus deals efficiently and cost-effectively with the large number of customers that come through its door every day. This is where it adds the maximum amount of value and it is hard to see any reason why this successful model of delivery should be changed. Advisers have also in recent years performed an important role with harder to help customers. Through the New Deal for Disabled People, Employment Zones, and the forthcoming private and voluntary sector led Pathways to Work, amongst other programmes the Department already delivers a substantial proportion of its business through a range of contracts with the private and voluntary sector.

In my view there are good reasons for taking this involvement of the private and voluntary sectors further in the delivery of welfare to work.

- Outcome focused contracts, properly managed, mean that the Government can pay by results, so that contractors rather than the Department bear a greater share of the risk.
- Competition for contracts through bidding processes enables the Government to obtain better value for money, as well as driving up the quality of the service offered to the public.
- With proper information sharing, a diversity of providers will engender innovation, leading to better results.
- The use of more than one provider means that the claimant can be offered a choice.

Dealing with high volume is what Jobcentre Plus is good at. Moving towards a system of flexible, forward-looking, outcome-focused provision for people with more disadvantage would provide the opportunity to make effective use of the qualities that the public, private and voluntary sectors have to offer. There are good examples where such programmes already operate with some of the very hardest to help and hardest to engage.

Resources following need

When the Government came to power it immediately implemented the New Deal for unemployed people, to tackle a legacy of claimant long-term unemployment. This it has demonstrably done. In a tight fiscal environment there is a strong argument for refocusing New Deal support to those who are furthest from the labour market, and rolling this up alongside the support that is offered to other disadvantaged groups, whilst maintaining success in preventing long-term unemployment.

Multiplicity and structure of contracts

The Department currently has a complex patchwork of public, private and voluntary sector provision across the country. Jobcentre Plus has more than 900 suppliers of welfare to work provision. Contracts follow a variety of different models, according to the area and the group of people that they are designed to support.

Several problems have been identified with this approach. One is that the contracting structures too often specify process rather than outcome, which limits the value that private and voluntary sector providers can add. Another is that the contracts have ceiling values in expenditure, which means that providers cannot be rewarded for over achievement. Contracts are not only small scale, but are let according to benefit groups so that it is difficult to set up adequate systems to handle sub-groups with specific barriers. The system has a multiplicity of requirements and start and finish dates for each contract. A common complaint among providers is that the length of the contracts – at a typical two years with an option to extend for a further year – is far too short to set up the systems and recoup the investment necessary to provide

outstanding performance. This is also a barrier to new entrants to the market. There are also complaints that the monitoring process looks more at compliance than on performance.

Employers and employability

A key challenge is to bridge the gap between the “work-first” strategies which have been found to be effective and the shortfall in skills that is evident in the UK economy. The combination of labour market contact, work experience and in-work training has been found to be most effective for people with low skills⁴¹. Therefore any model should be designed in a way that ensures continuity for people throughout unemployment and into the early years of work.

The desirability of an integrated approach for pre-work and early work experience underlines the key role for employers in the design and delivery of support for disadvantaged groups. In the open UK economy it would be inappropriate and counter-productive to compel employers to offer opportunities to the most disadvantaged. However, increasingly employers (particularly large employers) are adopting strategies of self-interest with regard to social programmes designed to help disadvantaged groups to get into the labour market. With appropriate political support, it should be possible for the community as a whole to take up the target set out in Part 2 of this report – reducing by at least two fifths those trapped at the bottom of society – as a core social objective. There will therefore need to be strong relationships at local, sub-regional and regional levels between providers and employers as this programme develops.

⁴¹ Dench, S. Hillage, J and Coare, P, “*The impact of learning on unemployed, low qualified adults: A systematic review*”, DWP Research Report No 375.

Blundell, R. Dearden, L and Meghir, C. (1996), *The Determinants of Work-Related Training in Britain*, IFS.

Dearden L McGranahan L Sianesi B, IFS, 2004, “*An in-depth Analysis of the returns to National Vocational Qualifications Obtained at Level 2*”.

Evidence from the UK and abroad

The UK already has good comparative evidence on the value of flexibility and outcome-based contracting in the New Deal for Disabled People and through Employment Zones.

New Deal for Disabled People is an outcome-based programme where payments are linked to job entries and employment retention (a brief description of the New Deals is on page 13). The very latest evidence on New Deal for Disabled People is due to be published in May 2007. The research considers the impact on participants between 2001 and 2004 and has found significant effects over time.⁴² For one cohort entering in 2001, the report found a long-term impact of up to 18 percentage points at 36 months. Interestingly it also finds that:

“Those served by the largest Job Brokers and brokers in the public and private sectors (rather than the voluntary/charity sector) experience the largest benefit reductions—whether this is for reasons related to their own characteristics and those of their communities or because of distinctive ways these types of brokers deal with their customers we do not know.”

Since 2000 the Department has experimented with contracting out complete programmes in 13 areas, called Employment Zones. In these the long-term unemployed (and in some cases lone parents) are referred to private providers for a period of 30 weeks, with largely outcome related payments based on job entry and retention for 13 weeks. There is now a wide body of research on these pilots, which suggests that the greater flexibility in Employment Zones also leads to improved outcomes – but at a higher price. As Table 4 shows, job starts in Employment Zones are six percentage points higher, at 40%, than their comparators. For sustainability the gap is even larger with Employment Zones achieving 34% - up 9 percentage points. The evidence suggests that single provider zones do rather better than multiple providers – certainly in terms of starts and more marginally in terms of sustainability.

⁴² “Long-term Impacts of the New Deal for Disabled People, Final Report” Larry L. Orr, Stephen H. Bell and Ken Lam; January 2007.

Table 4 Provisional job entry rates as a percentage of programme starts, by type of EZ provider, for 25+ clients

2004Q3 Cohort						
	Employment Zones			New Deal Comparators		
	Single provider	Multiple provider	All EZs	SP	MP	All
London						
Job Starts	—	31	31	—	30	30
Sustained		26	26		21	21
Non-London						
Job Starts	43	48	46	41	39	39
Sustained	35	41	39	30	29	29
All						
Job Starts	43	39	40	41	33	34
Sustained	35	34	34	30	24	25

Data Source: Employment Zone database (version: ez_0601_id) and New Deal database (version: Ndstats_ltu_0602_id). The percentage of EZ jobs only include jobs recorded on the Employment Zone database.

The Employment Zone programmes are somewhat more expensive than the comparator areas, as Table 5 below shows. The cost per sustained job, however, has been around the same in Employment Zones as in their comparators. Essentially this reflects the fact that more of the people that Employment Zones get into work then stay in work. This is not a direct comparison between state and private provision as options in the New Deal 25+ comparator are largely also provided by the private and voluntary sector. What it does show is that greater flexibility does produce better placement results.

Table 5 Costs and benefits of EZ25+ and ND25+ comparator

	Cost (£000s)	Starts	Jobs entries	Cost per job	Cost per sustained job
EZ25+	£10,800	6,080	2,560	£4,210	£5,110
ND25+	£6,850	5,410	1,850	£3,710	£5,130

Given the outcome-focused nature of Employment Zone contracts, it is also possible to assess those interventions that private sector providers consider the most valuable. Employment Zone providers emphasise a work-first approach, holistic one-to-one support that considers personal barriers to work as well as employment-related barriers, flexibility in provision, regular contact, and job-matching. In short, providers deliver something that combines the most important elements of the JSA regime with what works from New Deals (see box below).

What works in Employment Zones⁴³

- A work-first approach – Employment Zones emphasise getting people into work and supporting them to stay in work. Training is focused on changing clients' attitudes to work and on job-search skills.
- Holistic, one-on-one tailored provision – Employment Zones offer a holistic approach based on clients' personal barriers to work (e.g. household economy) rather than just employment-related barriers.
- An emphasis on Action Plans – completion of an Action Plan for each client is a contractual obligation for Employment Zone providers. Through discussion with the client, advisers identify individuals' barriers to work and draw up actions to overcome these.
- Flexibility of funding and provision – Employment Zones are comparatively better resourced and can deploy these resources in a more flexible manner. This has been seen as fundamental to their success.
- A focus on sustained employment – contracts are strongly weighted towards work for 13 weeks. This ensures that providers focus not only on getting clients into work, but also enabling them to stay in work.
- Regular contact – sometimes up to three times per week. Maintaining contact once the client has entered work (e.g. by telephone or in person at the new workplace) has been reported as central to keeping clients in work.
- Strong linkages with employers – most providers place significant emphasis on their relationship with employers. Providers actively seek a network of employers with whom they can develop sustainable relationships and an ongoing source of vacancies.

Evidence on Employment Zones and on area-based initiatives like Action Teams suggests that provision (in the public and private sector) is highly responsive to the incentives and targets set⁴⁴. There are potential gains from contesting services, bringing in innovation with a different skill set, and from the potential to engage with groups who have traditionally been beyond the support of the welfare state.

⁴³ *Evaluation of Multiple Provider Employment Zones: early implementation issues*, Hirst, Andy, Roger Tarling, Morgane Lefauchaux, Christina Short, Sini Rinne, Alan MacGregor, Andrea Glass, Martin Evans, and Claire Simm (2006); DWP Research Report 310.

Phase 2 Evaluation of Multiple Provider Employment Zones: qualitative study Policy Research Institute (2006); DWP Research Report 399.

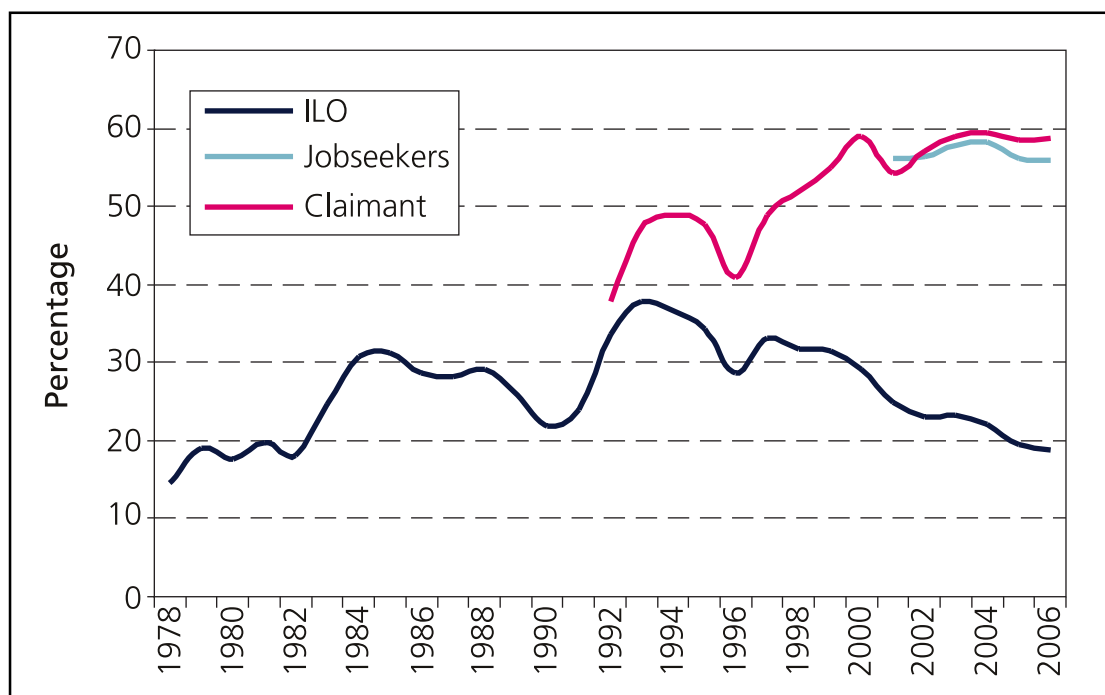
⁴⁴ Casebourne, Jo, Sara Davis and Rosie Page (2006) *Review of Action Teams for Jobs*, DWP Research Report 328: 31.

Hirst, A, Tarling, R., Lefauchaux, M., Rowland, B., McGregor, A., Glass, A., Tu, T., Simm, C., Shaw, H., and Engineer, R. (2002) *Employment Zones: A Study of Local Delivery Agents and Case Studies*, Department for Work and Pensions, Report WAE124.

Lessons on optimising the nature of provider involvement can also be drawn from Australia and the Netherlands, who like the UK have been world leaders in the introduction of market competition for labour market services. In the Australian example, the entire job brokerage function and the task of re-integrating individuals into the job market are put out to tender to private and voluntary sector providers (the Job Network), while referrals to those services and the payment of benefits is fulfilled by Centrelink in the public sector. In the Netherlands only re-integration is tendered, with payments and job brokerage remaining a function of the public "gateway".

The Australian experience is less clear-cut than many of its proponents suggest. The private and voluntary sector market has successfully taken on the mainstream employment services and helps to secure good outcomes for the majority of the unemployed. The purchasing Department (the Department of Employment and Workplace Relations) has refined its contracting approach over a series of four contract rounds and the day-to-day relationship at working level between Centrelink and Job Network Members is now much more effective than was previously the case. Costs have been considerably reduced. However, the system has proved less successful at preventing long-term unemployment.

Figure 23 Proportion of unemployment total that are long-term unemployed



There may be a number of reasons for this. Undoubtedly a large part is the design of the benefit system itself (many people who in the UK would be long-term dependent on IB are in Australia on unemployment benefits) but there are likely other factors too:

- The separation of job-search and benefits, with no standardised conditionality in the first year, means people are more likely to move into long-term unemployment.
- The pricing and payment system may also play a part – providers receive higher payments for placing the most disadvantaged, but it may be that these payments are nonetheless not high enough to incentivise providers to deliver the service required to every participant, leaving some “parked” as too difficult to help.

Recommendation

An optimal model for the UK would:

- improve employment outcomes for (potential or actual) long-term benefit recipients, including improvements in job retention and progression;
- maintain the current strong performance in tackling long-term unemployment; and
- optimise the overall cost, including the benefit cost or saving and the contracting cost, of achieving positive outcomes for different client groups.

The existing UK model has proven effective in supporting the majority of the unemployed into work quickly and cost-effectively. Indeed, the one-stop shop approach is likely to be far more efficient in handling standard procedures and relatively straight-forward claimants than a two-tier system. Accordingly, this report recommends limited changes to the volume systems developed to handle such flows. Such changes should be part of the normal management processes within Jobcentre Plus.

The structural challenge is to deal with the stock of long-term unemployed (hidden or apparent), lone parents and those on incapacity benefits, alongside the relatively small numbers flowing into these categories each year. Many of these people can feel abandoned by society. Bringing them into the labour market represents a major social transformation. It will require a variety of individualised techniques by specialised private and voluntary groups.

My proposal, therefore, is to rationalise the contracts that the Department currently lets to form a single service for all client groups. These contracts will be rewarded on sustained outcomes, and the funding model will recognise that some groups will be more expensive to help than others. These contracts would be let through bidding

rounds, on a competitive basis. Such contracts would clearly need to take account of agreements that Government has with the private and voluntary sector on working together (such as the “Compact on Relations between Government and the Voluntary and Community Sector in England”) and the Government’s duties to promote equality for disabled people.

Specialist programmes may also be run in parallel with these main contracts for people with the most acute and multiple disadvantages or, for instance, those with disabilities. For example, the Government may wish to continue to run the Workstep and Workprep programmes, which support people with particular needs relating to their disability.

Supporting disadvantaged groups

The decision on when to transfer individuals to the intensive support designed for the hard to help is complex. There is much evidence that early intervention for those furthest from the market is effective. However, early intervention multiplies the risk that support is targeted at people who would anyway have found employment. This issue is often referred to as “deadweight”. Ideally the Department should have a system that reduces this risk, through a thorough assessment of the likelihood, and costs, of finding particular individuals work. So far the track record of such screening tools has been mixed. The most reliable proxy for establishing those people with the greatest difficulty in the job market has been the length of time they have failed to find employment.

The most advanced system of early screening is in Australia, where profiling tools have been developed from 1994. As well as providing early identification of the need for more intensive assistance, the Job Seeker Classification Instrument (JSCI) also acts as a rationing tool for the various funding levels of assistance. I recommend that the Department investigates the introduction of a similar system in the UK, with the aim of cost-effectively transferring the hardest to help early. Until such a system achieves adequate reliability the review recommends that the provision of employment services for the majority is split primarily on the basis of duration. Accordingly, the design here aims for a point at which the rate of off-flow from benefits begins to plateau.

The point at which the support for people is offered by the private and voluntary sectors could nonetheless vary. 12 months may be the most sensible point for the majority of jobseekers (the off-flows from benefit begin to flatten around this stage, as Figure 24 overleaf shows). There may however be an argument for people who claim incapacity benefits to move earlier – perhaps at the six month stage, or even at the 13 week point where they move onto the main phase of the new Employment and Support Allowance. For lone parents, Part 5 sets out proposals to increase requirements to look for work, in line with the age of the youngest child. Therefore the point at which they move to more intensive support would need to take account of this.

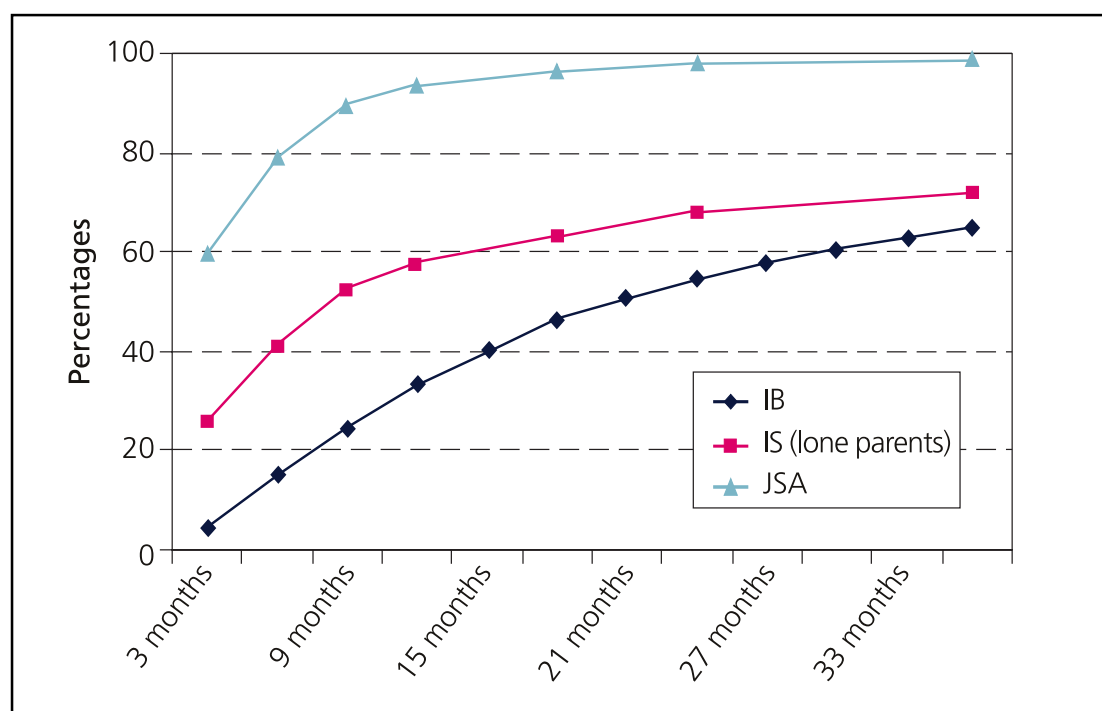
Some people on JSA could move to contracted support earlier than 12 months. For example, those who claim repeatedly could do so at, say, three months. There may

also be an argument for young people to move sooner, in order to avoid the scarring effects they suffer from long-term unemployment early in their lives. Jobcentre Plus would need to build up a reliable information base on existing customers to inform the contracting model before they could be moved over.

Early interventions to alternate more specialised provision might remain the best route for some individuals who face particularly severe barriers to work.

Jobcentre Plus would then provide all or most services in the first stage of a claim. The service during this stage would be standardised with a clear focus on job search (this is set out in Part 5 – Rights and responsibilities).

