



FINAL REPORT

Now It's Personal?

The new landscape of welfare-to-work

Edited by Clare McNeil

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Executive summary

The Secretary of State Iain Duncan Smith's plans to reform the benefits system to 'make work pay' come at a time of unprecedented pressure to cut the benefits bill and reduce departmental expenditure. This means some tough trade-offs which will test the Coalition Government's commitment to their stated goals for the Department of Work and Pensions (DWP) – to improve quality of life for the worst-off and remove the barriers to social mobility.¹

This report examines what changes are needed for a fairer, more progressive and citizen-centred welfare-to-work system. Although the disincentive to work created by the benefits system is a key barrier, we argue that the period of weak employment growth we face in the UK over the next few years is as great a challenge.

The labour market is precariously poised as the Coalition government's austerity measures are set to hit. According to Office for Budget Responsibility (OBR) projections, unemployment will not return to pre-recession levels until 2015 or beyond. With public sector job losses of over 600,000 predicted² and private sector job growth not expected to come quickly enough to fill the gap, OBR forecasts show employment in the UK is likely to stay close to its current levels until 2013.

However, as well as uncertainty, now is a time of opportunity: we urge the Coalition government to think more radically about root-and-branch reform of the welfare system. Based on findings from ippr's innovative Now It's Personal action research project we argue for:

- A radically devolved, localised welfare-to-work system
- A greater alignment of welfare-to-work policies with the needs of employers, including a greater emphasis on enterprise through sector-focused skills training and 'supported' employment
- A more innovative and fluid sub-contracting market in the Work Programme.

The findings that we present are based on a programme of action research in conjunction with organisations working at the coalface in the field of welfare-to-work and skills. We have worked closely with eight partners in the public, private and voluntary sectors to identify and evaluate successful practice. Through extensive interviews with employment advisers and those they serve, we have built up a comprehensive picture of the 'customer journey' for a range of unemployed workers. These findings have in turn influenced and enriched our policy analysis of areas for reform.

Personalisation

The Coalition government seeks big savings to the incapacity benefits bill, partly through personalised support for those furthest from the labour market. However, warning signs come from similar programmes in the UK and internationally which have struggled to provide the kind of support needed for those faced with the most serious barriers to work.

One of the main reasons for disappointing outcomes from the Pathways to Work programme was the lack of integration between prime providers and specialist subcontractors. The challenge of supporting those with complex barriers is such that support will need to be more integrated. Providers will also need to pool resources with other services to support those most removed from the labour market.

1 Rt Hon Iain Duncan Smith, Secretary of State for Work and Pensions, 'Welfare for the 21st Century' speech, 27 May 2010

2 Chartered Institute for Personnel and Development and KPMG Labour Market Outlook: Quarterly survey report, Summer 2010

As well as more personalised support, a citizen-centred welfare system should guarantee minimum standards. Evidence suggests that certain entitlements to support are needed for provision to be effective for those with complex barriers to work. These include:

- An accurate and realistic assessment of barriers to employment
- To be served by organisations with a proven track record of supporting vulnerable groups
- To be offered incremental approaches to tackling barriers or improving skills where more appropriate
- To be given regular support from advisers with sufficient expertise.

These minimum standards often reflect a 'human capital development' model for supporting people back into work, a model which emphasises building education, training and confidence. Our findings show that an incremental human capital development approach can be more effective than a 'work-first' approach for some individuals. The Work Programme promotes a work-first approach by paying employment providers only when they place someone in work. This raises concerns as to how the Work Programme will genuinely support job seekers with a diverse range of needs and requirements.

Key recommendations include:

Standard entitlements as described above should be established for those furthest from the labour market to ensure consistency of support throughout the Work Programme.

Employment providers should have access to budgets such as education, health, drug and alcohol treatment, childcare and other services. This would help deliver more comprehensive and tailored support and could be coordinated by Personal Advisers who, as a result, would have more discretion and be more integrated into the partnerships of local providers and agencies.

Building innovation into the system

The experience of Pathways to Work also showed that innovation was limited to reducing operational costs and achieving performance efficiencies. Ongoing innovation in the Work Programme is vital to ensure new organisations continue to fill gaps and that the market does not become stale and risk-averse. To benefit from innovation there must also be sufficient fluidity in the welfare-to-work market so that new and promising approaches can be absorbed into it.

To stimulate innovation, an Innovation Fund should be set up in each Work Programme area or lot. A similar fund has been established with success in Australia to support the trialling of new approaches to meet the needs of disadvantaged jobseekers, at a value of A\$41 million. The Innovation Fund would earmark a small proportion of Work Programme funding in each area to be granted to promising local organisations.

Key recommendations include:

Organisations securing the prime contracts for the Work Programme should earmark a small proportion of the contract value for an Innovation Fund. This fund would provide a stimulus to innovation and help identify new potential sub-contractors. Projects eligible for funding may be promising but unable to demonstrate their effectiveness as potential sub-contractors. The grant should be open to private, voluntary or public sectors.

Localisation

Our research suggests that effective, personalised support requires fine-grained local knowledge and intelligence, yet the UK has one of the most highly centralised welfare-to-work systems in the world.

The Coalition's new Work Programme concentrates power at the central level of government (the DWP) and hands responsibility for larger volumes of unemployed workers to a small number of national welfare-to-work providers. This means that welfare-to-work is a massive anomaly in the Coalition's 'drive for devolving power'.³

In line with the principles set out by the Department for Communities and Local Government (CLG) to devolve power closer to neighbourhoods, we propose that groups of local authorities with a strategic lead from soon-to-be established Local Enterprise Partnerships (LEPs) should share responsibility for commissioning and contract management for the Work Programme with the Department for Work and Pensions (DWP).

Co-commissioning would allow for local, 'hands-on' contract management of the Work Programme. As LEPs will be responsible for setting out the economic priorities, bringing welfare-to-work commissioning into this process would also help integrate welfare-to-work with economic development.

Only local authority partnerships which demonstrate the necessary strength and expertise would take on a co-commissioning role. The capacity building needed could take place over a transitional period leading up to the mid-point in Work Programme contracts in 2013.

Further decentralisation of welfare-to-work

In contrast to the UK, welfare systems elsewhere in the world have recently seen a greater trend towards decentralisation. Our research suggests groups of local authorities in the UK should have greater local budgetary control and a stronger financial incentive to tackle worklessness locally. This could help to tackle more effectively inequalities in employment outcomes at a neighbourhood, local and regional level. International evidence is convincing of the positive effects of decentralising welfare-to-work, particularly that from the Netherlands.

One option would be to fully devolve welfare to work funding through block grants, where local expenditure is clearly linked to local revenue generation. This would offer greater local discretion to sub-national and local levels, in particular to more effectively tackle areas of entrenched worklessness and deprivation. In our view there is also a case for considering the inclusion of out-of-work benefits in block grants. This could strengthen the development of an active benefits system that works in support of employment policy.

Key recommendations include:

In line with the principles set out by the Department for Communities and Local Government (CLG) to devolve power closer to neighbourhoods, we propose that groups of local authorities with a strategic lead from Local Enterprise Partnerships (LEPs) should share responsibility for commissioning and contract management for the Work Programme with the Department for Work and Pensions.

The different options outlined for localising welfare-to-work, for example through devolving funding for employment support through assigned budgets or block grants, should be considered as part of the DWP's current consultation on welfare reform related to simplifying the benefits system and improving work incentives.

³ Prime Minister David Cameron, 'This is a government that will give power back to people', Observer, 12 September 2010

Enterprise

While we highlight the importance of personalised support to improve employment outcomes, our findings also reveal the limitations of employment support for getting people into work.

In a period of weak employment growth, work-first approaches will struggle to provide sustainable employment outcomes for all claimants, particularly those from disadvantaged groups. Employers are often the missing link in a system that focuses heavily on 'supply-side' interventions. The following proposals encourage a focus on enterprise to improve employment outcomes.

Meeting employer needs

Welfare-to-work providers should adapt and respond to shifting labour markets at a local level and engage businesses by developing a strong understanding of their needs and supporting clients to gain skills that are valued by employers.

Welfare-to-work providers can meet sustainable job targets and work with employers to generate better jobs by adopting a 'sector-specific' approach. Sector-specific employment programmes support potential growth sectors to expand or invest in a workforce, and as such have the potential to help create new jobs and support stronger outcomes for jobseekers. Evidence from the United States suggests that sector-specific approaches result in better jobs, higher wages and increased retention rates for clients.

Smaller businesses have the greatest need and, arguably, the greatest potential for expansion and would therefore benefit most from a sector-specific approach. Often overlooked by welfare-to-work providers, small businesses account for over 99 per cent of all enterprises in the UK and have been identified as key engines of growth.

Key recommendations include:

Welfare-to-work providers should prioritise sector-focused training and placement services that respond to local business needs. Welfare-to-work providers can help small businesses in particular to access Government funds for apprenticeships (and other wage subsidies).

'Replace and train' schemes

An example of the sector-specific approach described above, employee 'replace and train' schemes, also known as job rotation, bring employers and welfare-to-work organisations together to place unemployed workers in companies as substitutes for employed workers who may be on general leave (such as maternity leave or sick leave) or in training.

Commonly used in EU countries such as Finland and Denmark, replace and train schemes:

- Provide training and new job opportunities for unemployed workers while helping employers to retain staff and cope with natural turnover
- Enable the substitute worker to provide extra capacity at a lower cost, as they need not be at the same level as the employee they replace
- Ensure that welfare-to-work providers develop customised packages in partnership with local training organisations to provide vocational training for the replaced employee and, where necessary, for the replacement trainee.

Here in the UK, this kind of scheme has so far been limited to smaller-scale initiatives, but these have shown impressive outcomes in job entry and sustainability. The unit cost of 'replace and train' schemes can be high, but the range of outcomes from this approach is

far wider than standard welfare-to-work services. The extensive benefits to participating employers suggests an opportunity to co-finance with employers (as explored below).

Key recommendation:

Replace and train schemes should be taken up by providers and local employers as part of a sector-specific approach to employer engagement.

Supporting disadvantaged workers

Groups facing more complex barriers can struggle to find work. Employer discrimination and the inflexibility of many jobs create problems for people with more complex constraints, such as those with caring responsibilities or health problems. A combination of effective training programmes and strong employer engagement are vital to providing better and more sustainable job opportunities for disadvantaged jobseekers.

'Supported employment' schemes provide transitional jobs to prepare people for integration into the regular labour market and are successfully used in a number of OECD countries. This approach allows employment support providers to design working hours and conditions in a way that suits people with complex needs, such as those with health problems or learning difficulties.

Innovative initiatives highlighted by our research have created real jobs for disadvantaged jobseekers as part of supported employment schemes. They have achieved this by assessing community needs and identifying new business opportunities or shortfalls in local service delivery. These organisations work with existing small companies to deliver the contract or deliver the contract themselves.

Key recommendations include:

Supported employment initiatives can improve employment outcomes for disadvantaged groups and should be encouraged through the Innovation Fund, as proposed above. Best practice lessons can be learnt from DWP's delivery of the Future Jobs Fund.

Local government and other public service providers can help to facilitate supported employment approaches by making better use of procurement, for example, through projects to build affordable housing or save energy by retrofitting public buildings. This should be done in coordination with local employment and skills providers to ensure the necessary training and support is in place for disadvantaged groups to access the opportunities generated.

Co-financing

Business investment in the UK workforce is weak, with one-third of employers offering no training at all. At the same time, employers are prone to under-utilise the skills of their workforce, which results in low levels of innovation and productivity. The UK also suffers from a shortage of technical skills in potential growth sectors. As employers will derive the greatest return from improved productivity, innovation and profitability, we argue they should contribute more.

Our research shows that employers are reluctant to pay for training to address basic skills problems, but many are willing to pay for work-focused training packages that are specific to their sectoral or workplace needs and delivered in a way that suits existing working patterns.

Engaging employers in the funding of skills and employment provision is challenging. In addition, some small businesses lack the resources to buy-in training. For providers, there may be a trade-off between shifting the costs to employers and the numbers of businesses that they are able to engage. However, with better targeting, existing training subsidies may be able to move costs to the private sector by supporting small businesses to develop their own internal capacity to manage and train staff, as in some replace and train schemes.

In the long run there needs to be a strategy for more closely involving employers in skills policy, funding and institutions. In a number of countries including Australia, Germany and the Netherlands, groups of employers bound by locality or sector pool contributions for work-focused training through associations. This has generated collective employer investments in apprenticeship and training programmes.

Key recommendations include:

Employers should pay for work-focused vocational and technical skills training, with basic skills training covered by existing government funding streams. This approach will be most effective when targeted at potential growth sectors and sectors facing skills gaps.

More Train to Gain funding should be shifted into apprenticeships. The remaining funds should be targeted at developing human resource capacity in the private sector to recruit, induct and train new staff, and to invest in and utilise the skills of their workforce. This would aim to build smaller employers' ability to pay for the costs of workforce development in the longer term.

It should also be an aim to create genuinely employer-led training associations – at both local and sectoral levels – that (a) offer recognised training or apprenticeships, (b) certify courses and qualifications for receipt of public funding, and (c) where appropriate, determine qualifications that equip individuals to receive licences to practice in certain occupations. International practice shows that these can help to stimulate investment and utilisation of skills among employers.

Conclusion

ippr has long argued for employment services that are more personalised and built around individual needs, based less on central prescription and placing more discretion in the hands of welfare-to-work service providers. We have found that practice on the ground often leads the way for policy in recognising and responding to the needs of individuals. It is in this context that we share our findings and proposals. These provide vital clues for how the welfare system needs to evolve to meet the serious challenges ahead in reducing unemployment and tackling inactivity.

Introduction

ippr has long argued for employment services that are more personalised and built around individual needs, with less central prescription and more discretion in the hands of welfare-to-work service providers. In 2007, we called for more intensive support for individuals who had spent six months in the welfare system, with private and voluntary-sector providers to play a more significant part in a mixed economy of provision (Bennett and Cooke 2007). Both the Flexible New Deal and now the Work Programme are structured along these lines.

Three years on, while many of the challenges remain the same, significant new challenges are presented by the current economic and political landscape. However, this is also a time of genuine opportunity. The ambitious plans proposed by the Coalition to reform the benefits system open up possibilities to introduce long-needed reform to other aspects of the welfare system. Similarly, the new approach to funding and commissioning welfare-to-work through the Work Programme presents important opportunities, as well as risks.

In this report we seize these opportunities to challenge the Coalition government to think more radically about 'root and branch' reform to achieve a fairer, more progressive and citizen-centred welfare system. We introduce two key arguments for reform based on findings from ippr's innovative Now It's Personal action research project:

1. Firstly, we argue for a localised welfare-to-work system which can provide local solutions for local problems and deliver improved outcomes for disadvantaged groups;
2. Secondly, we argue for a more enterprise-focused welfare-to-work system with a greater emphasis on 'sector-specific' approaches to training.

Below we set out objectives to sit at the heart of welfare reform.

Citizen-centred welfare-to-work

As we have previously shown, an individual's perception of the extent to which welfare-to-work is personalised is often based on their experience of support from an employment adviser (McNeil 2009). However, an adviser is only as capable as the system he or she works within. Against this backdrop, we propose two objectives for a citizen-centred welfare system: localisation and enterprise.

Localisation should be a key objective for the Coalition government in its plans for welfare-to-work reform. The rhetoric of successive governments has embraced the principles of localisation or devolution (as it is variously described), without resulting in any substantive decentralisation or devolution of power. We argue that the welfare-to-work system should be underpinned by the principle of subsidiarity, where a central authority or government department has a subsidiary function, performing only those tasks which cannot be performed effectively at a more immediate or local level. In this context, subsidiarity would see a stronger focus on achieving parallel and integrated activity for tackling worklessness at national, sub-national and local levels, rather than via one centralised system.

A localised welfare-to-work system would allow for supply chains that are more community based and integrated with public services, able to profit from local knowledge and expertise, and are responsive to a 'bottom up' as well as 'top down' influence on provision.

The second objective is **enterprise**. A more enterprise-focused welfare-to-work system could help businesses weather the economic downturn and grow, while creating new job opportunities for unemployed workers. It would support businesses to expand through recruiting, training and retaining staff while addressing skills gaps and skills utilisation.

Closer working with employers, a more entrepreneurial approach to the labour market and a strong understanding of business needs would also help link economic development with workforce development.

These objectives are mutually reinforcing: one is unlikely to take shape effectively without the other. We therefore present arguments here for both and propose a series of recommendations for their implementation in practice.

Methodology

ippr's *Now It's Personal* project has been examining the challenges of personalisation in the context of welfare-to-work. Specifically, we have examined the relationship between citizen and state by examining the interaction between unemployed workers and employment advisers, to explore how policy and practice clash and cohere on the ground.

This report marks the final phase of the project, which began in 2008, and builds on and develops findings from our 2009 report *Now It's Personal: Personal advisers and the new public service workforce*, in which we argued for the reform of approaches to training and development to 'up-skill' the adviser workforce. In this report, we stay with the personalisation agenda but look beyond the role of the personal adviser to consider the implications for welfare-to-work policy as a whole, as well as the structures in which it operates.

Our findings are based on a programme of action research with organisations working at the coalface in the field of welfare-to-work and skills. We have worked closely with eight partners in the public, private and voluntary sectors to identify and evaluate successful practice. Through extensive interviews with employment advisers and those they serve, we have built up a comprehensive picture of the 'customer journey' for a range of unemployed workers. These findings have in turn influenced and enriched our policy analysis of areas for reform.

We have found that practice on the ground, in recognising and responding to the needs of individuals, often leads the way for policy. It is in this context that we share our findings and proposals. These findings provide vital clues for how the welfare system needs to evolve to meet the serious challenges ahead in reducing unemployment and tackling inactivity.

A programme of qualitative research was carried out across six partner projects:

- **Brent in2work:** Examining the role of advisers embedded in partner organisations
- **Islington Council:** Examining the role of personal advisers in the adult advancement and careers service Learning and Skills Council (LSC) network prototype
- **Peabody:** Examining the co-location of services and how effectively advisers are able to guide clients through the range of services available at Peabody's new Gateway Centre
- **Skills Development Scotland:** Examining the customer journey and the role of advisers in delivering an integrated employment and skills service in Scotland
- **Stockwell Community and Resource Centre:** Examining an outreach model that uses 'community champions' from the target communities
- **Working links:** Looking at how to achieve sustainable employment and the role of in-work support

We have also worked with **Pinnacle** on housing and work and with the **UK Commission for Employment and Skills** on the customer journey and international experiences of welfare-to-work.

The first wave of research was carried out between September–December 2009. This involved semi-structured interviews with almost 50 employment advisers and a number of managers across the projects on the following key themes: qualifications; recruitment and training; career progression and professional development; the role of referrals; integrating employment and skills; job brokerage and the employer role; in-work support and sustainable employment, and the impact of the recession.

The second wave of research involved semi-structured interviews with 5–15 clients at each of the six projects and in-depth customer journey mapping with 3–5 clients at each project. Interviews examined themes including employment history, constraints to employment, personal support and referrals to other forms of support. For one project, two focus groups were carried out in place of semi-structured interviews with clients.

Semi-structured interviews were conducted with seven employers in different sectors across the UK, three of which had experience of recruiting through welfare-to-work providers. Interviews explored recruitment practices, experiences of employment and skills provision including recruitment through welfare-to-work providers, sector needs, and the impact of the recession. We also consulted key industry stakeholders including the Alliance of Sector Skills Councils, the Federation of Small Businesses and the CBI.

A 'learning hub' also ran alongside the action research, with regular seminars held on issues emerging from the research. Learning from these discussions is reflected in this report. Similarly, a learning exchange was held in New York City in June 2010 for Now It's Personal project partners and other stakeholders in the welfare-to-work sector. A programme was undertaken including visits to projects in the public, private and voluntary sectors as well as meetings with policymakers, academics, think-tanks and New York City government officials. Learning from this exchange is reflected and referred to in this report.

Report structure

In the first chapter, **Back to work? The journey towards sustainable employment**, we offer insights into the experiences of people across the UK trying to find work during a period of higher unemployment. We draw on ippr research findings to challenge some key assumptions underpinning new government policy while acknowledging the importance of the goals government has set for itself to improve social mobility and reduce poverty. We examine the extent to which innovative examples of welfare-to-work delivery are succeeding in meeting the needs of those out of work.

Chapters 2 and 3, **The new landscape of welfare-to-work** and **Towards localisation** present a challenge to several of the current orthodoxies within the welfare-to-work field. A key critique in chapter 2 is that the Coalition government's proposal – in the shape of the Work Programme and other related schemes – is a continuation of previous New Deal programmes and has not sufficiently built on learning from these policies. We look at the opportunities presented by the Work Programme. We highlight the risks inherent in this system and build on learning from past employment programmes to put forward ideas that will ensure the programme can deliver on its ambition of providing 'truly personalised support for the hardest to help'.

Chapter 3 challenges the absence of a meaningful local dimension to the Work Programme. It calls for a fresh examination of the case for decentralising welfare-to-work, drawing on international evidence from the US and the Netherlands in particular. It presents three scenarios for localisation in the welfare-to-work system: the first is a scenario for incremental reform, with the second and third scenarios exploring more radical and far-reaching changes to the system.

