LOCAL WORK: EMPOWERING LOCAL GOVERNMENT TO TACKLE WORKLESSNESS
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Foreword
by Stephen Houghton

Worklessness is one of the evils of modern society.

A lack of employment for both the individual and for communities in which they live can be catastrophic. Health, aspirations, a sense of belonging, a sense of worth can all disappear if people don’t have the opportunity to build prosperity for themselves and their families. It is no coincidence that deprivation and poverty are substantially underpinned by unemployment and long term unemployment in particular.

There is a real danger the new more difficult economic climate will create a group of people permanently excluded, not only from our economy but from the wider society in general if we do not act.

The current government, as did its predecessor, has introduced a number of changes to both the benefits system and to welfare to work programmes to try to reduce the problem. Yet while many people have benefited from these interventions numbers of workless people remain stubbornly high and there is a real danger the numbers of long term workless people will increase as a consequence of the recession. Something more needs to be done — more importantly something different.

Nationally driven, top down programmes no matter how well intended have, I believe, reached the limit of their effectiveness. The time has come to both think and act local indeed to deliver locally and personally.

The problem with worklessness is that its causes and context are different from place to place, and in fact person to person. If we are to help those people and communities affected we need to
understand them and design solutions and services with and for them.

In turn this means local agencies and local authorities in particular being at the heart of the design and delivery of those programmes.

For many councils working on this agenda the notion of locally led, delivered and accountable services and programmes is nothing new. Their problem has been working within an inflexible and one size fits all national framework and alongside agencies accountable not to those they serve but to a centralised bureaucracy often remote from reality on the ground.

If we are to serve the workless community effectively we need to break from the past.

Local agencies need to work together more strongly in partnership and local authorities need to provide leadership and accountability for those affected. Central government needs to encourage and support change, moreover it needs to be prepared to let go.

To be fair to the current government and to its Conservative opposition the indicators are that change is possible. Devolution within an accountable performance framework is being offered. Local government needs to grab this with both hands. Partners need to work with them to do so.

Our recent review into the role local government and local partnerships can play has been well received. Moreover our recommendation for a challenge fund for local councils to tackle youth unemployment has been taken up as the Future Jobs Fund and is already delivering results. It shows local action does deliver.

But we need to go further.

Welfare to Work programmes are just one aspect in the battle against worklessness.
We need to increase demand and create new jobs, we need to upskill, we need all our services to deliver in ways which help and encourage employment and we need a benefits system flexible enough to adapt to both changing and local circumstances.

In short we need holistic approaches both for the people affected and their local economies and of course we need local authorities to be up for the task.

We also need to learn both from each other and elsewhere. This report makes a significant contribution to the debate around worklessness but also provides us with a new model for tackling the problem.

Of course there will be other experiences and ideas we can learn from but as ever the LGiU provide us with a challenging and credible way forward and more importantly one with local government at its heart because tackling worklessness is now mainstream local government business.

**Stephen Houghton**
Leader, Barnsley Metropolitan Borough Council
Summary and introduction

The argument

In this document, the arguments for a radical and rapid devolution to local government of resources and responsibilities for tackling worklessness are set out. The many reasons why local government is ideally placed to tackle this country’s problems of entrenched worklessness are dealt with in more detail later in this document.

However, a key element of the argument concerns the proposed financing mechanism.

We argue that local authorities should be allowed a degree of responsibility similar in scope and scale to that of ‘prime contractors’ in the current Flexible New Deal.

To incentivise them, local authorities should be rewarded according to the saving they make in the nation’s welfare bill by helping local people into employment.

Government would gain by increased tax revenue. Because the combined income from tax and benefit savings is shared, we describe the arrangement as ‘Going Dutch’.

There are three main reasons why we argue for a substantial devolution to local government of resources and responsibilities to tackle worklessness.

First, nationally-driven programmes have reached the limit of their effectiveness; locally-tailored solutions are required to address unique and distinctive problems in local labour markets; local stakeholders are best equipped and motivated to deal with local problems.
Second, the promise of a substantial addition to resources will deliver a sufficient incentive for local authorities to mobilise and co-ordinate all the existing services delivered by local government and its partners that help local people in getting and keeping jobs.

A full list of these services — described as potentially ‘wrapping around’ the core services delivered by Jobcentre Plus — are laid out in the Houghton Review of local government’s contribution in tackling worklessness¹ and are set out again in this document.

The point is that with sufficient encouragement, such services can be co-ordinated around the explicit purpose of supporting people into sustainable employment. We have taken inspiration from the Netherlands, where many Dutch municipalities have re-named their social services departments as Departments of Work and Income following a substantial devolution of welfare and back-to-work budgets from central to local government.

The third reason concerns the future financing of local economic development in what will inevitably be a period of extreme fiscal stringency.

We anticipate the rewards in benefit savings to be very substantial indeed — and argue that these rewards should be returned to local communities.

Although we would not prescribe how these rewards should be spent, it is anticipated that they will be used to support the economic resilience of local communities in what are likely to be very difficult circumstances.

The proposed funding mechanisms could lead to a self-reinforcing cycle of investment that starts with helping people into

employment and recovers the exchequer savings in benefits payments; these savings are re-invested in the local community in a way that creates more opportunities for local people — a local investment cycle.

**The Local Investment Cycle**

![Diagram of the Local Investment Cycle]

Although many local authorities, as we show below, are vigorously engaged in delivering welfare-to-work services, there is no direct link between the effort expended locally and the gain in benefits savings. Many Flexible New Deal prime contractors are in the private sector; we argue that private profit from funds that derive from the taxpayer should be returned to social use.

**What is in this document**

To make this argument forcefully, we need to take a few steps back in order to understand how our welfare system works, what worklessness is, and what should be done about it. Therefore the first three chapters in this document trace the history of welfare in this country, describe in some detail the reforms introduced by the current government, and try to explain and how millions of people came to be permanently excluded from work.
These chapters are meant to establish the importance of back-to-work programmes and to serve as an introduction to new developments in welfare for those new to the topic. The intention is to create a shared understanding of welfare as a means of supporting people into work and helping them stay there.

It is worth pointing out at this stage that these issues and problems are by no means unique to Britain. A broad international consensus has emerged on the appropriate policy response, and this is dealt with mainly through a brief description of the comparative studies undertaken by the OECD. Arrangements in Denmark and the Netherlands are emphasised as examples of countries where there has been a significant devolution of responsibility for back-to-work services to local government.

The main theme of this document is returned to in Chapter 4, which describes current local government involvement in work and welfare. In the annexe, there is an imaginary illustration of how ‘Going Dutch’ could work in a medium-sized British town. Other annexes supply details of the costs of back-to-work programmes and a glossary of terms and acronyms.

**What is not in this document**

The issues surrounding welfare reform are many, complex, and controversial. Therefore to retain the main focus of the argument, we have neglected some issues.

We do not, for example, address issues such as the level of benefits payments or the appropriateness of benefits sanctions. Under current circumstances, we do not advocate the devolution of responsibility for the design and administration of the benefits system nor want to comment on the rules under which payments are made. What should be devolved fully to local government is responsibility for back-to-work services — support in training, and in finding and keeping jobs for those who do not find work quickly through mainstream Jobcentre Plus services.
Nor do we comment on the effectiveness of private sector involvement in delivering back-to-work services. Under the scheme envisaged here, the role of the private and voluntary and community sectors is acknowledged and welcomed as a source of specialist expertise, innovation, and flexibility. We do, however, want a share of profits and rewards to go to local authorities and to be re-invested in local communities.

Perhaps the most important omission concerns the ‘demand side’ of the back-to-work equation. As Stephen Houghton suggests, a holistic approach at local levels should address the creation of jobs as well as the supply-side barriers that inhibit people’s entry into them.

In Chapter 3, the causes of unemployment are dealt with in general terms, and scant regard is given to geographical differences in the availability of jobs. It is true that opportunities are unevenly distributed across English regions and UK nations. A simple comparison of the ratio of unemployed claimants to notified vacancies between local authority areas illustrates how labour market performance can vary from one place to another: in July 2007, there were nearly four unemployed claimants to every one notified vacancy in Liverpool, while in the Vale of White Horse, Oxfordshire, there were twice as many vacancies as there were unemployed claimants.

However, even in the poorest performing areas there are opportunities — in Liverpool just over 47,000 vacancies were notified to the city’s Jobcentres over 2007, averaging about 4,000 a month — and it is generally thought that Jobcentres account for only about one third of all vacancies. Even in the most depressed labour markets, vacancies are being created and supply-side measures can help people without work gain access to them.

Nonetheless, consideration needs to be given both to the quantity and quality of jobs local areas are able to create. Many ‘entry level’

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2 Figures derived from the National On-Line Manpower System (NOMIS)
jobs workless people can access are not well paid, and, worse, are often insecure — diminishing incentives and raising the risks confronting anyone contemplating leaving the relative security and certainty of a benefits claim. But the ‘demand side’ question encompasses a vast range of issues covering not only the technicalities of economic development, but also the appropriate mix of delivery vehicles and the geographical scales at which they should operate. There is not enough space in this document to cover the ‘demand side’ issue, but it is one we intend to return to.
1 Work and welfare: a brief history

1.1 From Poor Law to universal welfare

Accepting the simple proposal that the state should make itself responsible for the welfare of those who, for whatever reason, are unable to support themselves, becomes easier after glimpsing briefly into a society where welfare provision is for many rudimentary, inadequate, or non-existent. Such a glimpse is available in Henry Mayhew’s London Labour and the London Poor, published in 1851. An instant best-seller, Mayhew’s book describes in detail the lives of those forced into various low-paid but demanding occupations.

In his book, there are street-sellers of an extraordinary variety of goods (including fruit, flowers, bootlaces, water cress, newspapers, stationary, pies, coffee, soft drinks, and fried fish), of whom the costermongers form a kind of aristocracy; there are street performers, crossing sweepers, rag-and-bone men, chimney sweeps, and dustmen (whose task was to clean up the residue left by the enormous amount of coal burnt in Victorian London). Most desperate are the scavengers, who search through piles of rubbish, heaps of coal dust, or the mud on the banks of the Thames for items or materials that can be sold to others (the last of these scavengers Mayhew calls ‘mud-larks’).

Many of the adults engaged in these precarious occupations are, in words conveyed to Mayhew, struggling to maintain their ‘independence’, by which they mean avoiding the workhouse. But there are also many children, forced into work by becoming orphans or because of their parents’ destitution. It is a picture of an

almost entirely unregulated labour market, populated by those untouched by philanthropy, outside the arrangements for mutual support that were beginning to be developed by the more respectable working-class occupations, and unprotected by a basic safety-net which would maintain them physically along with their dignity and independence.

The workhouse in the form encountered by Mayhew was mostly the creation of the 1834 Poor Law Amendment Act which provided a last resort for those unable to work, but whose main purpose was to stigmatise poor relief. In terms perhaps reminiscent of contemporary debates in which welfare arrangements are seen as inculcating a ‘culture of dependence’, the more indulgent forms of poor relief that preceded the 1834 Act had been portrayed as self-defeating: over-generous provision undermined personal responsibility and hence perpetuated the destitution it was meant to relieve. It was an approach consistent with deeply held beliefs...
about personal liberty and independence and the self-correcting efficacy of the free market as elaborated in 19th century liberal social theory and the economics of Adam Smith.

