REPORT

IPPR NORTH

WELFARE EARNBACK

AN INVEST-TO-SAVE APPROACH TO DESIGNING THE NEW WORK AND HEALTH PROGRAMME

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and Bill Davies

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Institute for Public Policy Research

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CONTENTS

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SUMMARY

The 'hardest-to-help' have been left behind by employment support. The government's Work Programme has been under-resourced and unable to provide the innovative, holistic approach that is required by those who have been out of work for a long time.

When the current programme's contracts expire in 2017, the government will replace it with a new scheme. However, this Work and Health Programme is set to have even fewer resources. It is therefore unlikely to provide either the support or the innovation required to help move people into good quality, sustained employment.

Instead, we propose a radically different 'welfare earnback' approach, with the following key features.

- Local **welfare earnback companies** should be set up by mayors or local leaders to cover major city-regions, with investment from across the public sector – local authorities, the Treasury, the Department for Work and Pensions and local NHS commissioners.
- These companies should adopt an **invest to save** approach – that is, **investing** in employment support upfront, on the basis that getting people into work will result in both **savings** for the public sector and **increased tax revenue**.
- Specialist advisors should use an **intelligent diagnostic tool** to select candidates for whom there is a '**case for investment**' – where the financial **cost** of the intervention is likely to be outweighed by the financial **benefits** of their being in work.
- These advisors should be able to commission **whatever works** on a case-by-case basis, including job placements. Local government would then be incentivised to align these advisors' initiatives with their own job-creation or brokering activities because they would save when they are successful.

KEY FINDINGS

Many individuals are too ill to work, or lack the experience and qualifications that employers need. The government's Work Programme is designed to deal with this but, due to a lack of resources and an inability to innovate, it has failed to provide the interventions that people need. This **wastes public money** on both ineffective interventions and spells on benefits that are, for some, unnecessary: with the right interventions many more could be in work and contributing to the public finances instead.

However, not enough money is being made available to **invest in these interventions upfront,** despite the fact that they could **save money down the line**, or may involve the same amount of spending as currently but succeed in moving someone into work.

For example, the annual tax-benefit saving for moving a single woman on employment and support allowance, living in council tax band C private rented sector housing in Southwark, who moves into a job paid at £8.25 per hour is £9,000 for a 20-hour week – enough to fund a wide range of employment support, **provided that that sum can be harnessed.**

The **Work and Health Programme** that will succeed the current Work Programme will be a **better model in some ways**: it will be **co-commissioned** with local authorities in order to more effectively tailor the scheme to suit local labour markets. However, it will have **even less money to spend** than the current scheme. In order to function, it will therefore need to do the following.

- **Unlock more funding upfront** for the support that is required, which can often be more expensive than the interventions which are currently being delivered.
- **Enable a broader range of interventions**, that are tailored to individuals' needs, including the option of **paid work placements or sheltered employment** when necessary.

A number of relevant lessons emerge from our review of current and alternative policies in the UK and abroad, such as:

- Public money can and has been shifted around the system through various **invest to save** and place-based initiatives in public services, but the **realisation of cashable savings** is crucial.
- **Local government** is in a good position to shape employment support in order to **generate jobs** and to place the hardest-to-help in those jobs where appropriate. However, **close collaboration with the rest of the public sector** is essential.

KEY RECOMMENDATIONS

We therefore propose that the Work and Health Programme is funded on a radically different basis than is currently proposed.

- A 'welfare earnback' **joint venture company** should be set up, with the purpose of **investing to save**.
- All relevant agencies would invest in this company with the objective of getting the hardest-to-help and others for whom there is a case into work: the combined authority, the Treasury, the Department for Work and Pensions and local NHS commissioners would invest, and it would have a remit that extends across the city-region in question.
- This initiative could be **led by the 'metro mayor'** where the office exists; otherwise, a **local authority leader or leaders** could bring stakeholders together.
- They would be incentivised to do so because it would make their own services **more effective** without spending more money; there would even be the **potential to make a saving if so desired**.
- The advisors would select individual jobseekers, using a more developed form of the **cost–benefit analysis** tools already in use, and **invest in their support upfront** based on the savings they expect to make.

Participants should be referred and assessed for eligibility on a case-by-case basis.

- People could be **referred by doctors or housing associations**, or could **refer themselves** for assessment by a specialist advisor.
- This specialist advisor would use their own **experience**, and a wide range of **intelligence** to make an assessment of (in simple terms):
  - the **cost** of overcoming all of their barriers to work
  - the **saving and additional revenue** that would accrue to the whole public sector over three years
  - the **probability** of success.[1]
- Some participants could be '**high-cost, high-saving**' claimants, such as those with low-level health needs claiming employment support allowance who are not receiving the holistic and more expensive support they need; however, '**low-cost, low-saving**' claimants would also be eligible, such as a young jobseeker's allowance claimant in need of a short-term job placement to gain work experience.
- Those who do not present a case for investment according to these criteria would **still receive support**, but through other programmes or Jobcentre Plus – which is getting more investment.

If there is a **case for investment** then a '**whatever works**' approach should be adopted.

- The hardest-to-help claimants often need **multi-agency, wraparound support**. For some this might include mental or physical health provision; for others it might mean literacy classes or other skills provision.
- Crucially, in cases in which there appears to be a strong chance of success, the company should be free to fund short-term **job placements**, **intermediate labour markets** and other demand-side interventions.
- The 'whatever works' approach means, in turn, that **whichever organisation** in whichever sector is best-placed to undertake each function does so.

Employment support should **join up with job creation** where possible.

- Local government should be **rewarded when their job-creation and/or brokering activities** result in the employment of the hardest-to-help, on the basis of the reductions in the benefits bill and increases in the tax-take that result.
- These rewards should be allocated through a separate mechanism: the five-yearly '**gateway assessments**' of current **earnback and gain-share deals** should include robust estimates of savings generated by such activity, which can be derived from universal credit's reporting systems. The Treasury and the government departments that benefit should sign up to such an arrangement as part of a devolution deal and would then be expected to contribute if sufficient evidence is provided.

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1 This would need to account for deadweight, retention rate, cashability and optimism bias (see HM Treasury 2014).

1. INTRODUCTION

1.1 CONTEXT

The UK labour market has improved significantly since the recession. In 2015, working-age employment[2] reached an all-time high of 30 million, and the employment rate stood at 73.5 per cent, having risen by 3.7 per cent since 2011. Unemployment is at its lowest since 2007, at 5.4 per cent, having fallen by 2.8 percentage points since its peak in 2011 (ONS 2016).

However, many have been left out of this recovery: beneath these headline figures, specific groups are experiencing entrenched difficulties. The unemployment rate for those who are low-skilled or disabled is far higher than the average: the rate for those with no qualifications is 11.5 per cent, while for those who have a disability[3] it is 10.5 per cent (and this rate includes only those who are actively looking for work[4]). The government has made halving the 'disability gap' (between the rate for those disabled and those not) one of its top priorities and the Work and Pensions Select Committee has launched an inquiry into it (HoC-WPSC 2015).

1.2 THE POLICY RESPONSE AND ITS SHORTCOMINGS

The government's primary response to this problem is currently the Work Programme. However, it has had limited success since it was commissioned by the Department for Work and Pensions (DWP) in 2011 to provide employment support for the long-term unemployed and economically inactive. While it has been just as effective as previous initiatives for mainstream jobseekers, it has largely failed those who are the 'hardest-to-help' (see chapter 2).

There are many reasons why the Work Programme has not delivered for this group. We will set these out in full in chapter 2 of this report, but in summary they are as follows.

- First, the programme has lacked the resources it needs to provide the support that the hardest-to-help individuals need in order to get into work.
- Second, Work Programme providers have lacked the capacity and inclination to innovate, or to provide the intensive, multi-agency, wraparound support that they require (Davies and Raikes 2014).
- Third, the payment-by-results funding model not only fails to respond to local labour market conditions – which have a strong bearing on programme performance – but compounds this problem by underinvesting in parts of the country where investment is needed most (ibid).

2 Unless stated otherwise, all figures relate to the working-age population only (16–64).

3 As defined under the Equalities Act core or work-limiting disabled.

4 There are further criteria for qualifying as unemployed, see: http://laborsta.ilo.org/applv8/data/c3e.html

The Work Programme's successor, the Work and Health Programme, will in some ways be an improvement. It will be rolled out in 2017/2018, and in some of the major city-regions it is likely to be co-commissioned with local authorities – in contrast to the current arrangements where DWP commissions the programme across its own defined contract package areas. This will enable the programme to be aligned and coordinated with the conditions and demands of the local labour market to a far greater extent, as well as with the employment and health support activities that are provided by local government. It will also be more explicitly focused on improving health outcomes – an important aspect of the current arrangements that has been found wanting (Meager et al 2013). This means that the second and third of the three points above should be at least partially addressed.

However, this new programme will be far smaller in scale than the current one. The comprehensive spending review published in 2015 set aside 80 per cent less than is currently allocated for the Work Programme, instead shifting resources towards Jobcentre Plus and other schemes (Learning and Work Institute 2015). At present it is unclear how the new programme will work, given that its predecessor was already lacking the finance required to improve the employment chances of those facing multiple barriers to work.

At the same time as this activity is being commissioned by DWP, local government – often in partnership with other central government departments – is intervening in the economy. While there are far fewer resources going into economic development than in the years before austerity, local government still undertakes some of this activity, and a series of 'deals' with central government has provided them with some money, based on their success delivering economic growth. However, local authorities are incentivised to generate economic growth without necessarily prioritising job creation, let alone the quality and accessibility of any jobs that are created. There is justified concern that the local growth that is being stimulated is not inclusive in nature, and fails to provide the jobs that would offer Work Programme participants genuine opportunities to move into work.

1.3 THE RATIONALE FOR INVESTIGATING AN 'EARNBACK' APPROACH

Employment support can work. There is strong evidence that, if designed appropriately, active labour market programmes (ALMPs) can make a significant difference to employment outcomes and overall levels of employment. A meta-analysis of 130 ALMPs from a wide range of countries and labour market settings found that ALMP participants' likelihood of finding work were between 5 and 10 percentage points higher than those excluded from such programmes (De Koning 2007), and well-targeted programmes can exceed these levels.

Employment support can also save public money by accelerating job-finding rates and keeping people in jobs for longer. Despite the trend towards the residualisation of employment support in developed countries, the costs of interventions are often lower than the cost of inaction. For example, the cost of supporting many claimants through out-of-work benefits is far higher than the per-participant cost of Work Programme payments, which stands at £4,400 for those on jobseeker's allowance (JSA) and £6,600 for those on employment and support allowance (ESA) (NAO 2012). Tightening resources that support claimants back into work may therefore be a false economy.

The scale of the UK government's restructuring of employment support is such that a completely new approach to it needs to be explored. While the drastic reduction of funding is what has made this necessary, it also represents an opportunity to embed a more effective approach. The three challenges outlined above – lack of resource, lack of innovative wraparound support, and lack of responsiveness to local labour markets – could be tackled in a wholly new way.

The solution lies in a more effective use of resources. The human cost of worklessness is itself a reason to reform, but the fiscal imperative is also strong. While by international standards we invest relatively little in supporting people into work – some £3 billion in 2014/15 (HM Treasury 2015) – we spend at least £17 billion each year on two of the main out-of-work benefits: JSA and ESA. JSA spending amounts to around £2.3 billion per year to support around 750,000 claimants, while sickness-related unemployment costs the state considerably more. In 2015/16 there were an estimated 2.5 million claimants of incapacity benefit alone, at a cost of around £15 billion – or nearly £6,000 per claimant (DWP 2016a).

Even these cost calculations considerably underestimate the full cost of unemployment-related expenditure. Claims against other entitlements, such as housing benefit (£25 billion per annum – the majority of which goes to people who are out of work) and other welfare expenditure budgets, such as local authority support for council tax benefit which, now a devolved matter, cost around £5 billion in 2012/13 (ibid).

If we consider other benefits and taxes too, the following examples illustrate how much the government would save for each additional individual in work.