Figure 24 Outflow rates from three benefits



The contracting system

The private and voluntary sector would, then, compete for long-term contracts to provide support to disadvantaged people, with payments based on successful individual outcomes over an extended period. Correctly contracted on output-based criteria, providers will be incentivised to experiment and innovate to find effective solutions.

Perhaps the most surprising early outcome of the Australian outsourcing was the rapid introduction of group therapy as a tool for re-activating the demotivated. It is easy to envisage a series of other innovative approaches. For instance, a significant sub-group are trapped in the benefits system through fear of debt collectors coming to call when they have a wage. Providers may therefore be incentivised to provide support to address debt.

An open system, in which information about successful strategies is publicly available, is likely to lead to the rapid copying of these and other successful techniques. Providers would have flexibility to deliver individually tailored back to work support based on what their clients need. They would provide transparent measures of performance, which would feed back into the Department's funding model.

Benefit recipients seem to value the mentoring process that can be provided by a well-trained and sympathetic personal adviser above all else. In effect, the system proposed here would establish such relationships over an extended period – from pre-work into in-work. Benefit recipients would agree individual workplans with their personal adviser. While individualised, these workplans are likely to have similar elements within them – preventing extremes of treatment in different areas around the country. The contracts would reward providers for supporting individuals into work and then for perhaps a further three years. To do this, they would work with employers, supporting individuals in the workplace as required, and tracking them over this period to see what progress they are making in the workplace. The arrangements for measuring successful outcomes will need to strike a balance between precision and simplicity. Further work will be required on this.

The alignment of jobs with realistic aspirations is more likely to happen under a three year sustainability regime. Providers would be given a direct financial interest in ensuring that people were positioned in appropriate jobs compared with the position under the shorter targets currently in use.

In order to make this work, and to ensure that providers can properly set themselves up to support people over a long period of time, this report recommends that the contracts are longer than those traditionally let by the Department.

Longer contracts would pose some extra risk for the Department, which will need to find the correct balance between meeting the needs of providers and mitigating these risks to itself. The contracting system should be designed to make sure that competitive pressure is maintained and scope for variations kept within bounds. The contracts should be staggered, so that providers are always under pressure to perform. Severely under-performing contractors should be dismissable and the Department will need to develop ways of ensuring that they are not over-reliant on a monopoly provider. The Department will need to develop monitoring capability similar to the successful Star Rating system developed in Australia. There would also need to be robust verification and audit arrangements to ensure that all of the outputs claimed for under the contracts were genuine. The Department must ensure that an adequate number of providers and sub-contractors are in the marketplace. Contracts should be let on quality criteria as well as price, so that "gaming" bids can be disallowed.

The contracting model

There are two potential contract models. The first is the 'prime contractor' model, in which one large contract is let through competitive tender. The prime contractor arranges all the sub-contractors necessary to handle the particular needs of different groups within the region. It would also arrange to work with the large number of public bodies involved in provision for different client groups, such as local authorities, the Learning and Skills Council and the NHS, as well as employer groups. There would be a key role for smaller voluntary sector providers, and perhaps even parts of the public sector, at the sub-contractor level. It is possible to envisage a group of large charities, voluntary and public bodies coming together to form a consortium to bid for these contracts, incorporating a private sector company as their prime contractor. However, more likely is a bidding process in which private sector prime contractors take the lead in building consortia, given the level of financial commitment and risk required. Within this model it would be an option to contract two or more prime contractors in a region, at least on a trial basis, although in practice it is likely that the complexity of operating in this arena will lead to significant efficiencies for sole consortia.

The second model is the 'contracting round', in which bids for different sub-groups, or for smaller geographical units, are made by specialist private sector and voluntary organisations. These would be harmonised by sophisticated contract specialists within the Department who would oversee the performance of these operators over the period of the contract. To obtain the benefits of local responsiveness it may be necessary to build a core contract management capability within the Department in each of the regions. It would also be necessary to make arrangements to provide financing for the smaller providers which would find it hard to raise the funds and assume the risk inherent in an outcome based contract.

There are some potentially attractive features in the 'contracting round' model, which could in theory give the State more scope for setting or influencing the shape of the services on offer. It could also be more responsive to local conditions and might fit better with other initiatives (for example other stakeholders could supplement outcome payments to ensure that provider incentives reflect local needs – although this should also be possible in a prime model). It would also protect against the risk of failure of a single contractor meaning that the whole contract was not delivered. However, in practice it is simply not feasible to envisage the kind of financial market support to allow the smaller and particularly non-commercial organisations to be able to take the financial risk implied.

The 'prime contractor' route should ameliorate the issue of funding because the main operators will be able to arrange private finance. The prime contractor route will enable engagement at a strategic level and the possibility of leveraging very substantial funding from the private sector. It would also open up financial resources from the banking community to allow the extremely large investments implied here. The large scale of the enterprises, and their management capabilities, are more likely to provide the conditions in which innovation can take place and quality be assured. Given this recommendation, the priority will be to ensure that the prime contracting model develops in a way that is responsive to local conditions, offers choice and competition, and is efficient and robust in a highly complex environment.

Scale of contracts

This paper recommends that in principle the Department lets out prime contracts in each of the 9 regions and 2 countries in Great Britain. This should allow an adequate number of prime contractors for a competitive market to develop. It also offers the scale appropriate to attract major players from around the world. The contracts should be designed in a way that encourages the prime contractors to work with a series of sub-contractors specialising in different parts of the client group. Their design should also involve the relevant local authorities and interests. While the prime contractors should compete on price and quality for their regional contract, there is a strong case that each region should be the province of a sole provider to allow the complex web of arrangements to be established and for the provider to take the lead in helping the local networks develop. The quid-pro-quo for local monopoly would be the requirement for full transparency of performance, so that other prime providers would be able to see and copy successful strategies. The Department will need to balance these advantages with the risk of creating over-reliance on a local monopoly, and reducing competitive pressures.

There may also be some parts of the country in which it may be sensible and appropriate to offer sub-regional contracts, particularly where the local authorities and partners have developed a strong set of strategies. Even where the regional norm is put in place, there is a balance to be struck between large scale contracting and local, sub-regional control. Most importantly the City Strategy (see page 40) will establish consortia with a strong influence on local delivery. It is important that this focus is not lost in the proposed model. In order to achieve this, contracts should be designed in consultation with those local authorities that have shown themselves capable of developing a coherent local strategy. The contracts should also ensure that the providers are appropriately incentivised to work with these local groups. Indeed, given the financial incentive to maximise sustained job placement, the interest of the provider and the city consortia should naturally be closely aligned.

Choice

Evidence from Australia and from the Employment Zones in the UK suggests that claimants either are not aware they have a choice, do not exercise that choice (and are allocated to a provider randomly), or choose the provider that is geographically most convenient to them.⁴⁵ Evidence from the New Deal for Disabled People has produced similar findings.⁴⁶ For choice to be real, it also needs to be informed, which means ensuring claimants are fully aware of the providers available, the services they offer, and the quality of that service.

In this light, the provision of two or more competing consortia in each region would seem to bring with it a disproportionate number of drawbacks. Economies of scale would be reduced, and arrangements between contractors and the network of local stakeholders duplicated or triplicated, which could fatally undermine any aspiration to dovetail this model with the City Strategy.

While choice for clients would inevitably be limited by the sole contract model, an element could be built into the system by allowing clients to switch within the group of subcontractors, where appropriate. Taking this further, the Department could require prime contractors to provide a choice of sub-contractors to individual claimants. This might be a compromise, ensuring choice without the downsides mentioned above.

The main aspects of choice for clients should surround the contract they agree with their provider. Here they will select and agree to the programmes which will become available to them and agree activities with their provider.

Prototyping the contracts

Key for the private and voluntary sector being prepared to invest in helping people into sustainable employment will be confidence in their ability to do so for different elements of the client base. While a number of companies currently in the market have expressed confidence in their ability to cost outcome-based contracts, in order to create the widest possible market, it will be necessary to prototype the contracts to build the necessary experience.

⁴⁵ Policy Research Institute (forthcoming) Phase 2 evaluation of Multiple Provider Employment Zones: qualitative study, DWP Research Report: 37-38 & Morrell, Helen and Natalie Branosky (eds.) (2005) The use of contestability and flexibility in the delivery of welfare services in Australia and the Netherlands: report on study visits undertaken by the United Kingdom's Department for Work and Pensions, DWP research report 288.

⁴⁶ Legge, Kate, Monica Magadi, Viet-Hai Phung, Bruce Stafford, Jon Hales, Oliver Hayllar, Camilla Nevill and Martin Wood (2006) New Deal for Disabled People: Survey of registrants – report of cohort 3, CRSP / National Centre for Social Research (Draft report): 46.

This could be done in a number of ways. The best way from the perspective of learning lessons would be to let out a wide-ranging set of prototype contracts for a representative sample of the client base across the country.

This would also allow potential contracting enterprises to be able to establish a track record based on a random sample of long-term claimants, enabling them to bid for the eventual outcome-based contracts based on their experience in the market.

Should the Government be able to develop the prototypes on a larger scale, it may be possible to incorporate a profit-share for the State in this “soft” period, since the private and voluntary sector will be developing a marketable commodity, not just in this country but around the world.

4 Modelling outcome based contracting

Due to its responsibilities for social security expenditure, DWP has one of the largest Annually Managed Expenditure (AME) budgets of all Government Departments. For 2006-7 it is estimated to spend around £37 billion on working age benefits⁴⁷.

The Department is also responsible for an estimated Departmental Expenditure Limit (DEL) programme budget of £420 million in 2006-7 for New Deals and Action Teams, designed to support claimants make the transition into employment⁴⁸. This is centred around the successful New Deal programmes introduced in 1998. Alongside this is an additional budget of around £132 million for the administration of these programmes and further amounts for specialist employment programmes designed to help disabled people such as Remploy.

Clearly, given the active labour market policies now pursued in the UK, there is a close link between effective expenditure on employment programmes and expenditure on working age benefits. Effective spending by the Department on labour market policies or administration can result in real reductions in benefit expenditure (and vice versa).

In practice, however, the two have not been strongly linked. Given the impact of the economic cycle and other factors on benefit expenditure, benefit spending is managed on an annual basis and the associated risks lie with HM Treasury. Three-year Departmental Expenditure Limits are set in spending reviews on the basis of the best value for money use of public expenditure to meet Government priorities.

The recommendation in this paper is for the Department to build a coherent outcome based model against which it can assess all interventions in the labour market and which can eventually be the basis of an 'open architecture'. Such an architecture would allow all elements of the system to be individually assessed. It would be based on benchmarking outcomes for particular groups of individuals and be refined as information flows built up. As set out in Part 3, this could then be used as a basis for more effective targeting of early support for the hardest to help.

⁴⁷ Benefit figures are consistent with Pre-Budget Report 2006 and are published on the DWP website (www.dwp.gov.uk/asd/asd4/expenditure.asp).

⁴⁸ DWP Departmental Report 2006 available at www.dwp.gov.uk/publications/dwp/2006/dr06/pdf/DWP_Departmental_Report_Full.pdf

There are three main functions of such a model once it is robustly developed. It would:

- 1) Produce a detailed assessment of the fiscal benefits from reduced caseloads with which to make outcome based payments;
- 2) Provide a measure against which bids by external operators for outcome-based contracts would be assessed;
- 3) Help provide a common set of targets within and across various programmes involved with helping people back to work, both those operated by the State and those contracted out.

The fiscal benefits of increased employment

The advantages of employment to individuals have already been discussed in Part 2 of this review. The fiscal gain of a year-long move into employment by a claimant on one of the three main benefits is substantial. My preliminary estimates of the *gross* saving to the Department of moving an average recipient of incapacity benefit into work is £5,900, with wider exchequer gains (offsetting direct and indirect taxes paid with additional tax credits) raising this figure to £9,000. The equivalent figures for Jobseeker's Allowance are £4,100 and £8,100 respectively. On lone parents the Department's *gross* savings are £4,400, with no further Exchequer savings because of the weight of extra childcare elements of the tax credit system balancing other tax revenues.⁴⁹

The full annual Exchequer saving of getting a person on incapacity benefits into work is around £9,000. To the extent that the person would not have otherwise worked for many years, the saving to the State is a multiple of this figure. Once a person has been on incapacity benefits for a year, they are on average on benefit for eight years. So a genuine transformation into long term work for such an individual is worth a net present value of around £62,000, per person to the State⁵⁰.

Under the structure proposed in this report, the Department would retain its responsibility for benefit payment and also for engagement with claimants at the early stages of their benefit claim (Parts 3 and 5 refer). However, delivering the contracting regime set out in Part 3 would require an integrated and transparent contracting model that is based on the fiscal benefits discussed above. It would also require a robust measurement of the additional employment outcomes achieved by the private and voluntary system over and above those that the State could have achieved with current policy. As the model develops it should incorporate sophisticated assessments of the relative difficulty and costs of helping variously disadvantaged groups into the labour market. In addition, of course, it would need to reflect the Government's own priorities in respect of different disadvantaged groups.

⁴⁹ Full take up of Working Tax Credit and Child Tax Credit is assumed although there is no estimate of childcare costs (and therefore the childcare element of tax credits) contained within the estimates. The actual Exchequer saving would be lower than presented here if estimates of childcare elements of tax credits were included.

⁵⁰ This figure is the Net Present Value of 8 years' worth of total Exchequer savings from an incapacity benefits recipient, discounted at HMT's recommended Social Time Preference Rate of 3.5%.

This means that the costs of helping individuals move into work need to be understood. Once the proposed regime is fully developed, both the State and the provider would then have a fuller knowledge of the expected cost of the support needed for an individual claimant. If the private and voluntary sector is prepared to deliver an additional employment outcome on a contract worth less than this fiscal benefit, then the State will make an immediate fiscal gain even in the year of the successful intervention.

In the proposed regime providers would receive outcome-based payments that reward them for ensuring that individuals find and remain in work. Illustratively, this could be for a period of up to, say, 3 years. Benefit savings after the 3 year period would accrue entirely to the State. In this analysis, only the direct benefit savings to the Department are incorporated. The State would still gain from any additional income tax and national insurance contributions, off-set against increases in tax credit payments. Outcome based payments (which are potentially informed by additional benefit savings from a particular cohort) could secure the significant and commercially viable upfront investment needed to establish successful new welfare programmes. However these payments would only be made if the provider is able to achieve benefit exits over and above a specified benchmark. This benchmark would be built on the existing knowledge of benefit exit rates and could be revised and updated as the involvement of the private and voluntary sector develops over time.

The focus on additionality in the proposed outcome based contracting model would give the private and voluntary sector the incentive to maximise the effectiveness of their interventions and so improve job outcomes overall.

A potential payment structure

Once a provider has successfully supported a move into employment they would receive separate payments for:

- The initial move off benefit
- Continuous, or near continuous employment for 13, 26, 52, 104 and 156 weeks
- Personal pay progression, possibly reflected in a lower requirement for tax credits
- Improvements in the person's qualifications
- Bonus payments linked to targeted outcomes across all client groups
- Bonus payments for specific outcomes linked to wider Departmental objectives (such as the Child Poverty target)

Payments would also need to be weighted to reflect the complexity of needs of claimants so that the hardest to help would yield the greatest payments for successful outcomes. This would ensure that the incentives exist to extend the opportunity of support to everyone within the system.

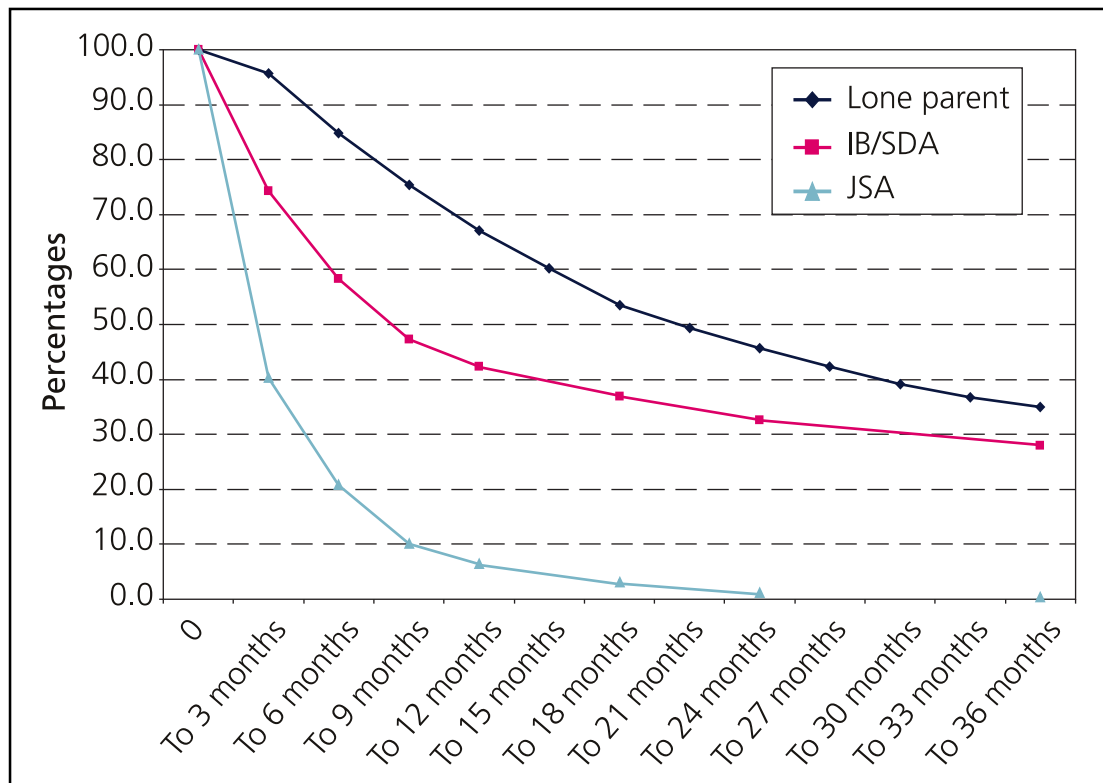
It may be necessary to make further payments if the Department opts for a degree of additional prescription in the support delivered. For example, the Department may wish to place a requirement that all claimants are seen at least once every three months to ensure that everybody has a minimum level of engagement, or that every jobseeker be required to participate in some form of activity. This would add to the costs and would need to be priced in by the Government and providers.

Funding and payments mechanisms will also need to become more sophisticated, so that incentives exist to develop programmes across the spectrum of claimants and not to focus on a narrow group. This could be achieved by providing higher payments for the hardest to help or by providing bonus payments where certain outcome levels have been delivered for multiple client groups. It is likely that a combination of the two will be required to provide a strong incentive. (This in turn raises an issue of “below baseline” performance – where providers achieve outcomes below those in the current system; should the Government be compensated for the additional benefit payments it will make?)

Estimating an initial benchmark

As discussed, the benchmark against which private and voluntary sector outcomes could be based could initially be constructed using information on this likelihood for the various client groups. So-called “survival” or “persistence” rates describe the likelihood of remaining on benefit, so that an increase in the proportion leaving benefit for employment is represented by a reduction in benefit “survival rates”. The chart opposite shows this for a cohort of inflows in 2003 for Income Support lone parents, JSA and incapacity benefits.

A measure of success for the private and voluntary sector would be to reduce the likelihood of a given claimant remaining on benefit (equivalent to increasing benefit exits). The extent to which these rates can be improved will determine the overall outcome payments that could be made to the private and voluntary sector. It should be noted however that it will require significantly more than a *laissez-faire* approach to deliver these outcomes – the estimated benchmark is itself a result of large State support for these client groups.

