

Welfare reform under austerity: What might Australia learn from the UK's Universal Credit and Work Program?

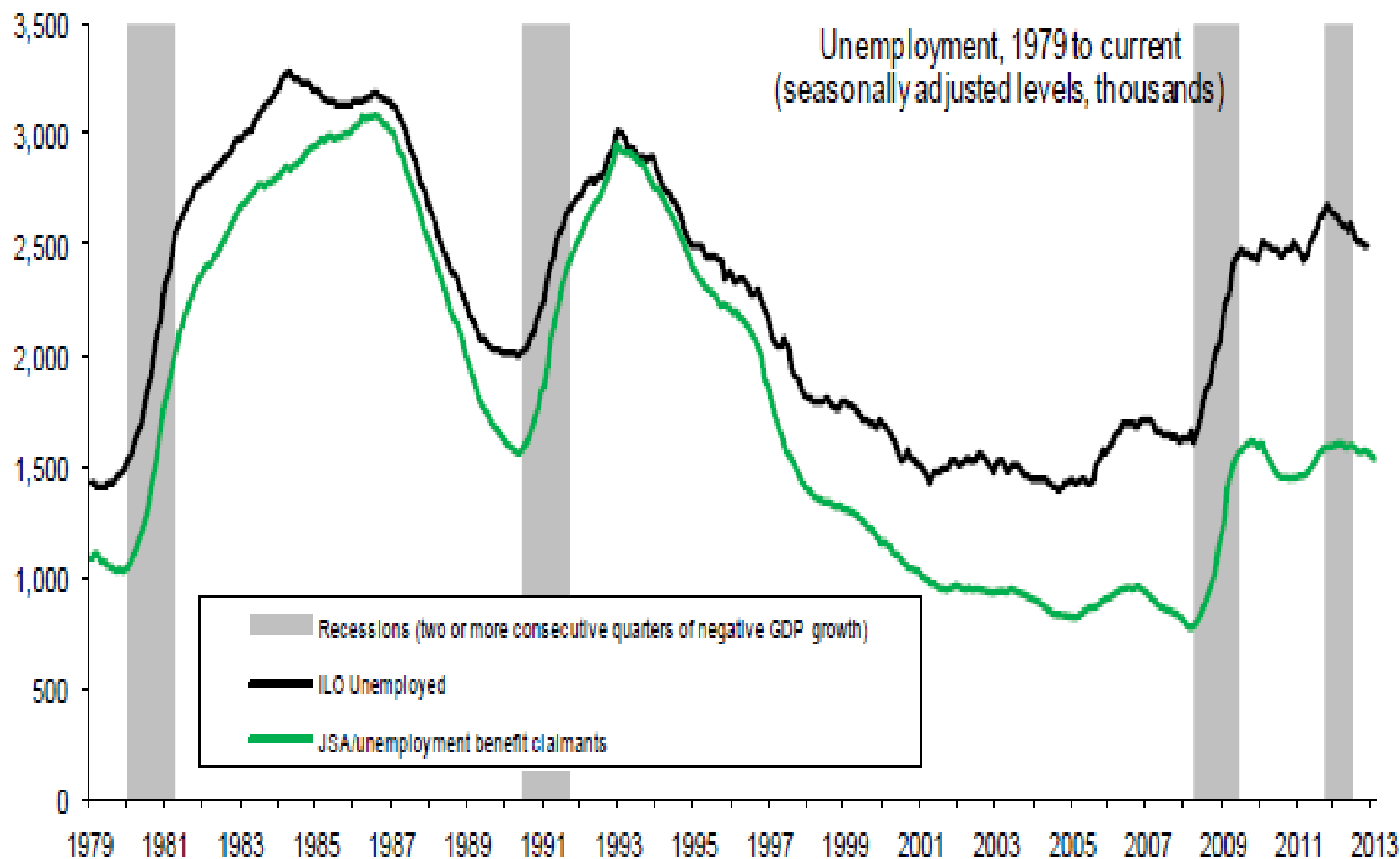
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The UK and the GFC

- Hit hard by the financial crisis and its aftermath – by end of 2009 economy had shrunk by 4.9%, followed by ‘double-dip’ in first quarter of 2012.
- However, employment impact and increase in benefit caseloads far less severe than 80’s/90’s recessions. Number of factors:
 - More effective response to crisis
 - Wages/incomes have fallen/moderated
 - Labour hoarding
 - Reductions in working hours
 - Welfare to work and tax credit reforms, including effective role of Jobcentre Plus

