

HC Coombs Policy Forum

Workshop Summary

Welfare to work in tough economic times

Thursday 1 December 2011 Jean Martin Room, Beryl Rawson Building #13, ANU

Introduction

The HC Coombs Policy Forum invited Professor Dan Finn to Canberra as part of its research series on *Visioning Australia's Future*. Dan Finn is Professor of Social Inclusion at the University of Portsmouth and Associate Research Director at Britain's Centre for Economic and Social Inclusion. The Forum organised a roundtable workshop with twenty invited participants including senior members of the public service, academia and a non-government organisation to allow Professor Finn to share his experience of welfare to work policies in the United Kingdom.

The Workshop explored workforce participation, welfare reform and social inclusion policies in the UK and Europe and their relevance for Australian policy makers. Areas of particular interest were Prof Finn's studies on the reforms of disability benefits, working age benefits with a single 'Universal Credit' and employment assistance delivery. Prof Finn provided details of the UK and European experience and current policy directions and facilitated a conversation on lessons for Australia. The UK and Australia have similar but different cultures which allows for productive mutual feedback on social and public policy developments. The Chatham House Rule applied.

Welfare to work programs including reform of disability benefits

The UK social security system is being asked to prepare working aged people for, and to connect them to, the labour market in addition to its established responsibilities of determining and paying benefits. The three main elements in this reform strategy are: the creation of an employment first system; making work pay; and reforms to employment programs and services and their delivery. The objectives are to strengthen work incentives and to reduce costs and 'welfare dependency'.

Activation reforms since mid 1990s – moving to a work first strategy

- > Equivalent to increasing participation.
- > The government commits to provide employment services and, in return, the individual service user commits to job search and/or other employment activities or faces sanctions for non-compliance.
- > Reduction of large scale vocational and training programs.
- > Double activation of both clients and institutions.

Next wave of reform – Disability Benefits

- > On average and prior to the Global Financial Crisis, 6 per cent of working age people in OECD countries was receiving disability benefits, typically twice as high as the unemployed. In Nordic and English speaking countries and the Netherlands, it is up to five times higher.
- > This is an issue not only for health/disability, but also for job chances with the negative impact of low levels of attachment to the workforce.
- > Critical concern around mental health, young people, diversity within the group.

Transforming Disability Benefits into an employment instrument

- > Assessing work capacity rather than disability.
- > Changing roles of medical professionals - moving to a 'fit note' rather than a 'sick note'.
- > Changing roles of service providers.

Why have Disability Benefits numbers risen?

- > Decline in outflows; more than doubling of duration; increase in female pension age; protective channelling by health and employment services; and poorly designed performance targets.
- > The number of people claiming unemployment benefits roughly follows the economic cycle but the total number on working age benefits increased after each recession and failed to improve with an improving economy.

Employment Support Allowance – 2008

- > Period of experimentation with activation requirements and program design and delivery.
- > Work Focused Interviews (WFI) and stricter Work Capacity Assessments (WCA), with bipartisan support, replaced earlier disability benefits for new and repeat claimants.
- > Basic allowance at Job Search Allowance level with additional payments for work related activity and most severely ill/disabled groups.
- > A review found 80 per cent of those in work related activity group finding WFIs helpful in thinking about paid work in the future and 78 per cent finding personal advisers helpful.

Pathways to Work – extended nationally in 2008

- > Better but a voluntary program.
- > Two-thirds delivered by private and voluntary sector with funding geared to job outcomes – service fees (30 per cent), job outcome (50 per cent), retention (20 per cent).

Related reforms in health services

- > Strong evidence of mutual importance of work and health.
- > Reduce the number of people leaving the workplace by improving workplace health – working with employers, employees, health professionals and insurers.

Further reforms from 2011

- > Implementation problems with frequent appeals to WCA.
- > Revisions to WCA around mental health descriptors and variable conditions.
- > 1.5 million Incapacity Benefits claimants being retested in 2011-2014.

A single 'Universal Credit' working age benefit

The new UK Coalition government's ambition is to further reform the welfare system. It plans to make work pay, to tighten work capacity assessments, to emphasise the conditionality of jobseeker benefits and to pay welfare to work providers from the savings afforded through their placement of job seekers in sustained employment. A key component of this reform is a single integrated working age benefit with a basic payment supplemented by additional payments for disability, children, housing and caring responsibilities.

Benefit and activation reforms in place in 2010

- > UK is different in that it also has an insurance related benefit based on national insurance contributions.
- > Welfare Reform Act leading to a single working age benefit and 'personalised conditionality regime'.
- > Sole parents on Jobseekers Allowance moving to when the youngest child is 7, down from 16.
- > Austerity deficit reduction program will mean £18 bn in benefit cuts. Department for Work and Pensions' (DWP) administrative budget is to be reduced by 24 per cent over 5 years.
- > The new payment system will merge out-of work benefits with in-work Tax Credits into a single system with one single monthly household payment.
- > Childcare tax credits cost support reduced from 80 per cent to 70 per cent – income tested on a household basis.
- > Ambition is to ensure everyone becomes better off when they move into work.
- > Transitional protection to make sure that nobody will move to a lower amount when transferring to Universal Credit (UC).
- > Revised sanctions according to level, number and length of non-compliances.
- > Estimated implementation costs to be £2 bn; entitlement expenditure increase by £2.6bn; £2bn savings – expected from increased online engagement available 24/7 and a single point of contact for the benefits system.