Figure 25 Survival rates for 2003 inflow cohorts⁵¹

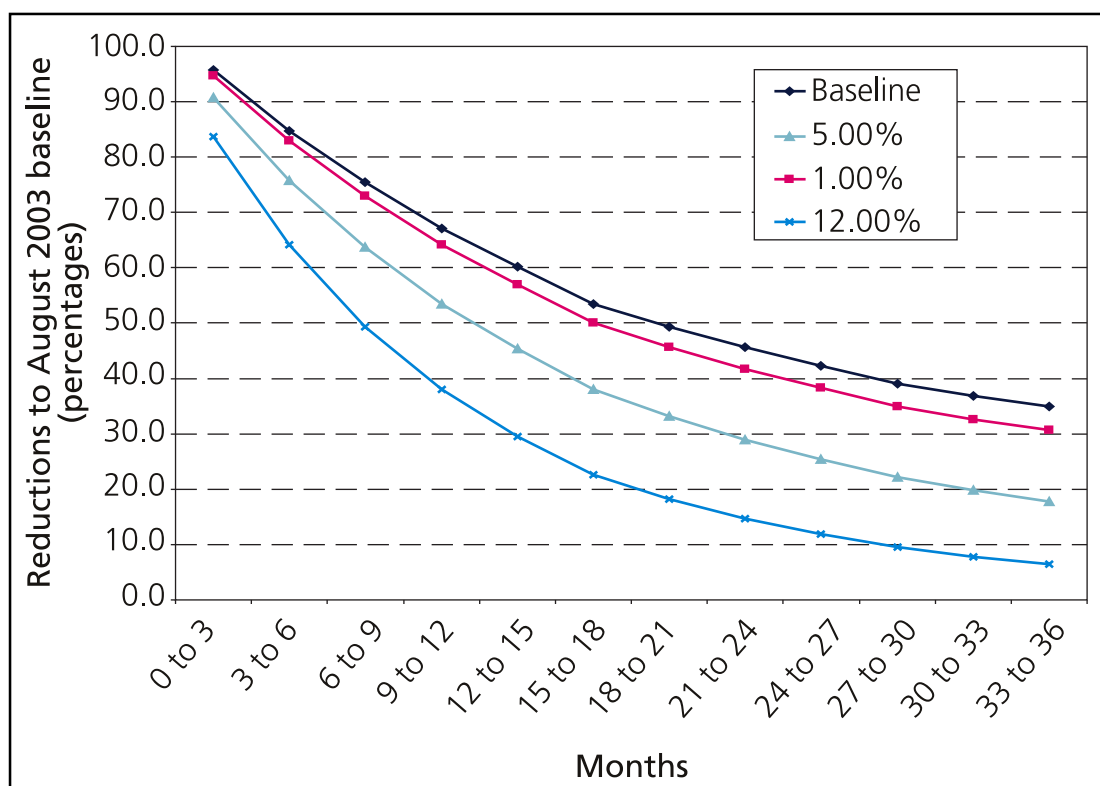
Modelling for a cohort of inflows to IS, IB and JSA

The modelling to date simply provides a framework upon which a fuller and significantly more sophisticated model could be built. At this early stage, the analysis that follows is illustrative of the potential volume effects of successful private and voluntary sector interventions. The analysis segments the claimant population into the three groups discussed previously and this could be used to guide the terms of a contract that might be acceptable to the State. The model deals only with a cohort of inflows to benefit rather than the existing stock of claimants – extending the model will require further more detailed analysis that the Department should undertake.

Lone parents

Using the benchmark above for a cohort of 57,000 inflows from August 2003, the chart overleaf shows the changes to the likelihood of remaining on benefit from one quarter to the next following hypothetical improvements of 1 percentage point, 5 points and 12 points.

⁵¹ Inflows for ISLPs and IB relate to August 2003. JSA inflows are for April 2003.

Figure 26 Lone parent hypothetical survival rates

In the benchmark, of the 57,300 IS lone parent inflow just over 20,000 remained on benefit up to 3 years. In the scenarios, reductions in the likelihood of remaining on benefit from one quarter to the next by 1 point, 5 points and 12 points per quarter lead to around 17,500, 10,200 and 3,700 claimants respectively remaining on benefit up to 3 years.

Assuming that payments are made for a period of up to three years following the initial benefit exit then it is possible to estimate the potential gross benefit savings for this cohort that would accumulate over 3 years.⁵² The table below shows the estimates under three scenarios:

- All benefit exits are for 3 years.
- 50% benefit exits are for 3 years, 25% are for 2 years and 25% are for 1 year.
- 60% are for 3 years, 6% are for 2 years, 8% are for 1 year and 9% are for 6 months.⁵³

⁵² A fiscal benefit of £4,400 from a lone parent entry into employment is used in these calculations. The overall Exchequer benefit would be lower than presented here if childcare elements of the tax credit system were included.

⁵³ The last scenario is based on the evidence of lone parent return to benefit rates in the existing system.

Table 6 Possible gross benefit savings

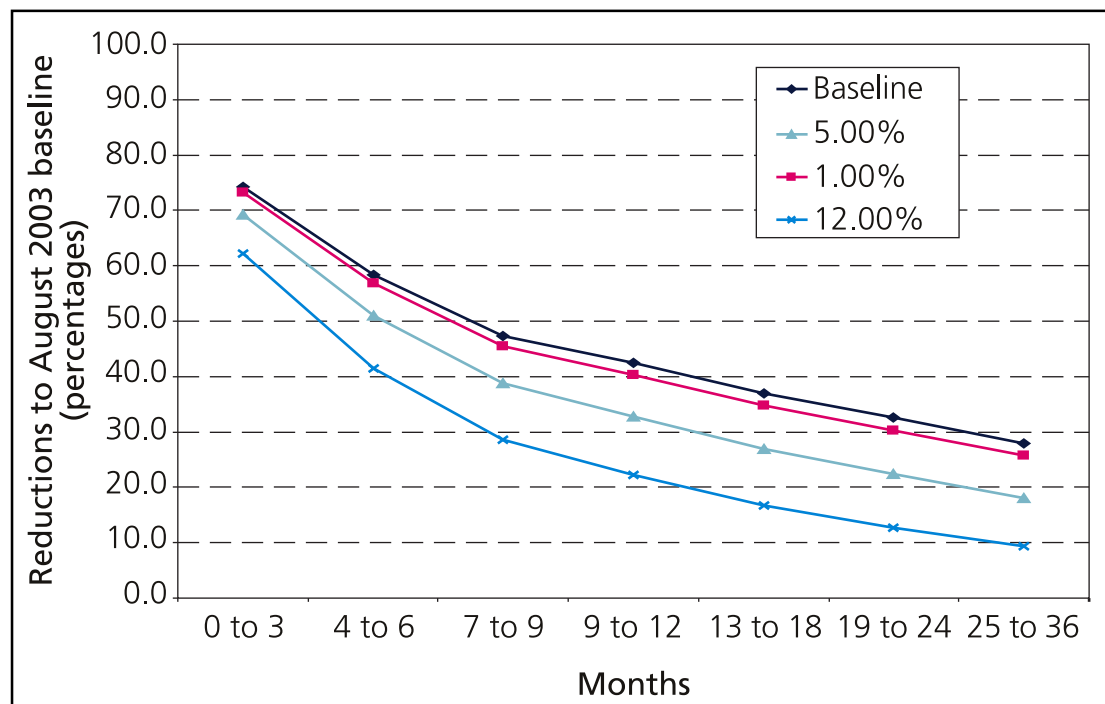
	Quarter to quarter survival rate reduction (£m)		
	1%	5%	12%
Duration assumption 1	£32.7	£129.9	£216.0
Duration assumption 2	£24.5	£97.5	£162.0
Duration assumption 3	£22.3	£88.6	£147.2

If the provider was able to reduce the likelihood of remaining on benefit from one quarter to the next by 5 points and was able to maintain existing return to benefit rates, then a potential £88.6 million would be available in gross benefit savings.

Incapacity benefits

The same framework can be applied to incapacity benefits claimants, again using an inflow cohort from August 2003.

In the incapacity benefits benchmark, nearly 49,000 of the original inflow remained on benefit for up to 3 years. Reducing the likelihood of remaining on benefit from one quarter to the next by 1 point, 5 points and 12 points results in around 44,900, 31,700 and 16,400 claimants respectively remaining on benefit after 3 years. This is shown below.

Figure 27 Incapacity benefits hypothetical survival rates

Again assuming varying employment retention rates (as for lone parents) it is possible to estimate the potential gross benefit savings. The table below shows that a 5 points reduction in the likelihood of remaining on benefit from one quarter to the next and maintaining existing return to benefit rates would yield a potential £225 million in gross benefit savings.

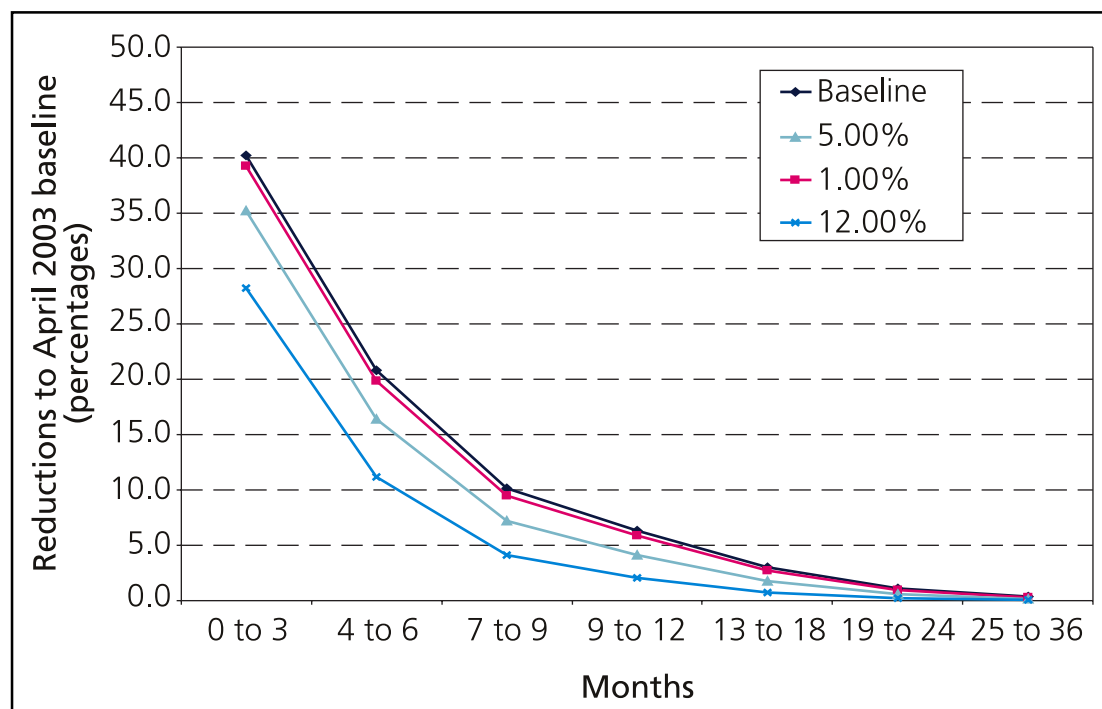
Table 7 Possible gross benefit savings

	Quarter to quarter survival rate reduction (£m)		
	1%	5%	12%
Duration assumption 1	£70.8	£307.0	£579.0
Duration assumption 2	£53.1	£230.2	£434.2
Duration assumption 3	£51.9	£225.1	£424.6

Jobseeker's Allowance

Despite having the largest inflow volume, the overwhelming majority of the JSA inflow leaves benefit within 12 months. While the early analysis presented here has abstracted from the discussion of the point in the claim at which the individuals start to receive support from providers, it is clear that providers would likely be providing support to a very small number of jobseekers.

Of a JSA inflow cohort of 670,000 in April 2003, just 2,600 remained on benefit for up to 3 years in the benchmark. Reducing the likelihood of remaining on benefit from one quarter to the next by 1 point, 5 points and 12 points results in around 2,200, 1,100 and 300 claimants remaining on benefit after 3 years respectively. This is shown below.

Figure 28 JSA hypothetical survival rates

Once more assuming that the existing expected durations off-benefit are maintained and the private and voluntary sector delivers a 5% point reduction in the likelihood of remaining on benefit from one quarter to the next, gross benefit savings to the value of £13.2 million could be made.

Table 8 Possible gross benefit savings

	Quarter to quarter survival rate reduction (£m)		
	1%	5%	12%
Duration assumption 1	£4.7	£18.0	£28.3
Duration assumption 2	£3.5	£13.5	£21.2
Duration assumption 3	£3.4	£13.2	£20.7

Outcome based contracting

Significant further work is needed although initial modelling suggests that there is a strong case for developing this outcome based model in more detail. The Government will also need to explore:

- better segmentation of the client base including stock claimants;
- market testing that the value of the potential outcome payments is sufficient to secure long run engagement by the private and voluntary sector;
- developing the model and incentives to adequately reflect structural changes to the macro economy – effectively “recession-proofing” the system;
- analysis of the contractual incentive structure to minimise “creaming” and “parking”.

Detailed work is required on all of these areas in order for a comprehensive working model to be developed.

A market of significant scale

The scale of the potential market is large. Once it matures, it will be made up of the flow of new hard to help clients from Jobcentre Plus. In the early years it could be further swollen as existing customers on incapacity benefits participate in work-related activity. Based on the analysis in this report, I have no doubt that this will be an annual multi-billion pound market. Such scale would attract commitment from a wide range of private sector providers and voluntary groups.

The fiscal prize is considerable. Achievement of the 80% employment aspiration would boost GDP, reduce benefit spending and increase Exchequer revenues to a material extent.

5 Rights and responsibilities

Issue

Since 1997, the Government has put the rights and responsibilities agenda at the heart of its welfare policies. The contact between individuals and the State is central to, for example, the New Deals for unemployed people, which allow 'no fifth option' of remaining passively on benefits. Applied in different ways, the rights and responsibilities agenda also runs through policies for lone parents, incapacity benefit claimants, and other inactive benefit claimants.

The reforms proposed in Parts 3 and 4 of this report need also to be underpinned by a strengthened framework of rights and responsibilities from the start of an individual's claim.

This part of the report considers the "contract" between individuals and the state that is reflected in the system of rights and responsibilities. It sets out a range of UK and international evidence and makes recommendations for the future that would rebalance the system – more clearly basing it on the support that is available, individuals' needs, and society's expectations.

The role of the personal adviser

The personal adviser has become a crucial role in the delivery of the UK's welfare to work services. The development of a supportive relationship between claimant and adviser enables rights and responsibilities to be enforced whilst moving the individual towards the labour market.

Within Jobcentre Plus, personal advisers have delivered the New Deal for Lone Parents and the first phase of Pathways to Work, helping lone parents and people with health conditions and disabilities back to work. A recent National Audit Office report found that these personal advisers within Jobcentre Plus have a positive impact by raising customers' confidence, equipping them with improved job-seeking skills and assisting with job applications⁵⁴.

Personal advisers have also played an important part in the delivery of services by the private and voluntary sector. This is true, for instance, for job brokers delivering the New Deal for Disabled People and in Employment Zones.

Defining rights and responsibilities

This report has identified three key objectives that underpin rights and responsibilities:

- to match people to jobs and so optimise the efficiency of the labour market – nearly seven million people start a new job every year and about a third of these are starts from benefits;
- to prompt, support and require people to take appropriate steps towards work as a condition of their benefit claim;
- to ensure that people with particularly difficult barriers to work are getting the extra support that they need.

The balance between these objectives will be different for different people at different times in their claims. Until now, the approach for different groups has been dictated by the benefit that they are on – with people on Jobseeker's Allowance having intensive, fortnightly contact focused on assisted jobsearch, while those on "inactive" benefits have fuller "work focused interviews" at varying frequencies (ranging from every month to not at all).

There is now a clear consensus that the right to support with moving closer to work should be matched with a clearer responsibility to take those steps – and that these rights and responsibilities may need to change during a claim. The new Employment and Support Allowance is a good example of how this can be managed appropriately and sensitively. The challenge will be to get this balance right for everyone. There are two dimensions to this:

⁵⁴ Jobcentre Plus: Delivering effective services through Personal Advisers, November 2006 ISBN: 0102943796.

- the frequency of interventions;
- the type of intervention.

Taking these in turn, there is clear evidence that the frequency of interventions for people on Jobseeker's Allowance (and therefore who are likely to be "job ready") plays a key role in helping people to get into work. What is more, reducing the frequency of interventions appears to have the most significant negative impact on those with the shortest durations (and likely to be the most job ready) (see box on page 89). The evidence is less full for people on inactive benefits, but the introduction of additional Work-Focused Interviews for groups of lone parents have been associated with increases in lone parent employment.

On the type of interventions, broadly this is a balance between providing help with looking for work ("work search") and improving individuals' job prospects or employability. The UK has tended to focus on work search, particularly for people on JSA – this is because of the range of jobs that become available all the time and the evidence that you need to look for a job in order to find one. However, even with a wide range of vacancies the number of jobs that an individual can realistically apply for will be limited – by their aspirations, skills, caring commitments, a health condition or disability, and so on. So employability matters, as they widen the number of jobs that can be applied for.

The precise application for each benefit is explored below.

Jobseekers

As mentioned above, the approach for unemployed people has been very strongly and intensively work first. The jobseeker is required to complete a "Jobseeker's Agreement" at the start of their claim and agree to take a number of steps towards work. This is reviewed every fortnight where a Personal Adviser – typically in a meeting around ten to fifteen minutes long – reviews the steps taken in the previous fortnight, discusses specific current vacancies, and agrees activity for the next fortnight. Employability measures only become available after longer durations (most notably through the New Deal).

As noted this approach has delivered significant results. The strong performance set out in Part 1, in particular on long-term unemployment, has undoubtedly been in large part a result of the intensive intervention regime. This has been recognised by the OECD (see page 22). However as Part 1 also set out, this does not work for everyone – around one third of JSA claimants have been on benefit for longer than they have been in work and around 100,000 of these on benefits for six in the last seven years.

"Economically inactive" groups

The UK approach recognises that for people who are economically inactive and who want to work or for whom there is an expectation that they will take steps towards

work, a different balance of support will be needed – particularly when they have been out of the labour market for a period of time. Broadly, this means work focused interviews that look at the barriers that are preventing an individual from looking for work and supporting them to overcome them. This mixes employability and, eventually, work search – and can include reference to specialist support.

What is perhaps most noticeable here is that the intervention regime is almost entirely determined by what benefit an individual is on, and there is very little support for people who are on no benefits – for example the partners of people in work. The regime for those on inactive benefits is set out below.

Lone parents

Eight out of ten lone parents want to work. The current requirements are a series of work-focused interviews at quarterly, 6 monthly or yearly intervals, with the intensity increasing as the parent's youngest child grows up. This system has had a significant impact on the proportion of lone parents moving into work. The UK however lags behind other countries in terms of how much it requires of this group of people, and it may be that the work-focused interview regime has achieved as much as it can.

The strategy on lone parents is tied to the Government's aim of eradicating child poverty by 2020; the most ambitious social policy objective that this Government has set. And in a time of rising real incomes and rising employment, its progress since 1999 should not be under-estimated – with around 700,000 children lifted out of relative poverty in six years. This has reversed strong growth in child poverty from the late 1970s to the mid 1990s, and at just under 20% the relative poverty rate is now at a 15 year low.

There are currently about 2.4 million poor children and the Government will have to go further and faster in order to hit its target of eradicating child poverty by 2020. The Government has already narrowly missed its interim target for 2004-5 and the required trajectory for its 2010 target is extremely challenging. The Government will need to develop and implement policy now in order to maintain progress towards 2010 and then make the significant progress required towards the 2020 ambition.

Delivering on Child Poverty

Lisa Harker's report on child poverty published for the Department in November 2006 reaches a number of important conclusions about the incidence of child poverty and the roles of the Department in tackling this issue. Her report acknowledges the significant progress that has been made but also suggests that the Government is unlikely to meet the 2010 target.

The Harker report indicates that welfare programmes have "rightly adopted a 'work first' approach" and that a closer alignment of support for couple and lone parents would ensure that welfare to work programmes better meet the needs of parents. The fact that 61% of children in poverty live in couple households demonstrates that focusing only on lone parents will not deliver the child poverty target on its own.

As the Government has said since 1997, the evidence is clear that work is the most sustainable route out of poverty for many families.⁵⁵ A child living with a workless lone parent is five times more likely to be poor than one living with a full-time working single parent. The risk of poverty for a child in a couple household falls from 61% if no adult works to 14% if one works full-time, to 1% if both work full-time.