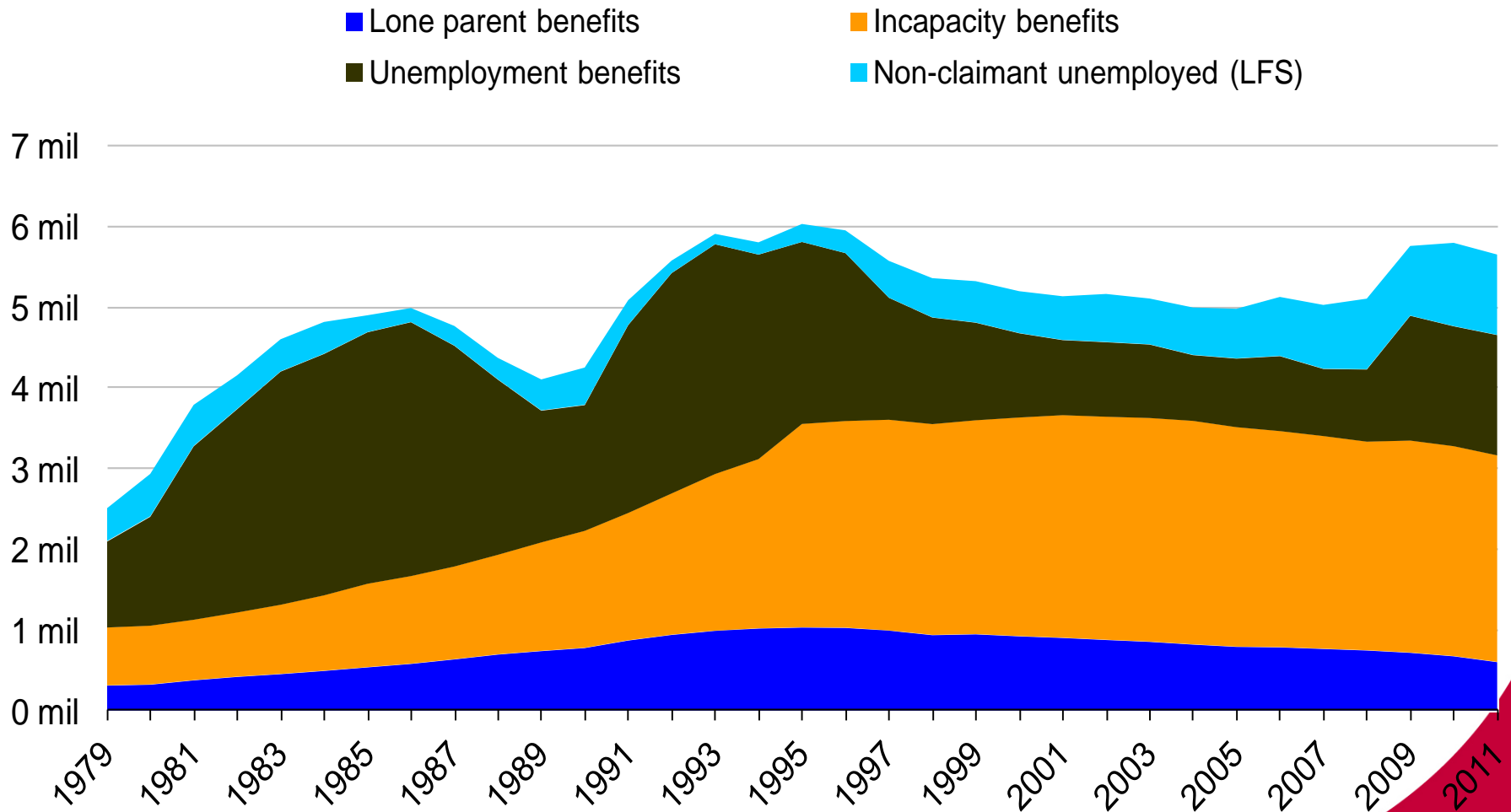


[Source: ONS, *Labour Market Statistics*]

Welfare to Work Reforms

- UK and Australia have relatively flexible labour markets and are at the forefront of implementing *'work first' activation reforms*.
- This has involved intensified obligations for the unemployed and the extension of conditionality to:
 - Older people
 - Sole parents
 - People with disabilities
- A growing proportion of working age claimants are now expected either to be actively seeking jobs or preparing themselves for employment.
- Both countries have also transformed the ways in which they deliver benefits and employment services including the introduction of quasi markets.

