

# Challenges 2009: make or break?

**T**he welfare to work world is very different compared to June 2007. Last June the credit crunch still hadn't really hit, Jobseekers Allowance (JSA) and Incapacity Benefit (IB) were continuing downwards, Gordon Brown was about to take over with talk of an early General Election, and the Flexible New Deal was still on the drawing board. Much of the debate at the 2007 Welfare to Work Convention centred around David Freud's report – and whether the Department for Work and Pensions (DWP) really would reform New Deal and set up a new market as Freud suggested.

In the twelve months since then we have seen no less than 15 relevant Government reports and Green Papers (and we probably missed a few). Each has been important in its own right, however the wealth of detail seems to obscure the big message from the Government. The extent of planned change in the next 12 months is enormous, and so now is a testing time for everyone from Government down to small local organisations.

2009 is a make or break year for welfare reform. First, what will be the political and delivery impact of rising unemployment? Second, there will be the introduction of the Employment Support Allowance, changes for lone parents and a wide range of other delivery reforms in the pipeline. Third, hopefully the smooth introduction of the new Commissioning Strategy and the Flexible New Deal. Fourth, how will more localisation and

devolution in the welfare system be introduced? Fifth, how will government get back on track with their key targets, notably child poverty?

It's make or break for the Government because the spotlight will increasingly be on how they manage rising unemployment. It's make or break for Jobcentre Plus because they have the most significant change programme in benefit reform for a decade, and with high risks attached. It's make or break for providers as the new Commissioning Strategy establishes a new market – who will be the winners and losers? It's also a make or break year for some of the Government's key targets – will more be done or the targets surrendered?

Welfare reform continues, however, with the expected publication this summer of a consultative Green Paper. The Government's Draft Legislative Programme' set out the main points:

- undertake training that is considered essential to finding employment
- measures which strengthen the benefit contract between the individual and society
- measures to strengthen the requirements of non-resident parents to contribute to their children's upbringing
- measures to modernise and simplify the benefit system.

## Rising unemployment

What hangs over us this year is the prospect of a sustained and significant increase in unemployment. Unemployment always 'lags' bad economic news and so

we expect the increases over the last four months to continue for some months to come. There are few positive indicators that would suggest the labour market would do anything but get a lot slacker. Whilst vacancies are up 35,200 on a year ago, the last three months saw a steep drop-off with only 100 more vacancies on the previous quarter. With inflation seen as the number one enemy by the Bank of England we can expect employment to suffer – we all have to be worried when economists say there needs to be more 'spare capacity' in the economy to curb inflation.

The economy has quickly climbed the list of what concerns voters – it is now the main concern for 33% of voters, up from only 10% of voters just 12 months ago. Apart from a brief blip in 1999 this figure has never been over 20% of voters since 1997, so we are now in uncharted territory. This means there will be more scrutiny of employment and welfare policies than we have been used to for a long time. In the run-up to recent General Elections, welfare reform has been effectively neutralised as an issue. It has been low on the list of voter concerns and Labour have long stolen the Conservatives' thunder by demonstrating they can be both 'tough and fair' on claimants.

Welfare will not be neutralised over the next two years – the economy may bounce back before 2010 but by then the terms of the debate will be set. The debate is already hotting up and will continue to get hotter. We anticipate the main political battlegrounds will be:

- the level of mandatory requirements placed on all claimants (not just JSA) – will Labour and Conservative outbid each other to be seen as the toughest on claimants?
- meeting the child poverty targets – James Purnell has already laid down the gauntlet to the Conservatives but is his challenge fatally undermined by missed targets?
- the 2.4 million people already on Incapacity Benefit for which little is being done – will this challenge be picked up by either party and how will it be resourced?
- the impact of migration on unemployment – claim and counter-claim continues on the impact of migration on employment but there is little doubt this remains a big issue in the eyes of voters

**Dave Simmonds** looks at the challenges facing the welfare to work agenda in new and testing times.

■ the work/family balance and childcare – we think this will go up the political agenda as the implications of meeting lone parent and child poverty targets become clearer

■ the position of young people in the labour market – the extent to which Labour has improved the position of young people has already been the subject of debate and this will pick up again.