- The tax-benefit saving for a moving a single man living in council tax band C private rented sector housing in Sheffield from long-term JSA into a minimum wage job[5] for 30 hours a week is £8,600 per year.
- The annual tax-benefit saving for moving a single woman on employment and support allowance, living in council tax band C private rented sector housing in Hammersmith, who moves into a job paid at £8.25 per hour is £9,000 for a 20-hour week (Entitledto 2016).

These fiscal and economic returns may be even more dramatic if looked at across a city-region's workless population, and factoring in the resultant savings to other government departments. Bivand and Simmons (2014) estimate that moving an individual in Leeds from out-of-work benefits and into a living wage job would result in a £7,200 gain to that individual, a fiscal saving of £6,280 per capita (including its impact on crime and health), and a £14,600 per-capita impact on the wider economy due to the 'multiplier effect' – and that's without factoring in reduced costs in terms of housing, education, personal social services and local environmental services.[6]

5 Which the government calls the 'national living wage'.
6 The evidence base is less robust in these areas.

What this all makes clear is that, rather than simply picking up the tab later, there is a strong case in favour of local and central government making upfront investment in better employment services. However, doing so would require greater resources to be put into the Work and Health Programme than current central government budgets will allow. A new investment model must therefore unlock new funding, enable innovation, and align employment support more closely with job creation. This report develops the proposal for a 'welfare earnback' approach suggested by IPPR North in 2014:

> *'Building on the principle and logic of "earnback" and existing [tax increment financing] approaches, the 2015 spending review should make provision for combined authorities to finance investment in infrastructure, employment and skills based upon the potential savings from increasing employment as well as the proceeds of GVA growth. This should extend from the direct fiscal benefit of successful employment programmes and skills interventions, to the indirect employment benefits of economic growth where they can be evidenced, and cover the cost savings made via all government departments.'*
>
> Cox et al 2014

1.4 PROJECT OUTLINE

This report investigates how such an earnback approach might be adopted. We draw on a range of research to set out how money can be spent upfront on interventions that move people into work, on the basis of the increased tax that those people will pay when in work, and of the savings made to the public sector as a whole that will result. The report's focus is largely on the shape of the Work and Health Programme (the 'supply side'), but it also examines how it can be better aligned with job creation (the 'demand side') when it is underwritten by public money. The report's structure is as follows:

- chapter 2 discusses how and why the Work Programme has failed to deliver for some groups
- chapter 3 draws out what innovation there has been within the Work Programme, and looks at other approaches taken in other contexts
- chapter 4 investigates the role local government could play
- chapter 5 outlines our welfare earnback model.

2.
THE LIMITATIONS OF THE CURRENT APPROACH TO EMPLOYMENT SUPPORT

The Work Programme is not delivering for the hardest-to-help. Without radical reform, adequate resourcing, and the drawing of lessons from the past, nor will the Work and Health Programme that will succeed it. This chapter analyses how and why the current programme is underperforming, in the hope of ensuring that future programmes meet with greater success.

2.1 THE PERFORMANCE OF THE WORK PROGRAMME

The DWP's Work Programme, which has run since 2011, is the government's flagship welfare-to-work scheme. It is delivered primarily by private providers: DWP tenders contracts across set geographical areas to 'prime' contractors, who in turn subcontract employment support to a range of companies and charities. These providers are free to deliver whatever they think works for jobseekers, and they are rewarded for getting people into employment (and further rewarded when this employment is sustained and of good quality) – it is a so-called payment by results (PbR) system.

While providers have the autonomy to support people as they please, the Work Programme is principally a supply-side initiative that places a very strong emphasis on 'work first' – that is, it prioritises rapid job entry, often supported by conditionality (that is, the threat of removing benefits), rather than focusing on wider issues of skills, health or 'human capital' support (for fuller discussions of these contrasts see OECD 2005). While this emphasis on rapid attachment to the workforce is cheaper than more expansive investment in education, training or health support, its success tends to diminish over time as individuals struggle to sustain work in often poorly paid jobs (Peck and Theodore 2000).

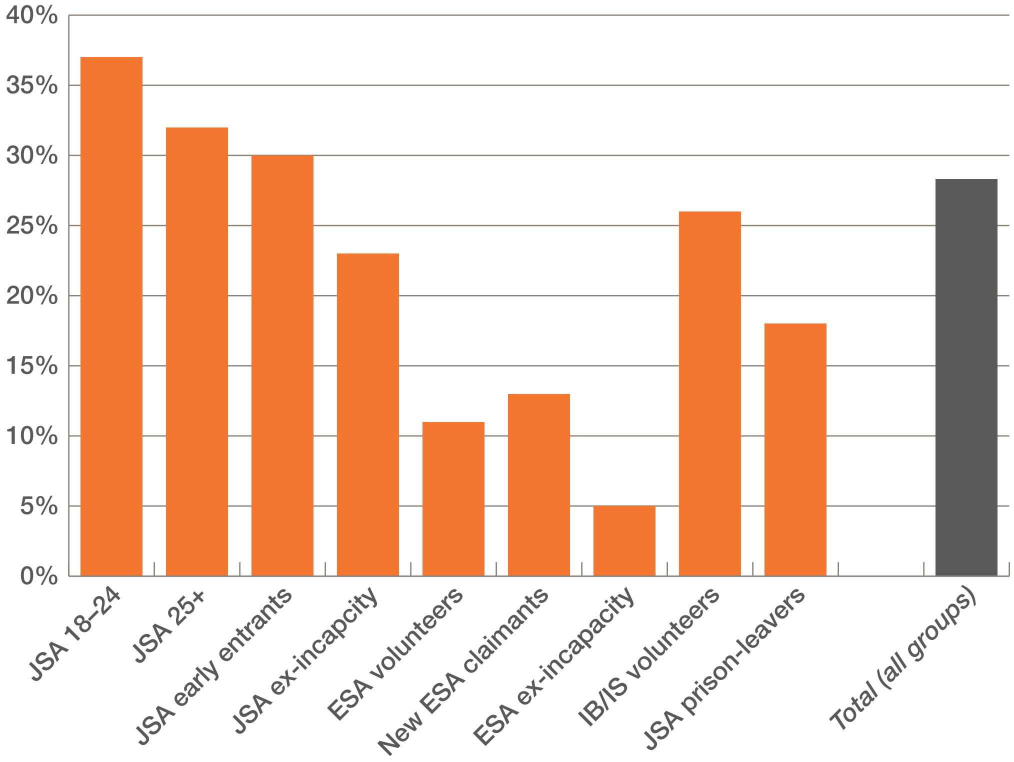
The performance of the scheme has been mixed at best, and reflects predictable patterns of success for certain groups. The programme has performed as well as, if not better than, previous equivalent schemes for 'mainstream' jobseekers – that is, those who need only the basic employability support and help identifying local job opportunities (Davies and Raikes 2014).

However, there is compelling evidence that the Work Programme leaves behind many of the hardest-to-help groups. Figures 2.1 and 2.2 illustrate the groups for whom the programme is delivering poor results – particularly participants in the programme who are claiming the main inactivity benefit, ESA. These are the most challenging groups in terms of welfare-to-work policy, comprised of individuals who have been out of work for many years, or who have severe physical or mental health problems. This group has a job outcome rate of only 10 per cent. This is despite providers being rewarded more for moving this group into work.

FIGURE 2.1

The Work Programme is not working for ESA claimants

Work Programme performance (job outcomes as a proportion of attachments) by payment group*

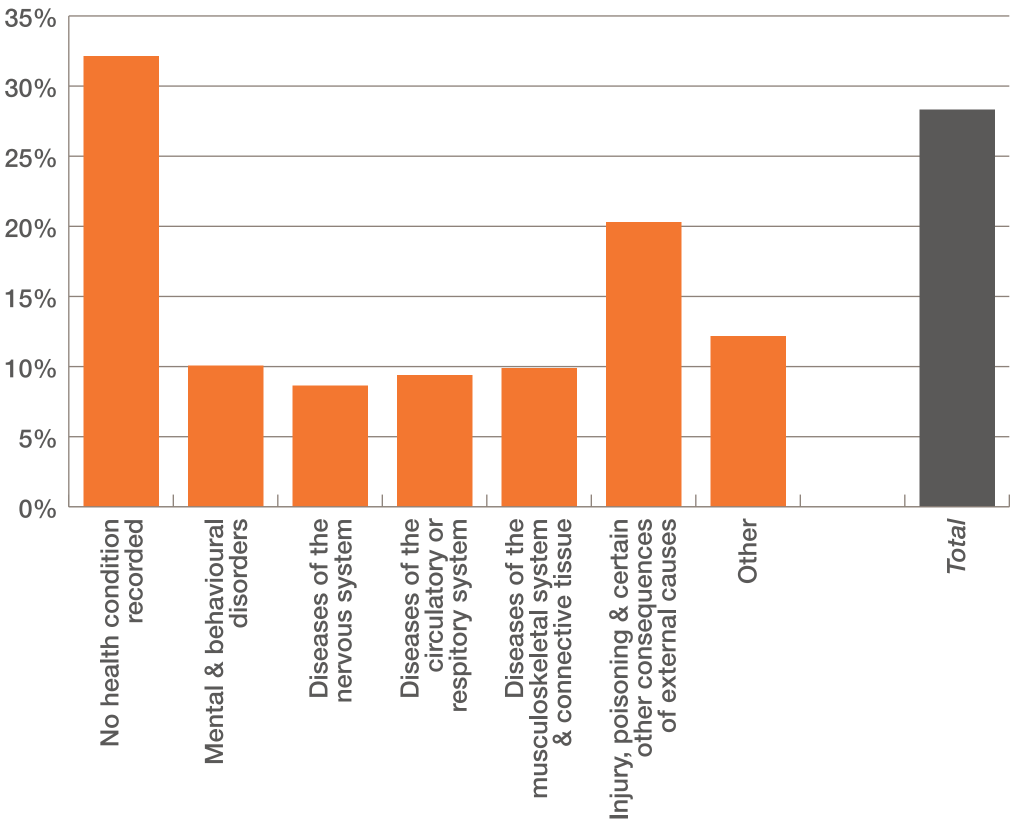


Source: DWP, 'Work Programme statistics' (DWP 2016b)
Note: *Cumulative performance of the Work Programme

FIGURE 2.2

The Work Programme is also failing those who have mental and physical health problems

Work Programme performance (job outcomes as a proportion of attachments) by primary health condition*



Source: DWP, 'Work Programme statistics' (DWP 2016b)
Note: *Cumulative performance of the Work Programme

For those furthest from the labour market, there is limited evidence that the current model is providing much meaningful support.

This problem stems primarily from the limited resourcing of the programme – the programme is low cost, and therefore so are the interventions. The more expansive programmes, such as the New Deals, delivered in the past – which offered various options for subsidised work and voluntary placements, and which directly delivered work placements and even sheltered employment – have been whittled away. What is left is a narrow, 'work first' system of interventions that largely deliver CV classes, vacancy matching and motivational classes, rather than the more holistic interventions that might be necessary for success. Table 2.1 shows the per-head expenditure of recent employment programmes, and demonstrates that the Work Programme is among the leanest of recent major employment initiatives, despite the fact that it draws in a wider client group who often face more complex barriers to work. Investment in those who do face these complex barriers is, therefore, limited by the Work Programme.

TABLE 2.1

Spend per participant on recent active labour market programmes

	Spend per head estimates (2015 prices)
New Deal for Young People (NDYP)	£1,130
New Deal for 25 Plus (ND25+)	£1,280
Work Programme	**£1,290**
Employment Zone 25 Plus	£1,525
Private-sector-led NDYP	£1,535
Private-sector-led ND25+	£1,535
Employment Zone 18–24	£1,690
Flexible New Deal	£2,020

Source: IPPR calculations based on House of Commons Work and Pensions Committee (2009) *DWP's Commissioning Strategy and the Flexible New Deal, Second Report of Session 2008-2009, V.II Oral and Written Evidence*, (HoC-WPC 2009) and DWP, 'Work Programme statistics', (DWP 2016b)

This tight resourcing is associated with wider problems that are more complex than simply an inadequate overall budget for the Work Programme. These problems are addressed in greater detail below, but in brief they are as follows.

