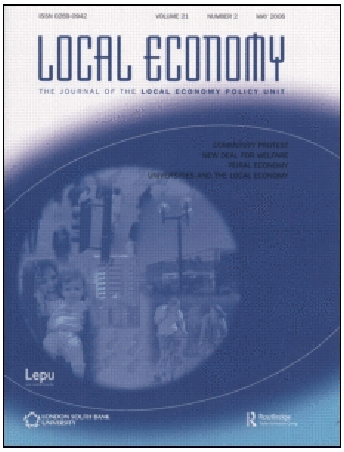


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# Welfare to Work - From Special Measures to 80 Per Cent Employment

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VIEWPOINT

# Welfare to Work – From Special Measures to 80 Per Cent Employment

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After 15 years of consistent growth in the labour markets of Britain, North America and most of Europe, 2009 is turning out to be a difficult time to implement further welfare reform. In the UK, however, the pace of change has never been faster – just as one phase is being implemented, another even bolder plan is announced to make almost everyone on benefits actively seek or prepare themselves for work. At the same time, the Government recognises that it cannot raise the employment rate to 80 per cent, eradicate child poverty by 2020 or achieve disability equality by 2025 without devolving much of the planning and implementation of welfare to work and skills. Just as the country has reeled from the onset of a recession, the Government has announced plans intended to avoid a repeat of experience from previous recessions – and thereby avoid 'today's job losses becoming tomorrow's scars on our communities'.

In this special edition of *Local Economy*, we critically examine the new policy drivers and assess whether these are logically consistent and capable of delivery. And we do so at a strikingly tough moment for labour markets across the world and in the UK especially. Whilst public decision-takers press on with a policy framework designed in good times, we reflect on its implementation in a more volatile and less predictable labour

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market. In particular, we review the policy context, the evidence of ‘what works’ and examine how the employment and skills system can be improved to achieve a triple impact – help greater numbers of people into work, make sure that employer needs are met and accelerate economic recovery.

We consider some of the developing policies that have led to five critical changes in the approach to labour markets. First, the recognition that labour markets have distinctive local features and that labour market services may be more effective if national systems are adjusted to fit local priorities and then planned and delivered across functional economic geographies with decision taking at the local and sub-regional levels – with the City Strategy pilots and Multi Area Agreements being the latest logical step. Secondly, we touch on the marketisation of welfare to work with the transfer of risk from the public to private sector. Thirdly, we reflect on the significant changes that have occurred to the benefit system to create a more personalised system, but which have extended conditionality to many more claimants and which is leading to the creation of a single benefit for all claimants. Fourth, we examine the drive towards integration of labour market services covering the full spectrum from pre-work to post-placement, retention and progression and merging a ‘jobs-first’ approach with workforce development and upskilling. Finally, we recognise the individualisation of services for workless people and the move away from services designed for relatively arbitrary categories of claimants towards a more personally tailored system.

It is still very hard to judge the depth and extent of the current recession that has gripped most of the developed world. The catatonic shock felt amongst employers, as the first effects of an unprecedented recession start to be felt, does not look promising. In the British context, the recent sharp rises in unemployment shine a very harsh spotlight on a policy paradigm that has presumed continuous growth in the demand for labour. With the headline count of Jobseekers Allowance claimants breaching the symbolic ceiling of a million claimants, the UK Government has decided to hold its nerve. Despite economic downturn, it is continuing with a policy aimed at activating lone parents and people on sickness and incapacity benefits whilst also marketising its into-work delivery processes and simultaneously beginning to devolve the planning of an integrated skills and employment system to regional and local government.

Alternatively, is the momentum of the past decade simply propelling the UK Government towards an electorally damaging conjunction: compelling lone parents and disabled people towards employment just as a catastrophic recession dries-up the source of potential jobs?

## The Policy History

The period between the mid 1970s and the mid 1990s were two decades when mass unemployment became a political and economic reality for millions of people. The UK has a long history of labour market activation measures with several marked phases of change which have tended to reflect these economic cycles. Each recession since the mid 1970s has tended to shake-out large population groups from secure employment and contribute to rising unemployment and economic inactivity. In each subsequent recovery however, the levels of worklessness remained higher than in the previous cycle.

Britain experienced three recessions during this period: the first resulted from the shock of OPEC oil price rises following the 1973 war in the Middle East; the second recession from 1981 to 1982 was deliberately induced by a policy of high interest rates and an overvalued currency; the third recession in 1991 was prompted by a decision to shadow the Deutschmark and subsequently to peg the value of Sterling at an unrealistically high rate within the European Exchange Rate Mechanism (ERM). In September 1992, the financial markets forced Sterling's ejection from the ERM and this involuntary devaluation forced a complete reversal of policy and dramatically improved Britain's export performance, leading to growth in output, earning and, eventually, employment. The prevailing political reaction to the recessions of the 1980s and 1990s was notoriously described as being a 'price worth paying' to embed a new global economic order and enable the British economy to emerge leaner and more competitive.[1]

The 1980s and 1990s recessions had different effects with the first recession hitting the North, Wales, Scotland and the Midlands but leaving the South East, South West and East Anglia relatively untouched (although inner London lost many jobs). The recession of 1990 affected all regions more equally so that, in London for example, unemployment reached around 3 percentage points higher at the worst point of the 1990s recession than it had been in the 1980s. Conversely the highest rate in the North of England was about 5 percentage points lower than it had been in the 1980s (16 per cent compared with 11 per cent) with a similar experience in Scotland (10 per cent compared with 15 per cent). The worst of de-industrialisation was over by the time that recession struck again in the early 1990s and, in these regions outside the South East, long-term unemployment had been converted into long term economic inactivity as hundreds of thousands were transferred from unemployment related benefits onto sickness and incapacity benefits.

The political environment and purpose of welfare to work has changed since the mid 1980s when temporary special employment measures were mainly designed to 'suck-up' the growth in post-recession long-term unemployment. By the early 1990s, the growth in 'worklessness' was amongst economically inactive people – either lone parents or those receiving sickness/disability benefits. The emergence of this long-term

[1] Hansard debates, 19 May 1991, col number 413 (Norman Lamont MP said that 'rising unemployment and the recession have been the price that we have had to pay to get inflation down. That price is well worth paying.')

non-employed population was obscured at first by an aggressive 'jobs-first' focus on economically active claimants, particularly young people. Some success was achieved but the overall employment rate has remained doggedly stuck at around 74 per cent right through the 15 year economic upswing – with low rates of employment entrenched in mainly urban areas. Success rates of many welfare to work measures have been relatively poor and 'jobs-first' has not ensured long-term job retention, advancement and wage gain.

Over the course of three decades, the British Government response to these sharp increases to unemployment has progressed from an initial model in the early and mid 1980s of 'absorption', whereby special employment measures on a very large scale ensured that many long-term unemployed people had access to temporary work or self-employment. This model appears to have persisted throughout the 1990s in much of Continental Europe not least because the reunification of Germany caused a prolonged downturn in the mainland European economy and prompted a further round of massive industrial restructuring.

In Britain during the mid 1980s this model changed significantly with the introduction of the 'Restart' process, which began to shift the burden of responsibility towards the individual and away from the State. This coincided with a relatively short period of economic growth. Many of the new jobs were predominantly part-time and were overwhelmingly filled by women. This proved to be no substitute for displaced workers who were mainly men wanting full-time work to earn enough to restore their previous levels of household income. The key feature of the Restart model was a tightening of benefit rules and a tougher testing regime to establish whether claimants were available for work and actively seeking work. Restart began the process of downgrading wage expectations and preferences for occupations for which jobseekers were suited. In parallel, the Employment Service was given a performance management framework which encouraged disqualification and movement of claimants from mainstream unemployment benefits onto other types of social security.