In addition, whilst not so important to the voting public, there will be other political dividing points on:

■ the extent of the role of the private and voluntary sector; and

■ whether more functions and funding should be devolved.

**Demand-led?**

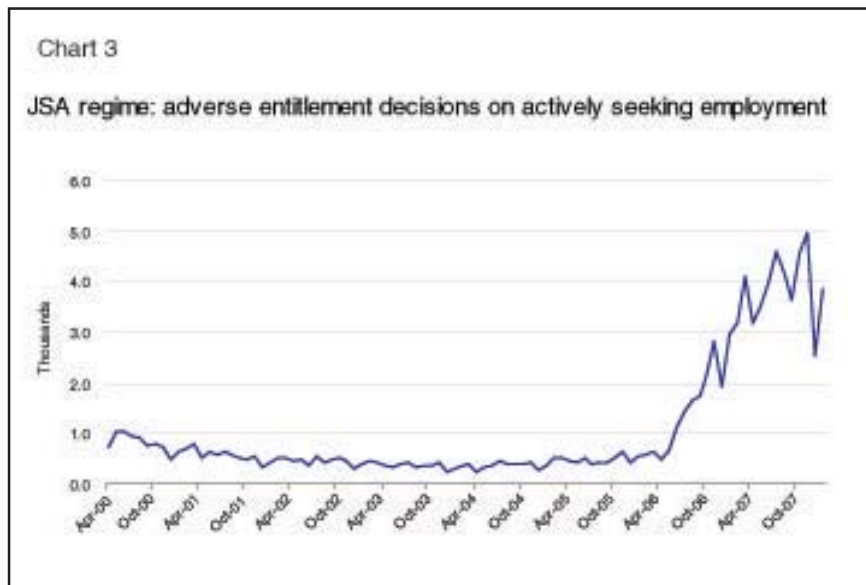
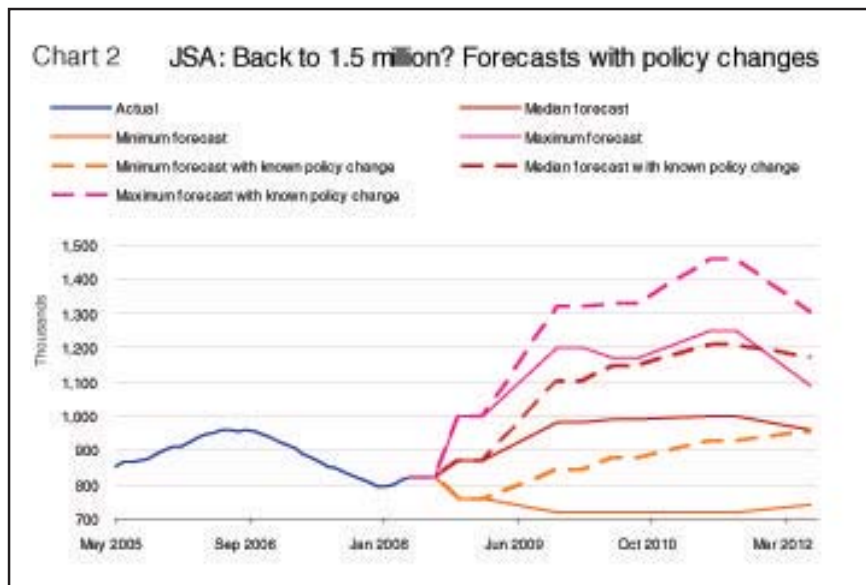
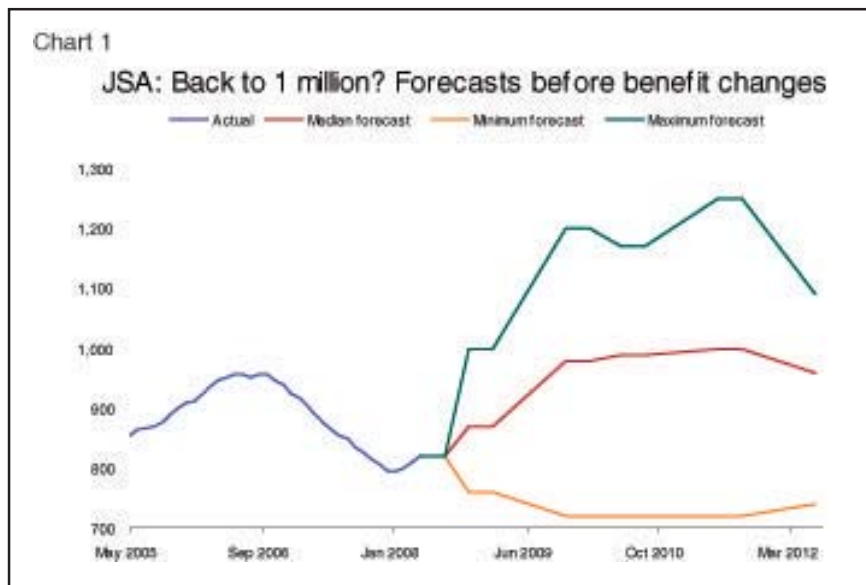
Skills and employment are moving to be more demand-led, but what does this mean when unemployment is increasing? First, employers have a greater choice and pick the most employable. Second, those with more skills, qualifications and recent work experience tend to do better. This reinforces the need to integrate employment and skills – necessary because of the skills challenge but doubly necessary for low skilled people in the coming period.