Dissatisfaction with the inconsistencies and harshness of the Poor Law persisted throughout the 19th century. Nonetheless, it was not until the election of the 1906 Liberal government that activity led by government led to its eventual replacement. The centrepiece of the Liberal government’s welfare reforms, the 1911 National Insurance Act, is widely credited to the efforts of Lloyd George and Winston Churchill who together were also responsible for a redistributive budgetary programme. The same government also introduced school meals, school medical inspections, and old age pensions. The 1911 Act, borrowing ideas both from Bismarck’s Germany and the model of mutual assistance offered by the Friendly Societies, created compulsory insurance schemes in which workers, employers, and government contributed to cover for sickness and unemployment.

The 1909 Labour Exchanges Act made a link between support for those without work with help in getting back to work. Both Churchill and his adviser in the civil service, William Beveridge, saw labour exchanges and unemployment insurance as mutually complementary, with the former reducing periods spent without work, and the latter spreading the risk of unemployment. The first payments in 1913 for unemployment insurance were made through labour exchanges, which were kept strictly separate from any Poor Law arrangements. It was an early attempt to reconcile efficiency with equity and one reason why the 1906 Liberal government’s social reforms have been described as creating a “symbiotic link between the central state’s economic policy and its social policy”.

Initially covering only about 2.5 million workers in occupations especially prone to trade cycles, the insurance scheme was

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extended to about 20 million workers by the Unemployment Insurance Act 1920. This coincided with the ending of a brief post-war boom and the onset of a high rate of unemployment that persisted throughout the inter-war years, never falling below 10 per cent and rising to 23 per cent in the trough of the 1930s recession.

A gap created by unpaid insurance contributions led to rising concerns over the fiscal viability of the scheme, and benefit levels were reduced and eligibility governed by more stringent conditions. A new means test was introduced, in which, among other things, families had to sell treasured heirlooms to qualify for benefit. It attracted as much hatred as earlier Poor Law arrangements.

During the Second World War Beveridge was invited to review the social security system, resulting in the famous 1942 report on Social Insurance and Allied Services. Beveridge’s plan envisaged in return for a single weekly contribution from working individuals a cradle-to-grave provision of sickness, medical, unemployment, widows’, orphans’, old-age, maternity, industrial injury, and funeral benefits.

It was envisaged that the ‘contributory’ element of the plan would comprise by far the larger part of the income support system with allowances made for supplementary provision (means tested and financed through general taxation) where inadequate contributions or other circumstances meant that individuals fell short of a basic minimum. In the event, the supplementary element of the system (initially known as National Assistance) became far more important than Beveridge, or the incoming Labour government, which implemented his proposals, envisaged.

As in the earlier conception, the plan relied on full employment. To meet this commitment, governments adopted Keynesian demand management techniques, relying mostly on fiscal instruments to stabilise the economy. To the astonishment of some, full employment and universal welfare provision was maintained by governments of all political parties for the best part of three
decades despite persistent difficulties with wage inflation and balance of payments deficits.

However, unemployment re-emerged as a serious problem in the 1970s amid a background of industrial relations disturbances and an OPEC oil strike. Worse, the arrangements needed to maintain full employment were apparently unable to accommodate the necessary income adjustment to the rise in oil prices, and hence to control inflation, leading to a set of circumstances characterised as ‘stagflation’ — a combination of slow growth, rising unemployment, and high inflation. A further, and spectacular, industrial relations breakdown at the end of the 1970s prompted the abandonment of Keynesian demand management and a radical departure in economic management.

1.2 The return of mass unemployment

The 1979 Conservative government’s radical break with the past was described by Nigel Lawson as a ‘distinct and self conscious break from the social democratic assumptions which have hitherto underlain policy in post-war Britain’. The new economic strategy favoured deregulation and the abandonment of controls over income, prices, and capital. Fiscal policy as a means of demand management was set aside in favour of reducing government spending and (in time) the burden of taxation. Inflation was declared Public Enemy Number One, with monetary control being the prime instrument for controlling it (leaving aside short-term emergency measures to deal with the financial crisis, this policy mix did not really change under the 1997 Labour government).

However, the sudden monetary stringency introduced in the early 1980s coincided with the UK’s emergence as a major oil producer which together placed an intolerable burden on the exchange rate, provoking a recession that started in 1980 and lasted through six

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quarters. With a peak to trough fall of over six per cent, the early 1980s recession was deeper and longer than in any other economic crisis since the years following the First World War. The effect on employment was catastrophic: the unemployment rate rose from 5.3 per cent of the working population in 1979 to 11.9 per cent in 1984, peaking at well over three million.

The re-emergence of mass unemployment, following 40 years of its banishment from British life since re-armament at the end of the 1930s, ushered in a new era of active labour market measures, in which, by the end of the 20th century, Britain was to have accumulated considerable experience.

A key agency in the delivery of labour market policy was the Manpower Services Commission (MSC) set up in 1973 to run the public employment and training services as part of a more grandiose ambition to design and deliver a comprehensive manpower strategy. The MSC took over responsibility for Jobcentres, created in the year before the MSC started operating. Labour exchanges (renamed as employment exchanges in 1916), had become stigmatised as a place to sign on for dole rather than as a place to find work\(^6\), and removing the association with stigma from the public employment service was one reason for its separation from benefits operations.

Unlike the often dilapidated and understaffed employment exchanges, Jobcentres were situated in modern offices in prime high street locations. The services made available to job seekers included contact with employers, the provision of employment information and advice, occupational guidance, special assistance for disabled people, and access to training opportunities. Jobcentres were meant to attract a wide range of people, not just the unemployed, and housed Professional and Executive Recruitment (PER), a recruitment agency catering to the top end of

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the market. Employers were encouraged to see Jobcentres as the normal way to fill vacancies.

Part of the rationale behind the creation of the MSC was the need to integrate training and employment services to assist labour re-deployment in a modernising economy. The aim was to match job seekers with vacancies and to help employers secure appropriately skilled workers as quickly as possible.

However, with the gathering economic crisis, the MSC was enlisted to devise a series of emergency measures meant to mitigate the effects of unemployment, and in particular of youth unemployment. It was to continue in this role under the 1979 Conservative government, capitalising on its usefulness as a means of dealing with the worst social consequences of the economic crisis (earning the sobriquet from some critics of ‘The Ministry of Social Control’) in order to pursue the more strategic agenda of raising the quantity and quality of vocational training in Britain.

The MSC’s activities were extended to all unemployed adults in the mid-1980s with the introduction of the Restart Programme. Restart was a response to an obstinately high level of unemployment, which had continued rising after the economy had officially recovered by 1982.

The Restart Programme brought together into one place a series of programmes mostly already run by the MSC which included: the Enterprise Allowance Scheme (EAS), essentially a subsidy offered to unemployed individuals who wanted to set up in business; a place on the Community Programme, which offered temporary employment in publicly-funded environmental or social projects; a place on a training course; Jobclubs, in which job seekers were supported in intensive job search (an idea borrowed from the USA); or, more straightforwardly, a job. A particularly innovative option was the one-week Restart Course, essentially an intensive counselling session meant to re-orientate the very long-term unemployed.
However, a significant feature of the Programme was its element of compulsion, with people claiming Unemployment Benefit being required to attend a Restart interview at regular intervals under the threat of benefit sanctions. Being available for employment was technically already a condition of receiving Unemployment Benefit, but the rigour with which the condition was applied had been relaxed in the early 1980s.

Restart was one of the first steps back towards greater conditionality that in later years was not only to increase in terms of stringency but also in the range of benefits to which it would apply. A further effect of Restart was that it assisted in the screening out of large numbers of claimants who were deemed to be unavailable or unable to work, which often resulted in a transfer from Unemployment Benefit to Invalidity or Supplementary Benefit (the latter having replaced Beveridge’s National Assistance and in turn was to be replaced by Income Support).

Unemployment Benefit was replaced by Jobseekers’ Allowance (JSA) in 1996, with the change in name emphasising its more conditional nature. JSA claimants were required to enter a Jobseeker’s Agreement and front-line officials were given new powers to direct job search activity.

The Conservative government’s excursions into active labour market programmes were accompanied in the latter part of the 1980s with major re-organisations in the ‘work-welfare’ system, consisting of the abolition of the MSC and the transfer of its training functions to Training and Enterprise Councils (TECs). TECs became responsible for the delivery of the government’s largest training programme for the unemployed, Employment Training, which was hampered by rigid central control in its design and delivery and by a perception of poor quality.

However, what success had been made was reversed by a second deep recession, this time provoked initially by a tight stance in monetary policy taken in order to restrain the inflationary
consequences of the late 1980s boom. The recession was prolonged by a decision to enter the ERM which necessitated a punishingly high interest and exchange rate. Once again, unemployment rose to a catastrophically high level.

Economic recovery began in earnest after the UK was forced to exit the ERM after a day of sustained selling of the Pound, marking the start of a long boom which lasted for 16 years. In this relatively benign economic climate the 1997 Labour government embarked on a fresh round of active labour market initiatives and welfare reform, to which we return in the next chapter.

1.3 All in it together? Work and welfare in the 21st century

Policies for work and welfare have to take as their starting-point earlier historical developments and societal trends. The brief review set out above of the evolution of the work-welfare system is meant to explain the current starting-point as well as illustrating some recurring dilemmas. This concluding section attempts to summarise key dilemmas and emerging responses, and to introduce the rationale for recent welfare reforms and shifts in welfare philosophy.

The central paradox of any welfare system hinges on the difficulty of devising a system of provision that protects individuals from the ‘risk’ of interruptions in income that can ensue from (for example) unemployment, illness, or childbirth, that do not in themselves become a barrier to labour market re-entry and hence economic self-sufficiency.

We have seen that, for the most part, the dilemma was tackled in the 19th century by stigmatising poor relief to the extent that those who were able to went to almost any lengths to avoid it. Paradoxically, as a result, the harsh conditions of the workhouse were applied mostly to those who could not work and could not in any way be blamed for their own condition, such as the very sick or...
the frail elderly. Local Boards administering the Poor Law often tried to mitigate its more brutal characteristics, resulting in some considerable inconsistency in its application.

Stigma, however, often attaches to work-welfare systems, which either deters individuals from using their services, or becomes another way in which measures meant to protect individuals from risk become in themselves a barrier to labour market re-integration. UK governments in the later part of the 20th century tried to separate the ‘modernising’ elements of the system (training and job-brokering) from the ‘welfare’ aspects, although in the UK the three elements of benefits administration, skills training, and job-search have since been re-integrated. One way of overcoming the problem is to ensure that employers are closely involved in the design and delivery of the work-welfare system. It is possible that the private sector might use its genius for brand and image manipulation in overcoming stigma in back-to-work services.

But the biggest problem is probably the financing of welfare. Beveridge’s system of national insurance relied on the maintenance of full employment, but it was also implicitly based on the assumption of a stable family structure in which a male bread-winner earned sufficient contributions for himself and his dependents. However, the growing diversity of individual circumstances, together with the return of relatively high levels of unemployment, have contributed to a falling proportion of welfare spending based on contributory benefits — from 62 per cent in 1979 to 42 per cent in 2007.\footnote{O’Dea, C., Phillips, D., Vink, A. (2007) \textit{A Survey of the UK Benefits System}, London, Institute for Fiscal Studies}

The 2007 figure, however, overstates the extent to which benefits payments are derived from contributions, given the extension of National Insurance credits. Further, in 2007 the vast majority of the contribution-based welfare bill was accounted for by old-age pensions.
One argument employed by Beveridge was that the welfare institutions he proposed would increase the competitiveness of British industry by producing a healthier and better educated workforce, and hence pay for themselves. It certainly is the case that calculating the benefit of welfare as a form of human capital investment offsets its cost, particularly when consideration is given to the importance of skills in the current stage of economic development: notwithstanding policies for spreading the costs of skills formation between government, individuals, and employers, it is perhaps arguable that a substantial investment in education and skills is in itself a process reliant on high standards of welfare to cover individuals and families through the lengthy stages of early years education, advanced education and training, and initial entry into the jobs market. As we all have an interest in a successful economy where highly-skilled workers produce high value-added goods and services, perhaps we can conclude that ‘we are all in it together’.