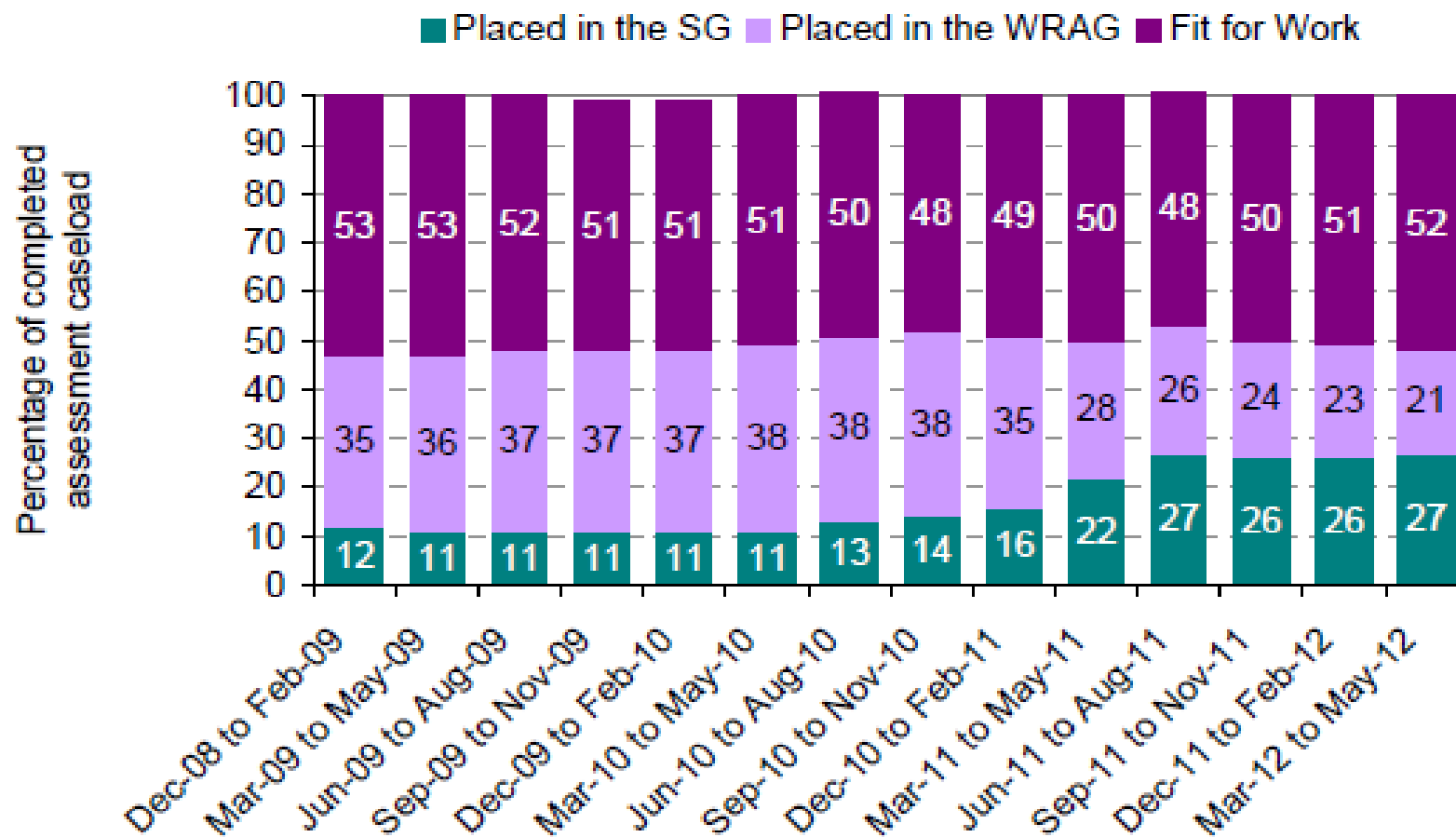
UK: unemployment and working age benefit claimants



New Labour's legacy – a more active welfare system

- The Coalition Government's approach builds on some of Labour's welfare reforms - though radical differences in approach to child poverty reduction and to in-work tax credits (6.3m families Dec 2010, down to 4.7m Dec 2012)
- Continuity includes:
 - Retaining Jobcentre Plus in the public sector supplemented by the 'prime contractor' approach to commissioning employment programs with emphasis on payment by results and 'black box' contracting.
 - Transfer of lone parents with children aged over 7 to Jobseekers Allowance (now 5)
 - Replacement of Incapacity Benefit by Employment Support Allowance (from 2008) with stricter work capacity test and Work Related Activity and Support Groups, and decision to reassess over 1.5 million existing claimants (2011-2014)

Outcomes of Work Capability Assessments, GB - new claims, after appeals (Jan, 2013 release)



Welfare Reform and Austerity

- The UK Coalition Government formed in May 2010
- 'Programme for Government' committed Coalition to implementing welfare to work reforms, in particular the ***Work Program***.
- Agreement committed Coalition to 'explore' simplification of the benefit system which within months became commitment to implement a ***Universal Credit*** – a single working age benefit.
- Both reforms are being implemented in the context of a wider and unprecedented '***deficit reduction***' (***austerity***) ***program***.