More integration is well underway but it will still take determination by Government to see it through. Employers are set to increase their influence over how employment and skills are delivered: Employment and Skills Boards are being encouraged; Local Employment Partnerships have been successful and are expanding; the UK Commission for Employment and Skills has started its work; and Train to Gain and Skills Accounts are customising support for employers and employees.

**How much will JSA increase?**

The worst case scenario is that JSA will hit 1.2 million in 2009, but the average of forecasts has it hovering on 1 million for the next three years (see Chart 1). These figures are based on the Treasury’s regular comparison of independent forecasts on the economy (including the JSA claimant count) by over 40 organisations.<sup>2</sup>

The OECD forecast is for employment growth in the UK to stagnate between 2008 and 2009 – staying around the 29.5 million level. With the exception of Denmark (where employment is projected to fall) this



is the slowest employment growth of any EU country. OECD forecast the unemployment rate to rise to 5.8% and we calculate this means 1.8 million people unemployed. This is around the same number we had when New Deal started. The claimant rate would climb to about the one million mark – consistent with the middle range of independent forecasts.

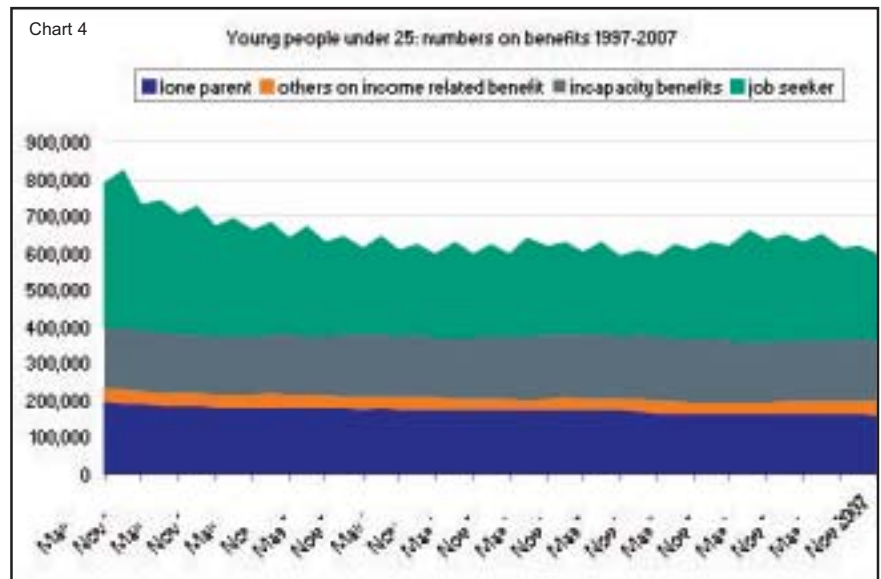
It's not good timing, but DWP are themselves adding to the JSA count – a necessary cause of welfare reform which is attempting to require those on 'inactive' benefits to become active jobseekers. For example, some (but not all) of the lone parents coming off Income Support earlier from October 2008 will be joining the JSA queues. Similarly we think there will be reduced flows onto the new Employment Support Allowance (ESA) from JSA and maybe even increased movement from ESA and the IB stock back onto JSA.

