Promoting contribution: Boosting employment opportunity for all – background paper

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The following background paper provides additional detail on and context for the recommendations set out in the IPPR briefing, *Promoting contribution: Boosting employment opportunity for all*.

The briefing is available for download from http://www.ippr.org/publications/promoting-contribution-boosting-employment-opportunity-for-all

1. An unsolved problem: a persistent minority denied the chance to work

The labour market has proved resilient given the scale of output loss in 2008-9; with unemployment not rising as far as was feared and no large increase in inactivity (as occurred after the 1980s and 1990s recessions). However, unemployment is over twice as high as levels consistently achieved during the era of post-War 'full employment'[1]. Meanwhile, underemployment remains widespread[2]; real wage growth remains sluggish; and there is evidence that job increases have been concentrated among the self-employed, in low paying sectors[3] (alongside concerns about the quality of jobs, in light of the substantial increase in the use of zero-hours contracts).

Hopefully the economy will continue to recover and job creation further accelerates. However, even if this happens, there is no guarantee that its benefits will be widely shared. Analysis by Scope found that in 429,000 disabled people left employment in 2012/13, while only 207,000 moved into work during this period (Scope 2014). Despite fifteen years of unbroken growth from the early 1990s, a substantial minority remained out of work and many parts of the population had an employment rate well below the national average. This paper focuses on this issue, in particular the position of people with health conditions and disabilities, who face a structurally lower rate of employment, and those facing long-term unemployment[4]. Where appropriate we also consider these issues through a spatial lens, highlighting the geographic factors associated with labour market disadvantage.

In addition to being least likely to benefit from a general rise in employment, these groups have also been least helped by traditional back to work strategies. The standard jobseeker activation regime, evolved since the mid-1980s, has proved effective in holding down the headline claimant count and maintaining a rapid rate of benefit off-flow for the large majority of JSA recipients. However, this model is not focused on the major contemporary labour market challenge of boosting the employment *rate* and reducing economic inactivity. And there are good reasons for thinking that this approach is poorly suited to that task.

To advance this case, we start by considering some key dimensions of structural employment disadvantage that have proved impervious to existing policies, even in a growing economy.

i) Structurally lower employment rates among disabled people

The employment rate of people with a disability[5] is substantially lower than for the working age population as a whole. Data from the Labour Force Survey (LFS) shows that the disability employment rate stood at 35.3 per cent for the first quarter of 2013, compared to a non-disabled employment rate of 78 per cent. This 'employment gap' dropped from 50 per cent to 43 per cent between 2000 and 2013,[6] but remains large with disabled people

[1] http://onlinelibrary.wiley.com/doi/10.1111/j.2050-5876.2013.00754.x/abstract
[2] http://www.dartmouth.edu/~blnchflr/papers/bell&blanchflower2013.pdf
[3] http://www.tuc.org.uk/economic-issues/labour-market/four-five-jobs-created-june-2010-have-been-low-paid-industries
[4] Other groups who face labour market disadvantage – lone parents, older workers and young people – are considered in other elements of the *Condition of Britain* programme.
[5] In this paper, a disabled person is defined as someone categorised as both having a 'work limiting disability' and a Disability Discrimination Act defined disability.
[6] This figure is commonly referred to as the 'employment gap', with a lower figure indicating a higher (relative) employment rate for disabled people. For a more sophisticated measure of an employment 'penalty' that strips out other mitigating factors such as age and qualifications, see Berthoud 2011.

more likely to be unemployed, inactive, and without work for *longer* than non-disabled people (ONS 2014a).

Further IPPR analysis using the LFS shows that on average, almost one in five (17 per cent) of the economically active disabled population were unemployed during 2013, more than double the unemployment rate for the non-disabled population (7 per cent). Half (50 per cent) of those disabled and unemployed had been looking for work for more than a year, compared to a third (33 per cent) of the non-disabled unemployed population. More strikingly, over half (56 per cent) of the disabled population as a whole were inactive in 2013, compared to around one in seven (15 per cent) of the non-disabled population (ONS 2014a).

The same story is reflected in caseloads for out of work benefits over the last two decades. Between 1993 and 2008, prior to the recession, the headline number claiming Unemployment Benefit (latterly Jobseeker's Allowance) dropped by three-quarters (73 per cent): a fall of some two million people.[7] Caseload numbers then rose sharply during the recession underlining the strongly cyclical nature of this benefit (ONS 2014b).[8] By contrast, the number of people in receipt of Incapacity Benefit (and latterly Employment and Support Allowance) remained broadly flat, at between 2.4 and 2.5 million people, between 1996 and 2008, after a rise from 1.8 million to 2.5 million people between 1993 and 1996 (DWP 2013). Thus this prolonged period of output and employment growth failed to significantly reduce the numbers reliant on disability benefits, serving only to stem any *further increase* (DWP 2013).[9]

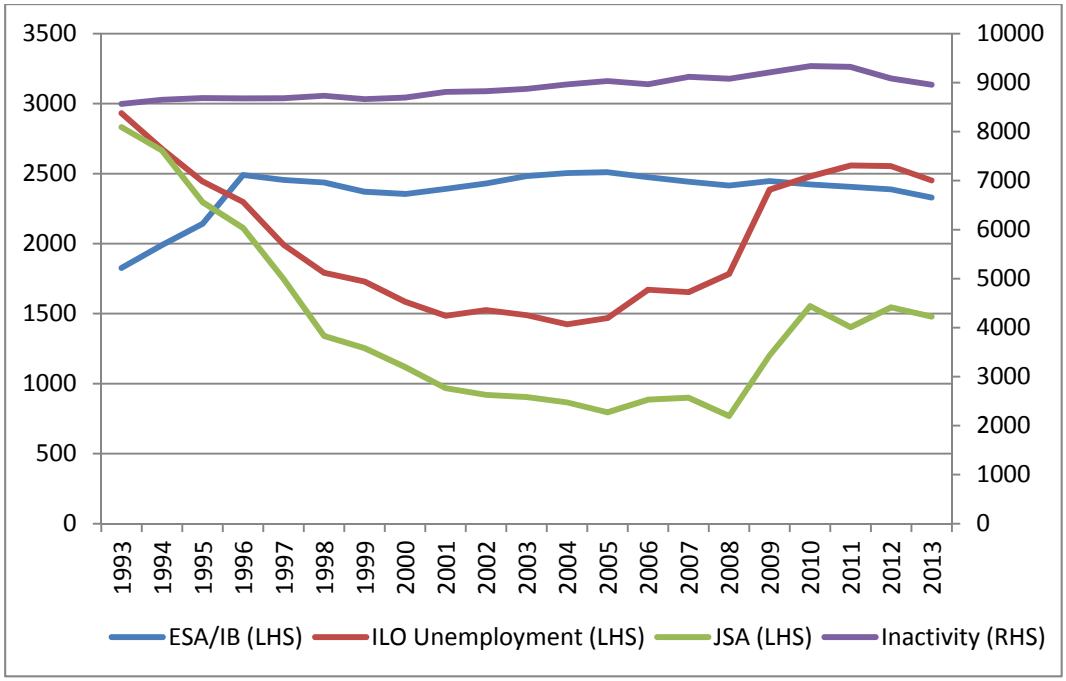
As the chart below shows, the JSA claimant count has proved highly cyclical over the last two decades, rising and falling with the overall level of unemployment. By contrast, the number of ESA (and Incapacity Benefit) claimants and those who are economically inactivity have remained broadly flat, disconnected from the economic cycle. The IB/ESA caseload has dropped slightly in recent years, probably due to a combination of the introduction of a tighter gateway onto the benefit (through the Work Capability Assessment) and the move to retirement of older claimants. Levels of inactivity rose by just one percentage point between 2008 and 2011, before falling to slightly below pre-recession levels by 2013 (ONS 2014c).

Figure 1: JSA caseload, ESA/IB caseload, unemployment and inactivity, 1993 and 2013 (thousands)

[7] JSA claimant count in January 2008 compared with Unemployment Benefit claimant count in January 1993, extracted 06.03.14

[8] There was also a large increase in the lone parent employment rate during this period and a decline in the number of lone parents reliant on out of work benefits (in part the result of their gradual transfer from Income Support to JSA).

[9] This period did see a modest decrease in the proportion of ESA recipients as a percentage of the disabled population as a whole.



Source: Nomis (ONS 2014b) and ONS data selector (ONS 2014c)

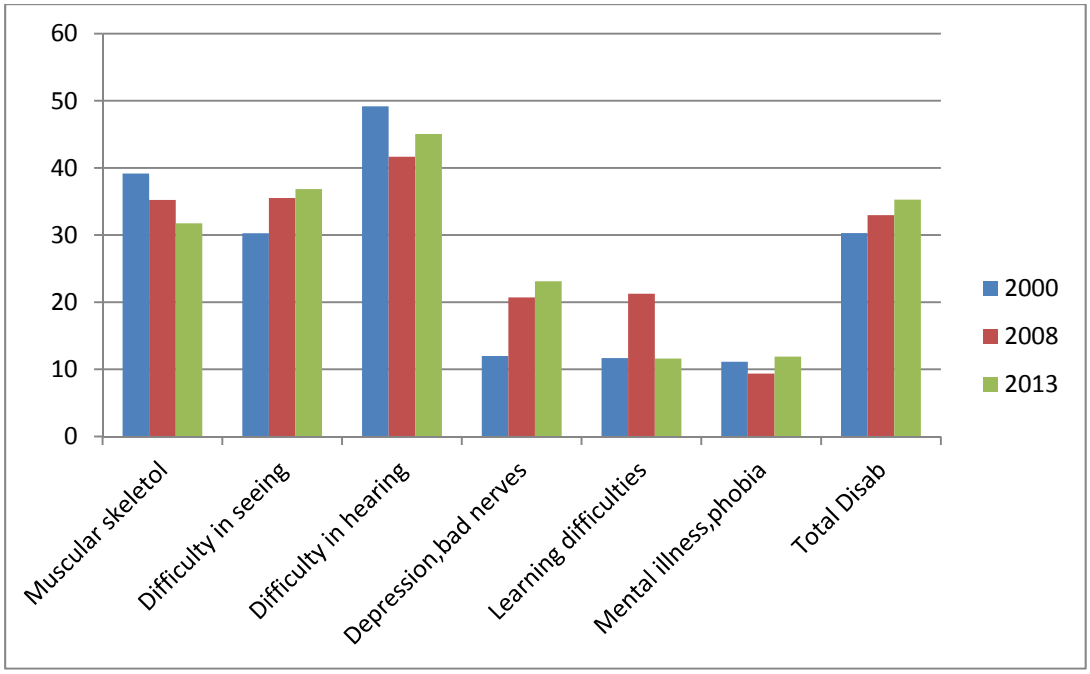
Differences in the average duration of out of work benefit claims are also striking. Three-quarters (75 per cent) of JSA claimants leaving the benefit in 2013/14 had claimed for up to six months, a rate that has increased by 10 percentage points since 1993. Only one in ten (11 per cent) had been claiming for more than a year (ONS 2014b). By contrast, nearly two-thirds (65 per cent) of those coming off IB/ESA during 2012/13 had been in receipt of the benefit for more than a year, with only one in ten (10 per cent) having claimed for less than three months (DWP 2014a).

Digging deeper, there is considerable variation in the employment prospects of those with different disability types and health conditions. IPPR analysis of the LFS show that in Q1 2013, the 'employment gap' – the difference between the employment rate of a disabled group and the non-disabled population – ranged from 20 per cent among people with skin conditions and allergies to over 66 per cent for those with mental illness or learning difficulties. This range – of 46 percentage points – is larger than the overall gap between the employment rate of the disabled and non-disabled populations (ONS 2014a).

Furthermore, the chart below shows that the employment prospects of those with different disabilities or health conditions have not progressed uniformly in recent years. The employment rates of some groups, such as those with sight problems, have improved since 2000. By contrast, those with muscular and skeletal issues have seen a declining employment rate over the same period (albeit from a higher base). Overall, those with learning difficulties and mental health conditions have consistently had far the lowest employment rates.

Figure 2: Disability employment rates for selected years[10] and selected disability types

[10] First quarter of each year. Non-seasonally adjusted.



Source: LFS (ONS 2014a), data refers to Q1 from the year in question, with disability categories defined in the LFS.

This heterogeneity of employment outcomes is also visible in the breakdown of IB/ESA caseload by disability types. Most notably, between 2000 and 2013, the proportion of total IB/ESA claimants with a mental or behavioral disorder rose from 32 per cent to 45 per cent, while the proportion of claimants with a disease of the musculoskeletal system or connective tissue fell from 22 per cent to 15 per cent (ONS 2014b).[11]

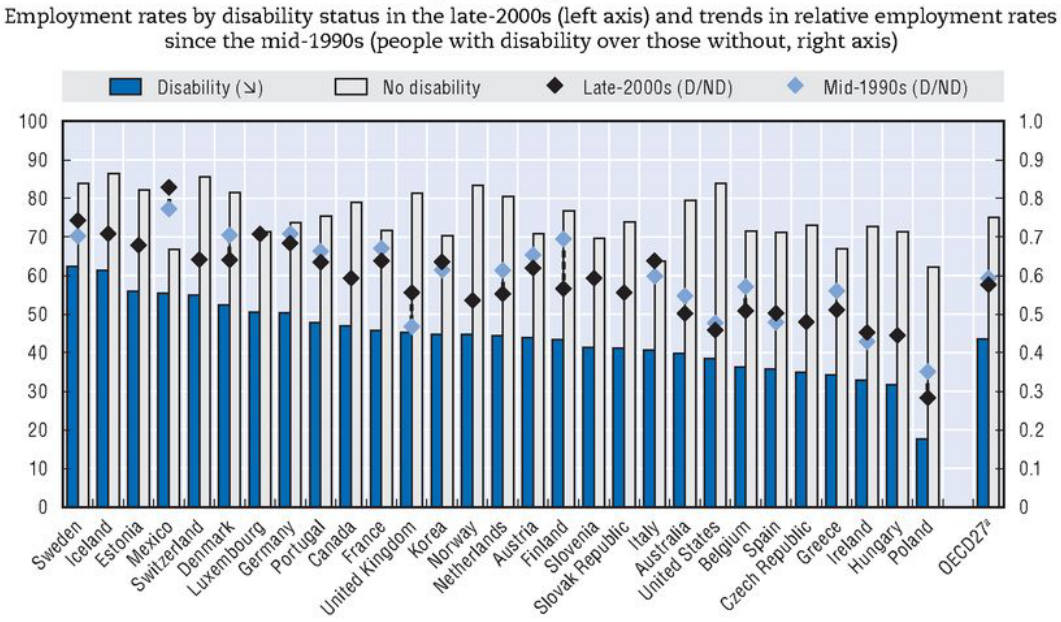
Turning to the international picture, the most recent comparable figures show that the employment rate for disabled people in the UK during the late 2000s (approximately 47 per cent on this measure) was slightly above the OECD average (of approximately 44 per cent).[12] However, as the chart below shows, this UK rate lagged well behind a number of leading North European countries such as Sweden (approximately 60 per cent), Denmark (approximately 52 per cent) and Germany (approximately 50 per cent) (OECD 2010).[13] These figures are not directly comparable to the more recent employment rate data from the Labour Force Survey quoted above.

Figure 3: Employment rates of people with disabilities are low and have been falling in many countries

[11] ESA disease summary codes and LFS disability types do not correspond perfectly.

[12] OECD27 is an unweighted average for 27 countries. Estonia and Slovenia are not included in the OECD average. The definitions and sources for disability employments rates do vary across the OECD and thus are never perfectly comparable. For more information on the different definitions and sources see OECD 2010.

[13] Under comparative definitions for disability, the UK, Germany and Sweden all have a similar proportion of the population classified as disabled (between 15 per cent and 16 per cent). In Denmark the prevalence of disability in the working age population is slightly higher (21 per cent).



Source: OECD 2010: p51

The chart above also suggests that disabled people face a bigger employment penalty in the UK than other OECD countries. For example, in Sweden, the employment rate of disabled people is just over 20 percentage points lower than the overall employment rate. In Germany this gap is similar and in Denmark it is just over 30 percentage points. However, the difference is nearly 40 per cent in the UK, on a comparable basis, well above the OECD average of just over 30 percentage points (OECD 2010).