The 'cuts'

- Department for Work and Pensions DWP budget for 2011-12 was £163.4bn - 23% of all public expenditure.
- Budget comprised £155.6bn for benefits and £7.8bn running costs.
- Initial 'emergency package' and first spending review saw immediate reduction of £1.9bn in 2011-12, that will build to annual savings of nearly £20bn by 2014-15.
- £2.5bn is to come from reduced running costs – many of the staff reductions took place within 18 months.
- 2012 budget included a further £3.7 billion cut from welfare spending by 2015-16.
- Multiple changes, but some key features include:
 - Pledge to protect age pensioners
 - Change in indexation, followed by 2 year 1% cap on uprating
 - Benefit Cap of £26,000, or £500 a week
 - Under-occupancy reduction or 'spare bedroom tax'
 - Replacement of DLA by Personal Independence Payment

The rationale for Universal Credit

- Government's arguments for reform of the current benefits and tax credit system are:
 - It is unnecessarily complex and expensive to administer, creating scope for fraud and error
 - It encourages dependency and has poor work incentives, with high marginal deduction rates.
 - It needs to be fairer to the taxpayer and to those claiming benefits ('strivers and skivers').
- Ministers stress the fact that while unemployment fell between 1996 and 2008 expenditure on working-age household benefits **and** tax credits increased by almost 40% from £61bn in 1996/97 to £85bn in 2009/10.

UK Cash Benefits in 2012

- Primary working age benefits are:
 - JSA - *Jobseekers Allowance* (replaced Unemployment Benefit in 1996; insurance based JSA only for 6 months)
 - ESA - *Employment Support Allowance* (replaced Incapacity Benefit in 2008; insurance based ESA now only for 12 months)
 - *Income Support* (safety net benefit)
- *Working Tax Credit* (min of 16 hours a week)
- In and out of work benefits
 - *Child Tax Credits, Childcare Supplement* and Child Benefit
 - *Housing Benefit*, provides allowance or covers rent costs in private and social rented sector respectively
 - Council Tax Benefit, pays local taxation
- Passported benefits – school meals, prescriptions, etc.

What is Universal Credit?

- Derived from work of the Centre for Social Justice ('think tank' established by current SoS whilst in opposition).
- The new payment system will merge five out-of-work benefits with in-work Tax Credits in an integrate system with ***one single monthly household*** payment.
- UC will consist of a basic amount with additional payments for disability, children, housing and caring responsibilities.
- The ambition is to ensure that claimants are better off when they move into work, or when they start working longer hours.
- Changed earnings disregards (work allowances), taper smoother and one standard deduction rate of 65%.
- Implemented between 2013 and 2017, by which time covering an estimated 8m households.

UC is an active work-focused benefit

- Claimants will be allocated to 4 conditionality groups:
- ***Full employment conditionality*** – default option for the majority of benefit recipients.
- ***Work preparation*** - those who have a limited capability for work at the current time, expected to take reasonable steps to prepare for work.
- ***Keeping in touch with the labour market*** - sole parent or lead carer in a couple with a child aged one to five, expected to attend periodic interviews to discuss work plans
- ***No conditionality*** - e.g. carers of children under one, severely disabled. .

New aspects of conditionality

- Conditionality to be applied to all household members – partners and spouses.
- Will be *in-work conditionality* – established by reference to an earnings threshold equivalent to 35 hours at minimum wage.
- Obligations of each person recorded in a *claimant commitment*, underpinned by a stricter sanctions regime.

Universal Credit: Sanctions

Sanction	Applicable to:	1 st failure	2 nd failure	3 rd failure
Higher Level e.g. leaving employment voluntarily	Claimants subject to all work-related requirements	3 months	6 months	3 years
Medium Level e.g. failure to undertake all reasonable action to obtain work	Claimants subject to all work-related requirements	4 weeks	3 months	
Lower Level e.g. failure to undertake particular, specified work preparation action, failure to participate in a work-focused interview	Claimants subject to all work-related requirements Claimants subject to work preparation and work-focused interview requirements	Open ended until re-engagement followed by		
		1 week	2 week	4 weeks
Lowest Level Failure to participate in a work-focused interview	Claimants subject to work-focused interview requirements only	Open ended until re-engagement		

In-work conditionality

- After full roll out expect 5m out of 11m claiming UC to be working
- Expect 1.5m to be in the 'working could do more' group :
 - Most have children – about 20% partners; about 20% sole parents
 - About two-thirds in lowest sector of elementary occupations - sales, personal services - and in same jobs over 2 years
 - About 60% not looking to increase hours – 'resolute part timers'
- Recent emphasis on design and testing of approaches to in-work conditionality – to be proportionate and cost-effective, (e.g., should they be encouraged/required to change employer).
- Trials likely to involve measures that help increase earnings and/or skills/qualifications, such as:
 - Regular contact and support – from remote to regular face-to-face interviews;
 - Sector based career paths;
 - Other approaches to promoting financial independence.

UC delivery system

- DWP responsible for management and delivery of Universal Credit
- Ambition is that Universal Credit will automatically, month by month, reflect changes in earnings from employment using a monthly 'Real Time Information System' administered by HMRC.
- System will be '**digital by default**' with vast majority of claims made and managed online, comprised of:
 - Self service
 - Assisted self service
 - Supported service (face to face assistance)
 - Exceptions group (? Income management)
- Front line Jobcentre Plus services will be largely concerned with providing employment assistance and enforcing conditionality requirements.