The language of Restart strongly emphasised action, motivation and attitudinal change, which was underlined by the Government's marketing slogan 'workers without jobs for the jobs without workers'. The Employment Secretary at the time was one of Prime Minister Thatcher's closest confidents (Lord) David Young, of whom she once memorably said 'other ministers bring me problems, David brings me solutions'.[2] Young understood the need to adjust the perception of unemployment from being an economic phenomena (which the Government was considered responsible for) to a feature of individual responsibility.

[2] '*Top 50 most influential people of Margaret Thatcher's era*', Daily Telegraph, April 2008 www.telegraph.co.uk/news/1435355/Top-50-most-influential-people-of-Margaret-Thatchers-era-R-Y.html

His mission was to redefine unemployment as being a result of personal deficiency: jobless people chose to live in the wrong place or had the wrong attitudes to work. However, the reality of Restart and its many programmes, such as Employment Training and Jobplan Workshops, was failure. There were low job entry rates and high levels of dropout, despite the increasingly punitive system of mandatory participation and benefit sanctions for non-compliance.

Increasingly, this system became described as ‘workfare’ because it reflected many of the elements identified in the USA. During the Reagan presidency in the mid 1980s, participation in work-related schemes was obligatory and, in some States, penalties for non-compliance could be harsh, especially as most welfare recipients in the USA tended to be single mothers. Even though the specifics of US workfare did not translate very easily to the UK situation, the political rhetoric did.[3]

By the early 1990s, Britain had begun another recession, which the Restart model was poorly equipped to handle. The claimant count rose to over 3 million once more and the effectiveness of the Government’s labour market measures was vulnerable to the charge that it was both ineffectual and increasingly punitive.

The landscape had changed with the launch of Training and Enterprise Councils (TECs) in 1990. These had been announced in the December 1988 White Paper ‘Employment in the 1990s’ and were modelled on Private Industry Councils in the USA. The original purpose of TECs had been to overcome the repeated failure of firms to invest in training their workforce. The Secretary of State at the time was Norman Fowler, who told the TECs that they should become pre-eminent in promoting competitiveness, skills, educational attainment and local regeneration. But (in England especially) they got little money and even fewer powers to integrate their activities into the planning and economic development framework of their local economies. Fowler called for business leaders to deliver a ‘skills revolution’ and inject a dynamism into the delivery of training and he hoped this would carry over into the national unemployment programmes that had been transferred to the TECs.

However, the TECs were launched just as the 1990s recession started to bite. This meant that employers invested even less in training their workforces and TECs found they had no policy levers to pull or funds to spend in order to boost employee training. Having been given significant programme budgets, TECs downgraded their skills focus and concentrated on trying to tackle unemployment. However, their programmes had to be delivered to a prescribed design and managed within rigid, nationally defined rules. The main programme of the time, Employment Training, and its successor, Training for Work, was dogged by the perception of ‘cheap

[3] The design, funding and performance of these schemes and associated changes to the benefit system were comprehensively documented in numerous reports published by the Unemployment Unit and its journal ‘Working Brief’ between 1986 and 1996. Some of these are available at http://tinyurl.com/6ntsu7

labour' and were plagued by poor job entry rates, limited achievement of qualifications, and consequently experienced high levels of drop-out. More significantly, the programmes had very weak employer engagement and seemed to deliver skills and work preparation of very limited relevance to most firms.

By 1995, the scale of worklessness had reached its worst ever point. There were just over 6 million people claiming the equivalent of Jobseeker's Allowance, Income Support and Incapacity Benefit and this represented about 1 in 6 of the working age population. A fifth of all children lived in households that depended on these benefits. The policy response was to further ratchet upwards the punitive regime with the introduction of Jobseeker's Allowance (JSA) in 1996. The benefit itself was less generous than the previous combination of Unemployment Benefit and/or Income Support especially for childless couples and under-25s. It was introduced alongside a series of stringent new requirements and far fewer people could qualify for hardship payments if they fell foul of this new testing system. The new Jobseeker's Direction power was used to make claimants apply for part-time jobs. In a Kafkaesque twist of logic, a claimant could still legitimately decline the *offer* of a part-time job, but they might be penalised for not applying for it in the first place.

In the year that JSA began, the Employment Service had a target to refer 215,000 people for adjudication on the grounds that they might not meet the new conditions for receipt of benefit. In the previous year, the Employment service had managed to over-achieve their target by almost 90,000. And as nearly 90 per cent of all referrals led to disqualification this became tantamount to a 'front-line' summary disqualification. Within weeks of the 1997 election, the incoming Labour Government changed this rule, although it retained most of the JSA regime intact.

Finally, in the dog days of its term in office, the Conservative Government introduced a programme called 'Project Work' which was explicitly designed to 'deter those whose claims are not genuine', according to the then Secretary of State. With a job entry rate of just 8 per cent, it proved to have the worst success rate of any previous programme – although the evidence showed that it was only fractionally worse than Job Plan Workshops (JPW), which had a 9 per cent job entry rate. Indeed, the evaluation evidence showed that, of a control group of claimants who did not go through JPW, a startling 22 per cent got back in to work. This seemed to epitomise everything that was wrong with that generation of schemes – people who steered clear of them actually did better than the people who were made to participate.

The election of a new Government in 1997 marked a significant shift in the approach to Britain's jobless. First, the Government levied a £5.2 billion windfall tax on the privatised utility companies and this was used to fund the suite of New Deal programmes which Labour had announced in November 2005. Shadow Ministers had promised there would be 'genuine employment and education opportunities . . . of jobs not schemes and wages not benefits' and the New Deals were designed and launched amidst a backdrop of great optimism and, crucially, a very buoyant labour market. The Government's signature pledge to help a quarter of a million young people off benefit was achieved within two years of the programme launch, although the job entry rates rarely proved to be more than about 45 per cent. Alongside the headline programme for 18–25 year olds, there was also a New Deal for the 25-plus, for the 50-plus, a New Deal for disabled People, for lone parents and even a 'New Deal for Musicians' although this proved to be as illusive as it was exotic.

Despite widespread political enthusiasm for the New Deals, it was clear that the incoming Labour Government had shifted quite fundamentally from earlier concepts of achieving full employment. It had come to power in 1997, having accepted many of the labour market and social security reforms introduced by the preceding Conservative governments. The (then) Chancellor of the Exchequer described 'employment *opportunity*' as the modern definition of full employment, and an active benefit regime would be one of the key elements in achieving this.

In addition to activation measures, a second plank in the new Government's strategy was to make 'work pay' and ensure that low income families would have a strong incentive to choose work rather than benefits. In 1999, the Government introduced the Working Families Tax Credit and, by 2001, the Government claimed this was helping nearly 2½ million children in over 1¼ million families with an average award of about £80 per week. These tax credits augmented the higher earnings that were guaranteed by the National Minimum Wage. By April 2003, the combined effect of the Minimum Wage, the Working Tax Credit and Child Tax Credit guaranteed a weekly income would have risen from £182 per week to at least £237 for a family with one child and one person working 35 hours per week. The Government revised these estimates recently, and now says this figure will have increased to £304 per week by April 2009. For single people, the gains from working were even greater with a guaranteed minimum income of £154 per week if working 35 hours. This represented a 50 per cent improvement compared with out-of-work benefits. The latest figures estimate that by April 2009 a single person should receive a minimum net income of at least £196 per week.

Having 'achieved' its New Deal pledges, by 2001 the Government began to focus on a worklessness problem that was a more comprehensive phenomena. It promised in 1999 to halve child poverty by 2010 and to eliminate it by 2020. This would mainly be achieved by significantly improving the employment rates of lone parents, people with disabilities and ethnic minorities. So this meant that policy attention shifted more emphatically towards people in receipt of benefits, which did not require labour market engagement, mainly incapacity benefits and Income Support for lone parents.