While this report highlights the importance of one-to-one support, our findings also reveal the acute limitations of a welfare policy which focuses almost exclusively on supply-

side interventions. In chapter 4, **In demand? Welfare-to-work and the missing jobs**, we challenge the notion that, against a backdrop of higher unemployment and pockets of entrenched long-term unemployment, current supply-side focused welfare-to-work policy is sufficient to help individuals find and sustain work.

We argue that job entry depends on a variety of factors beyond the employability of jobseekers, and that the role of employers is crucial to increasing the success of welfare-to-work, in particular when it comes to the ability of providers and jobseekers to secure appropriate and good quality jobs. We explore how welfare-to-work policy can play a role in tackling fundamental structural problems in the labour market, arguing that this should be one side of a strategy aimed at creating a fairer, more balanced labour market as the economy recovers.

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- McNeil C (2009) *Now It's Personal: Personal advisers and the new public service workforce* London: ippr

1. Back to work? The journey towards sustained employment

Dalia Ben-Galim and Roy Sainsbury

In this chapter, we offer insights into the experiences of people across the UK trying to find work during a period of high unemployment. The role of the personal adviser is analysed to understand the extent to which innovative examples of welfare-to-work delivery are meeting the needs of those out of work.

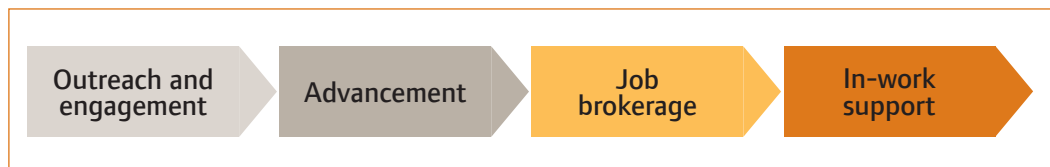
The Coalition government has made a clear commitment to offer 'targeted, personalised help for those who need it most, sooner rather than later' (Duncan Smith 2010). This personalised support is seen as critical to the coalition's programme for government: 'to encourage responsibility and fairness in the welfare system' (HM Government 2010). As the Work Programme is being developed, and government departments are locked in difficult negotiations with Treasury over spending, this chapter provides suggestions for how better to support people into work. It recognises the goals of personalisation and cost savings, as well as wider aims of improving social mobility and reducing poverty.

We examine four different components of the 'customer journey' from initial engagement with an employment support service to starting a job. Partnership-working is explored as an issue that affects all stages of the customer journey. The focus then shifts to examining the qualifications, training, career development and progression routes for advisers. Finally we draw out policy implications and conclusions.

Personalisation and the customer journey

The customer journey provides a useful framework for observing the client–adviser relationship. In this case it has been divided into four distinct components: outreach and engagement; advancement towards job-readiness; job brokerage, and in-work support (see Figure 1.1). Our research focuses on key points of transition in the customer journey, where different skills and expertise may be required by the adviser and where the client is at risk of falling through the gaps.

Figure 1.1:
The customer journey



Dividing the customer journey in this way allows us to look at different approaches to personalised employment support and the design of the adviser role.

Step 1: Outreach and engagement

Building trust is the first and most important stage in the client–adviser relationship, as it is the foundation for all future work. Trust is also a key predictor of later success in the client–adviser relationship (McNeil 2009).

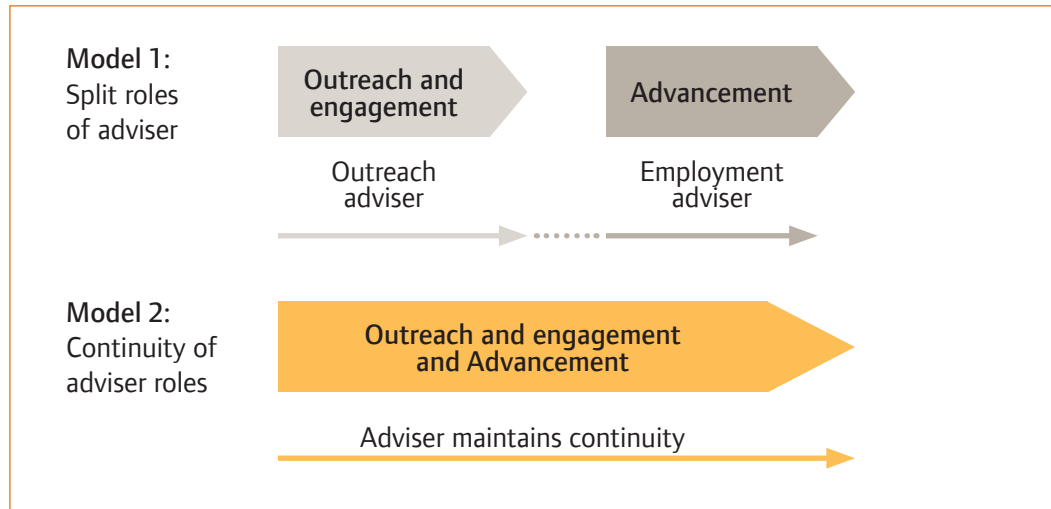
I didn't know what to expect before I went there – she sat me down and put me at ease and then we started doing the forms – she said 'don't worry'. I trusted her straight away.

Female, 43

The design of the role is important in advisers being able to create this initial trust and subsequently being able to support people. Across the Now It's Personal project, two general models of outreach work have been identified (see Figure 1.2). In the first,

outreach and advancement are conducted by different advisers. In the second, the same adviser conducts both outreach and advancement.

Figure 1.2:
Outreach and engagement models



Overall findings show that the first model, where the outreach and advancement roles are divided, limits the ability of the adviser to establish a trusting relationship with the client. In this model, the outreach adviser's remit is simply to recruit the client and refer them on to an employment or job-brokerage adviser. With a limited role for the outreach adviser, there may not be sufficient opportunities to develop trust with the client. This constraint reduces the 'pull' into the service, which often comes about through strong personal relationships and support provided in a convenient community location.

The second model, where engagement and advancement are carried out by the same adviser, appears to work more effectively. This model allows for continuity of adviser support, which seems to be important early on in the process. The focus on tackling constraints to work, rather than on meeting job-entry targets, allows for support to be provided at a better pace for clients.

The methods used to engage clients in employment services were also important. Our findings highlight that traditional methods of outreach – for example, leafleting and job fairs – were most likely to engage people who were already thinking about looking for work but were less successful for those further removed from the labour market.

'Proxy' opportunities – for example, working with housing association staff or attending housing maintenance visits – can be used to recruit clients to take up employment support. Family and peer networks also provide opportunities to engage clients. For example, one adviser described how being based within a tenant management organisation (TMO) provided opportunities to engage a wider group of people in the community.

Some people [come to me and] say, 'I've got a sister, can she apply for this job?' Or somebody says, 'I've got a son...'. And the other day, because the TMO advertised my outreach work in their newsletter, a lady just came up and said 'Oh I've got a son. Could you please help him? Can he come and see you?' So yes, it happens naturally.

Personal adviser, TMO

Linking to staff who work for trusted, local organisations can often create opportunities to engage people, particularly where strong, personal relationships already exist. While it is important not to overlook the challenges in supporting a number of members from one family into work, having the whole family involved can also help to ease potential difficulties

related to motivation and confidence. Strong links into an area meant that advisers became familiar faces in the community and were able to utilise their good local knowledge.

[The employment support service] is usually run by people who live in that area so ... everyone who works there lives in that area, so they have local knowledge. People know them as well, so they're a local face that people can relate to ... so that in itself really does help and you know [and gain] the trust of that group.

Personal adviser, TMO

Without immediate links into a community, outreach workers can be perceived to be outsiders, making it harder to recruit and engage residents.

Step 2: Advancement towards job readiness

Adviser support had a strong impact on clients' motivation to look for work and their confidence in their own ability. In some cases, it also changed or diversified the range of work clients were looking for.

I wouldn't have bothered trying. I would have gone for a cleaning job or shop job. But I always fancied working in old people's home so [the adviser] put me in touch with right people.

Female, 49

Advisers saw motivating and empowering clients as a key part of their role. The type of support offered often reflected a 'human capital development' model, which emphasises building education, training and confidence. (This model is discussed in more detail below.) Many advisers and clients preferred this incremental approach, finding it more effective. This response was typical:

Obviously our aim is to try and get people into work and training, but I think it's also about moving people forward ... for [the] long term. So it's not measured [by] what we do ... but I think there's a bit more to it than just targets and getting people into jobs.

Personal adviser, provider

As noted previously, it is essential that the client and adviser have a trusting relationship. Where there is not a strong rapport between an individual and an adviser it can jeopardise the entire support process. While each case is different, our research highlighted some patterns in the causes of breakdown in client-adviser relationships. Clients who were less satisfied with their support often felt that they hadn't been listened to or that the jobs they were being put forward for were not right for them. One-to-one employment advice can also be limited in its effectiveness when there are wider issues involved, such as mental health problems, financial hardship, debt or housing problems, all of which can make the relationship difficult for both advisers and clients.

Step 3: Job brokerage

A significant component of the adviser's role is to match people to jobs, to 'broker' job opportunities with employers. Good job matching is vital to job sustainability: advisers highlighted that where jobs were well-suited to client needs and interests clients were motivated to stay in work and satisfied with the outcome. Effective communication between advisers and employers – either directly or through a job broker – enables providers to better match jobs to client needs. Good job matching is also vital to maintaining an ongoing relationship with employers.

Active engagement with employers enables advisers to understand the local labour market and the needs of employers, and to source work placements and vacancies (Harker and Oppenheim 2007). However, the question of the extent to which employment support and advice services should engage directly with employers is not straightforward and depends on the size, scope, client group and capacity of the service. Job brokerage requires good knowledge of the local labour market and local employers, and advisers need to have skills more closely associated with sales or recruitment.

Some providers had dedicated job brokerage specialists. In other organisations, advisers worked with both employers and clients. In larger organisations, where capacity was greater, advisers had freedom in developing and customising relationships with employers. Engaging employers is time-consuming, and our research suggests that heavy caseloads sometimes prevent advisers from sourcing vacancies.

Case study: Creating 'route-ways' into work

The benefits of working closely with employers were reflected in more positive client outcomes and better job matching. Some providers have set up a service to provide long-term unemployed clients with 'route-ways' into particular jobs or sectors.

For example, one provider subsidises a tailored training programme to equip clients with job-specific skills for a national betting company. This culminates an assessment day with the employer, at which suitable clients are recruited. The provider also encourages the employer to adopt more flexible job criteria and so gives clients a better chance of being recruited. The betting company has now rolled out this approach to recruitment across all its UK branches.

However, engaging employers can also be resource-intensive for providers, who often undertake a significant proportion of the recruitment (and bear associated costs) on behalf of employers.

We take the client from initially being interested in the job, pre-screen them to make sure they hit the criteria that the employer has asked of us, arrange interviews, make sure they've got interview clothes, get them to the interview, get feedback on them at the interview. If they get the job, fantastic; if not, feed back the feedback and work with them to find something a little bit more suitable for them.

Job broker

Smaller providers or providers without a direct channel for engaging employers should consider options such as a regular clinic or visiting service, better registration, and sign-posting to job brokerage services in the local area.

Step 4: In-work support

As longer-term job sustainability targets become a core component of the Work Programme, providers will need to focus more on supporting clients while in work. Many providers are experimenting with post-recruitment support to increase retention and advancement in work. The government has also indicated that in-work support should be a key part of adviser strategies to tackle low rates of retention. It identifies this as a key support to help more vulnerable clients to adjust in the initial stages of a new job.

Our research showed that some clients wanted to know that in-work support was there for them if and when they required it. But not all clients require support after they find work, and some clients do not want to stay in contact with the provider once they are in work.

I don't think [further face-to-face contact is] really necessary. I think it's important to keep contact with them in case anything goes wrong, but if everything's fine at work it would be more of a hindrance. I have their contact cards with the emails and phone numbers, so I can ring them if I need anything – that's enough for me.

Male, 25

Advisers thought that the main role of aftercare was to ease the initial transition into work. Several advisers said that if they could get the client through the first month or so of employment then they were usually able to maintain the job.

After the initial stage in work however, opportunities for retention and advancement become more important in achieving sustainable job outcomes (National Audit Office 2007). The experiences of our research participants underline how positive retention and advancement outcomes for clients depend on job quality: the type of jobs people move into, the stability of those jobs, whether they pay a living wage, and whether workers are able to progress to more pay or develop their skills. The predominance of short-term contracts also presents a particular challenge to providers in some parts of the country (see chapter 4).

The 'work first' approach – where getting a job is prioritised over longer-term training support – assumes that entry-level jobs serve as a stepping stone to more stable and higher-skilled work. But moving jobs does not necessarily result in opportunities to advance.

We spoke to a number of people who had spent their lives working in low-skilled jobs with few opportunities to progress within a company or transfer to a job with higher pay and better working conditions.

I'd like to try and get something better. The jobs [I have done] were not professional. I cannot aspire to a higher ladder. It's unskilled labour ... I'd like an administrative job; I'd like hospitality as well, or community projects.

Male, 44

Many people we interviewed were stuck in a cycle of entry-level jobs with few prospects for stability or progression. One male respondent had worked for the past six years in a series of temporary jobs in shops and call-centres, with several long periods of unemployment in-between jobs. Despite gaining several level three qualifications during this time, he started at the bottom of the ladder in every job.

Even now when I go for a job I'm still at the bottom of the ladder ... People tend to plan out and have a stable career path but I've tried that and it hasn't really worked out so I just can't really see myself anywhere in the next 10 years ... It sounds a bit weird but I just haven't got a direction really.

Male, 25

Our research suggests there is a role for in-work support to bridge gaps between jobs. For example, people in short-term jobs thought in-work support could be useful in helping find their next job. Several people also thought ongoing support could provide 'exit routes' from poor quality jobs. Those who were in part-time work because they were unable to find permanent work also thought an ongoing job search could help them to find a supplementary job. However, advisers said it was difficult to stay in touch with clients once they moved into work and many advisers did not feel equipped to offer careers advice focused on advancement in work.

Partnership working

The work of advisers is affected not only by the organisation they work in but also by the wider network of other government and third sector organisations with whom their clients are likely to have contact. This section explores emerging lessons on effective partnerships and how they can support personalised welfare-to-work provision. Different approaches to partnership working were evident through the research. As partnership working is likely to become more common – particularly as the public sector funding cuts continue to bite – lessons emerging from our research will provide practical insight.

Personal relationships are key to effective partnership working and these need to be developed and maintained on a regular basis by management and front-line staff. Where personal relationships were strong, partnerships seemed to work better and challenges could be more easily resolved.

Aligning targets is essential, to ensure services are not pulling in different directions. Where partner organisations were working towards different targets, it created interdependence, which encouraged good partnership working and communication. Similarly, leveraging outcomes – working with partners and in some cases pooling funding to achieve shared outcomes – can bind organisations together in the interests of the individual client.

Co-location also enabled better integration of services. Where services were co-located there was more effective partnership working and co-ordination between services, enhanced communication, better referrals and greater sharing of information.

Case study: Co-location – integrating employment and skills

Employment policy is governed from Westminster, whereas skills policy is devolved to UK national governments. In Scotland, there has been a concerted effort to integrate employment and skills provision more effectively. In some areas, careers advisers have been co-located at Jobcentre Plus (JCP).

Initially some careers advisers voiced particular concerns that co-location would mean that clients would see their service as being just a part of the mandatory JCP provision, rather than as additional, optional support. However, these concerns were quickly overcome.

Well I think we all had initial reservations, didn't we, about going to the Jobcentre ... I think what we were concerned about was being linked to the benefits and the compulsory thing, that maybe clients might see us as being part of that process. Well, actually ... after a while that didn't really concern me. I felt they could see a distinction.

Careers adviser

Advisers' experiences of co-location also suggested it could facilitate joint working between different services and help to engage clients that might not otherwise hear about the service. In addition to scheduled appointments, careers advisers could 'floor-walk' – informally wander around the job centre introducing their service, to see whether any other potential clients might be interested. This was particularly useful when advisers had some spare time, or if a client with a scheduled appointment didn't turn up.

Clients too were generally positive about the idea of co-location.

CONTINUED

[It would] save walking around everywhere. If you can't get advice from one person, then that other person would be able to help you. If they aren't all there on the same day, couple of days later I've got to see someone else somewhere else.

Female, 52

Co-locating services threw up some challenges, for example in ensuring adequate space for confidential meetings. However, there is much to gain: good communication, awareness of the different services among staff and well-coordinated services were noted as important benefits of co-location.

Different methods are required for supporting different groups. The example below provides insight into how organisations can work collaboratively to support people on the brink of redundancy, which will be especially important given the extent of redundancies expected in the public sector. Our research highlights useful examples of how, by working with employers, early intervention from a range of integrated services can support people facing the loss of their job.

Case study: Supporting the newly redundant back into work

Scotland's Rapid Response Service – which offers pre-redundancy support through advisers from different agencies working together – offered an additional opportunity for contact with careers advice. It was praised by clients for its strong combination of services, which included Jobcentre Plus, Skills Development Scotland careers advice, Business Gateway and financial advice.

One participant was being made redundant for the fifth time. As an HR adviser, she had secured pre-redundancy support for her company, and found that support extremely effective in preparing individuals for the employment search and for presenting a more coherent face to the employment and skills system.

My experience, in the four times I've been to the Jobcentre before, they've been a bit 'Oh we can't really help you, we'll do what we can'. Whereas on this occasion the exposure I've had has been superb. I've been in touch with other people from Jobcentre Plus who've given me better benefits advice, who've actually phoned me up telling me about jobs ... So that's the difference I've found this time, because we've had the Skills Development people in, the career advisers etcetera, you've had that one-to-one service and it's just made a huge difference, it's given me a boost.

Female, 37

This service also benefited from communication within peer groups, which increased outreach.

We had ... a session [with] everyone round the table ... everyone [who] was affected by redundancy and [Skills] Development Scotland, Money Matters, Business Gateway, Jobcentre Plus ... I encouraged people to go along and ... then the gossip in the canteen was like, 'God, I had a really good meeting with them'.

Focus group participant

Adviser skills, training and career development

Only one of the providers involved in the Now It's Personal initiative required its new advisers to have formal qualifications. Of greater importance to managers were relevant experience – such as working in the local community, with 'hard to reach' groups, or at Jobcentre Plus (JCP) – and soft skills, such as empathy and the ability to motivate, gain trust and communicate effectively with a wide variety of people. However, many advisers did bring with them a variety of qualifications and training. Some made a distinction between skills training and knowledge training, although in practice these were not always clear-cut categories.

Skills and training

Among the advisers in our research, two of the most common skills qualifications were the National Vocational Qualification (NVQ) in Information, Guidance and Advice (IAG), and the Vocationally Related Qualification (VRQ) in Job Brokerage. There were generally positive comments about the NVQ, which was felt to equip people with a range of interviewing skills and the ability to engage clients in thinking about, and taking steps towards, work. The job brokerage training gave advisers additional skills in dealing with employers. However, many advisers felt that they had not received sufficient (or any) training on how to approach and engage clients with particular barriers to work, such as drug and alcohol misusers, ex-offenders and people with mental health problems. Some advisers had difficulty recognising more complex barriers (such as health problems or learning disabilities) in clients who were unwilling to disclose them.

Advisers also gained skills on the job from colleagues and, in a few instances, by shadowing staff with similar roles in other organisations. Both types of learning were valued.

'Knowledge training' was seen as useful, though not often received, on topics such as social security benefits, the local labour market, health conditions and their effects on everyday activities, childcare, debt, housing and homelessness, and self-employment. Many advisers expressed concern that their knowledge of these areas was insufficient to be able to advise clients fully.

Several advisers had experienced problems accessing training, for example because of funding constraints or time pressure. Advisers on short-term contracts were least likely to be able to go on training courses.

There was a unanimous view that training was useful, not only for increasing and improving skills and knowledge, but because it created the opportunity to reflect on individual practices and to learn from others. As a result, one of the more important outcomes from training was increased confidence among advisers and, therefore, there was an appetite for ongoing training. As one adviser commented:

I am really looking forward to doing the IAG course ... I have got knowledge of the local area; I am very good at communicating with people, signposting, so I do the job anyway, but it would be nice for somebody to reflect on whether you do that post fully, doing this properly or just become a bit more professional.

Employment adviser

The range of gaps in advisers' skills and knowledge (as identified above) demonstrates the complex nature of the adviser role in the Now It's Personal projects. It was recognised that the breadth and depth of knowledge needed to be able to help every client was probably beyond the capability of any individual adviser. Therefore, having teams of advisers with a range of specialist knowledge was perceived to be a better option.

Career progression and professional development

Many advisers felt that there were few opportunities for career progression. However, a commonly expressed view was that their work as an adviser was enjoyable and rewarding, and that they would welcome training that would help them improve in place of simply being given opportunities for career progression.

Advisers did not equate progression solely with promotion. Many would have liked to have taken on specialist adviser roles (such as in career guidance or work with specific groups of clients), which they saw as advancement, if not promotion. Such specialist roles did not exist in smaller providers and there was some criticism that such opportunities were too few, even in larger organisations. Some advisers were therefore looking to develop their careers in new, but related, directions, such as in family support services.