- First, the **design of the PbR system used within the Work Programme appears to have created incentives to target support at participants who are easier to help.** Despite attempts to 'design-out' these incentives, it appears that providers do not consider the additional funds on offer sufficient to overcome the risks of investing in that support. As a result, claimants are either 'parked', or given more standardised employability support (HoC-WPSC 2013).
- Second, there is not always clear evidence regarding what can help those furthest from the labour market with specific employment barriers, and thus **for some there are not as yet 'off the peg' support methods. This demands innovation and experimentation in supporting services.** A lean PbR model runs counter to the objective of encouraging innovation, as it does not offer sufficient compensation or rewards for exploring new methods that may (or may not) work – a significant problem given the dearth of evidence on supporting harder-to-help individuals successfully back into sustained work. This leads to narrow provision centred on 'work first'-style employment support, rather than more holistic innovations that bring together different service areas and develop jobseekers' human capital.

Previous wider models have been more encompassing, providing more intensive support for employment through health support, workplace adjustment, sustained help with retaining work, and even job guarantees for those who have struggled to enter the mainstream jobs market. The costs per outcome of each of these interventions are outlined in table 2.2.

In summary, if performance for the hardest-to-help groups is going to be improved, the support on offer to them needs to be made commensurate with the labour market barriers that they face, for reasons of both efficiency and equity. Regarding efficiency, evidence has shown that without bringing a large proportion of the long-term unemployed and inactive back into the labour market, the government will fail to hit its welfare cap targets, or its target of having 2 million more people in work by the end of the decade (Oakley 2016). However, improving the performance of the next major employment programme is important in terms of equity, too. In an environment in which a growing proportion of claimants of social security are expected to engage with employment and employability services – or else lose their benefits – the meaningfulness of conditionality is entirely lost if engagement is not likely to provide improved health, wellbeing and, ultimately, employment outcomes.

TABLE 2.2

Spend per outcome on labour market interventions in employment support

	Cost per outcome
Work Choice	£13,000
New Deal for Disabled People	£4,000
Future Jobs Fund	£9,180
Jobs Growth Wales (Enterprise Allowance)	£6,000
Individual Placement and Support	£3,335
Access to Work	£2,900

Source: Greenberg and Davis, *Evaluation of the New Deal for Disabled People* (Greenberg and Davis 2007); Fishwick et al, *Future Jobs Fund: An independent national evaluation* (Fishwick et al 2011); Ipsos MORI, *Jobs Growth Wales: Interim evaluation report* (Ipsos MORI 2014); Cooke et al, *Promoting contribution: Boosting employment opportunity for all* (Cooke et al 2015)

2.2 THE LIMITATIONS OF PAYMENT BY RESULTS

The payment by results (PbR) that underpins the Work Programme is part of the problem. This method of commissioning has now become a central instrument of public policy delivery. It usually involves a transfer of delivery responsibility and finance from the public sector to the private sector on the basis of financing outcomes rather than inputs – that is, providers are paid by the results they achieve. PbR involves a range of different approaches, but central to these is the government acting as a commissioner for outcome-based contracts to deliver public services, either to one contractor (for instance Atos or Maximus in the delivery of the work capability assessment) or to many, such as in the National Health Service. Bredgaard and Larsen (2008) explain that the motive for bringing market forces to employment services is: ‘efficiency gains, improved quality, simplification, de-bureaucratisation and a reduction in state intervention in the market’. While PbR systems are intended to utilise the power of market forces to drive innovation and efficiency in service delivery (and thus leaner public expenditure), the government is traditionally the only ‘customer’ in the marketplace, buying on behalf of all those receiving services. As a result many commissioned PbR-led public services are known as quasi-markets (Le Grand 1991).

Although the objectives of PbR are clear, the jury remains out on whether it has transformed employment services – there is no convincing empirical domestic, or international, evidence to support the displacement of the public employment service in the delivery of welfare-to-work programmes. Bredgaard and Larsen's argument made nearly a decade ago still holds true empirically, namely that:

> *'There is still little valid and systematic knowledge on the outcomes and effects of shifting to quasi-markets in employment policy. This makes it difficult to conclude whether quasi-markets are indeed "better and cheaper" than the old public system. There can be no doubt, however, that contracting out results in a fundamentally different employment services system.'*
> Bredgaard and Larsen 2008

Beyond whether using markets in employment policy actually leads to better job outcomes, there are a number of other consequences that are worthy of attention. International experience suggests that the profit motive in employment programmes can drive unintended consequences, such as the 'cherry-picking' of those participants closest to the labour market while 'parking' or sidelining the more difficult cases (Finn 2008). Yet although differential pricing (that is, offering providers more money to help claimants with more complex barriers to work) attempts to limit this, there is mounting evidence that those deemed least likely to find steady work are getting a limited, and often inappropriate, service (as outlined in our analysis of Work Programme performance above).

A review by the work and pensions select committee (HoC-WPSC 2013) heard evidence that the payment group to which participants were allocated did not seem to affect the *type* of service they received. In addition, the committee took evidence from CDG (a prime provider) that 60 per cent of their staff felt that the differential pricing did not accurately reflect the challenges of working with claimants with diverse needs. This was supported by evidence from the DWP's second programme review, which found little evidence that the differential payments system had led contractors to target different support for different client categories (Lane et al 2013).

A clear example of the 'parking' of clients was revealed in an unpublished review for the DWP that found that those '[i]ndividuals who reported little contact during their six months on the programme were nearly all ESA claimants' (Meager et al 2013). Another report for the DWP would appear to offer some insight into why this might be the case, suggesting that specialist disability providers had pulled out of the programme because they were being subcontracted to deliver support that was not financially viable (Purvis et al 2013). If private contractors cannot make money out of delivering specialist support, it is no surprise that this support is rarely forthcoming. Collectively, these reasons go some way to explaining why the employment outcomes for more complex clients are low – around 1 in 8 ESA participants on the programme are finding sustained work (DWP 2016b, or 1 in 10 where participants have a mental health problem (ibid). A clear lesson going forward is that **future programmes need funding that will reflect the needs of the client, and the cost of giving them appropriate support**.

The current investment model also takes little account of local labour markets and the more serious challenges associated with moving individuals into work in places where job opportunities are in short supply. Successive studies (Jones et al 2002, Davies and Raikes 2014) have shown that the performance of Work Programme contractors is in part driven by conditions in the local labour market. If this is indeed the case, then some providers are earning more money simply because they are located in more buoyant work environments, whereas others are financially disadvantaged by circumstances beyond their control. The unintended consequence of this market bias is that programme investment is channelled more heavily into stronger labour markets than weaker ones, where typically larger concentrations of harder-to-help claimants are located (Davies and Raikes 2014).

This problem is compounded by the design of a specific element of the programme. Over time, the upfront cash paid to contractors (attachment fees) when new participants join the programme has been withdrawn. This has starved those areas that are likely to already be struggling with high levels of unemployment of much needed funding for providing employment support (ibid).

2.3 THE LIMITS ON INNOVATION

A core feature of the current Work Programme, closely related to PbR, is the 'black box' model. The shift towards commissioning the (predominantly) private sector occurred simultaneously with a change in emphasis away from the state dictating the methods employment services should deliver. Under this so-called black box model the employment provider can determine how help is structured without any major interference from the government. The logic for applying such a deregulatory approach is that it would lead to innovation in support for the unemployed that was not possible within the bureaucratic constraints of legal/political institutional structures. Process-driven public services are often perceived as inflexible and impersonal, so employment programmes have (successfully or otherwise) been increasingly focused on creating person-centred approaches to resolving long-term unemployment (for example see Freud 2007). As the state cannot legislate or regulate the details of individual support programmes for participants, it should, following this rationale, allow providers the freedom to do so.

Whether this is the right method has been called into question on various fronts. Crighton et al (2009), for instance, describe the 'black box' strategy as tantamount to having no strategy at all. Furthermore, the extent to which the deregulatory approach has genuinely resulted in innovation is again questionable. Reviews of the Work Programme commissioning and delivery process have illustrated that little innovation has occurred in the market – providers are delivering predominantly 'work first' support for participants (Newton et al 2012). The lesson from this experience appears to be that loosening the rules around what providers can do to support the unemployed is not, on its own, sufficient to provide the innovation and experimentation required to identify new methods for helping those who require more than traditional and low-cost employment support. In fact it often introduces new challenges.

Helping individuals with more complex programmes will demand both investment and innovation, and so if future programmes want to achieve better outcomes than previous schemes, upfront investment will need to recognise additional support needs. While the government has effectively accepted this argument through providing temporary additional investment in ESA employment support in the summer budget of 2015 (HM Treasury 2015), the more advanced system of welfare earnback that we propose would provide a more comprehensive and stable programme of investment in active labour market programmes for disadvantaged jobseekers in the years to come.

In short, ALMP funding has become increasingly residual despite a move to bring more individuals with complex needs into these schemes. The result is underfunded work first-style services that do not adequately tackle the myriad reasons why people are out of work for extended periods.

The amount of money spent on long-term benefit recipients is substantial, so future programmes need the capacity to finance more holistic employment support. Future savings on welfare could be used to fund more holistic programmes now, but in doing so, limiting potential savings to JSA will not provide the necessary resources because an individual's benefit receipt is greater than their unemployment support. Rather, future PbR programmes funded by AME-DEL switches[7] must be more inclusive of the full range of benefits paid. Both the rollout of universal credit and community budget programmes are an opportunity to take a wider view of welfare spending, and therefore investment in employment support.

2.4 SUMMARY: LESSONS FOR REFORM

Several key points follow from this analysis.

- **A shift to 'pure' PbR for employment services is not practical for all user groups.** In particular, for people with health-related problems, substantial investment in addressing their conditions may be necessary, as instruments used to help people may be untested, and therefore risky in a 'pure' PbR model.
- **Investment in employment support is too low**. The critical lesson from the Work Programme is that the cash available to suppliers, and therefore their clients, is too lean and prevents the necessary investment required for individuals with multiple complex needs – in particular mental and physical health problems.
- **Commissioning must take account of the likelihood of suppliers achieving results**. Now, and historically, the performance of providers is mediated by the conditions of the local labour market (Jones et al 2002, Davies and Raikes 2014). Any regime that seeks to reward suppliers on the basis of their results must account for likely exit rates.
- **Employment support must be flexible to local labour markets**. The 'supply side' PbR model must therefore account for economic and demographic variables, through local co-commissioning, and potentially by offering higher rewards for addressing those places with deeper structural economic problems.

7 The potential to invest more in active labour market programmes from current spending envelopes has been opened up by the shifting of resources from predicted future Annually Managed Expenditure (that is, welfare payments) to Departmental Expenditure Limits funding (programme funding), hereby shortened to AME-DEL switches.

- **Employment support can only go so far – labour demand is decisive.** Many parts of the country simply need more jobs for people to move into, and employment support will be ineffective in these areas without action on the demand side.

3. 'INVEST TO SAVE' APPROACHES AND THEIR POTENTIAL FOR EMPLOYMENT SUPPORT

It is clear from our analysis that the Work Programme has many shortcomings. This chapter therefore investigates what could be done to improve the programme, by drawing out what does work, before investigating previous policy in employment support and related areas.

3.1 THE 'AME-DEL SWITCH'

While PbR is not new to public services, the methods used to finance contracted provision have been part of a wider programme of innovation in public accounting, not least the AME-DEL switch – the potential to invest more in active labour market programmes from current spending envelopes has been opened up by the shifting of resources from predicted future Annually Managed Expenditure (in this case, welfare payments) to Departmental Expenditure Limits funding (in this case, programme funding).