Nonetheless, the high cost of financing high levels of worklessness has become a major preoccupation among nearly all developed countries. For this and other reasons, there has been a general shift in welfare policy away from ‘passive’ measures — paying benefits to out-of-work individuals in order to maintain a socially acceptable standard of living — in favour of ‘active’ measures, which might take the form of participation in work experience programmes, training, or support in intensive job-search.

Generally, the current stance in labour market policy is distinguished from previous policies by the term activation. Activation is exclusively focused on enlarging labour supply, as distinct from earlier labour market policies which both sought to integrate some groups (like young people) into the labour market while encouraging the exit of other groups (like older workers, through, for example, early retirement schemes). Under activation policies, labour market exits are progressively closed.\(^8\)

\(^8\) Eichhorst, W., Kaufmann, O., Konle-Seidl, R. (Ed) [2008] Bringing the Jobless into Work? Experiences with Activation Schemes in Europe and the US, Berlin, Springer
The precise meaning of activation might vary from country to country but there is a wide area of commonality. First, activation policies aim to bring people out of unemployment or economic inactivity and into paid employment, and (often) to support progression from ‘entry level’ jobs into better paid and more sustainable employment. Second, activation policies are aimed at a wider group of benefit recipients than hitherto — that is, people claiming benefits for reasons other than unemployment, such as parenthood or health difficulties. Finally, the payment of benefits becomes increasingly conditional under activation policies — that is, claimants are only paid benefits on condition of active job search, job preparation, or a willingness to accept job offers.

The tendency everywhere is for conditionality to increase, both in terms of the types of claimants to which conditions are applied, and in its stringency. A successful activation policy, however, is one that provides incentives for work and reduces benefits dependency while avoiding poverty.9

The reforms initiated by the 1997 Labour government conform broadly to the characteristics set out above. The current stage of welfare reform is examined in some detail below.

2 Welfare reform under the 1997 Labour government

2.1 An evolving approach

Although the Labour Party had come to accept many of the labour market and social security reforms of the preceding decades, its approach when in government to work and welfare has nonetheless been distinct from that of its predecessors in some important respects.

First, it made a highly-visible commitment to reducing child poverty. Although this has wider ramifications for the welfare system, the commitment has been accompanied by a conviction that work is the best and most sustainable route out of poverty. Hence the second distinguishing feature, a determination to make work pay by strengthening in-work benefits.

Existing in-work provision was made more generous by the Working Tax Credit and Child Tax Credit, in turn underpinned by the National Minimum Wage, introduced in 1998. The ‘make work pay’ strategy has been complemented by a range of other instruments, notably the National Childcare Strategy that aims to increase the supply of affordable childcare. Finally, Labour maintained a commitment to active labour market programmes made when in opposition.

The roll-out of the new programmes began in 1998, with funding supported by a windfall tax of £5.2bn from the privatised utilities. The first, and by far the largest, was New Deal for Young People (NDYP), targeted at 18-24 year-olds unemployed for six months or longer, to be followed by New Deal 25+ (ND25+), New Deal for Lone Parents (NDLP), New Deal for Partners (NDP), New Deal for Disabled People (NDDP), and New Deal 50+ (ND50+).
NDYP and ND25+ were both mandatory programmes, with participation in intensive job search or subsidised employment beginning after six months of a JSA claim in the case of young people and after 18 of the last 24 months for over-25s. NDLP was voluntary, with support in training and childcare and financial incentives to seek work. NDDP has been mostly replaced by Pathways to Work, of which more below. By May 2008, 3.15 million people had been through a New Deal.

The targeting of many New Deals at non-JSA claimants was an early indication of a shift in focus towards a more comprehensive approach to work and welfare. An institutional change that signalled the direction policy was moving in was the creation in 2002 of Jobcentre Plus through the merger of the Employment Service and the Benefits Agency.

This prepared the ground for the exposure of all claimants receiving an out-of-work benefit to back-to-work services (this re-alignment had already begun for JSA claimants with the earlier Conservative government). It led to the slow roll-out of New Deal for Disabled People and the subsequent Pathways to Work Programme.

The creation of Employment Zones (EZs) was yet another signal of the direction policy was moving in, this time concerning the delivery of welfare-to-work services. The emphasis in EZs was on contracting out provision to private sector providers who were provided with incentives to place clients into sustained employment but who also faced penalties if performance was below target. EZs have tended to enjoy greater success than the New Deals, but they were also more generously funded and were equipped with greater flexibilities.

By the early 2000s attention, in both government and Parliament, had been directed to the alarming growth of non-JSA claimants, but it was not until 2006 that comprehensive and radical proposals

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for welfare reform were set out in the Green Paper, *A New Deal for Welfare: Empowering People to Work*\textsuperscript{11}.

The programme was to be targeted mostly at Incapacity Benefits (IB) claimants and lone parents claiming Income Support (IS). Although the unemployment numbers as traditionally defined had fallen to levels not seen since the late 1970s, it was argued that there had been a rapid increase in the numbers of people without work but whose economic status was situated in a somewhat grey area between economic participation and economic inactivity — claimants of what are referred to as ‘inactive’ benefits. Together with the ‘traditional’ unemployed, these people are what is now meant by the ‘workless’. Through tackling worklessness, the government aims to meet an employment rate target of 80 per cent, which has become the current definition of full employment.

The 2006 Green Paper included some startling statistics to back up the argument. At the time, there were just over 2.7 million people claiming IB in Britain, amounting to about seven per cent of the population of working age, their numbers having risen from about 0.7 million since 1979, with the increase steepest between the late 1980s and the mid-1990s. There were 1.8 million lone parents in Britain, the vast majority of whom were women. Although just over 56 per cent were in work, the number of lone parents out of work and claiming IS was high, both historically and in comparison with some other countries.

It was argued that the structure of the benefits system had contributed to the growth in the number of ‘inactive’ benefits claimants. The system was focused on confirming incapacity, offering little support for those interested in returning to work, and indeed presented perverse incentives, in that the level of IB tended to rise with the length of the claim. In short, the system trapped people into a lifetime of dependency.

\textsuperscript{11} DWP [2006] *A New Deal for Welfare: Empowering People to Work*, [CM 6730], TSO, London
For IB claimants, reform has been underpinned by a new Employment and Support Allowance (ESA). This new integrated, contributory and income-related allowance has replaced IB and IS paid on the grounds of incapacity for new claimants. It is paid in return for undertaking work-related interviews, agreeing an action plan, and, in some cases, participating in some form of work-related activity, all of which is administered through the Pathways to Work programme. All IB claimants will be transferred to the new ESA, with only a small minority with the most serious health problems — about 10 per cent — attracting no conditionality requirements.

The approach towards lone parents has been one of bringing them closer to the labour market through work related interviews and incentives such as a work-related activity premium. Current intentions are to transfer as many lone parents as possible to JSA, and to abolish IS altogether. Although it is not currently envisaged that the age of the youngest child after which lone parents will be required to look for work will be lower than seven, lone parents with children younger than seven will be required to accept offers of various ‘work preparation’ services.

2.2 Skills are key

The government had for long recognised the importance of skills both to economic competitiveness and to the labour market prospects of individuals. In the Leitch Review of Skills published in December 2006, the case was made for an integrated employment and skills service which would draw together existing Jobcentre Plus services, careers advice, and skills screening. Leitch noted that job retention at basic entry was poor — many people were trapped in a cycle of low paid employment and unemployment.

To remedy this, he wanted better incentives for claimants to improve their basic skills, full skills health checks for those who

struggle to stay in employment at the start of their claim, and additional in-work support. The integrated employment and skills service would have the single objective of maintaining sustainable employment and progression opportunities. Astute observers will note a resemblance in these proposals to the structure and purposes of the MSC, abolished nearly 20 years earlier.

The government accepted nearly all of Leitch’s proposals and in June 2008 announced new actions it intended taking in delivering a programme of reform in the skills and welfare systems.\(^\text{13}\)

First, it intended that everyone over the age of 18 and not in university in England would, by 2010, have access to a Skills Account, a personalised voucher representing the estimated value of the funding they could access. People would also be able to use their accounts to help access training at work through Train to Gain (see below) or an Apprenticeship. For those out of work, Jobcentre Plus advisers and careers advisers would have access to the same information about funding and courses.

A new Adult Advancement and Careers Service started its trial in autumn 2008 and is expected to be available to all adults in England by Autumn 2010. The service will provide advice on career options, job opportunities (including self-employment and starting a business), and training, wider advice on other issues including health, childcare, and housing and a skills health check.

From autumn 2008 Jobseeker’s Allowance (JSA) claimants have been required to address their skills needs in order to continue receiving benefits. Where Jobcentre Plus skills screening has identified the need, attendance at a full skills health check is required, in addition to attendance at an appropriate course.

Finally, substantial funds are currently channelled into Train to Gain, which offers a full subsidy for training up to a first Level 2

\(^\text{13}\) DWP (2008) *Work Skills*, (Cm 7415), London, TSO
qualification. It was intended that employers would control over £1bn of Train to Gain provision by 2010-11. Between the roll-out in 2006 and mid-2008, Train to Gain engaged nearly 90,000 employers and 450,000 employees. Over 210,000 people gained new qualifications.

2.3 The Welfare Reform Act and after

Provisions for greater conditionality in the benefits regime were made in the Welfare Reform Act, which became law in November 2009. Among these are provisions for mandatory work experience for JSA claimants of over two years’ duration, with the possibility of applying the mandate to those who leave a claim of long duration but re-enter shortly after. Benefits sanctions can be applied to those who fail to attend Jobcentre Plus interviews; and problem drug-users or people with alcohol addiction can be required to follow a rehabilitation plan (the government has estimated that about 240,000 benefits claimants in England and Wales are drug-dependent\textsuperscript{14}).

The long-term intention is to radically simplify the benefits system and eventually place all working age claimants of out of work benefits into one of three groups:

- a ‘work ready’ group, subject to the job-search requirements of JSA claimants

- a ‘progression to work’ group who would not be expected to go into work immediately but who would be required to take steps to move closer towards work

- a ‘no conditionality’ group, comprising the current ESA support group and some other categories, who are not subject to any conditionality requirements but who can seek job-search assistance if they wish.

\textsuperscript{14} DWP (2008) \textit{No-one Written off: Reforming Welfare to Reward Responsibility}, (Cm 7363) London, TSO
More categories of claimants are to be brought into the net of job-search activity, including partners of claimants and the over-60s. Building on its determination to make work pay, the government announced early in 2010 the creation of a Better off in Work Credit guaranteeing an additional £40 a week for anyone moving into work after being at least six months on benefit\textsuperscript{15}.

In 2006, the government commissioned David Freud to review its welfare to work strategy. The review, published in 2007\textsuperscript{16}, made a large number of recommendations for the Department of Work and Pensions’ (DWP) contracting regime, much of which has been incorporated into the new arrangements for Flexible New Deal (see below). Among the more radical suggestions made by Freud was that providers be paid from the savings in the benefits bill, and that anticipated benefits savings could be used to fund upfront investment.

