Connecting People with Jobs

ACTIVATION POLICIES IN THE UNITED KINGDOM



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BETTER POLICIES FOR BETTER LIVES

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Please cite this publication as:
OECD (2014), *Connecting People with Jobs: Activation Policies in the United Kingdom*, OECD Publishing.
http://dx.doi.org/10.1787/9789264217188-en

ISBN 978-92-64-21712-6 (print)
ISBN 978-92-64-21718-8 (PDF)

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Foreword

Giving people better opportunities to participate actively in the labour market improves well-being. It also helps countries to cope with rapid population ageing by mobilising more fully each country's potential labour resources. However, weak labour market attachment of some groups in society reflects a range of barriers to working or moving up the jobs ladder. Therefore, the OECD is carrying out a new review of activation policies to encourage greater labour market participation of all groups in society with a special focus on the most disadvantaged groups who face the greatest barriers and disincentives to finding work. This will include a series of country studies, *Connecting People with Jobs*, which will provide an analysis and assessment of how well activation policies in selected OECD countries are performing in fostering more inclusive labour markets that help all groups in society to move into productive and rewarding jobs. This report for the United Kingdom is the first country study to be published in this series.

It has been prepared by David Grubb and Kristine Langenbucher, economists in the Employment Analysis and Policy Division of the OECD Directorate for Employment, Labour and Social Affairs, under the supervision of Mark Keese, Head of Division, and with statistical assistance from Sylvie Cimper. The authors would like to thank the officials at the Department for Work and Pensions and Her Majesty's Revenue and Customs, as well as the staff of two employment service providers for advice and discussion. The review has benefited greatly from extensive comments on a preliminary draft by the UK authorities, and was discussed in the OECD Employment, Labour and Social Affairs Committee in April 2014.

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Acronyms and abbreviations

ACEVO	Association of the Chief Executives of Voluntary Organisations
ALMP(s)	Active Labour Market Programme(s)
AUD	Australian Dollar
BIS	Department for Business, Innovation and Skills
CAP	Community Action Programme
CB	Child Benefit
CBI	Confederation of British Industry
CESI	Centre for Economic and Social Inclusion
CMP	Condition Management Programme
CPA(s)	Contract package area(s)
CTB	Child Tax Benefits
CTC	Child Tax Credit
CTS	Council Tax Support
CV	Curriculum Vitae
DCLG	Department of Communities and Local Government
DEA	Disability Employment Adviser
DEEWR	Department for Education, Employment and Workplace Relations (Australia)
DfE	Department for Education
DLA	Disability Living Allowance
DWP	Department for Work and Pensions
EEA	European Economic Area
EPF	Employment Pathway Fund
EPL	Employment Protection Legislation
ERA	Employment Retention and Advancement
ERSA	Employment-Related Services Association
ERSS	Employment-Related Support Services
ESA	Employment and Support Allowance
ESOL	English for speakers of other languages
EU	European Union
EZ	Employment Zone
FJR	Fortnightly Jobsearch Review
FND	Flexible New Deal
FSB	Federation of Small Businesses
FSF	Flexible Support Fund
GB	Great Britain
GBP	Pound
GDP	Gross Domestic Product
GP	General practitioner
HHI	Herfindahl-Hirschman Index
HM	Her Majesty's
HMRC	Her Majesty's Revenue and Customs

HMT	Her Majesty's Treasury
IB	Incapacity Benefit
IBPA	Incapacity Benefit Personal Advisors
IGS	Information Governance and Security Directorate
IS	Income Support
ITT	Invitation to Tender
IWC	In Work Credit
JCP	Jobcentre Plus
JSA	Jobseeker's Allowance
JSCI	Job Seeker Classification Instrument (Australia)
LEP	Local Enterprise Partnership
LFS	Labour Force Survey
LHA	Local Housing Allowance
LP	Lone Parent
LPO	Lone Parent Obligations
METR	Marginal effective tax rate
MHMW	Minimum hours minimum wage
MPLs	Minimum Performance Levels
MWRA	Mandatory Work-Related Activity
NAO	National Audit Office
ND25+	New Deal 25 plus
NDDP	New Deal for Disabled People
NDLP	New Deal for Lone Parents
NDYP	New Deal for Young People
NEA	New Enterprise Allowance
NEET	Neither in Employment, nor in Education or Training
NICs	National Insurance contributions
NINo	National Insurance Number
NJWFI	New Joiner's Work Focused Interview
NMW	National Minimum Wage
OCM	Ongoing Case Management
Ofsted	Office for Standards in Education, Children's Services and Skills
ONS	Office for National Statistics
PAYE	Pay As You Earn
PC	Pension Credit
PES	Public Employment Service
PG	Payment Group
PIP	Personal Independence Payment
PTC	Personal Tax Credit
RAG	Red, Amber and Green
RCT	Randomised Control Trials
RTI	Real-Time Information
RTWC	Return to Work Credit
SDA	Severe Disablement Allowance
SFA	Skills Funding Agency
SG	Support Group (of Employment and Support Allowance)
SOC	Standard Occupation Classification
SSP	Statutory Sick Pay

SVLTU	Support for the Very Long-Term Unemployed
TfL	Transport for London
TUPE	Transfer of Undertakings (Protection of Employment) regulations
UC	Universal Credit
UI	Unemployment Insurance
UK	United Kingdom
UKCES	UK Commission for Employment and Skills
US	United States (of America)
WCA	Work Capability Assessment
WFHRA	Work-Focused Health-Related Assessment
WFI(s)	Work Focused Interview(s)
WFTC	Working Families' Tax Credit
WPC	Work and Pensions Committee
WRA	Work-Related Activity
WRAG	Work-Related Activity Group (of Employment and Support Allowance)
WTC	Working Tax Credit

Executive summary

The United Kingdom has a long tradition of activation policies to promote the effective reintegration into employment of working-age benefit recipients which helped limit the rise in unemployment even during the global financial and economic crisis. It has also been at the forefront of efforts by OECD countries to transform and modernise their activation policies. This continues with two major recent initiatives, the Universal Credit (UC) and the Work Programme.

In the United Kingdom, activation strategies for the unemployed can be traced back to the 1980s, with activation strategies for recipients of other benefits (who were not formerly required to actively search for work) following from the mid-1990s. Personal tax credits, paid to in-work households with relatively low incomes, were greatly expanded from 2003 to improve the incentives to work. But the tax credits have proved to be difficult to administer satisfactorily and recipients often face a complex web of benefit withdrawal rates – i.e. marginal effective tax rates – as they earn more and additional earnings may result in the withdrawal of two or more benefits. In some cases, the increase in net income after taxes and benefits from earning more was low.

Against this background, plans for UC were announced in 2010. Removing the previous system's complexity, UC will replace most out-of-work benefits and personal tax credits with a single monthly payment. Claimants will not have to reclaim different benefits as they move in and out of work. Hence, UC will enable smooth transitions between unemployment and work, and ensure that work always pays. UC will be withdrawn at a constant rate of 65% applying to earnings above a certain disregard level. Payments to in-work claimants will vary as a function of real-time information about their earnings. As UC facilitates the combination of part-time work with benefits still being paid, UC introduces the principle that job-search and related requirements apply when earnings are below an expected minimum ("in-work conditionality"), but plans for large-scale or intensive implementation of in-work conditionality are still at a fairly early stage.

In comparison with the current benefit system, UC increases the hours of work that some claimants are expected to work, and it brings partners in a couple with children into scope for out-of-work conditionality, which until now has been a significant omission in UK activation policy. The Department for Work and Pensions (DWP) expects that overall, more people will work because of the changes, and for longer – increasing total labour supply – because the new system ensures that work always pays relative to not working, and benefit withdrawal rates are being reduced for the individuals who face the highest rates today.

At the same time UC introduces new challenges. A high proportion of people receiving UC will be working – about 1 in 6 employed people in the United Kingdom will be claiming UC. In most cases a reduction in their earnings will increase their UC payment, which may act as in incentive to work less. Relatively few other OECD countries that pay moderate or high out-of-work means-tested benefits allow them to be retained in combination with earnings from part-time work to the extent that the United Kingdom will do with UC. In some OECD countries this possibility exists for

workers on full unemployment insurance benefits, but it is subject to restrictions and time-limits. This suggests that the United Kingdom might also need to restrict this possibility for groups that are expected to be available for full-time work.

The public employment service in Britain, Jobcentre Plus (JCP), contributes to the efficient matching of jobseekers with available vacancies and improves the employability of the unemployed through guidance, counselling and referrals to active labour market programmes. In 2011, the UK Government introduced a new contracted-out "back to work" scheme – the Work Programme – for the long-term unemployed and the most disadvantaged jobseekers. Replacing over 20 previous welfare-to-work programmes, the Work Programme follows a *black box* approach, meaning that providers are free to choose which sort of services or interventions to provide. The payment model places strong emphasis on sustained employment outcomes, and expectations of high performance were placed on providers. There is much to be said for this approach, but there is a need for active governance by DWP to improve provider incentives, performance measurement and the market structure.

Key recommendations

Evaluate and address the behavioural responses created by Universal Credit

- Evaluate behavioural responses to the 65% benefit withdrawal rate, which may act as in incentive to reduce earnings, and the impact of in-work benefit conditionality measures which aim to address this.
- Consider time-limits on the possibility of combining part-time work with benefits for groups that are able to work full-time.
- Expect employees who earn more than the minimum hourly wage, but who still qualify for a benefit payment, to use their working capacity up to full-time.

Make improvements to the Work Programme

- Increase Work Programme funding levels to ensure that more claimants who are less-well connected with the labour market are helped into employment.
- Reconsider the market structure for contracted providers to foster greater competition.
- Improve provider incentives through better profiling of customers.
- Develop a meaningful performance measurement system.

Place higher emphasis on the quality of job matches

- Assess whether new requirements placed on claimants of unemployment benefits genuinely increase the volume and the quality of job search, so that job-search monitoring generates better job matches and employment assistance enhances potential earnings.
- Give JCP an additional remit to assist parents in the search for childcare to enable parents to move into better quality jobs.
- Increase expenditure for labour market training programmes for the unemployed to address skills deficiencies and help more people enter employment.
- Introduce a performance management system for JCP that gives importance to generating better job matches.

Assessment and recommendations

The background to active labour market policies in the United Kingdom *(Chapter 1)*

The United Kingdom labour market weathered the recent recession moderately well: total unemployment increased from trough to peak by about 50% and the working-age labour force participation rate reached 77%, a 20-year high, in 2012. After a fairly limited fall, total employment recovered and it recently reached 30 million for the first time. However, the fall in productivity growth in the United Kingdom has been particularly sharp, with GDP expected to surpass its 2008 level only in 2014. The UK employment rate is above the international average but still some way below the highest rates in the OECD. As in many other countries, during the recession the youth employment rate fell but the older worker rate did not.

The other salient features of the UK labour market include a fairly high level of female employment, albeit somewhat below the European Union (EU) average for mothers with younger children, and comparatively low for single parents. From the PISA and especially the recent Adult Skills Survey, it also emerges that the skills level in the United Kingdom is below the average of the OECD; it is particularly low on average among young adults, while above average for older workers. Moreover, despite considerable in-migration from the EU and other countries, the United Kingdom will experience significant population ageing in the next few decades. The female and male state pension ages are currently converging, and will reach 66 for both sexes by 2020.

The United Kingdom is characterised by flexible labour market regulation for both permanent and temporary contracts; the incidence of temporary work is relatively low, but average job tenure is also relatively low. The share of part-time employment in total employment is relatively high. A minimum wage was introduced in 1998; its level relative to the median wage is towards the middle of the range among OECD countries.

The main government department with responsibility for labour market policy is the Department for Work and Pensions (DWP). The public employment service, Jobcentre Plus (JCP), is part of DWP and combines the functions of job broking, referrals to active measures and the administration of income-replacement benefits paid to claimants out of work. Child and Working Tax Credits are currently administered by Her Majesty's Revenue and Customs (HMRC), but they will be absorbed into the new out-of-work and in-work benefit Universal Credit (UC), administered by JCP.

Unemployment and related benefits *(Chapter 2)*

The structure of working-age benefit expenditure

Total expenditure on non-pensioner benefits, including Personal Tax Credits, has reached all-time highs in recent years, falling only slightly below 5% of GDP in 2007/08 and rising to 6.2% in 2009/10, which are both new records for cyclical troughs and peaks in the data series.

The share of means-tested benefits in total spending on non-pensioner benefits increased from 27% in 1978/79 to 67% in 2011/12. Since also total benefit expenditure increased, marginal effective tax rates (METRs) generated by benefit withdrawal must be higher and/or extend over a wider range of earnings, applying to a larger proportion of the population, than ever before. Breaking working-age benefit expenditure down by category of social risk – such as unemployment, caring responsibilities, and incapacity – from 1997/98 to 2011/12, expenditure on unemployment benefits fell from 8% of the total to 5% and expenditure on all income-replacement (also called "out of work") benefits fell from 53% to 26%, while expenditure on Personal Tax Credits increased from 5% to 30%.

Shifts in the structure of expenditure towards means-tested and "secondary" benefits, which continued, although at a slower pace even during the recent recession, represent new challenges for activation policies. The impact of traditional activation measures targeted on the recipients of income-replacement benefits must be limited when these benefits represent only a fraction of benefit income, and some people not in work but who could work may be largely relying on the benefits that are in principle secondary and not subject to labour market conditionality, such as Housing Benefits (HB), Disability Living Allowance/Personal Independence Payment (DLA/PIP), Child Tax Credit (CTC), and even in some cases Working Tax Credit (WTC, see below). Perhaps particularly for these benefits, additional research documenting the processes and problems of benefit administration, and the incentive effects of the way benefits are administered as well as the entitlements, would be helpful. Against this background, in 2010 a new benefit, Universal Credit (UC) was announced, which replaces most existing means-tested benefits, although it incorporates many of their key features.

Jobseekers' Allowance (JSA)

The ratio of claims for the unemployment benefit, JSA, to total unemployment as reported in the labour force survey (LFS) declined progressively from about 1 in the mid-1990s to about 0.6 recently. Little is known about the situation of people who are unemployed according to the LFS criteria but not claiming JSA, and vice versa. They may be disqualified from JSA as full-time students, secondary earners in a couple, or due to unearned income or assets, or they could be entitled to claim JSA but not actually claiming it so as to avoid the job-search requirements, but still claiming secondary benefits, or claiming other income-replacement benefits. The benefit status of people according to their labour force status, and vice versa, should be researched and documented, in order to clarify the impact of the policies.

Personal Independence Payment/Disability Living Allowance (PIP/DLA)

In the 2000s, Disability Living Allowance (DLA) payments to non-pensioners cost nearly twice as much as JSA, with a somewhat larger working-age caseload (about 1.8 million by 2010). Some reduction in expenditure and caseload is expected from April 2013 as it is replaced by the Personal Independence Payment (PIP). The benefit entitlement is non-contributory and non-means-tested, and some OECD countries do not have this type of benefit. Although DLA/PIP is in principle unrelated to employment status, out-of–work DLA recipients perceive that if they take up work their entitlement is likely to be reassessed. PIP awards will be for a fixed term, which will partly alleviate fears that a stable return to productive work will trigger a reassessment. It is emphasised that the PIP entitlement is available for both those in and out of work, and only changes when needs have changed. However, this principle should not imply that the benefit is unrelated to employment services. Partly because the United Kingdom pays DLA as well as

income-replacement incapacity benefits, expenditure on specialist disability employment services is a low proportion, about 1.5%, of spending on disability and incapacity benefits. People assessed for DLA/PIP should in relevant cases be referred to specialist disability employment services, helping to keep them in work or assist the return to work.

Housing Benefit (HB)

HB makes up a large share of a typical out-of-work benefit income. Several recent changes have reduced entitlements: the Benefit Cap, which limits total benefits received by a household to GBP 500 per week; the under-occupation charge in the social housing sector, which reduces the benefit amount when the claimant no longer needs one or more spare bedrooms; and the capping of HB payments for private-sector accommodation at the 30th (rather than the 50th) percentile of the wide-area distribution of market rents. Local government services aim to identify solutions, including employment in some cases, for households targeted by the Benefit Cap. The lowered HB ceiling for private-sector rented accommodation may enhance work incentives, given that replacement rates for long-term unemployment in the United Kingdom are fairly high due largely to the high proportion of housing costs that is covered by benefit. However, it risks displacing more jobseekers towards areas with an already-weak labour market and poor transport connections, or to live with their parents in the case of young adults. The impact of location and other housing parameters on employment outcomes should be evaluated, and benefit policy should take this into account, perhaps by raising the HB ceiling for localities with good access to jobs for active jobseekers.

Working Tax Credit (WTC)

For parents, WTC may be paid as an addition to the means-tested Child Tax Credit (CTC). For lone parents, entitlement is conditional on work of 16 hours per week and for couples it is 24 hours per week (which may be shared between partners, but one must work at least 16 hours per week), with a bonus applying at 30 hours. Low-earning households without children may qualify for WTC if they work 30 hours per week.

The benefit withdrawal rate applied to WTC was 37% from 2003/04 to 2007/08 and is currently 41%; but recipients commonly face combined marginal effective tax rates (METRs) of 70% (after income tax and National Insurance contributions), or 90% if HB is claimed. WTC is paid for a year based on income during the previous year and claimant declarations of their circumstances, including their working hours, during the current year. At year-end, the tax authority (HMRC) in principle recalculates the entitlement based on its record of the claimant's actual income over the year, but since 2006/07 a large "income increase disregard" has been applied, with the result that the final award is still often based on the previous year's income. The majority of WTC payments to singles and couples without children appear to be based on annual incomes actually below the earnings that would arise from working 30 hours per week at the national minimum wage. It seems likely that some WTC payments are made to people working less than 30 hours per week, or not at all, at the time of the payment. Such payments are permitted to some extent – during time off work due to sickness, for staff who work only in school term-time, or during a "four-week run-on" after job loss. However, HMRC until recently received incomplete information from employers on the timing of employment within the year, and it is unclear how HRMC has verified WTC claims in this regard. Research should identify the likely incidence of WTC claims paid when the hours worked and employment conditions are not met, and the implications in terms of employment being overstated, and WTC being paid as an out-of-work benefit without benefit conditionality.

Universal Credit (UC)

Universal Credit replaces means-tested Jobseekers' Allowance (JSA) and Employment and Support Allowance (ESA), Income Support (which is paid largely to lone parents with younger children), HB and the personal tax credits (CTC/WTC); but not Council Tax Benefit (which has been replaced by means-tested tax rebates decided by local councils), or the non-means-tested benefits, notably DLA/PIP and contributory JSA and ESA. The UC benefit entitlement is calculated as the sum of personal, child, housing, disability, and other elements, reduced by 65% of the benefit unit's income above a certain disregard level. This structure simplifies the complex marginal effective tax rate (METR) schedules that currently apply when several benefits are claimed, and it aims to remove barriers and risks to taking up work and create stronger financial incentives to move into work and work more hours. Individuals within a benefit unit will be placed in one of six "work-related conditionality" groups: no requirements; attend work-focused interviews only; work preparation (may be required to attend training courses, etc.); and full work-related requirements, with mandatory job search if earnings are low, or in-work conditionality if earnings are below the expected minimum, or otherwise a "meeting requirements" status.

Many features of the existing benefit system will continue within UC. The Claimant Commitment which is billed as part of UC is already implemented for JSA claims. The housing element in the calculation of a UC entitlement mirrors existing HB entitlements. The Work Capacity Assessment criteria, according to which some claimants are currently allocated to the ESA Work-Related Activity Group (WRAG) while others are found fit for work, will similarly allocate some claimants to the UC work preparation group and others to the UC full work-related requirement group.

UC also replaces the fortnightly frequency of assessment for DWP benefits, and the principle of means-testing on annual earnings for tax credits, with monthly assessment. The monthly payments to in-work claimants vary as a function of Real Time Information (RTI) about their earnings. Some of the greatest changes are in the area of benefit conditionality, as UC requires the development of new procedures to apply out-of-work conditionality in situations of intermittent work and periods out of the labour force, and to apply in-work conditionality in situations where earnings are below the expected minimum.

"Pathfinder" implementation of UC for single, short-term unemployed claimants began in one JCP local office in April 2013, increasing to 10 by spring 2014, and is expected to be extended to couples and families by autumn 2014. The government emphasises that it is committed to progressive implementation, to deliver the changes safely and securely. External commentary often describes the implementation of UC as an IT issue, but the development of the detailed operational guidelines and administrative processes – some of which may later be computerised – is a more fundamental challenge. The pilot implementation approach is welcome since it will help to identify and anticipate challenges in advance. This period should also be used to monitor emerging evidence about issues such as claim patterns and their cost; short- and longer-term impact on rates of return to work; reporting of job loss by claimants and the implementation of out-of-work conditionality; and administrative complexity and staff costs, and their potential IT solutions. Some areas where restrictive measures are needed may be easy to identify: it will be more difficult to assess the long-term impact of UC on the labour market in terms of employment contracting and payment practices, part-time or intermittent work and overall employment, but this is also important.

Out-of-work benefit conditionality

UC incorporates much of the current expenditure on secondary benefits, thus making them in principle subject to conditionality. This helps to fix the problem that the income-replacement benefits, which are targeted when relevant by activation measures, had become only a fraction of a typical benefit package.

UC also addresses a longstanding gap in UK benefit conditionality requirements by introducing the principle that both members of a couple with children are expected to be available for work. Related to this, until recently a couple with one child of any age was able to claim both CTC and the lower rate of WTC by working just 16 hours per week; under UC, both members of a couple with teenage children will be expected to accept work while joint earnings per week are below 70 times the hourly minimum wage. This change will in some cases increase required hours, but it will also apply out-of-work conditionality to many individuals who were previously exempt.

Changes in preparation for UC have included strengthened requirements on jobseekers, with more responsibility from the start of the claim (greater expectations) and greater assistance; and reforms giving the employment service greater freedom and flexibility to innovate. However, the UC design alters the implementation of out-of-work labour market conditionality. In a traditional unemployment benefit system, benefit entitlement starts when the worker registers for placement, declaring his/her availability for full-time work. The worker may then immediately be referred to job vacancies. This creates an incentive for the employer and employee to discuss and agree in advance whether the employer will offer adequate work in the following week, for example. The calculation of UC payments only as a function of monthly earnings could make a critical difference for people who work intermittently. UC removes the risk of disruption to an out-of-work claimant's income that could be caused by taking up short periods of work or flexible employment. But it implies there is no clear starting point for the application of out-of-work conditionality. For example, in the current benefit system an employee who spends every other month off work, not available for or searching for any other work, does not qualify for JSA during the months not worked. Depending on the timing of the months off, earnings payment at the end of the month might not fluctuate. However, UC (for workers with earnings below the UC cut-out point) will compensate 65% of the loss of earnings from the months not worked.

UC claimants are required to self-report loss of a job within five days, and when this is not done a sanction will be imposed. In addition, earnings fluctuations will be identified and followed up at the earliest opportunity. DWP is also intending to take a longer-term view of claimant earnings patterns, so that a claimant will not be moved out of an active engagement regime after just one week's work and requirements will continue to apply (under the current system, during even short periods in work, requirements do not apply). However, there remains a risk that when hours of work fall to a low level without a formal separation from the job, out-of-work benefit conditionality is not applied promptly. The relevant DWP procedures should be tested and the extent to which this risk materialises should be assessed.

In-work benefit conditionality and the expected earnings threshold

Although employer and employee reporting of usual hours worked is inexact, in most countries benefit administration and employment services make some use of hours information, for example identifying some jobs as part-time and potentially compatible with the payment of a partial unemployment benefit. For workers in dependent employment, in-work conditionality for UC will apply when earnings are below the expected minimum

hours (up to 35 hours a week, depending on individual circumstances, capability and caring responsibilities) times the minimum wage. If some UC is still payable when earnings reach this expected level, a worker on twice the hourly national minimum wage will only need to work half the hours of a worker on the minimum wage to qualify for the ongoing UC payment without conditionality. In addition to the earnings-based rules for in-work conditionality, there could be a general requirement for the full use of working capacity up to expected hours. Some administration costs and cross-checking with employers would be involved: possible assessment methods range from regular claimant reporting of hours worked (many countries require some form of hours reporting for unemployment benefits) to occasional jobseeker declarations that usual weekly hours are above a threshold (the method currently used for WTC), required only in targeted cases. Survey information could be used to estimate the potential impact on earnings and benefit expenditure of applying a minimum-hours threshold, rather than a minimum earnings threshold.

In-work benefit conditionality and the benefit withdrawal rate

DWP expects that about one in six individuals in employment, about 5 million in total, will claim UC and in most cases be subject to a METR of 65%, or around 76% for basic-rate taxpayers, and in principle a million or more will be subject to in-work conditionality. It is not clear that any other country has such a large proportion of its low-paid employment subject to such a high METR: other countries often apply 100% or near-100% METRs if benefit recipients take a part-time job, but – because the 100% rate is dissuasive – not so many people work under these conditions. This implies that in-work benefit conditionality will be an important influence on how UC affects labour market outcomes.

Tax models, using reasonable assumptions about labour supply elasticities, suggest that the optimal tax schedule involves a relatively low out-of-work replacement rate and a relatively constant benefit reduction rate (near-linear tax rate). However, in practice benefit systems incorporate benefit conditionality, which allows optimal out-of-work replacement rates to be higher.

If only "out-of-work" benefit conditionality is an effective policy instrument – for example, if the public employment service is able to require recipients working zero hours, but not those working part-time, to participate in active labour market programmes (ALMPs) – the optimal tax schedule is likely to involve a METR of close to 100% up to the point where entitlement to benefit is exhausted, and a lower METR above this point. The 100% rate dissuades people from taking up part-time work, and out-of-work benefit conditionality ensures that they choose full-time work rather than zero work. The 100% METR also ensures that full-time workers have no entitlement to benefit, so their incentives when in work are not distorted. A number of European countries that follow these principles, combining fairly high out-of-work benefit replacement rates with the requirement to be available for full-time work, have been able to keep unemployment rates low and employment rates and productivity high.

If "in-work" benefit conditionality were roughly equally effective – in the sense of being able to move workers from a part-time job (supplemented by partial unemployment benefit) into a full-time job as rapidly as they can be moved from unemployment into a full-time job – then a METR well below 100% could be equally viable. But it is not yet clear that "in-work" conditionality can be equally effective. One problem is that the total number of people with conditionality requirements of some kind is increased, while employment service resources are limited. Another is that sanctions on part-time workers for failure to search for or take up full-time jobs may seem impractical or lack public support, so that in-work conditionality lacks teeth.

METRs and availability-for-work requirements can be varied across target groups. A simple model for the incentive impact of reducing METRs below 100% is that this increases net incomes from part-time work (and from full-time work on the minimum wage in some cases, and from part-year work if means-testing is based on annual income), while having no impact on net income for people who are out of work, nor for those who work full-time at above the minimum wage. For people with caring responsibilities who usually work only part-time, a METR below 100% promotes transitions from unemployment into part-time work and has a relatively small negative impact on transitions from part-time to full-time (or positive impact on transitions from full-time to part-time) work. Moreover, if this group is only required to be available for part-time work, the problem of enforcing in-work benefit conditionality does not arise.

Policy measures to counteract the incentives for low-paid full-time workers to move into part-time or intermittent work could include a return, for defined target groups, to the more-traditional 100% benefit withdrawal rate, perhaps as a tough measure implementing in-work conditionality when options for training or other advancement measures have not been taken up after a while.

Other countries' experiences with partial unemployment benefits

Personal Tax Credits in the United Kingdom involve higher maximum payments and cost more as a percentage of GDP than the similar tax credit systems operated by a few other OECD countries. The out-of-work and in-work conditionality issues that arise for UC more often arise, in certain countries, in relation to unemployment insurance (UI) and unemployment and social assistance benefits.

OECD countries' UI and assistance benefits require availability for full-time work as a main principle, but with relaxations for circumstances such as partial disability, and sometimes for caring responsibilities, although childcare responsibilities do not necessarily qualify, especially in UI systems.

Some UI systems directly apply a near-100% METR to part-time earnings: monthly earnings above a low level result in disentitlement to benefit in Austria, and are subject to a 100% benefit withdrawal rate in Germany. In many other UI systems, the natural treatment when a claimant finds work for two days in a week is to pay UI benefit for the other three days of the week. Since daily benefits (the base for calculating benefit entitlements, in the countries that pay unemployment benefits for days not worked) are often about 65% of daily reference earnings, this is approximately equivalent to applying a METR of 65% to earnings, as for UC. However, if working only some days in each week becomes habitual, UI is being paid as a regular supplement to the earnings from a quasi-permanent part-time job. UI systems therefore often treat partial or part-time unemployment benefits as a separate category, subject to certain restrictions and administrative controls. Regular work for 2.5 days per week can be combined with UI for the other 2.5 days of the week for up to 30 weeks in Denmark and Sweden, 52 weeks in Switzerland, and 15 months in France, or longer for older workers, but with no limit (except for the total UI entitlement of 500 days) in Finland.

Historically, in several cases where restrictions and administrative controls were eased, the caseload of partial unemployment benefits grew to high levels. In Belgium, where UI benefits are not time-limited, more than half of all part-time workers in 1990 were combining part-time work with partial unemployment benefits, and in Sweden in the 1990s part-time unemployment represented about 40% of total part-time employment. Employment service interventions were unlikely to resolve these situations, and these

countries eventually reintroduced entitlement restrictions such as those mentioned above. In France, "reduced activity" UI claims, which are partially or completely interrupted by earnings in the current month, have more than quadrupled in the last 20 years. In 2011, they represented more than 40% of all monthly UI claims, and in 2013 the National Audit Office called for a "re-examination", arguing that "reduced activity" claims may act as a long-term secondary benefit for workers in unstable jobs, used by companies to pay employees in such positions: the problem takes the form of intermittent or unstable work, more than permanent part-time work. But in Finland, although the unemployed quite often combine part-time work (which can include two-week temporary contracts) with benefit, this has not become a big problem. Partial unemployment benefits may act as a "stepping stone" to full-time employment or they may act as a "trap", but the details of regulations, incentives and employment service interventions are hard to document and their outcomes are not easily predictable.

Real Time Information (RTI)

HMRC implemented RTI in 2013 to support the introduction of Universal Credit, although HMRC also expects it to reduce administration costs and, probably, facilitate the identification of hidden economy transactions. Under RTI, employers must electronically transmit information about each wage payment, with the employee identifier, address, start and end dates of employment, pay frequency and usual working hours (in bands up to 16 hours, 16-24, 24-30 and 30 hours or more), to HMRC on or before the date when the wage payment is made.

This information could allow better management of WTC claims, although in individual cases, further questioning of the employee and/or employer may be needed to ensure its accuracy. In the UC context, some of the information that DWP uses for the administration of UC will not have a direct incidence on the HMRC tax take. It will usually be the benefit administration that detects incorrect information submitted by employers, possibly acting in collusion with their employees, in terms of employee start dates and end dates, and bunching or spreading of wage payments in ways that maximise benefit payments or artificially avoid conditionality requirements. Funding arrangements and agreements between the Departments should promote HMRC action to achieve accurate reporting by employers of the information that is used mainly DWP.

The role of the UK public employment service in job brokerage and activation strategies *(Chapter 3)*

The United Kingdom has a long tradition of activation policies to promote the quick reintegration of working-age benefit recipients. Job-search requirements for claimants of unemployment benefits can be traced back to the late 1980s and a standard way of monitoring job-search efforts through fortnightly job-search review meetings was introduced with the JSA regime in 1996. From the early 2000s, activation measures were introduced for claimants of lone parent and incapacity benefits. From 2008, access to lone parent and fully-inactive incapacity benefits was significantly restricted and caseloads fell more rapidly. The United Kingdom continues to be at the forefront of reform efforts by OECD countries to transform and modernise their activation policies.

The jobseeker's regime: Placing higher emphasis on the quality of job matches

With a number of policies restricting access to inactive benefits, the population eligible for JSA has increased over the past few years. This has not implied any move away from a rigorous activation regime, and the JSA eligibility criteria have even been further tightened. It will be important to ensure that current and future requirements genuinely increase the volume and the quality of job search, so that job-search monitoring generates better job outcomes and employment assistance enhances potential earnings. For certain claimant groups this will require additional, well-targeted expenditure on training to address skills deficiencies. For parents – and especially lone parents – JCP may need to offer additional services to assist in the search for childcare, to enable moves into jobs with longer hours and potentially raise other dimensions of job quality such as wages and the occupational level. Also, JCP performance measures should place emphasis on the quality of employment outcomes with respect to preventing repeat claims and increasing potential earnings.

Monitoring the impact of a stricter jobseeker's regime

Both the requirements placed on JSA claimants – relating to occupational mobility, travel to work time and mandatory referrals to training programmes – and sanctions for failure to follow those requirements have increased over the past two years. In late 2013, DWP introduced a more detailed individual action plan for claimants – the Claimant Commitment – to specify what claimants need to do every week to find work and comply with the JSA regime. The *Spending Review 2013* announced additional measures which further increase the requirements placed on JSA claimants: at their first application for benefits, claimants will be asked to write a CV, register with the Government's online vacancy database, and start looking for work. Around half of all JSA claimants will also have to sign on a weekly instead of a fortnightly basis. Furthermore, claimants whose poor English skills are a barrier to finding work will be required to attend English language courses.

In the light of current and future planned tightening of the JSA regime, the requirements placed on claimants need to be matched with personalised employment services to help benefit claimants to enter stable employment. DWP has addressed this to some extent through accompanying the roll-out of the Claimant Commitment with investing in training of JCP staff who monitor the claimants' actions. The *Spending Round 2013* also announced longer initial claimant interviews and a reintroduction of regular in-depth review meetings. The reinvestment of expected savings into JCP is foreseen and must be preserved in the face of fiscal constraints.

Improving outcomes for lone parents

From 2008, the United Kingdom made a far-reaching change to the activation regime for lone parents through the introduction of a work-testing condition for income support for lone parents with children aged 5 years and over. This policy has helped to reduce the number of lone parents claiming out-of-work benefits and also helped to increase lone-parent employment, albeit to a modest extent to date. The quality of employment, however, is often low and the vast majority of lone parents move into part-time work in lower-level elementary occupations. An important enabler of longer hours is childcare, but childcare costs may act as a disincentive to working longer hours.

Currently JCP advisers (and Work Programme providers) have no incentive to help lone parents move into work for more than 16 hours, as this is the point when JSA stops

being paid and lone parents become eligible for WTC. For moving lone parents into jobs with higher hours and earnings, more expensive employment services as additional counselling, career guidance and (vocational) training opportunities may be required. However, this could make a lifelong difference to lone parents and their children and also help reduce future benefit expenditure. For parents more generally, services provided by JCP advisers should include assisting in the search for good quality, reliable, accessible and affordable childcare, which enables them to move into jobs with longer hours, potentially also raising other dimensions of job quality such as wages and the occupational level.

Skills training for the unemployed

Qualifications and skills have an important impact on labour market outcomes. The *OECD Skills Outlook 2013* shows that in comparison with other participating OECD countries, unemployed individuals in England and Northern Ireland have amongst the lowest literacy scores, which, however, are a very important factor for the likelihood of people being employed. This highlights the importance of investing in basic skills of the unemployed.

In the United Kingdom well-targeted additional expenditure on training for the unemployed could help to address skills deficiencies and support the transition of more people into employment including potential positive impacts on wages and job stability. However, expenditure for labour market training programmes in the United Kingdom is among the lowest in the OECD. Across OECD countries, evaluations of these programmes show a mixed track record, and given that they tend to be among the most expensive active labour market programmes, a cautious approach to potential increases in expenditure is needed.

Better targeting of funds could be achieved by giving funds for basic and short skills training for disadvantaged unemployed directly to JCP and Work Programme providers. With such funds directly available to JCP and Work Programme providers purchasing decisions could be more closely linked to the needs of benefit claimants. Work Programme providers are particularly likely to tightly target such funds, given that they are paid mainly for employment outcomes and thus will aim to match employers' needs. Other reward systems for training providers should also include stronger incentives to achieve employment outcomes.

Promote transitions to stable job outcomes

JCP operates an off-flow from benefit performance measure, which can be effective in giving JCP staff an incentive to ensure that only jobseekers who are available for, and actively seeking work remain on JSA. However, it does not measure JCP's performance with respect to moving people into employment as it only tracks the end of benefit claims. The target has been chosen mainly because JCP holds only incomplete information on claimant destinations.

Even when using only off-flow from benefits (rather than employment outcomes), options exist to reduce potential gaming behaviour, reduce long-term benefit claim levels and promote transitions to stable job outcomes. For example, Switzerland has a performance management system with indicators based on employment service register information only. The four indicators are: *i)* the average duration of unemployment benefit entitlement by claimants flowing of unemployment benefits; *ii)* the rate of entries to long-term unemployment; *iii)* the rate of claimants exhausting unemployment benefit entitlement; and *iv)* the proportion of repeat registrations.

Using real-time earnings information (RTI), it will be possible to implement a better performance measure based on employment outcomes. Sustained employment outcomes may be emphasised, aiming to prevent repeat claims. Under UC also a new dimension becomes important: whether claimants are in-work claimants of UC – with or without conditionality being applied – or have wholly moved off benefit, including in-work benefits. JCP and providers of contracted provision (e.g. Work Programme providers) should have an incentive to reduce the amount of in-work benefits being paid to UC claimant, which could have a positive impact on the quality of job matches brokered through employment services. The Government recently announced that such measures are being developed with a view of piloting employment-related performance measures. Piloted aspects will include speed of movement into work versus the duration in work versus earnings progression whilst in work.

Activation measures for specific groups

Lone parents with younger children

Employment rates for lone parents with children under the age of 5 five are rising, but there is still a large gap with the employment rate of partnered mothers with children of the same age, and a large proportion of lone parents claim income-replacement benefits. Two recent policy announcements may help to activate more lone parents with younger children: *i)* an extension of free childcare to more 2-year-old children; and *ii)* the introduction of mandatory work-related activity for lone parents with children aged 3 and 4 years, mirroring the regime for Employment and Support Allowance (ESA) claimants in the Work-Related Activity Group (WRAG). Whether work related activity will have an impact on lone-parent employment is difficult to judge, as evidence about its impact on flows off benefit and into employment for ESA WRAG claimants is lacking.

Many OECD countries go a step further and already apply a work-test when the youngest child is aged three, although discretionary exemptions may be applied. Too-early maternal employment may have negative impacts on child well-being. But maternal employment means more family income, which has positive effects on child development, especially among children of low-income families. OECD countries, that expect lone parents to work from an early age of their child, and have comprehensive employment and childcare support systems in place, generally have the best outcomes for lone-parent families in terms of both employment and poverty rates. The United Kingdom should consider further reducing the age of the youngest child when a work-test is applied for lone parents and also partners of benefit recipients, recognising that exemptions and waivers may be allowed, as they are for (lone) parents with older children. In addition, greater investment in childcare is required to ensure the availability of suitable and affordable childcare.

Employment and Support Allowance claimants

Rates of return to work from the ESA Work-Related Activity Group (ESA WRAG) are low and to date no benefits of this additional conditionality regime have emerged. However, the interventions regime seems weak. Whereas JSA claimants receive regular interventions through the fortnightly signing process and quarterly in-depth review meetings from 2015, ESA claimants may be neglected (i.e. "parked") by both JCP and Work Programme providers. In both cases, to ensure some minimum level of contact with employment services, a first step would be to introduce regular in-depth review meetings for ESA WRAG claimants, similar to the interventions regime used in the previous Pathways to Work programme.

In the Work Programme, underfunding for harder-to-help claimants – regardless of benefit claimed – urgently needs to be addressed. In addition to higher funding for employment outcomes, it is sometimes suggested that providers could be rewarded for "social outcomes", such as the treatment of diagnosed health problems, ending homelessness, or acquiring qualifications. It is likely to be difficult to capture the added value across a wide range of social outcomes with operational measures that are robust to gaming. However, Australia now attaches some weight to a "barriers serviced" performance measure. This primarily assesses activity or participation by claimants, rather than the results or effectiveness of the servicing, but some pilots testing approaches to measuring the "distance travelled" towards employment – mainly based on survey responses addressed to jobseekers and providers at different points in time – are currently under way.

Quasi-market arrangements in the UK Work Programme *(Chapter 4)*

In 2011, the UK Government introduced a new flagship "back to work" scheme – the Work Programme – replacing around 20 previous welfare-to-work programmes. The programme is contracted-out employment support, aiming to provide a tailored service to long-term unemployed and the most disadvantaged jobseekers in receipt of various income replacement benefits. With large and long contracts the programme is primarily delivered by the private sector, with input from the public and voluntary sector mainly at sub-contractor level. The Work Programme follows a *black box* approach, meaning that that providers are free to provide any sort of service or set of interventions rather than being required, as under the majority of previous labour market programmes, to deliver specific elements. The payment model places strong emphasis on sustained employment outcomes and high performance expectations were placed on providers. Participants are randomly assigned to one of two or three providers in an area and competition between providers is expected to continuously improve performance. During 2014, DWP plans to publish a new *Commissioning Strategy* to guide its future commissioning activity beyond the current Work Programme and other contracted programmes. The strategy will articulate the strategic framework including the approach to market development and market structure, performance management, service delivery and payment models.

Funding levels

Providers need to secure employment spells totalling 26 weeks (13 weeks for some participants) to receive any job-outcome fees. Job-outcome fees represent less than half of the potential total fees per participant and the majority of fees are disbursed only gradually for even longer employment spells, lasting an additional one to two years. Comparisons with previous contracted-out employment programmes in the United Kingdom and those in other countries suggest that Work Programme providers have lower levels of funding available per client or need to secure much longer periods of employment to obtain similar levels of funding per participant.

The payment model implies that funding levels are low, especially for harder-to-help claimants. Where funding is too low, providers may reduce the quality of their services to cut costs and neglect participants perceived as harder to place in employment and thus more costly to help ("parking"). There is some evidence to suggest that parking has occurred within the Work Programme and higher levels of funding would be necessary to address this.

The detailed assumptions underlying the Work Programme model imply that if outcomes fail to reach the assumed "non-intervention" levels – which is roughly the case

on average – the Work Programme is not achieving government savings in the expected range. Its operating costs nevertheless remain considerable. Probably the assumed non-intervention levels were overoptimistic, and Work Programme expenditure at the current levels is generating a net saving for government, and higher funding will increase the net saving. The wider benefits for society as a whole should also be taken into account. Moving people into work can, for instance, have impacts on health, self-esteem, economic activity and lower crime rates.

Provider market structure

The Work Programme model divides Great Britain into 18 contract package areas (CPAs) with two or three prime provider contracts available in each, resulting in a total of 40 contracts. CPAs are large, and each prime provider also uses end-to-end sub-contractors. With 18 operating providers and their respective market shares the Work Programme market as a whole would possibly not be considered as being concentrated. However, after the tender award only two or three providers compete within each Contract package area (CPA), with the Work Programme market in essence being a number of regional duopolies and narrow oligopolies. This does not rule out the possibility of a competitive outcome, if competition between providers can be fostered or the market is "contestable" at the CPA level. Moreover, market entry and exit have to be relatively costless in order for markets to be contestable. DWP aims to drive competition within CPAs through market share shifts, transferring 5% of client inflows from the worst towards the best performing provider in a CPA when the difference in performance is large enough. These market share shifts, however, only marginally affect average performance and might not improve the performance of the underperforming provider.

Keeping the Work Programme market contestable through the threat of market entry may prove challenging, as there are some indications of a lack of interest. Many organisations may not be large enough to replace poorly-performing providers. Also the cost of replacing poorly-performing providers increases with contract size. Reducing the average contract size could help to encourage entry by more providers – potentially some of the current sub-contractors – and increase competition within CPAs and facilitate the replacement of poorly-performing providers. This could make the Work Programme quasi-market more competitive, and thereby improve efficiency and responsiveness in the delivery of activation and reintegration measures for jobseekers. Contract sizes should be reduced along two dimensions: CPAs should be geographically smaller and in most cases, more than two or three providers should operate in each CPA. This would partly reverse the current situation, where large parts of the contract management function have been passed on to prime providers. However, such a model does not rule out the possibility of some providers running a large number of smaller contracts under central management, and DWP could still operate a relatively lean contract management function.

Large providers may be in a position to participate in regional governance institutions that promote local economic development. Sustaining the benefits of such an engagement may be facilitated if CPAs are aligned with the geographical coverage of existing governance structures such as Local Enterprise Partnerships (LEPs) in England, where all providers in an area could participate.

In March 2014, almost three years into the contracts, DWP announced the termination of a first Work Programme contract due to underperformance. The re–tender for this contract provides an opportunity to evaluate whether smaller contracts are an option for a potential next round of the Work Programme from 2016 onwards.

Profiling tools

Jobseeker profiling procedures allocate jobseekers across a small number of categories. Allocations to categories, also called *segmentation*, are based upon a regression model, which predicts the claimant's probability of becoming long-term unemployed as a function of their characteristics. A number of OECD countries use some kind of profiling: profiling procedures have long been used in Australia, and have recently been introduced in Ireland.

For the United Kingdom, a recent research study explored the feasibility of developing a profiling tool to predict, at the moment of first claim, the likelihood of a new claimant reaching long-term unemployment. The results indicate that such models perform better than random allocation and suggest that it would be worthwhile to further undertake work towards developing a formal customer profiling tool. Such a profiling tool could be used to inform decisions on JCP interventions prior to the Work Programme, identify claimants with additional needs beyond the core interventions (e.g. skills training, health support), and assignments to Work Programme payment groups, which would be more closely aligned to a claimant's labour market distance than they are now. This type of information on client characteristics is also important as an input to comparisons of performance between Work Programme providers – or JCP offices – that serve clients with different levels of disadvantage.

In spring 2014, DWP started a new randomised control trial, which aims to assess the value of a profiling procedure in assigning new JSA claimants to either weekly signing or the standard fortnightly signing process. While the new trial focuses on the short-term unemployed, it will be important to use the findings to make progress on a better identification of claimants at risk of long-term unemployment, especially with regard to referrals to the Work Programme and improved targeting within the Work Programme.

This type of profiling needs to draw on existing information on the jobseeker register but the latter needs to be enhanced as far as possible with additional factual information (family status, caring responsibilities, qualifications, health conditions, housing status and stability of residence) that may need to be obtained through questionnaires. Profiling tools need to be integrated into benefit claim procedures so that all jobseekers are being assessed without the possibility of making an assessment optional on advisers' discretion. Using attitudinal data for profiling – as has be done in the recent DWP research study – carries the risk that claimants will answer as a function of how their answer impacts on their preferred outcome (e.g. signalling additional barriers will result in referrals to less frequent signing).

Measuring Work Programme performance

DWP's performance measures allow only for a limited assessment of the Work Programme performance to date. Performance benchmarks have been set at the same level for all CPAs, but comparisons of performance against a fixed benchmark are unlikely to be accurate. When there are only two providers in a CPA and they both have the same outcome rate, their performance is known to be the same because client referrals are randomly assigned across the two. However, it is not clear whether they are both high- or low-performers. Likewise, when average outcome rates vary across different CPAs, it is unclear whether this reflects differences in provider performance or differences in local participant and labour market characteristics.

A more precise measure of performance will take participant and local labour market characteristics into account. The "Star Ratings" system for the Job Services Australia model broadly succeeds in achieving this, comparing the relative performance of providers across the country on the same scale. High performance is promoted by basing contract extensions and the threat of contract termination on the providers' Star Ratings. A similar performance measurement system could be applied to the Work Programme, but its full implementation would require multiple reforms:

- The creation of a more-complete national database of jobseeker characteristics, including profiling information.
- Central government allocation of jobseekers to specific customer-facing offices, so that the performance can be directly compared across individual offices operating in the same local area. Particularly when four or more offices are operating in the same area with a comparable profile of jobseekers at intake, this allows relatively strong identification of: *i)* the fact that the local area itself is advantaged or disadvantaged; and *ii)* good and bad performance by individual offices.
- Matching the customer-facing offices to local-area statistics for unemployment, employment and industry structure, etc., which can then be used as explanatory variables for local office performance.
- Once the measurement of performance is implemented at local office level, it is feasible to terminate contracts at that level or slightly above, e.g. several offices managed partly in conjunction with each other. At this level, performance variability is relatively great, and contract termination is more-targeted and involves less upheaval than in the case of a prime provider operating across a diverse, large region through multiple sub-contractors.

The black box delivery model

An essential feature of the Work Programme commissioning model is its *black box* approach to service delivery: during the two-year attachment period there are no mandatory service components and providers are free to decide which interventions to offer to participants in order to help them into, and to sustain, employment. The black box is seen as a major driver for prime providers' motivation to be involved and to continue being involved in the Work Programme. Retaining this appeal for providers may therefore be an important aspect to drive future competition. However, DWP already audits the implementation of some minimum service standards and enforces a number of procedural and reporting requirements on providers. DWP should also better identify factors that affect Work Programme performance at local level (e.g. differences in the behaviour of local JCP offices) so as to ensure a level playing field when comparing performance between one locality and another.

Even though providers enjoy relative freedom, DWP's scrutinises providers' financial position and caps revenues as providers are expected to spend on services up to a point where they neither suffer losses nor achieve excessive profits. However, this is similar to a *cost plus* method of contracting, where it is necessary to supervise not only the final product but also the efficiency of the contractor's production process. If the aim of such controls is to guarantee better services for all participants and prevent parking of harder-to-help participants a better way forward may be a requirement for providers to see participants regularly in exchange for a service fee, but otherwise allow for freedom over service delivery.

Main policy recommendations

Implementing Universal Credit

- Introduce a general requirement for the full use of working capacity up to individual expected hours for UC claimants in work, because the current rules imply that workers with wages above the minimum wage rate need to work fewer hours to qualify for UC without further conditionality. Jobcentre Plus (JCP) should assess hours worked or other indicators of unused earnings capacity in relevant cases.

- Consider introducing a time-limit for the option to supplement part-time employment by UC payments for target groups that are expected to move into full-time work, particularly if in-work conditionality measures prove to have insufficient impact.

- Develop and test procedures that allow the timely and reliable application of out-of-work benefit conditionality in different scenarios, and ensure adequate resources to implement them. This is important, as low monthly earnings may arise from intermittent employment patterns, with UC payments covering 65% of the loss in wages.

- The tax authority HMRC should strive to ensure the accurate timing of Real Time Information (RTI) about wage payments and start and end dates of employment, as reported by employers and used by DWP to calculate Universal Credit (UC) payments and check when periods of unemployment started.

Labour market considerations for secondary benefits

- Refer people assessed for Disability Living Allowance/Personal Independence Payment in relevant cases to specialist disability employment services, helping to keep them in work or promote their return to work.

- Evaluate the role of location and other housing characteristics on employment outcomes and take this into account in Housing Benefit policy, perhaps easing the caps on rents for localities with good access to jobs.

Making improvements to the Work Programme

- Increase funding levels to ensure more claimants who are less connected with the labour market are helped into employment.

- Reduce the average contract size through geographically smaller contract package areas and in most cases a higher number of providers per area to foster greater competition and facilitate the replacement of poorly-performing providers.

- Use the findings of ongoing profiling trials to improve targeting of claimants at risk of long-term unemployment. Use this information to achieve a better segmentation of Work Programme participants and a more effective structure of provider incentives.

- Develop a more precise performance measurement system similar to the Job Services Australia *Star Ratings*, which take participant and local labour market characteristics into account. Developments involved in fully introducing such a system include the creation of a more-complete national database of jobseeker characteristics (i.e. profiling information), government allocation of jobseekers to specific customer-facing offices, and the use of local-area labour market statistics to interpret local office performance.

- Require providers to see participants regularly in exchange for a service fee, so as to guarantee a minimum level of services and prevent parking of difficult-to-place cases, but otherwise allow for freedom over service delivery.

Main policy recommendations *(Cont.)*

Place higher emphasis on the quality of job matches

- Assess whether new requirements placed on Jobseeker's Allowance (JSA) claimants genuinely increase the volume and the quality of job search, so that job-search monitoring generates better job matches and that employment assistance enhances potential earnings.
- Safeguard the reinvestment of expected savings resulting from current and future measures into Jobcentre Plus (JCP) in the face of fiscal constraints.
- Give JCP an additional remit to assist parents in the search for childcare. This would make employment services more expensive, but enables parents to move into jobs with longer hours, potentially also raising other dimensions of job quality such as wages and the occupational level.
- Increase expenditure for labour market training programmes for the unemployed to address skills deficiencies and support the transition of more people into employment. Better target resources by giving funding directly to JCP and Work Programme providers, as purchasing decisions would be more closely linked to the needs of benefit claimants.
- Improve the JCP performance measurement framework by adding additional indicators including the prevention of repeat claims, the prevention of benefit exhaustion for claimants of contributory benefits, and the rapidity of re-integration into the labour market. As RTI earnings data improve, consider how to use them in the JCP performance management framework.
- Under the UC system, introduce incentives for JCP and providers of contracted provision to reduce the amount of in-work benefits being paid to UC claimants.

Chapter 1

The background to active labour market policies in the United Kingdom

The UK labour market weathered the recent recession moderately well: unemployment continues to fall and the employment rate is close to its pre-recession level, and is above the international average although still some way below the highest rates in the OECD. The fall in productivity growth in the United Kingdom has been particularly sharp, with GDP expected to surpass its 2008 level only in 2014. The other salient features of the UK labour market include a fairly high level of female employment, albeit somewhat below the EU average for mothers with younger children, and comparatively low for lone parents. Immigration and natural growth notwithstanding, the United Kingdom will experience significant ageing in the next few decades. Despite high tertiary education attainment rates there is a risk that the pool of highly skilled adults in the United Kingdom will shrink relative to that of other countries. The United Kingdom is characterised by flexible labour market regulation for both permanent and temporary contracts. A minimum wage was introduced in 1998; its level relative to the median wage is towards the middle of the range among OECD countries.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

During the last three decades governments in many member countries of the OECD have sought to activate their welfare states. There is no common definition of activation but core objectives are to bring more people into the effective labour force, to counteract the potentially negative effects of unemployment and related benefits on work incentives by enforcing their conditionality on active job search and participation in measures to improve employability, and to manage employment services and other labour market measures so that they effectively promote and assist the return to work. The United Kingdom (UK) has a long tradition of policies to promote the effective reintegration into employment of working-age benefit recipients, which has helped limit the rise in unemployment even during the recent global financial and economic crisis. This chapter describes the background to active labour market policies in the United Kingdom.

The United Kingdom of Great Britain and Northern Ireland is a constitutional monarchy and consists of four countries: England, Scotland, Wales and Northern Ireland. The latter three have devolved parliaments and administrations, each with varying powers. England has no such devolved administration or legislature and is administered and legislated for directly by the UK Government and Parliament on all issues. Northern Ireland has the greatest devolved powers including social and labour market policies, with only matters such as international relations and taxation being subject to the UK Government and Parliament. This report of activation policies in the United Kingdom covers England, Scotland and Wales only.

The remainder of this chapter covers economic developments in the United Kingdom over recent decades; demography, immigration and educational attainment; labour market trends and the labour market situation of specific population groups; the role of social and labour market policies; key actors in labour market policy; and patterns of labour market spending.

Economic development

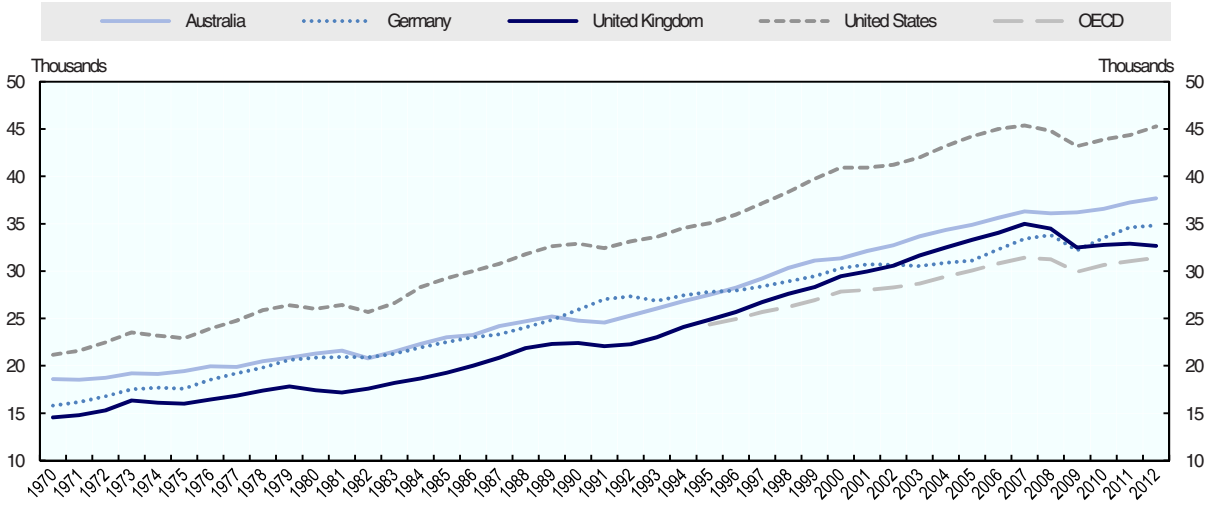
In the years between the recession in the early 1990s and the recent the global financial crisis, the UK economy grew rapidly, overtaking Germany in terms of GDP per capita in the early 2000s. GDP per capita has been broadly flat over the past three years and remains more than 7% lower than at its peak in 2007; it is again below that of Germany (see Figure 1.1). As the overall level of productivity in the United Kingdom remains, despite increases in the run-up to the financial crisis, low compared with that in other major OECD economies, raising productivity remains a challenge for future sustainable growth. Weak productivity growth since the financial crisis is not unique to the United Kingdom, but a common development across much of Europe, partly linked to the vulnerable banking system and sovereign debt crisis.

There is clearly no single factor that can explain the sharp drop in the level of UK productivity since 2007. More likely it reflects the cumulative effects of a number of factors, that include mis-measurement, hoarding skilled labour, real wage moderation, structural shifts in production and persistent effects related to the financial crisis (OECD, 2013a). It should also be kept in mind that two labour market policy measures, the tax credits in operation as from 2003 and the activation of some inactive benefit recipients as from 2008, are expected to increase employment rates for groups on margins of the labour force, but reduce incentives for those in employment to earn more. During 2013,

economic activity has picked up and broadened and growth is projected to strengthen further in 2014 and 2015 (OECD, 2013b).

Figure 1.1. **GDP per capita, United Kingdom, Australia, Germany, United States and OECD, 1970-2012**

US dollars (USD), constant prices, 2005 PPPs



Note: Data refer to labour productivity in the total economy.

Source: OECD Productivity Database, www.oecd.org/std/productivity-stats/.

Demography, immigration and education

The United Kingdom is the second largest economy in Europe and its population is expected to grow further. Immigration and natural growth notwithstanding, the United Kingdom – like the large majority of OECD countries – will experience significant ageing in the next few decades. Despite high tertiary education attainment rates there is a risk that the pool of highly skilled adults in the United Kingdom will shrink relative to that of other countries.

Demography

The United Kingdom had a resident population of 63.7 million in mid-2012. The estimated populations of the four constituent countries of the United Kingdom were 53.5 million people in England, 5.3 million in Scotland, 3.1 million in Wales and 1.8 million in Northern Ireland (ONS, 2013a). The capital city, London, with a population of 8.3 million in 2012 (ONS, 2013b), accounts for 13% of the UK population.

The UK population increased by 4.4 million (nearly 7%) between 2002 and 2012 and is projected to increase by 4.3 million to 68 million over the 10-year period to mid-2022. It is projected to reach 70 million in mid-2027 and 73.3 million in mid-2037. As Germany's population is projected to decline, the United Kingdom may eventually become the most populous economy in Europe. Of the 4.3 million projected increase in the UK population over the next ten years, some 2.6 million (61%) is a result of projected natural increase (more births than deaths) while the remaining 1.7 million (39%) is the projected net number of migrants (ONS, 2013a).

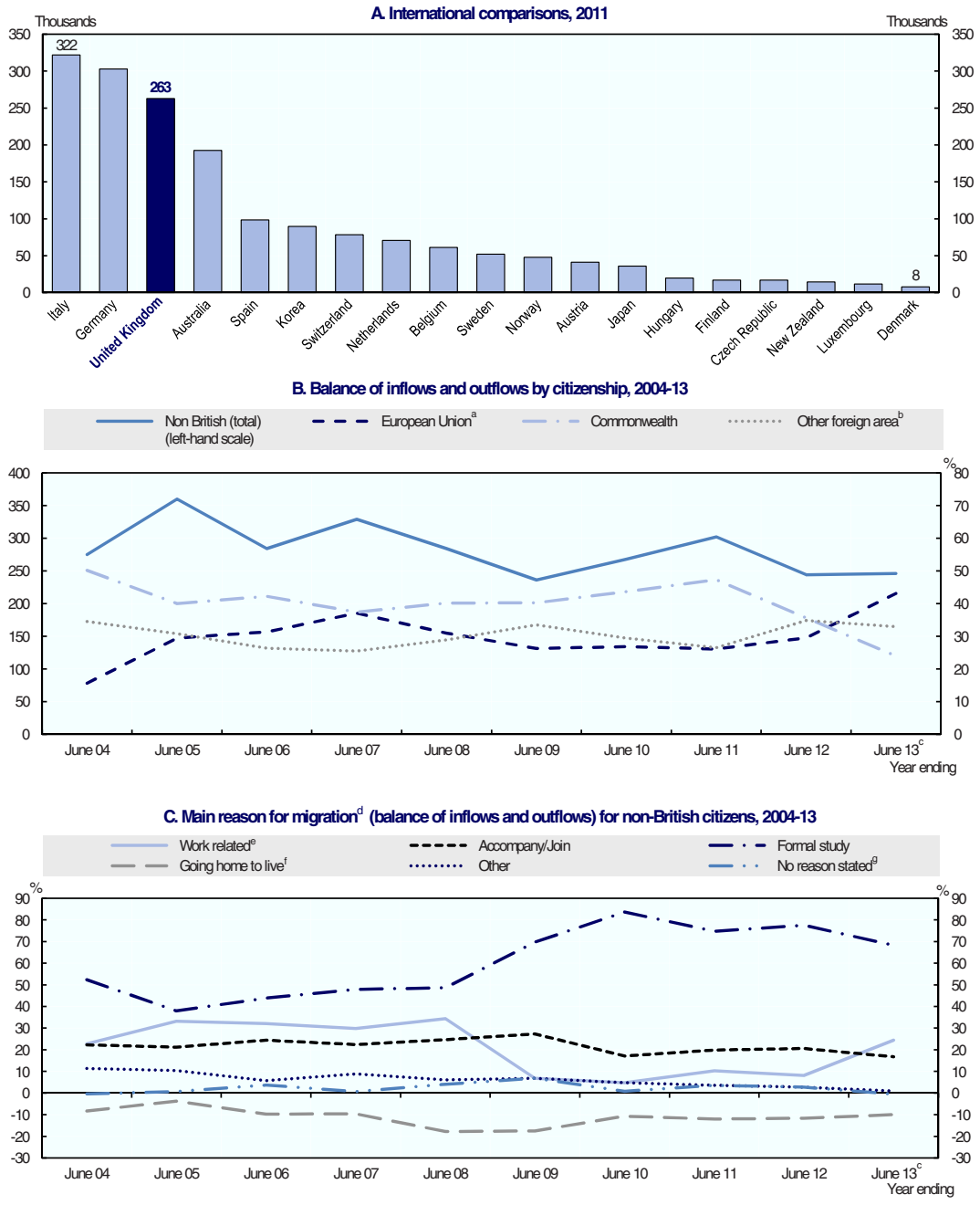
Immigration

In 2011 the United Kingdom had one of the highest flows of net migration of foreign nationals across the OECD (see Figure 1.2, Panel A).[1] While until 2011 the highest proportion of migrants came from Commonwealth countries,[2] there has recently been a shift with the highest proportion now arriving from the European Union (EU), followed by citizens of other countries (see Figure 1.2, Panel B). There have been some changes in the reasons for migration in recent years (see Figure 1.2, Panel C). A fall in job opportunities at the onset of the global financial crisis resulted in a drop in the net migration due to work-related reasons and a relative increase in net migration for reasons of study. A fall in the number of arrivals due to reasons of study between 2012 and 2013 may be explained by the introduction of stricter visa requirements for non-European students and the introduction of much higher tuition fees in England from 2012, which mainly affected UK nationals and students from Europe. On the other hand, in the year ending June 2013, there was a surge in net inflows to the United Kingdom for work-related reasons. This was exclusively driven by immigration from within the European Union,[3] with many new arrivals coming from European countries hit by the sovereign debt crisis.

Three measures targeted at migrants and introduced during early 2014 may have an impact on future migrant flows. A three-month residency requirement, before the unemployment benefit Jobseeker's Allowance (JSA) can be claimed, now applies to both foreign jobseekers and British nationals returning to the United Kingdom; migrants from the European Economic Area (EEA) are only eligible to claim unemployment benefits for six months, unless they have genuine prospects of work; and EEA migrants who are classed as jobseekers and are entitled to income-based JSA will no longer be entitled to Housing Benefit.

Immigration and natural growth notwithstanding, the United Kingdom will experience significant ageing in the next few decades. The median age is projected to rise from 39.7 years in 2012 to 40.6 years by mid-2022 and 42.8 by mid-2037. There were 3.21 people of working age for every person of state pension age in mid-2012. By mid-2022, reflecting the change in state pension age, the old-age support ratio is projected to rise to 3.39, but it projected to then fall to 2.74 by mid-2037 (ONS, 2013a).

Figure 1.2. **Net migration in the United Kingdom**



a) European Union estimates are for EU25 from 2004-06, and for EU27 (EU25 *plus* Bulgaria and Romania) from 2007 onwards.

b) Before joining the EU, Bulgaria and Romania were included in *Other foreign area*.

c) Estimates for 2013.

d) The balances of inflows and outflows should be interpreted with care, keeping in mind that a former immigrant's main reason for leaving the United Kingdom may well differ from their previous main reason for migrating to the United Kingdom.

e) *Work related* includes *Definite job* and *Looking for work*.

f) *Going home to live* is recorded when no other reason relating to work, study or accompany/join is provided.

g) *No reason stated* includes non-responses and the non-specific response *Emigrating/Immigrating*.

Source: OECD International Migration Database, www.oecd.org/els/mig/keystat.htm for Panel A; Office for National Statistics (ONS), Home Office, Central Statistics Office (CSO) Ireland and Northern Ireland Statistics and Research Agency (NISRA) for Panel B; and Office for National Statistics (ONS) International Passenger Survey (IPS) for Panel C.

Education and skills

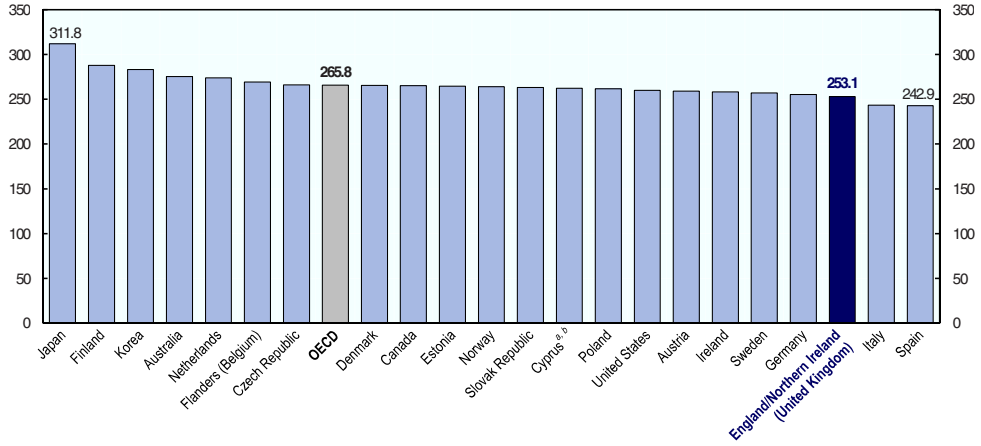
As in most OECD countries, the proportion of people without upper secondary education in the United Kingdom has been shrinking while the proportion with a tertiary education has been growing over the past decade. Tertiary attainment rates for 25-64-year-olds increased by 4 percentage points since 2008 – a greater increase than the OECD average of 3 percentage points – and by 13 percentage points since 2000. At 39%, the UK rate is above that in France (30%), Germany (28%), and above the OECD average (32%) (OECD, 2013c, Table A1.4a).

However, as the *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills* (OECD, 2013d) shows, the pool of highly skilled adults in England and Northern Ireland is likely to shrink relative to that of other countries. In the two countries, England and Northern Ireland, participating in the Programme for the International Assessment of Adult Competencies (PIAAC),[4] the differences in proficiency between younger and older generations are negligible. Although young people are entering a much more demanding labour market, they are not much better equipped with literacy and numeracy skills than those who are retiring. In England, adults aged 55-65 perform better than 16-24 year-olds in both literacy and numeracy. This finding holds when other factors, such as gender, socio-economic backgrounds and type of occupations, are taken into account. Comparing results within age groups across participating countries, older adults in England score higher than average in literacy and numeracy, while younger adults show some of the lowest scores for their age group (OECD, 2013d). The implication is that the stock of skills available to the two countries will decline over the next decades, unless significant action is taken to improve skills among young people.

The *OECD Skills Outlook 2013* also highlighted the importance of qualifications and skills on labour market outcomes showing that across the OECD, proficiency in literacy, numeracy and problem solving in technology-rich environments is positively and independently associated with the probability of participating in the labour market and of being employed and earning higher wages. In England and Northern Ireland, highly-skilled adults[5] have higher employment rates than in many other countries participating in the survey: 83.4% of highly skilled adults are employed (compared with an average of 79.1% of adults in all participating countries), and only 13.4% of them are out of the labour force (compared with 17.1% on average across participating countries) (OECD, 2013d).

The survey also shows that in a comparison of unemployed individuals across participating countries, unemployed individuals in England and Northern Ireland have among the lowest literacy scores (Figure 1.3). This is important as the impact of literacy on the likelihood of being employed is relatively large in England and Northern Ireland (Figure 1.4).

Figure 1.3. **An international comparison of mean literacy scores among the unemployed**



Note: Countries are ranked in descending order of workers' mean literacy score.

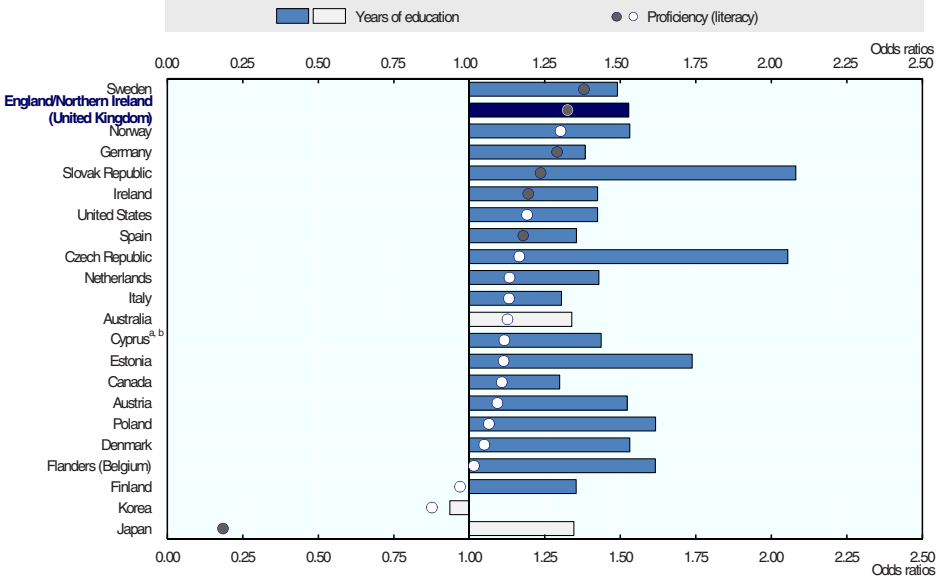
a) Note by Turkey:
The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

b) Note by all the European Union Member States of the OECD and the European Union:
The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: OECD (2013), *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264204256-en, Figure 6.2 (L).

Figure 1.4. **Effect of education and literacy proficiency on the likelihood of being employed**

Adjusted odds ratios showing the effect of education and literacy on the likelihood of being employed rather than unemployed among adults not in formal education



Note: Countries are ranked in descending order of the odds ratios of proficiency. Results are adjusted for gender, age, marital and foreign-born status. The odds ratios correspond to a 1 standard deviation increase in literacy/years of education. Statistically significant values (at a 5% level) are shown in darker tones. Years of education have a standard deviation of 3.05, literacy has a standard deviation of 45.76. See notes *a* and *b* to Figure 1.3 above.

Source: OECD (2013), *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264204256-en, Figure 6.6 (L).

Labour market trends

The UK economy continues to recover slowly and the unemployment rate still remains significantly higher than its level before the recession and is not expected to fall rapidly. The employment rate has partly recovered and is now not far below its level before the recession. Causes for concern include the "productivity puzzle" (discussed above), and the fairly high incidence of long-term unemployment, despite employment growth and continuing high rates of turnover and exit from unemployment among the short-term unemployed.

Employment

In 1972, the UK working-age (15-64-year-old) employment rate was 72%, and it slightly declined in the latter 1970s, and more sharply in the recessions of the early 1980s and early 1990s. Taking just over a decade to recover, it stayed close to its 1990 peak level from the early 2000s to 2008. During the current recession it fell, but less than in the 1980s and 1990s, and to a smaller extent than in some other countries such as the United States. Employment growth in the private sector has been strong since early in the global downturn, offsetting job cuts in the public sector and helping to absorb increases in the labour force. Relatively robust employment performance is, however, associated with a "productivity puzzle" – historically low rates of growth in output per person (see Figure 1.1). From 2011, and contrasting with some further decline in the EU15 average, the UK employment rate started rising and in the last quarter of 2013 it stood at 72.1%, still slightly below the pre-recession level.

The employment rate above the OECD average might be attributable to the flexible labour market, relatively small labour tax wedges and fairly low replacement rates in unemployment and retirement benefits. Still, there remains a significant employment gap relative to the OECD's best performing countries (e.g. Norway; see Figure 1.5, Panel A), which lack these features. The high UK employment rates are associated with a high incidence of part-time employment. In 2012, the incidence of part-time employment among prime-age employees (aged 25-54) was 20%, exceeded only in Germany, Ireland, Switzerland and the Netherlands. Part-time employment is not all voluntary: 17% of prime-age part-timers wished to work more hours in 2012, almost double the percentage in 2007 (*OECD Online Employment Database*, www.oecd.org/employment/database).