Potential concerns

- > Risk of substantial administrative upheaval and extra workload for little gain in work incentives, especially given the state of the economy.
- > Questions about the consequences and practicality of extending conditionality to low paid workers.

Using large scale ‘prime contractors’ to deliver employment assistance

Recent developments in contracting for employment services include subcontracting of job matching and reintegration services (in the UK and the Netherlands); and experimentation to benchmark and drive innovation in Public Employment Services (in Germany, France and Sweden). Australia is unique in the extent it has contracted out publicly funded employment services. In the UK, following the 2007 Freud Review, a ‘welfare market’ is being developed with debt-financed welfare reform, prime contractors and regional contracts.

Developing the British ‘welfare market’

- > Consolidating of purchasing with the number of profit/non-profit providers down from over 2,000 under Jobcentre Plus to 438 under DWP.

DWP commissioning strategy 2008 and subsequent implementation

- > Jobcentre Plus will provide services for the initial 12 months with the prime providers responsible from then, as they are considered to be able to add most value when working with harder to place people.
- > Most business (80 per cent) done with about 30 prime providers, expected to manage supply chains including specialist, local and third sector subcontractors.
- > Larger, longer and fewer contracts (5 years with 2 year extensions).
- > To deliver Work Programme primes had to pre-qualify for inclusion in a ‘Framework for the Provision of Employment Related Support Services’ – this also ensures future procurement cycle of any other programmes down from 18 to 6 months.
- > Britain divided into 18 Contract Package Areas (CPA) with 2 to 3 providers in each CPA.
- > Work Programme differential payments calibrated with benefit category as proxy for level of difficulty.
- > Payment largely by results – only a small ‘attachment fee’ (£400) which falls each year and is zero by year four – provides some initial working capital.
- > Provider performance measured against ‘non intervention’ level.
- > To secure job outcome payments participants must be placed in 16+ hours weekly employment and off benefit.
- > Will pay for a job outcome for after 3 or 6 months in work, followed by sustainment payments every 4 weeks which for the hardest to place may continue until the participant has been in employment for up to 2 years.

Advantages of Work Programme

- > Greatly reduces DWP transaction costs.
- > Competition for contracts has secured better value for money.
- > Extends active assistance to previously inactive claimants.
- > Contractors bear a greater share of the risk over a longer period.
- > Longer contracts, performance expectations (performance over past 10 years plus 10 per cent) and structure of outcome and sustainment payments expected to stimulate innovation and improve service quality especially around retention.
- > Providers can be more creative in finding jobs and in building improved relationships with employers.

Risks of Work Programme

- > Funding model is not generous – higher performance requirements with less money per participant in a tougher labour market.
- > May be some ‘parking’ of the most disadvantaged people and those in deprived and/or high cost areas. This may be exacerbated by price competition in gaining provider contracts.
- > Some providers may be ‘too big to fail’ ie the risk not effectively transferred.

Future directions for research with the HC Coombs Policy Forum

Further work could usefully explore the demographic breakdown, age cohorts and health profiles of job seekers and disability benefit recipients. This would feed into issues around the interaction of benefit provision with the personal and social circumstances of welfare clients; issues such as care and family responsibilities and the episodic nature of some mental illnesses.

It would be valuable, too, to look at the impact of conditionality on behavioural change and the appropriateness of expectations given the capacities of job seekers, regional employment variations and gender.

There was much interest in how the new providers delivery scheme works in practice and what Australia can learn, so perhaps Prof Finn would consider returning to Canberra next year to provide a first hand update.

Suggested readings

Dan Finn (2012), *The design of the Work Programme in international context*, National Audit Office, London.
http://www.nao.org.uk/publications/1012/dwp_work_programme.aspx

Tony Dolphin, David Nash & Amna Silim (2011), *The State of the Economy*, Institute for Public Policy Research, London.
http://www.ippr.org/images/media/files/publication/2011/11/state-of-the-economy_Nov2011_8255.pdf

House of Commons Work and Pensions Committee (2011) *Work Programme: providers and contracting arrangements*, the Stationery Office, London. <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmworpen/718/718i.pdf>

Dan Finn (2011), *Job Services Australia: design and implementation lessons for the British context*, Research Report No 752, Department for Work and Pensions, London. <http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep752.pdf>

Dan Finn (2011), 'Welfare to work after the recession: from the New Deals to the Work Programme', in Holden C., Kilkey M. and Ramia G., *Social Policy Review 23: Analysis and Debate in Social Policy*, 2011, pp 127-146, Policy Press, Bristol.

Dan Finn (2011), *Subcontracting in Public Employment Services: Review of research findings and literature on recent trends and business models*, The European Commission Mutual Learning Programme for Public Employment Services, DG Employment, Social Affairs and Inclusion, Brussels. <http://ec.europa.eu/social/BlobServlet?docId=6964&langId=en>

National Audit Office (2010), *Department for Work and Pensions: The introduction of the Work Programme*, London.
http://www.nao.org.uk/publications/1012/dwp_work_programme.aspx

National Audit Office (2010), *Support to incapacity benefits claimants through Pathways to Work*, Department for Work and Pensions, London. http://www.nao.org.uk/publications/1011/pathways_to_work.aspx

Correspondence

Christopher Vas

Director, HC Coombs Policy Forum,
Australian National Institute of Public Policy,
Crawford School of Economics and Government,
The Australian National University
E christopher.vas@anu.edu.au
T +61 2 6125 0647