

Breakthrough Britain

Ending the costs of social breakdown

Volume 2: Economic Dependency and Worklessness

Co-Chairs: Debbie Scott and Dr Stephen Brien

Policy recommendations
to the Conservative Party

Social Justice Policy Group
Chairman, Rt Hon Iain Duncan Smith MP

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The Committee members were acting in a personal capacity, which does not necessarily reflect the views of their organisations. The report represents the views of the Working Group as a whole and does not reflect at every point the individual opinion of each and every Working Group member.

Executive Summary

The most vulnerable people in society are being failed:

Over the past decade the Government has talked about getting people back to work and strengthening society. It has set highly aspirational targets including the eradication of child poverty and the attainment of an 80 per cent employment rate to help include those at the margins of society. It has made the sweeping claim to have "virtually abolished" youth unemployment (Welfare Reform Minister, Jim Murphy), while heralding the overall decline in unemployment as the result of its welfare policies.

Indeed, society has, overall, got richer, and unemployment is now lower than in 1997. However this masks a much bleaker picture: for the poorest in Britain, economic dependency is not being eradicated, it is becoming entrenched.

The rewards and opportunities of 14 years of uninterrupted economic growth are not accessible to all:

- More people are living in severe poverty today than in 1997.
- There are nearly 3.5 million people on inactive out-of-work benefits that place little or no work expectations on them, many of whom could do some work: benefit dependency is a way of life for many.
- In the past year the unemployment rate has increased and the employment rate has decreased.
- Nearly 58 per cent of Jobseeker's Allowance (JSA) claimants are *repeat* claimants.
- Youth unemployment is higher today than in 1997, up by 18,000, despite the Government spending almost £2billion on the New Deal for Young People.

Back-to-work support is failing, and the benefits system is trapping people in poverty and part-time, low pay, low prospect jobs - particularly people with significant and multiple labour market disadvantages. The benefits system also acts as a disincentive to family formation that leads to the best outcomes for children: (married) couple families. For the most vulnerable people in society their lives, and the life chances of their children, have got worse.

Why have Government policies failed?

Poor target setting and weak and ineffective work expectations:

The Government's aspirational targets are well intentioned but flawed. Their poverty measures take no account of either depth or persistence of poverty. Their child

poverty target fails to recognise the true extent of both social and economic deprivation. Their use of an arbitrary single employment target rather than a series of carefully differentiated targets for different groups means that resources are not targeted effectively.

Economic dependency on the state in turn perpetuates social exclusion and contributes to poor health, as well as negatively impacting on the life chances of the children in workless households.

Weak work expectations have made a life on benefits a choice, regardless of an individual's capacity for work. These weak work expectations have driven the attitudes of not just those out of work, but also of those whose job it is to help them. By not expecting people who can work to do so, the Government is failing the very people it claims to be helping.

Ineffective and inefficient support for those moving from welfare to work:

The Government's flagship New Deal programmes are failing their participants: they are targeting the wrong people with the wrong activities, and their success rate has declined significantly since their inception. There is a clear mismatch between expenditure and desired outcome with just 14 per cent of programme spend going to disabled people and lone parents despite accounting for two thirds of out-of-work benefit claimants. A Department for Work and Pensions (DWP) research paper recently noted that the majority of clients who spent considerable periods of time on Government programmes were unlikely to move into work, and of the people who do find work, 40 per cent reclaim Jobseeker's Allowance within a year.

Not only are the Government's programmes less effective than a number of private and third sector providers, but they are also more expensive. Some of the best practice outsourced programmes cost half the amount of Government programmes and achieve double the outcomes.

Despite tentative steps in the right direction with the establishment of Employment Zones and Pathways to Work, the Government has not had the courage and commitment to follow international best practice and implement a personalised and localised, intensive, work-first approach. Jobcentre Plus remains centrally controlled and is responsible for the majority of claimants despite the organisation's structural inflexibility and ineffectiveness in dealing with people who have complex, and often multiple, barriers to work.

An overly complex benefits system full of perverse incentives:

The benefits system has many traps which disincentivise both work, and family structures that lead to the best outcomes for children and can protect against economic dependency.

There are higher rate long-term benefits which have the perverse incentive of encouraging long-term dependency. The complexity of the system discourages work through a lack of clarity and understanding, on the part of the claimant *and* their Jobcentre Plus adviser, as to what benefits are available in work. Additionally, high effective marginal tax rates - meaning people can lose

up to 90 pence in every extra pound earned - ensure that for many progression in work is not financially worthwhile.

The number of couples apparently living apart is increasing due to the financial disincentive: according to the Institute for Fiscal Studies (IFS) a couple can be up to £5,473 better off from tax credits if they lived apart. This undermines family life, which is damaging to both adults and children, and therefore to society at large.

The three key principles which must underpin reform:

Our objectives establish the key principles which must underpin any reforms. Hence the targets government sets, the work expectations it establishes, the welfare-to-work services it provides, and the benefits system it designs must recognise that:

Work is the key route out of poverty for virtually all working-age households

- Being part of a working household is the best and most sustainable route out of poverty. It also decreases the likelihood of future generations living in poverty and dependent on benefits, and has the potential to increase their wage levels.

Family structure is vital for both adults and children

- Committed (married) couple families with at least one working member lead to the best outcomes for both children and adults, reduce the likelihood of economic dependency on the state, and therefore benefit society as a whole.

State assistance is fundamental, for those who truly cannot work

- This must be set at a level that ensures those in receipt of it are supported to a level appropriate for them to participate fully in society.

These principles, and the policy recommendations that result from them, will move us towards the vision of a stronger, more supportive, and more socially cohesive society.

YouGov Polling

- 91 per cent of people polled agreed that 'Living on benefits should not be a way of life'
- 86 per cent of people polled agreed that 'The benefits system should be a 'something for something' system. If people receive benefits it is reasonable to require them to seek work'
- 87 per cent of people polled agreed that 'Lone parents and disabled people capable of working should be encouraged to do so'

- 80 per cent of people polled agreed that **'It is reasonable to expect that disabled people and people with health conditions should work if they are able to do so'**
- 71 per cent of people polled agreed that **'It is reasonable to expect that lone parents work part-time once their youngest child is 5 years old, and full-time once their youngest child is in secondary school'**
- 71 per cent of people polled agreed that **'Within the benefits system there should not be a financial disincentive against couples living together'**
- 70 per cent of people polled agreed that **'The benefits system should not penalise married or co-habiting couples, even if it means giving a single person half the benefits of a couple'**
- 79 per cent of people polled agreed that **'People should be able to keep at least 50p in every extra pound they earn'**
- 88 per cent of people polled agreed that **'The benefits system should be simplified'**
- 70 per cent of people polled agreed that **'Support for people should not be determined by the benefit that they are on; a more holistic approach is needed to ensure all are helped into work'**
- 75 per cent of people polled agreed that **'Many private and voluntary sector organisations have a success rate at getting people back to work double that of the government programmes. If they are more successful we should let them do more'**

Policy recommendations:

Our recommendations are summarised below along the three themes of work, family structure and state assistance.

Work as a route out of poverty:

We have recommended the following policies in order to facilitate and support people in their transition from welfare to work:

Clear work expectations must be attached to the receipt of benefits for people who can work

- People in receipt of Jobseeker's Allowance must be actively seeking, or preparing for, work on a full-time basis, and advisers must enforce this condition. Hence unemployed people should be fully engaged in a customised welfare-to-work programme designed by their Personal Adviser. This may include intensive job search, basic skills training, work-related training and confidence building.
- Disabled people and people with health conditions should actively seek, or prepare for (including undertaking a condition management programme), work for either a minimum of 20 or 5 hours depending on the individual's capability for work. This could include the same activities as

those available to Jobseeker's Allowance claimants, plus rehabilitative support.

- Lone parents should actively seek, or prepare for, work for 20 hours when their youngest child reaches 5, and full-time (30 hours whilst their children are of school age) when their youngest child reaches 11. Whilst their youngest child is below the age of 5 they should spend between 5 and 10 hours a week preparing for work.

Back-to-work support must be tailored to the individual

- Programmes must be personalised, comprehensive, based on an accurate assessment of the individual, and a work-first approach. The emphasis must be on *sustained* job placement with aftercare. We recommend that providers continue supporting their clients for a minimum of 12 months. Only by doing this can we support those furthest from the labour market back to work, and enable them to *stay* there and progress.

Back-to-work services should be state determined but not state delivered

- Support programmes should be delivered by private and third sector organisations - who, as stated above, achieve much greater outcomes than their public sector counterparts - with contracts being awarded to the best performing providers.

The Government should pilot real devolution of decision-making, funding and contracting of welfare-to-work services

- Local employment consortia should be piloted with a view to maximising the coordination and impact of local public service spending, while ensuring that the needs of local markets and economies are met. As well as providing more effective support to workless people, this would also start to address the problem of geographically concentrated worklessness and poverty.

The contracting of services must be competitive and professional

- Providers should be given public star ratings according to performance. This would ensure competition between providers and therefore increased job placement outcomes.
- There must be a level playing field for providers, with contracting carried out by experts in welfare-to-work services.

Payment of providers should be primarily results-based

- Administrative costs should be paid upfront to ensure that smaller providers are not prevented from competing due to financial risk.
- Payment should reflect the goal of *sustained* work by paying the bulk of the money once a client has been in work for 6, 12, 24 and 36 months. This would ensure that providers tackle a client's underlying barriers to work,

and prevent the current recycling prevalent within the system due to the lack of effective support.

- There should be a tiered payment system according to the complexity of a client's case - their distance from the workplace - which recognises the level of support that different clients will need.

A Centre for Social Justice (CSJ) Commission should look into

- The phasing-in of a unified out-of-work benefit for those who can work (part-time or full-time).
- Whether it is possible to increase work incentives within the Tax Credit system, and be more flexible in the number of hours or size of earnings that entitle the receipt of Tax Credits.
- The tapering levels of Tax Credits.

A serious and thorough review of the Housing Benefit system is needed. A CSJ Commission should review options for

- A national roll out of the Local Housing Allowance scheme to *both* social and privately rented housing.
- Abolishing the proposed cap of £15 per week on the amount that an individual can keep from finding a lower rent.
- Making the system easier to access and more comprehensible, in particular with regards to eligibility rules and points of contact.

Encouraging family formation that leads to the best outcomes for children and adults:

We have recommended the following policies in order to strengthen the (married) couple family, and to give children the greatest possible chances in later life:

Lone parents should be expected to work (as per above) as their child/ren grow up

- This is in order to reduce the chances of poverty and ensure that there is a working role model in the household. This will in turn reduce the chances of the child/ren being in poverty in adulthood.

Parents should be given the opportunity to front-load child benefit

- The 'front-loading' of Child Benefit will ensure that parents are able to care for their children in the formative early years (0-3). An incoming government should consider how best to introduce this policy and may wish to pilot or phase-in the proposal. If the policy is piloted or phased-in, then the Government should start with families with children considered 'at risk' (see the Family paper for details), in order to improve the life chances of children.

A CSJ Commission should consider

- The possibility of introducing a couple element into Housing Benefit.

Government must address the 'couple penalty' in Working Tax Credit

- This would ideally be in one reform, but if it is not possible to do so in one budget, then in stages.

State assistance for those who cannot work:

We have recommended the following policies in order to ensure that those who *truly* cannot work are fully supported:

Government should follow the recommendations made in Volume One Fractured Families

- This is with regards to support for carers, and the Family Group's proposal for a transferable tax allowance.

Government should maintain an appropriate level of support for severely disabled people who cannot work

- This should ensure that they do not fall below the poverty line.

The experiences of other countries that have reformed their welfare systems have demonstrated that cross-party consensus is an important enabler for change. Reforms that implement real and lasting positive change will require political will. It must also be clear to all those delivering the back-to-work services that the new work expectations and support levels have bipartisan support and therefore will remain in place regardless of who is in government.

Preliminary costings suggest that significant savings will result from the implementation of these policies in the medium- to long-term, providing that success rates are met. However the fundamental aim of the Working Group was to design a set of proposals which will support people into work, thereby reducing poverty and social exclusion

Our policy recommendations have been developed from a powerful range of national and international evidence heard by the Economic Dependency Working Group between December 2005 and June 2007. An incoming Government should test the policies within this report, working closely with public, private and third sector partners and, most importantly of all, those for whom current welfare policies have failed.

Section 1

Introduction

Unemployment has not fallen significantly despite government claims. A recent paper, *The Real Level of Unemployment 2007*, from the Centre for Regional Economic and Social Research stated that the 'real level of unemployment in 2007 is actually around 2.6 million'.¹ The figures tell us that the New Deal has moved 1.77 million people from long-term unemployment into work. However, many of these people are now dependent on tax credits to keep them in the labour force.²

The impression gained from Government statistics is an illusion. Despite 14 years of uninterrupted economic growth, for many people, especially those on low incomes, opportunities and reward have moved further and further out of reach. In this sector of British society, economic dependency is not being eradicated; it is becoming entrenched.

For most of the last decade, the policy debate has not focused on the benefits system. This is perhaps surprising given that over 5 million working-age people rely on state benefits, and in 2005-06 non-pension social security expenditure amounted to £79 billion, compared to £73 billion on education. However, with the publication of a range of independent reports and of the government's own Freud report, this is now, thankfully, changing. This report aims to benefit from the body of recent analysis, as well as our own hearings and research, to outline a sensible and, we hope, potentially consensual way forward.

1.1 Severe poverty has worsened

Although the Government has lifted some families with children to just above the poverty line, there has been no improvement in poverty rates for working-age adults without children. In fact, as Greg Clark MP illustrated in this Commission's first report, *Breakdown Britain*, deep poverty has worsened not improved over the last decade:



Clients at Tomorrow's People's successful 'Working It Out' programme: government must do more to ensure that disadvantaged people are being supported into work.

1. *The real level of unemployment 2007*, Christine Beatty, Steve Fothergill, Tony Gore and Ryan Powell, Centre for regional Economic and Social Research, Sheffield Hallam University, May 2007, p.32
2. Figures from <http://www.hmrc.gov.uk/stats/personal-tax-credits/ctc-wtc-snapshot-apr07.pdf>

- **Britain's poorest have become *actually* poorer since 1997:** the income of the bottom 10 per cent of the population dropped 2.2 per cent in 2005-2006³
- **More people are *relatively* poorer:** more people in Britain are now living below 40 per cent of median household income than when Labour came to power. Three quarters of a million more people live below this severe poverty level - 33 per cent of whom are families with children.

For many of the poorest people in Britain, they are not only in poverty, but *trapped* in poverty, over time, across generations and within communities: 'distinctions are not made in terms of severity or length of poverty, and 'the poor' are presented simply in binary opposition to the 'the non-poor'.⁴

1.1.1 Trapped over time

Not only are the least well off people becoming poorer; they are often trapped in their poverty for long periods of time. Since 1997, there has been very little improvement in the persistence of poverty,⁵ and very little reduction in the number of working-age people on long-term out-of-work benefits.⁶ According to Government statistics, someone who has spent five years on low income⁷ has no more than a 10 per cent chance of escape the following year.⁸ (See below for details on worklessness among lone parents and disabled people).

1.1.2 Trapped across generations

Worse still, low income persists across generations – more so in Britain than other countries. Social mobility has actually decreased over the last five decades.⁹ And it is continuing to do so.

A recent Joseph Rowntree Report demonstrated that for people who were teenagers in the 1970s, the chances of being poor as an adult double if they were poor as a teenager, whilst people who were poor as teenagers in the 1980s are nearly *four* times as likely as other adults to be poor in adulthood.¹⁰

1.1.3 Trapped within communities

Poverty is also concentrated geographically. The scourge of worklessness continues to afflict many northern cities, despite the level of public investment. For example, a quarter of the populations of Manchester, Liverpool and Glasgow are on benefits

3 Department of Work and Pensions, cited in *The Business* 2nd April 2007

4 *Poverty Dynamics research in the UK*, Findings, JRF, June 2007

5 *Households below average income 2003/04*, DWP, table 7.6, p.140

6 *Monitoring poverty and social exclusion*, New Policy Institute / Joseph Rowntree Foundation, 2005, p.42

7 The National Statistics Office define low income as 60 per cent of the UK's median disposable income

8 *Households below average income 2003/04*, Department of Work and Pensions, table 7.15.1

9 Intergenerational mobility in Europe and North America, Jo Blanden et al., 25 April 2005

10 *The persistence of poverty across generations: A view from two British cohorts*, Jo Blanden and Steve Gibbons, JRF, 2006; *Ethnicity and the Intergenerational Transmission of Welfare Dependency*, George J. Borjas & Glenn T. Sueyoshi, National Bureau of Economic Research, Inc, 1997, *Intergenerational transmission of welfare dependency: The effects of length and timing of exposure*, Oscar A. Mitnik University of Miami February, 2006

– as they were in 1997.¹¹ Around 70 per cent of Scotland's most deprived neighbourhoods are in Glasgow, resulting in 30 per cent of the working-age population in the city being economically inactive¹², and 50 per cent of all households having no earned income.

Workless people in low-employment areas have a sharply reduced chance of finding work, as people are more likely to find jobs through friends and personal contacts than any other single route. If the majority of an out-of-work person's neighbours, contemporaries, and friends are out of work, then the social networks that lead to job offers/awareness, are not there.¹³

The welfare-to-work agency Working Links, in their submission to this Working Group, highlighted that 'the UK's densest concentrations of worklessness [are] often in relatively small geographical areas, at sub-local authority level, distinct neighbourhoods or even streets. In these areas...local people face multiple problems, including lower educational attainment, poor health, bad housing and high crime rates.'¹⁴ Joseph Rowntree Foundation research corroborates this: '*Around half the people on low incomes [live] in the most deprived fifth of areas*'¹⁵, yet the Government is not tackling this.

Much of this concentration is co-located with social housing. More than half of those in social housing are not in employment. John Hills, in his paper on social housing in England, notes that 'Even controlling for a wide range of personal characteristics, the likelihood of someone in social housing being employed appears significantly lower than those in other tenures.'¹⁶ Contributing to this is the 'neighbourhood' effect created by the concentration of social housing in particular areas, and the deprivation that appears to go hand-in-hand with it.

Concentrations are not just geographic. Ethnic minority groups have higher poverty, unemployment and economic inactivity rates than average. They account for 7.9 per cent of the population. People from ethnic minorities are one and a half times more likely to be economically inactive than the overall working age population.¹⁷ Consequently they have higher child poverty rates. For example children with Pakistani and Bangladeshi origins are more than twice as likely to be in poverty as white children.¹⁸ Overall, one in five children living in poverty are from ethnic minority communities.



Worklessness is often geographically concentrated, and will only be addressed through localised and community-based initiatives.

11 Cited in *The Business*, 15th May 2007

12 Glasgow Community Plan 2005-2010

13 *Understanding workless people and communities: A literature review*, DWP Research report No 255, 2005, p.4; *Escaping Poverty: From safety nets to networks of opportunity*, Perri 6, Demos, 1997

14 EDWG Submission - Shaw Trust, Ian Charlesworth

15 *Monitoring poverty and social exclusion*, New Policy Institute / Joseph Rowntree Foundation, 2005, p.104

16 John Hills quoted in *Reducing dependency, increasing opportunity: options for the future of welfare to work*, David Freud, 2007, p.35

17 *Reducing dependency, increasing opportunity: options for the future of welfare to work*, David Freud, 2007, p.36-38

18 *Delivering on Child Poverty: what would it take?*, Lisa Harker, 2006, p.28

Geographical deprivation: Tower Hamlets

Tackling the severe deprivation in Tower Hamlets requires addressing the locally high economic inactivity and unemployment rates, and with a large proportion of the population in the Borough facing multiple disadvantage this will require a holistic approach addressing community needs.

- The London Borough has the second lowest working-age employment rate in Britain at 55 per cent, it also has the highest working age inactivity rate at 38 per cent.
- 58 per cent of Tower Hamlet's population are from ethnic minority groups and a third are Bangladeshi, who nationally have the lowest employment rates and highest economic inactivity rates.
- 22 per cent of areas in Tower Hamlets are within the most employment-deprived ten per cent in England and in these areas a fifth of residents face some form of barrier to finding employment.
- 14 per cent of areas are within the most critical 1 per cent in terms of children in low income households. Deprivation in Tower Hamlets is spread evenly across the Borough, with pockets of severe deprivation in all areas.
- The proportion of social sector housing at 48.6 per cent of all stock is considerably higher than in London (26 per cent) and England (20 per cent).

Geographical Deprivation: Kent

Kent is in the top third of the least deprived authorities, yet the most deprived areas in Kent are within the top 2 per cent deprived nationally. These are pockets of clear multiple disadvantage, where helping people out of benefit dependency and into work requires intensive community-based programmes.

- Margate Central Ward 42 per cent of the working-age population are dependent on benefits, 18.8 per cent of 16-18 year olds are categorised as not in education, employment or training (NEET), and 10.9 per cent of working-age households are lone parent families with dependent children
- Even in Trench in Tonbridge, an otherwise very affluent area, over 40 per cent of adults have no qualifications at all, and 18 per cent of working-age people are dependent on benefits.

1.2 There are too many workless households

The facts are clear. For individuals and their dependents, employment is the single most effective route out of poverty. Among households where all adults work, just 5 per cent are below the poverty line. Where there are no working adults, the risk of poverty increases nearly ten-fold to 49 per cent.¹⁹ Those living in severe

“ Employment is the most robust way of keeping people out of poverty. ”

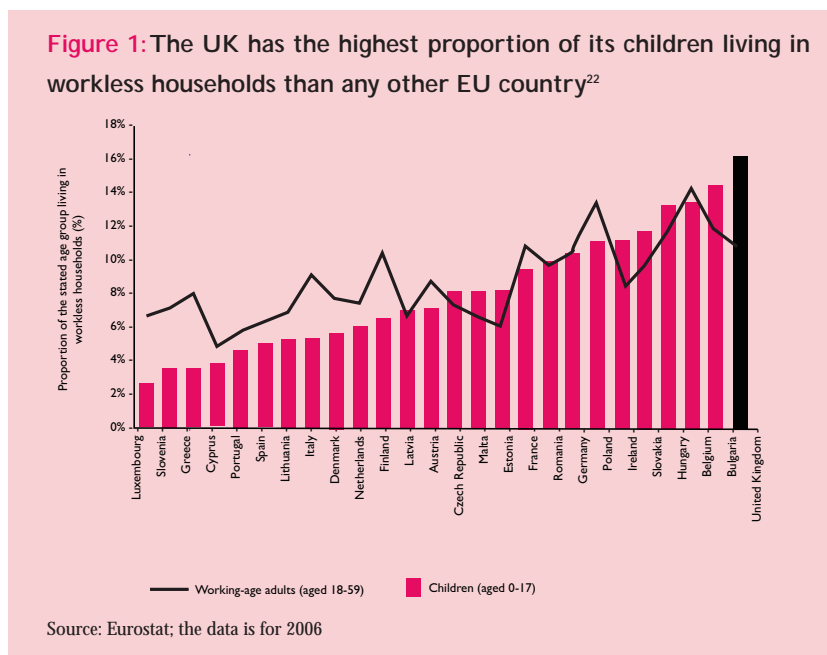
Poverty Dynamics research in the UK, Findings, JRF, 2007

19 *Households Below Average Income 2003/04, DWP, table 5.7*

poverty are predominantly from households in which all members are workless.

Income from work is far more beneficial than income from benefits. For people of working-age, work facilitates social inclusion, productive behaviour and rational and responsible habits. The Government’s own research has found that income source was more important than either income level or home ownership in determining the level of social exclusion.²⁰

By the Department for Work and Pension’s (DWP) own admission ‘*Despite the UK having a relatively high overall employment rate, it also has high relative levels of people living in workless households.*’²¹ The UK has a higher proportion of its children living in workless households than any other European country. Between 2001 and 2006 there was a mere 0.8 percentage point drop in the proportion of working-age households that are workless.



Worklessness is particularly prevalent among three groups of citizens:

- Lone Parents
- Young People
- People with Disabilities

Many of these people are capable of, and indeed want to, work, but are facing multiple barriers to employment. Many are also likely to be suffering from intergenerational worklessness and poverty.