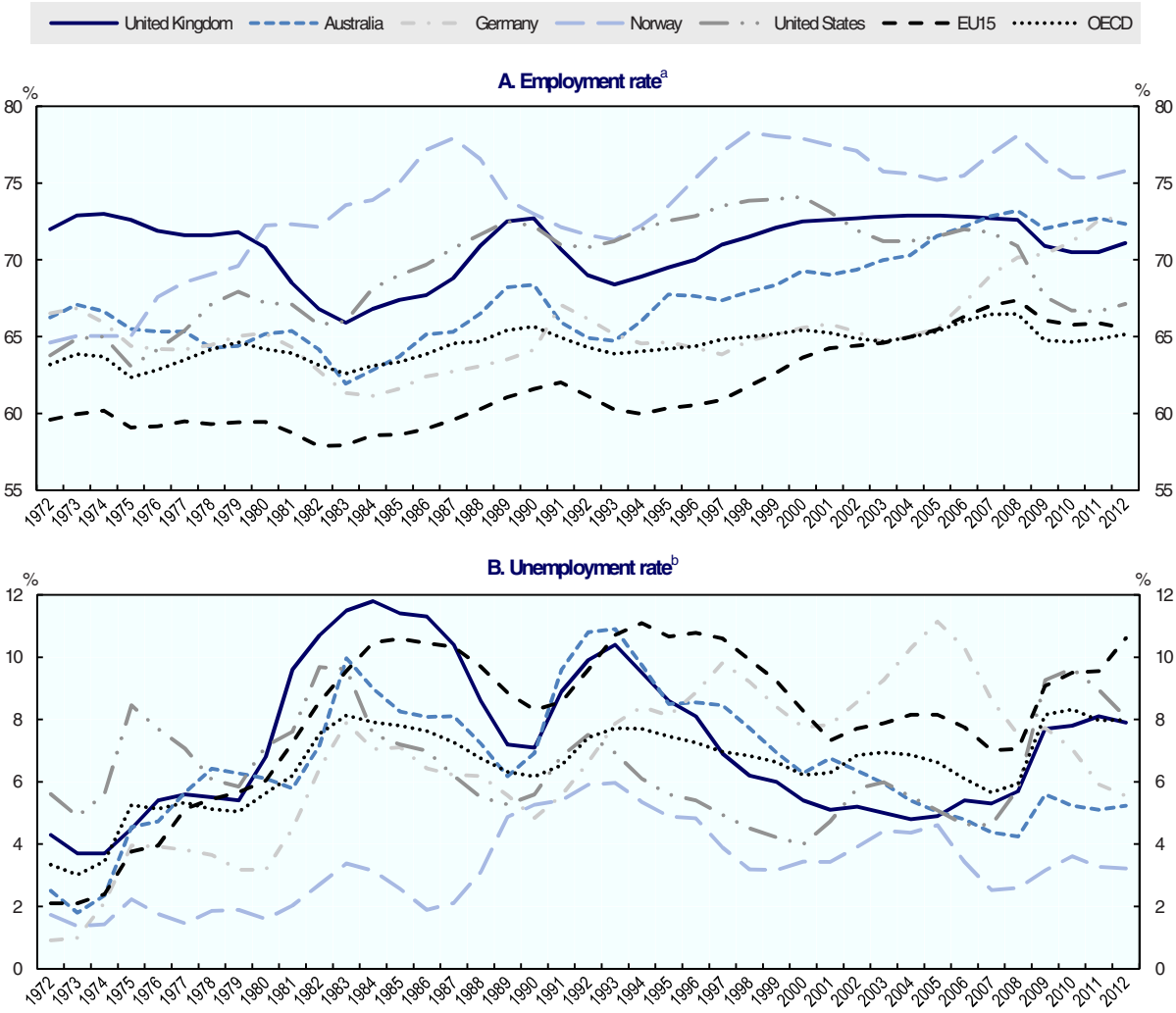
Unemployment and population not in the labour force

Following spikes in the 1980s and 1990s, the unemployment rate declined nearly continuously during the mid-1990s and early 2000s. Since the recession in 1990s, the unemployment rate was well below EU15 levels, and by the late 1990s it was also below the OECD average. During the global financial crisis the unemployment rate started rising from spring 2008 reaching over 8%, however, was still much below the EU15 average (Figure 1.5, Panel B). Unemployment fell during 2013, and in the last quarter of 2013 the unemployment rate was 7.2% (ONS, 2014).

The incidence of long-term unemployment (12 months and over) reached a peak of 44.5% in 1994, then fell to a trough of 19.5% by the end of 2004. Following the increase in unemployment during the global financial crisis, the incidence of long-term unemployment also started to rise again and in the last quarter of 2013 stood at around 36%.[6]

Figure 1.5. **Employment and unemployment rates in the United Kingdom, Australia, Germany, Norway, the United States, EU15 and OECD, 1972-2012**

Percentages



a) Ages 15/16 to 64, employment as a percentage of the population. Ages 15 to 64 for Australia and Germany, and Norway from 2006 onwards. Ages 16 to 64 for the United Kingdom and the United States, and Norway before 2006.

b) Ages 15/16 and over, unemployment as a percentage of the labour force. Ages 15 and over for Australia and Germany, and Norway from 2006 onwards. Ages 16 and over for the United Kingdom and the United States, and Norway before 2006.

Source: ONS Labour Market Statistics (database), www.ons.gov.uk/ons/rel/lms/labour-market-statistics/index.html, for the United Kingdom; and *OECD Online Employment Database*, www.oecd.org/employment/database, for all other countries, EU15 and OECD averages.

The economic inactivity rate of the working-age population reached a peak of 24% in 1995 and then slowly fell, reaching 22% in the last quarter of 2013. Of the total 8.9 million persons aged 15-64 who were not in the labour force, around a quarter each were economically inactive students (25%) or looking after the family/home (26%). Around 23% were economically inactive due to long-term sickness and 15% had retired before reaching the age of 65, with the remaining 12% having other reasons for economic inactivity (ONS, 2014).

Labour market situation of specific groups

In the United Kingdom there is scope to raise employment rates of women – especially of child-rearing ages – and older workers. Lowering childcare costs would facilitate women's employment and move towards full-time work. More personalised support and early intervention could limit further the exit of older workers from the workforce. Despite relatively low Not in Education, Employment, or Training (NEET) rates, the problem of integrating disengaged youth remains.

Women

The gap in employment rates between women and men in the United Kingdom is smaller than the OECD average, but it is somewhat larger than in Nordic countries, Germany and the Netherlands (see Table 1.1). During the recent downturn the decline in employment rates was less pronounced for women than for men, a pattern observed in many other OECD countries. In the last quarter of 2013 the female employment rate was 67.2%, the highest since records began, with the increase driven by a rise in full-time employment (ONS, 2014). However, at the same time the gender pay gap has been increasing and women may not always move into very productive jobs. One driver of female employment was an increase in self-employment, which may often offer little financial return (The Independent, 2014).

The share of women working part time (35.6%) is high when compared with the OECD average (22.9%). This is also true in some other countries with high female employment rates, such as Germany, the Netherlands and Switzerland, but Finland and Sweden have higher female employment rates with a lower proportion of women working part time (see Table 1.1). Caring responsibilities are one of the main reasons for part-time work and labour force inactivity among prime-age women. For many women the choice of working full time is constrained by lack of access to affordable childcare of good quality. OECD (2011) shows that there is positive relationship between the part-time share in female employment and childcare costs.

In 2012, the UK employment rate for women with children was above the EU15 average (see Table 1.1). Where the youngest child in the household is below 6 years of age, the UK employment rate for women is 59%, below the EU15 average of 60.9%, but where the youngest child is between 6 and 11, this rate is 74.3%, significantly above the EU15 average of 69.8% (Eurostat, European Union Labour Force Survey, http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database). OECD (2013a) highlighted the need for lowering childcare costs to facilitate women's employment and move towards full-time work.

Lone parents

There currently are around 1.9 million lone parents in the United Kingdom and around a quarter of all households with children are headed by a lone parent. This is one of the highest proportions in the OECD. With rising proportions of lone-parent households and low employment rates among lone parents, the numbers claiming out-of-work benefits rose over the 1980s and the early 1990s, reaching over 1 million in 1995. Along with other OECD countries which previously paid inactive benefits to lone parents for long periods – e.g. Canada, Australia, Ireland (OECD, 2005, 2007, and 2011) – the United Kingdom has introduced various reforms over the past two decades, including improved financial incentives to work and employment services. Starting from 2008, the United Kingdom progressively restricted access to the largely-passive Income Support benefit, so that lone parents with children above a certain age transferred to JSA, which requires them to be available for work (see Chapter 3 for more details).

Table 1.1. **Labour market situation of specific groups, 2012**

Percentages

	Employment rates			Part-time employment[a]		Parental employment rates		Older worker employment rates			Youth
	Men	Women	Employment gap[b]	Men	Women	All mothers	Lone parents[c]	Men	Women	Employment gap[b]	NEET rates[d]
Age	*15/16-64*	*15/16-64*	*15/16-64*	*25-54*	*25-54*	*15/16-64*	*15/16-64*	*50-64*	*50-64*	*50-64*	*15/16-24*
Australia	78.1	66.6	85.2	6.4	33.8	..	62.0	74.5	61.1	82.1	12.2
Finland	70.9	68.2	96.1	4.9	10.1	77.2	71.4	64.6	67.4	104.4	8.4
Germany	77.6	68.0	87.5	5.7	37.9	72.1	71.5	75.6	63.4	83.8	7.6
Ireland	62.4	55.2	88.5	9.6	33.5	57.7	46.9	62.0	49.8	80.3	16.7
Japan	80.3	60.7	75.6	4.4	30.6	..	85.9	82.6	57.8	70.0	6.9
Netherlands	79.7	70.4	88.3	7.4	55.9	77.9	68.5	75.0	58.2	77.7	4.6
Norway	77.7	73.8	94.9	5.4	20.9	..	69.0	78.6	72.3	91.9	6.7
Sweden	75.6	71.8	95.0	5.4	12.5	81.9	78.3	79.9	74.6	93.3	7.2
Switzerland	85.2	73.6	86.4	6.0	46.4	..	67.0	84.3	68.8	81.6	6.0
United Kingdom	**76.1**	**65.7**	**86.3**	**6.5**	**35.6**	**67.4**	**59.9**	**71.8**	**60.5**	**84.2**	**13.5**
United States	72.3	62.2	86.1	3.8	12.7	..	75.3	70.5	60.9	86.4	15.0
EU15	71.0	60.1	84.6	5.6	30.1	66.4	68.1	67.1	53.7	79.9	13.4
OECD	**73.2**	**57.2**	**78.1**	**5.2**	**22.9**	**..**	**..**	**71.1**	**54.0**	**76.0**	**15.2**

Note: NEET: Neither in Employment, nor in Education or Training. ..: Data not available.

a) Part-time employment refers to persons who usually work less than 30 hours per week in their main job.

b) The employment gap is calculated as the ratio between female and male employment rates multiplied by a hundred. OECD average refers to a weighted average for the 34 OECD countries.

c) Includes lone fathers and lone mothers. Data refer to 2012, except year 2005 for Switzerland; 2006 for Australia; 2007 for Japan and 2009 for the United States.

d) OECD average refers to a weighted average of 31 OECD countries (excluding Chile, Israel and Korea). Data refer to Q4 2012 for all countries, except Q2 2012 for Switzerland, March 2013 for Australia and Q1 2013 for the United States.

Source: OECD Online Employment Database, www.oecd.org/employment/database for employment rates, part-time employment, and older worker employment rates. Eurostat, European Union Labour Force Survey (EU-LFS) 2012, http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database for EU countries, and *OECD Family Database*, www.oecd.org/els/soc/oecdfamilydatabase.htm for non-EU countries, for parental employment rates. And OECD estimates based on national labour force surveys for NEET rates.

The UK lone-parent employment rate is still among the lowest in the OECD and EU (see Table 1.1). OECD (2013a) finds that about half of lone parents live only on benefits and another 15% of lone parents receive more than 50% of their income in benefits. On average, benefits are far higher than earnings for lone parents. The safety net of the welfare system is essential to protect vulnerable families, but poor work incentives may trap some households in relative poverty. The introduction of Universal Credit (UC) aims at tackling this issue, but work incentives in core recipient groups, especially when facing high childcare costs, need to be enhanced (OECD, 2013a).

Youth

In 2008, the UK youth employment rate was 56.3%. In the United Kingdom – as in most OECD countries – youth employment declined during the recent downturn and stood at 50% in 2012, still far above the OECD and EU15 averages of 39.7% and 36.7% respectively. Even before the recent drop in youth employment there was a longer downward trend in youth employment rate from a peak of 61.5% in 2000.

As in other OECD countries, young people are more likely to experience unemployment than prime-age adults. The youth (15-24) unemployment rate has shown some recent improvement, but is still close to levels last seen in the 1990s. As many young unemployed are in education while looking for a job, it is more helpful to consider the proportion of youth who are NEET. The UK NEET rate in Q4 2012 was 13.5%, close to the EU15 and OECD averages (see Table 1.1).

Skills are a particular issue with respect to disadvantaged youth. In England and Northern Ireland, the impact of literacy on the likelihood of being employed is high, as discussed above. The association between socio-economic background and literacy proficiency is stronger among young people than among the overall adult population. On average across participating countries, adults with low levels of education and whose parents also have low levels of education are nearly five times more likely to have poor proficiency in literacy than adults whose parents had higher levels of education; in England and Northern Ireland, the likelihood is eight times greater (OECD, 2013d).

In response to the challenge of youth unemployment, the government announced the Youth Contract to help young unemployed people into work. The Youth Contract was launched in April 2012 and consists of a number of separate active labour market programmes, some of which are exclusively available to young people under 24. See Chapter 3, Box 3.5 for details on the Youth Contract.

Older workers

The employment rates of 50-64 year-olds in the United Kingdom are higher than the OECD and EU15 averages. Still large gaps with the best performing OECD countries remain for both men and women aged 50-64. The employment rate gap between women and men is lower than for the OECD and EU15 averages, but other countries have smaller gaps. Finland stands out as the only OECD country where the female employment rate is above the male one for the 50-64 age group (see Table 1.1).

The employment rate for 50-64 year-olds has increased from 62% in 2001 to 67% in 2013. The employment rate for people aged 65 and over has also increased from 5% in 2001 to nearly 10% in 2013 (Redden, 2013). This increase in labour force participation of older workers over the past decade is linked to favourable labour market conditions, but may in part also be attributed to stronger activation measures for unemployed benefit claimants (Dorsett et al., 2013), where there has been a shift from voluntary participation in labour market programmes towards mandatory participation.

For many decades the state pension age was 65 for men and 60 for women. A progressive increase in the state pension age for women started in April 2010. Under the provisions of the UK Pensions Act 2011, the state pension age will reach 66 years for both sexes by 2020 and then increase in two stages to 68 years between 2034 and 2046. The changes in state pension age for women imply that older men have to claim unemployment benefits instead of inactive benefits.[7]

Older people are less likely to be unemployed than younger people. In the second quarter of 2013, the unemployment rate for 50-64 year-olds was 5%, compared with 6% for 25-49 year-olds. However, older people who are unemployed are more likely to be in long-term unemployment: around 47% of unemployed people aged 50-64 have been unemployed for a year or more (Redden, 2013).

In the current downturn, the participation rate of older workers has remained roughly constant rather than declining as it did in the 1990s. This may be explained by less-

generous early retirement packages, an increase in the qualifying age for Pension Credit (PC), more-restrictive pathways to early retirement through disability benefits and concerns about levels of pensions following losses in financial wealth in recent years (Banks et al., 2011; and Faccini and Hackworth, 2010). Higher participation of older workers both preserves the productive capacity of the economy and potentially improves public finances.

As mentioned above, the United Kingdom – like the large majority of OECD countries – will experience significant ageing in the next few decades. By 2020, people aged 50 and over will comprise almost a third (32%) of the working-age population and almost a half (48%) of the adult population (ONS, 2013). Therefore a key challenge for the United Kingdom is to ensure that older people are encouraged to contribute in the labour market for longer.

The role of social and labour market policies

This section provides a short overview of employment protection legislation, the minimum wage and the structure of the benefit system in the United Kingdom.

Employment protection legislation

In an OECD comparison the United Kingdom is characterised by flexible labour market regulation for both permanent and temporary contracts (OECD, 2013e). In the recession, the United Kingdom further deregulated the labour market. Most of the other countries that undertook significant reforms in this area (such as Portugal, Spain, Italy and Greece) were in the group with the most restrictive legislation. In the United Kingdom, in 2012, the qualifying period for coverage by unfair dismissal provisions, which had been reduced to 12 months in 1999, was re-extended to 24 months and is now the longest within the OECD. In addition, an amendment of the Trade Union and Labour Relations (Consolidation) Act 1992, approved early in 2013, stipulates that fixed-term contracts not terminated for reasons of redundancy are no longer included in the more restrictive provisions concerning collective dismissals. More importantly, the minimum number of days that must elapse before the first dismissal can take effect – in order to allow for good-faith consultations with unions – is reduced from 90 to 45 days, when the employer is proposing to dismiss 100 or more employees. This reduces the gap in protection between individual and collective dismissals, which used to be far above the OECD average and it is now more in line with that average.

Minimum wage

No national minimum wage existed prior to 1998, although there were a variety of systems of wage controls in specific industries. At first the minimum wage was set at a relatively low level at about 42% of the median wage level. From the mid-2000s, the minimum wage rates increased faster than median wages and in 2012 the minimum wage stood at 47% of the median wage. In a comparison with other OECD countries with minimum wage legislation, the UK minimum wage level is about mid-range.

The national minimum wage rates are reviewed each year by the Low Pay Commission, which makes recommendations for change to the government through a report each year in February. In addition to the full rate which must be paid to those aged 21 and over, reduced rates exist for: *i)* those aged 18-20, *ii)* those aged under 18, and *iii)* apprentices.[8]

Benefit system

In the 1950s, the UK benefit system[9] was primarily contributory, and through most of the 1970s the number of individuals on contributory unemployment benefits was still slightly higher than the number on means-tested benefits. By 2012/13, the patterns had changed radically. In comparison with the late 1970s, expenditure in real terms on contributory benefits was little change, expenditure on non-contributory non-means-tested benefits had more than doubled, and expenditure on means-tested benefits had grown more than seven times. Increased expenditure on means-tested benefits has been driven partly by the expansion of coverage and generosity of personal tax credits, which are paid both in and out of work, and are not conditional on job search although the amount paid increases when certain threshold levels of usual hours worked are exceeded. Since 2008/09, expenditure on personal tax credits has exceeded the total cost of non-pensioner income-replacement benefits (i.e. those covering unemployment, incapacity and other social risks) – a remarkable situation, given that many OECD countries have no such benefits, or only a very restricted version of them.

The UK benefit system is also exceptional in international terms with respect to housing benefits: for people on income-replacement benefits, in most cases 100% of the housing costs for tenants in social housing and a high proportion of the rent in private housing is covered. In 2012/13 non-pensioner housing benefit expenditure was near 80% of combined expenditure on the income-replacement benefits. Although replacement rates for unemployment benefits are low, OECD modelled net replacement rates, including cash housing assistance or social assistance "top ups" if available, and averaged across a range of household situations and across a hypothetical five-year period of unemployment, are above the OECD median level.

Key actors in labour market policy

The main government department with responsibility for labour market policy is the Department for Work and Pensions (DWP). The public employment service (PES), Jobcentre Plus (JCP), is part of DWP and combines the functions of job broking, referrals to active measures and the administration of income-replacement benefits paid to claimants out of work. Child and Working Tax Credits are currently administered by Her Majesty's Revenue and Customs (HMRC), but they will be absorbed into the new out-of-work and in-work benefit UC, administered by JCP.

Department for Work and Pensions

In the United Kingdom a more active approach, after period of separation of employment services from unemployment benefit administration in 1970s and early 1980s, dates back to the Restart scheme introduced in 1986. Another major step was the creation of Department for Work and Pensions (DWP) in 2001, bringing together the then Department of Social Security, primarily responsible for the administration of social security benefits, with the employment elements from the then Department for Education and Employment. The creation of DWP supported the development of a more active approach across a wider range of working-age benefits. DWP is responsible, *inter alia*, for labour market policy and employment programmes; unemployment benefits and income support; housing, disability, family and health-related benefits; pensions; child maintenance; and health and safety in the workplace.

Whereas DWP used to have most of its services delivered through non-departmental public bodies, most service functions – including the PES Jobcentre Plus, the Pension, Disability and Carers Service, the Child Support Agency and the Child Maintenance Service – are now integrated into DWP. The remaining non-departmental public bodies are the Health and Safety Executive (HSE), the Independent Living Fund, the National Employment Savings Trust Corporation, Remploy Ltd., the Pensions Advisory Service, and the Pensions Regulator. The HSE is an independent regulator for work-related health, safety and illness and employs around 3 100 full-time equivalents (FTE) staff. Remploy provides employment services for disabled people and employs 1 270 FTE staff. The other non-departmental public bodies employ less than 500 staff each.

With the PES function and other customer services integrated into the ministry, DWP is the biggest public service delivery department in the United Kingdom. Excluding the non-departmental public bodies mentioned above, DWP employed 87 000 FTE staff at the end of 2013 (DWP, 2013). This is considerably fewer than in December 2009, when the number peaked at 122 000 FTE (DWP, 2014).

Public Employment Service

The OECD Jobs Study (OECD, 1994) recommended integration of the three main functions of the broadly defined Public Employment Services (PES): job broking, benefit administration and referral to active measures. In principle, such integration helps to ensure that the placement objective of a rapid return to work is supported by benefit sanctions in cases of non-co-operation; that the benefit administration's objective of enforcing eligibility criteria is implemented through job-search monitoring and referrals to job vacancies and ALMPs by the placement service; and that training services and job-creation projects accept referrals of clients who are disadvantaged, poorly motivated or otherwise at risk of long-term unemployment, which may not be the case when they are autonomous bodies that can select their own participants.

In 2002 the United Kingdom integrated employment and benefits services through the creation of JCP (see Box 1.1). For jobseekers and claimants of other benefits JCP provides a "One Stop Shop" service. Such an integrated service also helps to reduce duplication of intake processes and facilitates information-sharing, targeting interventions to suit individual needs and local circumstances, and co-ordination of service delivery.

Her Majesty's Revenue and Customs

Her Majesty's Revenue and Customs (HMRC) is a non-ministerial department responsible for the collection of taxes and National Insurance contributions (NICs), the payment of some means-tested benefits, and the administration of other regulatory regimes including the enforcement of the national minimum wage. HMRC was formed in 2005 by the merger of the Inland Revenue and Her Majesty's Customs and Excise. Whereas Her Majesty's Treasury (HMT) leads on strategic tax policy and policy development, HMRC leads on policy maintenance and implementation.

Until 1999, means-tested benefits paid to working families on a low income were administered by the Benefits Agency, which belonged to the Department of Social Security, one of the predecessor departments of DWP. With the introduction of a new system of personal tax credits in 1999 the administration moved to the Inland Revenue, which later merged into HMRC. HMRC currently pays out the personal tax credits Working Tax Credit (WTC) and Child Tax Credit (CTC). WTC is a means-tested benefit and can be claimed by working individuals who have a low income. CTC is also a means-tested benefit and can be claimed by individuals responsible for children. CTC can be paid to low-income families both in work and out of work. HMRC also pays Child Benefit for adults looking after children.

Box 1.1. **Jobcentre Plus: Work-focused institutional integration**

Before 2002, employment services and benefits (except for unemployment benefits) for working-age people in Great Britain were delivered through two separate agencies. In April 2002, these agencies were merged to form Jobcentre Plus (JCP). This new agency provided a single point of delivery for cash benefits and employment services for about 4.5 million working-age claimants.

The agency inherited a network of 1 500 offices and 90 000 staff. In the new service delivery model, benefit claims were administered through a network of "contact" and "benefit delivery" centres, with benefits paid directly into each recipient's bank account. Employment services and the monitoring and enforcement of activity requirements were handled through some 800 integrated front line Jobcentres. Full-time equivalent staff numbers fell to about 69 000 by 2008 when the re-organisation was complete.

The objective was to create an employment-first front-line service. New benefit claims are made on-line or via telephone, with free phones being available in Jobcentres. Nearly all claimants are required to attend a Work-focused Interview with a Personal Adviser, usually within three to four working days. The task of the Personal Adviser is to assess employability, identify barriers and provide employment assistance. This may include matching and submitting the individual to vacancies. Claimants are then subject to activity requirements related to their benefit, with unemployed claimants subject to full conditionality. Personal Advisers have recently been renamed to Work Coaches and DWP invested in up-skilling 26 000 JCP staff through a two-day training course to ensure JCP staff have the right skills to develop individual action plans with claimants and review the effectiveness and quality of claimants' job-search efforts.

The direct cost of JCP's modernisation was GBP 1.9 billion, some GBP 300 million below the original budget. A detailed evaluation of impacts, based on tracking outcomes as the JCP model was rolled out in different areas of the country over a four-year period, supplemented by macroeconomic modelling, found that the re-organised delivery agency had helped to reduce the number of people on all the main working-age benefits and increase the effective labour supply. The net contribution to GDP was estimated in various ways and in all cases the JCP investment appeared to have been more than self-financing, with one estimate showing a net increase of 0.1% of GDP worth a cumulative GBP 5.5 billion by 2015.

In 2011, JCP's Executive Agency status was revoked. A staff total for the over 700 local offices and the 31 contact centres and 79 benefit processing centres is no longer cited and the government recently declined a recommendation that such a total be published in its annual reports (HM Government, 2014). The last available information dates back to 2011/12, when there were nearly 37 000 staff in local jobcentres. This was an increase of more than 50% on the level in early 2008, due to the priority given to front-line services in response to the recession.

Source: Coleman, N., E. Kennedy and H. Carpenter (2005), "Jobcentre Plus service delivery wave two: Findings from quantitative research", *DWP Research Reports*, No. 284, www.gov.uk/government/organisations/department-for-work-pensions/about/research; WPC – Work and Pensions Committee (2006), "The efficiency savings programme in Jobcentre Plus", Vol. 1, Second Report of Session 2005-06, Work and Pensions Committee, House of Commons, www.publications.parliament.uk/pa/cm200506/cmselect/cmworpen/834/834i.pdf; HM Government (2014), "Role of Jobcentre Plus in the reformed welfare system: Government response to the Committee's second report of Session 2013-14", Work and Pensions Committee, House of Commons, www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/publications/; NAO – National Audit Office (2013), *Department for Work and Pensions: Responding to Change in Jobcentres*, www.nao.org.uk/publications/1213/jobcentres.aspx; Riley, R., H. Bewley, S. Kirby, A. Rincon-Aznar and A. George (2011), "The introduction of Jobcentre Plus: An evaluation of labour market impacts", *DWP Research Reports*, No. 781, Report of research carried out by the National Institute of Economic and Social Research on behalf of the Department for Work and Pensions, www.gov.uk/government/organisations/department-for-work-pensions/about/research; and Daily Hansard Written Answers, 26 November 2008 and 28 January 2009.

In 2013, DWP started with the roll-out of the new means-tested benefit UC, which replaces most of the out-of-work benefits paid by JCP, along with the personal tax credits WTC and CTC. Responsibility for means-tested benefits paid to claimants in work will therefore move from HMRC to JCP. However, HMRC continues to have a crucial role in

the administration of UC. UC modernises the benefit administration through varying the monthly payments to in-work claimants as a function of Real-Time Information (RTI) about their earnings and HMRC administers the collection of RTI. Under RTI, employers must electronically transmit information about each wage payment to HMRC on or before the date when the wage payment is made.

Other ministries and government agencies

Adult education policies are within the remit of the Department for Business Innovation and Skills (BIS) in England and are devolved matters within the remit of the Scottish and Welsh Governments. These three institutions also finance training programmes for the unemployed to a large extent, as will be further discussed in Chapter 3. As the main body to deliver services to the unemployed is DWP, co-ordination between different government services is needed to ensure that unemployed people are getting the education and skills training they need.

Education policies for young people under the age of 19 are the remit of the Department for Education (DfE) in England and are devolved matters within the remit of the Scottish and Welsh Government. DfE and the Scottish and Welsh Government are responsible for childcare policies and thereby directly also affect parental employment. For young people, there is a close interplay between educational and employment choices, and DWP and DfE work together on policies relating to this group. For example, in England a programme aimed at 16-17 year-olds who are NEET was set up in 2012. The programme is contracted out by the Education Funding Agency, which works in partnership with DfE and DWP (see also Chapter 3, Box 3.7).

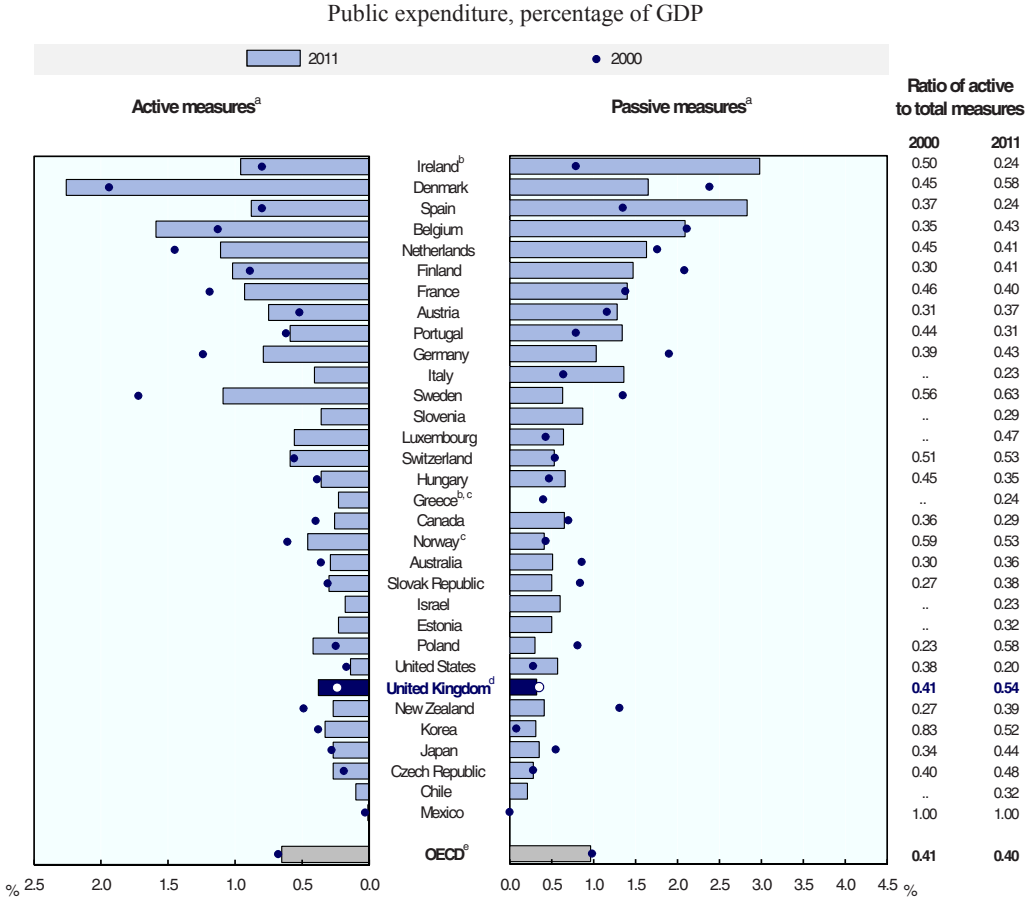
The quality of education is monitored through a number of independent regulators. In England, the Office for Standards in Education, Children's Services and Skills (Ofsted) inspects and regulates all institutions providing care of children and young people and education and skills for learners of all ages. Ofsted publishes the standards for good and outstanding services and shares the findings in publicly-available inspection reports. This information can be used by parents, learners and employers to help make choices about services. The information is also used by local and national government to hold providers to account. In Scotland inspections and audits of educational standards are conducted by the Care Inspectorate and Education Scotland. In Wales, Estyn inspect quality and standards in education and training in Wales.

The UK Commission for Employment and Skills (UKCES) provides labour market intelligence to help businesses and individuals in their decisions about skills investments. UKCES also works with sectors and business leaders to foster greater employer investment in skills. The UKCES runs varies surveys including the Employer Perspectives Survey, which asks employers how they meet their skills requirements and their perceptions and use of external skills and employment services. The UKCES Employer Skills Survey collects information on training and staff development, vacancies and skills shortages, employee skill gaps and the recruitment of education leavers. On a pilot basis in England, the UKCES also has funds available, which it can allocate to employers – on a competitive basis – to enable additional investments in education and skills of their current and future workforces. The UKCES is a non-departmental public body and is accountable to BIS, DWP, HMT, DfE and the devolved administrations. The 30 UKCES commissioners comprise a social partnership that includes CEOs of large and small employers across a wide range of sectors; trade unions and representatives from the devolved administrations.

Patterns of labour market spending

Figure 1.6 shows patterns of labour market programme spending in OECD countries, where such data are available. In terms of spending on active and passive measures as a share of GDP, the United Kingdom ranked considerably below the OECD average. The share of passive spending in GDP decreased by 6% in the ten years to 2009/10. The share of active spending in GDP increased by about 38%, but still remains far below the OECD average. More recent information on UK labour market programme spending is not available, as the United Kingdom has not released data for the *OECD/Eurostat Labour Market Programme Database* (http://dx.doi.org/10.1787/data-00312-en) since then. Efforts were made to increase front-line staffing of the PES in response to the recession and to support policy initiatives, but staff cuts have occurred in 2011, when JCP was brought into DWP, and continued recently.

Figure 1.6. **Active and passive labour market programmes in OECD countries, 2011 versus 2000**



Note: Countries are ranked in decreasing order of the total of both active and passive measures in 2011. Data refer to fiscal years 2011/12 for Australia, Canada, Japan, New Zealand and the United States.

a) Active measures refer to Categories 1-7, passive measures to Categories 8-9 of the *OECD/Eurostat Labour Market Programme Database*.

b) Data refer to 2010 instead of 2011 for Greece and Ireland.

c) Expenditure on PES and administration is not included for Greece and Norway.

d) Data refer to fiscal years 1999/2000 and 2009/10, instead of 2000 and 2011, for the United Kingdom.

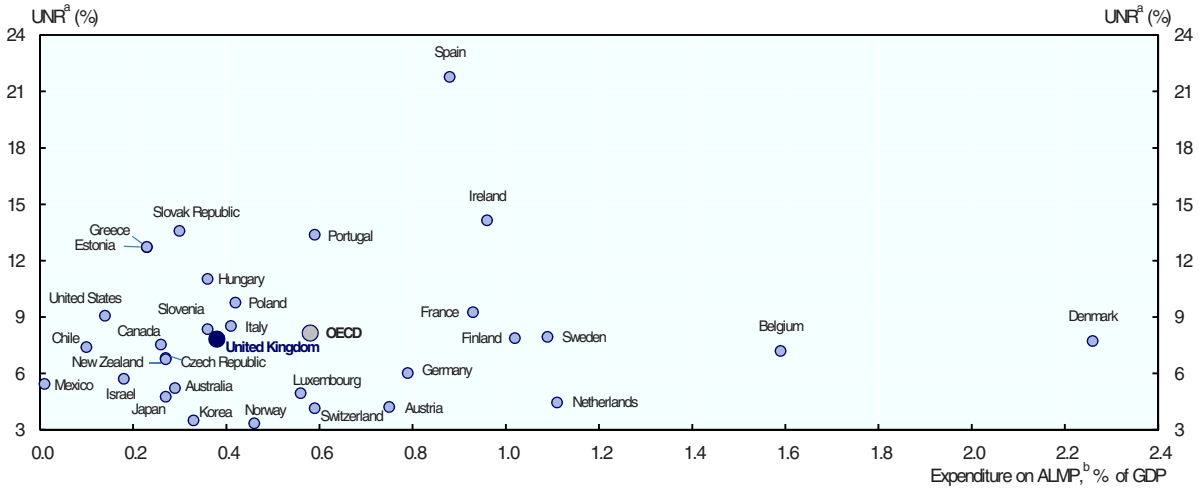
e) Unweighted averages for countries where both active and passive measures are shown for 2000 and 2011, i.e. except Chile, Estonia, Greece, Israel, Italy, Luxembourg and Slovenia.

Source: OECD/Eurostat Labour Market Programme Database, http://dx.doi.org/10.1787/data-00312-en.

Figure 1.7 illustrates, for selected OECD countries in 2010, the relationship between expenditure on active labour market programmes (ALMPs) as a percentage of GDP and the unemployment rate. The United Kingdom is in the group of countries with relatively low ALMP expenditure. Its position is close to Canada and the Czech Republic, with mid-range unemployment and low ALMP expenditure. Figure 1.6 also shows that countries with a given unemployment rate can have very different levels of ALMP expenditure. For example, Germany, Belgium and Denmark had similar unemployment rates, but expenditure on ALMPs as a percentage of GDP is 2.5 times higher in Germany and 4 and 5 times higher in Belgium and Denmark, respectively.

Figure 1.7. **Incidence of unemployment and expenditure on active labour market programmes, OECD countries, 2011**

Percentages



Note: ALMP: Active labour market programme; GDP: Gross domestic product; UNR: Unemployment rate, percentage of the labour force.

a) Unemployment data refer to 2011, except for Greece and Ireland where they refer to 2010, and for the United Kingdom to 2009.

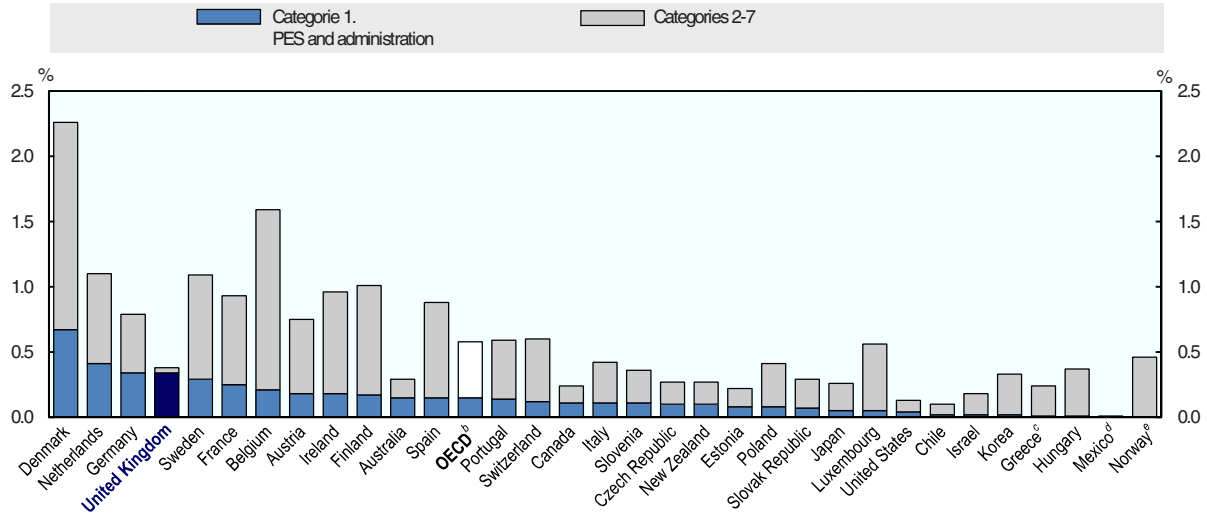
b) Expenditure on PES and administration is not included for Greece and Norway. Data for Australia, Canada, Japan, New Zealand and the United States to fiscal year 2011/12; for Greece and Ireland to 2010; for the United Kingdom to fiscal year 2009/10; and to 2011 for all other countries.

Source: OECD/Eurostat Labour Market Programme Database, http://dx.doi.org/10.1787/data-00312-en, and *OECD Online Employment Database*, www.oecd.org/employment/database.

Figure 1.8 breaks ALMP expenditure further down into the categories *PES and administration* (Category 1) and other ALMP programmes (Categories 2-7), which include: 2. *Training*, 3. *Job rotation and job sharing*, 4. *Employment incentives*, 5. *Supported employment and rehabilitation*, 6. *Direct job creation*, 7. *Start-up incentives*. The United Kingdom in 2009/10 stands out as the country with the fourth highest expenditure on PES and administration across OECD countries where data is available. In Category 1, almost three-quarters (73%) of expenditure is within the sub-category *Placement and related services* in the United Kingdom.[10] By contrast, the 2009/10 expenditure on other active measures in Categories 2 to 7 was the second lowest after Mexico.

Figure 1.8. **Expenditure in active labour market measures, OECD countries, 2011**[a]

Percentage of GDP



Note: Countries are ranked in decreasing order of expenditure in Category 1. *PES and administration*. Category 1 includes the Sub-categories: 1.1. *Placement and related services* and 1.2. *Benefit administration*. Categories 2-7 refer to 2. *Training*; 4. *Employment incentives*; 5. *Supported employment and rehabilitation*; 6. *Direct job creation* and 7. *Start-up incentives*; see the sources for further definitional information.

a) Data refer to fiscal year 2011/12 for Australia, Canada, Japan, New Zealand and the United States; they refer to 2010 for Greece and Ireland; and to fiscal year 2009/10 for the United Kingdom.

b) Unweighted averages of data available by country and category in the respective year, for the OECD area.

c) For Greece, Category 1 refers to Sub-category 1.1. *Placement and related services* only.

d) For Mexico, Category 1 is less than 0.005.

e) For Norway, information on Category 1 is not available.

Source: OECD/Eurostat Labour Market Programme Database, http://dx.doi.org/10.1787/data-00312-en.

Notes

1. Comparable data for net migration for the United States in Figure 1.2, Panel A cannot be provided. The inflow of migrants to the United States was around 1.1 million in 2011. Net migration cannot be calculated due to a lack of outflow figures.
2. The Commonwealth is a voluntary association of 53 independent countries that were mostly territories of the former British Empire. A full list of member countries can be found at: http://thecommonwealth.org/.
3. In the year ending June 2013, there was a net inflow of 83 000 EU individuals and, reflecting some net emigration by individuals from non-EU countries, a net inflow of 54 000 by foreign citizens overall.
4. Scotland and Wales did do not participate in PIAAC.

5. "Highly-skilled adults" refers to those at a proficiency level of 4 or 5 in literacy. At Level 4, adults can integrate, interpret and synthesise information from complex or lengthy texts that contain conditional and/or competing information. For more details, see OECD (2013d).

6. The values refer to the unemployed aged 15-64. A detailed time series is available from: www.ons.gov.uk/ons/taxonomy/index.html?nscl=Unemployment+by+Duration#tab-data-tables.

7. Men as well as women with a low income are able to claim Pension Credit (PC) when they reach the state pension age for women. The qualifying age for PC (or other inactive benefits, paid in earlier years) was thus 60 until 2010, and has increased to 62 in 2014 and will rise to 66 by 2020.

8. This rate is for apprentices under 19 years or those in the first year of their apprenticeship.

9. See Chapter 2 for further information on the benefit system.

10. Benefit administration expenditure is somewhat overstated for the United Kingdom, in comparative terms, because the JCP costs of administering working-age income-replacement benefits other than unemployment benefits are included (see www.oecd.org/employment/emp/employmentoutlookstatisticalannex.htm, Table S).

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Chapter 2

Unemployment and related benefits

The UK benefit system has been transformed over the years as unemployment rose to high levels in the 1970s and 1980s, then the caseloads of incapacity and lone parent benefits rose to high levels, and more recently working-age expenditure on tax credits, and child, secondary disability and housing benefits has increased sharply. Much of the current benefit expenditure comes with no or limited labour market conditions, and applies high marginal effective tax rates to workers in low-paid jobs. Since the recession, restrictive measures have been introduced across the range of benefits. The Universal Credit, which is in the early stages of national roll-out, greatly reduces complexity in the structure of the benefit system and ensures that work always pays, but it is not expected to reduce marginal effective tax rates on low-paid workers and may encourage part-time and intermittent work. The traditional procedures for identifying unemployment situations will not be applicable and further development of the new procedures for out-of-work and in-work conditionality is needed.

Introduction

The UK benefit system has undergone a gradual shift from paying primarily contributory benefits in the 1950s towards paying mainly means-tested benefits nowadays. While some of the increase in means-tested expenditure was driven by an increase in expenditure on inactive benefits during the 1980s and 1990s, much of the increase since the late 1990s has been driven by the expansion of coverage and generosity of personal tax credits, aiming to improve work incentives and reduce poverty and welfare dependency. Although unemployment and inactive benefit caseloads are down from previous peaks, total expenditure on non-pensioner benefits including "secondary" (e.g. housing) benefits and personal tax credits has reached all-time highs in recent years.

In this context, plans for the new Universal Credit (UC) were announced in 2010 and a gradual roll-out of UC started in 2013. UC will replace most of the out-of-work benefits along with housing benefits and personal tax credits with a single monthly payment. To ensure that work always pays, under UC a constant benefit withdrawal rate of 65% will apply to earnings above a certain disregard level. This arrangement facilitates the combination of part-time work with benefit, and UC introduces a principle that job-search and related requirements will apply when earnings are below an expected minimum ("in-work conditionality"). Payments to "in-work" claimants will vary as a function of monthly real-time information about their earnings.

This chapter considers all major working-age benefits and their impact on incentives to work. The next section provides an overview of the structure of working-age benefits and a third section explains how, in the United Kingdom, activation has been seen first in terms of getting jobseekers into work and reducing unemployment; and then in terms of tackling growth in inactive benefit caseloads and bringing more groups into the effective labour force; and most recently, as working-age expenditure has shifted heavily towards secondary, means-tested and in-work benefits, their labour market impact needs attention. Fourth and fifth describe and interpret the main income-replacement and secondary benefits, with particular attention to personal tax credits.

A final section focuses on the design and implementation of UC. UC brings most of the former secondary benefits into scope for a consistent and unified approach to applying benefit conditionality. UC also increases the expected hours of work in some circumstances and it brings partners in a couple with children into scope for out-of-work conditionality, which until now has been a significant omission in UK activation policy. At the same time there is a risk of UC becoming overly expensive as it may subsidise some intermittent employment patterns and act as an incentive for low-paid workers to reduce their work effort, with earnings losses being supplemented by UC.

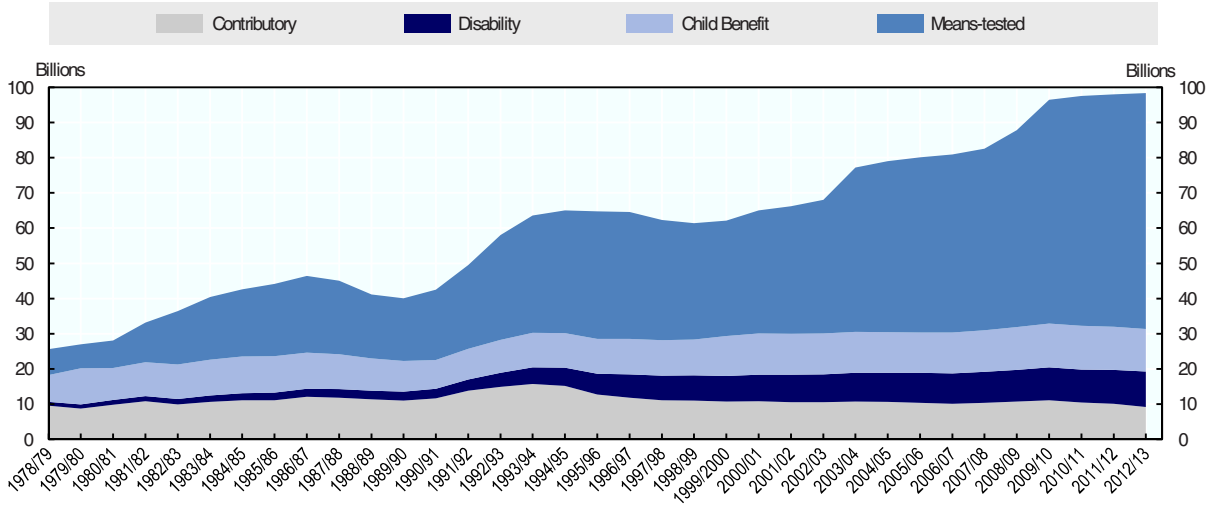
Overview: Unemployment benefits, other income-replacement benefits and secondary benefits

In the 1950s, the UK benefit system was primarily contributory: the number of people receiving contributory unemployment benefits was three or more times the number on National Assistance (the general means-tested benefit of last resort) until 1959. Through most of the 1970s, the number on contributory unemployment benefits was still slightly higher than the number on Supplementary Benefit (which from 1966 had replaced National Assistance) (OECD, 1994). In 1978/79, overall expenditure on non-pensioner benefits was about GBP 28 billion in 2013/14 prices, with about 37% on contributory

benefits, another 34% (benefits for the Sick and Disabled, and Child Benefit) non-contributory but not means-tested, and only 29% means-tested (Figure 2.1). By 2012/13 the pattern had changed radically. Overall expenditure on non-pensioner benefits had more than tripled to nearly GBP 100 billion, with about 9% on contributory benefits, 23% on non-contributory non-means-tested benefits and 68% on means-tested benefits. Expenditure on contributory benefits in real terms had declined slightly but expenditure on means-tested benefits had grown about nine times. Despite declines in the unemployment and inactive benefit caseloads, total expenditure on non-pensioner benefits including personal tax credits only fell slightly below 5% of GDP in 2007/08, and rose to 6.1% in 2009/10, which are all-time highs for cyclical troughs and peaks in the series.

Figure 2.1. **Composition of benefit spending on non-pensioners, 1978/79 to 2012/13**

Expenditure by benefit at 2013/14 prices, billion Pounds (GBP), real terms



Note: This figure includes certain benefits paid only before 1996/97 and the benefits shown in Table 2.1 with expenditures on JSA, Incapacity Benefit (including Income Support) and ESA broken down between contributory and means-tested components. *Contributory* includes contributory sickness and incapacity benefits. *Means-tested* includes Carer's Allowance (for this benefit, the claimant must not earn more than GBP 100 per week). *Disability* and *Child Benefits* refer to non-contributory and non-means-tested benefits (including Child Benefit, which became means-tested from 2013).

Source: See Table 2.1. The figure is modelled on Figure 4.4a from Browne, J. and A. Hood (2012), "A survey of the UK benefit system", *IFS Briefing Notes*, No. BN13, Institute for Fiscal Studies, London, November, www.ifs.org.uk/bns/bn13.pdf.

The trend towards means-tested benefits has brought the UK benefit system closer in character to the systems in Australia and New Zealand, where working-age benefits are almost entirely means-tested. It also means that the Universal Credit, which unifies and replaces most of the existing means-tested benefits, will dominate the UK benefit system, even though the Child Benefit, non-contributory non-means-tested benefits and contributory benefits lie outside its scope. Given its focus on activation, this chapter also uses a classification of benefits into:

- Unemployment benefits – benefits that are conditional on availability for work.
- Inactive income-replacement benefits – benefits that, like unemployment benefits, compensate for the lack of income from work and cover general living costs, but are restricted to specific social risk categories (such as survivors' benefits, sickness benefits or carers' benefits) and not conditional on availability for work.

In the classification by OECD (2003, Chapter 4), they include old-age (early retirement) benefits, survivors' benefits (e.g. a widow allowance), sickness and disability benefits, maternity and parental leave benefits, care and labour market leave benefits, and lone parent benefits (when they are paid without a work requirement). The focus in activation policy in the United Kingdom has been on incapacity (sickness and disability) and lone parent benefits.

- Secondary benefits – for the analysis of secondary benefits, expenditure data are preferable to caseload data, since caseload totals cannot be calculated without double-counting, and some of the secondary benefits are paid to a large number of beneficiaries but with relatively small amounts.

Table 2.1 shows non-pensioner benefit expenditure from 1996/97 to 2012/13 for the main categories of benefits, including approximate historical equivalents. Standard benefit rates paid in selected circumstances in the absence of any reduction due to means-testing are shown in Table 2.2. For the means-tested benefits, the rates shown in Table 2.2 are maximum rates. In the case of income-replacement benefits, payment is often at the maximum rates shown unless tax credits are claimed at the same time. Among the secondary benefits, housing benefits and Child and Working Tax Credits are phased out as earnings increase, but Disability Living Allowance/Personal Independent Payment is unaffected by earnings, and Child Benefit is affected only by earnings above a fairly high threshold and only as from 2013.

The UK benefit system, exceptionally in international terms, subject to the means test pays 100% of housing costs for tenants in social housing, and a high proportion of rent in private housing. The unemployment benefit level by itself is low. This is reflected in low expenditure on unemployment benefits: 0.30% of GDP in 2010/11, when the average stock of unemployment benefit recipients in the United Kingdom was nearly 5% of the labour force, and when the OECD average level of expenditure on out-of-work income maintenance was over 1% of GDP. However the modelled net replacement rate including cash housing assistance or social assistance "top ups" if available, and averaged across a hypothetical five-year spell of unemployment, is above the OECD median level.[1] For out-of-work households as modelled by the OECD, housing benefits pay substantially more than the unemployment benefit, and for lone-parent or couple families with two children, family benefits (Child Benefit and tax credits) also pay substantially more than the unemployment benefit.

Welfare reforms from 2010 to 2013 have reduced expenditure through both broad measures (such as the 1% cap on annual increases in nominal benefit levels) and targeted measures (including several housing benefit reforms and the time-limiting of contributory ESA) as described in Box 2.1. Some of these changes might be inherently desirable as improvements in the detailed benefit structure, and others less so. But given dominant role of housing benefits and personal tax credits, benefit expenditure depends largely upon the impact of the system on employment outcomes, and not only transitions into some employment but also hours worked and the level of earnings in employment.

Box 2.1. The welfare reforms of 2010 to 2013

The coalition government which came to power in May 2010 introduced a large number of welfare reforms over its first three years. Although nearly all the measures go in the direction of reducing expenditure, some pursue the logic of earlier reforms (such as the lowering of the age of the youngest child that can qualify lone parents for Income Support) and some introduce new principles of targeting (such as the household benefit cap and the social housing under-occupation charge).

Incapacity and disability benefit measures

The general policy of reassessing existing Incapacity Benefit (IB) claimants was set out when Employment and Support Allowance (ESA) was introduced in October 2008. The incoming government in 2010 announced that reassessment would proceed, with pilot implementation from October 2010 and to be completed by 2014. The *Spending Review* of October 2010 announced that contributory ESA would, for claimants in the work-related activity group, be limited to one year from April 2012. The incoming government's June 2010 budget announced that a new "objective medical assessment" would be introduced for DLA, and in December the replacement of DLA by PIP starting from April 2013 was announced.

Income Support (lone parent) reforms

From October 2008, lone parents were no longer able to claim Income Support if their youngest child was aged 12 or more; the age limit was reduced to 10 or more from October 2009 and to 7 or more from October 2010. The incoming government's June 2010 budget announced plans to reduce the age to 5 or more, and this was implemented from May 2012 (Lane et al., 2011; and Gold, 2012).

Housing Benefit and Council Tax Benefit reforms

The June 2010 budget announced a reduction in Local Housing Allowance (LHA) rates, which apply to people in the private housing sector, from the 50th percentile to the 30th percentile of the wide-area distribution of rents, and the principle of under-occupancy rules (widely referred to as a "bedroom tax") applying to people social housing sector. The first change was implemented from 2011/12 and the second from 2013/14. An extension of the coverage of the housing benefit shared room rate, from people aged under 25 to those aged under 35, from 2012/13 and the localisation of Council Tax Benefit (with funds reduced by 10% and transferred to councils as a block grant) from 2013/14, were announced in the October 2010 *Spending Review*.

The household benefit cap

The October 2010 *Spending Review* also announced the household benefit cap, which from 2013 has limited the sum of all major benefits received by a household to GBP 350 per week for a single person and GBP 500 per week in other cases, subject to certain exemptions. The household benefit cap is implemented through a reduction of the housing benefit payment.

Tax credit reforms

The October 2010 *Spending Review* announced changes in tax credit parameters which were implemented in 2011/12 and 2012/13.

Box 2.1. **The welfare reforms of 2010 to 2013** *(Cont.)*

The 1% cap on benefit increases and the welfare cap

In December 2012 it was announced that working-age benefits would be increased by only 1% per year at the next three uprating dates (April 2013, 2014 and 2015). This measure recognises that benefits have risen faster than average earnings in recent years and is expected to reduce spending by GBP 3 billion in 2015/16. In 2013, it was stated that "the Government will, for the first time, introduce a cap on the country's welfare spending. The cap will improve spending control, support fiscal consolidation, and ensure that the welfare system remains affordable. The cap will apply to over GBP 100 billion of welfare spending. The basic and additional state pension will be excluded as pension spending is better controlled over a longer time period, for example through an increase in the State Pension Age. In addition, the cap will take account of the automatic stabilisers by excluding the most counter-cyclical elements of welfare, such as JSA and any passported expenditure" (HMT, 2013). The details of how this "welfare cap" will be implemented have not yet been spelled out and (in the event that spending trends are set to exceed the target) it would be for the government of the day to decide on specific legislative changes. Historically and internationally, commitments of this kind are rare. The Netherlands in 1992 introduced the Law on Conditional Indexation (*Wet Koppeling met Afwijkingsmogelijkheid*, WKA), which restricted the annual increase in the minimum wage (to which benefit payments are, in turn, linked) if the ratio between the inactive and the active population (the I/A ratio) exceeded a target level. The target level was initially set at 86% and later lowered to 82.6%. Through this mechanism, the annual increase in benefit payments was curtailed in 1992 and 1993 and frozen in 1994 and 1995. From 1996, the I/A ratio improved markedly, and minimum wage indexation resumed in line with the stipulations in the WKA (Kihasa, 2009; and Donner, 2010).

Implementation and fiscal impact

HMT (2013) stated that the Government had implemented measures that deliver over 90% of the total savings expected from reforms to the welfare system. IFS (2013) estimates that benefit cuts will contribute GBP 20 billion out of the total fiscal consolidation of GBP 141 billion expected by 2017/18. In 2012/13 only 32% of the expected full impact of the benefit cuts had been felt, which was expected to rise to 55% in 2013/14. Delays between the implementation of measures and their fiscal impact arise due partly to the cumulative impact of the 1% cap on benefit increases, but also because the replacement of IB by ESA (to be completed in 2014) and the replacement of DLA by PIP (to be completed in 2017) are, after their initial implementation, extended to the whole caseload over a number of years.

Source: Donner, J. (2010), "Koppeling minimumloon aan contractloon" [Linking minimum wage and contract wage], Letter from Minister Donner to the Chair of the House of Representatives,1 March, www.rijksoverheid.nl; HMT – Her Majesty's Treasury (2010), *Budget 2010: June 2010*, www.direct.gov.uk/en/Nl1/Newsroom/Budget/Budget2010/DG_188496; HMT (2013), *Autumn Statement 2013*, www.gov.uk/government/publications/autumn-statement-2013-documents; Institute for Fiscal Studies (2013), *The IFS Green Budget: February 2013*, www.ifs.org.uk/publications/6562; Korea Institute for Health and Social Affairs (2009), *Beyond the Economic Crisis: Social Integration and Shared Prosperity: Conference Proceedings*, www.kihasa.re.kr/html/jsp/english/public/new/view.jsp?bid=21&ano=88; Lane et al. (2011), "Lone Parent Obligations: Work, childcare and the Jobseeker's Allowance regime", *DWP Research Reports*, No. 782, www.gov.uk/government/organisations/department-for-work-pensions/about/research; Toal, A. (2010), "Spending Review – More cuts", *Welfare Rights Bulletin*, Issue 219, December, www.cpag.org.uk/content/spending-review-%E2%80%93-more-cuts.

Table 2.1. **Expenditure on the main unemployment benefits, non-pensioner income-replacement benefits and secondary benefits, 1996/97 to 2012/13**[a]

A. Expenditure at 2013/14 prices, million Pounds (GBP)																	
	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Total	**64 570**	**62 354**	**61 420**	**62 142**	**64 997**	**66 238**	**68 002**	**77 236**	**79 015**	**80 106**	**80 939**	**82 597**	**87 823**	**96 472**	**97 513**	**97 963**	**98 359**
Unemployment benefits	**3 993**	**5 546**	**4 972**	**4 462**	**3 923**	**3 452**	**3 398**	**3 251**	**2 725**	**2 806**	**2 879**	**2 580**	**3 198**	**5 104**	**4 751**	**5 117**	**5 273**
Unemployment Benefit	***852***	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Jobseeker's Allowance (JSA)	***3 141***	***5 546***	***4 972***	***4 462***	***3 923***	***3 452***	***3 398***	***3 251***	***2 725***	***2 806***	***2 879***	***2 580***	***3 198***	***5 104***	***4 751***	***5 117***	***5 273***
Other non-pensioner income-replacement benefits	**28 178**	**24 369**	**24 085**	**23 804**	**24 862**	**25 082**	**24 813**	**25 571**	**24 644**	**23 099**	**22 193**	**22 440**	**21 980**	**22 107**	**21 729**	**21 329**	**21 183**
Carer's Allowance	***1 068***	***1 062***	***1 093***	***1 144***	***1 180***	***1 235***	***1 286***	***1 338***	***1 355***	***1 395***	***1 394***	***1 473***	***1 526***	***1 629***	***1 669***	***1 799***	***1 966***
Incapacity benefits (income replacement)	***16 239***	***16 112***	***16 122***	***15 912***	***16 443***	***16 511***	***16 051***	***15 974***	***15 100***	***14 562***	***14 106***	***14 337***	***13 994***	***14 308***	***14 005***	***13 675***	***13 607***
Statutory Sick Pay (SSP)	142	37	38	90	91	91	91	101	53	50	53	50	52	51	47	49	51
Severe Disablement Allowance (SDA)	1 162	1 228	1 174	1 182	1 158	1 158	1 029	973	982	937	907	803	797	788	763	738	742
Incapacity Benefit (IB) (incl. Income Support)	14 936	14 847	14 910	14 640	15 193	15 261	14 931	14 899	14 065	13 575	13 147	13 484	13 003	12 087	10 825	9 198	5 899
Employment and Support Allowance (ESA)	–	–	–	–	–	–	–	–	–	–	–	–	142	1 381	2 370	3 689	6 915
Maternity	***542***	***766***	***826***	***923***	***943***	***917***	***1 026***	***1 477***	***1 781***	***1 636***	***1 762***	***2 160***	***2 547***	***2 582***	***2 638***	***2 663***	***2 752***
Maternity Allowance	47	51	53	52	61	74	89	162	185	199	207	284	359	375	364	379	403
Statutory Maternity Pay	494	715	773	870	882	843	937	1 315	1 596	1 437	1 555	1 876	2 188	2 207	2 274	2 283	2 350
Income Support (excl. IB)	***10 329***	***6 429***	***6 043***	***5 826***	***6 296***	***6 421***	***6 449***	***6 782***	***6 408***	***5 506***	***4 931***	***4 470***	***3 914***	***3 588***	***3 417***	***3 193***	***2 858***

Table 2.1. **Expenditure on the main unemployment benefits, non-pensioner income-replacement benefits and secondary benefits, 1996/97 to 2012/13**[a] *(Cont.)*

A. Expenditure at 2013/14 prices, million Pounds (GBP) *(Cont.)*

	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Secondary non-pensioner benefits	**32 399**	**32 439**	**32 363**	**33 876**	**36 212**	**37 703**	**39 792**	**48 415**	**51 646**	**54 201**	**55 867**	**57 577**	**62 645**	**69 262**	**71 033**	**71 517**	**71 903**
Housing benefits	***13 377***	***12 855***	***12 384***	***11 965***	***11 741***	***11 665***	***12 425***	***12 549***	***13 231***	***14 128***	***14 446***	***15 054***	***15 587***	***18 404***	***19 415***	***20 111***	***20 757***
Housing Benefit (HB)	11 061	10 524	10 081	9 687	9 466	9 447	10 169	10 045	10 642	11 368	11 776	12 441	12 986	15 502	16 436	17 209	17 824
Discretionary Housing Payments	–	–	–	–	–	9	17	19	21	21	23	24	24	24	23	23	58
Council Tax Benefit (CTB)	2 316	2 331	2 303	2 278	2 275	2 209	2 239	2 486	2 568	2 738	2 647	2 589	2 578	2 879	2 957	2 878	2 876
Disability benefits (secondary)	***5 588***	***5 909***	***6 110***	***6 258***	***6 513***	***6 823***	***7 116***	***7 425***	***7 595***	***7 869***	***8 030***	***7 978***	***8 125***	***8 527***	***8 580***	***8 935***	***9 383***
Industrial injuries benefits	666	657	660	638	621	617	595	602	574	555	531	487	394	389	429	408	397
Independent Living Funds	159	153	157	172	180	197	218	240	259	281	306	–	–	–	–	–	–
Disability Living Allowance (DLA)	4 764	5 099	5 293	5 449	5 712	6 009	6 303	6 583	6 762	7 033	7 193	7 491	7 731	8 139	8 151	8 527	8 986
Child Benefit and Personal Tax Credits[b]	***13 088***	***13 410***	***13 591***	***15 399***	***17 639***	***18 881***	***19 861***	***28 024***	***30 414***	***31 762***	***32 869***	***34 075***	***38 248***	***41 508***	***42 099***	***42 110***	***41 435***
Child Benefit (CB)	10 066	10 096	10 196	11 354	11 786	11 653	11 583	11 576	11 467	11 473	11 591	11 808	12 199	12 468	12 495	12 232	12 014
Family Credit	3 022	3 314	3 395	2 598	2	-1	-1	0	-0	–	–	–	–	–	–	–	–
Working Families Tax Credit[c]	–	–	–	1 446	5 850	7 229	8 279	97	–	–	–	–	–	–	–	–	–
Child and Working Tax Credits (CTC WTC)	–	–	–	–	–	–	–	16 351	18 947	20 289	21 278	22 267	26 049	29 040	29 603	29 877	29 421
Of which: *Working Tax Credit*[d]	–	–	–	–	–	–	–	..	*4 435*	*4 987*	*5 648*	*6 099*	*7 360*	*8 143*	*8 369*	*7 913*	*7 280*
Social Fund	***346***	***265***	***278***	***254***	***320***	***333***	***389***	***417***	***406***	***442***	***522***	***470***	***685***	***822***	***939***	***361***	***328***

Table 2.1. **Expenditure on the main unemployment benefits, non-pensioner income-replacement benefits and secondary benefits, 1996/97 to 2012/13**[a] *(Cont.)*

B. Percentage distribution of expenditure

	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Unemployment benefits	6.18	8.89	8.10	7.18	6.04	5.21	5.00	4.21	3.45	3.50	3.56	3.12	3.64	5.29	4.87	5.22	5.36
Other non-pensioner income-replacement benefits	43.64	39.08	39.21	38.31	38.25	37.87	36.49	33.11	31.19	28.84	27.42	27.17	25.03	22.91	22.28	21.77	21.54
Carer's Allowance	1.65	1.70	1.78	1.84	1.82	1.86	1.89	1.73	1.71	1.74	1.72	1.78	1.74	1.69	1.71	1.84	2.00
Incapacity benefits (income replacement)	25.15	25.84	26.25	25.61	25.30	24.93	23.60	20.68	19.11	18.18	17.43	17.36	15.93	14.83	14.36	13.96	13.83
Maternity	0.84	1.23	1.35	1.49	1.45	1.38	1.51	1.91	2.25	2.04	2.18	2.62	2.90	2.68	2.71	2.72	2.80
Income support (excl. IB)	16.00	10.31	9.84	9.38	9.69	9.69	9.48	8.78	8.11	6.87	6.09	5.41	4.46	3.72	3.50	3.26	2.91
Secondary benefits	50.18	52.02	52.69	54.51	55.71	56.92	58.52	62.68	65.36	67.66	69.02	69.71	71.33	71.79	72.84	73.00	73.10
Housing benefits	20.72	20.62	20.16	19.25	18.06	17.61	18.27	16.25	16.74	17.64	17.85	18.23	17.75	19.08	19.91	20.53	21.10
Disability benefits (secondary)	8.65	9.48	9.95	10.07	10.02	10.30	10.46	9.61	9.61	9.82	9.92	9.66	9.25	8.84	8.80	9.12	9.54
Child Benefit and Personal Tax Credits[b]	20.27	21.51	22.13	24.78	27.14	28.51	29.21	36.28	38.49	39.65	40.61	41.25	43.55	43.03	43.17	42.99	42.13
Of which: Personal Tax Credits[b]	4.68	5.31	5.53	6.51	9.00	10.91	12.17	21.30	23.98	25.33	26.29	26.96	29.66	30.10	30.36	30.50	29.91
Social Fund	0.54	0.42	0.45	0.41	0.49	0.50	0.57	0.54	0.51	0.55	0.65	0.57	0.78	0.85	0.96	0.37	0.33

Note: ..: Not available; –: Benefit not in existence.

a) Figures relate to Great Britain only. Women's State Pension Age, which was 60 until 2010, is used to separate spending on income-related benefits between "working age" and "pensioners", even when paid to men. For this reason, *Pension Credit*, which is paid to men above women's State Pension Age, is not included. The pensioner component of expenditure is excluded for SDA, IB, Income Support, HB, CTB, industrial injuries benefits and DLA. War Pensions are not included because the working-age component of expenditure is not reported. The *Christmas bonus*, *bereavement benefits*, allowances paid to participants in labour market programmes and benefits where expenditure is below GBP 100 million in all years (from 1996/97 to 2013/14) are not included. These factors in principle would result in some understatement of total expenditure. However, the source reports, without a breakdown by benefit, an estimated total for "Great Britain benefits and personal tax credits, £ billion, real terms, 2013/14 prices, People of working age and children" which is GBP 1.1 billion to GBP 2.2 billion lower in all years, possibly because further (e.g. *Child Benefit* or *Social Fund*) payments to pensioners are excluded on an estimated basis.

b) The total shown for *Personal Tax Credits* includes *Family Credit* (a precursor to *Child Tax Credit* which was paid until 1999/2000, and was an in-work benefit), but not the child-allowance components of income support payments.

c) *Working Families Tax Credit* data include *Disabled Person's Tax Credit*.

d) *Working Tax Credit* expenditure is estimated by allocating the CTC and WTC total in proportion to entitlements reported in HMRC (2013).

Source: DWP Benefit Expenditure and Caseload Tables, Autumn Statement 2013, www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2013; and HMRC (2013b), "Child and Working Tax Credits statistics: Finalised annual awards: 2011-12", www.gov.uk/government/publications/child-and-working-tax-credits-statistics-finalised-annual-awards-2011-to-2012.

Table 2.2. **Standard benefit rates,[a] April 2013**

GBP per week

	Contributory	Non-means-tested	Means-tested
Unemployment benefit			
Jobseekers' Allowance (JSA)			
Single under 25	56.80		56.80
Single over 25	71.70		71.70
Couple			112.55
Other working-age income-replacement benefits			
Carer's Allowance			
Single rate			59.75
Couple (Single rate *plus* adult dependency increase)[b]			94.90
Employment and Support Allowance (ESA)			
In all cases	As for JSA, *plus* Work-related Activity or Support component if applicable[c]		
Single over 25 – Assessment phase	71.70		71.70
Single over 25 – Work-Related Activity Group[d]	100.15		100.15
Single over 25 – Support Group[e]	106.50		106.50
Pension Credit Standard Minimum Guarantee[f]			
Single			145.40
Couple			222.05
Secondary non-pensioner benefits			
Local Housing Allowance (LHA)[g]			
Shared accommodation rate,[h] inner SW London[i]			87.26
Shared accommodation rate, Leeds			61.50
3-bedroom rate,[j] inner SW London			347.38
3-bedroom rate, Leeds			109.62
Personal Independence Payment (PIP)[k]			
Highest care and mobility rates		134.40	
Lowest care and mobility rates		74.00	
Child benefit			
For two children[l]			33.70
Child Tax Credit (CTC) only[m]			
Family with two children			115.10
Working Tax Credit (WTC)			
Single working 30 hours per week[n]			52.12
Family with two children, working 30 hours per week[o]			205.10

a) Rates for major benefits and illustrative cases only are shown. The income-replacement benefits are mutually exclusive. The secondary non-pensioner benefits shown are payable concurrently with each other and with income-replacement benefits, except that the hours requirements for WTC are incompatible with JSA and tax credit income is taken into account for means-tested (but not contributory) JSA, ESA, housing benefits and Pension Credit.

b) Adult dependency increase not payable on new claims since April 2010.

c) The *Work-Related Activity* and *Support Group* components are not payable in the assessment phase.

d) Includes GBP 28.45 *Work-Related Activity Group* component.

e) Includes GBP 34.80 *Support Group* component.

f) Payable to men above the State Pension Age for women: 60 until April 2010, 62.5 in April 2013, 66 in April 2020 and scheduled to increase further.

g) LHA applies to private sector accommodation only; for local authority housing, housing benefit may fully cover the rent, subject to occupancy rules and other restrictions.

h) Shared accommodation rate applies to singles up to age 35 (from 2012).

i) Inner South-West London

j) The 3-bedroom rate applies to a couple with two children not expected to share a bedroom.

k) PIP progressively replaces Disability Living Allowance, with unchanged maximum rates, from 2013 onwards.

l) Paid as GBP 20.30 for first child plus GBP 13.40 for each additional child.

m) Weekly rates for tax credits are shown as 1/52 of annual rates.

n) WTC basic and 30-hour element only.

o) CTC family and child elements, plus WTC basic, second adult/lone parent and 30-hour elements, but not including any childcare element.

Source: "Schedule of proposed benefit rates from April 2013", www.parliament.uk/business/news/2012/december/statement-on-benefits-uprating; "Tables confirming tax and tax credit rates and thresholds for 2013-14", www.gov.uk/government/publications/autumn-statement-2012-documents; lha-direct.voa.gov.uk/search.asp; and www.gov.uk/how-tax-credits-affect-other-benefits.