This approach is to be piloted for ESA claimants in five Invest to Save Pathfinders in Glasgow, Norfolk, Lambeth, Southwark, and Wandsworth, the West Midlands, and Greater Manchester. Finance will be through an invest-to-save mechanism, whereby providers are paid out of the benefit savings they generate from supporting customers into work for up to 18 months. Under current plans, the pathfinders are due to start in March 2011. The Invest to Save Pathfinders have been brought within what are known as the ‘Gregg pathfinders-pilots’, which will test elements of Professor Paul Gregg’s ideas on a ‘personalised conditionality and support regime’\textsuperscript{17}, in which all working age claimants of out of work benefits gain access to support based on their needs rather than their benefit grouping.

\begin{itemize}
\item \textsuperscript{15} DWP (2010) \textit{Building Britain’s Recovery: Achieving Full Employment}, (Cm 7751) London, TSO
\item \textsuperscript{17} Gregg, P., (2008) \textit{Realising Potential: A Vision for Personalised Conditionality and Support}, London, TSO
\end{itemize}
2.4 The Flexible New Deal

On 1 October 2009 the Flexible New Deal (FND) began operating in Britain. As we have seen, it will be delivered within a new welfare system characterised both by greater conditionality and wider range of claimants, including lone parents formerly claiming Income Support and people who would otherwise have claimed Incapacity Benefit. The new system for JSA claimants is portrayed in Chart 1.

It will be a four-stage process, the first three of which will be delivered by Jobcentre Plus. In the first three months, claimants will receive ‘light touch’ support, undertaking a skills screen and attending a mandatory back to work group session.

After three months, they will be expected to widen their job search and attend weekly meetings for six weeks with Jobcentre Plus advisors. After six months, they will enter a single gateway where they will undergo an assessment of their needs, develop an action plan, and receive more intensive advisor support. After 12 months those still not in employment will go into FND.

The new regime will deal with the churning of claims noted by Leitch in two ways. First, individuals can be ‘fast tracked’ through the stages of escalating conditionality. Second, the new contracting structure is designed to incentivise the placing of people in sustainable jobs.

In the new contracting regime for FND, the DWP contracts with a small number of ‘prime contractors’ which in turn commission services from a range of specialist providers. It is described as a ‘black box’ contracting process because payments are made on the basis of outcomes (mostly job-based) rather than meeting stages in a process.

Until January 2009, the intention was to split the fee between an up-front service payment and sustained jobs outcomes, with 20
per cent allocated as the initial payment, 50 per cent for jobs sustained for 13 weeks, and 30 per cent for jobs sustained for 26 weeks. With the onset of recession, however, the DWP is re-considering the payment structure, with greater weight given to the initial service fee.

Nonetheless, the ‘black box’ approach gives providers an opportunity to innovate and to provide a customised service to their clients. It is a model that has been mostly welcomed as one that will improve outcomes, stimulate innovation, and support the range of specialist services that many job seekers will require.
2.5 An assessment: where next?

Between 1997 and 2005, about £6.8bn was spent on the New Deals, Employment Zones, and other back-to-work programmes. This expenditure, however, has to be set against the costs of out-of-work benefits. In one year alone (2006), the combined bill for Jobseeker’s Allowance, Income Support for lone parents, and Incapacity Benefits amounted to £18.4bn.

The New Deals have been subject to considerable degree of scrutiny and evaluation. The overall verdict is clouded partly because the evaluations were conducted at different stages in the development of the programmes. It has also certainly been the case that prevailing economic and labour market conditions influence outcomes. However, all in a series of evaluations of NDYP conducted between 1998 and 2002 reported positive impacts in terms of reductions in welfare claiming.

One econometric study estimated that long-term youth unemployment would have been twice as high without NDYP and that the programme contributed £500m per year to GDP\(^{18}\). Success is attributed most of all to frequent interviews with claimants and persistent follow-up, although the level of resources is also important: matched studies of ND25+ and Employment Zones found the latter more successful in terms of job outcomes by about four percentage points, offsetting their higher cost.

A recurring criticism of the New Deals concerns a high degree of churning, with many jobs sustained for 13 weeks but not lasting over the longer term. A pattern of recycling between benefits and programmes has been found in all New Deals. However, New Deal recycling takes place in the context of the wider issue of repeat claims, noted by Leitch. In 2006, it was estimated that about

\[\text{References}\]

250,000 new JSA claims (nearly 10 per cent of the entire stock) had been made by people who had spent three quarters of the previous two years claiming benefits. One survey found that this churning was the result of an inability to find sustained employment, with only a small minority leaving their last job through choice\(^\text{19}\). Many jobs found by former claimants were temporary, often in small firms (and hence with little opportunity for progression) and offering low wages.

This pattern of return to benefits is not new: comparisons with five year periods in the 1980s and 1990s show that by 2006 the proportion of repeat claims had not changed, although the average duration of claims had shortened and the number of people claiming out of work benefits had fallen since the mid-1990s\(^\text{20}\). The conclusion is that labour market programmes do make a difference, but more emphasis needs to be given to sustainable job outcomes.

The last few pages have set out the current trajectory of welfare reform under the current government. Some uncertainty might attach to the direction of further change given the likelihood of a change in government in 2010. Under Conservative Party plans announced in late 2009, less money will be given to providers upfront, and sustainable job outcome targets will be tougher. More people will be moved off inactive benefits faster than in current plans, and the move towards a simpler welfare system will be speeded up by the integration of existing employment programmes into a single Work Programme. However it is arguable that Conservative Party plans differ from those of the current government only in the speed at which they are intended to develop, not in their overall direction.

There is a broad similarity in the direction of welfare reform across many countries, based on a shared understanding of common problems. This and other matters are dealt with in the next chapter.


3. The case for active labour market policies

3.1 Unemployment: what it is

In the preceding section it was explained that policy attention in work and welfare in nearly all advanced countries is now focused on the large category of people without work, or the ‘workless’. This is not, traditionally, what has been meant by unemployment. For much of the period after the Second World War, the official definition of unemployment was made through simple reference to the system of national insurance.

As Unemployment Benefit was paid to people to support them through what was assumed (or hoped) to be temporary, and short, periods of unemployment, the number claiming it could be relied on as equivalent to the number of people unemployed. All others without work could be assumed to be either unavailable for work or unable to work, and would be supported through the system of National Assistance. As noted earlier, this simple classification failed to cater fully for the full diversity of individual circumstances, progressively so as lifestyles, and work itself, became more diverse and complicated.

The current preferred official definition in the UK, adopted by New Labour, comes closer to an economist’s definition of involuntary unemployment. It means the unemployed are those without a job but who are available for and are actively seeking work. It is measured by means of the quarterly Labour Force Survey, which, to fulfil International Labour Organisation (ILO) definitions, gathers information from people about their current economic status and job-search activity.

Even this apparently water-tight definition has its limitations, however, as implicitly recognised in the design of the questionnaire used in the survey, which uses a large number of categories meant
to sort people according to their degree of attachment to the labour market. One interesting datum produced as a result refers to ‘discouraged workers’ — those who have simply given up looking for work because they believe they will never find a job.

One further complication concerns the appropriate denominator for calculating the rate of unemployment. In Chart 2 below, the denominator is the economically active (those in work or looking for work). It should be borne in mind that the rate becomes higher if people simply withdraw from the labour market, because this would reduce the size of the denominator, which has been the case in the last two recessions.

3.2: Unemployment: how it behaves

Chart 2 shows the path taken by unemployment (ILO definition) over the past four decades. Already a problem by the late 1970s, the level soars until the mid-1980s, before falling steeply during the late 1980s.

**Chart 2: ILO unemployment March 1971 - May 2009 (UK working age)**

Source: ONS LFS
‘Lawson boom’. It then rises steeply during the 1990-92 recession, although the lag between the resumption of economic growth and the fall in unemployment is shorter than in the 1980s, which might partially be attributed to the introduction of active labour market measures in the 1980s.

At each peak, the chart shows the rate of unemployment, which, unsurprisingly, follows the overall level, although the rate had fallen disproportionately lower than the level between 1984 and 1993 because of a modest increase in the number of economically active, reflecting a larger proportionate increase in the population of working age.

Despite a modest rise in the numbers of economically active, there has also been an apparently inexorable growth in the numbers of economically inactive. This is shown in Chart 3. Unlike the path of unemployment over the past three decades, a trend line can be fitted to illustrate a relentless upward movement. There are, however, fluctuations around the trend which, in the earlier stages at least, correspond roughly to booms and slumps in the economic cycle.

Not all of these people counted as inactive would have left the labour market for ever, and not all will have left for entirely negative reasons. Some may genuinely have been able to afford to retire early. Others might declare their status as unavailable for work because they are full-time students, and their numbers have been slowly growing. Yet others might be short-term sick or carers. However, that there has been a steady upward movement in lengthy, and sometimes permanent, withdrawal from the labour market, and that this withdrawal is accompanied by relative poverty is illustrated by the growth in benefit claims over the period 1979-2008 (Chart 4).

According to the series shown in Chart 4, the total number of people claiming out-of-work benefits peaked at around 5.5 million in 1993, but accompanying the subsequent fall in JSA (formerly
Chart 3: Economic inactivity March 1979 - May 2009 (UK working age)

Source: ONS LFS

Chart 4: Changes in main out-of-work benefits 1979-2008

Source: DWP Quarterly Statistical Enquiries
Unemployment Benefit) claimants was a steady rise of ‘inactive’ benefits claims.

Charts 3 and 4 together suggest that the recessions of recent decades have permanently shaken out large numbers of people from the labour market. To understand how this happened, it is necessary to take a few steps back to look at how unemployment stocks and flows behave through successive ups and downs in the economic cycle.

3.3 Unemployment: why it behaves as it does

The stock of unemployed is determined by flows into unemployment and the length of time people stay unemployed, or unemployment durations. As the economy enters a downturn, more people flow into unemployment but, because there are fewer vacancies, fewer people flow out of it.

Consequently, the average duration of unemployment lengthens. In past recessions (particularly the early 1980s recession), many people became ‘stuck’ in long-term unemployment, with the probability of leaving unemployment reducing as the time spent out of work increased. Long-term unemployment is self-perpetuating in part because the long-term unemployed are less attractive to employers than those with a recent work-history. Long-term unemployment is also known to be associated with depression and other illnesses, which further reduces the chances of getting a job.

In the 1980s, people entered into lengthy periods of unemployment partly because of the drastic industrial re-structuring that took place in that decade, which left many people stranded with the wrong skills or in the wrong place, or both.

Many young people entered unemployment without ever having had a job, and often young women went straight into parenthood. Many people were simply unlucky to have entered into unemployment at the start of the economic downturn, meaning that by the time the
Local work

The economy recovered, they had accumulated a host of problems associated with lengthy periods of unemployment.

The situation was worsened by the relative permissiveness of the benefits regime and the absence, through the first half of the 1980s, of full coverage in active labour market measures, meaning that many people had neither the incentive nor the support to look for or prepare for work.

Finally, as we have seen, an institutional dynamic added to the demoralisation experienced by those out of work for lengthy periods, or who had never had a job, whereby incentives were created to move people on to inactive benefits, and, in the case of IB claimants, keep them there. Other factors have been at work, such as the relative laxity of medical and eligibility tests and an increase in qualifying mental health conditions.

To add a further twist, it is abundantly clear that certain groups possess characteristics or are in circumstances that render them especially prone to becoming unemployed. The point can be made by comparing the employment rate for disadvantaged groups with the working age population overall over time.