One of the questions that the Now It's Personal initiative wanted to address was whether there was a case for establishing the job of personal adviser as a profession, that is with validated qualifications and a member organisation that would promote and maintain standards and support a career structure. The lessons from the six organisations included in this study are mixed: while there was some interest in career progression, there was more interest in professional development. There was a substantial commitment to the front-line role of advising clients, suggesting there is a case for finding ways of keeping the adviser role fresh and broadening the knowledge and skills of staff who want to stay at the front line.

Implications for policy and practice

The evidence from the Now It's Personal initiative is a valuable addition to previous studies conducted over the last decade or so on the role of personal advisers and their relationships with their clients. Our findings have a different resonance in the context of the new Coalition government's approach to welfare-to-work as enshrined in the Work Programme. One particular new challenge is the 'black box' approach integral to the Work Programme.⁴ This was introduced under the previous government but is set to define the new landscape of welfare-to-work.

Over the past 13 years, the Department for Work and Pensions (DWP) has been intensely interested in what works in helping people back into a job because it was principally their own staff, in Jobcentre Plus offices, whose job it was to engage with benefit claimants and move them towards paid employment.

Under the 'black box' approach, this is no longer the case. Essentially the government has little direct interest in finding out what works; it can leave it to external employment providers to decide this for themselves, since they will not be paid unless they do get people into work and staying in work. Payment by results (particularly with an emphasis on sustained employment) further incentivises providers to identify effective practices at every step in the customer journey, from outreach and engagement through to in-work support.

However, the Now It's Personal initiative shows there are still strong links between policy and practice, and a number of lessons and challenges for both which will require continued interest from government as well as providers in order to ensure the most effective support reaches those who need it most. One of the more valuable lessons comes from the evidence about help for people who are furthest-removed from the labour market, the so-called 'hard-to-reach' and 'hard-to-help' groups.

⁴ The 'black box' refers to the processes used by contractor organisations in delivering welfare-to-work services. Essentially each organisation is free to decide how it does things (i.e. what goes in the 'black box'); nothing is prescribed or ruled out by government.

Human capital development versus work first

Most of the Now It's Personal partner projects either deliberately targeted people often excluded from mainstream employment provision or found many came forward as volunteers to take part. Once again, we are presented with evidence that people want to work, even when the barriers that they face might be daunting. Personal advisers in these projects therefore often choose to see work as a *long-term* aspiration and goal that they work towards with their clients, gradually and at the client's pace. This is interesting because this approach matches what is known in the literature as the human capital development model, which emphasises the importance of developing a person's human capital (or employability) through education, training and confidence-building prior to undertaking any form of job search.

The contrasting approach to human development is work first (Bruttel and Sol 2006). Under this model, the emphasis is on moving people into a job as soon as possible regardless of their skills or experience. The rationale is that *any* job is better than unemployment and that human capital can be developed in work. Although the work first approach has dominated policy thinking, our findings show that a human capital approach has been more common in practice among the Now It's Personal initiatives. And this will continue, with the Work Programme effectively promoting a work first approach by remunerating employment providers only when they place someone in work. There are no payments that recognise progress towards work, as might be appropriate under a human capital development approach.

Despite some similarities, the work first approach being adopted as part of the Work Programme is also different from the approach taken in the early years of welfare-to-work policy, in which the aim was simply to get people *into* work. Since then it has been recognised that job entry alone is not a sufficient outcome: sustained work and the opportunity to progress in work are now seen as just as important. Through its payment-by-results funding structure, the current coalition government will incentivise Work Programme providers to help people stay in work for a year or more.

We know from Now It's Personal and other studies that some people have an employment history that comprises a succession of low-paid, short-term jobs, rather than the one longer-term job which might allow for stability and advancement. Someone who has held four short-term contracts over the course of a year might represent a successful case if this pattern of work is counted as 'sustained employment' for the purposes of claiming a results-based payment (and government will presumably be happy that such people would not appear in the benefit statistics) but, for the individual concerned, the experience of being trapped in a cycle of low-paid work is likely to represent a less successful outcome. We don't yet know how work sustainability will be defined by the Coalition government.

Imposing greater conditionality

As noted above, perhaps the government will not encourage or incentivise employment providers to adopt any particular ways of working. Nevertheless, it is interesting that most of the approaches taken by advisers in the Now It's Personal projects did not follow the work first model. The clear message from the government over the summer of 2010 has been that benefit claimants will be required to do more in moving towards work (including taking up training and attending other courses) and ultimately to take up suitable employment, for which 'suitability' is likely to be decided by officials rather than by clients themselves.

The question is raised therefore about who is going to be involved in imposing this greater level of conditionality on people – who will be the enforcers? Welfare-to-work policy has always been a mix of 'sticks and carrots' but both external employment providers and JCP have tended to prefer the carrot approach. What sticks there were usually were wielded

by JCP, and then often reluctantly. It has not been custom or practice among employment providers to threaten clients with sanctions.

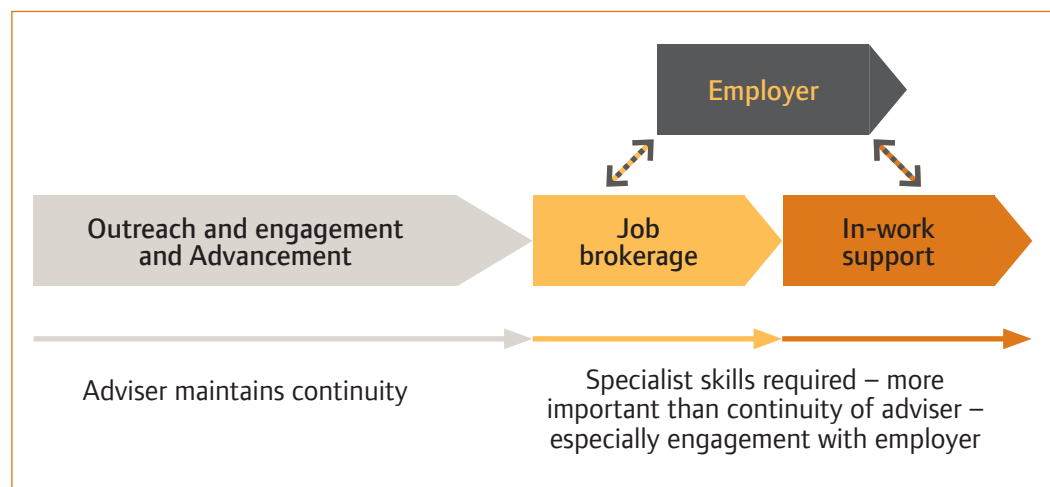
On the contrary, much of what advisers do (as evidenced in the *Now It's Personal* projects) is done to promote rapport and trust and to work with people's aspirations and ambitions, rather than to impose anything on them. If providers start being more coercive there is the danger that that essential trust will be irrevocably broken.

Supporting the customer journey

As we have seen, the functions and tasks of personal advisers in the projects was demanding, not only on their knowledge but also on their personal skills. Furthermore, there was evidence that different knowledge and skills were required at different points in the customer journey: **engagement** with a potential client; **advancement** of a client's skills and experience; **brokerage** and job-search support for a job-ready client, and **in-work support** for clients who, having taken up employment, might encounter a whole new range of difficulties to overcome.

At the engagement stage, advisers draw principally on their personal and social skills to motivate and spark interest in possibly reluctant and nervous clients; later, at the job brokerage and in-work support stages, advisers need skills in managing and negotiating with employers, and knowledge of appropriate provisions (such as Access to Work), health services, or possibly employment law (such as the Disability Discrimination Act). Figure 1.3 demonstrates how the different stages in the customer journey, introduced earlier, create different demands on advisers.

Figure 1.3
Demands on advisers during the customer journey



The question for employment providers is how these demands on the personal adviser can be met. In practice, some organisations opt for some form of specialisation by allocating different staff to the different stages in the customer journey. The price paid for this is a lack of continuity for the client, who may have to establish a relationship with a new adviser at each stage – as we have seen, this carries the risk that the essential relationship of trust, that can be hard won in the first place, may be damaged or lost. There is evidence to suggest that the later a handover is in the journey the better. In particular, it appears advisable not to change advisers between the engagement and advancement stages.

Another response to the demands on advisers is the provision of appropriate training and development (discussed in the previous section). We leave open the question of whether the 'personal adviser' should be established as a new profession (the evidence from *Now It's Personal* is inconclusive) but it does seem that teaching skills that allow advisers to support people to build confidence, as well as knowledge of benefits and employment programmes, would lend themselves to a common training course. Knowledge of local

labour markets and employers, which is arguably essential for personal advisers to be able to do their job, could also be better addressed by service providers in this way.

One clear lesson for practice (and one which reinforces findings from other studies⁵) is that co-location of advisers in places such as JCP offices, GP surgeries or community facilities (or other places that the target population goes to) is welcomed by clients and therefore can be seen to promote engagement. Co-locating services in JCP offices offered advantages for both JCP and the provider organisation, suggesting that this could be encouraged and facilitated further by DWP. Familiar surroundings are important to people; co-location also brings time and cost benefits, and can contribute to an easier, more seamless customer journey. Importantly, opportunities are created – through for example debt management services or family-based services – for engaging people who might not otherwise come forward. Moreover, there was evidence that the number of volunteers who came forward because of word-of-mouth communication was greater where services were co-located.

There was interesting, and slightly contradictory, evidence about the need for and provision of in-work support (sometimes referred to as 'aftercare') by advisers. The message from advisers across a number of the projects was that some clients, once they have taken up employment, neither require nor want in-work support. Advisers therefore tend to make themselves available ('I'm here if you need me') rather than being proactive and making regular contact with their clients in work. Interestingly, there is no direct testimony from Now It's Personal clients saying in-work support was not wanted. Indeed, some clearly welcomed in-work support and found it useful in overcoming difficulties that are common for people returning to the labour market after a long absence, such as transport, breaks in benefit income, childcare costs and impacts on health.

From the experience of advisers, in-work support was most effective in the first month of employment, supporting people during the transition into work. Where in-work support provision existed, advisers were often able to use their own discretion and their organisations' resources to support clients through issues such as budgeting for their first pay cheque, transport costs and childcare. However, engaging clients over a longer period was more challenging for advisers: clients often don't see advisers as a source of help and, in the meantime, advisers will have taken on new clients. The sustainability targets, however they are defined, will mean that providers will have to consider in-work support far beyond the first month. Currently, few providers have systems in place to work with people over a sustained period on an ongoing basis. Also, advisers are not necessarily aware of the barriers that clients face in work, and would benefit from training to develop awareness of these issues.

One final issue for policymakers and providers is how best to stimulate innovation in and sharing of good practice. One argument for contracting out service provision to a large number of organisations in the private and third sectors is that it will encourage innovation and experimentation (Conservative Party 2009: 6). The extent to which innovative practices emerge, or to which the incentive to innovate is squeezed out by funding constraints, is something we will have to wait to find out. Certainly in the Now It's Personal project we have identified some inventive ways of engaging potential clients, as noted above. These emerged from highly localised outreach initiatives which made inroads into engaging the harder to help groups which are frequently failed by mainstream provision (an issue addressed further in the next chapter). However, these projects are frequently reliant on discretionary funding, which is most at risk from spending cuts. These kinds of approaches must have a future in the new landscape of welfare-to-work if more progress is to be made on reducing inactivity and increasing employment.

5 See, for example, Sainsbury et al (2008)

The 'black box', payment-by-results approach raises the possibility that potentially valuable **shared learning** about service provision will be limited. Individual employment providers in the private sector become unwilling to share the secrets of their success with commercial rivals. Perhaps there is more scope for optimism among smaller, voluntary providers. The evidence about partnership working, which in itself brought a number of benefits to the parties involved, reinforces the importance of a sector-wide willingness to share ideas and learning.

Conclusion

This chapter has presented the empirical findings from the Now It's Personal initiative.

Important lessons have emerged for policy and practice in a future landscape dominated by a 'black box' approach to contracting out and delivering services and a payment-by-results funding model. In such an environment, the principal job of policy is to define the context for the successful achievement of desirable outcomes. As we have noted already, the thinking behind the 'black box' is to allow providers to design solutions that respond to a particular locality. And as we have seen from the Now It's Personal evidence, local solutions do emerge – novel and creative ways of outreach and engagement, and mutually beneficial service partnerships.

We return to our starting point: how can we best support people in getting back to work, what sort of personal adviser is best suited for the task, and how can we ensure that personal advisers are equipped to do the job? A number of key conclusions emerge:

- Engaging potential clients cannot rely on traditional methods, such as leaflets or posters. More assertive outreach strategies suited to the target client group and location are needed to reach those further from the labour market
- Co-location of services in a variety of locations is recommended. Co-location in JCP offices should be promoted, in particular, by prime contractors under the Work Programme. Local authorities can also promote and facilitate co-location.
- Training of personal advisers can still be ad hoc and inconsistent. Personal advisers would welcome more training. In particular, there is a greater need for training in job brokerage and in-work support (critically, to include working with employers).
- Forging local partnerships with organisations with similar overarching policy objectives, if not identical targets, was effective in some areas. 'Leveraging' outcomes – pooling resources to meet shared objectives – was particularly effective in binding organisations to act in the best interests of individual service users.

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2. The new landscape of welfare-to-work

Clare McNeil

The previous chapter highlighted the voice of the unemployed worker and examined best practice for supporting people back into work. It also challenged some of the key assumptions underpinning Coalition government policy.

In this chapter, we survey the new and changing landscape of welfare-to-work. We argue that although personalised support for the 'hardest to help' is one of the key rationales for the Work Programme (Duncan Smith 2010), previous similar programmes in the UK and internationally have struggled to provide the kind of support needed for those with the most serious barriers to work.

We highlight the continuing lag in outcomes for the most socially excluded from welfare-to-work support. We focus on the challenges of personalising support for those furthest from the labour market,⁶ including those on health-related benefits, and explore the driving trends and patterns, why more progress has not been made for these groups, and what needs to be done differently.

One of our key critiques is that the Work Programme risks simply being a continuation of previous New Deal programmes if it does not sufficiently build on learning from these policies. We highlight promising practice, and argue that integration and innovation should be the key hallmarks of the Work Programme as it rises to a tough challenge.

The new landscape of welfare-to-work

The government is about to embark on the largest restructuring of employment support programmes since the New Deal was introduced in 1998. The Coalition's new Work Programme will see the introduction of payment-by-results for employment support through an innovative yet untested funding mechanism.⁷ We are also seeing the unfolding of a quiet revolution in welfare-to-work as it moves from a prescriptive regime to a 'black box' approach where contracted organisations from the private and voluntary sector determine the shape of employment support.

The number and composition of people on Jobseeker's Allowance (JSA) is likely to change radically as a result of recent benefit reforms.⁸ As a consequence, estimates show that as many as 2.7 million people could be on the Work Programme by 2014 (as compared to an estimated 1.1 million in 2011). A greater proportion of these will be among the most excluded, including around 60 per cent who will have been transferred onto JSA from Incapacity Benefit (IB) and Income Support (all statistics Centre for Economic and Social Inclusion 2010). The Work Programme will therefore support a far larger number of those further from the labour market than previous employment programmes.

The Work Programme will be introduced in 2011 as other funding streams to support people into work are cut dramatically. As the Work Programme begins (with an overall contract value of up to £3 billion a year, resulting in individual contracts for 'prime contractors' of around £10–50 million per year), a round of cuts will have been made to local services. For

6 We intend those 'furthest from the labour market' to include those groups considered as socially excluded, for example those with mental health problems, care leavers, offenders, and people with learning difficulties (Cabinet Office 2007). We also focus on those groups not covered in official descriptions of social exclusion, such as those with substance misuse problems and those with disabilities.

7 An accounting model known as the DEL/AME switch allows a transfer of funds within the Total Managed Expenditure Budget from the savings in benefit expenditures (from the AME, or Annually Managed Expenditures budget) to fund the costs of employment services (the DEL, or Departmental Expenditure Limit).

8 These include the introduction of the Work Capacity Assessment and Employment Support Allowance to replace Incapacity Benefit and Income Support and changes to the requirements for lone parents on Jobseeker's Allowance.

example, much of the discretionary provision which has been provided by local authorities to tackle worklessness will be cut as councils reduce spending outside of core services.⁹

As a consequence, the Work Programme is likely to become an 'exaggerated' market, taking on greater importance relative to the decline in other sources of funding. It is vital therefore that the Work Programme is directed at the most effective interventions and delivered by organisations with the necessary skills and expertise.

Before examining the challenges and opportunities for the Work Programme in providing personalised support for those groups furthest from the labour market, we review progress over the past decade in achieving this goal.

Disadvantaged groups and active labour market programmes

Significant progress has been made over the past decade in creating more active employment programmes which have placed a greater emphasis on tackling barriers to work. In the decade from 1997, long-term unemployment fell by 400,000 and the lone parent employment rate increased by 11 percentage points (Oppenheim and Harker 2007).

The introduction of personalised support from a personal adviser was one of the more successful aspects of active employment programmes in the UK. As well as being the most common type of support received by customers, access to advice on where to look for job vacancies is also considered the most useful by jobseekers (Knight 2010; Hasluck and Green 2007) and interviews with advisers are associated with higher numbers leaving benefits (NAO 2006).

However, this type of support has tended to benefit those closest to the labour market. Although employment rates for most of the disadvantaged groups (except the lowest qualified) have narrowed compared with the rest of the population over the past decade, overall employment rates for key disadvantaged groups remain poor.

Employment rates for people with a mental health condition remain very low at 21 per cent, compared with around 74 per cent for the working age population. Although there have been significant improvements in the employment rates of disabled people in the last decade, the employment rate of disabled people is 47 per cent, compared with around 77 per cent of non-disabled people (ODI 2010).

Employment outcomes for certain disadvantaged groups, such as ethnic minorities, also lag far behind those of other groups. ippr analysis of New Deal for Young People between 1998 and 2008 shows that among ethnic minority people on the programme, 48 per cent of starters gained a job, compared to 57 per cent of White people.

Economic inactivity

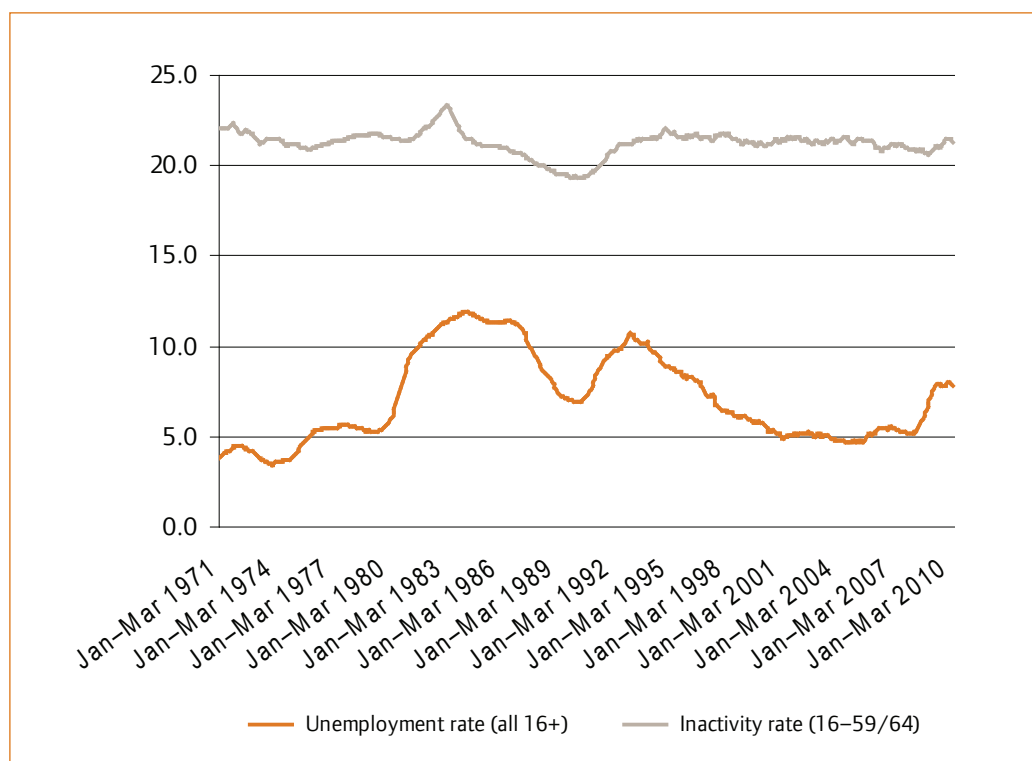
As the number of disadvantaged groups to which an individual belongs increases, the more likely they are to become economically inactive, rather than unemployed. The UK has had consistently high rates of economic inactivity,¹⁰ compared to the rest of Europe. Today's economic inactivity rate stands at 23 per cent of the working-age population, or 9.35 million people. Of those, some 2.63 million people receive IB because of disability or ill health, the ninth-highest rate of incapacity benefits claimants across Organisation for Economic Cooperation and Development (OECD) countries (OECD 2010).

9 These will include a halving of capital expenditure, significant reductions to the Home and Communities budget and severe cuts to the Working Neighbourhoods Fund (Cox and Schmucker 2010 forthcoming).

10 The main groups classed as economically inactive include people looking after the family and home, the long-term sick and disabled, the temporarily sick or injured, retired people and 'discouraged workers' – those who have effectively given up looking for work. For a full explanation of economic inactivity see www.ons.gov.uk/about-statistics/user-guidance/lm-guide/concepts/inactivity/about/index.html

As Figure 2.1 shows, inactivity rates have remained broadly consistent over the past two decades. Rates have never recovered to their pre-recession levels of the early 1990s, despite the active labour market policies of the last decade or more.