A simplified description of the AME-DEL switch is a funding mechanism which draws down from future revenue expenditure to fund the results-based Work Programme contracts. This is generally not allowed:

> *'Departments may not switch provision from AME to DEL. Such switches would prejudice the functioning of firm four-year budgets for DEL. Where the actions/inaction of a Department increase AME, they are assumed to fund the increases in AME by reductions in their DEL budgets.'*
> HM Treasury 2014

Special dispensation, however, was permitted to the DWP to do exactly this 'switching' with financing the Work Programme, using future savings from benefit expenditure to fund upfront spending. The problem with the model used was its limitations. The current AME-DEL arrangements are largely limited to drawing on estimated expenditure within narrow confines of core social security spending on the individual, namely JSA and ESA payments. The conservatism behind such an experimental model of 'invest to save' is understandable, but the tightness of funding is one of the reasons why employment outcomes are as low as they are, as we have argued elsewhere (Davies and Raikes 2014). As a result, the AME savings are lower partly because the DEL investment is lower. Within limits, therefore, there is a virtuous circle of higher upfront investment leading to lower future expenditure on welfare receipts.

Critically, to make the financial viability of the programme stack up, all social security benefits, local and national, must be in the frame. Currently, the value of the rewards that Work Programme providers can earn for successfully moving someone off the programme largely reflect a single line of their benefits – namely their main out-of-work benefits, that is their annual jobseeker's allowance claim. For instance, for JSA claimants, the annual benefit spending is around 80–90 per cent of the full Work Programme award, as table 3.1 illustrates. However, the investment in individual participants – or looked at another way, the reward for providers – does not reflect the full amount of AME expenditure on the individual by the Department for Work and Pensions. In particular it excludes what are usually much higher housing benefit or local housing allowance payments. These rates vary in accordance with local rent levels, but in Manchester for example are worth around £98 per week. As universal credit (UC) will bring these disparate benefit payments together under one single payment, it would be logical in any welfare earnback model to consider the system-wide social security expenditure, especially as moving an individual into work will reduce the full universal credit payment – not just the disguised JSA element of UC entitlement. Here, the savings are more apparent, as illustrated in table 3.2.

TABLE 3.1

Work Programme success reward and AME spend compared

	Full WP award	Weekly award	Annual award	Difference
JSA 18–24	£3,810	£58	£3,010	*-£800*
JSA 25+	£4,395	£73	£3,800	*-£595*

Source: DWP, 'Outturn and forecast: March Budget 2016' (DWP 2016a) and National Audit Office, *The Introduction of the Work Programme* (NAO 2012)

TABLE 3.2

Universal credit on/off calculations

	On benefits	In work (35hrs)	Difference
Universal Credit	£8,875	£2,575	*-£6,300*
Council Tax Support	£880	–	*-£880*
Total fiscal cost (benefit)	£9,755	£2,575	*-£7,180*
Client Earned Income	–	£10,995	*£10,995*
Total	**£19,510**	**£16,145**	***£3,365***

Source: IPPR calculations using Entitledto 2016

These figures more closely reflect David Freud's intention for the AME-DEL switch in his 2007 review of employment programmes (Freud 2007). Also included is local government's contribution to supporting out-of-work individuals in payment and in kind through services. The most obvious cashable saving from moving an individual into work is to cease paying council tax support – a saving on average of around £900 per annum – or 10 per cent of an individual's benefit subsidy.

3.2 INVEST TO SAVE MODELS BEYOND THE WORK PROGRAMME

Beyond the Work Programme, there are other models of employment support that have deployed similar earnback/PbR principles, which have sought to load risk on providers of services through a variety of financial arrangements. The core to each of these models is the transfer of lump sums of investment to either private, public or third sector to deliver savings – whereby there is an agreement that if the investment does not work out, a significant proportion of the risk of failure is transferred from government to the delivery organisation. Table 3.3 sets out some prime examples of different earnback/PbR models:

TABLE 3.3

Risk-sharing models of invest to save

Initiative / Concept	Purpose	Design	Funding
Employment zones (UK)	Improve employment outcomes of long-term unemployed	First PbR model of employment support contracted by DWP in disadvantaged labour markets	Various. One model involved handing over total annual welfare receipt of claimants, and leaving providers to finance additional welfare costs if programme unsuccessful
Labour market agreements (Canada and US)	Devolve funding and responsibility for employment services	Negotiated financial agreements between national and state governments	Block grants to finance programmes on conditions of meeting specific employment objectives
Invest to Save (Wales)	Generate revenue savings through public service transformation	Fixed pot of funding available via an open bidding process	Repayable loan to services and social enterprises
Benefits to Bricks	Shift expenditure from housing benefit to capital investment in housing	Local authorities incentivised to demonstrate savings to HB, to retain for local social housing programmes	Two potential models: a) block grant funding b) five-year demonstration periods with payment at end of cycle

Source: Johnson et al, 'Phase 2 of the Multiple Provider Employment Zones Qualitative Study' (Johnson et al 2006); Cooke and Davies, *Benefits to bricks: Mobilising local leadership to build homes and control the benefits bill* (Cooke and Davies 2014); Pringle et al, *An independent evaluation of the Invest to Save fund* (Pringle et al 2014); Finn, *Welfare to work devolution in England* (Finn 2015)

The models outlined in table 3.3 vary widely in terms of their structure, but common among them is an upfront payment mechanism where risk and autonomy is transferred from the central government, either to local government or the service provider.

For instance, a latter incarnation of the employment zones model transferred a proportion of a claimant's benefit entitlement directly to the employment service provider for a period of up to six months. As well as other fees paid to a provider, that provider would be able to retain any unspent benefits that resulted from helping moving one of their clients into work. The risk would be borne by the provider where spells of unemployment exceeded the six-month period, because after the six-month period the provider would be responsible for meeting the costs of future benefit payments.

The development of the Invest to Save fund for Wales is another example of providing upfront funding to local organisations in exchange for transferring some of the risk from the core to the periphery. Launched by the Welsh government, the fund makes available loans (worth around £60 million between 2009–2012) (Pringle et al 2014) to local public services and social enterprises to provide capital funding for service transformation projects, and then paid down through any efficiency savings gained at a later date. An evaluation of the initial tranche of Invest to Save lending suggested that for each £1 loaned to organisations, some £3 in cashable savings had been realised (ibid).

Work undertaken by IPPR has also highlighted the possible savings from providing further borrowing for capital investment in affordable housing to reduce the long-term cost of rising housing benefit expenditure. In exchange for additional funding and the autonomy to adjust housing benefit payments, local authorities would be expected to make specific commitments to reducing the revenue costs of supporting households in temporary accommodation and high-cost private rented sector properties, as well as shouldering some of the additional risk associated with making interventions that would result in increases in housing benefit spending (see Cooke and Davies 2014).

Critical to the degree of risk transferred in these models is the likelihood that cashable savings can and will be realised. This means both that an assessment of the probability of success has to be made, but also that success has to result in a real, bottom-line saving for the agencies involved. The saving that accrues, for example, to the running of a hospital is not easily recouped by the public sector on the basis of an individual achieving a successful outcome – the hospital still has to operate. By contrast, benefit payments are highly cashable, because they relate to individuals – if an individual moves into work then that payment is no longer necessary.

3.3 EARNBACK AND GAIN SHARE

There are also some interventions in the financing of economic growth that could borrow from the invest to save approach. One such innovation is tax increment financing (TIF) that allows a local authority to borrow money to spend upfront on capital investment, and to pay this back with the uplift in taxation that will result. Under normal circumstances only local taxation is able to be borrowed against, which is a particular problem in the UK where little tax is raised locally (only business rates would be appropriate). In the United States TIF has been in use since the 1950s. Within the UK there are several examples of such schemes taken forward under the coalition government – for example the new development deals that were struck in 2012 with Newcastle, Nottingham and Sheffield.

This has been taken one step further in the case of Greater Manchester's earnback deal. The Greater Manchester City Deal introduced a significant innovation in economic development financing – 'earnback'. The aim was to go one step further than TIF and reward the Greater Manchester combined authority (GMCA) for generating economic growth with specific transport schemes – the Manchester Airport Relief

Road, and more recently the Metrolink to Trafford Park. This means that the combined authority can borrow for upfront capital investment based on the prospect of being rewarded by central government for driving growth. Initially attempted via a formula, this proved impossible because measuring, let alone attributing economic growth at this level, is particularly complex. In response to these challenges, the recent Greater Manchester Agreement made significant changes to the method of appraisal and reward (NAO 2015a). The schemes will now be assessed for success on a five-yearly basis through a 'gateway assessment' and rewarded by central government accordingly.

Independent assessments have therefore become an important feature of these new arrangements. In Greater Manchester an independent assessment will be co-commissioned by the GMCA and central government. Likewise, in Glasgow-Clyde Valley an 'independent commission on urban economic growth' is being set up for this purpose. This model has since been adapted in some form in deals with other major cities such as Leeds City Region, Greater Cambridge, Glasgow-Clyde Valley, Liverpool City Region and Cardiff Capital Region.

The logic of earnback has also been extended in theory to cover government expenditure too. Glasgow-Clyde Valley is implementing community benefit clauses, whereby recruitment and training are specified within procurement processes, and this is reported and monitored via the city deal (Scottish Parliament 2015). This sets a precedent for monitoring social considerations within the city deals process, and therefore could in future form the basis of reward. In addition, discussions around the Cardiff Capital Region City Deal hypothesised that the savings that growth and job creation generate to central government departments – not just DWP but also the Department of Health – could also factor in to an earnback reward (City of Cardiff Council 2015). Alongside his 2016 budget, the chancellor set out a deal with the Cardiff Capital Region which appears to follow a similar model to the previous deals, with five-yearly gateway assessments as a condition for funding, but without factoring in the wider savings that were initially proposed by Cardiff Capital Region (HM Treasury and CCR 2016).

There is therefore a clear opportunity to push this further. If local government is able to evidence that it has generated additional employment for those on the Work Programme or its successor, then these five-yearly gateway assessments are an opportunity for them to do so – if they are set up to analyse the additional economic growth generated by local government, then they can also factor in employment growth. Furthermore, by using administrative data from both the Work Programme and universal credit, it will be relatively simple to track which individuals are moving into jobs due to an intervention. However, the deal would have to ensure that those who indirectly benefit from interventions are also factored in, and that this doesn't inhibit projects of long-term strategic economic value. It is, for instance, unlikely that the new Metrolink line to Trafford Park will directly employ many on the Work Programme, but it is undoubtedly important to underpin economic growth in Greater Manchester. In this case, the small 'welfare earnback' incentive would mean policymakers include participants on the Work Programme as a material consideration and key performance indicator, and would therefore look for opportunities where they exist.

While this is not a simple task, it is arguably easier to measure additionality in employment than additionality in gross value added. This has been done many times before, and forms the basis of the allocations of government funds already (see chapter 4.2). Funding allocations are often made on the basis of additional employment growth, but these are usually allocated at the beginning of a scheme. If employment is to factor into gateway assessments then this would be *after* an intervention has been made. This has the dual advantage of making sure that evaluation is rigorous, while incentivising local government towards ensuring its activity remains focused on job creation. If the methodology and parameters of the assessment are agreed upon beforehand, then estimating additionality is a relatively simple analytical task.

3.4 LOCAL GOVERNMENT IN THE CONTEXT OF INVEST TO SAVE AND EMPLOYMENT SUPPORT

There are some key issues that need to be considered if local government is going to take a more proactive role in delivering employment support in the future.

The source of upfront investment in employment support

The source of any upfront funding for welfare earnback is a critical issue. In the Invest to Save model in Wales a loan is offered from a fixed pot from the central government, which invites bids from organisations, who are expected to pay back the loan at the end of a defined intervention period.

In Manchester, meanwhile, the Working Well pilot requires local authorities to provide a significant proportion of the funding themselves. In order to assume control of DWP post-Work Programme contract funding, 20 per cent of the upfront and ongoing programme costs are provided by local government.