Implementation



centre for economic & social

Inclusion

Apr '13 Oct '13 Apr '14 Oct '14 Oct '15 Oct '16 Oct '17

Estimated that around 2.7m households will have higher entitlements, 1.7m worse off, 3.5m no change

Entitlement changes mean expenditure will be £2.6bn higher but offset by £2bn in savings

Implementation costs estimated at £2bn.

New claims from **out of work** customers

New claims from **in work** customers

Natural transitions due to change of circs (mainly Jobseekers Allowance)

Managed transitions (mainly other benefits)



Points of contention

- Implementation:
 - Digital exclusion
 - Monthly budgeting (and Direct Payments) – budgeting skills & support, development of new financial products
 - Wallet and purse concerns with single household payment
- Complexity due to localisation:
 - Council Tax Support (10% cut; interaction with work incentives)
 - Emergency and crisis support (devolution of main elements of the Social Fund, 18% cut)
- Mixed impact on work incentives
 - Improve for ‘mini jobs’
 - Weak for second earners because of household test
 - Tax credit coverage already reduced and higher taper rate than for current recipients
 - Increased administrative burden for self employed.

The Work Program and Payment-by-Results Funding

Developing the British 'welfare market'

- Decision to consolidate purchasing in DWP - number of for profit/non profit providers down from over 2,000 under JCP to 438 under DWP (running 1,153 contracts, Sept 2009). Annual £1bn value
- Consolidation driven by early variant of prime model.
- Freud Review (2007)
 - Existing contracts process driven, categorical, short term, inflexible, inefficient
 - Administrative costs, e.g., job entry evidence - paper based system, which providers say is onerous, costly, and prevents them claiming genuine outcomes
 - Proposed debt-financed welfare reform, prime contractors, up to 7 year contracts and payment for outcomes - creating 'multi billion £ market' with access to capital
- At 2008/09 90% of DWP's contracted employment spend with 160 organisations, out of some 797 contracted organisations.

DWP Commissioning Strategy (2008)

- Published after Freud Review and marked a conscious attempt to develop a 'market' with a new approach to contracting.
- Key elements:
 - Larger, longer and fewer contracts (5 years/2 year extensions)
 - About 30 'top tier' or prime providers, expected to manage supply chains including specialist, local and third sector subcontractors
 - Payment for long term outcomes (partly funded from benefit savings)
 - Provider flexibility – 'black box'
- Market-making:
 - DWP to have an active role in developing and managing contracts and responsible for market 'stewardship' (Merlin Standard)
 - Attract new providers and additional investment into the market
 - Increase skills and expertise of public officials

The first Commissioning Strategy contracts

- **Flexible New Deal:**
 - For young and long term unemployed
 - 20% service fee, 50% short job outcome (13 weeks), 30% sustained job outcome (26 weeks)
 - Revised to 40% service fee in tendering process, Jan 2009
 - Commenced in half the country before General Election
- **Personalised Employment Program:**
 - Multi-client group contract, to be tested in two districts
 - ***Accelerator Funding Model*** to incentivise provider to engage with whole cohort –e.g., for a cohort of 100 people commit to getting 60 into employment, price paid is lower for first 15 into jobs, and highest for final 15 into jobs.
 - ITT indicated 30% service fee paid at intervals, 40% short job outcome (13 weeks), 30% sustained job outcome (26 weeks)