## An 80 per cent Employment Rate

In 2001, a landmark Green Paper 'Towards Full Employment in a modern society'[4] was published in March of that year and this was reinforced in November by a joint DWP and Treasury paper 'The changing welfare state: employment opportunity for all'. This argued that a high and consistent level of employment in all regions and localities could not be achieved unless there was a significant reduction in the 3 million working-age households in which there was no one in employment. It argued that inactivity was strongly concentrated in geographic areas where the demand for labour was weak. It showed a strong correlation (at local authority level) between unemployment rates and the rate of benefit receipt by people with an illness or disability and the rate of benefit receipt by lone parents. The reverse was also true: where the unemployment rate was low, the rate of benefit receipt amongst lone parents and those with an illness and disability was also low. Equally, the evidence showed that a very similar relationship existed between employment rates and low qualifications. In areas with generally high rates of employment (close to 80 per cent), the low skilled were much less likely to be unemployed or inactive. And in places with lower overall employment rates (less than 70 per cent), the proportion of low-skilled people in work was about a half of that recorded in the 'better' labour markets.

The policy response announced in November 2001 was to focus more closely on a number of area-based initiatives, such as Employment Zones (for JSA claimants), Action Teams (for all non-employed) and StepUp pilots aimed at those who had not found employment from completed spells on New Deal. Each of these localised programmes tested the effectiveness of more flexible services that were delivered in settings that were tailored to their locality. The Government also announced the beginnings of a new programme for disabled people, which would become Pathways to Work and which began in two pilot stages in October 2003 and April 2004.

A key institutional change was the creation in 2002 of Jobcentre Plus, formed by the merger of the Employment Service and a large part of the Benefits Agency. The new agency would start to bring a labour market focus to *all* of the 5 million-plus people receiving a working age out-of-work benefit. The Government had piloted the 'ONE' service beginning in Autumn 1999, which was a limited experiment in integrating ES and BA services and which became a precursor to the new agency. The creation of the new agency brought a much clearer focus to the way it delivered employability services to lone parents and it also led to the slow development and roll-out of the New Deal for Disabled People and the subsequent Pathways to Work programme, which finally became a nationwide service in April 2008.

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[4] '*Towards Full Employment in a modern society*' Cm 5084, Department for Education and Employment, 2001.

At this time, the Government also began to produce a series of studies and policy statements that underlined the importance of local conditions and their decisive impact on overall growth, employment levels and productivity. Some of these position statements reinforced the national strategy for neighbourhood renewal, which highlighted the significance of geographic concentrations of worklessness and social exclusion and sought to ensure that mainstream public services comprehensively addressed the needs of disadvantaged places.[5] Alongside this emphasis on people, the Government also stressed the importance of business growth and entrepreneurship in subregional and local settings.[6] The Social Exclusion Unit also published a key report that examined the concentrations of worklessness at very small geographic levels.[7] This asserted that 'the solution to concentrations of worklessness will be different in different places'. The Prime Minister's introduction to the report said that 'central Government action alone' was insufficient and that 'local authorities, local managers and frontline workers will be given more freedom to do whatever their area or individual client needs'.

Despite this commitment to localism and flexibility, the Government's employment system still had several serious weaknesses, which reflected a centrally-driven and highly prescriptive policy framework. First, there was a contradiction between the 'work-first' culture within Jobcentre Plus and the Government's emerging focus on improving skills – which eventually led to the Leitch inquiry and subsequent White Papers. The problem with rapid job-entry was underscored by evidence showing that over two thirds of all people who got a job after being on benefits subsequently returned to claim a benefit within 12 months. Secondly, there was little emphasis on helping people to stay in employment or to advance and improve their earnings whilst in work. Thirdly, there appeared to be very poor levels of employer engagement so that much of the employment system was not responding to the market very effectively and this seemed to be a root cause of the overall poor performance of the Government's programmes.

Alert to these weaknesses, the House of Commons Employment select committee promptly called for a qualitative shift to the Government's welfare to work strategy.[8] The MPs noted that, although the number of JSA claimants had fallen in the preceding five years of buoyant economic growth, other groups of claimants had increased. Those receiving a

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5 '*A New Commitment to Neighbourhood Renewal: A National Strategy Action Plan*' Social Exclusion Unit, 2001 www.neighbourhood.gov.uk/publications.asp?did=85

6 '*Productivity in the UK 4: the local dimension*', HM Treasury, 2003 www.hm-treasury.gov.uk/local_dimension.htm

7 'Jobs in Deprived Areas' Social Exclusion Unit, 2004 www.cabinetoffice.gov.uk/social_exclusion_task_force/publications

8 '*The Government's Employment Strategy*', House of Commons Work and Pensions Committee, Session 2001-02, Third Report, July 2002 www.publications.parliament.uk/pa/cm200102/cmselect/cmworpen/815/81502.htm

sickness or disability related benefit had continued to grow to almost 2¾ million people, of whom nearly 4 in 10 actively wanted to work.

The Committee called for higher performance and argued that the existing structure of programmes for different categories of claimants would not provide this. They said that 'every claimant has an individual set of circumstances and the current range of programmes lack the necessary flexibility'. They specifically called for Action Teams and Employment Zones to be extended because they had the 'flexibility to tailor support packages that fit each person's precise requirements and not bracket an individual simply based on their benefit status or age.' The Committee also endorsed the move towards better employer engagement and a greater emphasis on job retention. The MPs had been impressed by examples of job retention in the USA and Europe and they argued that Jobcentre Plus should concentrate on an 'after-care' service to help new employees stick with work and achieve promotion and onward progression.

A part of the reluctance by the Government to implement much of the 2001 Green Paper may have reflected the deteriorating labour market during an 18 month period to mid 2003. Relatively weak economic conditions led to a slowdown in jobs growth and, in several regions, especially in London, the overall labour market actually contracted slightly. In retrospect, it appears that the Government also lost some of its determination because the Ministers most closely associated with the Green Paper (especially the Secretary of State David Blunkett) were moved to other portfolios.

Nonetheless, the Government began to produce a new plan called Building on New Deal (or 'BoND').[9] This was launched at the June 2004 Welfare to Work Convention in Manchester and it promised greater flexibility and discretion to 'remove the complexity and bureaucracy from existing employment programmes'. It would localise the delivery of welfare to work programmes, tailoring these to local labour market circumstances and would provide workless clients with 'a more individually designed' service. The BoND report emphasised that lone parents, the partners of claimants and people with disabilities or health conditions represented key new client groups who should receive into-work services. It also identified that action was needed to address concentrations of worklessness that persisted mainly in cities but also some other places, such as former coalfields and in coastal towns.

Central to BoND was the proposal that local job advisers would enjoy 'new freedoms, greater powers and the flexibility to tailor a wider range of training and support to each individual's needs'. More programme budgets would be devolved to local management so that advisers could 'purchase training and support to tackle local problems and meet individual needs' and specialist services would be commissioned to help people with specific problems 'such as former drug addicts, alcoholics or homeless people'.

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[9] '*Building on New Deal: Local solutions meeting individual needs*', DWP, 2004 www.dwp.gov.uk/publications/dwp/2004/buildingonnewdeal/mainreport.pdf

The report promised that local advisors could also help people to gain skills so they could not merely 'move off welfare and into work' but also 'to win promotion and develop their career'. Altogether, the BoND proposals would create a new 'pick and mix menu' of 13 New Deal services, including generic and specific skills training; wage subsidies; self-employment support; a wide range of motivational support and jobsearch assistance.