The Jobseekers' Allowance

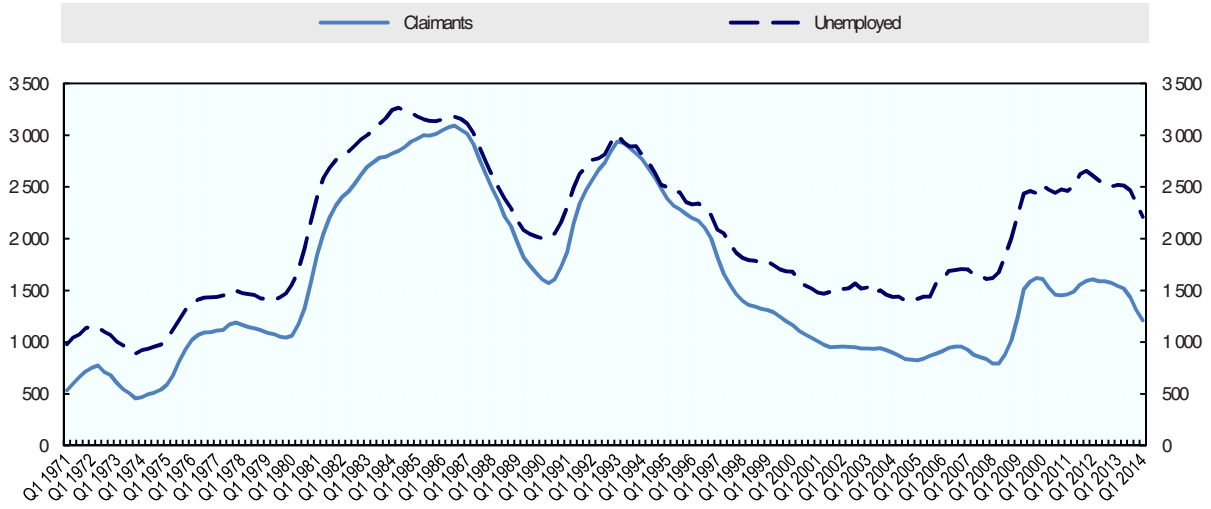
Active labour market policies focused at first on the population on conventional (contributory) unemployment benefits, and later increasingly also on the population registered as unemployed but on Income Support (which from 1988 replaced Supplementary Benefit). The unemployment rate increased sharply both in the 1970s (the increase after 1973 being conventionally attributed to the first oil price shock) and in the early 1980s (conventionally attributed to the tight monetary and fiscal policies of the first Thatcher government, 1979-1983). On the labour force survey basis of measurement, the unemployment rate reached a peak of 12% in 1983 and 1984. However this peak may to a considerable extent have been caused by the abandonment of activation measures: from 1973 to 1977 benefit offices were split from employment offices, in 1980 the frequency of required visits to the Job Centre was reduced to once every two weeks (since 1961, it had been weekly), in 1982 visits were made voluntary, and over the period 1982-85 staff numbers in unemployment benefit offices working on job search were cut substantially (Van Reenen, 2004, Table 11.2). Activation measures began with the introduction of Restart interviews in 1986, the reunification of benefit offices with employment offices at the local level launched by the creation of the Employment Service in 1987, and the introduction of a formal "actively seeking work" condition for unemployment benefits in 1989. In the deep recession of the early 1990s, although unemployment rates rose sharply they stayed well below the peak reached in the 1980s.

In the 1990s, policies continued to focus primarily on the registered unemployed, with a "stricter benefit regime" in the early 1990s and the replacement of former benefits by the Jobseekers' Allowance (JSA) in 1996 (Price, 2000, p. 262; and OECD, 2003, Table 4.3). An active regime for JSA recipients continued through fortnightly interviews with jobseekers at employment service offices and, from 1998 onwards, the New Deals for Young People and the New Deal 25 Plus for adults. The New Deals offered "no fifth option": after a period in the "Gateway Phase", participants who were still unemployed had to choose between subsidised full-time training or education, subsidised employment, voluntary work, or placement with the Environmental Task Force (a job-creation scheme) (Van Reenen, 2004). Unemployment fell sharply from 1993 to 1998 (Figure A) and from 1998 to 2008, the LFS unemployment rate stayed at a low level, averaging slightly over 5%. In the recent recession it rose, reaching a peak of 8.1% in 2012, although part of this increase might be attributable to the transfer of population groups from "inactive" benefits towards JSA that was operated from 2008 onwards.

If the Claimant Count is taken as a measure of the number of unemployment beneficiaries,[2] the B/U ratio (ratio of unemployment beneficiaries to labour force survey unemployment) reached a peak close to 1 in 1986 and again in 1993, then fell sharply after the introduction of the Jobseeker's Allowance in 1996. The gap between the Claimant Count and LFS unemployment reached about 0.5 million by 2000 and increased to 1.0 million in the 2010s (Figure 2.2). The gap includes unemployed people without any benefit income – seeking work while living on savings, family support or student grants and loans, for example – but it may also arise because people identified as unemployed in the survey are increasingly recipients of inactive and/or secondary benefits. The United Kingdom appears to lack information about the benefit status of the unemployed, or the unemployment status of benefit recipients.

Figure 2.2. **Benefit claimants and labour force survey unemployed, 1971-2014**

Seasonally adjusted levels (thousands)



Note: Quarterly averages from ONS tables A02 Labour Force Survey Summary and CLA01 Claimant count. LFS data are for all ages 16 and over. Both series are seasonally adjusted.

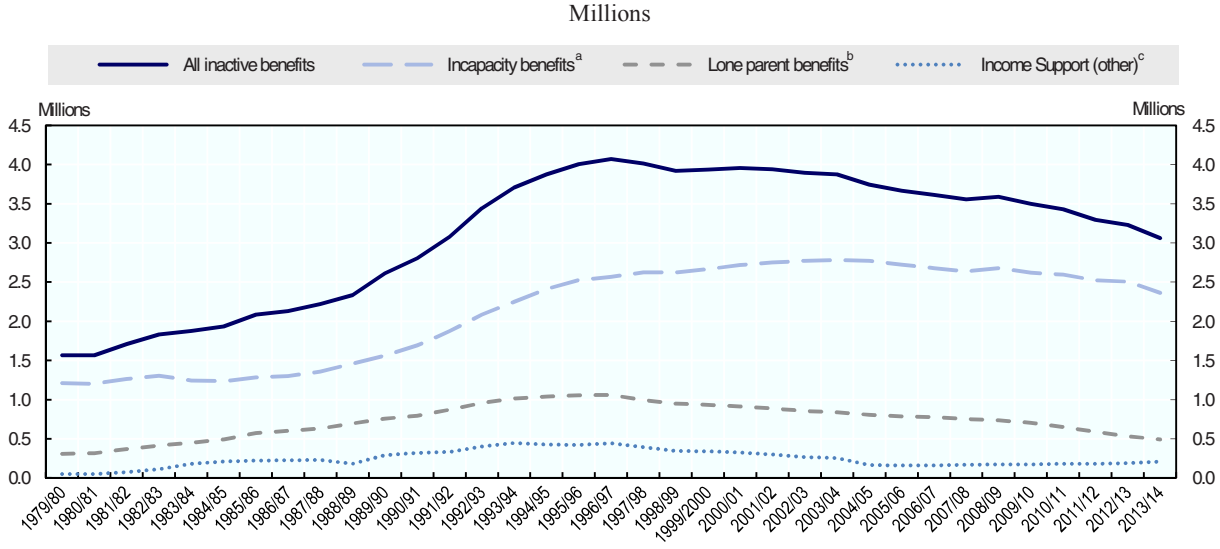
Source: Office for National Statistics.

Other inactive income-replacement benefits

Table 2.1 lists as inactive income-replacement benefits (for non-pensioners) the Carer's Allowance, four disability benefits, of which only one (the Employment and Support Allowance, ESA) is publicly-funded[3] and still open to new entrants; and Income Support, a safety-net benefit of last resort, the coverage of which has declined as particular subgroups on Income Support have been transferred to a benefit covering their specific social risk. The concept of "income-replacement benefits" (including JSA) here is similar to the concept of "out-of-work" benefits used in DWP statistics.[4]

Figure 2.3 shows the caseloads of the main inactive benefits through time. The lone parent caseload was relatively low before 1980. The incapacity benefit caseload was already fairly high, but only slowly increasing, until about 1986, but doubled from 1986 to 1996. From 1986 to 1996, the increase in the lone parent and incapacity benefit caseload – from 1.9 million to 3.6 million – exceeded the decline in the unemployment benefit caseload, which suggests that that the success of activation policies was largely illusory. In these years, the policy focus on reducing registered unemployment and enforcing availability-for-work conditions encouraged transfers from unemployment to incapacity benefits, and encouraged applications for lone parent benefits rather than unemployment benefits where possible. After 1996, the combined caseload on the main income-replacement benefits (for unemployment, lone parents and incapacity) declined considerably. However, after 1996 the working-age caseload on Carer's Allowance (not shown in Figure 2.3) increased by nearly 0.3 million, and the increase in expenditure on secondary benefits has far exceeded the decline in expenditure on income-replacement benefits.

Figure 2.3. **Inactive working-age benefit caseloads, 1979/80 to 2013/14**



Note: Data include 2013/14 forecasts.

a) *Incapacity benefits:* Caseload of working age: includes sickness benefits, but does not include Carer's Allowance or disability benefits as defined in Figure 2.1.

b) *Lone parent benefits:* Lone parents on Income Support without Disability Premium to 2003/04, National Statistics definition from 2004/05.

c) *Income Support (other):* Caseload excluding the long-term sick and disabled with Disability Premium and lone parents to 2003/04; National Statistics definition sum of carers and "others on income support" from 2004/05.

Source: DWP Benefit Expenditure and Caseload Tables, Autumn Statement 2013, www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2013.

Carer's Allowance

Carer's Allowance is payable to people aged 16 or over who are giving substantial and regular care (usually defined as at least 35 hours per week) to a person receiving the highest or middle rate of DLA (care element) (see below) or Attendance Allowance (a benefit payable to individuals over the age of 65 who need care or supervision due to a disability). The Carer's Allowance working-age caseload has grown from a low level in 1986/87 (when it was called the Invalid Care Allowance) to 0.6 million in 2012/13. The growth in this caseload may partly reflect growth in the caseloads of Attendance Allowance and Disability Living Allowance. Since the 2000s there may have been a tendency for some people to claim Carers' Allowance with Child Tax Credit, since a person caring for both a child and a disabled adult can claim both. Although claimants themselves will typically give up work, this may relieve the care burden and allow full-time work for another member of the extended family: the disabled person being cared for by the claimant does not need to be a close relative or live with the claimant.

Incapacity benefits (income-replacement)

In the United Kingdom, employers are required to pay Statutory Sick Pay (SSP) to employees who are absent from work through sickness for 28 weeks. The publicly-funded incapacity benefits may be claimed by people in stable jobs who were laid off after a long period on employer-funded sick pay, but claims for short-term illness, by people who

were self-employed, working in unstable or casual jobs or unemployed, are also possible. A tighter definition of incapacity was implemented for new claims from 1995 and again from 2008. The 2008 reform introduced a "work-related activity" category for incapacity benefit recipients. Unusually, the revised definition has been applied to the existing caseload on incapacity benefits. People with disabilities who lose entitlement to IB following a "Fit for Work" decision may instead apply for an unemployment benefit, but this process is complicated by appeals against the decisions.

Statutory Sick Pay

Employees who are absent from work through sickness have a right to be paid Statutory Sick Pay (SSP), GBP 85.85 per week in 2012/13, by their employer, after the first three waiting days of absence. The employer is required to pay SSP for a maximum of 28 weeks. However, most employers operate more-generous occupational sick pay schemes. A 2010 employer survey reported that sick pay at 100% of salary was paid by 93% of employers on the first day of sickness absence, by 68% of employers after one month and by 22% after six months (Young and Bhaumik, 2011). Occupational sick-pay schemes for employees in the public and education sectors often provide entitlements that increase with tenure (for example, after five years of in the National Health Service, six months on full pay followed by six months on half pay; NHS Staff Council, 2013). For their entitlement to SSP, employees can "self-certificate" their sickness for up to seven days without being required to obtain "sick note" from a doctor; but employers can impose stricter requirements for their occupational sick-pay schemes. Smith (2009) describes the coverage of employees on short contracts or assignments, and constraints on the dismissal of long-term sick employees.

Incapacity Benefit

Real expenditure on the former Invalidity Benefit had increased continuously each year from 1980/81 to 1994/95, along with an increase in the caseload from 640 000 to 2 140 000. This growth was related, among other things, to a view that transfer to invalidity benefit was a positive outcome from the Restart process (from 1986 onwards) for the unemployed. However, the indefinite-duration non-means-tested nature of this contributory benefit allowed it to be combined with earnings by the other member of a couple, and this may have contributed to long-term caseload growth.

In 1995, Incapacity Benefit (IB) replaced Invalidity Benefit and Sickness Benefit. The caseload on IB hardly changed between 1995/96 and 2005/06, but within the total the share in the IB caseload with an insurance-based entitlement "in payment" fell from 75% in 1995/96 to 60% by 2005/06. The sharp break from the earlier trend of rapid growth in the total no doubt reflects the 1995 policy reform. Before 1995, eligibility for these benefits was largely determined by the claimant's general practitioner (GP). With the introduction of IB, eligibility for long-term benefits was determined by an All Work Test which assessed the effects of a person's medical condition on his or her ability to carry out work-related functions using a points system. Claimants were required to submit a 32-page questionnaire; the claimant's doctor was asked to provide a statement of diagnosis and other relevant information, but was no longer asked for an opinion on capacity for all work; and claimants were in many cases assessed by doctor of the Benefits Agency Medical Service, which was privatised in 1997. A decision taking this information into account was then taken by an Adjudication Officer in the Benefits Agency. The new All Work Test was applied to existing cases on the former benefits, with some exceptions, over a period of two to three years (Hansard, 1995; and Davies, 1996).

In 2000, the All Work Test was renamed the Personal Capability Assessment, in order to correct the impression that people who reach the benefit threshold are unfit to work (www.issa.int/Observatory/Country-Profiles/Regions/Europe/United-Kingdom/Reforms/Personal-Capability-Assessment). A Capability Report was introduced: this could provide advice on what a person can do despite their incapacity and on measures such as workplace adaptations, for personal advisors in the employment service. The Capability Report was prepared as support for the ONE pilot studies from 2000, and as support for a programme called Pathways to Work, which operated in the mid-2000s (see Chapter 4, Annex 4.A1).

Employment and Support Allowance

DWP (2006) lists a proposed new system of points for assessing capability. It recognised growing awareness of mental health problems, "most commonly mild to moderate depression or anxiety, which is very amenable to therapeutic interventions", and proposed a much-expanded and more specific list of descriptors and points in this area. It also proposed the removal of some of the physical function descriptors and scores with low points[5] and the development of a Work-Focused Health-Related Assessment (WFHRA) which should be far more detailed than the existing Capability Report. The WFHRA was introduced along with the Work Capability Assessment (WCA) in October 2008 but it was suspended for two years from July 2010 (WPC, 2011), and has not been reintroduced.

Since October 2008, new claimants are entitled to the Employment and Support Allowance (ESA) for a period called the Assessment Phase which in principle lasts 13 weeks. During the Assessment Phase, their benefit is at the same level as JSA. If not exempted due to the nature of their condition, they must submit a self-assessment form (ESA 50) and then the WCA is carried out by a service contractor, Atos Healthcare. The procedure supports a JCP decision on an individual's entitlement to Employment and Support Allowance (ESA) and their allocation to the ESA Work-Related Activity Group (WRAG) or the ESA Support Group. ESA WRAG claimants are expected to prepare for work where possible, and receive a higher payment than those on JSA: ESA Support Group claimants, the group with the most severe functional impairments, are provided with unconditional support and receive a slightly higher premium than those in the WRAG. The WCA process also determines a "prognosis period" which is usually 3, 6, 12, 18 or 24 months, based on the individual claimant's health, after which a new assessment will be carried out.

Each year about 110 000 ESA claims are made after a period of absence from work on employer sick pay, but this is only a small proportion of the 11 million cases of short-term sickness absence from work, and is not the main route into ESA. About 140 000 ESA claimants, mainly lower-skilled and lower-paid employees in small firms, apply for ESA straight from work without receiving SSP from their employer, about 80 000 come from self-employment status and 320 000 from an inactive or unemployed status (Ward, 2010; and Black, 2012). In this context, the situation of New ESA claimants is very varied: some were recently employed and have only a short-term illness, some come from a stable job but have already been off work for six months or more on sick pay from their employer, and some are long-term unemployed when they first apply for ESA.

Many WCA decisions determine that the claimant is Fit for Work and a significant proportion of these decisions are appealed with a high rate of success. Initial assessments are based on self-assessment responses and usually a face-to-face medical examination. Upon appeal, claimants often provide additional evidence, e.g. from their treating doctor. About 40% of the WCA Fit for Work decisions that are appealed were overturned (20% of all Atos Fit for Work recommendations between October 2008 and November 2011

were revised, usually allocating the person to the ESA WRAG; DWP, 2012b). It should be kept in mind that high rates of appeal are a common feature in disability assessment procedures: in the United Kingdom in 2002, over 40% of Personal Capability Assessment disallowance decisions that were appealed were overturned (Sainsbury et al., 2003).

When ESA was initially introduced in 2008, it was announced that existing IB claimants (including those on Income Support on the grounds of incapacity) would be reassessed, although this process would not start immediately;[6] the incoming government in 2010 confirmed that the entire stock of existing IB claims, about 2.5 million in total, would be reassessed between 2010 and 2014. Some claimants were placed directly in the ESA Support Group due to the severity of their condition, but most were reassessed by Atos using the WCA, appointments with claimants taking place at one of 148 assessment centres (20 owned by Atos and most of the other co-located with a JCP office). Claimants often expected to present information about their illness, but in fact experienced what they perceived as a "tick-box" process which could last as little as 20 minutes, reflecting the system of points representing the individual's ability to carry out a range of everyday activities. JCP decision makers could take into account additional evidence, but their decisions deviated from the Atos recommendations in only around 2% of cases (WPC, 2011).

In statistics for the period March 2011 to March 2013, adjusted for the outcome of appeals already determined, 23% of IB claimants were assessed as Fit for Work and not entitled to ESA, 41% were placed in the ESA WRAG and 36% in the ESA Support Group (DWP, 2014). Such statistics suggest that the reassessment process will by 2014 have reduced the ESA/IB caseload by around 20%, or about half a million, although this is only one among several factors influencing the caseload. However, attachments to the Work Programme in the JSA Ex-IB Payment Group (see Chapter 4) seem likely to total only about 40 000 by the end of 2014 (these attachments averaged 1 200 per month in 2013), suggesting that fewer than one in ten of the ex-IB recipients found Fit for Work (after possible appeals) have claimed JSA and been referred to the Work Programme (see Chapter 4). Around half of the ex-IB cases may have been on contributory IB and are not able to qualify for Income-Based JSA on grounds of other family income,[7] but it is not clear what other factors are leading to low rates of referral to the Work Programme.

The ESA at its introduction in 2008 replaced not only IB but also Income Support on ground of incapacity (as well as the Severe Disablement Allowance, which was already closed to new entrants). By 2011/12 only 40% of the ESA caseload was on a benefit based on National Insurance Contributions (NICs), payable indefinitely and without a means test (a further decline from the 60% that were on contributory IB in 2005/06, see above). The incoming government in 2010 announced that contributory ESA would be limited to one year for people in the ESA WRAG. DWP (2011b) estimated that of about 700 000 people losing contributory ESA WRAG due to the time limit, about 30% were already receiving a means-tested supplement to their contributory benefit and would not be affected by time-limiting and 30% would become eligible for some payment of means-tested ESA WRAG (Kennedy, 2011).

Income support for lone parents and other groups

In 1996, about 1.5 million unemployed claimants of Income Support were transferred to income-based Jobseekers' Allowance, but Income Support payments to about 1 million lone parents and 0.8 million long-term sick and disabled people without an insurance-based payment continued. In some statistical analyses only the lone parents on Income Support are shown as a distinct category, since the long-term sick and disabled on Income Support

are already counted in the IB caseload as "credits only" cases. In late 2008, ESA replaced IB for new claims (existing IB claims were later closed through the process of IB Reassessment), and Income Support began to be closed to lone parents with older children. Many of the lone parents affected claim Jobseekers' Allowance. Chapter 3 discusses changes in eligibility for Income Support as an issue of work-search conditionality.

The secondary non-pensioner benefits

In Table 2.1, all benefits that are not "income-replacement" benefits are shown as "secondary". Housing benefits, secondary disability benefits and Child Benefit in principle compensate for the additional costs of housing, disability and children respectively. The housing benefits are means-tested,[8] but the secondary disability benefits and Child Benefit (before 2013) are not.

Personal tax credits (including the Family Credit paid until 1999/2000) include disability- and child-related components, aiming to reduce poverty rates mainly for families with children, on a means-tested basis. They share some characteristics with the previous benefits and, since they are additional to them, represent an increase in benefit generosity. They include components which are conditional on working a given number of hours (16, 24 or 30 hours per week), aiming to improve incentives for out-of-work claimants to move into work. They appear to be historically and internationally exceptional for the size of the payments made and their cost (1.9% of GDP from 2009/10 to 2012/13).

Due to the past increases in expenditure and the large sums now involved, secondary benefits are potentially a major influence on labour market outcomes. Some incentive issues are:

- Housing benefit and DLA payments will have some effect on work incentives, and it might be possible to take this into account to a greater extent. Housing circumstances may influence job prospects. For people on DLA who are not in work, a return to stable employment will tend to be associated with improved health and thus, with a perceived or real risk of losing the benefit.
- Individuals who qualify for Child Tax Credit (CTC), and potentially for Working Tax Credit (WTC), often qualify also for housing benefits so that earnings result in benefits being withdrawn at a very high marginal effective tax rate (METR). With even quite a small input of other resources (e.g. savings or family support), or perhaps with the partner in a couple working just enough to qualify for WTC, they may live on secondary benefits without claiming JSA (or ESA WRAG) when not in work. In this case the secondary benefits function de facto as inactive benefits.
- The Working Tax Credit (WTC) is conditional on minimum hours of work (16, 24 or 30 hours per week, depending on circumstances). This acts as an incentive for reporting more hours but with relatively low earnings and work intensity.[9]

Importantly, tax credits make part-time work more attractive relative to zero work because only 41% of earnings, above a threshold, are withdrawn from tax credits; but they also make part-time work more attractive relative to full-time work. Given that housing benefits are also means-tested, very high METRs can arise, and the expansion of tax credits from 2003/04 seems to have greatly increased the proportion of low-paid workers facing very high METRs. Due to interactions with other benefits and the hours thresholds for WTC, the impact of tax credits on METRs is complex and varied. Some broader issues relevant for secondary benefits will be discussed under the heading of Universal Credit, which clarifies the general structure.

Housing benefits

Exceptionally in international terms, housing benefits in the United Kingdom pay 100% of housing costs for tenants in social housing (subject to a means test and some other restrictions including, recently, under-occupation rules) and a high proportion of rent for private sector housing. Non-pensioner Housing Benefit (HB) and Council Tax Benefit (CTB) in 2012/13 cost nearly 80% as much as the combined expenditure on all income-replacement benefits (including unemployment benefits) listed in Table 2.1. Recent policy changes risk displacing more jobseekers towards areas with an already-weak labour market and poor transport connections, or to live with their parents in the case of young adults. The impact of location and other housing parameters on employment outcomes should be evaluated, and benefit policy should take this into account.

Growth in HB and CTB caseload and expenditure to 2012/13

From 2000/01 to 2007/08, which was a period of relative stability in the caseloads of the main income-replacement benefits, the CTB and HB caseloads under 60-year-old increased by about 10% but expenditure per person increased by about 20% (DWP, 2013a). This is likely to reflect increases in Council Tax (Wilson, 2012) and house prices. Expenditure increase sharply again in the recent recession, and several measures implemented from 2011 onwards (see Box 2.1) aim to reduce caseload growth and expenditure per person.

Housing Benefit administration

Local authorities pay HB, but they reclaim the amounts from DWP. DWP also pays local councils an administration grant based on cost factors and the number of new and ongoing claims. However, some elements of the subsidy claim are subject to penalty, to encourage local authorities to control that element of expenditure.

Housing Benefit rent determination and payment rates

For tenants in local authority housing on one of the income-replacement benefits,[10] HB usually covers 100% of the rent, and is directly deducted from the sum owed by the tenant to the local authority. For tenants in private housing, until 1988, local authorities could apply for a fair rent for a particular property to be set by a rent control authority, and the landlord then could not charge more than the fair rent. Legislation in 1988 abolished rent controls (for new tenancies). The amount payable as HB for a particular property was restricted if the rent was above the market level for that dwelling, if the accommodation was too large, or if the dwelling was exceptionally expensive, but HB expenditure more than doubled in real terms from 1988 to 1996. In 1996, the amount was further restricted to the average cost of similar properties in the area (the Local Reference Rent), and the entitlement for people aged under 25 was capped at the equivalent of a room in shared housing.

From 2008, new private sector rental benefit claimants have received Housing Benefit according to Local Housing Allowance (LHA) amounts, which in standard cases are not related to the particular property but are fixed at the median rent (set separately for different types of property) across a Broad Market Rental Area. These are relatively large areas, so that situations where the LHA is set by reference to rents in a relatively expensive area, e.g. city centres, are avoided. The LHA amount takes into account the size of the property that each type of tenant is deemed to need; in April 2011, LHA caps applying in the most expensive areas were set at GBP 250 per week for a one-bedroom property, rising to GBP 400 per week

for a four-bedroom property (www.gov.uk/housing-benefit/what-youll-get: amounts have increased slightly since then), but LHA amounts are half of these rates or less in other areas (Table 2.2 includes one example). If the actual rent is below the LHA amount, HB is based on the actual rent instead (until 2011, it was the actual rent plus up to GBP 15 per week). Since April 2011, the LHA is set at the 30th percentile of rents across the Broad Market Rental Area, rather than the 50th percentile.

An early evaluation of the impact of the 2011 LHA reform found that most landlords had no intention of reducing rents in response to it, although outside the London area some were making concessions. There was also relatively little evidence of displacement of tenants to other areas, but transitional measures could have blunted the early impacts and households were holding on to existing accommodation. In central London, onflows to HB had fallen sharply, particularly among the 25-34 year-olds newly subject to the shared room rate (see Box 2.1). In high-demand areas, housing advisers still thought that the measures would displace many LHA households (Beatty et al., 2013).

Housing Benefit taper rate

If the claimant is receiving any of the "passported" benefits (income-replacement benefits such as JSA, which act as a "passport" to other benefits), HB is normally paid at the full rate. If other income is present, the claimant's income is compared to an "applicable amount", which is an assessment of the minimum income the claimant needs to live on and is similar to the JSA rate, and 65% of the excess over the applicable amount is deducted from the HB entitlement. The claimant's income for this calculation includes an assumed rate of income generated from any savings held (although claimants with more than GBP 16 000 of capital are generally disqualified from the benefit). A tenant with fluctuating income, or whose circumstances change frequently for other reasons, must report the changes to the housing benefit office frequently and perhaps weekly, although the Local Authority can vary the benefit amount based on an average over a longer period.

Patterns of Housing Benefit tenure and income

In November 2008 about 25% of HB recipients were in the private rented sector and this share increased to 30% by February 2010. In February 2010, about 69% were on "passported" and 13% were in work.[11] In 2012/13, within the overall non-pensioner HB caseload of about 3.5 million, 36% were on IB or ESA, and another 21% on JSA (DWP, 2013a). Those claiming no other DWP benefit, about 800 000 in 2012/13, may in many cases be claiming tax credit, but the tax credit status of HB recipients is not reported.[12]

Council Tax Benefit and Council Tax Support

Central government grants account for about two-thirds of finance for local government in the United Kingdom, but apart from sales, fees, charges and rents, most of the rest comes from Council Tax, introduced in 1993. Council Tax Benefit up to 2012 was administered by Local Authorities but with rules set by central government and 100% reimbursement of costs to Local Authorities for correctly-processed claims. It usually took the form of a reduction in the amount of Council Tax billed to householders. As for HB, people with an income at or below an "applicable amount" which is set at approximately the level of JSA, and also subject to asset limits, were entitled a benefit that covered the whole of their liability to CTB, subject to a taper rate of 20% on income above the applicable amount. The CTB caseload in Great Britain in 2012/13 was 5.9 million, the third highest benefit caseload (after the State Pension and Child Benefit).

In 2011, it was announced that from April 2013, CTB would be replaced by Council Tax Support, a benefit with the key parameters determined by Local Authorities, funded by a block grant from central government, plus any further funding that Local Authorities might allocate from other sources. The block grants for 2013/14 are set at 90% of forecast CTB expenditure for 2013/14, distributed across Local Authorities in proportion to their CTB expenditure in 2011/12, and "The Government will consider whether a new basis for distributing grant, other than previous expenditure, is required from 2015-16." (DCLG, 2011).

Within England alone, there are now 326 different local schemes of Council Tax Support. Of these schemes, 232 (71%) approximately maintain the structure of the previous system but subject to a minimum payment by all people; 114 of these have set the minimum payment rate at 8.5% of the Council Tax bill or less, and 97 have set it at 20% or more. Some of the schemes have changed further details including the asset limits and the detailed definition of income, yet 58 schemes maintain the existing system, by injecting funding from other sources.

DCLG (2012) argues that the structure of CTS will need to be radically reformed for Universal Credit (UC) recipients. UC will have a significant free area (earnings disregard), and it is suggested that CTS schemes should have a high withdrawal rate from the first pound of earnings, so that the entitlement to CTS is exhausted at or near the point where UC starts to be withdrawn. In the default national scheme (which comes into effect only if a local authority fails to adopt a scheme), there is some area of overlap between UC and CTS where marginal deduction rates will be around 81%, taking into account a person's tax and National Insurance contributions.[13]

Discretionary housing payments

Discretionary housing payments are available for those who already qualify for Housing Benefit but need further help to meet their housing costs. Each local authority receives from DWP a fixed amount to fund them, to which it may add its own funds. Until 2011/12 funding from DWP totalled less than GBP 25 million per year, but a major expansion to GBP 175 million was planned for 2013/14, when the household benefit cap (see Box 2.1) was introduced.

Secondary disability benefits

The United Kingdom pays a cash contribution towards extra costs arising from an impairment or health condition, a non-contributory benefit which is not means-tested or affected by labour market status. In Table 2.1, this appears as the Disability Living Allowance (DLA). For new claims, DLA has been replaced by the Personal Independence Payment (PIP) from 2013/14. Existing DLA claims for non-pensioners are currently being progressively reassessed for entitlement to PIP.

Disability Living Allowance

Non-pensioner expenditure on Disability Living Allowance (DLA) was equivalent to 32% of expenditure on income-replacement incapacity benefits in 1996/7, rising to 66% in 2012/13. Just as the reduction in unemployment in the United Kingdom from 1986 to 1996 was partly illusory because it was accompanied by a similar-sized increase in the IB caseload, it could be argued that the small decline in the IB caseload after 1996/97 – achieved through tighter gatekeeping and early activation measures – was partly illusory, because it was accompanied by an 0.71 million (61%) increase in the non-pensioner DLA caseload.

The eligibility criteria for DLA are at first sight strict: www.gov.uk/dla-disability-living-allowance-benefit/eligibility states that claimants might be eligible for the care component if they:

- Need help with things like washing, dressing, eating, using the toilet or communicating your needs.
- Need supervision to avoid putting yourself or others in danger.
- Need someone with them when they are on dialysis.
- Cannot prepare a cooked main meal.

However, other statements of the eligibility conditions seem different: in DWP (2011a), the first health-related question relates to terminal illness but the second relates to personal care which "includes things like: cooking yourself a meal – this includes difficulties with planning your meal, using hot pans and kitchen utensils or getting motivated to do these things" and difficulty "interacting socially with others", criteria that at first sight (if not in terms of the practical administration of DLA) many people meet.

Entitlement to DLA is unrelated to labour market status: about 9% of DLA recipients are in work, and in these cases it can support job retention. At the same time, there is some evidence that it can act as an out-of-work benefit and have work incentive effects.[14] Wide regional variations in DLA claim rates appear to be driven by labour market conditions rather than disability conditions.[15] Thomas and Griffiths (2010) reports that:

- A higher proportion of DLA recipients report a mental health condition compared with the wider disabled population, and "where mental health issues were concerned … working in any job was frequently seen as impossible because it was likely to cause stress and prevent recovery".
- Among DLA applicants, those who were disallowed sometimes started or returned to work as a result of the financial pressure to do so, while for those allowed DLA, one outcome was that this "consolidated their status as out of work and unable to work".[16]
- There is "a concern among DLA recipients that moving into work will trigger a review of eligibility that could lead to withdrawal or a reduction of the benefit", and Benefits Enquiry Line (BEL) staff no longer carry out "better off in work" calculations for people in receipt of DLA, and employment service advisors participating in discussion groups admitted that they were reluctant to carry out these calculations, because they are unable to guarantee that entering work will not affect eligibility for DLA or other (non-social security) benefits.

Some advanced countries have much smaller caseloads, if any, on such a benefit: Australia has about 60 000 recipients of a non-means-tested Mobility Allowance payable to people participating in employment services – whereas the DLA mobility rates are paid to about 2.8 million people – and no equivalent of DLA care rates; and New Zealand has a non-means-tested Child Disability Allowance, but no comparable allowance for adults. At the same time, Disability Employment Services (DES) in Australia, where service providers are rewarded for performance in terms of placement in employment and retention in employment funded by ongoing support payments, represent much higher expenditure and engage with many more people than Work Choice and other specialist disability employment measures in the United Kingdom do.[17] Currently, some but not all DLA recipients are claiming income-replacement benefits, implying that their fitness for

work is evaluated. The character of DLA as a benefit paid independently of labour market status in principle should not be a barrier to evaluating employability, offering relevant placement and employment retention services and requiring recipients to engage with them in appropriate cases.

Personal Independence Payment

In 2010 the government announced that a "new objective medical assessment" would be introduced for both new and existing DLA claims from 2013/14, saving over GBP 1 billion per year and reducing the DLA caseload by 20%. DWP argued that appeals against disallowances and a growing amount of case law had "widened the interpretation of the eligibility criteria for DLA by increasing the number of different factors that may be taken into account, making the benefit less targeted and available to far more people than originally intended" (WPC, 2012). People currently on DLA and aged 16 to Pension Age will be reassessed for the Personal Independence Payment (PIP) by 2017.

As for the WCA, the revised eligibility criteria for PIP focus on the person's need as a result of their disability, rather than making a decision based on the disability itself. PIP introduces fixed-term awards and periodic reassessments[18] and extends the "prospective period" (period over which the qualifying disability is expected to continue) from six to nine months, which may limit the coverage of fluctuating conditions and fears that entry to work will provoke a reassessment of the entitlement.

Personal tax credits

In 1996/97 expenditure on Family Credit, an in-work benefit that was a precursor to the current Personal Tax Credits (PTCs), was about GBP 3 billion and by 2012/13, expenditure on PTCs was GBP 29.4 billion, at 2013/14 prices.[19] The increase reflects the replacement of Family Credit by the Working Families Tax Credit (WFTC) from 1999/2000 to 2002/03, the replacement of WFTC by Child Tax Credit (CTC) and Working Tax Credit (WTC) from 2003/04, and further increases later in the 2000s and early in the current recession.[20]

The high level of spending on PTCs, nearly 2% of GDP in recent years, is all the more remarkable because many OECD countries have no such benefit, and or only a restricted version of it. The in-work benefits available are often temporary payments at entry to work, which can be seen as a type of labour market programme (recruitment incentive). Fewer countries have a large-scale system of indefinite-duration in-work benefits, and the UK PTCs are more generous than the approximately comparable systems in Australia, Canada and the United States (Box 2.2). PTCs, along with other benefits, are now being progressively replaced by Universal Credit, which will remove much of the complexity from the current benefit system, but still incorporate many of its key features, including the possibility of combining benefit with earnings from part-time work. This section briefly discusses the "Making Work Pay" principle in relation to tax credits, then looks at the history and specific features of PTCs – notably the minimum hours requirements, and the overpayments and disregards, which are related to the assessment of income on an annual basis through the tax system.

Box 2.2. Personal tax credits in Australia, Canada and the United States

In the United Kingdom, the maximum payment (without childcare or disability elements) of CTC and WTC for a lone parent or a couple with two children in 2012/13 was GBP 12 460. For comparison:

- In ***Australia***, from July 2012 the maximum annual payment of Family Tax Credit Parts A and B for a single person or couple with two children without special supplements was AUD 15 140 (equivalent to about GBP 9 000 at current exchange rates, but considerably less at purchasing power parity), and 2012/13 expenditure on these tax credits in was AUD 20.3 billion, about 1.3% of GDP (Australian Government, 2013).
- In ***Canada***, the maximum amount of Canada Child Tax Benefit and National Child Benefit Supplement for a family with two children in 2013/14, paid when 2012 family income was no more than CAD 25 356, will be CAD 7 051, equivalent to about GBP 4 200 (www.cra-arc.gc.ca/bnfts/cctb/fq_pymnts-eng.html).
- In the ***United States***, in 2012, in the case of a single mother with two children the Earned Income Tax Credit (EITC) increased to a maximum of USD 5 236 (40% of earnings) for earnings of least USD 13 090. In this case, USD 2 000 of refundable Child Tax Credit is also payable, but the US Child Tax Credit is more comparable with Child Benefit in the United Kingdom, since it does not start to be withdrawn until earnings reach USD 75 000 (Hungerford and Thiess, 2013; and CRFB, 2013). For earnings above a threshold of USD 17 090, EITC is withdrawn at a rate of 21% of earnings in the case with two children, whereas (reflecting the higher maximum payment) the rate of withdrawal of benefit in the United Kingdom was 37% in 2003 and is currently 41%. Also, the EITC provided relatively only very limited benefits (a maximum of USD 475 per year) for a single person or couple without children. Linked to these factors, in the United States the cost of the refundable amount of EITC and the Child Tax Credit in Fiscal Year 2012 was about USD 80 billion (Hungerford and Thiess, 2013), about 0.6% of GDP, or less than this for EITC alone.

At the time of the UK introduction of CTC and WTC in 2003, Whiteford et al. (2003) compared the planned system with those operating in Australia and Canada, focusing on the issue of how tax credit payments should vary in response to changes in recipients' income. These authors cited the UK Treasury's argument that "the income tax system provides a light touch and non-stigmatising way of measuring income" but went on to point out that "even a 'light touch' income test involves making a number of decisions – what is taken into account as income, whose income in a family unit is counted, how long the awards should last, and how responsive the system should be to change in income and circumstances during the period of the award". Other OECD countries have varied experiences with the payment of tax credits based on annual income:

- In ***Australia***, when the Family Tax Benefit was first introduced, payments were based on incomes reported in earlier tax returns, but from 2000/01 it was paid based on customers' advance estimates of their taxable income for the current financial year. When tax returns for 2000/01 became available, it was estimated that 670 000 families (about a third of all recipients of a payment) had been overpaid. In mid-2001, the government announced that the first AUD 1 000 of debt would be waived, leaving 198 000 families with an amount to repay. This led to adverse press commentary ("Families to be hit with debt notices", "Thousands caught in welfare trap"), foreshadowing the more serious problems that later arose in the United Kingdom. However in subsequent years, a series of adjustments to entitlements, payment methods and debt recovery procedures were implemented to minimise the overpayments and better manage the recovery of debts from families which might have limited ability to pay. From 2003/04 and 2004/05, part of each year's Family Tax Benefit entitlement is paid as a supplement at the end of a financial year after tax reconciliation has occurred (www.guidesacts.fahcsia.gov.au/guides_acts/fag/faguide-3/faguide-3.6/faguide-3.6.3.html). From 2009, mid-year adjustments to payments are made automatically when people notify the Family Assistance Office that their income estimate has changed, and people who do not lodge a tax return may no longer be entitled to fortnightly payment of the benefit. The problems of overpayment and debt recovery now appear to be regarded as manageable.

Box 2.2. **Personal tax credits in Australia, Canada and the United States** *(Cont.)*

- In ***Canada***, the tax credits are paid monthly based on income in an earlier tax year, not an estimate for income in the current tax year (although the monthly payment can be adjusted during the year in cases of a change to family size or marital status). This means, for example, that if income declined to zero in June 2000, this was not fully reflected in a higher monthly amount of Canada Child Tax Benefit until July 2002, two years later. However – possibly related to the low level of the benefit in Canada as compared with other countries – this lack of responsiveness to current income has not become a public or political issue or a topic of criticism by advocacy groups.
- In the ***United States***, from 1978 to 2010 recipients of the EITC could opt for advance payment (i.e. payment during the income year, rather than after completion of the annual tax return) of part of their expected annual entitlement. However, advance payments were little used. They were also not reliably administered: in the early 1990s, about 45% "of those who, according to IRS records, might have received an advance payment never filed a tax return and, if no return was filed, IRS had no way of determining worker eligibility" (www.gao.gov/products/GGD-92-26). To limit the risk of non-compliance, in 1991 the advance payment was limited to 60% of the eligible amount based on annual projected income, and in 1994 it was limited to the amount that the taxpayer would be able to claim with only one child (Holtzblatt and Liebman, 1999).

Source: Australian Government (2013), "Budget Paper No. 1: Budget Strategy and Outlook 2013−14: Statement 6: Expenses and Net Capital Investment", www.budget.gov.au/2013-14/content/bp1/html/index.htm; CRFB – Committee for a Responsible Federal Budget (2013), "The tax breakdown: Child Tax Credit", http://crfb.org/blogs/tax-break-down-child-tax-credit; Holtzblatt, J. and J. Liebman (1999), "The Earned Income Tax Credit Abroad: Implications of the British Working Families Tax Credit for Pay-As-You-Earn Administration", National Tax Association, Proceedings of the 91st Annual Conference on Taxation, pp. 198-207, www.hks.harvard.edu/jeffreyliebman/ukeitcntj.pdf; Hungerford, T. and R. Thiess (2013), "The Earned Income Tax Credit and the Child Tax Credit: History, Purpose, Goals, and Effectiveness", *Economic Policy Institute Issue Briefs*, No. 370, September, www.epi.org/press/earned-income-tax-credit-child-tax-credit/; Whiteford, P., M. Mendelson and J. Millar (2003), "Timing it right? – Tax credits and how to respond to income changes", www.jrf.org.uk/publications/browse/category/t#taxation; and as cited in the text.

Making work pay

Personal tax credits are a "making work pay" (MWP) measure. In general, when the out-of-work net replacement rate is set at a given level, MWP reforms cannot change the unweighted average level (average across different levels of earnings) of the METR. However, they shift the location of high marginal effective tax rates (METRs) to points higher up the earnings scale. Lower METRs applying to low earnings raise the cut-out level of earnings, at which no benefit is payable. For people with earnings above the original cut-out level but below the new cut-out level, METRs are increased. OECD (1997) reported findings from simulations of reducing benefit reduction rates by 20 points. The simulation for Germany indicated that more than three times as many people would face higher METRs as result of the reform than would face lower METRs. For the United Kingdom, Mulheirn and Pisani (2008) estimated the imputed wage distribution of workless people (based on the labour force survey and authors' calculations) and the findings suggest that many workless people have earnings capacity above the JSA level but below the WTC cut-out point, and the METR they face when in work is increased by the availability of the WTC payment.

Working Families Tax Credit

Until 1999, certain in-work families qualified for Family Credit, a social security benefit, but in October 1999 it was replaced by the Working Families Tax Credit (WFTC). WFTC was considerably more generous than Family Credit: the credit amount was higher, there was more support for childcare and the rate of credit withdrawal was lower (WFTC was reduced by 55% of earnings above a disregard level of GBP 90 per week. WFTC was paid to families where someone was working 16 or more hours a week, with an extra credit given to those working more than 30 hours. It could therefore be expected that some parents in previously workless households would enter work, but in some low-income families with two workers, one of the adults might find that they no longer needed to work.

A survey of five studies that had examined the labour market impact reported "a consensus that WFTC increased the proportion of lone mothers who work but seems to have had little effect overall on the proportion of adults in couples with children who work". The employment rate of lone-parent households increased from about 47% in 1996 to 55% in 2002, whereas before and after these dates there was only a slight upwards trend. Although the employment rate of women in couples where the father works continued to rise slowly after 1998, the gap with the lone-parent employment rate closed significantly in the years before 1998, and not in the years afterwards (Brewer and Browne, 2003). A review of evaluation findings by the tax administration was optimistic, reporting that take-up rates in 2002/03 were 72%-76% by caseload and 82%-88% by expenditure, considerably higher than for the earlier Family Credit, WFTC claims did not attract stigma because it was not viewed as a benefit, it had developed into a "key aspect of the household budget … many felt they would not be working without this additional support", and there was no evidence for the view that WFTC impeded growth in wages. Also, employers reported that payment via the employer was easy and cheap to operate (HMRC, 2003; and Coleman et al., 2003). Later regression analysis, using individual-level labour force survey (LFS) data with controls for age and number of children, found some more mixed findings. Comparing outcomes after Spring 2000 with those before Summer 1999, it was estimated that WFTC had an impact of 3.6 percentage points on the lone-parent employment rate, but an impact of -1.0 percentage points on the employment rate of men in couples whose partners were working. There was also "limited evidence" that the reforms had more impact (whether positive or negative) on families with young children, and that the effect became more negative over time. Also, a robustness check using a different data set (the Family Resources Survey) suggested that the impact for men in couples might be more negative than was suggested by the LFS data (Blundell et al., 2005).

Still in the early days of WFTC, HMT (2000) set out a policy intention of splitting it into an adult "employment tax credit" and separate "integrated child credit". Those with higher levels of earnings would be "floated off the employment tax credit and will only get the integrated child credit" although "in practice the two will be closely linked" to avoid situations where "both credits are being withdrawn at the same time and the reduction in tax credit payments exceeds any increase in income". A new Children's Tax Credit assessed on an annual basis would be administered and delivered by the Inland Revenue as a step towards tax and benefit integration.

Child Tax Credit and Working Tax Credit

In April 2003, the Child Tax Credit (CTC) and Working Tax Credit (WTC) replaced WFTC, the disabled persons tax credit which had been running in parallel with WFTC, the short-lived Children's Tax Credit, and support for children paid through the benefit system (www.revenuebenefits.org.uk/tax-credits/policy/research/where-it-all-started). The combined PTC amount payable is determined as the sum of a number of elements, and by parameters that determine the withdrawal of the payment as income increases, as shown in Table 2.3. A couple with a child or a lone parent qualifying for the WTC but with low earnings (up to the lower threshold of GBP 6 420 per year) benefits fully from the WTC basic and couple/lone parents elements, i.e. GBP 3 890 per year. But as earnings increase, the WTC elements are progressively withdrawn. When they have been extinguished, further increases in earnings reduce the CTC elements. The maximum payment and the cut-out level of earnings for WTC and CTC are increased if the couple with a child or lone parent also qualify for the 30 hours, childcare or disabled worker elements of WTC.

Table 2.3. **Key parameters of Personal Tax Credits payments in 2012/13 and 2013/14**

	2012/13	2013/14
	GBP per year	
Child Tax Credit		
Child Tax Credit Family element	545	545
Child element (per child)	2 690	2 720
Disabled child element (additional to other elements)	2 950	3 015
Severely disabled child element (additional to other elements)	1 190	1 220
Working Tax Credit[a]		
Basic element	1 920	1 920
Couple and lone parent element (additional to basic element)	1 950	1 970
30-hour element	790	790
Disabled worker element (additional to other elements)	2 790	2 855
Severe disability element (additional to other elements)	1 190	1 220
Childcare element maximum for one child[b]	6 370	6 370
Childcare element maximum for two or more children[b]	10 920	10 920
Rates and Thresholds		
Income threshold	6 420	6 420
Withdrawal rate (%)	*41*	*41*
Threshold for those entitled to Child Tax Credit only	15 860	15 910
Income rise disregard	10 000	5 000
Income fall disregard	2 500	2 500

a) The *Working Tax Credit* is payable to a lone parent working at last 16 hours per week, to a couple a child with one partner working at least 16 hours a week and (unless one partner is disabled, in hospital or prison or aged 60 or over) working at least 24 hours a week in total, and to a childless single adult working at least 30 hours a week.

b) The childcare element is 70% of eligible costs, which are capped at GBP 175 per week for one child and GBP 300 per week for two or more children.

Source: www.hmrc.gov.uk/rates/taxcredits.htm accessed in October 2013.

The basic PTC parameters have not changed greatly in real terms since the introduction of the PTCs in 2003/04 (www.ifs.org.uk/ff/taxcredits.xls). However, from 2005/06, the maximum eligible childcare cost was increased from GBP 200 to GBP 300 per week, from 2006/07 the proportion of eligible childcare covered increased

from 70% to 80%, and from 2008/09 the first threshold (lower income limit, above which WTC starts to be withdrawn) was increased from GBP 5 220 to GBP 6 420 per year. PTCs were therefore in some respects at their most generous from 2008/09 to 2010/11. In 2011/12, the proportion of childcare costs covered was put back to 70%, a former baby element (for a child aged less than a year) was removed, and the withdrawal rate for income above the thresholds was increased from 39% to 41%. From 2012/13, the family element which previously could be retained after other elements had been withdrawn (until income reached a second threshold) lost this protection, and the work requirement for couples with a child to qualify for WTC was increased from at least 16 hours a week to at least 24 hours a week between them, with one partner working at least 16 hours a week. However, contrasting with these restrictive measures, the child element of CTC was increased from GBP 2 300 per child in 2010/11 to GBP 2 690 per child in 2012/13.

Figure 2.4 shows the interaction of the WTC and the CTC in 2011/12, assuming that the recipient's working hours entitle them to the WTC, and including the extended income range where the family element only was payable. In 2011/12, the WTC entitlement fell to zero for potential recipients with relatively high earnings (GBP 16 190, in the case of a lone parent working 16 but less than 30 hours per week). In the case of recipients working year-round and earning the minimum wage in 2011/12 (about GBP 6 per hour), in principle:

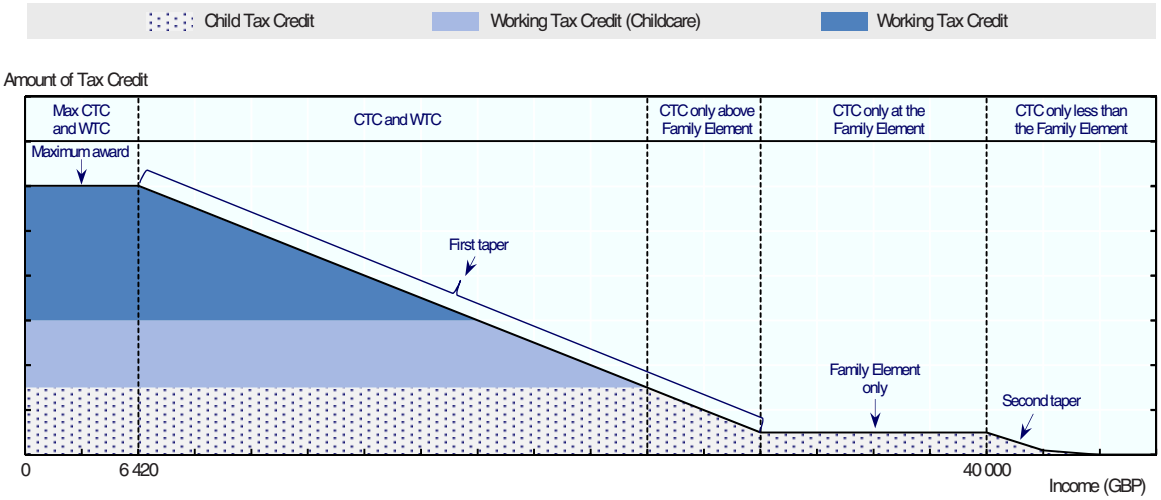
- A lone parent working 16 hours a week earned about GBP 5 000, and would qualify for the maximum rate of WTC shown.
- A couple with at least one child working 24 hours a week (the requirement applying from 2012/13) earned about GBP 7 500, and the taper rate of 41% applied to earnings above GBP 6 420 would reduce the payment by GBP 443, a fairly small proportion of the basic and couple elements of WTC (GBP 3 870).
- A single person or a couple without children working 30 hours per week earned about GBP 9 360, so that tapering on earnings resulted in the loss of about GBP 1 200, a significant proportion of the basic element (GBP 1 920) and 30-hour element (GBP 790) of WTC. In this case, the maximum-award part of the schedule is in theory not attainable. However in practice, as discussed below, maximum awards arise quite frequently.

The structure of WTC payments creates some significant incentives:

- Single parents and couples with a child who would otherwise not work at all (the United Kingdom is known for its high incidence of family joblessness), have a strong incentive to work 16 hours per week (24 hours, for couples with a child from 2012/13) so as to qualify for WTC, at a rate of nearly GBP 80 per week if they earn only the minimum wage. If not working, these families can qualify for JSA, but the perceived value of the JSA entitlement may in many cases be reduced by the availability requirements and activation measures associated with it.
- In all the cases where earnings exceed GBP 6 420 per year, there is also an incentive – as compared to a situation where in-work benefits are not paid - to reduce work effort until earnings are down to that level. Although the taper rate for CTC and WTC has varied from 37% to 41%, for families facing income tax and NICs on earnings, and Housing Benefit and Council Tax Benefit withdrawal as well as tax credit withdrawal, the METR is 96%; and even if one or two of these components do not apply the METR remains very high (Mirrlees et al., 2011).

- For low-earning households without children, a relatively small increase in earnings will extinguish the entitlement to WTC so that a lower METR applies. But for low-earning households with children, a high METR is likely to apply over a wide range of potential additional earnings.

Figure 2.4. **In-work Child and Working Tax Credit entitlement, 2011/12**



Source: HMRC (2013), "Child and Working Tax Credits Statistics – Finalised annual awards: 2011-12", www.gov.uk/government/publications/child-and-working-tax-credits-statistics-finalised-annual-awards-2011-to-2012.

The early administration of tax credits

The WFTC paid from 2000 to 2003 was based on earnings, hours worked and family income over the six or seven weeks before a claims was made (longer if a worker is paid monthly), and the benefit was then paid for six months without reference to earnings or income during the claim period (Holtzblatt and Liebman, 1999). The entitlement was calculated by the benefit administration (taking into account information on family composition and income, etc., that was often not available to the tax authorities) but employer then received instructions about the amount to be paid and when to start and stop payment, as part of their regular PAYE tax withholding operations. Godwin and Lawson (2012) reports that 10% to 14% of expenditure was thought to be fraudulent; employees were able to qualify for six months benefit after only six weeks work, and could minimise their reported earnings by getting overtime or bonuses put onto the next month's pay in order to continue to qualify.[21] WFTC was normally paid via the employer as part of the net wage.

With the introduction of the separate CTC and WTC benefits, both benefits were defined as a function of a declared income, which could be either known income in previous tax year or estimated income in the current tax year. CTC was compulsorily paid direct to the person caring for children but WTC was, at first, paid through the employer. When annual tax returns were finalised, amounts of CTC and WTC that had been overpaid or underpaid based on finalised income in the benefit year were to be settled by reconciliation payments. At first the Inland Revenue sent out many times more amendment notices than had been predicted, the IT system and telephone helplines were both overwhelmed and there were widespread delays in payment and errors in the amounts paid. This caused extensive early criticism of tax credit administration by welfare groups, parliamentary bodies and official reviews.

In a later survey, many employers reported that administration of WTC payments was relatively trouble-free for them. However a minority of employers, particularly those in low-pay industries such as retailing, cleaning and catering, reported multiple problems. Employers felt a duty to help their employees receive their entitlements (employees work for the net income they receive, not the gross wage), and this was a significant compliance cost for them since they did not know the basis for the Revenue's decisions, and, for example, one successful claim might result in other employees asking the employer whether they were eligible. It was suggested that smaller employers became reluctant to employ staff who would need help with making a WTC claim – the exact opposite of what was intended by the policy. In 2006 the system of payment of WTC via the employer was abandoned.

Godwin and Lawson (2012) notes that the take-up of WTC was low – the take-up rate by caseload was about 60%, and the take-up rate by expenditure was about 80% –, and therefore recommends that benefits should not be paid through the employer. However, one common reason for an employee to not make a claim through their employer would be that earnings are, by mutual consent, under-declared (or the employment relationship and the earnings from it are not declared at all). It may be unwise for the government to insist on paying the means-tested benefits based on administrative records only (rather than asking individuals to personally confirm the income which goes into the calculation) unless measures against hidden-economy transactions are highly robust.

Recovery of tax credit overpayments

Of 5.7 million claims made for 2003/04, 1.9 million were found at the end of the year to have been overpaid, with total overpayments of GBP 1.9 billion. The overpaid claimants were expected to repay GBP 1 000 on average, but much more in certain cases. Poor families managing their expenses from week to week frequently could not pay immediately, and had no experience with the cycle of annual demand, payments and refunds that seemed sensible to the tax authorities.

Overpayments arise because current payments are calculated and paid on the basis of income in the previous tax year or estimated income in the current year, final awards are only determined after the end of the tax year. From 2003 to 2006, the first GBP 2 500 of any increase in the current year's income above the income on which the payments had been based was disregarded, so that in many cases action to recover overpayments was not necessary. Over these years, the previous income information (or estimates of income) became slightly more accurate and overpayments fell slightly, but they remained very high, totalling about GBP 1.6 billion in 2004/05 and GBP 1.5 billion in 2005/06. Many families never repaid the amounts overpaid, and by the spring of 2007 HMRC had written off more than GBP 2 billion of the overpayments made in 2003/04 through to 2005/06.

From 2006/07, the income increase disregard was increased tenfold so that if income rose by up to GBP 25 000 in one year, the tax credit award for that year was unaffected. However, the higher disregard was estimated to cost GBP 500 million per year, and the disregard was brought back down to GBP 10 000 from April 2011 and to GBP 5 000 from April 2013.

Fraud

On several occasions, criminal gangs targeted employers with large numbers of employees, stole the employees' identities and then proceeded to claim the tax credits due to those employees. One gang stole the identities of 30 000 Network Rail employees and succeeded, at least for a time, in collecting the tax credits due to 14 000 of them. Another

potential fraud problem involved single parents: 2.1 million single parents received CTC in 2005/06, but the 2006 Labour Force Survey using a slightly different definition estimated that there were only 1.9 million single parents.[22] The system also suffer from illegal benefit claims by non-residents: at least before 2007, HMRC lacked any capacity to check whether a claimant's non-resident child existed. According to official estimates, error and fraud in favour of the claimant represented 9% of total entitlements in 2008/09, falling to 7% in 2011/12, of which about 3 percentage points represented fraud (King and Crewe, 2013; Godwin and Lawson, 2012; and HMRC, 2013a).

Enforcement of the 16- and 30-hour rules

The tax credit systems in other OECD countries described in Box 2.2 determine the credit amount as a function of annual taxable income or earned income, but without reference to hours worked. By contrast, the WFTC incorporated a 16-hour-per-week threshold for eligibility and a higher rate of payment for those working 30 hours per week, and this feature continues with the WTC. Holtzblatt and Liebman (1999) commented at the time the WFTC was introduced:

> *"Conditioning on Hours Worked: The apparent ability of the U.K. to measure hours worked raises the question of why the two countries do not target low-wage workers more directly by providing a wage subsidy. An advantage of a wage subsidy over an earnings-based system is that benefits would not need to be reduced as hours increased … The traditional argument against such an approach has been that it is difficult to separate earnings into hours and wage components. In particular, firms and workers would have the incentive to inflate their reporting of hours and deflate their reporting of wages. While the U.K.'s apparent capability to measure hours worked suggest that it might be worth reconsidering this traditional argument, it is likely that it is easier to verify whether a worker has passed a 16- or 30-hour threshold than to measure the exact hours of every worker."*

There is not much evidence that the United Kingdom does have more capability to measure hours worked than other countries. However, regular contract with unemployment benefit claimants creates some administrative capacity to verify – independently from declared earnings – that they are not working full-time. This has supported the implementation of a rule that a person working 16 hours or more per week is not entitled to unemployment benefits: the requirement for 16 hours of work for WTC in many cases was consistent with this element of the benefit rules, ensuring that WTC recipients are not normally also registered unemployed or recipients of other income-replacement benefits (for lone parents and the disabled), although this can be the case for part of the year.

If hours worked are not monitored, there is an incentive to report enough hours of work to qualify for WTC, along with low earnings, because the maximum WTC payment is not much below the level of JSA (see Table 2.2) and it does not involve the fortnightly signing and job-search requirements associated with JSA. For lone parents with older children, this incentive applies mainly since 2008, when the option of claiming Income Support (paid without work-related requirements) was closed. Some other households have a particular incentive to claim WTC because this exempts them from the Benefit Cap (see Box 2.1). PTC beneficiaries are not required to notify variation in earnings throughout the year, but they are required to notify many other changes of circumstance including living as a couple, the birth, death or departure from the household of a child,

moving abroad and changes in usual weekly working hours. However, reports about verification procedures and compliance with the hours reporting requirement are rarely seen, in contrast with job-search monitoring for JSA which is widely reported.

Published data suggest that many WTC claims, in the cases of single people and couples without children, are based on incomes lower than would be expected from working 30 usual working hours per week.[23] Table 2.4 compares average WTC-only payments with the amount that would be paid by a household declaring minimum-hours minimum-wage (MHMW) earnings (i.e. 1 560 hours at the hourly minimum wage). MHMW earnings exceeded the threshold for means-testing by about GBP 1 700 in 2003/04 and GBP 3 250 in 2007/08, as hourly minimum wages increased significantly over these years but the threshold for means-testing did not. By 2007/08, average annual payments of WTC for singles and couples without children were 20% higher than they would be if all claimants had declared an income based on MHMW earnings, even though some claimants would be expected to work in full-time jobs (35-40 hours, rather than 0), or earn more than the minimum hourly wage.

In line with this finding, more than half of all WTC-only claims (claims by single people and couples without children) in 2011/12 were based on annual incomes below the MHMW level (see Table 2.4; and HMRC, 2013b, Table 3.7), and these claims will account for most of the expenditure. The main explanation is that WTC claims are often based on the income of the year preceding the claim, and for new claims the claimant may have had low income for many reasons, for example being unemployed, a student or working in another country. There is no requirement to use a forward estimate of income during the year of the claim itself. The income increase disregard, described above, then often has the effect that the finalised tax credit award is unchanged from the initial entitlement.

In 2011/12, the income increase disregard was reduced from GBP 25 000 to GBP 10 000, but even at this level a claim could be based on previous year's income of GBP 6 420 (resulting in the payment of WTC at the maximum rate) when claim year earnings are up to GBP 16 420, a level that for a single person would reduce the WTC entitlement to zero if it were taken into account. If the person makes repeat claims, the high earnings during one claim will result in loss of entitlement to a second year of WTC. However, in situations where earnings fluctuate, claimants might base some claims on their income in the previous year and other claims on expected earnings in the current year. In 2012/13, the possibility of claiming based on an expected current year income lower than the previous year's income was restricted by introducing an income fall disregard (Todd and Williamson, 2012).

Table 2.4. **Working Tax Credit for families without children: Actual payments and the theoretical entitlements for minimum/wage workers, 2003/04 to 2011/12**

		2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
HMRC data										
WTC payments (entitlements)	GBP million	296	431	520	627	719	952	1 134	1 298	1 304
Recipient families without children	Thousands	164	234	272	305	336	405	482	544	540
Average annual WTC payment	GBP per year	1 805	1 842	1 912	2 056	2 140	2 351	2 353	2 386	2 415
WTC entitlement parameters										
WTC basic element	GBP per year	1 525	1 570	1 620	1 665	1 730	1 800	1 890	1 920	1 920
WTC extra element for couples[a]	GBP per year	411	423	437	449	466	485	510	518	534
WTC extra elements for disabilty[b]	GBP per year	39	44	48	55	61	68	69	71	81
30-hour element	GBP per year	620	640	660	680	705	735	775	790	790
First threshold	GBP per year	5 060	5 060	5 060	5 220	5 220	6 420	6 420	6 420	6 420
Withdrawal rate applied to earnings above the first threshold	*Percentage*	*37*	*37*	*37*	*37*	*37*	*39*	*39*	*39*	*41*
WTC entitlement for singles and couples working 30 hours per week at the minimum wage										
Minimum wage, average of rates before and after October uprating	GBP per hour	4.35	4.675	4.95	5.2	5.435	5.625	5.765	5.865	6.005
Minimum hours minimum wage (MHMW) earnings	GBP per year	6 786	7 293	7 722	8 112	8 479	8 775	8 993	9 149	9 368
WTC entitlement for families without children with average couple and disability supplements, less withdrawals from minimum-wage earnings	GBP per year	1 957	1 851	1 780	1 779	1 756	2 169	2 240	2 234	2 117
Ratio of average annual WTC payment to maximum entitlement not reduced by earnings	Ratio	0.70	0.69	0.69	0.72	0.72	0.76	0.73	0.7233	0.73
Ratio of average annual WTC payment to maximum entitlement reduced by minimum-wage earnings	Ratio	0.92	1.00	1.07	1.16	1.22	1.08	1.05	1.07	1.14
Ratio of average annual WTC payment to maximum entitlement reduced by 130% of minimum-wage earnings	Ratio	1.50	1.77	2.07	2.34	2.63	2.06	1.98	2.05	2.51

Table 2.4. **Working Tax Credit for families without children: Actual payments and the theoretical entitlements for minimum/wage workers, 2003/04 to 2011/12**

a) Working Tax Credit (WTC) extra element for couples multiplied by the couple proportion in all claims in 2011/12 (540 000 WTC-only claims, of which 148 000 were made by couples).

b) The disabled worker element and the severely disabled adult element, each multiplied by the proportion of in-work PTC families claiming these elements (annual data).

Source: HMRC (2013), "Child and Working Tax Credit Statistics – Finalised annual awards: 2011-12", www.gov.uk/government/publications/child-and-working-tax-credits-statistics-finalised-annual-awards-2011-to-2012; and IFS - Institute for Fiscal Studies (2013), *The IFS Green Budget: February 2013*, www.ifs.org.uk/publications/6562.

In general, about 20% of tax credit claims are new claims but the proportion could be higher for WTC-only claims. Even for renewal claims, there are several reasons why income might be below the MHMW level:

- Individuals making a WTC claim are allowed to maintain their claim during periods for four weeks after usual hours have fallen due to layoff or shortage of work, and for up to 28 weeks while off work sick and receiving either sick pay from their employer or Employment and Support Allowance.
- Disabled workers and those aged over 50 in receipt of an return-to-work element were only required to work 16 hours per weeks. In 2004, about 8% of WTC-only recipients were disabled workers working fewer than 30 hours per week.[24]
- Some employees can be paid below the adult minimum wage. A few employees claiming WTC may be on the development rate of the minimum wage which is over 80% of the adult rate; or the apprentice rate, which is less than half the adult rate.
- WTC claimants may claim the 30-hour element based on self-employment, where the minimum wage does not apply.
- WTC claimants might be out of work (or working lower hours) for more than four weeks without declaring it. In a recent statistical analysis of HRMC data on employment status, about 42% of employment spells had a "potential issue", mainly a start date on 6th April or an end date on 5th April, which is a code for "not known" (DWP, 2012a).[25]

Clearly HMRC is not able to verify claimed hours of work in self-employment since many kinds of activity can be included. A self-employed person (www.abrsm.org/forum/index.php?showtopic=34865) explains:

> *"Some people who are self-employed, including myself, find it difficult to actually estimate their working hours. But I had a talk about this with my local Citizen's Advice [Bureau], and in the case of a music teacher, the working hours are not only 'contact hours' with your students. The preparation that goes into your lessons, administration/marketing, gigs or concerts you might do – that's all working time."*

Moreover, some people strongly prefer self-employment over working for a wage in a different occupation, and will genuinely work long hours for earnings below the minimum wage, if income or assets to support this are available. Statistics for the proportion of WTC claims that are based on self-employment rather than employee status do not seem to be available, but 15% to 20% of tax credit recipients were self-employed at the end of 2012/13.[26] Also, a number of recent reports argue that self-employed people will be hard hit by the Minimum Income Floor provisions for Universal Credit – implying that many of them do earn less than the minimum wage and depend on income support from tax credits.[27]

HMRC carries out many checks at various stages of a tax credit claim to find evidence of undeclared circumstances, but by their nature the methodologies and processes are largely confidential. Targeted statistics, for example the earnings of full-year WTC recipients in the year of the claim, if available are not published. Overall, it seems possible that a significant proportion of WTC recipients in an average month are not in work, or in work but with hours below the qualifying level, or claiming based on self-employment with earnings below the MHMW level. In other cases, earnings have no impact because the WTC payment is based on a much-lower previous year income. The operation of WTC in practice seems far different from its operation in policy modelling or simple diagrams (such as Figure 2.3), due largely to these issues of timing and information.

HMT (2013) announced "the government will ... stop tax credit payments during the year where, due to a change of circumstance, a claimant has already received their full annual entitlement – this will prevent claimants building up overpayments that must be repaid at a later stage". This might include action as soon as a WTC claimant has been out of work or earning below the required hours for about two months (it this case entitlement to WTC has probably ceased, and if that is extrapolated to the end of the year, the entitlement has been overpaid). Such action is becoming more feasible with the near-complete implementation of Real Time Information (RTI) reporting (see below). It will require administrative resources, for example when claimants report that the HMRC information is incorrect. Claimants might be asked to visit JCP offices, where they can claim JSA or give evidence in support of their WTC claim: the administration of Universal Credit clearly will involve cases where claimants tell JCP that the RTI records are incorrect.

Abolition of the tax credits

In 2010, the incoming government announced the introduction of Universal Credit, which will replace tax credits between 2013 and 2017. There was by this time a fairly broad consensus not only that the introduction of tax credits was disastrous: "After a catastrophic start, the Tax Credits programme never really solved the endemic problems associated with its error-proneness and scope for fraud ..." (Godwin and Taylor, 2012); and when the abolition of the tax credits was announced at no point "... did anyone on the Labour benches rise to offer a robust defence – or really any defence at all – of the previous government's scheme" (King and Crewe, 2013). However, criticism of tax credits, including the analysis by the authors cited above, seems overly focused on problems of administration, and not enough on incentives and behavioural effects.

The Universal Credit

Background

In their huge review of the UK tax system,[28] Mirrlees et al. (2011) says:

"The benefit and tax credit system is much more of a mess of complicated overlapping programmes than income and NICs [...] government agencies can take steps to ease the burden on claimants or to spread information. But such processes are costly, and most add to the complexity of the system rather than reducing it. A more radical approach would be to integrate as many of these different structures as possible into a single benefit, with a coherent structure and a single set of rules [...] There is a strong case for integrating all means-tested support—and possibly non-means-tested benefits as well—into a single benefit [...] integration would be an opportunity to make the design of the whole system simpler and more coherent and to think about whether the system is well designed to achieve its objectives. The transparency brought about by integration would focus a spotlight on anomalies and help rationalize the system. Perhaps the greatest opportunity afforded by benefit integration would be to rationalize the pattern of effective tax rates for those on low incomes [...] The case for benefit integration has become increasingly influential among policymakers and commentators, and numerous proposals have been put forward. In November 2010, the government announced plans to integrate all or most means-tested working-age benefits and tax credits into a new Universal Credit. This will be a highly complex operation but the prize is substantial enough to make these hazardous waters worth navigating."

They go on to say:

"The holy grail of integrated design, however, has always been the integration of taxes with benefits ... The main barrier to integration in the United Kingdom is that the bases of assessment for taxes and benefits differ in two ways that make them hard to reconcile:

- *First, income tax is largely based on individual income, while benefits and tax credits are assessed on the basis of a couple's joint income. A combined system could not be both at once.*
- *Second, income tax depends on actual annual income, in the sense that liability for a given year depends on income in that year. Benefits – particularly those providing a safety net for those with no other income – are usually assessed on a much shorter time horizon, typically on a week-by-week basis. The UK's attempt ... to provide tax credits for low-income families using a within-year income assessment, while remaining responsive to changing characteristics, shows how thorny this problem can be.*

Of course, these differences in unit and period of assessment are not immutable. But there are good reasons for each."

The government's decision to develop the Universal Credit was based partly on this type of analysis. Although the specific "Mirrlees model" was not accepted,[29] the principle of integrating benefits with taxes remains in the sense that UC is expected to allow a "seamless" transition from out-of-work status to low-paid work and on to higher-paid work. At the same time, the replacement of WTC by UC should in principle allow savings by avoiding overpayments. Some key features of Universal Credit set out in DWP (2010b) were:

- *"Universal Credit [...] will support people both in and out of work, replacing Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance.*
- *Universal Credit will improve financial work incentives by ensuring that support is reduced at a consistent and managed rate as people return to work and increase their working hours and earnings. People will generally keep more of their earnings for themselves and their families than is currently the case [...] Universal Credit will ensure that all amounts of work will be more financially rewarding than inactivity and remove the current barriers to small amounts of work.*
- *The clear financial incentive provided by Universal Credit will be backed up by a strong system of conditionality ... Conditionality will be responsive to an individual's circumstances – reflecting, for example, that whilst the majority should move into full-time work, for some people there may be temporary periods when part-time work is appropriate (for example, for some lone parents).*
- *Overall administration of the new benefit will be managed by one department – the Department for Work and Pensions – as opposed to today's complex delivery of current benefits through the Department for Work and Pensions, HM Revenue & Customs and Local Authorities.*
- *By allowing recipients to benefit financially from doing small amounts of irregular work Universal Credit will reduce the incentive for people to commit fraud by failing to declare work [...] links between benefit payments, earnings and tax will in turn make the system more secure from fraud and error and conditionality will push people to do as much work as is reasonable for them."*

Further features described were:

- *"Contributory Jobseeker's Allowance and contributory Employment and Support Allowance ... will continue to exist but with the treatment of earnings aligned with the way earnings are treated within Universal Credit ... Disability Living Allowance [and] Child Benefit [...] will be available in addition to Universal Credit payments ... We also believe that bereavement benefits, Statutory Sick Pay, Statutory Maternity Pay, Maternity Allowance and Industrial Injuries Disablement Benefit are not suitable for replacement by the Universal Credit.*
- *As earnings rise, we expect Universal Credit will be withdrawn at a constant rate of around 65 pence for each pound of net earnings. Higher earnings disregards will also reinforce work incentives for selected groups.*
- *When introduced, Universal Credit will initially apply to new claims. It will be phased in for existing benefit and Tax Credit recipients.*
- *... no-one loses as a direct result of these reforms. If the amount of Universal Credit a person is entitled to is less than the amount they were getting under the old system, an additional amount will be paid to ensure that they will be no worse off in cash terms.*
- *... the complicated rules that apply currently when people start and leave a job, including hours rules, will disappear, improving the incentive to work.*
- *We intend to use HM Revenue & Customs proposed real-time information system to identify earnings and to calculate the net Universal Credit payment due by applying the appropriate taper to the gross payment. This means that those recipients who receive earnings through Pay As You Earn will not need to inform us for payment purposes if the amount of their earnings change. Recipients will, though, still need to tell us about other changes to their circumstances which affect their entitlement to benefit, or the conditions they must meet.*
- *In delivering Universal Credit the Department for Work and Pensions will adopt the "digital first" principle and meet the growing demand for flexible and comprehensive online services. For people making Universal Credit claims, notifying changes or checking their payments and responsibilities, the digital channel will be the primary contact route.*
- *We know that in starting up a business ... it can take some time before it becomes profitable. But once established we would expect to see a reasonable income from the business activity [...] The floor will be set at the National Minimum wage for the reported hours ... For those self-employed people who engage in only a few hours of activity, and do no other form of paid employment then we will expect them to engage with the conditionality requirements as set out [above]."*

As DWP (2010b) stated, "This scale and scope of the Government's Universal Credit reform is unprecedented in recent times – it is the most significant change to the welfare system since the Beveridge reforms in 1947". Although most of the blueprint was clear, the plans for the future of Council Tax Benefit were sketchy. Where DWP (2010b) claims that "The expected Universal Credit withdrawal rate of 65 per cent means that to all intents and purposes, the highest Marginal Deduction Rate for low-earning workers would be reduced from around 96 per cent to 65 per cent for those earning below the personal tax threshold and to around 76 per cent for basic rate taxpayers", the cited rates do not take into account the possible impact of the means-tested withdrawal of Council Tax Support (see above). The means-tested withdrawal of childcare subsidies will also be a major issue for some claimants (Pareliussen, 2012).