Figure 2.1:
Long-term trends
in economic
activity



Source: *Economic and Labour Market Review* August 2010, Office for National Statistics (2010)

Each successive recession has added more people to the ranks of the economically inactive and it is striking that the boom years of the 1990s did not benefit more among this group. Overall levels of inactivity have remained remarkably stable over the past 15 years.

Recent trends in economic inactivity

The nature of 'incapacity' is changing. In OECD countries, mental health problems are the fastest-growing reason for incapacity claims. There has also been a rise in women claiming incapacity benefit and the proportion of young workers on IB is also increasing (Webster et al 2010). National data only reveals a limited picture, however. For example, an in-depth local study of IB claimants in Glasgow city (Webster et al 2009), an area with more IB claimants than any other local authority, highlighted a growing number of problem drug and alcohol claimants. These claimants tended to be younger and male but there was also an increase in females claiming due to alcohol misuse. Although problem drug users make up only an estimated 1 per cent of the working-age population in England, they account for 4.4 per cent of IB claimants (Bauld and Hall 2010).

The Glasgow study concluded that a better local understanding of the profile of the hard-to-help and inactive populations is needed for more accurate interventions. It showed how the scale of people on IB decades earlier became clear as a result of local evidence and intelligence – problems were not picked up at the national level until later. This highlights the crucial relationship between welfare-to-work and the local context which we discuss later.

Webster et al also found that the large reduction seen in IB claimants in the city after 2003 was mainly attributable to local economic growth (see chapter 4). Despite the efforts of welfare-to-work providers, which undoubtedly played an important part in the eventual reduction in numbers of IB claimants, the study identified that it was increased job opportunities that had had the greatest impact in reducing Glasgow's level of claims, from three times the national average to double the average in around six years.

This questions the assumption that the reasons for 'inactivity' are most likely to be due to welfare dependency or 'detachment' from the wider job market and that supply-side interventions are the best or even the only way to tackle inactivity. This assumption is questioned further in chapter 4.

Closing the gap?

It is worth examining why employment support has not been able to close the gap further for disadvantaged workers. Though just one of several employment programmes, the experience of the Pathways to Work programme offers some useful clues.

Pathways to Work (PTW) is a voluntary programme with mandatory elements set up for IB claimants. A recent report by the National Audit Office (NAO 2010) concluded that the mandatory aspects of the programme (Work Focused Interviews and an early medical assessment) were effective in moving people off benefits and into work more quickly. However, the voluntary aspects of support on offer, including the Condition Management Programme and the Return-to-Work Credit, appeared to have no additional employment impact (at an estimated cost of £94 million in 2008–09).

The NAO report raised several important issues. Firstly, it concluded that the need for suitably skilled staff was not sufficiently appreciated by providers. It found that the level of expertise and experience required from frontline staff employed by these organisations varied from 'none' through to 'having recruitment agency experience'. All but one provider organisation was found to suffer from high staff turnover, resulting in a lack of consistency for participants and the loss of experienced staff.

Secondly, there seemed to be unrealistic expectations among providers as to the challenges faced by of the claimants they were supporting. Mandatory clients were described by PTW advisers as difficult to work with because they 'lacked the motivation and willingness to engage beyond the bare minimum needed to receive incapacity-related benefits'. This suggests a failure to fully appreciate the nature of certain barriers and particularly their impact on the adviser–client relationship.

These are problems which could have been identified in the earliest stages of the programme or as part of ongoing contract management. The Department for Work and Pensions (DWP) used external contractors (prime providers) to lead delivery of PTW in 60 per cent of Jobcentre Plus districts. The NAO report found 'cherry picking' among prime providers, who would select those individuals more likely to enter work while subcontracted partner agencies provided the more specialist support for those further from the labour market.

The NAO report argued: 'There was little evidence that prime providers were developing in-house provision to enhance the quality of customer services. Instead, partner agencies were increasingly used to address specialist service needs.'

A lack of integration between the information, advice and guidance provided by primes and the specialist support provided by subcontractors appears to have been one of the main reasons for poor performance on the programme. What innovation there was from prime providers was limited to 'reducing operational costs and achieving performance efficiencies'.

For the Work Programme, which will replace PTW along with other existing New Deal Programmes, this example illustrates some of the key challenges in providing personalised support for those furthest from the labour market.

Disadvantaged groups and the Work Programme

Before examining how the Work Programme can deliver change in this area we assess some of the key challenges the programme faces. One of the key problems in supporting those

furthest away from the labour market has been the difficulty of designing a system where disadvantaged groups are given sufficient support. Whether in order to achieve targets (financial or otherwise) or simply to deliver contracts, those who are easier to help may be favoured by providers while those furthest from the labour market are neglected; these tendencies are known as 'creaming' and 'parking' respectively.

There is little evidence to suggest this will be improved by the outcome-based commissioning that will form the basis of the Work Programme. In fact some evidence suggests creaming and parking is still widespread in countries with this system. For example, four out of five service users are 'parked' in the Australian system. This is partly due to the Star rating incentive structure (a performance rating system), which has the effect of encouraging providers to focus their efforts on activities most likely to result in financial rewards (Wright 2008). In Germany, evidence suggests the easiest-to-place jobseekers are still more likely to be given more support because of a pressure to achieve outcomes (Wright 2008).

On a study visit to New York, ippr found anecdotal evidence of 'negotiated' creaming and parking, where providers sanctioned or at least turned a blind eye to a certain amount of creaming and parking to ensure that overall outcomes could be met and payments received.

A key problem is that supporting those with complex barriers, such as those on health-related benefits, is more expensive than supporting those on JSA. Unit costs are higher for specialist employment programmes, as Table 2.1 shows.

Table 2.1:
Cost per
job entry by
programme

Programme	Cost per gross job entry
Flexible New Deal	£1,529
New Deal for Disabled People	£2,372
Pathways to Work (seven JCP districts)	£2,434
Workstep (Supported Employment programme for people with a disability)	£4,813

Source: DWP

In order to reduce the likelihood of creaming and parking the government is expected to introduce a system of 'differential payments' through the Work Programme to reflect the fact that different individuals require different rates of investment to return to work. This system is used in Australia: jobseekers are allocated to one of four streams based on their proximity to the labour market, with the most highly disadvantaged jobseekers in stream 4. Stream 1 job placement fees range from A\$385–440, while placement and outcome fees for stream 4 jobseekers can reach A\$6,600 (Bowman and Horn 2010).

However, Bowman and Horn show that this weighting towards the most disadvantaged has not resulted in higher levels of support and more personalised service. They argue that a number of factors have prevented a personalised approach, including inadequate funding levels and a commissioning culture that emphasises compliance over innovation.

By some estimates there are between 0.5 and 1 million people with complex barriers to work who will be excluded by the Work Programme because of the expense of tackling barriers.¹¹ Already, many smaller providers have been put off by the low unit prices on offer for the programme, arguing that the real cost of supporting an individual with multiple barriers is closer to £7,000, rather than around £1,500.¹²

¹¹ Q47, Ev 10 (DWP Select Committee 2010)

¹² Rocket Science newsletter, May 2010, available at: www.rocketsciencelab.co.uk/enewsletter/may10/future_of_third_sector.html?utm_medium=email&utm_source=Emailmarketingsoftware&utm_content=1060350824&utm_campaign=RocketScienceeNewsletterMay2010&utm_term=1Thefutureofthirdsectorinvolvementinemployabilityprogrammes

The 100 per cent payment-by-results system expected to be introduced as part of the Work Programme makes individual support even more challenging. Providers will be awarded payments on job placement and then for retention in work at key milestones up to a year or more beyond job entry.

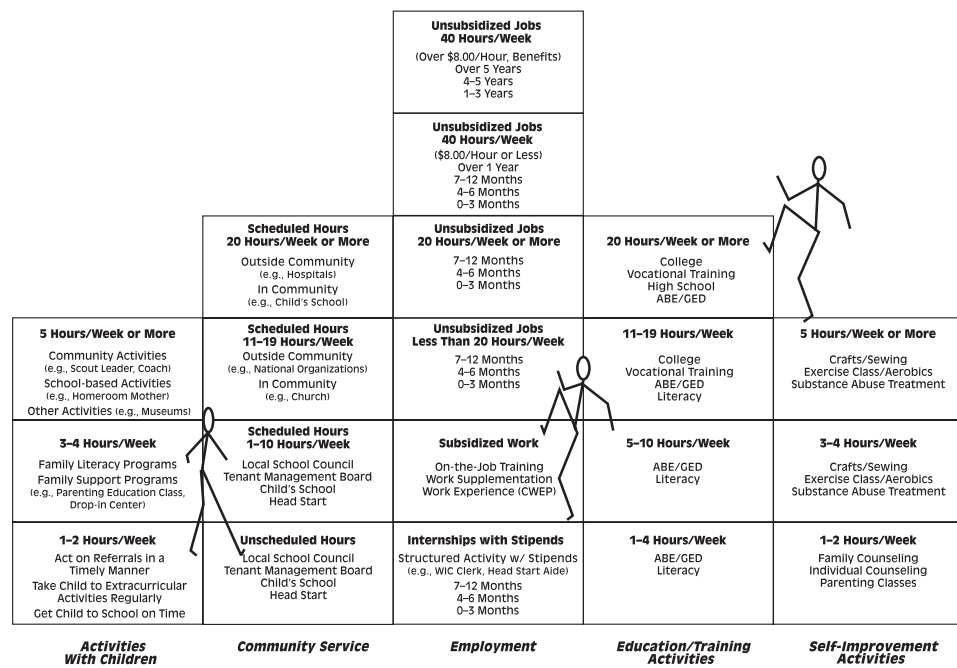
Even though payments for these individuals will be weighted under a differential payment system, providers may find it difficult to prioritise the kind of incremental, human development approaches as described in chapter 1 that may be more appropriate for some individuals with complex barriers. Among the pioneers of this approach is Chicago-based Project Match.

Project Match and the incremental ladder to economic independence

Since 1985, Chicago-based Project Match has designed and implemented employment-focused programmes for some of the most economically disadvantaged populations in the United States. All of its programmes are rooted in theories of human development which draw on a range of disciplines including psychology and sociology to understand how and why people change and grow.

Project Match's developmental-based approach is reflected in the 'incremental ladder to economic independence', a visual metaphor for reconceptualising the process of workforce attachment.

Figure 2.2: The incremental ladder to economic independence



Recognising that standard employment and education activities are not a good first step for some people, particularly if they have failed in those settings before, Project Match draws on activities in which individuals are already involved as parents and community members to promote basic skills and competencies necessary for workforce success.

Project Match tracks and values these incremental achievements, but the ladder concept does not mesh well with traditional workforce performance measures, which focus only on high-level, major achievements such as job placement, retention and advancement. Such measures do not capture the progress of people who are still lower on the ladder. See Wagner and Herr 2010 for further information.

Despite the challenges of cost and the limitations of a payment-by-results system, the Work Programme will extend employment support to a wider group of unemployed workers than has existed previously, with a larger proportion of these furthest from the labour market. As such it represents an important opportunity to improve employment rates among disadvantaged groups and to accelerate progress in this area.

Integration and innovation

Given the limited effectiveness of previous programmes as highlighted above, a key question is how the Work Programme can more effectively support the harder to help into work. We argue that two things will be vital for this: integration and innovation.

Integration

The Work Programme has the potential to achieve the service integration needed for genuine personalisation. In terms of integrating employment and skills for example, longer-term contracts for providers could help achieve greater rationalisation of the market, reducing the number of funding streams and leading to greater service integration.

However, the challenge of supporting those with complex barriers is such that, given the lower unit costs available, providers will need to pool resources and integrate support with other services to support those furthest from the labour market. As the PTW experience (see p30) demonstrated, there is still a risk that specialist support remains separate, without sufficiently strong links to 'in-house' provision by providers. These links need to be strong to ensure the Work Programme delivers the personalised support it is intended to offer.

An awareness of certain 'standard entitlements' for those furthest from the labour market (the equivalent of those in the Australian stream 4) could help strengthen these links. Evidence from the US and Australia suggests that certain elements of support for those with complex barriers in welfare-to-work markets are needed for the provision to be effective (Community Voices Heard 2007, Bowman and Horn 2010). In order to provide effective integrated support, these standard entitlements should apply to individuals across the supply chain:

- An accurate and realistic assessment of barriers to employment
- Access to organisations with a proven track-record of supporting vulnerable groups
- An incremental approach (as outlined above) to tackling barriers or improving skills, where appropriate
- Regular support from advisers with sufficient expertise

To achieve the pooling of resources described above, 'bottom-up' coordination is needed from providers, their partners and local authorities. One way to achieve this could be through giving employment providers access to other budgets, such as education, health, drug and alcohol treatment, childcare and other services. This would help deliver more comprehensive and tailored support and could be coordinated by personal advisers who also, as a result, would be more integrated into the wider partnerships of all local providers and public agencies. Greater co-location (as highlighted in chapter 1) could also improve service integration.

Innovation

A diverse and innovative provider base with strong links into a wide range of community organisations will be vital to delivering support for those with complex barriers. However, evidence suggests that providers can be more focused on survival in the market than developing new methods and innovating services and, as a result, reluctant to take risks unless the outcome is certain (Bredgaard and Larsen 2008).

An example from New York City shows how innovation can go hand-in-hand with a payment-by-results system (though not without challenges). An innovative approach to the prime contractor model in New York has led to a flourishing of third sector employment support. The not-for-profit intermediary model established by Seedco in New York has allowed subcontracted organisations to play to their strengths while benefiting from involvement in the city's Back to Work Programme.

Collaborative models: the EarnFair Alliance

Seedco, a not-for-profit prime provider, thrives by partnering and capacity-building with community-based organisations. It does this through the EarnFair[®] Alliance, a partnership between Seedco, a national non-profit intermediary organisation, and 11 community-based organisations (CBOs) that offer workforce development services to people in disadvantaged neighbourhoods throughout New York City.

Under the Seedco model, community-based organisations are able to participate in New York City's Back to Work Programme, the main welfare-to-work contract. It achieves this through a hybrid funding model: Seedco fronts the capital, and just 50 per cent of the CBOs payment is linked into outcome-based performance targets, which mitigates some of the financial risks for the CBOs.

In order to make this model viable, Seedco also leverages money from additional sources, such as foundations and individual donations.

The Seedco model means that jobseekers benefit from the wide range of wrap-around support CBOs are able to offer, as they provide more personalised support than is generally possible through outcome-based commissioning. However, there are concerns that, in order to achieve this, small organisations have to leverage funding from as many as 15 different sources, placing an unfair burden on the frontline.

ippr's learning exchange found that, overall, CBOs subcontracted through Seedco were very positive about the advantages being part of the contract offered. These included reputation building, learning best practice from other providers, benefiting from joint analysis of data and trends, and a leveraged voice with which to negotiate with commissioners. It also led to wider networks and greater collaboration and innovation.

Stimulating innovation

The Seedco model combines the best of innovative practice with a payment-by-results system. These models are being replicated in the UK and will have an important part to play in the Work Programme. In the New York example however, the most innovative approaches to tackling worklessness came from outside of the welfare-to-work market rather than from within it.

A key lesson from the US is that, despite pockets of innovation, overall diversity in the market is limited (Armstrong et al 2009). New and untested approaches came from organisations outside of the market, such as the Centre for Economic Opportunity (CEO), which was set up by Mayor Bloomberg to improve poverty reduction and other organisations reliant on discretionary funding or philanthropy.

Ongoing innovation is vital to ensuring that new organisations continue to find gaps to fill and that the market does not become stale and risk-averse, tendencies which have been ascribed to the contracting out of employment support (Wright 2008, Bredgaard and Larsen 2008). There is currently a risk that promising initiatives could be locked out of the Work Programme if they are not contracted when the programme begins – in order

to benefit from innovation, there must be sufficient competition in the welfare-to-work market that new and promising initiatives can be absorbed into it.

Likewise, it is crucial that the subcontracting market is fluid enough to absorb new initiatives and that innovation outside of the market can flourish in order to feed this process. However, innovation in tackling worklessness is at risk, given the possible dominance of the Work Programme and a generally shrunken funding climate.

Innovation fund

There is currently no fair and open process for engaging subcontractors in the Work Programme. Approaches are made based on existing recognition of organisations or as a result of providers' own research as part of the commissioning processes. This may lead to the exclusion of organisations whose reputation is not sufficiently developed or who are simply 'under the radar'.

Instead, the welfare-to-work market could act to provide a stimulus to innovation and identify new and upcoming potential subcontractors. This could be achieved by establishing an 'innovation fund' in each Work Programme area.

Innovation fund for the Work Programme

An innovation fund could be set up in each Work Programme area or lot. This would use a small proportion of Work Programme funding in each area to be awarded as grants to promising local organisations. A similar fund has been established in Australia (to a value of A\$41 million) to support the trial of new approaches to meet the needs of highly disadvantaged jobseekers.

Eligible projects may be promising but unable to demonstrate their effectiveness as potential subcontractors, perhaps as a result of a lack of funds for evaluation, or they may offer original but untested approaches.

Eligibility for the grant would not be restricted to any particular sector. Any organisation able to demonstrate a promising and innovative approach to tackling worklessness would be able to apply, from within the private, voluntary or public sectors. Restricting the grant to the voluntary sector or wider social economy could exclude promising schemes which deserve support.

The grant could be awarded to one or several organisations based on the strength of their applications, which would be judged by the prime provider in cooperation with local bodies. Funding could be awarded on a one, two or three-year basis as appropriate.

Grant funding would mean approaches would not be funded on the same payments-by-results basis as the Work Programme generally, creating scope for innovation. However, providers would negotiate with innovation fund projects to agree performance standards.

In a different economic climate, funding for this could have come from outside of the Work Programme, but there are now no realistic alternative sources of funding that would allow for such a fund. Schemes previously used for this purpose, such as Future Builders and Capacity Builders, have either been absorbed into the Big Society bank or discontinued. The Big Society bank, which is intended for exactly the purpose outlined above, will not be on-stream soon enough and will be subject to a wider range of demands than could satisfy this purpose.

Conclusion

As we have seen, success in introducing active employment support has not been matched by progress in supporting the harder to help. This is partly a consequence, we would argue, of worklessness being considered in isolation as an 'employment' or 'workforce' problem. The personalisation agenda has not extended far enough beyond the concept of one-to-one support such that it is able to deal effectively with the challenges faced by the most socially excluded. The ideas outlined here for greater integration and innovation in the Work Programme offer an alternative to previous programmes. They would help create a more citizen-centred welfare system, drawing on the important roles the state, market and civil society can play by working together.

Integral to this is a clear role for localism in the Work Programme. We explore this in the next chapter.

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3. Towards localisation

Clare McNeil

A key flaw in the DWP Commissioning strategy is the absence of a meaningful local dimension to the Work Programme. This is in stark contrast to the general policy direction of the Coalition government to give people and communities more power over how money is spent locally to create the 'Big Society' (Cabinet Office 2010).

The UK is one of the few countries to concentrate responsibility for tackling worklessness within one central hierarchical system: the Jobcentre Plus (JCP) and DWP contracted employment programmes. The new Work Programme will also be commissioned and contracted centrally, although the 'black box' approach means providers will have more influence over practice than previously.

In contrast to the UK, welfare systems elsewhere in the world have recently seen a greater trend towards decentralisation. In the past decade, countries including the United States, Switzerland and the Netherlands have decentralised power considerably to increase local discretion and control and the potential for cost savings (Mosley 2008).

In the UK, government rhetoric on devolution of power to the local level (DWP 2008a, DWP 2009) has never translated into substantive change, despite repeated calls from advocates of localism. Local authorities across the UK do play a role in tackling worklessness through 'discretionary' provision (as well as a range of statutory services) but this generally sits outside of mainstream welfare-to-work services and is not aligned to them.

So why re-examine this debate now? There are several compelling reasons:

- **Better awareness of local labour market conditions**

As well as being a good idea in principle, there is a strong body of evidence to support the case for a greater role for localism in welfare-to-work in practice. As we argue in chapter 1, trusted local organisations have the local knowledge and intelligence needed for targeted, personalised support.

Particular geographical concentrations of worklessness and deprivation can be more effectively addressed by devolving the delivery of employment outcomes to sub-national and local levels (Atkinson 2010). Innovative neighbourhood-level interventions play a crucial role in strengthening 'community outlook', which is vital for the success of strategies to improve employment rates (Cox and Schmucker 2010 forthcoming).

- **Seizing the opportunity presented by current Coalition government welfare reforms**

The Coalition government is hoping to introduce ambitious reforms to simplify the benefits system and 'make work pay'. If the plans go ahead, they present an opportunity for root-and-branch reform of the benefits system, offering a chance to think seriously about localisation. Indeed, DWP's consultation paper 21st Century Welfare states that its ideas would be 'consistent with possible steps to make aspects of the welfare system more localised' (DWP 2010).

The creation of a new welfare-to-work market through the Work Programme also presents a new set of reasons for considering the case for greater localism. As responsibility for larger volumes of unemployed workers will be concentrated in the hands of a smaller number of national 'prime providers', there is also a stronger need for clear, local accountability. Decentralisation as explored below also supports a wider Coalition government agenda to hand power to the people through the localism and Big Society policy agendas (see Department for Communities and Local Government [CLG] 2010 and Cabinet Office 2010).