Added to this will be the Flexible New Deal effect in 2009 because of both the anticipated reduction in outcomes during the handover period and the fact that Flexible New Deal participants (from October 2009) will remain on JSA rather than move onto an allowance (and therefore off the JSA count).

Taken together we estimate that by November 2009 in the region of 120,000 more will be joining JSA than otherwise would have done. We're not against these changes in principle but clearly they come at the worst possible time and the consequences of an increasing JSA count is dire for any government. The independent forecasts for JSA will not have taken into account these 'administrative' changes and so it is legitimate to add these to the forecasts. This is shown in Chart 2 where the median forecast now hits 1.1 million on JSA.

This also has to be seen in the context of measures that the Government has already used to reduce JSA over the last two years. A tightening up of the JSA regime at the beginning of 2006 has significantly contributed to the reduction in JSA up to the end of 2007. For example, JSA 'disallowals' has increased four-fold and continued to remain high – see Chart 3. In 2007 this has had the effect of reducing the JSA count by some 40,000 more than prior to 2006.

But what will be the impact of increasing JSA numbers on Jobcentre Plus and DWP



programmes? The nature of reformed Jobcentre Plus systems mean that larger numbers can be dealt with relatively easily and at lower cost. 'Processing' should not be an issue, however delivering support may well be more of an issue, especially for the first 12 months when Jobcentre Plus will be responsible under the Flexible New Deal.

The decision (back in mid-2007) to use 12 months as the main point for providing intensive support by the private and voluntary sector now looks dated and from a different economic era. Most of the negative impact falls on young people – who are likely to be hardest hit by increasing unemployment. Active labour market interventions are designed to stop long-term unemployment not just to cope with it.

We are not convinced that the present JSA regime will be sufficient to stop more and more people becoming long-term unemployed, especially young people. Indeed the durations on JSA are already ticking upwards. True, the JSA regime is very 'flexible' but rising numbers and reduced Jobcentre Plus staffing will mean less face-to-face contact coupled with the increased complexity of managing movements from other benefits.

The Government needs to take decisive action now to stop a difficult combination of circumstances. So, for example, for young people DWP could:

- reduce the 12 months eligibility for

intensive New Deal to nine months – leaving open the possibility of reducing it further to six months

- increase those groups that can be fast-tracked to ensure disadvantaged groups get immediate and appropriate support

- immediately extend the 16 hour rule for training to 21 hours in return for two days active jobsearch – full-time activity for young people devoted to skills and jobsearch.

Prioritising young people on Incapacity Benefit for more support was also the right decision because since 1997 they have been increasing as a proportion of young people on benefits and is presently slightly above the 1997 figure (see Chart 4).

#### The all claimant count

The recent welfare reform debate has concentrated on how those on 'economically inactive' benefits can be made more 'active' in the labour market. Introducing both new support and new requirements is intended to have the effect of encouraging claimants to be actively increasing their employability and seeking work.

Part of the problem with the persistent use of the JSA count (and its totemic one million mark) by Government, forecasters and the media is that it disguises the impact of welfare reform that is now underway. For example, how are we going to count those on the Employment Support Allowance – surely

not as 'economically inactive'?