Defining Disability

There is significant debate around the use of the Disability Discrimination Act (DDA) category in official statistics. Many people in this category self-report no limitations in the amount or type of work they are able to do as a result of their disability. Analysis based purely on this category would therefore misleadingly boost the 'disability employment rate' and understate the extent of labour market disadvantage experienced by those who have *work-limiting* disabilities. This paper therefore bases its analysis on those who are both DDA disabled and self-report a work-limiting disability. The figures published by the OECD use a range of definitions from various countries.

ii) Persistent levels of long-term unemployment (and inactivity)

Long-term unemployment is now at its highest level since the mid 1990s. On average across 2013, more than one in three people (34 per cent) who were unemployed had been out of work for over a year. This meant that, on average, 880,000 people were looking for work at any given time having been unemployed for over a year, with more than 455,000 unemployed for over two years.[14] These numbers increased considerably after the financial crisis, before starting to drop back from the second half of last year. However, even at the end of 2007, after 15 years of growth, there were still 381,000 people who had been unsuccessfully looking for work for over 12 months (ONS 2014d).[15]

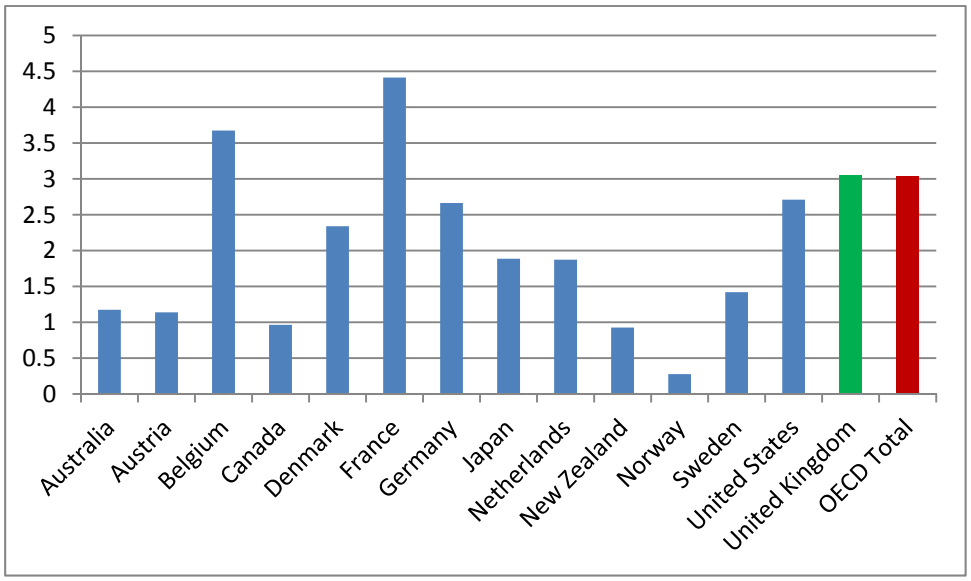
[14] Labour Force Survey.
[15] Labour Force Survey.

Absolute levels of economic inactivity have remained broadly flat over the past decade, with ONS figures showing a rise from 9.2 million in 2004 to 9.6 million in 2011, before falling back to 9.2 million by 2013. Within this, the *proportion* of those inactive due to caring responsibilities (26 per cent) and early retirement (16 per cent) remained stable between 2004 and 2013. However, the share of students among the inactive population rose from 20 per cent to 26 per cent, while the proportion of those inactive due to long-term sickness or disability dropped from 25 per cent in 2004 to 22 per cent by 2013. Nonetheless, in 2013, over two million inactive people were classified as long-term sick or disabled (ONS 2014b).

There is, unsurprisingly, a considerable degree of overlap between the inactive population and those claiming out of work benefits. By way of illustration, analysis of the LFS suggests that 40 per cent of those classified as temporarily sick and 44 per cent of those classed as long term sick in 2013 were claiming ESA or Incapacity Benefit. One fifth (18 per cent) of the long term sick were claiming Income Support.[16] Only one in ten (11 per cent) of those who were inactive due to temporary or long-term sickness, or were discouraged from work, did not claim any state benefit or tax credits (ONS 2014a).

In comparative terms, IPPR analysis of OECD data shows the average long-term unemployment rate across all OECD countries in 2012 was three per cent, similar to that of the UK.[17] However, the UK performed notably worse on this metric compared to most comparable, north European or Anglo-Saxon economies. The long-term unemployment rate was slightly lower in Germany and the US (2.7 per cent for both). But it was substantially lower in Sweden (1.4 per cent), Australia and Austria (1.1 per cent) and in Norway (0.3 per cent) (OECD 2014).

Figure 4: Long-term Unemployment Rate for Selected OECD Countries



Source: OECD.stat (OECD 2014)

Long-term unemployment also has a strong spatial dimension in the UK.[18] IPPR analysis of the LFS shows that in 2013, the rate of long-term unemployment varied from four per cent

[16] LFS 2013

[17] This is defined as those unemployed for over a year as a proportion of the economically active population

[18] It is not possible to determine precisely the relative significance of 'people' (supply-side) versus 'place' (demand-side) factors in explaining variation in employment outcomes between areas. The literature tends to find that the characteristics

in the West Midlands to 1.7 per cent in the South East. Reflecting a similar pattern, 44 per cent of the unemployed in the West Midlands had been looking for work for over a year, compared to under a third (29 per cent) in the South East (ONS 2014a) (ONS 2014b). Overall, the 10 per cent of local authorities with the highest JSA rates are home to more than a quarter (26.2 per cent) of all claimants (compared to just under 15 per cent of the total population), while the 10 per cent of local authorities with the highest ESA/IB rates are where more than one in six (17.9 per cent) of all claimants live (compared to just over 10 per cent of the total population)[19].

Overall employment rates range from 66.2 per cent in the North East to 75.1 per cent in the East. However, even within the South East, which has the second highest employment rate of all UK regions (74.8 per cent), the rate varies from 84.5 per cent in Mid Sussex to 60.1 per cent in Thanet. Even before the financial crisis, the *un*employment rate in London (6.7 per cent) was almost double that of the South West (3.7 per cent). These variations were exacerbated by the recession. For example, the South West saw unemployment rise by only 0.8 percentage points, before starting to fall as early as 2009. Meanwhile unemployment in the North East almost doubled, with a rise of 5.5 points and reaching a peak of 11.2 per cent in 2011 (ONS 2014b).

Evidence from across European regions suggests that areas with higher skilled populations have seen a smaller increase in unemployment during the recession and that areas with a declining manufacturing sector were struggling even before the impact of the financial crisis hit (Dolphin *et al* 2014). While some areas now appear to be recovering from the recession, the experience of previous downturns suggests that others may endure its repercussions for some time. There is a real risk that skilled labour and capital investment do not return to the least resilient areas.

iii) Conclusion – including the fiscal significance of increasing employment

In summary, if the overall level of employment continue to rise the headline unemployment rate and claimant count are very likely to fall further. However, experience suggests a *general* jobs recovery will not necessarily close the 'employment gap' for disabled people or lead to substantial reductions in economic inactivity, long-term unemployment or out of work benefit caseloads – especially in parts of the country with historically weaker labour markets.

The employment penalty for people with a disability, including relative to leading international neighbours, is associated with long durations on out of work benefits and is relatively impervious to the economic cycle (though the 'penalty' varies considerably by type of disability or health condition). In addition, long-term unemployment has risen rapidly in recent years, but even after 15 years of growth prior to the financial crisis there remained a persistent minority who could not find work. The experience of these labour market disadvantages is unevenly distributed across the country and concentrated in particular places.

Such structural labour market disadvantages not only lock significant minorities of people out from the benefits of employment, they also impose substantial costs through benefit expenditure and 'lost' taxation. Looking ahead, fiscal pressures mean that employment will

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of people are very significant in indicating their likelihood of being employment or unemployed, but the availability of jobs clearly also has a part to play.

[19] Author analysis of Working Age Client Group (WACL) dataset from DWP, via NOMIS.

need to make a greater contribution to supporting household budgets and public spending over the coming years. At the macro level, IPPR analysis has shown that a rise in employment of 1.5 per cent delivers an estimated net fiscal gain of £5.5 billion (Cooke 2013).[20] This is the equivalent of 450,000 more disabled people being in employment or 15 per cent of the disabled population who are either unemployed or inactive moving into work[21].

In the short term, there will be fiscal gains from bringing down the JSA caseload, however spending on this benefit is low and average durations are already short. By contrast, there is the potential to unlock much bigger savings from lowering inactivity rates, supporting more people off IB/ESA into work and preventing long-term unemployment. This would boost living standards while also reducing public expenditure on the so-called 'costs of failure', creating the space to switch resources into more productive, social investments. We turn to options for pursuing this objective in the final chapter. But first we consider evidence on the effectiveness of policies to boost the employment prospects of sick and disabled people and to preventing long-term unemployment or inactivity.

[20] Comprising £2.4 billion saved from tax credits and benefit spending and £3.1 billion from extra income tax and national insurance contributions (NICs). Analysis calculated on the basis of a rise from 71.5 per cent to 73 per cent.
[21] In Q4 or 2013.

2. Learning lessons: boosting the employment rate of sick and disabled people

Over the last 25 years there have been major advances in back to work support in the UK, mirroring similar developments across OECD countries. Such active labour market policies (ALMPs) – combining job support plus claimant obligations – have been found to be effective at keeping jobseekers close to the labour market and reducing benefit durations (OECD 2005; Tergeist *et al* 2006; OECD 2007a). This approach has also been important in preventing the claimant count from rising as high as might have been expected given the scale of the recent recession.

There has also been a large rise in the employment rate of lone parents since the late 1990s, assisted by a policy mix of increased obligations, tailored back to work support, targeted financial incentives and the expansion of childcare (Gregg *et al* 2009). However, as discussed in the previous chapter, less progress has been made in reducing the numbers reliant on out of work disability benefits (while there remains a persistent minority facing long-term unemployment). The question addressed in this chapter is what explains this lack of progress on the employment of sick and disabled people, looking at the experience of policies and strategies in this country and wider international experience.

i) Lessons from employment support for sick and disabled people in this country

There are many factors underpinning the employment disadvantage faced by sick and disabled people, rooted in individual, employer and place-based factors.[22] Some of these cannot be entirely eliminated, but policy can make a difference. To date, however, back to work support for disabled people in this country has largely been about extending traditional active labour market policies to this group, despite them being designed with the needs of mainstream jobseekers in mind.

The recent history of employment support for disabled people in this country dates to the New Deal for Disabled People (NDDP), which ran from 2001 to 2010.[23] The NDDP was a voluntary programme designed to help the return to work of those on Incapacity Benefit, Severe Disablement Allowance and Income Support with a disability premium. The programme was found to have positive impacts, delivering savings of between £750 and £2,500 per participant as a result of reduced benefit spending, depending on the length of participation, (Stafford *et al* 2007; Greenberg and Davis 2007), and modest positive gains in earnings for those who took part. However, there was only limited take up of the voluntary NDDP, self-selecting those with a strong desire to work (Orr *et al* 2007).

In 2003 the Labour Government introduced Pathways to Work (PtW), which aimed to support incapacity benefits claimants into paid work on a large scale. This introduced mandatory Work-Focused Interviews with specialist advisors and offered a range of services, including condition management. However, the performance of PtW was disappointing, both in relation to employment outcomes and value for money (Bewley *et al*, 2009; NAO 2010). Unlike NDDP, this programme was mandatory and some of the key elements – like specialist medical and therapeutic services – were diluted. In practice, PtW

[22] http://www.equalityhumanrights.com/uploaded_files/barriers_and_unfair_treatment_final.pdf
[23] The programme was piloted in 1998 but extended nationally from July 2001.

was not substantially different from mainstream employment support for jobseekers, despite the qualitatively different needs of those on disability benefits.

The effectiveness of the Work Programme for ESA claimants

In response to the failures of PtW, the current government decided to incorporate ESA (and transferred Incapacity Benefit claimants) into its new Work Programme, alongside mainstream jobseekers. The hope was that this would be more effective for three reasons. First, providers were given the freedom to tailor support to claimants' particular needs, through the so-called 'blackbox', rather than having to deliver a standard set of prescribed processes. Second, providers were given a financial incentive to focus on ESA claimants through differential outcome payments that provided higher rewards for securing a sustained employment outcome for this group. And third, providers would face competition within contract areas, including through a greater share of referrals being directed to those that proved to be more effective.

So far, however, the performance of the Work Programme for ESA claimants has been extremely disappointing (Davies and Raikes 2014). Providers were set a target of securing employment outcomes for 16.5 per cent of ESA participants. However, between June 2011 and December 2013 a total of 6.2 per cent of new ESA claimants achieved a job outcome, dropping to under two per cent for those on Incapacity Benefit who have transferred to ESA.[24] By contrast, the Work Programme is now performing at least as well as previous incarnations for the main JSA groups[25] and probably at lower unit cost [Davies and Raikes 2014).

It is too early for a definitive assessment for why the Work Programme has not been effective in supporting ESA claimants, but hypotheses are available (see Riley *et al* 2014). In the early part of the programme the economy was much weaker than was forecast when it was originally commissioned, but has picked up since. There were glitches in referrals to the programme in its early stages, linked to major problems with the application of the Work Capability Assessment (discussed further below). And the funding model has led to what has been called a 'vicious circle', with "lower performance leading to fewer payments for job outcomes, leading to lower funding and then still lower performance" (Riley *et al* 2014: 4).

However, it is also important to remember that only a small minority of the total IB/ESA caseload participates in the Work Programme. The vast majority of claimants have little engagement with any back to work support at all, beyond a work focused interview at JobcentrePlus every six months for those in the 'work related activity group'. There is no mandatory engagement with those in the Support Group, which is growing as a share of all ESA claimants as a result of the shift in the pattern of WCA outcomes from the start of 2011, when the rate of assessments resulting in individuals being placed in this group started to rise. In the latest monthly data on completed WCAs (June 2013) over half of individuals were assigned to the Support Group. Across the period since the WCA was introduced, over a fifth (22 per cent) of initial assessments and just under two-fifths (38 per cent) of completed WCAs have resulted in a claimant entering the Support Group (DWP 2014b).

[24] DWP, Work Programme Official Statistics to December 2013, 20 March 2014, supplementary table 2.11c https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293996/work-programme-statistical-release_mar14.pdf

[25] That said, job outcomes for the JSA groups have deteriorated in since 2012, despite falling unemployment.

Poor employment outcomes for ESA claimants who *have* participated on the Work Programme might be the result of particular design features of the programme itself. Certainly restoring the level of funding per participant that was originally intended would be a start (Riley *et al* 2014). In addition, some argue that the differential reward for supporting an ESA claimant into work should be greater, to incentivise a stronger focus on this group (House of Commons Work and Pensions Committee 2013; DWP 2013). This, it is argued, would help to reduce the risk that providers will 'park' those facing greater labour market disadvantages in a programme with no minimum service entitlements for participants and (in time) financed through 100 per cent outcome payments.

The current funding model requires Work Programme providers to make tough judgments about where to focus effort and resource, with limited scope for long-term investments or genuine innovation. Early indications are that the kinds of techniques deployed by providers have tended to stick fairly closely to a standard 'activation' model (consistently of supported job search, CV maintenance, interview preparation and some employer brokerage) (Newton *et al* 2012; Meager *et al* 2013). There is limited evidence of more innovative strategies being deployed that might be capable of addressing the particular of barriers to work faced by disabled people, such as the providing the kinds of on-going engagement with employers that are consistent with 'supported employment' approaches (Newton *et al* 2012; Meager *et al* 2013).

Moreover, prime contractor and 'payment by results' model militates against precisely the kinds of integrated funding and support – across health, housing, probation, skills and social care – which is necessary to make these strategies possible. It is not surprising that partnership working between Work Programme providers and other local services have been weak given that the financial rewards (and penalties) accrue narrowly within a national contract. The current structure risks service duplication by prime providers, in the absence of any incentives or levers for co-ordination between local services that support employment in particular places.