- Greater local budgetary control for better local outcomes**
Evidence from both the UK and overseas suggests that there is a strong case for local authorities having greater totality of local budgetary control and a stronger financial incentive to improve the delivery of welfare-to-work locally (see Atkinson 2010, Kent County Council 2010 and Luton and Bedfordshire 2010). Research has shown that increases in efficiency and integrated working at a local level are linked to the extent of decentralisation or flexibility within a system (OECD 2007).
- Recent international experiences of decentralisation**
There is now a strong body of evidence sourced from other countries that have gone further towards decentralised welfare-to-work services on which the UK can build and shape policy. There is considerable evidence of the positive effects of decentralising welfare-to-work, particularly from the Netherlands.
- Localism and equality**
There are also strong progressive reasons for greater localisation in the welfare system. 'Postcode lotteries', where services and outcomes differ widely from one local area to another, are a much-feared consequence of greater devolution in public services, but this is to underestimate the regional inequalities that already exist in terms of access to public services and the inefficiencies of systems that fail to take account of local variations (Bennett and Cooke 2007). ippr has argued elsewhere that greater localisation is likely to lead to a reduction in inequality and should play an important part in bringing about greater social justice in public services (Pearce and Paxton 2007).

For these reasons, it is time to think more radically about the structure of the UK's welfare-to-work system, with a view to a more localised, citizen-centred design.

Devolving welfare-to-work in the UK: Three scenarios

We outline here three different scenarios for a devolved welfare-to-work system. The first is a scenario for incremental reform, setting out a 'market stewardship' role for sub-national partnerships (see below for an explanation of this term). The second scenario sets out a more formalised 'co-commissioning' role between DWP and sub-national organisations. The third scenario sets out a more far-reaching and ambitious scenario for localising power in welfare-to-work.

Local governance

Strategies to raise employment and skills rates are best delivered at the local level, in the areas in which people live, work, travel and shop – often defined by their 'travel to work' patterns. These areas are generally larger than individual local authorities and so strategies to tackle worklessness are best achieved by different local authorities working together. The soon to be established Local Enterprise Partnerships (LEPs) will operate at this sub-national level and so could play a useful strategic role in decentralising welfare-to-work.

The introduction of LEPs also opens up the possibility of greater decentralisation across economic development and skills and workforce development, as previously proposed by ippr (Lawton 2009). For these reasons, we envisage localisation drawing on LEPs – however, the 'sub-national partnerships' we refer to throughout this chapter could incorporate any other effective body operating at the sub-national level, such as City Strategy Partnerships.

Local leadership resides in a wide range of community organisations and is vital for bringing about change at a number of levels from the local neighbourhood upwards (Cox and Schmuecker 2010 forthcoming). Therefore the membership of sub-national partnerships should be diverse, including (for example) employers, representatives from community groups and service users. This would increase influence from the ground up and distribute power in a way which responds to the local environment.

Scenario One: Market Stewardship

- Sub-national partnerships would carry out a 'market stewardship' role within the Work Programme.
- The market stewardship role would include the promotion of local innovation, diversity of provision and accountability.
- Responsibilities could come into effect from Spring 2011, unfolding alongside roll-out of the Work Programme and establishment of the new LEPs.

This scenario could be seen as the basic standard for a stronger local and sub-national presence in welfare-to-work. A market stewardship role would see sub-national partnerships carrying out the following activities:

- **Influencing strategy in line with local priorities:** Identifying the extent to which welfare-to-work provision is tackling issues identified as local priorities, including further integration with economic development and skills strategies.
- **Encouraging innovation:** Working with prime providers to encourage diversity in the provider base, for example through the innovation fund proposed in chapter 2.¹³
- **Ensuring accountability:** Participate in the implementation of the DWP Code of Conduct and the Merlin agreement¹⁴ to provide an extra check and balance in the system.

The majority of local authority areas have significant experience in running worklessness and regeneration services, so would have the necessary expertise. Any existing strategic oversight of worklessness could be reoriented to include the above activities.

The stewardship scenario could see such arrangements being put in place starting from January 2011 after Work Programme contracts are awarded. A great advantage of this approach would be that it would be possible to implement almost immediately alongside the current schedule for the roll-out of the Work Programme.

The disadvantage of this approach, however, is the limited executive power it affords sub-national partnerships. A warning along these lines comes from the experience of City Strategy Pathfinders,¹⁵ which suffered from central-local tensions (Green et al 2010). This was partly due to the fact that they were limited to a coordinating rather than commissioning role. The market stewardship scenario affords partnerships little more power or influence than was available to City Strategy Pathfinders. Further scenarios are considered in this light.

13 In the case of a local authority being subcontracted by a prime provider, arrangements would have to be made to avoid any conflicts of interest.

14 See: www.dwp.gov.uk/docs/merlin-standard.pdf

15 See: www.dwp.gov.uk/policy/welfare-reform/city-strategy/

Scenario Two: Co-commissioning

- A 'co-commissioning' model, partnering sub-national organisations with DWP, formalises the market stewardship role in scenario one and allow for greater local 'hands-on' commissioning within the Work Programme.
- A staged approach would allow co-commissioning to be carried out only by those sub-national partnerships that could demonstrate the necessary strength and expertise.
- A transitional period would see selected sub-national partnerships assuming a co-commissioning role leading up to the mid-point of Work Programme contracts in 2013.

The co-commissioning scenario would allow sub-national partnerships, as equal partners with DWP in the Work Programme, to play a greater role in local economic place-shaping. Welfare-to-work provision would be commissioned within the context of the overall needs and priorities of a sub-national area, working to an agenda set by LEPs.

This would go beyond previous attempts at co-commissioning between DWP and local partnerships. For example, the proposal for joint commissioning put forward as part of the strategy for 'triple devolution' under the previous government was restricted to European Social Fund programmes and JCP Support Contracts, rather than the New Deal or Flexible New Deal schemes (DWP 2008a) that are to be replaced by the Work Programme.

Assigning central and local powers

Under this scenario, sub-national partnerships would have a joint role with DWP in commissioning and managing contracts as part of the Work Programme. The division of responsibility for this could be guided by the principles set out by CLG in its structural reform plan (CLG 2010):

- Trust people to take control of the decisions that affect them by devolving power closer to neighbourhoods and increasing citizen participation
- Reinvigorate local accountability, democracy and participation by freeing local government from central and regional control, decentralising power, and providing greater freedoms and flexibilities to local government
- Identify exceptional areas where central government needs to retain an oversight role.

In addition to the market stewardship activities described in the previous scenario, co-commissioning could see sub-national partnerships jointly assume the following responsibilities with DWP:¹⁶

- Working with providers jointly to identify opportunities for efficiency gains or better outcomes for jobseekers
- Some aspects of performance management
- Knowledge capture and dissemination
- Ensuring a dynamic local market
- Contract re-negotiation

A particular focus could be providing independent oversight of the relationship between prime providers and subcontractors. As the market develops, for example, it may be necessary to 'reset' prime contractors' fees (Johnson 2010). It has been suggested that

16 Source: DWP Commissioning Strategy (DWP 2008b)

this role could be played by an independent regulator, however it is one which could more easily and less expensively be played by sub-national partnerships as co-commissioners.

Given the possibility that Ofsted will no longer play a regulatory role in welfare-to-work provision, this oversight function could provide another check and balance in the system and provide oversight of contracts closer to the point of delivery.

'Hands-on' contracting

One of the key concerns about the effectiveness of the Work Programme is the distance between DWP as commissioner and the providers delivering on the ground. A DWP report on lessons to be learnt from the New York City commissioning model highlighted the very close, collaborative working relationship of Human Resource Administration (HRA) commissioners and providers (Armstrong et al 2009).

The report showed how 'hands-on', on-site contract management acts as an 'early warning' system, something which is inherently lacking in performance-based contracting. Close relationships meant that delivery problems were identified and escalated before they affected performance and were resolved by commissioner and provider working in partnership.

Our own observations of the commissioning process in New York City also confirmed the importance of hands-on contract management. This appeared to play an important part in the ongoing design and delivery of the two key employment programmes, allowing providers to adapt to and overcome obstacles on a continuous basis, and was not perceived by providers as much-feared 'micro-management'.

The DWP report concluded that, as on-site contract management will not be a feature of the UK welfare market, 'attention will need to be paid to implementing a system which highlights problems before providers fail to achieve a performance requirement (Armstrong et al 2009). Greater local involvement through co-commissioning as outlined above could achieve this: it would allow for continual monitoring and management, and help to head off problems before they affect frontline delivery.

Rather than showing reluctance towards 'hands-on' contract management in the Work Programme, there is reason to believe providers might welcome it. For example, there have been calls for more opportunities for dialogue between contract managers (in this case DWP) and primes and sub-contractors before a third party is called in for independent arbitration, as is proposed as part of the Merlin process:¹⁷

I am pleased there is going to be some independent arbitration [between primes and sub-contractors] but it looks like you have to go directly to that. At some point there is a middle point where the DWP contract managers should come in and help to resolve things.¹⁸

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Providers' calls for government to trust them and leave them the freedom to innovate can often be misinterpreted as a request for minimal interaction. For example, in both Australia and the Netherlands – where governments have been contracting out employment support for over a decade – evidence shows providers 'crave for more partnership and dialogue', which they see as characteristic of a real market (Bredgaard and Larsen 2008).

A staged approach

There should be some flexibility around co-commissioning. Sub-national partnerships will vary in their ability to take responsibility for some of the activities described above. They

¹⁷ See: www.dwp.gov.uk/docs/merlin-standard.pdf for more details

¹⁸ Q58, Ev 15, DWP Select Committee 2010

should be selected initially on the basis of their ability to demonstrate the necessary will, skills and expertise to take on a co-commissioning role. An ability to bring in additional funding could also be part of the selection criteria.

Resources and costs

Although many local authorities already have expertise in tackling worklessness, capacity building would be needed for sub-national partnerships to take on a co-commissioning role. In other countries that have decentralised responsibility in this way, capacity building from central government has helped achieve the changes needed (Mosely 2008).

However, co-commissioning need not be resource-heavy: in the New York City model highlighted earlier, there is one dedicated contract manager for eight prime providers (DWP 2009). There may be a trade-off between local contract management and the economies of scale provided by national commissioning.

In the final equation, sub-national partnerships would take on only a limited number of responsibilities and their hands-on contract management role could also save resources by providing the 'early warning mechanism' described above. Any additional resources at a sub-national level would mean a corresponding reduction in central government spending over the long term.

Timetable

A co-commissioning approach could not be implemented in time for the current round of commissioning for the Work Programme. However, contract management will be ongoing and as such co-commissioning would have a vital role to play, even after contracts have been awarded. One option would be to introduce a transitional period from Autumn 2011, once the programme is fully up and running, with the expectation that co-commissioning would be fully established by 2013, the mid-point in Work Programme contracts. This would also allow time for the necessary up-skilling of personnel in sub-national partnerships.

The co-commissioning scenario has a number of advantages. It would give sub-national partnerships a more directly accountable role in tackling worklessness. It would allow for a local approach to contract management, which would ensure that provision reflects local priorities and draws on local intelligence and knowledge, about both the workless population and the local labour market. It establishes a role for localism in the Work Programme, while the overall relationship between DWP and prime providers at the national level could be preserved.

However this last strength is also the major weakness of this scenario: overall control for welfare-to-work would still lie with central government. Most significantly, it would not introduce a stronger financial incentive for local collaboration and performance. For this reason, a third scenario of full localisation should be considered.

Scenario Three: Localisation

- Localisation allows for greater flexibility in budgetary control of welfare-to-work provision.
- Responsibility for commissioning welfare-to-work provision is devolved to sub-national partnerships for greater alignment with local priorities, improved service integration and local innovation.
- Sub-national partnerships are placed on a formal, statutory footing in order to assume the responsibility of administering budgets.

Under this scenario, welfare-to-work would be localised through a transfer of decision-making power to the sub-national and local levels. Localisation would make it possible to adapt employment support to local needs and circumstances, making policy more flexible and more effective. It could stimulate the development of local forms of partnership to tackle social problems, as well as involving a wider range of actors in the process of policy making and delivery.

Developing the infrastructure necessary to support decentralisation as outlined below is a long-term task. Although, as already suggested, many sub-national areas have significant expertise and experience in tackling worklessness, with some of the necessary infrastructure in place, other areas are starting from a lower base. In addition, heavy public spending cuts are likely to weaken existing infrastructures in many areas.

As a country with highly centralised political and administrative structures and no real 'devolutionary tradition', the UK currently has relatively limited capacity for instituting devolved governance at local levels (Atkinson 2010). Many of the challenges outlined below are therefore inherent in any attempt at decentralisation in the UK and are not limited to welfare-to-work provision. There is a circular logic here: for decentralisation to take place, the necessary structures of devolved governance are needed – but unless and until it takes place, those structures are unlikely to appear. It is in this spirit that we set out this third and most far-reaching scenario.

Options for decentralisation

As stated at the outset, there is convincing evidence of the need for local authorities to have greater totality of local budgetary control and a stronger financial incentive to improve the delivery of welfare-to-work locally. International experience shows that flexibility of budgetary control is essential for successful decentralisation of welfare-to-work programmes (Mosley 2008). There are a number of different options for achieving this; we examine three here.

- 'Assigning' the budget for welfare-to-work to sub-national partnerships – employment services are commissioned by sub-national partnerships within a national policy framework, with a provision that a proportion of savings made locally are retained locally.
- Devolving the budget for welfare-to-work through a block grant – employment services are commissioned by sub-national partnerships within a national policy framework.
- Combined block grant for employment support and income replacement benefits – sub-national partnerships are given responsibility for commissioning employment support and delivery within a national policy framework.

Assigned budgets

Assigned budgets are a mechanism more commonly used for decentralisation in the tax system, where the proceeds of taxes raised (or in this case benefit savings), or a proportion of them, is attributed to the area where they were raised (Scott and Jeffrey 2007). Similar to 'invest to save' financing mechanisms, this creates a link between local performance and investment. One drawback to this approach is that the link between performance and local investment is not as clear as it would be if the budget was fully devolved. Equally, determining which savings resulted specifically from local action could prove challenging in practice.

Block grants

Block grants provide for fully devolved funding: local expenditure is clearly linked to local revenue generation. The key advantages of decentralisation through block funding have been found to be increased discretion, use of local intelligence, innovation, and increased political accountability (Mosely 2008). Devolving funds in this way can also reduce the risk of financial mismanagement, as local areas bear greater responsibility for the costs of funding programmes (Fisman and Gatti 2002).

International context

Netherlands

The Netherlands' 2004 Act on Work and Assistance was introduced to fully decentralise social assistance and employment assistance. Through 'Work and Income Fund' block grants, local areas (or municipalities as they are known) receive a budget in two halves: one half is for social assistance expenditure and the other for activation programmes. If municipalities go over the budget set for social assistance they have to fund the difference from their own budget. Conversely, when they spend less than the budget allocated to them for social assistance they can spend the funds as they wish. This provides a strong local incentive to tackle worklessness more effectively. Municipalities and their social services departments act as purchasers of employment services in the Dutch welfare-to-work market and the block grants come with conditions attached as to the proportion of funding which can be spent on different types of providers.

United States

As part of the landmark US welfare reforms of 1996, the Personal Responsibility and Work Opportunity Reconciliation Act was passed, which introduced the Temporary Assistance for Needy Families (TANF) funding stream. This changed the system from one based on federal matching grants to one based on block grants, providing a fixed amount to each state based on the maximum amount the federal government paid in between 1992 and 1995.

The Workforce Investment Act (WIA) in 1998 introduced another funding stream for three client-specific streams: adults, dislocated workers and youth. TANF and WIA funds were delivered to states as block grants, offering states an unprecedented level of discretion, but also with conditions attached requiring increased job placement, reduced welfare caseloads and time-limited assistance.

Most importantly, particular concentrations of worklessness and deprivation could be more effectively addressed by devolving the delivery of employment outcomes to sub-national and local levels.

Evidence from the Netherlands suggests block funding has led to more autonomy for local areas, allowing them to experiment with innovative local approaches to achieving policy objectives and to learn what works best in the local context (van Berkel 2006). It is

challenging to disentangle the impact of decentralisation from other changes in the Dutch welfare-to-work system, such as the growth of the 'reintegration market', as the welfare-to-work market there is known. However, while challenges remain – for example, in supporting those furthest from the labour market and achieving sustainable employment outcomes – decentralisation has been found to increase local ownership and political accountability for the system, as well as allowing the adaptation of provision to suit the needs of diverse local populations and circumstances (Finn 2008).

In the United States, reforms saw states using TANF funding in much wider ways than was previously known. The increased flexibility provided by block grants encouraged innovation in developing more creative and efficient ways of providing back-to-work programmes, often through greater integration with other social services. The reforms also led to innovations in outsourcing programmes to for-profit and not-for-profit service providers (New York City and the state of Wisconsin were notable examples), although the extent of outsourcing was limited at just 13 per cent of federal TANF expenditure (Armstrong et al 2009).

In both countries, the introduction of block grants presented a radical shake-down of the existing system, improving service delivery and integration and offering stronger financial incentives to local areas to tackle worklessness.

Combined block grants

Funding for employment assistance can be devolved alone or in combination with funding for social assistance (benefits). Funding is combined in both the US and Netherlands, though in other countries where decentralisation has taken place, such as Spain, these budgets have remained separate (Mosley 2008).

In the Netherlands, block grants for employment assistance are combined with social assistance, specifically to fund a means-tested form of income support for those who have never contributed to national insurance or who have exhausted their insurance entitlement. This system is administered by local authorities. In the US, TANF block grants also combine funds for social assistance with welfare-to-work funding and employment support, and cash assistance is administered and delivered at state level.

Localising out-of-work benefits in this way could more closely combine employment support with an active benefits system in a way that supports welfare-to-work policy. Welfare-to-work programmes are just one aspect of a wider welfare system aimed at helping people into work and to stay in work. Reforms over the past decade have been aimed at moving from a passive benefits system, which provided a safety net for people, towards an active system that works in support of employment policy (Sainsbury and Stanley 2007).

This shift need not change the terms and conditions of the social contract: eligibility criteria for out-of-work benefits would be fixed and minimum benefit levels would be set nationally. It need not affect the contributory principle. The rationale would be administrative rather than political in nature. The key advantages would be in strengthening the links between income replacement benefits and employment support and in promoting the local performance incentive to tackle worklessness. Only income replacement benefits such as JSA and Employment Support Allowance (ESA) would be devolved in this way, with other benefits clearly outside of the scope.

Geographical concentrations of worklessness and deprivation could be more effectively addressed in this way. It could offer more local discretion – say, to incorporate periods of permitted work with benefit payments. A more localised approach to the delivery of benefits would offer the possibility of integrating other services, such as social care, housing or early years services, around the needs of the individual.

A key challenge would be to reconcile local delivery and administration with the increasingly centralised structures used by JCP for benefit delivery and administration. Interestingly, Germany already provides a 'consolidated benefit' along these lines: social assistance is devolved to the level where it is funded and effectively delivered by the federal government and administered jointly by the national employment system and municipal authorities (Mosley 2008).

Options for localisation should be explored as part of reforms to simplify the benefits system through the introduction of the Universal Credit (DWP 2010).

International experience shows how localising responsibility also localises risk. The US implementation of block grants in particular provides important lessons on pitfalls to be avoided.

Avoiding the pitfalls

We have to exercise caution in reading across from the United States to the UK because of the fundamental differences in the two countries' approaches to providing welfare assistance. For example, the US has no single minimum income scheme for which citizens are eligible; instead, a variety of overlapping programs provide assistance (Anderson et al 2010 forthcoming). However, there are important lessons to be learned from the US reforms.

Firstly, in the US, the devolution of welfare-to-work severely reduced the amount of information available to central government on how programmes were functioning in practice, especially with respect to eligibility requirements actually in force in local operations. The fiscal incentive created by block grant funding led states to reduce benefits (thereby curtailing access). Given overall spending requirements, this increased the proportion of funding going to services.

Forthcoming analysis shows how, between 1997 and 2008, the share of TANF block grant funding going on benefits fell from 73 per cent to 31 per cent; meanwhile, the share going on services increased from 23 per cent to 64 per cent (Anderson et al 2010). As a result, TANF became less effective at reducing deep poverty, where family income drops below 50 per cent of the poverty level (Sherman 2009).

Secondly, the economic downturn provided an example of how ill-adaptive block grant funding can be in times of particularly high or low unemployment. In responding to the downturn, states could respond to the increased need for social assistance either by spending less on services or by drawing on their own funds. Rather than rolling back spending on services (which would have been an unpopular move) states instead promoted federal assistance, such as food stamps, to plug the gap (Pavetti and Rosenbaum 2010). This had the unintended consequence of obliging the federal government to play the very role – that of safety net – that it had effectively devolved to the states (Anderson et al 2010).

To avoid replicating the US experience, policy design would need to ensure that:

- The strong incentive provided by block grant funding to increase savings locally does not lead to falls in the level of benefit payments
- Block grant funding is designed to adapt to periods of high or low macro-economic performance
- There is transparency in administration and no undue loss of insight into frontline performance.

Localising welfare-to-work: what would it look like?