People with health conditions and disabilities

Many more people on incapacity benefits want to work and could work, given the right help and support to do so. Pathways to Work, and the proposed Employment and Support Allowance, are based on a form of support to help people identify and then overcome the barriers that stop them from working. The Government has already committed to rolling out a series of monthly interviews in the first year of someone's claim, and is legislating so that, in the future, most people claiming the new Allowance will need to demonstrate that they are taking steps to prepare themselves for work.

Partners of benefit claimants

Partners of benefit claimants have differing levels of responsibility according to which benefit is being claimed, ranging from none at all through a single work-focused interview after six months to the full Jobseeker's Allowance regime if the couple is making a joint claim⁵⁶. Because the means-tested system pays more to a couple than to an individual, around 225,000 partners of benefit claimants are supported by the system, 125,000 of whom have children. There may be no reason for treating these people any differently from jobseekers or lone parents. It appears increasingly incongruous that the "conditionality" for partners is so limited and pays no regard to the individual's circumstances or needs.

⁵⁵ See for example 'What will it take to end child poverty?' by the Joseph Rowntree Foundation (JRF).

⁵⁶ Couples need to make a joint claim where one or both of them were born after 28 October 1957 and are aged 18 years old or more; they have no dependant children; and they wish to make a claim for Income-based Jobseeker's Allowance (JSA(IB)).

International evidence

The UK has been at the leading edge of welfare reform since the mid 1990s. However there are a number of specific examples of international good practice that may provide pointers for future UK reform.

Jobseekers

In Australia, conditionality for the unemployed has been taken one stage further through the “Work for the Dole” programme. This can be a requirement after an individual has been unemployed for 6 months. Participants are required to work in a variety of environments and are rewarded with a small sum of money for doing this. Examples include rebuilding computer equipment, designing web pages and education material for community centres, helping in care homes, restoring heritage sites, building specialised play equipment for disabled people and restoring of heritage-listed ships. The projects are not tailored to individuals but are instead selected on the basis that they do not compete with the private sector (which also means that employer input is limited).

Opinion on whether Work for the Dole is effective differs. There are three common criticisms: that it reduces worksearch and so makes it less likely that someone will get a job; that it does not increase an individual’s employability; and that it stigmatises the long-term unemployed. The Australian Government has countered that it enables people who have been out of the workforce for a long time to develop work habits, a sense of purpose and a sense of achievement within the community.

In Nova Scotia a similar programme, called the Community Employment Innovation Project (CEIP) has taken place. This programme took volunteers from long-term benefit recipients and offered a wide range of community based “jobs”. Volunteers were required to work on a full-time basis which included basic job-readiness training and job-search support. In exchange for this commitment participants were paid a wage. The research from this suggests that there has been a significant positive impact on employment outcomes for people who participated, as well as an increase in the speed at which customers off-flowed from the programme and into work.⁵⁷

People with health conditions and disabilities

The problems of a large number of people on inactive benefits because of a health condition or disability and a low employment rate for disabled people are common to many countries. Many countries have moved in the last few years to address this, in line with the recommendations of the 2003 OECD report “Transforming disability into ability”.

Whilst comparisons are difficult because of differences in benefit systems and in the assessment of sickness and disability, there are systems from which the UK can learn in a number of countries. As in the UK, these reforms have tended to focus on mutual obligations and early interventions, better integration of support, and reforms to benefit systems to remove disincentives to work.

⁵⁷ Gyarmati et al (2006).

Developments in disability employment policies in other countries

In **New Zealand** the Ministry of Social Development launched the new Service for Sickness and Invalid's Benefit Recipients in March 2004. This service constitutes a multi-barrier approach similar to Pathways in the UK. The main difference is that participation in this programme is voluntary. This was in response to an increase in the numbers receiving sickness and invalidity benefits over time with 4% of the working age population currently in receipt⁵⁸ predominantly because of increased inflows, low off-flows and longer durations. The new service comprises a number of different elements designed to address the variety of health, financial and work-related barriers faced by this client group. Initial results have indicated that the number of claimants leaving for full-time employment increased by 13% in trial areas compared to the same period the previous year. The initial success of these policies has resulted in plans for a major expansion of the scheme and services available, over the next four years.

Denmark offers a non-contributory disability pension for all citizens aged 18-66 with 3 years residence. Benefits are relatively high and easily accessible with around 11% of the working age population in receipt of either a disability pension or sickness benefit. Reforms introduced in 2003 seek to reduce both the complexity and the number of new claimants of this benefit, including an earlier medical assessment which enforces tighter eligibility conditions reliant on a reduced working capacity of two thirds⁵⁹; a single benefit rate rather than 3; and an extension to "Flex-jobs", which involve fewer working hours or reduced work tasks, with employers refunded a proportion of their salary according to the reduction in working ability. Results from these reforms are not yet clear.

In the **USA** there are two main benefits to support those with severe disabilities both with the same stringent medical assessment, social security disability insurance (SSDI) and the means tested supplemental security income (SSI)⁶⁰. In line with international trends caseloads grew substantially over the 90s and continue to do so with an 8% increase in SSI claimants from 2000 to 2004 and a 23% increase in SSDI claimants over the same period. Recent reforms have focused upon improving work incentives and providing more help with rehabilitation and employment services.

Continued

⁵⁸ Social expenditure on disability benefits reached almost 3% of GDP by 2004.

⁵⁹ Previously the lowest reduced work capacity level required to receive the benefit stood at 50%.

⁶⁰ In addition other schemes also exist to provide income for those with less severe disabilities including Veterans benefits, workers compensation, private disability insurance and vocational rehabilitation.

Work incentives have been improved through the extension of Medicaid provision for 8 years and 6 months after the end of benefit receipt and by enabling claimants to remain on benefits for at least nine months regardless of earnings. The 'Ticket to Work and self sufficiency programme' was initially introduced in February 2002 and is still being rolled out nationally. The scheme is voluntary with over 10 million beneficiaries having received vouchers by July 2005 enabling them to claim services from providers known as Employment Networks (ENs). The Ticket to Work (TTW) scheme introduced an outcome-based financing system for ENs who can choose what services to provide and to whom. Participants have a TTW evaluation with an EN of their choice with successful applicants working together with their EN to develop a work plan to reach their employment goal.

Initial results indicate low participation with only 1% of those eligible assigned to a provider. This is reflective not only of levels of participant interest but also the willingness of providers to enter into contracts to provide services; early results indicate that only 10 to 30% of beneficiaries screened by providers are accepted into services.

In **Australia** receipt of the disability support pension stands at 6% of the working age population. From July 2005 claimants have been able voluntarily to join a series of employment programmes, with the choice dependent on their disability and the support they need. They can use the Job Network which is primarily for the unemployed; or disability open employment services; or the Commonwealth Rehabilitation Services Australia, which involves vocational rehabilitation. Again, the evaluation evidence from these schemes is limited given their recent introduction.

Lone parents

Whilst the UK has a more demanding regime than other countries for people with health conditions and disabilities, the same cannot be said of what is asked of lone parents. In recent years requirements to be available for work have been extended to the majority of lone parents in a number of countries, including Canada, the Netherlands and the United States. As the OECD stated in a recent report looking at Canada, Finland, Sweden and the UK:

“The United Kingdom is the only country in this review that has no tradition of work-testing sole parents on income support and it is no coincidence that it has a much lower employment rate and a relatively high incidence of poverty among this group.”⁶¹

Table 9 Work tests for lone parents, selected countries, in around 2006⁶²

No work Test	Work Test	
	Independent of child age	Dependent on age of youngest child (age limit in years)
Portugal	Belgium (Discretion)	Ireland (18 or 22 if child in full-time education)
Spain	Denmark (subject to childcare)	New Zealand (18)
	Finland	United Kingdom (16)
	Japan (Discretion)	New Zealand (18)
	Sweden	Australia (16/7)
		Luxembourg (6)
		Canada (0.5-6)
		Netherlands (5)
		Czech Republic (4)
		Austria (About 3)
		France (3)
		Germany (3)
		Norway (3)
		Switzerland (3)
		United States (usually 0.25-1, with some exceptions)

⁶¹ “Babies and Bosses: Reconciling Work and Family Life”; OECD 2005.

⁶² Source: Carcillo and Grubb (OECD, 2006).

Extending availability requirements for lone parents⁶³

In **Denmark**, activation measures for social assistance beneficiaries were developed in conjunction with far-reaching reforms of the unemployment insurance scheme from 1994 to 2000. The Act on Active Social Policy of 1997 (implemented in 1998), specified individual responsibilities in relation to receiving social assistance more precisely. Immediate activation was required for any welfare recipient under 30 and sanctions were imposed in case of refusal.

In 1996, the **Netherlands** abolished the unemployment assistance benefit (RWW), thus requiring its former beneficiaries to claim the social assistance benefit (ABW) while at the same time ABW legislation was revised to allow stronger work-availability requirements. The 1996 legislation stated that lone mothers could be required to work when their youngest child reached five years old, compared to 12 years under the previous legislation. In addition, for many years the national Government financed 90% of the social assistance costs actually incurred by municipalities. This rate was reduced to 75% in 2001 and to zero (with municipalities receiving a grant related to expected, rather than actual costs) in 2004. In 2004 municipalities were also given additional freedom to define work requirements, and some municipalities now apply them to lone parents with children of any age, depending on circumstances.

In the **United States**, Welfare Reform (PRWORA) legislation in 1996 replaced federal co-financing of welfare benefits (mainly for lone-parents families) by a system of block grants. Moreover, while federal legislation prior to 1996 gave individuals (mainly lone parent families) meeting state eligibility criteria a legally enforceable right to social assistance (AFDC) benefits, PRWORA legislation expressly denies individuals automatic entitlement to such benefits (now TANF). This change has made it easier for state administrators to deny benefits or impose sanctions when they consider a claimant's availability for work insufficient, and not only when they have formal evidence.

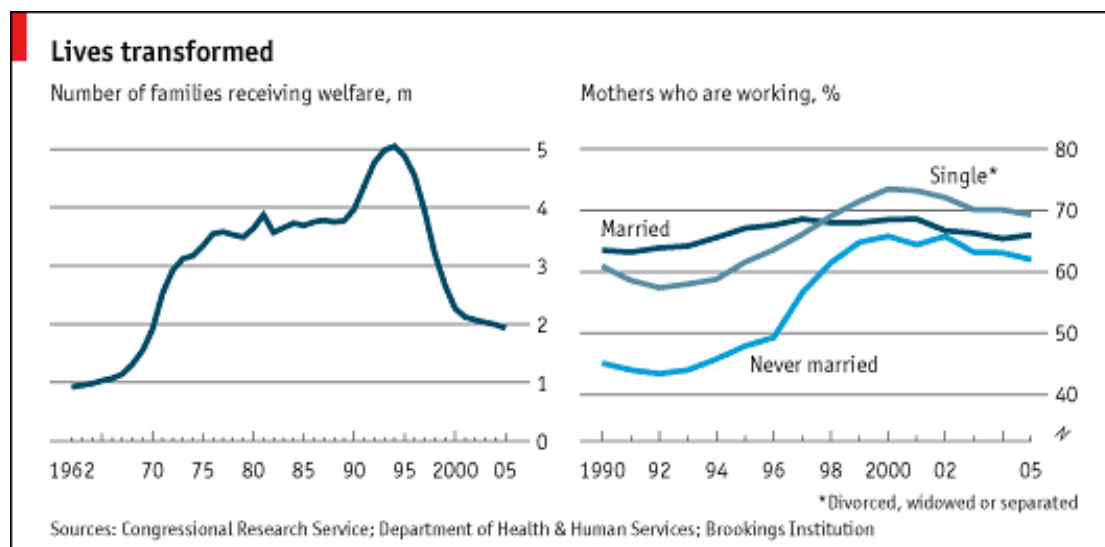
In **Australia**, as from 2006, new lone parent benefit applicants whose youngest child is aged 8 to 15, who until now would have entered the lone-parent benefit, will instead normally qualify for the unemployment benefit with a requirement to seek at least part-time work. Similar measures apply to individuals with disabilities who can work part-time.

⁶³ Source: Carcillo and Grubb (OECD, 2006). Quoted with authors' permission.

Looking in more detail at the US Welfare Reform legislation, according to Ron Haskins in his account 'Work over Welfare' welfare dependency fell by 60% between 1994 and 2004:

"From 1993 to 2000 the portion of single mothers who were employed grew from 58% to nearly 75% . . . Even more pertinent to assessing the effects of welfare reform, employment among never-married mothers, most of whom join the welfare ranks within a year or two of giving birth, grew from 44% to 66%."

Figure 29 "Lives transformed"



The outcomes of this regime have surprised many, on both the left and the right, and while the economic boom of the 1990s undoubtedly provided a helpful backdrop, the introduction of clear incentives has had an undeniable impact. It is, however, worth stressing that while the majority of lone mothers have improved their lot, a small group at the bottom of the pecking order does seem to have been left behind.

Overall, the range of international evidence suggests that there is certainly scope for the UK to look again at what might be reasonable once children reach a certain age.

Recommendation

Part 3 sets out a new approach for supporting people who are the most disadvantaged. Therefore the objective of the rights and responsibilities regime should be to support the approach by helping people to make the transition back to work before they become disadvantaged, and to ensure that those with particular disadvantage receive the extra support that they need early in their claim.

This report therefore argues that in the longer term, the Government should be looking to converge the various systems of conditionality for different client groups within the first year of their claim. To take this to its logical conclusion would be to level up to work first, fortnightly interventions for all claimants. However, clearly this does not recognise the particular needs and expectations of different individuals (and what society expects in return) – fortnightly “work first” will be inappropriate for some people (such as the lone parent of a young child or someone who has just acquired a disability). Therefore the frequency of interventions, and the form that those interventions take, will need to vary.

One argument would be to “segment” clients early in their claim and to vary the intervention regime not on the basis of benefit but only the basis of this segmentation. This could mean everyone having a standard level of intervention with some receiving more intensive support (which could include for example early access to contracted provision) and others receiving less intensive support. There are two issues with this:

- firstly, the benefit system distinguishes between those who are expected to look for work throughout their claim (JSA) and those who are not – there is a risk that this approach would dilute what is expected of some people on JSA;
- segmentation or identification tools are notoriously difficult and the evidence is far from conclusive – as set out below.

The JSA intervention regime – intensity and segmentation

As part of a wider review of the intervention regime in 2005, DWP piloted five alternative approaches for the first 13 weeks of the claim:

- Fortnightly telephone jobsearch reviews.
- Random contact during the first 13 weeks.
- Random contact during the first three signing events.
- Shortened jobsearch Reviews.
- Group Signing Reviews.

The main aim of the pilots was to explore the scope for making the regime more efficient – at present over 200,000 people move onto JSA every month and around £275 million is spent on the JSA intervention regime.

The results

The subsequent detailed evaluation⁶⁴ has supported the view that the existing regime is close to optimal value for money – it is relatively cheap, delivered efficiently, and is effective in returning people to work.

It found that the random contact and telephone pilots had a major adverse impact on off-flows, with an anticipated increase in durations on JSA of between 5.8 and 6.6 days. This means that the relatively small amount of money saved in administration (around £30m), would be more than wiped-out by increases in benefit costs (up to £100m).

The pilots of a shortened Review and group signings did not appear to have an impact on off-flow rates and so would seem to suggest that it is the regularity, rather than the quality, of contact that matters. This is supported to some extent by subsequent increase in off-flow rates since Jobcentre Plus has introduced weekly signings for people with durations of 13 to 19 weeks.

Continued

⁶⁴ The Qualitative Evaluation of the JSA Intervention Regime Pilots, by Judith Eccles and Richard Lloyd. DWP Research Report 300, 2005.

Segmentation

The 2005 pilots also included a pilot around segmentation. This was specifically to see whether a simple “tool” could be used to identify those who would be most likely to come off the register in the first 13 weeks. It did not change the signing arrangements for this group.

The segmentation tool was reasonably effective in identifying those who are likely to sign off within 13 weeks – around 60% of those defined as “green” (and likely to leave JSA within three months) did flow off benefit, compared with around 50% of those defined as “red”. However this also suggests:

- a high level of mis-classification;
- a high proportion of people classified as “green” still on JSA after three months, even with fortnightly signing.

Separate internal analysis by DWP has suggested that those who are most likely to leave within 13 weeks are also most likely to be adversely affected by less rigorous signing; and that increased durations of just a few days from those not subjected to a full intervention regime could wipe out any administrative savings from segmentation.

Conclusion

There is no compelling case to reduce the intensity of the intervention regime for anyone on Jobseeker’s Allowance. There is mixed evidence on how far early identification tools can be helpful in identifying those who will require additional support.

On the basis of the evidence from the UK and internationally, this report therefore recommends that the UK maintains the current conditionality regime for those on JSA, and builds on this by increasing and aligning the conditionality that is expected of people who are currently on “inactive” benefits. At the start of their claim everyone, whether unemployed, sick or disabled, a lone parent, a partner of a benefit recipient, or a carer would have an initial interview. The approach for each group would then vary as below.

Jobseekers

For jobseekers the regime would remain largely unchanged, with fortnightly signing and associated mandatory jobsearch. As now, this could include increased intensity at key points (three or six months) and “Programme Centre” provision. Rather than moving onto the current New Deal programmes at different stages according to their age, claimants would (as set out in Part 3) transfer at the end of a year to the new system of providers, who would then work with them intensively.

There may be a case for moving particular groups of people across to the private and voluntary sector, or increasing the conditionality required of them, ahead of the year point. These might include, for instance, people who have “recycled” round the system a number of times or who have spent more time on benefit than in work.

I have considered whether it would be helpful to have an “ultimate sanction” for jobseekers, in the form of a programme similar to the Australian “work for the dole”. The evidence suggests that the costs may outweigh its benefits as a labour market measure, and therefore I recommend that the Government continues to look at the experience in Australia but does not, for the moment, implement something similar.

Lone parents

In the longer term, once wraparound childcare is in place, the rationale for lone parents having fewer obligations than other people who are not working may be re-examined. The most appropriate and effective way to strengthen the rights and responsibilities agenda would be to change the eligibility for income support.

From 2008/9 the Government will be creating a new framework of rights and responsibilities for sick and disabled working age benefit claimants through the introduction of the Employment and Support Allowance. The creation of this new benefit and the obligations it will place upon claimants to take steps actively to get into the labour market potentially highlights the inequity with the responsibilities placed on lone parents to get into the labour market. Compared with many other leading OECD countries, the UK demands very little of lone parents when it comes to taking steps to get into work.

This fact, combined with what is known about the positive benefits of work for the outcomes of children – the confidence, esteem and development of social networks for lone parents – and the importance of reaching the demanding 70 per cent employment rate target, makes a strong case for a fundamental shift in how the Government supports lone parents to get on in life.

I would therefore recommend that from 2008, to broadly coincide with the creation of the ESA, the Government reduces the point beyond which a lone parent can claim income support from when their youngest child is 16 to 12. In addition, the Government should consider as wrap around childcare becomes available from 2010, whether further reductions would be desirable. The Government would need to ensure that the new system took account of the particular challenges faced by lone parents in accommodating full time work and caring for disabled children.

Change on this scale is will help the Government to make faster progress on tackling child poverty. It is also right in order to rebalance rights and responsibilities in line with what the Government should expect, in return for more support (with childcare and with looking for work). Clearly, parents often need help beyond that available to other jobseekers, and it may be most appropriate that the requirement on lone parents is to be available for work part-time rather than full-time, as is already provided for under the JSA regime.

For parents whose children are below this cut off point, I propose that there are regular work-focused interviews with similar obligations to the new Employment and Support Allowance. These interviews would be at intervals determined by individual circumstances.

How lone parent conditionality would work

For someone who became a lone parent when their child was born: Following an initial work-focused interview when a claim is made, the person might see an adviser twice a year to check that their circumstances remained the same and to think about what they might do in the future. At a certain age, for example once the child was at nursery for part of the week, the interviews might become quarterly, with an action plan agreed between the parent and the adviser.