UC will continue to apply many provisions of the benefits that it incorporates. Current housing benefit maximum entitlements (Local Housing Allowances or, in the social housing sector, rents subject to under-occupancy rules) will become the housing elements of a UC entitlement. Similarly, the Work Capacity Assessments which determine the allocation of ESA claimants to the Work-related Activity Groups will determine the allocation of claimants to UC work conditionality groups.

UC in principle extends work-related conditionality to the secondary benefits that it incorporates, notably housing benefits (a UC benefit sanction might include loss of the housing element) and tax credits. DWP (2012c) estimates that up to 1 million more claimants will be brought into conditionality under UC, given that people currently claiming only housing benefit or CTC are not subject to any job-search requirements. Significantly, the UC expected earnings threshold takes into account the earnings capacity of both members of a couple with children, whereas WTC has a specific payment only at 30 hours of work in total, and for JSA a "joint claims" requirement (that both partners seek work) does not apply to couples with children. UC also in principle allows conditionality to be applied, on a discretionary basis, during the former ESA assessment phase, i.e. where the UC claimant has a "fit note" indicating sickness but the Work Capacity Assessment has not yet taken place.

For a single person without children, tax credits provide an incentive for working 30 hours of work per week but do not require search for higher hours, whereas UC requires job search until earnings reach the expected earnings threshold (35 hours at the minimum wage). Other things being equal, a worker on twice the hourly national minimum wage will only need to work half the hours of a worker on the minimum wage to qualify for benefit without conditionality. In addition to the earnings-based rules for in-work conditionality, there should probably be a general requirement for the full use of working capacity up to expected hours, with JCP assessing actual hours or other indicators of unused earnings capacity in relevant cases. This is one example of a situation where the attempt at simplifying benefit administration (in this case, by avoiding the use of information on hours worked) might have a cost in terms of benefit payments that exceeds the savings. In general, it is important to identify and evaluate trade-offs of this kind.

Implementation issues and the handling of unstable earnings and labour market histories

Although UC is a simplification of the benefit system as six benefits are replaced by one, the underlying causes of benefit system complexity often continue. Specific issues in determining entitlements to the formerly separate benefits remain relevant: e.g. for the jobseeker element, determining the circumstances of separation from the previous job (sanctions apply following job quit). Institutions will need to manage benefit entitlements in and out of work, enforce benefit conditionality in and out of work, and provide a range of support services. The principle of monthly assessment applied to an in-work benefit involves issues of how to handle fluctuating earnings, separation from work and temporary exit from the labour force.

Institutional responsibilities

Tax credit administration by HMRC is mainly implemented remotely and focused on entitlements. UC will involve visits to JCP local offices and a focus on behaviour as set out in the Claimant Commitment (see Chapter 3). It has been stated that Universal Credit "will be a seamless in and out of work benefit for the whole household. It will help ensure work always pays making it easier and less risky for people to start and progress in work … Once fully rolled out we expect around 11 million individuals to be claiming UC of whom 5 million will be in employment. This is a radically different context in which

DWP's employment services will operate. For the first time it will be possible for the Department to work with individuals to help them stay in employment and progress" (DWP, 2013b). The 5 million in employment will include a million, or possibly up to 2 million people[30] who will be subject to in-work conditionality, which implies tracking to detect events such as failure to take up opportunities for additional work, and this will be an additional caseload for JCP.

The 380 local authorities across Great Britain have been given a greater role in defining the parameters of Council Tax Support, making Discretionary Housing Payments and payments in the area of the former Social Fund, in some cases intervening to help welfare recipients affected by housing benefit reforms and the benefit cap. Local authorities are also responsible for "identifying, leading, facilitating and commissioning partnerships" that will deliver local support services for UC claimants "who are not yet ready to budget for themselves on a monthly basis, or are unable to use the internet [or] who have debt problems or other vulnerabilities such as poor numeracy skills, drug addiction or mental health issues" (DWP, 2013d).

Monthly assessment

Changes of circumstances during a month which affect the UC award will be treated as if they occurred at start of the individual's monthly assessment period, rather than by calculating a pro rata payment. Simmons (2012) notes that a one-day shift in the timing of a change in household composition, a move into cheaper accommodation, the receipt of other income or capital, or going abroad, may result in the loss of an entire month's UC entitlement:

> *"The move to monthly assessments has attracted less publicity and controversy (perhaps because it is more technically difficult for non-specialists in the media and Parliament to understand), but arguably, is even more significant than monthly payments in its implications for claimants. It not only means that claimants will have to wait up to a month for an award to be changed to reflect a change in circumstances, but also that any change is treated as occurring from the beginning of the month, regardless of when it actually occurred […] Monthly assessments will result in 'rough justice' in relation to changes of circumstances, and seem to be designed to streamline automated administration rather than directly help claimants."*

Fluctuating earnings

The benefit entitlement for a short-term UC claim where finally only a few pounds are paid out still depends on whether the reduction in hours worked was voluntary, evidence that the rent for which a housing element is claimed is paid, whether cohabitation status is correctly declared, etc.; and any of these elements might change between one small claim and the next one a few months later. So it is not clear that administration costs per claim can be much lower than they were previously. When the non-wage elements of the individual's UC entitlement have been determined, real-time information on wage payments will be used to calculate the benefit taper. However, a purely mechanical application of the taper to all wage payments within a particular month will not be feasible when earnings fluctuate above and below the UC cut-out point: for example, employers could pay most of the wages on the 1st and the 29th one month and relatively little the next month, thus entitling their workers to UC at the highest rate every 2nd month, when with a regular monthly payment earnings would be steady at the cut-out point and not qualify for UC. The taper calculation will need to apply a more sophisticated formula and/or involve requests for additional information (e.g. about when the work was performed) from claimants and their employers.

Similarly, cases where earnings are above the earnings conditionality threshold in some months but fall below it in some other months will complicate the scheduling of job-search reviews and compromise their effectiveness, as compared with the traditional situation where job-search discussions assume that the worker is wholly out of work and fully available for a new job. DWP intends to investigate situations where earnings fall, to determine whether they represent a permanent change justifying a longer-term change of conditionality regime, but in some cases the concept of a permanent change may be hardly applicable, with a risk that UC is paid without appropriate conditionality.

In the current benefit system an employee who spends every other month off work, not available for or searching for any other work and not separating from their current employer, does not qualify for JSA during the months not worked. Depending on the timing of the months off, earnings paid at the end of each month might not fluctuate. However, UC (for workers with earnings below the UC cut-out point) will compensate 65% of the loss of earnings from the months not worked, unless a sanction of some kind is applicable, perhaps for failure to ask the employer for work in these months or for failure to declare the situation to DWP.

Separation from work

Currently, after separation from a previously-stable job, a worker needs to claim JSA immediately in order to avoid loss of JSA payments. Claiming JSA triggers immediate suggestions for job vacancies and scheduling of job-search interviews. UC claimants will be required to notify separation from their current job immediately as part of their general obligation to notify DWP directly of changes in circumstances affecting their award as they occur (see Kennedy, 2012), within five days (as recorded in the Claimant Commitment: see Chapter 3), but when this is not done, JCP will need to enforce this notification requirement through retrospective sanctions.

Employer information through the RTI system will help to identify cases of employee failure to immediately notify a job separation, but this information will only be available to JCP with some delay.[31] Before a sanction is imposed, workers should be given an opportunity to contest the employer record; and also JCP may need to contest the employer record, for example when it seems the employer reported the job separation after it effectively occurred, perhaps paying for a few hours of work (so that the worker could take a month *de facto* out of the labour force without loss of UC or referrals to jobs). Direct statements by benefit claimants, with JCP staff assessing their credibility, will continue to be important for accurate benefit administration, supplementing the RTI information.[32]

Temporary exit from the labour force

Currently, an individual or couple not in work can choose for particular weeks to drop their JSA claim by not attending the fortnightly interview, and then they lose the JSA payment, but can resume their claim or reclaim at a later date. In this case they can still receive HB and CTB (now CTS) for housing costs, CTC for child-related costs and, for a limited period, WTC. Under a "temporary absence from home" rule, HB continues to be paid to people who are away from home doing paid or unpaid work in the United Kingdom or abroad for up to 13 weeks;[33] and it continues apparently with no time limit if the person is simply out of the labour force.

Where the claimant already has an active claim, UC regulations appear to allow uninterrupted payment when the claimant is absent from Great Britain for up to a month (HM Government, 2013). The principle of "seamless" variation appears to imply that, in relevant cases, 65% of the earnings lost due to not working will be covered by an increase in the UC payment. UC regulations also specify that a claimant is treated as being in paid

work if they have ceased paid work either in the current month (assessment period), or in the previous month. A person who separates from a job early in one month is therefore treated as being in paid work for nearly two months. However, failure to notify DWP of the change of circumstances could result in sanctions.

If temporary exit from the labour force is officially recognised as an allowable status, but it is handled by non-payment of the month's entire UC claim, that would be harsher than at present. Possibly the housing element of the UC entitlement (e.g. the Local Housing Allowance in the case of private sector rental) will be subject to a "temporary absence from home" rule as described above, but further rules seem to be necessary: arguably if a person's earnings are normally above the UC cut-out level and fall below it only around the time of the temporary absence, there should be no entitlement to the housing element.

Difficulties in implementing the principle of "making work pay"

Across the political spectrum and organisational landscape, support is expressed for ensuring that "all benefit claimants who move into jobs are better off financially" (Trade Union Council), unlocking the potential of the population that is "currently locked out of the labour market by inflexible Tax Credit rules, and penal marginal tax and benefit withdrawal rates" (Institute of Directors) (both cited in DWP, 2010a), etc. However, short of lowering out-of-work benefit levels, a reduction in benefit withdrawal rates in one area of the working hours and earnings spectrum comes always at the cost of an increase in benefit withdrawal rates in another area. A simple model of the situation is that an in-work benefit strategy increases the net incomes of individuals in part-time work while leaving net incomes unchanged for individuals out of work (their benefits cannot be cut for social/political reasons), and for individuals in full-time work (their taxes cannot be reduced for fiscal reasons). The incentive to move from no work to part-time work is increased, but the incentive to move from full-time work to part-time work is also increased. Due to this mathematical constraint, the claim that any policy change "makes work pay" should be viewed with caution: any policy change involves trade-offs. The policy case for UC has been argued (as cited above) in terms of removing the financial barriers to small amounts of work and ensuring that even the first hour of work is more financially rewarding than inactivity, with less attention to the effect on METRs for people in work.

In the activation strategies of most OECD countries where out-of-work benefit levels are relatively high, mainly European countries, it might be said that part-time work is discouraged rather than encouraged. Key features are:

- The out-of-work benefit replacement rate is well above the levels indicated by optimal tax theory calculations where benefit conditionality is not included as a policy instrument.
- The METR is close to 100% up to the earnings level where entitlement to unemployment benefit is extinguished, and usually well below 65% thereafter (except at high earnings levels in a few countries). By contrast, optimal tax theory calculations suggest that the tax schedule should be approximately linear.
- Entitlement to benefit is conditional on availability for full-time work.

These activation strategies can be effective because the 100% METR blocks off the option of part-time work (any earnings from part-time work will come straight off benefit), leaving the options of no work or full-time work. Out-of-work benefit conditionality is effectively implemented (in particular, by referring unemployed workers to job vacancies), so the no-work outcome remains relatively infrequent; and, since even a low-paid full-time job extinguishes the entitlement to benefit, people in employment face relatively low METRs, with relevant incentives to work overtime, train to qualify for better-paid work, etc.

For high-entitlement households such as couples with children, an approximate model for UC is that benefit is withdrawn linearly at a rate of 65%, and entitlement is extinguished when earnings reach 100% of the (full-time) median wage. The alternative policy of a close-to-100% METR would involve withdrawing benefit at a rate near 100% until earnings reach half the median wage, and then at a rate near 30% as earnings increase from half the median to the median level. Under this alternative policy, the average METR between zero and median earnings is unchanged but the benefit level for a part-time worker on 50% of median earnings is much lower (by 17.5% of median earnings). Then:

- Under the 65% METR policy, about half of all employed workers (in the high-entitlement households) will face a 65% METR (by definition, half of employed people earn more than median earnings).
- Under the 100%/30% METR policy, most of these employed workers will face the 30% METR rather than the 100% METR for two reasons:
  - Earnings distributions tend to be densest near the median, i.e. more employed people earn 50%-100% of the (full-time) median wage than 0%-50% of the median wage.
  - The 100% METR deters part-time work by benefit recipients.

In order to offset benefit disincentives under the 100%/30% METR policy, only out-of-work benefit conditionality needs to be effective, because few benefit recipients work part-time. Under the 65% METR, in-work conditionality needs to be equally effective – in the sense that it moves workers from a part-time job to a full-time job as fast and as cheaply as they can be moved from no job to a full-time job. However, it is not clear that such successful models of in-work conditionality are known and seen in operation.

OECD (2014a) analyses information about METRs in other OECD countries, as regards the shape of the budget constraint and empirical outcomes for the employed population. Restricting attention to countries where social assistance rates for a person with no income are above a certain minimum level, some conclusions are that:

- METRs on low earnings (as earnings rise from 0% to 33% of the average wage) are on average much higher than METRs on earnings close to the average wage (as earnings rise from 67% of the average wage to 100%).
- There are some exceptions to this generalisation, in the case of one-earner couples with two children on assistance benefits (Australia, Denmark, France and the United Kingdom), and in the case workers on unemployment insurance (UI) benefits in seven countries (Denmark, Finland, the Netherlands, Norway, Sweden, Switzerland, and Spain).
- Where the treatment of earnings from part-time work is relatively favourable, the favourable treatment is often time-limited. For workers on UI benefits, after a year or two in part-time work, a UI supplement to earnings is usually no longer available, except to some extent in Finland. This outcome depends on detailed provisions of the UI system which vary by country, documented for four Nordic countries and Switzerland in OECD (2014b).
- Estimates for the distribution of METRs faced by the employed population suggest that in nearly all countries less than 5% of the employed population face very high METRs (defined as 70% or more), despite the fact that according to calculated budget constraints for both UI and social assistance recipients, in high-benefit countries, METRs exceed 70% across wide ranges of earnings. The likely explanation is that relatively few employed people choose to work at the earnings levels where near-100% METRs apply to them.

For the United Kingdom, it has been estimated that 5% or less of the employed population faced an METR of 70% in 1998 and 2003. Modelling associated with the introduction of UC suggests that by 2008 the proportion had risen to about 11%, with very high METRs being generated for individuals and households where earnings result in deductions from several benefits, including tax credits in most cases (Brewer et al., 2012). DWP's estimate that 5 million employed people (about 17% of all employed people) will be on UC is thought to include about 9% with an METR of 76% and another 4% with an METR of 65%. Higher incidences of high METRs have been reported at times for Belgium, Denmark and Germany, but they seem to concern mainly people in the upper half of the income distribution (Jara and Tumino, 2013). Subject to further research, it seems possible that the proportion of workers with below-median earnings facing METRs above 65% or 70% is already higher in the United Kingdom than anywhere else, or that it becomes so as UC is implemented.

Given the risk that the 65% taper for UC will be costly in terms of reduced work effort and/or hours worked, close attention should be paid to evidence about the effectiveness of "in-work conditionality" (conditionality of benefits for those already in part-time work on continued job search and acceptance of offers of additional work or a full-time job) and "in-work labour market interventions" (engaging part-time or low-paid full-time workers in advancement and progression measures on a voluntary basis). Current knowledge suggests that "in-work conditionality" has quite low impact relative to its cost.[34] The option of putting METRs back close to 100%, for target groups where full-time work is the norm, should be explored. For example after 6 or 12 months in low-hours part-time work, "in-work benefit conditionality" could take the form of expecting participation in part-time training, or removing the benefit of the 65% METR.

International experiences with growth in partial unemployment benefit caseloads

Historically, in several cases where entitlement restrictions and administrative controls on combining unemployment benefits with part-time work were eased, caseloads on partial unemployment benefits grew to high levels:

- In Belgium, the number of part-time workers claiming unemployment benefit grew by about 30% a year through the 1980s, from 12 000 in 1980 to a peak of 204 000 in 1990, when over a third of all UI recipients and more than half of all part-time workers were combining part-time work with benefits. There was not an effective administrative constraint on a firm laying its workers off and then rehiring them as part-time workers entitled to unemployment benefit. In 1992, a range of restrictions were introduced: in certain circumstances unemployment benefits were refused to part-time employees, a tax was applied to the employers of part-time employees receiving unemployment benefits, unemployment benefits were limited to the equivalent of 13 days per month, and requirements for documentation of hours actually worked were tightened. By 1996, the number of beneficiaries of part-time unemployment benefits was less than 20% of its 1990 level (OECD, 1994 and 2003).
- In Sweden, statistics showing the early growth of part-time unemployment do not seem to be available, but in the 1990s it was already recognised as a big problem (then representing about 40% of total part-time employment). It was discussed and analysed in several committees and research programmes. In 2002 the government initiated a so-called "Full-Project" (HelaProjektet) to research and tackle part-time unemployment, and in 2006 the National Audit Office issued a report criticising the National Labour Market Board and the government for lack of efforts to keep track of part-time unemployment and reduce it. In 2005, part-time unemployment benefits represented 25% of the total compensation paid by UI funds. In 2007, 42% of

unemployment insurance claims were part-time (for less than five days of the week) but following the imposition of a 75-day limit (see OECD, 2014b) the share fell to 24% (Eurofound, 2006, 2007; Haataja et al., 2011; and Ek and Holmlund, 2010).

- In France, UI benefits could not generally be combined with paid work until 1986, when a "reduced activity" provision allowed earnings from part-time work to be combined with benefits paid for days not worked. The combination of earnings with benefit was limited to 12 months from 1990 onwards, increased to 18 months from 1994 and reduced to 15 months from 2006 (Granier and Joutard, 1999; and Unédic, 2013). In the 20 years from 1991 to 2011, the number of UI recipients with no earnings in the month stayed close to 1.5 million. However, the number of claimants with earnings in the month reached a first peak of about 250 000 in 1993, then grew steadily to reach, in 2011, 590 000 cases (28% of the total) combining earnings with non-zero benefit in the month or 1.1 million cases (41% of the total) counting also those who received no benefit in the month but were maintaining an active UI claim. Cour des Comptes (2013) describes the overall cost of the UI regime as hardly sustainable, highlighting the risk that the "reduced activity" provision acts as a long-term secondary benefit for workers in unstable jobs and "certain companies might incorporate this situation into their management methods, using benefit payments as a means of paying those employees in the most vulnerable positions".

In Belgium and Sweden, the work pattern that came to be frequently combined with partial unemployment benefits was mainly regular part-time work, whereas in France intermittent or unstable work (work through interim agencies or on temporary contracts) is also commonly involved.

Depending on detailed parameters, UI benefit systems may subsidise part-year work rather than part-time work. A significant proportion of UI expenditure in Canada subsidises seasonal work patterns in certain regions. For many years, in high-unemployment regions up to 42 weeks of benefit could be paid after a minimum of 10 weeks of work (increased to 12 weeks from 1994, and mainly to 14 weeks from 1996) with a weekly benefit of 55% of reference weekly earnings, calculated as an average across the weeks worked, and a number of studies have documented the impact on seasonal work outcomes (Lin, 1998; Lemieux and MacLeod, 2000; Green and Riddell, 2007; and Kuhn and Riddell, 2010). Canada has a long history of debate about this system and reforms to it. Grady and Kapsalis (2002) compared the approach to seasonal employment in Canada with the approach in Nordic countries, arguing that seasonal employment was not a concern in the Nordic countries even though "UI is relatively more generous than in Canada for seasonal workers in Denmark, Finland and Sweden where waiting periods are shorter, replacement rates are higher (80 or 90 per cent compared to 55 per cent in Canada), benefits are higher, and benefit periods are longer". However, this description might be misleading because there was not a detailed assessment of whether, in each Nordic country, short seasonal work would qualify for the generous UI. To meet the minimum contribution requirements for full UI benefit, a seasonal worker needs to work 18 weeks per year for three successive years in Denmark before a first payment, and for 26 weeks within one year in Sweden; and in Finland, Norway and Sweden, the reference earnings that enter into the calculation of the daily or monthly benefit are calculated as an average over year, including the weeks or months with zero earnings, so that the benefit level for a worker in short seasonal work will be low (see OECD (2014b).[35] Also, the unemployed seasonal worker in Nordic countries may be expected to participate in full-time activation measures. Overall, these Nordic systems do not create incentives for intermittent or unstable patterns of work.

Although the UK Universal Credit is fairly different from any UI benefit system, these international experiences illustrate how the incidence of part-time or intermittent work combined with benefits can grow to high levels, perhaps over a relatively long period. It is also notable that the Nordic countries and Switzerland have detailed benefit system provisions, which in some cases have been adjusted several times to get to the current balance, which have the effect of allowing unemployed people on UI benefits (with a history of full-time work) to take part-time work combined with benefits for a limited time (30 weeks to 2 years), but not indefinitely, except at a fairly low rate in Finland (see OECD, 2014b).

Real Time Information (RTI) on employee earnings

Background

DWP (2010b) anticipated using the proposed real-time information system "to identify earnings and to calculate the net Universal Credit payment due by applying the appropriate taper to the gross payment". This section documents for the United Kingdom the development of RTI, the information it provides and its usefulness for benefit administration. OECD (2014c) describes experiences in few other OECD countries with the monthly reporting of earnings by employers to the tax authority and use of these data by other parts of government, or in a broader database.

Development of RTI

A discussion document issued in July 2010, *Improving the operation of Pay As You Earn (PAYE)* (HMRC, 2010b), sets out "the option to move to a system that collects information on PAYE deductions at the time employers pay individuals (Real Time Information) and ... how processes might be changed further to exploit this". It notes:

> *"The business processes behind PAYE have remained unchanged for 66 years [...] PAYE requires employers to calculate and deduct tax and national insurance from the payments they make to their employees. The tax and NIC is paid over to HMRC shortly afterwards. But the employer only reports the details of the payments and deductions to HMRC once a year. This paper outlines an option, 'Real Time Information', for employers to report the payments and deductions more frequently – at the time of each payment. HMRC believe that Real Time Information would significantly improve the tax and welfare systems by:*
>
> - *Making it easier to ensure individuals pay the right tax after a change of job and possibly removing the need for the P45/P46 procedure [certificates used upon ending and starting work with a new employer].*
> - *Offering the prospect of simplifying the PAYE end of year reconciliation process for employers, HMRC and individuals.*
> - *Allowing more accurate payment of benefits and reducing the costs of administration and reducing the uncertainty for individuals and HMRC around the levels of employment income on which tax credits awards are based that can lead to errors in claims."*

HMRC (2010b) noted that most employers now use computerised payroll systems which calculate deductions from an employee's pay and the great majority of employees are now paid electronically, and outlined how the system would work:

- Employers paying electronically would send HMRC details of an employee's pay; the deductions of tax, NIC and student loan repayments; together with information about the payee's identity as part of making the payment to the employee. This would be for all employees, including those from whose wages the employer is not required to deduct any tax, NIC, etc.

- The information would be produced automatically by the computerised payroll system at the point of making the payment and would be sent to HMRC via the electronic payments system as part of the payment instructions.

For a few small employers not currently using their own payroll systems, HMRC software would be made available. Although payroll systems would need modification, benefits were expected from, notably, the simplification of the arrangements for individuals leaving and joining an employer and the end of year reporting and reconciliation processes.

A second consultation document issued in December 2010 switched the focused to methods of collecting Real Time Information (HMRC, 2010c), noting that Ministers had decided to proceed with a phased introduction of RTI by 2013/14 as a key component in DWP plans for Universal Credit. Although some people who responded to the first discussion paper thought that submitting information in arrears more frequently (e.g. at the same time each month) would be preferable, HMRC argued that "the major benefits of RTI flow from linking payment of earnings and reporting of PAYE information. Any separation of the two processes would significantly reduce these benefits." An impact assessment (HMRC, 2010a) stated that HRMC had received a one-off allocation of GBP 100 million for infrastructure investment but HMRC would absorb other costs. Also, the simplification of the PAYE process would reduce costs annually by GBP 360 million for employers, and reduce tax credit error, fraud and overpayments by GBP 350-400 million.

The roll-out of RTI reporting started with a pilot with around 320 employers from April to June 2012, planned to increase to 250 000 employers between November 2012 and March 2013, with the main migration of 2.1 million employers from April to October 2013 (NAO, 2012). One issue identified was that duplicate records were sometimes created, either as a result of employers changing payroll IDs or as a result of errors in a small number of the software packages being used by employers. For a new employee, employers are able to submit a "NINo verification request" with the new employee's name, birthdate, gender and address to get (or confirm) their National Insurance Number (NINo). A dedicated data improvement project identified that a key issue would be the ability of HMRC's systems to match RTI data to the correct individual's NINo record. A very high percentage of records were matched and data quality exceeded expectations (HMRC, 2013d).

As a large-scale project of new IT systems and changes in procedures for millions of businesses, the introduction of RTI led to a significant sceptical commentary.[36] However, by November 2013 it was also reported that "HMRC has already started contacting these non-compliant schemes with the possibility of penalties if they fail to achieve compliance […] Looking past a few initial teething problems, it seems that the worst of RTI is behind us. Feedback we have received has told us that once you have your software in place and your data has been input correctly, complying with the legislation is little more than an extra click of a button." (Flinders and Paraskeva, 2013).

However, there are some signs of difficulties with implementation of RTI by very small employers. Families employing nannies, for example, will be liable to set up a PAYE scheme before the nanny's first pay day (www.sussexpayrollservices.co.uk/payroll-blogs/, and www.normalewisnannies.co.uk/blog/hmrc-penalties-and-new-payroll-rules/). According to the initial plans, small employers with fewer than 50 employees would be allowed to send information to HMRC on a monthly basis (rather than in real time) until October 2013, later extended to April 2014. HMRC (2013c) now acknowledges that "a significant minority of employers and agents are struggling to adapt their processes so that they can report 'on or before' without incurring costs", and announced an extension of the deadline to April 2016 "micro" employers with nine or fewer employees.

Use of RTI for benefit administration

Employers' electronic notification of wage payments to their employees must be accompanied by a "Full Payment Submission". This includes a field for the number of usual hours worked by the employee in bands "a. Up to 15.99 hours; b. 16-29.99 hours; c. 30 hours +; d. Other", which is "only used by HMRC to validate tax credit claims where the entitlement is dependent upon the person working within various hours bands". Employers must report the frequency of payments and identify payments that cover two or more payment periods (which include holiday pay) (Upcraft, 2013), but they are not asked to separately identify accrued earnings (e.g. overtime which will be paid in the next month) or deferred payments (e.g. postdated pay increases). HMRC (2013c) illustrates how DWP will automatically vary UC payments to employees by 65% of their RTI earnings, thus stabilising employees' net incomes. In other countries that use monthly earnings information for benefit administration, one of the thorniest issues is whether information about hours and when earnings were accrued should be collected, and by which institution, and whether they are reliable (see OECD, 2014c). High-frequency earnings data have important applications beyond tax administration, but external users need to develop specific protocols to handle their strengths and weaknesses.

It will probably be the benefit administration that most often detects incorrect information submitted by employers, possibly acting in collusion with their employees, in terms of employee start dates and end dates, and bunching or spreading of wage payments in ways that maximise benefit payments or artificially avoid conditionality requirements. Therefore, funding arrangements and agreements between the Departments should promote HMRC action to achieve accurate reporting by employers of the information that is used mainly DWP, although there may be reluctance to enforce strict reporting principles and data quality requirements.

Key points

Long-term shifts in the structure of benefit expenditure towards means-tested and "secondary" benefits are a challenge for activation policies in the United Kingdom. The impact of traditional activation measures targeted on the recipients of income-replacement benefits must be limited when these benefits represent only a fraction of benefit income, and some people not in work but who could work may be claiming only the benefits that are in principle secondary, and are not subject to labour market conditionality.

Against this background, UC will replace most of the out-of-work benefits paid fortnightly, along with child and in-work tax credits based on annual income and statements of circumstances, with a single monthly payment. To ensure that work always pays, under UC a constant benefit withdrawal rate of 65% will apply to earnings above a certain disregard level. This arrangement facilitates the combination of part-time work with benefit, and UC introduces a principle that job-search and related requirements will apply when earnings are below an expected minimum ("in-work conditionality"). Payments to "in-work" claimants will vary as a function of monthly real-time information about their earnings. UC brings most of the former secondary benefits into scope for a consistent and unified approach to applying benefit conditionality and it increases expected hours of work in some circumstances. UC also addresses a longstanding gap in UK benefit conditionality requirements by introducing the principle that both members of a couple with children are expected to be available for work. At the same time there is, however, a risk that UC may become overly expensive for several reasons.

In cases where some UC is still payable when earnings are at the expected earnings threshold, a worker on twice the hourly national minimum wage will only need to work half the hours of a worker on the minimum wage to qualify for benefit without conditionality. Arguably it would be better to have a general requirement for the full use of working capacity up to expected hours, with JCP assessing actual hours or other indicators of unused earnings capacity in relevant cases. This is one example of a situation where the attempt at simplifying benefit administration (in this case, by avoiding the need for information on hours worked) might have a cost in terms of benefit payments that exceeds the savings. In general, it is important to identify and evaluate trade-offs of this kind.

The UC design appears to alter and complicate the implementation of out-of-work labour market conditionality. Low monthly earnings may arise from intermittent employment patterns that include many periods of a month or more *de facto* out of the labour force, with UC payments covering 65% of the loss in wages. This may require developing and testing procedures that allow the timely and reliable application of out-of-work benefit conditionality in different scenarios of intermittent employment patterns.

DWP expects that about 1 in 6 individuals in employment, about 5 million in total, will claim UC and be subject to a METR of 65%, or around 76% for basic-rate taxpayers. In principle a million or more, but certainly only a minority, will subject to in-work conditionality. It is not clear that any other country has such a large proportion of its low-paid employment subject to such a high METR. Benefits in other countries often involve METR of close to 100% up to the point where entitlement to benefit is exhausted, and a lower METR above this point. The 100% rate dissuades people from taking up part-time work whilst claiming benefits, and out-of-work benefit conditionality ensures that they choose full-time work rather than zero work. The 100% METR also ensures that most low-paid full-time workers have no entitlement to benefit, so their incentives when in work are not distorted.

If "in-work" benefit conditionality were roughly as effective as out-of-work conditionality – in the sense of being able to move workers from a part-time job (supplemented by partial unemployment benefit) into a full-time job as rapidly as they can be moved from unemployment into a full-time job – then a METR well below 100% could be equally viable. But it is not yet clear that "in-work" conditionality can be equally effective. One problem is that the total number of people with conditionality requirements of some kind is increased, while employment service resources are limited. Another is that sanctions on part-time workers for failure to search for or take up full-time jobs may seem impractical or lack public support. If in-work conditionality measures have little impact, the benefit of the 65% withdrawal rate within UC applying to part-time or intermittent earnings might be time-limited, for target groups that are expected to move into full-time work.

The real-time earnings information (RTI) used to calculate UC payments is collected by HMRC. RTI information includes employees' usual hours, but this information is used for the administration of tax credits rather than UC. It will usually be the benefit administration that detects incorrect information submitted by employers, possibly acting in collusion with their employees, in terms of employee start dates and end dates, and bunching or spreading of wage payments in ways that maximise benefit payments or artificially avoid conditionality requirements. One issue, therefore, is whether any particular reporting principles and data quality requirements can be generally applied to employers.

Notes

1. If 12 cases are considered (67% and 100% of the average wage; single person, one-earner couple, two-earner couple; without children and with two children), the modelled net replacement rate in the United Kingdom in 2011 was above the OECD median level for 10 of the 12 cases, the exceptions being for the case of a two-earner couple with no children (see *OECD Tax and Benefit Models*, www.oecd.org/els/social/workincentives).

2. The Claimant Count somewhat understated the total number of unemployment beneficiaries in 1976, according to the source used for Table 2.1.

3. Statutory Sick Pay (SSP) is now funded entirely by employers. It was publicly funded to a small extent, as shown in Table 2.1, through the Percentage Threshold Scheme which covered part of the employer costs in certain situations, but was abolished in 2014 (DWP, 2013c).

4. In DWP statistics (accessible via www.gov.uk/government/organisations/department-for-work-pensions/about/statistics), the concept of out-of-work benefits includes Pension Credit but not Carer's Allowance.

5. The DWP (2006) noted that a person could meet the 15-point threshold for incapacity benefit entitlement with five descriptors, each scoring 3 points, such as "cannot walk up and down a flight of 12 stairs without holding on" and "cannot stand for more than 30 minutes before needing to move around".

6. JCP (2007) had stated "Incapacity Benefit isn't going away – will continue to apply to existing customers and new customers where linking rules apply", but Vaux (2010) recalls that "assessing existing incapacity benefit claimants was a policy set out by the Labour government, which wanted to complete the job by 2014".

7. Kennedy (2011) mentions an early estimate that around half of those found Fit for Work would move onto JSA.

8. Housing benefit amounts paid traditionally were – and to some extent still are – related to actual housing expenses, so without means-testing the payments would tend to be regressive, i.e. higher for people with relatively high incomes.

9. The employer and employee might agree to report high hours worked for a given wage, or the employer might offer a low wage rate while tolerating increased personal use of the paid working time.

10. This and the following sub-section are based partly on www.politics.co.uk/reference/housing-benefit and http://en.wikipedia.org/wiki/Housing_Benefit.

11. Advice from DWP.

12. One lone parent blogger says "Make sure you claim child tax credits first as this takes the longest to sort out and from my experience the council won't start your housing benefit claim until you have it." (www.netmums.com/coffeehouse/house-garden-194/money-finance-entitlements-267/939303-help-divorce-need-help-housing-benefit-tax-credit-all.html).

13. The calculation is: 1-(1-0.76)x(1-0.2) = 0.808, where the marginal deduction rate for UC is 65% and for UC, income tax and National Insurance contributions together is 76%.

14. The perceived value of DLA (see Table 2.2) is enhanced because it acts as a "passport" to other benefits (Severe Disability Premium paid with Income Support, higher rates of Incapacity Benefits, and free prescriptions, free dental treatment and free school meals) (Thomas and Griffiths, 2010). Higher rates of DLA also allow a "Blue badge" parking permit and free off-peak bus travel (WPC, 2012).

15. Stated by Professor Fothergill in WPC (2012).

16. "... the 'incentive' to work for those disallowed was predominantly experienced as financial pressure to resume work in spite of their health. Several said that they felt their house/mortgage was under threat if they did not earn an income, and others said they had started or returned to work against doctors' advice and to the detriment of their health", and "While there were those [...] who applied for DLA when out of work but had a strong and credible intention to return to employment, others felt under financial pressure to do so, and yet others consolidated their status as out of work and unable to work through applying for and being awarded DLA" (Thomas and Griffiths, 2010).

17. In 2009, expenditure on the labour market programme category *Supported employment and rehabilitation* was well below the OECD average (*OECD Online Employment Database*, www.oecd.org/employment/database). In 2012, the UK budget for specialist disability employment services in 2012 was GBP 320 million (www.learningdisabilitytoday.co.uk/government_to_refocus_disability_employment_services_4694.aspx), a small proportion of spending on incapacity and disability benefits seen in Table 2.1.

18. DLA payments could be based on a medical assessment that might be 10, 15 or 20 years out of date (Professor Fothergill in WPC, 2012).

19. Some of the current tax credit expenditure substitutes for the child elements in rates of payment of means-tested benefits and the Children's Tax Credit in the income tax system which existed separately in 1996/97. Stewart (2013) estimates that together with the Married Couple's Allowance in the tax system, these elements in 1996/97 cost GBP 5.3 billion in 2009/10 prices. However, unlike tax credits, the child elements in means-tested benefits were subject to a 100% benefit taper with respect to earnings above a low disregard level (e.g. see OECD, 1998, Chart 3.4).

20. Mulheirn (2013) argues "although rising rents may be a contributing factor, the overwhelming cause of the jump in HB spending appears to be the state of the labour market. Tax credits tell a similar story: tracking unemployment, real terms spending here jumped between 2007 and 2009 and has since plateaued". However, the number of claims for the 30-hour element of tax credits increased rapidly early in the recession, which suggests continuing adaptation of behaviour and not only a weak labour market (HMRC, 2013b).

21. Hotz and Scholz (2003) remarked that "someone could have a job, become eligible for the WFTC, and then leave the job and still receive the WFTC for the duration of the six months. Rules are in place to curb efforts to manipulate income to maximise the WFTC, but there is not yet any evidence of their effectiveness. Other aspects of the British tax system suggest that less emphasis is placed on compliance (and perhaps that greater emphasis is placed on minimizing the intrusiveness of tax authorities and associated forms) than occurs in the United States".

22. In Australia and New Zealand the number of people claiming benefits as single parents also appears to have exceeded, at least at certain times, the number of single parents identified in survey data (see OECD, 2012, p. 173).

23. For single parents and couples with children, published payment data are aggregates across WTC, CTC and a wide range of supplementary elements, including payments for childcare costs, which must be substantial; and payments to those claiming the 30-hour element are not reported separately; so it is not possible to conduct the same checks.

24. Advice from HMRC.

25. NAO (2013) comments that HMRC does not hold the data to readily verify information on claimants' work and hours, and HMRC estimates that misreporting of work and hours accounts for more tax credit error and fraud than misreporting of income.

26. Advice from HMRC; statistics could include recipients who are not in work.

27. LITRG (2012) stated that WTC "has worked well for the self-employed in terms of its mechanics" as it "supports businesses through start-ups and difficult periods such as the loss of a key customer, the emergence of a bad debt, the taking on of a new employee, and so forth", and that the proposed rules for Universal Credit "will do severe and lasting damage to the small business sector in the UK". A blogger states that "… Working Tax Credits have been a cheaper and less complex way to support those in self-employment than previous schemes. Those who have benefited are not just grasping entrepreneurs – tradespeople, casual labourers, child minders and even artists, actors and writers are some of the sectors that depend on Tax Credits for survival". Sainsbury and Corden (2013) found in in-depth interviews with 45 self-employed recipients of tax credits that "most people like the regularity and consistency of tax credit payments based on an annual assessment" and "most of the respondents, regardless of their level of earnings, thought they would be affected by a Minimum Income Floor set at a level equivalent to full-time hours at the national minimum wage at some point".

28. The edited volume *Dimensions of Tax Design* plus the authored volume *Tax by Design* (Mirrlees et al. (eds.), 2010; and Mirrlees et al., 2011) have 1 900 pages.

29. In their contribution to Mirrlees et al. (2010), Brewer et al. (2010) implements a "Mirrlees model" applying optimal tax theory: according to DWP (2010) the resulting optimal benefit and tax system parameters would be less progressive, with lower rates of support for families with no earnings (for example, the proposed Personal Allowance for a couple would be GBP 80 per week), but would provide more generous disregards and tapers. Mirrlees et al. (2011) cautiously explains that these proposals "highlight a number of delicate trade-offs", and apart from "a significant simplification and integration of the benefit system", they recommend only some targeted measures to strengthen work incentives, for families whose youngest child is of school age and those aged 55-70.

30. Although some sources cite lower figures, Brewer and De Agostini (2013) estimates that either 1.75 million or 2 million in-work UC recipients will be subject to in-work conditionality (depending on whether parents caring for children aged 5-12 are expected to earn 16, or 35, *times* the hourly minimum wage). Even the high estimates imply that the majority of in-work claims will not be subject to conditionality.

31. Under RTI, "Now that starter and leaver notifications are sent within the FPS [Full Payment Submission], rather than as and when the scheme chooses to submit them, there is an increased likelihood that an employment with a previous employer may not have been notified to HMRC as ceased before the new employer has informed HMRC that the individual has started a new job" (Upcraft, 2013).

32. As described above, the introduction of the All Work Test in 1995 tightened the eligibility criteria for incapacity benefits, and it did this partly by requiring the claimants to themselves state and demonstrate their condition (e.g. state and demonstrate that they are unable to walk 50 metres) – shifting away from the earlier principle of reliance on medical certificates from their general practitioner (GP). Benefit administration can involve obtaining self-certification as well as third-party certification since neither source of information is completely reliable by itself.

33. In late 2013 this was stated by the website of many local authorities.

34. *A priori*, when someone is already working part-time in a stable job it is relatively difficult to find a second part-time job with complementary hours and also, a relatively difficult to sure that any full-time job proposed will be equally stable. The eleven in-work conditionality pilots currently underway at Jobcentres are mainly voluntary, so their impacts are likely to be similar to those of Employment Retention and Advancement measures already extensively tested in the United States and the United Kingdom. The review of final impacts for 12 US models reports that only 3 of them had a positive impact (www.mdrc.org/publication/how-effective-are-different-approaches-aiming-increase-employment-retention-and), engaging participants was a constant challenge, and staff in fact spent a lot of time on employment retention in the sense of placing unemployed participants back in jobs. The UK evaluation concluded that a holistic package of training support is necessary to enable working lone parents to upgrade their skills and improve their long-term employment prospects (www.mdrc.org/publication/employment-retention-and-advancement-era-demonstration).

35. In Denmark, the earnings divisor period is only 12 weeks, but increases to 6 or 12 months have been proposed, arguing that unemployed people seek highly paid jobs of a short duration rather than a lower-paid permanent job (Eurofound, 2003; and Finansministeriet, 2010).

36. Some headlines were "Too much too soon for blundering HMRC's new tax system ... universal credit whim could prove costly" (Finnegan, 2011); "Tax reform project running into trouble, say experts. The far-reaching reform of the tax system has 'critical' weaknesses that need 'immediate attention', a leaked report discloses" (Kirkup, 2012); and "HMRC's real-time information PAYE system struggles" (Burton, 2013). The All-Party Parliamentary Taxation Group in July 2012 described the timetable as "potentially undeliverable" (APPTG, 2012).

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Chapter 3

The role of the UK Public Employment Service in job brokerage and activation strategies

The United Kingdom has a long tradition of activation policies to promote the quick reintegration of working-age benefit recipients. Job-search requirements for claimants of unemployment benefits can be traced back to the late 1980s and a standard way of monitoring job-search efforts through fortnightly job-search review meetings was introduced with the JSA regime in 1996. From the early 2000s, activation measures were introduced for claimants of lone parent and incapacity benefits. From 2008, access to lone parent and fully-inactive incapacity benefits was significantly restricted and caseloads fell more rapidly. The United Kingdom continues to be at the forefront of reform efforts by OECD countries to transform and modernise their activation policies. This chapter identifies a number of areas where consideration should be given to additional measures or adjustments to existing ones.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

The United Kingdom has a long tradition of activation policies to promote the quick reintegration of working-age benefit recipients. Since the 1980s claimants of unemployment benefits have been required to actively seek work as a condition for benefit receipt. The eligibility conditions have been further tightened with the introduction of the Jobseeker's Allowance (JSA) regime in 1996. More recently changes in the benefit regimes for lone parents and other inactive benefits have led to an increase of benefit claimants required to engage with the labour market. With the introduction of the working-age income-replacement benefit Universal Credit (UC), the systems of rights and responsibilities for claimants are meant to become more flexible and individualised.

The British public employment service (PES) Jobcentre Plus (JCP) has a fundamental role in all the reforms, contributing to an efficient matching of jobseekers with available vacancies and improving the employability of the labour force through the provision of specialised services, such as guidance, counselling and referrals to active labour market programmes.

Against this background, the next section in this chapter gives an overview of JCP's job-brokerage function and finds that JCP processes a high proportion of the total vacancies in the labour market. The third section considers interventions through the JSA regime during an unemployment spell. The fourth section gives an overview of the labour market programmes available to claimants prior to accessing the Work Programme (the Work Programme is discussed separately in Chapter 4). The fifth section finds that Job Outcome payments may have helped to increase the responsiveness of providers to the needs of unemployed participants. In addition, better targeting of funds could be achieved by giving funds for skills training for the disadvantaged unemployed directly to JCP and Work Programme providers. The sixth section examines the recent introduction of a work-test for lone parents, and suggests that this policy has helped to reduce the number of lone parents claiming benefits, resulting in some modest impacts on employment. The final section concludes.

The job-brokerage function

Job brokerage is the process that aims to match jobseekers with employers running vacancies. The matching process is efficient if individuals acquire jobs which maximise their wage and their productive contribution, thus making an economy overall more productive. Information is crucial if the labour market is to work efficiently. Jobseekers need to be well informed about available jobs and job requirements, and employers need to know who is willing to take the jobs they offer, otherwise inefficient job matching may cause (prolonged) unemployment. Job search is in general costly for the jobseeker (direct costs and opportunity costs) but it is also necessary in order to find employment. Similar considerations apply for employers. One role of PES therefore is to match jobseekers and employers and overall reduce the cost of the matching process.

JCP offers a wide range of services to facilitate the job-matching process. The remainder of this section gives an overview of the services offered by JCP, the JCP employer outreach function and provides quantitative analysis of JCP job-broking activities. Analysis of JCP job-broking activities suggests that JCP processes a high proportion of the total vacancies in the labour market. The total number of vacancies per unemployed is still well below pre-recession levels, with the stock of unemployed still by far exceeding the stock of vacancies.

Overview on services offered by JCP

JCP provides a one-stop-shop service of advice and support in job search, benefits and training opportunities for claimants of JSA. The introduction of activation requirements for claimants of inactive benefits during the last 15 years meant that JCP also served an increasing number of claimants of incapacity and lone parents' benefits. The information, advice, guidance and job-broking activities of JCP take place primarily within local offices. While a large proportion of JCP resources are devoted to compulsory interventions, JCP offices offer a range of services including:

- Access to the online portal Universal Jobmatch (see Box 3.1) via computer terminals in JCP offices for jobseekers;
- Advisory services for jobseekers, including more intensive activity with long-term unemployed people and other specific groups such as people with disabilities;
- Services for employers, primarily assisting them to fill vacancies by referring appropriate jobseekers; and
- Referrals to active labour market programmes.

Box 3.1. **Vacancy database: Universal Jobmatch**

In Great Britain (GB), an online vacancy database service by Jobcentre Plus (JCP) for jobseekers and employers has been available since 2005. Only employers registered with JCP were able to advertise vacancies in this database and its main target group was claimants of out-of-work benefits, but other jobseekers were free to use the database as well.

In late autumn 2012, DWP introduced the new online service *Universal Jobmatch*, which can be accessed via the GOV.UK webpage (www.gov.uk/jobsearch). The introduction of Universal Jobmatch marked a fundamental change to the services available to employers to notify vacancies and to jobseekers undertaking job search. Universal Jobmatch is open to all employers wishing to report vacancies – regardless of whether they are registered with JCP – and the service is free of charge to both jobseekers and employers. Using technology developed by Monster, jobseekers can use Universal Jobmatch to browse/search for jobs with or without creating a user account (which offers more functionality). Jobseekers are also able to upload or create a CV which they can make visible to potential employers. Jobseekers without a computer can access Universal Jobmatch through computers in JCP offices or other publicly available computers (e.g. in libraries). Since March 2013, JSA claimants can be required to register with Universal Jobmatch or risk losing their benefit entitlement. This has was accompanied by some negative press as there were some incidents of fictitious job-adverts, inappropriate jobs, hacking attacks on Universal Jobmatch.

For employers Universal Jobmatch now is the only way to advertise jobs with JCP. Employers from the United Kingdom, as well as abroad, can choose to register with Universal Jobmatch. Once registered with Universal Jobmatch, employers can post jobs online, search for jobseekers who have made their CV public, get a list of potentially suitable jobseekers matched via their CV and skills and contact selected jobseekers. In addition to employers themselves, recruitment agencies also use Universal Jobmatch to post vacancies. In 2005/06, 17% of employers had used the previous JCP online service *Employer Direct online*. A survey prior to the launch of Universal Jobmatch showed that although around two-thirds of employers used the internet for recruitment, still less than one-third of employers (31%) used the previous JCP online service Employer Direct online. The share was higher for large employers than for smaller employers. Employers had a strong preference for contacting JCP via telephone and 6% of employers in the survey did not use the internet for any business purposes at all (Pollard et al., 2012). WPC (2014) suggested that some employers have difficulties using the new database. Hence, for employers as for employees, online up-skilling and removing barriers for using the internet is important for making Universal Jobmatch a truly universal job-search platform. The development of further tutorials for employers has therefore been mentioned in HM Government (2014).

Box 3.1. **Vacancy database: Universal Jobmatch** *(Cont.)*

In a survey amongst employers prior to the roll-out of Universal Jobmatch 91% of employers indicated that they would consider using JCP services for 'other' roles than the most recently advertised one in the future (Pollard et al., 2012), hence indicating that Universal Jobmatch might have a wider reach than comparable services offered by JCP before. A concern raised by the Centre for Economic and Social Inclusion (CESI) is that not enough elementary jobs are advertised on Universal Jobmatch, so that many low-skilled jobseekers will need to search for jobs in other places (WPC, 2013). Another concern is that applications received through Universal Jobmatch might not always be suitable, especially if benefits claimants are forced to use the platform. Relations with employers may be harmed where employers are swamped with unsuitable applications. This could result in employers switching from Universal Jobmatch to other recruitment channels, with fewer vacancies being directly available to JCP.

Source: The Independent (2012), "Unemployed to be forced to sign up to Universal Jobmatch website at the centre of security concerns", 21 December, www.independent.co.uk/news/uk/politics/unemployed-to-be-forced-to-sign-up-to-universal-jobmatch-website-at-the-centre-of-security-concerns-8427546.html (accessed 18 April 2014); The Guardian (2012), "Fake and porn jobs on government site", 11 December, www.guardian.co.uk/money/2012/dec/11/fake-adverts-government-jobs-website (accessed 18 April 2014); Pollard, E., F. Behling, J. Hillage and S. Speckesser (2012), "Jobcentre Plus Employer Satisfaction and Experience Survey 2012", *DWP Research Reports*, No. 806, www.gov.uk/government/organisations/department-for-work-pensions/about/research; Jobcentre Plus (2006), Annual Report and Accounts 2005-06, www.official-documents.gov.uk/document/hc0506/hc16/1650/1650.asp; HM Government (2014), "Role of Jobcentre Plus in the reformed welfare system: Government Response to the Committee's Second Report of Session 2013–14", Work and Pensions Committee, House of Commons, www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/publications/; WPC – Work and Pensions Committee (2014), "The role of Jobcentre Plus in the reformed welfare system – Volume I: Report, together with formal minutes, oral and written evidence", Work and Pensions Committee, House of Commons, www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/publications/; WPC (2013), "The role of Jobcentre Plus in the reformed welfare system", Written evidence as received by 17 July, Work and Pensions Committee, House of Commons, www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/publications/.

Employer outreach services

Having a well-functioning employer outreach service is important for JCP to achieve its objective in helping to move jobseekers into employment. An employer survey suggests that JCP could raise the awareness of the additional services it offers beyond job broking.

All JCP offices have employer relationship staff who offer recruitment support and advice to employers opening up job vacancies to jobseekers registered with JCP. Links with employers are also used to develop pre-employment training for jobseekers and promote flexible working arrangements. Engagement with employers is not always easy to develop and maintain and JCP staff reported an increasingly crowded field of many different organisations besides JCP, including training providers, housing associations, and Work Programme providers, trying to work with a limited number of employers who were recruiting in their area (Oakley et al., 2013).

In addition, employer relationship staff inform employers about the different employment programmes and schemes, like the *Work Programme* (see Chapter 4), *Work Trials*, *Work Choice* (see Box 3.3 and Chapter 4, Box 4.5), *Youth Contract* (see Box 3.5), and wage incentives available through the Youth Contract. To serve their needs more specialist services are offered to small businesses with fewer than 50 employees (*Small Business Recruitment Service*), including a specialist employer helpline, advice on the local labour market, additional support in advertising vacancies (e.g. wording and design), signposting to other available support and post-recruitment support. Awareness of these other services amongst employers advertising vacancies with JCP is low. In a survey among employers placing vacancies with JCP, 35% were aware of the extra JCP services and only 5% had used them (Pollard et al., 2012).

Finally employers are encouraged to engage in a range of voluntary activities, which are all part of the *Get Britain Working* measures. These voluntary activities include: setting up *Work Clubs* and/or *Enterprise Clubs*, acting as mentor for *New Enterprise Allowance* recipients, offer *Work Experience* placements to young jobseekers and for voluntary and community sector employers offer volunteering opportunities. As part of the *Sector-based Work Academies* measure employers are asked to develop *i)* relevant pre-employment training; *ii)* work experience placements; and *iii)* a guaranteed job interview to participating jobseekers.

Quantitative analysis of job-broking activities

Job-broking activities by JCP have the aim of helping jobseekers to obtain jobs and employers to fill their vacancies. JCP also operates in an environment in which many vacancies are filled through other channels. Under these conditions, JCP is constantly competing with other actors in the labour market and aims to acquire a strong position in the market to serve its clients. The analysis of JCP job-broking activities suggests that JCP receives a high number of the total vacancies in the labour market.

Possible indicators of JCP performance include the stocks of benefit claimants and unfilled vacancies, in absolute terms and relative to survey estimates for total-economy unemployment and unfilled vacancies; and the flow of new job vacancies notified to JCP, relative to total-economy job openings or new hires. In Great Britain it is not possible to report the JCP share in new hires, because the number of registered vacancies that are filled with JCP assistance is not consistently tracked. Other countries have found the concept of "vacancies filled by the PES" difficult to implement for online vacancies. Often these vacancies are "fully open" (i.e. employer contact details are provided) with at most a fraction of the vacancies being filled through a formal PES referral procedure. Some countries use the concept of "registered vacancies filled by a registered unemployed jobseeker", but some additional employer (or employee) feedback has to be gathered to implement this reliably. This may, however, be difficult to implement with all Universal Jobmatch vacancies being available to any registered person.

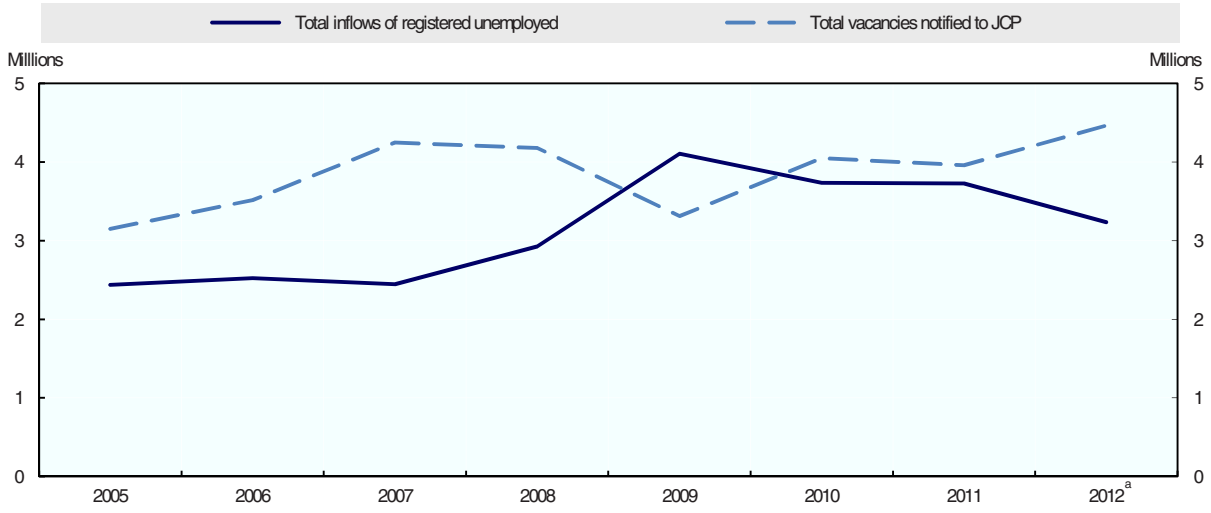
Figure 3.1 shows the flows of vacancies and registered unemployed in Great Britain over the period 2005-12. Before the economic downturn, the number of vacancies notified to JCP rose from just over 3 million newly notified vacancies in 2005 to over 4 million in 2007. Following a decline in 2009, notified vacancies did rise again and in 2012 the total number of notified vacancies was higher than pre-recession. In contrast, the inflows of registered unemployed are still above pre-recession levels. Overall, Figure 3.1 suggests dynamic matching processes with a high inflow of vacancies into JCP.

Figure 3.2 contrasts this with an analysis of stocks of unemployed and vacancies, both for the economy as a whole and JCP. The figure also indicates the JCP market share in terms of vacancies registered with JCP in Great Britain, compared with vacancies estimated from the ONS vacancy survey for the UK labour market as a whole. Following a dip during the recession, the ratio of the stock of vacancies registered with JCP to the survey estimate for all vacancies recovered to almost 70% in 2012. However, it should be noted that the JCP series is drawn from administrative systems, and is likely to be an overestimate (see Figure 3.2, note *c*).

Except for 2009, the JCP-based and the survey-based ratios of unemployed to vacancies are of similar size and follow a similar trend, suggesting that JCP has a share of the vacancies market as high as its share in the jobseeker market. However, whereas the flow charts in Figure 3.1 suggest dynamic matching processes, Figure 3.2 suggests that the total number of vacancies per unemployed is still well below pre-recession levels, with the stock of unemployed still far exceeding the number of available vacancies.

Figure 3.1. **Flows of vacancies and registered unemployed, Great Britain, 2005-12**

Millions

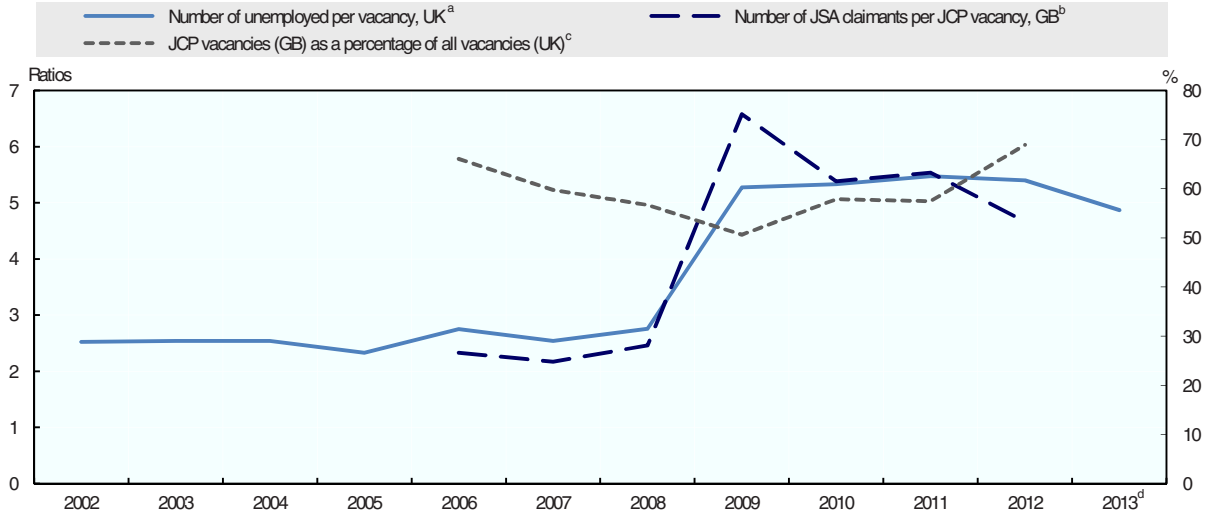


a) Data for 2012 only covers the period January to November 2012, as the JCP vacancy National Statistics series ceased after November 2012.

Source: NOMIS (database), www.nomisweb.co.uk.

Figure 3.2. **Unemployed per vacancy (total economy and JCP) and JCP market share estimate, United Kingdom and Great Britain, 2002-13**

Yearly averages, ratios and percentages



a) UK data for the ratio of the total number of unemployed (LFS data) to total vacancies (ONS vacancy survey). Unemployment estimates are produced from the LFS and are always one period behind the ONS Vacancy Survey estimates.

b) GB data for the ratio of registered unemployed (JSA claimant count) to the JCP stock of open vacancies. Vacancies handled by PES in Northern Ireland not included. JCP vacancy data are only shown for the period 2006-12. The time series is available since 2004, however, only since 2006 have employers needed to specify a closure data for their vacancies notified to JCP. Stock data pre-2006 therefore includes a high proportion of vacancies with durations exceeding six months, which are unlikely to be true reflections of unfilled posts. No JCP vacancy data from 2013 onwards as the National Statistics series ceased in November 2012.

Figure 3.2. **Unemployed per vacancy (total economy and JCP) and JCP market share estimate, United Kingdom and Great Britain, 2002-13** *(Cont.)*

c) The JCP market share compares vacancies registered with JCP in Great Britain with all vacancies registered in the whole United Kingdom economy. Whereas the latter is based on survey data, the former is based on administrative data. The ONS vacancy estimates are derived from a survey of employers' unfilled vacancies at a point in time. Contrary, the JCP figures are derived from administrative data, which will always be recorded as unfilled until a vacancy is followed up and closed (filled, cancelled, or withdrawn). Follow-up is not instantaneous; rather vacancies remain live for a standard period, as agreed with the employer. Therefore the JCP stock series will always reflect natural lags in the system. Bentley (2005) reports that from 2004 JCP adopted an "Intelligent Follow Up" system. This system involved agreeing with the employer at the time the vacancy was taken when the follow-up would be conducted and then closing vacancies down were repeated follow-up was unsuccessful in order to avoid a build-up of no longer available vacancies in the operational systems.

d) Average for the year until August 2013 where applicable.

Source: OECD calculations based on NOMIS (database), www.nomisweb.co.uk, for JCP vacancy and claimant count statistics; and ONS (2013), "VACS01: Vacancies and unemployment", *ONS Labour Market Statistics Reference Tables* (database), September, www.ons.gov.uk/ons/rel/lms/labour-market-statistics/september-2013/index.html.

Scheduled interventions in the unemployment spell

Since the introduction of *Restart* scheme in 1986 the UK system has a strong "work-first" approach where the focus is on strict job-search monitoring at the start of the claim, with individual choice of job-search methods. Over time the state imposes some more specific obligations, including an obligation to participate in ALMPs. For claimants of other working-age income-replacement benefits, interventions were limited towards the end of the 1990s, but since then majority of claimants are covered by some form of intervention regime.

JCP has traditionally operated a system of increasing employment support, based on the claimants' age and duration on benefit. JCP has for a long time referred younger claimants – under the age of 25 – to more intensive support earlier than older claimants.[1] Thereby, resources are directed to claimants who have more difficulties in moving into employment and are not wasted on those who anyway move into employment with minimal JCP support. With the introduction of the Work Programme some categorisation of claimants exists, as customers are referred to the Work Programme at 3, 6, or 12 months into their claim or right at the start of their claim. The point of referral largely is based on the type of benefit claimed, age and some personal characteristics (see Chapter 4). Before the referral to the Work Programme claimants receive support through the *Job Centre Plus offer* (JCP offer), which refers to JCP's placement and counselling interventions and referrals to labour market programmes. Some interventions of the JCP offer – such as job-search requirements and monitoring of JSA claimants – have changed little since the introduction of JSA in 1996. With the introduction of the JCP offer in April 2011 DWP has, however, given Jobcentres more flexibility with respect to the counselling function and referrals to labour market programmes. The *Spending Round 2013* announced further tightening of the JSA regime, but also additional meetings with JCP staff. It will be important to monitor that new requirements genuinely increase the volume and the quality of job search, so that job-search monitoring generates better job matches, and that employment assistance enhances potential earnings. The reinvesting of expected savings into JCP is foreseen and must be preserved in the face of fiscal constraints.

The remainder of the section will *first* set out the United Kingdom's system of applying differing levels of conditionality to claimants of working-age income-replacement benefits, with around 25% of all claimants being covered by full work-search conditionality. *Second*, benefit registration procedures and a planned increase in the waiting period before benefits can be claimed are described. *Third*, the advantages

of systematic profiling procedures – which currently do not exist in the United Kingdom – are discussed. *Fourth*, the United Kingdom's job-search requirements and monitoring are described and the United Kingdom is identified as the strictest OECD country in those categories. *Fifth*, counselling interviews are considered, suggesting that lower claimant-staff ratios may result in efficiency gains. *Finally*, a review of performance measures suggests that JCP's contribution towards achieving (sustained) employment outcomes is not currently measured.

Different conditionality intervention regimes

When JSA was introduced in 1996 there were only two conditionality regimes: JSA claimants who were subject to full work-search conditionality and claimants of other benefits who were not subject to any interventions regime. With the introduction of mandatory *Work Focused Interviews* (WFIs) in 2001, first for lone parents on Income Support (IS) and later for claimants of incapacity benefits and partners of benefit claimants, the "keeping in touch" regime was introduced. Claimants in this regime are required to attend WFIs, but any further steps towards moving closer to work or moving into work are on a voluntary basis. With the introduction of the new incapacity benefit Employment and Support Allowance (ESA) in 2008 (see Chapter 2 for details) a "work preparation" regime was created. Claimants with a longer-term entitlement to ESA are assigned either to the Work-Related Activity Group (WRAG) or Support Group (SG) following their Work Capability Assessment (WCA).[2] Claimants in the ESA WRAG are required to prepare for work, without being mandated to actually move into work.[3] Claimants in the Support Group are not subject to any conditionality. In the current benefit system, personal and household characteristics determine the type of benefit a person may claim and thus the conditionality regime.

With the introduction of UC, personal and household characteristics continue to determine the conditionality regime. For UC paid to claimants out of work, the current four conditionality groups remain: *full work-search conditionality*, *work preparation*, *keeping in touch* and *no conditionality*. With the introduction of UC more individuals will be in the full work-search conditionality group, as the majority of partners of benefit claimants with children will be subject to full work-search conditionality, instead of remaining in the keeping in touch group. As UC is also paid to claimants in work two additional conditionality regimes are added: the "could do more" and the "working enough" group. The "could do more" conditionality regime applies to in-work claimants of UC who work part time and have earnings below the expected household minimum (e.g. 35 hours per week times the minimum wage for singles). Individuals or couples in this situation are required to increase their earnings – through more hours or higher wages – until they earn more than the expected household minimum, at which point they move into the "working enough" group. In-work claimants of UC in this group will not face any further mandatory requirements, similar to current tax credit claimants who work enough hours to qualify for Working Tax Credit (if this element is claimed).

In August 2013, around 4.9 million people were claiming working-age income-replacement benefits.[4] Of these, 1.3 million (26%) were claiming JSA and therefore were subject to full work-search conditionality. It is estimated that around a further 20% of claimants were subject to some form of conditionality, through the work preparation or keeping-in-touch regime. Over half (54%) of claimants were not subject to any conditionality. Of the 4.9 million benefit claimants, an estimated 470 000 make the benefit claim as a couple and around 16% of partners are estimated to be subject to full work-search conditionality. The remaining partners are either in the keeping-in-touch or no conditionality group.[5]

Evidence on the impact of the keeping-in-touch and work preparation interventions regime is mixed. Evidence for the keeping-in-touch regime for lone parents suggests that it might have increased participation in labour market programmes, but without direct impacts on employment. For claimants of incapacity benefits research suggests that the keeping-in-touch regime can be effective in facilitating a return to work mainly for those already closer to the labour market (Clayton et al., 2011).

There is no evaluation of the work-preparation regime as such available, but rates of return to work from the ESA Work-Related Activity Group (ESA WRAG) are low and to date no benefits of this additional conditionality regime have emerged. However, the interventions regime seems weak. Whereas JSA claimants receive regular interventions through the fortnightly signing process and WFIs, ESA WRAG claimants may often attend JCP no more than twice a year (WPC, 2014). Even ESA claimants who are looking for work are usually seen less frequently than JSA claimants and are less likely to report that the JCP support on offer was tailored to their requirements (Bloch, et al., 2013). Around 8% of the ESA claimant stock is currently participating in the Work Programme, but low levels of support and disappointing results for ESA claimants are a major concern (see Chapter 4). To ensure a regular level of contact with employment services, a first step would be to introduce regular in-depth review meetings for ESA WRAG claimants, similar to the interventions regime used in the previous Pathways to Work programme (see Annex 4.A1).

DWP currently runs a number of pilots to test additional support for ESA claimants. This includes an early intervention pilot offering additional support – including Occupational Health Advice Services – to support ESA claimants to return to work early on. Another set of pilots tests three approaches for claimants with a longer-term entitlement to ESA: meetings with a healthcare professional; more frequent meetings with JCP staff including more intensive support; or referral to the Work Programme. Potential future trials, which have been mentioned, include a mandatory intervention regime for ESA WRAG claimants and options to reduce the flows from JSA to ESA (DWP, 2013a). OECD (2014) goes a step further and recommends increasing work-search requirements for ESA WRAG claimants, while at the same time combining increased requirements with treatment, rehabilitation, and training in line with claimants' health and skills needs and adjusting requirements to changes in their work ability. Looking forward, it will be important to have an effective activation regime for ESA claimants, which supports their return into employment.

Registration of benefit applications

Online application for JSA claimants have first been introduced in 2009 (NAO, 2009). Online JSA registrations have replaced telephone applications to a large extent and accounted for 84% of all JSA registrations in November 2013, up from 42% a year earlier (DWP, 2013b). Following the online application, JSA claimants are contacted by telephone to arrange a *New Jobseeker Interview* (NJI) at their local JCP usually within a week of registration. Once UC is rolled out, online application will be the norm and telephony-based benefit applications will be exceptions. This is already the norm for JSA claimants, but the change might prove more challenging for IS and ESA claimants, who can currently only apply by telephone or by post.

JSA claimants must normally wait for three days after registration for benefit before their entitlement to benefit begins. This waiting period will be extended to seven days from October 2014 for both JSA and ESA claimants (HMT, 2013b; and HMT, 2014), and

it will apply for Universal Credit.[6] Waiting periods of one week are also applied by countries such as Australia, Finland, Ireland and Japan (OECD, 2007). This further tightening of entitlement criteria will result in some benefit savings for the government. However, it could also increase hardship and, as it deters some claims, further increasing non-claimant unemployment.

Profiling and segmentation

Jobseeker profiling procedures allocate jobseekers across a small number of categories. Frequently profiling is implemented at the start of the unemployment spell to identify claimants at risk of long-term unemployment for additional support. In addition to information kept on administrative systems, a specific questionnaire is addressed to clients to gather additional information about their characteristics. Allocations to categories, also called *segmentation*, are based upon a regression model, which predicts the claimant's probability of becoming long-term unemployed as a function of their characteristics. The categories range from easiest-to-place to hardest-to-place and claimants in the different categories are referred to different services. In the United Kingdom, a jobseeker profiling tool does not currently exist. The development of a profiling tool should be given priority, especially in the context of the Work Programme. Such a profiling tool could be used to inform decisions on JCP interventions prior to the Work Programme, identify claimants with additional needs beyond the core interventions (e.g. skills training, health support), and inform assignments to Work Programme payment groups. Improved segmentation of Work Programme participants could ensure that contracted providers have better incentives to support a larger proportion of participants.

In the United Kingdom – in the absence of a formal profiling procedure – the interventions regime depends on the adviser's own assessment of claimants' needs. A common approach of JCP offices is to use a so-called Red, Amber and Green (RAG) rating, denoting the level of support needed based on advisers' assessments of the complexity of claimants' needs: *red* for claimants with complex needs; *amber* for claimants with relatively straightforward barriers to work; and *green* for relatively work-ready claimants requiring only light-touch support (Coulter et al., 2012; and Bloch et al., 2013).

For their diagnosis of clients' needs JCP advisers can also use a *Customer Assessment Tool*. The Customer Assessment Tool is a recording, rather than profiling tool: it records, rather than generates, outcomes. It covers a number of issues (e.g. work-related skills, confidence, motivation, relationship with previous employers) against which claimants' positions are ranked (from very good to very poor). DWP commissioned research suggests that the Customer Assessment Tool was applied infrequently (Bellis et al., 2011) or merely as a tick-box exercise rather than as a primary tool for decision-making around support needs (Coulter et al., 2012). Overall the research highlighted a plurality of different approaches to diagnosing claimant needs and targeting support (Bloch et al., 2013) and referrals to programmes such as the Work Programme may not always follow a consistent approach for claimants where JCP offices have discretion over the referral (Holmes and Oakley, 2013).

Chapter 4 finds that assignment to Work Programme payment groups (PGs) is based on very crude factors to assess the relative distance from the labour market and might therefore give weak incentives to providers to help some participants. Better targeting assisted through the use of profiling tools – e.g. like the Australian *Job Seeker*

Classification Instrument (JSCI) – has therefore been recommended by the Work and Pensions Committee (WPC, 2013), various other reports (e.g. ERSA, 2013; and Holmes and Oakley, 2013) and responses to the DWP Commissioning Strategy consultation (e.g. Carley Consult, 2013; Shaw Trust, 2013; and St Mungos, 2013). WPC (2014) again recommends "… a more thorough and systematic initial face-to-face assessment of claimants' barriers to employment to identify the level of employment support they need from Jobcentres and contracted providers."

