



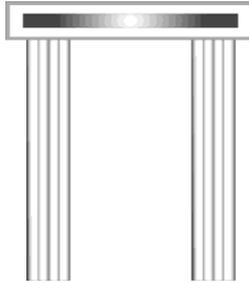
Chris Grayling

Working Lives

Making Welfare Work

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A Forum for Social and Economic Thinking

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POLITEIA

2011

First published in 2011
by
Politeia
22 Queen Anne's Gate
London SW1H 9AA
Tel. 0207 799 5034

E-mail: info@politeia.co.uk
Website: www.politeia.co.uk

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Policy Series No. 76

ISBN 978-0-9564662-8-0

Cover design by John Marenbon

Politeia gratefully acknowledges support for this publication from

Advanced Personnel Management (APM)

Printed in Great Britain by:

Plan-It Reprographics
Atlas House
Cambridge Pl, Cambridge CB2 1NS

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Chris Grayling is Minister for Employment at the Department of Work and Pensions and has been Member of Parliament for Epsom and Ewell since 2001. He held a number of Conservative frontbench posts between 2003 and 2010 including Shadow Leader of the House, Shadow Secretary of State for Work and Pensions, and Shadow Home Secretary.

Before entering Parliament he worked in television production, ran a number of small- and medium-sized production businesses and was a director in an international communications firm. His publications include *A Land Fit for Heroes: Life in England After the Great War* and *The Bridgewater Heritage: The Story of the Bridgewater Estates*.

Introduction

Sheila Lawlor

Today, there are five million people on out-of-work benefits. In this *Address* Chris Grayling, the Minister for Employment, explains how the Coalition aims to help as many of those who can work, into work. His policy focuses on the individual, with companies and charities appointed to support and equip the unemployed for a job and being ‘paid by results’. Conditionality and incentive are at the heart of the policy: the new employment ‘service’ will be paid if it succeeds, and those on benefits will find they are better off in work, if the new Welfare Reform Act achieves what it intends.

The approach is radical, yet the principles on which it is based have a long historical resonance. UK unemployment in the early twentieth century reflected patterns of industrial and economic change which often blighted specific areas, industries or groups of workers; that picture has been complicated in recent decades, as social and societal attitudes – and those to labour market participation – have changed. Throughout, however, one constant aim has been to devise a system based on incentive, where the unemployed are encouraged to find work and where they are better off in, than out of, a job.

The problem was acute during the 1930s when some working men fared better out of work, because of extra benefit paid for each child in some schemes. Beveridge’s blueprint for a Welfare State, *Social Insurance and the Allied Services* (1942), overcame the incentive problem, at least theoretically: benefit would depend on payment of a weekly contribution by people during working life. Unemployment would be covered, as would death of the breadwinner, retirement and sickness. For non-contributors, a smaller – subsistence – sum was allocated.¹ Meanwhile a different, universal family allowance for the second and subsequent child was instituted.² Contribution for benefit had historically been successful in the UK, the basis for unemployment, health, retirement and widows and orphans’ cover; and it was popular with the British people. As Beveridge had explained, it was what people wanted and was popular because it kept the state small, avoided penalising work or savings and the hated means-test. It was also effective, for no other country could rival the UK in the cover it provided at the time of his writing.³

¹ W. Beveridge, *Social Insurance and Allied Services*. Report by Sir William Beveridge, November 1942, reprinted, London, HMSO 1995, Cmd 6404.

² This aimed to protect larger families from want and ensure that income was not greater during unemployment than work, a position Beveridge described as ‘dangerous’.

³ See *Social Insurance and Allied Services*; for more discussion see S. Lawlor, *Beveridge or Brown? Contribution and Redistribution: The Real Social Security Debate*, London, 1998

The scheme for flat-rate benefit in return for flat-rate contribution by employer, employee and taxpayer, was adopted by all parties and became law under the post-war Labour Government as The National Insurance Act, 1946.⁴

Nonetheless, the 1946 Bill was itself highly contentious because many MPs, including some from the Labour benches, bitterly opposed the ban on independent mutual and charitable companies helping to run the scheme, contrary to the initial intention. The 1945 Labour Government, in what was one of the more collectivist periods of British history, opted for a centrally controlled bureaucratic system with regional offices in place of the highly regarded smaller groups which had been the first point of contact and help for those facing hard times.