At the same time, JobcentrePlus' capacity and focus on ESA claimants has been reduced. Since April 2011, JCP has been measured against the single goal of increasing benefit off-flows. This is not necessarily the same as job entry, while also creating an incentive to prioritise job-ready (JSA) claimants. Moreover, a higher claimant count and falling resources mean that advisors have less time to provide meaningful employment support, beyond monitoring compliance with the regime[26]. The coverage of Disability Employment Advisers (DEAs) across the JobcentrePlus network is now patchy.[27] And the sharp increase in sanctions for those on ESA – 11,400 between late 2012 to June 2013, nearly double the number over the same period the previous year – means large numbers of people are losing touch with support (and obligations) altogether.[28]

Insights from other forms of employment support for disabled people

Work Programme providers are in the process of learning and adapting their offer for ESA claimants, and hopefully performance will improve (with good suggestions available for immediate steps that could be taken, within current contracts, particularly to end the

[26] Offset to some degree by the progress towards 'digital by default' which has reduced administrative burdens.
[27] In a recent written Parliamentary answer Esther McVey MP, Minister of State for Employment, stated that all Jobcentres have "access" to a Disability Employment Advisor. However this is not the same as there being a DEA 'in' all Jobcentres, while many advisers designated as a DEA have not had specialist training.
[28] See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/255176/sanctions-nov-2013.pdf

'vicious cycle' of underfunding, Riley *et al* 2014). However, attention is turning to what might follow the Work Programme when current contracts expire in 2016. The main lesson, so far at least, is that the application of traditional 'activation' strategies, through large-scale contracted programmes, has not been effective at supporting those on disability benefits into employment (whether in the guise of PtW or the Work Programme). In short, simply extending strategies designed for those on JSA to those on ESA does not work.

There is, however, some evidence that qualitatively different approaches to supporting the employment of disabled people can be more effective. These currently operate at much smaller scale, though they help point towards the kind of back to work support that might be needed.

Work Choice, is a specialist disability employment programme operating alongside the Work Programme. It is able to offer more intensive support, including in-work support, due to smaller adviser caseloads, more generous funding and a less heavily outcome based payment structure. Providers receive a 70 per cent service fee per participant, with 15 per cent paid if a client moves into employment with continuing support and a final 15 per cent if they progress into sustained unsupported employment. The most recent statistics, covering 1st April to 30th September 2013, show that over two-fifths (44 per cent) of people referred to Work Choice secured employment, with a third (33 per cent) in total placed in employment since 2010 when the programme began.[29]

However, Work Choice has a range of limitations and a number of caveats must be borne in mind when considering its performance. There is a cap on referrals of 23,000 participants a year, meaning only a tiny minority of disabled people are able to benefit from the programme[30]. Only 19,540 people have found employment through the programme. Unit funding is just under £4,000 per start, but the cost of job outcomes is estimated at just over £13,000 each[31]. Moreover, more than half (56 per cent) of Work Choice participants are JSA not ESA claimants and over half (53 per cent) of job outcomes have been achieved by people claiming no disability benefit at all. Lastly, despite being contracted on a smaller scale than the Work Programme – with 28 rather than 40 contract packages – Work Choice is delivered by a handful of prime-providers, with evidence that this has pushed some specialist providers out of the market entirely (Purvis *et al* 2013).

Another example of employment support for disabled people that deviates from the traditional 'activation' model is **Individual Placement Support (IPS)**. IPS incorporates many of the principles of 'supported employment' (see box), with key elements including: being open to all those who want to work; integrating employment support with clinical treatment; focusing on rapid job search with employment as the primary goal, rather long periods of generic pre-employment training; and providing tailored, long-term support to employees and employers.

Studies suggest IPS is effective in supporting participants into paid work and reducing costs in related health services (Bond *et al* 2008). A cross national study comparing IPS

[29] Total job outcomes since the Work Choice programme started in October 2010 (Q3 2010/11 – Q1 2013/14) see, DWP, Work Choice: Official Statistics, February 2014

[30] Since the programme began in October 2010 only 75,480 individuals have been referred.

[31] IPPR analysis drawing on the latest DWP Work Choice Official statistics (February 2014) and costs as stated in a written answer from Ester McVey MP, Minister of State for Work and Pensions, on 24 February 2014 see http://www.theyworkforyou.com/wrans/?id=2014-02-24d.188525.h&s=%28work+choice+timms%29+section%3Awrans+section%3Awms#g188525.q0

with other rehabilitation service in six European countries found that IPS participants were twice as likely to gain employment, at lower unit cost and reduced hospitalisation[32]. According to the Centre for Mental Health, direct programme costs are around £1,700 per place and the unit cost per client for a successful job outcome is around £3,335.[33] IPS is primarily aimed at people with mental health conditions, with evidence that it achieves superior outcomes, compared with the traditional, sequential model of clinical treatment, training and then the transition to employment (Rinaldi and Perkins 2007; Sainsbury Centre for Mental Health 2009).

Supported employment refers to a range of back to work strategies that have at their core a focus on rapid entry into a job on the open labour market plus intensive and often on-going in-work support. This approach is often referred to as the "place, train and maintain" model (Beyer and Robinson 2009) and it stands in contrast to strategies that are rooted in long periods of pre-employment training and coaching. Its key dimensions include:

- A positive, pro-employment culture;
- A belief in self-motivation as a key factor in gaining work;
- The provision of specialist employment advisers;
- Active and sustained employer engagement;
- Careful job-matching and 'job carving'[34]; and
- Structured, on-going support in the workplace.

Supported employment starts from a view that anyone who wants to work can do so, with the right support and in the right circumstances (Purvis *et al* 2013).

Another effective investment has been **Access to Work**, a programme that pays for work-based aids, adaptations and support to enable people to take up and retain paid employment. AtW is aimed at funding adjustments that it would be considered '*un*reasonable' to expect an employer to fund, beyond those required by the Disability Discrimination Act (DDA). Introduced in 1994, AtW has been described as the government's "best kept secret" (Sayce 2011) and has helped hundreds of thousands of disabled people to stay in work. According to the most recent figures, AtW has helped 104,620 individuals since April 2007[35] and provided an estimated net benefit to the Treasury of £1.48 for every £1 spent (Sayce 2011). [36] In 2010/11, Access to Work assisted 38,840 people at an average cost of £2,900 per person.[37]

There is also a range of **local provision,** commissioned by local authorities or the health service, which support disabled people. A good example is 'Ways into Work,' a programme

[32] http://informahealthcare.com/doi/abs/10.1080/09540260802564516?journalCode=irp&

[33] Job outcome unit cost per client assumes that the client is already receiving healthcare support through NHS secondary healthcare services

[34] A term for the practice of customising job duties to enable disabled workers to undertake tasks in the workplace that are compatible with their physical and/or mental impairment.

[35] DWP, Access to Work: official statistics January 2014 see https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/270829/access-to-work-statistics-jan-2014.pdf

[36] https://www.gov.uk/government/publications/access-to-work-annual-spend-by-region-tables and https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223140/atw_helped_spend_disability_gor.pdf

[37] Based on a conversation with Laura Davis, Ways to Work Manager, The Royal Borough of Windsor & Maidenhead.

established by Windsor and Maidenhead council that has helped to raise the employment rate of local disabled people. The model includes enhanced disability awareness training for recruitment managers, work-based interviews for disabled people and the 'carving' of vacant roles to make them appropriate for disabled employees. Since its introduction in 2008/9 the disability employment rates in the borough has risen significantly. For example, the local employment rate of those with learning difficulties has risen from six per cent to 19 per cent in 2013/14. The annual average spend to achieve a job outcome is £1,500 for each client with on-going in-work support if needed.

Boosting the employment rate of disabled people relies on finding employers prepared to take them on. There is evidence that a significant minority of employers believe that taking on a disabled person would constitute a risk for their organisation (Simm *et al*, 2007). In some instances this is the result of illegal discrimination. However, there are also reasonable concerns at play, which traditional back to work interventions tend not to address.

For example, there is the risk of future periods of sickness absence among those with pre-existing health conditions, as well as the risk of lower productivity, potential hazards to disabled employees, other staff and customers, lack of understanding about the DDA, and low levels of awareness of where to seek advice, guidance and potential sources of support (Davidson 2011). Disabled people with limited employment history are also hampered by not being able to provide a recent reference. However, mainstream employment programmes, which tend to focus on an individual's employability, do not systematically address these kinds of 'demand-side' barriers.

ii) International lessons from employment support for sick and disabled people

Comparing the provision and impact of disability employment support across different countries is not straightforward. High quality evaluation evidence is scarce, information relating to particular kinds of interventions is patchy, and the lack of agreed disability definitions makes gauging the impact of policies or programmes problematic. Nevertheless, an examination of the varying approaches taken across the European Union (EU) and Organisation for Economic Co-operation and Development (OECD) still reveal a number of useful insights to help inform future reforms.

Across many countries, the success of active labour market policies in reducing claimant unemployment has led to sickness and disability related benefits becoming 'benefits of last resort' (OECD, 2010). This has coincided with a rapid increase in the volume (and share) of disability benefit claims relating to mental health conditions (OECD 2010; OECD 2014). In the wake of the recent recession there is a common fear across developed economies that the current increase in long-term unemployment will in time lead to increased levels of inactivity.

There is now an increasingly consistent focus across advanced economies on how welfare regimes can be shifted from passive, long-term income replacement, towards proactive employment promotion and productive social investment. This has the dual advantage of improving the well-being and living standards of individuals, while also helping to finance social spending (Hemerijk 2012). However, social security systems for sick and disabled people remain orientated toward cash benefits rather than pro-employment investment. Only a handful of developed economies, including Germany, Norway, the Netherlands and

Denmark, dedicate over 10 per cent of disability-related social security expenditure[38] on active labour market programmes (OECD 2010, pp. 58-59). Most continue to dedicate the expenditure overwhelming to benefit payments.

That said, the lessons from comparative analysis set out below reveal considerable policy innovation across the OECD, including evidence that well-designed strategies can have an impact on the employment of disabled people. The general insight is that effective strategies tend to be those that respond to the distinctive circumstances of sick and disabled people, rather than simply extending traditional 'activation' strategies to this group. In fact, there are good reasons for thinking that the mix of support and obligations that has proved effective for mainstream jobseekers needs to be significantly adapted and augmented.

Reducing the inflow to disability benefits from sickness absence

There is considerable variation in the pathways into disability benefit across the OECD, but in all countries between half and three-quarters of new claimants were previously employed or drew a (temporary) sickness benefit (OECD 2010). In response, a number of countries have tried to reduce the inflow to benefits from sickness absence. Measures include increasing employer's liability for the costs of sickness, giving them a larger role in monitoring and managing sickness absence, and progressively increasing work obligations during the period of sickness absence.

The Netherlands has gone furthest in **increasing employer's financial liability for sick pay**. Dutch employers are required to pay the costs of sickness benefits for their employees for up to two years (OECD 2010). During this period, workers can only be dismissed if they fail to comply with rehabilitation support or refuse to accept an alternative position in the company. The employer and employee have to prepare a reintegration plan with concrete steps to be taken to achieve a return to work by week eight of sickness absence. In response, many firms have insured themselves against this cost and contracted with rehabilitation specialists. The result has been a major reduction in sickness absence rates (De Jong *et al* 2006), but at the cost of making it less attractive for employers to take on people who might be at higher risk of sickness absence[39].

An alternative approach has been pursued in Sweden, which had suffered for decades from a particularly high level of sickness absence, an extremely high share of which was long-term (OECD 2009). Under reforms introduced in 2008, there are **progressively greater rehabilitation and work obligations during the period of sickness absence**. This aims to prevent people drifting into long-term inactivity and, ultimately, receipt of passive disability benefit. Under this so-called 'rehabilitation chain,' workers that are absent as a result of sickness continue to receive a wage from their employer for 13 days, with a one-day waiting period for which no compensation is paid[40]. They can then claim sickness benefit from the Swedish Social Insurance Agency for 90 days during which their capacity to work is assessed against their existing job and they must try to resume it, with corresponding

[38] Includes both sickness and disability-related benefits

[39] In Norway sickness benefit can be claimed for up to one year and employers and employees are required to draw up a reintegration plan within the first eight weeks of absence. However, this has had less impact, seemingly because the incentives and enforcement of these arrangements are less stringent than in the Netherlands (OECD 2010).

[40] For those not entitled to employer-based sick pay, compensation in the initial 13-day period is covered by the Swedish Social Insurance Agency

obligations on employers to modify duties or the workplace environment to enable this (with no change in salary or other benefits).

If they have not returned to work during this period, they have a further 90 days to accept another job with the same employer, including jobs which may offer less total remuneration, or to take a leave of absence from their current employer for up to six months in order to try out another job with another employer, during which time they are still paid sickness benefit by the state. During this period, the individual's employment contract is protected. After 180 days away from work, a recipient of sickness benefit has to undertake a full work capacity assessment, against all types of jobs in the open labour market. If they are judged to have remaining work capacity above 75 per cent they are either expected to return to work with their employer or look for alternative work, receiving unemployment benefit if necessary from this point, with a requirement to take available jobs.

If a person is assessed as having a permanent reduction in the capacity to work of at least 25 per cent they are assessed for disability benefit (OECD 2009). 'Passive' disability benefit can only be granted for permanently reduced working capacity and when vocational rehabilitation is not expected to increase such capacity. There have been impressive results since the introduction of this policy with sickness absence volumes down from double to just around the OECD average. However, at around six per cent of workers absent on the basis of sickness at any one time, as of 2009, the Swedish sickness absence rate is still higher than most other OECD countries except Norway (OECD 2009). Significantly, there has also been no corresponding overflow into unemployment, but a rise in the numbers making a full recovery and returning to work within a year (OECD 2011).

In this country, responsibility for sick pay has been progressively transferred from the state to employers, culminating in the abolition this year of the scope for small firms to recover any such costs from the state. Employers are liable for paying Statutory Sick Pay (SSP) at £87.55 a week for six months. This gives employers an incentive to reduce sickness absence, though limited by the low rate of SSP and the limited duration of responsibility. Furthermore there is no penalty on British employers for the burden placed on the social security system from their former employees, as there is in other countries which operate forms of 'experience-rating' (whereby employers pay more if there are above average benefit claims from their ex-workers). For example, in Finland large firms have to pay up to 80 per cent of the total disability benefit bill of their workers in cases of job loss resulting from disability (through higher social insurance premiums) (OECD 2010).

To help British employers manage sickness absence and get their employees back to work, the government has recently introduced a Health and Work Service. The service is voluntary and requires an individual's GP or employer to make a referral after they have been on sick leave for four weeks. Individuals will then receive an occupational health assessment plus a return to work plan, which they can share with their GP and employer, setting out the measures, steps or interventions that could bring about a return to work. Referrals and participation are, however, non-mandatory and the vast majority of services are expected to be remotely delivered (on the phone or online).

To support this move – and to partially compensate for the withdrawal of SSP recovery – tax relief has been introduced on up to £500 a year per employee of employer spending on health-related interventions (approved by the Health and Work Service). It remains to be seen how effective this new service will be but it faces some potential challenges. There are no obligations on individuals to engage in rehabilitation, while the incentives for employers

or GPs to refer are weak. It is still possible for someone to be off work on sickness absence for six months with little or no rehabilitation intervention, plus potentially a further 13 weeks on the ESA assessment phase.

Assessing support needed to work, rather than policing a gateway to benefits

Historically, disability benefits have been based on providing income replacement for those unable to work. Accordingly, entitlement has been related to the existence of a health condition or disability that prevents employment. The problem with this approach is that evidence suggests medical diagnoses are a poor proxy for a person's capacity to work (OECD 2010). And linking benefit entitlement to health conditions creates incentives to accentuate work *in*capacity, rather than focus on the steps and support needed to be able to work. This is especially the case when sickness and disability benefits are paid at a higher rate and with fewer obligations than other available benefits.

In response to fears that disability benefit assessments were promoting the 'medicalisation' of labour market disadvantage and inhibiting returns to work, several countries have attempted to shift from measuring the extent of a person's disability as a gateway to financial entitlement and towards **assessing a person's remaining capacity for work and the support needed to enable employment**.

Denmark has perhaps gone furthest in this direction. Since 2003 access to disability benefits has been determined by a profiling system that incorporates information about an applicant's health, as well as their social networks and job history, to determine the possible employment that a person could still perform, including a subsidised and supported 'flex-job' (see below for more detail). If people can take up work, in whatever form and to whatever degree, this is considered the best outcome (OECD 2008). Similarly, in the Netherlands, specialised doctors and vocational rehabilitation experts assess a benefit applicant's functional ability to perform a range of (hypothetical) jobs in order to determine their 'earning capacity' and the level of support they would need to fulfil it. Rather than a binary assessment, the aim is to identify levels and types of employment capacity, as well as the conditions under which work would be possible (OECD 2007b).