Australia has experience in profiling people claiming unemployment benefits since 1998 and Ireland has recently introduced a profiling tool (OECD, 2013a). The Australian JSCI is designed to measure a jobseeker's relative difficulty in gaining and maintaining employment and to identify those jobseekers who have complex or multiple barriers to employment that need further assessment. The JSCI has two main purposes: *i)* it is used to minimise the risk of parking (i.e. neglecting claimants perceived as harder to help) of claimants by private providers who operate Australia's employment service function; and *ii)* it is used to measure the performance of the private providers. Box 3.2 gives an overview of the latest version of the Australian Job Seeker Classification Instrument (JSCI). Ireland has just recently introduced a profiling procedure where unemployed people are asked to complete a profiling questionnaire which is used to assign a "probability of exit" rating, which in turn determines different intervention regimes (see OECD, 2013a, Box 3.6). Research for Switzerland suggests that profiling tools using statistical treatment rules can increase the efficacy of allocation of individuals to labour market programs and services in comparison to advisers' allocation (see Lechner and Smith, 2005).

Box 3.2. **The Job Seeker Classification Instrument in Australia**

In Australia, employment services are delivered by contracted employment service providers since 1998 and since then all people claiming unemployment benefits have been profiled using the *Job Seeker Classification Instrument* (JSCI). The JSCI is designed to measure a jobseeker's relative difficulty in gaining and maintaining employment and to identify those jobseekers who have complex or multiple barriers to employment that need further assessment.

How does it work?

The benefit administration body, Centrelink, implements the JSCI (and other jobseeker assessment tools) and the JSCI scores are used to allocate claimants to different service streams. Jobseekers are assessed when they first register for employment assistance and any time they experience a significant change in their circumstances. The JSCI scores are used to allocate jobseekers to one of the first three levels of employment assistance – Streams 1, 2, or 3, as appropriate to their needs. It also identifies jobseekers who have complex or multiple barriers to employment and may require a more comprehensive assessment through an Employment Services Assessment, which may lead to referral to Stream 4.

The JSCI was last reviewed in 2009 and its latest version is based on 18 factors that have a significant relationship with a jobseeker's likelihood of remaining unemployed for another year (see Table below). The dependent variable used in the econometric analysis was the probability of remaining on income support for the following 12 months. Information is gathered by using a combination of responses to a questionnaire and existing data about the jobseeker. This information is then used to calculate a score for the jobseeker, which reflects a jobseeker's level of disadvantage in the labour market. The higher a jobseeker's score, the higher their likelihood of remaining a jobseeker for at least another year. The Job Seeker Classification Instrument also identifies jobseekers who may benefit from being referred to the Australian Government Language, Literary and Numeracy Program, the Adult Migrant English Program or to a Department of Human Services Social Worker.

Box 3.2. The Job Seeker Classification Instrument in Australia *(Cont.)*

Job Seeker Classification Instrument Factors

Factor	Example
Age and gender	Disadvantaged 15-19 year-old women; men 60 years and over
Recency of work experience	Main activity in last two years was part-time work 4 Jobseeker answers
Jobseeker history	12-23, 24+ months on income support; more than 1 time on income support
Educational attainment	Completed year 10/11
Vocational qualifications	No or not useful vocational qualifications
English proficiency	Good/mixed/poor English proficiency
Country of birth	Western Europe, Middle East, Central Africa
Indigenous status	Aboriginal and Torres Strait Islander, declined to answer
Indigenous location	Points for particular locations
Geographic	Points for locations, based on the state of the local economy
Proximity to a labour market	Metropolitan or inner regional
Access to transport	Own transport/public transport/no transport
Phone contactability	Not contactable by telephone
Disability/medical conditions	Hours per week work capacity; number of conditions; number of support needs
Stability of residence	Primary/secondary homeless
Living circumstances	Refers to lives alone/lone parent/with children
Ex-offender status	Sentenced for more than a fortnight
Personal characteristics	Other personal (own psychological/behavioural issues or domestic situation)

Source: Department of Education, Employment and Workplace Relations (2012), "Job Seeker Classification Instrument – Factors and points", http://docs.employment.gov.au/system/files/doc/other/job_seeker_classification_instrumentfactors_and_points.pdf.

Does the JSCI work in practice?

The JSCI profiling tool is an effective tool in allocating jobseekers to different intervention streams, but there are options to further improve the tool itself and its application. The Department for Education, Employment and Workplace Relations Quality Assurance studies have consistently found that over 90% of the JSCIs completed are accurate in terms of recording jobseeker responses, irrespective of whether the JSCI is conducted by telephone or as a face-to-face interview. Providers have a different view and are often sceptical of the initial results, pointing to frequent examples of unnoticed, undisclosed or undiagnosed factors which affect stream allocation. A "change of circumstances reassessment" can occur at any time and gives providers an incentive to reapply the JSCI to move jobseekers into a higher stream if possible. This increases service fees, postpones the provider's obligation to deliver work experience activities, and increases the outcome fee payable for any given outcome. Although the JSCI includes 18 factors, the employability of individuals with a given JSCI score can still vary widely, for example because the same JSCI score is given for different levels of disability and factors such as motivation are not included. Over time, clients with less-severe barriers leave unemployment so that a provider's remaining stock of clients is on average more disadvantaged than indicated by JSCI scores.

Source: Department of Employment (2013), "Job Seeker Classification Instrument", https://employment.gov.au/job-seeker-classification-instrument; OECD (2013), *OECD Employment Outlook 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/empl_outlook-2013-en; OECD (2012), *Activating Jobseekers: How Australia Does It*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264185920-en; and Finn, D. (2011), "Job Services Australia: design and implementation lessons for the British context", *DWP Research Reports*, No. 752, www.gov.uk/government/organisations/department-for-work-pensions/about/research.

The benefits of such profiling tools to refine service allocation through a more precise definition and identification of eligibility groups have long been recognised by DWP, but past trials have not resulted in models accurate enough to make savings (Tergeist and Grubb, 2006). A recent research study by Matty (2013) therefore explored again the

feasibility of developing a profiling tool for DWP to predict, at the moment of first claim, the likelihood of a new claimant reaching long-term unemployment. The data included in the model resembles the Australian JSCI model amended to the UK context. Different to the Australian model also attitude data covering a range of topics captured via Likert scales was included. The results show that 59% of the variation in the data could be explained by the best performing model (Matty, 2013). These results could be used to target those with the top 10% of JSCI scores and classify those individuals as at high risk of long-term unemployment. The model accuracy for this high risk group then would be 31% (Matty, 2013). This demonstrates that there is a trade-off between reaching the maximum number of claimants likely to be long-term unemployed and wrongly targeting additional support on claimants who would not have reached long-term unemployment.

Nevertheless, the results suggest that it would be worthwhile to further undertake work towards developing a formal customer profiling tool. Some considerations that should be taken into account:

- Using attitudinal data carries the risk that claimants will answer as a function of how their answer impacts on their preferred outcome (e.g. a lack of work motivation will result in referrals to mandatory work activity). In Australia, attitude data are effective in tests in predicting employment outcomes, but they are not used in the operational profiling system (OECD, 2012).
- While some information may be readily kept on the jobseeker register, additional factual information (family status, caring responsibilities, qualifications, health conditions, housing status and stability of residence) that may need to be obtained through questionnaires. Profiling tools need to be integrated into benefit claim procedures so that all jobseekers are being assessed without the possibility of making an assessment optional on advisers' discretion.
- The decision about how to organise such a system requires a full comparison of the benefits and the costs of alternative methods. JCP advisers cost money, but so do profiling tools based on statistical treatment rules. In particular, the latter require data collection, analysis, programming and so on. Past trials in DWP have not resulted in models accurate enough to make savings (Tergeist and Grubb, 2006). Lechner and Smith (2005) reports that in the late 1990s the State of Kentucky in the United States shut down its profiling system because it cost less to serve all of its unemployment insurance claimants than to serve only some and operate the profiling system. DWP should also consider working together with providers that make use of screening and profiling tools.
- In order to cut costs, one option may be to establish a first profile based on exiting data and make more in-depth assessments with claimants who have a lower predicted probability of moving into employment. Any tool also should be flexible enough to allow for modifications and inclusion of new data, e.g. more detailed skills information once an on-line pre-claim screening tool has been developed.

In its response to WPC (2014) the Government highlighted the risk of referring claimants to the wrong type of provision and the cost implications of having an insufficiently accurate profiling tool. Nevertheless, a new approach to targeting support is being tested by examining which new JSA claimants should be assigned to weekly or fortnightly job-search review meetings and HM Government (2014) stated: "Depending on the outcomes of this approach, we will consider whether it has wider application, including for contracted programmes such as the Work Programme."

Job-search requirements and monitoring

A clear majority of OECD countries now has explicit requirements for individual job-search efforts and standard ways of monitoring those. In the United Kingdom, such explicit requirements and standard ways of monitoring have been in place since the introduction of the JSA regime in 1996. The United Kingdom has for some time been among the countries with the strictest job-search requirements and monitoring in the OECD including a strict enforcement of those.

This sub-section describes the UK version of an individual action plan, job-search requirements for JSA claimants and how job-search efforts are being monitored and compliance failures sanctioned. Various pilots and results from a quasi-natural experiment of job-search monitoring have demonstrated how a strict "work-first" approach has helped to keep off-flows from benefit high. In the light of current and future planned tightening of the JSA regime, high requirements placed on claimants need to be matched with personalised employment services to help benefit claimants to enter into stable employment. It will be important to monitor that new requirements genuinely increase the volume and the quality of job search, so that job-search monitoring generates better job matches, and that employment assistance enhances potential earnings.

The Claimant Commitment and job-search requirements

The UK version of an individual action plan for jobseekers is called *Claimant Commitment*. The Claimant Commitment is a record of the mutual agreement between the claimant and the state and it sets out a claimant's expected job-search activities. This type of agreement has been in place since the introduction of JSA in 1996 under the name jobseeker's agreement. The current Claimant Commitment has only been introduced in October 2013 and is more detailed with respect to the requirement placed upon claimants and the consequences of failing to meet those requirements. It consciously resembles an employment contract and details work preparation and job-search activities covering the same amount of time as agreed hours for prospective work.[7] Once UC is rolled out all claimants of UC – also UC recipients in work and those out of work without any work-search or work-preparation conditionality – will have to sign a Claimant Commitment.

The roll-out of the Claimant Commitment has been accompanied by an investment in training of 26 000 JCP staff to ensure JCP staff have the right skills to develop Claimant Commitment and review the effectiveness and quality of claimants' job search. JCP personal advisers and assistant advisers have also been given the new job titles *Work Coaches* and *Assistant Work Coaches* to reflect the "cultural transformation" that these changes expected to bring (HM Government, 2014).

The commitment details the job-search requirements with respect to activities to be undertaken by the jobseeker in their preparation and search for work as well as the type and hours of work. JSA claimants have to be available for full-time work (35 hours) and have to take any job that pays at least the national minimum wage (NMW) and is within 90 minutes of travel from their home. During the first three months of unemployment, the JSA claimants may restrict their job-search to work in their normal occupation at a similar level of remuneration, if JCP work coaches are satisfied that the claimant will have reasonable prospects of obtaining paid work in spite of such limitations. In this respect the JSA regulations of 2013 made the JSA regime stricter as an extension of the permitted period to six months is not possible anymore. JSA claimants who are carers (of a child or adult) may reduce their available hours to fit with their caring responsibilities, when the JCP work coach is satisfied that this does not impact on their prospects of finding work. Furthermore JSA claimants with a child under 13 years may restrict their

availability to the child's normal school hours (including travel time). JSA claimants with a physical or mental impairment may adjust their hours to fit with their capacity. Claimants have to commit to the contents of the Claimant Commitment in return for receiving JSA and sanctions may be applied for a failure to do so.

Through the Claimant Commitment JCP work coaches can mandate JSA and ESA WRAG claimants to undertake activity to address an identified skills need to increase their employment prospects. This new form of conditionality is called Skills Conditionality and was introduced in England in 2011 and in Scotland and Wales in 2012. Skills conditionality should ensure that claimants referred to careers advice or skills training that will help them, actually start and finish a training course. From May 2014, claimants whose poor spoken English is a barrier to work will have to improve their English language skills.

Since March 2013, JCP has the right to require JSA claimants to register with and use the vacancy database Universal Jobmatch (see Box 3.1). Non-compliance with the requirement can result in benefits sanctions (DWP, 2013c). Forcing jobseekers to use Universal Jobmatch received some negative press, given that jobseekers may upload sensitive information, which could be obtained by computer hackers. Little attention has been paid to the fact that claimants forced to use the platform, threatened with sanctions, might start sending applications also for unsuitable jobs where they lack qualifications and skills. This in turn poses a risk for employers willingness to advertise their jobs on Universal Jobmatch (see also Box 3.1).

Regular reporting and job-search monitoring

JSA claimants and UC claimants subject to work-search conditionality have to attend an initial *New Jobseeker Interview* (NJI) at the start of their claim. One essential part of the NJI is agreeing a Claimant Commitment with the JCP work coach. Applicants who do not attend the NJI cannot receive JSA. Additional requirements already prior to the first interview at JCP apply from April 2014: at their application for benefits, claimants will be asked to write a CV, register with the Government's online vacancy database, and start looking for work. At the same time there are also plan to dedicate more time to NJIs (HMT, 2013a).

Following the NJI, claimants are required to report on their job-search efforts at least once a fortnight during a face-to-face Jobsearch Review meeting with assistant work coaches. This regular attendance has been a feature of the JSA interventions regime since its introduction in 1996. Jobseeker's aged 18-24 have to attend weekly after five months on JSA. HMT (2013a) further announced that from 2015 half of all JSA claimants will have to sign in on a weekly basis. During the Jobsearch Review meetings claimants are expected to demonstrate that they are available and actively looking for work (the two key entitlement conditions). Assistant work coaches take forward the decisions agreed between the claimants and the work coach, as agreed in the NJI or any subsequent meeting with a work coach. In addition to asking claimants to demonstrate their job-search efforts in those fortnightly meetings, JCP staff now can use Universal Jobmatch to monitor claimants' job-search intensity, if the claimant had given consent to JCP for accessing their account, and refer them to suitable jobs. Such direct referrals can assist employers by speeding up the matching process, bring jobseekers using inefficient job-search strategies into contact with vacant jobs, and serve as a work-test. Universal Jobmatch further facilitates the process of direct referrals. Already before the introduction of Universal Jobmatch, the United Kingdom was classified as country with a relatively high number of direct referrals of claimants to job vacancies (OECD, 2007). However, current data for direct referrals have not been identified for this review, and the data

reported in 2007 may include jobseeker applications for semi-open vacancies, where JCP provides employer contact details but does not initiate the process.

Jobsearch Review meetings last around 5-10 minutes (NAO, 2013) and are often a mere tick-box exercise rather than providing in-depth job-search support (Coulter et al., 2012). Nevertheless, the regular personal attendance at JCP has proved to be very effective. A study for Northern Ireland showed that a temporary suspension of the normal fortnightly review meetings due to office refurbishments reduced hazard rates for both exits from claimant unemployment and for job entry corresponding to an increase in average unemployment duration of between 10% and 19% (McVicar, 2008). Analysis by DWP suggests that during the first 13 weeks of a JSA claim, fortnightly in-person job reviews reduce the average length of JSA claims by around 6 days in comparison to less intensive signing procedures (Middlemas, 2006).[8]

The introduction of the JSA regime in 1996, however, is also associated with an increase in non-claimant unemployment and an increase in incapacity benefit claims (Petrongolo, 2009). Little is known about the situation of people who are unemployed according to the Labour Force Survey (LFS) criteria but not claiming JSA. As discussed in Chapter 2, the benefit status of people according to their labour force status, and vice versa, should be researched and documented, in order to clarify the impact of the policies.

Since 2011, DWP is running a number of new trials testing different signing processes, partly assisted through the use of new technologies. Another trial starting in spring 2014 tests the impact of weekly instead of fortnightly signing in preparation for the national roll-out for half of the JSA caseload in 2015. An additional aspect of this trial is to test the use of a profiling tool. The trial will last around six months and consists of three segmentation procedures: *i)* claimants are randomly allocated to fortnightly or weekly signing; *ii)* work coaches use their discretion to allocate claimants to fortnightly or weekly signing depending on what they think is most appropriate for them; and *iii)* advisors use a profiling tool, which will tell them to assign claimants to either weekly or fortnightly signing. The profiling tool will be based on existing administrative data, information from a very brief online questionnaire completed by the advisor at point of new claim to JSA, and additional information based on advisor insight.

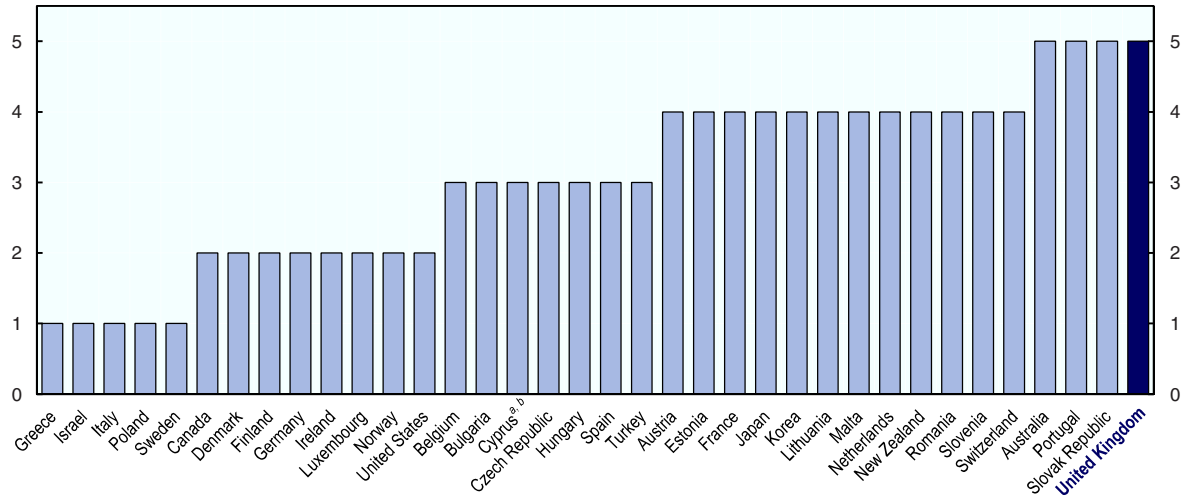
As Figure 3.3 shows, the United Kingdom was one of the four strictest OECD countries (alongside Portugal, the Slovak Republic and Australia) for job-search monitoring in 2011 according to the scale presented by Venn (2012).[9] Further increasing the frequency of review meetings as announced in HMT (2013a) further adds to the level of strictness, although on the scale presented by Venn (2012) the United Kingdom already ranked at the strictest level of 5.

Benefit sanctions

Benefit sanctions are important for an effective activation regime, as sanctions can through a threat effect ensure that claimants are available for work, actively seek work and comply with the requirements imposed by PES or external provider staff. The sanction process starts with a compliance doubt raised against the JSA claimant, usually raised through JCP work coaches or assistant work coaches or staff at contracted providers like Work Programme providers. Staff raising the compliance doubt then refer the case to specialised decision maker teams, which are located separately from JCP front-line offices and only decide over the sanction decision. Adverse decisions result in a sanction to be applied or the JSA claim being closed. Following a sanction decision, sanctioned claimants can ask for a reconsideration of the decision by JCP. If the original decision is upheld claimants can appeal the decision in court.

Figure 3.3. **Strictness of job-search monitoring in OECD countries, 2011**

Proof of job search: scores from 1 (least strict) to 5 (most strict)



a) Note by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

b) Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: Venn (2012), "Eligibility criteria for unemployment benefits: Quantitative indicators for OECD and EU countries", *OECD Social, Employment and Migration Working Papers*, No. 131, OECD Publishing, Paris, Figure 4 and Annex B (Table B7), http://dx.doi.org/10.1787/5k9h43kgkvr4-en.

Sanctioned JSA claimants must continue to be available for employment, take steps to actively seek employment, and attend the fortnightly Jobsearch Review meeting or may lose entitlement to JSA. The length of sanction periods has been extended at the end of 2012. The minimum sanction period increased from one week to four weeks and the maximum from 26 weeks to three years. The consequences vary depending on the importance of the requirement the claimant has failed to meet. There are three levels:

1. The *lowest* level applies for a failure to meet requirements such as attending or participating in an adviser interview, participating in training or employment programmes (e.g. the Work Programme). Benefit payments are sanctioned for 4 weeks for a first failure or 13 weeks for a subsequent failure.
2. The *medium* level applies to JSA claimants who do not meet the JSA entitlement conditions (to be available for work and to actively seek work). In these circumstances the claimant is disentitled, i.e. their claim closed and benefit is not payable for 4 weeks for a first failure or 13 weeks for subsequent ones. Individuals can reclaim benefit during this period, but not benefits are paid for any remaining time of the 4- or 13-week period.
3. The *highest* level applies to JSA claimants who fail to meet the most important requirements including failing to apply for a suitable job when required to do so by their adviser; failing to accept an offer of suitable employment; failing to participate in the Mandatory Work Activity programme; or voluntarily leaving a job or losing a job due to misconduct and then making a benefit claim. Benefit payments are stopped for 13 weeks for a first failure, 26 weeks for a second failure and three years for a third failure.

In an international comparison of the strictness of sanctions with respect to the number of weeks in lost benefit payments, the United Kingdom ranges around mid-field (Venn, 2012). However, such a comparison of the strictness of sanctions only provides a partial picture. Relatively light sanctions may be effective in influencing exits from unemployment, if applied together with rigorous monitoring of job-search efforts. By contrast, harsh sanctions may have no impact on exits from benefit, if jobseekers are not monitored and no evidence on non-compliance is being gathered. As shown in the last sub-section, the job-search monitoring regime in the United Kingdom is among the strictest in the OECD.

Table 3.1 shows that a high number of JSA claimants receive adverse sanction decisions. In 2013, there have been a total of over 870 000 adverse sanction decisions. Each month, on average, around 5% of the claims received an adverse sanction decision. This is much higher than ten years ago, when adverse around 2% of the claims received an adverse sanction decision every month.

Table 3.1. **Jobseeker's Allowance sanction decisions,[a] Great Britain, 2013[b]**

Adverse sanction decisions by category	Levels	*Percentages*
Higher level sanctions	**71 370**	***8.2***
Left employment voluntarily without good reason or lost employment through misconduct	41 400	*4.8*
Refusal or failure to apply for, or accept job offer without good reason	18 500	*2.1*
Failure to participate in Mandatory Work Activity without good reason	11 480	*1.3*
Intermediate level sanctions	**337 960**	***38.8***
Not actively seeking employment	325 070	*37.3*
Not being available for work	12 890	*1.5*
Lower level sanctions	**460 920**	***52.9***
Failure to attend or failure to participate in an adviser interview without good reason	150 520	*17.3*
Refusal or failure to comply with a Jobseeker's Direction[c] without good reason	29 930	*3.4*
Failure to participate in the Work Programme without good reason	259 930	*29.9*
Failure to participate in other employment programmes or schemes without good reason[d]	20 540	*2.4*
Unknown level and reason	530	*Less than 0.5*
All adverse decisions	**870 770**	***100.0***
Memorandum item: Benefit claims (seasonally adjusted)		
JSA claimant stock at the beginning of the year	**1 478 000**	
Total new JSA claims (on-flows)	**3 077 000**	

Note: Figures for sanctions are rounded to the nearest 10, JSA claimant stock and on-flow figures are rounded to the nearest 1 000.

a) The table shows adverse sanction decisions only, i.e. decisions found against the claimant with a sanction to be applied or the JSA claim being closed (disallowance).

b) Data may be revised as the outcomes can change due to reconsidered decisions and appeals.

c) A Jobseeker's Direction is a formal instruction for claimants to take certain action to help them find work. They may be stated on the Claimant Commitment or are issued separately and e.g. require attendance in a particular course, registration Universal Jobmatch or responding to a particular vacancy.

d) All programmes other than the Work Programme and Mandatory Work Activity.

Source: DWP Stat-Xplore (database), https://stat-xplore.dwp.gov.uk/ and NOMIS (database), www.nomisweb.co.uk/.

International benchmarks comparing sanction activity are rare. Gray (2003, Table 1) shows a sample of 14 OECD countries and the sanction rates for the late 1990s:

- Sanctions for voluntary unemployment and dismissal for misconduct (expressed as the ratio of sanctions to annual benefit inflows): in the late 1990s the median of eleven countries, where data was available, was 3.6% and ratio for the United Kingdom was 4.3%. In 2013 this type of sanction was applied less often in the United Kingdom, with a ratio of sanctions to annual benefit inflows of around 1%.[10]
- Sanctions for refusals and behaviour during the benefit period (expressed as the ratio of sanctions to the average stock of unemployment beneficiaries): in the late 1990s, total sanctions per year represented around 10% of the average claimant stock in the United Kingdom and the median across 14 countries was around 7%. With sanction rates increasing over time in the United Kingdom, the ratio for 2013 as calculated in Gray (2003) would be much higher today.[11]

Sanctions exist to get claimants to comply with requirements that will help move them into work. In the short term there is consistent evidence that sanctioned claimants can experience positive outcomes in terms of looking for work, leaving unemployment and entering employment (for an overview see e.g. Griggs and Evans 2010). There are few studies on the longer term impacts of sanctions. One exception is Arni et al. (2013) who find lower quality of post-unemployment employment outcomes with respect to job duration and earnings. Some studies also explore the wider consequences of sanctions and provide evidence that there may be adverse consequences for child welfare, family hardship, and health outcomes (Griggs and Evans, 2010). In the United Kingdom hardship payments are available for sanctioned individuals, but some concerns have been expressed about the application process which may be problematic for claimants who suffer from mental health issues (Bloch et al., 2013). Further research would be beneficial in all these areas.

Counselling interviews

Beyond the short fort-nightly job-search review meeting with assistant work coaches, claimants attend more in-depth counselling interviews – called *Work Focused Interviews* (WFIs) – with work coaches. Evaluations of the New Deal programmes have consistently pointed to the critical role of these one-to-one counselling activities. Work Coaches provide continuity of support for jobseekers and, where a good relationship is established, the likelihood of a positive outcome is increased.

Whereas all claimants must attend an initial NJI with a work coach, work coaches have flexibility on deciding the frequency, duration and content of follow-up in-depth WFIs. The majority of claimants have frequent meetings with a work coach: Bloch et al. (2013) reports that 41% of JSA claimants had two to three times a month and 13% met with a work coach on a weekly or more frequent basis. Almost 40% of claimants met just once a month or less than once a month.[12] In addition to the flexible meeting schedule, JSA claimants receive in-depth progress review every three months prior to the Work Programme start from April 2014.

During WFI work coaches may also refer claimants to training, other labour market programmes, or encourage claimants to participate in voluntary activities, to improve their employment prospects. Drew et al. (2010) offer a qualitative evaluation through conversation analysis, on how JCP staff and staff contracted providers manage WFIs and on how claimants respond to these different strategies, to establish, which techniques were more effective at helping claimants move closer to the labour market. Their findings highlighted the importance of a claimant-focused in contrast to a more process-led approach and they found that advisers were more effective when adopting a collaborative but nevertheless directive style, being positive and proactively following up with claimants and challenging claimants to engage actively in jobseeking.

Impact evaluations of different placement strategies are rare. OECD (2013) summarises a number of studies for Switzerland, which considered the impact of different placement strategies on the average duration of unemployment periods or employment rates. The reported success factors include the use of work-first strategies giving priority to job placement over training measures; the organisational separation of counselling and sanction processes; recruitment of motivated and highly trained personnel with good staff/client ratios; a rapid start of the re-integration process and strong guidance by competent caseworkers; "tough" rather than more co-operative attitudes of caseworkers to their clients. Furthermore of importance were good staff relationships with employers, in particular knowledge of employer needs and careful use of direct referrals, rapid reaction to vacancies, careful pre-selection of candidates, and co-operation with private placement agencies. Whereas one study reported that increased employment is not obtained at the cost of reduced stability of the subsequent jobs (Behncke et al., 2010), another study found that although warnings and sanctions increase exits to employment they also reduced subsequent earnings, while sanctions also reduced the duration of subsequent jobs (Arni et al., 2013). Although rapid placement is given considerable weight in Switzerland when measuring local office performance, repeat unemployment is also taken into account (with a negative weight) so as to give some weight to the job-stability objective. Activation strategies should not necessarily seek to achieve take-up of the first available job, but ideally should maintain steady pressure and provide ongoing assistance, to ensure that no opportunities for a reasonably good job match are missed.

In the fiscal year 2011/12[13] JCP had 15 890 personal advisers (now called work coaches) serving JSA claimants in terms of full-time equivalents (FTE). The average caseload of a personal adviser varies across JCP districts, ranging from 118 cases per adviser to 213 cases per adviser with a national average of 168 (NAO, 2013). This suggests that the ability to tailor the length and frequency of meetings to claimants' needs is possible in some districts, but rather constrained in others. Plotting local claimant count ratios against staff ratios suggests that staff levels are not necessarily adjusted to reflect local labour market performance (see Figure 3.4). A number of areas with higher proportions of the population claiming JSA also face staff ratios well above the national average, suggesting that advisers in these areas will have difficulties to provide the necessary level of service. These wide variations in caseload per adviser suggest that further efficiencies may be possible. The findings for Switzerland showed that good staff/client ratios are associated with lower unemployment duration and also DWP analysis suggests a link between the time advisers spend with clients and off-flow from benefits (NAO, 2013).

JCP performance measures

JCP performance used to be measured through a system of targets, including job outcomes, interventions completed on time, claimant and employer service satisfaction, reduction of fraud and error, and clearance time targets for processing of benefit claims.[14] The current Government wanted to move away from activity targets because they require a detailed understanding of the marginal value from each activity, reduce focus on outcomes, are costly to gather and could drive inappropriate behaviour. JCP now operates with only two targets: *i)* off-flows from benefit and *ii)* reducing the monetary value of fraud and error.

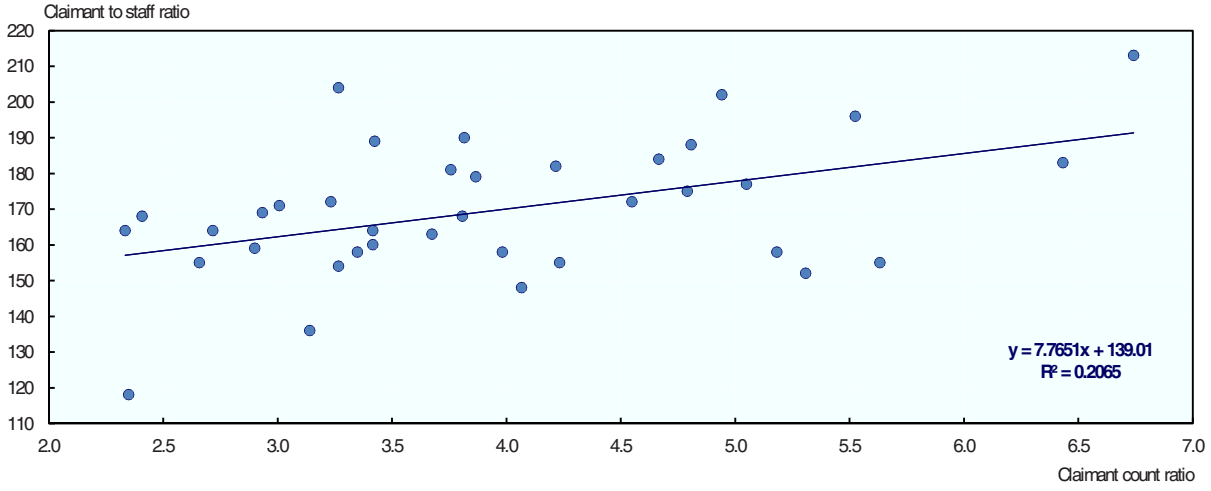
An off-flow from benefit performance measure can be effective in giving JCP staff an incentive to ensure that only jobseekers who are available for and actively seeking work remain on JSA. For example Tu and Ginnis (2012) report that around 10 of JSA

claimants were not looking for work and thus not complying with JSA regime. Off-flows from benefit, however, do not measure JCP's performance with respect to moving people into employment as they only track the end of benefit claims and the Employment Related Services Association (ERSA) questioned whether the current target could encourage sanctioning as a measure to get people off benefit (WPC, 2013). The target has been chosen mainly because JCP holds only incomplete information on claimant destinations and does not routinely gather claimant feedback on whether JCP has helped them moving into employment, as this is not considered cost effective (HM Government, 2014).

DWP does not specify target levels for the two performance measures. It only states that an increase in the first indicator and a decrease in the second one would demonstrate an improvement. Even though DWP has not set national targets, NAO (2013) reports that JCP districts have targets for the proportion of claimants flowing off JSA by 13 weeks, 26 weeks, and 52 weeks. The targets for the fiscal year 2011/12 were 53% off-flow for 13 weeks, 72% for 26 weeks and 88% for 52 weeks. These targets present national averages and JCP districts have different off-flow rates targets to reflect their local labour markets (NAO, 2013).

Figure 3.4. **Areas of high unemployment are likely to suffer from high claimant to staff ratios**

JCP districts, April 2011 to March 2012



Source: NOMIS (database), www.nomisweb.co.uk/; and NAO (2013), "Responding to change in jobcentres", www.nao.org.uk/wp-content/uploads/2013/03/Job-Centres-Full-report.pdf.

An off-flow from benefit indicator favours gaming behaviour by JCP offices, which can achieve district targets by repeated placements into unstable jobs rather than single placements into a stable job. This is quite different to the performance expectations for Work Programme providers who need to achieve at least 13 weeks of employment for participants (see Chapter 4). Even when using only off-flow from benefits (rather than employment outcomes), options exist to reduce potential gaming behaviour, reduce average benefit duration and incentivise realisation of stable job outcomes. Switzerland has a performance measurement system with four main indicators (with different weights applied) based on benefits information only (Kaltenborn and Kaps, 2013):

- Quickness of re-integration into the labour market, measured by the average duration of unemployment benefit entitlement by claimants flowing of unemployment benefits (weighting 50%);
- Prevention of long-term unemployment, measured by the share of those remaining unemployed after 13 months among those who have registered as unemployment-benefit recipients 13 months before (weighting 20%);
- Prevention of benefit exhaustion, measured by the share of unemployed no longer entitled to unemployment benefits among those who have registered as unemployment-benefit recipients 24 months before (weighting 20%); and
- Preventing repeat claims, measured by the share re-applications among claimants flowing off unemployment benefits two to four months before (weighting 10%).

Using real-time earnings information in the UC system (see Chapter 2), it will be possible to implement a better performance measure based on employment outcomes. Under UC also a new dimension becomes important: Whether claimants are in-work claimants of UC – with or without conditionality being applied – or have wholly moved off benefit, including in-work benefits. JCP and Work Programme providers should have an incentive to reduce the amount of in-work benefits being paid to UC claimant, which could have a major impact on the quality of jobs claimants move into. For example currently JCP staff (and Work Programme providers) have no incentives to help lone parents move into work of more than 16 hours, as this is the point when JSA stops being paid and lone parents become eligible for WTC. As the last section in this chapter shows, the vast majority of lone parents moving into employment move into part-time work in lower level elementary occupations and earn wages around the NMW.

DWP should therefore consider how to integrate real-time earnings information into the performance management framework of JCP in order to establish the impact JCP has on employment. HM Government (2014) recently stated:

> *"Measures are being developed to make full use of this [real-time earnings] information in order to drive performance in Jobcentre Plus and measure job outcomes. This includes plans to pilot employment-related performance measures. Part of this is testing the applicability of employment measures to different groups of claimants; for instance, speed of movement into work vs duration in work vs earnings progression whilst in work".*

Referrals to active labour market programmes

During longer unemployment periods, referrals to active labour market programmes can help improve employment prospects and keep up work habits through the regular attendance in programmes. As part of the JCP offer, JCP staff have a range of employment and training programmes available to help moving claimants off benefit and into employment. With the constraint of achieving value for money, all referrals to other programmes prior to the Work Programme are at the discretion of JCP staff. JCP staff can encourage claimants to participate in voluntary activities or refer them to labour market programmes on a voluntary or mandatory basis. Most programmes have been subsumed under the label *Get Britain Working* and the *Youth Contract* (see Box 3.5), which generally refer to pre-Work Programme employment programmes.[15] The remainder of the section covers placement related programmes, work experience programmes and start-up incentives, while training programmes are subject of the next section. A range of additional services and programmes is available for people with a disability or health problem. Box 3.3 provides an overview.

Box 3.3. Disability Employment Services

Additional services are available to disabled people with complex support needs that cannot be met through regular employment support to support them to find work or self-employment, progress in the workplace or, where appropriate, move into open unsupported employment. Services are not restricted to disabled people claiming income-replacement benefits but other persons with a recognised disability (usually as defined in the Equality Act 2010). The *Access to Work* programme is not available to persons claiming income-replacement benefits (or National Insurance credits).

Disability Employment Advisers

Disability Employment Advisers are Jobcentre Plus (JCP) staff specialised in helping persons with a disability find jobs and refer them to other employment support. Disability employment advisers inform disabled JCP customers about and make referrals to *Work Choice*, residential training and the Access to Work scheme.

Remploy

Remploy was established in 1945 to provide sheltered employment for disabled people and those with complex barriers to work through its network of factories. In 1988 Remploy broadened its services to help disabled people find employment outside its factory network. In 2012, following the recommendation in the government-commissioned Sayce Review (Sayce, 2011) the Government announced a major shift in disability employment funding with a stronger focus on effective programmes (like Access to Work) and on providing choice to the people concerned, and away from traditional funding of sheltered workplaces in highly inefficient companies. Following some earlier closures, the remaining 54 Remploy factories were closed or sold throughout 2012 and 2013.

Remploy continues to operate its employment services function and receives a grant-in-aid from DWP in exchange for delivering Work Choice services to help people with a disability or health condition find a job or remain in employment. Remploy employment services operate a network of 60 town and city centre recruitment branches and offices providing specialist recruitment and development services to jobseekers.

Work Choice

Work Choice is a contracted out employment programme to help people with disabilities and long-term health problems find work or self-employment, progress in the workplace or move into open unsupported employment where their needs cannot be met through other programmes (e.g. Work Programme, Access to Work scheme or workplace adjustments). This might be because they need more specialised support to find employment or keep a job once they have started work. Work Choice follows a modular approach which covers work entry support, short to medium term in-work support in the first two years of employment and longer-term in-work support, which is not time limited. Box 4.5 in Chapter 4 provides a more detailed overview on the Work Choice commissioning model including the market structure and payment model, and also some details on access to the programme and outcomes over the first three years of the programme.

Access to Work

The ***DWP-run scheme*** is targeted at workers and the self-employed and provides flexible grants to workers and their employers for practical work support, typically for specialist equipment or transport to work. As of 2012 Access to Work has been redesigned to also support those experiencing depression, anxiety, stress and other mental health issues affecting their work.

Residential Training Colleges

Residential Training Colleges provide training for unemployed disabled adults, where there are no other suitable courses available. Referrals are usually made by JCP disability employment advisers. There are nine residential training providers located throughout England, but none in Wales or Scotland. Colleges offer a combination of guidance, work experience and qualifications.

Box 3.3. **Disability Employment Services** *(Cont.)*

Right to Control Trailblazers

The ***Right to Control Trailblazers*** gave disabled adults choice and control over certain public funding they receive to manage their daily lives on a trial basis between December 2010 and December 2013. The Right to Control Trailblazers brought together a wide range of cross-government support including housing, social care, and employment support. DWP provided each pilot area with a grant to help set up and deliver the Right to Control Trailblazers. For the period of the trials the participating pilot areas had a duty to inform new eligible customers for how much support they were eligible to receive and then decide and agree what outcomes they wanted to achieve, with the public body administering the funding. Participating disabled adults had the choice to continue receiving support as provided before the trial began, ask the public body to arrange alternative support, receive a direct payment and buy their own support or a mixture of these options (Tu et al., 2013).

The evaluation did not find any evidence of the Right to Control having a significant positive impact on customers either in terms of their experiences of applying for and organising support or services, or in terms of their day-to-day lives, including employment outcomes. The primary potential explanations for this are that many customers were not following the intended customer journey and that provider markets were not yet sufficiently developed to offer meaningful choice. Trailblazers were working to overcome these issues but success depended on a considerable culture change among staff, customers and providers, which could not be fully realised within the relatively short timeframe of the pilot.

Source: DWP (2013), "Work choice provider guidance", www.gov.uk/government/publications/work-choice-dwp-provider-guidance; Remploy webpage, about us, www.remploy.co.uk/about-us.ashx; DWP (2013), "New chief executive announced for Remploy"; DWP Press release, 12 December, www.gov.uk/government/news/new-chief-executive-announced-for-remploy; The Guardian (2012), "Remploy factory closures to put 1 700 disabled people out of work", 7 March, www.theguardian.com/society/2012/mar/07/remploy-factory-closures-disabled-workers?INTCMP=SRCH; Tu, T. et al. (2013), "Evaluation of the Right to Control Trailblazers: Synthesis Report", Office for Disability Issues Report, http://odi.dwp.gov.uk/odi-projects/right-to-control-trailblazers/research-and-statistics.php; Sayce, L. (2011), *Getting in, Staying in and Getting on: Disability Employment Support Fit for the Future*, Department for Work and Pensions, London.

Placement-related programmes

A first point of call for work coaches will usually be the *JCP support contract* to complement their work into getting people into work as quickly as possible. The provision available through the JCP support contract consists of various training and other modules to complement the placement function of JCP staff. The modules are generally divided into two types: *i)* the improving job search modules, primarily for JSA customers including modules on acquiring/updating job-search skills, resources and support for claimants applying for vacancies, as well as gaining "soft" skills in order to find and keep a job; and *ii)* the getting ready for work modules, primarily for benefit claimants who do not face full work-search conditionality, including advice and coaching support, (vocational) training options, work experience placements, and mentoring support before and after taking up employment. Delivering modules for claimants with different levels of conditionality, the JCP support contract amalgamated a wide range of pre-existing provisions under one umbrella. Prior to its introduction in December 2009 this type of provision was delivered through mandatory and voluntary New Deal contracts and other contracts. The support contract provision is divided into 24 contract package areas (CPA), with one prime contractor operating in each of them. Payments are based on a 100 service fee and the current contracts run from December 2009 to December 2014 (with a possible extension by two years). Official statistics on the number of starts or participants are not available. The JCP offer evaluation highlighted the

inflexibility of the JCP support contract's modular format (e.g. availability of places, timing of training) and also in the perceived quality of the provision (Bloch et al., 2013). Problems highlighted in the evaluation may be addressed through a different commissioning model, which allows competition between providers by allowing JCP offices freedom to choose from a number of framework providers.

The *Flexible Support Fund* (FSF), with a total expenditure of GBP 122 million in 2012/13 (WPC, 2014), is seen as an integral part of the JCP offer (HM Government, 2014). Where no funding from other routes is available, JCP staff can use this fund to address claimant's barriers to work (e.g. pay for a certification) and pay for travel expenses for job interviews. The FSF may also be used to pay for training courses, where provision through other funding is limited. Where money is available towards the end of the year, JCP districts also use the FSF to pay grants for small scale programmes for specific target groups delivered by public and voluntary organisations (DWP, 2013d). The first year of the JCP offer evaluation reported widespread underuse of the FSF but during the second year there were notable changes to advisers' confidence in using this type of flexible fund. However, the process low-value procurement was still viewed as being long and onerous (Bloch et al., 2013). An impact analysis of the FSF has been rejected on the grounds that it would be difficult to disentangle its impact from other interventions within the scope of the JCP offer (HM Government, 2014).

Finally, claimants who have not moved into sustainable employment after two years of participating in the Work Programme will receive support through the *Help to Work* scheme from April 2014. Claimants on the Help to Work scheme will receive intensive support through attending JCP offices on a daily basis or have to take part in a community placement or training scheme. An estimated GBP 345 million will be invested for the programme, with around 4 000 staff being retained in JCP to deliver the programme (WPC, 2014).[16] The Help to Work scheme is based on findings from the *Support for the Very Long-Term Unemployed* (SVLTU) trailblazer scheme (see Box 3.4). This small-scale pilot was designed to test potential support options for long-term claimants who remain on JSA after completion of the Work Programme.

Box 3.4. Support for the very long-term unemployed trailblazer scheme

The *Support for the Very Long-Term Unemployed* (SVLTU) trailblazer scheme was a Department for Work and Pensions (DWP)-led pilot programme, which ran from November 2011 to July 2012. The pilot was designed as a randomised control trial to test potential support strands for long-term unemployed who remain on Jobseeker's Allowance (JSA) after completion of the Work Programme. An impact analysis from the SVLTU scheme suggests small but positive outcomes with a reduced time on benefit and increased time in work for participants assigned to the treatment groups. A cost-benefit analysis of the pilot has not been published.

Overview

Within four participating Jobcentre Plus (JCP) districts, long-term JSA claimants who had completed the Flexible New Deal (see Chapter 4) were randomly allocated to one of three SLVTU strands for a six months treatment period. The three strands were:

- ***Community Action Programme*** (CAP)*:* A six-month work placement complemented by provider-led supported job search. Providers were contracted by DWP to source placements for claimants which delivered a community benefit for a maximum of 30 hours a week, which did not displace paid jobs. The provider also needed to maintain weekly contact with participants and provide up to 10 hours a week of job-search support. Claimants still had to attend *Fortnightly Jobsearch Review* (FJR) meetings at JCP;

Box 3.4. **Support for the very long-term unemployed trailblazer scheme** *(Cont.)*

- ***Ongoing Case Management*** (OCM)*:* A more intensive offer of flexible and personalised adviser-based support, as well as a set of mandatory activities, delivered by JCP through increased adviser interventions, including more frequent signing, daily or weekly, at the discretion of the adviser; and
- ***The control group****:* FJR meetings plus additional appointments with JCP advisers based on advisers' discretion and access to a menu of back-to-work support.

The aim of the design was to allow the outcomes and experiences on two new support options to be compared against each other and against the control group. Participation in all three programme strands was mandatory and claimants who failed to attend their work placement or participate in mandatory activities could have had their benefits stopped for up to 26 weeks.

For claimants assigned to the OCM and CAP strands there was a three-month notification period during which claimants received monthly letters informing them about their allocation to one of the three trailblazer strands, and outlining what would be involved. The notice period was built into the design of the programme in order to see to what extent advanced notice influenced people to sign off JSA prior to starting one of the programme strands.

Participant characteristics

The majority of SVLTU participants were male, nearly one half were aged 40 or over and a third reported having a long-term illness or disability. 23% had not worked for five years or more, and a further 7% had never worked.

JCP and CAP provider staff reported that the SVLTU participant group tended to have complex needs and a range of different challenging barriers. These included very low motivation, low confidence, ill-health and disability (including mental health problems and learning disabilities), drug and alcohol dependency, low literacy and numeracy, and criminal records.

Programme impacts

In comparison to the control group, by the end of a 91-week tracking period those assigned to CAP and OCM had spent 21 and 26 days fewer days, respectively, on an out of work benefit. Larger falls in JSA/Training Allowance days (31 and 36 days, respectively) were partially offset by increases in days on incapacity benefits (10 days in each case). At week 91, the percentage on a benefit was lower by 2 points for the CAP group and by 4 points for the OCM group. The likelihood of those assigned to CAP and OCM being in recorded employment was 4 percentage points higher than for those in the control group at the point of highest impact (weeks 47 and 38, respectively). Overall the CAP and OCM participants spent 9 and 11 more days in employment over the 91-week tracking period.A sub-group analysis suggests that OCM was effective across all age categories, but in particular those aged 50 years and over. It is also effective for participants that self-identified as having a long-term illness or disability. This is consistent with the view that the flexible and tailored nature of OCM makes it effective in addressing a wide range of barriers. CAP impacts were significant for participants aged 25 and over. However, impacts for younger participants and those with the disability marker were not statistically significant, suggesting that the barriers these groups face are not being addressed through the CAP option. Instead CAP support may be better suited to participants whose main barriers are a lack of recent work experience, motivation or work ethic.

Whether the small, but positive, impacts are large enough to generate a net cost saving for government and net benefits to society as whole remains to be answered as a cost benefit analysis beyond the impact analysis has not been published.

Source: McAuley, A. (2013), "Support for the very long term unemployed trailblazer longer term analysis of benefit impacts", Department for Work and Pensions, *Ad hoc statistical analysis 2013 – Quarter 4*, www.gov.uk/government/collections/ad-hoc-statistical-analysis-2013-quarter-4; Portes, J. (2013), "The 'Help to Work' pilots: success, failure or somewhere in between?", National Institute of Economic and Social Research Blog, 29 December, http://niesr.ac.uk/blog/help-work-pilots-success-failure-or-somewhere-between; and Rahim, N. et al. (2012), "Evaluation of support for the very long-term unemployed trailblazer", *DWP Research Reports*, No. 824, www.gov.uk/government/organisations/department-for-work-pensions/about/research.

Furthermore a JEP-led pilot programme, which will require claimants to undertake supervised job-search activity at a local JCP office for 35 hours a week for up to 6 months, was announced in October 2013. Two pilots are due to be run: one targeting the very long-term unemployed, and the other focusing on JSA claimants who are identified as likely to benefit from this intensive regime early on in their claim (DWP, 2013e).

Work Experience Programmes

There are a number of programmes, which offer claimants work experience. Participation for claimants referred to *Mandatory Work Activity* (MWA) programme is compulsory and claimants who do not comply may be referred for a benefits sanction. Participation in the other work experience programmes Work Experience (see Box 3.5), Sector-based Work Academies and Work Together is on a voluntary basis.

Box 3.5. **Youth Contract**

In response to the challenge of youth unemployment the Government announced the Youth Contract to help young unemployed people get a job. The Youth Contract was launched in April 2012 and consists of a number of separate active labour market programmes, some of which are exclusively available to young people under 24. Due to the overlap of employment and education policies some of the available programmes differ between England, Scotland and Wales.

In autumn 2013, the UK Government announced the introduction of a new requirement for young people who have not achieved a level 2 qualification in maths and English to continue studying these subjects until age 19. For young JSA claimants this will start with a pilot scheme under which young JSA claimants without level 2 qualifications in English and maths will be are required to do up to 16 hours per week of training alongside job search. After six months on JSA, claimants will be required to participate in a work experience placement, a traineeship or community work placement.

Wage incentives

A wage incentive is available to employers who recruit an 18-24-year-old who has been receiving benefits for at least 6 months if they employ the young person for 16 hours per week in a job lasting more than 26 weeks. There are two rates: For part-time work between 16 and 29 hours a week the wage incentive is GBP 1 138, paid 26 weeks after the employee started work. For full-time work of 30 hours or more a week the wage incentive is GBP 2 275. The wage incentive is available for young people hired through Jobcentre Plus (JCP), the Work Programme or Work Choice.

In a survey among employers claiming the wage incentive around a fifth reported that they created an extra vacancy in response to the wage incentive and a third reported it influenced the likelihood of keeping somebody for at least six months. When asked about that Government could do to encourage the recruitment of young people the most common response (28) among surveyed employers was to "Increase opportunities for young people to increase their skills". Interviews with JCP employer engagement staff revealed that JCP staff felt that the scheme did not have a large impact on employers' decisions to hire a young person (Coleman et al., 2014).

A new wage incentive through the abolition of employer National Insurance Contributions (NICs) for young people under 21 years has been announced recently. From April 2015 employers will not have to pay NICs for employees under 21 years earning less than GBP 813 per month, equivalent to the point at which higher rate tax is charged. HMT (2013b) estimates that nearly 1.5 million under-21 year-olds will be lifted out of employer NICs completely, with an average saving for employers of GBP 355 per employee. Such a reduction in payroll costs for young people could have a positive impact on youth employment, but it may come at a high cost per job created.

Box 3.5. **Youth Contract** *(Cont.)*

Work Experience

Originally part of the *Get Britain Working* measures *Work Experience* exists since 2011 and is primarily designed to help young people aged 16-24 years gain the experience they need to secure a job. The Work Experience scheme is only available before a claimant enters the Work Programme. Once they enter the Work Programme, any such work experience is organised by the provider. From 1 April 2013, work experience is primarily funded from the Youth Contract and is guaranteed to claimants aged 18-24 years only. Claimants aged 25 years and over will still be offered places on these schemes where local availability exists.

JCP works with employers to secure work experience placements lasting two to eight weeks. Young people undertaking a work experience placement continue to receive their benefit and are expected to look for permanent work. Placements may be extended by up to four weeks, where an employer makes an offer to take the young person as an apprentice. Take-up of the offer is voluntary. However, once started it is mandatory for claimant to finish the experience. Between April 2012 and March 2013 there were almost 69 000 Work Experience starts, representing around 5 of the JSA claimant on-flows under 25 years over the same period. An early impact analysis of the scheme cautiously suggests that the Work Experience reduced the likelihood of claimants being on benefit and increased the likelihood of being in employment (Ainsworth et al., 2012).

Apprenticeships

As devolved matter apprenticeships are organised differently in England, Scotland and Wales. In all three countries employers offering apprenticeships receive support to set up apprenticeship schemes and receive funding for training through the National Apprenticeship Service in England (part of the Skills Funding Agency), Skills Development Scotland or the Welsh Government. Funding for training is usually available for young people over 16, with different age limits in the three countries.

Apprenticeship Wage Incentives in England and Scotland

Wage incentives are available to some employers recruiting apprentices in England and Scotland, although eligibility conditions vary between the two countries.

In England, employers with up to 1 000 employees who have not stated an apprentice in past 12 months and who take on one or more apprentices aged 16-24 can apply for an apprenticeship grant of GBP 1 500 per apprentice up to a maximum of ten grants.

In Scotland employers recruiting a young person aged 16-24 who is a care leaver, ex-young offender or young carer as an apprentice can receive an employer recruitment incentive of GBP 1 500. As part of an initiative linked to the 2014 Commonwealth Games employers recruiting an apprentice aged 16-19 in a sports or 2014 Games-related discipline also can receive a recruitment incentive of GBP 1 500. Furthermore, employers who take on an apprentice who has been made redundant from another employer can receive up to GBP 2 000.

Additional support for disengaged 16-17 year-olds in England

In England an additional provider-led programme aimed at 16-17 year-olds who are not in education, employment or training started in 2012. It is contracted out by the Education Funding Agency which works in partnership with the Department for Education and DWP. The programme gives providers freedom to address young people's individual needs and is strongly based on payment by results, incentivising providers to help young people to reengage sustainably in education, training or employment with training.

For each participant providers can receive service fees, re-engagement and sustainability payments up to a maximum of GBP 2 200 for each participant. From September 2013 service fees represent a maximum of 10% and re-engagement payments a maximum of 30%, although providers were able to bid with different proportions and different total values per participant. Re-engagement payments can be claimed where the young person participates in full-time education funded by the Education Funding Agency, in an apprenticeship or a job with accredited training equivalent to 280 guided learning hours per year (around one day per week) or in part-time education, including re-engagement provision, funded by the Education Funding Agency. Sustainability payments can be claimed for sustained participation of at least five out of six months in all options apart from the part-time education.

Box 3.5. **Youth Contract** *(Cont.)*

Source: SFA – Skills Funding Agency (2013), "Funding Rules 2013/2014 Version 3", www.gov.uk/government/publications/sfa-funding-rules; Welsh Government (2013), Apprenticeships in Wales, wales.gov.uk/topics/educationandskills/skillsandtraining/apprenticeships/?lang=en; Skills Development Scotland, www.skillsdevelopmentscotland.co.uk/; National Apprenticeship Service, www.apprenticeships.org.uk/; Education Funding Agency (2013), "Youth Contract for 16 and 17 year olds – Successful bidders", www.gov.uk/government/publications/youth-contract-list-of-successful-bidders; Young People's Learning Agency (now Education Funding Agency), DfE and DWP – Department for Education and Department for Work and Pensions (2012), "Youth Contract – Support for 16-17 year olds who are not in education, employment or training"; HMT (2013), *Autumn Statement 2013*, www.gov.uk/government/publications/autumn-statement-2013-documents; Coleman et al. (2014), "Evaluation of the Youth Contract wage incentive: Wave two research", *DWP Research Reports*, No. 864, www.gov.uk/government/organisations/department-for-work-pensions/about/research.

Mandatory Work Activity

MWA was first announced in "Universal Credit: a welfare that works" (DWP, 2010) and commenced in May 2011 across Great Britain. JCP staff can refer claimants to mandatory work placements for up to 30 hours a week over a period of four weeks. MWA is not officially described as a job-creation programme, statements of its objectives tend to refer to work experience: The placement aims "… at helping the recipient develop the labour-market discipline associated with full-time employment such as attending on time and regularly, carrying out specific tasks and working under supervision" (DWP, 2010). DWP expects all MWA placements to be additional to any existing or expected vacancies and work delivered through the programme to deliver direct or indirect benefits to the local community. Between April 2012 and March 2013 there were over 98 000 referrals to MWA, representing almost 3% of the JSA claimant on-flows over the same period. Of the 98 000 referrals only around 38% resulted in starts, which suggests a strong deterrence effect of the programme (DWP, 2013f).

MWA is delivered by contracted providers, with one prime provider in each of 12 Contract Package Areas (CPAs). Payments are made on a 100% service fee. The fee reflects paying the provider for a block of work, including sourcing the placement, arranging and validating the start, and ensuring that the claimant either completes the placement or a referral is made for a decision as to whether they are sanctioned. JCP staff have the flexibility to refer claimants where they judge it to be appropriate. Evidence from the SVLTU trailblazer scheme suggests that referrals are not suitable for all types of claimants (see Box 3.5). JCP staff need to ensure they deploy resources appropriately, as in each CPA there is a strict annual limit on the number of MWA placements and it is not always easy for suppliers to secure sufficient placements (ICF GHK et al., 2012). As suggested before a profiling tool can assist JCP staff in making the best use of limited resources. A profiling tool using attitudinal data, however, carries the risk that claimants will answer as a function of how their answer impacts on their preferred outcome (e.g. a lack of work motivation will result in referrals to MWA).

A preliminary impact analysis by Hillmore et al. (2012), based on a small cohort from the early months of the MWA programme, reports the people referred to MWA had been on benefit for an average of 75 weeks in the past two years (104 weeks) and 24 weeks in the past 6 months (26 weeks). Of those referred to MWA, 46% did not start their MWA placement within 21 weeks. Among those who started, the time from referral to start averaged 17 days, with 80% starting in less than 21 days. Participants in MWA continued to receive benefits. It was estimated that average rates of benefit receipt for those referred to MWA (including both starters and non-starters) relative to a matched control group were

reduced by about 5 percentage points in weeks 4 to 10 after referral, then in weeks 10 to 20 after referral the estimated impact fell back to zero. This pattern indicates that that some claimants who were referred to MWA dropped their benefit claim before the MWA start date, but successfully reapplied for benefit between 10 and 20 weeks later.[17]

The estimated impact of referrals on employment rates as recorded in administrative data was, however, never positive and became slightly negative (-1.5 percentage points) by week 21. This could be because referrals to MWA resulted in some transfers to incapacity benefit (+3 percentage points by week 21) and other destinations (e.g. undeclared work, migrants), which then tended to persist (Hillmore et al., 2012). There is some uncertainty about the validity of these estimates because *i)* referrals to MWA are selected based on a work coach's judgement that the client is "lacking or failing to demonstrate the disciplines and behaviours needed to seek out and gain employment" (unobserved variables), and the matched control group was not identified as being disadvantaged in this sense; and *ii)* JCP work coaches discuss potential referrals with clients prior to actual referral, which may cause some to leave benefit before any actual referral; and the general possibility of a referral to MWA may influence behaviour of claimants even before any discussion. These types of deterrent effect are not covered in the impact estimate.

A survey of participants suggests that MWA may reinvigorate claimants' job search efforts and increase their motivation to move off benefits and find work (ICF GHK et al., 2012). The results of a set of qualitative interviews with MWA participants on the potential impact of MWA were more mixed. Whereas some saw the benefit of participation, others felt it was unlikely to make a difference (ICF GHK et al., 2012).

Sector-based Work Academies

Another Get Britain Working measure, *Sector-based Work Academies* exist in England since 2011 and in Scotland since 2012.[18] They are designed to improve the matching process and help jobseekers acquire relevant skills to increase their changes of securing employment with a participating employer. Participation is for up to six weeks in total, with three components: *i)* pre-employment training, relevant to the needs of participating employers; *ii)* a work experience placement; and *iii)* a guaranteed job interview. Oakley et al. (2013) identified two different forms of Sector-based Work Academies: employer-driven academies, where employers were setting up a new operation and worked with JCP and training provider to prepare job applicants; and provider-driven models, where providers sought to prepare candidates for a range of vacancies across a sector.

Participants remain on benefit and JCP pays for any travel and childcare costs whilst they are on the work experience placement. There is no direct cost to an employer for sector-based work academies as the costs are covered by DWP funding. Claimants participating in the training element of sector-based work academies remain in receipt of JSA and are not moved onto a training allowance. Almost 43 000 people started a Sector-based Work Academies between April 2012 and March 2013, representing around 1.2 total number of JSA claimant on-flows over this period (DWP, 2013f).

Work Together

Finally *Work Together*, also part of the Get Britain Working measures, is an initiative to encourage unemployed people to engage with the voluntary and community sector through volunteering in order to improve their skills and job prospects. Work Together is organised and delivered at the local level by JCP districts, with little involvement by central government. Official statistics on starts or participation in the scheme are not available.

Start-up incentives

As part of the Get Britain Working programmes, the *New Enterprise Allowance* (NEA) exists since 2011 and aims to help unemployed people who want to start their own business. McGuinness (2014) provides an overview on similar schemes by previous Governments since 1983. NEA is available to JSA, ESA WRAG claimants and lone parents on IS from the first day of their claim. People taking part in Work Programme or Work Choice provision are not eligible as corresponding support should be delivered by their provider.

Participants receive access to a business mentor who will provide them with guidance and support whilst developing a business plan and through the first six months of trading. Claimants who present a viable business proposition are then able to access financial support. This consists of a weekly allowance paid at GBP 65 a week for the first 13 weeks and GBP 33 a week for a further 13 weeks, and if they need start-up capital, they may also be able to access a loan up to GBP 1 000. In each of the JCP districts delivery of the scheme is assisted by a private or public sector provider, which were selected through competitive tendering. These include chambers of commerce, welfare to work providers and city councils. The bodies delivering the NEA receive a grant from DWP and have to meet performance targets for matching participants to business mentors and other key performance indicators or otherwise risk having to repay part of the grant received (Atkinson et al., 2013).

Referrals to training programmes

Qualifications and skills have an important impact on labour market outcomes. As the *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills* (OECD, 2013b) shows, proficiency in literacy, numeracy and problem solving in technology-rich environments is positively and independently associated with the probability of participating in the labour market and of being employed and earning higher wages across the OECD. The survey shows that in a comparison of unemployed individuals across participating countries unemployed individuals in England and Northern Ireland have among the lowest literacy scores. This is important as across participating countries the impact of literacy on the likelihood of being employed is the second highest for England and Northern Ireland after Sweden (see Chapter 1).

As also mentioned in Chapter 1 adult education policies are within the remit of the Department for Business Innovation and Skills (BIS) in England and as devolved matters within the remit of the Scottish and Welsh Government. To ensure unemployed people getting the education and skill training they need a joined up approach between education and skills policies and employment policies is needed. This has already been stressed in an influential report by Lord Leitch in 2006 (Leitch, 2006) and has been reinforced by the current Government (BIS, 2010). Further Leitch stressed the importance of the vocational skills system to be demand-led to ensure that the needs of individuals and employers are met.

The remainder of the section finds *first* that the United Kingdom adheres to its strong work-first principles also in the context of skills training through recent changes in JSA benefit rules. *Second*, with a myriad of actors involved in the provision of skills training there is a risk to the effectiveness of training provision for the unemployed. *Third*, current approaches to skills screening are inconsistent and may result in ineffective ways of skills provision. *Fourth*, the impact on employment of mandatory referrals to skills advice and training is not clear. Furthermore, higher costs associated with mandatory participants may encourage cream-skimming if not addressed accordingly. *Fifth*, fully-funded training for unemployed usually addresses basic skills needs in courses with relatively low weekly hours, consistent with continued receipt of JSA. *Sixth*, job-outcome payments may have helped to increase the responsiveness of providers to unemployed participants. In addition, better targeting of funds could be achieved by giving funds for skills training for disadvantaged unemployed directly to JCP and Work Programme providers.

Unemployment benefits and training

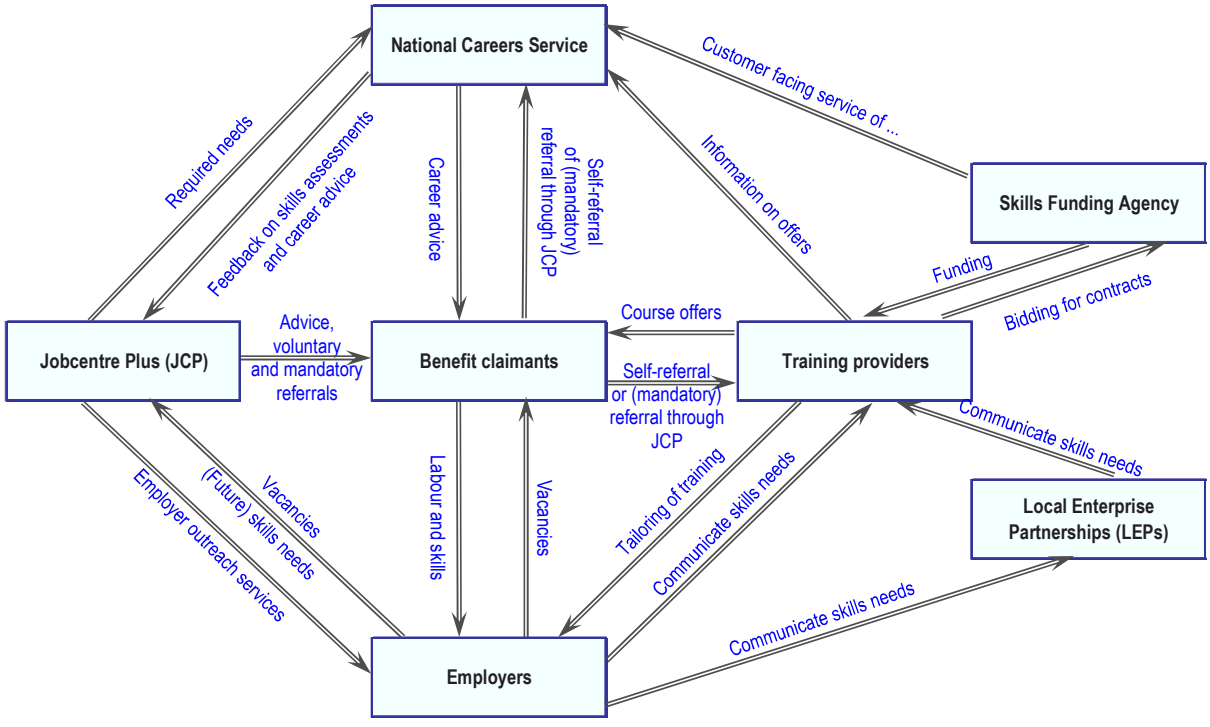
The United Kingdom's work-first approach is also reflected in a new policy introduced in autumn 2011. Since then, claimants who have been in receipt of JSA for six months or more and are referred to training of up to 8 weeks duration and up to 30 hours per week can remain on JSA rather than transferring to a training allowance.[19] This means that claimants need to continue to attend job-search reviews whilst attending the training to confirm that they are available for and actively seeking work. The arrangements can be varied where appropriate to fit around training provision.

In the first six months of a JSA claim people on training for more than 16 hours a week will in most circumstances not be eligible for JSA, but claimants may be moved to a Training Allowance for the duration of the training. Claimants undertaking a traineeship are exempted from this rule (HMT, 2013b).

Principal actors in training programmes for the unemployed in England

Figure 3.5 shows the interactions between six principal actors in training for unemployed benefit claimants in England: JCP, the Skills Funding Agency (SFA), the National Careers Service, training providers, employers, and local enterprise partnerships (LEPs). Not shown are Work Programme providers who have a role similar to JCP, once benefit claimants joined the Work Programme. Also not shown is the UK Commission for Employment and Skills (UKCES), provides labour market intelligence to help businesses and individuals in their decisions about skills investments (see Chapter 1).

Figure 3.5. **Principal actors in training and skills provision for the unemployed in England**



Source: Author's analysis.

Where a skills need is identified JCP staff may refer benefit claimants on a voluntary or mandatory basis to a training provider or the National Careers Service. Benefit claimants may also self-refer to the National Careers Service or training providers and depending on the training type may receive funding for the training (see further below for details). The National Careers Service provides careers information, advice and guidance and may suggest referrals to skills training. The National Careers Service in turn is – together with the National Apprenticeship Service (not shown in Figure 3.5) – a customer service of the SFA.

The SFA is a partner organisation of BIS and is responsible to fund and promote further education for adults[20] and skills training in England, including Traineeships and Apprenticeships. Working in line with the annual budget, targets and priorities set through a Skills Investment Strategy the SFA allocates funding to colleges and providers (BIS, 2010). Colleges and providers have discretion over expenditure to facilitate a demand-led approach in meeting the needs of local businesses and communities, although there are restrictions to which type of training is funded (BIS, 2014).

The SFA allocates funding to training providers following a two-stage tendering procedure. Providers first need to pass a Due Diligence Assurance Gateway to be included in the SFA's provider register. The application process consists of two elements: submission of financial statements and an online questionnaire. These are then evaluated to determine whether organisations pass or fail the gateway. Providers included in the SFA's register are then eligible to be selected to be invited to tender for the provision of education and training services.

Employers as recruiters of benefit claimants may influence the provision of skills training either directly or indirectly. Employers may approach or be approached by JCP and training provider engagement staff to share information about vacancies and skills needs. They might also influence training provision indirectly through engagement with Local Enterprise Partnerships (LEPs). LEPs are locally-owned partnerships between local authorities and businesses and play a central role in determining local economic priorities and undertaking activities to drive economic growth, including identifying skills needs of their local area and the creation of local jobs. LEPs often build on pre-existing structures to create new skills groups with a remit for developing a new skills strategy for growth (Oakley et al., 2013). LEPs do not receive any dedicated funding from central government and need to secure other public and private funding. There are currently 39 LEPs in England in operation.[21] With LEPs being relatively new institutions their impact on providing strategic demand-led steers for skills requirements in the local labour market remains unclear at this point.

The effectiveness of training provision for the unemployed is threatened by the myriad of actors involved. Oakley et al. (2013) notes that with current structures being only established recently, there has been a lack of understanding of each other's roles in some cases. However, during their study between November 2011 and May 2012 relations improved and for example a co-location of JCP and the National Careers Service had broken down barriers to working. Working in partnership was improved where relevant organisations employed staff whose role was dedicated to building and maintaining relationships. Once effective working relationships are established, consistency in the governance structures is important (Leitch, 2006). Over the last four years many organisations in the regional development, employment and skills areas have been renamed or governance structures have changed.[22]

Even with better working relationships referrals by JCP and the National Careers Service may sometimes not be effective due to difficulties in obtaining information on the available skills offers. JCP aims to provide some information to its staff through the *District Provision Tool*. This is, however, not always up to date and neither the National Careers Service nor training providers have direct access to the tool to obtain information and update it (Oakley et al., 2013). Referrals to providers are not usually made on the basis of an impartial assessment of quality and performance of providers, but based on past experience and word of mouth, which might impose difficulties for new providers without established relationships (Oakley et al., 2013).

Some of these issues have been recognised in the policy paper *Rigour and Responsiveness* (DfE and BIS, 2013) which highlights: *i)* the need for better capability and partnership working between training providers, JCP and Work Programme providers; *ii)* the need for better communication with the unemployed about the opportunities that are available to them; and *iii)* better incentives for training providers to achieve employment outcomes, which are expected to encourage greater joint working between providers and employers.

Skills screening

A skills need is usually identified by a JCP work coach or by jobseekers themselves. A formal profiling procedure does not currently exist in JCP. To identify skill needs JCP work coaches may sometimes use the Customer Assessment Tool or more frequently their own judgement based on conversations with the claimant or through observing them filling forms (Oakley et al., 2013). JCP staff then may refer claimants to training providers. In England this will usually be training funded through the SFA. In Wales training will generally be through Skills for Work provision funded by DWP, and in Scotland through Training for Work or Get Ready for Work provision funded by Skills Development Scotland. Instead of referring claimants directly to a training course, they can also be referred to an initial interview with a training provider for further assessment of their needs. Oakley et al. (2013) found that colleges and training organisations usually use formal skills screening processes, with almost all claimants referred to them undertaking literacy and numeracy assessments.

Instead of referring claimants to training providers, JCP work coaches have the option of referring claimants to the National Careers Service. The further assessment of needs and career advice is mainly delivered through interviews, but counsellors can also use a Skills Health Check tool, which helps participants to match their interests and experience to careers, but does not screen for basic skills needs.

Approaches to skills screening seem inconsistent and may result in ineffective ways of skills provision. This has been recognised (DfE and BIS, 2013) and a number of measures are being put in place or have been announced to address this:

- From April 2014 upfront job search is introduced for JSA claimants (HMT, 2013a): Claimants are asked to set up an email account, register on Universal Jobmatch on or before the day they make a claim for benefits. When the claimant first attends JCP their Work Coach will use these items to make an assessment of the claimant's skills level.
- JSA claimants applying online for JSA are also signposted to the National Careers Service's online offer and the Skills Health Check tool.

- From October 2014 DWP will require JSA claimants to develop an initial view of job goals and complete a high level on-line skills screen to identify potential skills gaps. The screening tool is currently being developed with the aim to better prepare claimants for their initial interview with their Work Coach and in order to identify skills needs earlier on in the claim process.

Mandatory or voluntary participation?