In Chart 5, the relative position of nearly all groups can be seen to be improving over the period 1993-2007, probably under the combined influence of the New Deals and improved labour market conditions.

Nonetheless, the rate for all groups remains below the average for the working-age group as a whole. The glaring exception to the general improvement is the low-skilled, whose position actually appears to deteriorate over the period. This emphasises once again the importance of skills in the current stage of economic

Young people’s position in the labour market is complicated by their greater likelihood of their being in education, but they are nonetheless especially vulnerable to spells of unemployment, particularly during economic downturns. To illustrate, while the unemployment rate for the working age population as a whole rose from 5.3 per cent to 7.9 per cent between August 2007 and August 2009, it rose from 12.1 to 17.4 for those aged between 18-24. For 16-17 year-olds, the rate rose from 28 per cent to 33 per cent.

Worse, recent figures for the second quarter of 2009 show 959,000 people aged 16 to 24 classed as NEET (not in education, employment, or training), up from 840,000 for the same period in 2008.

To sum up, a sequence of economic downturns combined with particular disadvantages possessed by some types of people,
combined with a set of perverse incentives built into the welfare system, has created a large group of people who appear to be permanently excluded from the labour market.

For individuals, this predicament is no less than a personal tragedy. The social consequences need hardly be spelled out. Perhaps less widely understood are the consequences for macroeconomic management. In mainstream economic theory, a constraint to employment is imposed by the possibility of inflation, which leads to the construction of what is known as the Non-Accelerating Inflation Rate of Unemployment, or the NAIRU\textsuperscript{22}.

Unemployment cannot be reduced below the NAIRU without stoking up inflation, because enough workers cannot be induced to work at non-inflationary wage rates. Estimating the NAIRU is something of a popular pastime among economists, but one important conclusion is that long-term unemployment in itself raises the NAIRU. This is because the long-term unemployed cannot compete effectively to relieve supply bottlenecks in the labour market by ‘bidding down’ wages when demand for labour rises.

Therefore it is possible for an economy to become saddled with both high levels of unemployment and high inflation\textsuperscript{23}. Because a high level of entrenched worklessness raises the NAIRU, it is extremely expensive to the economy in ways other than the massive welfare bill that attaches to it.

All of this supports the case for concerted action to re-connect the long-term workless with the labour market. What to do about it is dealt with in this chapter’s concluding sections below.

\textsuperscript{22} When the economy is not in recession, the possibility of inflation is the only constraint to full employment. Jobs are not, as sometimes supposed, restricted by a fixed quantity of available work — a misperception known as the Lump of Labour Fallacy. If there was a fixed amount of work that had to be shared out, the economy would never have absorbed the growth in population and productivity of the past 300 years.

3.4: The case for active labour market measures

The growth in UK worklessness has been dealt with in the pages above in a largely descriptive fashion, although it has supplied part of an explanation for persistently high levels of worklessness. In so far as the longer people remain excluded from work the less likely it is that they will find work, long-term worklessness can be shown to be its own cause and consequence.

This chapter finishes by drawing on some of the conclusions generated by the massive research programme prompted by the re-emergence of mass unemployment in the 1980s, not least that part of it carried out by the OECD. Although there are shared issues across OECD countries, variations in labour market behaviour indicate that there are both economic and institutional factors that influence the way labour markets behave which in turn can be influenced by policy. Time and again, the arguments return to the necessity of active labour market programmes.

In the early 1990s, the OECD undertook a major analysis of the causes of persistently high levels of unemployment. The resulting diagnosis and recommendations were published in 1994 as the OECD Jobs Study.

The overall framework for reform proposed in the publication became known as the ‘OECD Jobs Strategy’, which provided a general frame of reference for the design of policy aimed at restoring low levels of unemployment. The strategy’s recommendations were grouped under 10 headings, many of them on appropriate macroeconomic policies, and some on economic development strategies for nurturing entrepreneurialism and the diffusion of technological know-how. However, key recommendations were for reforms in the benefits and tax systems (to make work pay), active labour market measures, and raising skills.

In 2006 the OECD published its revised Jobs Strategy\textsuperscript{25}. As noted earlier, there is a striking similarity in the types of problems diagnosed in developed countries, and notable in the OECD’s renewed analysis was an emphasis on the large, and in some countries, growing, number of recipients of inactive benefits paid to those unable to work because of illness, incapacity, or domestic responsibilities. According to the OECD, this highlighted the importance of employment-related social policies. A regime of “mutual obligations” (or greater conditionality), it was argued, should be extended to those classified as economically inactive.

The 2006 OECD report identified four different labour market policy regimes with varying outcomes in terms of labour market performance.

In the first group of countries there was light product market regulation, relatively low taxes on labour, and relatively low unemployment benefits. There was relatively light employment protection and union and collective bargaining coverage tended to be below average. Spending on active employment measures was relatively low. These economies are referred to as ‘market reliant’ economies and exhibit good labour market performance. This group, according to the OECD, included Australia, Canada, Japan, Korea, New Zealand, Switzerland, the UK, and the USA.

The second group of countries exhibited equally good employment outcomes with very different policy settings. These countries tended to have centralised and co-ordinated systems of industrial relations. Unemployed workers benefited from generous unemployment benefits which went hand-in-hand with strong activation programmes. These countries exhibited light product market regulation and moderate to high levels of labour taxes and employment protection. They included Austria, Denmark, Ireland, the Netherlands, Norway, and Sweden.

The third group of countries stood out as having relatively high labour taxes and stringent employment protection and product market regulation. Less emphasis was devoted to active labour market policies, although they had generous unemployment benefit systems. The coverage of collective agreement mechanisms was high. Employment outcomes were poor in this group of countries. The group included Belgium, Finland, France, Germany, Italy, Portugal and Spain.

The fourth group of countries comprised the transition economies of Eastern Europe. Here, poor employment outcomes are associated with low expenditures on both active and passive labour market programmes, high labour taxes, and relatively stringent employment protection and product market regulation.

Although the OECD analyses placed the UK in a ‘market led’ group of countries with relatively good labour market outcomes, the conclusion was not that policy should focus exclusively on removing impediments to market mechanisms in the labour market. ‘Market reliant’ economies only exhibit relatively good labour market performance, and then only in relation to countries with highly inflexible product and labour markets.

In what might be termed a ‘classical’ analysis of labour market performance, persistently high levels of worklessness are explained as the consequence of wage levels being maintained above some ‘equilibrium’ market-clearing level. For example, strong trade unions, where they aggressively pursue pay claims, can lower the demand for labour.

Both the OECD analysis and studies conducted by others do indeed associate strong trade unions with high unemployment, but the effect is mitigated by centralised bargaining. A classical explanation might also emphasise over-generous out-of-work

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benefits as a disincentive to finding work, although some countries, like Sweden, manage to combine relatively generous benefits payments with low unemployment.

Precisely what constitutes a ‘generous’ level of benefit must be a political question, but it would hardly be a desirable state of affairs if payments were to drop so low that people would do anything to sustain themselves — like Mayhew’s ‘mud-larks’. In any case, the most important feature a benefits regime should possess is its conditionality — and the Swedish regime is highly conditional on claimants preparing for job re-entry.

The conclusion from all of this is that a policy that focuses only on improving market mechanisms has limitations as a means of reducing worklessness. David Freud — hardly an ardent Social Democrat — admitted as much in his 2007 report. Given that labour markets are highly imperfect, the optimum would appear to be in combining market flexibility with a high level of support for people through work transitions, and, most importantly, ensuring a high level of investment in skills.

This combination — known as ‘Flexicurity’ is most developed in Denmark, where, incidentally, local government plays an important role in job creation and tackling worklessness.
The term ‘Flexicurity’ has been adopted with some enthusiasm by the EU as the desirable end goal of labour market reform. Almost self-explanatory, it is meant to describe a combination of labour market flexibility — the ability of firms to hire and fire workers with minimum cost— with a guarantee of material security and support from the state so that workers are able to adapt quickly to changing market conditions and quickly re-enter employment.

Demark is widely seen as the pioneer of the Flexicurity approach, a view which appears to be shared by the Danes themselves. In Demark, Flexicurity relies on fairly generous social security provision but also high investment in education and skills. There are three pillars to the Danish model:

- flexible regulation based on agreements between employers and trade unions on working time, hiring, dismissals, and similar issues
- a well-developed social security system
- an active employment policy which educates and trains people for employability.

Danish workers experience a high level of employment security despite the fact that formal protection by law is less rigorous or intrusive than in most other European countries. Employment policy is based on rights as well as duties and is accompanied by a targeted upgrading of skills to suit emerging requirements.

Danish municipalities are co-located in Jobcentres with the public employment service. Municipalities have
responsibility for the non-insured unemployed, although in 14 pilot municipalities employment services for all groups have been devolved.

A process known as the ‘Step Model’ is applied in most municipalities. Typically, the process starts with counselling and guidance delivered by the municipality, followed by a job placement supported by training, mentoring, and a wage subsidy. The last step is to a conventional job.

Source: Local Government Denmark

3.5: What works

Given the wide acceptance of the desirability of active labour market policies, a logical way to end this chapter is to briefly outline the main characteristics of successful programmes.

This topic leaves aside important aspects of the national regime, such as the way benefits and taxes are set and administered, although it is important to state once again that conditionality in the payment of benefits is the critical feature without which any further actions are likely to result only in a squandering of public money.

Further, as with the international programme of research into the causes of worklessness, ‘what works’ in labour market interventions has generated a huge amount of material of which it is only possible to distil a brief summary of key principles, some of which are, or are planned to be, present in mainstream DWP programmes.

The first of these key principles concerns the importance of a holistic approach. Individuals furthest from the job market are likely to be confronted by a multiplicity of barriers to labour market re-entry that requires a concerted response potentially
encompassing childcare, skills training, specialist health services, debt counselling, and housing related issues, and which takes account of contexts such as household composition and the location of neighbourhoods.

Related to this is the importance of individualisation in which the precise circumstances of the individual are recognised and dealt with, contrasting with more general approach of categorisation according to benefit group.

Individualisation also allows for early intervention on the basis of characteristics that are likely to lead to long-term worklessness, rather than waiting for the duration of a claim to lengthen. A high degree of flexibility is required to allow providers of services to adapt to local circumstances.

No single organisation can provide the full range of services required to address the range of issues faced by some workless people. Hence there is a need for inter-agency co-ordination and integration which in turn relies on effective partnership working, mostly at local levels. Local partnership structures should recognise the crucial role of employers in the design of back-to-work services.

**Meaningful employer involvement** — in which local employer forums are given a leading role in designing strategy — confers legitimacy as well as helping to ensure that services meet employer needs. Employer engagement is even more critical when strategy is focused on job retention as well as job entry. Given the importance of skills in the modern economy, back-to-work services should include a substantial element of skills training, preferably linked to a job.

Finally, outreach services in familiar, community based locations are important for initial engagement. Community and voluntary organisations play an important role in influencing the take up of jobs or training opportunities.
Much of the above — particularly the need for co-ordination across agencies, and the critical role of outreach — implies that the approach has to be locally-based.

3.6: The current crisis and the response

The current UK recession began in the third quarter of 2008, with the decline in GDP accelerating to 1.6 per cent in the final quarter. Revised forecasts indicate that the recession is worse than thought, with estimates for the decline in output for 2009 being revised downwards in the 2009 pre-budget report from -3.5 per cent to -4.75 per cent. Growth is expected to recover in 2010, but slowly, rising only between 1.0 per cent and 1.5 per cent over the year, but accelerating above trend rate to 3.5 per cent by 2012.