The nature and scale of risk sharing between core–periphery agencies

Financial risk sharing is a crucial component of any earnback deal, and the extent of risk transferred from the core agency (DWP) to the periphery (such as local authorities, local providers) will depend on a) the balance of upfront investment provided, and b) the extent to which programme failure will be compensated. There is no ideal-typical division of risk sharing between the central agency and the programme provider. However, there has been some criticism of the Work Programme that upfront risk transfer for providers has been high (NAO 2012), and coupled with unexpected on-flow rates has potentially damaged provider performance by reducing expenditure on claimants.

The second area where risk matters is if revenue expenditure is effectively devolved to either the provider or the commissioner of services. This model was tested during the employment zones experiment in 2000. Specifically, the second stage of the employment zones programme:

> *'lasts for a maximum of 26 weeks and involves the delivery of the Action Plan with the intention of entering employment. Providers receive a single payment equivalent to 21 weeks*

> *of JSA … During this period, the Provider is responsible for paying the client their benefit entitlement but can retain any surplus if they enter work swiftly'*
> Johnson et al 2006

Unhelpfully, the evaluations of employment zones gave very little attention to the effectiveness of the design of this system, and the extent to which administration of social security by the newly responsible contractor was satisfactory (ibid).

The point at which interventions are rewarded

There are many models in place which seek to introduce the right incentives. Within the Work Programme, interventions are rewarded in response to job outcomes and sustainment. In the field of economic development, the 'earnback' or 'gain-share' deals are to be rewarded every five years after a rigorous analysis of additionality. This approach could be taken further and unlock additional upfront spending, by factoring in the income claimant's move from support into paid employment, thereby accounting for savings in benefits and departmental expenditure (from across the public sector), and consequent increased tax revenue.

The burden of monitoring cash savings

A fundamental area of earnback design is the demonstration of impact – the question of whether benefit savings would have been made irrespective of the additional intervention. This was recognised in respect to the proposed AME-DEL switch in the Freud review whereby:

> *'It would … require a robust measurement of the additional employment outcomes achieved by the private and voluntary system over and above those that the State could have achieved with current policy. As the model develops it should incorporate sophisticated assessments of the relative difficulty and costs of helping variously disadvantaged groups into the labour market.'*
> Freud 2007

While not easy, the ability to demonstrate impact of different interventions at a scale smaller than national programmes is already in process. Government regularly uses experimental methods in social policy, and increasingly does so at smaller scale, for instance in government pilots. There are various approaches that could work as part of any earnback deal between central and local government to illustrate impact, as summarised in the boxed text below.

Measuring additionality

Randomised control trials (RCTs) are at the top of the Maryland evidence scale,[8] and from the outset of any intervention there is an intervention group and comparable control group – in this instance you might have 500 ESA claimants in the work-related activity group (WRAG) receiving a specific employment intervention, and another 500 ESA claimants in the same group, and in the same area, not receiving

8 The Maryland scale is a five-point scale for classifying the robustness of evaluation methods. For more information see http://www.whatworksgrowth.org/resources/the-scientific-maryland-scale/

support. The difference between the groups is the scale of the impact, and the returns to any intervention body would reflect that.

RCTs are currently being used to demonstrate the impact of the Manchester Troubled Families initiative, and could potentially be rolled out across a range of earnback interventions. The principal problems with doing so are first, risks of equity – that is, neglecting to support 500 ESA claimants for the purposes of experimentation – and second, these methods are traditionally more costly than others.

Non-experimental methods are effectively using statistical methods to try to construct, post-hoc an equivalent of the randomised control trial. Rather than triaging individuals into intervention and control groups at the outset of the programme, non-experimental methods such as 'difference in difference' comparisons or 'propensity score matching' seek to retrofit an experimental model by evaluating the outcomes of comparable on/off groups (see Dearden 2007).

These methods are becoming more common and – although complicated and heavily dependent on good quality data together with sophisticated and appropriate matching of control and intervention group characteristics – they can be less expensive than RCTs. While considerable expertise is required to conduct this method successfully, if the parameters are agreed between the core–periphery agencies, with a commitment from the core to provide the necessary comparable data, this should be achievable.

The actuarial approach is currently being evaluated in New Zealand, and is under discussion with officials at the DWP. Effectively this method is used to define and agree detailed estimates of future trends, for instance the number of people in a local area likely to be receiving long-term JSA five years from now. If the method and estimates are agreed between core and periphery agencies, any underspend of predicted five-year levels of JSA expenditure would contribute towards an earnback payment.

Naturally, experimenting with detailed estimates of future expenditure is complicated and subject to a wide range of exogenous factors. There are typically many uncertainties in estimating the national economy, and this is likely to be magnified at the local level. For instance, the Office for Budget Responsibility (OBR) has had to revise upwards its ESA claimant estimates on four separate occasions in four successive years (OBR 2015). The actuarial approach remains in its infancy, and is unlikely to be effective at the local area.

Whichever of these methods, or others, were to be used to support the welfare earnback model, standardisation of methods and a standardisation of data – provided by and dictated from the centre – is essential to ensure that the measurements of impact are both robust and comparable to support future policymaking.

Accountability of providers

Accountability is often put forward as an objection to devolution or co-commissioning, but need not be an obstacle. While it is crucial that all public spending and policies are accountable locally and nationally, this is already the case in many programmes. Community budgets, for example, seek to align, sequence and coordinate interventions and public spending by departments, in order to maximise effectiveness of agencies across a range of local and national policy areas, including health, education and criminal justice.

3.5 SUMMARY: LESSONS FOR REFORM

The key points that follow from this analysis are as follows.

- **Investing upfront in employment support to save on benefit expenditure is an established principle of government policy.** The AME-DEL switch unlocked spending for the Work Programme based on the lower benefits bill that was expected as a result.
- **This 'switch' was conceived too narrowly under the Work Programme.** The AME-DEL switch was too narrow in scope to unlock adequate funding, and excluded housing benefit and the costs of unemployment on the broader public sector, which are well evidenced.
- **The likelihood of realising cashable savings is crucial to the success of any 'earnback' style programme**. Investment will have to be underpinned by a robust evidence base, but it must also ensure that savings are 'cashable'.
- **The gateway assessments of earnback and gain-share deals are an opportunity to include Work Programme participants.** These five-yearly assessments could be used to supply evidence that interventions have generated employment for those on the Work Programme.

4. DEVOLUTION AND THE ROLE OF LOCAL GOVERNMENT IN EMPLOYMENT SUPPORT

Local government can perform an important role in employment policy. Our previous research has recommended local co-commissioning of employment support, so that programmes can benefit, both through the wraparound services they can commission locally, and by being responsive to labour demand (Davies and Raikes 2014). This section shows what local government could add both on the supply side (that is, employment support), and through aligning this support with the demand side of job creation.

4.1 LOCAL COMMISSIONING OF EMPLOYMENT SUPPORT AND RELATED PROGRAMMES

The potential for local government to enhance employment support is well established. We have argued that there is a clear logic for devolving some employment programme funding to allow the design of schemes to reflect local labour market conditions. The rationale for this is twofold. First, local government is better able to more effectively coordinate the range of services individuals often need, and capitalise on the local knowledge and partnerships they have in place. Second, local labour markets are very different across the country, and employment support needs to align people with the opportunities in their own labour market (for more discussion on this see ibid). The Work Programme's responsiveness to local labour market conditions will need fixing if investment is to reflect the challenges of finding work for claimants, not just on the basis of the individual barriers they face in finding work, but also the structural barriers, namely the availability and intensity of competition for local job vacancies. For this reason, employment support has featured in many of the recent devolution deals with major cities, and has already started to feature at the margins of the current programme. Under the Greater Manchester Agreement it was agreed that the GMCA will co-commission the successor to the Work Programme with DWP. This has since been followed up in other major cities' devolution deals.[9] However, there is already local activity being undertaken in Greater Manchester with the Working Well pilot and its expansion programmes (see the boxed text below).

9 These include: Greater Manchester, Sheffield, North-East, Tees Valley, Liverpool, West Midlands, East Anglia, Greater Lincolnshire and the West of England.

Working Well

The Working Well pilot provides employment support for 5,000 ESA claimants in Greater Manchester. It only deals with those who've already been on the Work Programme for two years and not moved into work (the vast majority of claimants) and moves them onto a separate scheme. This is funded jointly by the local authorities, DWP and the European Social Fund (ESF). It uses a 'key worker' model to provide the required intensive wraparound employment support. Participants are entitled to two years of support and up to a year of in-work support (Ainsworth 2015). The pilot showed some success with this challenging cohort of jobseekers (ibid).

This programme is being expanded and will now provide for a far broader range of payment groups, including jobseekers and crucially those who are in work and on universal credit. The first expansion provides for an estimated 15,000 people, while the second aims to provide support for 50,000-plus individuals who present a range of issues, from health, homelessness and addiction to low-level skills. The cohort will include the following (Ainsworth 2015):

- 'jobseeker's allowance (JSA) claimants who have completed the Work Programme and would have been assessed as suitable for community work placements (CWPs) (this referral route begins once the CWP contract ends in October 2016)
- 'JSA claimants who completed the Work Programme at least one year previously
- 'employment support allowance work-related activity group (ESA WRAG) claimants who have completed the Work Programme (for new Work Programme leavers this referral route will only commence once the current Working Well pilot stops taking referrals)
- 'lone parents on income support where their youngest child is aged 3 or 4 years
- 'ESA WRAG claimants who have a 12-month or more prognosis for being ready to move into employment
- 'claimants who are in receipt of JSA upon entering the Work Programme, but who upon completion have made a claim for ESA
- 'universal credit claimants who are in work and subject to in-work conditionality to increase their wages.'

The programme is accountable to and underwritten by the Greater Manchester combined authority (though commissioned via Trafford council on its behalf). In practice it is overseen by Greater Manchester's skills and employment partnership, which includes (GMCA 2015):

- 'the GM portfolio holder for skills, employment and worklessness (chair)
- 'four GM elected members, nominated annually by the GMCA
- 'two representatives from the GM local enterprise partnership
- 'a representative from GM chamber of commerce, GM learning providers network, Jobcentre Plus, trades unions, Greater Manchester Centre for Voluntary Organisations, Skills Funding

> Agency, GM housing providers, GM universities, local authority children's services and GM colleges.'

There is an integration board within each local authority which monitors the programme and resolves issues with wider public sector integration in that area, and performance is reported internally to each authority too.

Collaboration between government departments and local government can be challenging, but has great potential in the right circumstances.

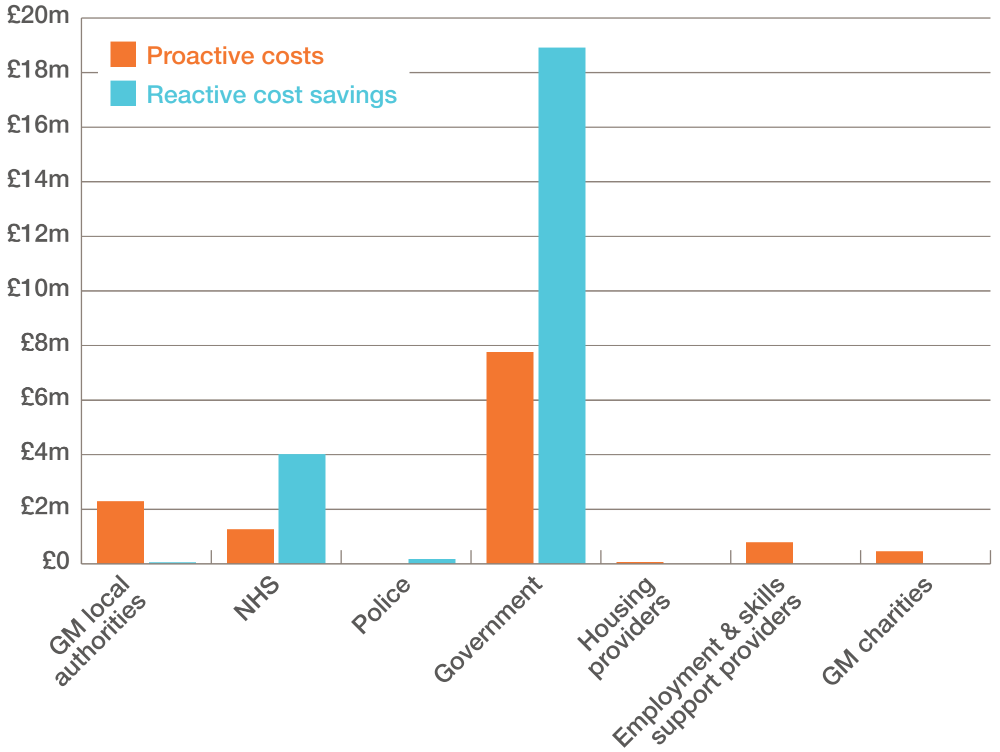
- Community budgets are the most recent iteration of this collaboration. These built on a series of programmes, dating back to local strategic partnerships, local performance frameworks, and 'Total Place' under the pre-2010 Labour governments. The programme has a strong collaborative and evidence-driven approach towards making savings to the public sector. The programme needed to overcome issues such as deadweight and additionality and the National Audit Office (NAO) states that they have done so with some success (NAO 2013).
- The closely related Troubled Families programme also sets an important precedent for local and central government working closely together – often on issues surrounding worklessness. This programme deals with families which have multiple challenges and tend to cost various government departments a significant amount of money. This essentially works on a PbR model and both central and local government contribute to the scheme. The programme takes into account intermediate outcomes related to health and antisocial behaviour, but has a strong emphasis on employment. Due to the difficult barriers to work many of these families face, job outcomes have not been as forthcoming as might be desired, but as with community budgets this shows central and local government dealing with the difficulties that can arise from working together, especially around accountability and financing.