When the child reached the age at which conditionality intensified, the parent's interviews would become fortnightly, and would be focused on finding a job. Jobcentre Plus would work with the individual to find work which suited their child's schooling and childcare arrangements and would offer support and training if appropriate. If the parent had still not found a job after a year of being on Jobseeker's Allowance, they would be referred to a private or voluntary sector provider. The provider would work with the individual to assess their support requirements and would see them regularly. The provider could also refer the person back to Jobcentre Plus for a sanction if they failed to take action to prepare themselves for work.

For someone who became a lone parent when their child was over the age at which conditionality was applied: The person would claim Jobseeker's Allowance and be interviewed fortnightly about their jobsearch. Again, the adviser would be looking for work that corresponded to their availability. After a year, the person would again be referred to the relevant provider, who would offer them job-related support.

People with health conditions and disabilities

This report fully supports the proposed regime in the new Employment and Support Allowance. The longer term priority will be to "migrate" people currently claiming incapacity benefits over to the new system so that they can benefit from the support available.

Under the ESA system, those claiming on grounds of ill health or disability have a Personal Capability Assessment at the start of their claim followed by monthly interviews with an associated requirement to engage in activity that will prepare them for work. Providers will need to exercise considerable sensitivity in applying any sanctions to people with mental health conditions, and ensure that safeguards are in place for this group. Conditionality will not apply to people with the most severe disabilities and health conditions. The system will need to support people who are unable to work in the medium or long term, paying them their benefit and engaging with them at regular intervals to check that they do not need further support.

Given the considerable volume of existing incapacity benefits claimants and the extra cost associated with engaging with all of them, this regime would need to be phased in over a period of years. I recommend that the Government looks at ways of phasing this, perhaps by looking at people who have been on incapacity benefits for the shortest amount of time first.

As part of the reforms to incapacity benefits, the Personal Capability Assessment has been reviewed. Once this system has bedded in, there may be scope for looking at aligning the test for ESA with those for other disability benefits along the lines of the single all-purpose test in New Zealand. This would reduce duplication in the system and for claimants.

Partners of benefit claimants

For partners of benefit claimants this report recommends in the longer term applying conditionality in the same way as it is applied to main claimants. This will require primary legislation. Childless partners would be subject to the Jobseeker's regime. If they had a health condition, work focused interviews would be required – on a monthly basis – for the first three months. The requirements for parents with children would be aligned with those of lone parents – so that when children are young, parents are required to come in for interviews and prepare themselves for work, but once they are older parents would move to the Jobseeker's regime.

Carers

Carers play a very valuable role in society and being a carer will often be a full-time role – that is why the Government moved away from work-focused activity for this group. However it is right that the same opportunities are made available to carers as exist for other claimants, and it is likely that later in their claim many carers would want to consider a return to work. Therefore this report recommends that all carers have an initial discussion with a personal adviser at the start of their claim, and that the personal adviser and carer agree when in the future would be an appropriate time to engage in work-related activity.

Delivery

It is clear from the evidence on Jobseeker's Allowance that Jobcentre Plus has been highly effective at delivering high volume, low cost interventions that are focused on getting people back into work quickly. This report therefore recommends that Jobcentre Plus continues to deliver the intervention regime for this group. Provision of work-focused interviews for people on inactive benefits is more of a mixed economy, and the evidence of where this is most effectively delivered is less clear-cut. This report argues that as a rule all interventions in the first year should be delivered by Jobcentre Plus, but that the Government should incorporate the lessons learnt from other programmes (private and voluntary sector Pathways and Employment Zones).

The Government may also want to consider the case for limited private provision that can be purchased by Jobcentre Plus within the first year. This could be appropriate where a clearly-defined limited barrier is preventing a return to work.

After the first year and early identification

In line with my conclusions in Part 3, the above intervention regime will be applied throughout the first year of the claim – at this point the individual will move to contracted support in the private and voluntary sector. At the one year point, the personal adviser would therefore prepare a report on the work that had been carried out during the year and the person's particular barriers to work. The conditionality applied by the provider would depend on the person's individual circumstances, although to ensure consistency and to ensure that everyone has the opportunity to access support there would be an expected frequency of interviews for different groups (between, for instance, fortnightly and quarterly).

There is also a strong case for ensuring that providers deliver a level of mandatory participation commensurate with the current level of responsibilities placed on certain groups. For example, there is evidence that requiring the long-term unemployed to participate in some form of full-time activity through New Deal creates a deterrent effect to longer benefit claims. The Government will need to review the case for maintaining current conditionality levels as part of its wider considerations. For long-term unemployed people it may also be sensible – even though support will be being delivered by the private and voluntary sector – to maintain the requirement that they should attend Jobcentre Plus offices fortnightly to continue to demonstrate that they are meeting the basic conditions for receipt of benefit.

The point at which an individual moves to a provider should be one year as a default, but there would also need to be earlier entry for key groups. In particular for:

- people with ESA, it may be more appropriate to transfer former IB claimants (who are likely to be the most disadvantaged in the labour market) at the six month point or perhaps at the end of the three month assessment phase, but to transfer new ESA claimants at twelve months;
- people who have repeated a number of times on benefit without reaching twelve months in one spell, there is a good case for using their cumulative time on benefit over a period rather than their longest continuous duration – for example that they have claimed for twelve of the last twenty-four months;
- the very hardest to help, immediate referral to intensive support, such as ex-offenders, homeless people and drug addicts.

Jobcentre Plus will retain its role as the central repository of information on claimants, as well as responsibility for tackling fraud. In order to do this, it will need to maintain contact with claimants. While it will be important to minimise confusion between providers and Jobcentre Plus, it would appear appropriate that claimants working with providers also attend their local Jobcentre Plus once every half year, so that information can be kept up to date (although for long-term unemployed people it may be appropriate to require fortnightly attendance, as described above).

Sanctions and requiring activity

There is some evidence that calls into question how effectively sanctions are being applied and whether claimants really make the link between not attending an interview and the amount of money that appears in their bank account. At the moment, sanctions are applied a long time in arrears and by telephone or letter. This regime would seem to lose any salutary impact of applying sanctions; in particular the deterrent effect of needing to attend a pointed interview about shortcomings in behaviour. Perhaps a formal process which kicks off with a written warning, followed by a formal interview, would have more impact than any actual financial repercussions.

In the proposed contracting regime, claimants would agree an individualised workplan with their personal adviser. This could include requirements such as attendance at a course or at work interviews. To the extent that people wilfully ignore their workplan, a sanction may be deemed appropriate. However it would be appropriate that the sanction itself was administered through Jobcentre Plus. This would be consistent with the state maintaining responsibility for the customer, would enable the State to assess the level of transgression and it would reinforce the significance of the sanction.

Table 10 Outline of current and proposed rights and responsibilities

	Jobseekers	Parents	People with health conditions and disabilities	Carers
Status quo	Have to come in fortnightly to "sign on" and prove actively seeking and available for work. New Deal kicks in at 6 months for young people, 18 months 25+	For lone parents: work-focused interviews at 6 month or year intervals depending on age of youngest child. Have to agree an action plan (but not penalised if they don't do what it says) For partners of benefit claimants with children: variable conditionality.	Initial work-focused interview, then at trigger points (eg repeat PCA). In Pathways areas, 6 interviews at monthly intervals, with action plan. Legislating to make taking steps towards work mandatory.	No work-related conditionality.
Proposal: first period (which may be a year), managed by Jobcentre Plus	Fortnightly signing with mandatory jobsearch, as now. New Deal no longer kicks in at 6 months for young people, although other support may be available.	From specific age of youngest child: as per jobseekers Below specific age of youngest child: as per people with health conditions and disabilities, with scope for advisors to waive the requirement to attend interviews where appropriate	Monthly work-focused interview, then at trigger points (eg repeat PCA). In Pathways areas, 6 interviews at monthly intervals, with action plan. Legislating to make taking steps towards work mandatory.	Initial interview, then further interviews with compulsory work-related activity as and when disabilities and health conditions. appropriate.

Continued

Table 10 Continued

	Jobseekers	Parents	People with health conditions and disabilities	Carers
Proposal: from year 2, managed by private and voluntary sector providers although sanctions administered by Jobcentre Plus	Providers can ask all claimants to participate in work-focused interviews and work-related activity and/ or jobsearch. The frequency of the interviews will range from fortnightly to quarterly, and the nature of the work-related activity will vary according to the circumstances of the client and what the provider thinks is most likely to be of help in getting the person back to work.			
Proposal: Existing claimants	Required to participate in fortnightly signing with Jobcentre Plus, as now.	Required to attend periodic work-focused interviews with Jobcentre Plus, as now.	Phased engagement with existing claimants, where they would spend six months going through the Jobcentre Plus system, and then moving to the private and voluntary sector providers.	No further requirements.

6 Benefit reform – towards a single system

Issue

As the welfare reform Green Paper set out, there is a strong case for benefit reform in order to create a simpler, more flexible system – and in the longer term moving towards a single system of working age benefits. Complexity makes it more difficult for claimants to understand their rights and responsibilities, and staff and advisors to offer appropriate source and guidance. It also increases the risk of fraud and error, and can act as a barrier to someone moving into work, or affect incentives to remain on a particular benefit.

However, if fundamental benefit reform was straightforward then it would have been done by now. The system is complicated because its objectives, and their application, are complicated. Broadly I would suggest that there are six objectives for the benefit system for those out of work:

- To provide a **safety net** for people who are out of work temporarily, and a decent minimum income for those who cannot work.
- To show a **clear link** between what the State expects of the individual and what the individual is entitled to in return.
- To **support a return to work** for those who can, in particular by:
 - Ensuring that people are not trapped on benefits;
 - Incentivising and easing the transition to work.
- To be accessible by **the individual** – so that they can easily find out what they are entitled to and get the right amount at the right time, without needless duplication or hand-offs
- To be **efficient** – making the best use of the time of the people who run it and be straightforward enough that computer systems support it properly.
- To be **affordable and sustainable** for the long-term.

The history of the benefit system, from 1948 to today, has inevitably been a series of trade-offs and compromises around these core objectives. It is not possible to achieve all of them absolutely – a comprehensive, affordable, simple system that both lifts people out of poverty and provides strong incentives to move into and progress in work. So, successive Governments have sought to alter, and occasionally to fundamentally rewrite, the balance between objectives according to changing political and public priorities.

The level of complexity of the current system now carries significant penalties. 169 questions are needed to gather information in a straightforward lone parent claim for Income Support. The average time to become established with the right rate is currently running at between 12 and 16 working days, and for more complicated cases it can be much longer.

Many of the obstacles to reforming the structure of the working age benefits have been or are being removed. The recent creation of the DWP's Benefit Simplification Unit, as a dedicated team whose objective is both to simplify the existing system and to deter further complexity, is a welcome development. The structure no longer has to cater for such wide variations in need now that pensioners and children are being provided for through separate mechanisms (pension credit and child tax credit respectively). Employment and Support Allowance will also simplify the structure of benefits for sick and disabled people. This creates an opportunity to look afresh at the system of support for working age adults to ensure that it provides the best balance between competing objectives. Whether the answer is a single benefit system may still be a matter for debate – but that debate should certainly take place.

Options for reform

This report has considered three broad options for a "single system" of working age benefits:

- as now, different benefits and benefit levels to reflect different circumstances, based on one common rate (the Income Support personal allowance);
- a single benefit with a single rate;
- a single system with two rates – a basic rate and a long-term rate.

There are strengths and weaknesses with each option.

Simplification, but maintain distinct benefits

With the introduction of ESA from 2008 then effectively there will be three main benefits (ESA, JSA and IS) with a common basic rate and additions for work-related activity or certain characteristics (disability or caring).

From 2008 the basic high-level model for a single person would look like:

<p style="text-align: center;">Additional premiums</p> <p style="text-align: center;">Currently three disability premiums (two in ESA) and a carer premium</p>
<p style="text-align: center;">After 13 weeks:</p> <p style="text-align: center;">Long-term rate/ Work related activity payment</p> <p style="text-align: center;">A higher rate paid in ESA via a work-related activity or support component (replacing the basic disability premium in IS)</p>
<p style="text-align: center;">Basic personal allowance</p> <p style="text-align: center;">Payable at £57.45 to all on ESA (main phase), lone parents aged 18+ on IS and others on IS or JSA aged 25+. Lower age-related rates for under 18s/25s in ESA (assessment phase), IS and JSA</p>

This system seeks to provide a comprehensive safety net alongside targeted additional payments for people (and sometimes households) with particular circumstances. This is relatively cost effective for the State, provides stronger financial incentives to return to work for groups closer to the labour market especially for young people and recognises that an individual's circumstances matter – both because they can lead to extra costs and to worse labour market outcomes throughout a lifetime.

But the system is also highly complex – with different benefits for different groups, overlapping benefits, administrative costs and often confusion for the individual. It also does not fully reflect individuals' rights and responsibilities, and there is a risk of creating incentives to move between benefits and away from the labour market. If this system is retained steps should be taken to simplify it, clarify rights and responsibilities and remove perverse incentives as far as possible.

One benefit, one rate

The second option would be to move towards a single benefit that pays at a single rate. It may however be difficult to subsume all the existing premiums in a single rate.

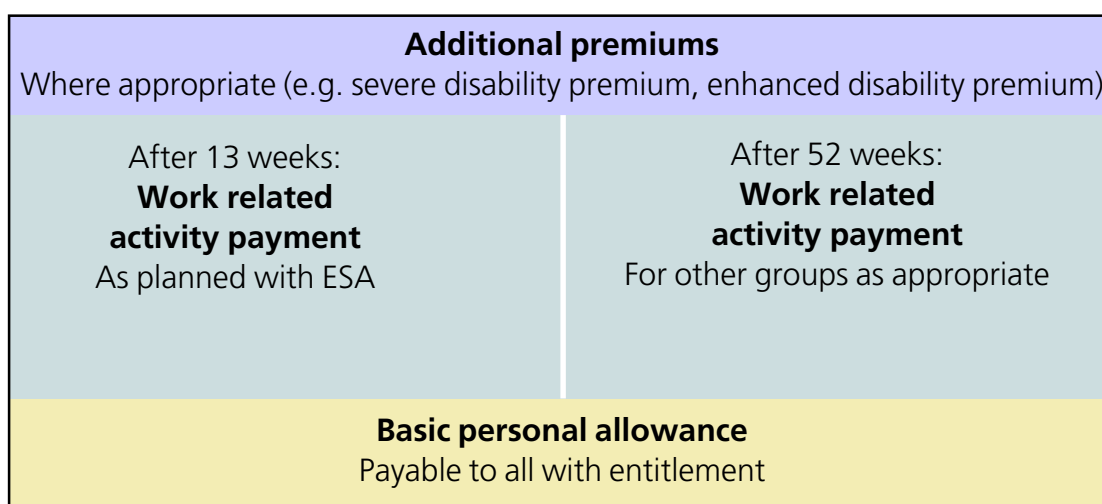
<p style="text-align: center;">Additional premiums</p> <p style="text-align: center;">If appropriate (e.g. severe disability premium, enhanced disability premium)</p>
<p style="text-align: center;">Basic personal allowance</p> <p style="text-align: center;">Sufficient to cover basic living costs for all current client groups. Removes need for work-related component in ESA, basic disability premium in IS, carer premium.</p>

This would be straightforward for the State and the individual, would send clear messages about entitlement and would remove incentives to move between benefits. It would support poverty objectives and need not create an "unemployment trap", as long as either the benefit is set below 16 hours at National Minimum Wage or is supported by in-work tax credits.

However it could also be very expensive – and, depending on where the benefit rate was set, have significant costs in terms of the adverse impact on work incentives. If, for example, the effect was to increase the average duration on JSA by just five days, the additional cost would be in the region of £200 million a year.

A basic rate and a long-term rate

The third option would be somewhere between the status quo and a single benefit with a single rate. Under this model there would be a common short-term rate (as with the current IS personal allowance) with an additional common long-term rate. This long-term rate could start after 13 weeks for people who meet the PCA (as is planned for the ESA) and after 12 months for others (JSA, lone parents and carers). Again there may be a need for additional support for some people.



The fundamental difference with the current system is that it would increase benefits for people on JSA and IS for more than a year. There is a justification for this, in that the costs of being long-term workless will be higher than in the short-term. A long-term/short-term rate would also support poverty objectives (the biggest gainers would be long-term workless lone parents) and better maintain the incentive to work than a single rate (for people on JSA over 90% flow off by 12 months). It would also be consistent with my other recommendations by linking the extra payment to extra work-related activity.

However the adverse work incentive impact could still be significant. Financial work incentives for lone parents tend to be weaker than for most people, and this would weaken them further. The perverse incentive would be to remain out of work once one was through the twelve month hurdle, an effect that could only be partially mitigated by linking rules. (Again, there has not been any detailed work on the potential impacts; more is needed.)

Costs and benefits

The fit with the high-level objectives, and the potential costs, are set out below.

Table 10 High-level objectives and the potential costs

	Current system	Single system, single rate	Single system, two rates
Safety net and income	Universal safety net, extra payments focused on those unlikely to work, through premiums and tax credits.	Universal safety net with common level that is same or higher for all (or higher for some and lower for others)	Universal safety net, using duration on benefit as proxy for additional support.
Link between rights and responsibilities	Clear for JSA and ESA, less clear for lone parents and unclear for current IB.	Could weaken link, but depends on conditionality regime	May be clearer for all – with extra payment based on extra responsibility
Support return to work	Very strong for JSA and ESA, relatively strong for lone parents, less so for IB. Some financial incentive to move between benefits.	Would weaken incentives for many or most, particularly short-term JSA. But no incentive to move between benefits.	Some weakening for JSA, more significant impact likely for lone parents. Could mitigate through link with responsibilities. Less incentive to move between benefits.
Individual focus	Complexity increases processing times and increases uncertainty/confusion.	Could be highly simple – initial payment could be set up with minimal checks.	Some simplification but fundamentals likely to be very similar to now.
Efficiency	Relatively inefficient	Could maximise efficiency	May be an improvement on current design.

Alongside these high-level design issues, I have also considered the case for individualisation and for simplification.

Individualisation

In order to deliver increased conditionality for partners (as set out in Part 5) the Government will need to introduce some individualisation within the benefits system. There are broadly two options – to individualise the current “household” benefit rates, or to introduce increased mandatory activity for the partner of the primary claimant without fundamentally changing the benefit.

Complete individualisation is attractive. The current household personal allowance (£90.10 plus premiums) could be notionally “split” between both claimants and any additional premiums given separately (at the single rate). Each member of the couple would then have rights and responsibilities that are consistent with the treatment of single claimants and appropriate to their circumstances.

However although this may be highly logical it would bring with it costs and complexity, and may give some partners greater incentives to inactivity. The second option, to maintain “household” benefits but to apply additional conditionality to the partner as well, may achieve the same result. This would also be broadly consistent with JSA “joint claims” and with the ESA legislation.

Simplification

Within all these models there would be opportunities to simplify the benefit rules to produce greater clarity and certainty for the individual claimant and to improve the efficiency of administration. Complexity arises not just from the structure of benefit rates but also from, for example, differences in eligibility criteria, rules on earnings, income and capital, links and dependencies between different benefits and the way changes of circumstance are handled.

Simplification is often not cost-free and individual measures need to be considered on their merits. But the Department’s existing programme of simplification is very much on the right lines in seeking to:

- increase consistency and coherence by standardising where possible;
- keep to a minimum information requirements and the number of administrative steps needed to operate a process;
- ensure policies and procedures are easily explained and make sense to claimants and staff.

The Local Housing Allowance

The Local Housing Allowance is a radical simplification of the Housing Benefit rules for the Private Rented Sector. Claimants’ maximum housing benefit will be based on flat rate according to the number and mix of occupiers, and the area, rather than tied to the actual dwelling they live in. Claimants can therefore see in advance, subject to income and non-dependant deductions, what their likely Housing Benefit will be. The Local Housing Allowance is already operating in 18 local authorities, of which the 9 ‘pathfinders’ have been subject to a comprehensive evaluation. It is anticipated that Local Housing Allowance will rollout nationally in April 2008.