LFS Unemployment rose to 2.47 million by August 2009, up 677,000 from a year earlier. Long-term unemployment (over 12 months) has risen by 158,000 to 590,000 over the year to August 2009, although it barely changed as a proportion of total unemployment. There are currently (February 2010) contradictory messages emerging from the labour market, with small falls showing in LFS unemployment, but the claimant (JSA) count rising. It is likely that the true level of unemployment has been masked by more young people staying on in education and by temporary employment programmes.

We can still reasonably expect unemployment to peak at around three million, accompanied by a build up of long-term unemployment. Median durations (JSA unemployment) have risen from 11.7 weeks in September 2008 to 16.1 weeks in September 2009, although they remain far lower than in the first half of the 1990s, when they never fell below 30 weeks.

Strategy should be based on preventing a build up of long-term unemployment. This is done by keeping claimants focused on, and close to, the labour market, whether by job-search or training. The package announced by the Chancellor in Budget 2009 goes some way to meeting these requirements. It included an additional £1.7bn
set aside for the DWP to deal with the inflow of JSA claimants and to support the minority who remain unemployed. There was a guaranteed job, training or work placement for all 18-24 year olds who reach 12 months unemployed (since reduced to six months), and an increase in Child Tax Credit. An extra £140m has been set aside to support 35,000 additional apprenticeships.

Local government has supported government initiatives to support people in the labour market through the recession, not least in doubling the number of local government apprenticeships to 15,000. Many local authorities have successfully bid as lead partners to deliver the new Future Jobs Fund. Local government’s growing role in the worklessness agenda is dealt with below.
4 Going Dutch: enlarging the role of local government

4:1: Introduction: a growing partnership

The formal involvement of local government with central government in tackling worklessness in the years before the recession developed in two main ways. Firstly, the Working Neighbourhoods Fund (WNF) now forms a distinct element of the new Area Based Grant. It has replaced the Neighbourhood Renewal Fund (NRF) and is meant to provide resources to local authorities to tackle worklessness and low levels of skills and enterprise in their most deprived areas.

In the initial announcement, about £1.5bn was allocated over 2008-11, and about £50 million was promised as reward grant for authorities agreeing the relevant LAA targets. Currently, 65 local authority areas receive the WNF.

There is a strong expectation that areas receiving the funding will want to include targets on tackling work and boosting enterprise in their ‘up to 35’ LAA targets. Of the 48 indicators under the ‘Local Economy and Environmental Sustainability’ block in the national indicator set for local government, there are nine indicators relating to economic development, worklessness, and skills.

Second, the government’s City Strategy is meant to promote employment opportunities for the most disadvantaged in society. This includes DWP customers as well as priority groups who may or may not be on benefits but whose problems are much wider, such as refugees, ex-offenders, drug addicts and the homeless.

A key element of the approach is to link up local provision, particularly employment and skills provision, to maximise the
opportunities available to people in the most disadvantaged areas. Local authorities are key partners in the City Strategy. The programme started with 15 pathfinder cities, two of which are in Wales and three are in Scotland. The scale of the English Pathfinder areas is so large that they have been estimated to cover about one third of all claimants.

Initially programmed until April 2009, The City Strategy was meant to test whether locally-determined solutions can significantly improve employment outcomes. The strategy has been extended until April 2011, with a further £5 million of support from the DWP. All Pathfinders have as partners local authorities, Jobcentre Plus, and employer forums or Chambers of Commerce. The scale of integrated funding streams is very substantial with one Pathways being able to muster £240 million per annum for welfare to work.

Funding is sourced through Jobcentre Plus, the Deprived Area Fund (handed over to local partnerships by DWP as a grant) and EU funds. Some lever in funds from the NHS or PCT, and some attract resources from employer organisations or the private sector. There is a clear aspiration to have as much flexibility as possible in the pooling and alignment of funding programmes, in some instances expressed in a request for devolution.

It is worth pointing out that three Pathfinder areas — Manchester, Glasgow, and Birmingham — have been earmarked as Invest to Save Pathfinders starting in March 2011 (see above, Section 3). The Association of Greater Manchester Authorities (AGMA) made a request for a benefits transfer pilot (see box).

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27 The areas are: Birmingham, Coventry and Black Country; Blackburn with Darwen; Dundee; East London; Edinburgh; Glasgow; Heads of the Valleys; Leicester; Liverpool; Greater Manchester; Nottingham; Rhyl; South Yorkshire; Tyne and Wear; and West London.


Tackling worklessness in Manchester

In July 2006, it was announced that Greater Manchester would be one of 15 pathfinder areas for the City Strategy Programme. The City Strategy has become a cornerstone of the City-Region’s MAA. The target was to take 16,650 people out of work benefits between 2006-07 and 2009-10, with the largest share of these being residents of the City of Manchester.

Underpinning the City Strategy is a programme to build a strategic planning, commissioning and management framework in order to improve and integrate provision and avoid duplication. The aim is to ensure that anyone needing support has access to integrated provision with clear routes to sustainable jobs and skills development.

Outreach work to engage with those targeted is fundamental. A working neighbourhood teams model is developing that will engage more inactive residents through a range of public services. Specialist advisers are based in a number of locations including GP surgeries, housing offices, and children’s centres. The city council is working closely with strategic housing partners to integrate employment advice into tenant services. The adult education service has changed the curriculum on offer to increase its contribution to Manchester’s employment targets.

Manchester Solutions is the operating arm of The Commission for the New Economy (formerly Manchester Enterprises), a not-for-profit company with AGMA councillors on the board which has effectively acted as the Economic Development Agency for Greater Manchester. Manchester Enterprises’ company, Education Business Solutions, manages education business links in Manchester, Rochdale,
Stockport, Trafford, and Tameside. The company organises work experience, provides mentoring, industry/teacher exchanges, and education and enterprise activities. It is working with over 100 schools and 5,000 companies. Its role will grow with the new diplomas that are being introduced.

In the MAA, the AGMA proposed a benefits transfer pilot. This would enable the savings from reduced benefit payments — as the number of workless people decline — to be used to fund engagement and training activity. The proposal is to use such a fund to focus on those not engaged in Pathways.

It was announced in the DWP paper on Work Skills in June 2008 that Manchester will be “a test bed for developing all key aspects of an integrated employment and skills system”. An integrated employment and skills strategy, implementation plan and joint investment programme is now being developed between the AGMA, the LSC/Skills Funding Agency and DWP/JCP regional offices.

4.2: Local government resources

There are many local government initiatives in the back-to-work agenda that pre-exist or exist independently of the more formal arrangements under WNF and City Strategy Pathfinders, although it is hard to quantify these. One example is Southampton City Council, which used EU ESF Article 6 funding to support the development of an integrated employment strategy. The partnership created through the strategy comprised many of the authority’s own departments, but also two universities, Jobcentre Plus, the LSC, the Careers Services, the PCT, Business Link and the voluntary sector. Article 6 funding started in 2004, two years before the announcement of the City Strategy Pathfinders. It was in Southampton that a successful Section 106 deal was made to secure the employment of local people in a retail development.
Acting as a prime contractor for Flexible New Deal

In 2009, Future Skills Dudley (FSD) became a Jobcentre Plus Prime Contractor and is now the lead body for the delivery and management of all New Deal programmes across the South Black Country. Together with key partners FSD currently delivers services that will support almost 10,000 local unemployed people over the next two years, with around half from within Dudley and a target of placing up to 53 per cent into work.

Future Skills Dudley (FSD) was established in 1989 as part of Dudley Metropolitan Borough Council’s Directorate of the Urban Environment’s Regeneration Division. It delivers a wide ranging and successful set of initiatives aimed at improving local people’s economic well being, placing thousands into work and training many more.

FSD has over 100 staff and with an income estimated at £6 million for the 2006/07 financial year, and has become a respected player in the regeneration field. A recent Adult Learning Inspection (ALI) during 2005 gave FSD a grade 1 for Leadership and Management with grade 2s across all other areas covered by the inspection; FSD is now classified among the ‘Best of the Best’ nationally.

Future Skills Dudley also holds a range of accreditations to delivery services and qualifications, which includes: National Vocational Qualifications (NVQs) in construction, fencing and horticulture, key and Basic Skills (literacy and numeracy), information advice and guidance, Jobsearch and Jobs Brokerage services, together with outreach and mentoring.
Local authorities do, and have the potential to, co-ordinate and integrate services, either delivered directly or with partners which can ultimately offer an integrated package that supports the labour market position of all local people at whatever stage they are at in their journey. Local authorities:

- plan and co-ordinate local service delivery in welfare provision for all ages, including childcare services, young peoples’ services, and adult social care
- support neighbourhood management and outreach to areas of high worklessness, which can include working with social housing landlords
- co-ordinate responses to specific urgent problems
- engage with business, planning, regeneration, and promote enterprise to support the ‘demand side’ of the equation
- provide local and accessible sources of information and advice to local people, for example, on welfare rights and Tax Credits
- share good practice between all local service providers.

Currently, local government can offer a wide range of ‘wraparound’ services with mainstream provision in order to tailor provision to the needs of particular groups and individuals. The list set out in the Houghton Review included:

- debt and benefits advice
- community outreach services
- services for care leavers
- volunteering
- services to social housing tenants
- adult social care and mental health
Supporting People in Work to Stay in Work: Brent In2 Work

Brent In2 Work is Brent Council’s award-winning employment programme, helping 4,638 local people into work between 2002 and 2009. In 2008, 2,528 local residents went through the Brent In2 Work programme with over half, 1,282, finding a job. It has also helped hundreds more local people to find their own route to employment through training and language skills.

Brent In2 Work adds value to mainstream employment provision by supporting groups with complex needs and are hard to reach by mainstream services.

Brent In2 Work offers aftercare to sustain employment. For the first six months in work this includes:

- a free phone number for both employers and employees
- information and guidance
- links to other agencies, such as debt services, money, child-care services, health and lifestyle advice, housing
- 1:1 planning support (for example, in travel to work)
- access to training — for example, Train to Gain.
It is perhaps as a convenor of partnerships that local government plays its most valuable role in co-ordinating and agreeing plans and strategies across a range of partners that are able to address the complex needs of people without work. The partnerships structures should cover health, skills, social services, careers, childcare, housing, transport, youth services, and debt advice. Most importantly, local authorities are active in convening Employment and Skills Boards — bodies of local employers with a real say in skills and employment strategies — often to strengthen City Strategies or the economic and business interests of an LSP.

**Employment support in Newham**

Newham’s flagship employment service Workplace provides a holistic and personalised service to residents looking for work. Workplace now has three premises in the borough, in addition to six Hubs where Workplace services are delivered from a partner’s premises including Community Links and the Sure Trust. Co-locating achieves extra coverage whilst using existing infrastructure and saving on capital costs. Workplace also offers outreach services in relevant locations such as Surestart Centres and Local Service Centres, Libraries and Community Centres.

Although Workplace is largely funded by the London Borough of Newham, it also receives support from Jobcentre Plus, the London Development Agency, Newham College for Further Education and the European Social Fund. Owing to the nature of its funding, Workplace can work with any residents irrespective of their situation.

Since opening in March 2007, Workplace has helped over 3,600 residents find work, with almost 1,500 since April 09 alone. Workplace has also proved to be a very efficient service. Evaluation has shown a cost per job rate of £2,850.
Delivered as part of Workplace, the Mayor’s Employment Project offers a holistic service to address all of the barriers that prevent people from moving into work, including a guarantee that residents will not be worse off in work. To date, the MEP has placed 238 long-term unemployed Newham residents into work who have been on average £350 a month better off. The MEP has achieved impressive levels of sustainability with 78 per cent of customers finding work in its first year remaining in employment for at least 13 weeks.