Furthermore, the preoccupation with JSA makes the efforts to help people on other benefits virtually invisible to the public. Incapacity Benefit could be plunging but the media and the public will only notice a rising JSA count. This is why we should start to shift to an 'all claimant count'. This would measure the overall effectiveness of Government initiatives to move all claimants back into sustained employment and other actions which impact on total numbers, such as preventative health measures. Since 1997 the total claimant count has declined by 22%, with JSA accounting for about half of the decline.

Of course, few governments would politically be able to make the leap from being measured on 25% of claimants to 100% of claimants. However, the logic of welfare reform must mean that we get more sophisticated about how we measure and express who is 'active' and who is 'inactive'.

#### Delivering the Flexible New Deal

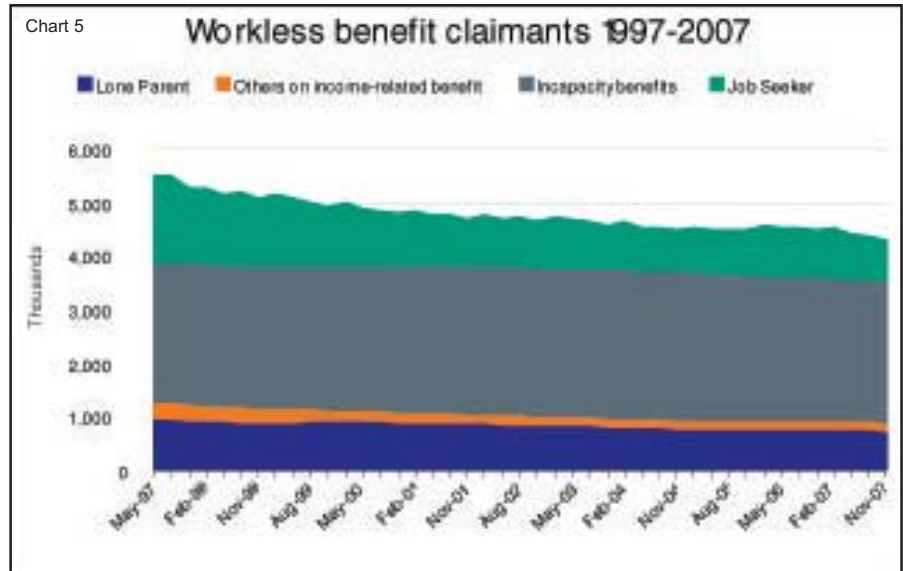
This time next year all Phase 1 Flexible New Deal contracts will be in place and preparing to commence delivery in October 2009. The long hand-over period between old New Deal contractors and Flexible New Deal contractors is a necessary idea, but does have consequences for outcomes and performance. Many of the existing providers we speak to anticipate a significant reduction in outcomes from now on through to the start of the Flexible New Deal. This reduction may or may not be over-stated but it is a further significant risk for DWP.

Action should be taken on this now. For example:

- no need to wait to October 2009 – deals could be done to start referring to Flexible New Deal contractors when it is judged they are ready

- DWP could channel new discretionary funds through Jobcentre Plus districts where JSA is high and increasing – these funds could then be used to supplement provision and deliver more outcomes in the early stages of a claim.

Action will also be needed to speed up the introduction of Phase 2 areas – here Flexible New Deal (and the anticipated performance and productivity gains) will not be starting until 2010. The idea of phasing



was understandable given the need to establish a new market and conducting a complex tendering process. However, the needs of the economy are now greater. Whatever methods are used DWP will need to make sure that outcomes do not decline but actually increase in 2009. Put simply they must purchase more outcomes in a year when they threaten to plummet, and in doing so fuel the increase in JSA.

However, the Commissioning Strategy has a more significant role than coping with the short-term impact of its introduction. Much is now invested in the new market delivering significantly better results than the present performance of the New Deal. At the end of the day the Flexible New Deal (and the Commissioning Strategy) will be measured by results – significantly improved results. One of the big questions hanging over its successful introduction is the management of supply chains and the position of sub-contractors.