At that stage, unemployment benefit was conditional on the recipient paying a contribution, on the obligation to seek work, and it was awarded for a strictly limited period, after which it became discretionary and means tested. Recipients then were generally the victim of economic and industrial change.

In later decades, however, the picture became more complex, as demographic and social change weakened the political will to abide by the actuarial and moral obligations agreed by all parties during the war. For example, pressure to increase support to the ageing population in the later 1940s and '50s prompted governments to ignore the strict contributory conditions set by Beveridge and pay more generously than the sums justified. Meanwhile, the increase in households headed by one or two adults without a job from the 1960s led to further change and with it disappeared the expectation that in general the population would pay its way over a lifetime's work, with insurance to cover for periods of bad luck or old age when earnings ceased. As with most social change, it's difficult to judge whether benefit rules reflected or accelerated the change in social patterns. But today, to the problem of worklessness in families have been added a host of other problems, including poor education or basic skills, offending, drug abuse, which make employment even more elusive for many people.

Chris Grayling's policy therefore addresses these accumulated problems linked to unemployment and the failure of the system over the years. His reforms reflect a substantial body of evidence and research over the decades since New Labour's initial policy of Welfare to Work, not least by Politeia's authors, whose assessments of the weaknesses in previous systems, their costs and alternative models for effective

⁴ It should be considered as part of an income maintenance triad along with The Family Allowances Act, 1945 and The National Assistance Act, 1946.

reform, have helped inform the policy debate throughout.⁵

The initial failure in 1946 to include in the formal workings of the Act the independent organisations with a record of helping people avoid or leave dependency on benefit, was lamented by all political parties at the time. Now, over sixty years on, that omission has been rectified, as the Work Programme invites independent charities and businesses to return to the forefront, bringing back the principles and practices all but lost in state schemes. We are very pleased that we have been supported by Advanced Personnel Management (APM) for this project. It will have a part to play with others in supporting the forgotten ‘kept’ millions, excluded from work and effective participation in the economic and social life of this country.⁶

By inviting companies and charities to resume their place in providing the services for which the UK tax payer pays generously, the policy restores the basis for successful social provision in the UK: one of incentive and rewarding effort; one which recognises that government may be less effective in the field than organisations with a proven record; one of intelligent conditionality.

Sheila Lawlor
Director, Politeia

⁵ J. Trigg and M. Lovell, *Jailbreak: How to Transform Prisoners' Training*, London, 2010; D. Snower & A. Brown, *Banking Benefit: Welfare Accounts for the Individual*, London, 2009; P. Birch Sørensen and A. Lans Bovenberg, *Working to Account? Social Security Without Dependency*, London, 2008; H. Sykes, *Welfare to Work – The New Deal: Maximising the Benefits*, London, 2001 and *Working for Benefit*, London, 1997; C. Daykin, *Incapacity and Disability: Paying for the Consequences*, London, 2000

⁶ APM is a private sector provider of employment services for the Australian Government. For more details visit <http://www.apm.net.au/>

Working Lives: Making Welfare Work

Unemployment figures speak for themselves: currently there are five million people on out-of-work benefits. The overall unemployment rate is still showing the impact of recession. Youth unemployment has been rising since the early part of the last decade – well before the recession started. It’s probably the most challenging part of our labour market legacy.

Over the past year there have been some encouraging signs. Private sector employment has been rising much faster than public sector job losses. The labour market still shows month-to-month fluctuations, but it does appear to be more stable now. Meanwhile, the independent Office of Budget Responsibility is forecasting a significant increase in employment over the next few years as the economy recovers.

And therein lies our big challenge. This *Address* begins by setting out the scale of the challenge; it explains the revolutionary approach we have taken in tackling it – an approach that has profoundly changed the way Government provides services.

As we take the tough decisions needed to reduce the deficit, rebalance the economy and drive economic growth, we are seeing confidence return and private sector employment rise. This is good news and many people will need only minimal support to return to the labour market as more vacancies become available.