The BoND report had also confirmed that the Pathways to Work pilots would be expanded and rolled-out to more areas. This programme had been tried in initial areas and was considered to be a workable model. It asked ICB recipients to attend a series of work-focused interviews with a personal adviser, provided access to Jobcentre Plus programmes, some financial incentives to those entering work and it trialled a series of work-related rehabilitation services. The Government took great encouragement from evidence showing that nearly a half of all claimants wanted to work. According to research, 44 per cent of existing ICB claimants and 81 per cent of new claimants 'said that they wanted to work at some time in the future'.[10] BoND was initially intended to be piloted in 11 'prototype' Jobcentre Plus Districts beginning in October 2005.[11] These would particularly test out how varying degrees of local flexibility could be operated.

However, BoND came to very little following the 2004 Comprehensive Spending Review, which imposed a real-terms reduction of almost 3 per cent a year on average for the years 2004/05 to 2007/08. In a statement briefly published on the Jobcentre Plus website in September 2005, the Director of Provision and Partnership announced that 'as a result of our extremely tight financial settlement . . . we have taken the decision to limit the piloting of BoND to 7 areas'. The timetable would also be delayed so that the pilots would begin in October 2006 with a decision on whether to roll BoND out nationally being made 'following evaluation of the pilots'.[12] However, in 2006, the Government quietly abandoned BoND once it had announced the City Strategy pilots.

By late 2005, there had been further Ministerial changes and the Government re-affirmed its intention to reform the welfare system and a further Green Paper was prepared. Published in January 2006, '*A new deal for welfare*' set out a new framework that was intended to reach the 'aspirational' 80 per cent employment rate.[13] The stated aim of policy was to 'transform the welfare state . . . end the legacy of benefit dependency and deprivation' in order to eradicate child poverty and reach an 80 per cent employment rate for people of working age. The Government calculated

[10] '*New Deal for Disabled People: Evaluation Eligible Population Survey: Wave One Interim Report*' (Working age research and analysis report, 170), DWP, 2003 www.dwp.gov.uk/jad/2003/170rep.pdf

[11] House of Commons debates, Hansard, 17/11/2004 (column 98WS).

[12] Letter from Jobcentre Plus Director of Provision and Partnership, dated 23/9/05.

[13] '*A new deal for welfare: Empowering people to work*', DWP, 2006 www.dwp.gov.uk/welfarereform/empowering_people_to_work.asp

that it could achieve this level of employment participation primarily by achieving a lone parent employment rate of 70 per cent by 2010 (up from 57 per cent); reducing Incapacity Benefit claimants by one million by 2016 (from a total of 2.6 million); increasing the number of over-50s in employment by one million by 2016 (around 2.6 million people aged between 50 and State Pension age do not work); and by closing the employment rate gaps between disadvantaged groups and the general working age population.

Since 2006, policy was further developed in a slew of Green Papers and other policy statements that set out further structural change.[14] The goals of the strategy were reaffirmed as tackling child poverty by increasing lone parent employment; increasing employment for people with a health condition or disability; and targeting areas of high worklessness. The main principles in the overall strategy were, firstly, to create a stronger framework of rights and responsibilities to move benefit claimants from being passive recipients to being active jobseekers; secondly, there would be more flexible services personalised to individuals' needs; and thirdly a new emphasis on sustainable employment and progression. Finally, the strategy would be delivered through different vehicles: because there should be a clear demand-led focus, this meant 'working in partnership with employers'; equally, the Government recognised that monolithic, nationally designed programmes seemed to have diminishing returns, there should be a new partnership between the public, private and third sectors; and because worklessness was so geographically concentrated, there should be greater delegation to local areas of planning, decision-taking and implementation.

The Government has operationalised these policies by: reforming incapacity benefits to create the new Employment and Support Allowance; a £360 million programme of Pathways to Work; extending support to lone parents and older workers; reforming housing benefit; creating a more flexible and personalised service for jobseekers; and working with (mainly larger) employers through Local Employer Partnerships.

The Government had said that experience from Employment Zones and many other pilots such as Action Teams and Working Neighbourhoods



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[14] 'No one written off: reforming welfare to reward responsibility', Cm 7363, July 2008 www.dwp.gov.uk/welfarereform/noonewrittenoff/.

'Workskills', Cm 7415, June 2008 www.dius.gov.uk/policy/work-skills.html.

'Ready to Work, Skilled for Work: Unlocking Britain's Talent', Cm 7316, January 2008 www.dwp.gov.uk/welfarereform/skilled-for-work.asp.

'Ready for work: full employment in our generation' Cm 7290, December 2007 www.dwp.gov.uk/welfarereform/readyforwork/.

'Opportunity, Employment and Progression: making skills work' Cm 7288 November 2007 www.dwp.gov.uk/welfarereform/making-skills-work.pdf.

'In work better off: next steps to full employment', Cm 7130, DWP, July 2007 www.dwp.gov.uk/welfarereform/in-work-better-off/in-work-better-off.pdf shows that more flexible and individualised services 'demonstrated the effectiveness of a more tailored approach'. The new system would therefore provide a personalised and responsive service that offers support to 'meet individual needs, including help with skills, health, childcare, financial support and accessing appropriate training'. This means moving away from some rigid distinctions between groups eligible for help on the basis of a claimant's age or benefit type. Furthermore, these different forms of delivery had shown there is 'experience and expertise from private, third sector organisations and other public agencies which the new system should use'.

In 2007, the Green Papers signalled a major shift towards delivering many more employability services through local authority, private and third sector organisations, to introduce 'more competition and a more outcome-focused service'. This was underlined by the DWP's Commissioning Strategy, published in early 2008, which says that improved performance should be achieved through economies of scale and a more competitive market.[15] In practice, this will result in a decisive shift towards procuring services from a relatively small number of large 'prime contractors' the majority of which are likely to be from the private sector. The Department anticipates that 'as the market matures' there will be 'fewer and larger contracts covering an increasing range of welfare to work provision'. The Secretary of State, James Purnell, said when launching the commissioning strategy that 'in the past, our contracts have been too small and we've told providers how to do their jobs'. Instead, he claims, the Government will 'have a system where we free them from direct control and allow them to innovate . . . we are going to reward providers for their success . . . in getting people into a sustainable job'. In an article in this issue of *Local Economy*, Crighton, Turok and Leleux debate the contradiction that seems to exist between this large-scale, national contracting and the desire to plan and commission much more locally.

As Purnell's statement emphasises, Government thinking has also shifted away from a simple 'jobs-first' approach. Instead, there is a very keen policy interest on jobs that have reasonable pay levels and which offer opportunities for progression. The Government expects to achieve better retention and progression using a variety of instruments ranging from better advice services, financial incentives and more extensive training. Government interest in sustainability and progression is partly driven by the realisation that around 70 per cent of people who get a job subsequently return to benefits within a year. But the Government has also realised that entry level jobs on minimum wage do not contribute much to the Exchequer: the combination of in-work benefits, primarily Tax Credits, means that the Exchequer savings from people going into work are not very high.

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[15] '*DWP Commissioning Strategy*', Cm 7330, DWP, Feb 2008 www.dwp.gov.uk/publications/dwp/2008/com-strategy/cs-rep-08.pdf

One very significant further feature of welfare reform has been the move towards a single benefit system. The current 'trio' of benefits – for jobseekers, lone parents and disabled people – has begun to converge over the period since early 2007. First, the creation of the Employment and Support Allowance for disabled people and, secondly, the 'activation' requirements for lone parents, have, in effect, begun to move a large number of lone parents onto Jobseeker's Allowance.