Evidence from across the OECD suggests that shifting disability assessments towards a focus on productive capacity requires more comprehensive and sophisticated tools. As a result, many countries have moved away from a method of segmentation tied purely to health towards taking account of wider factors in order to help assess a claimant's potential to work. There are a number of prominent examples including Ireland's statistical profiling model, Probability of Exit (PEX), which is used to identify those claimants most at risk of long-term unemployment and to target support on that basis. The Australian 'Job Seeker Classification Instrument' (JSCI), introduced in 1998, is perhaps the most developed of these productivity-orientated assessment systems.

The JSCI applies to all jobseekers, not just those with disabilities. It consists of over 20 criteria, including health, which are used to produce an individual score that provides a measure of a jobseeker's labour market disadvantage based on their circumstances. The JSCI's points-based system filters jobseekers into one of four streams according to the level of support they require to work. Each stream provides a skill assessment and an Employment Pathway Plan (EPP) that unlocks varying levels of support as well as concurrent work and participation obligations. Claimants with a sickness or disability related barrier to work are referred for a more in-depth Employment Service Assessment

(ESAt) which can lead to them entering the fourth stream that provides more intensive support or a referral to the specialist Disability Employment Services (DES).

Within the DES there are two pathways. Claimants with a disability, illness or injury who need the help of an employment service but do not expect to need long-term support in the workplace are placed in the Disability Management Service (DMS). Those who have a permanent disability and need ongoing support in the workplace are placed in the Employment Support Service (ESS). Referrals to the DES are uncapped for both pathways, so there is no rationing (OECD 2012, p.86-7). Disabled people who cannot work for 15 hours or more a week are entitled to partial disability benefit, with those unable to work for more than eight hours gaining access to full disability benefit. Throughout, the JSCI assessment is focused **as much on determining entitlement to employment support as it is to determining levels of cash benefit** (OECD 2012).

In theory, the Work Capability Assessment (WCA) in this country aims to mirror this approach with its introduction being hailed as a shift to focuses on 'what people can do, rather than what they can't'. However, there have been serious implementation problems, including long delays and almost a quarter of decisions are overturned on appeal[41]. Despite a series of amendments, design flaws remain in particular with respect to those with fluctuating and mental health conditions.[42] More widely, the WCA has been accused of failing to draw properly on occupational rehabilitation expertise, rather than relying so heavily on medical input (Litchfield 2013). The WCA has also been criticised for failing to adequately reflect non-health related factors that make it difficult for some individuals to find work (Disability and Poverty Taskforce 2014).

In practice, the WCA is not used systematically to identify the kinds of work individuals could undertake, to develop a plan based on what individuals need to enable them to work, or to determine entitlement to such support or subsidy. When originally designed, the WCA was to be complemented by an exploration of the amount and types of work an applicant might be capable of, and the health-related or workplace interventions that would help them to do so (rather than simply assessing functional (in)capacity). However the Work-Focused Health Related Assessment (WFHRA) element of the WCA has been suspended since July 2010.[43]

There are also deeper, structural flaws in the benefit system that militates against a focus on employment. The split between JSA and ESA – with the former paid at a lower rate and with more work obligations – means there remains an incentive for applicants to emphasise distance from the labour market. Thus, despite the rhetoric, the WCA remains overwhelmingly a test to determine entitlement to benefit and the conditionality people will face. There is no reason to think that the cancellation of the contract with ATOS to deliver the test or the introduction of the Universal Credit will affect this equation (as no *policy* changes are planned).

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[41] While the proportion of Fit for Work decisions overturned at appeal has been falling, latest figures show that 37 per cent of all Fit for Work decisions since the WCA was introduced have been overturned, see DWP (Jan 2014) ESA: outcomes of Work Capability Assessments. This has put extra strain on the Tribunals Service: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/218531/sscs-stats-notice-oct2011.pdf

[42] A key recommendation of successive reviews carried out by Professor Harrington was for a comprehensive review of the mental, intellectual and cognitive descriptors involved in the WCA. This review has still not been completed.

[43] On 25 April 2013 Mark Hoban MP, then Minister of State for Work and Pensions, announced a continuation of the WFHRA suspension for a further period of three years to "properly evaluate the impacts of both the work programme and universal credit systems," see House of Commons Debates, 25 April 2013, c75WS

Strengthening participation obligations for claimants of sickness and disability benefits

Sickness and disability benefits have historically differed from mainstream unemployment benefits in imposing no or relatively light participation requirements on claimants. This is justified for people who are (very probably) unable to do any paid work again in their lives. But not for those who either have temporary conditions, partial work capacity or where work would be possible with particular support, subsidies or workplace adaptations. The risk of not requiring claimants to engage with back to work services is that they spend longer out of the labour market and their prospects of future employment further declines – which is bad for their health and living standards.

In light of these insights, a number of OECD countries, including Germany, Hungary and Austria, have taken steps to increase obligations among people claiming sickness and disability benefits, through **formal requirements to exhaust opportunities for rehabilitation in existing or similar jobs before accessing disability benefits, and obligations to participate in back to work support**.

In Switzerland, people with health conditions are obliged to undergo rehabilitation while claiming invalidity insurance to restore, maintain or improve work capacity, with sanctions for non-compliance.[44] Similarly, in Luxembourg since 2002 people with partial work capacity claiming sickness benefits who are unable to return to work have been expected to look for an alternative job through a 'redeployment' procedure. This either leads to employment[45] with a permanent payment from the state to compensate for any difference between previous and new earnings (similar to the Danish flex-job subsidy) or to unemployment in which case individuals are entitled to a waiting allowance, paid at the level of a regular disability benefit but which has the same conditionality as standard unemployment benefit (OECD 2007c). Both countries have seen falling rates of inflow into disability benefits following the introduction of these measures (OECD 2006; OECD 2010).

The introduction of ESA aimed to take the UK down a similar path, with claimants in the 'work related activity group' (WRAG) required to engage with JobcentrePlus and the Work Programme (with obligations to 'prepare for work', rather than 'look for and take work', as applies to those on JSA). However, as discussed, the proportion of ESA claimants participating in the Work Programme is low and there has been a steady increased in the share of claimants with no obligations to engage in back to work support. The proportion of those placed in the Support Group at the end of their WCA has risen from 12 per cent in the last quarter of 2008 to 51 per cent in the second quarter of 2013.[46] Moreover, the continued separation between JSA and ESA means time and energy is still spent policing the distinction between these benefits, and movements between them, reducing the focus on employment among both claimants and those administering the system.

Pursuing 'supported employment' strategies, not just supported job search

As discussed above, the term 'supported employment' – often referred to as the 'place, train and maintain' model – is used to describe a variety of approaches that share a **focus**

[44] http://www.bsv.admin.ch/themen/iv/00021/03187/index.html?lang=en

[45] For a different employer or in the case of companies employing over 25 people, internal redeployment or a reduction in hours.

[46] Employment and Support Allowance: outcomes of Work Capability Assessments, Great Britain, quarterly official statistics bulletin March 2014 see, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/297936/esa-wca-outcomes-mar-14.pdf

on rapid entry into a job on the open labour market, combined with intensive support to enable individuals to succeed in employment.[47] This contrasts to those approaches that involve long periods of pre-employment training, treatment and coaching (Purvis *et al* 2013). Since the 1990s a number of OECD countries have introduced programmes that draw on these insights, with evidence of their effectiveness in helping disabled people gain and retain work (OECD 2011).

The Norwegian *Arbeid med bistand* (AB, literally "work with assistance") programme is a nationally delivered supported employment programme running since 1996. All referrals to the programme are through state employment offices and the service is available for a maximum of three years. It involves participants being assigned a personal advisor/job coach (each advisor has a caseload of around 12 clients) who provides tailored support in assessing needs, finding suitable work, negotiating with employers about adaptations and conditions, and providing on-going support once employment has begun. Time-limited wage subsidies are available to employers (75 per cent for six months then 40 per cent for 18 months), or disability benefits can be retained for a certain period.

The AB programme is complemented by a short-term early intervention sickness support scheme, provided by local employment offices, called "Follow up" (Oppfølging). This helps employers and employees manage sickness absence among those take up work under the AB scheme but who slide into sickness absence (including the requirement for reintegration plan). According to the latest statistics, around 6,000 people were enrolled in the AB programme in August 2010, while the "Follow up" scheme had about 2,500 participants at the same time. The programme has a sustained unsupported job outcome rate of 35 per cent of participants (European Commission 2011).

Another example of supported employment is Sweden's Special Introduction and Follow-Up Support (SIUS) programme. It mainly caters for people with mental health issues or learning disabilities, providing participants with a SIUS Consultant who matches them with suitable jobs and offers guidance to prospective employers (each advisor has a caseload of between 10-20 clients). Participation is voluntary, referrals take place following a work capacity assessment, and support can last for a maximum of six months prior to finding work and for at least a year once a job has been secured (with the possibility of a wage subsidy for employers). There were 6,154 SIUS participants in 2011 with a further 2,412 accessing follow-up support (Annual Report of the Swedish Public Employment Service 2011). Over half (52 per cent) of participants achieved sustained paid work on the open labour market.

Cross-national evidence suggests that the success of supported employment programme depends on them being delivered by specialist, trained staff that not only match clients to jobs but also support them once they have been placed in employment (European Commission 2011; Beyer and Robison, 2009). As discussed, there are some 'supported employment' programmes operating in this country, though they are limited in scope and scale (with Individual Placement and Support being the leading example)[48]. There is little

[47] A best practice model of supported employment has been developed by the European Union for Supported Employment (EUSE), see http://www.euse.org/process, which is supported by quality standards and a number of 'how to' guides and toolkits. This model is also endorsed by the British Association of Supported Employment (BASE) and has previously been used by the UK Government to define and agree standards for supported employment in England.

[48] The Centre for Mental Health has selected 13 Centres of Excellence in supporting people with mental health conditions into employment, using the IPS model:
http://www.centreformentalhealth.org.uk/employment/centres_of_excellence.aspx

evidence to indicate that Work Programme providers have been able to develop distinctive approaches for ESA claimants of the kind that are characteristic of supported employment.

Improving the incentive to hire and addressing employer risks

A number of OECD countries have attempted to improve the 'incentive to hire' people with a health condition or disability by providing direct financial support to employers. Such support is usually aimed either at **making a disabled person more attractive relative to other potential candidates** (perhaps reducing the perceived risk of hiring) or **'compensating' for their lower productivity** (therefore effectively a wage subsidy). This is based on the instinct that it is better for the state to pay for a disabled person to work than to fund their income outside the labour market. In general, poorly targeted financial subsides to employers have significant deadweight costs, but there is evidence that they can have positive effects where appropriately deployed (OECD 2010).

Consistent with this approach, in 2003, the Netherlands introduced a so-called 'no-risk policy' to offset the potential negative impact of hiring someone with fluctuating conditions and increased likelihood of sickness. Under this policy, the employer's obligation to pay the full cost of sickness absence is removed. Instead, sickness benefit is paid in certain circumstances by the employee insurance authority (UWV)[49]. In most cases, the 'no-risk policy' holds for the first five years of a new work contract for former disability benefit recipients and employees with less than 35 per cent assessed work capability who after two years of sickness are not able to continue working with their existing employer[50]. The 'no-risk policy' also enables employers to pay lower social insurance contributions for covered employees and provides an exemption from experience rating for the purposes of assessing liability to additional disability benefit insurance contributions.[51]

Another example of employer support is the Danish "Flexjob" scheme. Introduced in 1998, this provides for permanent wage-subsidises – in the public and private sector – for those with long-term disabilities, alongside modifications to working conditions and hours. It is open to those with a permanent work incapacity, who are otherwise unable to work and have exhausted all possibilities for rehabilitation. The partial wage subsidy for employers is graduated according to the degree of reduction in work capacity, at either one-half or two-thirds of the previous wage (OECD 2008).

Use of the 'flex-job' increased substantially in the 2000s, leading to concerns that it had become too financially lucrative with large deadweight costs. One study found that over half (52 per cent) of those taking part would have found jobs without the subsidy (Datta Gupta and Larsen 2007). There were also fears about so-called 'substitution effects', where subsidised workers are hired in place of non-subsidised workers. In response, the Danish government tightened up access. Studies have shown positive employment benefits from flex-jobs, in particular for those aged 35 to 44 (PHRC 2009), and a small positive net social

[49] An autonomous administrative body commissioned by the Dutch Ministry of Social Affairs and Employment (SZW). For more info see http://www.uwv.nl

[50] The no-risk exemption is only permanent for particular benefit groups, for example those who acquired a disability at a young age and are therefore entitled to the Wajong benefit (2007b).

[51] In the Netherlands, employers are liable for the costs of disability benefit. Liability is comprised of a basic contribution at a flat rate for all employers and an additional differentiated contribution calculated on the basis of an "experience-rating" dependent on the number of employees on incapacity benefit in any given firm. The latter is intended as an incentive to prevent incapacity or – should an employee nevertheless become incapable of work – to minimise incapacity benefit claims. Experience rating of public disability insurance was first introduced in 1998.

return (Gupta and Larsen 2010). Along similar lines, Finland operates a flat-rate, time-limited wage subsidy set at below the minimum wage and tapering off over time. This has been shown to stimulate employment among disabled workers without distorting competition, crowding out employment in non-subsidised firms or leading to large deadweight loss (Kangasharju 2005).

Many OECD countries also have longstanding **mandatory employment quotas designed to require employers to retain or hire disabled people** or to subcontract with companies with a significant share of disabled workers. Most such quotas are set in the range of two to seven per cent of the workforce, with provision for employers to opt out of the quota by contributing to a fund used to finance other disability initiatives. There is no consensus or convergence in international practice, with some countries increasing and other decreasing their use. Evidence does suggest that sanctions are important in determining whether quota-systems work as intended (Greve 2009).

A number of advanced economies that operate quota systems, including France and Italy, have recently increased the levy on companies not fulfilling their quota while others such as Poland have extended a quota-levy to cover the public sector. Others, such as Japan, have adapted their quota systems to medical trends by incorporating mental health conditions (OECD 2010). It is important to note that quota-systems can have a range of negative impacts including the incentive to 'cream' those closest to the labour market and the risk of deadweight cost or other distortions (Greve 2009).

In this country, there have been some experiments in providing small tax breaks to employers to improve the 'incentive to hire' disabled people, but nothing systematic. The Disability Discrimination Act aims to prevent employers excluding disabled people from employment opportunities, while requiring them to undertake 'reasonable adjustments' to the workplace. In addition, Access to Work pays for 'unreasonable' costs that help to further overcome factors that might make an employer uncertain about hiring a disabled person. In recent years, the youth contract has provided an option of hiring subsidies for employers taking on young disabled people.

Policies in Britain have overwhelmingly focused on the incentive to *work* among disabled people themselves, through the use of in-work premiums. Under Universal Credit there will be a stronger financial incentive for ESA claimants to undertake small amounts of work, below 16 hours a week, relative to the current system. However, in other respects, the financial incentive for disabled people to work will be weakened. For example, 116,000 people currently in the 'work related activity group' and working more than 16 hours per week stand to lose £40 a week from the withdrawal of the disability element of the Working Tax Credit under Universal Credit (Citizens Advice *et al* 2012).

iii) Conclusion – including the absence of an upper limit on unemployment

There are major strategic gains for individuals and society from raising the employment rate of disabled people and reducing both inactivity and reliance on out of work benefits. More importantly, a large majority of disabled people not in employment want to work. Indeed, analysis of the Labour Force Survey finds that more than nine in ten (91 per cent) of disabled people are in work or have worked in the past[52]. However, current policies to promote the employment of disabled people, most notably though the Work Programme, are proving ineffective. And, while taking account of the limitations of comparative analysis,

[52] Office for Disability Issues, disability equality indicator B5; Labour Force Survey, 2013.

there is a range of innovative strategies deployed in other countries, beyond the extension of basic activation principles to claimants of sickness and disability benefits.