Referrals can be made on a voluntary basis or JCP staff can mandate JSA and ESA WRAG claimants to undertake activity to address an identified skills need to increase their employment prospects. This new form of conditionality is called Skills Conditionality and was introduced in England in August 2011, in Scotland in June 2012 and in Wales in October 2012. Skills conditionality should ensure that claimants referred to careers advice or skills training actually start and finish a training course. In England, Skills Conditionality includes referrals to interviews with the National Careers Service, referrals to initial interviews with a training provider, or a referral direct to training. In Scotland Skills Conditionality are referrals to training only and in Wales it is referral to the DWP training programme Skills for Work Wales. For additional requirements for young people see Box 3.6 below.

From May 2014 claimants whose poor spoken English is a barrier to work will have to improve their English language skills. At their first interview at JCP claimants will be screened for their spoken and English and those with poor skills will be mandated to attend English language courses and face sanctions for a refusal to participate (HMT, 2013a).

Interviews with stakeholders by Oakley et al. (2013) suggest that skills conditionality is applied more frequently to claimants with basic skills gaps and less often to those with vocational skills needs. In interviews by Diamond et al. (2013) providers reported that that mandated participants are more likely to attend training, but several providers have been surprised by the proportion of non-attendance of mandated participants. High non-attendance is also suggested by a comparison of skills conditionality referrals versus participation (see Table 3.2 below). One concern with skills conditionality is that learning is inextricably linked to the motivation of the individual and mandating participation might reduce a claimants' motivation (Warner, 2011) and they may be disengaged or even disruptive (Diamond et al., 2013).

Participants referred to training courses under skills conditionality lead to higher administrative costs for both JCP and training providers, for example due to extra form-filling (Diamond et al., 2013 and Oakley et al., 2013). With training providers receiving no extra resources for mandated participants, there might be a risk of providers "cream-skimming" other participants who do not incur extra costs at the expense of mandated claimants. This may be further increased through the self-referral option.[23] As the skills funding is not at DWP's disposal in England and Scotland there are no direct possibilities for DWP to remove funding from providers that fail to accept mandated claimants.

The impacts of skills conditionality on employment outcomes are not known. An impact analysis of an early pilot version of skills conditionality could not provide reliable estimates of the effects of skills conditionality as the pilot was not implemented as intended (Dorsett et al., 2011).

Table 3.2 shows referrals and starts under the Skills Conditionality policy. Figures for the academic year 2011/12 largely present England only, as the policy was extended to Scotland only in June 2012 and to Wales only in October 2012. The increase in referrals and starts in the academic year 2012/13 is mainly driven by an increase in referrals and starts across the three sub-categories in England and to a minor extent due to the extension of the policy in Scotland and Wales.

Table 3.2. **Skills Conditionality Referrals and Starts, Great Britain**[a]

Numbers

	Academic Year 2011/12 August 2011 to July 2012	**Academic Year 2012/13** August 2012 to July 2013
Skills Conditionality Referrals (total)	**553 880**	**873 180**
Initial Provider Interview (England only)	163 320	267 690
Training (Great Britain)	162 330	309 170
National Careers Service (England only)	228 230	296 320
Skills Conditionality Starts (total)	**221 270**	**509 450**
Initial Provider Interview (England only)	61 820	153 750
Training (Great Britain)	60 010	166 940
National Careers Service (England only)	99 440	188 760

Note: All figures are rounded to the nearest 10.

a) Skills Conditionality was introduced in England in August 2011, in Scotland in June 2012 and in Wales in October 2012.

Source: DWP (2013), "Statistics on Pre-Work Programme support and Get Britain Working", www.gov.uk/government/organisations/department-for-work-pensions/series/pre-work-programme-and-get-britain-working.

Types of funded training

Providers may spend the funding received by the SFA on classroom or workplace training. For individuals on income-replacement benefits basic skills training for maths, English and English for speakers of other languages (ESOL) are fully funded through the SFA and participants do not have to pay for the courses. The following course levels are also fully funded, where the identified skills need is a barrier to employment (BIS, 2014):

- Courses below upper secondary education level (i.e. below level 3);[24]
- Courses at upper secondary education level or above (i.e. level 3 or above) for claimants under 24 years; and
- For JSA and ESA WRAG claimants only (regardless of age): stand-alone qualification in Health and Safety at Work, Food Hygiene, First Aid at Work and Fork Lift Truck.

Funding is mainly aimed at JSA, ESA WRAG and unemployed UC claimants. Providers may also offer fully funded provision to help unemployed people on other benefits into sustainable work, subject to the provider having sufficient funds available (BIS, 2014). Previously also unemployed aged 24 and over were able to receive grants for courses at level 3 and above. Since the academic year 2013/14 grants are not any longer available and claimants aged 24 years and over who wish to access courses at level 3 or above are eligible for loans subsidised by Government instead. As with student loans for higher education, individuals will only have to start paying back loans when they have earnings above a certain threshold (BIS, 2010).

The courses on offer to unemployed learners claiming JSA and ESA WRAG are usually short, lasting around two to eight weeks and are usually part-time (Diamond et al., 2013). Hence, most courses are compatible with JSA entitlement criteria and claimants do not usually need to move to a training allowance during attendance. Diamond et al. report that providers aim to tailor their training through an initial assessment of the learner's needs and some providers sometimes offer provision designed to fill specific identified job vacancies. To link their provision to the local labour market needs, most providers used a combination of JCP vacancy and other local labour market information, research and direct links with employers or recruitment agencies.

Table 3.3 provides an overview on benefit spells (continuous period of time receiving the same benefit type) with training in England. For around 9% of JSA benefit spells and 3-4% of ESA WRAG benefit spells training was recorded in the academic year 2011/12 and the first half of the academic year 2012/13.[25] The vast majority (98%) of provision taken up by benefit claimants is education and training delivered through classroom, workshop, distance or e-learning, with only 2% being workplace training including apprenticeships (BIS and DWP, 2013).[26] During the first half of the academic year 2012/13, 65% of courses taken by claimants of JSA and ESA WRAG were at level 1 or entry level, 24% at level 2 and 4% at level 3 and above with the remaining course levels being unassigned. Of all courses taken over the same period around 12% were mathematics and English courses at different levels and 5% were ESOL courses at different levels (BIS and DWP, 2013).[27]

Table 3.3. **Benefit spells[a] with training, England**

	Academic year 2011/12 August 2011 to July 2012	**Academic year 2012/13** August 2012 to January 2013[b]
JSA (including training Allowance)		
All benefit spells	3 842 800	2 592 900
Benefit spells with training	342 700	230 500
Percentage with training	*8.9*	*8.9*
ESA WRAG		
All benefit spells	351 700	421 200
Benefit spells with training	13 300	12 400
Percentage with training	*3.8*	*3.0*
Other benefits[c]		
All benefit spells	4 525 700	3 540 700
Benefit spells with training	121 500	76 400
Percentage with training	*2.7*	*2.2*

Note: All figures are rounded to the nearest 100.

a) A benefit spell is defined as a continuous period of time receiving the same benefit type. There can be multiple benefit spells per claimant, either of the same benefit type or different ones. A benefit spell with training may include multiple training spells. All benefit spells are all spells in the academic year including those that started in previous years. Benefit spells with training include all training that started in the academic year only.

b) Provisional data for August 2012 to January 2013.

c) Income Support, Incapacity Benefit, Severe Disablement Allowance, Pension Credit.

Source: BIS and DWP (2013), "Further education for benefit claimants, England, December 2013", www.gov.uk/government/organisations/department-for-business-innovation-skills/series/further-education-for-benefit-claimants.

Payment terms

Providers receive funding from the SFA through so called Adult Skills Budgets with 20% of the funding being paid for achievements only. Where the training participant is unemployed, half of the achievement payment (i.e. 10% of the total funding) may be paid as job-outcome payments in cases where the unemployed participant leaves a course early to take up a job. Job-outcome payments have been introduced to reduce the disincentive for providers to take on unemployed learners (SFA, 2013). If the participant continues with the training after moving into employment and they achieve the learning aim, the remaining 10% are paid. JSA claimants are required to rearrange or give up their studies in order to take employment DWP (2014c). This incentive structure could help providers in engaging with claimants to offer rearrangements. Part-time students are eligible for JSA provided they satisfy the normal entitlement conditions including being available for and actively seeking employment. They should also be willing to rearrange or give up their studies in order to take employment. This may be an effective means to prevent lock-in effects associated with labour market programmes. If the training participant is also a Work Programme participant, claiming a job-outcome payment from the SFA is not affected by the Work Programme. Job-outcome payments to training providers are not considered to be a duplication of funding (SFA, 2013).

Qualitative research by Diamond et al. (2013) suggests that job-outcome payments may have increased the responsiveness of providers to unemployed participants and the priority given to this type of provision has risen amongst many providers. In research by Oakley et al. (2013) providers reported difficulties in tracking job outcomes of participants once they have left the course. As a result of the lack of systematic information JCP offices were often not sure about the effectiveness with respect to employment outcomes of different types of training provision. JCP may therefore rely on claimant feedback and anecdotal evidence (Oakley et al., 2013).

An estimated GBP 234 million was spent by colleges and providers on learners in receipt of JSA and ESA WRAG in England in 2011/12 (BIS and DfE, 2013), which presents around 0.02% of GDP. The expenditure for training for the unemployed is much higher in most other OECD countries as shown in the *OECD/Eurostat Labour Market Programme Database* (http://dx.doi.org/10.1787/data-00312-en). In 2011, the average spending was 0.15% for OECD countries were data is available.[28] For most OECD countries expenditure on training includes the cost of the income support paid to training participants. Even if an estimate for income support payments during periods of training is included the proportion of expenditure on training in England does not exceed 0.02% of GDP.[29]

Across OECD countries evaluations of training programmes for the unemployed show a mixed track record and given that they tend to be among the most expensive active labour market programmes increases in expenditure need careful consideration. OECD (2013b) showed that English unemployed rank low with respect literacy skills in a comparison of OECD countries, but also that skills have a large impact on the likelihood of being employed in a comparison across OECD countries (see Chapter 1). Well-targeted additional expenditure on training for the unemployed could therefore help to address skills deficiencies and support more people into employment including potential positive impacts on wages and job stability. Martin and Grubb (2001) highlights four crucial features in the design of public training programmes: *i)* tight targeting on participants; *ii)* keeping programmes relatively small scale; *iii)* qualifications that are recognised and valued by employers; and *iv)* on-the-job components in programmes to establish strong links with local employers.

Better targeting of funds could be achieved by giving funds for skills training for disadvantaged unemployed directly to JCP and Work Programme providers. For example, in Austria all training for the unemployed is outsourced, with the Austrian PES acting as the direct purchaser and manager. In Australia, the Employment Pathways Fund is a resource Job Services Australia providers can use to purchase services like skills training to tackle specific barriers of their clients. With such funds directly available to JCP and Work Programme providers purchasing decisions could be linked closer to the needs of benefit claimants. Work Programme providers are particularly likely to tightly target such funds and ensure that employers' needs are met, given that they are largely paid for achieved employment outcomes only (see Chapter 4). Furthermore reward systems for training providers may include stronger incentives to achieve employment outcomes, as indicated in the recent policy paper *Rigour and Responsiveness* (DfE and BIS, 2013). This could further improve the employment focus of providers.

Extending the mutual obligation agenda to lone parents

There currently are around 1.9 million lone parents in the United Kingdom and around a quarter of all households with children are headed by a lone parent. This is one of the highest proportions in the OECD. With rising proportions of lone-parent households and low employment rates among lone parents, the number of lone parents claiming income-replacement benefits constantly rose over the 1980s and the early 1990s, reaching over 1 million in 1995. Along with other OECD countries – e.g. Canada, Australia, Ireland (OECD, 2005, 2007, and 2011) – the United Kingdom has been introducing various policy packages over the past two decades including a combination of improved financial incentives to work and a number of activation measures to help more lone parents into work. In 2008, the United Kingdom introduced a work-testing condition to income support, which requires lone parents with children above a certain age to be available for work.

This section takes stock of the major lone parent employment policies reforms in the past decade, and addresses the challenges that remain. Three areas seem most critical for the future: *i)* to pay more attention to job quality of lone-parent employment with respect to the hours worked and the types of occupation lone parents move into; and *ii)* to ensure the availability and affordability of good quality childcare to enable lone parents moving into better quality jobs. Furthermore, *iii)* activation strategies for lone parents not currently affected by the work-testing condition may need to be reconsidered.

Starting to activate lone parents

In 1998, nearly 1 million lone parents – representing around 60% of the United Kingdom lone-parent population – were on Income Support (IS). Since then, the United Kingdom introduced a number of voluntary and mandatory activation measures and changes to the tax credit system to activate lone parents and improve the incentives to work for parents more generally (see Box 3.6). Evaluations of the various policies suggest that the tax credit reforms had the biggest impact on increasing lone-parent employment in the United Kingdom.

Box 3.6. Improved work incentives for lone parents through tax credits

A system of tax credits to provide cash assistance to low-income families has been in place in the United Kingdom since 1971. The entitlement conditions for tax credits include the presence of dependent children, a sufficiently low family income and the requirement to work a certain number of hours per week. The current system is separated into two tax credits:

1. ***Child Tax Credit*** (CTC), which can be claimed by low-income households with children regardless of whether they work or not.
2. ***Working Tax Credit*** (WTC), which can be claimed by both people with and without children meeting the entitlement conditions. WTC is payable to lone parents working at last 16 hours per week, to couples with children working at least 24 hours (with one partner in the couple working at least 16 hours) and to childless single adults working at least 30 hours a week.

Between 1971 and 2010, tax credits continued to increase in generosity. Especially changes in 1999 increased work incentives for parents through: *i)* increasing the maximum tax credit award for those with the lowest incomes; *ii)* increasing the income threshold above which tax credit starts to be withdrawn; *iii)* lowering the taper rate at which earnings above the threshold were taxed; and *iv)* introducing a large tax credit for childcare. Parents were refunded 80% of their actual childcare costs up to a ceiling. In the *Spending Round 2010*, the childcare refund rate was reduced to 70%. Parents were able to reclaim a maximum of GBP 123 per week for one child and GBP 210 per week for two children in 2013/14.

The introduction of Universal Credit (UC) will result in further changes to the work incentives of lone parents. The current 16-hour threshold to become eligible for childcare support will be removed. An increased earnings disregard before UC is being tapered away will give significantly better incentives for lone parents to work a few hours a week compared with the current system. However, this implies that marginal effective tax rates for those who move from work of a few hours a week up to the point where no benefit is payable will increase, on average. The reform does smooth out some "kinks" that currently arise at specific thresholds in the schedule relating net incomes to earnings. However, this schedule does not incorporate the impact of some other benefits such as Council Tax Support or costs such as childcare, which can further reduce incentives. Low- to medium-wage lone parents facing childcare costs will have little incentive to working longer hours once their childcare costs reach the ceiling for subsidies: analysis by Pareliussen (2013) suggests that every hour worked over and above 21 hours a week would lead to a loss in net income.

Two measures to improve the incentives to working longer hours have been announced in the Budgets 2013 and 2014. The measures are mutually exclusive, with the first applying to UC claimants only and the second applying to parents not in receipt of any support through tax credits, UC, or employer-supported childcare:

1. For ***UC claimants***: Where lone parent UC claimants (or for couple households both parents) pay income tax, the childcare element in UC will increase from 70% to 85%. The personal allowance – the annual amount of tax-free income – was GBP 9 440 in 2013/14, so that a person working 30 hours a week year-round at the national adult minimum wage of GBP 6.31 per hour would just qualify.
2. For ***non-claimants***: Introduction of a tax-free childcare voucher for working lone parents (or couple parents where both parents work). Under this scheme, the Government will provide 20 of childcare costs, subject to an annual limit of GBP 2 000 for each child.

Source: Brewer, M., et al. (2009), "Feature: In-work benefit reform in a cross-national perspective – introduction", in *The Economic Journal*, Vol. 119, February, pp. F1–F14; Dilnot, A. and J. McCrae (1999), "The Family Credit System and the Working Families' Tax Credit in the United Kingdom", *Institute for Fiscal Studies Briefing Notes*, No. 3, http://www.ifs.org.uk/bns/bn3.pdf; HMT (2013), *Budget 2013*, www.gov.uk/government/publications/budget-2013-documents; HMT (2014), *Budget 2014*, www.gov.uk/government/publications/budget-2014-documents; Pareliussen, J. K. (2013), "Work Incentives and Universal Credit: Reform of the Benefit System in the United Kingdom", *OECD Economics Department Working Papers*, No. 1033, OECD Publishing, Paris, http://dx.doi.org/10.1787/5k49lcn89rkf-en; and Strickland, P. (1998), "Working Families Tax Credit and Family Credit", *House of Commons Research Papers*, No. 98/46, www.parliament.uk/briefing-papers/RP98-46/working-families-tax-credit-and-family-credit.

An active labour market programme for lone parents …

The *New Deal for Lone Parents* (NDLP) was the first active labour market programme targeted at lone parents in the United Kingdom and an increase in lone-parent employment since 1998 can at least partly be attributed to NDLP. NDLP was a JCP-led (including its predecessors) programme and all lone parents on IS were eligible to join the programme on a voluntary basis.[30] NDLP aimed to help and encourage lone parents to take up employment, through measures to improve their job readiness and presenting employment opportunities to them. With almost 1.8 million starts between 1998 and until its end in 2011, NDLP has been one of the largest employment programmes in the United Kingdom over the last two decades.[31]

The delivery of NDLP could have covered a number of interventions depending on lone parents' barriers to entering employment, however, counselling interviews were the central tool. They were delivered through special lone parent advisers, who served this customer group only. There was no frequency and length prescribed for the interviews and in fact most lone parents – 45% of participants – had only one meeting with an adviser (Evans et al., 2003). Contents of the meetings included: job-search assistance, awareness of benefits and tax credits including support in applying for them, and assistance in searching suitable childcare. Following the interviews advisers could refer lone parents to additional support options and training programmes, which were usually delivered through external providers. NDLP participants also were eligible for additional financial help, e.g. travel costs to attend job interviews, childcare costs or fees for training courses recommended by their adviser.

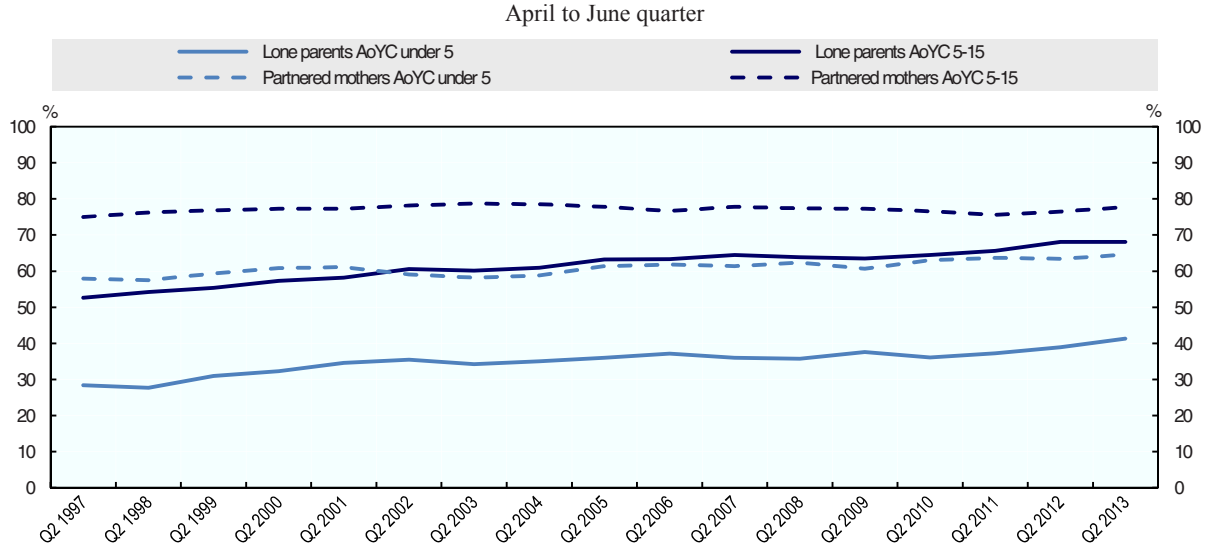
NDLP has been extensively evaluated and a number of studies provided impact estimates of the programme (for an overview, see Cebulla et al., 2008). The principal impact of NDLP was to increase exits from IS among all lone parents on IS by about 2 percentage points and increase the likelihood of being in employment. There is no study which derived estimates of the actual number of lone parents assisted by NDLP (and WFIs for lone parents) into employment over time. Therefore, a firm judgement on the impact of NDLP on lone parents' economic position is not possible.

The impacts of the welfare reforms affecting lone parents more generally – especially the changes to tax credits in 1999 (see Box 3.6) – on lone-parent employment have been extensively analysed (for an overview see OECD, 2005). The body of evidence universally finds that the UK welfare reforms as a whole (including tax credit reforms, activation strategies, and introduction of a minimum wage) led to a significant increase in lone-parent employment rates and even larger increases in the proportion working 16 hours or more. The estimates for the effect on the employment rate offer a fairly tight range of around 4 to 5 percentage points over five years. This estimate seems plausible given the developments in lone-parent and partnered mother employment rates by age of the youngest child in the family since 1997 (Figure 3.6).

Gregg et al. (2009) tries to separate these effects on lone-parent employment into *i)* transitions into and out of employment around break-up and re-partnering, *ii)* working lone parents staying in work, and *iii)* entry into work by non-working lone parents. Their results suggest that the biggest impact was a sharp increase in the share of mothers becoming lone parents remaining in employment at the point of transition into lone parenthood and leaving work less frequently for those who were already lone parents. To a lesser extend the tax credit reforms led to improvements in getting non-employed lone parents into work. The analysis by Gregg et al. (2009) further suggests that the welfare reforms increased the usual hours of lone mothers already working by just over three hours. By contrast, lone mothers

working full time before the reform decreased their usual weekly hours by over an hour per week on average. This latter effect is likely to be driven by the generous tax credits available to lone parents working part time. Even though the results mentioned before cannot distinguish the impact of various welfare reforms, the results by Gregg et al. (2009) suggests that NDLP had an impact on increasing lone-parent employment overall, but that the tax credit reforms had a stronger impact than the activation measures.

Figure 3.6. **Lone parents and partnered mothers employment rates by age of youngest child, Great Britain, 1997-2013**



Note: AoYC: Age of youngest child.

Source: UK Household Labour Force Survey.

… adding a first obligation for lone parents …

In 2001, a first mandatory element to lone parent activation measures was introduced through the obligatory attendance at a one-off WFI for new lone parent claims of IS. During the WFI, JCP advisers together with the lone parent assessed the lone parent's existing or future employment prospects. Advisers provided information on the help and support available to prepare for, find and retain employment. Advisers also emphasised the short and longer-term financial gains from being in work through "better-off calculations", and encouraged NDLP participation. WFIs were subsequently extended to cover all new and stock lone parent IS claimants and review meetings were introduced to make the interaction with JCP advisers more frequent. By April 2008 all lone parents on IS had to attend at least 6-monthly WFIs.[32]

The main evaluations of lone parent WFIs did not attempt to separate the impact of WFIs from that of NDLP, although lone parents were likely to have taken part in both. WFIs played an important role in encouraging lone parents to participate in NDLP. About one in three WFIs participants had a first voluntary meeting with an adviser, and one in six participated in NDLP in the sense that they had two or more such meetings. There was a tendency for the impact of NDLP participation on benefit terminations to be much lower for those introduced to NDLP via a WFI, as compared with those who self-referred to NDLP. However, WFIs still had substantial overall impact because they applied to a much larger group than self-referrals to NDLP alone (Knight et al., 2006; and Cebulla et al., 2008).

… and testing various activation strategies, including improved financial incentives

Between 2004 and 2007, DWP piloted a number of voluntary and mandatory programmes to encourage lone parents to move into work, including an additional final incentive to move into work, the In Work Credit (IWC). These "Lone Parent Pilots" offered extra optional support to lone parents, including financial incentives to engage voluntarily in job-search activity, after-school childcare for working parents and *Childcare Tasters* (the opportunity to try out formal childcare for free for up to a week). In *Extended Schools Childcare* pilot areas, *Childcare Coordinators* and *Childcare Partnership Managers* from JCP worked with schools to create additional affordable childcare places for working parents in schools, and provided up-to-date information on local childcare vacancies including those in schools. In the Extended Schools pilot areas, participation in quarterly WFIs was made mandatory for lone parents with a youngest child aged 12 years or over and who had been on IS/JSA for 12 months or more. An evaluation of the pilots found that on average the pilot programmes led to improved flows off benefit and into work, but the impact has mainly been attributed to the additional financial incentive IWC.[33]

IWC was available to lone parents who had been receiving IS or JSA for a continuous period of 12 months or more and who stopped claiming benefits and moved into work of at least 16 hours. Following the pilots, IWC was rolled out in phases throughout Great Britain and was available nationally by April 2008. IWC is currently in the process of being phased out due to the introduction of UC, which aims to improve the incentives to move into work without the need of this additional cash transfer.[34]

The evaluation by Brewer et al. (2009) suggests that the main impact of IWC has been to encourage more lone parents to leave benefit and start work than would otherwise have done so. Contrary, the effect on reducing the benefit re-entry rate of IWC recipients has been small. Furthermore, there is a small negative effect on benefit exit/work entry rates for lone parents who have been on IS for less than 12 months and who are, therefore, not yet eligible for IWC. This could be caused by anticipation or substitution effects and the authors cannot rule their existence out. The deadweight of the policy is estimated to be around 80% (Brewer et al., 2009), which is similar in size of the deadweight implied by previous evaluations of tax credits and the NDLP. An estimate of the impact of IWC on the lone-parent employment rate or on the proportion of lone parents claiming benefits could not be provided with the data underlying the evaluation of IWC.

Introducing work-search conditionality for lone parents

In 2008, the government introduced a work-test for lone parents through the extension of work-search conditionality, as earlier reforms did not result in the desired increase in lone-parent employment rates. Although lone-parent employment rates had increased they were still substantially lower than that of partnered mothers in 2007 (see Figure 3.6). Following OECD recommendations (OECD, 2005) and those in the government commissioned reports by Harker (2006) and Freud (2007), the government introduced work-search conditionality for lone parents in 2008; a policy known as Lone Parent Obligations (LPO).

This sub-section finds that to date the LPO policy has helped to reduce the number of lone parents claiming income-replacement benefits and had some modest impacts on employment. The vast majority of lone parents taking up employment move into part-time work in lower level elementary occupations. An important enabler of longer

hours is childcare. But there is evidence to suggest that lone parents have a preference not to use formal childcare, and in addition childcare costs may act as a disincentive to working longer hours.

Not all lone parents are affected by the work-search conditionality …

Lone parents with a youngest child under the age of five can claim IS on the ground of being a lone parent. Once their youngest child turns five their eligibility for IS on the grounds of being a lone parent ceases. The main benefit for lone parents out of work with a youngest child aged 5 years and over is JSA. Lone parents meeting the entitlement conditions can claim ESA instead. In addition, foster carers, those claiming Carer's Allowance (CA) or those with a child receiving the middle or higher rate care component of Disability Living Allowance (DLA) may continue to claim IS.

The LPO policy affected new and repeat claimants as well as stock claimants (i.e. existing IS claimants). LPO was rolled out in four phases based on the age of a lone parent's youngest child to facilitate the transfer of existing claimants. Between end of 2008 and 2010 the applicable age of the youngest child was lowered from 15 to 7 years in three phases. The current Government extended the LPO policy to cover all lone parents with a youngest child aged 5 years and over in 2012.

… and those affected benefit from some exemptions …

Lone parents moving on to JSA are subject to the same interventions regime and referrals to labour market programmes as other JSA claimants. There are, however, a few exemptions and alleviations to their work-search conditionality in comparison to JSA claimants without children. However, JSA claimants responsible for children can *i)* adjust their available working hours to normal school hours when the youngest child is under 13 years; *ii)* receive waivers for being available or actively seeking work under certain circumstances (e.g. lack of childcare, bereavement); *iii)* postpone availability: parents need to take up a job offer only within one months or attend a job interview only within 48 hours if there are difficulties in arranging childcare earlier; and *iv)* may not be penalised if they refuse or leave a job because appropriate childcare is not available.

… but no specialist interventions

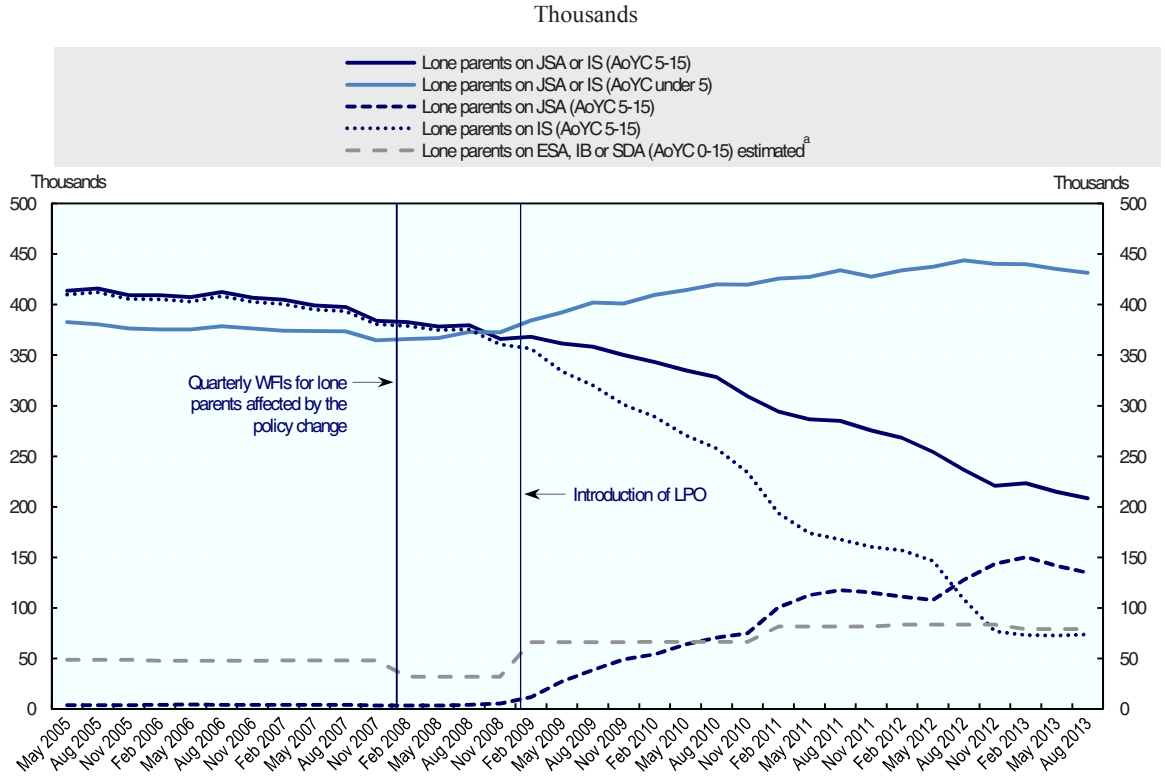
Being subject to the same interventions regime as other JSA claimants proves to be difficult for some lone parents. Around a fifth of lone parents on JSA found it difficult to comply with the fortnightly signing, attending counselling interviews and complying with actively looking for work (Coleman and Riley, 2012). Interviews with lone parents suggest that lone parents often feel under-served by the JCP offer, as they either do not receive interventions they think would be beneficial for them or because they are offered too basic or generic provision to meet their needs (Whitworth, 2013; and Bloch et al., 2013). A key driver of lone parents' attitudes seems to be whether they are served by staff with special training for this customers group (Lane et al., 2011).

The policy resulted in some clear impacts on benefit caseloads …

Introducing work-search conditionality for lone parents with a youngest child aged 5 years and over reduced the number of lone parents with children aged 5 years and over claiming income-replacement benefits. The number of lone parents on benefits with a youngest child aged 5 to 15 years has been falling even before the introduction of the work-test (see Figure 3.7). This could reflect both the impact of other policies affecting

lone parents mentioned before and an anticipation effect caused by the upcoming introduction of the work-test. In fact, all lone parent stock claimants are subject to quarterly WFIs in the year prior to their IS eligibility ending. Evaluations for the United States, for example, showed that such anticipation effects have made a major contribution to the fall in the welfare caseload (Finn and Gloster, 2010).

Figure 3.7. **Lone parents on income-replacement benefits by age of youngest child, Great Britain, 2005-13**



Note: AoYC: Age of youngest child; ESA: Employment and Support Allowance; IB: Incapacity Benefit; IS: Income Support; JSA: Jobseeker's Allowance; LPO: Lone Parent Obligations; SDA: Severe Disablement Allowance; WFIs: Work Focused Interviews.

a) There are no official caseload statistics for lone parents on ESA available. The numbers have been estimated by using information from the UK Household Labour Force Survey (HLFS) and the Family Resources Survey (FRS). The HLFS was used to obtain estimates for the lone-parent population in Great Britain. The FRS was used to estimate the proportion of lone parents claiming any of the three incapacity benefits IB, SD or ESA.

Source: *DWP-IGS Work and Pensions Longitudinal Survey* (database), http://83.244.183.180/100pc/tabtool.html; Family Resource Survey, www.gov.uk/government/collections/family-resources-survey--2; UK Household Labour Force Survey; and DWP (2014) "Lone parents receiving JSA: monthly claimant count", www.gov.uk/government/statistical-data-sets/lone-parents-receiving-jobseekers-allowance-claimant-count.

Following the introduction of the work-test at the end of 2008 there is a clear fall in the number of LPs claiming IS and corresponding increases in the numbers claiming JSA and ESA[35]. The overall benefit caseload reduced as lone parents either moved off benefits around the time they were affected by the policy change or they moved off benefit following an initial transfer onto JSA or ESA. LPO evaluations found that some lone parents may have experienced complex journeys including various claims for different income-replacement benefits following their transition off IS (Coleman and Riley, 2012; and Casebourne et al., 2010). The policy may also act as a deterrent, with reduced

numbers of lone parents making a new claim to benefits. Currently there is no evidence available to support this assumption.

Among stock claimants, the LPO policy was less effective at moving lone parents with older children off benefits than it was for those with younger children (Avram et al., 2013). This may reflect that lone parent stock claimants with older children might have a greater labour market distance with longer average benefit spells than those with younger children. Avram et al. (2013) also found that lone parents with older children were more likely to claim IB or ESA following their IS claim than those with younger children.[36]

Following a previous downward trend, the number of lone parents with a youngest child under 5 years claiming out-of-work benefits started to grow in November 2007. This could theoretically be caused by lone parents trying to avoid the work-test by having other children, but Avram et al. (2013) found no evidence of this being the case for lone parents already claiming IS.

The overall reduction of benefit caseloads since the introduction of the LPO policy are still modest when considering lone parents across all income-replacement benefits, also taking into account the estimated number of lone parents on incapacity benefits (see Figure 3.7).

… but destinations are manifold and not always known …

Evidence from the United States suggests that a significant group of lone parents became disconnected following welfare reforms (around 20% of leavers), reporting no income from employment or from welfare, with some experiencing this status for a prolonged period (Finn and Gloster, 2010). In the United Kingdom, the majority of lone parents moved onto another benefit or into work following the disentitlement to IS. The impact assessment of stock claimants found that around 15% of lone parents were not receiving an income-replacement benefit and were not recorded as being in work around 12 months after their estimated loss of entitlement to IS (Avram et al., 2013).

Among lone parents who were not in work or on out-of-work benefits, in the period 2009-11 around 40% to 50% (i.e. approximately 7% to 8% of all affected lone parents) were receiving CTC only. Among those not in work, or on an out-of-work benefit or on CTC only, 10% to 25% were receiving WTC as a couple and 50% to 25% (approximately 8% to 4% of all affected lone parents) were not recorded as receiving any benefits.[37] For the last group, Avram et al. (2013) notes that it is difficult to track all lone parents with the administrative data underlying the study, as some lone parents might not any longer have dependent children and are not claiming or not eligible for WTC in their current circumstances. Some may have re-partnered and not be claiming tax credits as a couple and some may have re-partnered and benefits are being claimed by their new partner. Indeed re-partnering seems to be wide-spread amongst lone parents who are not in work and do not receive any income-replacement benefits following the policy change. The quantitative survey by Coleman and Riley (2012) found that half of lone parents who were not in work or on benefits around had re-partnered since being affected by the policy change.

The results suggest that the LPO policy has not resulted in disconnection problems to the extent reported for the United States. Nevertheless, not all (former) lone parents could be traced and the question on whether the policy had wider impacts also on family formation more generally has not been answered. Indeed between 2008, before the LPO policy was introduced, and 2013 the lone-parent population with a youngest child aged

between 5 and 15 years reduced by 4%, which equals to around 47 000, part of a longer downward trend which started in the mid-2000s.[38]

… and impacts on employment are modest so far

A first assessment of the LPO policy confirms that it helped to increase labour force participation among existing lone parent benefit claimants. The overall impacts, however, appear small and a fuller picture with respect to the impacts of the policy on the lone-parent population as a whole is not available.

Analysis of employment rates of the affected lone parents with a youngest child between 5 and 15 years suggests a modest overall impact on lone-parent employment (Figure 3.6). Between 2008, before the policy was introduced, and 2013 the employment rate of lone parents with children between 5 and 15 years increased from 63.9% to 68.1%. Of course the roll-out of this policy during the economic downturn meant that overall fewer jobs were available, potentially reducing positive impacts.

The impact assessment of Avram et al. (2013) for stock claimants found that three months after the loss of entitlement to IS, the share of lone parents receiving any income-replacement benefits reduced by between 11 and 13 percentage points. The share of lone parents in work increased by around 7 percentage points. In absolute numbers, this corresponds to 50 000 fewer lone parents receiving an income-replacement benefit, and 30 000 more recorded as being in work.

However, the analysis by Avram et al. (2013) only offers a partial picture as it only considers the stock of claimants. An overall impact assessment of the policy, including its impacts on new claimants is not available. Such an assessment would need to rely on survey data such as the Labour Force Survey (LFS) and Family Resources Survey (FRS) to assess the impact on lone parents who are not yet claiming benefits and who might be deterred in doing so in the first place. Such an approach was not further followed up on in the evaluation commissioned by DWP as an earlier feasibility study judged that small sample sizes would mean that impacts are estimated imprecisely (Brewer et al., 2010). Evaluations would ideally identify the impact of both job-search requirements and in-work subsidies on both out-of-work benefit claims and earnings – since both types of policy, and both types of outcome, are important. For example, Mogstad and Pronzato (2012) reports that the earnings impact of a reform affecting lone parents in Norway was greater for the stock of "lasting lone mothers" than was for flow of "newly lone mothers". Although they call it a "workfare reform", they explain the differences in impact by the fact that the reform essentially subsidises part-time work: the "lasting lone mothers" had relatively weak labour market attachment before the reform, but for the "newly lone mothers" the subsidy to part-time work in some cases acted as an incentive to reduce hours from full time to part time.

The quality of employment often is low …

In the United Kingdom, less than half (46%) of all lone parents work full time, which compares against an EU-average of around two-thirds (65%). Also the majority of lone parents who had moved into employment since their IS entitlement ended have moved into part-time employment. A survey among lone parents with younger children affected by the LPO policy found that around one in five (22%) were working fewer than 16 hours per week, two-thirds (66%) were working between 16 and 29 hours per week and only 13% were working 30 or more hours (Coleman and Riley, 2012).

Previous research has shown jobs held by lone parents are associated with lower-skilled occupations (Maplethorpe et al., 2010). A quantitative survey of lone parents affected by LPO showed that almost three-quarters of lone parents had no formal qualifications or lower level qualifications at level 1 or level 2 only (Coleman and Lanceley, 2011). Lone parents who had worked since leaving IS were most likely to work in elementary occupations, personal service occupations or sales and customer-service occupations. As expected those qualified to higher levels were more likely to be in associate professional and technical occupations and in administrative and secretarial occupations. The evaluation also showed a link between hours worked and occupation. Jobs in higher Standard Occupation Classification (SOC) groups, such as associate professional and technical occupations or personal service occupations, were more likely to be full-time jobs, while those in lower SOC groups were more likely to be for fewer than 16 hours per week (Coleman and Riley, 2012).

With respect to pay, Coleman and Riley (2012) found that 40% of lone parents in the survey were earning less than GBP 100 per week in their job and 40% were earning between GBP 100 and GBP 150. In terms of wage rates they found that the majority (57%) were paid at around the NMW or even below.[39] Avram et al. (2013) also tests whether lone parents who moved into work as a result of LPO had higher (or lower) earnings, on average, than those lone parents who would have worked in the absence of LPO. One would expect that those lone parents entering work because of LPO would have lower than average earnings than those lone parents already in work. LPO mostly had a large negative impact on the average earnings of employed lone mothers in the early phases of implementation, when it was bringing the parents of teenage children (who often had been on benefit for many years) into employment. The impact became slightly positive in the third phase, when it was bringing the parents of 7- and 8-year-olds into employment.

Currently JCP advisers (and Work Programme providers) have no incentives to help lone parents move into work of more than 16 hours, as this is the point when JSA stops being paid and lone parents become eligible for WTC. JCP staff and contracted providers should have better incentives to help moving lone parents into jobs with higher hours and earnings. This could for example be achieved through performance measures and payment models. Such measures are likely to result in more expensive employment services as additional counselling, career guidance and (vocational) training opportunities may be required. However, this could make a lifelong difference to lone parents and their children and also help reduce expenditure on tax credits and UC in the future.

… and childcare might be an issue

Even though many lone parents use childcare whilst working, many use informal arrangements. Formal arrangements can, however, play an important role in facilitating parents to working longer hours. JCP may therefore need to play a more prominent role in helping lone parents in their search for good quality, reliable, accessible and affordable childcare.

The availability of good quality, reliable, accessible and affordable childcare is a cornerstone to enable work for lone parents and the majority of surveyed lone parents affected by LPO used some form of childcare during their time at work (Coleman and Riley, 2012). Across the OECD, the use of formal childcare is often lower among low-income families in comparison to middle and higher-income families (OECD, 2011). The various LPO evaluations revealed that affected lone parents often have a preference for informal child care and some reluctance using formal childcare, although

Lane et al. (2011) suggests that this reluctance might be lower for lone parents with younger children. A survey of lone parents with children aged 7 or 8 years at the time of losing entitlement to IS, found that 63% used informal childcare while they were working, and only 30% used formal childcare (Coleman and Riley, 2012).

Formal childcare can, however, be important to enable lone parents working longer hours. As lone parents affected by LPO have school-age children, provision around school hours is particularly important and lone parents using formal childcare are most likely to use services provided through the extended school and services (see Box 3.7).

Box 3.7. **Extended schools and services**

Since 2010, by legislation every pupil in primary education in the United Kingdom is entitled to a range of services delivered around school from 8 am to 6 pm, 48 weeks a year, including school holidays. The range of activities and services include: study support, play and recreation, sport, music, arts and craft, parenting and family support, easy access to specialist support services (for example, speech and language therapy). Also many school facilities are available to the local community to use. Some of these services are free, but others, like supervised care, are not. Schools work with local authorities, local providers and other schools to deliver these services, which are not necessarily provided on site. Service provision is based on the principle of "progressive universalism": services are available to all, but not everybody needs all services, services need to be effectively targeted at those who are most likely to benefit.

Some local authorities received extra funding through the *Extended Schools Subsidy Pathfinder* to support schools to subsidise extended school services that are not free to disadvantaged children and young people. The pathfinder subsidy was first evaluated in 2009. School respondents (80%) agreed that the subsidy is key for participation of disadvantaged children in extended school activities. However, around a third of schools struggled to find the best method to identify children eligible for the subsidy. Another drawback is that participation in the programme involves stigma, which further limited the effective use of the services on offer.

Source: OECD (2011), *Doing Better for Families*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264098732-en.

There has been a strong policy emphasis on providing help with the affordability of childcare for those on low incomes. As discussed in Box 3.6, the childcare element of WTC can be claimed by WTC recipients using registered childcare. However, if not working exactly at around the WTC threshold of 16 hours per week, lone parents with childcare expenditure may face high marginal effective tax rates, close to and even above 100 (Pareliussen, 2013). A survey among claimants of tax credits also confirms that lone parents are often not interested in working longer hours as they would not be financially better off (Tu and Ginnis, 2012). Furthermore, school holidays may prove challenging for many lone parents. The childcare cost survey by the Family and Childcare Trust suggests that the average cost of one week of holiday childcare in Great Britain was GBP 109 in 2013, with costs being particularly high in the East of England with an average of GBP 130 per week (Family and Childcare Trust, 2013). Work incentives for lone parents working shorter hours may improve under UC, but analysis by Pareliussen (2013) suggests that at the current refund rate of 70% every hour worked over and above 21 hours a week would lead to a loss in net income. The policy announced in the budget to increase the rate to 85% for those earning above the income tax threshold (see Box 3.6) could increase the incentives for some lone parents to working longer hours, dependent on wages and their current working hours.

Research focussing on lone parents affected by LPO found that around half of lone parents on JSA had "discussed" childcare with their JCP adviser (Coleman and Riley, 2012).

The JCP offer evaluation found that around a third of lone parents (36%) were offered childcare support as part of their claim. Most parents received information about how to fit working hours around childcare responsibilities and information about childcare support through tax credits (Bloch et al., 2013). Whether equally important issues like the availability of childcare places within the local area had been discussed has not been reported in the JCP offer evaluation.

For lone parents – and in fact parents more generally – services provided by JCP advisers should not only concentrate on getting people into employment. The discussion of childcare should be the norm and JCP staff should also assist in the search for good quality, reliable, accessible and affordable childcare. This will require close working relationships between the relevant public bodies, which could for example be achieved through Childcare Partnership Managers, a JCP-staff function which existed as part of the lone parent pilots discussed before. Helping lone parents with the financial aspect of childcare as well as the availability will enable them to move into jobs with longer hours, potentially also raising other dimensions of job quality such as wages and occupational levels.

Lone parents with younger children

Following a period of stagnation, employment rates for lone parents with a youngest child under 5 years have been rising again, particularly over the past three years, but there is still a large gap with the employment rate of partnered mothers with children of the same age (see Figure 3.6). From August 2012, the number of lone parents with a youngest child under 5 years started to fall, but still almost three in four lone parents with a youngest child under 5 years claim income-replacement benefits.[40] A survey among lone parents with younger children on IS showed that although a clear majority expressed a strong commitment towards work, only around one in three were currently looking for work (Bloch et al., 2013). The authors of the survey also note that for lone parents on IS the JCP offer "… may be more tailored to preparing lone parents for an eventual move into work (when they move onto JSA as a result of Lone Parent Obligations) rather than identifying and actively supporting those who want to move into work earlier."

Two recent policy announcements may help to activate more lone parents with a youngest child under 5 years:

- Parents with children aged 3 and 4 years are already entitled to 15 hours of free childcare. In England, the government is currently extending free childcare to 2-year-olds from disadvantaged families. This policy is mainly driven from a child well-being perspective. In fact, during 2013 and early 2014 free places are available to claimants of out-of-work benefits but not to parents claiming WTC. If continued, this would be disincentive to working. The eligibility criteria, however, change from September 2014, when also parents on low incomes (less than GBP 16 190) claiming WTC will be eligible.
- From April 2014, Work-Related Activity (WRA) is introduced for lone and couple parents on IS or ESA WRAG with a youngest child aged 3 or 4 years. WRA could include preparation of a CV, exploring the local labour market or attending training courses to improve work-related skills, but parents will not be required to apply for or take up a job as part of WRA. In addition, JCP will also be giving flexibility to determine the frequency and duration of mandatory WFIs for lone parents with a youngest child aged 1 to 4 years.

Whether these two policies will have an impact is difficult to judge. An impact evaluation for WRA, which has applied to ESA WRAG claimants since the end of 2008, as such does not exist. Whether WRA without a requirement to apply for or take up a job increases the likelihood of a move into employment remains unclear.

Activation policies for lone parents in many OECD countries go a step further than that: Austria, Finland, France, Germany, Norway, and Sweden already apply a work-test when the youngest child turns three, although discretionary exemptions may be applied (OECD, 2011). For example in Germany much is left to the discretion of caseworkers, as the legal regulations state that adequate childcare must be available. However, the regulation also stipulates that responsible local bodies should give childcare places with a preference to parents who are able to work.[41] In Israel a work-test is applied at age 2, in Denmark at age 1 and in the Netherlands even below the age of 1 year. Too early maternal employment may have negative impacts on child well-being. But maternal employment means more family income, which has positive effects on child development, particularly among children of low-income families. OECD countries that expect lone parents to work from an early age of their child and have comprehensive employment- and childcare-support systems in place generally have the best outcomes for lone parent families in terms of both employment and poverty rates (OECD, 2011).

The United Kingdom should consider further reducing the age of the youngest child when a work-test is applied for lone parents and also partners of benefit recipients, recognising that exemptions and waivers may be allowed as they are for (lone) parents with older children. A lack of suitable and affordable childcare is clearly a barrier for lone parents with younger children and needs to be addressed. Furthermore, "hearts and minds" may often need to change as many lone parents with a child aged 3 or 4 years perceive their children too young to be left in childcare (Bloch et al., 2013). As has been recommended for parents with older children, JCP should not only have a remit of getting people into employment, but also assisting in the search of good quality, reliable, accessible and affordable childcare. In addition, greater investments in childcare are required to ensure the availability of suitable and affordable childcare.

Key points

The United Kingdom has a long tradition of activation policies to promote the quick reintegration of working-age benefit recipients. Recent reforms to incapacity benefits and lone parent benefits restricted access to inactive benefits and the population eligible for JSA has increased over the past few years. This has not implied any move away from a rigorous activation regime, and the JSA eligibility criteria have even been further tightened. It will be important to ensure that requirements genuinely increase the volume and the quality of job-search, so that job-search monitoring generates better job outcomes and employment assistance enhances potential earnings. DWP has addressed this to some extent through accompanying the roll-out of the Claimant Commitment with investing in training of JCP staff who monitor the claimants' actions. The *Spending Round 2013* also announced longer initial claimant interviews and a reintroduction of regular in-depth review meetings. The reinvestment of expected savings into JCP is foreseen and must be preserved in the face of fiscal constraints.

For low-skilled claimants, better job outcomes will require additional, well-targeted expenditure on training to address skills deficiencies. Better targeting of funds could be achieved by giving funds for basic and short skills training for disadvantaged unemployed directly to JCP and Work Programme providers. With such funds directly available to

JCP and Work Programme providers purchasing decisions could be more closely linked to the needs of benefit claimants. Work Programme providers are particularly likely to tightly target such funds, given that they are paid mainly for employment outcomes and thus will aim to match employers' needs. Other reward systems for training providers should also include stronger incentives to achieve employment outcomes.

For parents – and especially lone parents – better job outcomes may require additional service offers through JCP. Currently JCP advisers (and also Work Programme providers) have no incentive to help lone parents move into work for more than 16 hours, as this is the point when JSA stops being paid and lone parents become eligible for WTC. For moving lone parents into jobs with higher hours and earnings, more expensive employment services as additional counselling, career guidance and (vocational) training opportunities may be required. However, this could make a lifelong difference to lone parents and their children and also help to reduce future benefit expenditure. Services provided by JCP advisers should include assisting in the search for good quality, reliable, accessible and affordable childcare, which enables them to move into jobs with longer hours, potentially also raising other dimensions of job quality such as wages and the occupational level.

Employment rates for lone parents with children under the age of 5 are rising, but there is still a large gap with the employment rate of partnered mothers with children of the same age, and a large proportion of lone parents claim income-replacement benefits. In the United Kingdom, lone parents and partners of benefit recipients with children under 5 years are not currently subject to a work-test. Many OECD countries go a step further and already apply a work-test when the youngest child is aged 3 years, although discretionary exemptions may be applied. The United Kingdom should consider further reducing the age of the youngest child when a work-test is applied for lone parents and partners of benefit recipients, recognising that exemptions and waivers may be allowed, as they are for parents with older children. In addition, greater investment in childcare is required to ensure the availability of suitable and affordable childcare.

Rates of return to work from the ESA Work-Related Activity Group (ESA WRAG) are low and to date no benefits of this additional conditionality regime have emerged. However, the interventions regime seems weak. Whereas JSA claimants receive regular interventions through the fortnightly signing process and quarterly in-depth review meetings from 2015, ESA WRAG claimants may be neglected by both JCP and Work Programme providers. In both cases, to ensure some minimum level of contact with employment services, a first step would be to introduce regular in-depth review meetings for ESA WRAG claimants, similar to the interventions regime used in the previous Pathways to Work programme.

JCP's performance is currently measured through flows off benefits, but JCP's impact on moving people into employment is not captured. Going forward, JCP's performance measures should place emphasis on the prevention of repeat claims and track employment outcomes in addition to off-benefit outcomes. Measuring employment outcomes will be facilitated through real-time earnings information. Under UC also a new dimension becomes important: whether claimants are in-work claimants of UC or have wholly moved off benefit, including in-work benefits. JCP and providers of contracted provision (e.g. Work Programme providers) should have an incentive to reduce the amount of in-work benefits being paid to UC claimant, which could have a positive impact on the quality of jobs matches brokered through employment services.

Notes

1. In the previous New Deal programmes claimants under 25 were referred at 6 months, whereas older claimants had only been referred after they had been unemployed for 18 out of the previous 21 months. In the Work Programme, claimants under 25 are referred at 9 months, whereas the majority of claimants aged 25 and over are referred after 12 months, although a number of early referral options exist (for more details see Chapter 4).

2. The Work Capability Assessment is used to regularly assess capability for work and eligibility for ESA. A claimant can have three possible outcomes: *i)* the claimant is found fit for work, in which case her ESA claim closes and the claimant can claim JSA instead (or appeal the decision); *ii)* the claimant can be found to have limited capability for work; in this instance she is placed in the ESA Work-Related Activity Group; or *iii)* the claimant can be found to have limited capability for work and in addition, limited capability for work-related activity; in this situation the claimant is placed in the ESA Support Group and receives benefits on an unconditional basis. For claimants entitled to ESA a "prognosis period" is established in the assessment, which is usually a standard length of time such as 3, 6, 12, 18 or 24 months based on the individual claimant's health. At the end of the prognosis period claimants have a repeat assessment to ensure the conditions for entitlement are maintained.

3. Claimants in the ESA WRAG group with a youngest child under 3 years or full-time carers are not subject to work-preparation conditionality.

4. Of these around 12% of JSA claims and 28% of incapacity benefit claims are contributory only claims. See Chapter 2 for a discussion on contributory and means-tested benefits.

5. The figures are OECD estimates based on DWP (2014a) and data from the Work and Pensions Longitudinal Study (WPLS, http://83.244.183.180/100pc/tabtool.html). Lone parents on ESA cannot be identified with the cited sources. Therefore all ESA WRAG claimants are assumed to be subject to work-related activity, although lone parent with a youngest child under 3 years are subject to keeping-in-touch conditionality. Also whether ESA claimants have a partner cannot be identified. The proportion of ESA claimants with a partner is assumed to be the same as for claimants of IS on the grounds of incapacity in August 2008, prior to the introduction of ESA. Claimants of income-replacement benefits on the grounds of being a carer or other reasons are assumed to be in the no conditionality group.

6. The waiting period is increased for people claiming ESA to remove an incentive for claimants to apply for ESA rather than JSA, in order to gain four extra days of benefit payments. As claimants can self-certify sickness for the first seven days of a claim, it would be very difficult to prevent claimants from exploiting this without building in complex new processes (DWP, 2014b). A waiting period does not apply where a person's JSA entitlement commences within 12 weeks of an entitlement to IS, Incapacity Benefit (IB), ESA or Carer's Allowance coming to an end.

7. Some examples of Claimant Commitments for UC claimants are provided at the following link: www.gov.uk/government/uploads/system/uploads/attachment_data/file/209385/foi-2451-2013.pdf (accessed 12 May 2014).

8. In 2005, DWP ran a number of randomised control trials (RCT) to test different approaches to the fortnightly signing procedure. The control group continued to be subject to fortnightly signing. The treatment groups had *i)* an excusal for review meetings for a certain period with a random call into JCP; *ii)* fortnightly review meetings via telephone with a random call into JCP; *iii)* fortnightly, but shortened

in-person review meetings; or *iv)* fortnightly review meetings in groups. The excusal for signing and telephone signing resulted an increased benefit duration. Middlemas (2006) therefore notes that it is the frequency of interventions rather than the quality of the intervention which has an effect on maintaining off-flows from benefit. The negative effect of telephone signing suggests that the intervention does need to be in person to be fully effective.

9. Note that the scores allocated by Venn (2012) are based on responses from national authorities, which may relate to different concepts (e.g. minimum frequency of interviews as specified in legislation or internal guidelines, vs. frequency of interviews in practice).

10. Calculated as 41 400/3 085 000 (see Table 3.1).

11. Using a similar method to Gray (2003), the ratio of sanctions over the claimant stock at the beginning of the year was 57% in 2013 (829 370/1 460 000; see Table 3.1). Using the average claimant stock – as Gray did – instead of the stock at the beginning of the year would result in a slightly higher ratio, as the JSA claimant stock declined during 2013. An alternative method to calculate sanction ratios is to divide the total sanctions by the total JSA live claims for a given year, i.e. adding the JSA claimant stock at the beginning of the year and total new JSA claims made during the year. Using this method the sanction ratio for the UK in 2013 would be 18%. There is no international benchmark for this latter methodology.

12. The remaining claimants reported a varying frequency or did not know.

13. In the UK fiscal years – also called financial years – run from April of one year to March of the following year.

14. The Job Outcome Target was measured by awarding points from 1 to 12 for getting claimants into work, based on the relative disadvantage the claimant faced in the labour market. The national target was to achieve a certain number of points each year. The Intervention Delivery Target measured the types of interventions (mainly Work Focused Interviews) completed on time. The Customer Service Target was based on scores in a series of "mystery shopper" exercises throughout JCP. The Employer Engagement Target measured employer satisfaction with vacancy placement and filling services. The Average Actual Clearance Time Target measured time taken to complete the processing of various types of benefit claims. The Monetary Value of Fraud and Error target was a sample-based estimation of the total value of fraud and error on all benefit claims. JCP ceased to report on the Interventions Delivery target from the beginning of July 2010; the Employer Engagement target from the beginning of August 2010; and the Customer Service target from the beginning of October 2010. The remaining targets were kept until March 2011.

15. Not covered in this report are the entirely voluntary activities *Work Clubs* and *Enterprise Clubs*, part of the Get Britain Working package. Work Clubs are usually initiated by local communities and aim at giving jobseekers the opportunity to exchange experiences and give them support to help them return to work. Similarly, Enterprise Clubs are run by local businesses for unemployed who want to set up their own business or become self-employed.

16. JCP offices would be expected to start laying off personnel following the decline in claimant unemployment. With the introduction of the Help to Work scheme JCP is able to retain staff to run this resource intensive programme (N. Couling cited in WPC, 2014).

17. No impacts were observed for the subsample of people who actually started on the programme.

18. Similar support is available through the "Routeways to Work" programme for claimants in Wales.

19. *Source:* DWP (2012) Ad hoc analysis of individuals receiving a training allowance (Great Britain).

20. Further education (FE) covers all non-advanced courses taken after the period of compulsory education that is distinct from the education offered in universities (higher education). It may be at any level from basic skills training to higher vocational education. FE is primarily taught in FE colleges, work-based learning, and adult and community learning institutions.

21. For an overview on the LEPs in England, see www.lepnetwork.org.uk/.

22. These changes included: *i)* The National Careers Service was launched in 2012 bringing together separate careers services for adults (Next Step) and young people (Connexions Direct). *ii)* Local Enterprise Partnerships have been introduced to encourage a more responsive approach to the needs of local business, while at the same time abolishing Regional Development Agencies in 2012. *iii)* Local Employment Partnerships – introduced in 2007 – aimed to increase the propensity of employers to recruit disadvantaged people into work and were part of a broader effort to connect workless individuals with vacancies, overcoming barriers to work and improving the job matching services offered by JCP and its partners. Local Employment Partnerships as a governance structure have been abolished in 2010, with existing relations potentially being maintained through local engagement of JCP with employers. *iv)* For adult further education the SFA replaced the Learning and Skills Council in 2010, including a change to the funding mechanism of further education and the introduction of adult skills budgets.

23. Cream-skimming is a problem associated with employment and training programmes, where providers have some influence over choosing participants who use their services. They might then "cream-skim" participants who are likely to be easier to help or in the case of skills conditionality associated with lower administrative costs.

24. For an overview of education levels in England see e.g. UKCES (2013).

25. Academic years run from August of one year to July of the following year.

26. The data reported here refers to so called learner records, rather than the benefit spells reported in Table 3.3. Learner records do not directly relate to the actual number of learning individuals. If an individual takes up training with different providers or different provision types, two or more records are generated for this individual (BIS and DWP, 2013).

27. The data reported here refers to so called learning aims, rather than the benefit spells reported in Table 3.3. Learning aims is a term used by BIS for a course a person is studying and is counted in the year the learning started. Many people will be studying for several aims at once or in sequence, as part of a programme of study (BIS and DWP, 2013).

28. Data for the United Kingdom in the *OECD/Eurostat Labour Market Programme Database* (http://dx.doi.org/10.1787/data-00312-en) has last been released in 2009, when expenditure for the entire United Kingdom was GBP 229 million.

29. Income support payments during periods of training for JSA and ESA WRAG claimants in England in 2011/12 have been estimated by using the number of training spells (see Table 3.3), assuming an average course length of five weeks and income support payments of GBP 67.50 per week, which equals the adult rate of JSA in the year 2011/12. It should be noted that this estimate is likely to be an overestimate. The courses on offer to unemployed learners claiming JSA and ESA WRAG are usually part time (Diamond et al., 2013) and most courses are compatible with JSA entitlement criteria and claimants do not usually need to move to a training allowance during training courses.

30. For the first three years NDLP targeted lone parents with older children only, before later targeting all lone parents regardless of the age of their children. Later NDLP was not available in areas where Employment Zones (see Annex 4.A1) operated as this offered similar services to lone parents.

31. There was a substantial level of flows back from work onto IS and around 29% of lone parents returned within 12 months (Evans et al., 2003) and, hence, over a third of the 1.8 million starts (37%) present multiple starts on the programme.

32. For an overview of the rollout of WFIs for lone parents, see DWP (2014d).

33. Brewer et al. (2009b) notes that the impact of the pilot programmes was dominated by the impact of IWC, which in principle substantially altered the financial gain to working for eligible lone parents. An attempt to separate the effect of the other measures from IWC provided no robust evidence that the other measures made the overall package of pilots more effective at getting lone parents off benefit and into work, compared with IWC alone.

34. IWC is payable at a rate of GBP 40 per week outside London and GBP 60 inside London (due to the higher costs of living) for up to 52 weeks. IWC payments stop after 12 months or before, if the lone parent leaves work or claims income-replacement benefits. In order to receive the payment, lone parents have to provide evidence that they are still in employment at 10, 26, 38 and 52 weeks after moving into employment. There will be no new IWC payments made from 1 October 2013 and IWC payments already in progress at that time will continue until completion or a change of circumstances that brings the payment to an end.

35. ESA figures are estimated. See notes to Figure 3.7.

36. There was a larger-than-usual flow of lone parents from IS to IB during late 2007 and early 2008. This is consistent with the fact that, from autumn 2008, people wanting to claim an income-replacement benefit on the grounds of incapacity had to claim ESA rather than IB, and the gatekeeping procedure for ESA (the WCA) is more restrictive. This is not reflected in Figure 3.7, which, however, is only a rough estimate using information from two different household surveys.

37. The percentages changed progressively from early 2009, when only 12-15 year-old lone parents were affected, to late 2010 when also 7-8 year-old lone parents were affected. Lone parents with older children were more likely not to receive any benefits and less likely to receive WTC as a couple. This pattern is not entirely surprising as evidence for the United Kingdom more generally suggests that lone parents who do not re-partner have older children (OECD, 2011).

38. Author's calculations based on the UK Household Labour Force Survey.

39. Coleman and Riley (2012) notes that the figures should be treated with a degree of caution, because the survey respondents may have been inaccurate in providing financial details. It is also possible that some respondents gave a figure for net pay rather than gross pay, which they were asked to provide.

40. In Great Britain, the number of lone parents with a youngest child under 5 years claiming IS or JSA was 435 310 in May 2013. In Q2 2013, the UK Household Labour Force Survey (HLFS) recorded around 592 000 lone parents with a youngest child under 5 years.

41. *Source:* Sozialgesetzbuch Zweites Buch (SGB II), 2011, § 10 Zumutbarkeit.

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Chapter 4

Quasi-market arrangements in the UK Work Programme

In the United Kingdom, some employment programmes for the unemployed have been outsourced using quasi-market arrangements since the 1980s. The Work Programme, introduced in June 2011, expands quasi-market arrangements to cover all long-term unemployed and several other large client groups. Its commissioning model can be summarised as follows: a market structure with large contracts held by few prime providers, which work with a network of sub-contractors; a more fully outcome-based payment model with strong emphasis on sustained outcomes; limited prescription of minimum service levels through a "black box" delivery model; high performance expectations; and ongoing performance competition between providers. This chapter assesses the Work Programme's performance to date and addresses the challenges that remain for achieving better labour market outcomes for participants referred to the programme.

Introduction

Over the past two decades, many OECD countries turned to non-governmental and often private organisations to implement activation and reintegration measures aimed at jobseekers through quasi-market structures. In the United Kingdom, employment and training programmes for the long-term unemployed have been outsourced using quasi-market arrangements since the 1980s. The competitive forces in quasi-markets are meant to ensure that prices are kept low, services are delivered using the best possible techniques and innovations will emerge.

The Work Programme, introduced in June 2011, takes quasi-market arrangements in the delivery of employment programmes to a new level, as it has exclusive responsibility for several major groups of clients. The commissioning model can be summarised as follows: large and long contracts held by few prime providers, which deliver employment services partly directly and partly through sub-contractors; a more fully outcome-based payment model with strong emphasis on sustained outcomes; only limited prescription of minimum service levels; high performance expectations; and ongoing performance competition between providers. During 2014, the Department for Work and Pensions (DWP) plans to publish a new *Commissioning Strategy* to guide its future commissioning activity beyond the current Work Programme and other contracted programmes. The strategy will articulate the strategic framework including the approach to market development and market structure, performance management, service delivery and payment models.

Against this background the chapter takes stock of the Work Programme quasi-market arrangements and performance to date and addresses the challenges that remain for achieving efficient labour market outcomes for participants referred to the programme. Four areas seem most critical for the future: *i)* increasing funding levels to ensure more participants who are less connected with the labour market are helped into employment; *ii)* reconsidering the market structure for contracted providers to foster greater competition; *iii)* improving provider incentives through better profiling of customers; and *iv)* developing a meaningful performance measurement system.

In this chapter the next section provides an overview of quasi-market structures in previous UK labour market programmes and the Work Programme. The third section describes the various aspects of managing the Work Programme's performance with respect to the payment model, performance measures, the market share shift mechanism and funding levels. The fourth section provides some insights into the programme's *black box* delivery model, with a limited prescription of minimum service levels. The fifth section finds that the Work Programme's placement performance is below expectations, especially for harder-to-help customers. The sixth section makes suggestions for improving provider incentives, while the last section concludes.

Quasi-market structures in UK labour market programmes

This section provides a brief overview of quasi-market structures in previous contracted-out provision of employment programmes in the United Kingdom. Special emphasis is given to the development of the ideas which resulted in the Work Programme's commissioning model. The list of previous employment programmes in the United Kingdom is by no means exhaustive and a more comprehensive overview can for example be found in Beale (2005a, and 2005b). An assessment of the Work Programme's market structure suggests that reducing the average contract size could make the Work Programme quasi-market more competitive, and thereby improve efficiency and responsiveness in the delivery of activation and reintegration measures for jobseekers.

Quasi-market structures prior to the Work Programme

The introduction of the New Deal programmes from 1997 was a major driver in the development of quasi-market structures in British employment services. The mandatory programmes *New Deal for Young People* (NDYP) and *New Deal 25 plus* (ND25+) were the main programmes focussing on long-term JSA claimants. The voluntary programmes included the *New Deal 50 plus*, the *New Deal for Lone Parents* (NDLP; see Chapter 3), the *New Deal for Disabled People* (NDDP), the *New Deal for Partners*, the *New Deal for Musicians*, and the *New Deal for Self Employment*. Although principally entrusted to the public employment service (PES) Jobcentre Plus (JCP),[1] all New Deal programmes were implemented through a mix of public, private and voluntary sector provision with more than 900 providers across the country. The contracting function was within JCP and contracts followed a variety of different models, according to the area and the group of people that they were designed to support (Freud, 2007).

In 13 deprived areas with high unemployment, the New Deals for JSA claimants were replaced by contracted provision through the Employment Zones (EZs) programme in 2000. Each EZ initially had only a single provider. From 2003, four of the largest EZ operated as multi-provider zones with up to three providers. EZs gave providers more discretion in designing their interventions and had largely outcome-related payments based on job entry and retention for 13 weeks. Griffiths and Durkin (2007) found that in spite of their considerable flexibilities and scope for innovation, EZs were unable to overcome the barriers of harder to help long-term unemployed clients. EZs achieved slightly better outcomes than comparative New Deals for mandatory customers who were similarly disadvantaged, although still almost half of those who attended an EZ left without securing employment. For more details on EZs see Annex 4.A1.

In 2003, DWP introduced the JCP-led *Pathways to Work* programme in a number of pilot areas to assist claimants of incapacity benefits towards and into paid work. The programme introduced mandatory Work Focused Interviews (WFIs) with specialist incapacity benefit advisors at JCP and offered a range of services focusing on work and health, including a *Condition Management Programme*. From 2007 a provider-led version of Pathways to Work was rolled out in 60% of all JCP districts, with the remaining districts still served through JCP. DWP contracted with 11 separate prime providers, with several prime providers holding multiple contracts in the 34 JCP districts where the provider-led version of Pathways to Work operated (NAO, 2010). For more details on Pathways to Work, see Annex 4.A1.

In 2007, in a report commissioned by DWP, Freud (2007) judged that there are better ways to help people facing multiple disadvantages and long-term benefit dependency than the existing system with a wide range of different programmes and contracting arrangements. He therefore proposed a new single welfare-to-work system for all client groups, delivered by private and voluntary sector organisations through a completely new contracting framework, with providers being paid by results.

Freud suggested a commissioning model with only eleven contracts covering Scotland, Wales and the nine regions in England. These contracts would be held by prime providers, who have the financial capability to deal with the associated risk of payment-by-results contracts of this size. He envisaged that this model would also open up financial resources from the banking sector to enable the extremely large investments implied. Under such a model Freud expected that the majority of prime providers would be from the private sector, with the potential to attract major players from around the world. Prime contractors could then work with a network of sub-contractors, which would involve smaller welfare-to-work providers from the private, public and voluntary sector.

Freud (2007) envisaged prime contractors competing on price and quality for each of the regional contracts, but with only one prime provider operating in each area. He suggested testing a model with two or three prime providers per area, but expected that this could be complex to operate, losing some of the efficiencies of a sole provider model. But the quid-pro-quo for local monopolies would be full transparency of performance. Freud (2007) referred to an "open" system in which information about strategies would be publicly available, but also expected providers to enjoy freedom over service delivery in a *black box* delivery model. The wording of Merlin Standard now implemented supports the sharing of good practice between sub-contractors of the same prime provider, but does not directly call for sharing of good practice across providers (see Box 4.2 on the Merlin Standard). The market structure proposed by Freud (2007) is quite different to the market structure adopted for contracted-out employment services in Australia (see Box 4.1).

Box 4.1. **Quasi-market structures in Australia**

In Australia employment placement services have been fully contracted out since the creation of the Job Network in 1998. This was renamed to Job Services Australia in 2009, incorporating formerly-separate specialist youth services, as well as the Work for the Dole programme, although this is being re-launched as a separate contract in 2014.

Four full-employment service tenders were organised so far (1997, 1999, 2002 and 2008), each time inviting private-sector and community-based organisations to tender for provision of services in over 100 (currently 116) so-called Employment Service Areas. The Australian areas serve smaller populations than the contract package areas (CPAs) in the UK programmes Flexible New Deal and Work Programme. Potential providers bid for market shares in each Employment Service Area, but this is rather flexible, with at least two providers in each Employment Service Area, and often many more in areas where the referral flows allow this. On average, each Employment Service Area has four contracted providers. Larger metropolitan areas have ten or more providers: for example, the Canterbury/Bankstown Employment Service Area in New South Wales has 14 providers, and Inner Sydney has twelve.

In total there are around 90 contracted providers under the Job Services Australia model serving over 1 600 sites, i.e. customer-facing offices. The providers come from a wide variety of backgrounds including charities, training organisations, recruitment consultants and private placement agencies. Levels of sub-contracting are low in Australia and providers can only sub-contract services with Government agreement, and any changes during the contract period must be notified and agreed. Most providers operate in more than one Employment Service Area with the average provider holding contracts in five areas and running an average of 20 sites. But even with a high number of providers, few providers hold a large share of the market: in 2009, the top ten providers held a 48% share of the market and the top three or four providers run more than 100 sites each.

Source: Department for Education, Employment and Workplace Relations (2009), "Use of contracted providers to deliver public employment services", Presentation at WAPES Asia and Pacific Region Workshop, Seoul, November; Department of Employment (2014), "Job Services Australia site level Star Ratings – December 2013", http://docs.employment.gov.au/documents/job-services-australia-site-level-star-ratings-december-2013; OECD (2012), Activating Jobseekers: How Australia Does It, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264185920-en; and www.jobsearch.gov.au.

With limited post-tender award competition in this model there is strong emphasis on the initial tendering process. Freud stated that "The Department would need to develop a world class contracting capability so as to ensure that the Government's complex social goals were met without compromising the robustness of the outcome focus. It would also need to develop sophisticated performance management tools and be prepared to remove contracts from providers who were not performing" (Freud, 2007, p. 8).