## Skills

Learning and skills had remained consistently divorced from employment policy, arguably since the Government abandoned the Skills Commission, established TECs and then hoped that local integration would occur. The Government elected in 1997 had identified that skills were one of the four drivers of productivity – and therefore important. It had also recognised from its very first Budget that there was a very striking correlation between low skills and worklessness. However, it did very little about it. For example, the New Deal programme contained the 'Full time education and training option' but referrals and take-up were low and the tendency for most colleges to offer year-long courses significantly undermined the option's viability. Indeed, the very poor outcomes achieved by FTET slightly jaundiced policy-making opinion within the (then) Department for Education and Employment which (despite its name) appeared to function as two entities. On the creation of the Department for Work and Pensions, this division became even more institutionalised.

By the turn of the decade, the Labour Government had decided that workforce development was an essential part of its dual approach – to achieving economic growth by raising productivity whilst also raising the employment rates and earnings power of low skilled and workless people. The Government set itself some challenging targets in the 2002 Comprehensive Spending Review – a 40 per cent improvement by 2010 in the number of people who are skilled to level 2 (or equivalent) and the aim to raise the learning participation rate at age 17 from 75 per cent to 90 per cent over the subsequent decade. Because 70 per cent of the prospective workforce for 2020 is already over 16 and out of compulsory education, it was also clear that education and training had to be increasingly led by employer demand.

Commissioned by the Prime Minister, the Performance and Innovation Unit (now renamed the Strategy Unit) in the Cabinet Office had produced two reports which, at the time, attracted little attention but which set the template for most of the changes to the skills system that are currently being implemented.[16] These reports evaluated the balance of

[16] '*In Demand: Adult Skills for the 21st Century, Part 1*' (Nov 2001) and '*In Demand: Adult Skills for the 21st Century, Part 2*' (Nov 2002), Cabinet Office Strategy Unit www.cabinetoffice.gov.uk/strategy/work_areas/workforce_development.aspx

responsibilities between individuals, employers and Government and identified ways of stimulating demand for vocational learning by firms. The conclusion was that a ‘demand-led’ system was required – in which the needs of employers and employees determine the content and patterns of learning provision.

The report acknowledged that levels of attainment of young, new entrants to the labour market had been rising, but were not keeping pace with those of other industrialised countries. Additionally, a large number of low-skilled adults (about 1 in 5) persisted in the workforce and, therefore, tackling basic skills should be the Government’s top priority. The long-term aim would be to give all adults the opportunity to achieve a level 2 qualification as just over a third of working age adults (almost 13 million individuals) were not skilled to this level. In the 2001 Pre Budget Report, the (then) Chancellor announced a series of ‘Employer Training’ pilots to test improved access to training and to help employees gain basic and level 2 skills. These pilots started in Autumn 2002 and were the precursor of the Train to Gain service, which is now the Government’s preferred vehicle for raising adult skills.

The PIU report had also recommended a longer term strategy in which the demand for skills and vocational learning would be increased by empowering individuals and employers through ‘placing purchasing power directly in their hands’. This early concept has now been translated in to Skills Accounts announced in 2007.

Further development of the policy framework for skills was ‘offshored’ to an enquiry chaired by Lord Leitch, whose interim report[17] was published in December 2005, and whose final report[18] was published in December 2006. Leitch highlighted the looming skills gaps facing the economy; he forecast that, even if the Government manages to achieve its ambitious targets, considerable problems will still remain in 2020, with at least 4 million adults lacking the literary skills expected of an 11 year old, whilst 12 million adults will be devoid of comparable numeracy skills. Leitch argued that it was necessary to strengthen skills at the top, middle and bottom ends of the labour market: tackling the stock of low skilled adults who lack qualifications, basic literacy and numeracy; investing more in intermediate skills; and increasing further the proportion of adults holding a level 4 qualification.[19]

Leitch also recommended that the bulk of publicly funded, adult vocational skills funding in England should go through ‘demand-led routes’ by 2010. The Government did not fully adopt this recommendation but committed itself to a system of individual skills accounts

[17] ‘*Skills in the UK – The Long Term Challenge*’, HM Treasury, 2005 www.hm-treasury.gov.uk/media/4/A/pbr05_leitchreviewchapters_619.pdf

[18] ‘*Prosperity for all in the global economy – world class skills*’, HM Treasury, 2006 www.hm-treasury.gov.uk/media/6/4/leitch_finalreport051206.pdf

[19] For a sharp critique of Leitch, see ‘Round and round the houses’ by Alison Wolf in *Local Economy* 22(2), May 2007.

(for individuals) and a customer-led brokerage system (for employers) of which Train to Gain will have its funding doubled to just over £1 billion by 2010. The Government also believes it can address the acute problem of adults at the lowest skill levels by introducing entitlement for free learning up to Level 2 for any adult without this qualification and free training in literacy, language and numeracy skills for those with basic skill needs. At the intermediate level, there is also an entitlement towards a first Level 3 qualification for anyone aged under 25, including those who are being trained to this level whilst at work.[20]

## An Integrated Employment System

Some early moves towards creating an integrated system were foreshadowed by the New Deal for Skills, which was announced in the 2004 Budget. This was intended to 'tackle the long-standing barriers between welfare and workforce development' and was expected to implement recommendations from the National Employment Panel's 2004 report.[21] The specific measures to be trialled included the promises of 'new incentives and support for those out of work to help them gain new skills and move into work'; better joint working between Jobcentre Plus and Information Advice and Guidance partnerships to 'offer a more integrated skills service'; and the 'exploration of a "skills passport" concept' to help workless people move into sustainable work more easily. The Government said that Jobcentre Plus would 'start to work with local LSCs to improve integration of services for clients and employers through such initiatives as joint marketing to, and integrated services for, employers, delivering coherent packages of recruitment and training support'. The Government's goal was 'better articulation at local level between employers' skills needs and what is on offer through LSC-funded institutions'. However, the New Deal for Skills was quietly downgraded whilst the Leitch enquiry got underway and its ambitions were subsumed within the Leitch policy framework.

In its response to the Leitch report[22] the Government was very upbeat. It said that a new system was required so that there will be 'no point where "job-search" ends and "up-skilling" begins' and, in future, there should be a 'single customer journey, from poor skills or worklessness to sustainable employment and the skills to progress'. This would be a 'professional and seamless customer service, underpinned by consistent employment and skills information, advice and guidance for individuals and employers'. Consequently, non-employed people should benefit from a new universal adult advancement and careers service to deliver a 'tailored employment

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[20] '*Workskills*', Cm 7415, June 2008 www.dius.gov.uk/policy/work-skills.html

[21] '*Welfare to Workforce Development*' DWP, 2004 www.dwp.gov.uk/ndpb/nep-pdfs/skillswelfaretoworkforcedevelopment.pdf

[22] '*World Class Skills*', July 2007 www.dius.gov.uk/worldclassskills.pdf

and skills offer'; the new service would be created from the current mix of Learndirect and Nextstep providers.

Skills Accounts were announced that would give individuals 'ownership and choice' over the type of training they use – and these will become the primary vehicle for unemployed individuals to access training. These are effectively a voucher system for training and the Government says it will 'trial aspects of Skills Accounts' nationally in 2009–10 with a transition towards being completed by 2010–11. However, the design and timing will depend on 'what emerges from the Learner Accounts pilot' that will be trialled from late 2008 in the South East and East Midlands.

Non-employed people will also benefit from a statutorily strengthened entitlement to free training in basic literacy and numeracy and a first level 2 qualification through Train to Gain. Additionally, a new Employability Skills Programme began, in late 2008, to provide a literacy, language and numeracy qualification, which Jobcentre Plus personal advisors now refer individuals towards.