In the pathfinders, the transparency of the Local Housing Allowance is reported to make discussions about work between advisers and claimants easier. The Local Housing Allowance also helps clients to become more work ready. Under the Local Housing Allowance, Housing Benefit is paid straight to the customer in most cases, rather than to the landlord, which helps prepare them for receiving a wage, as they would have to do when in work.

Housing Benefit and Council Tax Benefit

The proposals in this chapter are mainly about reforming out of work benefits. But there is also a case for much closer integration of the tax and benefits system as a whole and in particular for simplifying the way that benefits paid by Jobcentre Plus and those paid by local authorities (Housing Benefit and Council Tax Benefit) work together. There are two parts to this:

- ensuring that as far as possible the rules are aligned and do not damage incentives to enter work;
- ensuring that claimants have one point of contact.

In the shorter term, the most significant issues appear to be around information and perceptions of returns from work:

- Awareness of entitlement to Housing Benefit in work is relatively low. Recent DWP research found that “Customers ... generally had little knowledge of being able to receive HB/CTB in work ... their understanding of HB/CTB was very limited and often confused and contradictory.”⁶⁵ This means that many people may underestimate the positive impact of employment.
- Duplication and hand-offs (with different benefits paid by Jobcentre Plus, HMRC and their local authority) can act as a barrier to trying a return to work.
- In some cases it can take several weeks for payments to begin when someone starts work or to stop when they leave – creating concerns about their income during the transition.

Therefore more integrated delivery of benefits and transfers could make a major difference to employment outcomes. This is explored in more detail in Part 7, on the role of Jobcentre Plus.

Recommendation

None of the options described above is straightforward and all would create winners and losers. Debate on further reform needs to be informed by detailed modelling on the impacts of reform on work incentives, the costs and benefits (for individuals, the Exchequer and society) and take into account the interactions between all out-of-work and in-work support. This should call on existing expertise in academia, think-tanks and the private sector.

⁶⁵ Housing Benefit and Council Tax Benefit as in-work benefits; claimants’ and advisors’ knowledge, attitudes and experiences, by Caroline Turley and Andrew Thomas. DWP Research Report No. 383, September 2006.

7 The role of Jobcentre Plus

Jobcentre Plus would retain a critically important central role in the delivery of employment, benefit and broader welfare services in the proposed model. It would have a range of responsibilities, some of which are new (in bold below) and others current:

- Helping claimants to navigate the welfare system as a whole and keeping track of them as they do so.
- Setting out and enforcing a client's rights and responsibilities.
- Job-broking services for the first period (up to a year) that someone is required to look for work.
- **Referral of clients to providers for tailored employment support.**
- **Maintaining information on claimants' progress through the contracted system.**
- **Building a detailed database on each client handed over to the contracted provider to inform the contracting model.**
- The payment of benefits, including the imposition of sanctions.
- The management of a national vacancy service to help disadvantaged people find suitable jobs.
- The continuing provision of a high quality service to employers to help them fill their job vacancies.

Employment services in the first 12 months of unemployment

Jobcentre Plus would provide an integrated benefit and employment service for most unemployed people in the first 12 months of their claim, (though the precise period may vary for some claimants) and for most people in other client groups (for example, lone parents or people with disabilities) when they are first required to undertake work related activity. Jobcentre Plus would set out clearly at the outset the individual's rights and responsibilities and ensure on an ongoing basis that those

responsibilities were being met. The client would be given jobsearch support and access to other services as necessary to help them understand their options and build and maintain their confidence and motivation.

For the newly unemployed, this would leave largely in place arrangements that have proved to be efficient and effective in recent years.

The 'gateway' to tailored employment support

At the appropriate stage, Jobcentre Plus would refer people to specialist private and voluntary sector providers for more intensive, tailored employment support (as set out in Part 3). Jobcentre Plus would assess claimants at the point of referral to segment them into different needs groups with commensurately different outcome payments (in line with the model described in Part 4). This would be a key input into the funding model, to allow a process of continuous improvement in the terms on which contracts were set.

In some cases Jobcentre Plus would refer people to providers at an earlier point in their claim on the basis of an initial diagnosis of need. As Part 3 sets out, this could include those who have been unemployed for much of the previous 1-2 years. Similarly, some lone parents or people with disabilities who had no recent work experience could benefit from private and voluntary sector customised support sooner. Jobcentre Plus would maintain strong working relationships with providers to ensure that the transition into provider services was seamless and smooth.

Benefit services and the ongoing customer relationship

Jobcentre Plus would provide benefit services, and take ongoing responsibility for the customer's overall welfare needs, throughout the claim. For the majority, the strong message surrounding any benefits interaction with Jobcentre Plus would be their responsibility to look for work.

The integration of the 'work first' message into the delivery of benefit services has been a major factor in the success of the UK labour market. The Australian experience highlights the problems that can arise when this link is not made. Jobcentre Plus would therefore work with providers to police the rights and responsibilities regime. Where an individual failed to comply with a reasonable request from their provider, they would be referred to Jobcentre Plus for a discussion of their reasons. Jobcentre Plus would impose benefit sanctions where appropriate. In most cases a temporary suspension of benefit would be enough to get the claimant to re-engage, at which point the missed benefit would be paid back in full.

Providers would have the incentive to link clients to other services where these would promote successful employment outcomes. Where the link with employment was less strong, however, the onus would be on Jobcentre Plus to help the customer to navigate the system.

The focus of Jobcentre Plus contact after, the point at which claimants move to contracted support would be on responsibilities linked to benefit receipt and the identification and handling of any broader client needs; the most appropriate means of maintaining this contact needs to be explored. People referred to private and voluntary sector providers could have any mandatory interventions delivered by their provider. This would help to ensure a fully integrated employment service but reduce flexibility for providers. Alternatively, Jobcentre Plus could continue to enforce jobsearch responsibilities and deliver any prescribed interventions, leaving providers free to focus on the tailored, intensive support they judge to be needed to get the best results for each individual. Importantly, Jobcentre Plus would continue to “own” the customer in the sense of knowing where they were in the system at any given time.

Facilitating access to the broad range of welfare support

Government agencies have traditionally focused on delivering the services for which they are directly responsible with at most very limited consideration of, or support for, a person’s broader needs. This has started to change – for instance Jobcentre Plus staff operating from prisons – but the pace of that change must increase dramatically. The public service of the future will put aside organisational boundaries to deliver services designed around the whole of their needs.

The recent report by Sir David Varney provides a blueprint for this change.⁶⁶ Sir David outlines how the time and money of Government, citizens and businesses could be saved by examining the scope for integrating front-line service delivery. He makes a range of recommendations, including the development of:

- a change of circumstances service, starting with bereavement, birth and change of address, with initial work to be led by DWP; and
- a cross-Government identity management system to enable greater personalisation of services and to reduce duplication across Government, building on a proof of concept project to share data between DWP, HMRC and 12 local authorities.

As a major deliverer of services to millions of citizens, Jobcentre Plus has a vital part to play in the transformation of public services that Ministers and Sir David Varney envisage. They also have the only public facing Government network of offices across the entire country as well as sophisticated call centre and internet operations. Jobcentre Plus already has strong relationships with a myriad of partner organisations, and staff on the ground seek to link customers to other services they might need. For example, separately from the above proof of concept project, Jobcentre Plus is already running a trial with HMRC to improve the overall experience in relation to benefits and Tax Credits on starting and leaving work.

⁶⁶ Service Transformation: A better service for citizens and businesses, a better deal for the taxpayer, December 2006.

Service integration across benefit and transfer payments: the North Tyneside trial

DWP, HMRC and North Tyneside District Council have over recent months been developing and testing possible service improvements in a trial in the North Tyneside Local Authority district in the North East of England. This has focused on delivering improvements in the client experience during the transition into and out of work through closer working and service integration. This is not wholly new territory – these organisations already seek to share information as part of many core processes – but it represents a potential step-change in the scale and impact of that activity.

When an unemployed person in the trial area leaves benefit to take up work, Jobcentre Plus staff will work with them to initiate and partially populate a claim for Tax Credit at the same time as they close the benefit claim. They will similarly pursue possible Housing Benefit/CTB claims or changes in conjunction with local authority staff. This ensures that people are aware of, claim and much more quickly receive in-work benefit and Tax Credit entitlements.

Conversely, when someone leaves work and claims JSA, Jobcentre Plus staff share information as appropriate with colleagues in HMRC (so that appropriate Tax Credits can be stopped immediately, thus avoiding overpayments and debts) and the local authority (to initiate or amend a claim for Housing Benefit/CTB).

In the initial stages the trial has involved some co-location of staff. This has helped to break down organisational barriers, in particular increasing levels of trust between people working in the different organisations so that one is prepared to take the authority of another as sufficient evidence that information is correct. It should, however, be possible to achieve similar results without co-location.

It is too soon for evidence to be available on the impact of the trial on employment outcomes but the initial impact has been very positive.

- More claimants are aware of potential in-work entitlements.
- Claimants moving into work are having Tax Credits processed within 3 days.
- People moving out of work are receiving both JSA and Housing Benefit within around 15 days, compared to a baseline of around 40 days.

It seems likely that further substantial improvements could be achieved over time.

In addition, through the new Customer Management System the Department is working to better join up claims for Housing Benefit.

Joining up Housing Benefit – the Customer Management System

The Customer Management System allows working age clients to experience, as far as possible, a single claims process when claiming Housing Benefit and/or Council Tax Benefit alongside claims to Income Support, Jobseekers Allowance and Incapacity Benefit.

Jobcentre Plus gathers the necessary benefit claim information and work-focused activities through the CMS scripted questions over the telephone. This single claims process simplifies procedures and avoids considerable duplication by enabling the collection of all the necessary information just once.

When all the benefit information and the evidence in support of the Jobcentre Plus benefit(s) has been gathered the relevant Housing Benefit and/or CTB information and details of the evidence provided are sent to the local authority on a paper input document. When the local authority receives this they will consider whether they need to contact the claimant for any further information or evidence before making a decision on the Housing Benefit and/or CTB claim and any relevant payment. For example the LA would need to contact the customer for proof of rent on rent allowance cases.

There is scope to go much further. A large number of functions are currently spread through the system, making it hard to navigate. With responsibility for tailored employment support for the hard to help transferred to the private and voluntary sector, Jobcentre Plus should have the capacity to become the natural one-stop shop for a large number of standardised services for the mass market. This would place Jobcentre Plus at the heart of a connected set of welfare services, giving claimants and the taxpayer the full advantage of the contact it has and its physical presence on the high street. Jobcentre Plus could provide a one-stop base for relevant changes of circumstance, as proposed by Varney; consolidate the provision of benefit services, including working tax credits and housing benefit; sit at the heart of an integrated employment and skills service (Leitch); and further promote access to formal childcare (Harker).

In order to meet the ambition of the Leitch review that 95% of adults should have basic skills, the Government will need to go further than it does at the moment. There is an obvious role for Jobcentre Plus and their partners in identifying claimants who have basic skills needs as a barrier to employment.

The Leitch Review of Employment and Skills

In Budget 2006, the Chancellor commissioned the Leitch Review to consider how better to integrate skills and employment services. The Review reported in December 2006. It concluded that, under current arrangements, people have difficulty accessing services and do not receive the full skills and employment support they need. As a consequence people may be trapped in worklessness or low-paid jobs.

The Review recommended a number of reforms designed to create an integrated employment and skills service. These reforms would contribute to increases in sustainable employment and progression and to reductions in child poverty. In particular the Review recommended:

- a new programme to help benefit claimants with basic skills problems, including: basic skills screening for benefit claimants at the point of claim; more help for people to improve their basic skills without delaying their return to work; improved skills support for people cycling between welfare and work; and improvements in the quality of training;
- a new universal adult careers service providing labour-market-focused careers advice for all adults. This service would deliver advice in a range of locations, including co-location with Jobcentre Plus, to create a national network of one-stop shops for careers and employment advice;
- a new integrated objective for employment and skills services of sustainable employment and progression; and
- a network of employer-led Employment and Skills Boards to give employers a central role in recommending improvements to local services, mirroring the national Commission for Employment and Skills.

These proposals support the recommendations of the Leitch Review in two main ways:

- firstly, by explicitly building retention and progression incentives into the Government's contracting for support for the most disadvantaged; and
- secondly, by facilitating a change of emphasis within Jobcentre Plus towards providing core support to new claimants. A central feature of that support will be basic skills screening and support, designed and delivered in partnership with employers, other agencies and providers.

8 Implementation

The Department for Work and Pensions' Spending Review settlement for the three years to 2010-11 was agreed at the time of the Budget 2006. The Department will be operating within an envelope of minus five per cent per year real terms below the baseline of 2007-08 for that three year period. This makes effective prioritisation all the more important, especially when considering new policy initiatives. The Department and its agencies have also absorbed an enormous amount of change over the last few years, and there are real capacity issues to be addressed in delivering more change in the short term.

I therefore recommend that my reforms should be phased in over a reasonably long period. Although the thrust of the reforms will reduce expenditure in the medium to long term, through lower benefit rolls and a permanent increase in national income, short term investment will be required in terms of setting up contracts in a sensible way and increasing conditionality for certain groups. This part of my report recommends a phasing for that investment and for making changes that can reasonably be delivered by the Department.

Implementing the contracting proposals

It will be valuable to build up the outsourcing model through an expanding series of pilots. This report suggests phasing the contracting over a period of years. This will allow the specific lessons to be applied to the subsequent phase. Well advertised as a programme, it will also attract great interest and attention from the private and voluntary sector, who will be fully aware of first mover advantage and are likely to bid for contracts in the early rounds at keen prices.

There are a series of practical questions that need to be resolved if this is to come to fruition. The Department has a large number of existing contracts which are scheduled to come to an end at various points over the next few years. There may be scope for drawing together some of these contracts to provide an opportunity to start to test some of the ideas outlined in this report in a limited way.

The Department is in the process of contracting for delivery of the Pathways to Work service by the private and voluntary sector, on an outcome focused basis. This needs to be in place to ensure delivery of the Employment and Support Allowance from 2008, so this process cannot be disrupted. I propose that these contracts are let as planned and allowed to run for some years before changes are incorporated.

Other preparatory work can in the meantime be undertaken by the Department. A version of the assessment which advisers use at the point of handover to the private and voluntary sector will could be developed and tested (as described in Part 7). At a regional level, private and voluntary sector organisations could be drawn together to establish how they might best work together with a prime contractor to deliver all that the region needs in terms of labour market outcomes. This regional work would also be an opportunity to think in more detail about how cities consortia would influence these contracts.

In setting these initial contracts up, a number of considerations need to be taken into account, including the amount of money which the Department has available to invest in them, the amount of risk which both the Department and individual contractors are prepared to take on, and the implications for future competition of the way that they are established.

The implementation timetable for this part of the proposals could therefore begin with the setting up of some prototype contracts, as the Department's existing set of contracts expire. This set up might take a year or so, from which point the contracts could be piloted. Later, if these pilots are successful, lessons would be incorporated into other contracts, as and when they came up for renewal. Over a period of years it might then be possible to consolidate all of the Department's contracts.

Implementing the funding model

The funding model proposed in this report will require the Department to operate in a new way. It will have to gather extensive information on the characteristics of individuals and their likelihood of returning to work, in order to establish a proper pricing mechanism. Ideally, this would allow for the contract price to be fully responsive to the changing labour market and claimant composition.

Recommendations for rolling out this model are set out in Part 4. For this approach to work, the Government may need to ensure that adequate funds are available to reward contractors in proportion to their success in moving more people into sustained work than the benchmark.

The system also relies on the private and voluntary sector being able to track people consistently for a period of three years, and the Department being able to verify this information. This is much longer than is currently required, and will need some different ways of operating.

The implementation timetable for this part of the process would initially involve setting up an expert centre within the Department for Work and Pensions and commencing regional work in more detail. This information would then be used in the prototype contracts described above.

Implementing rights and responsibilities

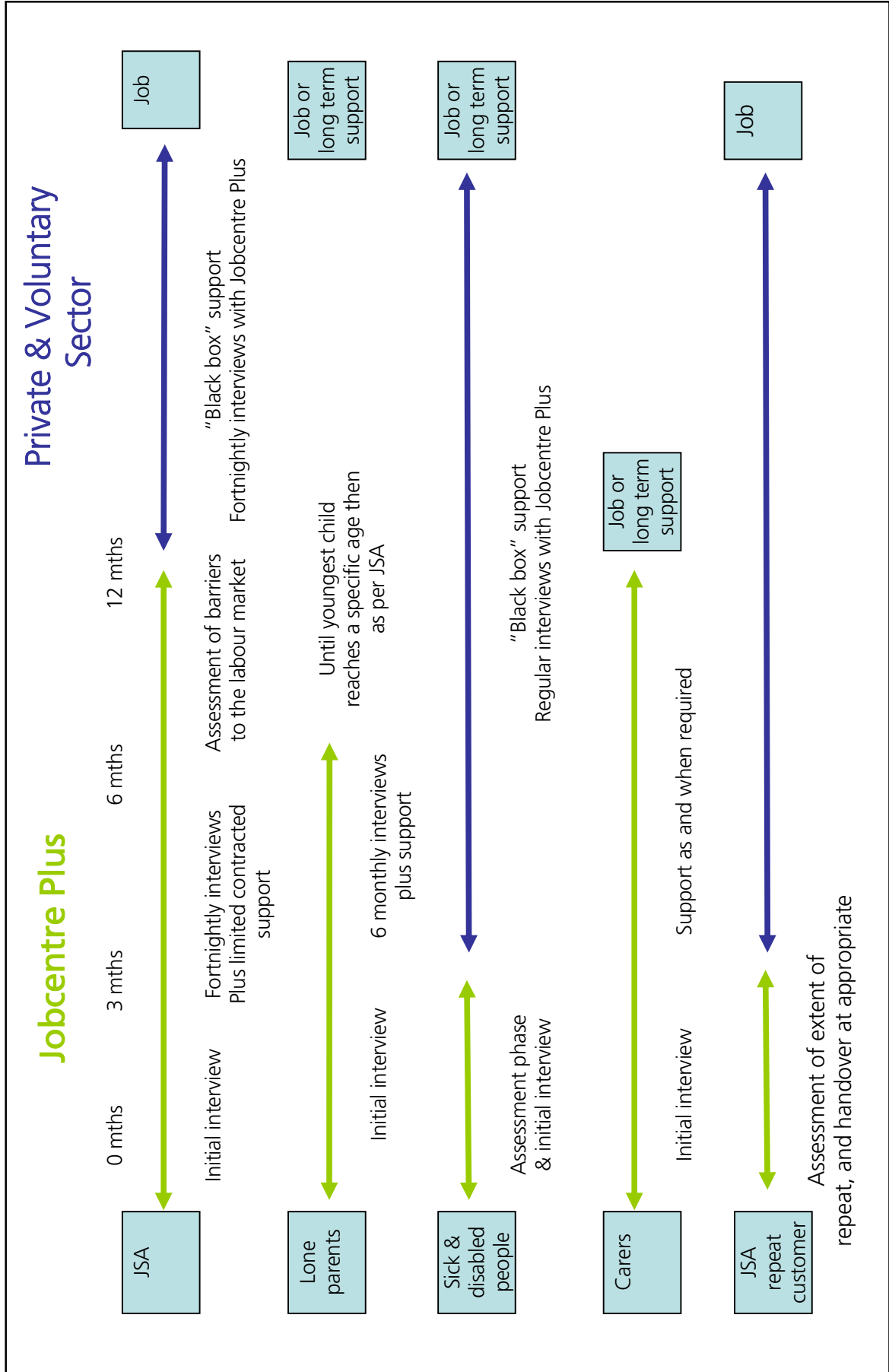
The increased conditionality, in particular for lone parents, recommended in this report, will come with a short term price tag attached. The Department will need to come to a view about how and when this conditionality is affordable. The removal of eligibility to income support for lone parents with older children needs to be tied into the availability of childcare, and consulted on widely. I would also propose that this change is phased in, with the age of the youngest child reducing to twelve as soon as is practicable and gradually thereafter.