20 *The dynamics of deprivation: the relationship between income material deprivation over time*, DWP Research report No 219, 2004, table 6.6, p.72

21 <http://www.dwp.gov.uk/ofa/indicators/annex1-3.asp>

22 <http://www.poverty.org.uk/10/d.pdf>

1.2.1 Lone Parents

The worklessness rate for lone parent households is 42 per cent, compared to 5 per cent for couple households with dependent children. This has an impact not only on the current generation, but also on the next: a child living in a workless lone parent household is five times more likely to be in poverty than one living with a full-time working lone parent.²³ Research by Professor Kiernan shows that the outcomes of children of *working* lone parents are significantly better than those of children growing up in a household in which no-one is participating in paid work.²⁴

Some progress has been made. For lone parents, the employment rate has increased by 11.8 percentage points since 1997 to 56.5 per cent.²⁵ Given the clear link between worklessness and poverty, increasing employment among lone parents is clearly desirable.

However, it is not enough. The UK has the fourth lowest lone parent employment rate in the OECD²⁶, and has one of the largest gaps between employment rates for mothers who are part of a couple, and lone parents.²⁷ In some countries, such as Italy and Spain, the employment rate for lone mothers is actually higher than for couple mothers. In others, such as Canada, the US, France and Germany it is more or less the same.

In addition to the comparatively low job entry rate for lone parents, their job exit rate is double that of non-lone parents. Lisa Harker, in her report for the DWP on child poverty, noted that 'If the rate of job exits among lone parents was reduced to the level of non-lone parents, the 70 per cent employment target could be met without any increase in the number of lone parents entering work.'²⁸ There is a clear problem with employment retention amongst lone parents which the Government has not addressed.

1.2.2 Young People²⁹

The Government has heralded the decline in youth unemployment as one of its key achievements. However, despite expenditure of almost £2 billion on the New Deal for Young People, the reality is different.

Frank Field, MP, has argued that from every angle, youth unemployment has got worse since the inception of Labour's New Deal (see box).³¹

23 Lone motherhood, employment and outcomes for children, *International Journal of Law, Policy and the Family*, K. E. Klenman, 1996

24 Lone Motherhood, employment and outcomes for children, K E Kiernan, 1996, *International Journal of Law, Policy and the Family*, 10

25 *Reducing dependency, increasing opportunity: options for the future of welfare to work*, David Freud, 2007, p.30

26 Organisation for Economic Co-operation and Development

27 HM Treasury *Tax credits: Reforming financial support for families*, March 2005, para 2.24.

28 *Delivering on Child Poverty: what would it take?*, Lisa Harker, 2006, p.40

29 See Volume 4, *Educational Failure*, 4.3.3 'Pathways to Success' for further information on skills, and details on vocational training

30 *The Cost of Exclusion: Counting the cost of youth disadvantage in the UK*, Sandra McNally and Shqiponja Telhaj, 2007, p.13

31 *Welfare isn't working: The New Deal for Young People*, Frank Field and Patrick White, *Reform*, May 2007

Youth unemployment has risen:

- by the winter of 2006-07 youth unemployment was up 18,000 on its 1997 level, and up 70,000 on the 1998 level
- there are 45,000 more young people that have been unemployed for up to 6 months than in 1997; and
- there are more young people unemployed for 6-12 months, 12-18 months and 18-24 months, than when the New Deal for Young People was introduced.

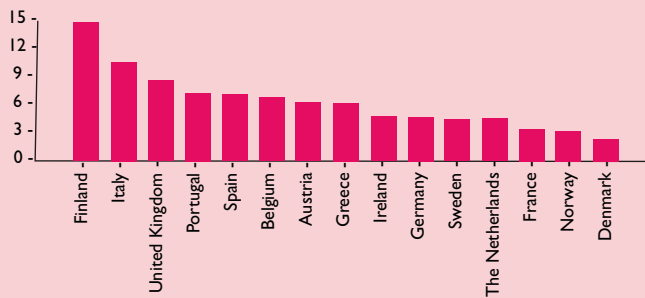
A recent Prince’s Trust paper noted that the percentage of 16 to 24 year-olds classified as unemployed in 2005 was 9 per cent in England, 8.6 per cent in Wales, 10.1 per cent in Scotland and 6.3 per cent in Northern Ireland. But nearly twice as many young people are classified as ‘not in education, employment or training’ (NEET) – very high by European standards.³² This is an increase of fifteen percentage points since 1997. Even among 16-18 year-olds (where many more are in education) the NEET rate is 11 per cent. There is little reason to believe the Government will hit its target of reducing the NEET rate among 16-18 year olds to 8 per cent by 2010.³³

“ By helping young people into work or training, we could potentially save £90 million per week. ”

Sandra McNally and Shqiponja Telhaj, research for the Prince’s Trust³⁰

The Connexions Service was set up by Labour in 2001, and was charged with reducing the number of NEETs by 10 per cent between 2002 and 2004. They failed. Instead, during this period, there was an increase of 4.3 per cent overall.³⁴ Additionally, economic activity amongst 18-24 year olds has decreased, having fallen from 76.7 per cent in 1997 to 74.4 per cent in 2006.

Figure 2: Percentage of 15- to 19-year-olds not in employment or education, 2005



32 *The Cost of Exclusion: Counting the cost of youth disadvantage in the UK*, Sandra McNally and Shqiponja Telhaj, p.8, 13 and 23
 33 Department of Work and Pensions, cited in *The Business*, 6th June 2007
 34 *Welfare isn't working: The New Deal for Young People*, Frank Field and Patrick White, *Reform*, May 2007, Appendix One, p.25

More than 4 out of 10 young people, 44 per cent, leave compulsory schooling without five good GCSEs.³⁵ Indeed, in 2005, 12.6 per cent of young people in England had no qualifications at all, a figure which has changed little since the mid-1990s.³⁶

Educational underachievement affects future employability, future wage levels and future health (which further affects employment chances).³⁷ There is a clear link between youth unemployment and crime. According to the Social Exclusion Unit, nearly two-thirds of young offenders did not have a job at the time of their arrest, and ex-offenders find it very hard to gain employment. The current system is failing large numbers of young people who are, in turn, themselves failing.

In the UK, 40 per cent of the population do not have at least a Level 2 qualification³⁸ and 4.6 million have no qualifications at all. Lord Leitch, in his report on skills³⁹, stated that around half of those with no qualifications were unemployed: lack of basic skills is a huge barrier to work. In Britain, 5 million working-age people lack functional literacy and 7 million lack functional numeracy. As David Freud notes in his report on welfare reform for the DWP, the labour market position of the lowest skilled people has deteriorated in recent years.⁴⁰

Internationally, the UK fares poorly with regards to skills. In the US, 32 per cent of adults do not have a Level 2 qualification, and 28 per cent do not in Germany and France. This not only affects individual employability, but also national economic competitiveness.

1.2.3 People with Disabilities

Long-term sickness or disability is the reason given by 39 per cent of working-age people living in workless households for their inactivity.⁴¹ Britain now has the highest proportion of long-term working-age people with disabilities of any Western country – 7.4 per cent of the working population.

“...After two years on incapacity benefits, a person is more likely to die or retire than to find a new job.”

John Hutton, Secretary of State for Work and Pensions, 24th January 2007

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- 35 Meaning 5 A*-C, *Breakdown Britain*, Educational Failure, 2006, p.13
 - 36 *The Cost of Exclusion: Counting the cost of youth disadvantage in the UK*, Sandra McNally and Shqiponja Telhaj, Princes Trust, 2007, p.9
 - 37 Ibid
 - 38 Equivalent to a GCSE
 - 39 Leitch Review of Skills, *Prosperity for all in the global economy - world class skills*, HM Treasury, 2006 p.118
 - 40 *Reducing dependency, increasing opportunity: options for the future of welfare to work*, David Freud, p.25
 - 41 2004 Labour Force Survey
 - 42 *Reducing dependency, increasing opportunity: options for the future of welfare to work*, David Freud, p.28

Of the total number on Incapacity Benefit (IB), 85 per cent have been on the benefit for over a year⁴², and the average duration of a claim is between eight and ten years.⁴³ Currently, IB claimants are getting younger.⁴⁴

The numbers for those claiming Disability Living Allowance have also grown at an alarming rate: claimants up 50 per cent since 1997, and total cost doubling. There are enormous ranges in incidence from 1.9 per cent in Windsor to 10% per cent in Northern Ireland, and 12.8 per cent in Merthyr Tydfil.⁴⁵ Some have suggested that DLA is being used selectively as a substitute for unemployment benefit, rather than simply reflecting underlying differences in health patterns.

The Government has also failed to address the changing nature of claimant illness. In 1997, 25 per cent of IB claimants were suffering from 'mental and behavioural' problems: by 2004 this had increased to 38 per cent.⁴⁶ Indeed, over the past decade there has been an 82 per cent increase in the number of people claiming IB for 'depressive episodes' and a 129 per cent increase in claimants suffering from eating disorders.⁴⁷ It is likely many of these people, with appropriate support, could be in work.

1.3 Objectives of Policy Recommendations

To successfully address the mutually reinforcing problems of poverty, economic dependency and social exclusion policy must take a three pronged approach:

- Firstly, and most importantly, we must recognise that **work is the key route out of poverty, economic dependency and social exclusion for virtually all working-age households.** Policy must therefore ensure that those who are able to work are helped to do so, and people on low earnings and in part-time work must be helped to progress.
- Secondly, as far as possible the **formation of stable family structures** that can provide both support and financial buffers **should be actively encouraged.**
- Thirdly, state assistance must be available to those who *truly* cannot work, and to those who are working but are unable to earn a living wage. **The assistance should be a fundamental, but last, resort to ensure that people are not left in poverty, but instead have a decent standard of living.**

“You need to start with what kind of society we are and what kind we want to be... We cannot have a society content to have a large portion of its members dependent on welfare.”

David Green, Civitas, Economic Working Group hearing

43 *Reforming Welfare*, Nicholas Boys Smith, Reform, 2006, p.58

44 *Reforming Welfare*, Nicholas Boys Smith, Reform, 2006, p.57

45 Department of Work and Pensions, cited in *The Business*, 6th June 2007

46 *Reforming Welfare*, Nicholas Boys Smith, Reform, 2006, p.59

47 *Daily Telegraph* article, February 1, 2007

Of these, the major emphasis of this report must be on work as the route out of poverty and economic dependency.

1.3.1 Work as a route out of poverty

Work is the primary route out of poverty. There will be no end to poverty in the UK without a jobs revolution. Our aim must be that every working-age

household capable of earning a decent living, must be both able and obliged to do so. Government policy must, therefore, focus on getting those who are unemployed and long-term economically inactive people, into employment.

“We need...work requirements because welfare is supposed to be a second chance, not a way of life. But we also need to work together to create jobs, because if we expect work we also have to make sure people have a chance to work”

President Bill Clinton, speech, November 1996

Work helps the individual

In *Is Work Good for your health and Well-Being?* Gordon Wadell and A Kim Burton state that:

“There is a strong evidence base showing that work is generally good for physical and mental health and 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.”⁴⁸

In an Economic Dependency Working Group hearing, Ian Charlesworth of The Shaw Trust argued that work ‘develops self-esteem and confidence – they’re now in contact with people and in society’ while David Green of Civitas stated that work gives people a ‘stake in society’.

Evidence supports this view. Research from Glasgow hospital in 2005 showed that lifestyle factors, such as poverty, unemployment and poor diet, cause stress-related DNA damage.⁴⁹

“It's depressing being at home. These things [worklessness] contribute to my depression.”

Lone parent on Income Support

48 *Is Work Good for your Health and Well-Being?*, Gordon Wadell and A Kim Burton, 2006, p.ix
49 *Stress ages you before your time*, Scotsman, 14 January 2005

'Shettleston Man', Glasgow

Shettleston man is the collective name given for a group of individuals from the Glasgow suburb Shettleston. Shettleston man has a life expectancy of 63 – 14 years below the UK average – lives in social housing and is terminally unemployed. His low white blood cell count is killing him, and this is a result of the stress he lives under: namely that he has no control over his life. Research showed that his life expectancy remained unaltered by changes in diet and exercise. However, the same research showed that the impact of the stress on his white blood cells could be reversed in 3 years by giving him work and enabling him to contribute to society⁵⁰

Work helps the next generation

Work also impacts the well-being of children, most obviously because a working household is less likely to be in poverty, but also because living in a working household can help children 'fit in' with their peers and reduce potential stigma.⁵¹

Perhaps most importantly, poverty and worklessness are often intergenerational. Hence, a child growing up in poverty is more likely to suffer poverty and social

exclusion as an adult than a child that has not grown up in poverty: a child's circumstances often dictate their future life chances.⁵²

A university of Michigan study demonstrated that, holding constant for race, parental education, family structure and a range of other social variables, the more welfare income received by a family while a boy was growing up, the lower his earnings as an adult.⁵³

Work helps society more broadly

It is not just the workless who benefit from moving back into work. David Freud's recent analysis supports the view that society does too. He found;

“We have reliable evidence involving thousands of families in multiple studies demonstrating that “making work pay” causes improvements in young children’s school performance... Children who grow up in poverty do worse in school, earn less when they become adults, and are more likely to become teen parents, among other problems... The best incubator for developing a child’s human capital tomorrow is a family that is not living in poverty today.”

Speech by Gordon L. Berlin, President, Manpower Demonstration Research Corporation (MDRC), at the National Summit on America's Children, May 22, 2007

50 <http://www.humanservices.blogspot.com/2006/05/greg-ashmead-what-on-earth-is-for.html>

51 *The Role of Work in Low Income Families with Children - a longitudinal qualitative study*, Graham, J. et al, 2005, DWP Research Report 245

52 See Centre for Longitudinal Studies, Briefing February 2007: *The intergenerational transmission of disadvantage and advantage for various studies*

53 Cited in *A better way to help the low paid, US lessons for the UK tax credits system*, Rupert Darwall, Centre for Policy Studies, 2006, p.5

‘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... To the extent that the person would not have otherwise worked for many years, the saving to the State is a multiple of [these figures].’⁵⁴

This is not all. To these savings must be added the broader fiscal returns of reduced health expenditure, reduced crime, and increased spending. A recent Prince’s Trust paper estimated that a mere one per cent decline in youth unemployment could

save over £2 million in youth crime.⁵⁵ And the returns to society are not just fiscal. Through the effects on health and morale illustrated by the example of Shettleston Man, Employment also aids social inclusion (as shown above, *Work helps the individual*).

“Work is more than just a way to earn a living. It is a way to stay involved in an ever-changing society, an opportunity to acquire new knowledge and skills. More than a mere source of income, work enables us to improve ourselves, integrate into society and gives us a sense of purpose.”

Netherlands - Coalition agreement between the parliamentary parties of the Christian Democratic Alliance, Labour Party and Christian Union, IV Social Cohesion, 7 February 2007

1.3.2 Encouraging stable family structures

We cannot ignore the role that family structure plays in determining whether or not a family unit will be economically dependent on the state. As the Joseph Rowntree Foundation noted in the findings of their 2007 review of poverty dynamics research in the UK: ‘Poverty risks are less for individuals who maintain couple households.’ There is a strong correlation between lone parenthood and poverty (lone parents are twice as likely to experience persistent low income as couples with children⁵⁶ and over half all lone parents receive some form of income related benefit compared with just 10per cent of couples with dependent children⁵⁷). Whatever the route into lone parenthood, relationship breakdown between the parents is always implicated. Therefore we must ensure that policies support stable families, rather than encourage arrangements that are more likely to be associated with poverty.

54 *Reducing dependency, increasing opportunity: options for the future of welfare to work*, David Freud, 2007, p.68

55 *The Cost of Exclusion: Counting the cost of youth disadvantage in the UK*, Sandra McNally and Shqiponja Telhaj, 2007, p.7

56 *Households Below Average Income 1994/95 - 2000/01*, DWP, 2002, p141

57 *Income Support Quarterly Statistical Enquiry*, DWP, 2004, May 2004

Research indicates that marriage is a stabilizer of relationships. One of the interim reports from this commission, *Fractured Families*, described the markedly more unstable nature of cohabitation and the growing tendency for parents not to live together at all. The Millenium Cohort Study indicates that 32 per cent of couples who were either 'cohabiting' or 'closely involved' but not living at the same address, split up before their child's third birthday compared to less than 6 per cent of married couples.⁵⁸ Even after taking socioeconomic factors into account, cohabiting partners are more than twice as likely to break-up as their married counterparts. Given these statistics, a healthy marriage is the most secure environment for children, and most likely to provide better outcomes. Polling for *Breakdown Britain* showed that a child who is not brought up in a two-parent family is 75 per cent more likely to fail at school, 70 per cent more likely to be a drug addict, 50 per cent more likely to have alcohol problems, 40 per cent more likely to have serious debt problems and 35 per cent more likely to experience unemployment and welfare dependency.

Moreover, a review by Wilson and Oswald⁵⁹ lists 23 longitudinal studies that provide compelling evidence of a causal link between marriage and health, mental health and longevity. Additional UK and US studies also illustrate how marriage – but not cohabitation – improves well-being,⁶⁰ relationship quality⁶¹ and, again, relationship stability.⁶² All of these characteristics augur well for married couples to be *interdependent*, rather than dependent on the state. A stable couple family is more likely to have a working household member (lone parents are eight times as likely (45per cent) to live in a workless household as couples with children (5.4per cent)⁶³). As the highest risk of children living in poverty is in any type of household where nobody works (72 per cent on the After Housing Costs measure⁶⁴), stability has economic repercussions for the next generation.

Moreover, married couples are more likely to specialise in their household roles than unmarried couples, partly due to the greater sense of investing in a long term relationship (Stratton, 2005). This means that the committed couple family model can better support a mutually agreed choice that there be one worker and one non-worker (for example whilst children are small).

58 The conflation of marriage and cohabitation in government statistics - a denial of difference rendered untenable by an analysis of outcomes, H. Benson, 2006, Bristol Community Family Trust.

59 Wilson, C. & Oswald A., 2005, "How Does Marriage Affect Physical and Psychological Health? A Survey of the Longitudinal Evidence," *Economics Department Working Paper*, May, University of Warwick

60 *Union Formation and Depression: Selection*, K. Lamb, G. Lee, & A. De Maris, 2003. and *Relationship Effects*. *Journal of Marriage and Family*, 65, 953-962.

61 The Relationship Between Cohabitation and Marital Quality and Stability: Change Across Cohorts?, C. Kamp Dush, C. Cohan, & P. Amato, 2003, *Journal of Marriage and Family*, 65, 539-549.

62 *Family change 1999 to 2001*, A. Marsh, & J. Perry, 2003. DWP research no 181. CDS: Leeds.

63 *Households Below Average Income 1994/95 - 2000/01*, DWP, 2002, p.141

64 *Poverty and Inequality in Britain: 2006*, M. Brewer, A. Goodman, J. Shaw, & L. Sibieta, IFS, 2006.

However, as the family breakdown report in this volume makes clear, the current benefits system incentivises people to live apart. By marrying and making a co-residential arrangement unambiguous they may pay a penalty in tax credit terms of several thousands of pounds. Thus, the family structure which is most likely to lead to families becoming independent of the state is discouraged. Likewise people are encouraged to make claims as single people which can lead to fraudulent declarations of residence (the IFS estimate that the Government is paying tax credits and benefits to 200,000 more lone parents than live in the UK) or to people making an economically rational decision not to live together in the first place.

It has been argued that benefit claimants are not influenced by economics in this way. *Fractured Families*⁶⁵ explained why it is difficult to find hard evidence of a causal link between welfare benefits and family structure, but cited several studies which had established such a link. Millenium Cohort Study data⁶⁶ indicated that amongst parents of three year old children, receipt of benefits raises the odds of family breakdown by 33 per cent, above and beyond any additional effects of income, education, marital status, age or ethnic group. This is also the conclusion of Gonzalez (2006). Comparing the countries of the European Union, she finds that welfare benefits have a significant effect on the prevalence of lone parenthood.⁶⁷



Lone parent Linda, pictured with her daughter, gives evidence to the Working Group.

If there is evidence that family structure has a significant impact on the outcomes of both children and adults, then policy should reflect this and encourage patterns of family formation that correlate with positive outcomes. The weight of international evidence indicates that stable families, usually those based on marriage, are most likely to lead to independence from the state, and benefit policies which discourage the formation of these require reform.

Our proposals (and those in other parts of this volume, such as the family breakdown report) do not promote marriage at the expense of single parents, who do a very difficult job, usually with far fewer resources than couple families. As Alison Garnham, from the National Council for One Parent Families points out⁶⁸ 'for many, lone parenthood is not a lifestyle choice,' lone parents rarely choose their status, enjoy raising children on their own, or want their own children to become lone parents themselves.

65 p.91

66 Benson 2006

67 *The Effect of Benefits on Single Motherhood in Europe*, L. González, Institute for the Study of Labor IZA DP No. 2026, 2006

68 See *Fractured Families*, p.54

1.3.3 State assistance as a fundamental, yet last resort

For a small minority, work is not feasible, whether due to their own situation, or the need to care for others. In these situations, state assistance should provide meaningful support in order to ensure a decent standard of living.

For those people unwilling to work, only limited support should be available. Out-of-work benefits must never become a lifestyle choice whether consciously or (more frequently) through inertia. This view is now very broadly accepted across the political spectrum in Britain and internationally. The past decade has witnessed an international shift towards more active and conditional welfare states with a greater emphasis on rights *and responsibilities*.

1.4 Why current welfare reform is failing

A number of recent publications have demonstrated, there are a host of issues with the current system.⁶⁹

We believe that at its heart there are three main policy problems with the current approach.

- **Misdirected targets and work expectations:** The Government has adopted a set of narrow and inappropriate anti-poverty targets – mostly addressing the symptoms rather than underlying causes. Despite a decade of aspiration, the benefits system still remains predominantly passive, with little *real* or *effective* obligation on participants to engage in work-focused activities.
- **Ineffective help for those entering and remaining in the workforce:** For many, the work support provided to date has been ineffective and poorly targeted. Furthermore, the culture and organisation of Jobcentre Plus is procedural, and not sufficiently outcome-focused.
- **Structure and complexity of the benefits system:** There are many barriers to work due to the high withdrawal rates of benefits. There are lone-par-

“ The poorest are, admittedly, the hardest political problem to deal with. The easiest option is to write a welfare cheque and pay such people to live in council estates, away from the rest of working society, and rely on immigrants to do the jobs which 17 per cent of working-age Britons are now paid not to do. The economic expansion meant Labour has had enough money to follow this formula, and dodge the problem ”

Fraser Nelson, 'Welfare Isn't Working', The Business

69 See for example *Reducing Dependency, increasing opportunity: options for the future of welfare to work: An independent report to the Department for Work and Pensions*, 2007; *Reforming Welfare*, Nicholas Boys Smith, Reform, 2006; *Delivering Full Employment: from the New Deal to Personal Employment Accounts*, SMF, Stephen Evans; and *Reforming Welfare*, Nicholas Boys Smith, p.51, *Welfare isn't working: The New Deal for Young People*, Frank Field and Patrick White, Reform, May 2007



Dave Winning and Katharine Sacks-Jones, Working Links, describe the problems with the current Government approach to welfare-to-work services.

ent/family traps due to the focus of benefits on alleviating the symptoms of poverty rather than the causes. The system and administration of benefits is also highly complex. Often it neither addresses existing poverty nor helps people escape it. It is often over-weening with means testing applied to households with twice average income.

These factors may not represent the whole story, but we believe they are among the most important contributory factors to the problems identified in this section. In the following sections we make recommendations for reforming these three aspects of welfare policy.

Section 2

Targets and Work Expectations

Summary

The Government's targets illustrate its priorities and provide an important framework within which detailed aspects of policy are developed and evaluated.

In tackling poverty and economic dependency, the current Government have set two main targets:

- eradicating child poverty; and
- achieving an 80 per cent employment rate.

In addition they have set the goals for their welfare-to-work services by

- defining a successful return to the labour market as a job that lasts just 13 weeks
- placing very little requirement on those on out-of-work benefits to seek and take-up work.⁷⁰

As shown in this Commission's first report, *Breakdown Britain*⁷¹, there are major flaws with the Government's poverty targets. Likewise, as shown in the following sections of this report, the Government's work expectations are also flawed. Both of these factors inevitably lead to the misallocation of resources, and therefore inadequate outcomes compared to other countries.

Targets:

- The definition of poverty and the emphasis on children ignores problems of **severity and persistence of poverty**, and poverty suffered by working-age people without children.
- The target **employment rate is unrealistic**, imposed from above as an aggregate rather than a set of targets for particular groups.
- The definition of **employment success is too short-term**.