Integration pilots will begin early in 2009 in three areas – and the assumption is that locally devolved arrangements will also support employers' skills and recruitment needs. The 'Workskills' White Paper announced that, from April 2009, the Train to Gain skills brokerage service will be integrated with Business Link to provide simplified access to a wide range of business support and skills, including links to recruitment support through Jobcentre Plus. Business Link currently provides a range of specialist support for businesses and this too has undergone a simplification exercise in the past 18 months.

However, the Government also wants to ensure that larger employers will also be able to access the kind of skills support currently available through the Train to Gain brokerage service as part of the Business Link's information, diagnostic and brokerage service. Larger businesses, with many operational sites, will benefit from a national point of contact and a nationally specified consistent service. These are now being provided by account managers from the Jobcentre Plus National Sales Team and Learning and Skills Council National Employer Service.

## The 2008 White Paper

Published in December 2008, the welfare reform White Paper represents the final stage of this chronology of Government policy.[23] The White Paper says that it 'takes welfare reform to the next logical stage' and it clearly represents a very significant and decisive shift in Government policy. In addition to achieving an 80 per cent employment rate and contributing towards the eradication of child poverty by 2020, the White Paper says it is creating a 'fairer' welfare system 'where no one is written off or left behind'

[23] '*Raising expectations and increasing support reforming welfare for the future*' Cm 7506, DWP, Dec 2008 www.dwp.gov.uk/welfarereform/raisingexpectations/.

and is contributing to the Government's goal of disability equality by 2025. The White Paper has gone much further than had been previously expected – by simplifying the benefit system; extending benefit conditionality; devolving more of the management and delivery of into-work services; and providing a new range of services especially for people on incapacity benefits and lone parents.

## A Simplified System

The Government intends to 'explore' models to reform the benefits system, including a single income-replacement benefit for people of working age. This is based on a review, which proposed to sweep away the current different types of benefit. In its place there would be a single benefit with three tiers of conditionality:[24]

(1) A 'Work-Ready' group for those who are immediately job-ready. The requirements for this group would largely be based on the current JSA regime.
(2) A '*Progression to Work*' group aimed at those where an immediate return to work is not appropriate but is a genuine possibility with time encouragement and support. The requirements for this group will:
    (a) Reflect the claimant's 'co-ownership of the return to work process';
    (b) Be tailored to their capability and built around their circumstances;
    (c) Be based on activity that supports the client's own path to work; and
    (d) Link up with effective support.
(3) A '*No Conditionality*' group, who would not be required to undertake work-related activity or take steps back to work.

Central to the White Paper is the Prime Minister's assertion that a fair society is built upon 'a shared understanding of what each of us can expect from the other' and consequently the expectation that 'virtually every' working age benefit claimant should 'be required to take up the support that helps people to overcome barriers to work'. In the Secretary of State's words, full employment, eliminating child poverty and achieving disability equality can only be done if the vast majority of claimants move towards labour market participation with the goal of 'making them better off and enabling them to contribute to their community through employment.' There is no doubt this approach will be considered over-harsh by many so the White Paper and subsequent legislation may well be hard fought and prompt rebellions on the Government's backbenches.

[24] '*Realising potential: A vision for personalised conditionality and support, an independent report by Professor Paul Gregg*', DWP, Dec 2008 www.dwp.gov.uk/welfarereform/realisingpotential.pdf

Particularly controversial are the pilot schemes entitled 'Work for Your Benefit' scheduled for 2010, requiring JSA claimants to work for their benefits after two years of unemployment if they remain jobless after participating on Flexible New Deal. There will also be greater expectations placed on more partners of benefit claimants in two ways (starting from 2012–13). Partners of all JSA claimants will be required to look for work in the same way as the main claimant. Only if the partner has a child aged less than 7 years old will this requirement be relaxed. Jobseeker's Allowance will be the only benefit available to a couple if one member of the couple is capable of work. This means that over 300,000 partners may be brought closer to the overall conditionality regime.

The Government also proposes some 'refinements' to the range of sanctions, particularly where claimants sign-off to avoid attending a mandatory interview, appointment or referral to a work programme. Legislation will now tighten-up the way that sanctions are applied in response to 'serious non-compliance' so that it would no longer be possible for a job seeker to ignore a mandatory appointment. There will be a benefit sanction of at least 1 week's worth of full benefit for a first failure, and subsequent failures would trigger a 2 week loss of benefit.

There will also be pilots testing a new conditionality for workless parents. In October 2008, the rules changed so that lone parents are now required to transfer to JSA (and therefore look for work) when their youngest child reaches 12 years old. By October 2010, the Government will have progressively reduced this threshold even further – to age 7. The White Paper now suggests there may be circumstances where this age threshold drops to age 1 year, although in practice it will apply where children are aged from 3 to 7.

The current stock of people on Incapacity Benefits will be 'gradually' moved onto the Employment and Support Allowance (which was launched in August 2008 just for new and repeat claimants). This will require 'better health assessments and individual Work Focused Interviews to arrive at the appropriate support and work-related activity'. The Government has pledged that 'nothing will be required of people which would damage their health or put back their recovery'. However, for those who could work 'there will be increased obligations on them to take up the help on offer, including activity to address their employment related skills needs, with better links to pre-employment and in-work training'. People receiving the payment will be subject to a 'progression to work' requirement and mandated to take steps to get back to work. There will also be new rules for problem drug users who will in future receive an allowance instead of their usual benefits and they will have to show they were addressing their addiction to receive the allowance.

## Devolution and Individual Empowerment

The White Paper says the Government will trial a single employment programme from March 2011 for combined client groups and this should 'meet the needs of job seekers and others with a more personalised support path'. The trials will bring together Pathways to Work and the Flexible New Deal. One of these programmes has only just been rolled-out nationally and the other has not yet been contracted. This single programme would mean a significant shift away from 'categoric' services based on the type of benefit someone receives, their age, length of time on benefits or whether a claimant fits a particular priority group. The Government says it wants to move away from support that is a 'centralised, one size fits all system'. In the past, that approach has 'failed to address the more complex and localised disadvantage but it has also tended to stifle innovation'.

The White Paper moves significantly further from the preceding policy statements that had committed the Government to devolution. The principle of greater devolution was first indicated in the October 2006 Local Government White Paper[25] and was reinforced in the Treasury's Review of Sub-National Economic Development and Regeneration (SNR) in July 2007.[26] The SNR considered how the Government's policies and interventions might be improved to 'strengthen economic performance in regions, cities and localities throughout (England)' and 'to tackle deprivation at every level'. It outlined the Government's intention to refocus powers and responsibilities to further encourage economic growth and regeneration principally by better connecting deprived areas to economic growth.

The SNR argued that local government should play a greater role in promoting prosperity and, in particular, ensure a better integration between neighbourhood renewal and economic development. It said that local government should provide clear transparent leadership for raising prosperity; develop a vision for the local economy; and use their resources and powers to develop their local economy and manage economic change. These roles might therefore by bundled within a new statutory economic assessment duty for individual local authorities. The Government's response to the SNR consultation period was published in November 2008 and powers to implement some of the SNR's recommendations are contained in the Local Democracy, Economic Development and Construction Bill, 2008. These include the economic assessment duty placed upon local authorities and a power to establish sub-regional 'Economic Prosperity Boards' on a statutory basis.[27] These will allow groups of local authorities 'to permanently pool responsibilities for the delivery of economic development through Multi-Area Agreements (MAAs) across a functional economic area. In this issue, Jones & Etherington

[25] '*Strong and prosperous communities – The Local Government White Paper*', DCLG, October 2006 www.communities.gov.uk/publications/localgovernment/strongprosperous

[26] '*Review of Sub-National Economic Development and Regeneration*', HM Treasury, 2007 www.hm-treasury.gov.uk/d/subnational_econ_review170707.pdf

[27] '*Prosperous Places: Taking Forward the Review of Sub-National Economic Development and Regeneration*' DCLG, Nov 2008 www.communities.gov.uk/publications/citiesandregions/govresponseprosperousplaces

consider the new geography of governance based on the experience in one of the sub-regions where these arrangements are already very well advanced, South Yorkshire.