We argued earlier that the welfare-to-work system should be guided by the principle of subsidiarity, where a central authority or government department has a subsidiary function, performing only those tasks which cannot be performed effectively at a more immediate or local level. CLG has the same aim in 'trusting people to take control of the decisions that affect them by devolving power closer to neighbourhoods' (CLG 2010). Full localisation of welfare-to-work would put this principle into practice.

Rather than one centralised system, localising welfare-to-work would see a greater range of parallel and integrated activity focused on tackling worklessness at national, sub-national and local levels. A greater local influence on provision would help establish employment support that is more community-based, integrated with public services and able to profit from local knowledge, thereby increasing 'bottom up' as well as 'top down' influence on the system.

Governance

Responsibility for commissioning welfare-to-work provision would be devolved to sub-national partnerships in order to achieve greater alignment with local priorities, improved service integration and local innovation. Not only could this lead to a radical reshaping of the way support is delivered, it would also allow for the provision of support that much more effectively meets local needs.

LEPs could help develop an effective strategic coordinating role across related policy areas within the devolved governance structure, including economic development, regeneration and social exclusion. Structural change may be needed for sub-national partnerships to assume the responsibility of administering block grants, such as placing these partnerships on a formal, statutory footing.

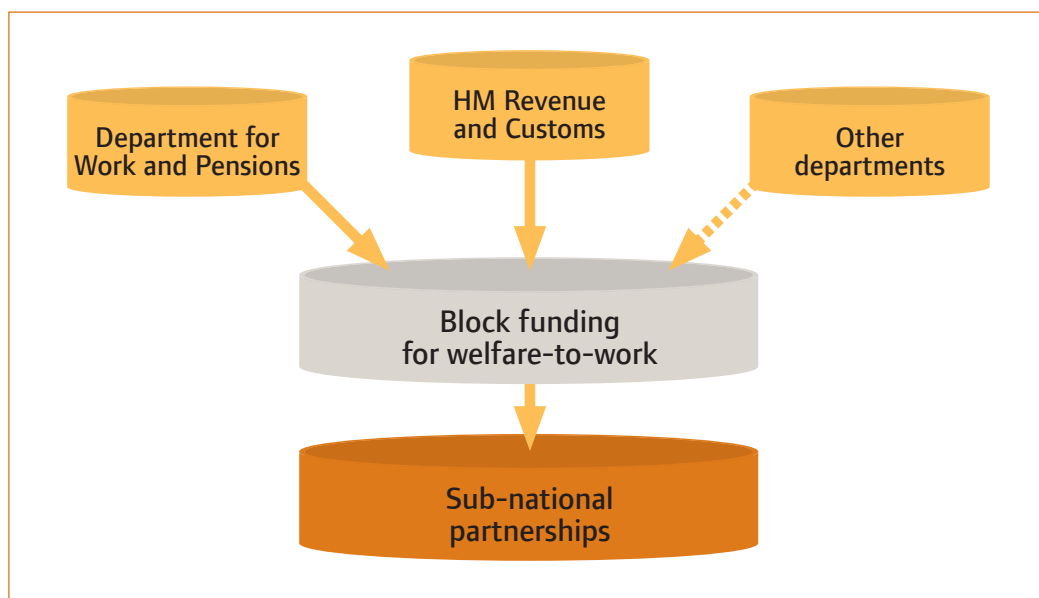
Efforts would need to be made to avoid potential conflicts of interest (see footnote 13) where partnerships include representation from agencies and organisations that also have the potential to engage in a delivery role, including local authorities themselves.

Commissioning, funding and delivery

Responsibility for commissioning would be devolved through block grant funding, as described in the second of the three options outlined above. The discretion provided by block grants allows more scope to reflect local labour market conditions and, as such, we suggest this vehicle would be preferable to an assigned budget for decentralised commissioning. The size of the block grant funding allocated in each area should be based on expenditure need, using a range of demographic and social indicators.

Commissioning and contract management would need to take account of the simplified features of the current system. To a large degree, the rationale behind the Work Programme (and the Flexible New Deal before it) was the administrative simplicity of having a relatively small number of prime providers for DWP to contract with. For this reason administrative variations would need to be kept to a minimum, particularly for providers that may deliver in more than one area and for employers that may receive employees from more than one area. Safeguards would need to include minimum quality standards and standardised performance management systems.

Fig 3.1:
Decentralised
block funding



Resourcing, costs and timeframe

To a greater extent than is described in scenario two (co-commissioning), significant capacity building would be needed for sub-national partnerships to decentralise welfare-to-work, with central government playing a leading role in facilitating this. International experiences of decentralisation show the need to offer a considerable level of ongoing support and guidance to local partners as part of progressing decentralisation (Atkinson 2010).

Initially at least, a transfer of resources from the centre to sub-national partnerships would be required, in addition to the block grants. As in the multi-staged approach described in scenario 2, only local partnerships which can demonstrate the necessary will, skills and basic infrastructure would be eligible. Previous research has concluded that decentralisation is likely to deliver savings, although the available evidence for this is largely anecdotal, centring around 'reducing duplication of specifically local activity' and the 'greater efficiencies' that would result (Atkinson 2010). A key challenge therefore is to develop a robust assessment, based on international approaches, of the true costs of decentralisation.

Wider devolution

Decentralisation as outlined above would transfer greater powers to UK sub-national partnerships than are currently available to devolved nations. DWP and JCP have overall responsibility for the delivery of employment policy and outcomes throughout the UK. However, variations mean there is no consistent approach in Wales and Scotland. For example, although employment policy itself is not devolved in Wales, many policies that work towards achieving full employment are, such as skills, health, childcare, local government, transport and regeneration. In Scotland however, training and employability and economic development are devolved, giving the Scottish government significant influence over the shaping of employment policy and its delivery (Atkinson 2010).

There is sense then in rationalising these differences and giving both Scotland and Wales full control of funding for and delivery of welfare-to-work services. This would still take place within an overall UK policy framework setting overall objectives and outcomes.

Wider welfare reform

Here we have considered block grants for welfare to work funding alone. However, while recognising the need to learn the lessons of other countries, there is a strong case for combining welfare to work funding with income-replacement benefits (the third option

examined above). Within a framework of national minimums this would transfer control to those who have the best understanding of local labour market conditions – local partnerships and welfare to work providers.

Combined block grants could create a direct link created between unemployment rates and sub-national or local revenue for tackling worklessness, offering a powerful local performance incentive.

Conclusion

We have examined three different scenarios for the localisation of welfare-to-work. The first scenario outlined a 'market stewardship' role for sub-national partnerships, focusing on encouraging local innovation, integration, and alignment with local priorities, and so creating a stronger local role in the Work Programme. However, but it would be a mistake to limit localisation to this option. The experience of City Strategy Pathfinders, for example, suggests that a lack of clear purpose and authority can lead to national–local tensions.

The second scenario set out how **co-commissioning** of the Work Programme could work between DWP and sub-national partnerships. This would enhance the current commissioning strategy by allowing for much needed hands-on contract management and a recognition of local priorities in the Work Programme. For these reasons, joint commissioning should be introduced as a first step towards a clearer role for localism in welfare-to-work. This could be introduced on a staged approach to be fully established by 2013.

However, taking into account the range of national and international evidence available, we believe there is a compelling case to consider full decentralisation of welfare-to-work schemes. The third scenario – **localisation** – outlined a series of far-reaching and radical changes to the welfare system, making it possible to adapt employment support to local needs and circumstances and resulting in policy that is more flexible and more effective.

Localisation could stimulate the development of local forms of partnership to tackle social problems, as well as involving a wider range of actors in the process of policymaking and delivery. There is considerable evidence of the positive effects of decentralising welfare-to-work, particularly from the Netherlands.

The outstanding question concerns the degree and types of decentralisation that are desirable within the universal framework of national policy. Devolving welfare-to-work funding as an assigned budget allows some scope for savings made locally to be retained locally. However the link between performance and local investment is not as clear as it would be if the budget was fully devolved, and attributing particular savings to local action could prove challenging.

Alternatively, through block grants welfare-to-work funding would be fully devolved and local spending on tackling worklessness linked to how effectively it is tackled. As a result, greater local discretion could allow for the persistent problem of particular geographical concentrations of worklessness and deprivation to be tackled more effectively at sub-national and local levels. For this agenda to move forward, there is a clear need for a robust assessment, based on international approaches, of the true costs of decentralisation.

In our view there is also a case for considering the inclusion of out-of-work benefits in block grants, which could aid in the development of an active benefits system that works to support employment policy. Although this requires far-reaching changes, now is the time – given that the Coalition is considering ambitious plans for simplification – for any root-and-branch reform of the benefits system and specifically for localisation to be considered.

The reforms to decentralise welfare-to-work outlined in this chapter are challenging, and there is no doubt that the UK is a long way from having a local government infrastructure that could cope in some areas. However, this is a larger problem that the Coalition must

confront if it is serious about its 'devolution drive': unless and until power is devolved in this way, the innovation and responsiveness, partnerships and structures that need to flourish and thrive locally will never evolve.

Localisation should be considered now, ahead of next year's Welfare Reform Bill. Any attempt to create a welfare system fit for the 21st century which does not reconsider the historical location of power at the centre misses a unique opportunity to build a vastly more flexible and personal system.

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4. In demand? Welfare-to-work and the missing jobs

Tess Lanning

There's something amiss in the welfare debate. Recognition of the economic turmoil, redundancies and recruitment freezes of the past two years is conspicuously absent from the government's ambitious prescription to reduce unemployment. If the Work Programme is successful, more people will be looking for work more effectively. However, the premise which underlies this system – that there are enough jobs for all – is unchanged, despite the fact that the number of vacancies has fallen in comparison to previous years and unemployment has soared (Office for National Statistics [ONS] 2010).

This chapter delves deeper into the primary research presented in chapter 1 to examine the impact of the quantity and quality of jobs in different parts of the UK on jobseekers and government priorities. We challenge the notion that efforts to make the unemployed more employable will ever be enough to help people find and sustain work when there is high unemployment, which in some areas is deeply entrenched.

We explore the limitations of welfare-to-work, and argue for approaches that better link jobseekers to sustainable job opportunities on the ground. We make the case for a more demand-led employment and skills system that stimulates growth in the private sector, with investment co-financed between the private sector and government. We argue that measures to encourage future growth in well-paid and sustainable jobs are vital to creating a fairer, more balanced labour market as the economy recovers.

More competition = more jobs?

Welfare-to-work policy was conceived at a time of strong economic growth and low unemployment. It assumes that the main reasons for 'worklessness' are a lack of motivation, skills and employability. This also sits within a broader understanding of economic development that argues growth is driven by the quality of the workforce: that a more skilled, more employable workforce encourages entrepreneurialism and innovation. In this analysis, businesses are held back by their employees' lack of skills, and a more competitive workforce will result in more jobs (see, for example, Department for Business, Innovation and Skills [BIS] 2010b).

Critics argue that reducing unemployment depends on employer demand for labour and skills (such as Keep et al 2010). Even in the boom years, the success of active job search varied from place to place depending on the health of the job market. A criticism of the Labour government's New Deal employment programmes from their inception was that national growth masked considerable sub-regional differences in the quantity and quality of job opportunities, and that many deprived areas emerged as a result of structural changes to the jobs market (see Turok and Edge 1999).

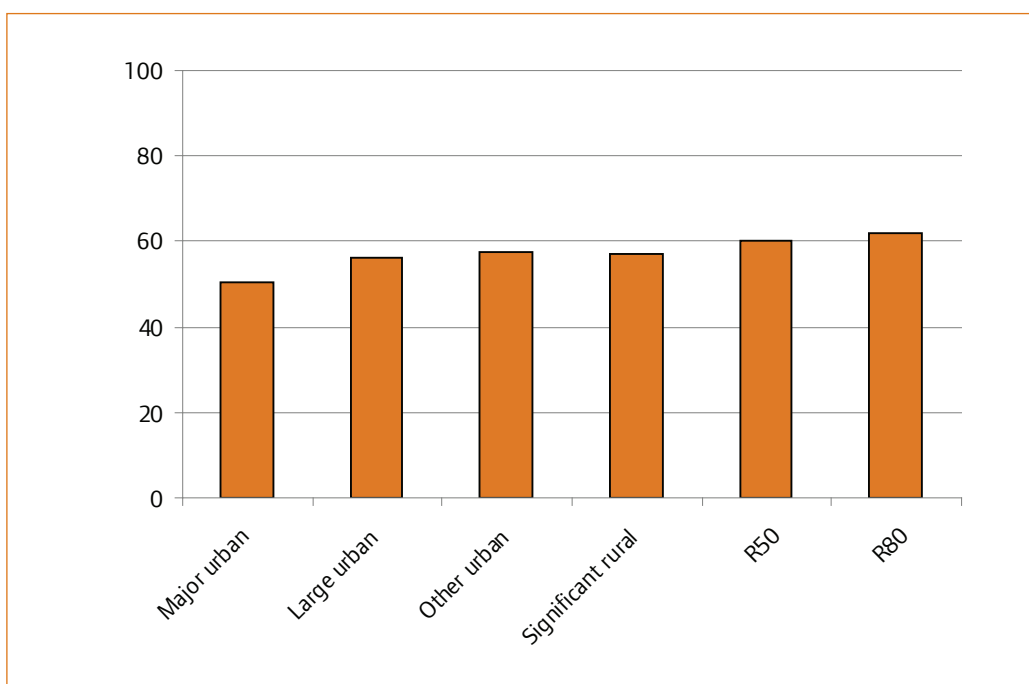
Inactive workers or a shortage of jobs: evidence from the New Deal

The New Deal programmes focused on lone parents, young people, the long-term unemployed and people on Incapacity Benefit (IB), on the basis that these groups were most likely to be inactive due to welfare dependency or 'detachment' from the wider job market. Early critics noted that these assumptions did not fit with national trends.

Turok and Webster (1998) argued that if dependency and detachment were the main causes of disadvantage, unemployment trends among these groups would bear no relationship with broader employment trends. Instead, for all groups, rates of long-term unemployment rise and fall in line with rates of unemployment in different areas, suggesting that the underlying problem is a shortage of jobs.

The fact that there was substantial geographic variation in the performance of the New Deal programmes in the years before the economic downturn gave credence to the theory that disadvantaged groups are affected by the wider jobs market and not detached from it. Job entry rates on the New Deal for Young People (NDYP) between 1998 and 2008 show, for example, that deprived inner-cities performed worse than rural and semi-rural areas (see Figure 4.1). In areas with the best performance, we found that nearly three-quarters of people who joined the NDYP got a job, compared to less than half in the worst-performing areas. An earlier study by Sunley and Martin (2002) similarly found weaker outcomes for the NDYP in major metropolitan and urban industrial centres, and evidence that rates of 'churn' are higher in depressed labour markets. What this reveals is that areas with job shortages have brought weaker returns on the vast investment in welfare-to-work interventions.

Figure 4.1:
Jobs gained as proportion of NDYP programme starts by urban/rural classification, 1998–2008



Source: NOMIS

The question is whether supply drives demand or vice versa. IB and Employment Support Allowance (ESA) claimants are geographically concentrated in the former industrial heartlands which have seen large job losses, suggesting that they are an indicator of 'hidden' unemployment: the consequence of unemployment rather than the cause. As noted in chapter 2, Webster et al (2010) examined the reasons for a fall in IB/ESA claims in Glasgow (an area with more IB claimants than any other local authority) after 2003, and found that jobs growth had a greater impact than welfare-to-work interventions. That some of the most disadvantaged groups benefit more from jobs growth than they do from measures to improve their employability reveals the limited scope of welfare-to-work interventions.

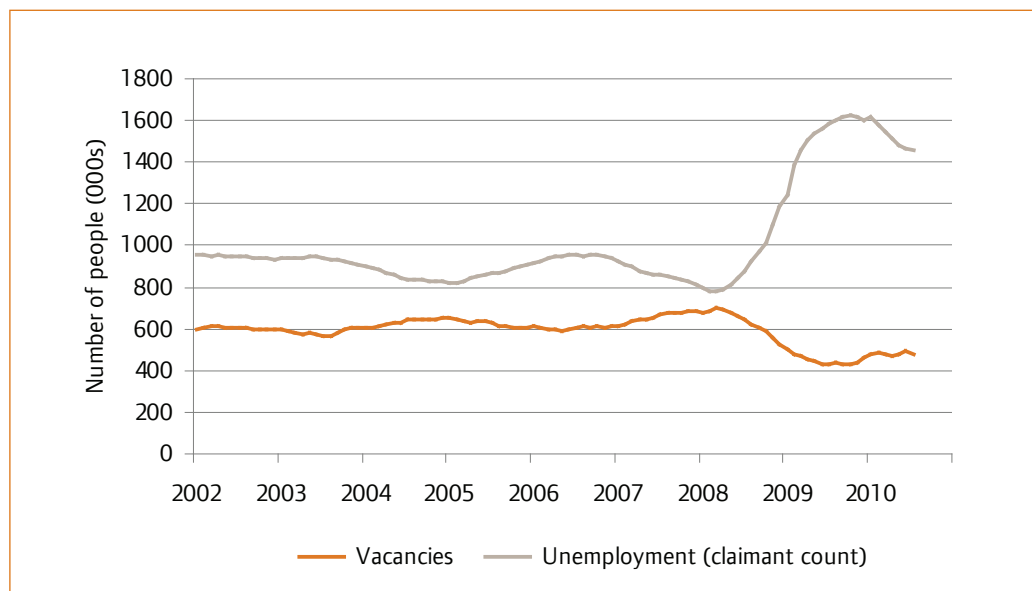
The Coalition government has continued to focus on the weaknesses of individuals as the main cause of long-term unemployment, alongside the so-called benefit trap. Leading ministers have argued that motivation, aspirations and worker mobility drive employment rates, and dismissed geographic differences in the job market as 'lazy rhetoric' (Duncan Smith 2010b). But the evidence highlighted above reveals the importance of employer demand even where national growth looks relatively strong.

Impact of the recession

The unemployment context has changed radically over the last two years. Unemployment currently hovers at nearly eight percent – a level the Organisation for Economic Co-operation and Development (2010a) believes will remain unchanged until the end of 2011

at least. High unemployment and weak employer demand mean jobseekers face a highly competitive environment. At national level, there are now 5.2 unemployed people to every vacancy, compared with 2.3 in March 2008 (ONS 2010; see Figure 4.2). In some of the most deprived areas, Jobseeker's Allowance (JSA) claimants outnumber vacancies by as much as 24 to one (Trades Union Congress 2010).

Figure 4.2:
Unemployment
(claimant count)
and vacancies in
the UK, 2002–10



Source: ONS 2010

ippr's research with employers, personal advisers and jobseekers was conducted between October 2009 and April 2010, at the height of uncertainty about recovery and as unemployment figures¹⁹ were at their peak. Many people felt the job market had become more competitive and said they were applying for many jobs every month with no response from employers. A common theme among the participants was the sense of frustration at what felt like an endless search for work.

*Sometimes they make you sit at the computer all day until you find a job.
You know you want to get a job but when you look there is nothing there.
I think that's why people kick off because they're really frustrated and they
can't get a job.*

Male, 22 years old

It was not only jobseekers who supported this view. Employers we interviewed said that the volume of applications for job vacancies had increased dramatically since the recession started, and that applicants were far more qualified than the positions demanded. Amid fierce competition, job brokers and personal advisers were frustrated that even their most 'job ready' clients had been unable to find work.

Unemployment is set to remain high for the foreseeable future. In its economic forecast released at the time of the June 2010 Budget, the Office for Budget Responsibility (OBR) projected a small rise in unemployment over the next few quarters, followed by several years of gradual decline (OBR 2010). If economic growth over the next few years follows this moderate path, our calculations suggest vacancies are unlikely to increase to more than 550,000 by the end of 2011. Based on the OBR's forecasts for overall unemployment, our projections suggest long-term unemployment will be around 875,000 at the end of 2011.

At that point, for every job vacancy in the UK, there will be one person who has been claiming JSA for over six months, two more people who have been claiming JSA for less

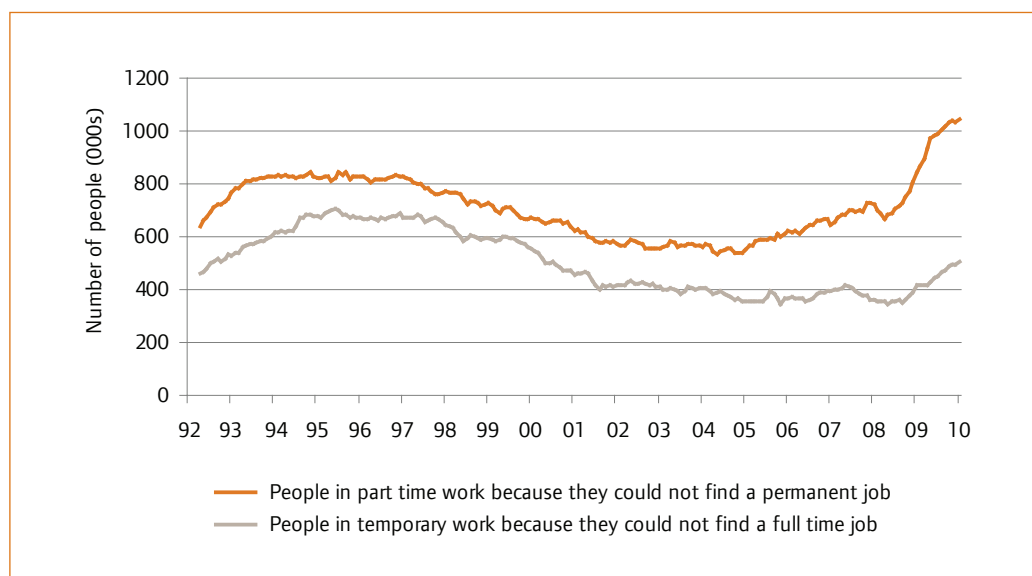
¹⁹ ILO and claimant count

than six months and two more who are unemployed but not claiming JSA. There will still be 4.6 unemployed people – and 1.6 long-term unemployed – for every vacancy. Regional disparities in unemployment and vacancies mean the ratio of unemployed to vacancies is likely to be even higher in some parts of the country, including Yorkshire and the Humber and the West Midlands.