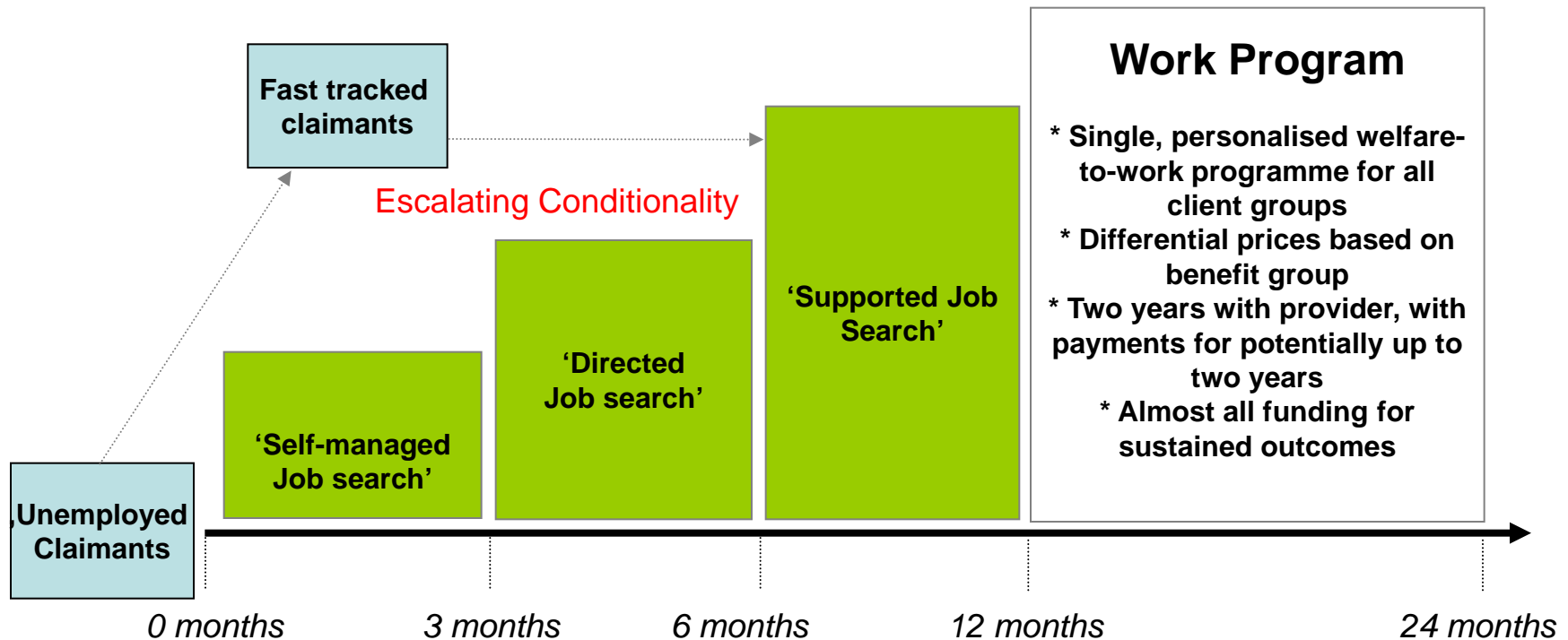
Providers in the British market

- ***National and local for-profits***
 - Specialist welfare to work providers (such as A4e, Avanta)
 - Private Employment Agencies (Reed, Pertemps)
 - Recently larger outsourcing specialists (Serco, G4S)
- ***National non profits*** - specialists, such as RNID; generalists, such as Shaw Trust
- ***Regional and local nonprofits***, faith based and secular, specialist and generalist, including also regional/local branches of national nonprofits (e.g., Groundwork Trusts, Salvation Army)
- ***Consortia formation*** – 3SC; Disability Works (8 specialists)
- ***Intermediate Labour Markets, Social Enterprises and Social Businesses*** - Glasgow Wise Group, Liverpool Create.
- ***Providers from other countries***
 - For profits – Ingeus and Sarina Russo(Australia); Maximus (USA); Calder (Netherlands)
 - Non-profits - from Ireland the Rehab Group (1996 acquisition of TBG); from Australia, Mission Australia (Working Links); BEST & Wise ability with CDG; Campbell Page (North Wessex Training)