Tackling the Problems: The Principles for a Better System

Today, the five million unemployed include people who have never worked, generations of families who have lived their whole lives on benefits, people with drug and alcohol addictions, ex-offenders; people living on the fringes, failed by a system that is meant to provide support.

Working-age welfare spending has increased by 50 per cent in the last decade. Long term benefit dependency is rife; of the 2.6 million claiming incapacity benefits, over half have been on benefit for at least 5 years, and a third have been on benefit for 10 years or more.

There are two key problems with the system:

First, the benefits system itself is failing; it is too complex, and for too many people moving from benefits into work simply does not pay.

Second, back-to-work provision has been inadequate for a long time. The New Deals introduced in the years since 1997, albeit with modifications throughout, consistently underperformed and failed to break the cycle of long-term dependency for many claimants. They ended up shunting people around from dole queue to training room and back again – centrally designed programmes that lacked the individuality of approach that was needed.

The two million or more people on Incapacity Benefit received no support at all to see whether they could do something more than simply spend the rest of their life on benefits. For too long they have been stranded on the margins of our society.

These deeply entrenched problems require radical solutions. Those solutions lie at the heart of the Government's proposals for helping the unemployed off welfare and into work. The policy has a three-fold aim:

1. To make sure that work pays;
2. To provide the best possible back-to-work specialist support;
3. To make sure that each individual case is considered afresh in order to identify the best way of providing support.

To make work pay, we are completely overhauling the benefits system, replacing the majority of working-age benefits with the Universal Credit. This aims to create a simpler, fairer benefits system; removing the complexities that keep people trapped on welfare, and ensuring that the transition between benefits and work is smooth. Above all, we must invalidate the claim 'I'm better off on benefits'.

To provide the best back-to-work support the new Work Programme was launched nationally on June 10th 2011. The programme differs radically to any of its predecessors and can fairly be seen as a revolution in service provision. It draws upon the best of private, voluntary and third sector expertise to tailor individual support to individual need.

We will fund a programme on this scale – helping up to one million people at any one time by reinvesting the savings made from getting people off benefits and into work. In addition, providers' performance and success will be encouraged through a bonus structure linked to achieving sustainable employment. This is in itself a revolution. Up

until now the Treasury has always guarded the barriers between conventional spending on departmental programmes and the separate pot from which benefits are paid. This is the so-called DEL-AME switch, and it represents a real step forward in providing support for people on benefits.

To make sure that each individual case is considered, the DWP will not dictate the nature of the support given, but will instead reward success using payment by results. The unique payment structure recognises that some people will require more help to find and stay in work than others. Payments will range from £3,500 for those who need minimal assistance to £14,000 for the hardest to help, reflecting the differing levels of support required.

Operating the System: Public, Private and Voluntary Organisations

The contracts are long, lasting up to seven years, and include financial incentives for maintaining, as well as securing, employment. Longer contracts will give providers more certainty and encourage greater participation and investment by the tailored programmes of support. Differential payments mean they can invest in people.

When I first embarked on delivering this support, I considered that here was a striking opportunity to transform welfare-to-work services, to create a service capable of providing a personalised package of support for those furthest from the labour market. But it was not clear whether the private sector would in fact be willing to invest.

We worked hard to find the right balance. This has to be a good deal financially for both taxpayers and providers. We need our providers to make a profit, but only if they do well at getting people into work. We do not want them to be able to make money inappropriately from the taxpayer when they do not succeed. So contracts were closely examined by specialists and business leaders to identify the weak points or any space ripe for exploitation. And then we closed the gaps.

What we have ended up with is a contract structure in which payment is made in stages. For the first three years there will be a small up-front payment – about 10 per cent of the total. Thereafter, it is 100 per cent payment by results. The next payment only comes after someone has been in work for three months if they are from a vulnerable group, or six months if they are a conventional jobseeker. Then the rest of the fee is paid in instalments that last for up to 18 months. And if the person drops out of work, those payments stop.

It is meant to be challenging, and more than one provider has confirmed this. But the test would be how the private and voluntary sector responded, indicating whether we had struck the right balance, and whether they were willing to accept the principle of payment by results. So we waited to see if we had got that balance right, and if the private and voluntary sectors were willing to take part in a system of payment by results.