70 See Section 3.1.2

71 *Breakdown Britain, Worklessness and Economic Dependency*, Social Justice Policy Group, December 2006

Work Expectations:

- The expectations on individuals are neither strong enough, nor linked in anyway to the overall targets.

Issues relating to national target setting and work expectations are considered in further detail below.

2.2 Targets

2.2.1 Severity and persistence of poverty is ignored

Key Points

- Severe poverty is not being consistently measured and published and hence has deepened.
- Resources are focused in such a way as to skew the success statistics for moving people out of poverty.
- There has been a marked lack of interest in the increase in poverty among working-age people without children.
- Unacceptable numbers of benefit claimants are economically dependent for years, but this fact is hidden in the statistics.
- Little attention is paid to intergenerational or geographical poverty, both of which tend to be ingrained and long-term.

The first problem with the Government's poverty target has been insufficient preparation. As shown in the box below, the bold and laudable commitment to abolish child poverty was set in 1999, nearly 5 years *before* the end of the consultation on how to measure child poverty when assessing performance against the target.⁷²

Child poverty target

The target to abolish child poverty within a generation (20 years) was made by Tony Blair in March 1999. The definition of child poverty to be used when assessing progress against the target was not announced until December 2003. In March 2007, the latest official figures showed the Government was moving backwards on the target: in 2005/6 the number of children living in relative poverty increased by 200,000.⁷³

In order to hit its poverty target, the Government has adopted the narrow, but superficially attractive, target of lifting those just below the 'poverty line' – defined as households below 60 per cent of median income – to a position just above it.⁷⁴

⁷² *Measuring child poverty*, DWP, December 2003

⁷³ National Statistics, First Release, 27 March 2007

⁷⁴ *Breakdown Britain, Worklessness and Economic Dependency*, Social Justice Policy Group, 2006, p.7-10

Many poverty analysts are concerned that setting this simplistic poverty threshold has warped government priorities. Lars Osberg notes that: ‘When decreases in the poverty rate are used as the criterion for social policy, administrators who want to demonstrate ‘success’ will always be tempted by the option of ‘creaming’ the poverty population.’⁷⁵

Achieving this narrow target appears to have become the Government’s objective, not lifting people out of poverty. It has carefully targeted the bulk of its additional welfare spending on certain key groups, principally households with dependent children just below the poverty line. Groups falling outside this poverty strategy have effectively been ignored. There is no pledge to help working age adults without children – even though this group contains many of the most vulnerable people in society including severely disabled, mentally ill, and homeless people.

Poverty experts such as Jonathan Bradshaw believe that ‘differentials between different classes of claimant are already absurd’ and warn that ‘parents are increasingly being funded by their children.’⁷⁶

The Government has also identified absolute poverty and material deprivation as other potential metrics,⁷⁷ but has not given them any prominence. They have merely promised⁷⁸ to set targets for them, rather than having them as Public Service Agreement targets. Meanwhile, severe poverty is increasing, and because the principal Government target on poverty is a static indicator, the incremental cost of long term and inter-generational worklessness is not recognised, resulting in the uneven distribution of resources.

2.2.2 Current Employment Targets; the case for reform

Key Points

- Having a single overall target for employment confuses policy objectives.
- Without specific, realistic targets for different groups, resources cannot be targeted effectively.
- Focusing on workless individuals rather than workless households misses a crucial dimension: it is workless households that are most likely to be in severe poverty, and therefore need particular attention.

The mistake of insufficient preparation in dealing with child poverty is now being repeated with the newer long-term aspiration of moving towards an

⁷⁵ *Trends in poverty: The UK in perspective - how rates mislead and intensity matters*, Lars Osberg, Institute for Social and Economic Research, 2002

⁷⁶ *Understanding and overcoming poverty*, Jonathan Bradshaw, keynote address given to the Joseph Rowntree Foundation Centenary Conference, 13 December 2004, p.18

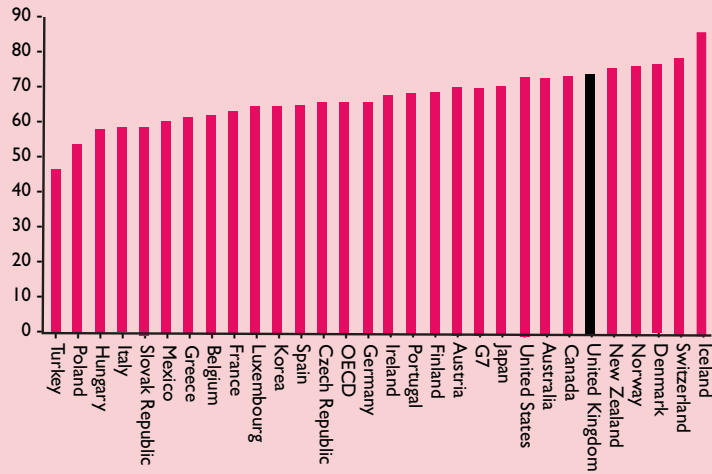
⁷⁷ *Measuring child poverty*, DWP, December 2003

⁷⁸ *Delivering on Child Poverty: what would it take?*, Lisa Harker, 2006, p.11

employment rate of 80 per cent of the working-age population, announced in early 2005.⁷⁹

The 80 per cent employment aspiration is bold. In the Department of Work and Pensions (DWP's) own words, 'it would smash all existing records.'⁸⁰ It would mean having a higher proportion of people in work in any country in the world except Iceland, and a higher proportion than at any point in UK history.⁸¹ Also, like the original child poverty target, it is in need of more clarification and explanation.

Figure 1: Employment rates of OECD countries, 2005



From Freud Review, p.18

Table 1: Employment status of different groups

	Employment rate	Unemployment rate	Inactivity rate
Working-age population	74.9%	3.8%	21.3%
People with disabilities	49.3%	4.0%	46.7%
People aged over 50	69.9%	2.2%	27.9%
Lone parents	53.1%	5.9%	41.0%
Ethnic Minorities	60.0%	7.3%	32.7%
No Qualifications	50.3%	4.9%	44.8%

79 Department for Work and Pensions *Five Year Strategy: Opportunity and Security Throughout Life*, DWP, February 2005

80 Department for Work and Pensions *Five Year Strategy: Opportunity and Security Throughout Life*, DWP, February 2005, p.26

81 *Reducing Dependency, increasing opportunity: options for the future of welfare to work*, David Freud, 2007, pp.17-18

The employment goal seems to have been settled upon without detailed thought on what it should mean for the main groups in the non-working population. Employment targets must clearly be aspirational. But they must be realistic too. Few expect 80 per cent of lone parents, people with disabilities, or 16 to 18 year olds, to be in employment (see table 1 for current employment rates for different groups). The Government certainly does not. Their own education policies imply that more young people should be in education, not employment.

2.2.3 Definition of employment success is too short term

Key Points

- Claimants are recycled through the system, moving in and out of work and benefits; hence
- Success rates appear much higher than they actually are: job placements are not sustained job placements
- Costs are increased due to the failure to place claimants into sustainable employment.

The Government could improve their metrics of success. Achieving work is not the end product. It is only the first step on the path towards a sustained working life and a reintegration into society.

In order to avoid the high level of recycling currently plaguing the system – nearly 58 per cent of Jobseeker's Allowance (JSA) claimants are repeat claimants – we should measure *sustainable* job placements, not procedure and job entry. The lack of effective measurement is why only 20 per cent of those on the New Deal are still in work 13 weeks later, compared to 80 per cent at 12 months for the Getting London Working partnership.⁸² Employment advisers working with Getting London Working clients provided personalised support addressed their employment barriers as a whole, and continued this to offer them support once in employment – this helped clients to *stay* in work. If the measure of success was sustained job placement rather than short-term employment solutions, and payment was based on outcomes⁸³, there would be greater emphasis on effective help.

82 *Getting London Working: delivering jobs and opportunities to London's unemployed, End of programme final evaluation*, Tank Consulting, 2006

83 See Section 3.3.9

2.3 Work Expectations

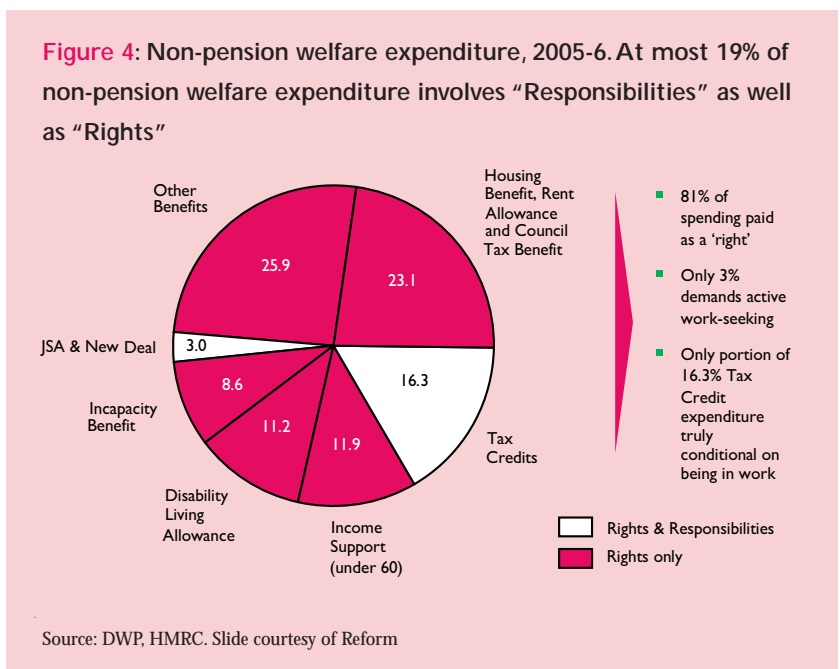
2.3.1 Expectations on individuals are not strong enough, nor linked to overall targets

Key Points

- Life on benefits has become a viable option, whether or not an individual is capable of work, due to the lack of work expectations placed on them.
- Leaving people on benefits rather than creating an expectation of work, and supporting them in to work, encourages long-term worklessness which in turn perpetuates social exclusion and poor health, with great financial and social cost to society.
- Intergenerational and geographical worklessness and poverty is not tackled.

No real conditionality attached to benefits

Much of the benefit system involves income distribution with no expectation of work engagement. Figure 4 shows that at present over 80 per cent of the system remains entirely rights-based, placing no real demands on its recipients.



A sanctions regime for JSA non-compliance does exist.⁸⁴ However in practice, it often falls down. Many advisors are not comfortable with applying sanctions. One commented: 'Frankly, sanctions don't affect the hard core much because of hardship payments. Sanctions are more of an inconvenience than a deterrent – a slap on the wrist, and one that they seem to be able to accommodate quite comfortably.'⁸⁵

84 Two weeks loss of JSA for the first offence, four weeks for the second and 26 weeks for the third.
 85 Manchester NDPA cited in Finn, D., 'The Employment First Welfare State', *Social Policy & Administration*

An independent study concluded: ‘Young people...believed that they should be able to choose what work they did and should not be expected to take short term ‘agency work’ or any ‘crap’ job...There was little evidence...that the long-term unemployed were being forced to take jobs.’⁸⁶

Work expectations over time

The welfare system famously proposed by William Beveridge in 1942 was one both of rights earned and responsibilities faced. For all the revolutionary language of slaying the ‘five giants’ of ‘Want, Idleness, Disease, Ignorance and Squalor’ the actual proposals were strictly evolutionary.⁸⁷ In return for a weekly contribution, sickness, medical, unemployment, widows’, orphans’, old-age, maternity, funeral, and injury benefits were to be provided by the state. Unemployment Benefit required recipients to search for work.

Attlee’s government undermined the first of these principles immediately. Non-contributory benefits were set with higher scales than contributory ones. Undermining the second took longer. Jobcentre attendance was never tightly policed but the division in 1974 of Jobcentres from Benefit Offices made the situation worse, and in 1982 the requirement to look for work while on benefit was removed entirely. By the fortieth anniversary of the post-war settlement the benefit system was almost entirely passive, made no demands of its recipients, and was a complete reversal of anything that would have been considered moral or even sensible one hundred years earlier.

Since 1996, attempts have been made to reintroduce conditionality. In October 1996 the then Secretary of State for Social Security, Peter Lilley, replaced Unemployment Benefit with JSA, which increased the use of fixed penalties and placed a requirement on recipients to be both ‘actively seeking’ work and, to be available for a minimum of 40 hours a week.

The current Government has repeatedly used the rhetoric of conditionality and ‘something for something’, unfortunately reality has not kept pace with aspirations.

A simple comparison (Table 2) would imply that the introduction of JSA by the Conservative Government (and its associated work requirements) was as effective, and probably more so, than the later introduction of the New Deal. The current Government has quietly also conceded that, even allowing for other factors, the JSA doubled the number of people moving into full time work:⁸⁸ **conditionality works.**

86 Making Europe Work: the European Employment Strategy, Dan Finn, Inaugural Lecture, University of Plymouth, October, 2003

87 Social insurance and allied services: report, 1942, s.8.

88 Understanding the Impact of the Jobseeker’s Allowance, DWP Research Paper 111, 2000.

Table 2: Claimant count reduction before and after JSA and New Deal Introduction*

Period	6 month fall, ('000)	12 month fall, ('000)
Before JSA introduced	168.7	236.3
After JSA introduced	198.5	538.3
Before NDYP introduced	104.7	303.2
After NDYP introduced	33.8	71.3

* Seasonally adjusted. JSA introduction in October 1996. NDYP went nationwide in April 1998
 Source: Labour Force Survey

However, despite the introduction of JSA and the New Deal, analysis conducted for the think tank, Reform, in 2006 showed that the payments made to adults of working-age are still not primarily about encouraging them back into work, but about sustaining them out of work.

- Direct expenditure on JSA and the New Deal accounts for just 3 per cent of working-age payments. The New Deal itself only accounts for 0.12 per cent of total expenditure. Tax Credits account for a further 16.3 per cent of the total but they are more about income top-up than incentivising work.
- Income Support (IS) is paid to 783,000 lone parents and amounts to 11.9 per cent of total expenditure. **Almost uniquely in the Western world, the UK places no real demand to encourage lone parents back into the labour market.** The following table shows the work tests for lone parents in selected countries.⁸⁹
- Incapacity Benefit (IB) is paid to 2.68 million people. It also has no built-in mechanisms to encourage work. **The Government has admitted that ‘almost nothing is expected of claimants, and little support is offered.’⁹⁰** This is surprising when the National Employment Panel estimate that a million disabled people on IB want to work.

Matters are improving gradually. The new Employment and Support Allowance will require interview-attendance for payment above the JSA level and (in time) will require participation on a *Pathways to Work* programme when it is rolled out across the whole country. Likewise, the Government has welcomed the recommendation by Freud that lone parents should be expected to work when their youngest child reaches 12.

89 Updated from Carcillo S. & Grubb D. From Inactivity to Work: The Role of Active Labour Market Policies, OECD, 2006, Table 2, p.66

90 Experiencing Jobcentre Plus Pathfinders: overview of early evaluation evidence; Lissenburgh, S., and Marsh, A., DWP, In-house Series No. 111, 2003. 'A new deal for welfare: Empowering people to work', January 2006.

Table 3: Work expectations for lone parents

Independent of child age	Children under 16 (age limit in years)	Children 16+ (age limit in years)
Belgium (case manager discretion)	Australia (8 or 6 for other parents with child care responsibilities)	New Zealand (to 6 in Sept 2007)
Denmark (subject to child-care)	Luxembourg (6)	United Kingdom (16)
Finland	Canada (0.5-6)	
Sweden (case manager discretion)	Netherlands (increased to 5)	
	Czech Republic (4)	
	Austria (about 3)	
	Germany (3)	
	Norway (3)	
	Switzerland (3)	
	USA (0.25-1)	
	France (3)	

2.3.2 International work expectations:

These failures stand in starker contrast given developments internationally. Over the past decade there has been a shift towards more active welfare states with increasing emphasis on participation, activation and responsibilities. This has increasingly led to the addition of conditions and expectations to new or existing benefits.

What do we learn for policy making?

- Benefits should not be an automatic entitlement in all circumstances: benefits should be earned through work/work-related activity. This ensures that benefit dependency is not a way of life, reduces welfare rolls, and increases social cohesion.
- People with disabilities who can (as assessed by an independent doctor) work, should do so: this reduces social exclusion and recognises that benefits should be linked, where appropriate, to work.
- Lone parents should engage in work or work-related activity before their youngest child reaches secondary school age, if not earlier: an increase in the number of lone parents in work means a decrease in the number of children living in poverty, and better life chances for the child.
- The provision of appropriate and affordable childcare is essential: lone parents cannot be expected to move into work if childcare is not available

America

In 1996 Democrat President Clinton, supported by a Republican Congress, signed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). Most analysts believe this revolutionised American welfare provision.

Under PRWORA, only families with dependent children, people aged over 65 and people with visual impairments or disabilities are eligible for federal cash assistance due to low income. Other claimants need to have been working and paying social security contributions to be eligible. *The receipt of federal benefits is directly linked to work.* However, states are allowed to discount 20 per cent of their caseload from federal rules, and these rules are not applicable to state funds.

With few exceptions – for couple *and* lone parent families – recipients must work after 2 years on assistance, this means participating in one of the following:

- Unsubsidised/subsidised employment
- On the job training
- Work experience
- Community service
- 12 months vocational training
- Provide childcare services to individuals participating in community service
- Up to 6 weeks job search, no more than 4 consecutive weeks

Lone parents

Once the youngest child reaches one year old, lone parents are expected to work in order to receive benefits, and some states set the age lower than one (at as low as 3 months).

However, federal law states that if lone parents with children under 6 cannot find childcare then they cannot be penalized for failing to meet work requirements. The Government reforms included \$14 billion in childcare funding.

Changes since the reforms were implemented

- 60% reduction in the welfare rolls since 1996
- Significant decrease in poverty, even after the 2001 recession. Child poverty remains 20% lower than 1994 levels.
- Between 1996 and 2004 the number of working lone parents increased by 1 million and in 2005 the employment rate for lone parents stood at 69.1%
- 60% of the reduction in poverty in the US was due to changes in work patterns, 60% of the reduction of poverty in the first three years of the Labour Government was due to increased benefits

Netherlands

A precondition of receiving benefits is the requirement to actively seek work and accept any reasonable job offer. Failure to comply can lead to sanctions.

Lone parents

In 1996 the implementation of the new Social Assistance Act introduced the work obligation to lone parents with children aged five or over. Previously, the work obligation had not applied until the youngest child was 12. However municipalities may take specific circumstances (such as availability of childcare) into account before enforcing the work obligation.

Disabled people

Recent reforms have made disability benefits available only to those deemed incapable of any work. All other claimants need to undertake training or job placement activities – which can be part-time dependent on capability – if they wish to receive benefits.

Changes since the reforms were implemented

- It is too early to assess the impact of the reforms to disability benefit eligibility.
- Employment rates for lone parents in the Netherlands have increased significantly over the past decade, and are currently around 55 per cent

Australia

In 1998, Australia embarked on a series of reforms to improve the efficiency and effectiveness of their welfare-to-work provision. However, lone parents and people with disabilities were not obliged to participate. In 2006 the Government reviewed the work expectations for these groups, and tightened the conditions under which they could receive benefits. A series of measures were introduced:

- Work Capacity Interviews were introduced for all recipients of parenting and disability benefits. These are face-to-face interviews with a range of medical and health professionals to assess an individual's capacity to work
- Revision of the eligibility criteria for receiving Disability Support Pension (DSP). To qualify for DSP the reforms reduced the number of hours a person was unable to work from 30 to 15 hours per week: people who can work part-time will now be required to do so. In return claimants who actively sought employment were given increased benefits and a one off employment entry payment.
- Increased accountability: a more stringent regime where the receipt of benefits is linked to actively seeking work. Failure to seek work results in benefits being cut.
- The introduction of a range of new products and specialist personal advisors, available from the Jobs Network to help key target groups find employment
- The introduction of a workplace modification scheme and a wage subsidy scheme to encourage employers to take on people from the target groups
- An increase in affordable child care provision
- The lowering of the age of the youngest child from 16 to 8 or 6, at which point a lone parent must seek work

Changes since the reforms were implemented

As the reforms were introduced only in July 2006, the evidence-base from which to judge their impact is minimal. However, early results appear impressive with a significant number of both disabled people and lone parents moving off

Denmark

Since 1994 Denmark has introduced a series of reforms which increase work expectations as a condition for receiving benefits. Failure to participate in an 'activation' scheme, leaving a job twice in a year, or refusing two reasonable job offers, leads to benefit suspension. Participation in a welfare-to-work programme is mandatory for unemployment benefit claimants.

Lone parents

There is no separate benefit for lone parents. They must claim either unemployment or incapacity benefit.

Work tests for lone parents are dependent on the availability of childcare rather than the age of the child. However, universal child care is provided for children from the age of six months in a mixture of crèches, kindergartens and after-school clubs. Parents contribute just 30 per cent of the cost of childcare provision, unless they are exempt due to special financial, social or care needs. Take up of places is very high. Around 80 per cent of children between the ages of six months and nine are enrolled.

Disabled people

Anticipatory Pension – similar to IB in the UK – is only awarded if *all* possibilities of obtaining work through rehabilitation or flexible working have been exhausted.

Changes since the reforms were implemented

- The proportion of working age people on unemployment benefits has declined considerably since 1994 with a current benefit recipient rate of 3.9% compared to 7.9% in 1994
- The in-flow to Anticipatory Pension has reduced from 25,000 a year in 1996 to 15,000 a year in 2003
- As well as this, at 80%, Denmark has one of the highest lone parent employment rates

91 See slide presentation from Graham Carters, Deputy Secretary, Workplace Participation, Australian Department of Employment and Workplace Relations, *The Australian Experience: Job Network and Welfare to Work*, given at the DWP Conference, Welfare Reform: Challenges, Choices and International Insight, 26 March 2007

2.4 Objectives and Policy Recommendations

Our vision for society is one in which there is less poverty; particularly less severe and persistent poverty. As we have discussed, this is best addressed through helping people into work. To achieve this vision we must ensure that government targets are correctly set and clearly outcome-based.

Targets should be realistic (based on comprehensive consultation); achievable and testable; focused on (local) outcomes; and establish reasonable work expectations.

Our policy recommendations for Targets and Work Expectations are as follows.

2.4.1 Targets

As indicated earlier in this chapter, there is a strong case for setting targets on a small number of vital issues, such as the incidence of severe and persistent poverty, the employment level in general and the employment level for different groups.

Poverty

- As highlighted in this Group's interim report, poverty cannot be understood in merely absolute terms. It has to be understood in relation to changing social norms. Poverty must be measured against the accepted standard of living that prevents social exclusion.

Employment level in general

- The Government is torn between the standard employment *rate* measure, which represents the proportion of working-age people who are in employment, and an employment *ratio* derived by dividing the total number of employed adults in the UK by the working-age population. The ratio would be higher because, for example, it would capture pensioners who are still in work but who are not officially of working-age, and is therefore a less challenging measure.
- There needs to be a more meaningful definition of work than the one currently used by the Government, which is one hour of paid work a week. The current definition has long distorted the figures and is not a serious test of adult work rates.

Employment level for different groups

- We must identify realistic employment targets for different groups. The Government's current target of an 80 per cent employment rate does not take into account the employment rates of groups such as lone parents and people with disabilities. In order for policies to be effective, the targets and expectations upon which they are based must of course be aspirational. However, they must also be realistic.

- Our expectations of work in households with children must be directly linked to the outcomes for the child. Policies should promote the best life chances for children in *all* family structures. As we have seen, research shows that in order to achieve this, the primary focus should be on reducing the number of workless households. It is dramatically more effective to find a job each for two workless households than two jobs for one household and none for the second. This is key to breaking the cycle of intergenerational worklessness and poverty.

Targets must be built around the following measures.

A. Poverty measures

In order to measure severe poverty more accurately on an ongoing basis, we recommend the **development of a deprivation index to be reviewed every 5 to 10 years (based on a sample of the population) to account for the evolution of society and social norms.**

The use of a deprivation index

The use of a deprivation index recognises the difficulty of accurately measuring income and expenditure at the lowest end, and therefore the importance of measuring the presence or absence of assets. It also recognises the direct link between severe poverty and social exclusion.

Ireland has developed a National Anti-Poverty Strategy that uses exactly this mixture of monetary and non-monetary measures, and has allowed them to identify (and set targets accordingly) those exhibiting a profile of multidimensional deprivation which differentiates them sharply from the rest of the population.