To date, this is what attempts to support the employment of disabled people in this country have largely involved. Evidence from this country and internationally suggests this strategy is likely to have limited results. A tighter gateway, through the WCA, has reduced the on-flow to inactive benefits, but this is not the same as boosting the employment rate (especially as the share of claimants entering the Support Group increases). Instead, there are reasons to think that a qualitatively different strategy will be needed: departing in important ways from the approaches that have contributed to reducing the claimant count over the last 15 or so years.

Such a deviation in strategy would involve taking account of the distinct issues facing those with health conditions and disabilities compared to mainstream job seekers, including: the management of sickness absence; the assessment for support (and benefits); the obligations claimants face to rehabilitate and get back to work; the strategies needed to enable employment, especially intensive adviser relationships and in-work support; and the hiring attitudes and behaviour of employers. The next chapter of this paper turns to the potential implications of these insights for future policy.

Finally, while not discussed in detail here, the other group for whom mainstream back to work support is not effective is those unemployed for very long periods. The vast majority of JSA claimants leave the benefit quickly, but a small minority (three per cent) remain unemployed after three years, even having spent 24 months with a Work Programme provider. The government has recently put in place 'Help to Work' for this group, comprising three strands: daily attendance at the Jobcentre, community work placements and intensive JobcentrePlus support[53]. More rigorous interventions make sense, if it is suspected that an individual is not making sufficient efforts to find a job, or is working 'on the side'.

However, where this is the not the case, more regular signing and adviser support is simply a variation of what claimants will have received for the previous three years. The problem is often that people in this position are unable to find an employer willing to take them on, for a variety of reasons. What they need is the chance to undertake proper work that enables them to gain experience, get a reference for their CV and break the cycle of unemployment. The quality of community work placements remains to be seen, but they are not real, paid work, meaning there is still no upper limit on the length of time society is prepared to allow someone to be unemployed.

[53] For more information, see: https://www.gov.uk/government/news/help-to-work-nationwide-drive-to-help-the-long-term-unemployed-into-work

3. New solutions: strategies for boosting employment for all

The path of growth in the economy will be the most significant factor determining headline trends in employment over the coming years, with its impact on ordinary families refracted through patterns of earnings and the structure of the labour market. However, experience suggests that, on its own, rising levels of employment will not necessarily benefit all citizens or significantly reduce labour market disadvantage. This is where policy can make a difference: ensuring that the prospect of employment is real for everyone and that all citizens meet their obligation to work if they can.

In charting a course to achieve this objective, successes in bringing down the claimant count over the last 25 years should be banked and built on. The 'activation regime' is far from perfect, but steady reductions in average claim duration for mainstream jobseekers is a notable policy achievement, secured through long-term cross-party consensus. Substantial if incomplete progress has also been made in rising the employment rate among lone parents. The priority for the next Parliament should be to boost employment among the much larger number of people on sickness and disability benefits (where social injustice and potential savings are both greatest).

Our argument is that for this to be achieved the current policy approach – broadly characterised as the extension of traditional 'activation' strategies for mainstream jobseekers to wider groups of inactive benefit recipients – will need to be substantially amended and augmented. For many of those who are long term unemployed or currently inactive, mandatory supported job search plus access to slices of extra provision (e.g. for skills, IT or confidence building) will not be effective at enabling them to work. This might be because of a particular issue that reduces an individual's capacity to be employed, or the difficulty of finding an employer willing to take that person on.

As such, **promoting contribution** through paid employment as widely as possible among the working age population will require the next government to strike out in new strategic direction; drawing on experiences from this country and internationally, as well as the shifting patterns of labour market disadvantage. This chapter proposes the outlines of series of reforms that would aim to raise the employment rate and reduce benefit caseloads by going with the grain of people's aspirations to participate in society and contribute through meaningful work. These proposed reforms are driven by the following eight principles that we argue should drive the next phase of welfare reform:

- Providing high quality employment support for those out of work, with an expectation that the vast majority of benefit claimants will to engage in steps to return to work;
- Aligning employment support for the long term unemployed with skills provision and economic development strategies in particular parts of the country;
- Placing an upper limit on the amount of time that society is prepared to tolerate someone being unemployed and excluded from paid work;
- Reducing the flow of sick and disabled people into the benefits system, by ensuring first that opportunities for them to remain in work with their employer are exhausted;
- Expecting employers to help employees return from sick leave, while reducing the risk of hiring those with a pre-existing condition or history of sickness or disability benefit claims;

- Orientating assessment processes towards identifying and planning the support required to enable work, rather than primarily acting as a gateway to out of work benefits;
- Developing a qualitatively different but equally work focused model of support those with health conditions or disabilities, drawing on the principles of 'supported employment';
- Binding wider services, including health, housing, social care and probation, into employment strategies for disabled people, around the needs of individuals and local places.

Overall, the aim of reform should be to shift the balance of public expenditure from cash benefits that replace people's income when they are out of work and towards pro-employment, productive social investments that enable work, as part of a macro-economic strategy directed towards full employment and rising wages (Cooke and Dolphin 2013). Enabling more people to earn their living will be essential to boosting living standards in the years ahead, given the fiscal pressures that any future government will face. The proposals that follow aim at evolution from the current range of benefits and assessments, while pointing to the need for longer term structural reform (which may become more possible with the introduction of Universal Credit).

i) Focus the next phase of the Work Programme on supporting long-term jobseekers and those ESA claimants recovering from temporary health conditions, with contracts based on meaningful economic geographies and a job guarantee to prevent long-term unemployment.

The next Work Programme should cater for individuals that need intensive but relatively standard and finite support to move into sustained employment. This would build on the (relative) successes of the current Work Programme, focusing its successor where 'activation' strategies have the potential to be effective (and cost-effective). As such, it should **support JSA claimants that have not found work during a year with JobcentrePlus but only those ESA claimants on the road to recovery from a health condition that temporarily reduces their capacity to work**[54]. Originally, only those ESA claimants judged to be ready for work within three months were required to join the Work Programme. However, since late 2012, those deemed potentially ready to work within 12 months have been enrolled, despite the programme being poorly equipped for their needs.

As a guide to the impact of this change, 84 per cent of referrals to the Work Programme up to the end of 2012/13 were JSA claimants[55], while over 90 per cent of provider outcome payments up to the end of 2013 were paid on behalf of JSA claimants. Because it operates on a 'payment by results' basis, there is not a fixed budget for the Work Programme. However, at its inception, the government expected to spend around £2.5 billion on JSA claimants, or £500 million per year[56]. In practice, it is set to spend less than this due to early underperformance. Consistent with IPPR's proposal for a distinct work, training and

[54] Further justification for this split and alternative support for other ESA claimants is discussed below.
[55] This is higher than the 74 per cent forecast in the initial November 2010 ITT, due to problems with the WCA and the referral process lower numbers of ESA claimants participating in the Work Programme.
[56] Initial estimates put overall programme expenditure at £650 million a year (NAO 2012). Analysis by the Centre for Economic and Social Inclusion estimated that the forecast spending on ESA participants at the start of the programme were £730 million across the full five year contract.

benefits track for young people, under 22s should also be excluded from the next Work Programme, to guarantee 'learning or earning' for this group[57].

With this more focused participation base, the next Work Programme contracts should again be let over a long period of time to allow providers to invest in provision and cope with cyclical fluctuations. However, we recommend that the next Work Programme should be **contracted on the basis of Local Enterprise Partnership (LEP) boundaries**. Where full city or county combined authorities are in place, contracts should be let on the basis of these geographies (which should ideally be co-terminus with the appropriate LEP). This would increase the number of contract package areas to 39, compared to the current 18[58], whose boundaries are arbitrary and used for no other governing or administrative function. In practice, a certain clarification of boundaries would be needed, as there is some geographic overlap between LEPs.

Commissioning the Work Programme on this basis would have two key advantages. First, it would make it more likely that employment support reflects particular labour market factors and aligns with local economic development and job creation strategies. Very large contract areas, not matching functional economic geographies, militate against effective place-based co-operation being forged between Work Programme providers and local employers or local colleges and other training providers. These kinds of local relationships, where individuals across these organisations and firms know each other and are in regular contact, are crucial to effective back to work support. This is impossible where providers operate across very large quasi-regional geographies.

The second key advantage of smaller contract areas would be to open up the market to a larger range of potential prime providers and boost competition. There are currently 18 prime providers, delivering 40 contracts, though the largest six providers control 60 per cent of the market.[59] By lowering the barrier to entry, in relation to delivery capacity and capital requirements, smaller contract areas would allow sole or consortia bids from more organisations (including from the voluntary sector). It would also reduce the scale and complexity of sub-contracting arrangements. However, contracts would remain significant in size to maintain the viability of the existing market and take advantage of economies of scale.

Despite smaller contract areas, central government would remain the funder of the Work Programme and continue to shoulder the 'AME risk' associated with its performance (i.e. the implications for benefit expenditure). Therefore, the Department for Work and Pensions should also retain the primary commissioning role, setting out a basic contract framework to apply across the country, including: projected referral levels, the payment structure, minimum performance expectations and overall financing. However, this should be combined with more structured and systematic engagement of local areas, consistent with their capacity and commitment.

Broadly, that engagement should take one of two forms. In all areas, constituent local authorities comprising the LEP, along with the LEP members themselves (including local employers and potentially also local trade union branches), should have an opportunity to

[57] Work Programme data does not allow a breakdown of referrals for the 18-21 group specifically. As a guide, those aged 18-24 accounted for a little over a quarter (27 per cent) of Work Programme referrals by the end of 2013.
[58] See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253680/cpa-preferred-bidders.pdf for an overview of current contract package areas.
[59] Ingeus, A4e, Working Links, Avanta, Seetec and G4S.

provide suggestions and input into the particular design features and parameters of the Work Programme contract in their area (consistent with the national framework). This could involve them feeding in their economic and social priorities and any other employment support or related activity which could help to strengthen the performance of the programme. At the very least, groups of local authorities should be consulted on decisions about short-listing and letting the contract(s) in their area, though with DWP retaining the final decision.

Where stronger institutional arrangements are in place, such as through combined authorities, local areas should be given the power to **countersign contracts, alongside the DWP, on the basis that they commit to directing other resources under their control to support the objectives and delivery of the programme** (including, in time, for adult skills). Similar 'dual key' arrangements should operate for Scotland, Wales and Northern Ireland, with the devolved administrations co-commissioning the Work Programme in their geographies, alongside the DWP (or, ideally, passing this responsibility on to its own cities and counties).

Within this framework, the private and voluntary sector should continue to be in the lead as prime contractors, with scope retained for more than one prime provider per contract areas to promote competition (and potentially greater choice for claimants). As now, there should be no bar on public sector bidders, though if local authorities wanted to be a prime provider in their own right they would have to secure the DWP's agreement (unless they were prepared to also assume a share of the AME risk for their performance). There should be **greater transparency of performance data, alongside the collection and publication of more systematic claimant satisfaction surveys**.

The next Work Programme should continue to operate on a 'payment by results' basis, to drive performance, retain a strong focus on employment outcomes and minimise central prescription. However, the simpler participant base should lead to fewer than the nine current payment groups. Moreover, **an attachment fee should be retained throughout the course of the contract, matched by minimum service entitlements to ensure all participants receive a basic level of support** (such as a personal back to work plan and a certain amount of adviser contact time). To sharpen performance incentives and penalise so-called 'parking', **a proportion of this attachment fee should be recouped from providers for participants that do not secure employment during their time on the programme**[60]. In addition, an element of the outcome payment should continue to reward sustained employment, which is an area where the Work Programme is delivering relatively well[61].

A final structural change should be that **individuals should only spend one year on the next Work Programme, if they have not secured employment during this time**. This would reflect the more focused participant base, while recognising that three years – one with JobcentrePlus, two with a provider – is too long to allow someone to be unemployed. Over three quarters (77 per cent) of those referred between June 2011 and December 2012 completed their time on the Work Programme without finding employment. If a participant

[60] This would require prime providers to be able to handle a degree of financial risk; another reason for maintaining contracts at a reasonable scale. This measure could be combined with introducing a so-called 'escalator funding model', where providers are rewarding at ever higher levels of getting each additional participant into employment.

[61] http://stats.cesi.org.uk/events_graphics/BTEG2014/WP_stats_briefing_Mar_14_MASTER.pdf (pages 7-8). The length of sustainment may need to be reduced, to reflect the one-year duration for participants on the programme.

is employed at the end of their year on the next Work Programme, their connection with that provider should be retained for a further 12 months[62]. In these circumstances, the programme has (potentially) made a difference, so keeping the link between provider and participant makes sense. This would also retain the scope for providers to secure bonus payments for sustained employment outcomes.

However, **if someone does not find work after a year on the next Work Programme they should be guaranteed paid work experience and required to take it up**. Such a 'job guarantee' would put an upper limit on the length of time society permits anyone to be unemployed while entrenching a backstop in the welfare system. It should involve 25 hours a week of meaningful work, paid at least the minimum wage, plus 10 hours a week of training and job search. The programme should cover wage costs and employer NICs, plus a small sum for training and programme administration. Individuals should not be able to refuse such paid work experience placements and continue claiming benefits. This should initially apply to all JSA claimants leaving the Work Programme, but could in time extend to those on ESA (consistent with their assessed work capacity). This 'job guarantee' should be organised across the same geographic areas as the next Work Programme, with either the combined authority, consortia of local authorities comprising a LEP, a contracted provider or JobcentrePlus in the lead on delivery.

Drawing on lessons from the Future Jobs Fund (Fishwick *et al* 2011), prospective employers from across the public, private and voluntary sectors should be able to bid to receive funding to create additional paid work placements for the long-term unemployed. The FJF saw jobs created in a range of sectors including administration, customer service, environmental work, care services and cultural and sporting activities. Jobs were created by a wide variety of organisations including Groundwork; the Salvation Army; the National Housing Federation; Jaguar Land Rover; the Scottish Wildlife Trust; the Royal Opera House; the Football League Trust; Action for Children; Age Concern; New Deal of the Mind; and many local authority-led partnerships[63]. These provided real paid work that gave participants the chance to gain practical experience and an employer reference for future job applications on the open labour market.

Net cost per participant under the Future Jobs Fund was just over £3,100[64], with the gain to society estimated at £7,750 per participant due to higher output (DWP 2012). Direct costs would be somewhat higher in the next Parliament, given rises in the minimum wage, meaning a reasonable assumption would be to set aside £4,000 per participant on the job guarantee (though effective delivery could bring the net cost down further)[65]. This should include a **bonus payment for the agency or provider organising the job guarantee when participants move into sustained work on the open labour market at the end of**

[62] Further analysis would be needed to determine how long a participant would have needed to be in employment to avoid this penalty. For instance a sustained six month outcome would probably be too great a requirement, but just a few days of work would not constitute a meaningful job outcome and could risk providers gaming the system.

[63] Example organisations drawn from: http://www.cesi.org.uk/blog/2012/nov/future-jobs-fund-worked-we-shouldnt-bring-it-back—-we-can-do-even-better

[64] Taking account of direct wage and programme costs less reduced benefit payments and higher tax revenues.

[65] At the current rate of £6.50 an hour, the direct costs of a six-month placement would be just over £5,000, including wage costs, employer NICs and around £500 per placement for training and programme administration. However, these gross costs assume participants spend the full six months in the job, which would not be the case, and would be further offset by lower direct benefit payments and employee NICS (amounting to just under £2,000 per participant). The official evaluation of the FJF also found that participants spent less time on benefits after participating on the job guarantee than they would otherwise have done (DWP 2011).

the six months (or earlier). This would help to ensure a focus on longer-term outcomes, including on going training and job search. It would only be paid by central government if a participant spent a certain further period off benefit and in employment, securing additional AME savings for the Treasury that could justify the financing of such payments. If the lead provider in an area was JobcentrePlus, the local office should be able to retain the bonus payment and add it to its discretionary Flexible Support Fund[66].

In practice the number of people participating in a job guarantee would depend on the state of the economy and the performance of providers. As a guide, based on new claims and average durations in 2014, we might expect around 117,000 claimants (of all ages) to reach the 24th month of their claim in 2015[67]. Around 20 per cent of this 'new flow' would be expected to be under 25. Data is not available on the 18-21 cohort, but if we assumed an even split among the younger age group, this would mean around 105,000 over 22s reaching the point of being unemployed for two years in 2015. **Providing up to six months of paid work experience for those aged 22 or over and newly reaching the two year point of their JSA claim would cost £420 million a year.**

To pay for this policy, we propose scrapping the government's Help to Work scheme for those who leave the Work Programme without a job, which would save around £200 million a year[68]. Resources would also be generated by recouping a share of the attachment fee paid to Work Programme providers for participants who do not find a job during their year on the programme. However, it is not certain how much this would raise – and the aim would be as little as possible, due to effective provider performance.