A public-private partnership Jobcentre Plus and the Work Program

Jobcentre Plus

Prime Providers

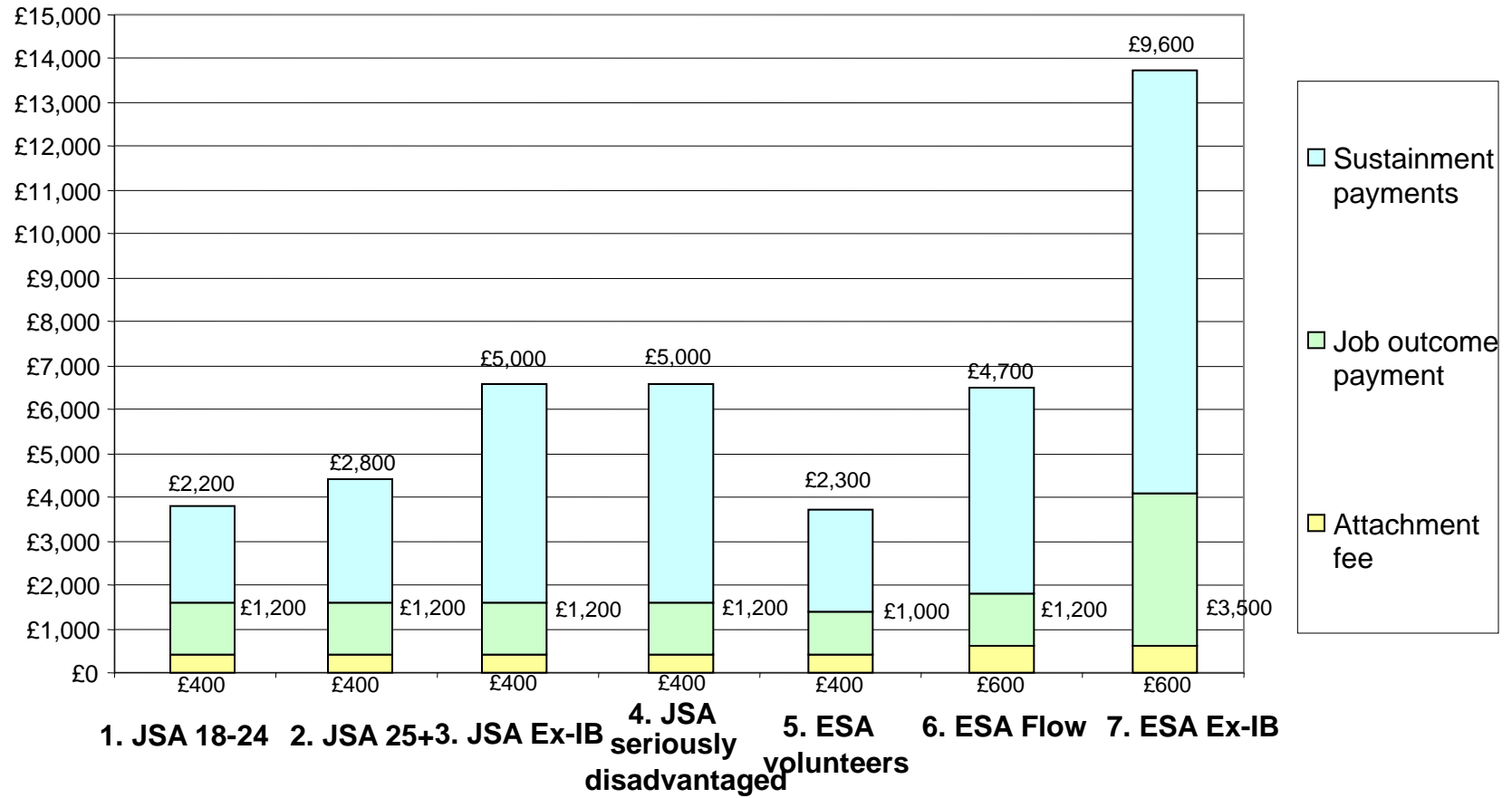


Work Program funding model

- Differential payments calibrated with benefit category as proxy for level of difficulty
- Payment largely by results – only a small ‘attachment fee’ which falls each year and is zero by year four.
- No payment for job entry - only pays for a job outcome after 3 or 6 months in work.
- Payments for sustained jobs continue for up to two years.
- No cap on recruitment, in part because some payment from future benefit savings (AME-DEL funding)

Work Program differential payments

(average spend per participant estimated at £1,347)



Work Program procurement

- Pre-qualification - *'Framework for the Provision of Employment Related Support Services'* – 35 primes selected (from 91). Had to demonstrate track record of delivering large and complex contracts, previous performance and financial strength (annual turnover of at least £20 million).
- Subsequent 'mini-competitions' for WP. 180 bids from 30 primes to deliver in 18 CPAs – 18 primes selected (15 private; 2 VS; 1 public). Each 5/7 year contract estimated to be worth between £10 and £50 million a year
- WP bids assessed on a scoring system that gave equal weight to quality and cost.
 - **Quality** - service delivery, approach to supply chain management, resources the organisation would deploy, and implementation plans
 - **Cost** – performance and price discount offers

WP – price and performance

- DWP set maximum differential prices for each payment category by assessing benefit savings of placing a claimant in sustained employment combined with their estimates of the cost to the provider of delivering an outcome (based on evidence from earlier programmes).
- Contracts specified:
 - *maximum prices*
 - *non intervention* levels
 - *minimum performance* levels (for three main groups, about 70%)
- Primes committed to performance and could offer price discounts which allowed them to take local circumstances into account
- Primes expected to exceed minimum performance level by 10% to keep contracts, exceeding by 30% will attract a bonus
- Annual market share shifting from June 2013, if meet MPL

WP supply chains

- Two or three competing prime providers in each CPA – top 2 primes have about a third of the market (Ingeus-Deloitte and A4e)
- Different ***prime models***
 - *Prime Managing Agent* (G4S, SERCO, Rehab-Jobfit)
 - *Prime Delivery Agent* (typically subcontract about 30% to 40% of provision)
- WP ***supply chains*** organised into:
 - ‘tier one’ (often ‘end to end’ delivery)
 - ‘tier two’ (call-off, spot purchase, service level agreements, etc.)
 - other ad hoc purchasing
- Supply Chains – number of subcontractors

Sector	August 2011	July 2012
Private	295	292
Public	133	125
Vol & Community	420	368
Total	848	785

WP service delivery models

- No detailed prescription of service provision – ‘black box’ - but primes had to commit to ‘minimum standards’, communicated to participants
- Varied ‘work first’ service delivery models but ‘end to end’ services typically comprise
 - A phase of engagement/attachment/assessment, and drawing up an action plan
 - Allocation to case managers and varied streams of support with emphasis on job broking/job placement for the more job ready and targeted interventions for those needing more assistance
 - Most support in-house and where required preference to refer to free or low cost specialist services, not necessarily those in supply chain.
 - Some job specific vocational training , but often referrals to other funded provision.
 - Varied approaches to in-work support, employment retention and re-engagement after job placement
- If prime wishes to make significant change in service delivery/supply chain they need formal contract variation

Performance - Management and Oversight

- DWP acts on results, service delivery, feedback and prime mandatory self assessment (within DWP's Performance Improvement Framework)
- Oversight and performance management
 - Performance Managers
 - Account Managers
 - Compliance Monitoring Officers (ESF)
 - Provider Assurance Teams (governance, financial procedures, counter fraud systems)
 - Risk Assurance Division (fraud investigation)
- Provider Engagement Meetings – JCP, primes, stakeholders

A rocky start?