The current government has recognised the value of such an approach, even citing the Irish experience.⁹² However, it has not formally adopted it as a PSA measure. We believe we should adopt this approach to highlight the challenge we face in helping the weakest in society.

In addition, it may be appropriate for this work to be supplemented by the development of broader ‘quality of life’ measures including, for example, social networks and access to local community infrastructure and services.

B. Employment

An employment rate rather than a ratio

The Select Committee on Work and Pensions, unlike the DWP, has argued that **it would be better to use a rate rather than a ratio in measuring**

92 *Measuring child poverty*, DWP, December 2003

employment.⁹³ This is our preferred measure. **It more accurately captures a social, rather than labour market, perspective on the issue.**

Severe poverty is most prevalent amongst workless households, therefore efforts and measurements should be focused on moving at least one member of a workless household into employment, with a secondary focus on moving more individuals into work.

Definition of a job

We argue that the general threshold should be increased to at least 10 hours a week, which is the equivalent of 2 hours of work per week day, and could be regarded as the minimum form of ongoing employment.

In order to reduce the recycling that occurs today we must also set a measure for what it means to have a sustainable job; one that is significantly longer than 13 weeks. We suggest a minimum of 12 months. Although we recognise that there are tracking difficulties, the ability of several non-government agencies to measure job sustainability over this time frame encourages us that it is possible.

Employment Target

The Work and Pensions Select Committee recently argued that the Government should state what employment rate it aspires to for each major

group within the labour market. We agree. **The overall employment target should be the product of this set of more specific targets.**

These targets should also be linked to what is expected of each of these groups. A cross-party consensus has

emerged on the requirement to move away from a passive benefits system. Furthermore, public support is strongly in favour of a 'something for something system'.⁹⁴

2.4.2 Work Expectations

Conditional benefits

The current Government has accepted the moral force of the argument in favour of work. In opposition they argued that the benefit system should

“ It may be necessary to mandate the participation of excluded people (including those on so-called 'inactive' benefits) in order to ensure assistance reaches those who need it ... ”

Richard Johnson, Work Directions, Submission to the EDWG

94 86% of respondents to the SJPG YouGov poll, April-May 2007, agreed that 'If people receive benefits it is reasonable to require them to seek work.'

93 The Government's Employment Strategy, Select Committee on Work and Pensions, February 2007, pp.9-15. 'Working-age people' are men aged 16 to 64 and women aged 16 to 59.

represent a 'hand up' not a 'hand out' and that there should be no 'fifth option' to the New Deal options⁹⁵ of working, training or acting as a volunteer. This combination of 'responsibilities' to seek work as well as the 'right' to receive benefit has been at the heart of their rhetoric of welfare reform ever since.

David Freud's recent report also highlights a strengthened framework of rights and responsibilities from the start of an individual's claim as fundamental to underpinning reform. We strongly agree. **The system should now really move away from the passive to the active model.** This is in the best interest of the economy and claimants and must be accompanied by active assistance to find a job. The Government has said this for ten years. It is now time to deliver.

The relationship between a benefit claimant and the government should be based on a form of agreement with rights and responsibilities on both sides. The government has undertaken to financially support certain groups in society. In return, those individuals can reasonably be expected to work according to their capacity (depending on disability and care responsibilities); be actively engaged in preparing for work; or be actively engaged in seeking work. A recent paper on hidden unemployment stated that around 1 million men and women on IB should actually be considered unemployed.⁹⁶ These people are likely to fall in groups B and C.

We believe that the entire benefits system should be re-tranched into four categories:

- Group A, who should work full-time, and have a very high employment target;
- Group B, who should work part-time or in some less strenuous roles, with a somewhat lower target;
- Group C, who cannot be expected to work immediately but who have a responsibility to prepare themselves for some types of work in the future. This group would have a low employment target; and
- Group D, who cannot reasonably be expected to work, now or in the future (unless circumstances change considerably), and whom society has a duty to help support outside the labour market.

When undertaking the re-tranching, policymakers should consider the incidence of multidimensional disadvantage, which is directly linked to an indi-



Enforcement of work expectations is currently poor. For most people, the receipt of out-of-work benefits should be dependent on actively seeking or preparing for work.

95 New Deal participants can take up four options; full time employment; a subsidised job, work and training with a voluntary or environmental group, or full-time study.

96 The real level of unemployment in 2007, Christina Beatty, Steve Fothergill, Tony Gore and Ryan Powell, Centre for Regional Economic and Social Research, Sheffield Hallam University Press, 2007, p.3.

80% of people agreed that 'It is reasonable to expect that disabled people and people with health conditions should work if they are able to do so'.

71% agreed that 'It is reasonable to expect that lone parents work part-time once their youngest child is five years old, and full-time once their youngest child is in secondary school'

60% of respondents disagreed that 'It is better for the children of lone parent families to have their parent at home to look after them, even in secondary school. We should be supporting them in this, not forcing them to seek work'.

SJPG YouGov Poll

vidual's proximity to the labour market. The headline employment rate target should be set only after the re-tranching of the system has been completed. The targets must have a set end date linked to the economic cycle. Only through this can we ensure the effective allocation of resources. We would expect the employment targets for these groups to vary from close to 100 per cent for Group A, to 0 per cent for Group D.

To ensure that the appropriate support is provided to enable a claimant to meet the work expectations placed on them, we recommend the implementation of a Support Category

Table 4: Moving from a passive to an active benefits system

Group	Current benefit	Rights	Responsibilities
A	<ul style="list-style-type: none"> All JSA Some of those who would otherwise be on IB Lone parents (children > 11 yrs) 	<ul style="list-style-type: none"> To receive benefit payments – all of which are dependent on active job seeking Help with access to in-work benefits on finding work 	<ul style="list-style-type: none"> To be engaged full-time in seeking work (for lone parents of school aged children this should be 30 hours per week) To take any reasonable job offered, either permanent or 'progression' To take part in active labour market or work readiness/ community schemes as required
B	<ul style="list-style-type: none"> Many of those who would otherwise be on IB Lone parents (children > 5 yrs) 	<ul style="list-style-type: none"> To receive benefit payments – all of which are dependent on active job seeking To receive active intervention on health condition Help with access to in-work benefits on finding work 	<ul style="list-style-type: none"> To spend >20 hours per week in work or seeking work To take any reasonable job they can perform To take part in active labour market schemes as required
C	<ul style="list-style-type: none"> Some of those who would otherwise be on IB Some of those on DLA Lone parents (children < 5 yrs) 	<ul style="list-style-type: none"> To receive benefits including supplementary payments to help them manage any health condition Portion of benefit dependent on preparing for work Help with access to in-work benefits on finding work 	<ul style="list-style-type: none"> Depending on situation to spend 5 to 10 hours per week preparing for work To take part in part time active labour market/social enterprise/community schemes as required
D	<ul style="list-style-type: none"> Most of those on DLA 	<ul style="list-style-type: none"> To receive assistance as required 	<ul style="list-style-type: none"> No responsibility to seek work, though potential to attend social enterprise, community, or similar schemes

Assessment. This would identify, based on the complexity of the individual case, the level of assistance required to help a claimant back into work.⁹⁸

For groups A and B the benefit system needs to move entirely from being a largely passive to an active system. Likely compositions and contrasting rights and responsibilities are set out in Table 4 opposite.

In order to ensure that the work expectations placed on people with disabilities and health conditions are realistic, an independent doctor will need to conduct a robust but fair assessment of a claimant's work capabilities before a claim can start. This doctor

should be employed by an independent occupational health scheme. This is essential to ensure a fair assessment, without undermining the relationship between GPs and patients. It would also ensure that appropriate support is provided to help the claimant back into work, including tailored condition management (see Section 3.3.1).

“ 'How has someone been able to claim JSA for 10/12 years? JSA was not set up for that. How does someone just slide for that many years through the system? Do something before they become totally unemployable. The longer out of work the lower the motivation - they don't want to work - and they can't get references. ”

Kelly Murray, Tomorrow's People, Senior Adviser

Enforcing expectations

To ensure that work expectations are enforced, there must be effective and meaningful sanctions against all those who do not abide by the conditions of their benefits. Crucially, staff must be willing to implement sanctions where necessary, and be supported in doing so, explaining fully the reasons for the sanction.

However, evidence from a recent DWP Research Report highlights that many claimants are not aware of, or do not understand, the sanctions regime.⁹⁹ Therefore, there needs to be an awareness-raising campaign. We would recommend something similar to the Driver and Vehicle Licensing Agency campaign illustrating the repercussions of failing to license a vehicle.¹⁰⁰ Greater awareness

When asked 'If someone who could work refuses to work, or participate in work support where appropriate, then their benefits should be suspended', 87% of those surveyed agreed with the statement.

SJPG YouGov Poll

97 See Section 3.3.5

98 A review of the JSA sanctions regime: Summary research findings, Mark Peters and Lucy Joyce, DWP Research Report No 313, 2006

99 Advertising made clear the message that if you do not license your vehicle it can be taken and crushed

and meaningful sanctions could actually result in fewer sanctions being applied. Effective communication of the regime should act as an effective deterrent to non-compliance.

The DWP's 2006 review of the sanctions regime states that: 'This current review was partly triggered by concern that the process might have become too cumbersome to be effective for some customers.'¹⁰¹ To be effective sanctions should be applied quickly. A review of the current drawn-out process is required to reduce the considerable bureaucracy currently slowing implementation.

2.5 Conclusion

Government targets and work expectations determine how resources are allocated and implemented. They must, therefore, be designed to decrease economic dependency and reduce poverty by enabling people to access a sustainable route out of poverty. Our policy recommendations are aimed at just that.

- National poverty targets should be based on two measurements: the 60 per cent of relative median income, *and* a severe poverty measure.
- There should be three key employment measures:
 - Sustained employment should be a minimum of 12 months in employment;
 - Employment should mean 10 or more hours a week;
 - The headline employment rate target should be a composite of the target for individual groups.
- The UK remains out of step with other industrialised nations in requiring limited or no claimant activity to access benefits. The receipt of benefits for the majority of working-age households must be linked to reasonable work expectations, and non-compliance must result in sanctions.
- These reforms should be matched with appropriate support to enable people to move back into the labour market (see Section 3).

101 A review of the JSA sanctions regime: Summary research findings, Mark Peters and Lucy Joyce, DWP Research Report No 313, 2006, p.1

Section 3

Help for those entering the workforce

3.1 Summary

Government welfare-to-work support is not only misdirected and inadequate. It is also procedurally inefficient. The complexity and subtlety of the challenge means that a large universal state-run system cannot effectively address the problem of long-term cases.

In-work benefits which keep people in jobs are preferable to creating unemployment traps by restricting benefits to those out of work. However, they are no substitute for real efforts to enable people on low incomes to escape from poverty by increasing their capacity to earn a living wage. 'This is the sustainable route to ending the social exclusion and deprivation that is the true penalty of poverty.'¹⁰²

The New Deal, for example, has been less effective than approaches in other countries. Support to help people into work is very poor. It has targeted the wrong people, and has emphasised the wrong activities – too much emphasis on training and too little on work.

'The New Deal was not the key driver of reduced unemployment. Both unemployment and youth unemployment were actually falling more quickly before the New Deal was introduced. According to recent research, possibly as few as 8,000 who would not otherwise have found jobs have been placed in sustained jobs. Since 2005 unemployment has actually started to increase again...'¹⁰³

There has been very little comparative analysis carried out by the Department of Work and Pensions (DWP) of the effectiveness of different welfare to work approaches. However, it is clear that the Government's flagship New Deal programmes are failing too many of their participants, and are not focused on those in most need of help.

102 Breakdown Britain, Worklessness and Economic Dependency, Social Justice Policy Group, 2006, p.14
103 Reforming Welfare, Nicholas Boys Smith, Reform, 2006, p.50-1

- In short, Government provision is:
- Failing its participants
- Insufficiently focusing on those most in need
- Offering poor value for money

The following sections lay out our recommendations for the reform of welfare-to-work services. We look first at the level and type of support required to support those currently furthest from the labour market back to work. We then outline the structure and organisation under which such provision can and should be made available.

3.1.1 Failing participants

Key Points

- Clients fail to find sustained employment
- Lack of work-first approach

A recent DWP Research Report on repeat Jobseeker's Allowance claimants noted that the majority of the group of clients that had spent long periods of time on

“ The 13 week programme did nothing for me, the tutors don't care – ‘just fill out the time sheets and do job searches’. You just become a number in the system ”

Witness at EDWG Hearing talking about the New Deal for Young People

“ At the time that we were setting up the Employment Zone in Brent, the vast majority of New Deal for Young People participants chose the full-time training option. Only a very small minority of these went on to secure employment. ”

Richard Johnson, Work Directions, EDWG Hearing

Government programmes were unlikely to move in to work; and of the participants who do find work, around 40 per cent reclaim Jobseekers Allowance within a year.¹⁰⁴ Indeed, one third of New Deal for Young People participants are repeat entrants.¹⁰⁵ Short-term, 13 week, placement targets for the New Deal have meant a great deal of cycling in and out of jobs, rather than sustained employment. There is no emphasis placed on ensuring that the client is able to *sustain* work.

104 Delivering Full Employment: from the New Deal to Personal Employment Accounts, SMF, Stephen Evans, 2007, p.11

105 Reforming Welfare, Nicholas Boys Smith, Reform, 2006, p.51, Welfare isn't working: The New Deal for Young People, Frank Field and Patrick White, Reform, May 2007, p.15

The report also noted that out of the total number of claimants that stated they had been on a Government scheme, only 7 per cent said that they had gained their current or most recent job through this scheme.¹⁰⁶ Worse, Government research also indicates that 80 per cent of jobs gained by New Deal for Lone Parent participants would have been obtained without programme support.¹⁰⁷

One of the key reasons for lack of success, is the failure to take a work-first approach. A recent report by Frank Field, MP, highlighted the dire situation in which the Government has admitted that the employment option in the New Deal for Young People is the most successful route in to work, yet just 15.3 per cent of participants are able to choose this option. Disturbingly, in 2006, only 2.5 per cent of participants selected this option. This is dramatic 95 per cent decline since the New Deal's inception.¹⁰⁸

*'All that the New Deal [for Young People] offers for those workers who have completed their course but failed to land a job is to keep taking the same medicine until it works...The data questions the appropriateness of this approach.'*¹⁰⁹

Overall, the number of participants moving from the New Deal for Young People into employment has declined 19 per cent since 2002, to a success rate in 2006 of only 34 per cent.

Earlier New Deal success is, sadly, now declining. This 'not only clearly signals, again, that the New Deal does not equip participants with the necessary skills to last in a job for a reasonable length of time. But also that the New Deal is getting worse at this same task.'¹¹⁰ Table 5 clearly sets this out. The proportion of New Deal leavers going into unsubsidised employment has declined significantly since 2002.

Table 5: New deal participants moving into employment

New Deal Programme	Percentage of leavers (individuals) entering employment only					Percentage decline
	2002	2003	2004	2005	2006	
NDYP	42%	40%	40%	39%	34%	-19
ND25+	32%	31%	33%	28%	24%	-25
NDDP	29%	30%	32%	32%	25%	-14
NDLP	56%	53%	49%	48%	41%	-27
ND50+	-	-	32%	28%	22%	-31
NDP	-	-	30%	21%	16%	-47

106 Repeat Jobseeker's Allowance Spells, DWP Research Report No 394, Hannah Carpenter, 2006, p.91

107 Cited in Reforming Welfare, Nicholas Boys Smith, Reform, 2006, p.51

108 Welfare isn't working: The New Deal for Young People, Frank Field and Patrick White, Reform, May 2007, p.18

109 Welfare isn't working: The New Deal for Young People, Frank Field and Patrick White, Reform, May 2007, p.16

110 Welfare isn't working: The New Deal for Young People, Frank Field and Patrick White, Reform, May 2007, p.16

Dave Winning from Working Links argued at a Working Group hearing that, 'time has moved on and the worth of the programmes must be questioned'. Former Welfare Minister Frank Field, MP, has agreed: 'more of the same will not work.'¹¹²

When asked¹¹¹, only 11% of respondents agreed with the statement: 'The Government's current schemes have already produced a sufficient drop in unemployment; there is no need to change the present system', 58% disagreed.

SJPG YouGov Poll

3.1.2 Insufficiently focusing on those most in need

Key Points

- Lack of spending on economically inactive disabled people and lone parents
- Insufficient flexibility to address specifics of individual cases; insufficient training to tackle hard cases

Disabled people and lone parents account for two thirds of out-of-work benefit claimants; yet they receive a mere 14 per cent of programme spending.¹¹³

This is perhaps unsurprising when the Government spends five times less on work programmes for people with disabilities than the average European nation.¹¹⁴ There is a clear mismatch between expenditure and desired outcome.

Support for lone parents moving back into work has ignored almost all lessons on what is most effective. US research has shown clearly that the most effective way of helping lone parents enhance the life chances of their children is to introduce them to programmes which are intensive and primarily job-focused. Income Support (IS) is not set up to do this, with almost all help delivered through schemes in which participation is voluntary. Interviews at yearly, 6 monthly or (sometimes) quarterly intervals are all fairly nugatory.

Many IB claimants have been ignored by the DWP, despite the National Employment Panel estimating that a million disabled people on IB want to work.¹¹⁵ One survey found that most Jobcentre Plus advisors preferred to be 'sensitive to the needs of such customers', who they perceived to have 'more "complex" circumstances.', and believed 'would not be interested in work.'¹¹⁶ Indeed, most advisors and almost all GPs and nurses have had no, or very little, training in occupational health.

111 SJPG YouGov Poll April-May 2007

112 *Welfare isn't working: The New Deal for Young People*, Frank Field and Patrick White, Reform, May 2007, p.5

113 *Reducing dependency, increasing opportunity: options for the future of welfare to work*, David Freud, 2007, p.44

114 Ian Charlesworth, Shaw Trust, EDWG hearing

115 *Able to work: Report of the National Employment Panel's Employers' Working Group on Disability*, National Employment Panel, 2005

116 Cited in *Reforming Welfare*, Nicholas Boys Smith, Reform, 2006, p.61

The current Jobcentre Plus model lacks the focus required for each individual to achieve their goals. To ensure that the job seeker can get into, and *sustain*, work, they must have help to overcome their personal barriers such as drug addiction, alcohol misuse, and lack of qualifications and skills. This is particularly the case with long-term unemployed and economically inactive people.

3.1.3 Poor value for money

The costs of supporting dependency can be huge:

- **In Kent, the benefits bill is £1.5 billion, larger than that spent on local Education and Social Care services combined**
- **'...once a person has been on incapacity benefits for a year, they are on average on benefit for 8 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'¹¹⁷**

New Deal programmes cost more per job than other schemes: gross cost per job is around £3,500 for the New Deal for Young People, £4,100 for the New Deal 25+ and £5,930 for the New Deal for Disabled People. This is compared to as little as £2,050 for best practice outsourced programmes, which also achieve better outcomes.¹¹⁸

The cost of administering the programmes is also high. In 2002-03 £349 million was spent on the New Deal for Young People, only 20 per cent of this was spent on the participants themselves.¹¹⁹

3.2 Tentative steps in the right direction

Although the Government's flagship New Deal programmes are failing, as shown in Section 3.1.1, there are two newer programmes that are more responsive to clients' needs and their preliminary results appear promising.

- **Employment Zones** aim to provide a work-first tailored approach to clients, offering intensive one-to-one support, with a focus on raising confidence and motivation. They are outsourced, with outcome-based payments.
- **Pathways to Work** is a scheme which has received a warm response due to more personalised support and the piloting of mandatory participation for new IB claimants.

117 *Reducing dependency, increasing opportunity: options for the future of welfare to work*, David Freud, 2007, p.68

118 *Reforming Welfare*, Nicholas Boys Smith, Reform, 2006, p.49-50

119 *Reforming Welfare*, Nicholas Boys Smith, Reform, 2006, p.55

Employment Zones

In Employment Zones, payment for providers of welfare-to-work services is outcome-based with the use of performance bonuses. The programme is intense and work-focused. For example, A National Centre for Social Research evaluation of Employment Zones noted that more than double the number of clients at Employment Zones had received “too many to count” meetings with their Personal Advisers than New Deal clients, and 61 per cent of Employment Zone meetings discussed ‘things to do to find job vacancies’, compared to 28 per cent of New Deal meetings.¹²⁰

JSA claimants

Each client is allocated a Personal Adviser by their provider, who works with them to complete the ‘3 Stages’. The First Stage entails the creation of an Action Plan and can last up to four weeks. The client and their Personal Adviser review the client’s needs and tackle the barriers preventing the client from finding work. Training is only an option if directly linked to a job and can be completed by the end of the programme. The Second Stage is the execution of the Action Plan alongside intensive job search and can last up to 26 weeks. Finally, the Third Stage starts once the client is in work and provides 13 weeks of in-work support to help maintain the client in employment. Participants who have been mandated to take part, and who have not succeeded in finding employment by the end of Stage 2, return to Jobcentre Plus to claim benefits. They can then volunteer for a further 22 weeks of Employment Zone support.

Lone parents not receiving JSA

Lone parents not claiming JSA and not working more than 16 hours a week can volunteer for Employment Zone support. In the London Employment Zones lone parents receive Employment Zone help and are able to select the provider that they wish to work with. Outside of London, claimants choose between Employment Zone support and New Deal support. As with mandatory clients, an individually tailored plan is produced.

Multiple provider Employment Zones

In 2004 an element of competition was introduced with the inception of multiple provider Employment Zones. Outside of London, where both single and multiple provider Employment Zones were trialled, multiple provider zones perform better.

David Freud, in his analysis of the multiple provider Employment Zones, presents them as less effective than their single provider counterparts, but this includes the London data.¹²¹ But the London experience distorts the picture due to its particularly large number of very hard to help clients, and due to the fact that there are no single provider Employment Zones in the capital.

Impact of the programme¹²²

It is hard to compare Employment Zones and the New Deal directly, because Employment Zones are working with the hardest to help in the most deprived areas. However, despite this greater challenge, their performance is still better than that of the New Deal:

- Employment Zones have placed 45 per cent of participants into jobs compared to 29 per cent for the New Deal 25+
- Employment Zones have placed 33 per cent of their participants into jobs retained for 13 weeks compared to 22 per cent for the New Deal 25+
- Long-term unemployment fell faster in Employment Zones than in comparison areas, and those finding work were less likely to re-enter unemployment¹²³
- Employment Zones are better at placing the hardest to help, for example they are 10-15 per cent better at placing the over 50s than the New Deal and their success at placing ethnic minority clients is equal to their overall success rate (unlike the New Deal)

120 *Interviews with Jobcentre Plus Personal Advisors; Evaluation of Employment Zones*, National Centre for Social Research, 2003, cited in *Reforming Welfare*, Nicholas Boys Smith, Reform, 2006, p.97

121 *Reducing dependency, increasing opportunity: options for the future of welfare to work*, David Freud, 2007, p.55

122 *Reforming Welfare*, Nicholas Boys Smith, Reform, 2006, p.96-7

123 *The wider market impact of Employment Zones*, DWP, 2003.

DWP research on the multiple provider Employment Zones states: 'The findings indicated some advantages, including the way in which healthy competition helps to keep Providers 'on their toes', and the development of innovative services, particularly for lone parents.'¹²⁴

A DWP study noted the following regarding the impact of Employment Zones:

*'EZ Providers, Jobcentre Plus respondents, stakeholders and employers described a number of ways in which the programme adds value. The key benefits concern the resources available to support clients and flexibility in their use. Findings indicated the usefulness of intensive one-to-one work with clients outside the setting of Jobcentre Plus, focusing on barriers to work and practical steps to overcome these, appropriate job matching, and a robust approach to clients who are able to work but do not want to. A business-like and personalised approach, which is attractive to employers, was described, as was the potential to provide in-work support to a greater extent than is the case for other labour market programmes.'*¹²⁵

Pathways to Work

First introduced as pilots in 2003, Pathways to Work is due for national roll-out in 2008. At the same time, Incapacity Benefit will become the Employment and Support Allowance. Pathways to Work is mandatory for new IB claimants and voluntary for existing claimants, although mandatory participation for existing claimants is being piloted in the original seven districts.

The key components of the programme are:

- a series of Work-Focused Interviews (WFI);
- a 'Choices' package offering access to the New Deal for Disabled People and some additional support;
- financial incentives in the form of a Return to Work Credit; and
- access to health condition management.