Local government is becoming more active in economic development. Following the sub-national review of economic development and regeneration (SNR), upper-tier local authorities will have a statutory duty to prepare local economic assessments, and the government has accepted Stephen Houghton’s recommendation that worklessness assessments should form part of the wider economic assessment. Local government involvement in economic development will deepen with the abolition of regional assemblies after which regional and sub-regional economic development strategies will be designed by leaders’ forums working with RDAs.

However, resources are widening in other ways. The Business Rate Supplements Bill 2009 gives upper tier local authorities powers to levy supplementary business rates, in agreement with local businesses, to be used for economic development. The levy will in some cases build on successful Business Improvement Districts. Income can also be derived through the Community Infrastructure Levy, in which local authorities can recover some of the value uplift of development. Section 106 will continue to operate alongside the levy.

Finally, funding for 16–19 education and training is transferring from the Learning and Skills Council to local authorities’ ring fenced education budgets which will restore to local authorities an important relationship with FE colleges after more than 15 years.
Councils will have a clear strategic lead for 14-19 education and training, enabling integration of provision between schools, colleges (sixth-form and FE) and employers as they jointly offer a new range of Diplomas and Apprenticeships alongside GCSEs and other qualifications which are an integral part of raising the age of compulsory participation in education and training to 18.

In short, local government is in the process of acquiring more powers and means to invest in and promote the economic well-being of local communities. The powers and means must be enlarged and deepened.

4.3: The proposal

The government’s position is that local government’s involvement in tackling worklessness be deepened by progressing through three levels of devolution.

**Level 1** gives local authorities more influence over contract specification, either individually or in sub-regional partnerships. It will mean that providers will operate with reference to employment and skills plans worked up through MAAs, City Strategy Partnerships, and LAAs. In the 2008 White Paper, the government promised to integrate level 1 devolution in all future DWP commissioning activities.

**Level 2** devolution allows for the co-commissioning of employment and skills services, through the better alignment of funding streams. In the 2008 White Paper, the government announced that it wanted to see level 2 devolution, with better alignment of services and funding, operating successfully in a number of areas by 2101 and ‘fully operational’ by 2011.

**Level 3** devolution goes furthest, and involves handing over money and responsibility for delivering outcomes. The DWP would specify outcomes but commissioning, funding, and contract management would go to a local partner or a joint commissioning body. The
government has said that it intends working with City Strategy Partnerships and MAAs so that over time these areas can progress to level 3. It has said that it would like to see some areas operating at level 3 by 2015, but preferably sooner.

We argue that that this process of devolution should be faster and deeper. It is clear that many local authorities have the capacity to deliver back-to-work employment and skills services. Additional resources would deliver the incentive to align and mobilise all local authority departments around the clear goal of getting people into work.

**Labour market activation and re-integration in the Netherlands**

In 2004, the Dutch Government introduced the Work and Social Assistance Act, which shifted the focus of welfare policy to the municipality, involving greater policy freedom and financial responsibility for local authorities. Dutch municipalities are currently responsible for paying welfare benefits, for developing integration and activation measures, and for tackling fraud.

In the four years to 2007, the number of households in receipt of benefit fell from 336,000 to 298,000 (the lowest figure for 25 years). The inflow to benefits fell from 110,000 in 2003 to 99,000 in 2005, and in the same period outflows rose from 93,000 to 105,000. Some of this improvement could be attributed to relatively good labour market conditions, but a preliminary analysis by the Netherlands Bureau for Economic Policy Analysis indicates that the impact of the new legislation has been substantial.

Municipalities receive a budget for social assistance (income budget) and an additional budget which they can use as they see fit to get benefit claimants back to work.
They are allowed to keep any under-spend in the income budget but receive no compensation if they overspend (although there is protection against an unforeseen inflow of claimants). This gives the municipalities a clear incentive to get as many out of work claimants into work as quickly as possible.

There are fewer rules and reporting requirements in the new system, although the Act defines general policy and lays down a performance agreement with the municipalities’ Social Services Departments, many of which have renamed themselves as Departments of Work and Income.

The reformed arrangements give municipalities an incentive to think about generating more employment opportunities for local people. In meeting the key challenge of stopping people drifting into benefit dependency, barriers need to be removed between various departments in municipalities to increase linkages between areas like education and economic development.

Back-to-work services are delivered through a mixed economy of private and in-house provision. The long-standing involvement of the private sector has stimulated innovation and specialisation, whilst competition has driven down costs.

Tackling worklessness, in other words, should be a key priority of local government. This would bestow a sense of common purpose across a range of services and will animate local partnerships with a shared, and clear mission. Local political leadership will

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also be critically important in this, particularly in communicating the message that work pays and that in the long term work is the best route out of poverty and towards independence. Council leaders and mayors need to identify themselves with this message. It is a message aimed at the community as a whole—everyone, not just particular groups, stands to gain. Councillors should be active in promoting the message in their wards and neighbourhoods.

For these reasons, local government’s involvement in tackling worklessness can, and should, be greater, and devolution should be faster and deeper. Local authorities should be given full responsibility to act in a role similar to that of ‘prime contractors’ in the current FND system should they wish to apply for it.

To incentivise them, they should be paid according to the saving they make in the welfare bill by helping local people into employment. It is envisaged that this ‘reward’ element would be very substantial indeed, involving the discounted value of benefits savings in a similar way to that outlined a couple of years ago by David Freud. Government would gain by increased tax revenue, and, because the combined income from tax and benefit savings is shared, we describe this arrangement as ‘Going Dutch’.

Local government would be allowed to use the income they have earned to invest in local communities as best they see fit in their role as place-shapers, although we envisage that it would mostly be used to support the economic well-being and resilience of local people in what are likely to be very difficult economic circumstances. We also argue that in an era of fiscal stringency this arrangement would generate a self-funding and benign cycle of investment — a local investment cycle.

The local investment cycle conforms to the principle of ‘spending to save’ which is very likely to be the key guiding principle in all public spending plans over the foreseeable future.
Another reason why we describe this arrangement as ‘Going Dutch’ is that in the Netherlands local authorities are allowed to keep income from benefit savings (see page 58). This provides a powerful incentive not only to help get people back into work, but to mobilise all the resources at the authority’s disposal in an effort to reduce the barriers facing workless people and to increase local job opportunities available to them.

It is not the intention in making this argument to replace Jobcentre Plus, but to build on its achievements and of those of the New Deals. Nor is it the intention to replace the private and voluntary sectors in delivering back-to-work services. Local government’s role is seen in this context as a convener of partnerships and as a commissioner of services, in which the innovation, specialisms, and expertise of the private and voluntary sectors are fully utilised. However, local authorities are at the centre of a web of services (see page 53) that, properly co-ordinated, can deliver the personalised support that many workless people need. Properly incentivised, other services and functions — like planning, economic development, and transport — can also be mobilised to support the ‘demand side’ of the labour market equation more fully in order to support the goal of ensuring that local people are able to work.

How this scheme might work in practice is set out in Annexe 1.
Annexe 1

How the AME-DEL reward scheme could work: the calculation for Any-town

1. Introduction: the AME-DEL funding mechanism

As noted above, the new contracting mechanism for Flexible New Deal owes much to the recommendations of David Freud, set out in his 2007 document *Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work*. Most radical of all was the recommendation that providers be paid from the savings in the benefits bill, and that anticipated benefits savings could be used to fund upfront investment.

It has come to be known as the ‘AME-DEL’ model because in effect it involves borrowing from Annual Managed Expenditure (the budget for hard-to-predict items like benefits expenditure) to pay for items like activation programmes normally funded through Departmental Expenditure Limits (DEL) spending. Freud estimated that the ‘market’ for activation programmes could be worth several billions of pounds annually, and, writing in early 2007 before the collapse of the banking system, was confident that prime contractors would be able to borrow from the private sector for upfront investment.

As described in Chapter 2, the government intends testing a version of Freud’s model for ESA claimants in five areas, in what will be known as Invest to Save Pathfinders. The areas are Glasgow, Norfolk, Lambeth, Southwark and Wandsworth, the West Midlands, and Greater Manchester. To recap, finance will not be through DEL programme funding, but through an Invest-to-Save mechanism, whereby providers are paid out of the benefit savings they generate from supporting customers into work for up to 18 months. This creates potentially uncapped contracts as the more sustained job entries are achieved the more providers will be paid in benefits savings.
Freud used a fairly simple formula for calculating invest-to-save payments based on improvements in the probability of claimants leaving their claim at each duration.

The problem with that method is that of attributing the change in behaviour of an entire cohort to the actions taken by the back-to-work provider, so it will probably be simpler to attach rewards to a set of specific targets demonstrably achieved by the provider and their clients. Nonetheless, monitoring the rate at which claimants leave the count at each duration would be a useful contribution to assessing the overall impact of any locally-delivered programme.

A difficulty Freud encountered was that of assessing the costs of different types of intervention. Freud remarked that accounting for costs would become more accurate as the sophistication of the contracting scheme improved. However, in the meantime, some ‘ball park’ estimates can be derived from existing schemes.

A selection of the cost-per-job-entry for various types of New Deals and other DWP programmes (2005-06) is set out in Annexe 2. There is some considerable variation between the costs of each scheme, some of which will be due to the duration of the scheme’s operation (costs tend to fall the longer a scheme operates), some to the size of the intake (unit costs are probably greater for small cohorts) but mostly to the type of intervention.

Schemes involving workplace adaptations for disabled people or training (those beginning with A2W or WBL) are very expensive. Cost per job entry is very high for schemes like progress2work and Link-up which are aimed at people with very special problems, such as a history of drugs or alcohol misuse, or those who are homeless or ex-offenders, or those who fall into several or sometimes even all those categories.

However, the focus has shifted on to sustainable jobs, which means the cost of schemes must rise to accommodate additional provision.
for keeping people in work over a number of years. A report by the National Audit Office\textsuperscript{31} estimated that for most schemes, the net benefit to the exchequer only became positive 18-24 month after initial job entry.

This calculation was made on the basis of the value (saved benefits plus gained taxes) of additional jobs created through the schemes (which is lower than total job entry because some of these jobs would have been found anyway) minus the cost of job entry (which is the ratio of jobs to total scheme spend).

Nonetheless, 18 months seems a reasonable definition of a sustainable job (people are at most risk of returning to benefits during the first year of employment).

There remains the problem of estimating the additional costs of keeping people in work. Some preliminary work has been done on this by the DWP through the Employment Retention and Advancement Demonstration\textsuperscript{32}.

The costs incurred post-employment were through extra administrative costs (former claimants maintained contact with an advisor), and cash bonuses for retention, advancement, and training. Over a 33-month period, the gross cost of maintaining a person in a job for a former NDLP claimant was £1,735 and for a former ND25+ claimant it was £1,833.

Freud estimated benefit savings, for each of the three main out-of-work benefit groups, that would result from getting claimants into sustainable employment. For each claimant, his calculation was as shown on the next page.