In terms of 'market management' it is still not clear whether sub-contractors have sufficient market power compared to the top-tier contractors. It is also not clear whether DWP can both be the champion of sub-contractors and balance the interests of top-tier contractors. This we will be watching with interest and there may yet be the need for some form of market regulator that can take an independent view in balancing the interests of claimants, sub-contractors, and top-tier contractors.

#### Don't ignore Incapacity Benefit

Economic inactivity still remains the key issue – JSA would have to increase four-fold to overtake the number of economically inactive claimants. Meeting employment rate and Local Area Agreement (LAA) targets is dependent on reducing people on inactive benefits, especially those on Incapacity Benefit. Whilst this challenge is now widely understood at all levels, there is still a big shift needed in how services are planned and delivered, especially at the local level.

The nationwide roll-out of Pathways in April this year was a significant step forward. However, we should not forget that Pathways is primarily aimed at new claimants and it makes little dent in the numbers already on Incapacity Benefit. We think the Government should go further by providing support to those that have been on Incapacity Benefit for some time. More opportunity should be given to those that want to be active either in learning, the labour market, or in the community.

The aim should be that by the end of 2010 the Government can offer appropriate support to every Incapacity Benefit claimant. However, this will involve developing the largest programme ever for workless people in the UK. This is an enormous task and a start will need to be made immediately. There is both the will and the capacity to do this in many quarters but it does require the Government to signal its ambition to take the next critical steps. The recent announcement by the

Department of Health of investment in 'talking therapies' is one important step.<sup>3</sup>

Two key steps need to be taken. First, the new top-tier providers for Flexible New Deal need to be geared up and incentivised to provide the capacity that will be needed. This will involve the Treasury recognising that there are significant economic and social returns to investing in this group rather than continuing to 'park' them. Second, the nature of the issues facing people on Incapacity Benefit are not likely to be solved by providers on their own – much more needs to happen. Local services need to be geared up and better co-ordinated, for example, health, learning, childcare, and advice. This is why localisation is also important, as we consider below.

Finally, what are the immediate steps that the Government can take? First, clearly setting out its aims for this group by setting a date for when everyone on Incapacity Benefit can access support. Second, by starting Pathfinders by April 2009 that will combine the capacity of providers with the efforts of local partners.

### Localisation

Welfare reform needs both personalisation and localisation and both are dependent on each other. The Commissioning Strategy will deliver more personalisation by ending 'one size fits all' programmes, but this is only part of the story. Many of the services (skills, health, childcare, advice, etc) that people need to get back to work are controlled by other agencies. This is why localisation is also needed. Providers especially recognise that they need strong local partnerships to deliver results. Employers are also best engaged at the local level – customising recruitment and training to individual employers and the local labour market.

In the last year many have asked how DWP can reconcile the localised City Strategy approach with the centralisation of commissioning by DWP and skills funding through the planned Skills Funding Agency? Both the Commissioning Strategy and *Work Skills* helped to answer this question – opening the door for local partnerships to influence the DWP commissioning process and integrating employment and skills. *Work Skills*

## Headlines from *Work Skills* – DWP and DIUS, June 2008

### 1. Personal Skills Accounts

Individuals from age 18 who choose not to go to University will have up to £7,000 to spend on a range of vocational entitlements up to level 3.

Skills Accounts will be available nationally from autumn 2010.

### 3. Extended entitlement through skills accounts

From Autumn, young adults in work aged 19-25 will have access to level 3 training that is free to the employer and the trainee.

### 5. Flexible Vocational Qualifications

Bespoke training delivered by an employer can now be accredited and nationally recognised and may attract public funding.

### 7. Adult Advancement Careers Service

Available nationwide from autumn 2010. Access will be widened. Advice on skills will be provided to anyone who connects to DWP or DIUS services for any reason.

### 2. New Bill

Consultation process will begin on giving employees the right to ask employers for the right to train (similar to the right to request flexible working).

Provisions for this will appear in a bill later this year for implementation in 2010.