The responsive nature of the support on offer and the piloting of mandatory participation are important steps forward which help to explain the warm response the scheme has received.

However in many ways, the scheme does not go far enough. For example, the New Deal for Disabled People has been ineffectual, so partially basing Pathways to Work around this programme is unhelpful. In addition, there is little evidence that Pathways is encouraging claimants not already considering work to become job-ready. Research for the DWP has concluded: 'People liked learning about available support, and financial help in particular. However, few people in the panel had used services from the Choices package and those who did tended to be people initially focused on working.'¹²⁶ Moreover, participants are sceptical of the difference the programme has made to them: 'Few people felt that taking part in Pathways had made a major difference.'¹²⁷

The Institute for Fiscal Studies (IFS) has shown that there has been an increase in the number of people leaving IB as a result of Pathways, although the charity Scope note the programme would have to double its success rate to hit the Government's target of a one million reduction in IB claimants by the middle of the decade.¹²⁸ So it is clear that, while Pathways may be a useful contribution, it is not enough.

124 *Phase 2 evaluation of Multiple Provider Employment Zones: Qualitative study*, DWP Research Paper No 399, The Policy Research Institute, Leeds Metropolitan University, p.5

125 *Phase 2 evaluation of Multiple Provider Employment Zones: Qualitative study*, The Policy Research Institute, Leeds Metropolitan University, DWP Research Report No 399, 2006, p.4

126 *Pathways to Work: Findings from the final cohort in a qualitative longitudinal panel of incapacity benefits recipients*, Anne Corden and Katharine Nice, Research Report No 398, Summary, 2006

127 *ibid*

128 *A million of Incapacity Benefit: How achievable is the Government's target?*, Steve Fothergill and Ian Wilson, Scope, June 2006

3.3 Effective alternatives

Whilst Employment Zones have a greater impact than the New Deals, especially on the hardest-to-help clients, they are not perfect. Nor has Pathways to Work been totally successful. Neither programme has achieved the results of best practice examples internationally or in the UK.

3.3.1 International best practice

Over the past decade a number of countries have revolutionised the delivery and make-up of their welfare-to-work provision. They have transformed the structure, organisation, and contents of their services in order to recognise the complexity of individual and local needs. America, Australia and the Netherlands are examples of countries that have outsourced provision, introducing competition, flexibility and incentive into their welfare-to-work models.

Wisconsin, America:

The state of Wisconsin began a comprehensive revision of its welfare system under Governor Tommy Thompson, and remains one of the most successful states to date.

As well as making financial aid dependent on work, cutting benefits and introducing strict conditions and sanctions, Governor Thompson established an effective structure of welfare-to-work support through the W-2, or Wisconsin Works, programme. Amongst other things, this shifted the focus of welfare-to-work support from training and upskilling to getting claimants into jobs: training should be done on the job.

The reforms also introduced market mechanisms into the provision of welfare-to-work services, with local welfare departments having to compete with private and voluntary organisations to deliver the W-2 programmes.

Key elements of the W-2 programme:

- In order to provide a more personalised welfare-to-work service, the W-2 programme saw significant investment in the administration, particularly in additional staff
- Potential new claimants were required to see Financial and Employment specialists before making a claim in order to discuss employment opportunities and the potential for other sources of income (such as family and friends)
- If aid is unavoidable, the expectation would be that employment was being sought. To this end the 'Four Tiers' were established. The first, and most desirable, tier would be entry into an unsubsidised job, second a subsidised job, third a community public service job and fourth (for those unable to work regularly) some work combined with remediation training
- Education or training for its own sake was not an option

Impact of the reforms (also due to time limits and investment in services such as childcare and transport)

- Reduction in welfare recipients from 300,000 in 1986 to 50,000 in 2001, a caseload reduction of 83 per cent
- Claimants are now 30 per cent better off
- Child poverty has decreased 20 per cent
- Caseworkers acted as positive role models, and those that used a 'tough love' approach were most successful
- Competitive tendering forced the public sector to raise its game. In most counties this happened, and targets were met. However Milwaukee county failed to meet its targets and was therefore split into six sections with the private and voluntary sector taking on the roles of benefit distributor and welfare-to-work provider.

Australia

Australia began reforming its welfare system in 1998. From a traditional state run welfare and job search structure, the system was divided into two:

- A state run single gateway into the benefit system that assesses benefit entitlement and imposes sanctions if required.
- An outsourced Job Placement system that provides a database of available jobs, training and recruitment services to job-seekers.

Outsourcing welfare-to-work provision

- The job training and placement functions of the benefit system were opened up to the market, with public, private, and third sector companies competing for three year contracts.¹²⁹
- An innovative contract monitoring system based on star ratings was developed: each provider was scored on the number of job vacancies placed on the national database, the total number of job seekers placed into employment, and the number of people still in work at 13 and 26 weeks.

Personalised welfare-to-work provision

- Outsourcing welfare-to-work provision gave providers the flexibility to tailor the support to the specific client within a work-first approach:
- To ensure that the level of support received was appropriate to the needs of the client, a comprehensive assessment tool was developed to categorise distance from the workplace and therefore intensity of support required. Clients were placed in one of four categories according to the complexity of their case, with category one being the easiest to place, and category four being the hardest to place.
- Although some proscription has now been introduced to tackle the problems of 'creaming' and 'parking'¹³⁰, personal advisers create customised action plans for clients.
- A holistic approach is taken, looking at all potential barriers to work, and addressing them.

Outcome-based payments for providers

Payments to private and third sector providers are outcome-based, with payment according to the number of people placed and sustained in work, at 13 and 26 weeks:

- Payments vary according to how hard a client is to place, and how long they have been unemployed
- Payments range from \$165 for a basic job placement, to \$6,000 for a sustained outcome for a hard to help client

Impact of the reforms

- The cost of placing an individual in work was reduced by 37.5 per cent, from \$16,000 to \$6,000.
- The introduction of the star rating system led to a 25 per cent increase in job outputs.
- In the first contract round the former public service provider, Employment Nation, won many of the large contracts and had the largest proportion of the welfare case load. In the second contract round poor performance led to Employment Nation being removed from the market and 100 per cent of provision being delivered by private and third sector organisations.
- The number of people receiving Unemployment Benefit dropped from 810,000 in 1996 to 500,000 in 2006.
- Employment increased by 23 per cent between 1996-2006.
- 'Long-term unemployment' (people unemployed for 12 months) has decreased by 46.4 per cent since March 1996 and remains 67.9 per cent below its peak in May 1993.
- 'Very long-term unemployment' (those unemployed for two years or more) has declined by 51.2 per cent since the introduction of Job Network.

129 In the first contract round there were 300 public, private and third sector providers. Subsequent rounds have seen the withdrawal of the public sector providers due to poor performance, and a reduction in the total number of providers to just over 100.

130 'Creaming' is when providers work with the easiest to place in order to ensure placements and, therefore, due to the outcome-based payment structure, payment. 'Parking' is when providers ignore the hardest to help to focus on the easiest to help (and therefore quick wins).

Netherlands:

Reforms were introduced during the late 1990s aimed at increasing municipality flexibility whilst maintaining efficiency and effectiveness: several separate welfare-to-work programmes aimed at unemployed people were integrated into the Jobseeker's Employment Act, and a new client categorisation system based on distance from the labour market was rolled out nationally.

From 2000, reforms divided the purchaser and provider roles, outsourced welfare-to-work services (to 'reintegration companies') – mainly purchased by the municipalities – and introduced the use of block grants to municipalities.

Welfare-to-work provision

- Claimants are assessed on their capability to work and given a score between 1 and 4. If a claimant receives a score of 1 no assistance is offered and they are expected to find work themselves. If scoring between 2 and 4, and therefore needing more intensive support, the claimant is transferred to a welfare-to-work provider who will address their needs.
- The 'comprehensive approach' is used to move claimants back into work. This can include participation in a welfare-to-work programme: activities such as training courses, work placements, group activities and language-learning are used to support the hardest to help back to work.
- Municipalities and the social security agency (UWV) have a pool of 700 private and third sector organisations that provide training, job search and placement support.
- The 700 private and third sector providers have to achieve a Quality Mark to stay in the pool and league tables are published showing performance.
- Part of the reintegration companies' services are fully paid, and part are paid on a 'no cure, less pay' basis. 'Cure' is defined in terms of sustained job placements.

Impact of the reforms

It is too early to assess the impact of the reforms, but they do follow the international trend towards outsourcing, competition, outcome-based payments and personalisation of provision in welfare-to-work services.

3.3.2 Best practice in the UK

In the UK, the performance data for various private and third sector welfare-to-work providers is impressive and the schemes' success outstrips the performance of the various New Deal programmes. This is particularly noteworthy given that many of the schemes run by the private and third sector operate in very deprived areas, where unemployment and economic inactivity are above average and where a large number of clients face multiple barriers.

Tomorrow's People is a specialist charitable trust which focuses on helping those furthest from the labour market to find and sustain work. In his submission to the Working Group Steve Swan described the charity's operations:

'We serve as a complete advice and mentoring service for unemployed people by operating on an outreach basis in GP surgeries, local community centres, libraries, Jobcentres and the offices of training providers. Our outreach model, combined with independence from Government, helps us generate long-term trusting and honest relationships with clients to help them overcome barriers to work.'

A 20-year evaluation of Tomorrow People's work found that 77 per cent of people helped to find work secured full-time employment, and that 76 per cent of clients that found work were still in employment 12 months later. In fact in London, an area in which Government programmes have not fared well, this retention figure actually increases, to 80 per cent. The evaluation also concluded that for a total of £285 million invested in the charity, the benefits accrued to society stand at £450 million, £190 million of which is directly attributable to welfare savings.¹³¹ The services provided by Tomorrow's People are not only significantly more successful at getting people back into work than Government programmes, they are also cost effective.

Working Links is a Public Private Voluntary Partnership between the Secretary of State for Work and Pensions, Manpower Plc, Capgemini and Mission Australia. It delivers welfare-to-work and other employment-focused programmes for people disadvantaged in the labour market. Katharine Sacks-Jones informed the Working Group that:

'Working Links has been particularly successful in finding sustainable work for some of the so-called 'harder to help' groups such as lone parents, people on Incapacity Benefit, ex-drug users, ex-offenders and people who have left the education system with a range of numeracy and literacy needs. The key factor that connects many of our clients is that they are typically long-term unemployed and come from some of our most deprived and disadvantaged communities. Since our inception in 2000 we have supported almost 80,000 people into work, with 70% of them still in work 12 months later.'

80 per cent of people helped to find work secure full time employment, and 70 per cent of clients are still in work 12 months later.¹³² More than that, 84 per cent of clients that have retained employment have progressed in their jobs by the 12 month point.¹³³ Additionally, Working Links has achieved a parity of job starts across all ethnic groups.¹³⁴

3.3.3 What do we learn for policy-making?

There are a number of key lessons to be learnt from these international and UK models, which should in turn inform welfare reform in the UK:

- **Work support must be holistic, multiple barriers must be tackled:** intensive one-to-one support must be available to those who need it in order to move them into work and help them stay there.
- **A 'tough love' approach is required to ensure people make the transition from welfare to work:** caseworkers must be supportive and caring, acting as role models, but programmes must be intense and enforced.
- **Outsourcing and competition drives up performance:** private and third sector providers are often better placed to deliver innovative, flexible and personalised services, and therefore clients are more likely to move into work. Introducing competition also forces public sector providers to raise their game in order to remain in the market, and drives up provider performance.
- **Outsourcing and competition can reduce the cost per job:** contracts are won primarily on performance, but also on cost, meaning greater incentive to provide appropriate help that will move a client into work as quickly as possible.
- **Effective public performance monitoring improves results:** publicly contrasting the best and worst performers forces providers to compete against each other for the top ratings, and thereby increases outputs.

132 Working Links internal report May 2007; Working Links internal research April 2006

133 Working Links internal research April 2006

134 Working Links Hackney & City local area self assessment report, 2006

- **Payment by outcomes incentivises providers and improves results**, and payment on sustained outcomes ensures sustained job placements: success rates increase due to the focus on outcomes rather than procedure, providers are incentivised to provide customized support in order to ensure placement and retention.
- **Payment based on distance from the labour market should help prevent ‘parking’ and ‘creaming’**: providers are incentivised to help people with more complex needs due the significantly higher reward for placing them in work.
- **Decentralisation provides locally appropriate services, and therefore higher performance**: welfare-to-work provision must be appropriate to local needs and circumstances.

In developing our policy recommendations, the above factors are all addressed.

3.4 Objectives and Policy Recommendations

The main target for active labour market policies must be those people who are furthest away from employment but who are capable of – and who would benefit from – being in paid work. Minimal resources should be spent on people who seem likely to find work under their own steam, but for those who need it, support should not be delayed.

The inadequate level of support currently available to those looking to overcome multiple barriers to work is detrimental not only to the individual, but also to society and the economy. The key to helping those who face the biggest challenges, according to a wealth of UK and international evidence¹³⁵, is to ensure more responsive and more personalised support from a variety of skilled organisations within and outside the public sector.

3.4.1 Characteristics of successful welfare-to-work provision

The evidence collected in our hearings with a range of employment service providers, as well as international best practice, reveals four clear primary characteristics that underpin successful welfare-to-work provision. Successful active labour market policies are those which are:

- Personalised and Localised
- Comprehensive
- Focused on work rather than training
- Focused on sustained job placement

Policy recommendations

1. Personalised and Localised

Given the need to ensure that long-term economically inactive people are not overlooked, the level of support to help them re-enter the workplace will need

¹³⁵ See Section 3.3, Effective Alternatives

to be significantly altered. The challenge is to address the multiple disadvantages they face. These groups need considerable support in finding and retaining employment. Without the necessary support these disadvantages act as unsurpassable barriers to work.

“ One size definitely does not fit all ”

Dave Winning, Working Links

‘Those out of work today are more likely to suffer from multiple disadvantages than the workless of ten years ago...as time goes on, those who remain out of work become harder to help.’¹³⁶

Examples of multiple deprivation

Claimants of Incapacity Benefit or Income Support, as well as repeat claimants of JSA are likely to face considerable barriers to work – not least the duration of time that they are likely to have been out of the labour market:

- More than three quarters of people without any qualifications at all face at least one other characteristic of disadvantage¹³⁷
- 26% of lone parents are caring for a child with a disability or long-term health condition, and 16% have a disability or long-term health condition themselves
- 95% of Incapacity Benefit claimants face at least one, and 60% face three or more barriers to work in addition to their health condition¹³⁸

People who have experienced one social problem are 50% more likely than average to experience at least one other problem¹³⁹

Support must be personalised to ensure that participation in the workplace is possible for all who are capable of working. Categorising an individual based on the benefits they receive, as is currently the case with the New Deal programmes, cannot provide the holistic support required to get them into, and keep them in, work. The objective must be to provide them with more tailored holistic support that is work-focused and intense.

136 *Delivering Full Employment: from the New Deal to Personal Employment Accounts*, Stephen Evans, SMF, 2007, p.4 and 15

137 *Reducing dependency, increasing opportunity: options for the future of welfare to work*, David Freud, 2007, p.39

138 Working Links Submission to the EDWG

139 SJPG YouGov Poll

Welfare-to-work services are currently not sufficiently personalised; they too often fail to recognise the nature of the client group requiring programme support. Those needing basic support (such as CV updating and help with interview techniques) should not need to participate in comprehensive welfare-to-work programmes. Those people requiring more responsive and intensive support – generally long-term unemployed people, repeat claimants and people on inactive benefits – tend to face multiple barriers. Currently, the New Deal programmes waste funds on the people who are likely to find employment without much support, and also fail those in need of a more personalised and effective approach.

Providers of welfare-to-work schemes repeatedly informed the Working Group that the New Deals were ‘too prescriptive’¹⁴⁰, that ‘the most effective programmes are localised at the level of the individual, with very flexible, intensive one-to-one support’¹⁴¹, and that the segmented approach taken by the Government ‘fundamentally misunderstands the ability of the provider community to target personalised support.’¹⁴² Steve Swan from Tomorrow’s People argued that:



Vida, a lone parent on Income Support, describes the lack of effective support provided by Government programmes. It wasn’t until she became a client at A4e – a private provider – that she believed her desire to work would be realised.

‘All existing employment programmes should be replaced with a single programme. The programme would not specify details of services that must be performed, rather providers would agree and implement an individual plan with each client...operational flexibility to implement the interventions that skilled advisers believe are necessary is essential if welfare to work outcomes are to be improved. A one-size fits all approach will simply not work with the hardest-to-help.’

David Freud’s recent report for the DWP recognises the need for personalisation and proposes a model in which ‘Providers would have flexibility to deliver individually tailored back to work support based on what their clients need... Benefit recipients would agree individual workplans with their personal adviser.’¹⁴³ The implementation of such a model would necessitate a substantial shift away from the bureaucratic and relatively inflexible New Deal model, and would need to go significantly further than Employment Zones and Pathways to Work.

Ultimately, the nature of support provided to an individual client must depend on the needs of that client, and these should be identified by the client and their personal adviser *together*. It is therefore essential that personal advisers are highly trained professionals with expertise in identifying and tackling a client’s psychological and physical barriers to work. As one A4e¹⁴⁴ client, a lone

140 Chris Melvin, Reed in Partnership, EDWG hearing

141 Work Directions Submission to the EDWG, Richard Johnson

142 Tomorrow’s People Submission to the EDWG, Steve Swan

143 *Reducing Dependency, increasing opportunity: options for the future of welfare to work*, Freud, 2007, p.61

144 A4e is a welfare-to-work organisation

parent on Income Support, put it 'the quality of the delivery really matters, it motivates you.' Becoming job-ready is an essential prerequisite for successful job-entry.

The support provided must therefore take account of the whole picture, including care responsibilities, health conditions, financial outlook, qualifications, confidence and addiction problems. Ian Charlesworth from Shaw Trust highlighted the fact that 'most clients have two things: housing and debt problems; and confidence and motivational problems. You have to tackle these before you can even talk about jobs.' Addressing one thing may well not make a client job ready, but addressing the individual as a whole should.

70% of people believe that 'Support for people should not be determined by the benefit that they are on; a more holistic approach is needed to ensure all are helped into work'.

SJPG YouGov Poll

One Parent Families (OPF) and Marks & Spencer's (M&S): Marks and Start programme

Background:

Marks & Start is the biggest work experience scheme in Europe; OPF runs the lone parent strand of the programme providing pre-employment training and M&S store-based work placements to 200 parents per financial year. The programme is parent-friendly, running weekdays in term-time from 10am until 3pm. OPF provides 13 weeks of follow-up support.

What does the programme consist of?

- three day pre-employment training entailing confidence building and motivation, tailored advice and skills development
- two week M&S store or office placement; participants receive induction training, uniforms, and are supported by trained M&S coaches
- travel costs and lunch are provided
- All completers receive a certificate and M&S will provide references for future job applications

Results:

- 51 per cent of leavers moved into employment within 13 weeks
- 98 per cent of leavers feel work ready or in a better position to make an informed decision about returning to work
- 92 per cent of starters complete the programme

Specific barriers to work

There are three particularly key issues in ensuring a personalised approach:

- Health condition management
- Flexible working
- Childcare¹⁴⁵

Health condition management

Personal advisers need to work closely together with health professionals if a significant portion of the 2.68 million IB claimants are to move into work. As part of Getting London Working, an employment adviser was based in the James Wigg Practice in Camden. This led

to a 20 per cent reduction in GP consultations, a 19 per cent reduction in anti-depressants, and a 74 per cent reduction in referrals to practice counsellors.

We welcome the introduction of the Condition Management Programme (CMP) as part of the Pathways to Work ‘Choices’ package. However DWP research clearly shows that the Programme’s impact is limited:

‘There was considerable interest in the Condition Management Programme,

but few people in this panel went on to take part. There was evidence of lack of understanding of the aim of the programme or what the process might entail. Not all who agreed to take part actually met a practitioner. People were easily put off keeping appointments or continuing with sessions.’¹⁴⁶

The programme is entirely voluntary and therefore many claimants who would benefit from such tailored support are not accessing it. We recommend that a universal programme along the CMP lines is a standard part of the support provided for IB claimants.

Flexible working and Childcare

Without the provision of appropriate and affordable childcare and flexible working opportunities, lone parents will often be unable to make the transition from

Caroline McKenna, former IB claimant who was suffering from depression and sleeplessness.

“ I tried medication and I tried counselling but they didn’t work for me. My doctor was really helpful, but the problem with being out of work and depressed is that as each days goes by it gets harder and harder to be motivated ”

She was referred to the employment adviser by her doctor at the James Wigg Practice. The adviser worked with her to overcome her barriers to work and raise her confidence. She is now working full-time as a hairdresser’s receptionist.¹⁴⁷

145 See Volume One, Family Breakdown, Chapter 5, for further information on childcare
 146 *Pathways to Work: Findings from the final cohort in a qualitative longitudinal panel of incapacity benefits recipients*, Anne Corden and Katharine Nice, Research Report No 398, Summary, 2006, p.4
 147 Tomorrow’s People case study

economic inactivity to paid employment, or stay in work. In their submission to the Working Group, One Parent Families highlighted ‘the provision of high quality, affordable childcare’ as the most important factor in tackling employment barriers for lone parents. Jonathan Bradshaw, in his comparative paper on lone parent employment in 20 countries, cited childcare provision as the key factor in achieving high lone parent employment and low child poverty rates.¹⁴⁸

Moreover, as Lisa Harker noted in her recent report for the Government: ‘The lack of appropriate, affordable childcare is also a barrier to work for partners of benefit claimants who have children and partners of single earners, and while some cite a preference not to work because of family responsibilities there are a significant proportion who say they would like to.’¹⁴⁹ Harker notes that 48 per cent of children in poverty live in households where there is someone in work: ‘if 20 per cent of single-earner poor families were to become dual-earner families, around 80,000 children could be lifted out of poverty.’¹⁵⁰ The provision of childcare and family-friendly jobs should not only - and most importantly - help lone parents into work, but also help the second parent in a couple to move into employment.

2. Comprehensive and intensive support

Frequent contact between client and adviser

The relationship between the client and their personal adviser needs to be frequent and in most cases should last well beyond the current 13-week retention measure.

David Freud notes that:

*‘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)’.*¹⁵¹

He goes on to say that evidence is less conclusive for people on inactive benefits, but the increased frequency of Work-Focused Interviews for groups of lone parents has been linked to increases in lone parent employment. Evidence from America also shows the need for intensive support. Research by the Manpower Demonstration Research Corporation in 2002 clearly showed that more intensive welfare-to-work schemes were far more effective than less intensive schemes (see table X below).¹⁵²

148 *The employment of lone parents in 20 countries*, Jonathan Bradshaw et al, SPRU, 1996

149 *Delivering on Child Poverty: What Would it Take?*, Lisa Harker, 2006, p.31

150 *Ibid*, p.50

151 *Reducing Dependency, increasing opportunity: options for the future of welfare to work*, Freud, p.79

152 *Moving People from Welfare to Work: Lessons from the National Evaluation of Welfare-to-Work Strategies*, Gayle Hamilton, Summary, MDRC, 2002

Claimants should not be left without contact for any significant period of time, as this reduces momentum, demotivates people and implies that there is no serious expectation of a move into work. The frequency of contact should be decided by the personal adviser according to the individual's needs and influenced by an outcome-based payments system (see chapter X). Dave Winning told the Working Group that one of the reasons that personal advisers at Working Links are so successful is that they can say “see you tomorrow”, or “next week”. In contrast, the expectation from the individual is that they have 2 weeks, even 6 months, until the next interview at Jobcentre Plus. We can up the pace, people know we're serious.' More intense support does, of course, come with material short-term costs, but there are also significant long-term rewards in terms of lower benefit payments and a higher tax take.

Continued support once in work

We found a clear consensus among academics, welfare-to-work providers and policy makers that support for claimants should continue beyond job entry. Kate Bell of One Parent Families noted: 'Jobcentre Plus are about getting *a job*, not about *staying in a job*.'¹⁵³ As a result, the figures are depressing; nearly 58 per cent of Jobseeker's Allowance claimants count as repeat claimants; lone parents have a job-exit rate twice that of non-lone parents; and 40 per cent of New Deal for Young People participants who find work reclaim benefits within a year.