Therefore, to complete the funding of a job guarantee, we propose raising the higher rate of capital gains tax (CGT) from 28 to 35 per cent, and devoting £220 million of the £400 million a year it would raise (based on estimates in HMRC 2014) to prevent long-term unemployment. CGT is levied on the profit achieved when an individual or trust sells or transfers assets such as property or shares, although an individual's main home is exempt. Up to £11,000 of capital gains a year is exempt from CGT, and it is estimated that only 168,000 individuals (and 17,000 trusts) paid CGT in 2010/11 (HMRC 2013). Moreover, the recent substantial increases in the generosity of ISA allowances – to £15,000 a year – mean that individuals can now also make significant gains on savings, free of tax.

In addition, it is estimated that there are currently around 160,000 people aged over 22 who have already been claiming JSA for more than two years (Cooke et al 2014). The cost of providing the job guarantee to this group immediately would be £640 million. However, it would not be possible to organise paid work experience placements quickly enough to meet all of this need straight away. Moreover, these individuals are currently participating in the Work Programme, and they (and their provider) should be given the chance to complete that engagement. Should resources allow, a job guarantee for this group should kick in at the end of their participation on the Work Programme, if they have not entered employment by that point.

[66] A further possible design feature would be for individuals not securing employment on the open labour market following the job guarantee to enroll in the New Start programme (see below for further details).
[67] Author analysis of JSA flows and durations, based on NOMIS data.
[68] In the Autumn Statement 2013, the Treasury announced that "the government will invest £700 million over 4 years in a new Help to Work scheme" (HMT 2013: 70), an average of £175 million per year (with the spending scorecard suggests this includes both extra gross spending and the reinvestment of expected benefit savings resulting from the scheme).

ii) Establish New Start – a locally-led supported employment programme, with integrated budgets and incentives for success, for ESA claimants with a long-term health condition or disability that reduces their capacity to work.

The Work Programme has not been effective for ESA claimants (Riley et al 2014). However neither has any previous mainstream employment programme, which should prompt deeper reflection. The dominant framework for thinking about the design of employment support is 'distance from the labour market'. This assumes people are on a journey towards resolving or overcoming a given barrier to work. In many cases this is accurate: where someone could recover from a temporary health condition (or, indeed, where a specific step, like gaining a qualification or accessing childcare, would make employment possible). Furthermore, in cases where someone has not worked for some time, small steps into work might be necessary (rather than immediate full-time employment). In particular, this perspective fails to take seriously the 'demand-side' challenge of finding employers willing to give those with a health condition or disability a chance.

However, a significant number of people are not currently accessing employment due to a non-temporary factor. In the case of many ESA claimants this might be a long-term or chronic health condition that affects their capacity to work (either the amount or type of paid employment). In some cases, a full recovery might be achieved at some point in the future, or its impact on employability might substantially recede. But often an individual will live with a health condition or disability, whether physical or mental, for a long time if not indefinitely (reflected in the growing focus of NHS demand among those with chronic conditions). In such cases, the 'distance from the labour market' framework is inaccurate and distracting. It sets up a binary distinction between whether someone can or can't work, rather than addressing *what kind of employment might be possible* and *what it would take for that to be enabled* (including actively shaping employer demand).

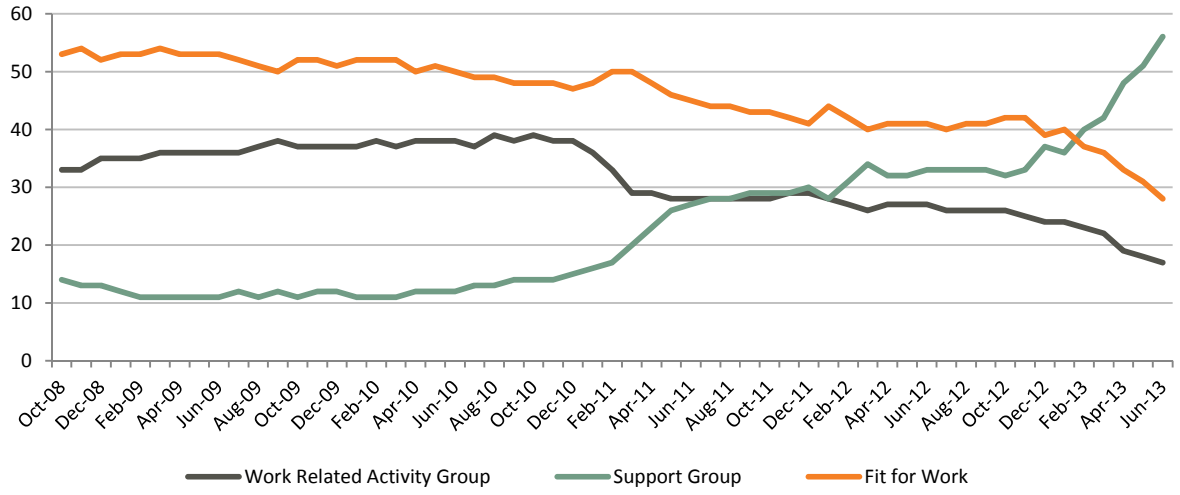
The prevailing 'can work' versus 'can't work' distinction feeds into a further unhelpful dichotomy between 'tough', work-focused forms of employment support for those perceived as ready for work, counter posed against 'easy', training or rehabilitation-focused approaches for those perceived as not (yet) able to work. For instance, the outcome of WCAs are that people either enter an 'activation' orientated Work Programme (via entitlement to JSA or the Work Related Activity Group of ESA) or a 'no obligations' category (the ESA Support Group) that ends any expectation of engagement about employment. This is exacerbated by the structure and design ESA itself, which encourages people to emphasise work *in*capacity, due to its higher benefit rate and lower conditionality. Moreover, despite contrary intentions, the WCA remains overwhelmingly a gateway to benefits, rather than the start of a plan for support and obligations that might enable work[69].

In the context of well-documented problems with the WCA and the Work Programme, the risk is that the primary objective for disabled people and those advocating for them becomes access to the ESA Support Group. In addition to a higher level of benefit, this also provides an exemption from obligations to participate in an employment programme which disabled people very reasonably have little confidence in. As the chart below shows, the proportion of monthly WCA outcomes resulting in access to the Support Group has been rising since the second half of 2010, before accelerating sharply since the end of 2012 to

[69] As discussed later, a further structural weakness is that, in the absence of a separate, temporary Sickness Benefit, ESA yokes together those recovering from an illness or health condition and those living with a long-term disability or chronic health condition (at least for those without an employment contract or who otherwise not eligible for Statutory Sick Pay).

above 50 per cent by the middle of 2013. If rates of Support Group entry remain at this rate, there would be a real risk that the original reasons for reforming Incapacity Benefit will be re-created: large numbers of people spending long periods on out of work benefits with no employment-focused engagement.

Figure 5: Outcomes of initial WCAs by month, as a per cent of completed assessments (adjusted to account for the outcome of appeals)



Source: https://www.gov.uk/government/collections/employment-and-support-allowance-outcomes-of-work-capability-assessment

For these reasons, our argument is that **the next phase of policy and delivery innovation in this area should be structured around *what kind of work an individual could undertake* and *what it would take to enable their employment*.** Any attempt to categorise real people is inevitably imperfect and in all cases models of support must be capable of responding and adapting to particular circumstances. However, evidence and experience provide some broad insights. For example, for the vast majority of new JSA claimants, self-directed or supported jobsearch is sufficient, while keeping individuals focused on a rapid return to work. For very long-term JSA claimants, providing paid work experience is necessary to limit the duration of unemployment for individuals struggling to find an employer willing to give them a chance. For young people, learning or earning is essential to ensuring they have a fighting chance to enter the labour market and build a career, while avoiding the drift into long-term benefit claims (Cooke 2013).

Furthermore, as we discussed above, the next Work Programme should be focused where its core model of 'activation' strategies – intensive supported job search and specific work preparation assistance – can be effective: where jobseekers need support that is likely to have limits in its *complexity* and *duration*. It should, therefore, not be expected to work with people likely to require more *specified* and *long lasting* support to enable employment. Organising employment support around this distinction is hampered by the currently flawed structure of benefit categories and the dysfunctional design and delivery of the WCA. Overtime, these should be reformed to enable claimants to be segmented according to the type of work people can do and the support they need (which the universal credit as currently structured will not do).

However, for now, the distinction articulated above should mean that **apart from those close to regaining their previous work capacity following a temporary condition, ESA**

claimants should not be enrolled in the next Work Programme, but instead participate in a qualitatively different but equally work-focused supported employment programme. We suggest a provisional name – New Start – to indicate a fresh, positive approach, which should also replace the specialist disability programme, Work Choice, when its contracts expire. This distinction does not imply that 12 month plus JSA claimants or ESA claimants in the final stages of recovery do not need extra help to secure employment. These are individuals who have not found work through self-directed job search, or by purely self-managing their health condition. However, their capacity for work is not (in theory at least) reduced for a long period or perhaps permanently by a health condition or disability.

Crucially, **the overriding goal of our proposed New Start programme should be sustainable employment for its participants, just as it is for the Work Programme.** This should be driven by the 'place, train and maintain' model which aims for rapid entry into paid work, enabled by job brokering, plus intensive and potentially on-going support for both the individual and the employer. This would see employment as an essential part of treatment or condition management, rather than this preceding entry in work. In particular it would aim to proactively boost employer demand for those with a health condition or disability, by working with employers about specific jobs to overcome fears, barriers and costs associated with taking someone on. Where entry into any kind of employment on the open labour market is not (yet) possible, participants should engage in positive activities aimed at boosting social participation and employment prospects.

This approach would aim to chart a course between traditional 'activation' strategies and a 'no support, no conditionality' track. As such, the introduction of the New Start programme should lead to the Support Group being reserved for those where the amount or type of work that might be possible is very small or the practicalities or cost of enabling employment is very significant. As many people as possible should be kept in an active, supportive regime which aims to help improve their health and well-being, enhance their social connections, and boost their employment prospects. This approach would also end the confusing situation where people are found 'unable to work' by a WCA (i.e. entitled to ESA) but then required to participate in an 'activation' focused Work Programme.

The New Start programme should seek to **blend fidelity to the core components of effective models of 'supported employment' with scope of creative partnerships and innovative practice.** As previously discussed, supported employment refers to a range of back to work strategies focused on rapid entry into work on the open labour market plus on-going in-work support. It stands in contrast both to approaches rooted in long periods of pre-employment treatment and training and those based on 'activation' strategies like supported job search. Key elements include: a positive, pro-employment culture; a belief in self-motivation as a key factor in gaining work; the centrality of specialist employment advisers; active and sustained employer engagement; specific job-matching and 'job carving'; and structured, on-going support in the workplace for employers and employees. In particular, such strategies aim to directly address the challenge of employer demand, as well as helping to improve an individual's employability.

A core element of effective models of supported employment, like Individual Placement and Support (IPS), is the idea that anyone who wants to work can do so, with the right attitude and support. As such, the culture of New Start should be positive and empowering, aiming to nurture and unlock individual's talents and capacities. Therefore, participants should not

be mandated to undertake any particular form of activity. However, there should be an obligation for ESA claimants to engage with New Start and to take responsibility for their own situation. This should involve regular meetings with an employment adviser and agreeing a personal employment plan (including a 'spine' of engagement with JobcentrePlus)[70]. If a claimant persistently failed to engage with their adviser there should be a backstop of benefit sanction or disentitlement. However, this should only be triggered after a face to face meeting to review activity and assess personal circumstances.

Key to the success of New Start would be its ability to draw together services and support from different sectors in a way that a nationally commissioning, prime contractor model is incapable of achieving. Particularly important would be the **connection between health and employment services, with the role of housing, adult social services, further education and in some cases probation or drug and alcohol treatment also crucial.** The importance of service integration in this area has been widely discussed over a long period. However, attempts to achieve it have tended to focus on cross-departmental working or sporadic pilots. The lesson from these (largely ineffective) approaches is that the site of meaningful integration is in the attitudes and actions of service leaders and practitioners in particular places, which cannot be mandated or driven from Whitehall. Therefore, we recommend that the New Start programme should mobilise the leadership and energy of local areas to boost employment and reduce inactivity among local ESA claimants.

We recommend that **top tier local councils should be responsible for leading the programme, drawing together local funding (see below), brokering or commissioning provision, and being held to account for performance.** Local authorities should be able to work together to organise their New Start programme over a larger area, such as through the emerging combined authorities. Local councils often have far more established relationships with ESA claimants, such as through social housing or social services, compared to JobcentrePlus, which has very limited contact with this group. Moreover, the exposure of the Treasury to AME risk is limited (relative to JSA) because the ESA caseload is not cyclically determined and existing forms of support for this group are ineffective (in fact, only a small minority of ESA claimants have participated in the Work Programme at all).

It should be for local authorities – or groups of councils – to determine the design and structure of the New Start programme in their area, within some broad national parameters. This could involve **establishing a local New Start Trust, bringing together local services, employers, the voluntary sector and disabled people, to plan and commission provision. An alternative would be for Health and Well-Being Boards (HWB) to take lead responsibility.** Either such body would be responsible for controlling the core New Start budget (see below) while also driving close links with other local services – like housing, social services, skills and probation – that are not explicitly part of the programme but which have the potential to make a difference. If they chose to, local New Start Trusts or HWBs should have the scope to commission (and then hold to account) an independent prime provider – or consortia of providers – to manage the New Start programme on a day to day basis. There should be formal mechanisms for involving service users in the design of local New Start strategies and holding providers to account.

[70] ESA claimants in the Work Related Activity Group are currently required to attend a series of work focused interviews with JobcentrePlus. For the vast majority of claimants, this is their only engagement with employment support.

However local leadership and governance of New Start is configured, **a local strategy for reducing ESA caseloads by boosting the employment of residents with health conditions and disabilities should be published.** Local authorities are already required to conduct Joint Strategic Needs Assessments, along with other local partners, to shape their public health expenditure. Planning for local New Start provision could be incorporated within these. Given that DWP would continue to finance benefit expenditure, these plans should be developed in consultation with local JobcentrePlus managers and be signed off by the DWP. In the first instance, while the capacity of local areas is developed, the DWP should provide strategic guidance and input into the development of local plans and commissioning arrangements. Where local areas are not able to demonstrate their capacity to lead and manage a successful New Start programme, there should be provision for the DWP, via Jobcentre Plus, to take lead responsibility for an interim period.

Crucially, local New Start plans should demonstrate fidelity with proven supported employment principles, adapted to particular claimants and local circumstances. This could include the use of: intensive employment adviser time; proactive job identification and brokerage; dedicated employer support; condition management services; physiotherapy and therapeutic services; occupational rehabilitation services; Individual Placement and Support (IPS); intermediate labour market or transitional job schemes[71]; job-specific vocational training; and short term volunteering, work trials and work experience opportunities (in parallel with job search). There should also be a 'spine' of basic service entitlements for New Start participants, including adviser time and a personal employment plan. This should be in addition to periodic engagement with JobcentrePlus to confirm on-going benefit entitlement, including any repeat WCA. It would be for local areas to decide if they would allow participation on New Start among those not in receipt of ESA, but benefit claimants should be the key target group for whom DWP funding would be available.

Crucial to the success of New Start – and its potential to offer enhanced supported employment strategies – would be the active involvement of health services. Many of the examples of effective employment support for disabled people, such as IPS, are led by the health service[72]. These often involve partnerships with local councils and the voluntary sector, where employment specialists and clinical teams are connected. The health service has significant potential to affect levels of employment among those on ESA, while good quality work can make a huge difference to an individual's health. It can often be a key element both of treatment and prevention. Therefore, both primary and secondary health should have a major stake in New Start. Encouragingly, the devolution of public health funding to local government, alongside the local Clinical Commissioning Group (CCG) structure, has made local integration of health and employment services a realistic possibility.