Building on the recommendations of Freud (2007), the first DWP *Commissioning Strategy* was launched in 2008 aiming to guide the future contracting out of employment services and to develop more strategic relationships with providers (DWP, 2008). The central elements of the Commissioning Strategy are: *i) a* prime provider model with large and long contracts; *ii)* competition between providers within most contract areas; *iii)* outcome-based funding with a focus on sustained outcomes; *iv)* minimal service prescription through a black box delivery model; and *v)* a performance measurement system that enables a like-for-like analysis of performance. With respect to a performance measurement system DWP (2008) stated:

> *"We will introduce a Star Rating system (which will include customer experience) that will inform performance management and contribute to decisions on awarding future business. [...] We will be transparent in our performance management processes and enable providers and customers to see how they perform in relation to the supplier base as a whole."*

Following the Freud report and the new Commissioning Strategy (DWP, 2008), DWP issued an Invitation to Tender (ITT) for the Flexible New Deal (FND) as the new contracted-out provision for long-term JSA claimants in 2008. The intention was to replace the separate New Deals NDYP, ND25+, ND50+, and EZ with the single programme FND. Thus, in contrast to the proposal by Freud the FND would not offer services to claimants of incapacity benefits and other inactive benefits. Following a black box approach, FND providers were largely granted the freedom to design work preparation and job search support of participants.

The first phase of FND was introduced in 2009 and covered about half of all JCP districts, which were split into 14 FND contract package areas (CPAs). Four CPAs were reserved for one monopoly supplier, while the remaining ten had two suppliers who received half of all referrals in a CPA each. In the FND bidding process suppliers could bid for any number of the 24 (4 + 2x10) contracts. In the remaining JCP districts the previous programmes NDYP etc. were still in operation. A second FND phase, covering the remaining JCP districts, was planned for October 2010, but never rolled out due to the change in government in spring 2010 and the announcement of the new welfare-to-work programme *Work Programme*. Referrals to the FND stopped with the introduction of the Work Programme in June 2011.

Over its short existence, FND did not move enough unemployed back into work to deliver value for money (NAO, 2012). An evaluation by Vegeris et al. (2011) found that the black box approach to FND service delivery did not equate to a wider choice or variety of services, with little innovation evident in the design and content of FND services. Once the termination of FND contracts was announced, incentives for providers to achieve job outcomes further decreased. A reduction in service levels and making a windfall profit through already-obtained service payments would have been a natural reaction. For more details on FND delivery and performance see Annex 4.A1.

Market structures in the Work Programme

The current Government judged that the changes incorporated in the FND were not far-reaching enough. It therefore decided to introduce the new Work Programme to help *all* unemployed and end the vast majority of pre-existing contracted-out provision (HM Government, 2010). When the Work Programme was launched throughout

Great Britain in June 2011 it replaced over 20 pre-existing welfare-to-work programmes including the FND, Employment Zones, Pathways to Work for claimants of incapacity benefits, and all New Deal programmes. The Work Programme therefore serves a much wider customer base than any previous programme, including jobseekers, claimants of incapacity benefits and some other inactive benefits.

The Work Programme commission model is an adaptation of the FND model and divides Great Britain into 18 large CPAs. Two or three prime provider contracts are available in each CPA, resulting in a total of 40 individual contracts (4x3 + 14x2). The 40 contracts are held by 18 prime providers, with most prime providers holding more than one contract in different CPAs: 7 contracts are held by Ingeus; 5 contracts by A4e; 3 contracts each by Avanta, G4S, Seetec and Working Links; and 2 contracts each by Maximus, Newcastle College Group,[2] Rehab and Serco. Eight primes only have one contract each.[3] As envisaged by Freud (2007), most of the 18 primes are from the private sector (15), with one being from the public sector, and two from the civil society sector. Box 4.2 provides more details on the Work Programme procurement process.

With 18 operating providers and their respective market shares the Work Programme market as a whole would not be considered as being concentrated as for example assessed through the Herfindahl-Hirschman Index (HHI). The level of concentration is, however, higher than in the Australian system, with around 90 operating providers.[4] This is only an assessment of market concentration as result of the tendering process. After the tender award only two or three providers compete within each CPA, with the Work Programme market in essence being a number of duopolies and narrow oligopolies (i.e. highly concentrated). This does not rule out the possibility of a competitive outcome, if competition between providers can be fostered or the market was considered being "contestable".

Box 4.2. **Work Programme procurement process and formation of supply chains**

The Work Programme replaced over 20 pre-existing programmes and providers hold comparatively large contracts with respect to geographical coverage and referral numbers. Therefore it is not surprising that the Work Programme procurement created a diverse range of supply chains, with a wide range of organisations being involved in the Work Programme's delivery. This box provides information on the Work Programme procurement exercise and the formation and management of supply chains.

Procurement process

The Work Programme procurement exercise was a two-stage process: *i)* potential prime providers first bid to join the Department's Employment-Related Support Services (ERSS) framework; and *ii)* prime providers included in the ERSS framework then were invited to take part in the tenders for Work Programme contracts.

The framework tender

The ERSS framework has 11 lots, the nine English regions *plus* Scotland and Wales. To qualify for the framework, potential providers had to demonstrate: a track record of delivering large and complex contracts; capacity to deliver across the region(s) for which they had bid; and the financial strength to deliver primarily payment-by-results contracts (including a minimum GBP 20 million per annum turnover). Providers were able to compete to be included in one, all or any combination of the lots. DWP appointed 35 potential providers to the ERSS framework in November 2010.

Box 4.2. **Work Programme procurement process and formation of supply chains** *(Cont.)*

The contract tender

DWP then divided the 11 lots into 18 contract package areas (CPAs) and issued an Invitation to Tender (ITT) in December 2010. Within each of these, two or three providers would operate, resulting in 40 available contracts. The Department assessed bids in terms of cost and quality, based on a scoring system that gave equal weight to both. Quality related to how the provider planned to assist participants; its approach to supply chain management; the resources it would apply; and an implementation plan. The cost assessment was determined by the amount of discount a bidder offered on the maximum price for the job-outcome fee offered by DWP. One point was available for every percentage point discount offered up to 20%, and then one point for every 2 percentage points of discount offered. On average, the appointed providers offered discounts of around 6% on contract value. Furthermore, DWP analysed each bid to test whether it was economically sustainable, i.e. the bidder would not go out of business, against different scenarios, such as bidders' promised performance levels and those assumed by DWP. DWP concluded that all winning bids were sustainable, including those offering the highest levels of discount and, by implication, the highest levels of performance (NAO, 2012).

The competition attracted 177 bids, with between 9 and 17 bids in each CPA. Thirty of the 35 framework providers bid, 11 of which were originally successful. DWP was concerned that the potential impact of supplier failure was too great with such a concentration. The Department therefore decided to mitigate the risk by limiting bidders to one contract per lot, after securing the agreement of those bidders affected (NAO, 2012). As a result of the change, 18 prime contractors were appointed on 1 April 2011. Interviews by Lane et al. (2013) with potential primes that successfully made it onto the framework, but did not then bid for Work Programme contracts, showed that the main reasons were financial concerns around the viability and the level of risk associated. Some potential new entrants who did not bid felt less able to assess the financial viability of the programme as they did not have prior experience to draw on. Consequently, they reported needing bigger financial incentives to enter the market (Lane et al., 2013). This suggests that it will be difficult to attract new players into the welfare-to-work market in future, especially with current players building strong incumbent positions.

In Australia, the currently third-largest Job Service Australia provider first entered the Job Network in 2003 and more than doubled its coverage with the contract awards for Job Services Australia in 2009. The 2009 awards led to extensive change at the ESA level, putting an estimated 2 000 to 2 500 former Job Network employees (of an estimated total 9 000) out of work: some reportedly left the industry while others no doubt found work with the incoming providers in their locality.

Work Programme roll-out

The Work Programme went live on 1 June 2011, less than six months after the ITT. By comparison the Department took 15 months to deliver the procurement of phase one of the Flexible New Deal. The NAO (2012) acknowledged that "Launching an innovative scheme to a very challenging timetable was a significant administrative achievement." DWP had previously aimed to allow six months between the award of contracts and go-live, but Work Programme tenders were awarded in April 2011 for programme operation starting in June. It was a challenge to negotiate supply chain agreements and manage TUPE [Transfer of Undertakings (Protection of Employment) regulations] processes (Gash et al., 2013). Successful prime contractors did not always have experience of operating welfare-to-work schemes in the geographical area in which they were successful. Ten of the prime contractors had contracts with DWP for pre-existing welfare-to-work schemes. Of these, nine won at least one contract in a geographical area where they had not delivered a previous scheme. Five of the ten did not win any contracts in areas where they had previously operated. Only eight of the 40 contracts were awarded to prime contractors with experience of delivering welfare-to-work schemes in a particular area (NAO, 2012). Some providers reported difficulties in securing staff and premises in areas where they had not delivered before. This was less of a problem for prime contractors that were delivering in areas where they previously held Flexible New Deal (FND) contracts (Lane et al., 2013).

Box 4.2. **Work Programme procurement process and formation of supply chains** *(Cont.)*

Formation and management of supply chains

DWP's contract management function has to a large extent been shifted onto the prime providers, which deliver services directly in the majority of cases, but also make extensive use of sub-contractors.

Prime or sub-contractor?

It is possible for organisations to be both a prime and a sub-contractor and eleven of the current prime providers also act as sub-contractors in other CPAs. Most sub-contractors never bid to become prime provider (83%) and the most common reason given was that their organisation was not large enough (77%, Lane et al., 2013). Other common reasons included: insufficient turnover or financial capability (48%), concerns about financial risk or outcome-based funding (37%), geographical coverage too limited (25%) and the Work Programme does not fit with the company's ethos or natural place in the market (20%).

Formation of supply chains

During the tender for Work Programme contracts, prime providers were responsible for identifying potential sub-contractors and forming their own supply chains. DWP did not specify sub-contracting arrangements but did require that the level of community involvement is commensurate with the needs of Work Programme participants and that primes adhered to the Merlin Standard on treatment of their supply chains (see further below). To construct their supply chains prime providers solicited Expressions of Interest from potential sub-contractors, promoting tendering opportunities through industry networks, via their websites and by using "road shows". This led to a larger volume of interest than primes had expected and some primes found this difficult to manage. Also for sub-contractors the exercise was difficult as around a third were in discussions with 10 or more prospective primes and nearly half with 4 to 10 prospective primes. In line with this, more than half submitted Expressions of Interest for 6 or more primes including a fifth who submitted 16 to 18.

Managing supply chains

Prime providers have developed different supply chain models, with 14 primes also delivering end-to-end services themselves ("delivery primes") and four primes acting as "managing primes", with no own end-to-end services. All primes use so-called "Tier 1" sub-contractors, who generally deliver end-to-end processes. With a number of contracts across supply chains some Tier 1 providers may even generate a higher income from the Work Programme than some primes. In addition most primes also use "Tier 2" sub-contractors who usually deliver specialist interventions for particular types of participants. Primes have between 2 and 17 Tier 1 sub-contractors and between 4 and 112 Tier 2 sub-contractors, with a few primes using only Tier 1 sub-contractors. In total there are over 800 sub-contractors. Providers must seek DWP's approval for changes to their supply chain.

The referrals that sub-contractors receive are largely determined by their proximity to the participants' location (38%) or participants' specific needs (36%) and a minority of sub-contractors had a formal agreement in place to receive a set number or minimum volume of referrals. Lane et al. (2013) observed that supply chains were often shorter in practice than were expressed in bids during the tender process.

Lane et al. (2013) found that almost all Tier 1 sub-contractors were paid on roughly the same outcomes basis as primes or a modified version of this model, suggesting that that the risk in the outcome-based funding model is to a large extent being handed down the supply chain. Primes typically deducted a management fee from payments made to Tier 1 sub-contractors. By contrast Tier 2 sub-contractors were typically paid a set fee for a service or per referral. Non-profits may in some cases contribute their own funds to cover part of the cost of, for example, services for the homeless; but more often when a provider accepts a low price, it delivers low-quality services and quasi-market delivery may become inefficient for this reason.

Box 4.2. **Work Programme procurement process and formation of supply chains** *(Cont.)*

The Merlin Standard

The Merlin Standard is a standard of behaviour which prime providers are expected to adhere to in their relationship with their sub-contractors. It is designed to encourage excellence in supply chain management by prime providers, to ensure fair treatment of sub-contractors and development of healthy high-performing supply chains. All prime contractors were required to gain Merlin accreditation in order to be a DWP prime contractor or risk losing their contract. In July 2012 it was announced that all 18 primes had successfully passed their Merlin assessment. The Merlin Standard has been developed as a joint exercise between the DWP and its providers operating in the welfare-to-work sector and contains four broad principles with a number of assessment criteria each:

1. ***Supply chain design***: Primes should ensure variety in supply chains and organisations within the supply chain should look to innovate, learn from each other, and share good practice.
2. ***Commitment***: Primes should look to establish relationships with their sub-contractors to mutual advantage. Commitments made when supply chain relationships are formed must be honoured and any changes must be made by mutual agreement during the procurement process and as contracts are delivered.
3. ***Conduct***: Primes have a responsibility to manage their supply chains with integrity and openness and in compliance with legislative and regulatory requirements. Sub-contractors should expect to be clearly informed of the primes' expectations, managed in a transparent way and supported via clear communication and guidance. Sub-contractors in turn need to play an active role in supporting primes to comply and excel.
4. ***Review***: Primes should be able to demonstrate that they actively seek and use feedback from all stakeholder groups, including that provided through external auditing and assessment activities, to inform and improve practices. Part of this is generating an annual continuous improvement plan and resultant action.

Merlin is an independently managed accreditation standard and DWP has contracted emqc Ltd to assess and monitor primes against the standard. The study by Lane et al. (2013) showed that views on the Merlin Standard's relevance varied both among primes and sub-contractors. Some primes were sceptical about the Merlin Standard, feeling that it was a "tick box" exercise, whereas others found that it was a useful benchmark and a good guide. Sub-contractors, who are meant to be protected through the Merlin Standard had some mixed views: nearly half (47%) of those that had some experience of it rated the Merlin Standard as ineffective, 31% rated it as effective, and 23% did not know how effective it was or considered that it was too early to tell.

Source: Brisbane Times (2009), "Job Network employees face search for work", 3 April, www.brisbanetimes.com.au/national/job-network-employees-face-search-for-work-20090403-9qhq.html (accessed 25/01/2014); Canberra Times (2009), "Thousands of staff go in agency revamp", 3 April, http://business.highbeam.com/437587/article-1G1-197033318/thousands-staff-go-agency-revamp (accessed 25 January 2014); DWP (2010), "The Work Programme Invitation to Tender: Specification and supporting information"; emqc (2013), "Merlin Standard", www.merlinstandard.co.uk; Freud, D. (2007), "Reducing dependency, increasing opportunity: Options for the future of welfare to work – An independent report to the Department for Work and Pensions", http://webarchive.nationalarchives.gov.uk/20090804161718/http:/dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/freud-report/; Gash, T. et al. (2013), "Making public service markets work", www.instituteforgovernment.org.uk/publications/making-public-service-markets-work; Lane, P. et al. (2013), "Work Programme evaluation: Procurement, supply chains and implementation of the commissioning model", *DWP Research Reports*, No. 832, www.gov.uk/government/organisations/department-for-work-pensions/about/research; Maximus (2009), "MAX Employment (Aus) wins substantial new business in Job Services Australia tender announcement", 30 March, http://s339605959.websitehome.co.uk/latest-news-releases/max-employment-aus-wins-substantial-new-business-in-job-services-australia-tender-announcement.html (accessed 25 January 2014); NAO (2012), "Department for Work and Pensions – The introduction of the Work Programme", www.nao.org.uk/report/the-introduction-of-the-work-programme/; and OECD (2012), *Activating Jobseekers: How Australia Does It*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264185920-en.

Although subject to DWP oversight, prime contractors were able to engage sub-contractors without the tendering rules that apply in the public sector. Prime providers are responsible for managing and monitoring the performance and quality of their sub-contractors. In March 2013 around 800 organisations from the voluntary (43%),

private (42%) and public sector (15%) worked as sub-contractors for one or more of the 18 prime contractors (DWP, 2013a). Sub-contractors can be divided in so-called "Tier 1" sub-contractors, who generally deliver end-to-end services and "Tier 2" sub-contractors who usually deliver specialist interventions for particular types of participants. For details on the formation of supply chains see Box 4.2.

With only 18 CPAs and 18 prime providers the Work Programme model is quite different from Job Services Australia with 116 Employment Service Areas and around 90 providers holding contracts with Government. Whereas the Australian Government still manages a high number of contracts, DWP has been able to contract this function out to prime providers to a large extent. Prime providers now manage large supply chains of sub-contractors, who under previous delivery models often would have held DWP contracts themselves. Apart from establishing a framework for supply chain relations through the "Merlin Standard" (see Box 4.2) DWP does not usually interfere with sub-contractors and leaves it to prime providers to manage them.

Assessment of the Work Programme market structure

The competitive forces in quasi-markets are associated with improving efficiency and responsiveness in the delivery of activation and reintegration measures for jobseekers. Competitive pressures are meant to ensure that prices are kept low, services are delivered using the best possible techniques and innovations will emerge. In an ideal situation there are many providers in the market who are not able to exercise market power. If there are not enough actual providers in the market, both market entry and exit have to be relatively costless in order for markets to be contestable.[5]

Current levels of competition appear to be low and keeping the Work Programme market contestable and competitive in the future may prove challenging. Reducing the average contract size would help to encourage entry by more providers, increase competition within CPAs and facilitate the replacement of poorly-performing providers.

Contestable markets – competition through outside pressure?

For the lifetime of the existing contracts, DWP seeks to keep the Work Programme market contestable – and thus competitive – through the Employment Related Support Services (ERSS) framework. The ERSS framework includes all approved potential Work Programme providers who were not successful in the actual tender. Where a current Work Programme provider fails DWP could run a tender for a single contract drawing on the ERSS framework. This option of drawing in a provider from the ERSS framework might, however, be an empty threat. Some of the providers included in the ERSS framework already decided not to bid for Work Programme contracts (see Box 4.1) and might therefore not be interested in stepping in, especially as the remaining providers may have established strong incumbent positions in the meantime. Allowing current providers to bid for contracts of a failed provider results in an increased market concentration with potentially negative impacts on competition. For future tenders the threat of entry of new suppliers could be a major driver of competition. There is, however, evidence to suggest that barriers to entry are high, potentially deterring new entrants (Gash et al., 2013). The vast majority of organisations which are currently sub-contractors did not even consider bidding for current contracts and the most common reason was insufficient turnover or financial capability (Lane et al., 2013). Similar observations have been made in the evaluation of the *Work Choice* programme for disabled people, where financial, geographical and organisational constraints were mentioned as constraints for becoming a prime provider (see Box 4.5 in the sixth section "Incentive implications of the Work Programme payment model" below).

Competition within Contract Package Areas?

The merits of competition are difficult to sustain if competition arises only at the time contracts are awarded. CPAs therefore operate with two to three providers and DWP expects competition between providers – driven through a market share shift mechanism – to result in further efficiencies as measured through the Work Programme's additional impact. It is unlikely that competition between providers was a major driver of performance over the first 22 months of Work Programme contracts. No provider could have envisaged an increase in market share, as they all were technically in breach of rules due to underperformance. Provider behaviour therefore might have been driven not by competition, but by incentives to recover some upfront investments and make profits as all providers faced potential contract termination at the end of Year 2.

DWP waived the original market share shift rules, but shifts have been implemented from August 2013 in at least 16 instances. The performance improvement expected as a direct consequence of the market share shifts is small, and their impact depends on largely on how the market share loser reacts, which may depend on a number of factors. In some cases the market share loser may respond well to the challenge, and aim to catch-up with the better-performing provider.[6]

A market share shift is less likely to foster competition where there is a large performance gap between providers. Providers who have lost market share are already under financial pressure due to their relatively low income from outcome fees, and the shift may aggravate perverse outcomes such as excessive parking (Carley Consult, 2013). When improvements for underperforming providers are not viable, a rational strategy is to prepare for Work Programme exit, heavily reducing spending on services so as to make a profit (or at least break even) until the contract is terminated. The better-performing provider can in the meantime consolidate its market position. Such possible scenarios need to be carefully managed: either through intervening in a provider's delivery model – against the notion of the black box delivery model – or by swiftly replacing the poorly-performing provider. Swift replacement of providers, however, seems difficult to manage given the current size of contracts.

In March 2014, almost three years into the contracts, DWP announced the termination of a first Work Programme contract due to underperformance with a replacement to follow within 12 months without further details being provided at the time of writing (McVey, 2014). In addition to large replacement costs, DWP will face a number of challenges: *i)* ensuring the continuity of service for participants currently on the programme; *ii)* identifying high-performing sub-contractors in the supply chain in the absence of performance data collected through DWP;[7] and *iii)* ensuring the attractiveness of the tender given that the terminated contract covers a region with below average labour market performance. Also the length of the retendered contract plays an important role. By March 2015, Work Programme contracts only run for another year. Providers stepping in may be reluctant to accept tough contract terms (e.g. no attachment fees, high performance expectations), as the experience across all Work Programme contracts showed that providers move up a learning curve and need about one year to be up to "full speed". The replacement may be facilitated by dividing the existing contract in a number of smaller contracts. For DWP, this reduces the risk of another large-scale failure across the entire CPA. For potential bidders it reduces the financial risk, thereby potentially attracting a higher number of potential bidders and increasing the likelihood of a competitive outcome. This also provides an opportunity to evaluate whether smaller contracts are an option for a potential next round of the Work Programme from 2016 onwards.

Beyond competition between prime providers, competition may prevail within a prime provider's supply chain. Some primes interviewed by Lane et al. (2013) indicated using competition to drive performance within their supply chains, including cash bonuses to staff, publication of league tables and shifting market shares. Primes further reported having brought in new sub-contractors to replace poorly-performing suppliers. Most prime providers interviewed by Lane et al. (2013) held detailed management information about their sub-contractors – in some instances down to the performance of individual advisers. Competition on sub-contractor level is desirable and is likely to result in more efficient outcomes for the primes who foster competition. G4S (2013) provides an example of how performance improved from around less than 51 to over 110 job starts per month following an adjustment of the supply chain.

Without direct involvement DWP needs to rely on performance management and market share shifts applicable to primes to drive competition on sub-contractor level. Hence, DWP has no leverage to penalise poor performance in a particular Work Programme provider office/location, if performance of a prime provider meets the performance expectations on average across the CPA. Figure 4.2 (in the fifth section below) suggests that there is large variation in job outcomes within prime providers' catchment areas and ideally DWP should have levers to manage performance on a much more local level.

Reduction in contract sizes to foster competition

Reducing the average contract size would help to encourage entry by more providers, increase competition within CPAs and facilitate the replacement of poorly-performing providers. Many of the current sub-contractors would then be able to act as prime providers. This could make the Work Programme quasi-market more competitive, and thereby improve efficiency and responsiveness in the delivery of activation and reintegration measures for jobseekers. The contract size should be reduced along two dimensions: CPAs should be geographically smaller and in most cases, more than two or three providers should operate in each CPA. Some factors to consider for any such change in the market structure are:

- Increasing the number of contracts would partly reverse the current situation, where large parts of the contract management function have been passed on to prime providers. However, the proposed model does not rule out the possibility of some providers running a large number of smaller contracts under central management and DWP still could operate a relatively lean contract management function. Also discounts by bidders due to economies of scale may still be offered.
- The size of contract needs careful consideration to ensure the financial viability of contracts. For example, the 2009 tender for Job Services Australia resulted in too many providers servicing some areas (Jobs Australia, 2011). Also in the Work Programme some sub-contractors received lower than expected referrals, sometimes affecting their financial viability (ACEVO and Shaw Trust, 2013).
- Large providers may be in a position to participate in regional governance institutions that promote local economic development. Sustaining the benefits of such an engagement may be facilitated if CPAs are aligned with the geographical coverage of existing governance structures such as Local Enterprise Partnerships (LEPs) in England, where all providers in an area could participate.[8] As CPAs of different contracted-out programmes vary, there is also a case for aligning the CPAs of different programmes (Carley Consult, 2013).

Managing Work Programme performance

Replacing over 20 pre-existing programmes, the Work Programme serves a much wider customer base, including jobseekers, claimants of incapacity benefits and claimants of other inactive benefits. The critical success factors of the Work Programme are described as getting more people into work, getting them sooner into work and achieving more sustained job outcomes (DWP, 2010a). To achieve these ambitious aims the Work Programme commissioning model includes an outcome-based funding model with strong focus on sustained outcomes, ambitious performance targets and a market share shift mechanism to reward high performance and drive competition.

The remainder of the section first describes how the providers' incentives are managed using an innovative payment model. It then considers the performance management system and finds that it allows only for a limited assessment of the Work Programme performance. A performance measure taking local labour market conditions as well as jobseeker characteristics into account is proposed instead. Finally, the section makes an assessment of Work Programme funding levels and suggests that increased funding, effectively targeted, will have enough impact to generate a net cost saving, as participants move into employment.

Payment model

Outcome-based payment structures, with payment dependent on employment outcomes, were first developed in the United States and subsequently extended to the United Kingdom, Australia and the Netherlands, with more OECD countries now experimenting with job-outcome performance contracts. Such payment systems incentivise providers to achieve entry into sustained employment, rather than on simply managing inputs and programme commencements. However, contract structures also need to ensure that providers cannot respond to reduced payments simply by reducing their expenditures. The Australian Star Rating system combined with contract non-renewal when ratings are relatively poor, tackles this risk, but most other quasi-markets for employment services have no formal mechanism for achieving this outcome. Typical fee structures include combinations of upfront attachment fees, fees for the delivery of specific services (e.g. job-search support, training or work experience), placement fees upon job entry and payments for sustained periods of employment. Prices are either fixed in advance or agreed in the tender and contract negotiation period. This sub-section takes stock of payment structures in some previous contracted-out programmes and describes the segmentation of Work Programme participants into different payment groups. The length of sustained employment outcomes required to obtain maximum payments is novel in the United Kingdom and in an international comparison.

Payment structures in previous programmes

The outcome-based payment structures of UK employment programmes have included combinations of attachment fees, placement fees and sustainment payments. A peculiar payment structure was used for the geographically-limited EZ programme. EZs included attachment, placement and sustainment fees, and in addition providers received a fund for paying benefits to participants for the time they spent with the provider. When participants were placed early, the provider kept the remaining fund amount as profit. In turn, providers suffered a loss on this position if participants moved into employment towards the end of the attachment period or did not move into employment at all, as the fund only covered benefit payments for around 80% of the attachment period. Placement fees were paid upon job entry and substantially larger sustainment fees were paid after 13 weeks in employment. An example for the year 2005 shows that providers received less than GBP 200 for participants

not placed into employment during the one-year EZ attachment period. For participants placed into employment lasting at least 13 weeks, providers received total payments between GBP 4 170 and GBP 5 600, depending on how much they used up from the fund for benefit payments (Tergeist and Grubb, 2006; and see Annex 4.A1 for details on EZs).

The provider-led version of Pathways to Work also had an outcome-focused payment model. In contrast with the EZ model, prices were not set by DWP and providers bid for contracts on the basis of a total contract value. The total contract value was split into 30% paid as service fees and 70% paid for job outcomes, with 50% being paid at entry to work and 20% for 26-week sustained job outcomes. Service fees were paid for financing programme management costs (NAO, 2010).

The FND payment structure had a stronger focus on payments for sustained periods of employment. Under FND system providers received service fees, but no placement fees upon employment entry. Providers were able to claim short job outcomes when FND participants moved into employment for a continuous period of at least 13 weeks and sustained job outcomes when participants were in employment for 26 out of 30 weeks.

Following the model used for provider-led Pathways to Work contracts, FND contract values were split into service fees to be paid upfront and short and sustained outcome payments per job outcome. Initially it was envisaged for the service fees to cover 20% of the total contract value, whilst 80% were reserved for outcome payments (DWP, 2008b). In the light of the recession DWP changed the split to 40% service fees and 60% for outcome payments (Armstrong et al., 2010). To establish a fee per short and sustained job outcome, providers had to specify in their bids the total number of short and sustained job outcomes they intended to achieve over the contract period above the minimum levels set by DWP. With FND being only available to JSA claimants each contract had a uniform price for all short and sustained job outcomes and prices did not reflect variations in distance from the labour market within the JSA claimant group. For more details on FND see Annex 4.A1.

Participant segmentation in the Work Programme

For the Work Programme, DWP developed a differential payment model with nine payment groups (PGs) to serve the wide range of participants including claimants of unemployment, incapacity and income-replacement benefits. The differential payment model is designed to encourage providers to work with all participants including those who are less likely to move into work, in order to minimise the risk of parking. Parking occurs when providers neglect participants perceived as harder to place in employment. The challenge for policy designers is to construct systems that mitigate such behaviour while also promoting or not significantly threatening cost-efficiency in terms of achieving employment outcomes.

Referrals to the nine PGs are based on the benefit being claimed and age, with certain separate categories for ex-Incapacity Benefit (IB) status and a JSA early referral group. Since March 2012 there is also a separate category for prison leavers. Table 4.1 gives an overview by PGs on the conditionality regimes, the point of referral, the period after which job-outcome payments can be claimed, the pricing structure, and the total expected starts on the programme between June 2011 and March 2016. Around one-sixth of participants are not subject to work-search conditionality (PGs 5, 6, 7, and 8). As also discussed in Chapter 3, participants with work-preparation conditionality can be required to prepare for work, but cannot be required to take up a suitable job offer or sanctioned for a failure to do so. Participants with keeping-in-touch requirements must attend interviews, but any participation in work-preparation measures (e.g. training course) is on a voluntary basis.

Table 4.1. **Work Programme payment groups by participation requirements and provider fees**

PG No.	Payment group by basis of referral	Conditionality group	Point of referral	Week job outcome paid	Attachment fee A	Job-outcome fee B	Sustainment fee per four weeks C	Max. No. of sustainment payments D	Max. payments over a 2-year-attachment period (A + B + C*D)	Total attachments June 2011 to March 2016 Thousands	%
	Mandatory										
1	JSA 18 to 24	WS	At 9 months on JSA	26	GBP 400	GBP 1 200	GBP 170	13	GBP 3 810	434.2	*17.2*
2	JSA 25 and over[a]	WS	At 12 months on JSA	26	GBP 400	GBP 1 200	GBP 215	13	GBP 4 395	1 160.2	*45.9*
3	JSA Early Entrants[b]	WS	At 3 months on JSA	13	GBP 400	GBP 1 200	GBP 250	20	GBP 6 600	366.8	*14.5*
4	JSA Ex-IB	WS	At 3 months on JSA	13	GBP 400	GBP 1 200	GBP 250	20	GBP 6 600	45.0	*1.8*
9	JSA Prison Leavers	WS	Day one of release from prison	26	GBP 300	GBP 1 200	GBP 200	20	GBP 5 500	81.5	*3.2*
	Mandatory or voluntary										
5	ESA Volunteers[c]	WP, KIT, N	Once WCA outcome is known	13	GBP 400	GBP 1 000	GBP 115	20	GBP 3 700	63.7	*2.5*
6	New ESA Claimants[d]	WP, KIT, N	Once WCA outcome is known	13	GBP 600	GBP 1 200	GBP 235	20	GBP 6 500	287.3	*11.4*
7	ESA Ex-IB[e]	WP, KIT, N	Once WCA outcome is known	13	GBP 600	GBP 3 500	GBP 370	26	GBP 13 720	86.7	*3.4*
	Voluntary										
8	IB/IS Volunteers in England[f]	KIT, N	From benefit entitlement	13	GBP 400	GBP 1 000	GBP 145	13	GBP 3 285	2.7	*0.1*

Note: ESA: Employment and Support Allowance; HM: Her Majesty's; IB: Incapacity Benefit; IS: Income Support; JSA: Jobseeker's Allowance; KIT: Keeping in touch conditionality; N: No conditionality; NEET: Neither in Employment, nor in Education or Training; PC: Pension Credit; PG: Payment group; WCA: Work Capability Assessment (see endnote 9); WP: Work preparation conditionality; WRAG: Work-Related Activity Group (of ESA); WS: Work-search conditionality.

a) For PC claimants without health conditions access is optional from 12 months on benefit.

b) Mandatory Early Access: 18-year-old NEETs; JSA repeaters (customers returning to JSA who have previously claimed JSA for 22 out of the last 24 months). Optional, voluntary early access for JSA claimants who fall in one of the following categories: ex-offender, disabled person (under the Equality Act definition), person with mild to moderate mental health issues, care-leaver, carer or ex-carer on JSA, homeless person, ex-HM Armed Forces personnel or reservist, partner of current or former Armed Forces personnel, person for whom a drug/ alcohol dependency (including a history of) represents a significant barrier to employment, claimants affected by the benefit cap.

c) Voluntary participation: *i)* ESA WRAG claimants with a youngest child under 5 or who are full-time carers (for claimants of income-related ESA only for those with a 12 months plus prognosis), *ii)* ESA credits only claimants, *iii)* PC claimants with health conditions from the start of their claim. Mandatory participation: access is optional for claimants of contributory ESA, however, once they opted in participation is mandatory for claimants in the WRAG (unless they have a youngest child under 5 or are full-time carers).

Table 4.1. **Work Programme payment groups by participation requirements and provider fees** *(Cont.)*

d) Mandatory participation: Claimants of income-related ESA WRAG with a prognosis of 3, 6 or 12 months. Voluntary participation: *i)* Claimants of income-related ESA WRAG (with a youngest child under 5 or full-time carers) with a 3 or 6 months prognosis, *ii)* both income-related and/or contributory ESA claimants in the Support Group.

e) Mandatory participation: Ex-IB claimants income-related ESA WRAG claimants with a 3 or 6 months prognosis. Voluntary participation: *i)* ex-IB income-related ESA WRAG claimants with a 3 or 6 months prognosis and a youngest child under 5 or full-time carers, *ii)* both income-related and/or contributory ex-IB ESA claimants in the Support Group, and *iii)* none ex-IB income-related ESA claimants in WRAG with a 18-month prognosis.

f) IB claimants prior to reassessment for ESA.

Source: DWP – Department for Work and Pensions (2013), "Work Programme Official Statistics: Background information note June 2013", www.gov.uk/government/organisations/department-for-work-pensions/series/work-programme-statistics--2; *DWP-IGS Work Programme Tabulation Tool* (database), http://tabulation-tool.dwp.gov.uk/WorkProg/tabtool.html; and DWP (2013), "Work Programme attachment profiles December 2012", House of Commons Library.

All participants are referred to the Work Programme by JCP advisers. Participation by JSA claimants is mandatory and also most Employment and Support Allowance (ESA) claimants in the Work-Related Activity Group (WRAG) have to join the Work Programme following their Work Capability Assessment (WCA), although access is optional for claimants of contributory ESA.[9] Other ESA, IB and Pension Credit (PC) claimants have the option to volunteer. Where claimants have the option to volunteer for the Work Programme, referral is at the discretion of their JCP adviser, but after the referral providers cannot mandate voluntary participants to undertake any activity. Fully-voluntary participants are typically well-motivated to use the services and find work, which may facilitate the efficient use of Work Programme resources.

Participants receive 104 weeks of support through the Work Programme from the date of referral. Support continues beyond the 104 weeks if the participant is in a job qualifying for payment of job-outcome or sustainment fees. Work Programme participation is completed after 104 weeks or when the maximum number of sustainment payments has been made. This is substantially longer than in the New Deals, EZ and the FND where providers typically only worked for up to 52 weeks with participants.

Payment types and the emphasis on sustained outcomes

In quasi-markets prices are not usually formed by the interplay of demand and supply, but rather are administered prices. For the Work Programme DWP set all base prices and providers had the opportunity to offer discounts. Differential prices for the nine Work Programme PGs are meant to compensate providers for the costs they incur for participants in each group and aim at minimising the risk that participants who are closer to the labour market are prioritised, while others are being parked. Providers can receive four different reward types, which differ by payment group (see Table 4.1):

- The Work Programme payment model initially includes *Attachment fees*, which are automatically paid once a benefit claimant has started with a Work Programme provider (i.e. is attached to the programme). Table 4.1 shows the attachment fees in Year 1 of the Work Programme contracts. The attachment fees are reduced to 75% of these levels from April 2012 (Year 2) and to 50% from April 2013 (Year 3). From April 2014 (Year 4) onwards no attachment fee will be paid and the payment model becomes a pure payment-by-result mechanism. Even though attachment fees will cease in Year 4, they represent an important guaranteed income for providers to date. In the first two years of the Work Programme, GBP 447 million were paid in attachment fees, representing 61% of all payments made.
- *Job Outcome payments* are made after the participants spend three or six months (depending on the payment group) of either continuous or cumulative spells in employment. This is different to the FND model, where no breaks in employment were allowed. However, achieving job outcomes is more challenging in other ways: *i)* for the majority of participants (PGs 1, 2 and 9) providers need to secure 26 weeks of employment before they can claim a job-outcome payment, which is much longer than for previous programmes; and *ii)* from Year 3 of the contract, job-outcome payments will be reduced by 10 percentage points of the original level each year for PG 1, 2 and 6. The job-outcome payments shown in Table 4.1 are the base prices set by DWP. Providers were invited to offer a discount on this level in their bids. On average, appointed providers offered discounts of around 6% contract value (NAO, 2012).[10] Only one job-outcome payment can be claimed during a participant's two-year attachment to the Work Programme.

- The vast majority of potential payments are paid through *Sustainment fees*, which require even longer periods of employment. Sustainment fees can be claimed every four weeks after the job-outcome payment for another one to two years, depending on PGs.[11] Participants leaving employment within the two-year attachment period return to their provider. Providers can still claim sustainment payments for subsequent periods of employment within the attachment period of two years until the maximum number of sustainment payments has been made. Paying providers for sustained job outcomes more regularly may help providers with their cash-flows as evidence from Pathways to Work suggested that long intervals between payments caused cash-flow difficulties for some sub-contractors (NAO, 2010). The Work Programme evaluation highlighted that Work Programme providers may often struggle to keep in touch with participants to verify and ensure their sustained employment (Newton et al., 2012; and Lane et al., 2013). This may have several causes like reluctance to keep in touch with providers while being in work, but also more generally different needs with respect to the in-work support. Addressing these issues, sustainment fees now can also be claimed when providers are not actively in touch with participants, if processes are in place to ensure that participants always have the option to access extra services and agree to keep providers informed about any changes to their circumstances.[12]
- From Year 4 onwards *Incentive payments* of GBP 1 000 for each additional job outcome can be paid to providers who deliver high performance for PGs 1, 2 and 6, as assessed through DWPs contractual performance measure (see next sub-section). Given the reductions in attachment and job-outcome fees, providers need to increase their performance levels to achieve similar revenue levels.

Currently job-outcome and sustainment payments are paid once participants have moved off out-of-work benefits, which means they must be working at least 16 hours per week. Once out-of-work benefits are not claimed any more, Working Tax Credit (WTC) is payable to lone parents working at last 16 hours per week, to couples with children working at least 24 hours (with one partner in the couple working at least 16 hours) and to childless single adults working at least 30 hours a week. With the introduction of Universal Credit (UC) some changes to the pricing model will have to be implemented as all individuals – regardless of family status – can receive UC whilst working part-time only. In Australia, such outcomes are rewarded through paying providers partial outcome payments. Future payment models in the United Kingdom could also reward part-time outcomes, but should incentivise providers to support participants into full-time jobs to reduce the total amount of UC being paid. Such efforts will be backed up by in-work conditionality which will apply to some UC claimants in work. For more details on both the current WTC system and the future UC system see Chapter 2.

The strong emphasis on sustained employment outcomes in the Work Programme is innovative in comparison to previous employment programmes in the United Kingdom and e.g. the Australian model. Sustainment fees account for 57% to 76% of providers' potential income for participants starting in the first year of the programme with increasing relevance in subsequent years due to the eliminated attachment and the reduced job-outcome fees. The payment model therefore not only incentivises providers to achieve movements into employment, but also encourages them to ensure job retention, which is associated with a number of longer-term benefits, including increased employment stability, skill acquisition, earnings growth, and career advancement. Recent

research reports the impact of the Employment Retention and Advancement (ERA) programme for the long-term unemployed (ND25+ participants), which provided both earnings supplements and in-work support services for up to 33 months (Dorsett, 2013). In the first 33 months, the earnings supplements increased rates of entry to work. The in-work support services, which were also delivered up to month 33, increased rates of retention in employment, but only after month 33. Such a long-delayed impact may arise if, for example, participation in training tends to substitute for employment during the period of training itself but increases employment rates after training has been completed. The long lag between service provision and its impact suggests that Work Programme sustainment payments may help to sustain employment outcomes during the period of the sustainment payments, but will not adequately incentivise the delivery of in-work support services during this period.

Performance Management

This sub-section describes the central performance assumption and the performance measures of the Work Programme's. It finds that the performance measures allow for a limited assessment of the Work Programme performance to date and a meaningful measure to compare the performance of different providers is largely missing. A better performance measure, taking local labour market conditions as well as jobseeker characteristics into account, is proposed.

The central performance assumptions

DWP expects that overall 36% of people referred to the Work Programme will be placed into jobs for which providers will receive a job-outcome payment (NAO, 2012). The estimate of 36% is made up of the non-intervention job-outcome rate of 28% (i.e. deadweight) plus two different additionality components, i.e. the additional impact generated through the Work Programme. The first additionality component accounts for an extra 5 percentage points, which are based on *i)* the expected additionality of previous programmes, *ii)* the longer duration participants spend with providers (24 instead of 12 months), and *iii)* the possibility to claim outcome payments for cumulative rather than only continuous periods in employment. The second additionality component adds an extra 3 percentage points for the supposed positive impact of *i)* competition in CPAs, *ii)* contractual freedoms around provision, and *iii)* longer and larger contracts (NAO, 2012).

All calculations depend to a large extent on the non-intervention scenario and additionality assumptions. DWP's calculations are based on historical job entry rates (DWP, 2010a). Accurate estimation of a non-intervention job-outcome rate (i.e. deadweight) is, however, inherently difficult. It refers to a scenario of no additional interventions for the long-term unemployed. This is a hypothetical situation which may not be an appropriate guide to policy. Since the Restart initiative of 1986, long-term benefit claimants have always been targeted by some form of employment service intervention.

In its assessment of DWP's performance expectations the NAO identified a risk that DWP's performance expectations were set too high. Nevertheless, a number of providers interviewed by NAO stated that Work Programme performance and cost targets were challenging, but achievable, and nine providers had anticipated even higher levels of performance in their tender for the contract (NAO, 2012).

The Work Programme performance measure

Under the terms of the Work Programme contracts, DWP measures performance in terms of the difference between actual outcomes and predefined Minimum Performance Levels (MPLs) for the same outcomes. MPLs are benchmark values for the ratio of job outcomes achieved in the previous 12 months over referrals in the same period and are hence not a cohort-based measure. MPLs are set for PGs 1, 2 and 6 only, which together represent 74% of all expected starts (see Table 4.1). DWP set a non-intervention performance level, which reflects the number of job outcomes that DWP expected to occur in the absence of the Work Programme. MPLs were then defined as the non-intervention performance level (see Table 4.2) *plus* 10%. For example for JSA 25 and over in Year 4 the MPL would be 33%.

In addition to the contractual performance measure DWP also monitors Work Programme performance through two Departmental Business Plan "transparency indicators". These two indicators measure the proportion of customers referred to the Work Programme each month for whom providers are paid a job-outcome payment within the following 12 months (indicator 1) and 24 months (indicator 2). This indicator is only used to monitor performance and no benchmark currently exists.

Outcome/referral ratios relative to MPLs are meant to be used to terminate contacts with Work Programme providers who perform poorly. Outcome/referral ratios relative to MPLs are also used as the basis for applying shifts in the market share between providers operating in the same CPA in order to foster competition between providers. Furthermore, incentive payments are paid to providers who deliver jobs at the non-intervention outcome/referral ratio *plus* 30%.

Table 4.2. **Assumed Work Programme Non-Intervention Performance Levels**

Outcomes as a percentage of referrals

Jobs/Referrals	Year 1 2011/12	Year 2 2012/13	Year 3 2013/14	Year 4 2014/15	Year 5 2015/16	Year 6 2016/17	Year 7 2017/18
PG 1. JSA 18 to 24	5	30	40	40	40	30	10
PG 2. JSA 25 and over	5	25	30	30	30	25	5
PG 6. New ESA Claimants	5	15	15	15	15	10	5

Notes: ESA: Employment and Support Allowance; JSA: Jobseeker's Allowance; PG: Payment group. Data for Year 6 and 7 are calculated on the basis of referrals in Year 5, as there are no more referrals in Year 6 and 7.

Source: DWP (2010), "The Work Programme Invitation to Tender: Specification and Supporting Information".

Since the *Work Programme Invitation to Tender* the outcome/referral ratio performance measure has been widely criticised, as it: *i)* is affected by referral numbers as the measure's numerator is not a subset of its denominator; *ii)* is not comparable over time; *iii)* is set for three out of nine PGs only; and *iv)* has not been adjusted to reflect the worse than expected economic situation (CESI, 2013a, and 2013b; Lester, 2013; Mulheirn, 2011; NAO, 2012; and WPC, 2011, and 2013). Being cohort-based, the transparency indicator's numerator is a subset of its denominator. The transparency indicator, however, combines all payment groups into one indicator, without taking into account the varying length of employment periods needed to claim a job-outcome payment.

DWP (2008a) announced the introduction of a Star Rating system that would enable providers and participants compare to the performance in relation to the provider market as a whole. Neither outcome/referral ratios nor the transparency indicator allow for a

meaningful comparison of performance between providers as the measures are too crude, given the lack of control variables. MPL targets represent a national average and do not allow for inter- and intra-regional variation to be reflected. Providers in areas of higher unemployment might therefore struggle to achieve the nationally set targets. Furthermore, participants in rural and remote areas or areas where job opportunities are few might receive a lower level of service provision. In fact a provider might underperform against MPLs when in fact their performance is good. Providers in areas with better-performing labour markets in turn might find it easy to perform above the MPLs. The better-performing of two providers in a given CPA might still be performing relatively poorly in a national comparison, which takes control variables into account. Another complication is that some providers offered discounts on the contract value, and the achievement of the same outcomes as competitors, but at less cost, is not captured in the performance measures.

A different performance measurement system

A meaningful performance measure should take local labour market conditions as well as jobseeker characteristics into account to enable a comparison in relation to the provider market as a whole, as envisaged in DWP (2008a). The "Star Ratings" system for the Job Services Australia model broadly succeeds in achieving this (see Box 4.3). The Australian model operates under a different structure with 116 Employment Service Areas, with providers operating over 1 600 different office sites (see Box 4.1). Office sites in the Australian model are comparable to customer-facing offices of prime providers or Tier 1 sub-contractors in the Work Programme model. It is often suggested that a similar performance measurement system could be applied to the Work Programme (see e.g. Carley Consult, 2013; and Shaw Trust, 2013a). However, the full implementation of a similar measurement system for the Work Programme would require multiple reforms:

- The creation of a more-complete national database of jobseeker characteristics (profiling information), with some parts of the input information being built up over a period of several years by addressing a questionnaire to all JCP clients, or the subset of JCP clients who are approaching the point of referral to the Work Programme.
- One significant operational use of the jobseeker profiling information would be to differentiate payments to Work Programme providers within the current PGs according to their "distance from the labour market". If the profiling information is not used operationally, the lack of incentives within the system for correcting and updating inaccurate and out-of-date information will undermine the quality of the information. See also Chapter 3 on profiling.
- Central government allocation of jobseekers to specific customer-facing offices, so that the performance can be directly compared across individual offices operating in the same local area. Particularly when four or more offices are operating in the same area with a comparable profile of jobseekers at intake, this allows relatively strong identification of *i)* the fact that the local area itself is advantaged or disadvantaged (there needs to be enough supervision of the contracts to ensure effective competition, i.e. prevent collusion); and *ii)* good and bad performance by individual offices.
- Matching the customer–facing offices to local-area statistics for unemployment, employment and industry structure, etc., which can then be used as explanatory variables for local office performance.

The adoption of these features would bring the Work Programme model of operation much closer to the Australian one. This is necessary in order to allow more effective performance measurement and performance management. Once the measurement of performance is implemented at local office level, it is feasible to terminate contracts at that level or slightly above that level. Having an office/sub-contractor-based measure could even help Work Programme prime providers to manage their own end-to-end delivery sites and those of sub-contractors in a similar way that larger Australian providers manage their various office sites.

Box 4.3. **Star Ratings in Job Services Australia**

Star Ratings are measures of placement performance adjusted for differences in jobseeker characteristics and local labour market conditions and are used to terminate contracts with employment service providers that perform poorly. The Star Ratings system is based on regressions similar in character to those used to estimate weights for the Job Seeker Classification Instrument (JSCI; see Box 3.2). However, for Star Ratings many separate regressions are conducted using different provider outcomes as the dependent variable. Most of the provider outcomes used correspond to the payment of a fee (e.g. *13 week pathway outcomes*) but some do not (e.g. *Time to Paid Placement*). The latest Star Ratings methodology also includes a *barriers serviced* measure which estimates how much assistance providers deliver for Stream 4 participants who usually have multiple barriers to employment. The "barriers serviced" measure primarily assesses activity or participation.

The main steps involved obtaining Star Ratings are:

- Using individual-level data, the outcome variable (e.g. "paid or not paid a 13 week pathway outcome") is regressed on jobseeker characteristics and local labour market conditions. Star Ratings include similar jobseeker characteristics as those included in JSCI, and also additional information like e.g. the number of days which the provider has had to place the jobseeker. The local labour market conditions taken into account include the employment growth rate, the employment shares of particular industries, the registered vacancy/jobseeker ratio and the survey-based local unemployment rate;
- The performance measure is then the ratio of actual outcomes to outcomes predicted by the estimated equation. Performance at site level and at contract level is a weighted average across all the four different payment groups in Job Services Australia (called *streams*); and
- Star Ratings are based on the weighted average ratio of actual to predicted outcomes: five stars are assigned if performance is 40% or more above the average; four stars are assigned if performance is between 39% and 20% above the average; three stars for performance in the range of + or -19%; two stars for performance between -20% and -49%; and one star if performance is 50% or more below the average.

Nearly all JSA sites across Australia have an overall Star Rating. The ratings probably identify good and bad performance at the level of the 100 or more individual sites run by a large provider, more accurately at lower cost and with greater authority than provider management could do itself. The high level of detail gives the Australian Government and the provider insight into performance that would be missed if performance were only assessed at provider level.

Nevertheless, some features of the Star Ratings might be improved. The ratings are based on outcomes across the life of the contract to date, whereas users might consider that performance over the last three or six months is more relevant. For providers specialised in certain disadvantaged client groups, notably youth at risk, mental health, and homeless or at risk of homelessness, Star Ratings tend to be low, but a statistical bias (selection on unobservables) may arises because these providers specialise in harder-to-place sub-groups.

Source: DEEWR (2013), "Job Services Australia Demonstration Pilots – Better Practice Guide 8: Measuring social outcomes", http://employment.gov.au/better-practice-guides-employment-service-providers; DEEWR (2012), "Job Services Australia Star Ratings methodology from July 2012 to June 2015", http://employment.gov.au/job-services-australia-provider-performance-star-ratings; and OECD (2012), *Activating Jobseekers: How Australia Does It*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264185920-en.

Market share shift

With two or three Work Programme providers operating in each CPA, DWP explicitly aims to foster competition between providers in each area. To introduce a means of competition between providers a market share shift mechanism has been included in the programme design, based on providers' placement performance.

Market share shifts based on a performance measure instead of participant choice as intended in EZs and in Australia might be preferable. In Australia few customers make their own choice and the majority are randomly assigned to a provider with sufficient spare capacity (OECD, 2012). Research for suggests that it was difficult for JCP to operate participant choice for EZs and a considerable proportion of clients reported having had no awareness of choice at all (see Annex 4.A1).

Work Programme customers are referred on a random basis to the prime providers operating in each CPA by PG. Initially providers receive an equal share of referrals for each payment group. Market share reviews are only carried out for PGs 1, 2, and 6, where the contractual MPL performance targets exist. The market share shift mechanism can be applied where the best-performing provider has an outcome/referral ratio at least 3 percentage points above the lowest-performing provider in a CPA. The highest-performing provider receives a 5 percentage point increase in market share, whereas the lowest-performing provider receives a 5 percentage point reduction. In CPAs with three providers the market share of the middle provider will not be affected. The market share shift applies to new customer referrals only, and existing customers will remain with their original provider (DWP, 2013f). The current interplay between the outcome/referrals ratio performance measure and the market share shift mechanism may distort competition: as a market share shift reduces the number of referrals, the performance of the worst provider should ceteris paribus increase in the following year.[13]

It is, however, unlikely that competition between providers was a major driver of performance over the first 22 months of Work Programme contracts. Performance was below expectations in all payment groups in the first year of contracts. In the second year performance improved for JSA PGs, but no provider met the MPL for ESA claimants in PG 6, and according to the terms of their contract, DWP could have terminated all contracts at the end of Year 2. DWP did not do this, but it has implemented market share shifts from August 2013 in at least 16 instances.

The expected performance improvement of a 5 percentage point shift is positive, but small: according to an ex ante calculation the first shifts executed in August 2013 will increase Work Programme job outcomes by less than 1%. A more serious drawback of the market share shift mechanism is that it allows poorly-performing providers to stay in business beyond the point where it has become clear that they are unlikely to qualify for contract renewal. At such a point, the seven organisations that hold a single Work Programme contract, in particular, have a strong incentive to minimise expenditure so that their owners come out with a profit from the last few years of business operation: under the Work Programme payment model, "deadweight" (or "non-intervention") outcome levels still represent a significant revenue stream.

A calculation by G4S (2013) suggests that if the business of the bottom half of providers had been delivered by the upper half of providers an extra 9 300 people could have found sustained jobs, which equals around 7.5% of all successful job outcomes to March 2013. According to a similar calculation for Australia, the elimination of poorly-performing providers – at a much more local level, where performance is more variable – increased aggregate performance by nearly 25% in 2000 (OECD, 2012).

Work Programme funding levels and government savings

Comparisons with the previous UK programme EZs and Job Services Australia suggest that Work Programme providers have lower levels of funding available per client or need to secure much longer periods of employment to obtain similar levels of funding per participant.

Whether the government can make real savings to public finances through the Work Programme is difficult to assess and depends on a number of assumptions, especially on the additional number of employment outcomes generated through the Work Programme. Currently providers mainly obtain job outcomes for participants who are relatively close to the labour market. For harder-to-help participants, the Work Programme appears to be less effective; funding levels may need to increase if more harder-to-help participants are to be helped into employment through the Work Programme. Quite probably increased funding, effectively targeted, will have enough impact to generate a net cost saving, as participants move into employment.

Funding levels of other employment programmes

A comparison with EZs – which was characterised by a similar fee structure – suggests that Work Programme funding is substantially lower for similar participant groups. Like the Work Programme, the EZ model provided an attachment fee that was small in comparison with the payment-by-results fees. In 2005 providers received between GBP 4 170 and GBP 5 600 for jobseekers placed into employment lasting at least 13 weeks (Tergeist and Grubb, 2006). This equals between GBP 4 990 and GBP 6 700 in 2011 prices if uprated with the UK Consumer Price Inflation Index, and is substantially more than Work Programme providers can receive for participants in PG 1 and PG 2, where maximum payments are GBP 3 810 and GBP 4 395 for participants starting in the first year of Work Programme contracts. Furthermore, providers need to achieve a substantially longer periods of employment – at least one-and-a-half years, in total – to receive these amounts in full. In a comparison with the FND, Mulheirn (2011) suggests that even if Work Programme providers achieve the MPLs they would be operating with at least 25% less money than FND providers. Also a comparison with expenditure per participant for various New Deal programmes suggests that Work Programme providers have much lower levels of funding available (Davies and Raikes, 2014).

Another useful comparison is with the Job Services Australia funding model, although there are a number of caveats. At Purchasing Power Parity (GBP 1 = AUD 2.15), in the case of adults who have been unemployed for at least 12 months, a comparison shows:

- If jobseekers secure employment for six months only, in Australia the outcome payments to providers for Stream 1 clients (those with no major barriers identified) are similar to those in the UK Work Programme. For Stream 2, 3 and 4 clients in Australia, they are higher than those for the UK Work Programme in PGs 1 and 2.
- But if the employment spell continues for 18 months, in Australia the outcome payments even for Stream 3 and 4 clients are lower than the outcome and sustainment payments available in the UK Work Programme. However, providers in Australia also receive payments into their Employment Pathway Fund (EPF), which they can use to finance the purchase of jobseeker services, and regular service fees. Taking these also into account, the total payment for a full employment outcome is about the same for Stream 3 clients, and larger for Stream 4 clients, as compared with payments for 18 months of employment by Work Programme participants in PG 1 (JSA 18 to 24) and PG 2 (JSA 25 and over).

- It is important to recognise, however, that in both countries providers secure full employment outcomes for only a limited proportion of their clients. In Australia, annual 26-week outcome payments total about 120 000 across a stock of about 600 000 people in the active Job Services Australia caseload, i.e. 20% per year, per person in the stock. In the UK Work Programme, JSA referrals average more than 400 000 per year implying (given the 24-month duration of participation) an active Work Programme caseload of about 800 000 at a given point in time. About 25% of referrals eventually achieve a 6-month employment outcome (see Figure 4.1), implying that the annual flow of 6-month employment outcomes is about 15% of the stock; and probably less than two-thirds of these 6-month employment outcomes will go on to achieve maximum sustainment payments.

The fact that providers in Australia receive EPF payments and Service Fees across their entire flow and stock, including clients who do not achieve an outcome, is likely to result in a higher level of average funding per client and year in Australia.

Estimated savings in context of the Work Programme

The detailed assumptions underlying the Work Programme model imply that if outcomes fail to reach non-intervention levels the Work Programme is not achieving government savings in the expected range. Its operating costs, nevertheless, remain considerable in this case. However, probably the assumed non-intervention levels were overoptimistic, Work Programme expenditure at the current levels is generating a net saving for government, and within an appropriate framework, higher levels of funding could generate further net savings.

An example for participants in PG 2 (JSA 25 and over) suggests that the average savings for government of moving a participant off benefit and into work are around GBP 13 500 for employment lasting 18 months. This is based on the assumption of the participant earning 33% of the average wage. Assuming that participants earn 50% of the average wage suggests savings of around GBP 22 400. These estimates take into account out-of-work and in-work benefits, as well as social security contributions, income taxes and indirect taxes. The figures are also weighted to account for different family types. Details are provided in Annex 4.A2.

These savings to government compare to a payment of GBP 4 395 made to providers securing 18 months of employment for participants starting in year one of the Work Programme contracts, which declines to GBP 3 635 by Year 5. This suggests that DWP pays providers less than a third of the expected savings. But such a comparison does not take into account the facts that DWP *i)* pays attachment fees for participants who do not achieve an employment outcome, and *ii)* a proportion of paid employment outcomes are deadweight, i.e. would have happened in the absence of the Work Programme.

DWP expects that 40% of participants in PG 2 achieve an employment outcome (NAO, 2012). Assuming providers achieve employment outcomes for 40% of participants and help all of them remain in employment for the maximum payable period of 18 months, DWP would pay providers a total of GBP 2.0 billion. Of this only around GBP 0.2 billion are attachment fees, suggesting when expected performance levels are met the proportion of attachment fees is relatively small (see Annex 4.A2).

These assumed payments to providers of GBP 2.0 billion for PG 2 (JSA 25 and over) are low in comparison to the estimated gross savings for government. Annex 4.A2 here estimates that employment outcomes in the assumed range would generate gross savings for government of between GBP 6 billion and GBP 10 billion. The assumed 40% employment

outcome rate consists of 32% deadweight, and 8% impact from the Work Programme (NAO, 2012). The savings for government are then one-fifth of gross amounts, GBP 1.3 billion to GBP 2.1 billion, or GBP 0.63 to GBP 1.04 for each GBP spent.[14]

At first sight, this suggests some risk of loss-making to government. However, a few things need to be taken into consideration:

- The assumptions seem to have overstated the positive budget impact. Using FND performance data, NAO (2012) expected employment outcome rates for PG 2 (JSA 25 and over) to be around 26% rather than 40%.[15] NAO (2012) did not estimate a breakdown of the 26% rate, but the lower total implies that deadweight is likely to below 32% assumed by DWP. If the employment impact is 6% rather than 8%, the savings for the national budget are correspondingly smaller. But Work Programme expenditure on employment outcomes and sustainment payments is also much lower than originally assumed.
- The calculations do not take into account the wider benefits to society as a whole. The Work Programme may also have important impacts on the economy and society in general. Moving people into work can, for instance, have impacts on health, self-esteem, economic activity and crime rates. For the Work Programme as a whole, DWP estimated that the social benefits would be GBP 1.95 for every GBP 1.00 spent (NAO, 2012).
- The calculations also do not take into account the impact of the Work Programme on exits from unemployment before entry to the Work Programme and impact on employment outcomes after the 18-month payment period. In general, requirements to participate in activation measures tend to have a motivation effect on outcomes before participation takes place, and employability enhancement measures such as training or detailed job-matching, when they are effective, appear to have a relatively long-term impact. The immediate positive outcomes may also have some positive lifelong or intergenerational impact, in line with the idea that activation and employment assistance measures help to break cycles of benefit dependency.

Overall, it is not clear that Work Programme costs are fully covered by their estimated impact in terms of reduced benefit payments and higher tax receipts during the 18-month period where employment outcomes and sustainment payments are being made. However, this approach to calculation probably significantly understates the full benefits associated with impacts on employment outcomes.

Furthermore, although policy-makers wish that employment services were more effective, certain evaluation findings suggest that employment services have a large impact as compared with the alternative of allowing unconditional benefit receipt. In response to a shortfall in employment service performance, expenditure on them might even need to be increased, because allowing benefit conditionality to lapse is a risky strategy. It makes sense to penalise and ultimately eliminate the providers whose relative performance is weak, but not necessarily to reduce total funding when overall performance is weak. The average performance of Work Programme is below initial expectations probably mainly because the initial expectations were unrealistic and due to weaknesses in the structure of the model.[16]

Provided that a better performance measurement system is in place and underperforming providers are penalised through contract termination, increased funding, effectively targeted, will have enough impact to generate a net cost saving, as participants move into employment.

Limited service prescription in a "black box" delivery model

An essential feature of the Work Programme commissioning model is its *black box* approach to service delivery, i.e. there are no mandatory service components and providers are free to decide which interventions to offer to participants in order to help them into, and to sustain, employment. Beyond some minimum service delivery standards, information about what Work Programme providers actually do with participants is relatively limited. This section aims to provide some insights into office and staff structures and approaches to service delivery in the Work Programme.[17] Even though providers enjoy relative freedom, DWP's scrutinises providers' financial position and expects providers to spend on services up to a point where they neither suffer losses nor achieve excessive profits. If the aim of such controls is to prevent parking, a better way forward may be a requirement for providers to see participants regularly in exchange for a service fee, but otherwise allow for freedom over service delivery.

Office and staff structure

Work Programme prime providers operate with a number of delivery locations in each of the CPAs. These delivery locations may either be either operated by the prime provider or sub-contractors who provide end-to-end services. On average, each contract received around 13 000 participant referrals in Year 2. For a few contracts where information on the number of locations is available, the average number of referrals per location was around 700 in Year 2. Participant referrals are declining over time as Table 4.3 in the next section shows. In the second year of contracts referrals were around 25% lower than in the first year and they are around 50% lower in the third year in comparison to the first. This in turn will impact on staffing decisions by providers.

Most of the staff in delivery locations are frontline advisers who are often supported through a receptionist. Other roles may include outreach staff for home visits to participants, employment coaches to support participants in work, and employer relationship staff. In addition to regular staff some providers may also use volunteers to support their services. The main space in provider locations is used for individual counselling, but locations might also have meeting rooms for delivery of group sessions and training. Often the Work Programme providers' locations are also used for other programmes the provider runs.

Service delivery

With the level of freedom over service delivery given to Work Programme providers, interventions vary from one provider to the next and detailed insights are difficult to obtain beyond the Minimum Service Delivery Standards, which providers are required to adhere to. Visits to providers, the Work Programme evaluation and the enquiries by the House of Commons Work and Pensions Committee (WPC) offer some additional insights into operational strategies, mandatory activities for participants and engagement with employers.

Minimum service delivery standards

In their bids prime providers were able to propose their own delivery model supported by a set of minimum service delivery standards. This is different to the predecessor programme FND, where all providers were required to meet a standard set of service requirements (see Annex 4.A1).

Work Programme providers are required to communicate their minimum service standards to participants and DWP Compliance Monitoring Officers undertake compliance visits to providers to ensure that providers adhere to their standards (see Box 4.4 below). In their minimum service standards most providers offer an initial meeting to assess participants' needs, the production of an individual action plan, regular meetings and the creation of a CV. Some providers offer basic IT skills training for all participants and some offer funding or reimbursement of travel and childcare costs. However, the specificity and thus measurability varies considerably across providers. For example, one provider promises "regular contact" (Ingeus), whereas others promise "(minimum) monthly 1:1 contact with a named adviser" (A4e) or "at least fortnightly contact with their adviser" (Seetec).[18] Therefore, one of the recommendations of WPC (2013) was to develop "a core set of basic minimum standards applicable to all providers, and to which all Work Programme participants are entitled." In response to such concerns, one of the tasks of the Work Programme Best Practice Group,[19] set up in spring 2013 by DWP, is to develop a framework for minimum service levels that are transparent and measurable.

Operational strategies

Once JCP has referred a claimant to a Work Programme provider, the provider is responsible for contacting the claimants to introduce them to the programme and plan next steps. The "handover process" between JCP and Work Programme providers as well as their ongoing relationship therefore represents an important success factor for Work Programme providers. In their evaluation of Work Programme delivery Newton et al. (2012) observed variable quality in relationships between JCP and Work Programme staff. Later on WPC (2013) noted improving relationships between providers and JCP, with co-location of providers with JCP being identified as one means to improve relations. Overall it is important that DWP better identifies factors that affect Work Programme performance at the local level, such as differences in the behaviour of local JCP offices, so as to ensure a relatively level playing field when comparing performance between one locality and another.

Participants are usually first served at an end-to-end provider office location, run by prime providers or end-to-end sub-contractors (i.e. *Tier 1* sub-contractors, see Box 4.2). Referrals to different offices in a CPA are largely determined by geography and some providers also make pledges with respect to a participant's travel time in their minimum service standards. Most Work Programme providers start with an assessment or insight phase, where they collect profiling information on participants' personal and household characteristics, qualifications, skills, health problems, work history, previous job-search methods and aspirations and barriers to work. The results of the assessment are then used to classify participants according to their job-readiness and determine the type of provision participants receive. Providers may also use some of this profiling information to evaluate their interventions.

Interventions by Work Programme providers focus on placement and related services with the most common support being one-to-one meetings with frontline advisers. Frontline advisers have the main responsibility for securing job outcomes and providers usually have performance targets and may run league tables in their offices. The frequency and mode of contact with advisers varies depending on the promises made in the minimum service delivery standards and participant needs. Adviser caseloads of 120-180 jobseekers per adviser (WPC, 2013) are, however, far too high to deliver effective and personalised support for those with complex barriers.

Most end-to-end providers also use specialist providers (i.e. *Tier 2* sub-contractors, see Box 4.2), which for example deliver support for participants with mental health problems or homeless people. Specialist sub-contractors are often small organisations and are typically paid through upfront service fees. With tight budgets and low performance at the start of the Work Programme one of the consequences was that specialist providers received fewer referrals than originally envisaged (Newton et al., 2012; Lane et al, 2013; and WPC, 2013).

Providers also supplement their provision with funding streams outside the Work Programme. This may include other DWP programmes such as Access to Work or training courses funded through the Skills Funding Agency in England (see Chapter 3). Beyond these national schemes, Work Programme providers may also take advantage of pilot schemes or local initiatives.

Mandatory interventions and sanctions

Providers can use mandatory activity to encourage participation by JSA claimants and ESA WRAG claimants with a mandatory participation requirement. Participants who do not comply may be sanctioned for non-participation. Both JSA and ESA WRAG claimants can be required to attend meetings with personal advisers or undertake work-related activity (e.g. training, preparation of CV). Whereas JSA claimants can also be mandated to apply for or take up work, ESA WRAG claimants can be supported to apply for and take up work but cannot be mandated.[20] Work Programme provider guidance stipulates that Work Programme providers keep a record of all mandatory activities planned for a participant.[21] This implies that providers are de facto required to create some kind of individual action plan and keep corresponding records.

Work Programme providers are required to take follow-up action if the participant fails to engage in the mandated activity. Providers than must raise a compliance doubt with JCP, providing all necessary evidence to support the doubt. The sanction decision, however, remains with a JCP decision maker. Problems in the consistency of decision making have been reported in the early days of the programme. DWP therefore centralised its decision making sites so that all decisions for one Work Programme prime provider are dealt with by the same JCP team to ensure higher consistency in decision making and also to foster good working relationships between the decision makers and the providers. Sanction for a "failure to participate in the Work Programme without good reason" represented a high proportion (30%) of all JSA sanction decisions by JCP in 2013 (see Chapter 3, Table 3.1).

Whilst on the Work Programme, JSA claimants continue to attend Jobsearch Review meetings at their local JCP office to fulfil the JSA conditionality requirements of being available for and actively seeking work. These meetings may be used to gather informal information about Work Programme providers, with any concerns being reported back to DWP contract managers (DWP, 2010b). Guidance states that participants should not receive additional services during these review meetings. Many JCP offices therefore have developed cut-down versions of the review process for claimants on the Work Programme like self-managed signing processes (Newton et al., 2012).

For Work Programme participants there is a potential for confusion as individuals may be required to report separately to JCP and their Work Programme provider. Additional requirements from JCP staff (e.g. applying for a certain number of jobs per week) may limit the providers' ability to develop their own action plan and organise interventions like a work experience placement (WPC, 2011; and ACEVO and Shaw Trust, 2013a). As Work Programme participants usually will have an individual action plan set by their provider, its contents should be taken into account by JCP staff when developing the JSA Claimant Commitment (see Chapter 3).

Employer engagement

Engaging effectively with employers is crucial for Work Programme providers to achieve sustained job outcomes for their participants. Providers will usually gather information on available vacancies in their area from publicly available information or through directly contacting employers. In addition, providers may use reverse marketing techniques, where jobseekers are actively marketed to an employer by pre-empting the employer's labour needs before they create a vacancy. Reverse marketing may be used for jobseekers who are job ready or close to job readiness, but who have barriers to employment that reduce their chances of finding jobs themselves from advertised vacancies. An evaluation of reverse marketing for Job Services Australia found that high-performing sites – as measured through Star Ratings and quality framework measures – are more likely to use reverse marketing (DEEWR, 2012b). The evaluation also found that jobseekers who receive reverse marketing are more likely to be referred to a job and more likely to achieve a job placement. However, jobseekers that have been reverse marketed have a slightly lower rate of conversion of referrals to placements. The findings from Australia suggest that reverse marketing can be an effective tool, however, an excessive use of reverse marketing and activities like "cold calling" may dilute the value of this type of intervention.

Work Programme providers usually have dedicated employer engagement staff and some may require their advisers to dedicate a set time each week for vacancy searches and reverse marketing. In London, a single Work Programme coordinator for Transport for London (TfL) is funded by the six prime providers operating in London to identify suitable TfL vacancies (WPC, 2013). The length of current Work Programme contracts is a good basis to foster stronger links with local employers over time and to develop an understanding of employers' longer term recruitment plans. But there are also examples of providers making excessive referrals of unsuitable candidates to vacancies. Restricting such provider activities may be difficult for DWP, but eventually such techniques should prove to be detrimental to providers' longer term success.

A black box or a grey box?

The expectation is that freedom over service delivery – i.e. black box delivery – stimulates wider service innovation and thus helps to move more people into employment. In an outcome-based approach the purchaser does not need to specify what processes are used by providers to obtain jobs for their participants, as competition over time should shift providers to the best methods. Some information about the black box may nevertheless be needed to monitor contractual compliance. It also may be in the interest of the buyer to discover what processes are actually most effective and share this information among providers.

DWP has an interest in discovering what processes are most effective in moving Work Programme participants into employment and sharing this information among providers. The Work Programme provider guidance states that providers are encouraged to share good practice with other providers within their CPA (DWP, 2013g) and providers are also required to participate in DWP programme evaluations (DWP, 2010a). In addition, one aim of the Work Programme Best Practice Group is to develop a framework for sharing best practice to drive improvements in performance, particularly for harder to help groups. More generally, however information sharing is incompatible with competition between providers, as it deprives providers of their competitive advantage. The current assessments of what works are of a qualitative nature.

In the ITT, DWP described the monitoring of Work Programme providers' operations as "light touch methods" to assure delivery of the providers' proposals and minimum service delivery standards (DWP, 2010a). This has often been contrasted with the Australian model of contracted-out employment services, which relies on various forms of provider monitoring and reporting needs that are often associated with excessive burdens of "red tape" (OECD, 2012). Also for the Work Programme some prime providers complained that reporting needs are onerous and impede their performance (Gash, et al., 2013). Furthermore, reporting requirements have increased since commencement of the contracts: for example, since May 2014 prime providers must submit management information to DWP on the performance of all their supply chain partners on a monthly basis.

The Work Programme payment model aims to reward providers for achieving socially-desirable outcomes and minimise any opportunistic behaviour. Some undesirable actions by providers may, however, be unintentionally rewarded in ways that are difficult to detect or prove. For example, providers might encourage participants to claim WTC by falsely pretending that they establish their own business, as reported by the BBC (2013). Or providers could employ programme participants on a rotating basis in order to claim job-outcome payments.[22] In an extreme scenario, providers might engage in fraudulent behaviour like falsely claiming job-outcome or sustainment payments. However, such actions are not unique to a black box delivery model and need to be addressed through robust verification of claims for job outcomes and audits.

Beyond more "light touch" of compliance monitoring like those by DWP's Compliance Monitoring Officers and Provider Assurance Teams (see Box 4.4), DWP holds information on Work Programme providers' financial position, and expects providers to spend on services up to a point where they neither suffer losses nor achieve excessive profits. However, this is similar to a *cost plus* method of contracting, where it is necessary to supervise not only the final product but also the efficiency of the contractor's production process.

Additional requirements for providers?

The black box – beyond minimum service delivery standards – implies that information about what Work Programme providers actually do with their clients is relatively limited. Providers might be providing little or no services to the participants who are perceived as being harder to place, a strategy which is called "parking".

There is evidence to suggest that some Work Programme participants are being parked by providers. Increased funding levels combined with refined participant segmentation and an improved performance measure may address parking to some extent. In addition providers could be required to see all participants still on benefit for an in-depth advisor interview at least once every quarter. A similar requirement is introduced for JCP from April 2014. This approach would take away some of the freedom currently enjoyed by providers, but at the same time this is also is the most common support currently used by providers. Imposing such additional requirements on providers would need to be reflected in the payment model through service fees and may bring the Work Programme closer to the FND delivery model (see Annex 4.A1). Such additional requirements may not guarantee a better quality of service as providers could operate these as "tick box" interventions and additional compliance monitoring or feedback through participant surveys may be required. Whether such additional requirements improve overall outcomes for participants should also be assessed through an evaluation based on randomised control trials (RCT).