The Joseph Rowntree Foundation, in their submission to the Working Group, highlighted the fact that 'Many people moving from worklessness into jobs find themselves in low-paid jobs without prospects, which are often short-lived. The welfare system has hitherto focused on the first step into work rather than on what happens thereafter.' They recommended creating 'an employment service that aims for better outcomes in people's long-term trajectories not just a single step into a job' and working 'with employers and individuals who need help to sustain work even after entering jobs'.¹⁵⁴ Similarly, Working Links recommended 'Providing in-work mentoring for new employees to manage the initial 26 weeks of employment as a minimum'.¹⁵⁵

We recommend that support should be available to clients, and their employers, after the move into employment. This should be provided by the same personal adviser that helped the client into work. The personal adviser should act as an advocate where necessary, liaising with the employer to solve any initial problems, providing advice for employer and client, and ensuring that the client has access to relevant on-the-job training. Moving an individual from out-of-work poverty to in-work poverty is unacceptable over the long-term: labour market policies should encourage social mobility through facilitating progression in work.

153 Kate Bell, One Parent Families, EDWG Hearing

154 JRF, Submission to the EDWG, Donald Hirsch

155 Working Links, Submission to the EDWG

A community tailored approach

As the earlier examples of private and voluntary provider initiatives demonstrate, a proactive approach is particularly essential for certain client groups and geographical areas. The challenge is to break the cycle of deprivation and worklessness, and for this innovation and a community-tailored approach is often required. In some instances, providers will need to go out and find workless people rather than waiting for workless people to find them.

Working Links: Working Neighbourhood Pilot, Parkhead

Between April 2004 and March 2006 Working Links ran a Working Neighbourhood Pilot in Parkhead, Glasgow. The pilots were designed to tackle some of the concentrated worklessness that exists in certain geographical areas.

Parkhead is the third most deprived ward in Scotland, with a working-age economic activity rate of just 39 per cent, a life expectancy age 14 years below the national average and 40 per cent of residents on health-related benefits.

Despite this severe deprivation, Working Links engaged 1,000 people out of a total population of 2,000 and placed just over 500 into employment. Significantly 75 per cent of those people were still working 6 months later.

The organisation's success was due to their approach: 'Active face to face contact by people with an understanding of the local perspective is essential...Community projects and door knocking are some of our most effective tools of engagement.' Working Links employed 'Employment Consultants' from the neighbourhood to, as Katharine Sacks-Jones informed the Working Group, go 'into the areas that no-one else would'. 'For example they pushed a shopping trolley full of ASDA goodies into an estate and raffled off the contents, they provided football coaching and cheerleading for the kids – and talked about the programme. They used different ways of getting into the community and getting them to engage. They got the children involved, built-up trust, and *then* talked to the parents.'

3. More emphasis on work than on training

Evidence clearly shows that programmes focusing on activities which lead directly to employability and then finding and maintaining work, rather than on

general training or attending interviews, are significantly

more successful. This has

been reinforced by evidence

about the outcomes from

different options within the

New Deal for Young People

and also by evidence from

the US, which shows that the

most effective employment-

focused schemes are between

three and six-and-a-half

times more effective than

some education-focused schemes (see figure 5 below).¹⁵⁷

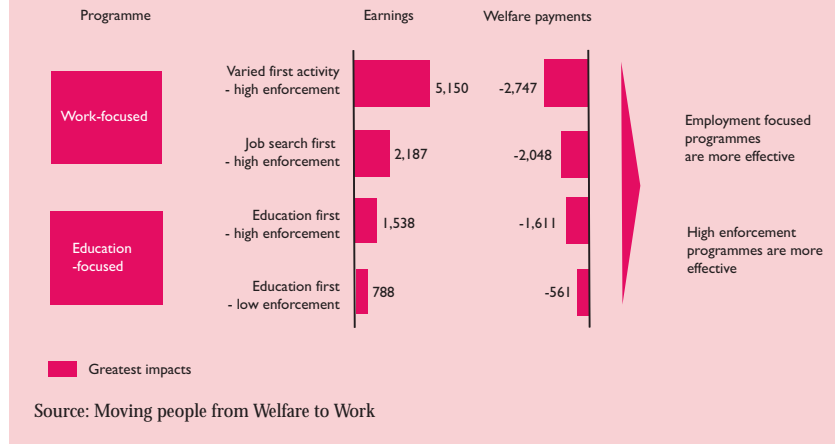
“Given the large number of programs examined in NEWWS [National Evaluation of Welfare-to-Work Strategies] and the diversity of the populations they served, the features of their implementation, and the labor [sic] markets in which they operated, these results strongly indicate that employment-focused programs are more effective than education-focused programs at increasing employment and earnings.”

Gayle Hamilton, *Moving People from Welfare to Work*¹⁵⁶

156 *Moving People from Welfare to Work: Lessons from the National Evaluation of Welfare-to-Work Strategies*, Gayle Hamilton, Summary, MDRC, 2002

157 Ibid

Figure 5: US employment-focused schemes are more effective than education-focused schemes. Impact on five year earnings and welfare payments, \$.



Merrill Matthews and Kristin Becker in their analysis of the best and worst performing states in the US list the number one ingredient for success as a

work first approach: 'First and foremost, a serious effort to move welfare recipients into jobs quickly, preferably private-sector jobs.' In listing the obstacles to success common to the worst performing states they include 'failing to emphasise the need to go to work quickly' and 'willing-

“There is no doubt that many of our clients do need to develop their range of skills and accredited qualifications, but this can be done within the context of finding a first job. And such training is then done in the context of that employment . . .”

Ian Charlesworth, Shaw Trust, Submission to the EDWG

ness to provide education and training without requiring work...successful states know that the best training occurs on the job.’¹⁵⁸

Such evidence cannot be ignored. **Those who are facing multiple barriers to work should not be left to hours of job search; however any skills development or training must be linked *directly* to work.** As Freud notes: ‘The combination of labour market contact, work experience and in-work training has been found to be most effective for people with low skills.’¹⁵⁹

158 *Making Welfare Work: lessons from the best and worst state welfare reform programmes*, Merrill Matthews and Kristin Becker, National Centre for Policy Analysis, 1997

159 *Reducing Dependency, increasing opportunity: options for the future of welfare to work*, Freud, 2007, p.53

4. Focus on Sustained Job Placement with Aftercare

Appropriate job placement

“If the role is right for the individual and it is sustainable, and it changes their life.” Dave Knight, Remploy, EDWG Hearing

There is a clear need for continued support once a client has made the transition from welfare to work (as demonstrated by the lone parent job exit rate¹⁶⁰), meaning that job placement must be appropriate: the job must be suitable for the individual undertaking it. Sara McKee from A4e argued that we ‘can’t have a sausage factory, people won’t sustain a job – they don’t like it therefore they don’t engage with it. People just get recycled through the system.’¹⁶¹ A similar amount of effort should be invested in helping to improve the long-term employment prospects of people who begin paid work, as is invested in ensuring they find work in the first place – both are essential to wider economic success, as well as to the well-being of the individuals concerned.

The welfare-to-work programme introduced in Portland, Oregon, was so successful due, at least in part, to its recognition that moving people into part-time, low pay, low prospect employment is not enough. This, coupled with the aim of helping people to find work in a sector in which they want to work, should significantly increase retention rates.

Employer input and the local economic context

As with the initial job placement, the local economic context needs to be taken into account and employer input is essential. Dave Knight from Remploy argued that providers must:

‘work with the market, what are the vacancies – skills – needed? We work to help the individual to fill local vacancies. You can’t divorce what we do from real world economics – but we sill need to make sure that the individual wants to go into that job. In town X what skills are needed in order to progress in the local environment?’

Portland, Oregon: welfare-to-work programme

“The program was strongly employment-focused...However, in contrast to many employment-focused programs, participants were encouraged to look for and take ‘good’ jobs — full-time, paying above the minimum wage, with benefits and potential for advancement...at the two-year mark Portland’s program produced effects (impacts) on employment, earnings, and welfare receipt that were among the largest ever found for large-scale mandatory programs.”

MDRC Evaluation, Scrivener et a

160 See 1.3 Lone Parents
161 Sara McKee, A4e, EDWG Hearing

“The record in the UK shows that nearly anybody who isn’t an employer is incredibly bad at deciding what training should be...There are two people that know best – the employer and the individual.”

Andrew Haldenby, Reform, EDWG Hearing

Providers should be working with local employers not only to ensure that training is tailored to vacancies, but also to demonstrate the business value of employing these groups, as well as offering advice and support on how

to make any necessary adjustments to work hours and/or space.

3.4.2 The organisation of welfare-to-work programmes

In order to deal with the increasingly complex needs of unemployed people and economically inactive people, a system must be established in the UK which allows for local innovation and flexibility.

Performance output must be increased through competition between providers and payment must focus on sustained job outcomes rather than procedures.

Savings will result from achieving our long-term goal of reducing economic dependency. However, in producing these proposals, it is important that the cost to the Exchequer has not been the overriding factor; indeed it is possible that in the short to medium term Government expenditure may increase. Such investment may be required if some of the most excluded people are to be reached and given the prospect of fulfilling employment and an opportunity to return and contribute to mainstream society.

Drawing upon the comprehensive evidence collected by the Working Group and on international experience, we believe there are 5 critical factors in developing an effective model for future delivery of welfare-to-work provision in the UK. These are:

- Encouragement must be given to more flexible and personalised approaches
- Welfare-to-work programmes should be state determined, but not state delivered
- Local employment consortia should be able to contract for local programmes
- Contracting needs to be competitive and professional
- Payment should be for outcomes, with minimal upfront investment

Policy recommendations

1. Encouragement must be given to flexible personalised approaches

The objective for the welfare system must be to provide personalised support to facilitate an individual’s transition to the workplace and long-term employment. This support must be identified and available from the first benefit claim. Current practice, which often results in clients languishing in Jobcentre Plus is simply unacceptable.

We therefore recommend the following reforms:

The implementation of a one-stop shop

A one-stop shop approach is essential to ensure that claimants receive, and understand fully, the conditions of the financial and back-to-work support available to them. Currently the process is fractured – some benefits are operated through Jobcentre Plus, some through local authorities – and opaque. Instead, we recommend that:

- A **full benefits assessment** is carried out at Jobcentre Plus by expert benefit specialists to ensure full financial support is obtained; and
- A **Support Category Assessment (SCA)** is undertaken immediately on entry – housed at Jobcentre Plus but not necessarily conducted by them – to determine the level of back-to-work support required.

An SCA would also identify the most suitable provider of the support. In general this is likely to be the geographically closest provider to the client, but specialist providers may be required for certain cases such as those with multiple barriers.

The fast-tracking of clients requiring more intense support

Currently, more intensive support is only available to claimants after a specified period of unemployment; **those requiring intensive support should immediately, on assessment, be fast tracked so as not to perpetuate benefit dependency.**

It should be possible to provide immediate programme support to individuals whose job outcome depends on such help; for example ex-offenders, the long-term unemployed and addicts. Welfare-to-work provision must recognise that, as Sara McKee from A4e informed the Working Group, ‘the longer a client is out of work, the less attractive they are to an employer’. Fast tracking the hardest to help will not only benefit the individual, but is also financially and socially beneficial to society.

The introduction of real provider flexibility

If overall incentives are correct, additional constraints invariably introduce inefficiency: focus is directed away from outcomes and towards procedures. The sole focus of providers must be to get people into, and then keep them in, work.

Providers must be allowed to deliver appropriate and tailored support to each individual and therefore prescription must be minimised: instead of being forced to provide ‘entitlements’ to a specific type or level of help. Providers must be rewarded for sustainable job outcomes, *not* programme delivery.

- Policy should not prescribe the processes or ways in which a provider should work with a client to get them into work; this must be left to the provider to decide.

- Money should not be ring-fenced to individuals, and there should not be restrictions on how providers spend the money they are paid by government.

Implementation

This process should be based primarily around local consortia and independent providers, with delivery of welfare-to-work programmes through the private and third sector. This

“We provide client support money. The Jobcentre doesn't give them anything like that. So we can pay for them to go on courses, buy them a suit. One client just needed his interview clothes dry cleaned - £4 and he got work! One guy just wanted dark coloured socks.”

Robert Davis, GAIN Project

would build on the proven track record of private and third sector providers in delivering innovative and personalised programmes that produce results.

A revised and streamlined role for Jobcentre Plus should be considered to

assess and provide benefits and to operate an initial 'Job Gateway' service such as basic job search support (for example access to the internet and telephones).

Government, in its contracting role, should focus *only* on:

- Setting the right long-term objectives and national outcomes
- Aligning short, medium and long-term incentives to these objectives
- Ensuring there is sufficient competition in the market to drive effectiveness (and hence value for money)

2. Welfare-to-work programmes should be state determined but not state delivered

Welfare policy should recognise that the public sector is not necessarily the best

“'Jobcentre Plus . . . tend[s] to interact with you on an investigation line of communication, not a help you line. I do at least 30 applications per week . . . They're not interested in what you have to say - they just look for what you haven't done. It's exactly the opposite here.”

Tomorrow's People client

provider of welfare-to-work programmes. Government institutions are not best placed to help those furthest from the labour market, especially given the suspicion and fear of state apparatus in certain communities. People on long-term benefits 'fear officialdom because officials take things away – kids, benefits, etc'

(Dave Winning, Working Links) whereas 'independence from the government helps generate long-term trusting and honest relationships with clients to help them overcome barriers to work' (Steve Swan, Tomorrow's People).

Individualised and innovative local approaches are vital, particularly for people furthest from the labour market. Only by encouraging a wide variety of companies to compete for contracts will this diversity and innovation be introduced.

We therefore recommend the following reforms:

The establishment of a level playing field for providers

There must be no restrictions on who can compete for contracts, and **the procurement process must not be biased towards any particular provider type**: a level playing field must exist for both private and third sector organisations.

The contracting of welfare-to-work services to private and third sector providers

Private and third sector organisations should compete to win contracts based on the merits of their bids,

and **contracts should be for a minimum of three years**.

Short-term contracts squeeze smaller and specialist providers out of the market due to the cost and risk entailed, reduce the ability of the provider to establish relationships with local employers making planning and investment difficult, and make it harder to attract the best staff.¹⁶³

David Freud¹⁶⁴ and others recognise that a typical two years plus a further year extension prohibits competition and does not allow independent providers time to recoup costs.

“...the third sector are used to pioneering new approaches to social problems”

Ian Charlesworth, Shaw Trust

The Government should not deliver the bulk of welfare-to-work services

- Government agencies are processing too many people with a standardised approach
- Mixing the roles of (1) benefit provider, and (2) welfare-to-work caseworker can create tension in the adviser-client relationship, particularly for IB claimants whose benefits are based on the assumption that they cannot work
- There is a lack of trust between many clients and government agents
- The private and third sector are able to operate a much more flexible and responsive service within local communities, reflecting local needs

Government should process benefits and set the strategic direction of services

The DWP should continue to process benefits and determine the conditions for their receipt, setting the strategic direction for welfare-to-work. This would include the broad conditions for receiving welfare-to-work support. However the **delivery of welfare-to-work programmes must be through independent providers**, and indeed the specifics of meeting the benefit conditions must be set by a client's individual caseworker.

163 Providers need to be able to offer more long-term contracts in order to attract the best staff, short-term contracts do not allow this.

164 Page 52-53, *Reducing dependency, increasing opportunity: options for the future of welfare to work*

Implementation

As stated above, consideration must be given to reforming Jobcentre Plus and Connexions. This should streamline and transform their operation and focus. Jobcentre Plus's major role could be built around the processing of benefits and providing 'Job Gateway' support such as basic services such as access to telephones, the internet and advice on drafting a Curriculum Vitae.

Providers would have greater responsibility to identify and fund training, and identify and enable local job opportunities. This would require the formation of partnerships with local training providers and employers. Providers may also need to manage, or identify organisations to manage, local community schemes as precursors to full employment.

3. Local bodies should be able to contract for local programmes

For welfare reform to have any significant impact, the objective must be to encourage diversity of provision, and new providers to enter the market, in

order to address local needs. Mark Kass, A4e, told the Working Group that it was essential for providers to be 'working with the community, understanding how it

“Each place, city, town and shire is different. All require local solutions”

Lord Bruce-Lockhart, Chairman, Local Government Association

works' in order to target appropriate and effective support: welfare interventions must be localised in line with local economies and labour markets.

As we have shown¹⁶⁵, worklessness is often geographically concentrated and therefore can only be tackled by addressing local characteristics and needs. The reduction of unemployment and economic inactivity requires local interventions, working with local employers and public service providers. The devolution of decision-making and contracting would introduce the independence and flexibility required to allow the welfare system to operate in this way. It would also, crucially, enable and encourage new service providers to enter the market which the prime contractor model proposed by Freud would restrict. Our aim, by contrast, is to bring local democratic accountability and the engagement of local businesses through their involvement in the consortia – building strong relationships between providers and employers. The local knowledge and experience of the consortia members would encourage and enable effective, 'joined-up', local expenditure and interventions.

We therefore recommend the following reforms:

Piloting the devolution of decision-making and contracting

To provide truly localised solutions to worklessness and economic dependency, government should **pilot a locally-focused and determined service contract based on sub-regional employment markets and local authority areas. These**

¹⁶⁵ See Section 1.1.3

'Local Employment Consortia' should be trialled in a cross-section of areas that are capable and keen to execute the role. This model removes centralised decision-making by DWP in order to ensure better co-ordination of local spending and services, and thereby creates greater impact and value for money. Increasing evidence and indications from local initiatives including Kent County Council's 'Supporting Independence Programme', show that there is merit in this kind of model.

Kent Supporting Independence Programme (SIP)

Launched by Kent County Council in 2002, the Kent SIP was built around:

- the need to **measure and monitor** welfare expenditure in the county;
- knowledge of which programmes **work best locally**; and
- **increased targeting** of both major programme spend and specific local support on areas most in need.

Through close working across the public and private sectors in the county, Kent is now providing a range of targeted support to help people into employment.¹⁶⁶

In negotiating new freedoms from the Government through its "Local Area Agreement", Kent continues to pursue the re-investment of a percentage of local welfare savings into further preventative activity.

Oxford University Research evaluated the impact of SIP on benefit dependency and concluded that (controlling for other factors):

- Living in a SIP focus ward had a significant effect on the probability of exiting benefits – in some wards, all working age benefit claimants had a 29 per cent higher chance of exiting benefits than those living in other areas in the South East.
- For incapacity-based benefit claimants, living in the most deprived wards which were classified as SIP focus wards increased the likelihood of exiting the benefit system by 28 per cent.

Ensure contracting is locally driven

Contracting bodies should be locally driven to ensure that the targeting of resources effectively addresses local needs. This requires **local commissioning and local decision-making** which Freud's regional prime contractor model would not guarantee. Local commissioning bodies should:

166 These include 'Kent Now' which supports IB claimants back to work; the Kent Success Apprenticeship Programme; and the Kent Community Programme which provides 16-18 years olds with employability skills and qualifications through participation in community projects

- Contract for local provision from providers
- Assume some risk for all providers in the form of pre-payments to ensure that the best providers, regardless of size and scale of finances, are able to compete for contracts
- Ensure that childcare provision is adequate: both appropriate and affordable
- Establish with the private and voluntary sectors a framework for community projects and volunteering opportunities¹⁶⁷
- Oversee some elements of service performance and audit
- Take greater responsibility for local benefit fraud, retaining any subsequent savings for local reinvestment
- Increase the coordination and joining up of local public services

Implementation

There would need to be sharing of local data on clients to personalise and target services. This data is currently restricted under data protection legislation

– this may require amendment to the data protection regulations.

The trialling of Local Employment Consortia, and aligning local public service budgets – for example DWP, Learning and Skills Council, and Council – should take

place in a range of areas.¹⁶⁸ Such consortia would help to co-ordinate and target the joint spending of these agencies in order to achieve the greatest impact and value for money. These consortia go significantly further than the Government’s own ‘City Strategies’ programme. Local Employment Consortia should empower local public services wherever there is the desire and the capacity to deliver at a local level.

The suggestion by David Freud that contracting should be based on the ‘prime contractor’ model¹⁶⁹ and based on the nine regions and two counties in Great Britain, is not supported by the evidence received from independent providers, local authority leaders, charities and NGOs.¹⁷⁰

4. Contracting needs to be competitive and professional

To maximise outcomes, performance must be driven up through competition, but to ensure that the best providers are competing with each other, procurement must be of the highest standard. Philip Collett, Motivational Systems, told the Working Group that ‘I am not convinced that bid scorers know what to look for’, and Richard Johnson, Work Directions, stated that ‘there is a lack

“...funding is presently delivered/managed in silos, the systems are over complex and bureaucratic, and the services procured are not as effective as they could be.”

Richard Johnson, Work Directions, Submission to the EDWG

167 See Volume 6, Third Sector, 3.2.4, for further information on volunteering
 168 The pilot areas should show a range of characteristics, with different levels and concentrations of worklessness and poverty, and different economic markets
 169 *Reducing dependency, increasing opportunity: options for the future of welfare to work*, David Freud, 2007, pp.62-63.
 170 See Volume 6, Third Sector, Section 3.3.4

of contracting expertise in the DWP...the services procured are not as effective as they could be.' Poor contracting must be rectified. Without this welfare reform cannot be truly effective.

Competitive bidding and effective contracting will promote value for money for government and will encourage improved services and efficiencies: if providers are not performing as well as their competitors then their contract will be lost.

We therefore recommend the following reforms:

Ensuring competition

In any sub-region there should be a minimum of two providers to undertake the delivery. There is no need to set a maximum as the market will 'shake itself out' and determine whether it is best served by a few generalists or many specialists; this may be different in different localities.

Ensuring that procurement is professional

The procurement of contracts must be carried out by professionals with expert competencies and knowledge of the welfare-to-work field. They must take a commercial approach. In local employment consortia, this may draw upon the experience of local government professionals where in some councils up to 80 per cent of provision (e.g. social care) can be contracted out to the private and third sectors.

Guaranteeing performance

Each provider should be given a star rating based on their performance and directly linked to their future tendering. This should be designed along the lines of the Australian five star model, in which the contracts of providers achieving two stars or less are re-tendered, whilst the contracts of providers achieving three or more stars are rolled over. The introduction of star ratings in Australia resulted in a 25 per cent increase in job outputs due to increased competition between providers: the system drove standards up, maintaining the best providers and weeding out the worst. While the roll-over of the contracts of high performing providers also provides security of tenure, the rating system must not prohibit new entrants to the market: competition and diversity of provision is key to success.

Ensuring that provision is comprehensive

Contracting bodies should be responsible for ensuring there is sufficient provision in their areas, both to cover the volume of clients in the locality and the needs. Some local areas will require a number of specialist providers, whilst for others generalists will be sufficient.

Implementation

The procurement process must focus on outcomes, not procedures, and an effective bidding mechanism must be developed.

Providers need to be lightly regulated in terms of quality control – for example by a national ombudsman – in order to ensure that expenditure of taxpayers’ money is effective.

5. Payment should be for outcomes

It is fundamental to acknowledge that the objective of the policy is not to cut costs. Reduced costs in the long-run will be a consequence of policy objectives being met, not a primary objective in itself.

Providers must be given incentives, firstly to participate and secondly to achieve the right result in the long term. Wherever possible, short term high cash cost to the Treasury must of course be avoided: inevitable budget constraints must not curtail success and longer term efficiency. Payments should be outcome- and disadvantage-based. As Richard Johnson argued in his Work Directions submission to the Working Group: ‘the costs of genuine assistance for hard-to-help people, leading to long-term employment and sustainable livelihoods, must not be underestimated.’ Nor should the benefits accrued to the individual and society.

The culture of targets ensures that whatever gets measured also gets managed. It is therefore critical to incentivise the desired outcome: sustained employment.

However it is equally important not to incentivise certain administrative steps that are perceived to lead to this goal: invariably this leads to incentivising bureaucratic processes rather than results, and cuts

off the innovation which may lead to new and more effective ways to achieve the end product.

We therefore recommend the following reforms:

The implementation of outcome-based payments

Companies should be rewarded for the successful long-term placement of clients (and hence sustained net reduction in cost to the tax-payer), rather than just job entry.

Companies should not be rewarded on the basis of price and procedure alone. Within this framework, (local) contracting bodies should be free to implement their choice of incentive structure.

When asked to respond to the statement 'Giving private and voluntary companies the incentive to help get people into work is the most effective way to get the best service', 57% agreed, 16% disagreed, and 22% did not know.

SJPG Yougov Poll

“There should be payment on sustainable employment, and progression - not just in-work poverty. Payment should be on results, but there has to be risk-sharing. Otherwise it would squeeze out the smaller specialist organisations.”