Locally driven partnerships between employment and health services would also be essential to leveraging additional capacity and resources into enabling employment among ESA claimants. Even if forecast performance had been achieved, spending on ESA claimants participating in the Work Programme would only have been £140 million a year, or £1,170 per participant. In fact, analysis suggests that public spending will actually be just £690 per ESA participant and around £70 million a year on ESA claimants across the five-

[71] Including where an intermediary organisation acts as the legal employer of an ESA claimant to allow an employer to take them on a provisional basis with limited hassle or commitment.
[72] For instance, see: http://www.centreformentalhealth.org.uk/employment/centres_of_excellence.aspx

year contracts (Riley et all 2014). The implications of a 'payment by results' contracting structure is that future participants are at serious risk of being further disadvantaged as less resources for providers means less support for them. On average a further 15,000 people a year are taking part in Work Choice[73], at a little under £4,000 per participant and average programme spending of £65 million a year (up to the end of 2012/13)[74]; though a large share of these participants are JSA claimants.

Based on (planned) expenditure on back to work support for ESA claimants, the DWP contribution to a New Start programme would be around £200 million a year (combining resources for Work Programme and Work Choice) across Great Britain[75]. If such resources were made available to local areas, it would be reasonable to expect them to be at least matched by local authority (and devolved administration) resources, most plausibly and appropriately from its public health budget. In 2014/15, the overall budget for public health spending in England is £2.8 billion. Assuming funding continued at that level into the next Parliament, committing £200 million a year to New Start would equate to just 7 per cent of public health spending[76]. Boosting the employment of local ESA claimants would be entirely consistent with the Public Health Outcomes Framework, which includes employment for those with long-term health conditions and sickness absence rates[77].

Therefore, as part of the next spending review negotiations, **the LGA (via the Department of Health), the Scottish and Welsh governments and the DWP should strike a deal to at least match each others resources for back to work support for those with health conditions and disabilities. This would aim for overall minimum New Start funding of at least £400 million a year.** In addition, local councils should aim to draw in further capacity and resources from primary and secondary health services in their area. For instance, a local New Start Trust or HWB could aim to secure an agreement with the local CCG to mobilise GPs active support for the programme and to commission services (such as from occupational health and the local mental health trust) consistent with local plans and objectives. To support such efforts, employment outcomes could be given a more prominent focus within the NHS Mandate, alongside assessing employment as part of key performance indicators for primary and secondary healthcare providers.

There would also be a strong case for a share of European Social Fund (ESF) resources being put behind the New Start programme. England has been allocated €6.2 billion (around £5 billion) for the European Growth Programme between 2014 and 2020[78]. This equates to a little over £700 million a year and includes the ESF. Among the five investment priorities proposed by the UK government for this money are 'helping more unemployed and inactive people to enter and progress in employment' and 'tackling barriers to work faced by the most disadvantaged groups'[79]. The government has recently announced

[73] Data on Work Choice participation: https://www.gov.uk/government/collections/work-choice-statistics-number-of-starts-and-referrals--2

[74] Estimates of unit costs drawn from this Parliamentary answer: http://www.theyworkforyou.com/wrans/?id=2014-02-24d.188525.h&s=%28%28%28section%3Awrans%29%29+work+choice%29+speaker%3A10596#g188525.q0

[75] Funding for contracted employment support in Northern Ireland is organised outside of the Work Programme.

[76] In practice, the amount of DWP funding for England would be less than £200 million, appropriate allocations for Scotland and Wales had been taken into account.

[77] For more information see: http://www.phoutcomes.info

[78] This combines allocations for the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the European Agriculture Fund for Rural Development (EAFRD). In some cases this funding will have to be matched by the UK government to unlock the resources; elsewhere existing funding will have to be aligned.

[79] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/302578/esf-programme-2014-2020-consultation.pdf

European Growth Programme funding for each of the 39 LEPs, ranging from £14 million for Buckingham Thames Valley to £749 million for London[80]. Scotland and Wales have their own separate ESF allocations.

There is a good chance that the ESF investment plans of LEPs and the devolved administrations will already have employment outcomes for ESA claimants in view. However, the establishment of the New Start programme would provide a tangible impetus for focusing resources is the area. In relation to employment programmes, LEPs would be able to make the case to the DWP for contracting provision under the ESF that bolstered local supported employment strategies and services. The close involvement of LEPs in local New Start programmes would also help to strengthen the engagement of local employers and potentially help to draw adult skills funding into the local offer. It is worth nothing that Access to Work funding could also be drawn on as part of local employment support, including helping to broker jobs with employers.

As well as maximising the contribution of other local authority services (such as housing and social services), a New Start Trust or HWB would also create the context for mobilising the experience and capacity of other local service providers, local employers and the voluntary sector. A practical example of this kind of New Start model can be seen in the plans being developed in Portsmouth and Southampton as part of their 'city deal'. This involves a joint venture between the local councils and local health services – including public health, GPs and the CCG – while also drawing in European Social Fund resources controlled by the LEP. The aim is to jointly commission health and employment services, in the first instance for 1,000 residents with health conditions. There are a number of other examples of local councils showing proactive leadership in this area[81].

To give a sense of how many people might participate in a New Start programme of the kind proposed here, just over 250,000 people gained new entitlement to ESA following a WCA in 2012 (the last year of complete data). Of these, 115,000 were placed into the Work Related Activity Group and 138,000 entered the Support Group[82]. However, the serious problems with the delivery of the WCA and the large appeal rate mean that the level and pattern of flows onto ESA are erratic. In addition, between April 2012 and March 2013, 430,000 people became entitled to ESA having been transferred from Incapacity Benefit (205,000 in the Work Related Activity Group and 289,000 in the Support Group)[83]. On its original assumptions, the government expected 125,000 ESA claimants to participate on the Work Programme each year[84] and referral rates are now running at around this level (Riley et al 2014). There is little published data on the breakdown of prognosis length from

[80] https://www.gov.uk/government/speeches/european-regional-development-fund-and-european-social-fund-allocations-2014-to-2020

[81] For example, see case studies from page 26 onwards: http://lgalabour.local.gov.uk/documents/330956/1072424/First_Report_The_case_for_change.pdf/06c02ce0-99f2-474a-accf-5bf5f70c44cc

[82] https://www.gov.uk/government/collections/employment-and-support-allowance-outcomes-of-work-capability-assessment (Table 4)

[83] https://www.gov.uk/government/collections/employment-and-support-allowance-outcomes-of-work-capability-assessment (Table 10)

[84] See spreadsheet linked from: http://www.cesi.org.uk/blog/2012/jan/dwp-raises-estimates-work-programme-starts-32. There are currently around 2.4 million people claiming ESA or Incapacity Benefit.

WCAs, which would in any case be an imperfect means of segmenting individuals into Work Programme or New Start support[85].

To enable local areas to use resources flexibly and efficiently, there should not a specific level of funding allocated to each New Start participant[86]. It is, however, highly likely that more than the £1,170 the government expected to spend per ESA claimant on the Work Programme would be needed to secure positive employment outcomes (and certainly more than the £690 per ESA participant actually being spent by the government). However, there are examples of effective interventions that do not cost extremely large amounts. For example, the unit cost of Individual Placement and Support (IPS) is estimated at just under £1,700, with the cost of a job outcome put at £3,335[87]. As an example, **if average unit funding in New Start was £2,000 per participant, an annual allocation of £400 million would mean places for 200,000 ESA claimants a year.** This would mean 60 per cent more ESA claimants engaging in back to work support than in the Work Programme with almost three times the level of funding per participant.

If DWP, local council and devolved administration funding could be further matched by CCGs and LEPs across the country, New Start would have an annual budget of £800 million. As a guide, £200 million would equate to just under 30 per cent of England's annual ESF allocation, while it is a very small share of resources under the control of CCGs (with the potential for higher levels of employment to significantly reduce long term health costs). **With an £800 million budget, New Start could work with 400,000 ESA claimants at a unit rate of £2,000 per participant: more than three times the number participating in the Work Programme on an annual basis[88].** At this level, New Start would have the potential to make a substantial impact on the employment rate of people with a health condition or disability, while significantly reducing levels of economic inactivity and expenditure on ESA and related benefits. Local areas would be free to give local participants the right to take New Start support as a personal budget and to provide a version of a job guarantee backstop to limit the amount of time local ESA participants were without work.

A funding model of the kind proposed here would be far simpler than the complex AME-DEL structure that underpins the Work Programme, which also means support for disabled people is cut back if provider performance is poor. Moreover, it would not restrict the range of organisations working with ESA claimants to those able to raise a large amount of capital upfront. However, it would be vital that New Start was strongly focused on successful employment outcomes. As such, there **should be bonus payments to local areas for ESA claimants that are off benefit for a sustained period, to share the AME saving that would result**[89]. Moreover, data should be collected and published on rates of participation, expenditure and employment outcomes on local New Start programmes. Perhaps most

[85] This answer to a Parliamentary Question gives some indication (covering the period up to May 2013): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277230/foi-72-2014.pdf. Technically, WCA prognosis refers to the length of time before an individual should return for a further assessment.

[86] For instance, it would be for local areas to determine the duration of New Start provision for individual claimants. In some cases there would be a strong case for continuing to engage with participants over the long term.

[87] Figures obtained from correspondence with the Centre for Mental Health.

[88] Another potential source of resources which could be mobilised to support the New Start programme would be forms of social finance, such as social impact bonds, given the potential return on investment from reducing benefit expenditure and boosting tax revenues.

[89] The definition of 'off benefit' would need to be clarifies, especially under Universal Credit where the in/out work divide becomes dissolved and it is possible that individuals will move into employment with little or no reduction in their universal credit entitlement (if they work a few hours at low pay).

importantly, the framework of New Start should create the conditions for widespread experimentation and innovation in employment support for those with health conditions and disabilities, to better understand 'what works', with the government funding large scale quantitative and qualitative evaluations of local partnerships and strategies.

Reforming the Work Capability Assessment

Since its introduction, the WCA has been plagued by problems related to the quality and appropriateness of assessments. The appeals rate has been high and a substantial share of results have been overturned. For people with mental health conditions in particular, it has proved very difficult to make a 'snapshot' assessment of their capacity to work (especially when the condition has fluctuating impacts). There have also been serious concerns about the performance of ATOS, whose contract has now been terminated.

However, there is also a structural problem, which simply transferring to a new provider will not resolve. The WCA is set up to inform judgments about people's access to benefits and level of participation requirements. This creates an incentive to accentuate *in*capacity to work, which brings with it a higher benefit rate and less conditionality. Despite the original intention that the WCA would be driven by what people *can do* rather than what they *cannot*, it is in practice based on a 'deficit' model. It is a gateway to benefit, not the start of a plan to secure employment.

The government has already conducted a series of reviews into the operation of the WCA, leading to some amendments (following pressure from groups like the Disability Benefits Consortium and the Social Security Advisory Committee)[90]. The main observable consequence has been a large rise in the rate of entrance into the Support Group, while stories of inappropriate treatment and outcomes continue. There is very likely to be irresistible pressure for further reforms in the next Parliament. It is vital that these address the structural weaknesses in the design of the assessment and its connection to the benefits system and back to work support.

Effective WCA reform will require further detailed work and widespread engagement of health and employment experts along with disabled people themselves. However, consistent with the proposals in this paper, what is needed are high quality assessments focused on *what kind of employment might be possible* for a given individual and *what it would take for that to be enabled*. This would reject a binary 'can work' / 'can't work' distinction, seeking instead to identify the experience, talent and capacity of each person. This would require much more systematic involvement of occupational health and rehabilitation specialists, with an understanding of the labour market.

The assessment should be the start of a plan for employment, rather than simply a way to access higher benefits. Instead of determining whether or not an individual is required to engage in back to work activity, it should inform the design and specification of support while also assessing their entitlement to workplace assistance. In particular, it should better distinguish between health conditions that are temporary or chronic, with the form of employment support needed likely to vary significantly on this basis. To be effective, it is also vital that information from WCAs is shared with Work Programme or local New Start providers (subject to proper data protection procedures).

A reformed WCA along these lines would be a crucial element in re-structuring employment

[90] http://disabilitybenefitsconsortium.wordpress.com

programmes as proposed in this report, potentially alongside the development of more sophisticated jobseeker profiling tools. Over time, there is also a case for using the introduction of the universal credit to overcome other design flaws in ESA, in particular the use of out of work benefits to compensate for the extra costs of a health condition or disability. Over time, these would be better met by a benefit like DLA (and PiP) which is non-means tested and available both in and out of work.

The future role of JobcentrePlus

In recent years, as the provision of employment support has increasingly been contracted out to the private and voluntary sector, the role of JobcentrePlus has become increasingly focused on monitoring compliance with the benefits system. Its central performance indicator is now benefit off-flows rather than job entries – and there has been a large increase in the use of sanctions.

Moreover, the benefit claimants JCP now deals with are more diverse and have more complex needs following reforms that bring more lone parents and sick and disabled people into its purview. These changes, combined with budget cuts that increase adviser caseloads, have weakened the focus, morale and public standing of the organisation, which is no longer a separate agency but has been re-subsumed within the DWP.

This report is about improving employment support for those facing labour market disadvantages, requiring certain specialist forms of provision. However, in advancing such reforms it would also be important to consider the future role and contribution of JobcentrePlus, as the anchor of the public employment service. One option would be for JCP to focus on promoting an efficient labour market, rather than aspiring to offer complex employment support.

In addition to providing a good quality benefit processing service, this would mean a distinctive role in the following kinds of area:

- Ensuring the vast majority of people losing their job get back to work as quickly as possible, including through the use of technology to support intensive job search and to enable adviser time to be focused on planning future activity (not just monitoring compliance). The performance of JCP should be judged by job entry not just benefit off-flow.
- Providing a high quality recruitment service to small and large employers, identifying and preparing suitable candidates for specific jobs, to the point where firms can reduce their reliance (and expenditure) on recruitment and employment agencies.
- Developing more sophisticated tools for profiling jobseekers to enable more targeted job search activity and to identify those likely to need more support (e.g. repeat benefit claimants), alongside a reformed Work Capability Assessment.
- Offering light touch advice and guidance to those looking to improve their skills and develop their careers, including signposting to local training or internship opportunities, potentially available to those currently in work.
- Ensuring the labour market is properly regulated, with information to employees and employers about their rights and obligations, potentially also enforcing employment law (such as in relation to the National Minimum Wage or zero hours contracts).

Developing some of these roles would involve additional resources, which would be hard to

justify in the current fiscal context. However, JobcentrePlus currently lacks a clear purpose within the evolving landscape of employment support. If contracted and locally-led employment provision were developed in the ways proposed in this report, there would be a strong case for JobcentrePlus establishing its distinctive credentials as a public employment service supporting the overall efficiency of local labour markets.

iii) Place stronger obligations on employees and employers to exhaust rehabilitation opportunities during sickness absence, to reduce the flow onto ESA among those with temporary conditions.

Analysis of routes onto ESA suggest that just over half (51 per cent) of new claimants were previously in employment with just under half (49 per cent) not in work prior to making a claim (Sissons *et al* 2011)[91]. Four-fifths of all periods of sickness absence last less than a week, with only five per cent lasting more than four weeks and even smaller minority ending in an out of work benefit claim (Black and Frost 2011). However, keeping more people attached to the labour market could reduce the ESA caseload, while also boosting individuals' health and living standards. Sickness absence was found to impose a £15 billion cost to the economy in 2010 (Black and Frost 2010).

This goal has been the focus on considerable policy activity in recent years, with research into the characteristics of those in work before claiming ESA suggesting progress is possible. A 2011 study found that 85 per cent of this group had previously been in work for *most of their lives*, a strong indicator of future employment prospects. Indeed, a follow up study found that more than a quarter (26 per cent) of those who had made a claim for ESA having previously been in work were back in employment 12-15 months later, compared to less than a tenth (nine per cent) of those who had not been in work prior to receiving ESA (Sissons *et al* 2011).

A complicating factor is that over half (57 per cent) of new ESA claims from those previously in employment (or 29 per cent of all claims) were from people coming *directly* from work. Less than half (43 per cent) had a prior period of sick leave (accounting for 22 per cent of all claims). Breaking down that latter group, 30 per cent had been receiving sick pay (15 per cent of all claims), while 13 per cent had not (equivalent to 6.6 per cent of all claims). Among all those working prior to claiming ESA, over half (55 per cent) left their job for health reasons, a quarter (25 per cent) were made redundant and over a tenth (13 per cent) had finished a temporary contract (Sissons *et al* 2011).