We now know that the 18 preferred bidders and 500 plus sub-contractors – from a mix of public, private and voluntary - are willing to make that investment, to the tune of £580 million in the first year alone. This is a powerful indication that payment by results can deliver exciting, innovative programmes that simultaneously provide an effective service and are good value for the tax-payer.

The Work Programme is now under way. I believe it will transform the lives of many of our most vulnerable people.

Government Services: A Blueprint for Reform

What we have created with the Work Programme is not just a system of back-to-work support, but a blueprint for the provision of government services. We have built something that can go much further than tackling unemployment. We are now considering a model based on incentive, a sophisticated system of social interventions based around the payment-by-results model, with the Work Programme at its core.

For too long tackling poverty has been reduced to its most basic level – income – and the solutions have been equally simplistic; raise benefit levels and where possible get people into work. But this approach falls down because it does nothing to tackle the root causes of disadvantage; if anything, it perpetuates cycles of poverty as people either remain static, trapped in a benefits system that provides just enough to survive, or alternatively rotate around the system through benefits, training and work over and over again, never achieving stability or fulfilling their potential.

To effect real change we must tackle the root causes of poverty. We must break down the barriers that prevent people from achieving their potential, that stop people finding and keeping a job. This is why the Secretary of State is committed to his Social Justice agenda, to transform the lives of the most vulnerable people and to prevent others from slipping down in the first place. The idea is to encourage early intervention, to stop the initial situation snowballing into a complex, long-term social

problem. This means recognising the fundamental role of a stable family life in child development; supporting people suffering from addiction to achieve full recovery; delivering practical support to break the cycle of re-offending when people leave prison.

With the Work Programme at the centre we are exploring ways of using the payment-by-results model to tackle some of these issues. Let me give you a couple of examples of areas we are exploring.

Intergenerational Worklessness. Intergenerational worklessness is a major problem. Some 800,000 individuals live in households where no-one has ever worked and almost two million children live in households that are currently workless.

These are troubled families, often with multiple problems, and often already being supported in different ways by a host of local services. Simply providing back-to-work support to an individual family member is not going to transform the lives of the entire family; we have to do more. Last December, the Prime Minister said that helping problem families should be an important task for the Government. Work is now under way at local council level, and in the Cabinet Office and the Department for Education, about how we can best deliver targeted interventions to those families, and do so, above all, in a coherent way which avoids fragmentation.

We are planning to play a part by using some of our resources to strengthen the work being done on the ground in the country and to help break down the barriers to work that can be found in many of those families. For example, we hope to build a 'bolt-on' programme to the Work Programme which will provide additional front-line support to our problem-families strategy, with a focus on improving their basic employability and easing some of the issues that stop them from working.

We will contract private providers to work with whole families, and with local service provision to tackle some of the acute problems families face. The government will provide £200 million funding from the European Social Fund. The ultimate aim will be to break the intergenerational cycle of worklessness and get families working. Using a similar non-prescriptive, payment-by-results model to the Work Programme will mean providers have the resources and the freedom to work with families and bring about real life change.

It is important to stress that a key part of awarding the contracts will be about how potential providers demonstrate that they are interlocking that work with the efforts being made by the public sector, both locally and nationally. For example, the Cabinet

Office is also looking at ways to leverage money into this work, using Social Impact Bonds to reinforce that work on the ground, again on a payment-by-results basis.

Combating Drug Problems. Similarly, we are taking a new approach to combating problem drug use. 80 per cent of heroin and crack cocaine users in England are claiming out-of-work benefits, which is around 270,000 people at an estimated cost, in benefit spend alone, of £1 billion a year. In addition, the social and economic cost of problem drug use is estimated to be around £15 billion a year. And who could put a price on the human cost, the lives lost or wasted as a result of addiction?

It is clear that simply sending a drug user on a training course to help them find work is not enough; we have to provide support to tackle the underlying problem, to deal with the root cause of their unemployment by helping them deal with their drug problem. We will therefore make changes to the benefits system to encourage and support out-of-work drug users if they take up treatment, tailoring benefit conditions around their treatment programme.