Implementing benefit reform

Significant change to the benefits system will require a change to legislation, for which parliamentary time would need to be found. There are significant lead times to developing a consensus on reform and on the necessary changes. Any work would clearly need to begin with consultation and evidence gathering on the longer term shape of the benefits system. These proposals would then need to be consolidated into a Government paper or papers, and a design phase could then begin. Legislation would follow, and then the development of IT systems and detailed delivery mechanisms. From start to end this process would probably take at least a decade.

Appendix 1

Illustrative individual journeys in proposed system



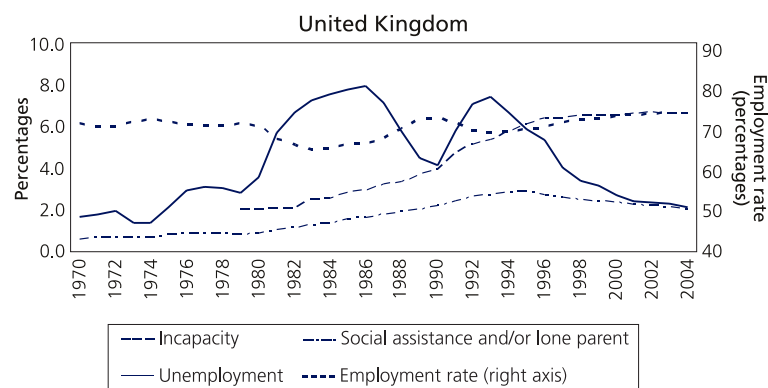
Appendix 2

Overview of selected countries' welfare systems

This appendix sets out high-level information on international welfare reform. The UK spends comparatively little on labour market programmes but has achieved impressive results, as the OECD has recognised in its Employment Outlooks.

The graph below illustrates this success, particularly in increasing employment and reducing claimant unemployment.⁶⁷

Figure 30 Employment compared to unemployment, United Kingdom



However, there is clearly much that the UK can learn from international experience. This appendix explores international approaches in six leading countries – Denmark, New Zealand, Australia, the United States, Germany and the Netherlands – and goes on to set out key indicators for a wider range of OECD countries.

⁶⁷ *From inactivity to work: the role of active labour market policies*, Stéphane Carcillo and David Grubb; OECD Social, Employment and Migration Working Paper No 36.

Denmark

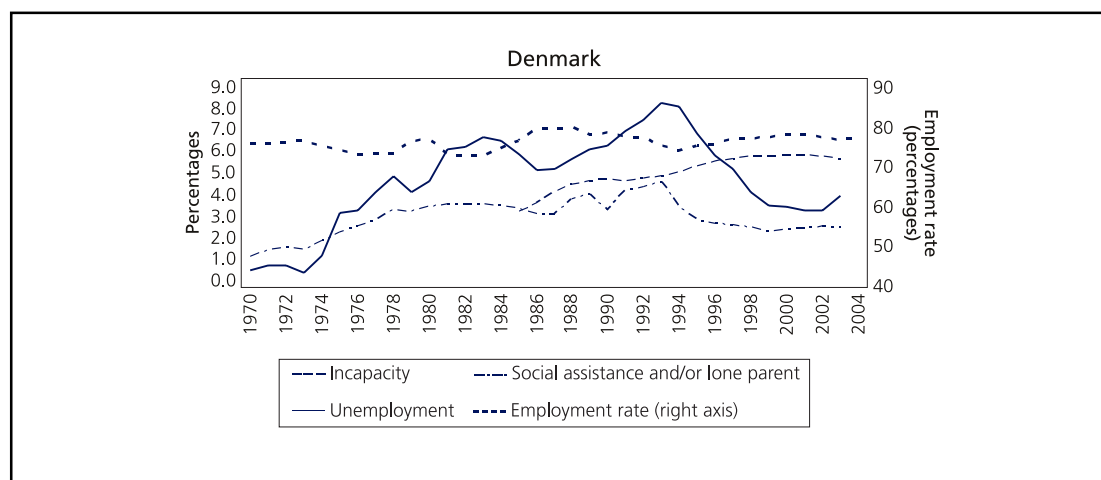
Labour market context

Historically, Denmark has enjoyed relatively high employment rates since the 1970s. In 2004, Denmark had the second highest employment rate among the OECD countries at 76.0%.

Unemployment in Denmark has been declining since 1994 and this is reflected in the proportion of the working age population on unemployment benefits, which has fallen considerably over the same period. The unemployment benefit reciprocity rate now stands at 3.9% compared to 7.8% in 1994.

Similarly, the proportion of those receiving social assistance has been declining although it has remained stable over the last few years. The recipient rates for incapacity benefit have been increasing steadily. It has doubled from 3% of the working age population in 1986 to almost 6% in 2004.⁶⁸

Figure 31 Employment compared to unemployment, Denmark



The welfare system

Danish (contributory) unemployment benefit may be payable for up to four years. This is a relatively long period compared to other Scandinavian countries. In Norway unemployment benefit has a maximum duration of 2 years; in Finland, it is 500 days, while in Sweden it is 300 days.

Unemployment benefits recipients are required to seek a job. Adults unemployed for more than 12 months have to participate in "activation programmes". Under-25s have only six months to find work before activation becomes mandatory.

⁶⁸ *From inactivity to work: the role of active labour market policies*, Stéphane Carcillo and David Grubb; OECD Social, Employment and Migration Working Paper No 36.

An activation period lasts for up to three years and may include private or public job training, job search courses or targeted education. If after this period (and at the end of contributory unemployment benefit) the unemployed person still fails to find a job, they will be eligible for means-tested social assistance.

There is no separate benefit for lone parents (therefore lone parents out of work and on benefit would claim unemployment or incapacity benefit). All lone parents are entitled to child care, usually at one third of the cost (free for those with low incomes). The lone parent employment rate is relatively high at 74%.

A reform of the anticipatory pension system (incapacity benefit equivalent) in 1998 and 2003 has reduced entry from around 25,000 in 1996 to 15,000 a year, and more people now undergo work capacity testing as a result of the reform in 2003 (although the 2003 reforms have not yet led to a reduction in in-flows).

The employment rate for ethnic minority groups is very low in Denmark – on average around 50%. However alongside this, young immigrants have among the highest employment rates in the OECD.

Recent reforms

The Danish government recently agreed new welfare reform proposals, which include the following initiatives:

- a strengthened role for the unemployment insurance agencies in job matching procedures;
- the activation period for adults will begin after 9 months instead of 12;
- benefit recipients will be obliged to search for jobs through the jobnet.dk website, and there will be increased follow-up on vacancies that remain unfilled;
- systematic available-for-work assessments will take place every three months and new sanction rules will be applied with a gradually toughened regime for those repeatedly failing to appear for interviews;
- new measures for those aged between 55-59, including harmonisation of entitlement and activation rules with other age groups and a special wage subsidy payable for six months.

The Government has in recent years also taken steps to address the low employment rate for ethnic minorities. This has been both through old style apprenticeships to prevent high drop-out rates of ethnic minority students and more on the job training (including language training).

The Government has also reduced cash benefits in recent years in order to improve financial incentives to work. A further reduction in benefits will take place from 1 April 2007, when benefits to spouses in families receiving the highest benefits will be cut completely if the spouse has not had ordinary paid work for 300 hours in the preceding two-year period.

New Zealand

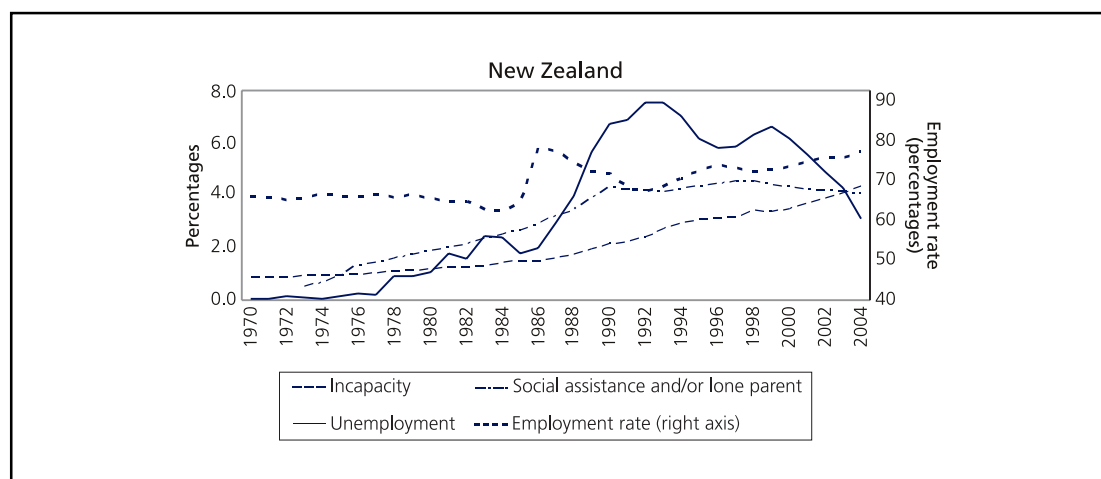
Labour market context

New Zealand has one of the highest employment rates in the world at 75.3%. Unemployment rate has reduced substantially from 8.2% in 1994 to 3.8% in 2005.

The proportion of the working age population on unemployment benefit increased sharply from the mid 1980s to early 1990s, but since then has made significant improvements. There are now only 3.1% of the working age population on unemployment benefit.

Nonetheless, dependency on non-employment benefits has been increasing steadily. This is reflected in the rise in incapacity benefit recipients, where the percentage of working age population on has continued to increase over the last twenty years.⁶⁹

Figure 32 Employment compared to unemployment, New Zealand



The welfare system

New Zealand's tax-financed welfare system is residence-based, offering flat-rate benefits which are mostly means tested. Unemployment Benefit can be paid for an indefinite period.

"Mutual obligations" begin at the point a person makes an application for unemployment benefit. This includes mandatory attendance at a seminar that sets out their responsibilities (the "Work4U" seminar, which initial evaluations suggest has resulted in a reduction in benefits applications by 10-20%), the drawing up of a Job Seeker Agreement, and introducing the applicant to a work capability and search tool that aims to match people to a national database of vacancies.

⁶⁹ *From inactivity to work: the role of active labour market policies*, Stéphane Carcillo and David Grubb; OECD Social, Employment and Migration Working Paper No 36.

The type of support clients receive depends on their level of need:

- Contact Centre Support: for clients who have a job lined up or are confident they can find work quickly. This is self-directed job search.
- 'Search4WRK': for clients with a solid work history and good skills who need help with their job search. Clients attend twice a week to discuss (and show evidence of) their recent job search activity and plan their next activities.
- 'In2WRK': For more disadvantaged clients. An intensive one week module covering goal setting, job search skills, confidence building, CV writing, interviewing skills and employment relations.

Clients are reassessed after 6 weeks and allocated to a new stream if necessary. If employment is not found after the 12 week programme then individuals can be placed into a brokered job (which may not match the job seekers plan), or be entitled to a wage subsidy or training scheme.

Recent reforms

Through Pathways to Opportunity, New Zealand has reformed its employment service and benefits to enable those with weak links to the labour market to enter work. Reforms have focused on tailoring services to individual need and bringing a more active work focus to the system – particularly for lone parents and people with health and disability issues. The main initiatives have been:

- "*Working For Families*" between 2004 and 2007 has substantially improved work incentives for low- and middle-income earners with children – making work pay for as many people as possible.
- The *Sickness and Invalids Benefit Strategy* and *PATHS (Providing Access To Health Solutions)* has looked at ways of activating those with health and disability issues, including personal development planning, specialist case management and targeted health interventions.
- The *New Service Approach* provides a work-focus for all claimants by focusing on finding work before looking at benefit entitlements. Benefits are not even discussed at first contact. This is being introduced alongside expanded employment and training programmes.
- *Working New Zealand: Work-Focused Support (WNZ)* focuses on active case management, extended employment and training options, and making work pay for disabled people.

New Zealand proposes to introduce a Single Core Benefit in 2010. This aims to move away from a benefit structure that focuses on barriers to employment and replace it with a unitary ("core") benefit that streams people in terms of what is expected of them. There will be three work streams: work ready, work development (for whom a gradual transition to work or intermittent work is more appropriate) and work exempt (e.g. the terminally ill). There will therefore be work expectations on most

people, to varying degrees, and benefit recipients will move between the streams depending on their work-readiness.

Lone parents will be in the “work development” category. They will not be expected to move immediately into work, but will be required to actively plan for their eventual entry into the workforce. The emphasis will be on engagement and support through case managers rather than on sanctions.

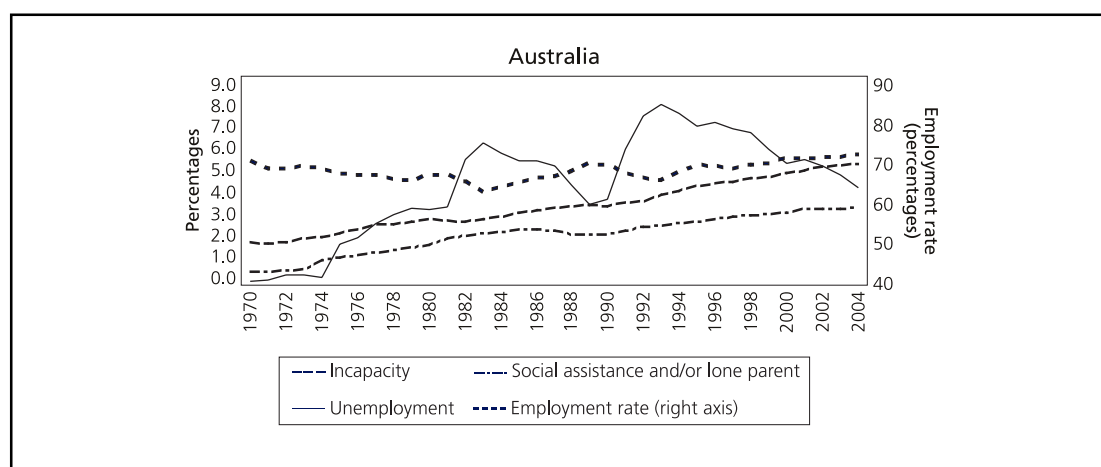
Australia

Labour market context

In 2004, Australia reached its highest employment rate in over thirty years at 71.2%. Alongside this, there have been significant falls in the unemployment rate in the last ten years – with the unemployment rate now down to 4.2%.

Australia faces a challenge of those on incapacity and lone parent benefits. The proportion of the working age population receiving incapacity benefit now exceeds the percentage receiving unemployment benefit. The proportion of people on social assistance has also been growing⁷⁰.

Figure 33 Employment compared to unemployment, Australia



The welfare system

Unemployment benefits (Newstart Allowance for people aged 21 and over) are funded by the Government and are means-tested. To qualify a person must be unemployed and satisfy the activity test. Sanctions are imposed if a person fails to meet the activity test. This can be waived for older job seekers. Youth allowance is paid to young people aged 16-20 who undertake approved education, training or job search.

⁷⁰ From *inactivity to work: the role of active labour market policies*, Stéphane Carcillo and David Grubb; OECD Social, Employment and Migration Working Paper No 36.

At the start of their claim, jobseekers are referred to a single job Network member in the private or voluntary sector who provides services. If a job seeker has not found work within the first 3 months of job search, they are given Intensive Support services commencing with job search training.

After 12 months (and again after 24) jobseekers are required to engage in Customised Assistance, an intensive 6 month period of sustained assistance (tightly targeted intervention, fortnightly meetings, work preparation activities such as vocational training, counselling, paid work experience, complementary programmes). Eligible job seekers can have two spells of customised assistance.

Recent reforms

In July 2006, the Australian Government introduced significant Welfare to Work reforms. They are designed to encourage participation, reduce reliance on benefit and better target labour market strategies. In particular the reforms have been aimed at disabled people, parents (particularly lone parents), older people and the very long-term unemployed. Many of these have traditionally been outside the labour market.

The Australian Government's objective has been to increase workforce participation rates, and therefore employment rates, and, in doing so, reduce welfare dependency. The key features of the reforms included:

- 1) **A greater linking of payments to work incentives.** Around 700,000 people were on Disability Support Pension (DSP), approximately 5% of the working population. Of these only 9% had earnings. To qualify for DSP a person had to be unable to work 30 hours per week. The reforms have made it more difficult for new claimants to receive DSP. Persons capable of working 15 hours per week are required to look for work and in return receive higher benefits whilst seeking work. A one-off employment entry payment is also available.
- 2) **Work obligations – a compliance regime.** The changes introduce a clear link between receiving income support and actively participating in an employment related service. For recipients with continued non-compliance future payments are contingent on re-engagement. Penalties are not imposed without the recipient being given warning; if they re-engage quickly they avoid them. Persons on unemployment benefit with a partial work capacity are required to seek part-time work.
- 3) **Services.** To aid reintroduction into the workforce for the hardest to help, a suite of new services are available: disability open employment services, vocational rehabilitation, job network, personal support programme.
- 4) **Employer demand.** The reforms have been combined with a workplace modification scheme and a wage subsidy scheme. They focus on encouraging flexible working and try to link priority groups with job growth.

- 5) **New Assessment process.** 2006 saw the introduction of comprehensive work capacity assessments through face-to-face assessing by a range of medical and health professionals. Each applicant was evaluated against the degree of difficulty in finding employment, the employment service receiving greater reward for placing a difficult candidate.

Jobs, Education and Training (JET) Child Care assistance provides extra help with the cost of approved child care for eligible parents on income support who are undertaking activities such as job search, work, study or rehabilitation.

In October 2006, the Australian Government also announced the *Skills for the Future* initiative. This has a primary focus on raising the skills of Australia's adult workforce. The main initiative is the provision of 30,000 Work Skills vouchers each year, valued at up to \$3,000, for people aged 25 years and over who do not have a Year 12 or equivalent qualification (ie have not successfully completed secondary education) to improve their skills.

USA

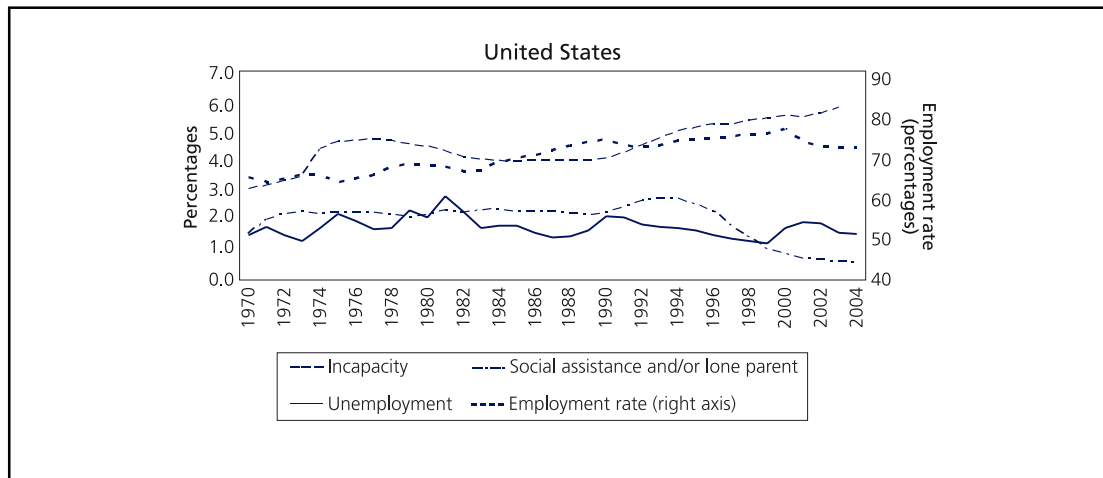
Labour market context

The employment rate in the United States has fallen significantly in the last five years, from 75.0% in 1999 to 71.5% in 2004. Unemployment has increased over a similar period, up from 4.8% in 2001 to 5.1% in 2005.