The commitment had been given a very clear mandate in a 2008 paper published jointly by the Treasury, DWP, BERR and DCLG.[28] This said that regeneration investment should be focused ‘on tackling the underlying economic challenges that hold back deprived areas’ and *in particular* ‘to support people to get a job and get on in the labour market and boost levels of enterprise in those areas’. It said that successful regeneration requires investment to be ‘co-ordinated and prioritised in the right places, with public, private and third sector organisations working together in the same places towards a shared vision’. Secondly it said that ‘decisions about where to invest should be made as locally as possible’. The Green Papers published in June 2008 by DWP and DIUS set out a new statement of principle about how these two Departments would devolve, which ‘in some cases could be at the level of an individual local authority whilst in others, a strategic approach that reflects the wider labour market is needed at the sub-regional level, for example through MAAs’.

The concept adopted for this central/local split is the idea of a common ‘spine’ of centrally determined services across the country ‘so that Government provides common standards and services wherever people live’. Within that framework, localities can exercise flexibility either at the local authority or sub-regional level. The Government is also very keen to devolve some of the operational burdens such as the contractual relationships the DWP now has with a large number of providers – notwithstanding the rationalisation that will occur as a result of its new commissioning strategy.

The first places that will try out the devolved arrangements are the City Strategy areas and the sub-regions that are developing Multi Area Agreements. The DWP and DIUS Green papers set out three levels of devolution and these have been amplified by the DWP’s White Paper in December 2008.

Firstly there is a core model in which local partners are involved and consulted on the commissioning of Flexible New Deal – to help ensure that contracts ‘are tailored to communities’ and contract specifications would be localised. Partnerships will provide ‘local input in choosing who should win contracts and in monitoring performance’ and this level of devolution is the expected minimum for City Strategy areas. Delivery organisations would be expected to ‘play a full role within the employment and skills plans worked up by City Strategy Partnerships, Multi-Area Agreements and Local Area Agreements’.

There is a second tier in which DWP will ‘co-commission’ mainstream services and align these with the funded services of local authorities, RDAs and the LSC. This would essentially be a shared plan in which local

[28] ‘*Transforming Places; Changing Lives: A Framework for Regeneration*’, DCLG, July 2008 www.communities.gov.uk/documents/citiesandregions/pdf/896104.pdf

services 'supplement the spine of national provision with additional wraparound services to address specific local issues'. A small number of areas have been selected to try this approach and this has been augmented by some further City Strategy partnerships. In its 2008 White Paper, the Government says it wants to see this level of devolution 'with better joining up of services, better alignment of funding and possible joint funding arrangements operating' in a number of initial areas by 2010 and be 'fully embedded by 2015'.

A more ambitious third tier of devolution would see a 'joint venture' model of risk shared between Government Departments and local/sub-regional partners with funds devolved to a single pot for commissioning by an MAA partnership. Central Government would 'become a partner in a local procurement exercise, specifying the outcome requirements' but devolving some or all of the commissioning, funding and contract management arrangements to a local partner or joint commissioning body.

So far, only a few local partnerships have suggested they are keen to proceed at the third tier. In East London and South Yorkshire, for example, it is possible that this model might be adopted – as indeed might Greater Manchester, where the Emmerich & Frankal article in this issue indicates the appetite exists. In the devolved administrations also there is clearly a political wish to achieve a greater degree of devolution at a sub-regional level. This is especially true in places where there is the capability to do so – as the article by Donna-Louise Hurrell and Carol Hayden suggests.

## Local Government Responds

A timely response from local government was published in late November 2008 in the interim report of the Houghton Committee.[29] Chaired by the leader of Barnsley MBC, the committee took evidence from dozens of local authorities and has made a number of recommendations – some of which reflect the growing uncertainty about the labour market. Indeed, the short term risks to local economies prompted Houghton's group to call for an immediate start to planning an integrated response to rising unemployment, incorporating DWP programmes, LSC funds and WNF. They recommend a 'National Challenge fund' established for priority areas to stimulate new, temporary jobs and social enterprises. These would help the community and improve the environment, assist disadvantaged people and provide additional targeted resources to counter the effects of rising unemployment. They also suggest a national task force reporting to the National Economic Council, charged with driving forward responses to unemployment in priority areas and for priority groups.

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[29] '*Tackling Worklessness: A Review of the Contribution and Role of Local Authorities and Partnerships – Interim Report*', DCLG, 2008 www.communities.gov.uk/documents/communities/pdf/1078229.pdf

Over the medium term, the Houghton report says that local authorities and partners need to be enabled to work smarter, work locally and to use resources flexibly. Greater funding stability and continuity is required to eliminate the 'stop/start character' of many interventions – and to ensure services are delivered over a sustained period in order to make a difference. It also recognises that local authority funding is crucial to provide 'wraparound' services for engagement and to build on mainstream activity. Reflecting the anxiety that local authorities with Working Neighbourhood Fund allocations may not use funds explicitly for this purpose, the Houghton team says that local government is committed to ensuring that the WNF 'is used innovatively and to maximise its impact' and that most WNF authorities are prepared to report on how they are spending WNF and its impact.

Houghton says that all upper tier authorities should have a responsibility to provide local labour market and assessments to DWP to ensure 'a common understanding of local need'. These should be used by local partnerships to underpin a 'Work & Skills Plan' that would be a 'contract' between central and local government to enable direct and flexible responses to local economic conditions and 'to rigorously scrutinise local performance'. A 'Work and Skills Integrated Budget' or 'Block Grant' should be agreed as part of the Plan and this would incorporate WNF and other funds to enable co-commissioning with DWP.

The latest White Paper may well have conceded much of this already. One of its biggest gambles is to back the idea proposed by David Freud in his 2007 report where he lent respectability to an old idea, namely that *future* benefit savings might be used to fund *current* expenditure.[30] Freud applied a new analytical approach arguing that long term benefit costs should be measured on a *net present value* basis – a concept normally used to assess the future value of a capital investment or the cost of a future liability. He said that getting a long term workless claimant off benefits and into permanent work is worth on average a present value of £62,000. He argued that if a significant upfront investment could achieve these future savings, then it was worth providing a level of funding considerably in excess of the current levels at which Government programmes are contracted.

The latest White Paper confirms that the Government intends to extensively test such an 'invest to save' approach. It will pay private and voluntary organisations for getting people back into work funded by 'recycling' the long-term benefit savings achieved by successfully placing people into sustained employment. So far the debate has focused on the role of 'risk transfer' to large private sector contractors. But increasingly it is being suggested that local government might take on some of the risk – particularly using resources such as WNF to provide the upfront investment required.

[30] '*Reducing dependency, increasing opportunity: options for the future of welfare to work by David Freud*', DWP, 2007 www.dwp.gov.uk/publications/dwp/2007/welfarereview.pdf

Additionally, just days after Houghton's report, the White Paper confirmed that more employment and skills services will be devolved 'to local communities'. Previously, the models for devolution had been rather obscurely referenced in the Green Papers of June 2008, but the latest White Paper is very clear about three tiers of devolution, which will give local authorities and sub-regional partnerships choices about the extent and pace at which they acquire 'progressively greater flexibility and discretion to tailor services to meet local needs' – from influence to shared commissioning to full devolution. Although faint hearts may cavil at the seemingly hostile economic environment, local government should grasp this opportunity, exploit the financial rewards on offer and prove the contention that locally-led solutions work better.