Steve Mason, A4e, EDWG Hearing

Payment must reflect benefit savings

The cash flow payments to the providers could equal the benefits saved; this would encourage high performance.

Minimum upfront payment

Central government will pay no more than the equivalent administration cost up front (on an ongoing basis), although local contracting bodies could choose to pay more up-front if they felt it appropriate and/or necessary.

Tiered payments according to distance from the labour market

Payment structures must reflect the fact that those farthest from the labour market will be the hardest to help, and therefore take more time and resources.

Contracting bodies must be willing to pay more for the placement of harder cases, and thereby encourage providers to take on and fully support more challenging clients. Australia pays providers considerably different rates according to the level of disadvantage and/or time out of employment of the client.¹⁷¹

“You need to stop cherry-picking - i.e. choosing the easy placements. Payments must reflect the complexity of placing the client ”

Dave Knight, Remploy, EDWG Hearing

Funding must be accurately targeted

The challenge is to design a welfare-to-work system that avoids purchasing programmes for people who would have found work without such support, and which precludes ‘creaming’ and ‘parking’ (enabling providers to profitably deliver contracts by placing the easiest to help and ignoring those furthest from the labour market). This is where an effective and accurate SCA, plus an appropriate payment scale which takes account of the complexity of a case, is essential.

Implementation

Individuals need to be effectively assessed according to their situation, or the level of complexity of their situation, and the structure and level of payments needs to vary in order to reflect this situation

Given the long-term nature of the services proposed, the length of provider contracts must be a minimum of three years to make it meaningful for companies to compete

Payment must be over multiple years to directly incentivise sustained placements, and in the event that a provider is deemed to be underperforming, an

171 See Section 3.3, Effective Alternatives

ultimate sanction of withdrawing the contract must exist. Should this occur, clients would be guaranteed support from another provider.

Proposed structure

There are two overarching payment requirements:

- Firstly, the overall level of payment for an individual should be dependent on the 'level of complexity' of effort required to help that individual.
- Secondly, a portion of the payment should be paid to the provider prior to successful placement (whether up front or on an ongoing basis).

This would recognise the investment required by the provider in order to place the client, and the fact that, particularly for the third sector, there is always an element of risk sharing.

We recommend trialling a set of different fee-for-results options. Potential options include:

- 1 *Outcome and difficulty-based* – fees are set at different levels for different categories and then paid in tranches to providers, primarily on results:
 - Taking the client on
 - On job entry
 - After 6 months in employment

Given the savings to the Exchequer resulting from moving an individual into long-term employment, we believe that there is merit in incentivising providers to ensure job sustainability. This option should therefore include further payments to providers when clients remain in labour market at:

- After 12 months in job
 - After 24 months in job
 - After 36 months in job
- 2 *Outcome-based with bonuses* – fees are set at constant levels and then paid in tranches to providers on results, by time in job as above. The provider is paid an escalating bonus as they place more cases in an area to reflect the increasing difficulty of dealing with the hard to place. An additional bonus would be paid if a client moved from a sustained position to one which was better paid and with more responsibility. This would encourage the provider to allocate additional resources to identifying an aspirational job for a client.
 - 3 *Difficulty-based* – Fee is based on the length of time needed to get the claimant back into work on a sustained basis, and also covers costs to do so. Over this time period, the provider gets paid an administration fee for

when the claimant is receiving benefits, and gets the benefit payment when they are not. The provider is incentivised to ensure that the claimant is in sustained work for as much of the time period as possible. In effect, the provider takes ‘responsibility’ for the claimant for 3 years and if at any point in that period the claimant is back on benefits, the provider is responsible for the claimant.

Assessment models

In order to implement one of the above models it will be essential to develop a good assessment tool to categorise clients according to the level of support they require. This would facilitate fair reward for companies taking them on, and ensure that individuals are given the right level of support and hence investment. The SCA should be undertaken by those who understand the clients’ needs most. Consideration needs to be given to who will carry out the SCA with the client, but we would recommend using agencies that have experience in identifying the level of support a client will require.

“A system of payment differentials should be introduced to ensure that providers do not cherry pick the easiest to help and that all individuals receive appropriate levels of support, including those with basic skills needs”

Steve Swan, Tomorrow's People

‘Living on benefits should not be a way of life’

Agree 91% Disagree 2% Don't know 6%

SJPG Yougov Poll

Possible approaches:

- 1 Jobcentre Plus assesses the level of need of each individual and therefore their support category.
- 2 A National partnership of welfare-to-work providers, produces a common test.
- 3 An assessment service is run independently, drawing on professional expertise, with local assessment contracts tendered for local assessment services. Local providers would be able to bid for contracts to run local assessment services.
- 4 Each provider creates its own independent assessment model, and provides a government agency with a list of questions to ask. This model only applies when providers are bidding to support individuals.

We recommend initially trialling a model along the lines of 3 (assessment service run independently): in our view, this is the system with the best balance of incentives.

3.5 Conclusion

The Government's main welfare-to-work initiatives have not been as effective as was hoped. Newer official programmes, such as the Multiple Provider Employment Zones, and evidence from best practice abroad suggests there is an urgent need for more flexible, localised programmes and less monopolistic provision.

If we are to increase the rate at which long-term unemployed people and economically inactive people find work, then the support on offer needs to be more personalised, more comprehensive, more concentrated on work and more focused on sustained employment.

In order to ensure that the best services are available at a fair cost to the public purse, the Government needs to ensure a fuller input from non-state private and third sector organisations, who should be paid by outcome. The economy as a whole and, even more importantly, the millions of individuals concerned, will benefit enormously from more effective labour market support.



Lloyd Johnson, Employment Adviser at the GAIN project in Lambeth, prepares to help clients.

Section 4

Reforming the Benefits system

The current situation

The benefits system plays a crucial role in tackling economic dependency on the state. However, there are tensions within this role. It is necessary to ensure that the most vulnerable people in society are protected against the ravages of poverty, while at the same time avoiding traps for those who could otherwise be earning a living. The focus should be on how benefits protect households at the lower end, and facilitate their path into work.

“It's [the benefits system] very complicated and I think that's what scares people. It's another barrier to work”

Robert Davis, GAIN Project

The existence of traps within the benefits system is not the sole barrier to people entering and progressing in the workforce. However, it does contribute, through both the disincentives it creates, and the broader signals it gives.

The reform of the benefits system is part of the solution, and should be judged in the context of our recommendations on conditionality and work support, as well as those in Volume One, Family Breakdown, on support for families.

4.1 Problems with the current system

Over the past few decades there have been a series of ad hoc reforms to the benefits system. However, with the increase in the number of lone parents on Income Support and claimants of Incapacity Benefit, there are still significant problems with the system.

- The structure and administration of the benefits system act as barriers for many people to obtain or sustain work. There are still too many benefit traps that:
 - disincentivise work for many workless households
 - do not adequately support working families on low earnings
 - disincentivise family structures that protect against economic dependency on the state

- Withdrawal rates for those in work can be so high as to make extra earned income not worthwhile, and hence reduce the opportunities to progress into a sustained job.
- Complexity in eligibility has made the levels of in-work and out-of-work benefits unclear, resulting in further barriers to work.
- This complexity has led to additional administrative cost, and problems for individual claimants.

4.1.1 Benefit traps disincentivise work

There are now at least 51 separate benefits, compared to 27 in 1979 and only 7 in 1948, with benefit levels specifically targeted at different groups for different purposes.¹⁷² Furthermore, many benefits are composed of one low basic rate with supplements to provide extra help for certain groups. This has created a myriad of benefits where there are special rates for different groups of people. As a result, it can be more rewarding in the short term for individuals to focus effort on getting a better benefit, rather than on getting a job.

These out of work benefits create many traps. The Government has conceded the existence of ‘perverse benefits.’¹⁷³

Higher long-term rates

There are perverse incentives to take and then to stay on Incapacity Benefit (IB). When combined with the historic lack of a work expectation, the higher levels of

IB have made it an attractive alternative to Jobseeker’s Allowance (JSA). The basic weekly level is already slightly higher than JSA (2007, £61.35 vs. £59.15) and there is no demand to look for

“A high percentage go from JSA to Incapacity Benefit - they aspire to a higher benefit”

Steve Mason, A4e, EDWG Hearing

work.¹⁷⁴ More importantly, the longer recipients remain on the benefit, the higher their average weekly payment. For example, after one year off work, **IB can be as high as £98.45 (2007) – over 60 per cent higher than JSA.**¹⁷⁵ This increasing payment rate for IB encourages people to stay on benefits.

For younger lone parents who have been claiming Income Support (IS), the rate can also increase significantly as they get older. Hardly surprising, IS there-

172 DWP, Benefit Expenditure Tables, cited in *Reforming Welfare*, Nicholas Boys Smith, Reform, 2006, p.17
 173 *A new deal for welfare: Empowering people to work*, DWP, 2006, January.
 174 This lack of work expectation was not unreasonable for its original purpose as an insurance scheme for those who could not work. However, it is likely that many IB claimants could work with appropriate assistance.
 175 Based on single adult aged over 25 but under 35, able to claim Statutory Sick Pay for the first 28 weeks away from work. The IB Age Addition provides an additional £17.10 per week to under 35s on the long-term rate, an additional £8.58 to under 45s, and nothing to claimants aged between 45 and State Pension age. There is also an increase in payment level for IB claimants at 28 weeks (from £61.35 to £72.55).

fore becomes a way of life for many. **64 per cent of lone parents remain on the benefit for more than two years, and 36 per cent for more than five years.**

4.1.2 The 'couple penalty'

As the US has demonstrated, Tax Credits can be very effective as a way of supporting work as the route out of poverty, particularly through a strong link between tax credits and work. However, as implemented over the last 10 years by the Government, there are too many flaws. As well as having only a small portion of Working Tax Credit directly linked with work, one of the biggest flaws has been the couple penalty (which also addressed in Volume One, Family Breakdown).

The 'invisible second adult'

Tax Credits were primarily established to deal with child poverty (often ascribed to the growth in lone parenting). While there has been a reduction in the number of children in poverty living in lone parent families, there has been little reduction in the number of children in poverty living in couple families, particularly where the couple is 'in work'.

Families with the same income and the same number of children receive the same amount of credits whether they are couples or lone parents. The basic element paid to everyone who is entitled to receive Working Tax Credit is £1,730. An additional adult in the household receives £1,700 on top, but if you are a lone parent you also receive an additional £1,700. Therefore, a couple receives £3,430 and a lone parent receives £3,430: there is, in reality, no allowance made for an additional adult. This is referred to as the couple penalty or 'invisible second adult'.

Hence Tax Credits effectively deal with lone parents more generously than 'traditional' couples, because the cost of the second adult is not taken into account. This approach is inconsistent with how the Government determines the income required to escape poverty, where the cost of a second adult *is* accounted for.

“ In 1997-98, two out of three children in lone parent families were poor. By 2005-06, this had fallen to one in two. However, there has been no real change in the risk of poverty for children in two parent households...In fact, in the last year there has actually been a rise, from 21 to 23 per cent, in the poverty risk for children in two parent families ”

Frank Field, MP¹⁷⁶



Quentin tells members of the Working Group that he cannot move in with his girlfriend, a lone parent, due to the loss of benefits that would result.

“ We are scared to make the relationship official in case she loses her benefits, and then we couldn't afford to live together...I feel I'm a good father to the boys, I want to live with her ”

Quentin, benefit claimant, EDWG Hearing

176 Welfare isn't working: Child Poverty, Frank Field MP and Ben Cackett, Reform, June 2007, chapter 5

Disproportionate hours

As Frank Field, MP, highlighted in his recent paper on child poverty, the result of this penalty is that 'in 2006, a lone parent with 2 children under 11, working 16 hours a week on the minimum wage, gained a total net income of £487 a week, largely due to tax credits. In order to attain the same weekly income, an equivalent two parent household needed to work 116 hours a week; an extraordinary 100 hours more than a single parent.'¹⁷⁷ The Government has disadvantaged couple families to such a degree that it has become difficult for a family to stay together without losing considerable amounts of money. The IFS has calculated that at present a two-earner couple earning £10,000 and £25,000 respectively would be £5,473 a year better off from tax credits if they lived apart.¹⁷⁸



One of a number of Government adverts which highlight the 'couple penalty'.

Child poverty in couple families

Addressing the couple penalty is particularly important when considering that sixty percent of children in poverty live in couple families. Current policies are reducing the number of lone parent families in poverty¹⁷⁹, and also the number of workless families in poverty; while at the same time increasing the number of 'in work' couple families in poverty.¹⁸⁰ Unless the system is changed, the number of children in poverty living in 'in-work' couple families is expected to increase from 1.4m to 1.8m by 2010.¹⁸¹

4.1.3 This disincentivises two-parent family formation

There is strong evidence that fiscal policies do have an impact on family relationships, both on their formation and their breakdown.¹⁸² It is therefore reasonable to conclude that the couple penalty undermines two-parent family life, particularly for those on low, or no, income. The penalty helps to perpetuate the cycle of poverty associated with fractured families, and discourages the formation of family structures that lead to the best outcomes for adults and children – couple, particularly married couple, families.

The growth of Tax Credits has created a perverse incentive to live in lone parent households rather than couple households - or at least officially. In fact, in the UK they have had the unintended consequence of encouraging fraud, hence the recent campaigns (see for example, the DWP milk bottle advert above). As a result, the government is paying tax credits and benefits to 2.1 mil-

177 *Welfare isn't working: Child Poverty*, Frank Field MP and Ben Cackett, Reform, June 2007, Executive Summary

178 IFS press release March 2006 (Pre tax Earnings)

179 Table E5 Households Below Average Income 1994/95 -2005/06.

180 *Restructuring Tax Credits*, Don Draper and Leonard Beighton, Care, 2006, p.12

181 IFS modelling cited in *Restructuring Tax Credits*, Don Draper and Leonard Beighton, Care, p.9

182 *Restructuring Tax Credits*, Don Draper and Leonard Beighton, Care, 2006; *The Effect of Benefits on Single Motherhood in Europe*, L. González, Institute for the Study of Labor, 2006, IZA DP No. 2026

lion lone parents when there are only 1.9 million lone parents in the UK. As the IFS points out, 'it is often financially worthwhile to pretend to be a lone parent, rather than a couple.'¹⁸³

Children who grow up in poor and unstable families often spend much of their adult life in poverty. Breaking this cycle by supporting the formation of stable families with at least one working parent would make a major contribution to reducing economic dependency.¹⁸⁴

4.1.4. High withdrawal rates

Too many benefits act as disincentives to sustain or progress in work, as illustrated in this Commission's first report, *Breakdown Britain* (p17). The net result of Tax Credits is that the Government has taken a group just below the poverty line, principally lone parents, and lifted them above the line, but at the same time placed a glass ceiling in the way of progression through working longer hours.

The withdrawal of income as a result of increased Income Tax and National Insurance Contributions plus the withdrawal of Tax Credits, Housing Benefit, and Council Tax Benefit creates a high effective marginal tax rate (EMTR), causing many people in low-paid work to lose the majority of their extra earnings. These withdrawal rates are at the heart of the trap keeping people in part-time, low-paid, low-prospect employment. This ties down millions of working Britons and therefore maintains them in poverty. In April 2004, research by the IFS showed that nearly 400,000 working parents were facing withdrawal rates of over 80 per cent.

'The weakest work incentives are faced by people on low incomes who face having their means-tested benefits or tax credits withdrawn if they increase their income. Such disincentives are much greater than those imposed on high-income people through higher rates of income tax... Lone parents face some of the weakest incentives to work at all, and face weak incentives to earn more, because many will be subject to withdrawal of a tax credit or means-tested benefit as their earnings rise.'¹⁸⁵

A Joseph Rowntree Foundation study showed that a working lone parent paying a private-sector rent would experience an EMTR of 90 per cent, and would have to work 'an incredible 76 hours a week at the minimum wage before she could keep more than 10p in the pound of her additional earnings.'¹⁸⁶ This work disincentive is particularly strong because of claimants' perfectly understandable fear of losing their home through a withdrawal of Housing Benefit (HB).

HB encourages fraud due to its steep means-testing, which creates incentives for people on low incomes not to report any increase in earnings. The

183 *Government paying tax credits to 200,000 more lone parents than live in the UK*, IFS press release, 12 March 2006

184 *Life chances and social mobility: an overview of the evidence*, Prime Minister's Strategy Unit, 2004, p.38

185 *Financial Work Incentives in Britain: Comparisons over time and between family types*, Stuart Adam, Mike Brewer and Andrew Shephard, IFS, p.1 and 2

186 *Can current policy end child poverty in Britain by 2020?*, Martin Evans and Jill Scarborough, Joseph Rowntree Foundation, 2006, pages 26-27

Government has admitted to over £100 million of deliberate fraud last year. The true figure may be much higher.

The consequences of the high withdrawal rates of means-tested benefits are recognised by the public. When surveyed, 58 percent agreed that they act as a disincentive for people claiming Tax Credits or HB to try and increase their income. Only 9 per cent disagreed, dropping to just 1 percent disagreement among local authority or housing association residents, who are most likely to have direct experience of this.¹⁸⁷

4.1.5 Complexity in eligibility

Entitlements for benefits have become complex and inconsistent. They are based on individual circumstances in some cases, and household circumstances in others. Income and assets are treated differently for different benefits. For example, there are 169 questions in the application form for IS for a basic lone parent claim.¹⁸⁸ As a result of this complexity in entitlement, the

average time taken to complete the process is between 12 and 16 working days, and for more complicated cases it can be much longer. This creates real concerns for claimants about their income during the transition in and out of work. The biggest problems are cen-

“It was very complicated [to get benefits]; a lot of paperwork. Looking at the system, you can see how people stay jobless, or become homeless. Some people don't have the mental power”

JSA and HB claimant

tered on Tax Credits and HB.

The Tax Credit system is complex, and much more convoluted than in a number of other countries, such as America. Not only are there two different benefits – Working Tax Credit (WTC) and Child Tax Credit (CTC) – with different tapers, thresholds, criteria and tests, there is also an array of complex one off bonuses (‘elements’)¹⁸⁹ which make predicting likely income very difficult. It is hardly surprising that so few understand how the system works. Hilary Jay, an adviser at the Newport Citizen’s Advice Bureau (CAB)¹⁹⁰ stated in a CAB report that “The system is very complicated, and I can’t see how anyone could navigate it on their own without expert advice.”¹⁹¹ Furthermore, recipients are plunged into (often more) debt due to over- and under-payment, perpetuating

187 SIPG YouGov Poll April-May 2007

188 *Reducing dependency, increasing opportunity: options for the future of welfare to work*, David Freud, 2006, p.100

189 For CTC there are five elements (Family, Baby, Child, Disability, and Severe Disability). For WTC there are a further 11 elements.

190 *Serious Benefits: The Success of CAB benefit take-up campaigns* (Spring), Citizen’s Advice Bureau, 2003.

191 Ibid

already precarious financial situations. Through no fault of their own, families are often left facing real hardship due to this administrative mistake, and debt is one of the biggest causes of family breakdown.

The HB system is so complex that the official explanation of how to determine a claim is over 8,000 words long. Once again, by addressing the symptoms rather than the cause, the Government has created a labyrinthine system.

HB / Council Tax Benefit case study: Accrued debt for no reason

A disabled man with no earned income, living in a property owned by an Registered Social Landlord, (RSL) with full HB paid by the local Council moved from a first floor flat to a ground floor flat (5 doors away) in 2004 due to health issues. Due to administrative reasons, and the claimant's failure to immediately inform other parties of his change of circumstances, the move was not reported until 6 weeks later. In the intervening 6 weeks, HB had overpaid on the old property by c.£1,000, and underpaid on the new property by c.£1,000. A simple swap over of the amounts would have sufficed but never occurred, with the RSL refusing to accept that they had been overpaid on the original account. The RSL quickly took the individual to court, now has County Court Judgements, and is seeking to evict him from the property due to alleged 'debt'. The RSL is still debating whether to accept responsibility.

This complexity in HB is inefficient and expensive. It has been estimated that 5.4 per cent of total HB expenditure (i.e. £740 million per annum) has been overpaid in recent years as a result of either official or claimant error including fraud.¹⁹² Far worse, by making it almost impossible for many claimants to know how changes in circumstances will affect their HB, the system can discourage people from risk taking, or seeking better or more highly paid jobs. The asset thresholds and other restrictions on the availability of HB create further traps and disincentives to save and promote economic independence.

All in all, the complexity in benefit eligibility also makes it more difficult for claimants to understand their rights and responsibilities, and staff and advisors to offer appropriate support and guidance. It increases the risk of fraud and error, and it acts as a disincentive to entering, and progressing in, work.

4.1.6 Administrative Complexity

The problems of *administrative* complexity of benefits come from the fact that some benefits are inherently complex to administer, but also from the fact that many claimants must deal with many different agencies. Some benefits are paid

¹⁹² *Fraud and Error in Housing Benefit* April 2002 to September 2005, DWP, Information Directorate.

by Jobcentre Plus, others by the Disability and Carers Service, Her Majesty's Revenue Commissioners (HMRC), and local authorities. The benefits that have caused the greatest administrative problems are, once again, Tax Credits and HB.

Tax Credits

Tax Credits have been poorly administered, and by the wrong institution. They are administered through the tax system (by HMRC) rather than the benefit system (by DWP). This has caused administrative problems for those on lower earnings:

- *Wrong expertise and time frame:* despite some transfer of personnel, tax officials and systems are more expert at interacting with individuals on higher incomes over the time frame of a year, rather than people on lower incomes whose earnings and spending power fluctuate more wildly.
- *45 per cent of families were under or overpaid:* since Tax Credits are not part of the benefits system, they are calculated on past (not present) incomes and circumstances. In the often rapidly changing world of low-income families, this frequently ensures that they will be inaccurate. For instance, of the 5.6 million families receiving Tax Credits in 2003-04, 1.9 million (34 per cent) were overpaid and 630,000 (11 per cent) were underpaid.¹⁹³

This has caused enormous difficulty and stress for poorer families who have had to repay their overpayments. The National Audit Office has concluded that

'the new Tax Credits have proved relatively easy for people to access, but many have found it difficult to understand exactly how much they are due – a problem made worse for those who have been paid the wrong amounts. The administration of the new Tax Credits has proved

complex in parts, reflecting the underlying design of the new Tax Credits.'¹⁹⁴

In order to get round this, the Government has decided to ignore the cause of the problem and increase the official earnings disregard to £25,000. This increases the overall cost of Tax Credits by £500m p.a.¹⁹⁵

“ Before I was working 40 hours a week and only getting £80 a week, they didn't tell me that Housing Benefit was deducting money. I was in £700 rent arrears. I was threatened to get kicked out of my house. So I had to stop work and sign on [to JSA] otherwise I would have been homeless.”

Single female on JSA, EDWG Hearing

193 Tax Credits: Putting Things Right (June), Parliamentary Ombudsman. 2005.

194 Comptroller and Auditor General's Standard Report 2003-04, National Audit Office, 2004.

195 House of Commons Committee on Public Accounts, HC 487, May 2007

*Housing Benefit*¹⁹⁶

HB is paid in arrears by local authorities. This means that the accounts of families in receipt of benefit always show deficits. Changes in entitlements, which often take weeks to be properly determined, almost inevitably plunge accounts into further debt (and in doing so remove privileges, such as participating in the choice-based letting system, from residents).

Mrs G lives in a one-bedroom property in London with her partner and two children. Mrs G looks after her two infant children. Her partner is sporadically in work, but suffers from health problems which preclude full-time employment. In an average month, Mr. G will work for around one week (anecdotally, this seems to be rather common for social housing tenants). Mr. G informs the Housing Benefits Service each time he finds work and benefits are, retrospectively, reduced. Usually, by the time the new benefit rate has been worked out, Mr. G has left his new employment. Thus, the complexities of the system prevent Mr. and Mrs G from ever understanding their financial position. The regular changes to payments often mean that the account moves significantly into arrears. Mr. and Miss G are currently looking to move out of their over-crowded accommodation but are regularly barred from participating in the choice-based lettings system as a result of this arrears which are, effectively, incurred as a result of the household trying to reduce their reliance upon the state.

A recent study for DWP has highlighted the confusion around eligibility for HB for those entering the workforce.¹⁹⁷ The extent of knowledge about the workings of in-work HB/CTB tends to be limited. Even those who are in work and receiving HB/CTB lack

detailed understanding of how HB/CTB interacts with their income from employment, and many who could claim it are not doing so.