\textsuperscript{32} DWP (2009) \textit{The Cost of Services and Incentives in the UK Employment and Retention and Advancement (ERA) Demonstration: Preliminary Analysis}, London, TSO
Benefits saved and taxes gained for each claimant in sustainable employment (annual)

<table>
<thead>
<tr>
<th></th>
<th>Gross</th>
<th>Net (with taxes, after in-work benefits and credits)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JSA</td>
<td>£4,100</td>
<td>£8,100</td>
</tr>
<tr>
<td>ESA/IB</td>
<td>£5,900</td>
<td>£9,000</td>
</tr>
<tr>
<td>IS-Lone Parents</td>
<td>£4,400</td>
<td>(No further saving with childcare element of tax credit)</td>
</tr>
</tbody>
</table>

These figures do not appear to include any allowance for savings in housing benefit. Nonetheless, a simple calculation on the figures in the above table indicates that fiscal gains in getting long-term workless people into work can be very substantial indeed. For example, if we assume that a sustainable job lasts for five years, then the gain to the exchequer in taking one person off ESA/IB in benefit savings alone is £29,500. If 500 ESA claimants were found sustainable jobs, the savings are £14,750,000. Adding in taxes, the total gain is £22,500,000.

These kinds of figures should attract the interest of all types of local authority, whatever their location or levels of worklessness. In February 2009, the numbers claiming three of the most common out-of-work benefits (JSA, IS/JSA for lone parents and IB/ESA) ranged from nearly 2,000 in Richmondshire, Yorkshire, to nearly 120,000 in Birmingham.

In local authority areas with relatively weak demand for labour, the proposed scheme might seem at first sight to involve an intolerable risk. But in the imaginary scenario set out below, authorities would be allowed to set (or at least, negotiate) their own targets. If the financial rewards are sufficiently large, it can be anticipated that the agreed targets would be demanding, but not reckless. Further, the financial rewards should incentivise closer attention on economic development — or the ‘demand side’ of the jobs equation.

There remain the questions of calculating the level of initial investment, and of how it should be funded. In the example below, a
rough estimate has been derived from the cost-per-job figures for various types of DWP-funded programmes set out in Annexe 2. Under current proposals, private sector providers are able to borrow, and perhaps local authorities should access the financial markets, particularly as public authorities have traditionally been able to access loan finance at lower rates of interest. Possibly funding could be derived from a combination of central government grants, EU programmes or local authority reserves.

We leave the question unanswered; possibly it involves more fundamental questions of local authority finance. Further, there is no elaboration of the precise legal forms that a local authority might adopt as a vehicle to deliver back-to-work services. We do anticipate, however, a ‘mixed economy’ of in-house and contracted-out provision along Dutch lines.

2: The calculation for Any-town

At a meeting of the full council Any-town, a majority voted in favour of undertaking the first stage of the government’s AME-DEL reward scheme. This involved investing about £60,000 in researching and costing a back-to-work programme for the town’s workless residents. In doing this, the council could be certain of recovering this initial investment as part of the scheme’s delivery costs, should they decide to go ahead. All bids under the scheme are guaranteed to go ahead, albeit subject to a process of revision, negotiation, and agreement with the DWP.

Any-town is a medium sized town in the north of England with a population of about 300,000. The town’s economy sustains about 120,000 jobs, and an average of about 1,600 vacancies are notified to the local Jobcentre each month.

Altogether, there are about 31,000 people claiming one or more out-of-work benefit. Of these, 9,200 are claiming JSA, and 16,700 are claiming ESA as their main benefit. There are 3,600 people
claiming JSA/IS as lone parents. About 1,100 of the JSA group have been out of work for over one year (and hence eligible for FND), and a staggering 14,360 of the ESA group have been out of work for over one year. The vast majority of the lone parents group (2,700) had been out of work for over a year, and 1,100 had been out of work for over five years. The annual benefits bill for the town (not including housing benefits) is estimated at just over £152m.

After the scoping process, which took six months, the council agreed to go ahead with the second stage and submitted a proposal to the DWP for an integrated back-to-work programme comprising tried elements of both Flexible New Deal and Pathways to Work. Unlike the current Invest to Save Pathfinders, the financing scheme will apply to all categories of workless claimants. The scoping process involved extensive discussion with local businesses, adult social services, children’s services, schools, FE colleges, advice agencies, social housing organisations, drug and alcohol action teams, enterprise support services, and the PCT. These discussions both enlisted support for the project and assisted in its design and costing.

The proposal put forward was targeted at three main groups: the 1,100 people claiming JSA for over a year (Group ‘A’); the 2,700 lone parents out of work for over one year (Group ‘B’); and the 14,360 people in the ESA group out of work for over one year (Group ‘C’).

In its agreement with the DWP, it was decided that the reward payment would be triggered by the achievement of targets of: 500 job entries, of which 200 would be sustainable (over eighteen months), for group ‘A’; 1,000 job entries, of which 400 would be sustainable, for group ‘B’; and 1,000 job entries, of which 500 were to be sustainable, for group ‘C’. If achieved targets for each group were below the profiled target, the authority would only recover its costs for actual achievement within the target group.

Funding would be sufficient to cover costs for job-entry and support through 18 months (the agreed definition for a sustainable job). The reward would attach to sustainable jobs, and it was agreed that,
after factoring in housing benefits, £7,000 would attach to each sustainable job achieved, representing an agreed average level of benefits savings for 18 months across all types of claimants. An ‘escalator-accelerator’ model would be applied for each additional sustainable job achieved over target, starting with the addition of .05 of the original reward for the first 10 sustainable jobs over target, rising to 0.1 for the next 20, to 0.5 for any additional jobs between 30 and 50 over target, and double the original amount for any additional sustainable jobs more than 50 over target.

This meant that the minimum reward for each benefit group would be:

- **JSA claimants:**  
  £7000 x 200 = £1.4m
- **JSA/IS lone parents:**  
  £7000 x 400 = £2.8m
- **ESA/IB claimants:**  
  £7000 x 500 = £3.5m
- **Total:**  
  £7.7m

For a town the size of Any-town, this reward element is substantially larger than that currently available under WNF.

The total cost of the scheme was estimated at £3.9m, somewhat high because of the costs of programmes for people with very special problems. This covered both job entry and job-retention for all three groups, and included a substantial amount of support for in-work training, in addition to a large allowance made for workplace adaptations for people with disabilities. The costs of the scheme would be funded for three years, with the first tranche of ‘reward’ payments made after 36 months and a second and final payment made 18 months later. This means that Any-town was aiming to have placed 550 former claimants in sustainable employment 36 months after the start of the scheme, and a further 550 in employment after 54 months.

Six months before the start of the scheme, the Leader and Chief Executive summoned a meeting of the heads of Children’s Services, Education, Adult Social Services, Economic Development, Housing,
and Voluntary/Community Sector Liaison and told the assembled group that the council stood to gain at least £7.7m through the scheme. The workings of the scheme were laid out, and all the heads of department were asked to draft a plan showing how their department could support it. This group then constituted themselves as a permanent work and incomes steering group, overseen by the Leader and Portfolio holder for Economic Development and Regeneration.

Four and a half years later, the council had achieved sustainable job outcomes for each of the groups as follows:

- **JSA claimants:** 260 sustainable jobs
- **JSA/IS lone parents:** 450 sustainable jobs
- **ESA/IB claimants:** 530 sustainable jobs

Therefore, in addition to the £7.7m received as a reward for the base target, the ‘escalator-accelerator’ model meant that the council received close to a further £1.7m.

Of the total £8.4m received, £2m was set aside to prepare for the next round of the AME-DEL scheme, which included funding for secretariat support for the Employment and Skills Board. Of the remainder, £5m was spent on matched funds for a new learning resource/arts centre in the town, situated between the Town Hall and the FE College; and the remainder was distributed among local charities and other council departments, particularly those active in supporting people with mental health problems and/or with alcohol and drugs issues. The head of planning was invited to join the permanent work and incomes steering group so that land use planning could contribute to the long-term aim of creating sustainable jobs.
## Annexe 2

### Cost effectiveness measures

**DWP Cost Effectiveness Measures 2005-06**

(Jobseekers, Lone Parents, Disability Programmes)

<table>
<thead>
<tr>
<th></th>
<th>Participants</th>
<th>Cost per gross job entry</th>
<th>Cost per participant</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Jobseekers</strong></td>
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<tr>
<td>NDYP</td>
<td>236,200</td>
<td>£2,619</td>
<td>£866</td>
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<tr>
<td>ND25+</td>
<td>127,900</td>
<td>£3,532</td>
<td>£983</td>
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<td>Work Trials</td>
<td>1,838</td>
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<td>£80</td>
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<td>Progress 2 work</td>
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<td>Link-UP</td>
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<tr>
<td>ND50+</td>
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<td><strong>Lone Parents and Partners</strong></td>
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<tr>
<td>NDLP</td>
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<td>£365</td>
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<tr>
<td>NDP</td>
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<td><strong>Disability Programmes</strong></td>
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<td>NDDP</td>
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<td>A2W Travel to Work</td>
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<td>A2W Adaptations to premises</td>
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<td>A2W Aids, adaptations etc</td>
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<td>Workstep</td>
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<td>Workprep</td>
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<td>Remploy Businesses</td>
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<td>Remploy Interwork</td>
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<td>Pathways to Work</td>
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(seven districts)
**DWP Cost Effectiveness Measures 2005-06**  
*(Training, Area-Based Initiatives and Employment Zones)*

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<thead>
<tr>
<th>Training Programmes</th>
<th>Participants</th>
<th>Cost per gross job entry</th>
<th>Cost per participant</th>
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<tbody>
<tr>
<td>WBLA-SJFT</td>
<td>4,504</td>
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<td>WBLA-LOT</td>
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<td>EMO</td>
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<td>Action Teams</td>
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<td>EZ NDYP</td>
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<td>EZ ND25+</td>
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<td>EZ NDLP</td>
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<td>PSL NDYP</td>
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<tr>
<td>PSL ND25+</td>
<td>13,753</td>
<td>£4,625</td>
<td>£1,177</td>
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Annexe 3

Glossary of Terms

AGMA  Association Of Greater Manchester Authorities
ALI  Adult Learning Inspection
AME  Annual Managed Expenditure
BET  Basic Employability Training
DEL  Departmental Expenditure Limits
DWP  Department of Work and Pensions
EAS  Enterprise Allowance Scheme
EMO  Ethic Minority Outreach
ERM  European Exchange Rate Mechanism
ESA  Employment and Support Allowance
ESF  European Social Fund
EZe  Employment Zones
FSD  Future Skills Dudley
FND  Flexible New Deal
IB  Incapacity Benefits
IL0  International Labour Organisation
IS  Income Support
JCP  Jobcentre Plus
JSA  Jobseeker’s Allowance
LAA  Local Area Agreement
LOT  Longer Occupational Training
LSC  Learning and Skills Council
LSP  Local Strategic Partnership
MAA  Multi Area Agreement
MSC  Manpower Services Commission
NAIRU  Non-Accelerating Inflation Rate of Unemployment
NDP  New Deal For Partners
NDDP  New Deal For Disabled People
NDLP  New Deal For Lone Parents
NDYP  New Deal For Young People
NEET  Not In Education, Employment Or Training
NRF  Neighbourhood Renewal Fund
NVQ  National Vocational Qualifications
OECD  Organisation for Economic Co-operation and Development
ONS  Office For National Statistics
PCT  Primary Care Trust
PSL  Private Sector Led
RDA  Regional Development Agency
SJFT  Short Job-Focused Training
SNR  Sub-National Review
TECs  Training and Enterprise Councils
WBLA  Work Based Learning for Adults
WNF  Working Neighbourhoods Fund
The LGiU is the largest, most influential think-tank and representative body operating in the space between Town Hall, Whitehall, Westminster and communities. Now in its 27th year, the LGiU continues to make a significant impact on public policy.