Job insecurity

The economic downturn has exacerbated the problem of job insecurity, due to a four per cent drop in full-time employment over the last two years and a consequent increase in part-time and temporary work (ONS 2010). While many people prefer to work part-time, the increase has been among those who would prefer not to. Since the end of 2007, the number of people working part-time involuntarily (because they can't find full-time work) has risen by 347,000, while the number working part-time voluntarily is virtually unchanged. The numbers in temporary work because they can't find permanent work have increased by more than half since the recession began. Figure 4.3 shows these trends since records began in 1992.²⁰

Figure 4.3:
People involuntarily working in part time and temporary jobs ('000s), 1992–2009



Source: ippr briefing (2010), based on ONS data

The chart shows that, after the last recession, rates of people involuntarily working in temporary jobs remained high for five years before starting to fall again. Given that people working in short-term jobs represent a large portion of repeat claims, this suggests the 'churn' between work and benefits will also remain high. In an evaluation of Jobseekers Regime and Flexible New Deal, around one-third of clients who moved into work were working on a casual or temporary basis. By far the biggest group of repeat claimants – over 55 per cent – had left their last job because a short-term contract had ended. The average length of their employment was just six weeks (Knight 2010).

Advisers interviewed by ippr said that temporary contracts and job insecurity represented the main barrier to meeting employment sustainability targets, with agency work and short-term contracting more common during the economic downturn. Job brokers said they tried to support clients into more sustainable jobs wherever possible, but that their choices were limited by the lack of employer demand.

²⁰ The official LFS definition of underemployment includes part-time workers looking for more hours, rather than those in temporary work. Temporary workers experience the effects of underemployment due not to a lack of hours but lack of a stable income. In addition, some individuals are clearly both in temporary and part-time work. For the full ILO definition see www.statistics.gov.uk/elmr/02_10/downloads/ELMR_Feb10_Clancy.pdf

What we do try and do is go for more long-term work if we can, but at the minute it's sort of 'go for what you can get' and in the current climate a lot of employers are using agencies to make it easier for them. They don't have to go through all the redundancy and things like that. They can say 'actually the work's died off again – we're going to have to release you.'

Job broker, welfare-to-work provider

The role of job quality and the opportunities available at work is often absent from the behavioural account of social mobility. Reforms to UK employment law since the 1970s have made it easier and cheaper to hire and fire workers and to contract on a short-term basis. The objective of these reforms has been to attract inward investment and allow employers to respond to rapid changes in demand and cope with external shocks. Workers in turn are expected to be able to relocate, offer flexibility in working hours, and adapt to different skills needs in the job market.

However, there has been a trade-off between the UK's 'flexible' labour market and the desire to increase 'human capital' – the skills and productivity of the workforce. In practice, employment reforms have removed incentives for employers to invest in skills and to retain staff (Clifton et al 2009). Temporary and part-time employees are less likely than other employees to receive training opportunities, and underemployment can also have a potential negative impact on workers' future earnings (Sum and Khatiwada 2010).

Advisers can feel like they are swimming against the tide. Confronted with temporary and low-skilled jobs, advisers said that it was unrealistic to believe they could influence the quality of jobs or opportunities for progression in work. Despite widespread preferences for stable and full-time work, jobseekers interviewed by ippr had accepted part-time jobs and jobs lasting as little as a week in order simply to get work, sometimes against their adviser's advice.

Welfare-to-work policy levers can help to address the supply–demand mismatch – reducing unemployment by getting vacancies down to as close possible to zero – but can do little to address the current lack of demand for labour. Persistent regional inequalities mean that more deprived areas have long suffered from the strong emphasis on employability at the expense of employment: the quality and quantity of jobs available across the UK. Addressing these issues will require concerted Government action to support a fairer, healthier and more equal jobs market. The rest of this chapter examines what welfare-to-work *can* do, in particular looking at how providers can support clients into better paid and more sustainable jobs.

Employers: the missing link?

From social mobility to poverty reduction, successive governments have set an ambitious range of social and economic goals for welfare policy. This is all contingent not only on finding a job – a tough ask at the moment – but on the quality of the work people move into. A greater focus on improving the skills of jobseekers and the type of jobs they move into can improve outcomes for individuals. It is important to involve employers, as they have the greatest control over job quality.

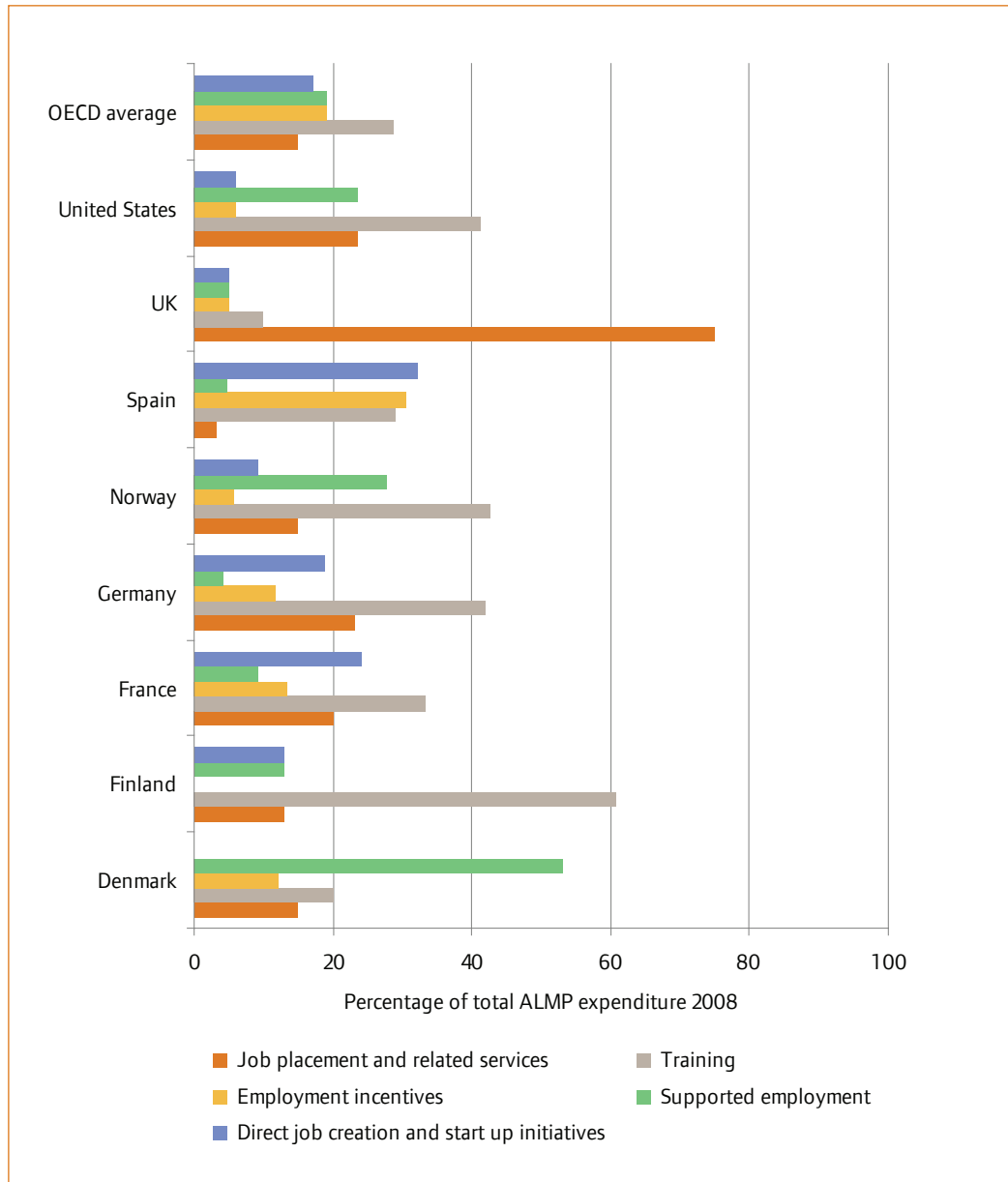
However, employers are often the missing link in a system that focuses heavily on supply-side interventions. UK spending priorities reveal an over reliance on active job search and job placement in comparison to other OECD countries. The result is that few resources are spent on providing jobseekers with skills and experience directly relevant to employers.

In 2008, the UK spent three-quarters of its active labour market programme (ALMP) expenditure on job placement and just 10 per cent on training. This reflects the 'work first' approach which prioritises job entry over training (see p22), and is in stark contrast to other OECD countries, as Figure 4.4 shows (see following page). The OECD average

reveals that training, employer incentives,²¹ and direct job creation are all prioritised over job placement services, in contrast to the UK approach.

A more diverse range of ALMPs elsewhere includes higher spending on 'supported employment', providing transitional jobs to prepare people for integration into the regular labour market. This is particularly true of Denmark, Norway and the Netherlands, while Spain invests the largest proportion of its expenditure in direct job creation and start-up initiatives.

Figure 4.4:
OECD spending as a percentage of total expenditure on active labour market programmes, 2008



Source: OECD 2010b

Welfare-to-work provision in the UK is far less effective for those jobseekers facing more barriers to work than it is for those who are 'job ready' (see chapter 2). Schemes that create supported employment opportunities have had more success with disadvantaged groups (Gregg 2009). This can be particularly effective in periods of weak jobs growth as a short-term measure to help people gain skills for use as the economy improves, and can provide valuable work experience for disadvantaged groups that face little hope of

²¹ 'Employment incentives' can include incentives provided to jobseekers to stay in work, as well as subsidies provided to employers to take on new staff.

employment in such a competitive environment. The Labour government created 100,000 transitional jobs for young people through the Future Jobs Fund at a cost of £6,000 each, mainly in the public sector. In Germany, heavy use of job subsidies in the private sector has been credited with the negligible impact the current global downturn has had on unemployment rates there, although it has led to a massive increase in part-time working (Davies 2010).

The lesson from other OECD countries is that providing people with the skills to access new and better job opportunities should play a far greater role in welfare-to-work support in the UK. Welfare-to-work can help to make the labour market more efficient by addressing skills and recruitment gaps. Effective (re)training opportunities give people skills that are valued by employers, and can also facilitate worker mobility and support people to advance in their careers.

Meeting employers' needs

A key challenge for the new Work Programme will be to engage employers – and maintain a focus on those hardest to reach – at a time when firms are able to pick from a large pool of 'job ready' people who are out of work. Employers are extremely diverse and each organisation has different requirements and preferences for skills, qualifications and attributes (Keep and James 2010). Responding to these complex needs is crucial to engaging employers in welfare-to-work recruitment services.

But research shows that many UK providers fail to understand the benefits of an employer-focused service, and many see employer engagement as an 'add-on' rather than an integral part of helping people back to work (London Development Agency 2004).

ippr's research with employers and employer representative bodies found that, despite pockets of good practice, many employers find welfare-to-work programmes confusing. Disgruntled employers complain that employment and skills provision is poorly coordinated and ill-equipped to meet their needs. Many employers have been put off recruiting through Jobcentre Plus (JCP) and DWP-contracted welfare-to-work providers by their lack of pre-screening and filtering or bad job matching, or after being referred clients with basic skills problems.

I've worked with different [welfare-to-work providers] and if we ask for someone they always say, 'Oh right, well, I haven't got you this match, but I've got this person who's got this barrier to work, what can you do?' And I'm like, 'Nothing. I've got vacancies here but you need to remove that barrier, because technically that's what you get paid to do.' ... They think because it's picking and packing the [candidates] don't need to be able to read and write, but I need them to be able to read what's on the sheet to go and pick it and then I need them to count the products and pack them in the boxes.

Recruitment agency

It is widely recognised that skills provision is not sufficiently 'demand-led', with large shortages in technical and intermediate-level skills and insufficient employer input into the design of vocational qualifications (Clifton et al 2009). A key criticism of adult skills provision by employers is that it caters for businesses as a generic one-size-fits-all group. Pre-packaged courses on customer service or health and safety, for example, are of little use where employers need workers to have specific understanding of a particular sector or set of risks. Basic skills training is also more effective – for both employers and workers – where it is targeted on particular workplace functions (Meadows 2006).

In addition, the evidence shows that current training provision can deliver weak returns for jobseekers. Poor training schemes keep people out of the job market and can even

damage their prospects by providing skills that are not valued by employers (Meadows 2006). Although level 3 is a more appropriate level for providing the skills the economy needs, government funding and skills programmes such as Train to Gain²² have in the past targeted level 2 qualifications (Clifton et al 2009). As a result, some vocational training also failed to provide a decent wage return for people. In general terms, training pays higher returns when it is work-based, level 3 and above, or level 2 where offered for particular qualifications or sectors (Dearden et al 2006). Apprenticeships – because they are work-based and offer better vocational education content than standalone NVQs – offer high benefit-to-cost ratios, as the government has recognised (BIS 2010a).

Engaging employers in skills policy and funding

The 'black box' approach of the Work Programme means that the extent to which providers will invest in training and employer engagement relies on innovation within the welfare-to-work sector. However, as highlighted in the previous chapter, instead of promoting innovation, contracting-out employment support can lead to more uniform provision focused on job search support to meet short-term targets. In other countries this has resulted in low investment in training and weak employer engagement (Bregaard and Larsen 2008). In this context, it is important to understand how to engage employers in skills policy and funding.

ippr's research suggests providers can become risk averse due to the cost of work-focused training and highlights a perception that current adult skills provision is valued poorly by employers. Some providers consulted for the project said that to put clients on expensive vocational courses was risky, given that qualifications do not guarantee a job. These are genuine concerns. One provider we spoke to had achieved just one job outcome after delivering the NVQ in social care for their clients. They subsequently cut the training programme and restricted their service to employability support only.

ippr has previously argued that the cheapest and most effective way to ensure training matches employers' needs is to encourage firms to invest in skills (Clifton et al 2009). Involving employers in the delivery of training – either on-the-job or as providers of work experience – also leads to better client outcomes than classroom-based training (Meadows 2006). Our research shows that employers are reluctant to pay for training to address basic skills problems, but many are willing to pay for work-focused training packages that are specific to their sectoral or workplace needs and are delivered in a way that suits working patterns. This is particularly the case in sectors facing skills gaps.

However, in the past it has proved difficult to engage employers in the costs and provision of training on a large-scale basis. The 'flexible' labour market has led to a market failure in some sectors, whereby firms compete for the best jobseekers rather than investing in workforce development within the company (Clifton et al 2009). One-third of employers provide no training at all – rising to half in some sectors (Leitch 2006). This is all the more worrying given that the private sector has scaled back funding for training during the current economic downturn (Ipsos MORI 2010, Alliance of Sector Skills Councils 2010).

As well as the negative impact on workers, this has implications for how competitive the UK economy is internationally. The consequences of poor investment in and utilisation of skills by employers are relatively low levels of innovation and productivity in the UK (Clifton et al 2009). Low-skill, low-wage industries such as the service sector are particularly resistant to efforts to improve workforce development. This is because employers profit by maintaining tight margins, with few productivity gains to be made from skills improvements (Oppenheim and Seigel 2008). However, some commentators have argued that increased employer flexibility may in fact be more important, as it allows businesses to adapt their

²² Train to Gain was introduced by the Labour government to subsidise training for people in work with few qualifications. It was a £750 million fund, some of which is being redistributed by the current administration.

business model and deploy well-trained staff to different tasks in order to weather shocks and take advantage of new opportunities (Bregaard and Larsen 2005).

By working closely with employers, providers can provide effective training programmes that result in stronger outcomes for clients than basic job search and placement, with higher rates of retention and more opportunities to progress, as the evidence below illustrates. Unlike other forms of support for the unemployed, there are also opportunities to share costs with employers and stimulate business growth, providing tax returns and benefit savings.

To improve jobs and skills on a wider scale requires a long-term strategy for building an infrastructure that genuinely engages employers in skills policy and funding, with their involvement mandated by legislation where necessary. In Germany, the Netherlands and Australia, powerful 'employer associations' have generated collective employer investments in apprenticeship and training programmes. Groups of employers, bound by locality or sector, contribute to a fund for work-focused training. In the past, similar organisations have been funded through a subscription or statutory training levy, with government assistance to buy equipment. These associations provide employers with greater control over the design and delivery of qualifications, and can promote better skills utilisation (National Apprenticeship Service 2009). New government plans to engage employers focus only on high skill growth industries, and therefore fail to address the problem of skills utilisation in low-skill, low-wage sectors (see BIS 2010b).

An enterprising approach to welfare-to-work

We argued in chapter 1 that the UK's 'work first' approach is, in practice, often narrowly interpreted to mean 'any job is better than no job'. Providing people with skills that are valued by employers can help them to access better paid and more sustainable jobs, but without clear placement strategies there is no guarantee training will lead to a job. This highlights the need for a more demand-led approach which combines effective training programmes with strong employer engagement to ensure those programmes lead to real and sustainable job opportunities on the ground.

We argue that welfare-to-work providers should already be playing this role. They should adapt and respond to shifting labour markets at a local level, engage businesses by developing a strong understanding of their needs, and support clients to gain skills that are valued by employers. With competition set to remain high for the foreseeable future, engaging employers is more vital than ever to securing jobs for disadvantaged groups.

Bringing employers on board should also be an important part of providers' strategies for sustainability, as providers seek ways to secure sustainable jobs for their clients. In recent speeches, Secretary of State for Work and Pensions Iain Duncan Smith (2010a) has said he wants to 'reward the providers who do best at creating sustainable jobs', suggesting perhaps that providers can also work with employers to produce different kinds of jobs.

The current economic climate has produced an urgent need to create jobs, but less public funding with which to do so. Now more than ever, new solutions are needed. Approaches that offer tailored support to individual businesses or sectors can support the private sector to survive and expand beyond the current economic downturn, and in turn help disadvantaged jobseekers to access better and more sustainable jobs.

Learning from innovative practice

A number of organisations have been pursuing an enterprising approach to tackling unemployment and deprivation for many years but receive little attention in a UK policy context that is focused mainly on supply-side initiatives. These organisations variously act as intermediaries between employers, skills providers and jobseekers. They identify

local needs and spot opportunities to create new jobs, and provide training and support to disadvantaged groups to access these jobs. We attempt to define and categorise these approaches below and show which key elements should be prioritised for wider use.

1. Job creation in the private sector

A number of welfare-to-work providers identified during the course of this research offer a 'route-ways' service for individual businesses, with tailored training programmes that culminate in a recruitment process. These customised approaches were considered the most effective way to find jobs for disadvantaged groups, as they limit the recruitment pool to welfare-to-work clients and improve job matching. JCP-led Local Employment Partnerships have also led to short training pipelines into work in some areas. Our research shows that these are effective and should be both expanded and targeted at sustainable jobs.

However, recruitment-focused approaches can be limited in scope as they simply respond to employer demand, rather than anticipating or stimulating it. Providers often cover the full costs with no obligation on the employer to recruit. Instead, sector-specific employment programmes support potential growth sectors to expand or train the wider workforce and as such have the potential to help create new jobs and support stronger outcomes for jobseekers (see diagrams below). Providers stimulate job creation in the private sector by supporting employers to improve business planning, providing tools to increase human resource capacity and training to, in turn, increase productivity and innovation among workers.