The DWP study shows that people generally had the impression that Jobcentre Plus staff were not able to advise them regarding HB/Council Tax Benefit (CTB), as they lacked sufficient understanding of the system. This is confirmed by

“ I want to get back to work, but I need a job to pay enough money to pay the rent. I can't get a job that will pay my rent because I've got no qualifications, I'd have to live in my car again. I want to be a painter and decorator but the jobcentre said I have to go back in September [it is now April] and see if they have any places on a course ”

Quentin, benefit claimant, EDWG Hearing

196 See Volume One, Family Breakdown, Chapter 8.5.2 and 8.5.3 for information on Housing Benefit, and 8.5.4 for information on supported housing

197 *Housing Benefit and Council Tax Benefit as in-work benefits: claimants' and advisors' knowledge, attitudes and experiences*, DWP research report No. 383, 2006

Jobcentre Plus staff, who said they had limited knowledge about HB/CTB, which included a lack of awareness about the earnings disregard and taper rate.

- Staff felt that HB/CTB did not act as a work incentive, as customers felt the HB/CTB application process was problematic.
- Processing delays were raised as a key issue; staff felt claimants were afraid of losing the security of having their full rent and Council Tax paid. Staff therefore had experienced difficulties encouraging customers to move into work and claim in-work HB/CTB.

Local Housing Allowance (LHA)

The Government has started a reform process with the piloting of LHA, for the Private Rented Sector. It is a simplification of the rules along a number of dimensions:

1. Level of award: Maximum HB will be based on a flat rate according to the number and mix of occupiers, and the area, rather than tied to the actual dwelling they live in. If the tenant is able to secure a lower rent, then some of the savings can be kept.
2. Recipient: HB is paid straight to the customer in most cases, rather than to the landlord. Paying the rent directly to the individual is a crucial step towards empowering them to take responsibility. This re-establishes personal responsibility on the part of the tenant and dramatically reshapes the power relations between landlords and tenants. Landlords will deal directly with tenants based on their contractual obligation, meaning that HB claimants will have the same standing as other tenants.

The LHA is already being piloted in 18 local authorities and it is anticipated that it will be rolled out nationally in April 2008. It has already been noted by Freud in his report to the DWP that the transparency of the Local Housing Allowance is reported to make discussions about work between advisers and claimants easier.

Working-age people who rely upon the HB system not only lose economic independence but are also removed from the payment process. This encourages passivity in claimants, rather than empowering them to take responsibility for their economic transactions.

The Local Housing Allowance (LHA) pilots are steps in the right direction, but do not go far enough. As with Pathways to Work and Employment Zones, the Government has been tentative – greater political will is needed to improve the situation and make the lives of the most vulnerable people better.

4.2 Objectives and policy recommendations

The tax and benefits system in Britain must not, as is currently the situation, trap people in the very situations that constrain them. The system must pro-

vide, and expect people to take, the opportunity to follow a sustainable route out of poverty.

The polling carried out for the Social Justice Policy Group by YouGov¹⁹⁸ clearly demonstrates that the British people are acutely aware of the failings of the current system. They do not believe that dependency on state benefits should be a way of life, and expect people to work to their full capacity. They also believe that the tax and benefits system should support family formation that leads to the best outcomes for children.

For the overwhelming majority of working-age households, work is the sustainable route out of poverty. Hence, the twin focus for benefit reform should be on encouraging and rewarding households working their way out of economic dependency, and at the same time being sensitive to the needs of those who truly cannot work.

Benefits must reflect this objective, both through the work expectations placed on claimants, and also by allowing people to keep a significant portion of their earnings as they work more.

Given the desire of the British people to see a benefits system that is fairer, simpler and based on conditionality, and given the cross-party consensus for the need to break the culture of ‘something for nothing’, the Economic Dependency Working Group recommends reforming the system based on the following key principles:

1. **Fair level of support for those who truly cannot work**
2. **Temporary help for those not in work, conditional on real efforts to re-enter the workforce**
3. **Support for those who are in work but on a low wage**
4. **Avoid benefit traps that discourage two-parent family formation, or encourage fraud**
5. **The benefits system must enable the best outcomes for children**
6. **Reduced complexity to help ensure all get access to what they are entitled to**

The existing structure of out-of work benefits and in-work Tax Credits is capable of supporting these objectives, provided appropriate conditionality is

“ We have created in this country a whole culture of dependency - if you pay people to do nothing they begin to expect something for nothing. You need to reward people for what you want. If you pay people for doing nothing then what you're doing is perpetuating learned helplessness ”

Philip Collett, Motivational Systems, EDWG Hearing

The benefit system should always provide an ultimate safety net. Whatever happens, people should be entitled to a reasonable minimum level of benefit, even if they are unwilling to work

Agree	18%
Disagree	71%
Don't know	12%

198 All of the boxed questions and results are from this poll

applied, together with an adjustment over time of benefit levels and tapers, to remove penalties and traps.

4.2.1 Fair level of support for those who truly cannot work

Policy recommendations

State assistance is fundamental for people who are unable to enter the labour market.

- 1 Meaningful support must be available to people who truly cannot work, and those we do not expect to work; and this must ensure a decent standard of living.¹⁹⁹
- 2 We endorse the recommendations of the Family Working Group in Volume One, Chapter 4.1, with regards to support for carers.
- 3 Furthermore, given that many people are cared for within the family, we endorse the Family Group’s proposals for a transferable personal tax allowance (Chapter 4.3), which would help support families where there is only one earner.

4.2.2 Temporary help for those not in work, based on reciprocity

Policy recommendations

For those temporarily out of work, we should provide a safety net, but with a clear link between what the state expects of the individual and what the individual is entitled to in return.

The current culture of ‘something for nothing’ must be ended. The receipt of benefits should not be seen as an entitlement, and should not be a lifestyle choice. The Government frequently uses the rhetoric of a ‘something for something’ system, but has failed to implement an effective one.

See Section 2.3, Employment targets and work expectations, for details.

- 1 The basic JSA rate should be high enough to ensure that people are protected from severe poverty, but it should not be allowed to rise to the point at which it encourages benefit dependency as a way of life. Furthermore, its payment should be truly conditional on participating fully in work-related activity, be that a welfare-to-work programme or simply intense job search. As outlined in Section 2.3.5, this will require a shift in expectations on the part of personal advisors, and the way in which they apply their powers of sanction.

The benefits system should be a ‘something for something’ system. If people receive benefits it is reasonable to require them to seek work

Agree	86%
Disagree	6%
Don't know	8%

Lone parents and disabled people capable of working should be encouraged to do so

Agree	87%
Disagree	9%
Don't know	4%

199 This means people with disabilities/health conditions which prevent any form of work; full-time carers; and lone parents with children under 5

- 2 For people with health conditions and disabilities, where able, our expectation is that they should work with *appropriate support*.
- 3 Lone parents should be expected to work part-time once their youngest child reaches five, and full-time once their youngest child goes to secondary school at 11. Helping more lone parents into work, through both a deliberate shift in expectations and also providing support – including childcare as appropriate²⁰⁰ –will help them and their children in a very real way.²⁰¹

It is reasonable to expect that disabled people and people with health conditions should work if they are able to do so

Agree	80%
Disagree	9%
Don't know	12%

4.2.3 Support for those in work, but on a low wage

For those in work, but on a low wage, our objective is to help them rise above the poverty level, and to support a progression towards economic independence. Hence in-work benefits (Tax Credits) should supplement low incomes, and thereby make work more attractive than a life on out-of-work benefits.

Policy recommendations

- 1 At low wages, there should always be a tangible reward for working longer hours, and/or working for higher wages. Our focus should be on ensuring that the net minimum wage is rewarding, rather than simply looking at gross minimum wage. Hence, for gross incomes below 40 hours per week at minimum wage, we should seek to reduce the marginal tax and benefits rate over the long term, so as to ensure worthwhile take-home pay.

People should be able to keep at least 50p in every extra pound they earn

Agree	79%
Disagree	7%
Don't know	14%

The challenge

The objectives must be carefully balanced. The more the focus is on poverty relief, the more benefits have to be withdrawn as individuals move up the earnings scale. This means:

- The faster they are withdrawn, the greater the disincentives to work more. High marginal rates put a cap on the aspirations of poor people to work their way to a better future.
- The slower they are withdrawn, the greater the cost, and the greater the number of people receiving both means-tested benefits and paying tax, thus adding unnecessary complication for little gain.

200 See Volume One, Family Breakdown, Chapter 5, for further information on childcare
 201 See Section 1.3.1, Work helps the next generation

4.2.4 Avoid benefit traps that discourage two-parent family formation, or encourage fraud

Policy recommendations: Reducing the couple penalty

Given that children growing up in couple families have better life chances, and also because couples are more likely to be financially stable, the benefits system should not be biased against couple families. As demonstrated earlier, couple families have much greater capacity for sustained earned income than lone parent families, and this impacts on future generations: the wage level of a child in adulthood is related to that of the parent.²⁰²

- 1 It is absolutely imperative that the couple penalty is reduced. The benefits from such a change would be threefold. Firstly, working couples on low incomes would be raised above the poverty threshold. Secondly, there would be an incentive at the margins for couples to form and stay together. Finally, the increase work incentive would also reward more workless couples to enter the workforce. Each of these changes would reduce economic dependency. We therefore recommend that, in the interests of consistency with other facets of the benefits system, a future government consider option 2 or 3 in the box below. Option 3 was also recommended by the Joseph Rowntree Foundation as a necessary reform in order to reach the 2020 child poverty target.

The benefits system should not penalise married or co-habiting couples, even if it means giving a single person half the benefits of a couple

Agree	70%
Disagree	20%
Don't know	10%

Reducing the couple penalty – see also Volume One, Family Breakdown, Chapter 4.2

Rather than suggesting a reduction in the lone parent element we asked the Institute of Fiscal Studies to cost three different ways of reducing the couple penalty. They told us that if we were to:

- 1 Raise the couple (additional adult) element to twice the amount currently received by a lone parent, it would cost £5.9bn and 2.2 million couples with children would gain on average £51.57 per week (this cost includes a £0.2bn saving on HB and Council Tax Benefit because of the way tax credits and benefits interact).
- 2 Raise the couple element to 1.5 times the amount currently received by a lone parent, it would cost £2.6bn and 1.8m couples with children would gain on average £28.25 a week. Given that the poverty level for a couple household is approximately 1.5 times that for a lone parent household, this approach would align the value of tax credits with the relative poverty thresholds.
- 3 Raise the couple element so that the ratio of Working Tax Credit for a couple as compared to a lone parent is the same as under the present income support system, this would cost £3.0bn and 1.8m couples with children would gain on average £32.05 a week.

202 See Section 1.5.1 Work Helps the Next Generation

- 2 If it is not possible do so in a single budget, we would recommend using £1bn to increase the WTC for couples with children by £780 a year (as calculated by the IFS) with a view of implementing option 2 or 3 in subsequent years.²⁰³

4.2.5 The benefits system must enable the best outcomes for children

Front-loading Child Benefit

A number of people, including Frank Field, MP, have recommended the front-loading of Child Benefit as a way of allowing parents the financial opportunity to stay at home and care for their children, if they choose.

At the same time, the Economic Dependency and Family Working Groups heard from a number of people that many parents wish to care for their children in their early years but found the financial constraints too great to allow them to make that choice. This desire to choose, fits with the growing body of evidence that the first three years of a child's life are the most critical in the development of cognitive and social skills. In fact, evidence from the US (RAND 2005) indicates, that in terms of the impact of policy, money spent on the nurture of children in the first three years is up to seventeen times more effective than money spent in their teens.

The policy group sees the merit in allowing parents to decide how best to give their children a good start in life.

We recognise that either by making such a policy conditional on participating in remedial services, for at risk families (see Family paper, Chapter 4.4), or for a wider group of parents, such a policy would assist parents to chose between staying at home and going out to work.

Policy recommendation

A Government would want to satisfy itself that this measure would receive the correct amount of take up and would be justified in choosing to pilot or phase-in the policy. However, if so then we would recommend that the initial focus should be on those families who would benefit most from such a policy. For example, if parents of children who are classed as 'at risk' could receive up to three times the standard Child Benefit rate - equalling ~£2,800 per year for the early years - and this is linked directly to parenting support, then the life chances of those children could be vastly improved.

4.2.6 Reduced complexity

Given the problems outlined above, we must aim to make the system more comprehensible and accessible, and therefore simpler. Claimants must be able to find out easily what they are entitled to and get the right amount at the right time, with-

²⁰³ See Ch 12 of IFS 2007, M. Brewer, *Supporting Couples with Children through the tax system*, Institute of Fiscal Studies, 2007, The IFS Green Budget 2007

²⁰⁴ For information on how 'at risk' children would be identified, the conditions under which front-loading would be available, and how adverse selection would be avoided, see Volume One, Family Breakdown, Chapter 4.4

out needless duplication or put-offs. In order to achieve this, eligibility should be clear, application procedures shorter and simpler, and conditions explicit.

This is a view strongly shared by the public, nearly 90 percent of whom agree that the system should be simplified, and that simplification would make it simpler for people to see what benefits they were eligible for and easier for them to apply.²⁰⁵

We also support Freud's long-term aim for a single set of benefits²⁰⁶, with the only premium being for those whose costs of living are clearly higher, for example disabled people. This would be straightforward and clear for all involved, and would remove the current incentive to move from a lower- to a higher-paying benefit (namely JSA to IB).

There are obviously many transition issues to be considered with such a simplification. However, the long-term aim of reducing economic dependency and eliminating traps points to a system that moves away from addressing a myriad of symptoms, and instead focuses on supporting those on low or no earnings in a more common way, while still recognising a difference between those who are in a position to work, and those who are not.

4.3 Further review of the benefits system

The Economic Dependency Working Group was commissioned to review the provision of welfare-to-work services, and ensure that supportive strategies were developed to enable the most vulnerable people to find and sustain work. During this process it has become increasingly clear that many different aspects of the benefits system interact with each other to act as a drag against the objective of providing a sustainable route out of poverty. A number of these issues (such as Housing Benefit) are beyond the original remit.

If we are to ensure that hard-working families are safely above the poverty threshold, and that the combined withdrawal rate for benefits and taxes does not prevent progression in work – the sustainable route out of poverty – then the issues resulting from different benefits must be addressed together. Over the past decade, budget upon budget has resulted in the creation of an expensive, often impenetrable, and ineffective system. The revision of which will require principled thinking, political will and courage.

Policy recommendation

We recommend launching a Centre for Social Justice (CSJ) Commission to look at the specific details of in-work and out-of-work benefits policy reform and implementation.

The resultant policy recommendations should identify a system that supports people out of poverty, freeing them from dependency, while being revenue neutral. Two aspects that we would recommend for consideration are:

205 SIPG YouGov Poll April-May 2007

206 Reducing dependency, increasing opportunity: options for the future of welfare to work, David Freud, 2007, chapter 6

1. Review of the levels and conditions of all in- and out-of-work benefits

● **Unified out-of-work benefits**

The CSJ Commission should look into the phasing-in of a unified out-of-work benefit for those who can work (part-time or full-time). The Government has made tentative steps in the right direction, though not going far enough, with the introduction of Employment and Support Allowance²⁰⁷, and Freud has made similar recommendations in his Report.²⁰⁸

● **Child Tax Credit**

Expenditure on Tax Credits has been £47 billion²⁰⁹ for the three years since 2003. It is legitimate, therefore, to check that it is being correctly targeted on the very poorest and on those who need help. Unfortunately, this does not seem to be happening. There is a long flat taper of Child Tax Credit of £545 per year for those earning above £20,000 which only tapers off at nearly £60,000 (and higher if families receive the baby addition). Although official figures do not appear to be available, estimates suggest this credit beyond earnings of £20,000 is claimed by up to 30 per cent of families, and costs an estimated £1.6 billion.²¹⁰

“ [The Government's] reforms are discouraging people from working more hours or getting better-paid jobs. The Government has used tax credits as a way of delivering pretty substantial sums of money to very poor families with young children. It cares less about whether that also reduces incentives to work ”

Mike Brewer, IFS

We would propose that the CSJ Commission should review whether this part of the tax credit should be tapered off at the same rate of the rest of Tax Credits. If this were done in conjunction with the introduction (as public finances allow) of a Transferable Personal Allowance, many couples with earnings above £20,000 would gain. Hence, this adjustment to the taper would mean that they would experience little difference in overall net income. On the other hand, lower earning couple families would see a net benefit.

● **Phasing in and out of Tax Credits**

Make work pay schemes have been introduced into many other countries (9 in the past 25 years).²¹¹ Most of these schemes phase benefits in as

207 This will replace IB for new claimants and is being rolled out in conjunction with the national roll out of Pathways to Work in 2008.

208 *Reducing dependency, increasing opportunity: options for the future of welfare to work*, David Freud, 2007, chapter 6

209 C&AG's Standard Report on the Accounts of HMRC 2005-06, HC (2005-06) 1159, table 1

210 Cited in *Reforming Welfare*, Nicholas Boys Smith, Reform, 2006 - Figures imputed from 2006 Budget, HM Treasury.

211 OECD, *Fundamental Tax Reform, 2005* - Examples include Belgium, Finland, Netherlands, France, Canada Quebec

income increases to create a negative Effective Marginal Tax Rate (EMTR), and to encourage progressively moving up the pay scale.

The UK Tax Credits scheme differs from most other countries in two key ways. Those with children receive much of the benefit as of right through the Child Tax Credit, whether they are in work or not; and there is no phase-in of benefits: unless you are working 16 hours a week you are not eligible for WTC. This reduces the flexibility of which jobs are worthwhile to take. Tax Credits should be encouraging people to firstly get a job which works for them, and then continue to be rewarded and encouraged to progress from there.

We propose that the CSJ Commission review whether it is possible to increase work incentives within the Tax Credit system, and whether it is possible to be more flexible in the number of hours or size of earnings that entitle the receipt of Tax Credits.

We also propose that the CSJ Commission review the tapering out of Tax Credits, and considers at what level of earnings it is best to have the high marginal withdrawal rates that are necessary to withdraw benefits.

- *Housing Benefit*

None of the above further reviews can be effective without addressing the dependency culture that the current system encourages through the impact of the HB taper. The existing taper rate disincentivises individuals and households from moving into and progressing in work.

We recommend that the CSJ Commission reviews options to:

- 1 Roll out the Local Housing Allowance scheme across the country to both social housing and the private rented sector. The benefits accruing to tenants in the private sector should not be denied to those in social housing. There may need to be a different local schedule of fixed allowances for those in social housing to account for the lower rents in this sector.
- 2 Abolish the proposed cap of £15 per week on the amount that an individual can keep from finding a lower rent. Abolishing the cap would actually encourage further downward pressure on rents, and therefore, in the long run, local market benchmarks used to set allowance levels would be lower than otherwise. Hence, savings would return to the government, as the HB bill would rise more slowly than it would under the current system. The Government's argument that without the cap the LHA would reduce work incentives seems a stretch – it may do so in the short term, but if it were truly possible to live off LHA in a cheap rent then the rent discovery process would soon address the issue.
- 3 Consider adjusting the level of LHA granted to those sharing accommodation (whether couples or other sharers), so that they have an increased incentive to pool resources; an incentive that does not exist today. The current system means that HB recipients

do not have the same gains from cohabiting or sharing accommodation as those paying their own housing costs, hence disincentivising family formation that leads to the best outcomes for children. Again, this would be a process for reducing government outgoings in the long-term, as people would economise on rents. This would not be intended to break the link between Housing Benefit levels and housing need, but to help reduce some penalties that couples can face in the benefits system.

- *Review barriers to savings*

In addition to earnings, having savings is one of the best ways of avoiding economic dependency. We would recommend that the CSJ Commission should review asset thresholds and other restrictions on the availability of benefits that currently discourage savings among a group of the population who could derive most security from having more assets.

2. Administration of benefits

The CSJ Commission should review a range of approaches to making the system easier to access and more comprehensible, in particular through the alignment of eligibility rules and points of contact, as well as the payment of Tax Credits. The primary purpose of such reforms should be to improve the quality of service in paying benefits. If well-designed there should also be a cost benefit, but this should be a consequence of doing it well, rather than being the primary objective.

- *Alignment of rules:*

This would involve ensuring that as far as possible the rules and qualifications for benefits are aligned. While they have different purposes, many conditions are similar, yet unnecessarily distinct.

- *One point of contact:*

HB is largely administered by local councils, but this does not need to be the case. Given the significant overlap between those being helped out of JSA and those being helped out of HB, it could be more efficient and more effective to have the same agency running both benefit schemes. Around 25 councils have outsourced HB administration in the past²¹², demonstrating that Local Authorities do not need to run HB themselves; although the lessons from these experiences need to be assessed.

Withdrawing the administration of HB from local authorities would provide some savings due to the removal of the duplication of handling that exists today. More importantly it would remove the peculiarity of local authorities acting as landlord and administrator of benefits for its own tenants. The long-term aim should be the integration of HB into the broader support system for those on low earnings.

212 *Reforming Welfare*, Nick Boys Smith, Reform, 2006, p.131

The Customer Management System that is currently being implemented is only a small step in the right direction. It involves information being collected for HB applications by Jobcentre staff. However, there is already further early evidence²¹³ from a trial in North Tyneside that a more integrated approach results in very positive outcomes:

- 1 More claimants are aware of in-work benefits – crucial to breaking some of the barriers to entering work
- 2 Claimants moving into work are having tax credits processed within 3 days
- 3 People moving out of work are receiving both HB and JSA within around 15 days, compared with a baseline of around 40 days

We recommend that the CSJ Commission should review this more integrated approach and suggest how it could be further piloted to see what works best, including potentially outsourcing the combined operation.

- *Payment of tax credits:*

The current payment system for Tax Credits does not serve the needs of those on lower incomes whose earnings income/financial resources tend to fluctuate. Furthermore, recent evidence has shown that there are still significant levels of fraud and mis-payment. The commission should review alternative payment methods to address these issues.

Many families receiving state-supported housing provision are likely to receive state interventions in many other aspects of their life. The CSJ Commission should, therefore, explore the significant potential for rationalisation and efficiencies in simplifying the way that benefits paid by Jobcentre Plus and those paid by local authorities (HB and CTB) work together.

4.4 Conclusion

The benefits system that has evolved over time has placed too much emphasis on addressing the many different symptoms of economic dependency, rather than providing a framework for reducing it. As a result of aiming to provide support for the many different ways in which people can face poverty, it has become complex and unwieldy.

Without reforms along the above lines, many families and individuals will continue to suffer in poverty at the margins of society. The Government has talked about getting people back to work, yet their welfare-to-work provision is failing, and their benefits system traps people in low-paid, low prospect, part-time work – particularly those with significant and multiple barriers to work. They have talked about strengthening society, but have set up a system

213 Cited in Reducing dependency, increasing opportunity: options for the future of welfare to work, David Freud, 2007, p.110

that encourages dishonesty through fraud, and disincentivises family formation that leads to the best outcomes for children.

The above recommendations, and those of the Commission's further work, would strengthen society by supporting the things that have been shown to lead to greater opportunity, participation and social cohesion. A revised system would encourage and reward work; support parents; remove the couple penalty and thereby encourage family formation that leads to the best outcomes for children; make the benefits system clearer and more accessible; and support people in a sustainable route out of poverty.

Section 5

Conclusion



Participants at a focus group organised to listen to the experiences and views of benefit recipients. Comprehensive reform is required to truly help those in poverty and dependent on the State.

As this report has illustrated, economic dependency, worklessness and poverty have become entrenched, not eradicated, in the UK over the past decade. Millions of people are languishing at the margins, unable to fully participate in society. The opportunities and rewards that have resulted from 14 years of uninterrupted economic growth are not available to all.

More people are living in severe poverty now than a decade ago; the true level of unemployment is likely to be much higher than official figures claim; there are millions of economically inactive working-age people in Britain; and the benefits system penalises both two-parent family formation and progression in work -

both of which help protect against poverty.

Welfare-to-work support is failing: resources are not targeted at those in need of the greatest support, Government programmes are not following international and UK examples of best practice, and they are not cost effective. The Government is failing the very people it claims to be helping.

The policy recommendations outlined in this paper are aimed at **strengthening Britain by supporting people in taking the sustainable routes out of poverty**: work and (married) couple family formation. The proposals are not aimed merely at moving people off benefits and into work, but at increasing social inclusion, enabling the best outcomes for future generations, and ensuring that people are able to sustain and then progress in work.

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