The USA has had a mixed past when it comes to recipiency rates for incapacity benefit. The proportion of people receiving incapacity benefit has remained higher than both the unemployment benefit and social assistance for over thirty years.

The share of the working age population receiving lone parent benefit has fallen significantly, from 2.7% in 1994 to 0.2%.⁷¹

⁷¹ *From inactivity to work: the role of active labour market policies*, Stéphane Carcillo and David Grubb; OECD Social, Employment and Migration Working Paper No 36.

Figure 34 Employment compared to unemployment, United States

The welfare system

The Federal-State Unemployment Insurance Program provides unemployment benefits to eligible workers who are unemployed through no fault of their own and meet other eligibility requirements of State law. Each State also administers separate unemployment insurance within guidelines established by Federal law. Eligibility, benefit amounts and duration of benefits are determined by the State. In most cases, benefits can be paid for a maximum of 26 weeks.

In 1996 there was a dramatic overhaul of welfare available for lone parents. Temporary Assistance for Needy Families (TANF) was introduced, to replace the previous entitlement system with one that required work (or work related activity) in exchange for time limited assistance. TANF is funded by a block grant to states, giving them considerable freedom in how to provide employment support, subject to states meeting work participation targets (50% for lone parents).

Less action has been taken on disability benefits, where the story is similar to most industrialised countries' recent past with increasing caseloads. Only once you have proved you can't work (which can take up to three years), are you eligible for 'Ticket to Work' a programme to move people closer to the labour market.

Welfare supports also include Food Stamps and Medicaid (federal and state funded health insurance for the poor). Losing access to the health coverage provided by Medicaid may be a barrier for some groups returning to work (in particular those with health conditions).

Recent reforms

The TANF reforms of 1996 have led to sharp declines in welfare caseloads (4.6 million families in 1996 to 2.1 million families in 2002), increases in participation in work and work related activities (lone parent labour force participation rose from 44% to 66% between 1994 and 2001, before tapering off to 61% in 2004), and reductions in poverty. However strong US economic performance, increases in the

minimum wage and the Earned Income Tax also played a part – indeed some research has suggested that work requirements accounted for around three fifths of the fall in welfare but only around one fifth of the increase in labour market participation.⁷²

More recently, poverty has been on an upward trend and participation in work related activity has been falling. The federal government has attributed work participation declines to a lack of state activity, but economic problems in the early 2000s undoubtedly played a part.

Last year the 1996 legislation was 'reauthorised'. The federal government tightened the criteria on states, to restore the requirement that 50% of lone parents participate in work related activity.

States have wide discretion in implementing TANF (and other support with moving from welfare to work). Wisconsin has led the way over the last decade, although with more limited success recently. States that have been performing well recently include some counties in California (where policy is delivered at the county level), Oregon, Vermont and Washington State.

Germany

Labour market context

At 65.9%, Germany's employment rate was just above the average for OECD countries in 2004 and has appeared to have stabilised in the last decade. However, Germany has experienced a sharp increase in its unemployment rate, which climbed to 11.3% in 2004 from 8.5% in 1994.

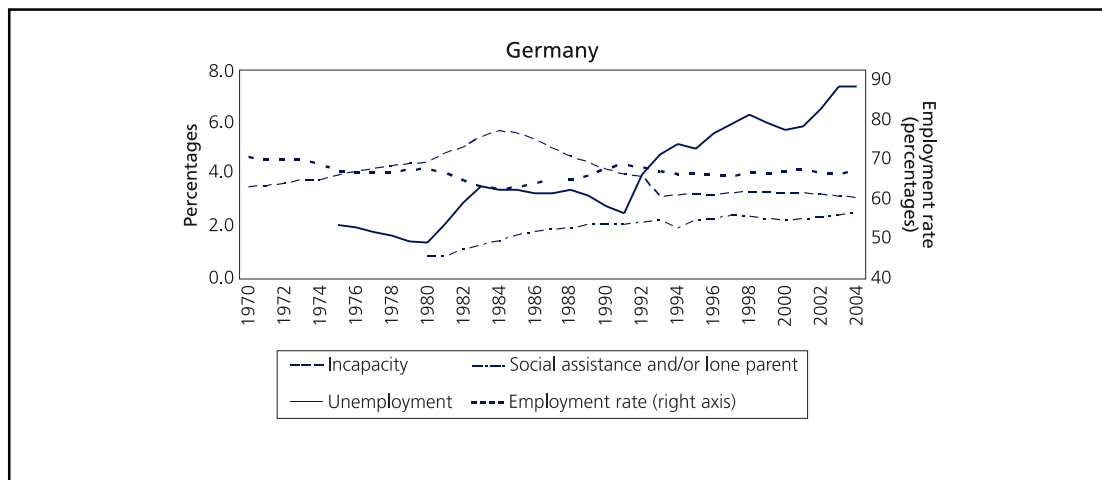
The trends in the selected benefit recipient rates in Germany are relatively different to those observed among other OECD countries. Germany is one of the few countries in the OECD that has experienced a significant increase in the reciprocity rates for unemployment benefit. Long-term unemployment and early retirement, in particular, remain key challenges.

Another striking feature is that while many other OECD countries observed sharp increases in the number of people receiving incapacity benefit, the proportion in Germany declined over the same period and has stabilised since the early 1990s. In contrast, the proportion of people on social assistance has been increasing continuously since the 1980s.⁷³

⁷² "Assessing the Impact of Welfare Reform on Single Mothers", Hanming Fang and Michael P. Keane; Brookings Papers on Economic Activity 1:2004.

⁷³ *From inactivity to work: the role of active labour market policies*, Stéphane Carcillo and David Grubb; OECD Social, Employment and Migration Working Paper No 36.

Figure 35 Employment compared to unemployment, Germany



The welfare system

The German Federal Employment agency (BA) combines benefit payment, referral to labour market programmes and job placement. BA deal mainly with the short-term unemployed whilst the long-term unemployed are the responsibility of ARGE, which is a joint association of the employment office and the local authorities.

The obligations associated with receipt of benefits include independent job search, availability for job placement, take-up of any job that is acceptable, as well as willingness to participate activation measures.

Contributory unemployment benefit is equal to up to 67% of net earnings and is payable for up to 12 months depending on the length of the employment period and the claimant's age. After this, and for people without an adequate contribution record, a subsistence allowance known as Unemployment Benefit II (ALG II) can be paid. ALG II, introduced in January 2005, replaced the former unemployment assistance (UA) and social assistance (SA). ALG II is less generous than the benefits it replaced, although eligibility requirements are also lower. This has meant that more claimants than expected have registered for the new benefit.

Germany also requires lone parents to be available for work once their youngest child reaches 3 years of age, as long as their child care needs can be met. Local authorities must give priority to this group when allocating child care places.

Recent reforms

The Federal Government has taken major steps to strengthen employment performance in the last three years, focusing on reducing work disincentives associated with unemployment-related benefits and better activation strategies for the unemployed. These have been based on the findings of the Peter Hartz Commission. The main welfare reform focus of the first three reforms (Hartz I-III) was on re-organisation of placement activities and implementing contractual arrangements with private providers. These changes broke down into four main elements:

- Employment agencies can contact private providers for client placement or for placement-related tasks. After the client has been unemployed for 6 months they have the right to be referred to private providers if they so wish.
- Employment agencies can create contracts with 'personal service agencies', which place the client in temporary work as a step towards moving them on to permanent work.
- Clients can request 'placement vouchers' to purchase services from private placement agencies who will receive a fee if the client is placed in a job; and
- Clients receive 'training vouchers' that they can use a authorised training providers.

The final reform (Hartz IV) brought together services for unemployment assistance recipients and employable social assistance recipients (the creation of ALG II, described above).

Recent reforms have also included some in unemployment insurance contributions. However total labour costs remains high and, coupled with relatively high benefit levels, this continues to act as a disincentive to take up work.

Interim evaluation of the Hartz I-III reforms has been disappointing, particularly around the performance of 'personal service agencies' and the effectiveness of the 'training voucher' scheme. So far there has not been an official evaluation of the Hartz IV reforms.

Netherlands

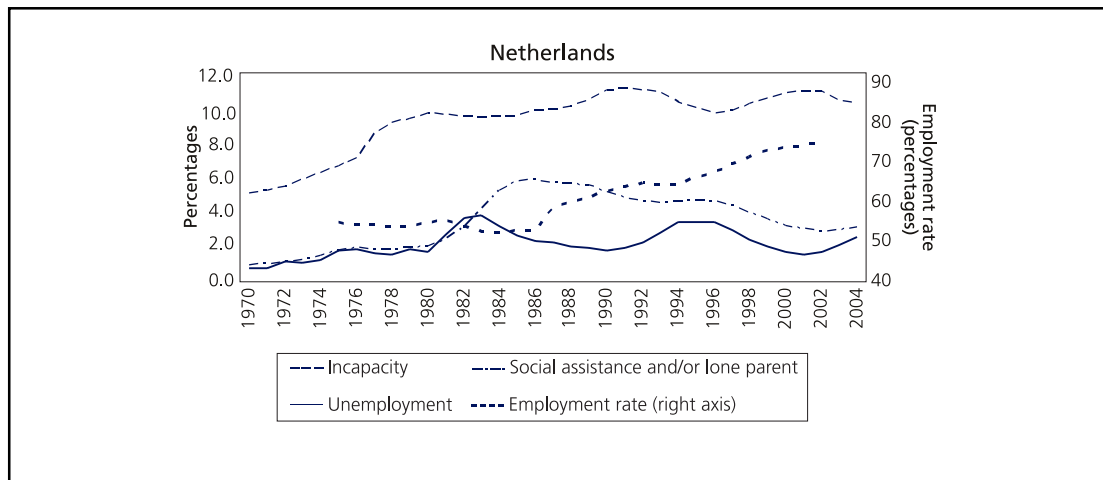
Labour market context

The Netherlands has substantially improved its employment rate over the past twenty years, from 52.1% in 1983 to 73.4% in 2003. Unemployment has declined in the last ten years but there are now signs of a slight rise. The proportion of the working age population receiving unemployment benefit has been broadly stable.

A striking feature of the Netherlands is that it saw strong growth in reciprocity rates of incapacity benefit far earlier than most other countries, with strong growth from the mid 1970s. The incapacity benefit caseload remains far larger than those for unemployment benefit and social assistance.

The reciprocity rate for those on social assistance has been declining since the mid 1980s, unlike other industrialised countries where reciprocity rates for both incapacity benefit and social assistance have tended to move in the same direction⁷⁴.

⁷⁴ *From inactivity to work: the role of active labour market policies*, Stéphane Carcillo and David Grubb; OECD Social, Employment and Migration Working Paper No 36.

Figure 36 Employment compared to unemployment, Netherlands

The welfare system

Dutch (contributory) unemployment benefits consist of an earnings-related benefit equivalent to 75% of the last salary (up to a daily maximum amount) payable for the first two months. After this the benefit is lowered to 70% of the last salary and paid out for a maximum of a further 36 months (i.e. 38 months in total) depending on the employment history.

The government has launched several programmes to combat youth and long-term unemployment and to reintegrate people who have lost their eligibility for social assistance or disability payments as a result of social reforms (see below for changes to the disability scheme). Measures to get people into work include job-creation programmes, lump-sum subsidies for the unemployed who are re-integrated into the workforce and income support of up to 24 months for the unemployed who set up a business.

Recent reforms

Dutch reforms have tended to be aimed at improving the labour participation of particular groups, for example ethnic minorities, women and older workers, as well as to contribute to a more even division of paid and unpaid work between men and women.

Most importantly, a new law on work and social assistance was introduced in January 2004 to bring together more effectively the payment of social assistance with instruments to get people back into work. It introduced tighter obligations to accept 'generally suitable employment'. Financial responsibility for both social assistance and reintegration was also devolved completely to municipalities. They now have the freedom to develop reintegration schemes to fit local circumstances and have financial incentives to try and move people off social assistance and back into the labour market.

In addition, the disability benefit system has been recently reformed so that is now only available to those deemed as being completely incapable of working. Those assessed as being partly disabled are required to look for suitable part-time work to make up the difference in income lost due to their disability.

To encourage people to work longer, tax incentives which previously rewarded early retirement have been removed and an alternative "career savings scheme" has been introduced. This allows employees to bank around two years' annual salary tax free. These funds can be accessed when taking extended periods of leave for the purposes of caring (including childcare), education and training, etc.

Childcare will also be made more affordable with an additional investment of €125 million and the introduction of compulsory employers' contribution towards childcare costs.

Table of welfare system characteristics by country

Country	ALMPs Spending (% of GDP) ^{†‡}	Registered Unemployed per agent ²	Intensity ³			Sanctions ⁴			Programme Compulsion ³
			Work/Skill ¹	Interviews† and Action Plans	Job search	Length	Incidence		
Australia	0.39	-	Work	√√√	√√√	√	√	√√√	
Canada	0.36	-	Work	-	√	-	-	0	
Denmark	1.83	-	Skill	√√	√	√√	√	√√√	
France	0.97	-	Skill	-	-	√√√	-	-	
Germany	1.14	41	Skill	√√√	√	√√√	√	√	
Ireland	0.62	649	Work	-	-	-	-	-	
Italy	0.59	397	Skill	√√√	0	-	-	√	
Japan	0.28	137	Work	-	√√	-	-	√	
Korea	0.13	-	Work	√√√	√√√	-	-	0	
Netherlands	1.44	109	Skill	√√√	√√	-	-	√√√	
New Zealand	0.42	-	Skill	√√	√	-	-	√	
Norway	0.79	26	Skill	√√	√	√	√√	√	
Spain	0.72	176	Skill	√√	0	√√√	-	-	
Sweden	1.24	42	Work	√√√	√	-	-	√√√	
United Kingdom	0.52	43	Work	√√√	√√√	√	√√	√√√	
United States	0.16	-	Work	-	√√√	*	√√√	*	

* The United States provides unemployment benefit for a set period of 26 weeks. This acts as both a sanction and a method of compulsion.

† Interviews include the initial interview and/or setting up of action plans as well as the frequency of subsequent interviews.

‡ Data shown is for 2004 except Australia, Canada, Japan, and New Zealand (2004/5) and the United Kingdom and the United States (2003/4).

Sources:

1. Employment Outlook, OECD 2006.
2. "Labour Market Policies and the Public Employment Service", Prague Conference, OECD 2000.
3. "From Unemployment to Work: Interventions in the Unemployment Spell", OECD 2006, Peter Tergeist.
4. "Eligibility Criteria for Unemployment Benefits", OECD 2000, David Grubb.

Table of labour force activity rates and proportion of working age population in receipt of benefits by country

Country	ILO employment rate [‡]	ILO unemployment rate [‡]	ILO inactivity rate [‡]	ILO unemployment (2002)*	Inactive benefit recipients	Unemployment benefit recipients	Social assistance benefit recipients	Difference between ILO and CC unemployment	ALMP/ILO unemployment**
Australia	69.5	5.5	26.4	6.1	5.1	5.1	3.2	0.4	0.08
Canada	72.6	7.2	21.8	7.7	4.8	5.2	1.5	2.5	0.06
Denmark	76.0	5.3	19.8	5.5	5.6	3.3	2.6	1.2	0.29
France	62.8	9.6	30.5	8.7	5.2	5.2	3.1	2.5	0.14
Germany	65.5	9.9	27.3	8.7	3.2	6.5	2.3	2.2	0.13
Ireland	65.5	4.4	31.4	4.3	6.2	5.7	3.4	-1.4	0.25
Italy	57.4	8.1	37.5	9.1	-	-	-	-	0.08
Japan	68.7	4.9	27.8	5.6	2.1	1.0	0.4	4.6	0.06
Korea	63.6	3.6	34.0	3.2	-	-	-	-	0.07
Netherlands	73.1	4.7	23.4	2.6	10.9	1.7	2.9	0.9	0.41
New Zealand	73.5	4.0	23.4	5.2	3.9	4.9	4.2	0.3	0.14
Norway	75.6	4.5	20.9	4.0	9.9	1.9	2.2	2.1	0.20
Spain	62.0	11.0	30.3	11.4	4.0	4.2	0.3	7.2	0.08
Sweden	73.5	6.6	21.3	5.3	12.9	3.1	1.6	2.2	0.22
United Kingdom	72.7	4.7	23.8	5.1	6.6	2.3	2.2	2.8	0.08
United States	71.2	5.6	24.6	5.9	5.6	1.9	0.7	4.0	0.03

* 2002 data is used to allow comparison with benefit reciprocity data.

** This is the ratio of the share of GDP spent on ALMP over the ILO unemployment rate for 2004.

‡ Data is for 2004, this allows direct comparison with data on the proportion of GDP spent on ALMPs in the previous table.

Sources:

1. ILO activity rates are taken from the OECD Employment Outlook 2005.

2. Benefit reciprocity data is taken from the OECD 2002.

Glossary for benefit system characteristics

Term	Rating	Criteria
Programme compulsion	√√√	Indicates that the country has compulsory participation after some set unemployment duration, compulsory participation when referred by PES and some job search requirement and/or verification during participation in ALMPs.
	√	Indicates compulsory participation when referred by PES/ some job search requirement and/or verification during participation in ALMPs.
	0	No compulsion.
	-	No response.
Work/Skill	Work	The country spends a higher proportion of GDP on work focused policies than skill focused policies.
	Skill	The country spends a higher proportion of GDP on skills focused policies than work focused policies.
Registered Unemployed per agent		The average number of registered unemployed to Public Employment Service staff.
	-	No data available.
Sanctions - Length	√√√	First quit or refusal greater than 6 months/first quit or refusal greater than 3 months and subsequent refusals exclusion.
	√√	First quit or refusal greater than 3 months and less than 6 months.
	√	First quit or refusal less than 3 months.
	-	No data available.
Sanctions - Incidence	√√√	Where annual rate of labour market behavioural condition sanctions as a percentage of the average stock of benefit claims is greater than 10.
	√√	Where annual rate of labour market behavioural condition sanctions as a percentage of the average stock of benefit claims is between 5 and 10.
	√	Where annual rate of labour market behavioural condition sanctions as a percentage of the average stock of benefit claims is less than 5.
	-	No data available.
Intensity - Job Search	√√√	Report on job search more frequently than once a month and at least one action to be reported a week
	√√	Report on job search between once and twice a month and some action to be taken during the period.
	√	Report on job search less regularly than twice a month and/or some action to be taken periodically.
	0	No requirements.
	-	No data available.

Continued

Term	Rating	Criteria
Intensity - Interviews and Action Plans	√√√	Interviews more frequent than quarterly and/or action plan set up sooner than first 3 months.
	√√	Interviews quarterly and/or action plan set up within 3 months.
	√	Interviews less frequent than quarterly and/or action plan set up after 3 months.
	0	No requirements.
	-	No data available.

One Stop Shop

Benefit Type	Country	Time Period	Provision
Unemployment	United Kingdom	1948 - 1974	Active
		1974 - 1982	Active Labour Market Policies
		1982 - late 1980's	Passive
		Late 1980's - present	Rights & Responsibilities
	United States	Now	Active Labour Market Policies
	Australia	Now	Active Labour Market Policies
Lone Parent and Disability	United Kingdom	Pre-mid 1990s	Passive
		Mid 1990s - 2001/2	Active Labour Market Policies
		2001/2 - present	Rights & Responsibilities
	Australia	Present	Active Labour Market Policies
	United States	Present	Active Labour Market Policies
Lone Parent	United States	Present	Active Labour Market Policies

† Provision for long term unemployed provided by local authorities whereas for short term unemployed provision is by central government, the break in service provision has caused problems for the long term unemployed.

Glossary for One Stop Shop

Rating	Criteria
Passive	Benefit is provided by a single organisation, there is no job search or employment programmes.
Active	Benefit and job search is provided by a single organisation, there are no Active Labour market policies.
Rights and Responsibilities	Benefit and Job search is provided by one organisation, all Active Labour Market Policies are provided by a linked second organisation.
Active Labour Market Policies	Benefit is provided by one organisation, job search and all Active Labour Market Policies are provided by a second organisation.



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ISBN 978 1 84712 193 6