## Welfare Reform in a Time of Recession

The recession that began in late 2008 followed a period of almost unprecedented economic growth lasting almost 17 years. The history of labour market policy in the last decade has been framed in the context of this continuous growth. This was very clearly articulated as a 'new paradigm' by the Prime Minister in a speech to the CBI in late 2007 in which he said that: 'If in the old days the problem was unemployment, in the new world it is employability. If in the old days lack of jobs demanded priority action, in the new world it is lack of skills.'[31]

The latest recession is unlike previous ones. Its causes have been rooted in sharply rising commodity and energy prices, over-leveraged borrowing against overvalued assets (both corporate and individual) and this has been accelerated by a sudden withdrawal of liquidity. The resulting collapse in confidence amongst investors, firms and consumers has led to extremely volatile financial markets and a marked downturn in demand. Over the August Bank Holiday weekend of 2008, the Chancellor of the Exchequer presciently described the global situation as the 'worst economic crisis in 60 years' and that a downturn that would be 'profound and long-lasting'.[32]

Previous recessions were clearly characterised by substantial job losses and a large net reduction in the number of people in work. There is obviously a high risk that the same thing will happen during 2009–10 but the features will probably be very different. The 1980s recession was a very harsh structural adjustment which resulted in the industrial landscape of Britain changing permanently. The current recession appears rather more like the 1990–91 downturn – driven by a collapse in confidence and consumer demand.

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[31] '*Prime Minister speech to the CBI on 26 November 2007*', www.number10.gov.uk/Page13851

[32] Alistair Darling MP, *The Guardian*, 30/08/08 www.guardian.co.uk/politics/2008/aug/30/alistairdarling.economy

Consequently, its effects will be felt more evenly throughout the country and it will affect sectors such as retail, hospitality, business and personal services as much as manufacturing (for example, the car industry, which is already feeling the direct effects of inhibited consumer spending). Layoffs will undoubtedly be felt amongst low skilled and unskilled people first, but the recession will also affect those with good levels of skills and work history. In the competition for jobs, the well-skilled and job ready shorter-term unemployed will have a great competitive edge over a population of lone parents, people with disabilities and health problems or others who face significant barriers to work. Unemployment fell very quickly after the 1990s recession because many of the lost jobs were in sectors and occupations that were able to recover as economic growth resumed. There are many unique features to the current recession, so its severity, depth and duration remain extremely uncertain. Nonetheless, there may be a similar pattern of jobs growth following a recovery and return to economic expansion.

There is one overriding risk however. In every previous recession, employment never fully recovered to its previous levels because many hundreds of thousands found themselves permanently locked-out of work. Their skills became eroded, their personal circumstances deteriorated, or they found themselves on benefits, which kept them economically inactive.

So far, the policy response to recession has been fairly muted and has focused on a range of measures to address the effects of rising unemployment amongst active job seekers. In the first measure to be unveiled, in October 2008, the Government announced an ‘injection’ of £100 million over the next 3 years to support people who lose their jobs.[33] The money will be for people who are currently facing redundancy and looking for work, to help them retrain and develop skills so that ‘they can quickly move back into sustainable employment, either in their existing sector or a new one’. Funds will be used to pay for ‘anything from new skills or qualifications to get people ready for work, to on-the-job training in an entirely different field’. The money will be targeted to help, for example, people from sectors experiencing significant job losses and people who need support to move back to work.

In November 2008, the Pre-Budget report announced a series of detailed supply side measures worth a total of £1.3 billion, over two years, to address rising unemployment and the risk of a decline in overall employment.[34] Only about 60 per cent of this funding is actually ‘new’ with the remainder coming from projected under-spend. Funding will be used by Jobcentre Plus to manage higher volumes of new claims and some may be used to augment delivery of the Flexible New Deal to cope with any potential increase in the stock of longer term claimants. It has

[33] ‘*£100m Cash Boost to help Britain’s Unemployed*’, DIUS, 15/10/08 http://nds.coi.gov.uk/environment/fullDetail.asp?ReleaseID=381377

[34] ‘*Pre-Budget Report 2008: Facing Global Challenges: Supporting People Through Difficult Times*’, HM Treasury, Nov 2008, www.hm-treasury.gov.uk/prebud_pbr08_repindex.htm

been estimated that about £1 billion extra a year would be needed if the rate of people becoming 12 months unemployed reached the levels of the last recession −25 per cent of new claimants – and for now it seems the Government does not expect this to happen. Or if it does expect this, it is not saying so just yet.

So, most of the measures are aimed at blunting the impact of new layoffs rather than dealing with any rise in the long-term, workless population. To cope with increased layoffs, the Rapid Response Service is being expanded to cover all redundancies not just major ones. Jobcentre Plus will establish 'skills hubs' for large-scale redundancies and these will be networks of local partners providing job brokerage services, training and other support. Train to Gain is to be extended to provide training and support to people in pre-redundancy situations. The Local Employment Partnership system (groups of employers committed to hiring disadvantaged jobseekers) will be used to increase the overall proportion of vacancies that become available through Jobcentre Plus – and there will be a *National* Employment Partnership to 'expand on the network of LEPs' that will involve chief executives from business and the public sector. Finally, the Government hinted at a policy reversal by having to admit that it will 'review' the proposed closure of 25 Jobcentre Plus offices around the country.

In the face of rising unemployment, the Government has not slowed-down on welfare reform, rather the opposite. It would certainly be politically risky to create a system that required more people to engage in pointless job search or to threaten benefit sanctions against people who are losing out in a tough jobs market. Instead, the Government needs to demonstrate that it is helping harder-to-serve population groups to compete for a reduced number of vacancies; building employer confidence in hiring 'riskier' workers; preventing jobless people from falling out of touch with the labour market (as happened so badly in the 1980s and 1990s); and preparing for the eventual upturn in the economy.

The latest White Paper has already attracted considerable opposition. Understandably so. More stringent conditionality may raise levels of fear and anxiety – especially the extension to a wider range of claimants, such as lone parents. The outsourcing of contracted labour market services will inevitably lead to the dominance of private sector providers, squeezing public agencies and the voluntary sector, prompting criticism that a public service ethos will be lost. In addition, the extension of 'workfare'-style requirements on the very long-term unemployed to work for their benefits provokes a deeply visceral hostility within some of the Government's political base.

There remains one very striking omission from the latest thinking, and that is the risk of creating a population of the 'working poor'. This was widely considered to be an outcome from welfare reform in the USA during the Clinton administration between 1992 and 2000, when the labour market in the USA grew by almost 20 million jobs yet the lowest decile of income earners saw their income stagnate or fall. In the UK, nearly a half of all children in poor families live in households that have at least one working adult. So a very clear focus is required on job retention, advancement, progression and wage gain to ensure that work really is a route out of poverty. Small scale refinements to the tax credit regime are not going to decisively deliver these improvements in job security and household income. Strengthening workplace legislation and improving the minimum wage would add a greater degree of certainty and security in a very turbulent labour market.

Overcoming these problems requires a national strategy but one that is more likely to succeed if effectively integrated with economic development – supporting community- and neighbourhood-based regeneration and enterprise; remaining sensitive to market requirements and employer needs; and better connected with the range of locally planned and delivered public services, especially childcare, housing, education, healthcare and social services.

And, as the Houghton report reminds us, the public sector as a whole should also be doing a great deal more in its role as significant local employer and procurer of services. Just over a quarter of all jobs are now in the public sector and these represent a stable core of reasonably well paid, secure work. If local authorities working together show they have the determination to hire their own residents and the courage to risk some of their own money on getting people into work, then the Government will give them the tools to deliver. It just takes a little bit of nerve.