Box 4.4. Work Programme contract management

Work Programme prime providers have contact with a range of DWP and JCP staff to ensure contract compliance and continuing performance improvements. The following contract management roles exist:

Account Managers act as lead interface between DWP and prime providers. Account Managers are a senior team of qualified commercial specialists who engage with providers at senior board level to drive performance, innovation and value for money for DWP. Each prime has one Account Manager who manages their relationship across all DWP contracts that the prime holds.

Performance Managers work with prime providers at an operational delivery level to manage performance against contracts. Performance Managers analyse management information, provide advice and support relating to performance and delivery. For example, where two providers in a CPA were achieving the same benefit off-flow rate, but one was achieving fewer employment outcomes, the Performance Manager's advice was to improve the procedures for documentation of employment outcomes to help improve performance.

Compliance Monitoring Officers undertake compliance visits to Work Programme providers to ensure that providers meet contractual and regulatory requirements across their supply chain.

Third Party Provision Managers are responsible for ensuring that local JCP services and contracted provision meet the needs of all JCP customers and contribute towards local JCP performance.

Provider Assurance Teams conduct reviews with Work Programme providers to test and assure the systems they have in place. The purpose of this is to protect public funds and data and ensure that value for money has been obtained.

Based on a set of interviews with DWP, JCP and Work Programme provider staff, Lane et al. (2013) report that DWP performance managers were in regular (at least fortnightly) contact with primes and held monthly contract performance reviews. Relationships were generally considered to be good. However, understanding and managing of the black box delivery model, where providers are granted full freedom over service delivery, was not always easy for DWP staff.

In the Work Programme delivery model, there is no designated direct relation between DWP and Work Programme sub-contractors. Few sub-contractors reported having any contact with DWP and communication with DWP is usually channelled through the prime providers (Lane et al., 2013).

Source: DWP (2010), "Written evidence submitted by the Department for Work and Pensions", November, printed in WPC (2011), "Work Programme: Providers and contracting arrangements – Volume I: Report, together with formal minutes, oral and written evidence", Work and Pensions Committee, House of Commons, www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/publications/; and Lane, P. et al. (2013), "Work Programme Evaluation: Procurement, supply chains and implementation of the commissioning model", *DWP Research Reports*, No. 832, www.gov.uk/government/organisations/department-for-work-pensions/about/research.

Work Programme placement performance

Over the lifetime of the Work Programme contracts around 2.5 million participants are expected to join the Work Programme, of which around 2.1 million are JSA claimants and around 440 thousand are ESA claimants (see Table 4.1). Up to March 2014 a total of 1.6 million participants were referred to a Work Programme provider. Of those 940 thousand are still on the Work Programme and have not yet completed the 104 weeks on the programme and can therefore be considered as the programme's caseload.[23] The total Work Programme caseload therefore is of similar size to the JSA claimant count, which was 1.1 million in March 2014.

Initially Work Programme performance was below expectations. Performance started to improve for JSA customers in the second year, but outcomes for ESA claimants remain largely below expectations. Beyond variation in outcomes between payment groups, outcomes also vary within payment groups for participants with different individual and household characteristics. Outcomes also vary with different local labour market conditions.

Variation between payment groups

As discussed before, DWP measures performance as the ratio of job outcomes achieved during a year over the number of referrals received in that year and compares them with MPLs. No provider met the MPLs for JSA 18 to 24 (PG 1), JSA 25 and over (PG 2) and New ESA Claimants (PG 6) in Year 1 (see Table 4.3). In the first three years of the Work Programme, the payment groups for JSA 18 to 24 (PG 1) and JSA Early Entrants (PG 3) have performed best. A contractual target for PG 3 does, however, not exist.

Table 4.3. **Work Programme caseloads, job outcomes and performance measures**

June 2011 to March 2014

	JSA payment groups					ESA (and other) payment groups				Total
Payment Group	1	2	3	4	9	5	6	7	8	
	JSA 18 to 24	JSA 25 and over	JSA Early Access	JSA Ex-IB	JSA Prison Leavers	ESA Volunteers	New ESA Claimants	ESA Ex-IB	IB/IS volunteers	
Referrals[a] *(thousands)*										
Jun-11 to Mar-12	**131.0**	**316.0**	177.1	3.2	1.4	10.5	**41.3**	5.1	1.8	**687.3**
Apr-12 to Mar-13	**92.4**	**203.7**	76.4	11.6	23.9	27.7	**57.9**	20.7	0.8	**514.9**
Apr-13 to Mar-14	**49.5**	**140.6**	32.1	12.8	17.0	21.9	**54.0**	23.4	0.2	**351.5**
Total to date	**272.9**	**660.2**	285.5	27.7	42.3	60.0	**153.2**	49.2	2.8	**1 553.7**
Job-outcome payments[b] *(thousands)*										
Jun-11 to Mar-12	**1.3**	**3.2**	4.3	0.1	0.0	0.1	**0.3**	0.0	0.0	**9.1**
Apr-12 to Mar-13	**29.1**	**55.1**	31.4	0.7	0.3	0.9	**3.0**	0.2	0.3	**121.0**
Apr-13 to Dec-13	**41.3**	**78.2**	30.6	2.4	2.4	2.3	**7.5**	0.8	0.3	**165.6**
Total to date	**71.7**	**136.4**	66.2	3.2	2.7	3.3	**10.8**	1.0	0.6	**295.8**
Job-outcome payments/referrals[c] *(%)*										
Jun-11 to Mar-12	***1.0***	***1.0***	*2.4*	*2.2*	*0.0*	*0.9*	***0.6***	*0.0*	*1.6*	***1.3***
Apr-12 to Mar-13	***31.5***	***27.0***	*41.1*	*6.3*	*1.3*	*3.4*	***5.2***	*0.9*	*31.6*	***23.5***
Apr-13 to Mar-14	***83.4***	***55.6***	*95.1*	*18.3*	*13.9*	*10.5*	***13.9***	*3.3*	*128.6*	***47.1***
Total to date	***26.3***	***20.7***	*23.2*	*11.4*	*6.3*	*5.6*	***7.0***	*2.0*	*19.5*	***19.0***

Note: Percentages in italics; –: Not applicable.

a) Referrals: Referrals shown are "net" referrals which do not include rejections, cancellations or referrals to ESA information sessions.

b) The length of time before a participant qualifies for a Job Outcome depends on their assigned payment group. For more details, see Table 4.1.

c) This is the proportion of all job outcomes achieved over the total number of referrals in each year. The job outcomes do not necessarily relate to the same referrals.

Source: DWP-IGS Work Programme Tabulation Tool (database), http://tabulation-tool.dwp.gov.uk/WorkProg/tabtool.html; and DWP (2010), "The Work Programme Invitation to Tender: Specification and supporting information".

Performance increased across all payment groups in the second year, as was to be expected, as the majority of job outcomes for participants referred in Year 1 have been achieved in Year 2. On average, performance was still below the set MPLs for PGs 1, 2

and 6, but 18 of the 40 contracts performed at or above the MPLs in each case for JSA 18 to 24 (PG 1) and JSA 25 and over (PG 2). However, also in Year 2 no contract met the MPLs for New ESA Claimants (PG 6). Worth noting is the high performance of IB/IS Volunteers (PG 8), even so this is by far the smallest payment group and participation is completely voluntary. By contrast, the low performance of ESA Volunteers (PG 5), which also mainly consists of voluntary participants, is somewhat surprising. Both participants in PG 5 and PG 8 cannot be mandated to take up work. But participants in PG 8 might be motivated to do so, as they face re-assessment for ESA (see Chapter 2) and the possibility of losing entitlement to incapacity benefits.

With job-outcome payments further increasing in the third year and referrals decreasing in comparison to the previous two years, outcome/referral ratios increased across all payment groups. All contracts met the MPLs for PG 1, PG 2 and PG 6 is not surprising with MPLs being calculated on the basis of expected starts on the programme and starts in the third year being around 41% lower than expected (DWP, 2013c and 2014b).

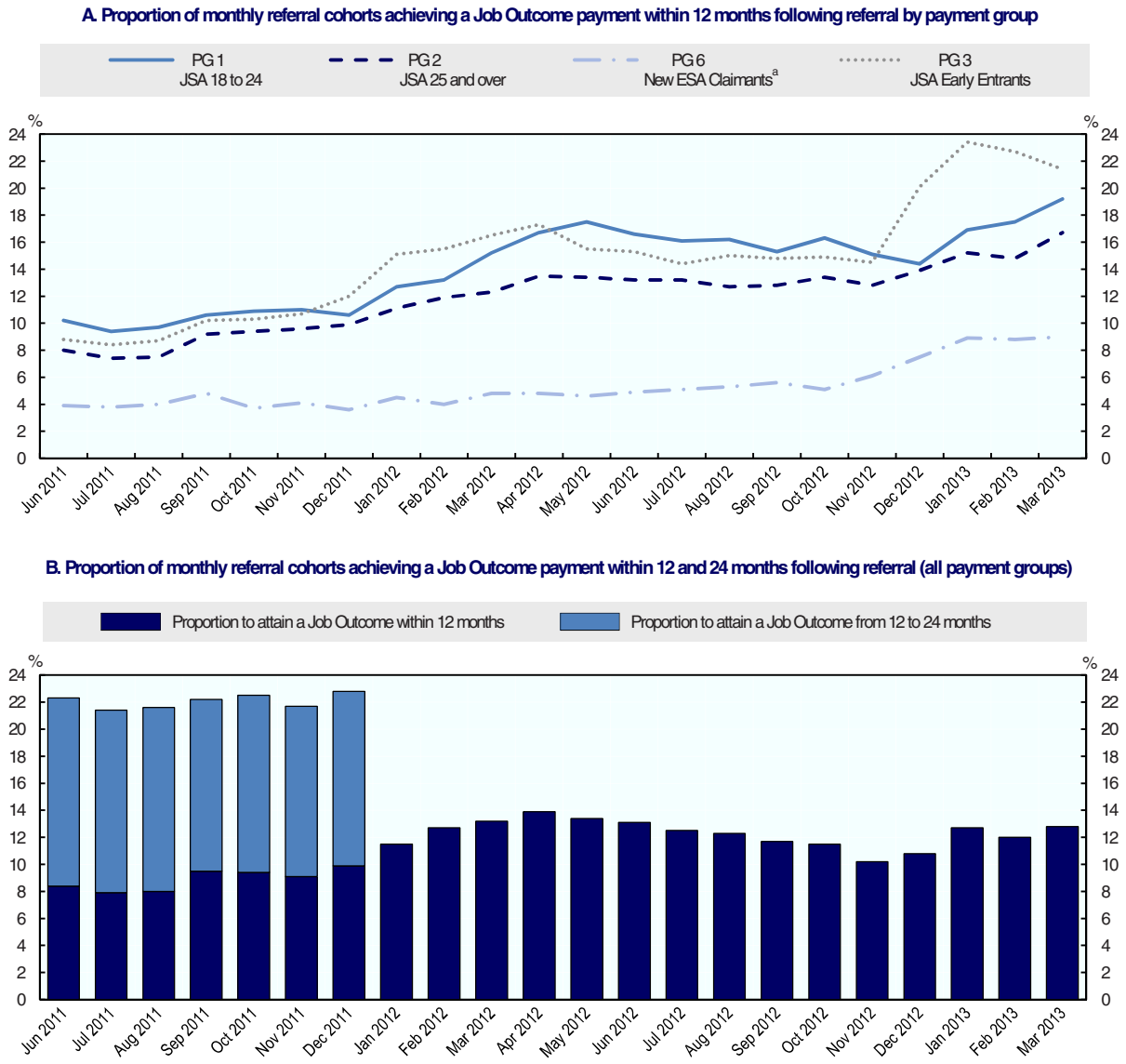
A better assessment of performance can be made when considering performance for monthly intake cohorts. As Figure 4.1, Panel A shows, job outcomes have been increasing for the JSA payment groups until around the April to May 2012 cohorts, suggesting that providers moved up a learning curve. For the later cohorts of 2012 the performance stagnated or declined again, only to improve again for the last cohorts of 2012 and early cohorts of 2013, with monthly job-outcome statistics suggesting that this may reflect target-driven behaviour by Work Programme providers.

The best-performing PGs were those for JSA claimants aged 18 to 24 (PG 1) and JSA Early Entrants (PG 3). The performance of the JSA early entrant group might seem remarkable because participants in this group are allegedly harder to help. However, the definition of JSA repeaters (the main component of PG 3) implies that they will be easier to help than PG2 participants.[24] Moreover, for PG 3 job-outcome payments can be claimed after 13 weeks in work and total outcome fees are significantly greater than for PG 2 (see Table 4.1), so providers will have focused resources such as job vacancies on achieving PG 3 outcomes if possible.

By contrast, the performance of New ESA Claimants (PG 6) looked disappointing up to the October 2012 cohort, with less than 6% of participants in each cohort achieving a job outcome. Performance then increased and 9% of the March 2013 cohort achieved a job-outcome payment within 12 months. The performance increase might be driven by improved interventions of providers, a better labour market situation or improvements in the WCA process. An improved WCA process may help to better identify claimants were a 3-6 month prognosis is justified, thus increasing the average health level of this group. But even with these increases in performance the average funding levels for ESA claimants remain much lower than envisaged at the time of the Work Programme ITT (Riley et al., 2014).

Payments for PG 6 are similar to payments for JSA Early Entrants (PG 3), the best-performing PG. The lower performance of PG 6 may indicate that the price for New ESA Claimants in PG 6 is too low to incentivise providers to support this group into employment. Lower participation requirements for PG 6 participants may also explain the difference to some degree. Whereas JSA claimants are subject to full work-search conditionality, ESA claimants are subject to work-preparation conditionality or keeping-in-touch conditionality, and cannot be mandated to take up suitable offers of employment.

Figure 4.1. **Work Programme performance for the cohorts, June 2011 to March 2013**



a) Excluding ESA claimants with a 12-month prognosis. ESA claimants with a 12-month prognosis have only been referred to the Work Programme on a mandatory basis since November 2012 and average job-outcome rates for this group are lower than for ESA claimants with a 3- to 6-month prognosis.

Source: DWP (2014), "Work Programme Official Statistics to March 2014", 19 June, www.gov.uk/government/uploads/system/uploads/attachment_data/file/321518/work-programme-statistical-release-june-2014.pdf.

Across all PGs, providers were paid a Job Outcome payment within the following 12 months for less than 10% of their intakes in the six months to December 2011. This ratio increased to 14% for intakes in April 2012, but then declined again to 11% for December 2012 intakes (Figure 4.1, Panel B). After September 2012, the share of ESA participants relative to JSA participants within intakes increased significantly, which may be expected to further weigh on these performance indicators. Increased outcomes for the cohorts starting in 2013 mirror the improved performance across all other payment groups.

Providers were paid a Job Outcome payment within the following 24 months for around 22% of their earlier intakes, which increased to over 27% for the cohort starting in March 2012. This suggests that providers may need longer periods of time to secure employment outcomes, which is facilitated through the longer attachment periods. By March 2014, 74 000 participants had stayed in employment long enough to qualify for the maximum number of Sustainment payments possible on the scheme (the maximum number may be attained either earlier or later than 104 weeks after referral) and 477 000 had returned to JCP at or after 104 weeks (DWP, 2014b). Eventually around 15% of referrals will finish with a fully successful outcome with the maximum outcome payments attained.[25]

Variation within payment groups

The nine Work Programme PGs are meant to reflect the relative labour market distance of participants. Of course this could only hold on average, as participants within the various PGs are far from homogenous and will require different forms and levels of support. Table 4.4 below shows some additional breakdowns of the job outcome to referrals ratio performance measure in Year 2 of the Work Programme contracts by age, disability and lone-parent status.

Table 4.4. **Work Programme performance for selected payment groups by age, disability and lone-parent status, April 2012 to March 2013**

Job outcomes over referrals, percentages

	1 JSA 18 to 24	2 JSA 25 and over	3 JSA Early Entrants	6 New ESA Claimants
Total payment group	**31.7**	**27.1**	**41.3**	**5.3**
Age[a]				
18-24	31.7	–	33.1	6.4
25-34	–	26.5	51.6	6.6
35-44	–	29.6	55.1	5.7
45-54	–	27.5	51.8	4.7
55+	–	19.2	33.5	3.0
Disability[b]				
Without disability	32.9	28.8	51.9	8.5
With disability	23.4	21.8	22.5	4.6
Lone parent[c]				
Unknown/Not a lone parent	31.9	27.0	41.0	..
Lone parent	10.3	27.8	52.3	..

Note: –: Not applicable; ..: Not available.

a) Age is fixed at the time of referral.

b) *Disability indicator:* Disability is self-assessed as having a physical or mental impairment which has a substantial and long-term effect on their ability to carry out normal day to day activities.

c) *Lone-parent status:* Only available for claimants who are receiving IS or JSA. The flag is fixed at time of referral.

Source: DWP-IGS Work Programme Tabulation Tool (database), http://tabulation-tool.dwp.gov.uk/WorkProg/tabtool.html.

Comparing the performance of JSA 18 to 24 (PG 1) and JSA 25 and over (PG 2) suggests that the Work Programme is more successful in helping younger participants than prime age and older participants. This picture changes when JSA Early Entrants are considered: within this payment group the job outcome to referral ratio is the highest for prime age adults and over 20% lower for both younger and older participants, even though the ratios still exceeds the respective ratios in PG 1 and PG 2. This is an indication that within JSA Early Entrants (PG 3) the price paid is relatively too high for prime age adults and relatively too low for younger and older participants.

Around 80% of participants in New ESA Claimants (PG 6) report having a disability, which has a substantial and long-term effect on their ability to carry out normal day to day activities. This is expected, as the entitlement conditions for ESA are a limited capacity for work on the grounds of illness or disability. Also around 25-30% of PG 2 and PG 3 participants and around 15% of PG 1 participants report having a disability. The job outcomes to referrals ratio for disabled participants is substantially lower, most likely reflecting the fact that these participants have more complex barriers to employment due to their disability. For ESA claimants OECD (2014a) finds that Work Programme providers particularly struggle to find employment for participants with a mental health condition.

The payment group with the largest proportion of lone parents is PG 2, where around 15% of participants are lone parents. The performance for lone parent participants is similar to the average. A higher performance in PG 3 – where lone parents are around 3% of participants – is not unexpected given that prime-age adults in PG 3 perform relatively well. Lone parents in PG 1 represent less than 1% of all participants and their relatively low performance might reflect more complex barriers to employment for young lone parents.

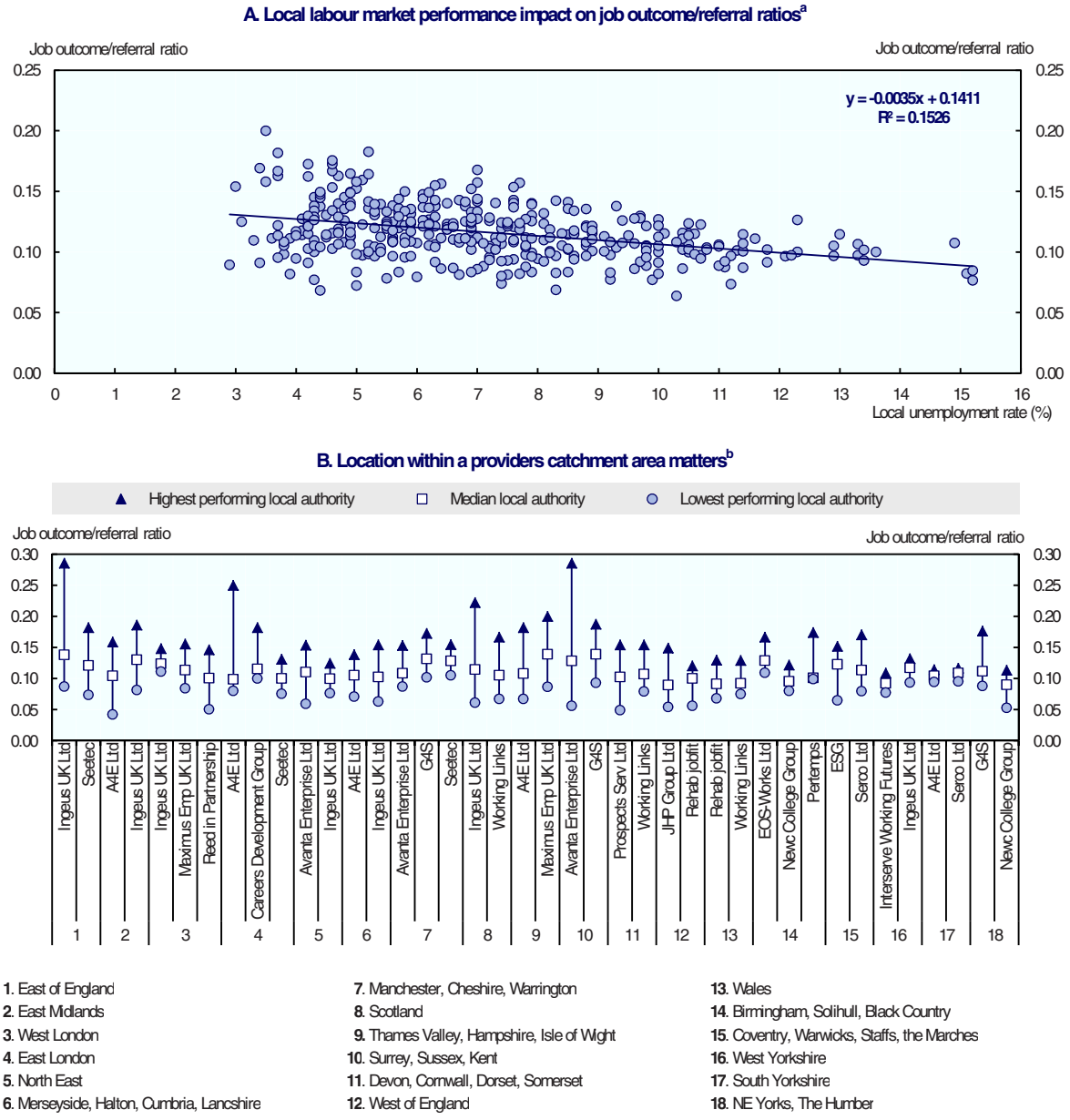
Geographical variation

The design of the Work Programme payment model and also the performance measurement system does not reflect variations arising from local labour market conditions. Prices and performance benchmarks are uniform throughout Great Britain. Contract Package areas (CPAs) are, however, far from uniform and providers may face better and worse functioning local labour markets. Unemployment rates on local authority level ranged between 3% and 15% in the year ending March 2013. Within the Work Programme, there are no particular incentives to ensure that contractors provide a consistent quality of support for all participants in a CPA where there is intra-regional variation in labour market performance. Furthermore, providers with lower performance due to a difficult labour market situation will have lower levels of funding per claimant available. Some correlation between the local unemployment rate and job outcome/referral ratios is therefore not surprising (see Figure 4.2, Panel A). Davies and Raikes (2014) extends this type of analysis to also show a correlation between the job-outcome rates and the occupational profile of employees in an area.

Figure 4.2, Panel B further suggests that participants within each CPA may face differing outcomes, depending not only on which contractor they are assigned to (variation between contractors), but also where in a provider's catchment area they live. CPAs are geographically large, and performance variation within CPAs may be explained partly by differences between local labour markets and partly by the varying capabilities of offices/locations within a prime provider's supply chain and this should be taken into account when evaluating the performance of the Work Programme (OECD, 2014b).

Figure 4.2. **Job outcomes are correlated with local labour market performance**

Ratios



1. East of England
2. East Midlands
3. West London
4. East London
5. North East
6. Merseyside, Halton, Cumbria, Lancshire
7. Manchester, Cheshire, Warrington
8. Scotland
9. Thames Valley, Hampshire, Isle of Wight
10. Surrey, Sussex, Kent
11. Devon, Cornwall, Dorset, Somerset
12. West of England
13. Wales
14. Birmingham, Solihull, Black Country
15. Coventry, Warwicks, Staffs, the Marches
16. West Yorkshire
17. South Yorkshire
18. NE Yorks, The Humber

a) Unemployment rate (April 2012 to March 2013) and job outcome/referral ratios across all payment groups and all contracts within a local authority (June 2011 to March 2013).

b) Only local authority areas with at least 50 referrals across all payment groups between June 2011 and March 2013 have been included. Reducing this to fewer referrals results in a high number of local authorities with no job outcomes up to March 2013.

Source: OECD calculations based on *DWP-IGS Work Programme Tabulation Tool* (database), http://tabulation-tool.dwp.gov.uk/WorkProg/tabtool.html; and ONS (2013), "Regional labour market: LI01 – Local indicators for counties, local and unitary authorities", in *ONS Regional Labour Market Statistics* (database), August 2013, www.ons.gov.uk/ons/rel/subnational-labour/regional-labour-market-statistics/august-2013/index.html.

Incentive implications of the Work Programme payment model

The differential pricing structure for the Work Programme is designed to encourage providers to work with participants who are less likely to move into work, compensating them for the additional costs of support. Nevertheless, there is evidence to suggest that "parking" is a widespread practice within the Work Programme. By contrast, the scope for "creaming" is limited, as the vast majority of referrals are made on a mandatory basis.

Different pricing models to address the issue of parking have been discussed in the literature, but they carry risks and most of them remain untested. To help more disadvantaged claimants and address the issue of parking, DWP should improve participant segmentation through a profiling tool, which assigns claimants to PGs on a richer set of characteristics. The profiling information should also be used as input for a new performance measurement system, which rewards assisting more disadvantaged participants. For ESA claimants a pure payment by employment outcomes model is not suitable to incentivise providers. In addition to higher funding levels, different outcome dimensions may therefore need to be considered.

Is creaming an issue for the Work Programme?

Creaming is usually a problem of voluntary employment programmes, where providers have some influence over choosing participants who use their services. They might then *cream-skim* those benefit claimants who are likely to be more job ready and easy to help, rather than participants who might only move into employment after longer and more intensive support. If participation engages the provider in significant expenditure on the client (as is the case for training programmes) and providers are paid for employment outcomes, some creaming might be efficient, ensuring that training is only delivered to participants who can benefit. But if provider performance is rated in terms of the per-participant employment outcome rate, providers have a perverse incentive to restrict their intake to more-employable participants, so as to achieve a high rating. The opportunity to exercise creaming is very limited in the Work Programme, as the vast majority of referrals are made on a mandatory basis.[26]

… and parking?

Parking occurs when providers accept participants, or take them on through referral, but then provide little or no services to those who are perceived to be harder to place. Parking does not invalidate performance measurement, because parked clients are statistically attached to the provider, and are included in the denominator when employment outcome rates are calculated. Parking is not necessarily inefficient, because if a provider has ascertained that services have no impact on outcomes for a particular client group, it is wasteful to deliver services to that client group. In The Guardian (2012) one Work Programme executive described it as: "It's not about supporting 100 customers. It's about getting 50 of them into a job. The other 50 are collateral damage."

Nevertheless, parking is often regarded as dysfunctional. Parking is likely to arise because employment outcome payments fail to reflect the full social value of employment outcomes. In this case, service provision is unprofitable for the provider although it is profitable for society. Also, there are some arguments for delivery of a minimum level of services across all client groups, in which case parking is problematic by definition. One rationale for a minimum service obligation is that where the very-long-term unemployed (VLTU) are exempt from obligations, it weakens incentives for the

short-term unemployed. In this case there is an externality problem – an obligation on the VLTU to participate in services may be profitable for society, but it is not profitable for the provider in terms of outcomes that are measured and attract payments.

Interviews with providers suggested that providers make their own assessment of participants' distance from work and provide more-intensive support to those who are closer to the labour market (Newton et al., 2012; and Rees et al., 2013). Hardest-to-help clients are often left with infrequent contact[27] and a lower likelihood of or no referrals to specialist support. The differences in prices between payment groups may not be large enough to fully compensate for the higher costs of working with some of those who are harder to help.

The performance statistics in the last section can also be taken as an indication that the differential pricing model does not give providers the right incentives to help all participants into employment. Especially performance for New ESA Claimants (PG 6) has remained below expected performance levels for most providers. With disappointing results across the majority of contracts for PG 6, DWP seems to be lacking means to enforce its original intentions of terminating contracts in the case of underperformance against the MPL (DWP, 2010a). As this is clearly not happening there are few incentives for providers to improve performance for PG 6. A rational strategy for providers is to concentrate their efforts on participants in PG 3, who attract about the same total fees as New ESA Claimants (PG 6) (see Table 4.1).

Even the performance of better providers may start to reach a ceiling. Participants remaining with the providers are likely to have a greater labour market distance and be harder to help into employment and providers might not find it profitable to support them into employment. The Work Programme model encourages parking to some extent and there will always be some residual of participants who are unlikely to ever receive necessary support to move into employment. Incentive payments aim at encouraging providers to perform at 30% above the non-intervention level. Many providers may, however, struggle to achieve these levels and the extra payment of GBP 1 000 might not be an incentive high enough to help residual participants.

Improving provider incentives

To help address the issue of parking, participant segmentation should be improved through a profiling tool and a new performance measurement system. For ESA the funding models may need to be reconsidered. In addition to service fees in exchange for a minimum level of service as suggested before, different outcome dimensions may need to be considered.

Refining participant segmentation and performance measurement

Participants are referred to payment groups based on the benefit being claimed and age, with certain separate categories for ex-IB status and a JSA early referral group. These are very crude factors to assess the relative distance from the labour market and might therefore give weak incentives to providers to help some participants as had been argued before. The providers' own assessment of participants' labour market distance may often bear no link to the PGs and providers suggested that benefit status was not the most appropriate means of targeting support (Lane et al., 2013; and Rees et al., 2013).

A profiling tool – similar to the Australian JSCI (see Chapter 3, Box 3.2) – could be used to assign participants to different payment groups on a richer set of individual, household and location characteristics. The analysis presented before suggests that characteristics like age and disability have an impact on the likelihood of achieving job outcomes, as does location. Additional factors which may have an impact include family status, caring responsibilities, qualifications, health conditions, and stability of residence.

Creating a national database of jobseeker characteristics for a profiling tool for better segmentation of participants should also be used as input for a new performance measurement system similar to the Australian Star Ratings system (see Box 4.3). Effective segmentation and an according performance measurement system, could – together with higher funding levels – improve incentives for providers to support more participants, including the harder-to-help, into employment.

Reviewing support for ESA claimants

For ESA claimants even better identification of needs and new a performance measurement system might not create the right incentives for providers offering services to those participants. Underfunding for harder-to-help claimants – regardless of benefit claimed – therefore urgently needs to be addressed.

Another DWP programme – *Work Choice* (see Box 4.5) – has higher funding levels per participant, resulting in better support as for example reflected in lower caseloads per employment advisers (Purvis et al., 2013). Employment outcomes for Work Choice ESA participants are at 30% three times as high than for New ESA Claimants (PG 6) in the Work Programme. The higher outcome rates of Work Choice may be explained by the voluntary nature of the programme, the requirement that participants should be work-ready and the availability of some reserved places in Supported Business (see Box 4.5), and the higher funding levels per participant.

Another issue is that with the ESA WRAG conditionality group providers face an impossible task: they are meant to find ESA participants jobs, but cannot require ESA participants to take up this job, as ESA participants can only be required to prepare for work. A pure payment by employment outcomes model, as the Work Programme is since April 2014, is not suitable to incentivise providers to help ESA participants in moving closer to, and eventually in, employment.

Funding models for employment programmes therefore should reflect that participants may not always be work-ready within a short time-frame. In context of Work Choice Shaw Trust (2013b) therefore recommended a longer phase of pre-employment support. In context of the Work Programme regular contact with participants through quarterly in-depth advisor interviews in exchange for a service fee as suggested before may to some extent address the issue of completely neglecting harder-to-help participants. To incentivise providers to support participants in moving closer to the labour market and eventually into employment may be possible through different payment models, which for example reward providers for outcomes other than employment (e.g. treatment of diagnosed health problems, ending homelessness, acquiring qualifications). It is likely to be difficult to capture the added value across a wide range of social outcomes with operational measures that are robust to gaming. The Australian authorities in 2008 referred to a "new social outcomes measure (…) based on the progress a jobseeker has made towards work readiness" (DEEWR, 2008) but did not implement it at that time. However in 2012, a "barriers serviced" measure was introduced which "primarily assesses activity or participation, but not the results or effectiveness of the servicing" (see Box 4.3), together with demonstration pilots which "provide an opportunity to trial new approaches to measure 'distance travelled' to employment". These are mainly based on survey responses addressed to jobseekers and providers at different points in time (DEEWR, 2013).

Box 4.5. **Work Choice – Support for people with disabilities and long-term health issues**

The *Work Choice* programme aims to help people with disabilities and long-term health issues to find dependent employment or self-employment, progress in the workplace or move into open unsupported employment, in cases where their needs cannot be met through the *Work Programme*, the *Access to Work* scheme (see Chapter 3, Box 3.3) or workplace adjustments. Work Choice provision started in October 2010 and replaced the three pre–existing programmes *Workstep*, *Work Preparation* and the *Job Introduction* scheme. Work Choice follows a modular approach which covers work entry support (Module 1), short to medium term in-work support (Module 2) in the first two years of employment and longer-term in-work support (Module 3), which is not time limited.

The Work Choice commissioning model partly resembles the Work Programme commissioning model as it is also characterised by a prime provider model with large and long contracts and minimal service prescription through a black box delivery model. The funding model is outcome-based, however, to a much smaller extent than for the Work Programme.

Market structure

Work Choice is delivered in 28 CPAs both by Remploy and by eight prime providers. Work Choice and the Work Programme do not have correlating CPAs. Each of the Work Choice CPAs is served by one prime provider who competes for customers with Remploy, where Remploy also serves the same CPA. Remploy is a non-departmental public body that provides employment services for disabled people and those with complex barriers to work and receives a grant-in-aid from DWP in exchange for delivering Work Choice services (see also Chapter 3; Box 3.4). Where Remploy does not operate in an area, contracted prime providers are the sole providers of Work Choice.

The introduction of Work Choice led to a major restructuring of the provider market in comparison to the programmes it replaced. For the pre-existing Workstep and Work Preparation programmes DWP held 305 contracts with 214 organisations. This contrasts with 28 contracts held by eight Work Choice prime providers who work with around 90 sub-contractors (Thompson et al., 2011). A large number of market leavers were local authority – i.e. public sector – providers. Their exit has been attributed to financial, geographical and organisational constraints during the bidding stage (Purvis et al., 2013).

Payment model

Work Choice providers are paid through service fees, short job outcome and sustained job-outcome payments. While service fees cover 70% of a providers total contract value, short and sustained job-outcome payments cover 15% each. Short job-outcome payments can be claimed when the participant has been in supported or unsupported employment for at least 16 hours per week for a continuous period of 13 weeks. To claim sustained job-outcome payments participants need to be in unsupported employment for at least 26 out of 30 weeks starting from the date of progression into unsupported employment.

In surveys Work Choice providers highlighted that the service fee element was important because of the support requirements of the participant group, but also that the level of outcome-based funding was considered appropriate. In comparison to the previous Workstep programme the Work Choice funding model was seen to better incentivise progression into unsupported employment (Thompson et al., 2011; and Purvis et al., 2013).

A comparison of Work Choice with the Work Programme suggests that funding levels per participant are much higher for Work Choice, which in turn drives the resourcing of providers. Purvis et al. (2013) report that Work Programme adviser caseloads were several times higher than those on Work Choice, even within a single provider organisation.

Box 4.5. **Work Choice – Support for people with disabilities and long-term health issues** *(Cont.)*

Access to the programme

Work Choice is considered a voluntary programme, but individuals cannot self-refer to Work Choice. Access may not be completely voluntary for benefit claimants who will otherwise be referred to the Work Programme on a mandatory basis. The majority of participants are referred to the Work Choice programme by a Jobcentre Plus (JCP) Disability Employment Adviser (DEA). In a minority of cases local authorities, the National Health Service or local education authority organisations can make referrals.

The number of Work Choice places is limited as referrals are capped each month. For some customers this could result in waiting periods of up to six months before they can access the programme (Shaw Trust, 2013b). The Work Choice evaluation also noted inconsistencies among DEAs in their interpretation of the referral criteria to Work Choice.

A more serious issue has been highlighted for claimants of Employment and Support Allowance (ESA) in the Work-Related Activity Group (WRAG). Many ESA WRAG claimants are now directly referred to the Work Programme, without an intervening period of support from JCP. These ESA WRAG claimants may not get an opportunity to see a DEA and be considered for Work Choice. This may especially be an issue for claimants with mental health conditions who could have received more suitable support through Work Choice (Purvis et al., 2013). Purvis et al. (2013) therefore recommend reviewing how to best to facilitate access to Work Choice for all disabled people who would benefit from the programme and Shaw Trust (2013b) recommends clarifying eligibility criteria for Work Choice and the Work Programme.

Outcomes

Between October 2010 and December 2013 around 64 000 individuals started on the Work Choice programme. Jobseeker's Allowance (JSA) claimants represent over half (55%) of all Work Choice starts, whereas ESA claimants (including claimants of Incapacity Benefit and Severe Disablement Allowance) only represent 15% of all starts. The remaining participants do not claim income replacement benefits, but some may claim Disability Living Allowance (DLA).

On average around 34% of all Work Choice starts achieved a job outcome. The job-outcome rates are around 30% for JSA and ESA claimants and 40% or more for other participants and, hence, much higher than Work Programme job-outcome rates. This might partly be explained by the fact that Work Choice providers have a number of agreed places in Supported Business, although subsidised employment also represents an option for Work Programme participants. The high success rate for ESA claimants is noteworthy, as Work Programme outcomes for JSA and ESA claimants are very different. The higher Work Choice job-outcome rates for ESA claimants may be somewhat attributed to the voluntary nature of the programme and the fact that participants are only referred if they can be expected to take up work for a minimum of 16 hours per week following the work entry support module. However, also the higher funding levels per participant in the Work Choice programme will be an important factor in explaining the higher job-outcome rates.

Source: Carley Consult (2013), "DWP Commissioning Strategy consultation: A response from Carley Consult Ltd", www.carleyconsult.com/uk/wp-content/uploads/Carley-Consult-DWP-Commissioning-Consultation-Response.pdf; DWP (2014), "Work Programme provider guidance Chapter 9 – Work Programme evidencing/validating payments", www.dwp.gov.uk/docs/wp-pg-chapter-9.pdf; DWP (2014), "Work Choice: Official statistics February 2014", www.gov.uk/government/collections/work-choice-statistics-number-of-starts-and-referrals--2; DWP (2014), "Work Choice guidance: Section 13 – Working with supported businesses", www.gov.uk/government/uploads/system/uploads/attachment_data/file/282813/work-choice-section-13.pdf; DWP (2014), "Work Choice guidance: Section 02 – Referral – Sources and procedures", www.gov.uk/government/uploads/system/uploads/attachment_data/file/271580/work-choice-section2.pdf; Purvis, A. et al. (2013), "Evaluation of the Work Choice specialist disability employment programme", *DWP Research Reports*, No. 846, www.gov.uk/government/organisations/department-for-work-pensions/about/research; Shaw Trust (2013b), "Making work a real choice – Where next for specialist disability employment support?", Final Report, www.shaw-trust.org.uk/support-us/policy-and-research/making-work-a-real-choice-where-next-for-specialist-disability-employment-support/; Thompson, A. et al. (2011), "Work Choice evaluation: Commissioning and transition of clients to the programme", *Department for Work and Pensions In-House Research Report*, No. 6, www.gov.uk/government/collections/in-house-research-from-2011.

Different pricing structures

In addition to the incentive payments included in the existing Work Programme payment model, DWP's Recovery Works pilot programme provides an additional job-outcome payment of GBP 2 500 for participants who are or have recently been in structured, recovery-orientated treatment for drug or alcohol dependency (DWP, 2013h), possibly recognising that the current payment model does not provide sufficient incentives to support these participants. This post-tender award adjustment of prices is not ideal, as it may give rise to providers seeking further price adjustments. As has been suggested before, prices for harder-to-help participants should increase more generally using profiling procedures to segment participants.

Some commentators have also suggested variations within outcome-based payment models to improve incentives for providers to help participants with greater labour market distance:

- In a "target accelerator" or "escalator" model providers are paid higher payments as the total percentage of a cohort of participants in each PG entering sustained employment increases. Such models would require providers to help a larger proportion of participants to in order to be profitable, but also reflect the higher costs of harder-to-help participants (see e.g. Finn, 2009; and Mulheirn et al., 2009).[28] The previous government had planned to pilot such a payment model with the Personalised Employment Programmes (PEPs) pilots. The current government, however, cancelled the pilots and introduced the Work Programme instead (WPC, 2011).
- Freud (2007) suggested that outcome based payments could only be made if the provider is able to achieve benefit exits over and above a specified benchmark. This could help to reduce expenditure for job outcomes, which would have happened also in the absence of the programme (i.e. deadweight).
- Mulheirn and Menne (2008) suggested reducing the incidence of parking by sanctioning parking of participants through applying "negative outcome payments" when the provider is unsuccessful.
- Another option is to reward outcomes achieved earlier on in the attachment period for harder-to-help participants.

The first three models increase leverage at certain points in the payment schedule, but there is a risk that they give rise to gaming behaviour by providers. Higher leveraging might also imply higher variability in incomes across providers and penalise the claimants who are referred to poorly-performing providers.[29] Whereas there is some international evidence for some of payment models above, most of them are untested (Finn, 2009).

Key points

The Work Programme is contracted-out employment support that aims to provide a tailored service to the long-term unemployed and the most disadvantaged jobseekers. It follows a *black box* approach, meaning that providers are free to choose which sort of services or set of interventions to provide. The payment model places strong emphasis on sustained employment outcomes and high performance expectations were placed on providers. Participants are randomly assigned to one of two or three providers in an area and competition between providers is expected to continuously improve performance.

During 2014, DWP plans to publish a new *Commissioning Strategy* to guide its future commissioning activity beyond the current Work Programme and other contracted programmes. The strategy will articulate the strategic framework including the approach to market development and market structure, performance management, service delivery and payment models. Against this background this chapter makes recommendations in five areas.

The Work Programme model divides Great Britain into 18 contract package areas (CPAs) with two or three prime provider contracts available in each, making the Work Programme **market structure** in essence a number of regional duopolies and narrow oligopolies. This does not rule out the possibility of a competitive outcome, if competition between providers can be fostered or the market is "contestable" at the CPA level. Keeping the Work Programme market contestable through the threat of market entry may prove challenging, as there are some indications of a lack of interest. Many organisations may not be large enough to replace poorly-performing providers. Also the cost of replacing poorly-performing providers increases with contract size. Reducing the average contract size could help to encourage entry by more providers – potentially some of the current sub-contractors – and increase competition within CPAs and facilitate the replacement of poorly-performing providers. This could make the Work Programme quasi-market more competitive, and thereby improve efficiency and responsiveness in the delivery of activation and reintegration measures for jobseekers.

A comparison of Work Programme **funding levels** with other contracted-out employment programmes suggests that Work Programme providers have lower levels of funding available per client or need to secure much longer periods of employment to obtain similar levels of funding per participant. Where funding is too low, providers may reduce the quality of their services to cut costs and neglect participants perceived as harder to place in employment and thus more costly to help ("parking"). There is some evidence to suggest that parking has occurred within the Work Programme and higher levels of funding would be necessary to address this. The detailed assumptions underlying the Work Programme model imply that if outcomes fail to reach the assumed "non-intervention" levels – which is roughly the case on average – the Work Programme is not achieving government savings in the expected range. Its operating costs nevertheless remain considerable. Probably the assumed non-intervention levels were overoptimistic, and Work Programme expenditure at the current levels is generating a net saving for government, and higher funding will increase the net saving. The wider benefits for society as a whole should also be taken into account. Moving people into work can, for instance, have impacts on health, self-esteem, economic activity and lower crime rates.

Participants are referred to the Work Programme on the basis of nine payment groups based on the benefit being claimed and age, with certain separate categories for ex-incapacity benefit status and a JSA early entrant group. Benefit type and claim duration are crude indicators for **segmentation**: distances from the labour market of claimants within a given payment group vary widely, and harder-to-help claimants are often parked. Participants should be assigned to payment groups using a richer set of individual, household and location characteristics than is used at present. Factors that probably influence the likelihood of achieving job outcomes include age, location, family status, caring responsibilities, qualifications, health conditions, housing status and stability of residence. This type of information on client characteristics is also important as an input to comparisons of performance between Work Programme providers that serve clients with different levels of disadvantage.

DWP's **performance measures** allow only for a limited assessment of the Work Programme performance to date. Performance benchmarks have been set at the same level for all CPAs, but comparisons of performance against a fixed benchmark are unlikely to be accurate. When there are only two providers in a CPA and they both have the same outcome rate, their performance is known to be the same because client referrals are randomly assigned across the two. However, it is not clear whether both are high- or low-performers. Likewise, when average outcome rates vary across different CPAs, it is unclear whether this reflects differences in provider performance or differences in local participant and labour market characteristics. A more precise measure of performance will take participant and local labour market characteristics into account. The "Star Ratings" system for the Job Services Australia model broadly succeeds in achieving this, comparing the relative performance of providers across the country on the same scale. High performance is promoted by basing contract extensions and the threat of contract termination on the providers' Star Ratings. A similar performance measurement system could be applied to the Work Programme, but its full implementation would require multiple reforms as set out in this chapter.

The black box approach to **service delivery** is seen as a major driver for prime providers' motivation to be involved and to continue being involved in the Work Programme. Retaining this appeal for providers may therefore be an important aspect to drive future competition. However, DWP already audits the implementation of some minimum service standards and enforces a number of procedural and reporting requirements on providers. DWP's also scrutinises providers' financial position and caps revenues as providers are expected to spend on services up to a point where they neither suffer losses nor achieve excessive profits. This is similar to a *cost plus* method of contracting, where it is necessary to supervise not only the final product but also the efficiency of the contractor's production process. If the aim of such controls is to guarantee better services for all participants and prevent parking of harder-to-help participants a better way forward may be a requirement for providers to see participants regularly in exchange for a service fee, but otherwise allow for freedom over service delivery.

Notes

1. In 2002, a number of private-sector led New Deals were set up where private providers had to closely follow the PES New Deal model.
2. In March 2014, DWP announced the termination of one contract held by Newcastle College Group (McVey, 2014).
3. These are: Reed, Careers Development Group, Prospects, JHP, EOS, Pertemps, esg, and Interserve.
4. The Herfindahl-Hirschman Index is calculated as the sum of the squared market share of all firms operating in a market. It ranges between *1/N* and *1*, with *N* being the total number of firms operating in a market, which would be 18 with respect to the Work Programme. The index can also be normalised to range between 0 and 1. The HHI increases with a reduction of firms in the market or fewer firms holding a higher market share. Both for the standard and normalised HHI an index of 1 present a perfectly concentrated market with just one monopoly supplier. Recent UK merger assessment guidelines suggest that the UK Office for Fair Trading may regard HHI values

above 0.2 as highly concentrated. Recent US horizontal merger guidelines (see www.justice.gov/atr/public/guidelines/hmg-2010.html#5c) state that, US agencies generally classify markets into three types: unconcentrated (HHI below 0.15), moderately concentrated (HHI between 0.15 and 0.25) and highly concentrated (HHI over 0.25). For the Work Programme, the HHI based on all participant referrals up to June 2013 is calculated as 0.11 and if normalised, it is 0.05. This is higher than for Job Services Australia, where the normalised – and thus comparable – HHI is estimated at 0.02, based on the proportion of the caseload held by providers in 2009 (DEEWR, 2009).

5. The theory of contestable markets, attributed to Baumol et al. (1982), states that there exist markets served by a small number of firms, which are nevertheless characterised by competitive outcomes because of the threat of potential short-term market entry. Perfectly contestable markets have three main features: *i)* there are no barriers to entry or exit, *ii)* no sunk costs, and *iii)* all incumbents and potential new entrants have access to the same level of technology. Such perfectly contestable markets rarely exist. However, the notion of a contestable market can be used to assess existing markets and their degree of contestability.

6. As discussion in the section on managing Work Programme performance, the use of the outcome/referral ratios as a performance measure gives the market share loser a slight advantage in the year following a market share shift.

7. Going forward the identification of high- and low–performing sub-contractors will be easier. Since May 2014 DWP requires prime providers to submit management information on the performance of all supply chain partners on a monthly basis.

8. The current structure of LEPs might need to be adjusted, as some LEPs currently overlap. Heseltine (2012) recommends removing the overlaps between LEPs to create partnerships with clear ownership for economic development in every part of England.

9. The Work Capability Assessment is used to regularly assess capability for work and eligibility for ESA. A claimant can have three possible outcomes: *i)* the claimant is found fit for work, in which case her ESA claim closes and the claimant can claim JSA instead (or appeal the decision); *ii)* the claimant can be found to have limited capability for work; in this instance she is placed in the ESA Work-Related Activity Group (WRAG); or *iii)* the claimant can be found to have limited capability for work and in addition, limited capability for work related activity; in this situation the claimant is placed in the ESA Support Group (SG) and receives benefits on an unconditional basis. For claimants entitled to ESA a "prognosis period" is established in the assessment, which is usually a standard length of time such as 3, 6, 12, 18 or 24 months based on the individual claimant's health. At the end of the prognosis period, claimants have a repeat assessment to ensure the conditions for entitlement are maintained.

10. Detailed information on the discounts offered by providers is not available as this information is deemed commercially sensitive (DWP, 2013d).

11. Within every four-week period a break in employment may not exceed two days for providers to be able to claim the sustainment payment.

12. This requires that providers: *i)* agree with participants an in-work support mechanism which remains in place and available to the individual, regardless of whether they choose to access it, or *ii)* providers agree with participants that they are established in their job and that they do not need further in-work support. They also need an undertaking that they will be notified of any relevant change in their circumstances, such as starting a new job or leaving employment (DWP, 2014a).

13. This is because the denominator declines, while the numerator (i.e. job outcomes) might not immediately decline in the following year as it is likely to follow with a time-lag. Therefore, performance of the worst-performing provider is likely to go up in the first year following the market share shift. In turn, the market share shift could depress the performance of the best-performing provider in an area: The denominator (i.e. referrals) increases in size, while the numerator's increase will only follow with a time-lag.

14. This estimate for PG 2 (JSA 25 and over) is consistent with the statement by NAO (2012) that, for the Work Programme as a whole, every GBP spent will change the national budget by GBP 0.95: GBP 0.70 through benefit savings (including unemployment, housing and council tax benefit), and GBP 0.25 through increased tax revenues.

15. DWP (2014b) suggests that over 24% of the 2011 Work Programme achieved a job-outcome payment during (or after) the attachment period. But these are averages across all payment groups and for PG 2 the percentages could exceed 30% of the 2012 intake, but still falling short of 40%.

16. CESI (2013b) suggests that outcomes have been below expectations largely because the economy has been weaker than envisaged when the Work Programme was commissioned. However since late 2010 or early 2011 aggregate labour market performance has not been particularly poor: it is not clear why Work Programme clients should be particularly affected by low GDP growth.

17. Part of the description in this section is based on notes from the authors' discussions with two Work Programme prime providers and officials at DWP.

18. The minimum service delivery standards for all Work Programme providers can be found at: www.gov.uk/government/publications/minimum-service-delivery-standards-for-work-programme-providers.

19. The Best Practice Group includes Work Programme prime providers, sub-contractors, voluntary and community sector organisations, the Employment Related Services Association (ERSA), the Association of the Chief Executives of Voluntary Organisations (ACEVO), the Confederation of British Industry (CBI), the Federation of Small Businesses (FSB), the Skills Funding Agency, Business in the Community and the Business Disability Forum.

20. ESA claimants can also not be mandated for example to undertake medical treatment or take up an unpaid work experience.

21. The Work Programme receives some co-funding from the European Social Fund (ESF). For the ESF there is a requirement to retain any evidence of action planning and completed activities. This evidence may be checked through ESF compliance monitoring officers or ESF audit activity.

22. Work Programme provider guidance (DWP, 2014a) states that "DWP acknowledges that you may employ individuals who originally start out as a Work Programme participant. This is acceptable; however the strategic intent of the Work Programme is to place participants into sustained employment that extends beyond the duration specified for performance and payment purposes. It is therefore not acceptable for you to continuously turnover your employee base with Work Programme participants, merely as a means of claiming job outcomes payments."

23. Early completion of the Work Programme can occur in these circumstances only: The final outcome payment has been claimed by the provider, the participant is referred to the Work Choice programme, the participant dies, or the participant is referred to a Residential Training College.

24. By definition, JSA repeaters have a recent break in their benefit claim and PG 2 participants do not.

25. For the cohorts starting from June to October 2011 around 10% of participants finished with the maximum outcome payment and did not return to JCP. This figure could increase further to around 15%, once all participants in these cohorts finished the programme, as for some participants providers still can claim sustainment payments beyond the two year attachment period.

26. ESA, IB and IS claimants who participate voluntarily are first referred to a Work Programme information session. It is therefore possible that these information sessions are used to encourage participation of easier to help participants. As Table 4.3 shows, the exclusively voluntary PG for IB/IS Volunteers (PG 8) has performed substantially better than the other ESA/IB payment groups (PG 5, 6 and 7), which have a mixture of voluntary and mandatory participation. These results can, however, not be taken as a proof of any creaming-activity. First, after the information session, the JCP adviser has discretion to refer claimants or not. Second, voluntary participants are likely to be more motivated than mandated participants. This is also reflected in the payment structure of IB/IS Volunteers (PG 8), who attract much lower fees than PG 6 and 7.

27. Newton et al. (2012) stress that in some instances less frequent contact with advisers might, nevertheless, be of high quality.

28. The potentially available incentive payments in the Work Programme payment model partly address this idea. These payments provide an incentive to achieve outcomes at 30% above the non-intervention scenario. If providers achieved these levels there is no incentive to achieve higher levels of performance.

29. Unless payments for deadweight are truly zero, poorly-performing providers can remain financially viable by reducing service expenditure in line with income. Clients of the poorly-performing providers then suffer from underfunding as well provider inefficiency.

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Annex 4.A1

The Employment Zones, Pathways to Work and Flexible New Deal programmes

Employment Zones

Employment Zones (EZs) became operational in 2000 and were set up in 15 of the most disadvantaged labour market areas in Great Britain where unemployment had not fallen as quickly as the average. EZs and had a largely outcome-focused funding model and EZ providers were given greater freedom to design their own intervention components as compared to New Deal providers in the rest of the country. EZs originally targeted unemployed people aged 25 and over who had been claiming Job Seekers Allowance (JSA) for at least 12 months. Participation was mandatory for this client group. In 2003, services were extended to include young people otherwise referred to New Deal for Young People (NDYP), as well as lone parent volunteers.

Whereas EZs initially only had a single provider, from 2003 four of the largest EZs operated as multi-provider zones with up to three providers. At first, providers received a fixed market share for mandatory participants. To introduce a means of competition, mandatory participants were given provider choice from 2007. Research suggests that it was difficult for JCP to operate this element of choice and a considerable proportion of clients reported having had no awareness of choice at all. Where claimants made an active choice, this was often driven by location factors, but also by recommendations from JCP staff, friends or family (Conolly et al., 2010).

Delivery

The EZ delivery model consisted of three stages, totalling a maximum of 12 months. In Stage 1 (up to four weeks) the provider interviewed the jobseeker to identify any obstacles to reintegration. If the provider decided to take on the client (which usually was the case), an action plan was established and the client passed to Stage 2. Lasting a maximum of 26 weeks, Stage 2 contained intensive job placement efforts by the provider who also administered and paid out the unemployment benefit to the claimant in this period. In this respect the EZs were quite unique, since both in the United Kingdom and other OECD countries, the benefit payment function is not usually reallocated to the provider (Tergeist and Grubb, 2006). Stage 3 was a 22-week follow-on period, where the provider could continue working with the claimants (although they had returned to JCP) and could still claim the outcome fee in case of placement.

Payment model

An example for the year 2005 shows that EZs providers could receive four different payment types (Tergeist and Grubb, 2006):

1. A fixed fee of GBP 400 for Stage 1, which is similar to the attachment fees paid in the Work Programme;
2. Around GBP 1 200 for Stage 2, covering the average cost of paying JSA over for 21 weeks, which presented the average duration of participants staying on JSA once they started EZs. When participants were placed early in Stage 2, the provider kept the remaining amount as profit. In turn, providers suffered a loss for the Stage 2 payments, if participants moved into employment after 21 weeks;
3. Upon entry to work a placement fee of GBP 400 was paid; and
4. A sustainment payment of GBP 3 600 after 13 weeks in employment.

For claimants not placed into employment providers thus received less than GBP 200. For participants placed into employment lasting at least 13 weeks the income was between GBP 4 170 and GBP 5 600, depending on when during Stage 2 the participant moved into work.

Performance

There are several analyses of the effect of EZs on labour market outcomes. One quantitative evaluation of the programme (Hales et al., 2003) found that about a year after becoming eligible for referral, 34% of EZ participants had experienced a spell of work at some time, compared to 24% in the comparison group that entered the standard New Deal provision. After about two years, the 10 percentage point difference had faded to 4 percentage points, but was still at 8 percentage points when the comparison was restricted to jobs of more than 16 hours per week.

Tergeist and Grubb (2006) note that EZs operated with good staff/client ratios and individually tailored assistance. These factors are likely to explain the success of EZs. Another reason for success may have been the stringent work first focus of provider activity, with extensive use of work trials. However, against the background that little training was provided in the process, placements were mainly into low- or semi-skilled jobs. Evaluations of EZs confirmed this by showing that the quality of jobs achieved under EZs was typically worse than that of jobs achieved through mainstream New Deal programmes.

Griffiths and Durkin (2007) found that in spite of their considerable flexibilities and scope for innovation, EZs have been unable to overcome the barriers of harder to help long-term unemployed clients. Although EZs achieved better outcomes than comparative New Deals for mandatory customers who were similarly disadvantaged, almost half of those who participated in EZs left without securing employment and there was not much of an additional impact. According to Griffiths and Durkin (2007), a sound evaluation of the potential impact of competition in multiple provider EZs on employment outcomes is missing.

Pathways to Work

In 2003, DWP introduced the JCP-led Pathways to Work programme in a number of pilot areas to assist claimants of incapacity benefits towards and into paid work. It was rolled out in stages and from 2007 a provider-led version of Pathways to Work was rolled out in 60% of all JCP districts, with the remaining districts still served through JCP. DWP contracted with 11 separate prime providers, with several prime providers holding multiple contracts in the 34 JCP districts where the provider-led version of Pathways to Work operated (NAO, 2010).

The provider-led version of Pathways to Work had an outcome-focused payment model. Prices were not pre-set by DWP and providers bid for contracts on the basis of a total contract value. The total contract value was split into 30% fixed income service fees and 70% paid for job outcomes, with 50% being paid for job outcomes and 20% for sustained job outcomes. Service fees were paid for financing programme management costs (NAO, 2010). At some point, 9 of the 11 prime providers received increased service fees for the first 12 months of their three-year contracts with a subsequent reduction of fees later in the contract. This change was made as prime contractors were underperforming in relation to their job-outcome targets, and thus, were not receiving expected income to fund their services (NAO, 2010).

Delivery

Pathways to Work introduced a number of innovations for those beginning an Incapacity Benefit (IB) claim, including:

- Faster implementation of the Personal Capability Assessment, used to establish longer term entitlement to IB.
- A series of up to six Work Focused Interviews (WFIs), mandatory for most customers, carried out by specially-trained Incapacity Benefit Personal Advisors (IBPA). IBPAs sometimes prioritised those they felt more likely to gain, and most customers had fewer than six interviews.
- A package of voluntary provision known as "Choices". This included the New Deal for Disabled People (NDDP) and the Condition Management Programme (CMP) which was run in collaboration with local health providers to help individuals manage their disability or health condition. The rate of take-up among Pathways to Work participants were about 10% for the NDDP and 5% for the CMP.
- A Return to Work Credit (RTWC) of GBP 40 per week for up to a year, for those entering employment of at least 16 hours per week with low earnings.
- In-Work Support for those entering employment.

Performance

The quantitative evaluation of Pathways to Work was based on outcomes after 18 months for people who got in touch with a JCP contact centre in order to claim IB, comparing the Pathways to Work pilot areas with other areas where it was not implemented. The proportion of initial claimants who were receiving IB in the first months after a claim was reduced by about 6 percentage points in months 5 to 7, but by month 10 the reduction faded to about 2 percentage points (not statistically significant). However, there was a large increase, from 25% to 34%, in the proportion of the people who had enquired about IB who were not receiving IB and were in work after 18 months (Dorsett, 2008). Bewley et al. (2009) points out that the pilot area results capture any impact that Pathways to Work had in deterring potential customers from pursuing a claim for incapacity benefits. Thus the overall impact on employment seems to have been mainly due to a deterrent effect on claims by people with relatively moderate and short-term health conditions, as well as a potential impact of Pathways to Work services and the RTWC. Based on these findings, it was estimated that Pathways to Work had net benefits both for participants and for government.

However, as Pathways to Work was rolled out, a subsequent impact evaluation no longer found significant impact on subsequent employment rates (Bewley et al., 2009).

This may have been because the new sample included only individuals who actually made an IB claim, so that the impact through deterring IB claims was not included. A re-analysis of the pilot study data for only those customers who actually made a claim for IB found no evidence that Pathways to Work had a statistically significant impact on any of the outcome variables considered (Bewley et al., 2009). Another reason may have been differences between the pilot and April 2006 expansion areas in the resources devoted to implementing Pathways (Bewley et al., 2009), although the nature of the difference in resources is not clearly documented.

Flexible New Deal

Based on recommendation in Freud (2007) the Government proposed a new programme for long-term JSA claimants: the Flexible New Deal (FND). The plan was to replace a range of the New Deal programmes and EZs with the single programme FND. JSA claimants who had not moved off benefit within 12 months of claiming JSA were referred to a FND provider.

FND was delivered through prime providers, which were DWP's contractual partners and which were partly paid on a payment-by-result basis. FND phase 1 was introduced in October 2009 in about half of all JCP districts. FND phase 1 covered about half of all JCP districts, which were divided into 14 FND contract package areas (CPA). Four CPA were reserved for one monopoly prime provider, while the remaining ten CPAs had two prime providers who both would initially receive half of all referrals. In the FND bidding process suppliers could bid for any number of the 24 (4 + 2x10) contracts. A second phase (FND phase 2) in the remaining JCP districts was planned for October 2010, but never rolled out. Referrals to FND stopped with the introduction of the Work Programme in June 2011.

Payment model

Under the FND commissioning model provider fees did vary with every single contract. In their bids suppliers were asked to provide cost estimates (including staff costs, participants costs, accommodation costs, other operating costs, and a profit margin/surplus) for each of the seven years, which resulted in the "fixed and firm" total contract value (DWP, 2008b). The fees then paid to the providers were split into upfront service fees and short and sustained outcome payments per job outcome. To establish a fee per short and sustained job outcome, providers had specify in their bids the total number of short and sustained job outcomes they intended to achieve over the contract period.

The service fee was intended to provide bidders with a guaranteed monthly payment by way of contribution towards the delivery of the contracted service. In order to help providers to build up to their full live running performance level the service fee payments were front loaded, to assist suppliers with their cash flow in the early stages of the contract. Providers obtained 29% of the total service fee in the first six months and another 16% in the second six months. The remaining 55% were paid over Year 2 and three of the FND contracts (DWP, 2008b). Initially it was envisaged for the service fees to cover 20% of the total contract value, whilst 80% were reserved for outcome payments (DWP, 2008b). In light of the recession – and taking into account providers' concerns – DWP changed the split to 40% service fees and 60% for outcome payments (Armstrong et al., 2010).

Short job-outcomes payments were made once a FND participant moved into employment (including self-employment and subsidised employment) of at least 16 hours per week for a continuous period of at least 13 weeks. Sustained job outcome referred to a continuous period of employment for 26 out of 30 weeks of at least 16 hours per week.

This allowed for breaks in employment of up to four weeks. The period of employment could have involved more than one job, but only one short and one sustained job outcome could be made per customer.

Delivery

JSA claimants were referred to FND providers after 12 months on JSA and then stayed with providers for up to 12 months. Claimants who did not move off benefit within 12 months with the provider returned to JCP for further support.

Prime providers had the option to deliver end-to-end services themselves or contracting some (or all) of their business out to sub-contractors. Providers were granted freedom over service delivery by large. All providers had, however, to meet a standard set of service requirements, including initial face-to-face interview, development of a work-focused action plan, regular contact with participants, monitoring participants' activities and report non-compliance to JCP for possible sanctioning, and arrange Mandatory Work-Related Activity (MWRA). Providers had to ensure that a minimum of 95% of FND-leavers had completed a minimum of four continuous weeks of full-time work or work related activity within the 52-week FND period.

The FND evaluation showed that FND providers offered a similar range of services beyond regular meetings with an adviser. These services fell into four categories: employability training and support, other skills training, specialised support and MWRA. Whereas employability training and support tended to be delivered by the FND providers, other skills training and specialist services were usually delivered by sub-contractors. MWRA usually took the form of a work placement in the private sector or a charity usually around six months after the customer joined FND. A survey among FND participants showed that the majority of participants were provided services on help with CV writing, job applications or interview skills; and drawing up an Action Plan. With respect to the intensive period of work-related activity, Vegeris et al. (2011) observed that it may not have been practical or beneficial for all customers, especially where placements did not relate to a customer's skills. Overall, Vegeris et al. (2011) notes that the black box approach to FND service delivery did not necessarily equate to more innovation and a wider choice or variety of services, with little innovation being evident in the design and content of FND services.

Performance

Actual FND referral volumes by far exceeded the indicative volumes given in the Invitation to Tender (ITT), apart from the London area. On average, providers received almost 50% more referrals than stated in the ITT. The main driver for this was the continued duration of the down-turn – which at the time of the ITT was expected to have a lower magnitude.

On average, providers achieved short job outcomes for 18% of all starts and sustained job outcomes for 12% all starts (DWP, 2011). These figures are not comparable to the original targets as job-outcome payments stopped in September 2010, shortly after the Work Programme was introduced. Allowing for this factor, job-outcome rates are around half (27%) of the expected level of 55% for short job outcomes and around a third (18%) against the expected level of 50% for sustained job outcomes. NAO (2012) notes that FND, while still at a relatively early stage, was not securing the numbers of employment outcomes to deliver value for money.

Poor provider performance might partly be explained by lacking incentives for providers to deliver job outcomes. Providers had reduced incentives to meet the job-outcome targets, with front-loaded service fees (45% of the total service fees paid in the first year) and the total share of service fees being doubled in the light of the recession (from 20% to 40% of the total contract value). It is therefore not surprising that prime providers generally appeared to be unconcerned by the outcome-based payment model and they felt that it would have little impact in the first two years of the contract (Armstrong et al., 2010). The FND phase 1 contracts were generally viewed as profitable by prime providers with a number expecting to break within the first year and a couple confident that they would break even within six to eight months.

When FND contracts were terminated, DWP had to compensate providers for lost income, which was partly offset by recovering payments to providers through bringing forward the service fees NAO, 2012). Once the termination of FND contracts was announced, incentives for providers to achieve job outcomes decreased. Trying to make a windfall profit, by reducing costs through reducing service levels to a minimum, would have been a natural provider reaction.

Annex 4.A2

Cost and benefits of the Work Programme

This annex gives an overview on the cost-benefit calculations underlying the numbers quoted in the third section of Chapter 4 and refers only to the second payment group (PG) for JSA claimants aged 25 and over.

Assumptions

Employment impact

Performance in the Work Programme is measured as the percentage of participants that are helped into employment. The estimates used here are based on assumptions made by DWP as reported in NAO (2012). The assumed performance rate consists of two different elements: *i)* a non-intervention rate – i.e. deadweight rate – of 32%; and *ii)* an additional employment impact of 8% resulting from the programme. Taken together 40% of participants in PG 2 (JSA 25 and over) are assumed to move into employment qualifying for a job-outcome payment.

Participants in Payment Group 2 by family types

Different amounts of in-work and out-of-work benefits are paid to different types of families (e.g. singles versus couples) and therefore the savings for Government from moving different types of claimants on out-of-work benefits into work vary.

The analysis presented here takes into account three different family types: *singles*, *lone parents with two children* and *couples with two children*, where only one partner is assumed to move into work. Seventeen percent of participants in PG 2 are lone parents. This is based on published Work Programme attachment statistics. Eight percent of participants are assumed to be couple parents with children. This assumption is based on the number of JSA claimants with a partner and children as Work Programme statistics for this family type are not available. The remaining 75% of claimants are assumed to be singles. All claimants are assumed to claim Housing Benefit.

Government savings from moving out-of-work benefit claimants into work

Table 4.A2.1 shows the costs or benefits to government for various family types claiming out-of-work benefits or being employed and earning 33% or 50% of the average wage (AW) level. The calculations take into account income-replacement benefits (i.e. JSA), tax credits (i.e. Working Tax Credit, Child Tax Credit), income tax, social security contributions, housing benefits (i.e. Housing Benefit and Council Tax Credit) , family benefits (i.e. Child Benefit), and indirect taxes. Negative values show government costs, positive values show government savings. Negative values for claimants in work indicate that in-work benefits exceed the amount of taxes and social security contributions.

The last set of figures (C) shows the gross savings – from the government's perspective – of moving claimants of out-of-work benefits into work. The last column shows all values weighted across the three different family types in PG 2.

Table 4.A2.1. **Government gross savings from moving participants in Payment Group 2 into work**

Pounds (GBP)

	Single	Lone parent	Single earner couple with children	Weighted average
A. Exchequer cost out of work	**-8 145**	**-14 602**	**-16 277**	-9 904
B. Exchequer cost (-)/benefits (+) in work				
Exchequer cost/benefit in work (33% AW level)	1 291	-7 148	-7 833	-885
Exchequer cost/benefit in work (50% AW level)	7 088	-847	-1 532	5 039
C. Exchequer gross savings of movements into work (B–A)				
Exchequer gross savings (33% AW level)	9 435	7 454	8 444	**9 019**
Exchequer gross savings (50% AW level)	15 233	13 756	14 745	**14 943**

Note: AW: Average wage.

Source: OECD Tax and Benefit Models, www.oecd.org/els/social/workincentives; *DWP-IGS Work Programme Tabulation Tool* (database), http://tabulation-tool.dwp.gov.uk/WorkProg/tabtool.html; and *DWP-IGS Work and Pensions Longitudinal Survey* (database), http://83.244.183.180/100pc/tabtool.html.

Total expenditure for Payment Group 2

The upper section of Table 4.A2.2 shows the number of participants in PG 2 that started the Work Programme in Years 1 to 3 (DWP, 2014b) and the expected number of participants in Years 4 and 5 (DWP, 2013c). For the total expenditure on attachment fees the participant starts have been multiplied with the attachment fees. Forty percent of all starts are assumed to achieve job-outcome payments and qualify for the full amount of sustainment fees. This is likely to reflect an upper bound for the expenditure.

Table 4.A2.2. **Work Programme starts, fees and total expenditure for Payment Group 2**

Units and Pounds (GBP)

		Year 1 (Jun-11 to Mar-12)	Year 2 (Apr-12 to Mar-13)	Year 3 (Apr-13 to Mar-14)	Year 4 (Apr-14 to Mar-15)	Year 5 (Apr-15 to Mar-16)	Total
Participant starts	Units	300 340	207 270	141 590	263 000	248 000	**1 160 200**
Attachment fees per participant	GBP	400	300	200	0	0	
Job-outcome and full sustainment fees (payment by result)	GBP	3 995	3 995	3 875	3 755	3 635	
Total expenditure	GBP billion	**0.6**	**0.4**	**0.2**	**0.4**	**0.4**	**2.0**
Attachment fees	GBP billion	0.1	0.1	0.0	0.0	0.0	**0.2**
Job-outcome and full sustainment fees[a]	GBP billion	0.5	0.3	0.2	0.4	0.4	**1.8**

a) Assuming 40% of participants in PG 2 achieve a job outcome and providers can claim the full sustainment fees for one year.

Source: DWP (2013), "Work Programme Attachment Profiles December 2012", House of Commons Library; DWP (2013), "Work Programme Official Statistics: Background information note June", www.gov.uk/government/organisations/department-for-work-pensions/series/work-programme-statistics--2; and DWP (2014), "Work Programme statistical summary March 2014", www.gov.uk/government/collections/work-programme-statistics--2.

Government savings in context of the Work Programme

Table 4.A2.3 shows the gross savings of moving a participant into employment lasting 18 months – i.e. the yearly figure shown in Table 4.A2.1 has been multiplied by 1.5. These figures are then multiplied by the total number of starts (see Table 4.A2.2) and the assumptions for the deadweight and additional employment outcomes.

These assumed payments to providers of GBP 2.0 billion for PG 2 (JSA 25 and over) are low in comparison to the estimated gross savings for government. Employment outcomes in the assumed range would generate gross savings for government of between GBP 6.3 billion and GBP 10.4 billion. The savings for government are then one-fifth of gross amounts, GBP 1.3 billion to GBP 2.1 billion, or GBP 0.63 to GBP 1.04 for each GBP spent.

Table 4.A2.3. **Total and additional government savings from moving Work Programme participants into work**

Pounds (GBP) and ratios

			Individual earns	
			33% of AW	50% of AW
Per participant in PG 2 (JSA 25 and over)	Average gross savings per participant over 18 months	GBP	13 529	22 415
All starts resulting in employment outcomes	Savings that would have occurred in absence of the Work Programme	GBP billion	5.0	8.3
	Additional savings resulting from the Work Programme	GBP billion	1.3	2.1
	Total savings	GBP billion	6.3	10.4
	Change in Government Budget for each GBP spent (Additional savings/Total expenditure)	Ratio	0.63	1.04

Note: AW: Average wage.

Source: Author's calculations based on Tables 4.A2.1 and 4.A2.2.

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OECD PUBLISHING, 2, rue André-Pascal, 75775 PARIS CEDEX 16
(81 2014 16 1 P) ISBN 978-92-64-21712-6 – 2014

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ISBN 978-92-64-21712-6
81 2014 16 1 P