### 4. Legislative powers: conditions of benefit receipt

Where skills needs are a significant barrier to employment, there will be consultation on legislative powers to make addressing skills needs a 'condition of benefit' receipt for those on inactive benefits: (LP claiming IS, new ESA claimants).

### 6. Devolution: Multi Area Agreements

MAAs will be preferred route to empower local partnerships and will be the means by which DWP and the Department of Innovation University and Skills (DIUS) will conduct dialogue with local areas about devolving responsibilities.

There should be strong employer representation within MAA before Government will consider devolving particular responsibilities.

### 8. City Strategies

Due to the success of Pathfinders the Government will make continued support available from 2009.

represents a significant step forward – extending the life of City Strategies, encouraging Multi Area Agreements, and aiming 'to make the system less top-heavy'.

These steps are welcome, but the Government will need to be bolder if the gains of localisation are to be realised. *Inclusion*, in a report with the Centre for Cities, has set out two key ideas. First, there need to be more City Strategy areas – rolling them out to all areas with above average claimant rates. Doing this will cover the majority of claimants and give flexibility to the areas which need local services to be more integrated. Second, more powerful sub-regional Employment and Skills Boards need to be at the heart of the new system. The London Skills and Employment Board

already has statutory responsibilities for the planning and spending of funds for adult skills, and is leading the way on customising national budgets to the needs of London's economy. This approach is needed in all of our cities.

Unlike previous years, localisation is now firmly on the agenda – in part due to the success of the fifteen City Strategies. *Work Skills* sets out the next steps for localisation, and in doing so implicitly recognises the productivity gains that can be achieved by integration, local planning, and alignment of targets and funding. The work of the new UK Commission on Employment and Skills over the next year will also be highly influential for how employers and local partners are engaged.

One thing is very clear – clarity of role and purpose is needed, otherwise employers and local partners are likely to feel marginalised rather than engaged. *Work Skills* starts to provide this clarity, and so it was a pity that it was slipped out with virtually no coverage.

### Achieving targets

More capacity, more resources, increased productivity and a renewed drive are needed if key targets are going to be met. This was not helped by the Comprehensive Spending Review, which confirmed DWP's 5% year-on-year reduction in budget. The impact on Jobcentre Plus is planned to be a reduction of 7,000 to 8,000 staff, as well as reducing the number of offices.

Reducing child poverty is the main target that is significantly failing. The recent announcement of a further increase in child poverty is a blow, not just to the Government, but to everyone working to reduce child poverty. The public's support is also waning – in 1995 47% supported redistribution to the poorest, now its 34%.

The Government has invested much in the message that 'work is the best route out of poverty', and few disagree but is it enough to meet targets?

The short answer is 'no'. Moving people from worklessness into work or increasing the amount of work in low-income households will help but it is not sufficient. Tax credits to low-income families will have to be increased to meet targets and any future government reducing the value of tax credits will run the danger of substantially increasing child poverty.

However, reducing the number of workless households with children is still a vital part of the strategy. *Ending Child Poverty: Everybody's Business*<sup>4</sup> for the first time set out a broader vision for how child poverty should be tackled – showing that a wide range of players have a role to play. The problem is that there appear to be few levers that government is prepared to pull to inject more urgency. True, pilots are planned but these are still in the planning stages. We remain convinced that a New Deal for Families with new

resources and reinvigorated effort is the only way to kick-start progress.

### Conclusion

Gloomy? Probably, but we should not under-estimate the impact of a much tougher economic environment. There will be opportunity and challenge in equal measure over the coming year. There will be plenty of opportunities for a range of players, but as we enter a new era we will also need new ways of how we build our capacity and share information. We hope that *Inclusion* will help employment and skills partners forge new relationships and new thinking – we will all need it to meet the challenges of the coming year.

### References


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2. Forecasts for the UK economy, HMT, May 2008 [www.hm-treasury.gov.uk/forecasts](http://www.hm-treasury.gov.uk/forecasts)
3. Dept of Health, 12 June – 32 PCTs to spearhead surge in talking therapies.
4. Ending Child Poverty: Everybody's Business, HMT with DCSF, and DWP, March 2008.

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