



EXECUTIVE SUMMARY

# Now It's Personal?

The new landscape of welfare-to-work

Edited by Clare McNeil

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**Institute for Public Policy Research**

Challenging ideas – Changing policy

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ippr, 4th Floor, 13–14 Buckingham Street, London WC2N 6DF  
+44 (0)20 7470 6100 • [info@ippr.org](mailto:info@ippr.org) • [www.ippr.org](http://www.ippr.org)  
Registered charity no. 800065

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## Executive Summary

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

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

The labour market is precariously poised as the Coalition government's austerity measures are set to hit. According to Office for Budget Responsibility (OBR) projections, unemployment will not return to pre-recession levels until 2015 or beyond. With public sector job losses of over 600,000 predicted<sup>2</sup> and private sector job growth not expected to come quickly enough to fill the gap, OBR forecasts show employment in the UK is likely to stay close to its current levels until 2013.

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

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

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

## Personalisation

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

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

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

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

These minimum standards often reflect a 'human capital development' model for supporting people back into work, a model which emphasises building education, training and confidence. Our findings show that an incremental human capital development approach can be more effective than a 'work-

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

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

first' approach for some individuals. The Work Programme promotes a work-first approach by paying employment providers only when they place someone in work. This raises concerns as to how the Work Programme will genuinely support job seekers with a diverse range of needs and requirements.

**Key recommendations include:**

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

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

**Building innovation into the system**

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

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

**Key recommendations include:**

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

**Localisation**

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

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

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

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

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

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

### Further decentralisation of welfare-to-work

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

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

#### Key recommendations include:

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

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

### Enterprise

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

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

#### Meeting employer needs

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

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

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

#### Key recommendations include:

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

### 'Replace and train' schemes

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

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

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

Here in the UK, this kind of scheme has so far been limited to smaller-scale initiatives, but these have shown impressive outcomes in job entry and sustainability. The unit cost of 'replace and train' schemes can be high, but the range of outcomes from this approach is far wider than standard welfare-to-work services. The extensive benefits to participating employers suggests an opportunity to co-finance with employers (as explored below).

#### **Key recommendation:**

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

### Supporting disadvantaged workers

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

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

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

#### **Key recommendations include:**

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

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

### Co-financing

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

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

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

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

#### Key recommendations include:

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

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

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

### Conclusion

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