Cost–benefit analysis has been vital for the public service reform programme in Greater Manchester. The GM CBA methodology developed by New Economy (owned by the GMCA) identifies the fiscal, economic and social value of interventions, and is also able to break this down by the different public agencies to whom the fiscal benefits accrue. It is rapidly improving in the quality of its estimates: the methodology is endorsed by HM Treasury and is included as supplementary guidance in the Green Book (HM Treasury 2015).

By allowing the benefits to be estimated by agency, this approach can underpin these agencies' investment upfront. Working Well has been evaluated in these terms, and figure 4.1 illustrates how the model produces an estimate of cost and benefit for each agency involved. In this case it is clear that not all those that invest stand to gain, and conversely that some gain without investing at all. The analysis underpinned agreement of government's investment in Working Well. Although it has not yet formed the basis for redeployment of investment across local agencies, it has enabled and encouraged them to work together more closely – particularly during a period of austerity.

FIGURE 4.1

There is a gap between those public agencies which invest in Greater Manchester's Working Well and those which stand to gain
*Working Well – estimated costs and benefits by public agency**



Source: New Economy analysis of the Working Well pilot programme, May 2016
Note: *Costs and benefits associated with delivery of the Working Well pilot in Greater Manchester, modelled over a 10-year period. The chart shows fiscal benefits associated with the following outcomes: reduced worklessness (ESA benefit payments); improved skills levels (increased tax receipts); reduced mental health disorders; and reduced drug and alcohol dependency.

The governance arrangements for community budget pilots also offer some crucial lessons for employment support. These vary across the country – in West Cheshire for example, the public services board has management oversight of the delivery of the 'Altogether Better' whole-place community budgets programme. This board has representation from across the public sector:

- Cheshire West and Chester council officers (x3)
- Cheshire constabulary
- Cheshire fire and rescue service
- clinical commissioning groups
- health trusts
- Jobcentre Plus
- Cheshire and Warrington Housing Alliance

- Third Sector Assembly
- private sector representative
- Cheshire probation service (ABWC 2016).

4.2 JOB CREATION AND ECONOMIC DEVELOPMENT INITIATIVES

The lack of job creation in many parts of the country is clearly inhibiting the success of the Work Programme. A range of studies have shown that the success of ALMPs is influenced by labour market conditions (Dar and Tzanattos 1999, Jones et al 2002, De Koning 2007, Davies and Raikes 2014). Despite something of a recovery, many parts of the country simply aren't generating jobs for those who need them. In an area such as the Black Country, which has lost 22,000 jobs since 2005 there is little prospect of a programme focused only on improving employability (such as the Work Programme) moving many of the 46,000 unemployed residents into work (ONS 2016). Many areas are clearly struggling to reinvent their economies in response to long-term economic changes.

Governments in the UK (and overseas) have long sought to intervene in order to promote a more equitable distribution of economic growth. Policy responses have varied over time, including:

- **Enterprise zones and urban development corporations of the pre-1997 Conservative governments.** Urban development corporations placed the private sector in charge of developing certain zones, and gave them the planning powers to do so. Enterprise zones attempted to incentivise companies to move into an area using a range of incentives, such as tax breaks and relaxing planning restrictions. But urban development corporations didn't see the required improvements for social problems, and instead tended to simply make places look better. Meanwhile enterprise zones tended to displace economic activity, moving employment around and generating little additional employment or economic growth – except when coupled with significant transport infrastructure investment, such as the Isle of Dogs, now Canary Wharf (Sissons and Brown 2011).
- **A range of initiatives were set up by the New Labour government.** The Urban Task Force was set up to look into the decay of urban areas in England, but again the focus was on making places look better without addressing the fundamental human causes of social problems. Towards the end of the last Labour government the emphasis began to move on from pure physical regeneration to focus on people and neighbourhoods, and on employment and skills – see for example the New Deal for Communities and the Neighbourhood Renewal Fund.

  Of these schemes, the local enterprise growth initiatives (LEGI) and local authority business growth incentives (LABGI) are particularly relevant, and hold important lessons for job creation:

  - **LEGI was focused on driving more entrepreneurial activity, sustainable growth and inward investment in deprived areas.** Rolled out in 2006, it was a national initiative overseen by local partners. LEGIs helped indigenous business growth, new startups, skills development and attracted businesses to the area (DCLG 2010). The Department for Communities and Local Government evaluation broadly found a positive effect in terms of business formation but concluded that they did not have the desired impact on worklessness (ibid). As with enterprise zones, this same evaluation also indicated a high level of displacement, rather than new business formation, something corroborated by a recent evaluation (ibid, Einiö and Overman 2016).

– **The LABGI incentivised local government to drive economic growth**. This scheme began in 2005 and allowed local government to retain a share of business rates growth within their area. It was criticised for being too complex to have a real impact, and didn't adequately deal with the many complex factors associated with business rate retention. As Schmuecker and Woods (2011) point out: the priority areas are often those unable to grow their business rate bases; it often incentivises poor quality developments in less desirable sectors (retail brings in far more revenue than manufacturing for example); and it also introduces some perverse incentives. Nonetheless, the coalition government moved forward with its own business rate retention scheme in 2013; and in 2015 the Conservative government announced its objective would be full business rate retention (Osborne 2015).

While there has been some continuity, the landscape changed dramatically post-2010. The local enterprise partnerships established across multiple local authority areas have been charged with driving local economic growth. Their remit and capacity, however, is somewhat narrow. Combined authorities (CAs), on the other hand, have significantly more potential as they harness efforts across major city-regions. Because of their geography and their statutory footing, CAs (together with LEPs) are well placed to deliver economic growth and tie this in with public service reform, as has been consistently argued by leading local authorities (LGIT 2014). The boxed text below sets out how these have taken place against a backdrop of city deals and devolution deals, which will take a significant step forward with the election of 'metro mayors' in major cities in 2017.

The Regional Growth Fund (RGF) also showed that local government can work with the private sector in struggling economies in order to generate jobs, and that this can be appraised as a basis for allocating funding. RGF re-enforced the principle that job creation can be achieved in declining areas and that bids can be appraised before committing financially. The DCLG has reported that the RGF has created or safeguarded 65,000 jobs in rounds 1–4, estimating the cost per net additional job at £52,300, but the NAO have found that this is due to a small number of schemes exceeding expectations, with 51 per cent of schemes not meeting their job creation targets (Ward 2015). Again this is illustrative of the broader successes and failures of public money being used to fuel job creation, and highlights the need for more robust appraisal processes before, during and after investments are made. This is best done independently of those who have a stake in proving success, and earnback and gain-share deals have set up independent commissions for this purpose.

Deals and devolution to England's' major cities since 2010

The coalition government's city deals, growth deals and devolution deals are also significant, and set an important precedent for partnership-working between central and local government. City deals devolved some powers and funding to major cities, and were rolled out in a first wave to the eight major English cities in 2012, followed by a second wave of city deals with 18 cities in 2013 and 2014. The Greater Manchester Agreement followed in 2014, and saw a more significant amount of power and responsibility devolved to the Greater Manchester combined authority (including co-commissioning of the Work Programme's successor). This was followed by devolution agreements with Sheffield, and then Leeds in 2015, and a series of further announcements since that have devolved more powers in these and other areas, notably the West Midlands in November 2015 (see table 4.1 below). Growth deals were also signed in 2015 between the government and the 39 English LEPs. Transport expenditure dominated most of these deals, but other economic development measures were also included, such as discretion over housing, skills and apprenticeship budgets. The cities are required to report back to government on a quarterly basis, but the NAO have raised concerns about the consistency and robustness of the estimates of employment additionality (NAO 2015b). The government's Cities Policy Unit is now working on adopting a consistent method. These processes therefore show that local authorities' job creation can be evaluated, but highlights the need for consistent and agreed-upon methodology.

TABLE 4.1

Devolution deals

Where?	When?
Greater Manchester	03 Nov 2014 27 Feb 2015 08 Jul 2015 25 Nov 2015 16 Mar 2016
Sheffield City Region	12 Dec 2014 05 Oct 2015
West Yorkshire	18 Mar 2015
Cornwall	27 Jul 2015
North-East	23 Oct 2015
Tees Valley	23 Oct 2015
West Midlands	17 Nov 2015
Liverpool City Region	17 Nov 2015 16 Mar 2016
East Anglia	16 Mar 2016
West of England	16 Mar 2016
Greater Lincolnshire	16 Mar 2016

Source: Sandford 2016

4.3 LOCAL INNOVATIONS

Local government has always taken on a role in both regenerating areas and improving the prospects of residents, though this is extremely challenging in current circumstances. Despite significant cuts to local government grant funding, local government continues to fund regeneration. Despite falling by 22.4 per cent since 2010/2011, local government spent £7.8 billion on economic affairs in 2014/15 – although this was almost all on transport, they also spent £450 million on general economic, commercial and labour affairs. An additional £3.4 billion was spent on local authority housing and community development (HM Treasury 2015). However, expenditure on this area is likely to fall further as local government focuses on those services that they are legally required to deliver – such as social care and child protection. Despite the challenging economic environment, there are several examples of how local government is innovating.

- **Section 106 planning agreements have been used by various authorities in order to require apprenticeship recruitment and training.** In Nottingham and Brighton and Hove these powers are used to oblige developers to provide opportunities for new entrants, work experience placements and apprentices during both construction and operational phases of development. Furthermore, these authorities require a financial contribution from some developers to provide the pre-employment training many of the hardest-to-help require, and then work with developers to shape provision (Raikes 2015). A similar approach to planning powers is also used by Sandwell and Solihull, while Birmingham and Gateshead have also at times introduced such requirements (ibid).
- **Brent Council has shared the cost of implementing a living wage incentive policy with central government.** The council announced in 2014 that they would reward local employers who paid their staff a living wage with a business rate discount of up to £5,000 depending on the size of the employer. Incentivising businesses in this way has its problems, and there may be fairer or more effective ways of encouraging employers to pay a living wage. Crucially, however, the cost of the scheme was shared by HM Treasury (50 per cent) the Greater London authority (20 per cent) and Brent council (30 per cent).

In undertaking this activity local government saves central government departments money. There are significant fiscal benefits accruing to central government in both the short- and long-term, and in the form of higher personal taxation and lower departmental expenditure. HM Treasury will gain directly in the form of higher income tax and national insurance contributions and lower tax credit expenditure, while the Department for Work and Pensions will gain from lower out-of-work benefit expenditure and administration, and in some cases even health benefits can be factored in.