As previously discussed, the government is in the process of introducing a voluntary Health and Work Service to help employees and employers manage sickness absence, complementing the introduction of the so-called 'fit note'. In addition, it has ended statutory sick pay recovery for firms to finance a new tax relief on occupational health spending (DWP 2013c). Hopefully these measures will make an impact, though they will still leave relatively few levers and weak obligations to prevent people losing contact with the labour market and drifting into the benefit system.

Statutory Sick Pay (SSP) is low by international standards, imposing a limited financial penalty on employers for falling to manage sickness absence effectively. However half of

[91] Around half of this group – or a quarter of all new ESA claimants – were previously on JSA (Frost and Black 2011). The introduction of the Universal Credit should help to reduce the volume of such 'switching' between benefits.

employers, covering 70 per cent of the workforce, provide full pay for those on *occupational* sick leave (Black and Frost 2011). As our international review highlighted, other countries (such as Sweden) place greater demands on employers and employees to exhaust all possibilities for occupational rehabilitation. The UK is also unusual in having a comparatively short period of statutory sick leave (28 weeks), meaning that those with a temporary health conditions get drawn into the disability benefit system (through ESA) more quickly than in most European countries[92].

This settlement arguably leaves the UK with the worst of all worlds: a short period of laissez-faire sick leave, rather than one that is longer but more interventionist. This settlement contributes to an ESA caseload that yokes together those with temporary sickness or health condition, who once they recover are likely to regain full work capacity, and those with long-term, chronic conditions, who are likely to require particular forms of support to be able to work, potentially on an on-going basis. This structural architecture will not materially change as a result of current policy plans, or the introduction of Universal Credit. Therefore, while the new Health and Work Service should be given a chance to make a difference, two further reforms should also be considered.

First, **an occupational health plan should be mandatory after 13 weeks of sickness absence, along with a requirement for employers to consider modifying work duties or the work environment**[93]. The voluntary nature of the Health and Work Service means that someone could go through over six months of sick leave with no support or obligations to return to work. Moreover, one study of employees who had experienced a period of sick leave found fewer than half (44 per cent) had employers that had offered or made adjustments to help them to do their job (Young and Bhaumik 2011)[94]. A tiny minority of sick leave periods last 13 weeks so intervention at this point would have limited deadweight. Meanwhile, *not* intervening increases the chances that opportunities to improve an individual's health and maintain their labour market attachment will be lost.

Voluntary referrals to the Health and Work Service should continue to be available after four weeks of sick leave. This will provide light touch support and encourage action to address absence from work. However, after 13 weeks the employer and the employee should be required to discuss the situation and draw up a jointly agreed back to work plan (building on the 'fitnote' that would have been issued earlier by a GP). As part of this process, there should be expectations on employees to engage with steps to return to work, plus obligations on employers to consider modifications to work duties or working conditions that would make this more possible. This could include the offer of an alternative position with the same employer, though with no obligation for the employee to accept a reduction in their terms or conditions at this stage.

Other than this broad framework, the content of back to work plans should be a matter for employers and employees to agree. However, there should be a requirement for an

[92] For a useful overview of international sick pay systems see: http://www.cepr.net/documents/publications/paid-sick-days-2009-05.pdf

[93] There is good evidence that 13 weeks might be 'too late' and that it would make sense for mandatory engagement to begin earlier. However, this would depend on resources and capacity.

[94] The options included: different or reduced working hours (18 per cent); different duties (15 per cent); equipment to help do the work (11 per cent); different chair or desk (10 per cent); extra breaks (7 per cent); changes to work area to improve access (6 per cent); coach or personal assistant (1 per cent); building modification, e.g. ramps (1 per cent); and none of the above (56 per cent). These responses came from a sample of people who had experienced at least five days of continuous sick leave, but the employer action (or inaction) refers to any point not that specific period of leave.

occupational health professional and the employee's GP to be involved, ideally with both providing guidance and input (integrating this process into the recently introduced 'fitnotes'). This contribution could come through the Health and Work Service, if capacity allowed, or from the NHS; perhaps co-ordinated through NHS Health at Work, the network of occupational health teams[95]. This approach would aim to foster workplace co-operation, though in the final instance, an employment tribunal should be able to test whether either party had done everything reasonably possible to secure a return to work. Employers would not be able to dismiss an employee on sick leave unless the latter had failed to take reasonable steps to prepare for a return to work.

This 13 week intervention would also provide a further opportunity to identify more serious issues, where a return to work with the existing employer is highly unlikely. At this point, in such situations, an employee should be free to look for an alternative job, with the support of occupational health professionals, without forfeiting their sick pay or employment contract. As per current government policy, employers should be able to claim tax relief on up to £500 a year per employee of spending on health-related interventions (approved by the Health and Work Service) and make claims for funding from Access to Work. This framework would provide a stronger mechanism to act on long-term sickness absence, to keep more people in work and out of the benefits system.

The second further reform should be **scrapping the ESA assessment phase and creating an equivalent period of conditional, state-funded sick pay for those who have exhausted employer-financed sick pay, while protecting their employment contract during this three month period**. In their review for the government, Carol Black and David Frost were critical of the ESA assessment phase, given that it leaves individuals facing a significant period where it is likely they receive no back to work support and face no obligations in return for support from the state (Black and Frost 2011). At the time of their report, the average actual waiting period for a WCA decision was 128 days (not 91, or 13 weeks). Up until June 2013, over half (53 per cent) of all those who had made a claim for ESA were found fit to work, meaning a large number of people focused on accessing a benefit when they might have more productively been preparing for work[96].

Drawing on this argument, the Black/Frost review proposed scrapping the ESA assessment phase, so people got support and faced obligations sooner, combined with guidance to JobcentrePlus staff on directing people towards JSA and away from ESA where appropriate (Black and Frost 2011: 69-74). In response, the government argued these goals would be met by the introduction of Universal Credit. However, while the assessment phase will cease to exist in its current form (as ESA will no longer exist as a separate benefit), the description of greater engagement in the early part of the claim for those coming from sick leave is vague and there is no commitment to reducing the end-to-end WCA process, during which time people are focused on access to benefit not necessarily entry to work (DWP 2013c: 45-49).

However, the downside of the Black/Frost proposal was that is risked increasing the number of people drawn into a disability benefit regime, when their health condition might be temporary. A better solution would be to give those coming from a period of sick leave a

[95] See http://www.nhshealthatwork.co.uk/index.asp for more information.

[96] https://www.gov.uk/government/collections/employment-and-support-allowance-outcomes-of-work-capability-assessment It is worth noting that this share had been dropping significantly on a monthly basis, from over 60 per cent at the end of 2008 to around 30 per cent in the first half of 2013.

little more time to recover and return to work, but expect them to actively take such steps. This could be achieved by replacing the 13 week ESA assessment phase for those exhausting employer sick leave[97] with a period of state-funded sick pay of equivalent length, while protecting their employment contract for this additional period. This period of state-funded sick leave should be conditional on an eligible individual agreeing an updated back to work plan, signed off by an occupational health professional, the employer and a JobcentrePlus adviser (and confirming their contract of employment).

During this further three-month period, an employer would not be able to dismiss an employee unless they had clearly failed to take reasonable steps to prepare for a return to work. Revised back to work plans at this stage would provide a further opportunity for individuals to request modifications to work duties or the working environment. In addition, at this stage, employees would be required to take up any alternative job offered by the employer. In other words, both parties should be expected to exhaust all rehabilitation opportunities, supported by occupational health experts and with the awareness and agreement of JobcentrePlus. There would be no change to sick pay costs or liabilities for employers; the additional obligation would be to give their employees a little more time and support to resume their working role.

Efforts to stem the flow of ESA claims from employment need also to take account of the fact that over half of those coming through this route do not pass through a period of sick leave or pay first (perhaps due to temporary or zero hours contracts). For this group, scrapping the assessment phase would ensure that they received support and obligations as quickly as possible. In practice, the time it takes for the WCA to be carried out would depend on its administration, but an official 13 week waiting period would not be built into the process: assessments should proceed as soon as possible. As the government set out in its response to the Black/Frost review, under Universal Credit, individuals would be expected to have some engagement with a JobcentrePlus adviser during any period prior to their WCA. Those applying to ESA – or its equivalent under Universal Credit – via other routes, including other benefits, would be unaffected by this change.

The period of state-funded sick pay should be paid at the same rate as the ESA assessment phase: £72.40 a week for those over aged 25 or more and £57.35 a week for those aged under 25 (matching the comparable JSA rates), meaning a drop in income for those previously on SSP (£87.55) or occupational sick pay. The only risk of higher costs from this change would be drawing more people into this part of the system, which is potentially more attractive for individuals given the chance to maintain their employment contract, but potentially less attractive in being more demanding than the current ESA assessment phase.

The Frost/Black review argued that scrapping the ESA assessment phase would reduce government spending by around £400 million from savings on benefit payments and administration, plus higher employment rates (Black and Frost 2011). Ending what is effectively a 'no conditionality period' should generate benefit savings, while any risk of higher expenditure from a greater demand for WCA assessments should be managed by good upfront advice from JobcentrePlus (as recommended by Black/Frost and accepted by the government). Employed individuals would, of course, retain the right to apply for ESA and undertake a WCA at any point, such as if an occupational health expert agreed that a

[97] Set at a minimum of 28 weeks to reflect the maximum duration of SSP, but it could be longer if employers provided longer periods of occupational sick pay.

long-term, chronic condition made a return to work with the existing employer impossible. This would end their employment contract and right to sick pay.

This change could have the biggest impact on those in employment before making an ESA claim who leave their job due to redundancy. This accounts for a quarter (25 per cent) of all those in work prior to their claim, or over one in ten of all ESA claims (13 per cent, or around 80,000 people per year) (Black and Frost 2011). Some of this group will have exhausted sickness absence, while others may have been dismissed at an earlier point. The reforms proposed here would aim to create a context where employee and employer take positive steps at an earlier stage to avoid redundancy on health related grounds. More effective interventions during the sickness absence period could generate substantial benefit and health-related savings, by keeping people in work and reducing flows into the welfare system.

Overall, the goal of these reforms would be to enable as many people as possible to improve their health so that can return to work with their employer; keep all those who are able to work focused on a rapid return to the labour market (and away from the WCA); while ensuring those who have a long-term or chronic condition that reduces their capacity to work for more than a temporary period access appropriate forms of supported employment as soon as possible. These objectives would be further supported by stronger recognition of the link between employment and good health within the NHS. Giving employment more prominence in the NHS Mandate[98], locating employment advisers in GP surgeries and greater scrutiny of the use of 'fit notes' are all worth considering.

iv) Reduce the risk of hiring those with a health condition or disability by the state taking on sick pay liability for ex-ESA claimants in the first year of employment, starting with small firms[99]

Reforming employment support and the sick leave period would help to enable more people to get into work and stay there. However, it is also important to address the reality that people facing labour market disadvantages need to find an employer willing to take them on. This can be a particular problem where individuals have a health condition of disability, which can present a risk to prospective employers. It is likely that this is an important factors contributing to poor job outcome rates for ESA participants on the Work Programme.

While discrimination against disable people still exists and must be confronted, there might also be reasonable employer fears about future sickness absence. Some people on inactive benefits have not worked for a long time, meaning that employers might not have a recent reference to reassure them about the employment potential of the candidate in front of them. To respond to this challenge, the next phase of welfare reform should also aim to improve incentives to hire among those facing labour market disadvantage, to complement the stronger obligations and protections for employees under the reforms of sickness recovery proposed above.

The risk to small firms of hiring those with a health condition or disability has actually *increased* following the ending of statutory sick pay recovery, via the percentage threshold scheme (PTS). However previous SSP recovery scheme was not designed to reduce

[98] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/256406/Mandate_14_15.pdf
[99] This recommendation is drawn from a recent IPPR report: http://www.ippr.org/assets/media/publications/pdf/Small-firms-giant-leaps_Apr2014.pdf

employer risks and liabilities where they were likely to impact on hiring, nor was state support targeted on reducing labour market disadvantage. Therefore, SSP recovery should be restored in respect of individuals hired from ESA; with their employer being able to reclaim costs for any subsequent period of sickness absence. This would reduce the risk of taking on someone who might be more likely than average to face periods of sick leave, while confronting a barrier to being taken on among ESA claimants.

This would be a new kind of policy approach that would benefit from experimentation and evaluation. Therefore, in the first instance, such a new right to SSP recovery should be focused on small firms, which are least able to absorb sick pay costs[100]. And to control costs, it should be limited to the first year of employment after leaving ESA, though this could be extended in time[101]. Small firms should be able to recover 92 per cent of SSP costs, mirroring the proportion of SMP costs that larger firms can recover. This would substantially reduce the costs of sick pay for this group, with a system more generous than the old PTS for employers hired from ESA[102]. The reason for not providing full cost recovery would be to ensure that employers retained some 'skin in the game'[103]. Getting employees covered by this policy back to work quickly would still be in the firm's financial interest.

It difficult to precisely model the cost of this policy since it rests upon the (relatively small) flow into employment among a specific group of benefit participants. However, to show that the costs would not be large, we provide a rough estimate. The recent review for the government of sickness absence estimated that around a third (31 per cent) of ESA claimants were in work 12–15 months after they started their claim (Black and Frost 2011, drawing on a survey of those claiming between April and June 2009). Given the latest data showing that there were just under two million ESA claimants in November 2013, this suggests around 611,000 ESA claimants would be in work 12–15 months later (January – March 2015).

The same study found that around a fifth of those in work 12–15 months after claiming ESA were on sick leave. Assuming that this proportion was consistent with the subsequent three-quarters, an estimated 460,000 spells of sickness absence a year might be expected to be accounted for by recently employed ESA claimants. Based on the average length of sickness absence spells calculated by the Health and Safety Executive (5.02 days) (Reetoo et al 2009), and the fact that statutory sick pay is only payable after the third day's absence, close to 940,000 days, or 187,000 weeks, of sickness absence annually is estimated as being accounted for by recently employed ESA claimants.

In practice, recent ESA claimants are likely to experience longer than average spells of sickness absence. It is estimated that around five per cent of absence spells are longer than 20 days and that these longer spells last on average for 52 days (Reetoo et al 2009). If we assumed that *20 per cent* of sickness absence spells among former ESA claimants had that higher average duration of 52 days – four times the rate of all sickness absence spells – this would imply 5.3 million days, or 1.05 million weeks, of absence eligible for SSP

[100] Defined as those eligible for the higher rate of Statutory Maternity Pay (SMP) recovery (i.e. businesses with an annual NICs liability of less than £45,000).
[101] In addition, employers should be able to draw on Access to Work to cover periods of sick leave arising due to impairment issues with replacement staff.
[102] Under the PTS, employers could only recover SSP costs that were higher than 13 per cent of NICs liability in any one month.
[103] http://quarterly.demos.co.uk/article/issue-2/skin-in-the-game/

recovery. With SSP payable at £86.70 a week, and 92 per cent recoverable, this would result in cost to the state of £84 million a year.

By limiting this more focused SSP recovery scheme to small firms, the public expenditure liability would reduce. As a guide, a little fewer than a third (29 per cent) of employees work for employers with less than 50 staff. Scaling down the costs by this proportion suggests a figure of around £25 million a year. This is less half the cost of the previous SSP recovery scheme. The aim of this policy would be to encourage small firms to hire more people from ESA. This could push up the cost, but would also generate extra revenue to the exchequer through reduced spending on out-of-work benefits and greater tax and NICs receipts.

If effective, this targeted SSP recovery mechanism could be extended to larger firms or to a more systematic use of so-called 'experience rating' of employer's NICs liabilities based on their contribution to benefit off-flows and on-flows (as operates in New York[104]). A modest version of this model would be to provide a NICs rebate for hiring anyone that had been on benefits for over a year and impose a NICs penalty on employers for any former employee that ends up spending more than 12 months on benefits immediately after leaving them. Such strategies should be combined with on-going efforts to confront disability discrimination, improve employer understanding and awareness of disability issues, and increase the availability of flexible workplaces capable of adapting to the needs of those with particular health conditions or disabilities.

[104] Duncan O'Leary at Demos has done some thinking on this.

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