The key characteristics of **sector-specific employment programmes** are:

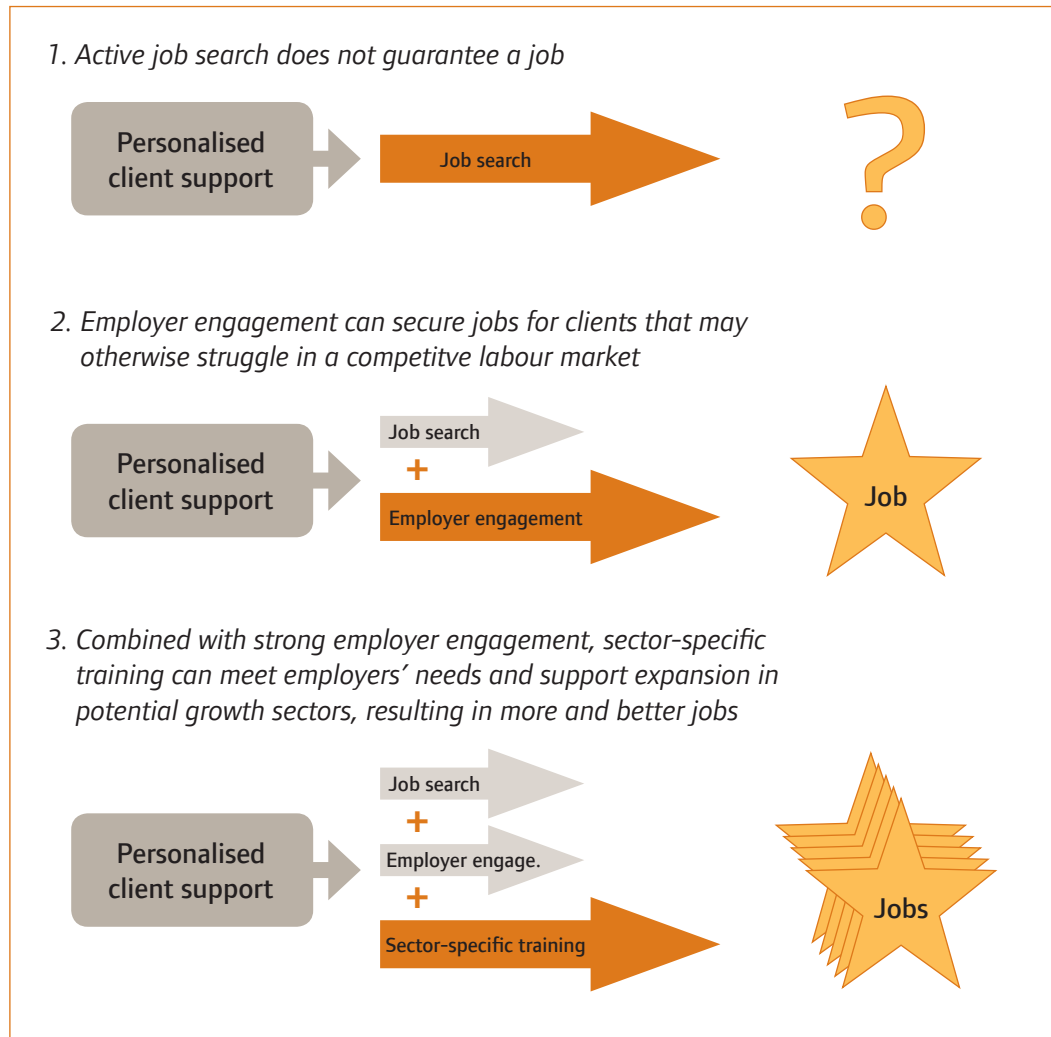
- **Sector-specific models link welfare-to-work clients to real job opportunities** by developing a business plan with individual employers or clusters of employers that want to expand or invest in workforce training to boost productivity.
- **Welfare-to-work providers work in partnership with local training providers to offer bespoke packages** to help businesses recruit, train and retain staff. By acting as intermediaries between employers and training providers, providers ensure new job opportunities benefit welfare-to-work clients.
- Sector-specific models provide customised vocational training, which aims to **expand capacity and support employers to retain staff** and cope with natural turnover, while at the same time **providing disadvantaged workers with the skills to advance** within a business or the wider sector. Providers may support employers to create career paths and routes for specialisation within a sector.

Evidence from the US suggests that sector-specific approaches result in better jobs, higher wages and increased retention for clients. (See Figure 4.5 on the following page.) A two-year study found that participants in sector-focused schemes earned 18 per cent more than those receiving mainstream services, and were more likely to be in stable jobs and to receive wage increases (Maguire et al 2010). Another study concluded that sector-focused initiatives can result in an improved local economic climate and more and better jobs (Seedco Policy Center 2009).

Employee 'replace and train' schemes (job rotation)

One example of the sector-specific approach is employee 'replace and train' schemes, or 'job rotation', as they are commonly known. Job rotation is essentially a model to encourage workplace training and skills utilisation: unemployed people are systematically trained to substitute for employed workers while they go into further education and training or on general leave. The approach began in Denmark as a collaborative development among trade unions, employers and training institutes, and has been developed and brought into the mainstream as an active labour market tool in several EU countries.

Figure 4.5
Welfare-to-work support models to connect job-seekers to jobs



Job rotation schemes were born out of the 1990s recession, when they helped businesses to weather the downturn and grow. What is different about this approach is that it brings employers and welfare-to-work organisations together in a way which benefits both the employer and local unemployed people. Schemes can help tackle local skills gaps and act as a catalyst for skills utilisation and business growth. For this to work, training has to be relevant and useful for all participants and it needs to link in with nationally recognised qualifications wherever possible. This ensures the substitute worker is equipped with the skills to get another job in the sector if they are not kept on at the end of the placement.

In a win-win scenario, job rotation can also support employers to improve the quality of their employment, by increasing the availability of training for existing staff, helping to create progression routes, and enabling employers to retain staff and cope with natural turnover.

The key characteristics of this approach are:

- **Welfare-to-work providers offer a bank of unemployed workers to cover employee leave for training or general leave (such as maternity leave and long-term sick leave), ideally for a minimum of six months. The substitute worker is employed by the business, and may already have relevant skills or be trained on the job.**
- **The substitute worker provides extra capacity at a lower cost as they need not be at the same level as the employee they replace. This allows employers to invest in wider workforce development, thereby increasing productivity while supporting other workers to gain new skills and advance within the organisation.**

- **Welfare-to-work providers develop customised packages in partnership with local colleges** to provide vocational training for the employee and, where necessary, support and training on-the-job for the replacement trainee.
- **Business and training support aims to support new job opportunities**, and at the end of the period of cover the client is either kept on, or has gained the necessary skills to move into another job.

The signs from Europe are promising. Reports show strong post-rotation job outcomes for the unemployed, usually with the host employer. In Denmark, approximately 75 per cent of unemployed people involved with job rotation schemes in the 1990s found permanent work at the end of a six-month 'rotation' (Parker 2001). In Finland, the Government now spends almost nine per cent of total ALMP expenditure on these schemes (OECD 2010). Here in the UK, the approach has so far been limited to smaller-scale initiatives but shows impressive outcomes in job entry and sustainability.

The Workers Educational Association (WEA) in Scotland has been running job rotation schemes since 1995. One evaluation found that over 90 percent of host companies retained some or all of their job rotation trainees. In total, the project in Ayrshire, Scotland, placed and trained 171 trainees across 81 small businesses, which allowed for the wider workforce development of 991 existing employees. Of the 72 per cent of trainees who completed the placement, 76 per cent got a job and 97 per cent of job entrants were still in work six months after leaving the project. More than half of those that did not complete the programme left to start a job elsewhere (McTier et al 2007).

An impressive 98 per cent of employers interviewed for the evaluation were positive about the approach. Job rotation improved both staff and managers' attitudes to workplace learning, and 85 per cent of employers said they would be more likely to provide training for their employees in the future. By using worker training and job placement as a business development tool, job rotation generated 120 extra jobs²³ across 41 companies in Ayrshire. The authors of the evaluation estimated that the jobs made a financial contribution of £200,000, on the basis that it costs economic development agencies around £5,000 to generate a new job (McTier et al 2007).

Job rotation: costs and outcomes²⁴

The unit cost of 'replace and train' schemes is higher than the Work Programme will provide for, but the range of outcomes from this approach is far wider than traditional welfare-to-work services. The extensive benefits to participating employers suggest the opportunity to co-finance with the private sector.

The job rotation programme run in Ayrshire cost around £9,900 per sustained job outcome at the end of a six month rotation, or £7,900 once the gains from job generation are factored in. The largest costs are training and staffing, which make up 20 and 40 per cent of total costs respectively. If employers, who derive the greatest returns from increased workforce skills, covered the costs of training, then the cost to the public sector could be reduced by more than a third to £5,450 per job. The Ayrshire project also appeared to run at particularly high costs due to its rural location and high staff numbers, and as such further cost reductions can be expected through economies of scale, increased staff caseloads and the number of participating businesses relative to core staff.

²³ Allowing for displacement effects, the project generated 40 net additional jobs in the local economy. Focusing on export sectors would reduce displacement effects (McTier et al 2007).

²⁴ Calculations are based on the breakdown of costs and outcomes identified in McTier et al (2007).

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Overall this is an under-used, localised approach that can engage employers – the missing link in the current welfare-to-work system – shift pockets of long-term unemployment and help stimulate a more productive private sector. Once the sustainable tax returns are factored in, alongside the reductions to the welfare bill from reduced benefit payments and administrative costs, the scheme is almost cost-neutral. The localised commissioning scenarios set out in chapter 3 would provide opportunities to encourage such approaches.

Untapped markets

There are various untapped markets that offer opportunities for providers to meet employers' needs and stimulate job creation in the private sector. Targeting companies in growth sectors – such as 'green' jobs, non-financial business services, knowledge-based, technology and creative industries, and social care – will increase the potential of these initiatives to generate more jobs. Efforts to boost workforce development are most effective in industries with skills gaps and those which will benefit from a boost in productivity, such as healthcare and manufacturing (Oppenheim and Seigel 2008), and focusing on export sectors reduces the displacement effects of job creation (McTier et al 2007).

As part of government-led strategies, large employers can co-finance investment, training and R&D in new growth areas. For example, as part of the Green Jobs Strategy for Wales, the Welsh Assembly government recently opened the UK's first 'green skills' training centre in a deprived part of Wales, in partnership with British Gas. The centre works with local further education colleges to provide training in new green technologies and energy assessment skills. The centre trains British Gas employees, but also targets the unemployed and sole traders with transferable skills, such as plumbers and electricians, who are often in precarious employment. At the same time, the project works to stimulate new jobs in the local economy by engaging local construction companies to expand into green sectors, such as retrofitting buildings to save energy (see Welsh Assembly Government 2010).

Smaller businesses have the greatest need and, arguably, the greatest potential for expansion. Often overlooked by welfare-to-work providers, small businesses account for 99.6 per cent of all enterprises in the UK and employ roughly half of the UK's workforce (BIS 2009). These businesses have been identified as key engines of growth, as the sectors in which the economy is expected to expand are over-represented among small businesses. However, while most small businesses say they would like to expand, many lack the capacity or business acumen to take advantage of new opportunities (Clifton et al 2009).

Small businesses may face a range of skills gaps or recruitment problems, for example due to an ageing workforce or poor 'sector attractiveness', which may or may not be related to the need to improve working conditions or opportunities for development. While a mass of unemployed young people could presumably alleviate these problems, employers say these people often lack the skills they require. Poor management skills and a lack of human resource capacity to induct, train and manage new staff can restrict smaller businesses from taking on untrained staff. This may account for limited take-up among smaller employers of initiatives, such as wage subsidies, that aim to create jobs in the private sector.

A more canny model for provision would, for example, aim to support employers to navigate and access the confusing array of government funding streams available to recruit and train new staff (Hepburn 2010). Under the Work Programme, £150 million is being re-directed from Train to Gain to an apprenticeships scheme, under which SMEs will be offered a £2,000 incentive to hire an apprentice (Skills Funding Agency 2010). Another idea floated by the government is 'work pairing', wherein sole traders may be encouraged to recruit

school-leavers in return for subsidies for their training and equipment (see Cameron 2010). But businesses are unlikely to take up these offers while they are struggling.

By adopting a sector-specific approach, welfare-to-work providers can meet sustainable job targets and, as the new Secretary of State for Work and Pensions has suggested, work with employers to generate better jobs. Providers can help small businesses to access these funds by supporting SMEs to increase management capacity and to design and implement in-house training structures. Research by Ipsos MORI also found that employers 'will respond to a *bespoke* offer that can address all of their training needs, rather than to a call to take-up Apprenticeships. Employer demand *must* be the starting point.' (2010, emphasis in original.)

Private-sector-led initiatives are particularly effective for people who lack skills and experience but are otherwise job ready. The cost of such schemes also reduces dramatically for groups that require less support in work after the initial training period. Low-skilled clients stuck in a no-pay/low-pay cycle of work and young people with few qualifications and no tangible work experience are likely to benefit most from these schemes.

2. Supported employment for disadvantaged groups

Groups with more complex barriers have typically struggled more to obtain and retain private sector jobs. Employer discrimination and the inflexibility of many jobs create problems for people facing more complex constraints, such as caring responsibilities or health problems, and people with criminal records. A number of organisations however have adopted a proactive approach to stimulating and creating supported employment opportunities for the benefit of disadvantaged workers.

In some areas, intermediate labour market schemes have provided transitional jobs for more disadvantaged groups, often through the public, voluntary and faith sectors. Some local councils and Registered Social Landlords have worked to ensure existing regeneration projects provide jobs for disadvantaged groups. Some social enterprises and market-led 'social firms' also operate in the UK, providing jobs for disadvantaged groups as part of their *raison d'être* (Social Firms UK 2009).

The crucial benefit for more disadvantaged groups is that these 'social employers' are willing to design jobs to meet more complex needs. For example, they may allow shorter working hours for people with disabilities or learning difficulties, or time out for treatment for those battling with depression or addiction. Jobs are often organised in partnership with community-based employment and skills providers, which provide tailored training and ongoing support in work.

Some organisations go further, assessing community needs to identify new business opportunities or shortfalls in local service delivery and offering low-cost solutions to deliver the contracts. Training Assessment and Progression (TAP), a Community Interest Company (CIC) that has developed this approach in East Sussex, works both alone and with small businesses to provide work opportunities for disadvantaged groups. From IT services to road maintenance, TAP CIC has reduced costs for the local council by delivering contracts at a lower cost than large private contractors. By supporting local farmers to spot and tap into new markets, TAP CIC has also created new opportunities for disadvantaged groups in the private sector.²⁵

Key characteristics of this approach are:

- **Providers ensure supported employment opportunities for disadvantaged groups by offering lower-cost solutions to service delivery.** Contracts for outsourced services often represent a large cost to local service providers such as local authorities

²⁵ See Cox and Schmuecker (forthcoming 2010) for other examples of this approach.

and housing associations which can result in gaps in service provision. Providers may also bid directly to private sector companies to sub-contract them.

- **Providers support existing small companies to deliver the contract** or deliver the contract themselves; either way, this creates real job opportunities for jobseekers. Projects are based on an identified gap in the market and do not undercut existing businesses or displace jobs elsewhere.
- **Providers create a paid, on-site vocational training environment for participants, in partnership with local training providers.** Participants are placed in a working environment from day one and paid on a sliding scale as their skills and experience improve. Strong community links and proactive outreach allow providers to engage with 'disengaged' people – those who are not in any form of employment support programme.

As with job rotation schemes, this approach generates a broad range of outcomes. It creates jobs, provides work-focused training to address skills gaps, and in some cases supports small businesses to grow. TAP CIC is helping Eastbourne Borough Council to build nine affordable homes to ease the acute housing shortage in the area. In a letter of support for the project, the council's Housing Services Manager said it represented 'excellent value for money compared to other contractors', and praised it for being in line with key local priorities, including worklessness, and the local Housing Strategy and Corporate Plan.

Our partnership with TAP is an excellent business model for the council and as well as increasing the supply of new affordable homes it provides the added value of boosting the local economy and employing local labour, both in skilled trades, as apprenticeships and in trainee positions.

Housing Services Manager, Eastbourne Borough Council

In order to keep the cost of the approach down, TAP CIC has negotiated with JCP to continue benefit payments as a wage subsidy during the training period. The '16 hour rule' – where people lose eligibility for benefits if they work or train for more than 16 hours a week – usually restricts jobseekers from entering training. Instead, JSA is hereby supporting people in training that leads to real job opportunities. This demonstrates that providers are able to negotiate flexibility at local level on rules which often appear impenetrable.

Supported employment: costs and outcomes

Supported employment does not have to be an expensive approach, and can in fact save costs elsewhere through better use of existing funds, such as spending on regeneration and public procurement. In the projects run by TAP CIC, overheads, wage and training costs are fully covered by the contracts they secure. Better alignment of funding streams or localised approaches such as those discussed in chapter 3 would facilitate this approach and reduce costs by minimising gaps and duplication.

The cost of the project to the public purse lies in support from a case worker and workplace mentor. At TAP CIC this support continues for as long as clients need it, both in supported employment opportunities and in subsequent jobs. At £1,150 per head for job ready clients, the cost of TAP CIC's approach is 25 per cent less than the payments per job entry welfare-to-work providers would have received under the Flexible New Deal (see chapter 2).

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The cost rises for more complex cases. Supporting adults with learning difficulties or disabilities, a key target for the current welfare system, costs £3,450 per client. 'Disengaged' people, including young offenders and people with mental health and drug and alcohol problems, require the most mentoring support, at an average cost of £5,575 per client.

It is widely recognised that those facing multiple disadvantage require greater support to re-enter the labour market (for example, see Freud 2007, Houghton et al 2009). As a result, the Work Programme is likely to introduce differential payments. In the Australian welfare-to-work system jobseekers are assessed and placed into one of four streams, which determines the level of funding and support they receive (see p31). Providers receive up to A\$6,600 (approximately £4,000) in job entry and sustainability payments for the most disadvantaged jobseekers, compared to just A\$385–440 (from about £230) for the least disadvantaged (Bowman and Horn 2010).

In this context, creating supported job opportunities in the social economy is a cost-effective option, particularly if it is targeted at people who will struggle most to find work in a competitive labour market, such as those with disabilities or health problems and people with prior criminal convictions.

Supporting such approaches could significantly increase sustainable job outcomes for disadvantaged groups. Many welfare-to-work providers assume a 'loss' on up to 50 per cent of their total client base, based on relatively low assumptions of sustainable job outcomes for disadvantaged groups. In 2008, 73 per cent of TAP CIC trainees completed a job placement and of those 67 per cent either got another job or moved into further education. This is an extremely high rate, given that 90 per cent of TAP CIC's client group face multiple barriers to work.

Conclusions and policy recommendations

A key message from our research is that welfare-to-work is limited as, essentially, a 'supply-side' tool. During a period of weak jobs growth, as we face in the UK over the next few years, work-first approaches will not result in sustainable employment outcomes for all claimants. We argue that, in a highly competitive environment, a more 'enterprising' approach would better link disadvantaged jobseekers to sustainable jobs on the ground, and could help businesses to weather the downturn and grow.

The models presented above show how supporting employment can go hand-in-hand with helping to generate new jobs in the private sector. They demonstrate how providers can support jobs growth in certain sectors through workforce development and better business planning. In addition to generating jobs growth, these models can also be used to help jobseekers to access better and more sustainable jobs. As employers will derive the greatest returns from improved productivity, innovation and profit, we argue they should contribute the most.

On the basis of our findings we make the following set of recommendations with regard to meeting employer needs, training and skills, supporting disadvantaged workers and co-financing.

Meeting employer needs

- Welfare-to-work providers should prioritise sector-focused training and placement services that respond to local business needs. Welfare-to-work providers can help small businesses in particular to access funds for apprenticeships (and other wage subsidies).

- **'Replace and train' schemes should be taken up by providers and local employers as part of a more sector-specific approach to employer engagement.**
- Short pipeline training courses – of a few weeks duration – that lead to specific employment vacancies should be expanded, as an effective approach to reducing unemployment and inactivity among disadvantaged groups. Although JCP, some welfare-to-work providers and further education colleges already offer some courses along these lines, they should be more widespread and better targeted at sustainable jobs.
- **Apprenticeship places – for both 16–19 and 19–25 year olds – should be further expanded, using additional resources redirected from Train to Gain budgets.**

Training and skills

- **Training should be accredited wherever possible, to promote worker mobility.** ippr has previously argued for a national credit accumulation system, where different courses and employer-based learning provide credits which are transferable across all institutions. This would facilitate life-long learning and maximise the gains from work-based training for workers.
- The Coalition government should consider extending the age limit for Educational Allowances for full-time college courses to 21 or 25. This would mean that more young people can study for full level 2 or 3 qualifications while unemployment is high, just as someone qualified to enter higher education can apply for support with fee and maintenance loans.
- **These proposals could be funded by ending funding for adult skills courses and qualifications that do not offer wage returns.** Wage subsidies should only be provided for jobs that include a training element (such as apprenticeships), in order to prevent employers from using work trials to meet short-term labour demand.

Supporting disadvantaged groups

- **Supported employment initiatives can improve employment outcomes for disadvantaged groups and should be encouraged, for example through the Innovation Fund as proposed in chapter 2.** DWP has established strong practice for contracting such schemes through the Future Jobs Fund which can be built on.
- **Local government and other public service providers can help to facilitate supported employment approaches by making better use of procurement to provide job opportunities for disadvantaged groups.** Local authorities can contract local service delivery to employers and community organisations that employ people from disadvantaged groups. This should be done in coordination with local employment and skills providers to ensure the necessary training and support is in place to allow disadvantaged groups to access these opportunities.

Co-financing

- **Employers should pay for work-focused vocational and technical skills training, with basic skills training covered by existing government funding streams.** By providing bespoke training services in different sectors, welfare-to-work and training providers create opportunities to share training and wage costs with employers. This approach will be most effective when targeted at potential growth sectors and sectors facing skills gaps.
- **Remaining Train to Gain funds should be targeted at developing human resource capacity in the private sector to recruit, induct and train new staff, and to invest in and utilise the skills of their workforce.** This would aim to build smaller employers' ability to pay for the costs of workforce development in the long term.

- Employer-led training associations at both local and sectoral levels can help to stimulate investment and utilisation of skills among employers. These should be established to (a) offer recognised training or apprenticeships, (b) certify courses and qualifications for receipt of public funding and (c), where appropriate, determine qualifications that equip individuals to receive licenses to practice in certain professions. Participation should be mandated where necessary, and should target low skill sectors as well as those with skills gaps in order to improve job quality in low wage sectors.

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