Local government can also set up joint ventures and companies, which have the potential to underpin an invest to save approach. Local governments often set up arm's-length companies to deliver services – this maintains some accountability but supposedly allows more innovation, and can allow them to trade or deliver services for other authorities. However, joint ventures are also common. These are most commonly thought of as being between the public and private sector, but there are also public–public partnerships, for example:

- Sheffield City Region has set up a joint venture partnership between the LEP, the combined authority, the Skills Funding Agency, and the Department for Work and Pensions in order to commission the adult skills budget from 2017 (HM Government and SCR 2015)
- Nottinghamshire county council set up a joint venture with CORMAC – a company wholly owned by Cornwall county council – for the delivery of highways and fleet management services (NCC 2015)
- Manchester Airports Group is majority owned by the 10 Greater Manchester authorities, and runs Manchester, Stansted, East Midlands and Bournemouth airports.

As a programme, a public–public joint venture (JV) can appear very similar to the community budgets approach outlined above. But joint venture *companies* are quite different. Contractual partnering (as in community budgets) can be appropriate for simple, well-defined tasks, but these tend to lack the necessary flexibility and sustainability (HM Treasury 2010) – clearly this will be necessary for employment support. Corporate JVs by contrast allow for this flexibility, enable partnership working and genuine risk sharing (ibid). There are several ways in which these can be owned, governed and financed. There are also different legal designations: companies limited by shares, such as BBC Worldwide; companies limited by guarantee, such as Welsh Water or Network Rail; limited liability partnerships, such as British Waterways; and limited partnerships, such as One North East. Each of these has different advantages and disadvantages (see ibid).

4.4 SUMMARY: LESSONS FOR REFORM

Several key points follow from the above analysis.

- **Some minimum standards may be necessary in any deal between central and local government.** The deregulation of quasi-markets is not without risks. Shifting from a model of prescribed interventions to a 'black box' should not negate the need for certain standards set nationally to be set and, critically, monitored and where necessary enforced – for instance, providing minimum and meaningful contact time between delivery agents and programme participants.
- **Monitoring and 'market' stewardship are important features that have been too often neglected.** As a subset of the above, where provision is failing to meet expectations or outcome-related targets, there must be some institutions and instruments for improving performance. This may involve having potential alternative provision in place.
- **Local government can have a crucial role in coordinating the range of services needed by the hardest-to-help.** Local authorities are uniquely positioned to put the recipient of support at the centre of the range of provision they often need.
- **Local government is saving central government money but often isn't being rewarded or incentivised towards doing so**. There are a range of initiatives that local government has undertaken in the past, or is currently undertaking, which move people into work and save the public sector money.

- **Joint venture companies appear to offer significant advantages over other forms of collaboration**. Unlike other forms of collaboration, they embed flexibility, fair risk sharing and sustainability.

5.
WELFARE EARNBACK

This report has set out the need for more substantial investment in employment support through a 'welfare earnback' approach. We have shown how and why the Work Programme has failed the hardest-to-help; how other invest to save models have worked across the public sector; and the crucial role of local government.

The Work Programme's successor will be rolled out in 2017/2018, and it will require a far more innovative approach. Embracing a recognition of the health needs and local labour market conditions is a step forward (if also a reflection of previously designed initiatives), and should potentially improve upon the current centrally commissioned programme. It will enable, for instance, the programme to be aligned and coordinated far better with local health and social infrastructure, as well as the broader economic activities of local government such as skills funding. However, it introduces new challenges and fails to deal with many of the current Work Programme's fundamental problems, not least the lack of necessary investment needed for programme participants.

This chapter sets out how to make the Work and Health Programme as effective as possible, and succeed where the Work Programme has failed. It begins by summarising the principles the reform should adhere to before setting out how the welfare earnback company should operate and be governed.

To find a solution to the Work Programme's failings, this report has reviewed the shortcomings of current policy, and it has looked at a wide range of alternative approaches within active labour market policy and, more broadly, within the UK and other countries. To summarise the findings of our research:

- Investment in employment support is inadequate.
- A shift to 'pure' PbR for employment services is not practical for all user groups.
- Commissioning must take account of the likelihood of suppliers achieving results.
- Employment support must be flexible to local labour markets.
- Employment support can only go so far – labour demand is decisive.
- Investing upfront in employment support to save on benefit expenditure is an established principle of government policy.
- This scope of the AME-DEL 'switch' was conceived too narrowly under the Work Programme.
- The likelihood of realising cashable savings is crucial to the success of any 'earnback'-style programme.
- The gateway assessments of earnback and gain-share deals are an opportunity to include Work Programme participants.

- Some minimum standards may be necessary in any deal between central and local government.
- Monitoring and 'market' stewardship are important features that have been too often neglected.
- Local government can have a crucial role in coordinating the range of services needed by the hardest-to-help.
- Local government is saving central government money, but often isn't being rewarded or incentivised to do so.
- Joint venture companies appear to offer significant advantages over other forms of collaboration.

These lessons translate into two focused principles which underpin our recommendations. For employment support to be most effective, the Work and Health Programme must:

1. **Unlock upfront financing.** The support required by the hardest-to-help is simply too expensive to afford without finding a way to cash a broader range of future savings upfront. At the same time, however, the cost of doing nothing is too high – in the form of foregone tax revenue, benefit payments and costs to the broader public sector. The solution must be to spend these resources better: to find a way to invest in the short term to save in the long term.
2. **Move beyond PbR to enable innovation and a holistic approach.** A tailored, multi-agency approach must be put in place around the needs of each individual participant by moving beyond payment by results. The range of interventions required varies far more than the support currently being delivered. The model needs to enable innovation not only on the supply side of employment support, but also on the demand side of job placements, intermediate labour markets and local job creation activity. PbR clearly isn't working for this group and an alternative approach is needed, with local government at its heart.

To this end, we propose a radically different funding model for the Work Programme's successor, based on these two principles. This means moving beyond a PbR approach to an 'invest to save' model; beyond a programme which is fragmented and wastes money, towards one which is collaborative and invests strategically. The following sections set out how this welfare earnback model would work.

5.1. AN EMPLOYMENT SUPPORT 'COMPANY' SHOULD BE SET UP TO EARNBACK WELFARE SPENDING BY INVESTING TO SAVE

The structure of the company and its purpose

All agencies that stand to gain from moving people into work would be bound together into an earnback company. At present there are a number of government departments that stand to make a saving if individuals are moved into work. These include primarily: DWP, HM Treasury, local authorities and the health sector.[10] These organisations would invest in a joint venture, which would be managed like a public sector company

10 By health sector we include providers of various services, especially mental health, but clinical commissioning groups may choose to invest, as they have been involved in community budgets schemes in the past.

rather than a programme. As detailed earlier in the report there are various governance and ownership options for public sector companies and the agencies can decide among themselves which one they prefer. This would cover a functional economic geography, such as a city-region. The purpose of the company would be to save these 'investors' money, by making that investment in a way which moves people into work, and saves on their budgets. This could be led by the metro mayor where there is one, or a local authority leader or leaders in their absence, but will require leadership and collaboration from across the public sector.

They would do so because they expect either to save or to spend the same amount but with a better outcome. They would either deliver medium- to long-term savings on their investment, or spend the same amount on gaining an employment outcome as would have been spent otherwise on social security. The investors would realise a saving by moving and sustaining individuals in work, because there would then be less draw on their departmental budgets down the line. It is sometimes challenging for the public sector to shift money around in such a way, but this collaborative approach, whereby investment is based on future saving, has shown some success through the community budgets programme.

The financial commitment of each agency would be determined by cost–benefit analysis. All investors would expect to see a saving on their budgets, but to estimate how much they expect to save, and therefore how much they should invest, they would use a more developed form of the cost–benefit analysis tools which have already been used within the community budgets programme. They would then set aside a proportion of their annual spending in the area for the welfare earnback programme, based on this projected saving calculation.

Bringing the health sector into the company will be vital. The Work Programme's successor will be a Work and Health Programme and the 2015 spending review set out the government's initial thinking in this area. The government intends this to be driven at a local level and will build on the Working Well model. Our model would go further than this, as integration would take the form of a new 'company' with health commissioners represented on the board alongside DWP, and making a financial contribution to the company on the basis that they would expect a saving.

The operation of the company: incentives, risks and rewards

The joint venture company would be governed by a board representing the investing agencies in the local area. The governance could be based, for example, on the Working Well model or Cheshire West's community budget model (which includes representatives from the central government departments). It would therefore be chaired by the mayor or political lead for that policy area in a combined authority cabinet. Other board members would include a senior local representative from those whose budgets are invested, for example: DWP, chief executives of local mental health trusts, local public health directors, and representatives from skills boards or skills and employment boards.[11]

11 This board would be advised by a wider reference group, which would represent those with relevant interests but no financial stake, for example: trade unions, businesses, employment support providers, learning providers, housing providers, service users, citizens advice, and the Department for Business, Innovation and Skills.

The board of the company would use the diagnosis criteria as their means for ensuring they either save or break even. It would be for the company board to determine whether they seek to make a saving on the departments' budgets but are less inclusive, or seek to break even but have more relaxed criteria to cover those who are less likely to generate a saving. The parameters of the diagnostic tool – and therefore the risk profile of claimants referred to the programme – could be adjusted to meet the risk aversion of the board in a particular area, or at a particular time. They would do so by setting the probability and size of saving that are the conditions for acceptance onto the programme. In one city, board members may take on only those claimants very likely to make a return initially, but may then relax the criteria for referral at a later date. This flexibility over time would also help to mitigate for the consequences of an economic downturn: the board could factor such considerations into its risk calculations, and adjust their approach accordingly.

The board would hold the pooled budget from all of the agencies, and would use this to directly fund the salary of specialist advisors placed within jobcentres. These would make the case-by-case decisions based on the access requirements set by the company board. As an organisation JCP is best placed to perform this role, given that it already does similar work with mainstream jobseekers. Furthermore, JCP advisors have the experience needed to make the case-by-case judgments needed, albeit on the basis of evidence.

The earnback imperative, combined with the company structure, serves not only to build-in strong collaboration, but also to balance risk and reward between public bodies, while focusing the programme on what works. This funding model, as with the current Work Programme, involves taking on some financial risk. The risk is that the funding each department provides will not be recouped because the support hasn't been successful. While risk is pooled at the company level, it is in effect distributed in proportion to their initial investment.

There are particular reasons for taking this particular 'company' or 'joint venture' approach. First, it enables the investors to benefit from flexibility, sustainability and risk sharing, which a 'programme' approach does not. Second, it avoids the pitfalls of the alternative – such as transfer payments to local government, risk and reward calculations at an institution and cohort level, perverse incentives, and potential legal disputes where one public sector has to argue its entitlement to a transfer payment. Crucially, the company or joint venture approach capitalises on the full and sustained buy-in of partners, which would unlock an important, albeit intangible, additional benefit.

Each government agency would have 'skin in the game' – that is, they would have a stake in the success or failure of the company.

- The local authority would make a saving in local council tax support expenditure and any social services jobseekers at times engage with.
- DWP would save, on the income replacement benefits such as jobseeker's allowance, employment and support allowance, income support, and on housing benefit, each of which will be drawn into universal credit.

- Relevant health sector commissioners will also make savings where drug and alcohol support programmes are wrapped into employment support, as well as any wider health and wellbeing gains that accrue from employment.
- The Treasury would save tax credits (until drawn into universal credit), and will also gain from the additional income tax and national insurance revenues.

This model also shifts the focus from short-term outcomes to long-term incomes – from a snap shot of an individual's employment status, to the income they earn. Currently job outcome and sustainment payments are the same no matter what wage an individual that moves into work is earning. But universal credit will mean earnings and tax-benefit savings can be tracked on an individual basis. This can then form the basis of the 'earnback' reward to the company, and also serves to focus the employment support that's delivered before (and after) job entry on sustainment and progression in work. This would unlock more spending because a claimants' pay and progression can be accurately tracked over a longer time period, and therefore more tax-benefit savings can be factored in. More information also means less uncertainty – that is, the risk can be factored in to calculations, and can be accounted for in departments' budgets.