- High expectations - ministerial announcements on potential of new model and role of the third sector
- Allegations of fraud and profit-taking
- Creaming and parking
- The 'workfare controversy'
- Gagging of contractors and delayed release of job outcome data

WP performance: June 2011- 31 July 2012

- 877,880 referrals and 836,940 'attachments' – now about 47,000 referrals per month.
- There were **31,240 3/6 month job outcomes** (3.6%) - about a third of what was anticipated at the outset.
- None of providers reached MPL level of 9.7% (as estimated by NAO), with variation ranging from 2.2% to 5%.
- Number of job outcomes paid each month increased gradually with 22.9% (7,000) of the total job outcomes paid in July 2012.
- DWP analysis of first 4 months found for four largest claimant groups half referrals had some break in benefit claim, with a quarter off benefit at end of the 4 months.
- All primes have agreed 'Performance Development Plans' with 7 put on formal notice about poor performance.

Job outcome performance of claimant groups

Claimant Group	Referrals to July 2012	Achieved to July 2012	
		Outcomes	Performance (%)
JSA 18 to 24	176,680	5,920	3.4
JSA 25 and over	389,820	13,420	3.4
JSA Early Entrants	214,660	10,610	4.9
JSA Ex-Incapacity	6,330	140	2.2
ESA Volunteers	17,090	240	1.4
New ESA claimants	52,100	800	1.5
ESA Ex-Incapacity	9,440	20	0.2
Incapacity Benefit/ Incapacity Support Volunteers	2,110	70	3.3
JSA Prison Leavers ¹	9,630	0	0.0
Total	877,880	31,240	3.6

Performance reported by ERSA

- ERSA data released at same time (Nov 2012) reported that 208,000 people had found employment, and 29% of those who started in July 2011 had been helped into a job.
- ERSA estimated that between 65% and 85% of job starts stay long enough to meet outcome. If accurate NAO reckons outcome performance would be 20% to 26%.
- ERSA also published data on cost per job of the program estimated at £2,097, and contrasted that with £3,321 for ND's for the unemployed; £7,495 for FND and £7,587 for EZs.
- NAO/PAC sceptical about validity of the data.

Advantages of Work Programme

- Competition for contracts through bidding processes has secured better value for money (if they deliver), including price discounting
- Contractors agree to bear a greater share of the risk over a longer period and primes have to fund up-front costs (up to £.5bn invested)
- Competition reinforced through reallocation of market share from weaker to stronger primes and Minimum Performance Levels require additionality, or contract at risk.
- Part funded from benefit savings means no recruitment caps and extension of active assistance to previously inactive claimants
- Prime model has reduced complexity and Departmental procurement and monitoring costs

Risks of Work Programme

- Funding model is not generous – need to perform better than before, with less money per participant, in a tougher labour market
- Financial pressure on providers could result in low standards of service, high caseloads and ***gaming***, ***creaming*** and ***parking*** (harder to place people/localities)
- Possible negative impact of risk transfer to supply chains, especially specialist, third sector and voluntary sector providers, and possible loss of expertise ('Merlin' standard)
- Some doubt whether risk has been transferred to primes and may have group of providers who are 'too big to let fail' – crunch period will be 2014 (attachment fee withdrawn; year 3-5 Job Outcome discount kicks in)

Some thoughts for discussion

- Redefining the purpose of cash benefits and conditionality for people with disabilities and health problems
- The case for a single benefit?
- Meeting the needs of changing population of the unemployed – implications of greater proportion with limited work capacity combining **work and welfare**.
- What role for in-work conditionality?
- Balance of public sector and contractor role in delivering employment services?
- Relevance of prime contractor model, contract size/durations and 'black box' contracting (?link between processes paid for and outcomes secured).
- New funding models to reach the JSA 'veterans' – benefit transfer and 'accelerator funding models'

Publications

- Tarr A. and Finn D. (2012) *Universal Credit implementation and service delivery from the perspective of working age service users*, Joseph Rowntree Foundation and Centre for Economic and Social Inclusion, pp 1- 67, ISBN: 9 781870 563611, at <http://www.cesi.org.uk/node/1226>
- Finn D. (2012) *Subcontracting in Public Employment Services: the design and delivery of 'outcome based' and 'black box' contracts*, The European Commission Mutual Learning Programme for Public Employment Services, GHK Limited / Budapest Institute, DG Employment, Social Affairs and Inclusion, Brussels, at ec.europa.eu/social/BlobServlet?docId=8946&langId=en