But we can go much further. Using the payment-by-results model, we are contracting for eight small-scale pilot schemes exploring how we can create a recovery system that focuses not only on getting people into treatment but getting them into full recovery, off drugs, and reintegrated into their communities. Indeed, we are considering going further with such an approach, with the possibility of setting drug treatment work alongside the Work Programme as part of a pathway back into employment.

Employment is an important part of this reintegration and support to find work, provided through the Work Programme, has to be an integral part of the rehabilitation process. So we are exploring how best to further support drug treatment and rehabilitation by reinvesting the savings made as people move off benefits and into work back into drug treatment and recovery services.

Tackling Re-offending Through Work

The prison population has doubled since 1993 to over 80,000 and nearly half of those released from prison will re-offend in the first 12 months. I believe the payment-by-results model could also deliver more for offenders.

The cost of supporting this cycle is huge. Estimates suggest the cost of re-offending could be as much as £13 billion per year, convictions cost an average of £67,000 per offender, and the average cost of a year in custody is £45,000. We all want to see dangerous criminals behind bars, and offenders facing the right punishments, but there is a clear financial incentive to do more to keep people from making a return journey to prison.

The cost is not just to the justice system. In England and Wales alone, the 80,000 people who left prison in 2008 spent half of the following twelve months on benefits. This equates to a cost to the taxpayer around of £160 million. And of course many return to prison. Tackling this problem and getting these people quickly into work could pay huge dividends.

There is also a moral imperative too. Many prisoners have experienced a lifetime of social exclusion compared to the general population. We know that prisoners are 13 times more likely to have been in care as a child and 13 times more likely to be unemployed. Many lack the skills to break out of the cycle of re-offending without support and evidence shows that more than half have the reading, writing and numeracy skills of a child of 11, between 60 and 70 per cent were using drugs before prison, and 70 per cent suffer from at least two mental health disorders.

The current system does not do enough to deal with the complex levels of disadvantage that many offenders experience. That is why my colleagues in the Ministry of Justice are already working on a series of pilot programmes to use payment by results as the vehicle to fund projects that reduce reoffending. Their work has really exciting potential.

We are also looking at how we get offenders back to work, using the payment-by-results approach. The current system is wholly inadequate. For example, it is standard practice today for prisoners to receive £46.50 as they walk out of the gates of the prison and an appointment with a Jobcentre Plus adviser to start their benefit claim – with first payment of benefits weeks down the line. We have a system that essentially spits people out of prison, virtually penniless and with poor support, often unskilled and badly educated and without much hope of a job. One consequence is many turn to re-offending and re-offending rates are high.

Evidence shows that being in employment reduces the risk of re-offending by between a third and a half. Supporting offenders into work must be a key element of rehabilitation.

We should be using the specialist provision already contracted through the Work Programme to deliver improved support for offenders that comes earlier and is more intensive than for more conventional jobseekers. We should be reinvesting the savings we make from getting offenders off the benefits register and into work, putting the money back into support for people leaving prison.

I am working with the Justice Minister, Crispin Blunt, on the details of a package for offenders which we hope to be able to announce very soon. We intend the payment-by-results approach to be an integral part of our strategy to keep former offenders from returning to our justice system. Getting them into the Work Programme quickly has the potential to break the cycle.

This *Address* opened by my suggesting that we are helping to shape history and then went on to consider the changes we have made to the system in order to return the unemployed to work. Payment by results has changed the way government provides and pays for services forever.

But the real revolution is a cultural one: people will no longer be abandoned on benefits by a system which views the barriers they face as too complex or too difficult to overcome. We will not shy away from helping the most disadvantaged to break the cycle of dependency; everyone will receive support, because the effective way to tackle unemployment is to set about transforming lives.

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Around five million people are unemployed in this country today. Their circumstances vary, often making it difficult for them to find a job. In *Working Lives: Making Welfare Work*, Chris Grayling MP, the Employment Minister, explains the Coalition's policy for helping people who can work to do so. Charities and companies will be encouraged to offer the specialist support needed by individuals to find and keep a job. Already, over 500 public, private and voluntary organisations have signed up. They will be paid by results.

This practical approach to tackling unemployment restores some of the principles for successful social policy: incentive and reward for effort; using organisations with a proven record; conditionality, so as to avoid promoting dependency.

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