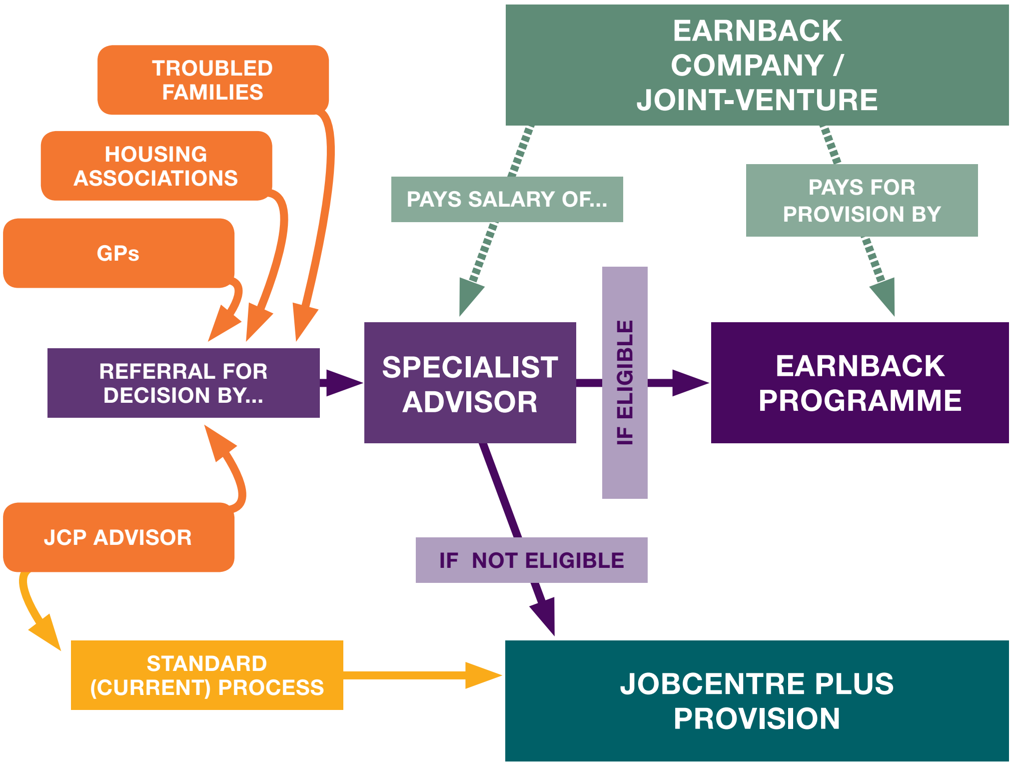
5.2. PARTICIPANTS SHOULD BE REFERRED AND DIAGNOSED ON A CASE-BY-CASE BASIS, BASED ON ROBUST EVIDENCE AND THE EXPERIENCED JUDGMENT OF AN ADVISOR

Identifying the support needs, and therefore the investment required must use the most robust information available. Referral onto the earnback programme would not be based simply on benefit type – not least because this is a crude and often poor reflection of employment probability and support needs (Carter and Whitworth 2015). Claimants of any benefit would in theory be eligible – the Working Well expansion aims to support individuals who are in work but have particular challenges (such as problems with addiction and poor work history), as well as those who have been too sick to work long periods of time. They would be referred for such a decision by regular JCP advisors, and in some cases GPs, housing association staff or other service providers. The diagnostic, triage and referral process would need to be more advanced, and would rest on a better-informed specialist advisor making a decision, as summarised in figure 5.1.

A specialist advisor would make the decision whether to refer someone onto the earnback programme. A well-informed professional judgment, made by an individual accountable to the company, sits at the heart of this system. The nature of this decision will only be slightly different to those already made by JCP staff, although as with any new role they will require some new training and will have to understand the cost–benefit tool they will be using.

FIGURE 5.1

Referral process for earnback programme



The earnback programme would take on those for whom there is a case for investing to save, based on the higher tax contribution and savings to the public sector that accrue in the long term (that is, three or even five years). The specialist advisors' experience and personal judgment would be brought to bear alongside a robust evidence base provided in particular by universal credit's reporting. The advisor will need to match the characteristics of the jobseeker, including employment history, (moves into and out of work over several years), and in many cases health and childcare arrangements.

The individual's circumstances would then be matched with a database which would pull together rigorous evaluations of the current Work Programme, and the richer data on sustainment and progression provided by universal credit's reporting structures, as well as existing data on cost–benefit analysis of policy interventions in order to make a judgment. The earnback programme should be continuously evaluated and this should feed in to the evidence base used to make such assessments.

The decision whether to refer someone onto the earnback programme would need to be based on an investment case encompassing three factors (in simple terms):

- the cost of overcoming all of the jobseeker's barriers to work
- the saving that would accrue to the whole public sector
- the probability of their success.

In reality there are a number of calculations that factor into this: for example deadweight, retention rate, 'cashability' and optimism bias (see HM Treasury 2014).

This would include 'high cost, high saving' interventions, such as a long-term ESA claimant with health needs who requires intensive, multi-agency wraparound support, but could also include 'low cost, low saving' claimants, such as a young JSA claimant in need of a short-term job placement to gain work experience. If there is a case to invest in a more expensive intervention, then individuals would be referred onto it. If the case is lacking, then they would remain with JCP.

Those who are not on the specialist programme must still receive support. The earnback mechanism would allow additional funding to be unlocked for the specific cases outlined above, based on the savings made across the public sector and in additional tax income. It would not draw funding away from those who do not qualify for it. For those who don't qualify, employment support would be delivered by JCP or through other schemes commissioned by DWP. IPPR aims to investigate how provision might be delivered to this wider group in a future project.

5.3. IF THERE IS A CASE FOR INVESTMENT THEN 'WHATEVER WORKS' SHOULD BE DONE

The earnback company must, by design, innovate and add value to what would otherwise be provided to jobseekers. In order to work, and for all agencies to have buy-in, the interventions in scope must include simply *whatever* works for that individual participant. This will fully capitalise on the advantage of a company structure to embed a ruthlessly pragmatic approach to resolving the barriers to work, with the advantage of long-term buy-in from the agencies which are in the best position to deliver the necessary services.

Some of this support will be on the supply side of active labour market policy. Many of the hardest-to-help claimants need intensive support, for example from mental or physical health services or by attending numeracy, literacy and ICT courses. Not only is the support required more intensive, but furthermore it needs to be coordinated and sequenced with the other support they are receiving. This is again enabled by installing the well-informed specialist advisor as the decision-maker, and capitalises on a company board which represents all the agencies that need to be involved.

However, only so much can be done with supply side policy. People who have been out of work for long periods of time often face the catch-22 of needing a job in order to get one. Some individuals will also be less able to work in a conventional workplace, and may require sheltered employment in the short and medium term. The specialist advisors must therefore be able to work with private, public and voluntary sectors to fund and facilitate demand-side measures, such as intermediate labour market positions and job guarantees, when there is a case for them doing so.

While such opportunities can be relatively expensive, they can also be cost effective in the right circumstances and the company should be free to take on the risk of funding such schemes. Again, it is the company structure that enables this to be an option. Central government has often been unwilling to fund such schemes because they can be wasteful. But because the company is investing its own money and taking on the risk of failure, it is likely to be more keen to ensure such interventions are effective (see section 5.5).

The 'whatever works' approach means in turn that whichever organisation is best placed to undertake each function does so. Specialist advisors are best placed to advise and commission services on a case-by-case basis, and other JCP advisors are best placed to deliver some types of employment support. However, some individuals will require courses which voluntary or private organisations are better placed to deliver, and the advisors should be free to refer them to these within the parameters set by the board of the welfare earnback company.

5.4. EMPLOYMENT SUPPORT SHOULD JOIN UP WITH JOB CREATION

Generating labour demand is complex and dynamic, but there is scope to better align local job creation with the provision of employment support. Although it is beyond the scope of this report to discuss the highly challenging problems of labour demand in stagnant or declining local economies, current job creation activity needs to be more focused on those who are receiving employment support. To facilitate this, the principle should be established that central government rewards local government if interventions on the demand side can be shown to save money, or generate tax income, because they result in the employment of Work and Health Programme participants.

In practice the local authority and central government would need to agree on the terms of a deal. As with city deals and devolution deals these would specify the interventions within scope and the evidence base required as a basis of that reward. A far wider range of interventions could be included than is currently the case, such as:

- generating apprenticeship vacancies, supporting long-term jobseekers with pre-apprenticeship training
- generating short-term (3–6-month) job placements
- using section 106 planning powers and procurement policies to incentivise living wage jobs, or apprenticeships.

They would have to prove additionality using rigorous but common methodologies. As outlined within the body of this report, assessments of additional job creation already form the basis of many government programmes, and are used to justify a significant amount of government expenditure – the Regional Growth Fund being a good example. The earnback approach would actually ensure this is more, not less, robust because funding would be granted based on the additionality proven after the investment is made, not that which is estimated before (as is currently the case). Data on job entry and sustainment from universal credit could feed into 'gateway assessments' and form part of the evidence of additionality submitted by local government. Beyond improving the quality of this appraisal, the process merely needs to be repeated and evaluated after the investment and at set intervals.

The independence of this judgment would be ensured by an independent commission or assessment. Independent assessments are to be commissioned for Greater Manchester's earnback deal, and an independent commission on urban growth is currently being set up for the Glasgow-Clyde Valley City Deal. In these areas the remit of such commissions or assessments could just be expanded to cover more outcomes, while other areas would need to set up new independent commissions along similar lines.

This could be used to bind together the employment support being delivered by the company, and local job creation activity. The specialist advisors could refer individuals for these jobs when they are ready to take them on, and build relationships with employers in order to sustain them in these jobs.

This may constitute only a relatively small reward, but is an important 'nudge' in the right direction. The quantity of revenue this would release is not likely to be significant compared to total economic development expenditure – even though this is reducing. However, it is also not desirable to *over*-prioritise *direct* employment of Work Programme participants in these schemes, which have wider economic, more indirect and strategic value. Labour markets are clearly more dynamic than such an approach would account for, and employing an individual who is not long-term unemployed in a regeneration scheme could in turn free up a vacancy elsewhere for someone who is. Nonetheless, it would reward the local authority for successfully bridging the gap between those who need work and those who create it. In the current fiscal climate there may be enough funding unlocked to preserve the regeneration capacity of local authorities, or for an economic development team to operate where there currently is none.

5.5. FIRST STEPS

As a first step towards this new system, a small number of pilots should be commissioned through future devolution deals. These pilots should develop the ideas set out above into a practical programme. These areas will need to demonstrate the capacity to commission successful programmes and an ability to innovate, and therefore the major UK cities are prime candidates. Candidate cities should put themselves forward if they believe they are in a position to develop these ideas, and mayoral candidates should consider these as part of their offer to their electorate ahead of elections in 2017.

But innovation shouldn't be limited to those areas with a lot of capacity. Other areas could adopt a programme similar to Working Well as an interim solution. As with Working Well and its expansion, this would see local co-commissioning of support for the hardest-to-help. While this is an important first step for many areas, the full welfare earnback joint venture company is a far better option and should be on offer to those areas that want to take it forward.

5.6 SUMMARY AND CONCLUSION

Employment support is heading in a new direction. In some ways the Work Programme's successor will be an improvement: more local commissioning, and bringing work and health together are a positive development. However, without proper financing it simply won't be able to support those who need it most, and the restructuring of its financing, notably the 80 per cent cut to the contracted-out element, will make the current proposal for a Work and Health Programme residual at best.

'Welfare earnback' is the best chance to make this new programme work. By unlocking more funding through an invest to save model it will maximise the support that can be delivered. And by pulling together all those with a stake in resolving worklessness it will enable the holistic support that many need.

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